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A dip in profit probably a one-off but future growth still to be demonstrated

Company/ASX Code	Caltex Australia (CTX)
AGM date	Thursday 9 May 2019
Time and location	10am, Wesley Conference Centre, 220 Pitt Street, Sydney
Registry	Computershare
Webcast	Yes, on www.caltex.com.au
Poll or show of hands	Poll on all items
Monitor	Roger Ashley assisted by Don Adams
Pre AGM Meeting?	Yes, with Chair Steven Gregg

Item 1	**Consideration of accounts and reports**
ASA Vote	No vote required

Summary of ASA Position

Financial performance

As an essentially commodity based company, Caltex's year on year results can be quite volatile and this is reflected in the differences between the net profit after tax (NPAT) and UPAT (underlying profit after tax) figures shown in the summary below. The UPAT is calculated using "Replacement Cost of Sales Operating Profit" (RCOP). This measure applies a cost of sales based upon the current, or replacement cost of product, to revenue rather than the actual purchase price.

Two carry-over issues from the prior year seem to be resolved or on the way to resolution. An ACCC decision ended any likelihood of BP acquiring Woolworths' service stations with the result that a new long term fuel supply and convenience store agreement has been effected. Progress has continued to convert franchised service stations to company owned without any significant glitches to date.

Statutory profits were down $59m (9.5%) year on year with significant impacts including: $128m lower refiner margin, $35m lower margins following renegotiation of the Woolworths' agreement and $20m costs incurred in moving out of franchise arrangements. The refiner margin relates to the Lytton (Brisbane) refinery where the margin was impacted by lower prices of (alternative) imported fuel, an unplanned outage which reduced throughput and lower sales volumes of premium fuel. Latest updates of the refiner margin for 2019 show a recovery in profitability. Withdrawal from a fresh food supply agreement with Kitchen Food Co. which did not meet expectations incurred an early exit charge of $27m.

In the longer term, growth in road fuels particularly will plateau and fall: only the time frame is unknown. An upgrade and expansion of non-fuel retail on existing sites may be providing revenue growth but still remains a small part of the overall mix. The company is looking at a number of configurations for convenience and food options at its outlets depending on site location, traffic, size and demographics. These may include Woolworths' Metro stores operated under licence, the Foodary offering and, in larger locations, a mini "food hall" that may include Boost Juice and Guzman y Gomez. Food outlets remain the only stated growth strategy in Australia and it continues to develop with expectations of accelerated future growth.

Alternatives to carbon based fuels are very much on the radar with charging stations and hydrogen fuel developments being closely followed.

In Asia-Pacific, the Singapore based Ampol sourcing operation offers opportunities to provide regional independent fuel importers and retailers sourcing and supply solutions; another potential growth area.

Caltex is aiming for full alignment with the Task Force of Climate related Financial Disclosures reporting recommendations for the 2020 reporting year.

Key events

The company successfully completed a share buyback in the first quarter of 2019.

ASA focus issues

The company's policy for non-executive directors' shareholdings is to require each director to accumulate shares to the value of the annual base fees within three years of the director's appointment to the board. Gender diversity on the board and in senior leadership positions is company policy and there is an objective to eliminate gender-based pay differences.

We are pleased that the company has advised that it is considering putting the audit out to tender this year.

Summary

(As at FYE)	**2018**	**2017**	**2016**	**2015**	**2014**
NPAT ($m)	560	619	611	522	20
UPAT ($m)	538	621	524	628	493
Share price ($)	25.48	34.05	30.46	37.70	34.29
Dividend (cents)	118	121	102	117	70
TSR (%)	(21.7)	15.8	(16.5)	13.6	74.1
EPS (cents)	215	237	232	193	7
CEO total remuneration, actual ($m)	4.4	8.0	7.8	13.9	5.0

For 2018, the CEO's total actual remuneration was **50.2 times** the Australian Full time Adult Average Weekly Total Earnings (based on November 2018 data from the Australian Bureau of Statistics).

Item 2	**Re-election of Steven Gregg as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Gregg was appointed to the Board in 2015 and is an experienced director, currently serving on the boards of Challenger, Tabcorp and William Inglis. He is currently the company's Chair and he also chairs the Nomination Committee.

There is no known reason not to support Mr Gregg's re-election.

Item 3	**Re-election of Penny Winn as a Director**
ASA Vote	**For**

Summary of ASA Position

Ms Winn was appointed to the Board in 2015 and is an experienced director, currently serving on the boards of Port Waratah Coal Services, CSR and Goodman. She is Chair of the Safety and Sustainability Committee and a member of the Audit Committee and Nomination Committee.

There is no known reason not to support Ms Winn's re-election.

Item 4	**Adoption of Remuneration Report**
ASA Vote	**Against**

Summary of ASA Position

We have previously voted against the remuneration report and note that, while the 2019-2021 long-term incentive (LTI) has been amended in terms of 40% of the award, the incentive plans seem similar to those extant in previous years.

Our major concerns are that the short-term incentive (STI) is payable totally in cash upon vesting and offers a maximum opportunity of 140% (120% previously) of base salary. A financial gateway for the STI is the achievement of 80% of RCOP net profit after tax (NPAT) which appears to equate to 80% of budgeted RCOP NPAT. This threshold raises the question of whether the STI financial measures are merely an extension of base salary; ie. a further reward for doing one's job. The ASA has been assured that internal budgets are sufficiently challenging to justify this threshold. We noted at the pre-AGM meeting that bringing the STI closer to ASA's policies would precipitate a rethink of our voting intentions.

The LTI performance period is only three years with no holding lock if the recipient holds sufficient shares and the target ROCE for 40% of the LTI award has not been quantified.

Notably, fixed remuneration for the CEO has not changed since 2015 and neither he, nor most senior executives, will receive an increase in their fixed remuneration in 2019.

Item 5	Grant of performance rights to the Managing Director and CEO
ASA Vote	**Against**

Summary of ASA Position

Mr Segal is to be granted 141,360 performance rights representing 150% of base salary. This equates to a maximum opportunity of $3.2m at a share value discounted for dividends during the LTI period of three years. In other words, the $3.2m will increase by both the discounted value of dividends as well as share price fluctuations over the LTI period.

Our vote against on this resolution follows from the rejection of the remuneration report for the reasons given.

Item 6	Renewal of proportional takeover provisions
ASA Vote	**For**

Summary of ASA Position

A clause in the Caltex constitution dealing with proportional takeover bids for Caltex shares is required to be renewed every three years. A proportional takeover bid may enable control to be achieved by a party holding less than a majority interest which may disadvantage pre-existing shareholders. This clause requires Caltex's Board to convene a meeting of shareholders to approve or reject a proportional takeover offer.

The individuals or their associates involved in the preparation of this voting intention have no shareholding in this company.