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Consolidated Income Statement

for the year ended 31 December 2017

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

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

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

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017

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

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

Consolidated Balance Sheet

as at 31 December 2017

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

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

Thousands of dollars	Issued capital	Treasury stock	Foreign currency translation reserve	Hedging reserve	Equity compensation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2016	543,415	(644)	8,922	(1,476)	(16,669)	2,241,981	2,775,529	12,276	2,787,805
Total comprehensive income for the year									
Profit for the year	-	-	-	-	-	609,940	609,940	540	610,480
Total other comprehensive income	-	-	6,698	209	-	(154)	6,753	-	6,753
Total comprehensive income for the year	-	-	6,698	209	-	609,786	616,693	540	617,233
Own shares acquired, net of tax	-	(10,952)	-	-	902	-	(10,050)	-	(10,050)
Shares vested to employees	-	11,252	-	-	(11,252)	-	-	-	-
Expense on equity settled transactions	-	-	-	-	4,711	-	4,711	-	4,711
Shares bought back ⁽ⁱ⁾	(18,471)	-	-	-	-	(251,608)	(270,079)	-	(270,079)
Dividends to shareholders	-	-	-	-	-	(319,405)	(319,405)	-	(319,405)
Balance at 31 December 2016	524,944	(344)	15,620	(1,267)	(22,308)	2,280,754	2,797,399	12,816	2,810,215
Balance at 1 January 2017	524,944	(344)	15,620	(1,267)	(22,308)	2,280,754	2,797,399	12,816	2,810,215
Total comprehensive income for the year									
Profit for the year	-	-	-	-	-	619,085	619,085	1,667	620,752
Total other comprehensive income	-	-	(28,532)	71	-	2,463	(25,998)	-	(25,998)
Total comprehensive income for the year	-	-	(28,532)	71	-	621,548	593,087	1,667	594,754
Own shares acquired, net of tax	-	(10,540)	-	-	3,122	-	(7,418)	-	(7,418)
Shares vested to employees	-	9,674	-	-	(9,674)	-	-	-	-
Expense on equity settled transactions	-	-	-	-	3,457	-	3,457	-	3,457
Dividends to shareholders	-	-	-	-	-	(292,107)	(292,107)	(1,000)	(293,107)
Balance at 31 December 2017	524,944	(1,210)	(12,912)	(1,196)	(25,403)	2,610,195	3,094,418	13,483	3,107,901

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

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

Consolidated Cash Flow Statement

for the year ended 31 December 2017

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

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

Caltex Australia Limited (Caltex or company) is a company limited by shares, incorporated and domiciled in Australia. The shares of Caltex are publicly traded on the Australian Securities Exchange (ASX: CTX). The consolidated financial statements for the year ended 31 December 2017 comprise the company and its controlled entities (together referred to as the Caltex Group) and the Caltex Group's interest in associates and jointly controlled entities. Caltex is a for-profit entity and is primarily involved in the purchase, refining, distribution and marketing of petroleum products and the operation of convenience stores.

The consolidated financial statements were approved by the Caltex Board on 27 February 2018.

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

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

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

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

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

A number of new standards, amendments to standards and interpretations effective for annual periods beginning after 1 January 2018 have not been applied in preparing these consolidated financial statements. Refer to note G8.

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

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

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

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

Notes to the Financial Statements

B Results for the year

For the year ended 31 December 2017

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

B1 Revenue and other income

Revenue

Sale of goods

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

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

Other revenue

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

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

Other income

Net profit on disposal of property, plant and equipment

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

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

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

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

Significant items

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

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

B2 Costs and expenses

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

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

B3 Segment reporting

B3.1 Segment disclosures

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

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

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

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

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

B3 Segment reporting continued

B3.1 Segment disclosures continued

Cost of goods sold measured on a replacement cost basis

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

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

Types of products and services

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

Supply and Marketing

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

Lytton

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

B3.2 Information about reportable segments

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

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

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

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

Notes to the Financial Statements
B Results for the year continued
For the year ended 31 December 2017

B3 Segment reporting continued

B3.4 Geographical segments

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

B3.5 Major customer

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

B3.6 Revenue from products and services

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

B4 Earnings per share

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

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

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

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

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

B5 Dividends

B5.1 Dividends declared or paid

Dividends recognised in the current year by the company are:

	Date of payment	Franked/ unfranked	Cents per share	Total amount \$'000
2017				
Interim 2017	6 October 2017	Franked	60	156,486
Final 2016	31 March 2017	Franked	52	135,621
Total amount			112	292,107
2016				
Interim 2016	30 September 2016	Franked	50	130,405
Final 2015	4 April 2016	Franked	70	189,000
Total amount			120	319,405

Subsequent events

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

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

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

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

The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability, is to reduce the balance by \$68,183,321 (2016: \$58,123,487).

Notes to the Financial Statements

C Operating assets and liabilities

For the year ended 31 December 2017

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

C1 Receivables

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

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

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

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

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

Impaired receivables

As at 31 December 2017, current trade receivables of the Group with a nominal value of \$6,255,000 (2016: \$6,550,000) were impaired. The individually impaired receivables relate to a variety of customers who are in financial difficulties. No collateral is held over these impaired receivables.

As at 31 December 2017, trade receivables of \$27,922,000 (2016: \$34,457,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of receivables past due but not impaired is as follows:

Thousands of dollars	2017	2016
Past due 0 – 30 days	25,735	32,289
Past due 31 – 60 days	2,187	2,168
	27,922	34,457

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

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

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

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

Fair value and credit risk

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

C2 Inventories

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

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

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

There was no inventory written down to net realisable value at 31 December 2017 and 31 December 2016.

C3 Intangibles

Thousands of dollars	Note	Goodwill	Rights and licences	Software	Total
Cost					
At 1 January 2017		146,460	32,878	164,477	343,815
Acquisitions through business combinations	F2	284,600	37,896	-	322,496
Additions		-	31	48,973	49,004
Disposals		(4,659)	(1,348)	(28,152)	(34,159)
Foreign Currency Translation		(10,653)	(1,820)	(375)	(12,848)
Balance at 31 December 2017		415,748	67,637	184,923	668,308
Cost					
At 1 January 2016		147,638	32,100	103,007	282,745
Additions		-	778	29,463	30,241
Disposals		(1,178)	-	(4,491)	(5,669)
Reclassification		-	-	36,498	36,498
Balance at 31 December 2016		146,460	32,878	164,477	343,815
Amortisation					
At 1 January 2017		(16,391)	(19,501)	(112,588)	(148,480)
Amortisation for the year		-	(6,094)	(18,123)	(24,217)
Disposals		-	1,060	20,032	21,092
Foreign Currency Translation		-	-	163	163
Balance at 31 December 2017		(16,391)	(24,535)	(110,516)	(151,442)
Amortisation					
At 1 January 2016		(16,391)	(14,895)	(68,833)	(100,119)
Amortisation for the year		-	(4,606)	(13,002)	(17,608)
Disposals		-	-	1,058	1,058
Reclassification		-	-	(31,811)	(31,811)
Balance at 31 December 2016		(16,391)	(19,501)	(112,588)	(148,480)

C3 Intangibles continued

Thousands of dollars	Goodwill	Rights and licences	Software	Total
Carrying amount				
At 1 January 2017	130,069	13,377	51,889	195,335
Balance at 31 December 2017	399,357	43,102	74,407	516,866
Carrying amount				
At 1 January 2016	131,247	17,205	34,174	182,626
Balance at 31 December 2016	130,069	13,377	51,889	195,335

The amortisation charge of \$24,217,000 (2016: \$17,608,000) is recognised in selling and distribution expenses and general and administration expenses in the income statement.

Goodwill

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

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

Other intangible assets

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

Amortisation

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

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

Impairment

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

Impairment tests for cash-generating units containing goodwill and indefinite life intangibles

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

The recoverable amount of the group of cash-generating units including goodwill and indefinite life intangibles has been determined based on a value in use calculation. This calculation uses pre-tax cash flow projections based on an extrapolation of the year end cash flows and available budget information. The cash flows have been discounted using a pre-tax discount rate of 12.9% p.a. The cash flows have been extrapolated using a constant growth rate of 1 – 2.5%. The growth rates used do not exceed the long term growth rate for the industry.

There were no goodwill impairment losses recognised during the year ended 31 December 2017 (2016: nil).

Key assumptions used in value in use calculations

Key assumption	Basis for determining value in use assigned to key assumption
Cash flow	Earnings before interest, tax, depreciation and amortisation
Estimated long term average growth rate	1 – 2.5%
Discount rate	The discount rate is disclosed above

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

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

C4 Property, plant and equipment

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

Owned assets

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

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

Assessment of impairment is evaluated as set out below.

Leased assets

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

Subsequent expenditure

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

Major cyclical maintenance

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

Depreciation

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

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

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

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

C4 Property, plant and equipment continued

Impairment

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

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

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

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

C5 Payables

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

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

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

C6 Provisions

Thousands of dollars	Site remediation and dismantling	Other	Total
Balance at 1 January 2017	385,519	18,196	403,715
Provisions made during the year	7,460	9,337	16,797
Provisions used during the year	(62,410)	(13,284)	(75,694)
Discounting movement	14,528	–	14,528
Balance at 31 December 2017	345,097	14,249	359,346
Current	97,194	10,327	107,521
Non-current	247,903	3,922	251,825
	345,097	14,249	359,346

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

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

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

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

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

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

C6 Provisions continued

Site remediation and dismantling

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

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

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

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

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

Dividends

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

Other

Other includes legal, insurance and other provisions.

C7 Employee benefits

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

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

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

D1 Interest bearing liabilities

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

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

Domestic medium term and subordinated notes

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

D2 Risk management

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

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

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

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

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

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

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

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

D2 Risk management continued

Hedge accounting

(a) Cash flow hedges

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

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

(b) Net investment hedges

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

D2.1 Interest rate risk

Interest rate instruments

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

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

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

Interest rate sensitivity analysis

At 31 December 2017, if interest rates had changed by $\pm 1\%$ from the year end rates, with all other variables held constant, the impact on post-tax profit for the year for the Group and equity would have been:

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

Interest rate risk exposure

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

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

D2.2 Foreign exchange risk

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

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

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

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

Foreign exchange rate sensitivity analysis

At 31 December 2017, had the Australian dollar strengthened/weakened by 10% against the following currencies respectively (with all other variables held constant), the impact on post-tax profit for the year for the Group and equity would have been:

	2017		2016	
Thousands of dollars	Post-tax profit	Hedge reserve	Post-tax profit	Hedge reserve
AUD strengthens against US Dollar 10%	(8,000)	(100)	(20,500)	(300)
AUD weakens against US Dollar 10%	9,700	200	30,400	300
AUD strengthens against NZ Dollar 10%	-	13,200	-	-
AUD weakens against NZ Dollar 10%	-	(16,200)	-	-
AUD strengthens against Philippine Peso 10%	-	(1,000)	-	-
AUD weakens against Philippine Peso 10%	-	8,600	-	-

Exposure to foreign exchange risk

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

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

D2 Risk management continued

D2.3 Commodity price risk

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

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

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

Commodity price sensitivity analysis

At 31 December 2017, if commodity prices had changed by +/-10% from the year end prices, with all other variables held constant, the impact on post-tax profit for the year for the Group and equity would have been:

	2017		2016	
Thousands of dollars	Post-tax profit	Hedge reserve	Post-tax profit	Hedge reserve
Commodity prices decrease 10%	35,200	-	9,500	-
Commodity prices increase 10%	(35,200)	-	(9,500)	-

D2.4 Credit risk

Customer credit risk

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

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

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

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

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

Financial institution credit risk

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

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

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

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

D2.5 Liquidity risk management

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

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

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

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

	2017			2016		
Thousands of dollars	Derivative financial liabilities	Derivative financial assets	Net derivative financial (liabilities) /assets	Derivative financial liabilities	Derivative financial assets	Net derivative financial (liabilities) /assets
Derivative financial instruments						
Less than one year	(799,166)	787,728	(11,438)	(796,050)	804,215	8,165
One to five years	(559)	1,106	547	(1,788)	2,291	503
			(10,891)			8,668

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

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

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

D3 Capital management

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

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

During 2017, the Group's strategy was to maintain a minimum long term credit rating of BBB+, in order to secure access to finance at a reasonable cost. The credit rating is impacted by a number of key ratios, with the primary metric being Debt/Earnings Before Interest, Tax, Depreciation and Amortisation.

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

The gearing ratios at 31 December 2017 and 31 December 2016 were as follows:

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

D4 Fair value of financial assets and liabilities

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

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

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

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

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

Thousands of dollars		Asset/(Liability)			
	Carrying amount	Fair value total	Quoted market price (Level 1)	Observable inputs (Level 2)	Non-market observable inputs (Level 3)
31 December 2017					
Interest bearing liabilities					
Bank facilities ⁽ⁱ⁾	(708,649)	(707,948)	-	(707,948)	-
Domestic medium term notes ⁽ⁱⁱ⁾	(149,923)	(156,107)	-	(156,107)	-
Subordinated note	-	-	-	-	-
Lease liabilities ⁽ⁱⁱⁱ⁾	(349)	(372)	-	(372)	-
Payables					
Interest rate swaps ^(iv)	(1,000)	(1,000)	-	(1,000)	-
Forward foreign exchange contracts (forwards, swaps and options) ^(iv)	(8,913)	(8,913)	-	(8,913)	-
Crude and finished product swap contracts ^(iv)	(30,644)	(30,644)	-	(30,644)	-
Total	(899,478)	(904,984)	-	(904,984)	-

Thousands of dollars		Asset/(Liability)			
	Carrying amount	Fair value total	Quoted market price (Level 1)	Observable inputs (Level 2)	Non-market observable inputs (Level 3)
31 December 2016					
Interest bearing liabilities					
Bank facilities ⁽ⁱ⁾	–	–	–	–	–
Domestic medium term notes ⁽ⁱⁱ⁾	(149,836)	(175,950)	–	(175,950)	–
Subordinated note	(547,728)	(562,408)	(562,408)	–	–
Lease liabilities ⁽ⁱⁱⁱ⁾	(910)	(1,058)	–	(1,058)	–
Payables					
Interest rate swaps ^(iv)	(556)	(556)	–	(556)	–
Forward foreign exchange contracts (forwards, swaps and options) ^(iv)	9,415	9,415	–	9,415	–
Crude and finished product swap contracts ^(iv)	7,800	7,800	–	7,800	–
Total	(681,815)	(722,757)	(562,408)	(160,349)	–

Estimation of fair values

(i) Bank facilities

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

(ii) Domestic medium term notes

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

(iii) Lease liabilities

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

(iv) Derivatives

Interest rate swaps

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

Foreign exchange contracts (forwards, swaps and options)

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

Crude and finished product swap contracts

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

D5 Issued capital

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

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

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

In the event of the winding up of Caltex, ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation. Caltex grants performance rights to senior executives (refer to the Remuneration Report for further detail). For each right that vests, Caltex intends to purchase a share on-market following vesting.

Notes to the Financial Statements

E Taxation

For the year ended 31 December 2017

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

E1 Income tax expense

E1.1 Recognised in the income statement

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

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

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

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

Taxation of Singaporean entities

At the date of this report, the Australian Taxation Office (ATO) had not determined the extent to which earnings from the Group's Singaporean entities would be subject to income tax in Australia under the regime for the taxation of controlled foreign company income. Due to the uncertainty surrounding the ATO's determination, the Group has estimated the income tax rate on those particular earnings to be 30% for 2016 and 2017, being the Australian corporate income tax rate. The Singaporean corporate income tax rate is 17%; however, due to some of the Group's Singaporean entities' status as a Global Trader Company, specified income of those entities is subject to a lower tax rate. If the outcome of the ATO's decision is in Caltex's favour, an amount of income tax expense recognised to date could be written back in future periods.

E2 Deferred tax

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Subject to the comments contained in note F2, the following temporary differences are not provided for: goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

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

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

E2.1 Movement in deferred tax

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

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

E2.2 Deferred tax recognised directly in equity

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

E2.3 Unrecognised deferred tax assets

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

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

E2.4 Tax consolidation

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

Notes to the Financial Statements

F Group structure

For the year ended 31 December 2017

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

F1 Controlled entities

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

The following entities were controlled during 2017:

		% interest	
Name	Note	2017	2016
Companies			
Ampol Bendigo Pty Ltd	(iii)	100	100
Ampol International Holdings Pte Ltd.	(ii)	100	100
Ampol Management Services Pte Ltd.	(ii)	100	100
Ampol Procurement Services Pte. Ltd.	(ii)	100	100
Ampol Property (Holdings) Pty Ltd	(iii)	100	100
Ampol Refineries (Matrville) Pty Ltd		100	100
Ampol Road Pantry Pty. Limited		100	100
Ampol Singapore Trading Pte. Ltd.	(ii)	100	100
Australian Petroleum Marine Pty Ltd	(iii)	100	100
B & S Distributors Pty Ltd	(iv)	50	50
Bowen Petroleum Services Pty. Limited		100	100
Brisbane Airport Fuel Services Pty Limited		100	100
CAL Group Holdings NZ Limited	(v)(ix)	100	–
Calgas Pty Ltd		100	100
Calstores Pty Ltd	(iii)	100	100
Caltex Australia Custodians Pty Limited		100	100
Caltex Australia Management Pty Ltd		100	100
Caltex Australia Nominees Pty Ltd		100	100
Caltex Australia Petroleum Pty Ltd	(iii)	100	100
Caltex Fuel Services Pty Ltd	(iii)	100	100
Caltex Lubricating Oil Refinery Pty Ltd	(iii)	100	100
Caltex Petroleum (Qld) Pty Ltd	(iii)	100	100
Caltex Petroleum (Victoria) Pty Ltd	(iii)	100	100
Caltex Petroleum Pty Ltd	(iii)	100	100
Caltex Petroleum Services Pty Ltd	(iii)	100	100
Caltex Refineries (NSW) Pty Ltd	(iii)	100	100
Caltex Refineries (Qld) Pty Ltd	(iii)	100	100
Circle Petroleum (Q’land) Pty. Limited		100	100
Cocks Petroleum Pty Limited		100	100
Cooper & Dysart Pty Ltd		100	100
Graham Bailey Pty Ltd	(iii)	100	100
Gull New Zealand Limited	(v)	100	–
Hanietee Pty. Limited	(iii)	100	100
Hunter Pipe Line Company Pty Limited	(iii)	100	100
Jayvee Petroleum Pty Ltd		100	100
Jet Fuels Petroleum Distributors Pty. Ltd.	(iii)	100	100
Link Energy Pty Ltd		100	100
Manworth Proprietary Limited		100	100
Newcastle Pipe Line Company Pty Limited	(iii)	100	100
Northern Marketing Management Pty Ltd		100	100
Northern Marketing Pty Ltd	(iii)	100	100
Octane Insurance Pte Ltd	(ii)	100	100
Pilbara Fuels Pty Ltd		100	100
R & T Lubricants Pty Ltd	(iii)	100	100

Name	Note	% interest	
		2017	2016
Real FF Pty Ltd	(iii)	100	100
Ruzack Nominees Pty. Ltd.		100	100
Solo Oil Australia Proprietary Limited		100	100
Solo Oil Corporation Pty. Ltd.		100	100
Solo Oil Investments Pty. Ltd.	(iii)	100	100
Solo Oil Pty Ltd	(iii)	100	100
South Coast Oils Pty. Limited		100	100
South East Queensland Fuels Pty. Ltd.		100	100
Sydney Metropolitan Pipeline Pty Ltd	(iv)	60	60
Teraco Pty Ltd	(iv)	50	50
Terminals New Zealand Limited	(v)(x)	100	-
Tulloch Petroleum Services Pty. Ltd.	(iii)	100	100
Western Fuel Distributors Pty Ltd	(iv)	50	50
Unit trusts			
Eden Equity Unit Trust	(vi)	100	100
Petroleum Leasing Unit Trust	(vii)	100	100
Petroleum Properties Unit Trust	(vii)	100	100
South East Queensland Fuels Unit Trust	(viii)	100	100

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

(ii) Incorporated in Singapore.

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

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

(v) Incorporated in New Zealand.

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

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

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

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

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

F1.1 Deed of cross guarantee

Income statement for entities covered by the Deed of Cross Guarantee

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

F1 Controlled entities continued

F1.1 Deed of cross guarantee continued

Balance sheet for entities covered by the Deed of Cross Guarantee

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

F2 Business combinations

2017

Gull New Zealand

On 22 December 2016, Caltex entered into an agreement to purchase Gull New Zealand for NZ\$340 million (A\$329 million). The acquisition delivers on Caltex's strategic plan as it optimises Caltex's infrastructure position, builds trading and shipping capability, grows the supply base and enhances Caltex's retail fuel offering through low risk entry into a new market.

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

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

Milemaker Petroleum

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

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

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

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

Nashi Sandwich and Coffee Bar

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

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

2016

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

F3 Equity accounted investees

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

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

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

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

F3.1 Investments accounted for using the equity method

Name	% interest	
	2017	2016
Investments in associates and joint ventures		
Airport Fuel Services Pty. Limited	40	40
Australasian Lubricants Manufacturing Company Pty Ltd ⁽ⁱ⁾	50	50
Cairns Airport Refuelling Service Pty Ltd ⁽ⁱⁱⁱ⁾	25	25
Event Group Holdings Pty Limited ⁽ⁱⁱ⁾	49	–
Event Group Holdings Unit Trust ⁽ⁱⁱ⁾	49	–
Geraldton Fuel Company Pty Ltd	50	50
Kitchen Food Company Pty Limited ⁽ⁱⁱ⁾	49	–
Kitchen Food Company Unit Trust ⁽ⁱⁱ⁾	49	–

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

(ii) Effective 3 May 2017.

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

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

F3.2 Investments in associates

Thousands of dollars	Revenue (100%)	Profit (100%)	Share of associates' net profit recognised	Total assets (100%)	Total liabilities (100%)	Net assets as reported by associates (100%)	Share of associates' net assets equity accounted
2017	150,167	65	(151)	56,526	43,127	13,399	10,591
2016	115,287	3,790	1,382	30,167	11,038	19,129	9,625

F3.2 Investments in associates continued

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

F3.3 Investments in joint ventures

Thousands of dollars	Revenue (100%)	Profit (100%)	Share of joint ventures' net profit recognised	Total assets (100%)	Total liabilities (100%)	Net assets as reported by joint venture (100%)	Share of joint ventures' net assets equity accounted
2017	9,426	–	–	4,046	2,123	1,923	769
2016	9,366	–	–	3,483	1,560	1,923	769

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

F3 Equity accounted investees continued

F3.4 Reconciliation to income statement

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

F3.5 Reconciliation to balance sheet

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

2018 – Proposed equity investment

SEAOIL Philippines Inc.

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

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

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

F4 Joint venture operations

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

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

The Group has joint interests in multiple Joint User Hydrant Installations (JUHLs), which are based at airports across Australia. The Group's interest in the JUHLs ranges from 20% – 50%. The principal activity of the JUHLs is refuelling aircraft at the airports. For the year ended 31 December 2017, the contribution of the JUHLs to the operating profit of the Group was nil (2016: nil). Included in the assets and liabilities of the Group are the Group's interests in the assets and liabilities employed in the joint venture operation:

Thousands of dollars	2017	2016
Non-current assets		
Plant and equipment	65,895	62,085
Less: accumulated depreciation	(38,645)	(36,649)
Total non-current assets	27,250	25,436
Total assets	27,250	25,436

F5 Parent entity disclosures

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

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

Parent entity guarantees in respect of the debts of its subsidiaries

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

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

Notes to the Financial Statements

G Other information

For the year ended 31 December 2017

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

G1 Commitments

G1.1 Capital expenditure

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

G1.2 Leases

Finance leases

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

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

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

The Group leases plant and equipment under finance leases expiring from one to four years. No contingent rentals were paid during the year (2016: nil).

Operating leases

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

Thousands of dollars	2017	2016
Non-cancellable operating leases – Group as lessee		
Future minimum rentals payable:		
Within one year	158,685	127,466
Between one and five years	418,624	430,119
After five years	581,671	344,887
	1,158,980	902,472

The Group holds operating leases expiring from one to 35 years. Leases generally provide the Group with a right of renewal at which time all terms are renegotiated. Lease payments comprise mainly a base amount; however, in a few cases, they include a base amount and incremental contingent rental. Contingent rentals are based on operating performance criteria. Contingent rentals of \$626,018 were paid during the year (2016: \$478,760).

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

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

G1.2 Leases continued

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

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

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

G2 Contingent liabilities

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

Legal and other claims

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

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

Bank guarantees

The Group has granted indemnities to banks to cover bank guarantees given on behalf of controlled entities to a maximum exposure of \$5,744,000 (2016: \$5,385,000).

Deed of Cross Guarantee and class order relief

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

G3 Related party disclosures

2017

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

2016

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

Associates

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

Details of associates are set out in note F3. Amounts receivable from associates are set out in note C1. Dividend and disbursement income from associates is \$300,000 (2016: \$400,000).

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

Joint ventures

Caltex has interests in joint ventures primarily for the marketing, sale and distribution of fuel products and the operation of convenience stores. There were no material related party transactions with Caltex's joint venture entities during 2017 (2016: nil). Details of Caltex's interests are set out in notes F3 and F4.

G4 Key management personnel

The key management personnel of the Caltex Group during 2017 and 2016 were:

Current directors

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

Former directors

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

Senior executives

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

Former executives

- Bruce Rosengarten, Executive General Manager, Commercial (to 1 April 2017)
- Peter Lim, Executive General Manager, Legal & Corporate Affairs (to 7 December 2016)
- Adam Ritchie, Executive General Manager, Supply (from 1 April 2015 to 31 December 2016)
- Simon Willshire, Executive General Manager, Human Resources (to 30 April 2016)

Key management personnel compensation

Dollars	2017	2016
Short term benefits	9,106,401	7,725,421
Other long term benefits	38,810	144,132
Post-employment benefits	378,540	349,018
Termination benefits	615,198	-
Share based payments	3,172,575	3,286,872
	13,311,524	11,505,443

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

G4 Key management personnel continued

Performance rights

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

Opening balance	Granted			Vested during the year			Lapsed during the year			Closing balance	
Number of performance rights	Start date	Number of performance rights	Fair value of performance rights (\$)	Distribution date	Number of performance rights	Weighted average fair value per share (\$)	Lapsed date	Number of performance rights	Weighted average fair value per share (\$)	Number of performance rights	Fair value aggregate (\$)
2017											
583,894	4 Apr 17	349,779	13.25	4 Apr 17	(330,759)	29.39	Q1 2017	(723)	–	555,859	7,486,055
206,708	4 Apr 17	233,186	28.76				Q2 2017	(225,947)	–	209,964	5,715,750
505,661							Q3 2017	(64,451)	–	412,993	9,296,085
							Q4 2017	(78,532)	–		
1,296,263		582,965			(330,759)			(369,653)		1,178,816	22,497,890
2016											
951,454	4 Apr 16	276,309	13.34	1 Apr 16	(333,821)	33.82	Q1 2016	(3,680)	–	583,894	8,193,885
426,798	4 Apr 16	184,206	30.68				Q2 2016	(132,914)	–	206,708	4,375,595
103,749							Q3 2016	(112,290)	–	505,661	11,300,979
							Q4 2016	(63,548)	–		
1,482,001		460,515			(333,821)			(312,432)		1,296,263	23,870,459

For information regarding the inputs used in the measurement of the fair values at each grant date, please refer to table 6 of the Remuneration Report on page 66 of the Directors' Report.

G5 Notes to the cash flow statement

G5.1 Reconciliation of cash and cash equivalents

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

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

Thousands of dollars	2017	2016
Cash at bank	44,521	244,857
Total cash and cash equivalents	44,521	244,857

G5 Notes to the cash flow statement continued

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

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

G6 Auditor remuneration

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

G7 Net tangible assets per share

Dollars	2017	2016
Net tangible assets per share	9.88	9.88

Net tangible assets are net assets attributable to members of Caltex Australia Limited less intangible assets. The weighted average number of ordinary shares used in the calculation of net tangible assets per share was 261 million (2016: 263 million).

G8 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except for:

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

G9 Events subsequent to the end of the year

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

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

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

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

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

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

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

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