

## The Board

### Introduction

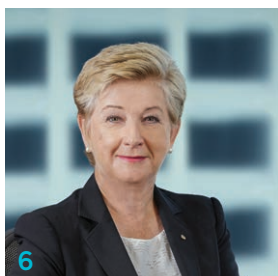
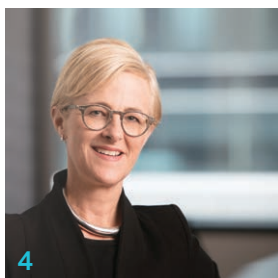
The Board of Caltex Australia Limited presents the 2017 Directors' Report (including the Remuneration Report) and the 2017 Financial Report for Caltex Australia Limited (Caltex) and its controlled entities (Caltex Group) for the year ended 31 December 2017 to shareholders. An Independent Audit Report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

### Board of directors

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

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

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



### 1 Steven Gregg

**Chairman and Independent, Non-executive Director**

**Date of appointment:** 9 October 2015

**Appointed Chairman:** 18 August 2017

**Board committees:**

Nomination Committee (Chairman)

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

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

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

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

### 2 Julian Segal

**Managing Director & CEO**

**Date of appointment:** 1 July 2009

Julian Segal joined Caltex from Incitec Pivot Limited, a leading global chemicals company, where he served as the Managing Director & CEO from June 2005 to May 2009.

Prior to Incitec Pivot, Mr Segal spent six years at Orica in a number of senior management positions, including Manager of Strategic Market Planning, General Manager – Australia/Asia Mining Services, and Senior Vice President – Marketing for Orica Mining Services.

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

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

### 3 Trevor Bourne

**Independent, Non-executive Director**

**Date of appointment:** 2 March 2006

**Board committees:**

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

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

Mr Bourne is Chairman of Senex Energy Limited (appointed 10 March 2015), a director of Sydney Water Corporation (appointed February 2014) and was recently appointed as a director of Virgin Australia Holdings Limited (appointment 1 January 2018). He was previously a director of Origin Energy Limited (from February 2000 to November 2012).

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

#### 4 Melinda Conrad

**Independent, Non-executive Director**

**Date of appointment:** 1 March 2017

**Board committees:**

Audit Committee, OHS & Environmental Risk Committee and Nomination Committee

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

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

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

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

#### 5 Bruce Morgan

**Independent, Non-executive Director**

**Date of appointment:** 29 June 2013

**Board committees:**

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

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

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

#### 6 Barbara Ward AM

**Independent, Non-executive Director**

**Date of appointment:** 1 April 2015

**Board committees:**

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

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

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

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

#### 7 Penny Winn

**Independent, Non-executive Director**

**Date of appointment:** 1 November 2015

**Board committees:**

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

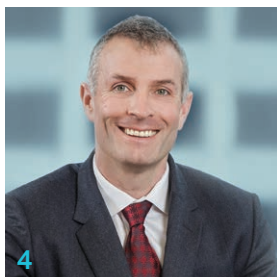
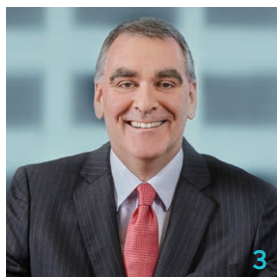
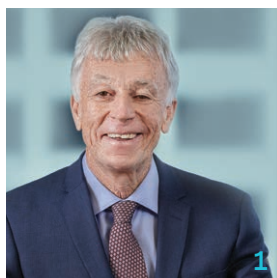
Penny Winn brings to the Board Australian and international strategic, major transformation and business integration, technology and retail marketing experience.

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

Ms Winn is Chairman of Port Waratah Coal Services Ltd, a director of CSR Limited and has been recently appointed a director of Goodman Limited and Goodman Funds Management Limited. Ms Winn is a member of the University of Technology, Sydney (UTS) Business School's Advisory Board and a graduate of the Australian Institute of Company Directors. She has previously served as a director of a Woolworths business, Greengrocer.com, a Myer business, sass & bide, and Quantum Group and was a member of the Australian Payments Clearing Association's CECS Advisory Council.

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

## Leadership Team



### 1 Andrew Brewer

#### Executive General Manager, Transformation

Andrew Brewer was appointed to this position in 2017. He is an experienced senior executive in the energy and resources sector. Commencing his career as a professional electrical engineer, Andrew has held leadership roles in engineering, project management, maintenance, reliability, operations, business strategy, planning and general management.

Andrew's career has spanned the minerals processing, resources and energy industries across Australia and in Canada where he was Downstream Country Chair and General Manager of the Burnaby oil refinery for Chevron Canada. Andrew also previously managed the Kurnell refinery.

### 2 Viv Da Ros

#### Chief Information Officer

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

### 3 Simon Hepworth

#### Chief Financial Officer

Simon Hepworth was appointed to this position in 1999. He joined Ampol in 1996, after 10 years with Arthur Andersen. He is responsible for Finance, accounting and decision support, Treasury, Taxation, Investor Relations, Information Technology and procurement.

Simon holds a Bachelor of Arts and a Masters of Applied Finance. He is a member of the Institute of Chartered Accountants in England and Wales. He is also a member of the Australian Institute of Company Directors.

#### 4 Richard Pearson

##### **Executive General Manager, Convenience Retail**

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

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

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

#### 5 Lyndall Stoyles

##### **Executive General Manager, Legal and Corporate Affairs**

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

Lyndall has more than 20 years' experience in advising on competitor, commercial and corporate head office legal issues. Prior to joining Caltex, Lyndall was Group General Counsel and Company Secretary for former logistics business Asciano and spent more than a decade with Clayton Utz advising on competition, commercial and corporate law issues in a broad range of industries.

Lyndall holds a Diploma of Law/Master of Law from the University of Sydney and is a member of the Australian Institute of Company Directors.

#### 6 Alan Stuart-Grant

##### **Executive General Manager, Strategy and Corporate Development**

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

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

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

#### 7 Joanne Taylor

##### **Executive General Manager, Human Resources**

Joanne Taylor joined Caltex in 2016.

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

Her last role at McDonald's was Senior Vice President Human Resources, Corporate Communications and Supply Chain. Prior to this, her roles included leading the franchise and company operations across New South Wales and the Australian Capital Territory for approximately 290 retail stores.

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

#### 8 Louise Warner

##### **Executive General Manager, Fuels & Infrastructure**

Appointed as Caltex Australia's Executive General Manager, Fuels & Infrastructure in 2017, Louise Warner is responsible for ensuring competitive reliable fuel supply for our customers.

Louise joined Caltex in 1999 and her career has spanned a range of roles within the company, starting as a process engineer at the Kurnell refinery. Louise gained commercial and trading experience through her secondment to Chevron UK. Recently, she was responsible for successfully establishing Caltex Australia's first overseas operation, Ampol Singapore, which includes the company's global trading and shipping function.

Louise holds a Bachelor of Engineering (Chemical) from the University of New South Wales.



## Operating and financial review

The purpose of the operating and financial review (OFR) is to enhance the periodic financial reporting and provide shareholders with additional information regarding the Group's operations, financial position, business strategies and prospects. The review complements the Financial Report on pages 77 to 119.

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

## Company overview

Caltex, including predecessor companies, has safely and reliably fuelled the needs of Australian motorists and businesses for more than a century.

Caltex is one of Australia's leading transport fuel suppliers and convenience retailers and is listed on the Australian Securities Exchange. The head office is in Sydney, and the company has approximately 4,700 employees. Caltex aims to be the market leader in complex supply chains and the evolving convenience marketplace, by delivering the fuel and other everyday needs of its diverse customers through its networks.

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

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

## Group strategy

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

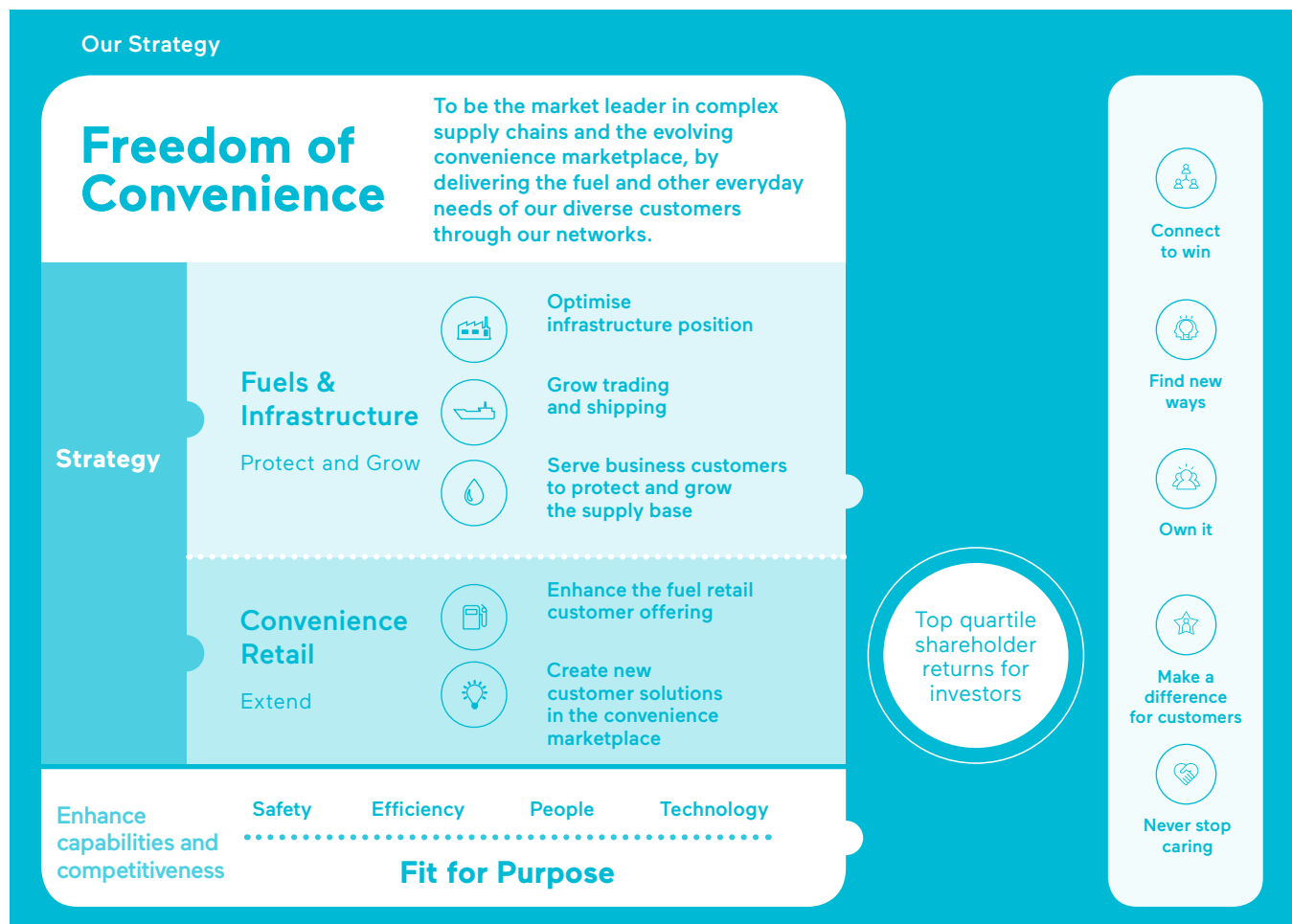
In 2017, Caltex made the decision to change its operating model by establishing two inter-dependent, but different businesses which require separate cultures, processes and systems, both with significant growth options. The company has merged Supply, B2B, Refining and Infrastructure into one business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

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

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

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

The strategy outlined below has been updated to reflect the decision to establish two inter-dependent operating businesses. The "Protect and Grow" aspect of the strategy is focused on capturing the many opportunities that exist to continue to enhance and expand the Fuels & Infrastructure business. In the "Extend" aspect of the strategy, Caltex will build on its current assets, capabilities and customer base to develop the Convenience Retail business in both existing and new adjacent markets.



### Assessing each element in turn

<b>Optimise infrastructure position</b>	Maintain a relentless focus on a cost-competitive supply chain through excellence in infrastructure and refinery management and being proactive in adapting to changing market dynamics and pursuing new infrastructure opportunities.
<b>Grow trading and shipping</b>	Continue to develop and expand the capabilities and operations of Ampol. This allows Caltex to capture opportunities for value creation in sourcing and delivering product, and enables international expansion into the Asia Pacific region.
<b>Protect and grow supply base</b>	Execute organic and inorganic strategies to increase marketing volumes in target regions to support long term infrastructure investment and competitive supply.
<b>Enhance the fuel retail customer offering</b>	Continue to develop elements of the fuel site retail offer which will attract more customers to Caltex sites and increase customers' spend while there.
<b>Create new customer solutions in the convenience marketplace</b>	Leverage Caltex's existing strong consumer-facing business, including our network of over 900 retail sites and over three million weekly customer visits, to build a new and differentiated convenience offer for customers across multiple formats, products, locations and channels.

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

- Safety – systematically managing both personal and process safety across the business to drive towards zero injuries and environmental harm.
- Efficiency – continuing to drive down costs and utilise assets more efficiently to ensure an industry-leading cost structure.
- People – continuing to invest in our people to strengthen organisational capability and agility.
- Technology – continuing to invest in new technologies in order to drive operational efficiencies.
- Fit for Purpose – culture, metrics and measurement will vary between the two businesses.

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

## Operating and financial review continued

### Group strategy continued

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

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

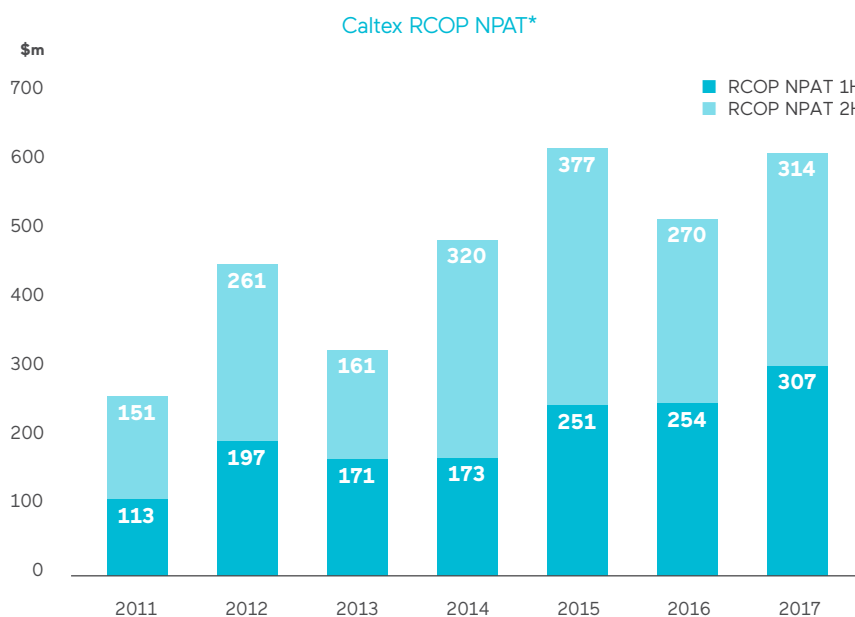
### Caltex Group results 31 December 2017

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

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

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

On an RCOP<sup>1</sup> basis, Caltex recorded an after-tax profit for the 2017 full year of \$621 million. This compares with an RCOP after-tax profit of \$524 million for the 2016 full year, excluding significant items.



\* RCOP Net profit after tax, excluding significant items

1. Replacement cost of sales operating profit (RCOP) excluding significant items (on a pre- and post-tax basis) is a non-International Financial Reporting Standards (IFRS) measure. It is derived from the statutory profit adjusted for inventory (gains)/losses, as management believes this presents a clearer picture of the company's underlying business performance, and is consistent with the basis of reporting commonly used within the global refineries industry. This is unaudited. RCOP excludes the unintended impact of the fall or rise in oil and product prices (a key external factor). It is calculated by restating the cost of sales using the replacement cost of goods sold rather than the historical cost, including the effect of contract based revenue lags.

## Caltex Group Results 31 December 2017 continued

### Dividend

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

### Income statement

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

### Discussion and analysis – Income statement

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

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

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



**Operating and financial review continued**  
Income statement continued

**RCOP EBIT breakdown<sup>1</sup>**

<b>Caltex Refiner Margin (CRM)</b> <b>\$641m</b>	<p>CRM represents the difference between the cost of importing a standard Caltex basket of products to eastern Australia and the cost of importing the crude oil required to make that product basket. The CRM calculation basically represents: average Singapore refiner margin + product quality premium + crude discount/(premium) + product freight – crude freight – yield loss.</p> <p>US dollar CRM was higher in 2017 at US\$13.02/bbl, compared with US\$10.50/bbl for 2016. In AUD terms, the CRM was 10.67 Australian cents per litre in 2017, compared with 8.88 Australian cents per litre in 2016.</p> <p>Total refinery production in 2017 of all products was 6.2 billion litres, compared with 6.4 billion litres in 2016, reflecting the closure for turnaround and inspection (T&amp;I) maintenance work that occurred in 2017.</p>
<b>Transport fuels margin</b> <b>\$1,188m</b>	<p>Transport fuels comprise petrol, diesel and jet. The transport fuels margin consists of the earnings on these products within the Supply and Marketing segment and represents the integrated sourcing, distribution and sales margin. 2017 margins benefited from the contributions of the Gull NZ and Milemaker acquisitions.</p> <p>Premium domestic fuel sales were 4.8 billion litres in 2017, compared with 4.4 billion litres in 2016. Caltex's overall domestic transport fuel sales volumes have increased 3% in 2017. Total retail diesel margins have continued to grow strongly, driven by increased sales of the premium diesel product, Vortex Diesel, and as a result of growth in the diesel vehicle market.</p> <p>The higher transport fuel sales volumes reflected an increase in Jet and Vortex Diesel sales partly offset by declining petrol sales. The decline in unleaded petrol sales is driven by the substitution to vehicles requiring diesel fuels and efficiencies to internal combustion.</p> <p>Jet volumes increased 6%, driven by increased domestic capacity and a high win rate of new business.</p>
<b>Lubricants and specialties margin</b> <b>\$83m</b>	<p>Lubricants and specialties products include finished lubricants, base oils, liquefied petroleum gas, petrochemicals, wax and marine fuels.</p>
<b>Non-fuel income</b> <b>\$150m</b>	<p>Non-fuel income includes convenience store income, franchise income, royalties, property, plant and equipment rentals, StarCard income and share of profits from distributor businesses. Non-fuel income is \$27 million lower than in the prior year, driven by the short term impact of transition of around 175 franchised sites to company operations (lower royalties and other franchise fees as well as incurring costs to convert sites).</p>
<b>Operating expenses (\$1,052m)</b>	<p>Operating expenses include Supply Chain, Marketing and Corporate operating expenditure. There has been an increase of \$39 million from 2016 due to:</p> <ul style="list-style-type: none"> <li>• higher depreciation and amortisation of \$20 million</li> <li>• incremental operating expenses in relation to the Milemaker and Gull NZ acquisitions,</li> <li>• increased major project costs (including M&amp;A and franchisee review),</li> <li>• partly offset by good cost control and a low inflationary environment.</li> </ul>
<b>Other (\$75m)</b>	<p>Other includes a number of miscellaneous items that include: foreign exchange impacts, other refining gross margin impacts, gain/loss on disposal of assets and subsidiary earnings. There was a net foreign exchange loss of \$26 million (after hedging) in 2017.</p>
<b>RCOP EBIT excluding significant items</b> <b>\$935m</b>	

1. The breakdown of RCOP shown here represents a management reporting view of the breakdown and, therefore, individual components may not reconcile to statutory accounts.

## Discussion and analysis – Income statement continued

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

## Business unit performance

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

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

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

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

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

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

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

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

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

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

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

**Operating and financial review continued**

**Balance sheet**

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

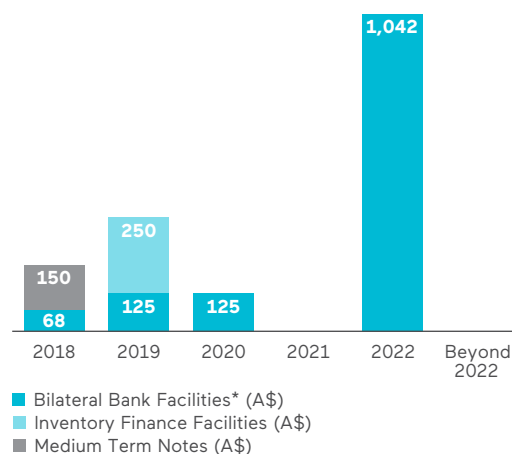
**Discussion and analysis – Balance sheet**

<b>1. Working capital</b> ▲ \$199m	The increase in working capital is primarily driven by higher volume of trade sales outstanding at 31 December 2017.
<b>2. Property, plant and equipment</b> ▲ \$127m	The increase in property, plant and equipment is primarily due to capital expenditure and accruals, including major cyclical maintenance, of \$440 million and capitalised interest of \$2 million. This is partly offset by depreciation of \$205 million and disposals of \$112 million.
<b>3. Intangibles</b> ▲ \$322m	The increase in intangibles is primarily due to goodwill arising on acquisitions of \$322 million.
<b>4. Net debt</b> ▲ \$360m	Net debt increased by \$360 million to \$814 million at 31 December 2017. Caltex's gearing at 31 December 2017 (net debt to net debt plus equity) was 20.8%, increasing from 13.9% at 31 December 2016. On a lease-adjusted basis, gearing at 31 December 2017 was 36.1%, compared with 28.4% at 31 December 2016.

**Current Sources of Funding**

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

**Debt Maturity Profile**



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

<b>5. Other non-current assets and liabilities</b> ▼ \$10m	Other net non-current liabilities have decreased primarily due to a portion of non-current environmental liabilities becoming current as remediation works at Kurnell continue. Deferred tax assets have also been partially utilised, resulting from timing differences between the accounting and tax basis of inventory, provisions, and property, plant and equipment.
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## Cash flows

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

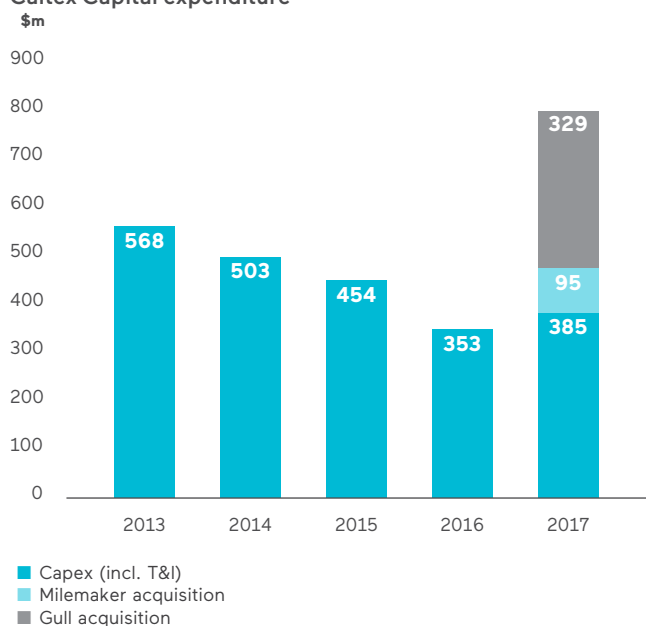
## Discussion and analysis – Cash flows

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

## Capital expenditure

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

### Caltex Capital expenditure



## Business outlook and likely developments

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

### Overview

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

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

## Operating and financial review continued

### Business outlook and likely developments continued

#### Supply and Marketing

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

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

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

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

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

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

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

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

#### Lytton

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

#### Business risks and management

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

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

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

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

#### Caltex Refiner Margin

The CRM is a key metric which drives the profitability of Caltex's refinery. The CRM represents the difference between the cost of importing a standard Caltex basket of products to eastern Australia and the cost of importing the crude oil required to make that product basket. A low CRM will adversely impact Caltex's refining earnings and cash flows.

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

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



### Commodity price risk

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

### Foreign exchange risk

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

Foreign exchange contracts (forwards, swaps and options) are used to hedge foreign currency exposure in accordance with Group Treasury Policy. The instruments used to manage foreign exchange risk expose Caltex to fair value foreign exchange rate risk and counterparty credit risks. Exposure limits are set for each counterparty to ensure that Caltex is not exposed to excess counterparty credit risk.

### Liquidity risk

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

### Operational risk

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

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

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

### Competitive risk

Caltex operates in a highly competitive market space, and could be adversely impacted by new entrants to the market or increased competition from existing competitors, changes in contractual terms and conditions with existing customers, and/or the loss of a major customer. Caltex has in place various strategies to manage these risks which are designed to sustain and improve margins by reducing costs, improving operating efficiencies and encouraging sustainable performance. These strategies include the implementation of organisational restructuring, geographic diversification, and the allocation of capital expenditure to those businesses with the potential to deliver strong earnings growth.

### Environmental risks

Caltex imports, refines, stores, transports and sells petroleum products. Therefore, it is exposed to the risk of environmental spills and incidents. It is also responsible for contaminated sites which it operates or has previously operated. As part of its approach to managing these risks, Caltex applies strict operating standards, policies, procedures and training to ensure compliance with all applicable environmental laws, and Caltex's spills performance is a key performance metric. Caltex is focused upon achieving better environmental outcomes across its business as part of its strategy to deliver solid and sustained performance. Further details on how Caltex manages its environmental regulations and performance are outlined below in "Environmental regulations".

### Demand for Caltex's products

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

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

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

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

## Operating and financial review continued

### Business risks and management continued

#### Labour shortages and industrial disputes

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

#### Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. Primary credit exposure relates to trade receivables. Caltex has a Board approved credit policy and a process for the management and diversification of the credit risk to Caltex. The credit quality of Caltex's customers is consistently monitored in order to identify any potential adverse changes in the credit risk of the customers. Caltex also minimises concentrations of credit risk by undertaking transactions with a large number of customers across a variety of industries and networks. Additionally security is required to be supplied by certain groups of Caltex customers to minimise risk.

#### Climate change

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

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

#### Regulatory risk

Caltex operates in an extensively regulated industry and operates its facilities under various permits, licences, approvals and authorities from regulatory bodies. If those permits, licences, approvals and authorities are revoked or if Caltex breaches its permitted operating conditions, it may lose its right to operate those facilities, whether temporarily or permanently. This would adversely impact Caltex's operations and profitability. As part of its approach to managing these risks, Caltex applies strict operating standards, policies, procedures and training to ensure that it remains in compliance with its various permits, licences, approvals and authorities. Additionally, it proactively manages these risks through a combination of vigilance regarding current regulations, contact with relevant bodies/agencies and working in partnership with various stakeholders to reduce the likelihood of significant incidents that could impact either Caltex and/or the communities in which we operate.

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

### Events subsequent to the end of the year

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

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

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

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

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

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

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

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

## Environmental regulations

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

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

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

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

In 2017, Caltex made its ninth submission under the National Greenhouse and Energy Reporting Scheme, reporting energy consumption and production as well as greenhouse gas emissions from Group operations. Caltex also continued to disclose information on emissions under the National Pollutant Inventory. Caltex continues to remain a signatory to the Australian Packaging Covenant, with 100% of packing used reviewed using the Sustainable Packaging Guidelines (SPG).

## Compliance with environmental regulations

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

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

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

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

The business had two environmental infringements in 2017. One related to an operational issue at our licensed sewage treatment plant associated with our service station in Blacksoil Qld; and the other was associated with a spill by one of Caltex's licensed contractors at our Newport Terminal Facility.

## Lead auditor's independence declaration

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

## Remuneration Report

The directors of Caltex Australia Limited present the Remuneration Report prepared in accordance with section 300A of the *Corporations Act 2001* (Cth) (*Corporations Act*) for the Caltex Group for the year ended 31 December 2017.

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

### 1. Remuneration snapshot

#### 1a. Key Management Personnel (KMP)

This Remuneration Report is focused on the KMP of Caltex, being those persons with authority and responsibility for planning, directing and controlling the activities of Caltex. KMP includes the Non-executive Directors and Senior Executives (including the Managing Director – MD & CEO). The KMP disclosed in the 2017 Remuneration Report differ from those identified as KMP in the 2016 Remuneration Report due to the change in Caltex's operating model.

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

#### Current Non-executive Directors

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

#### Former Non-executive Directors

Greig Gailey <sup>(ii)</sup>	Chairman and Independent, Non-executive Director
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#### Current Senior Executives

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

#### Former Senior Executives

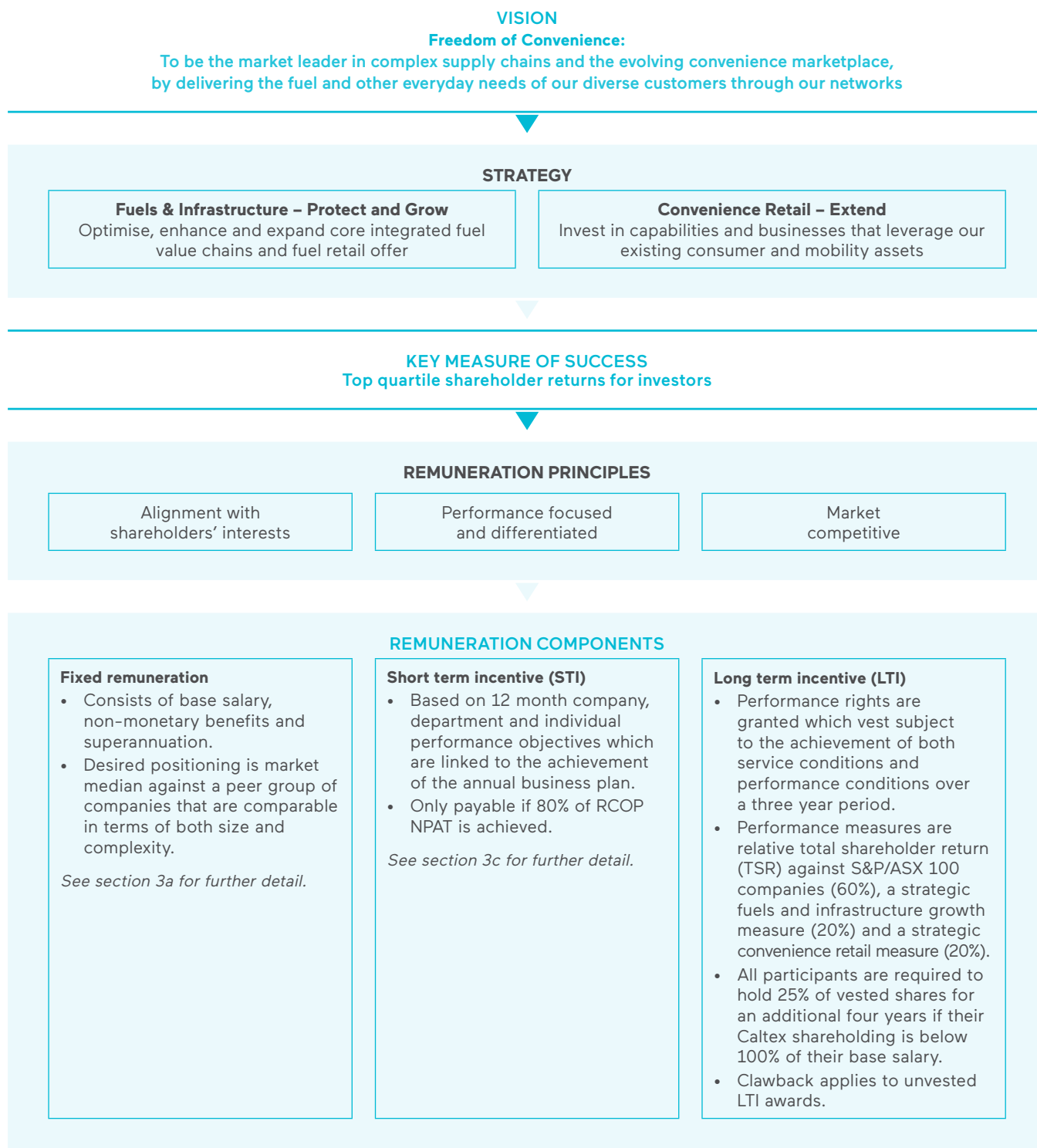
Bruce Rosengarten	Executive General Manager, Commercial (ceased employment 1 April 2017)
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Note:

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

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

## 1b. Summary of 2017 remuneration arrangements for Senior Executives





**Remuneration Report** continued

**1. Remuneration snapshot** continued

**1c. Senior Executive remuneration outcomes in 2017**

Remuneration element	Outcome
MD & CEO remuneration	There were no changes to the fixed remuneration or structure of the MD & CEO remuneration package in 2017.
Other Senior Executive remuneration increase	Base salaries for other Senior Executives (excluding the EGM Fuels & Infrastructure) increased by an average of 2.5%. This increase was in line with market movement and broadly consistent with the budgeted salary increase that applied to the majority of Caltex employees. The EGM Fuels & Infrastructure's fixed remuneration increased by 10% in April 2017, and then by a further 5% from 1 July 2017. The increases awarded to the EGM Fuels & Infrastructure was determined to be appropriate by the Board, taking into account the responsibilities for her significantly broader role, her positioning relative to market, her strong performance and strategic contribution, and internal relativities to her peers.
STI	The 2017 RCOP NPAT result was significantly stronger than in 2016, and only just below our 2015 result, which was a record profit result. This reflects strong retail results, exceptional operational reliability which enabled the company to take full advantage of positive refiner margins, as well as a strong performance from our trading and shipping business. RCOP NPAT performance in 2017 was 119% of target, and the average 2017 STI award for Senior Executives was 120.6% of target. This outcome continues to demonstrate the strong alignment between STI payments and profit achieved.
LTI	<p>The 2014 LTI grant had a performance period from 1 January 2014 to 31 December 2016 and vested in April 2017. This grant was subject to the achievement of relative TSR against S&amp;P/ASX 100 companies (60%), free cash flow (20%) and a mix of strategic measures (20%).</p> <p>Over the 2014-16 performance period, Caltex's share price increased from \$20.05 to \$30.46 and its TSR was 178%. This placed Caltex at the 82nd percentile against S&amp;P/ASX 100 companies. The company also achieved 100% of the free cash flow target, and the Board determined that performance against the strategic measures was just above target performance (allowing 74.42% of this tranche to vest). As a result, 84.78% of the 2014 grant vested on 1 April 2017 and the remaining 15.22% lapsed. There was no clawback during 2017.</p>

**1d. Summary of 2017 Non-executive Director fees**

Non-executive Director fees are fixed and do not have any variable components. The Chairman receives a fee for chairing the Caltex Board and is not paid any other fees. Other Non-executive Directors receive a base fee and additional fees for each additional Committee chairmanship and membership, except for the Nomination Committee, where no additional fee is paid. There was no increase to any Non-executive Director fees in 2017.

Superannuation contributions were made at a rate of 9.5%. No additional retirement benefits were paid.

Fees paid to Non-executive Directors are subject to a maximum annual Non-executive Director fee pool of \$2.5 million (including superannuation). This fee pool was approved by shareholders at the 2016 AGM and was not increased at the 2017 AGM.

See sections 4a and 4b for further detail.

### 1e. Outlook for FY18 (unaudited)

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

Change	Commentary
MD & CEO remuneration	<p>The Board determined that it would again freeze the fixed remuneration of the MD &amp; CEO for 2018. The MD &amp; CEO last received a fixed remuneration increase in April 2015.</p> <p>In 2018, the MD &amp; CEO's target STI opportunity will increase from 60% to 70% of base salary, with stretch STI opportunity increasing proportionally from 100% to 140%. The Board determined that this was appropriate given:</p> <ul style="list-style-type: none"> <li>advice from Aon Hewitt, the Human Resources Committee's independent remuneration adviser, indicated that target STI opportunities for MD &amp; CEOs in our peer group were typically around 90-100% of fixed remuneration and were typically higher (in percentage terms) than for other members of the leadership team, and</li> <li>the increase in the STI opportunity brings the MD &amp; CEO's target STI and total target remuneration closer to (but still below) the median of the customised peer group that is used for benchmarking purposes. See section 3a for further information on the peer groups used.</li> </ul>
Senior Executive remuneration	<p>No Senior Executive, aside from the EGM Fuels &amp; Infrastructure, will receive a salary increase in 2018. The EGM Fuels &amp; Infrastructure will receive a fixed remuneration increase of 13.8% in 2018. This increase reflects enhanced capability within the role, ensures that scope and responsibilities between roles are appropriately rewarded and seeks to address relativities between Senior Executives.</p> <p>Overall, the Board's approach to Senior Executive base salary increases reflects the restrained approach Caltex will take to fixed remuneration within the company in 2018.</p> <p>The Board has determined that it is appropriate to increase the target STI opportunity for its Senior Executives from 50% to 60% of base salary from 2018 (with a stretch increasing proportionately from 100% to 120%). Benchmarking by external consultants has consistently shown that the target STI of our Senior Executives is well below the median of our benchmarked peer groups (which, at median, is typically 60-65% of total fixed remuneration). These increases in STI opportunity will bring the Senior Executive's target STI and total target remuneration closer to the median of the company's peer groups, and maintain relativities to the MD &amp; CEO. This change also ensures that Senior Executives will only benefit from these changes if they are able to deliver on the key financial and operational metrics which determine STI payouts.</p> <p>These increases were determined by the Board, upon the recommendation of the Human Resources Committee, taking into account the Senior Executives' performance over the year, market data, forecast market movements and the remuneration recommendations made by Aon Hewitt.</p>
LTI	<p>The 2015 LTI grant had a performance period from 1 January 2015 to 31 December 2017 and vests in April 2018. This grant was subject to the achievement of relative TSR against S&amp;P/ASX 100 companies (75%), and a profit growth measure (25%).</p> <p>Over the 2015-17 performance period, when averaged for TSR purposes, Caltex's share price increased from \$31.08 to \$34.00 and TSR was 121%. Despite a good TSR result, and the significant growth in share price from 2014 to 2016 immediately prior to the commencement of the performance period, this result only placed Caltex at the 32nd percentile against S&amp;P/ASX 100 companies. This means that no portion of this tranche will vest. Against the profit growth measure, the Board also determined that the company had performed well against this hurdle due to very strong profit growth in its step out ventures. As a result, 22.38% of the 2015 grant will vest on 1 April 2018, and the remaining 77.62% will lapse.</p>
Non-executive Director fees	<p>Non-executive Director base fees will increase by 2% in 2018. Audit and Human Resources Committee Chairs will receive a \$10,000 increase in Chair fees, with the OHS &amp; Environmental Risk Chair receiving a \$4,000 increase. All Committee members will receive a Committee fee increase of \$2,000, aside from the Nomination Committee, for which no fees are paid.</p> <p>These fee increases reflect advice from Aon Hewitt that the Committee fees were below market and better aligns the fees with those of our peer companies.</p>
Non-executive Director fee pool	<p>There will be no change to the Non-executive Director fee pool for 2018.</p>

## Remuneration Report continued

### 2. Oversight and external advice

#### 2a. Board and Human Resources Committee

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

The Human Resources Committee assists the Board to fulfil its corporate governance and oversight responsibilities in relation to Caltex's remuneration framework, incentive plans, succession planning, remuneration and diversity and inclusion disclosures, including setting the measurable objectives for achieving diversity and inclusion. It also reviews, on an annual basis, progress made towards achieving these objectives.

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

The Human Resources Committee seeks to put in place appropriate remuneration arrangements and practices that are clear and understandable, that attract and retain talent and capability, and support superior performance and long term growth in shareholder value.

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

#### 2b. External advice

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

During 2017, Caltex received "remuneration recommendations" (as defined in the *Corporations Act*) from Aon Hewitt in relation to Non-executive Director fees and the remuneration for the MD & CEO and other Senior Executives.

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

The fee paid to Aon Hewitt for the above remuneration advice and recommendations was \$35,000 excluding GST. Aon Hewitt also provided additional services (Finance and HR related) to Caltex over 2017. The fee for these additional services was \$26,850 excluding GST.

### 3. Senior Executive remuneration

#### 3a. Remuneration philosophy and structure

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

Guiding philosophy	Commentary
Alignment with shareholders' interests	The payment of variable incentives is dependent upon achieving financial and non-financial performance measures that are aligned with shareholders' interests. Share retention arrangements require all executives to build up and maintain shareholdings to encourage further alignment with Caltex shareholders.
Performance focused and differentiated	The company's reward, performance planning and review systems are closely integrated to maintain a strong emphasis and accountability for performance at the company, department and individual levels. Rewards are differentiated to incentivise and reward superior performance.
Market competitive	All elements of remuneration are set at competitive levels for comparable roles in Australia and allow Caltex to attract and retain quality candidates in the talent market.
Ensure gender equity in remuneration outcomes	Remuneration is reviewed to remove gender based pay differences on a like-for-like job level basis.

#### Alignment with strategy

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

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

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

### Market positioning and peer groups

In order to be able to attract and retain key talent, and drive strong performance, the company's remuneration philosophy is to position fixed remuneration at the median of a customised peer group of companies, with total remuneration able to reach the upper quartile for outstanding performance. For 2017, the customised peer group consisted of 20 companies that are broadly of comparable size and complexity and which the Board considers to be leading competitors for capital and people. The peer group was adjusted to include additional companies with a retail focus to align with Caltex's strategy.

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

### Remuneration structure

Our Senior Executive remuneration structure consists of:

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

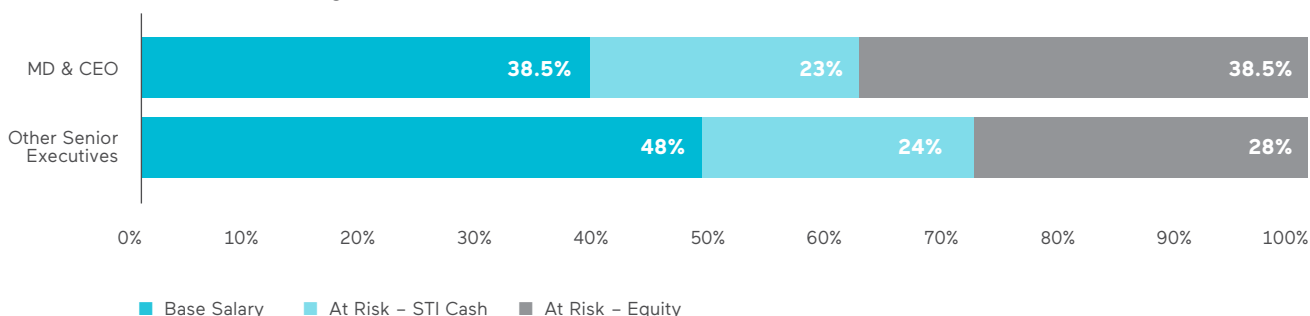
The remuneration structure (including the remuneration mix) is reviewed annually by the Board.

### 3b. Remuneration mix

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

The "at target" remuneration mix in 2017 is skewed towards variable pay to better align executive pay and performance; and within the variable pay components, the mix is skewed towards the long term incentive. External advisers have confirmed that Caltex has a more stretching relative TSR vesting schedule than most ASX 100 companies. See section 3d for further information on the relative TSR vesting schedule.

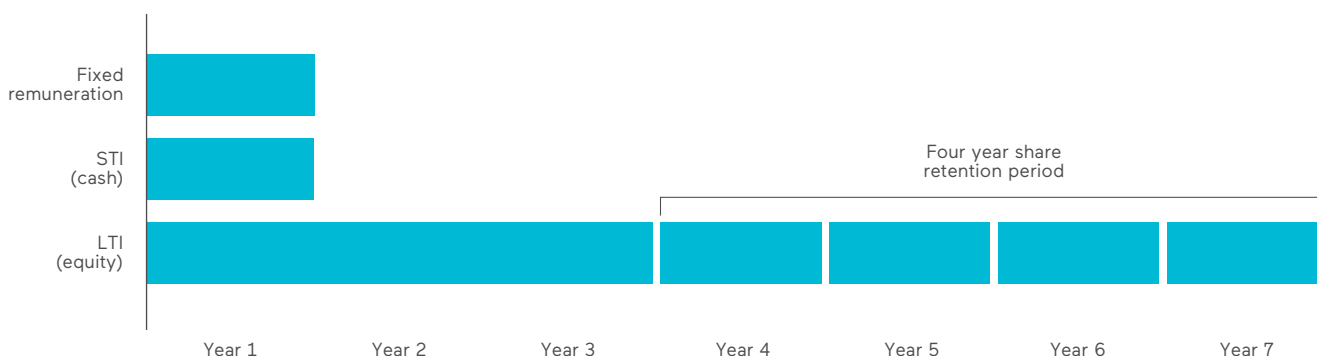
### 2017 Remuneration mix "at target"



#### Notes:

- "At target" performance in the remuneration mix for "Other Senior Executives" reflects an STI target of 50% of base salary for Mr Hepworth, Mr Pearson and Ms Warner.
- LTI Equity comprises performance rights granted under the Caltex Equity Incentive Plan (CEIP). It assumes that the relative TSR measure is achieved at the 75th percentile, with the profit growth and strategic convenience retail measure achieved at target. Grants of performance rights under the CEIP are made at the maximum stretch level of 150% of base salary for the MD & CEO and 90% of base salary for other Senior Executives. The proportion of the grant that vests is based on meeting service and performance conditions.

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



#### Note:

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

**Remuneration Report** continued

**3. Senior Executive remuneration** continued

**3c. Performance based "at risk" remuneration – 2017 STI Plan**

<b>Plan</b>	STI awards are made under the Rewarding Results Plan.
<b>Plan rationale</b>	The Plan rewards a combination of financial and non-financial performance measures that are aligned to the creation of shareholder value. Primary emphasis is placed on RCOP NPAT, and the non-financial measures focus our executives and employees on executing the most critical objectives aligned to the annual business plan.
<b>Performance period</b>	The performance period is for 12 months ended 31 December 2017.
<b>2017 target and maximum stretch opportunity levels</b>	MD & CEO – the target STI opportunity is 60% of base salary and the maximum stretch STI opportunity is 120% of base salary. Other Senior Executives – the target STI opportunity is 50% of base salary and the maximum stretch STI opportunity is 100% of base salary.
<b>Financial gateway</b>	RCOP NPAT performance, including the cost of incentives, needs to be at least 80% of target before any short term incentives are payable.
<b>Use of discretion</b>	The Human Resources Committee, in its advisory role, reviews proposed adjustments to Rewarding Results outcomes where there are exceptional unforeseen and uncontrollable impacts on the agreed performance measures and makes recommendations for any changes to performance measures, which may only be approved by the Board.  During 2017, discretion was exercised by the Board to exclude three items from the RCOP NPAT result (net \$14m) for both statutory disclosure and incentive purposes. These items were determined by the Board to be outside the control of employees and/or not part of normal trading operations. Items excluded were profits on the sale of the fuel oil business, and expenses associated with Franchisee Employee Assistance Fund and restructuring costs associated with the Quantum Leap Project cost reduction program. All of these items have been previously disclosed to shareholders and analysts and are recognised as significant or non-recurring items and outside the underlying RCOP NPAT result.
<b>Payment vehicle</b>	STI awards are delivered in cash. STI deferral was removed for STI awards made to Senior Executives from payments made in 2016 onwards because the long term incentive share retention arrangements came into place at this time. See section 3d for further detail.
<b>Payment frequency</b>	STI awards are paid annually. Payments are made in April following the end of the performance period.

*Setting and evaluating the performance of executives in 2017*

Performance measures for 2017 were derived from the business plan in line with the company direction set by the Board. The Board approved the 2017 business plan and has regularly monitored and reviewed progress against plan milestones and targets.

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

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

*Senior Executive performance objectives and outcomes*

The table below outlines the common performance objectives that applied to the Senior Executives over 2017. These measures accounted for between 50% and 55% of the Senior Executive's scorecard, depending upon their role. The remaining 45-50% of performance objectives were customised to the executive's remit. Such objectives include delivery of specific strategic growth projects, achievement of specific free cash flow targets, achievement of divisional EBIT targets, and achievement of key retail development targets. Actual performance against the common objectives has been provided.



Measure	Description of measure	Weighting	Actual performance range					Commentary on performance
			Below Threshold	Threshold to Target	Target	Target to Stretch	Stretch	
Personal safety (assessed at company or business unit level)	Performance is measured based on the total treatable injury frequency rate (TTIFR)	5-7.5%	✓					While Caltex delivered significant improvements in personal safety performance in 2017 with a total recordable injury frequency rate (TRIFR) of 5.2, and a "days away from work injury frequency rate (DAFWIFR)" of 1.36 (a significant improvement vs last year and the prior three-year average), this metric is below threshold due to the company's first fatality in 20 years.
Process safety (assessed at company or business unit level)	Performance is measured based on the number of spills	5-7.5%		✓				Process safety results were strong in 2017, with Caltex equalling its best ever spill performance of nine (with no marine spills). However, due to the challenging targets set by the Company this was above our target of eight spills.
RCOP NPAT	See explanation of RCOP NPAT below	40%				✓		RCOP NPAT was between target and stretch at \$621m due to above budget retail results, strong refiner margins and strong trading and shipping results.

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

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

#### RCOP NPAT

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

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

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

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

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

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

## Remuneration Report continued

### 3. Senior Executive remuneration continued

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

<b>Plan</b>	LTI awards are granted under the CEIP.														
<b>Plan rationale</b>	<p>The Plan aligns executive rewards with the shareholder experience. This is done through the use of relative TSR as the primary performance measure, and through the use of strategic growth measures which contribute towards the delivery of top quartile shareholder returns as the secondary measure.</p> <p>The Plan has also been designed to act as a retention mechanism and to encourage Senior Executives to build and retain Caltex shares over the long term.</p>														
<b>LTI instrument</b>	<p>Performance rights are granted by the company for nil consideration. Each performance right is a right to receive a fully-paid ordinary share at no cost if service based and performance based vesting conditions are achieved. Performance rights do not carry voting or dividend rights.</p> <p>The Board may determine to pay executives the cash value of a share in satisfaction of a vested performance right, instead of providing a share or a restricted share. It is expected that such discretion will only be exercised in limited cases, typically where the executive is a "good leaver" from Caltex, i.e. where the employee ceases employment due to redundancy or retirement.</p>														
<b>Allocation methodology</b>	<p>The number of performance rights granted is determined by dividing the maximum opportunity level by the five day volume weighted average share price up to the first day of the performance period, discounted by the value of the annual dividend to which the performance rights are not entitled. No discount is applied for the probability of achieving the performance measures.</p>														
<b>Performance period</b>	<p>The performance period is three years commencing on 1 January in the year the awards are made. For the 2017 awards, this is the three year period from 1 January 2017 to 31 December 2019.</p>														
<b>2017 target and maximum stretch opportunity levels</b>	<p>The MD &amp; CEO received a grant of performance rights based on a maximum stretch LTI value of 150% of base salary. The target LTI value is 100% of base salary.</p> <p>Other Senior Executive grants were based on a maximum stretch LTI value of 90% of base salary. The target LTI value is 60% of base salary.</p>														
<b>Performance measures</b>	<p>For 2017, the LTI performance measures were relative TSR (weighted at 60%) a strategic growth measure (weighted at 20%), and a strategic convenience retail measure (weighted at 20%).</p> <p><b>Relative TSR</b></p> <p>Relative TSR is assessed against a comparator group of S&amp;P/ASX 100 companies. The vesting schedule is:</p> <table> <tr> <th>Performance scale</th><th>Vesting %</th></tr> <tr> <td>Below Threshold</td><td>Zero</td></tr> <tr> <td>Threshold: 50th percentile</td><td>33.3% of the rights will vest</td></tr> <tr> <td>Between Threshold and Target</td><td>Pro-rata vesting occurs between these relative performance levels</td></tr> <tr> <td>Target: 75th percentile</td><td>66.6% of the rights will vest</td></tr> <tr> <td>Between Target and Stretch</td><td>Pro-rata vesting occurs between these relative performance levels</td></tr> <tr> <td>Stretch: 90th percentile</td><td>100% of the rights will vest</td></tr> </table> <p><b>Strategic growth measure</b></p> <p>In 2017, a financial gateway applies to the strategic growth measure, being return on average funds employed (RoAFE). The RoAFE gateway is measured as Profit Before Interest and Tax/Average Funds Employed excluding refining over the prior 12 month period (including intangibles but excluding debt). The RoAFE gateway has been included in the strategic growth measure to ensure that executives are only rewarded when Caltex has invested in the right projects and created shareholder value.</p> <p>Once the RoAFE gateway has been met, the strategic growth measure that will apply is a three year earnings growth measure from mergers and acquisitions (core and non-core) and step-out ventures (new products/services/geographies). This measure was chosen as it reflects the importance of profit growth in achieving our key success measure of top quartile shareholder returns.</p>	Performance scale	Vesting %	Below Threshold	Zero	Threshold: 50th percentile	33.3% of the rights will vest	Between Threshold and Target	Pro-rata vesting occurs between these relative performance levels	Target: 75th percentile	66.6% of the rights will vest	Between Target and Stretch	Pro-rata vesting occurs between these relative performance levels	Stretch: 90th percentile	100% of the rights will vest
Performance scale	Vesting %														
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Between Target and Stretch	Pro-rata vesting occurs between these relative performance levels														
Stretch: 90th percentile	100% of the rights will vest														

<b>Performance measures</b> continued	<p><b>Convenience retail measure</b></p> <p>This hurdle measures the implementation of Caltex's convenience retail strategy. The Board will measure this through both quantitative and qualitative metrics including:</p> <ul style="list-style-type: none"> <li>• the rollout of new format across existing and new Calstores network;</li> <li>• the average percentage sales uplift per store; and</li> <li>• a customer metric, based on improvement in customer feedback using net promoter score methodology.</li> </ul> <p>Each measure in this hurdle is assessed separately and then aggregated to determine the final vesting percentage. This is to be overlaid with the Board's qualitative assessment of how the company has performed in implementing the company's convenience retail strategy, including an assessment that a threshold return on investment has been maintained.</p> <p><b>Disclosure of performance outcomes</b></p> <p>Specific details of the RoAFE gateway and the strategic measures have not been disclosed due to commercial sensitivity. However, in the 2019 Remuneration Report, the Board will set out how Caltex performed against these measures. See section 3h for the Board's rationale for the performance outcomes of the LTI awards that were granted in 2015 and that vest in April 2018.</p>
<b>Shares acquired upon vesting of the performance rights</b>	<p>Shares to satisfy vested performance rights are usually purchased on market.</p> <p>Shares allocated upon vesting of performance rights will carry the same rights as other ordinary shares (including dividends and voting rights).</p>
<b>Share retention arrangements</b>	<p>The share retention arrangements are designed to encourage all executives to build up and maintain sizeable shareholdings in Caltex for a longer period of time and further align the interests of Caltex executives and shareholders.</p> <p>Under the share retention arrangements, 25% of the vested portion of performance rights will be converted into restricted shares. These shares are unable to be sold for a further period of four years (until 1 April 2024 for the 2017 LTI awards). This effectively extends the life of the LTI plan from three years to seven years. For LTI awards from 2016, retention arrangements will be waived if the executive can demonstrate that he or she holds the equivalent of 100% of their base salary in shares prior to vesting.</p> <p>Based on this policy, if it is assumed that the LTI awards vest at target levels over a period of four years, the MD &amp; CEO and Senior Executives would have theoretical shareholdings of 100% and 60% of their base salary respectively.</p> <p>On ceasing employment, all dealing restrictions on the restricted shares cease to apply, subject to the application of the Clawback Policy.</p>
<b>Clawback Policy</b>	<p>See section 3e for information on the Caltex Clawback Policy.</p>
<b>Termination provisions</b>	<p>If a participant ceases to be an employee due to resignation, all unvested equity awards held by the participant will lapse, except in exceptional circumstances as approved by the Board.</p> <p>The Board has the discretion to determine the extent to which equity awards granted to a participant under the LTI plan vest on a pro-rated basis where the participant ceases to be an employee of a Group company for reasons including retirement, death, total and permanent disablement, and bona fide redundancy. In these cases, the Board's usual practice is to pro-rate the award to reflect the portion of the period from the date of grant to the date the participant ceased to be employed. In addition, the portion of the award that ultimately vests is determined by testing against the relevant performance measures at the usual time.</p>
<b>Change of control provisions</b>	<p>Any unvested performance rights may vest at the Board's discretion, having regard to pro-rated performance.</p>

#### *Legacy LTI awards*

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

## Remuneration Report continued

### 3. Senior Executive remuneration continued

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

Performance measure	Commentary
Relative TSR – 2015 and 2016 grant	The operation of the relative TSR measure is the same as that outlined above under the 2017 awards.
Strategic measures	<p><b>Performance measures</b></p> <p>2015: The strategic measure is based on a profit growth target at the end of 2017 (in reference to 2014) attributable to M&amp;A (core and non-core) and step-out ventures (new products/services/geographies).</p> <p>2016: The strategic measure is based on a profit growth target at the end of 2018 (in reference to 2015) attributable to M&amp;A (core and non-core) and step-out ventures (new products/services/geographies).</p> <p>A RoAFE gateway applies to the 2016 strategic growth measure.</p> <p><b>Disclosure and performance assessment</b></p> <p>2015: See section 3h for Caltex's performance against the strategic measures applicable for the 2015 awards.</p> <p>2016: The Board will set out in the 2019 Remuneration Report how Caltex performed against the 2016 measures, including the Board's rationale for the relevant vesting percentage.</p>

#### 3e. Clawback Policy

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

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

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

#### 3f. Hedging and margin lending policies

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

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

Designated Caltex Personnel are required to undertake training to ensure that they are aware of and understand their obligations and responsibilities under the Securities Trading Policy. A contravention is a serious matter and may lead to disciplinary action, including termination of employment.

### 3g. Senior Executive remuneration and service agreements

#### MD & CEO

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

The split between the MD & CEO's 2017 total target and maximum stretch remuneration is outlined below.

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

Notes:

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

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

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

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

#### Other Senior Executives

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

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

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

Table 2. Summary of Service Agreements for other Senior Executives

Notice	Termination on notice (by the company)	Resignation (by the Senior Executive)
Simon Hepworth	3 months	3 months
Richard Pearson	6 months	6 months
Louise Warner	6 months	6 months

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



## Remuneration Report continued

### 3. Senior Executive remuneration continued

#### 3g. Senior Executive remuneration and service agreements continued

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

##### *Executive General Manager, Retail*

Mr Richard Pearson was appointed on 1 August 2017. Mr Pearson's contract included relocation and accommodation support to assist him to relocate from Melbourne, where he was previously employed. If Mr Pearson's employment ceases due to resignation, serious and wilful misconduct or negligent behaviour within 12 months of commencement, the entire cost of relocation assistance must be repaid, with a pro-rated portion repayable if employment ceases for these reasons between 12 and 36 months.

##### *Executive General Manager, Commercial*

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

#### 3h. Link between company performance and executive remuneration

The link between executive remuneration and company performance is outlined in various parts of this report. This includes section 1 where the 2017 remuneration outcomes are provided, and section 3 where the STI and LTI performance measures are explained, including why the measures have been chosen and how they relate to the performance of the company.

Table 3 below outlines Caltex's TSR, dividend, share price, earnings per share, RCOP NPAT results and safety performance each year from 2013 to 2017 together with the linkage to actual STI and LTI outcomes.

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

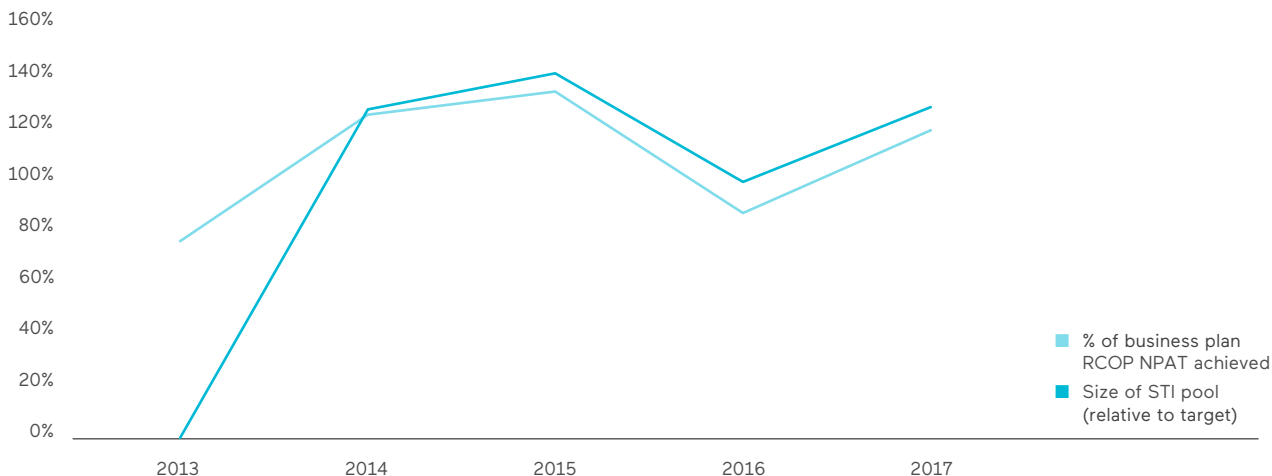
Summary of performance over 2013-17	2017	2016	2015	2014	2013
12 month TSR % <sup>(i)</sup>	11.8	-16.4	13.6	74.1	6.1
Dividends (cents per share)	121c	102c	117c	70c	34c
Share price <sup>(ii)</sup>	\$34.05	\$30.46	\$37.70	\$34.21	\$20.05
RCOP excluding significant items earnings per share	\$2.38	\$2.01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

**Notes:**

- (i) TSR is calculated as the change in share price for the year, plus dividends announced for the year, divided by the opening share price. TSR is a measure of the return to shareholders in respect of each financial year.
- (ii) The price quoted is the trading price for the last day of trading (31 December) in each calendar year.
- (iii) Measured using the RCOP method which excludes the impact of the rise or fall in oil and product prices (a key external factor) and excludes significant items as determined by the Board.
- (iv) Total Recordable Injury Frequency Rate. It is important to note that in the period prior to 2017 Caltex used a different metric, being the Total Treatable Injury Frequency Rate (TTIFR). In 2017 changes were made to the suite of metrics measured and reported on in 2017. A major change included introduction of TRIFR as a replacement measure for TTIFR, and this brought Caltex in line with the reporting by other ASX companies.
- (v) LTIFR – Lost Time Injury Frequency Rate.

### Alignment between STI outcomes and RCOP NPAT

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



### 2015 LTI vesting outcomes and the link to company performance

#### Relative TSR (75%)

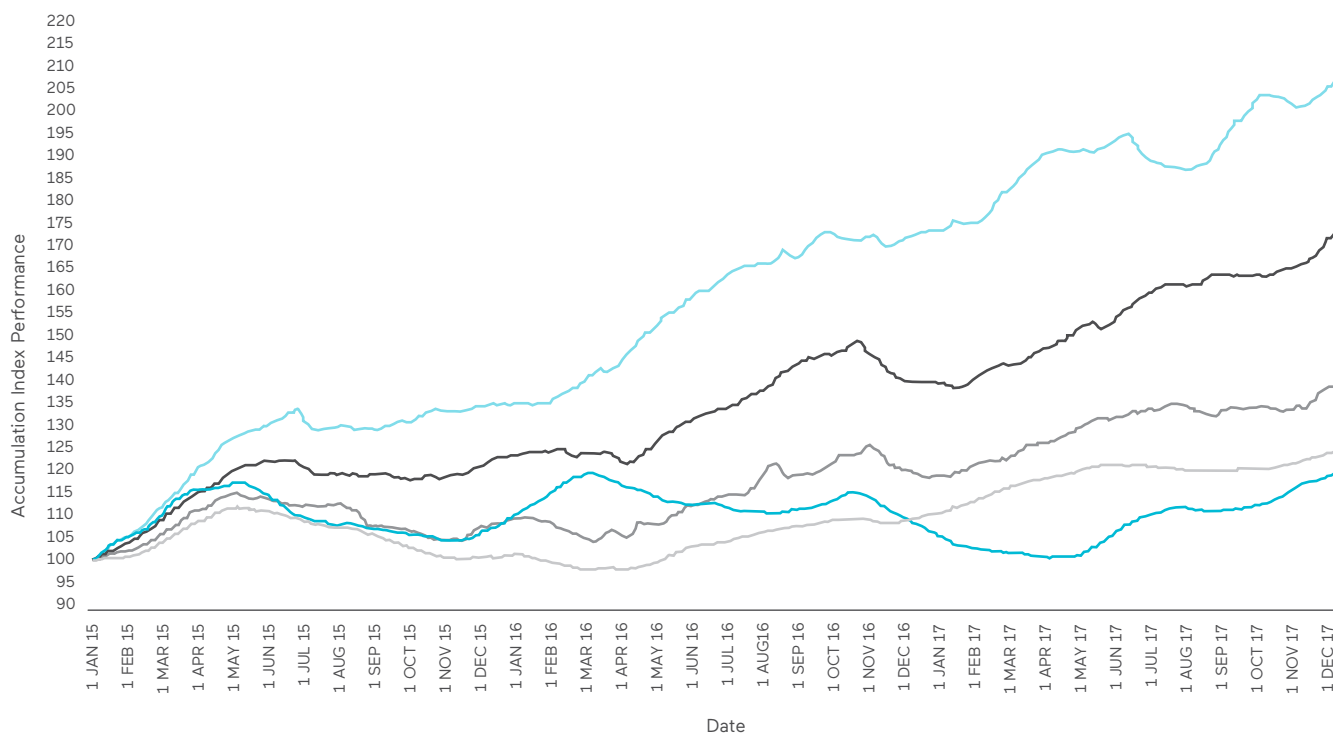
The chart below provides a comparison of Caltex's three year TSR performance compared to S&P/ASX 100 companies over the period from 1 January 2015 to 31 December 2017. This reflects the final status of the tranche of the 2015 LTI grant that is subject to the relative TSR performance measure. Caltex's TSR over this period was 121%, placing it at the 32nd percentile of the comparator group. As no percentage of this tranche vests unless the Company's TSR performance achieves at least the 50th percentile performance, 0% of the performance rights subject to the relative TSR performance measure will vest on 1 April 2018.

Caltex Australia Limited and the Constituents of the S&P/ASX 100 Index

Total Shareholders Return Performance

1 January 2015 – 31 December 2017

■ Caltex ■ 90th Percentile ■ 75th Percentile ■ 50th Percentile ■ ASX100 Index



Constituents derived from the S&P/ASX 100 Index as at 1 January 2015

Performance start and end data price derived by applying a 60 day average

eganassociates

### Profit growth (25%)

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

## Remuneration Report continued

### 3. Senior Executive remuneration continued

#### 3h. Link between company performance and executive remuneration continued

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

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

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

#### 3i. Remuneration tables

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

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

The purpose of this table is to provide a summary of the "past" and "present" remuneration outcomes received in either cash or equity. Due to this, the values in this table will not reconcile with those provided in the statutory disclosures in table 4b. For example, table 4b discloses the value of LTI grants which may or may not vest in future years, whereas this table discloses the value of LTI grants from previous years which vested in 2017.

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

Notes:

- Salary and fees comprises base salary and cash payments in lieu of employer superannuation (on 2017 base salary and/or on STI payments made in respect of the 2016 performance year paid in 2017).
- Other remuneration includes the cash value of non-monetary benefits, superannuation, annual leave and long service leave entitlements, and any fringe benefits tax payable on non-monetary benefits.
- This refers to cash and equity based plans from prior years that have vested in the current year. The value is calculated using the closing share price of company shares on the vesting date. The 2017 figures reflect the strong performance in respect of the LTI that was granted in 2014 and that operated over the performance period from 1 January 2014 to 31 December 2016. Over this period, Caltex's TSR was 178% and the Caltex share price increased from \$20.05 to \$30.46. At the time of vesting, the Caltex share price was \$29.52. Ms Warner's 2014 LTI award was cash based, as it was granted while she led Caltex's Ampol Singapore business.
- This refers to the total value of remuneration earned during 2017, being the sum of the prior columns.
- These Senior Executives elect to receive an equivalent cash payment in lieu of employer superannuation that is in excess of the quarterly Superannuation Guarantee Maximum.
- Mr Pearson commenced employment on 1 August 2017 and his remuneration is disclosed from this date.
- Mr Rosengarten ceased employment on 1 April 2017 due to his position as EGM Commercial being made redundant. The "Terminations Benefit" figure includes the value of his notice paid in lieu, and his redundancy payment.

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

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

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

**Notes:**

- (i) Salary and fees includes base salary and cash payments in lieu of employer superannuation. For 2017, the cash payments in lieu of employer superannuation are on 2017 base salary and/or on STI payments made in respect of the 2016 performance year paid in 2017.
- (ii) The non-monetary benefits received by Senior Executives include car parking benefits, employee StarCard benefits, the payment of the default premiums for death and total and permanent disability insurance cover and related fringe benefits tax payments made by Caltex.
- (iii) Other long term remuneration represents the long service leave for all Senior Executives.
- (iv) This is the value of the restricted shares (calculated under the accounting standards) granted to Mr Rosengarten in 2013, the last tranche of which vested in 2016.
- (v) These values have been calculated under accounting standards. The values may not represent the future value that the Senior Executive will receive, as the vesting of the performance rights is subject to Caltex achieving pre-defined performance measures.
- (vi) These Senior Executives elect to receive an equivalent cash payment in lieu of employer superannuation that is in excess of the quarterly Superannuation Guarantee Maximum.
- (vii) Mr Pearson commenced employment on 1 August 2017 and his remuneration is disclosed from this date.
- (viii) Mr Rosengarten ceased employment on 1 April 2017. The redundancy column includes the value of his notice paid in lieu (five months) and his redundancy payment.
- (ix) Ms Warner's 2016 remuneration relates to the period commencing 3 October 2016 when she was appointed Executive General Manager, Fuels & Infrastructure and became a KMP.

**Remuneration Report** continued

**3. Senior Executive remuneration** continued

**3i. Remuneration tables** continued

*Table 5. 2017 Senior Executive performance rights*

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

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

Notes:

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

*Table 6. Valuation assumptions of performance rights granted*

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

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

Notes:

- (i) Market performance measures, such as relative TSR, must be incorporated into the option-pricing model valuation used for the CEIP performance rights, which is reflected in the valuation per performance right. Non-market vesting conditions such as free cash flow and strategic measures are not taken into account when determining the value of the performance right. This explains the higher valuation for these performance rights. However, the value of the free cash flow and strategic measures may be discounted during the performance period to reflect the Board's assessment of the probability of the number of equity instruments that will vest based on progress against the performance measures. These values will be reflected in table 4b.
- (ii) In 2017, two separate major awards of CEIP performance grants were made. Executive awards, excluding the MD & CEO, were made on 4 April 2017. The MD & CEO's award was made on 12 May 2017 after shareholder approval for the award was obtained at the 2017 AGM held on 4 May 2017. The terms of all 2017 awards, including all performance hurdles and vesting conditions, are the same.

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

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

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

*Table 8. FY17 STI outcomes*

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

Senior Executives	2017	2016
Julian Segal	59%	46%
Simon Hepworth	58%	55%
Richard Pearson <sup>(i)</sup>	62%	–
Bruce Rosengarten <sup>(ii)</sup>	–	38%
Louise Warner	63%	52%
<b>Average<sup>(iii)</sup></b>	<b>60%</b>	<b>48%</b>

Notes:

(i) Mr Pearson commenced in August 2017 and received a pro-rated STI for this year.

(ii) Mr Rosengarten ceased employment due to redundancy in April 2017 and was not eligible for a STI award in 2017.

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

## 4. Non-executive Director fees

### 4a. Our approach to Non-executive Director fees

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

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

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

The Non-executive Directors' fees are fixed and Non-executive Directors do not participate in any Caltex incentive or retirement plan.



**Remuneration Report** continued

**4. Non-executive Director fees** continued

**4b. Board and Committee fees for 2017**

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

*Table 9. 2017 Non-executive Director fees*

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

	Board		Committees <sup>(i)</sup>	
	Chairman	Member	Committee Chairman	Member
2017 fee <sup>(ii)</sup>	\$492,360	\$164,120	\$36,000	\$18,000

Notes:

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

(ii) Caltex paid superannuation of 9.5% for Non-executive Directors in addition to the above fees in 2017.

**4c. Remuneration table**

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

The following table sets out the audited Non-executive Director fees in 2016 and 2017 calculated in accordance with statutory accounting requirements and which reflects the actual remuneration received during the financial year. Non-executive Directors are not eligible to receive any cash based or equity based incentives.

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

Note:

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

## 5. Shareholdings of Key Management Personnel

Table 11. Shareholdings of Key Management Personnel

The movement during the reporting period in the number of shares of Caltex Australia Limited held directly or indirectly by each KMP, including their personally related entities, is below.

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

	Held at 31 Dec 2015	Purchased	Vested	Sold	Held at 31 Dec 2016
<b>Directors</b>					
Greig Gailey	5,000	-	-	-	5,000
Trevor Bourne	5,395	-	-	-	5,395
Steven Gregg	-	-	-	-	-
Bruce Morgan	10,500	-	-	-	10,500
Barbara Ward AM	-	5,000	-	-	5,000
Penny Winn	1,261	3,650	-	-	4,911
<b>Senior Executives</b>					
Julian Segal	141,906	-	129,638	(48,614)	222,930
Simon Hepworth	23,681	-	28,512	(35,000)	17,193
Bruce Rosengarten	4,389	-	16,932	-	21,321
Louise Warner	451	-	-	-	451

## 6. Other Key Management Personnel transactions

Apart from as disclosed in the indemnity section of the Directors' Report, no KMP have entered into a material contract, loan or other transaction with any entity in the Caltex Group during the year ended 31 December 2017 (2016: nil).

### Directors' interests

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

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

Note:

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

## Board and Committee meetings

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

In 2017, the Board convened the following standing committees:

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

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

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

Notes:

- (i) Includes out of session meetings. Excludes strategy workshops, briefings.  
(ii) All directors are invited to and regularly attend Committee meetings; this table lists attendance only where a director is a member of the relevant Committee.  
(iii) A number of directors also participated in Board Committees convened for special purposes.

## Shares and interests

The total number of ordinary shares on issue at the date of this report and during 2017 is 261 million shares (2016: 261 million shares). The total number of performance rights on issue at the date of this report is 1,178,816 (2016: 1,296,263). 582,965 performance rights were issued during 2017 (2016: 460,515). 369,653 performance rights vested or lapsed during the year (2016: 646,253). On vesting, Caltex is required to allocate one ordinary share for each performance right. For each right that vests, Caltex intends to purchase a share on market following vesting. No new shares were issued as a result of the vesting of performance rights during 2017.

## Non-audit services

KPMG is the external auditor.

In 2017, KPMG performed non-audit services for Caltex in addition to its statutory audit and review engagements for the full year and half year.

KPMG received or was due to receive the following amounts for services performed for Caltex during the year ended 31 December 2017:

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

The Board has received a written advice from the Audit Committee in relation to the independence of KPMG, as external auditor, for 2017. The advice was made in accordance with a resolution of the Audit Committee.

The directors are satisfied that:

- the provision of non-audit services to the Caltex Group during the year ended 31 December 2017 by KPMG is compatible with the general standard of independence for auditors imposed by the *Corporations Act*, and
- the provision of non-audit services during the year ended 31 December 2017 by KPMG did not compromise the auditor independence requirements of the *Corporations Act* for the following reasons:
  - the provision of non-audit services in 2017 was consistent with the Board's policy on the provision of services by the external auditor
  - the non-audit services provided in 2017 are not considered to be in conflict with the role of external auditor, and
  - the directors are not aware of any matter relating to the provision of the non-audit services in 2017 that would impair the impartial and objective judgement of KPMG as external auditor.

### Company secretaries

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

#### Lyndall Stoyles

Ms Stoyles was appointed to this position in October 2016 when she joined Caltex. Ms Stoyles manages Caltex's legal, secretariat, internal audit, compliance and corporate affairs teams. As EGM Legal and Corporate Affairs, she is responsible for providing legal advice to Caltex's Board, CEO and broader leadership team.

Ms Stoyles has more than 20 years' experience in advising on competitor, commercial and corporate head office legal issues. Prior to joining Caltex, Ms Stoyles was Group General Counsel and Company Secretary for former logistics business Asciano and spent more than a decade with Clayton Utz advising on competition, commercial and corporate law issues in a broad range of industries. Lyndall holds a Diploma of Law/Masters of Law from the University of Sydney and is a member of the Australian Institute of Company Directors.

#### Kara Nicholls

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

She is a Non-executive Director and Company Secretary of the Gidget Foundation Australia, and a member of the Governance Institute of Australia's Legislative Review Committee.

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

### Indemnity and insurance

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

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

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

### Rounding of amounts

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

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



**Steven Gregg**  
Chairman



**Julian Segal**  
Managing Director & CEO

Sydney, 27 February 2018