HD **Preliminary 2014 Toll Holdings Ltd Earnings Presentation (Afternoon Session) - Final**

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Presentation

OPERATOR: Thank you for standing by and welcome to the Toll Group Full Year Results Analyst Conference Call. There will be a presentation followed by a question and answer session. (Operator Instructions) I must advise you that this conference is being recorded today August 19 2014.

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I would now like to hand the conference to your first speaker today, David Shirer . Please go ahead Mr Shirer.

DAVID SHIRER , GENERAL MANAGER IR, TOLL HOLDINGS LIMITED: Yes, good afternoon, good afternoon everybody. Thank you for taking some time out this afternoon to listen to us. At the moment it's Grant and myself. Brian will be just here in a couple of minutes. We're not really going to do a presentation. I'm sure you've heard enough of us this morning already.

This is an opportunity for you to ask questions, so we'll launch straight into it on that basis if anybody has any questions. Then we get going and answer them. So if there are any questions online that would be great. Thank you.

Questions and Answers

OPERATOR: Thank you. Your first question comes from Simon Mitchell with UBS . Please go ahead.

SIMON MITCHELL, ANALYST, UBS : Hi guys.

UNIDENTIFIED COMPANY REPRESENTATIVE: Hi Simon.

SIMON MITCHELL: Just on the Express business, just looking at slide -- the metrics you gave us on slide 15, just on the notes there you talk about the time definite business accounting for 70% of Toll (inaudible) Express's Australian revenue. Can you take us through what the other 30% is?

GRANT DEVONPORT, CFO, TOLL HOLDINGS LIMITED: Well, do you understand, Simon, there's other businesses in Global Express that obviously don't relate to freight movements, like Toll People, and what's the other one, David?

DAVID SHIRER : There was a whole lot of other freight movements which are specialist and a one-off contract-type work.

GRANT DEVONPORT: [Air].

DAVID SHIRER : So it's not network work.

GRANT DEVONPORT: [Project Air] work. So it's just really, it's trying to give you a sense of we're trying to capture what we believe are the relevant volumes for this metric.

SIMON MITCHELL: Great, so there's other network businesses in there but -- I mean I understand People. I understand that's very different. But there seems to be other network related activities in there which you've--

DAVID SHIRER : There's air charter work, for example, and Priority. We charter an aircraft for one-off things when we're not busy in the network activities.

SIMON MITCHELL: Okay. So if we take 70% of the Australian Express revenues you reported, then that's exactly what these metrics relate to?

DAVID SHIRER : Correct.

SIMON MITCHELL: Yes, okay.

DAVID SHIRER : On average (inaudible) for the period.

SIMON MITCHELL: Okay. Can you give some idea of the facility utilisation in Express at the moment and after these new facilities come online? Because it just seems like there's a lot of capital investment across the whole industry and not just by you. They're by the other players as well, which looks like that utilisation is going to get pretty low very quickly.

DAVID SHIRER : Utilisation is kind of an interesting question. You look at the Bungarribee terminal we're putting in, in Sydney. That is a terminal that is being established to handle growth for that business over the next 15 years.

So clearly, if you were to run it 24 hours a day today there wouldn't be nearly enough volume for that business. That is why we've been saying short-term the benefits of that business are about bringing the costs down of the business. We're actually operating the terminal less so we bring down labour costs and our variable cost to serve.

So capacity in that use, in that situation, as compared with a contract warehouse is a pretty moot point when you're putting in capacity -- each 15 years or so you're put in enough for that longer period.

GRANT DEVONPORT: Yes, the way -- the things that I would add too, Simon, I mean, we've talked at peak periods, Sydney and Melbourne being at capacity and beyond capacity. So obviously those are the two depots that we are moving to build and operate with much better (inaudible) equipment. So it's all about those two feeding the rest of the network if you like. It's not so much of an issue across -- we might have an issue in Adelaide, in Perth, but certainly the bulk of what we're doing here is all about Sydney and Melbourne.

SIMON MITCHELL: Okay and in the corporate line, the revenue seem to have jumped up a fair bit in the second half. Is there a reason behind that?

DAVID SHIRER : I couldn't give you an explanation on that off the top of my head but I'll look into that and come back to you.

SIMON MITCHELL: Yep okay.

DAVID SHIRER : It relates to some of the **property** sales --

SIMON MITCHELL: Right okay.

DAVID SHIRER : -- I'd imagine but I'll (inaudible).

SIMON MITCHELL: I thought they were stripped out though weren't they? Weren't they put below the line?

DAVID SHIRER : No the normal **property** sales -- so the ones that have gone below the line, just to be very clear, are in relation to **sale** of two businesses, as distinct from the normal **property** disposals that go on within the **property** business. So the KSU Japan disposal and the disposal of the **Hong Kong property company** are the ones that have gone below the lines because of these sales. But we still watch the other sales of **property** and fleet through the normal operating results as we've always done.

SIMON MITCHELL: Right okay, it's just that FY12 and FY13 revenue in corporate was AUD23 **million** and AUD25 **million** and it's jumped to AUD41 **million** for FY14. So just wondering if that's sustainable going forward.

DAVID SHIRER : We'll come back to you on that one mate.

SIMON MITCHELL: Okay and slide 29, the costs waterfall chart.

DAVID SHIRER : Yep.

SIMON MITCHELL: Can you just walk me through those cost numbers that you've got, the FY13, FY14?

DAVID SHIRER : Yeah so this slide is, I would say, relatively unsophisticated. But all it does if you go to P&L in our accounts this morning on page 59, it's just the total of those cost categories added up year-on-year. So those numbers of AUD8,323 million and AUD8,472 million are for year 2013 and 2014 (inaudible).

SIMON MITCHELL: Right okay.

DAVID SHIRER : We'll get more sophisticated with this and maybe start to dig down into the next level of what's happening to transporter logistics costs, repairs and maintenance and so on. But at the moment we just wanted to get this slide out there this year, to talk about what we're doing. Then as I say, we'll get a little bit more sophisticated going forward.

SIMON MITCHELL: Sure okay. So if we wanted to be more sophisticated I guess we could do something with the FX and we could probably strip out the --

DAVID SHIRER : (Inaudible).

SIMON MITCHELL: -- indirect costs in TGF, or sorry the direct costs in TGF, the transport acquisition costs.

DAVID SHIRER : Exactly right so we'll start to dig down to the next layer of these in future periods.

SIMON MITCHELL: Yep okay and just one last one, just on CapEx. I know Grant you said that you'd expect sustaining to come down to close to depreciation. So just to be clear, for FY15 should we be assuming something similar for growth and then for sustenance to be pretty much in line with depreciation. Is that sort of the expectation? You should have pretty good visibility on growth CapEx on a forward 12 month basis I would have thought.

GRANT DEVONPORT: Well I wouldn't say we've got it for 12 months but we've certainly got a good look at the moment in terms of contracts that have been won. So yes, I said that -- that's why I made it very clear that sustaining CapEx, yes you could expect to start to come down towards depreciation, but if we get a lot of good contract wins and we need further CapEx for growth then obviously it'll stack up on its own merits.

SIMON MITCHELL: Alright thank you.

GRANT DEVONPORT: Cheers Simon.

OPERATOR: Your next question comes from Carolyn Holmes with JP Morgan .

GRANT DEVONPORT: Hi Carolyn.

CAROLYN HOLMES, ANALYST, JP MORGAN : Hi, I just wanted to focus on the global forwarding division and look at the GP margin for ocean freight relative to what's implied in terms of just the ocean freight revenue per TEU in US dollars. It implies that there was quite a big drop in the actual price that you get per TEU. How do you see that going forward? What's the current conditions in the market?

We keep on hearing that all the shippers want to put their rates up but they don't seem to be sticking. If they do and if they are successful, if the capacity comes back into order and they're able to increase their rates, would you expect the GP margin on ocean freight to revert back to the mid-16s again?

DAVID SHIRER : Yes it's a tough one because there's a few things there Carolyn. Obviously there is still significant capacity in the markets. The ocean freight, just remembering that roughly two thirds of ocean freight volumes are done direct with the carriers, and they become a bit schizophrenic when they've got extra capacity to go start to try and put our rates up and then tackle our customers.

So look we don't see it as the capacity issues are going to go away in terms of there being further capacity in the market. But obviously you've got the other factor of the ongoing move from air to ocean as well. Again the question is how long that continues to move that way. If economic conditions improve across we'd expect to see some of that freight go back into air. So I know I haven't really given you an answer to your question -- Brian's just joined us.

BRIAN KRUGER , MD, TOLL HOLDINGS LIMITED: Sorry I'm late guys.

DAVID SHIRER : But it's very hard for us to have a forward lens those sort of rate issues Carolyn.

CAROLYN HOLMES: Alright, okay. My other question relates to corporate, could you just maybe just run us through what's happening in that corporate line, both in terms of revenues and costs? Were there any one-off type items in corporate?

DAVID SHIRER : Look there's always an element of one-offs in corporate but, as I said in response to Simon's question, normally we will put through sales of properties (inaudible) properties. You know when we set out --

CAROLYN HOLMES: (Inaudible) [corporate].

DAVID SHIRER : -- three years ago we had about AUD400 million of property sitting on corporate's books. Obviously we've been working our way through those over a period of time. So the gains and losses on those are not huge but they get washed through the corporate result, as do any one-off costs associated with things that we're doing in the business. But by and large if you strip those out, those property profits and loss, by and large corporate has been -- is pretty static around the AUD47 million, AUD48 million mark.

BRIAN KRUGER : (Inaudible) [construction] (inaudible).

DAVID SHIRER : Yeah well those restricting costs are below the line.

BRIAN KRUGER : Yeah but just some of the [cost improvements as well].

DAVID SHIRER : Yeah but I mean -- so we're looking, just as the rest of the business is going through restructuring and looking at the cost side, Brian's just raised -- you know we've talked about our total IT spend across the Group and needing to bring that into line to free up costs to invest in other areas.

So we're looking at our costs within corporate for IT costs. So there is a lot of things, obviously revenue will change as these properties get divested. You'd expect the revenue to come down obviously as we divest some of those properties that had rental income but we weren't getting the proper return on capital.

CAROLYN HOLMES: Okay.

DAVID SHIRER : So it's -- you know I know that's not again a --

CAROLYN HOLMES: That's okay, it's going to be lumpy at the revenue line but pretty much your OpEx we're looking at, I think -- if I annualise it we're looking at around about AUD70 million odd OpEx and presumably that should come down a touch.

DAVID SHIRER : Yeah we've got -- yeah the main levels of OpEx in the corporate's result are our internal, what we call, GIS. Our IT division and obviously all the corporate centres that we don't charge back to the businesses and we call that as our shareholder costs. But yes they absolutely are under the same requirements to get costs out as the rest of the business. So you could expect that we would be tackling that cost base as well.

CAROLYN HOLMES: Yeah and my last question. Just -- because this whole thing about the tax with the coastal shipping concession, I'm just not up on that. Can you just run me through what the concession is there? What are they allowing you to do?

DAVID SHIRER : Basically they brought in tax concession for coastal shipping income to be tax exempt.

CAROLYN HOLMES: Oh that was nice of them.

DAVID SHIRER : And told us that we -- there's something that we can take advantage of and it's all about trying to obviously make coastal shipping more competitive as a mode of transport.

CAROLYN HOLMES: Cool. Alright I'll pop off the line, thanks guys.

OPERATOR: Your next question comes from Scott Ryall with CLSA.

SCOTT RYALL, ANALYST, CLSA: Thank you. I was wondering if you could comment on -- I guess you've got a number of oil and gas contracts that roll off partly last year, partly this year, partly next year. Brian, which year is the biggest year of headwind for oil and gas, albeit you're obviously running hard trying to chase new contracts. But just for us, is it 2014, 2015, 2016?

BRIAN KRUGER : Look it's -- hi Scott -- first of all apologies for cutting you off this morning mate, I had some other media commitments I had to sort of finish. We probably went 10 minutes over time on the call this morning so apologies, I know you were on the line waiting to ask a question mate, so --

SCOTT RYALL: Oh that's alright, you're a good looking guy so I know they want to photograph you.

UNIDENTIFIED COMPANY REPRESENTATIVE: Steady on.

BRIAN KRUGER : It's a good head for radio. Look I expect -- I mean clearly this will be dependent on how construction goes for Chevron with the Gorgon project primarily. We are doing work as you know for the construction projects in Queensland as well but they're a smaller contributor to earnings than what we've had from the Chevron work.

I expect that this year, 2015, will see the biggest drop off in earnings from that activity. So we had some impact in 2014, we certainly won't be to zero in 2015, we're still doing work there at the moment. But I think we'll see the biggest drop this year and then probably we'll be finished in 2016. That would be my current expectation.

SCOTT RYALL: Mm hm, okay. Then in terms of -- I mean obviously you signed a production related deal with Chevron for ongoing but in terms of equipment that you've got allocated to that work, can you give us a view on re-utilisation of that equipment and what we should expect to see there? I imagine, given their contract base, they're fairly low investor capital. But just is there a prospect of re-use and can they get re-used outside of **oil** and gas?

BRIAN KRUGER : Yeah absolutely. So the first part of that is that we have pretty well depreciated most of the work that's been employed on Barrow, sorry most of the equipment that's been employed on Barrow. Most of it's pretty standard gear, I mean it's heavy duty but it's pretty standard sort of truck and trailer.

There's obviously some heavy forklift capability equipment as well. But the way we structured the arrangement with Chevron is that most of that gets depreciated through the life of the contract. So we don't have a lot of written down cost exposure. A lot of the stuff has been pretty well cooked, I'd have to say, that's a technical trucking term.

Particularly some of the gear that's been carrying heavier cargo around and been working in a pretty tough environment. But we still will certainly been looking to redeploy it where we can and it can be used outside the **oil** and gas sector.

SCOTT RYALL: Alright and --

BRIAN KRUGER : But there was another part, I'**m** just trying to think -- and look the other thing, just to be clear, the work that we're doing in the production phase, we're actually getting three new landing craft built for that contract. So it's completely different equipment that we're using for the new contract that we announced yesterday to what we've been using to do the on **island** logistics.

SCOTT RYALL: Okay, alright. Then in terms of grounded CapEx outlook for this coming year you're talking about sustaining -- heading down towards depreciation. I was wondering if you could give us an idea based on what you know at the moment where you think CapEx is for -- in the totality, as opposed to just sustaining?

GRANT DEVONPORT: Yes I think I've been asked that question a couple of times Scott and I say that the gross CapEx is the one that we'd actually like to spin more if we could, if we win obviously the right contracts. So that's the harder one to give you a view on.

I mean we've always said that we see total CapEx at around sort of AUD400 **million** and that's what it's been over the last - certainly since I've been on the chair and provided that we get some upturn in the economic conditions that means that gross increases, we'd still [steer] that sort of number.

Clearly if we don't get the new contracts coming through then you should expect to see gross CapEx actually falling.

BRIAN KRUGER : I think the only big additional **property** project that we've got going on this year -- a lot of the others have sort of been done and finished through fiscal 2014 - the only big one we've got going on is the project at Tullamarine that we just spoke about, and we are doing a smaller project at the Port of Freemantle as well.

They're sort of the -- probably the two unusual, what we'll be calling sustaining capital investments this year. But we've still got an expectation that that sustaining CapEx will be lower rather than higher this year and as Grant said, the gross CapEx will really be dependent on how well we do winning new contracts.

SCOTT RYALL: Okay, and could you talk -- obviously you had some larger offsets in terms of sales of PPE this year, can you -- what've you got, where do we expect that to normalise out?

GRANT DEVONPORT: Again you should expect it to get smaller. Obviously the thing that increased that number this year has been the **sale** of obviously the rail terminals in far north Queensland. Not something that we would have anticipated but as you know we acted pretty quickly when we lost that Coles contract so shouldn't expect to see a number in the order of that sort of scale in the future years.

And as I've said on the earlier comment around when we started this divestment of non-core properties we had about AUD400 **million** on corporate's books, you know we've probably now halved that. So that's why it's important that earnings, if conditions don't improve and earnings don't improve then obviously we need to ensure that gross CapEx is managed in accordance with those requirements.

BRIAN KRUGER : If I can say though, we still have some surplus properties that we can - we are planning on taking action with. But just not to the -- as Grant said -- just not to the same level of the AUD150 **million** you would have seen in 2014.

SCOTT RYALL: Okay sure. And just one last one, you -- and this might be a hard one Brian -- but if you look back a year ago you gave exactly the same earnings guidance in terms of you know, we will grow.

What -- if I compare this year versus last year, where are the deltas in your mind. I mean we talked about the **oil** and gas contract expires, last year you had the TOPS ramp up that was going to be a tail **wind** for you. Are you feeling -- do I get the sense there are a few more contracts out there that you're chasing this year versus last year, are you relying on more contract wins in order to get your number this year than last year?

I'**m** just trying to get a sense of how you see differences in your portfolio of businesses this year versus giving the same guidance last year.

BRIAN KRUGER : I must check, I didn't think I gave any of this guidance at this point last year. I think we might have at the AGM but anyway that doesn't matter your question is still valid.

Look the key thing is I know that we have already won a number of large contracts where there is very little impact in the 2014 year, so I can add some certainty around that. I know in terms of thinking about costs and productivity improvements that the restructuring, I call it an investment, but the restructuring investment was made in late 2014 and we quantified the level of cost savings that we can expect to see from that.

And then it's the cost and productivity benefits from a lot of the capital spending that's been done. You saw the level of sustaining CapEx in 2014 is pretty high, a combination of spending on fleet and equipment which delivers some cost improvements. But also in **property** which will deliver productivity. So there's a range of factors there as well, it's not necessarily a comment on any expectation around significant improvement in economic conditions.

SCOTT RYALL: Yes that's clear thank you. That's all I had.

BRIAN KRUGER : Yes.

OPERATOR: Your next question comes from Sam Dobson with Macquarie.

SAM DOBSON, ANALYST, MACQUARIE: Oh hi guys.

BRIAN KRUGER : Sam.

SAM DOBSON: I had three questions. Just in terms of the cost of the debt, can you guys hear me?

BRIAN KRUGER : Yes I'**m** not sure if you have us on speaker phone Sam, it is actually hard to hear you.

SAM DOBSON: Right can you hear me now?

BRIAN KRUGER : That's much better, thank you.

SAM DOBSON: Okay I've taken my headset off. So just in terms of cost of debt. So it looks as though it ticked up 25 basis points for the year, yet you only refinanced I think towards the back end of the year I think it was in May.

Is it fair to assume that across FY15 we should be expecting sort of 150 basis point increase in the cost of debt, is that a reasonable assumption?

GRANT DEVONPORT: So just to be clear Sam, so of the AUD5 **million** increase in net financing costs this year, last year AUD3.2 **million** of that was FX.

SAM DOBSON: Yes.

GRANT DEVONPORT: Yes ok, so just again to be clear about, we completed the USPP in October last year, and the piece that we've just done is around the final **Hong Kong** dollar syndication. That was done in April.

So in terms of if you're asking me for a forecast from -- on net financing costs next year, I'm not going to give you that but we had said, and we'll continue to say, that the net effect of the refinancing will not be a material impact on the net financing costs.

SAM DOBSON: Right. Okay. Maybe you touched on this this morning, but just in terms of the run-rate cost benefit from both procurement and continuous improvement. Have you got a feel for what we should expect there? Is it the same sort of level that we saw this year or is it -- I don't know if you're willing to give us any sort of guidance there?

BRIAN KRUGER : The short answer is we didn't -- I was trying not to give guidance this morning. I think just to be clear mate and it's probably not going to answer your question, but the money that we've -- or the restructuring that we have already done and we've recognized the cost of in 2014, we think we've basically got a one-year payback. So a AUD40 million or AUD50 million investment, we think we'll get AUD40 million or AUD50 million of cost savings in fiscal 2015.

We then talked about the other areas where we expect to deliver cost improvements but we haven't quantified those yet. And I'm sorry, but we don't intend on doing that; we'll t tell you what we've done when we've done it, as we did this year when we talked about the AUD100 million of cost savings in total.

But the other areas that those cost savings will come from, we know we've still got opportunities on the procurement front. We know that the recent capital investments that we've made will continue to deliver cost improvements and we certainly have a high expectation that the continuous improvement programs we're embedding around the Group will also deliver cost improvements, and other improvements for that matter. Certainly an element of the CI stuff will be cost-related.

So I guess you can see what we've been able to deliver in 2014. We've talked about the AUD40 million or AUD50 million coming from the restructuring; we're not at this point quantifying the value to come from the other elements.

GRANT DEVONPORT: Can I just add this in, we've been pretty consistent to say we'll tell you when we've done things and obviously we're reporting on what we've done last year around the CapEx benefits, procurement and we're telling you what we've done in relation to taking restructuring costs at the end of the year and what that will deliver. So I think to Brian's point, well, we'll continue to drive these benefits but we're not going to put a number on the others.

SAM DOBSON: All right. And then just on the Global Express business, so just on the Australian portion, margins were down this financial year. I'm just wondering what the longer term expectation is there, if -- and apologies if you've talked about this, or not talked about it -- but just in terms of what the expectation is going forward. It would be great to get a view there.

BRIAN KRUGER : I think the expectation is they don't get any worse. We certainly are making a lot of investment in the Global Express business. I talked at length about the property investments, or not so much the property investments but the sortation equipment, investment this morning. We've also been investing a lot in fleet that support the line haul activities in that Express business.

I'd have to say, just to be clear as well, most of the margin degradation has occurred in IPEC's -- Toll Priority has continued to perform really well -- sorry, IPEC and FAST I should say, the two road-based businesses. IPEC has continued to perform well, the Toll People business has continued to perform well.

So yes, the key driver of that margin degradation in IPEC was that average weight per consignment issue that I spoke about this morning. And we're not expecting that to get materially better. I said this morning, I think Cam McDonald asked the question about the trend. I'm not sure we've seen the bottom in that yet but I certainly don't expect to see the same level of decrease in fiscal '15 compared to fiscal '14.

So hopefully the costs improvement initiatives that are underway, the capital investments that are underway, the pricing structure, things which we gave you a little bit of colour about this morning, all of those things I would expect that we won't see that margin get any worse. The degree to which it improves though will be driven to a large extent by what happens with general demand from our customers, because it is, as I explained this morning, it's a very -- a volume-sensitive business.

SAM DOBSON: Yes. All right, well that's great. Thanks.

BRIAN KRUGER : Okay. Thanks, [Mark].

OPERATOR: Your next question comes from Cameron McDonald with Deutsche Bank .

CAMERON MCDONALD , ANALYST, DEUTSCHE BANK : Hi, guys. A couple of questions if I can on global logistics, initially. What are the unprofitable contracts in Singapore and Malaysia that you exited during the year?

BRIAN KRUGER : They are smallish contracts. I'm not going to give you the customer names but smallish contracts that -- again, I think Cam, we've talked about this issue for a while. When we bought the business in Asia we inherited a number of contracts that we weren't particularly happy with the conditions of, but we've honoured our obligations.

And as they have finished and we haven't been able to get appropriate price increases to cover cost increases, we've walked away from them. So they're not material really from the Group sense but they've obviously had an impact in the results in those businesses.

I would say though that it's interesting with some of our bigger customers in Singapore who we still have, the Procter & Gambles of the world, the Colgate-Palmolives of the world. We've retained those bigger contracts and we have been able to get rate increases through with those customers that have been sufficient to offset our property and labour-related cost increases.

CAMERON MCDONALD : Okay, and what are you doing in the new business contract that you've signed with the Singapore Government business group with health care?

BRIAN KRUGER : It's really health care logistics. It's not with the Singapore Government, it's just within that business. It's a different -- that business is expanding into other activities as well.

CAMERON MCDONALD : Right, okay. So what do you mean by health care? Is it --

BRIAN KRUGER : Storage and movement of pharmaceutical products.

CAMERON MCDONALD : Okay.

BRIAN KRUGER : Which is an opportunity for us -- you heard me talk this morning about --

CAMERON MCDONALD : That was going to be my next question, is --

BRIAN KRUGER : Yes. We've got some expertise in Singapore in -- and it's a market in Australia that we've got a tiny presence in and we really haven't leveraged that knowledge and capability that we have in our Singapore business as well as I think we could in Australia. Now, there's a -- DHL is the primary provider of those logistics-type services globally but also in Australia, so it's not going to be an easy nut to crack; they're obviously a pretty solid competitor. But it's an area we're going to have a good look at.

CAMERON MCDONALD : Yes, okay. And then you've also mentioned that you're looking at agriculture. Obviously there's been some big moves in that space more recently with some developments with both Qube and Asciano. What do you see as the potential attractiveness and what can you bring that's different to the agriculture space?

BRIAN KRUGER : Yes, probably can't answer either of those at the moment, it's the work we need to do. I think the attractiveness piece is that it's a rapidly -- well, I think it's going to be a rapidly-growing market for a number of years in Australia.

You guys know as well as I do the opportunities to provide agriculture-type products into Asian economies in particular, it's an area of the market where we've got virtually no exposure at the moment. As the area of the logistics market in Australia we've got virtually no exposure.

And Cam, I'd love to be more definitive with you at the moment. I was really just signalling this morning that it's an area of opportunity that we're going to do some work on to see whether there are particular components of that market that we can exploit.

CAMERON MCDONALD : Yes, okay. That's fine. And then my last question, on one of the slides you mentioned that you've got a potential order book of AUD2 billion.

BRIAN KRUGER : Yes.

CAMERON MCDONALD : Two questions around that. Firstly, is that actually a live order book that you're currently tendering on? And secondly, just given the earlier comments around the competitive environment and the pricing pressure, is that revenue -- is that total new revenue for you or is that existing -- some existing revenue that you already do?

And secondly, if it is -- on either front I suppose, given the current pricing environment, do we run the risk here that we recontract at a low point in the cycle and start locking in lower margins and lower returns for the terms of those contracts of three to five years?

BRIAN KRUGER : Look, all good questions. I'll just clarify a couple of issues. One is that what we were trying to signal on that slide this morning is that during a year we will be actively involved in looking at tenders that typically have a value of around AUD2 **billion**. That doesn't mean that at any one point in time we have AUD2 **billion** worth of tenders on the go. The number that we would have on the go at any one point in time -- again, that obviously fluctuates a bit -- is probably closer to AUD600 **million** to AUD700 **million**. So does that make sense?

CAMERON MCDONALD : Yes. No, that makes sense.

BRIAN KRUGER : That's point number one. Point number two, clearly we don't win all of those and we probably wouldn't want to win all of those because it probably means our pricing is inappropriate. Our historic success rate with those is probably 25% to 30%, which I'**m** actually quite comfortable with. Some years that's higher, some years it's lower but that's probably typical through a cycle.

Look, if your point around renewing existing -- sorry, your last question was around how much of that is existing contracts and how much of that is new opportunities. It obviously varies. Some of it we will be tendering for existing work that we already have, and some of it will be tenders for work that we don't have. And therefore that's an opportunity.

I would say generally our success rate on contracts where we are the incumbent is higher than the 25% to 30% and our success rate on tenders where we are not the incumbent is lower than that, which probably is intuitive for you. But we certainly see that across the range of businesses.

Look, I think the issue you've raised about are we going to be locking in contracts at rates at a low point in the cycle, I guess that's potentially the case but clearly in particular for contracts that involve capital spending, we are being very disciplined in terms of the rates that we need to get a satisfactory return on investment on those new contracts.

So how high we bid probably really depends on how much capital is involved, and every competitive situation is going to be different. I know that's a very general answer but hopefully that gives you a few insights into how we think about those opportunities.

CAMERON MCDONALD : Yes. No, that's great. Thanks, guys.

BRIAN KRUGER : Okay.

OPERATOR: Your next question comes from Matt Spence with Merrill Lynch .

MATTHEW SPENCE, ANALYST, BANK OF AMERICAMERRILL LYNCH : Hi, guys. That was a good result, congratulations.

BRIAN KRUGER : Thank you.

MATTHEW SPENCE: Grant, other income jumped from AUD20 **million** in FY13 to AUD45 **million** in FY14. I know it's not a big portion of your overall income but if it's high margin stuff then it's potentially a big part of EBIT. Can you just tell us what that jump in other income is down to?

GRANT DEVONPORT: I can, Matt. You want to ask another question on finance and I'll come back to you, all right?

MATTHEW SPENCE: Okay. Brian, while you're there then, Gladstone, what could Gladstone drop down to after construction has finished? So you're running -- is it six tugs that you're running there at the moment?

BRIAN KRUGER : They're not tugs, they're more sort of landing craft type vessels. Look, it's a much smaller driver of earnings than (inaudible) mate. I don't think we've separately disclosed it. But I'**m** -- and in fact, we've already won some work around Gladstone to support some of the production work that will be going on.

Look, every dollar counts obviously. But I'**m** much less concerned about our ability to replace the work in Gladstone. It's been nice work, but it's nowhere near the materiality of what we've got for the construction work going on in Barrow.

MATTHEW SPENCE: Yes, okay and I guess similarly, what do you do with those ships, because they've got to be pretty purpose built or purpose designed, don't they?

BRIAN KRUGER : So some of them are chartered and some of them will be redeployed into other parts of our marine business.

MATTHEW SPENCE: Yes, okay.

GRANT DEVONPORT: They're not particularly specialist at all Matt. They are just landing craft, so they have a good market. But I think the key for the contract that we announced with Chevron , really gives us confidence about potential to assist the three projects in Gladstone for their production phase as well, for their vessel needs.

BRIAN KRUGER : I'm just trying to see mate. I think -- not in this result. But I think in one of our -- either out last results presentation or the one before, we actually had a picture of the Gladstone landing craft in there somewhere, if you're interested in what they look like. But as Grant said, they're not particularly specialist types of vessels.

MATTHEW SPENCE: Yes, okay and just -- if you had to pull the trigger on more cost outs along the same lines as FY14, so if it did get to the point where it was AUD100 million again in FY15, does that entail a similar sort of below the line charge? What do you think there?

BRIAN KRUGER : You guys are good at asking the question in different ways. Look, obviously the restructuring which we've announced and already in the process of implementing, all of those costs have been booked in 2014. So the AUD40 million to AUD50 million of benefits we've spoken about is purely related to costs that we've already reflected in the 2014 results. There is no additional restructuring charges that are needed to deliver that AUD40 million to AUD50 million number.

Is there potentially other elements of restructuring that we will consider? Depending on market conditions and some of it in any event, irrespective of market conditions, yes there is. But it will be no -- I wouldn't expect at this point that it would be anywhere near the magnitude of what we've done in 2014.

MATTHEW SPENCE: Yes, okay.

GRANT DEVONPORT: You have a question on the other income. So of the increase of AUD25 million year-on-year, AUD11 million of that is in relation to profit on sales PPE and AUD11 million is other income increases which I don't have the detail of here. But obviously other income comes with other costs as well. The main bulk of that is the AUD11 million.

MATTHEW SPENCE: Okay, yes. So that AUD11 million would drop straight through to -- but the PP&E AUD11 million would drop straight through to EBIT. The other stuff maybe not so much?

GRANT DEVONPORT: Yes.

MATTHEW SPENCE: Okay. Alright, thanks guys.

OPERATOR: Your next question comes from Andrew Gibson with Goldman Sachs .

ANDREW GIBSON, ANALYST, GOLDMAN SACHS : Hi guys, just a quick one.

BRIAN KRUGER : Hi Andrew. How are you mate?

ANDREW GIBSON: Not bad. Yourself?

Sorry. I've got a few festive of my colleagues sitting around me and they've got the giggles. Don't worry, nothing to do with me or Toll. It might have something to do with me. Who knows?

Anyway, the AUD250 million of cost increment that you've got on slide 29, is that kind of a typical run rate of cost of inflation in your business? So it's about 3% of that AUD8.3 million?

BRIAN KRUGER : Yes, that's pretty accurate. We do -- obviously, it's not the same. We don't escalate the salaries at the same rate as our costs. But by and large, your 3% is pretty right.

ANDREW GIBSON: And just for clarity, that Chevron contract, that's AUD100 million over five years, i.e. AUD20 million revenue?

BRIAN KRUGER : Yes.

ANDREW GIBSON: Thanks.

BRIAN KRUGER : Okay.

ANDREW GIBSON: That's it. Thank you.

BRIAN KRUGER : Thanks Andrew. Next question.

OPERATOR: Your next question comes from Paul Ryan with Evans & Partners.

BRIAN KRUGER : Hi Paul.

PAUL RYAN, ANALYST, EVANS & PARTNERS: Good morning gents or afternoon, rather. Sorry.

BRIAN KRUGER : I think I've -- sorry mate. I think I might have cut you off this morning as well, so apologies.

PAUL RYAN: Mate, that's fine. We've both got the voice and the face for radio, as you said. The organic growth discussion, I appreciate that. Just on the flipside or sort of related to that. Are you seeing a la what you've done with Coke, more outsourcing opportunities or other things -- I suppose, looking at JB Hi-Fi building their own warehouses, given they've got a bulkier goods strategy.

Are you seeing it go the other way? Can you comment on any trends? Clearly, a tough environment, but is the outsourcing trend improving in that environment and giving you more opportunity or going the other way?

BRIAN KRUGER : I think -- look, obviously, this goes in waves. I think if anything -- I'**m** just thinking about recent contract wins. A lot of those have come from -- because our customers have grown or we've won more share as opposed to them outsourcing. Look, I actually think the trend is pretty flat in that sense.

I'**m** just looking at Grant as well. I don't think we're seeing -- probably the one business where we're still all continuing to see outsourcing opportunities, is in customised solutions. So the more sophisticated warehousing end of what we do. We're getting into that virtuous cycle with that business, where the more success we have and can demonstrate to potential new customers, the easier it's becoming for us to convince them to outsource what they were doing internally before.

That's probably the one part of the business where we've seen that. I think it will be -- I mean it's a very recent issue. Whether BP decides to outsource all of their logistics parts, given their recent issue with some of their **company** owned-fleet. I suspect we'll probably see an opportunity there as well but that sort of, you know, on -- that's a pretty minor opportunity. But the rest of it in terms of across our other contract logistics, businesses, I'**m** just seeing through the resources sector, it's not -- I haven't -- I couldn't say I've seen a strong trend one way or the other mate, I'**m** sorry.

PAUL RYAN: Yes, yes. Specifically, is JB Hi-Fi an impact from their move to (inaudible)?

BRIAN KRUGER : Look I'll have to come back to you on that one. I must admit I wasn't aware of that. We do a lot of their home delivery work for them. I'**m** not aware that it's going to be impacted by the issue you've just raised, but we'll check. I mean they are a customer but I can't imagine -- we haven't been doing their warehousing work for them.

PAUL RYAN: Yes.

BRIAN KRUGER : We have been doing their home deliveries for them. So I don't think that issue will have any impact, but I can -- I'll certainly check.

PAUL RYAN: Okay. Thank you.

BRIAN KRUGER : That's okay.

OPERATOR: As there are no further questions, I'll hand back to David Shirer for closing remarks.

DAVID SHIRER : All right. Thanks very much everybody. I hope you have a safe season for the rest of the couple of weeks you've got results coming at you. Appreciate you putting time into our (inaudible).

GRANT DEVONPORT: I think we'll see a few of them in the next week too.

DAVID SHIRER : Oh yes, and we'll see -- yes hopefully we'll see people next week.

GRANT DEVONPORT: Next week or later this week?

DAVID SHIRER : Sorry, later this week it is. That's right. Yes, we're giving our (inaudible). Okay, have a good day. Thanks very much. Thanks everyone.

OPERATOR: That does conclude our conference for today. Thank you for participating. You may all disconnect.

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