CALTEX
Caltex Australia

ASX Release

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UNAUDITED 1H 2018 PROFIT GUIDANCE

Key Points

- 1H 2018 historic cost profit after tax (HCOP) outlook of $385 million to $405 million, an increase of approximately 49% vs 1H 2017.

- 1H 2018 replacement cost operating profit (RCOP) NPAT outlook of $295 million to $315 million, an increase of approximately 4% vs 1H 2017 despite the combined negative impacts of a lower CRM, lower retail fuel margins caused by the timing of crude and product price changes between 2017 and 2018, and ongoing store transitions.

- Strong underlying Fuels and Infrastructure EBIT outlook of between $320 million – $340 million (excluding $5 million unfavourable FX movements), an increase of 9% on 1H 2017 despite the impact of lower refining margins in Lytton's result.

- Included in the Fuels and Infrastructure EBIT is Lytton refinery EBIT outlook of approximately $125 million, a decrease of approximately 17% vs 1H 2017 due to lower refining margins.

- Convenience Retail EBIT outlook of between $150 million and $160 million, a decrease of around 17% vs 1H 2017, due to lower retail margins caused by the timing of rising crude and product prices, and the impact of ongoing store transitions.

- Balance sheet remains in a strong position with net debt forecast to be approximately $950 million.

Results summary (unaudited)	**Half year ending 30 June**	
	2018 $M	**2017 $M**
Historic Cost Profit after tax (including significant items)	**385 – 405**	**265**
RCOP profit (excluding significant items):		
After tax (NPAT)	**295 – 315**	**294**
Before interest and tax (EBIT)	442 – 472	454

Historic Cost Operating Profit (HCOP)

On a historic cost profit basis, after tax profit is expected to be within a range of $385 million and $405 million for 1H 2018 with no significant items. This compares with the 1H 2017 profit of $265 million that included net favourable significant items of $2 million.

The 1H 2018 result includes a product and crude oil inventory gain of approximately $90 million after tax. This compares with a product and crude oil inventory loss of $31 million after tax in 1H 2017.

Replacement Cost Operating Profit (RCOP)

On a Replacement Cost Operating Profit (RCOP) basis, the after tax profit for 1H 2018 is anticipated to be in the range of $295 million and $315 million, with no significant items. This compares with an after tax profit of $294 million for 1H 2017, excluding significant items.

New Reporting Segmentation

As announced in August 2017, Caltex has resegmented its accounts from 2018 first half to better align reporting with core business functions, to allow each segment to focus on competencies and culture, drive optimisation of operations, while allowing each business unit to focus on its own unique opportunities for growth. The new segments are:

"Convenience Retail" segment includes revenues and costs associated with Fuels and Shop offerings at Caltex's network of stores, including royalties and franchise fees on remaining franchise stores.

"Fuels and Infrastructure" segment includes revenues and costs associated with the integrated wholesale fuels and lubricants supply for Caltex, including the company's international businesses. This includes Lytton refinery, Supply including Ampol Trading and Shipping, B2B sales including the Woolworths supply agreement, infrastructure, and the Gull and Seaoil businesses.

Corporate costs have also been resegmented to include costs relating to Australian head office, technology build, major projects costs, including M&A and the review of the company's franchise model. Some costs have been reallocated back to the business segments to reflect the overhead costs required for each segment to operate independently.

Fuel supply from Fuels and Infrastructure to Convenience Retail is on an arm's length basis. As Caltex continues to operate under this new structure, some opportunities for further fine tuning may make sense and result in minor reallocation of costs and benefits between segments. Caltex will provide a more detailed explanation of the revised segmentation with its 1H 2018 result on 28 August 2018.

Forecast total Australian and New Zealand domestic fuels sales volumes of 7.8 billion litres in 1H 2018 are expected to be slightly lower than the 8.0 billion litres of domestic fuels sales in 1H 2017.

Convenience Retail is expected to deliver an EBIT result of between $150 million and $160 million for 1H 2018. This is a reduction of approximately $32 million or 17% compared to the equivalent $187 million EBIT result in 1H 2017.

The majority of the fall in Convenience Retail earnings is due to a reduction in retail fuel margins compared to 1H 2017, as a result of the timing lag in retail fuel prices paid by customers adjusting to higher input costs. In 2017, retail fuel margins benefited from an approximate US$10/bbl reduction in crude oil prices. In 1H 2018 retail fuel margins have been negatively impacted by rising crude oil prices, which are currently US$8/bbl higher than the end of 2017. In addition, Convenience store contributions in 1H 2018 were impacted by the cost and disruption of a high number of site transitions (230 cumulative in 2H 2017 and 1H 2018) from franchise to company operations.

Fuels and Infrastructure, including unfavourable FX impacts of $5m, is expected to deliver an EBIT result of between $315 million and $335 million for 1H 2018, above the $287 million EBIT result in 1H 2017. Excluding the unfavourable FX impact, the underlying Fuels and Infrastructure EBIT in 1H 2018 of between $320 million and $340 million is an increase of 9% on the comparable 1H 2017 result of $304 million. The strong result includes a full period of earnings from Gull, improved results across the wholesale fuels and supply chains including Trading & Shipping, and Quantum Leap cost savings, partially offset by lower Lytton refinery earnings.

Included in the above Fuels and Infrastructure result is an EBIT contribution of approximately $125 million from the Lytton refinery for 1H 2018, below the $149 million EBIT realised in 1H 2017 due to a lower Caltex Refiner Margin. For the first five months of 2018, the average realised CRM was US$9.93 per barrel. This compared with an average of US$12.59 per barrel in 1H 2017.

Sales from production from the Lytton refinery in the first half is expected to total approximately 3.2 billion litres, slightly above the same period last year (3.0 billion litres).

Corporate costs are forecast to be approximately $23 million for 1H 2018, a small increase on the $21 million corporate cost in 1H 2017.

Historical Business Segmentation

Under the prior business segmentation basis, Supply & Marketing is expected to deliver an EBIT result of between $365 million and $395 million for 1H 2018, which is consistent with 1H 2017 EBIT of $377 million. Excluding $35 million unfavourable price lags and FX impacts, the underlying Supply & Marketing EBIT of between $400 million and $430 million for 1H 2018 is 9% above the underlying 1H 2017 EBIT of $381 million. Lytton refinery is expected to contribute an EBIT result of $110 million under historical segmentation for 1H 2018. Corporate costs under historical segmentation is forecast to be $56 million in 1H 2018, compared to $53 million in 1H 2017.

Pricing lags on product sales, previously included in reported externalities, has now been excluded from RCOP earnings, and is instead included in movement in inventory as a component of inventory gain/loss. While historical HCOP profits remain unchanged, there has been a minor change in RCOP profits.

While Caltex does not anticipate providing results or guidance for historical segmentation on an ongoing basis, it has done so this time to help investors to both interpret business performance and better understand resegmentation.

Debt position, Interest and tax expense.

Net debt at 30 June 2018 is forecast to be $950 million, compared with $814 million at 31 December 2017 and $730 million at 30 June 2017. This includes the impact of the recently completed Seaoil acquisition (March 2018).

Interest expense in 1H 2018 is forecast to be $29 million, which is 18% lower than 1H 2017 given refinancing of debt facilities. Tax expense in 1H 2018 is expected to be in line with guidance provide in February of a ~29% effective tax rate in 2018.

Other Business Items

The Asset Optimisation Review process is progressing, and as stated by the Chairman at the AGM, Caltex will provide an update on this process at its result on 28 August 2018.

Note

The forecast results for 1H 2018 will be subject to normal external half year review procedures.

The forecast results assume a June period end AUD/USD exchange rate of 76 cents, a June average CRM of US$12.0/bbl and an average Dated Brent crude oil benchmark price of US$74/bbl for June.

Volatility in crude oil prices and the AUD/USD exchange rate can materially impact the forecast result and cash flow, and the company advises that even small changes in these key externalities during the balance of the month of June 2018 can materially affect both the RCOP and historic results for the full year.

Statements made on changes in earnings compared to prior periods are based on the mid-point of relative guidance ranges provided.

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Caltex Australia
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