HD **Preliminary 2014 Incitec Pivot Limited Earnings Presentation - Final**

WC 13,357 words

PD 10 November 2014

SN CQ FD Disclosure

SC FNDW

LA English

LP

Presentation

GERARD BUCKLE, GENERAL MANAGER IR AND FINANCE, INCITEC PIVOT LIMITED: Good morning. Welcome to those with us here in Sydney. Welcome to those on the webcast and the teleconference to Incitec Pivot's 2014 full year results announcement. I'mGerard Buckle, General Manager of Investor Relations and Finance at Incitec Pivot.

TD

(Conference Instructions).

Now, I'll hand straight over to James who can begin our presentation.

JAMES FAZZINO, MD & CEO, INCITEC PIVOT LIMITED: Well, thanks, Gerard, and good morning and welcome to all those in Sydney and also all those listening in on the webcast. Today I'll review the results for 2014. I'll then review our scorecard, which are to highlight the items that we can improve and the external factors that impacted on the year.

Next, I'll touch on the strategy very briefly and provide an update on our two growth platforms, which, of course, is Moranbah and Louisiana. Frank will take you through the numbers in some detail and then finally I'll discuss the outlook for 2015 and we'll take some questions.

So let's start with the most important metrics in IPL and, of course, those are those that relate to safety and they're on slide number 5. We measure our overall safety performance through the internationally recognisable benchmark of all worker Total Recordable Injury Frequency Rate or TRIFR.

In 2012, we adopted our five year global health, safety and environment strategy and our target then was to achieve a TRIFR of less than 1 by 2016. At the end of the 2014 financial year, our TRIFR was 0.97. This is two years ahead of our target and a world class result.

We've had roughly around a 50% improvement in our injury rate since 2009. In 2014, 76 out of 7700 employees and contractors who worked for IPL were injured. That was a 17% improvement over [2014]. Importantly, there was a step change in severity with no fatalities and a 45% reduction in our lost time injury rate.

While we're satisfied with the progress, we know that only zero is acceptable and we know zero is achievable, because more than 90% of our sites globally were injury free in 2014.

So why would I talk about safety in an investor presentation? Apart from the fact that we've made a commitment to our people and their families about safety at work, I firmly believe that great companies have great safety performances, because of the leadership systems, the processes and the culture needed for world-class safety are exactly those that must exist in all other aspects of performance.

That's why the relationship between safety and BEx is so important and why zero harm is an indicator of a world-class company.

Moving to the financials on slide 6, there are two parts to the 2014 result. They are the underlying business performance, which was up on 2013 and the statutory result where reported profit was down.

The statutory NPAT was AUD247 million, compared to AUD367 million in 2013 and I will cover the individually material items that drove the decline in more detail later. Looking at the underlying business results at a Group level, NPAT grew by 21% to just under AUD360 million.

EBITDA was up by 15% to AUD743 million and EBIT was up by 13% to AUD519 million. What was pleasing was we delivered earnings growth in all of our businesses and that's a solid result, given the challenging external environment in both mining and also agriculture. What was pleasing was that we focused on the factors that were within our control, such as BEx, financial discipline, cost efficiency and delivering on Moranbah to deliver the result.

At a business level, fertilisers was up 9% and explosives were up 14%. Improved earnings were reflected in dividends, which were up 17% to AUD0.108 earnings per share. As I said, this is a solid result in a challenging external environment.

Let me take you through some of the highlights of the 2014 result on slide 7. I've already discussed safety and EBIT growth in all businesses. Moranbah underpinned a 25% improvement in DNAPs earnings. Moranbah produced 299,000 tonnes of AN solution and generated AUD115 million in EBIT and AUD158 million in EBITDA.

2014 demonstrates the value of our strategic decision to invest in the plant and importantly, it was all about timing and we invested at a time when the market was short of AN, when our customers were in an expansion mode and had the capacity to design long term offtake agreements and when long term gas supply was available in Australia at world competitive prices.

That means we're very well placed to continue to generate earnings from that plant into the future. BEx, our continuous improvement system, once again delivered significant benefits in the result. Importantly, because these benefits were driven by the bottom up and because they are reflected in changes in our business system, they're sustainable benefits.

Of course, to simply stand still every year, we need to generate some AUD35 million in productivity savings and that covers the annual cost increases that we have in the business. These costs were offset by BEx and you'll note, when you see Frank present the waterfalls, there are no cost bar increases. All of those costs have been offset by BEx.

In summary, the gross BEx benefits in 2014 were AUD62 million, with AUD35 million offsetting those cost increases and AUD27 million dropping to the bottom line.

The success of BEx in creating value doesn't preclude the implementation of cost efficiency programs at the appropriate time, such as our overhead cost reduction program. This time last year we announced an AUD20 million target and I'm delighted to say the program was executed successfully this year, one year ahead of schedule, and delivered AUD21 million in savings in 2014, while incurring AUD12 million in one-off implementation costs. I'd recognise Frank's leadership in delivering those numbers.

Finally, our Louisiana ammonia project was a highlight, which of course is the other side of our strategic growth platform, along with Moranbah. There'll be more detail later, but in summary, the project's more than 50% complete and is on track for production in the third quarter of the 2016 financial year.

So moving to slide 8, what can improve in IPL? Well, firstly, safety where we're not at zero and we won't rest until we are there for everyone in IPL. Second, as you're aware, we've got excess capacity at our AN plants in North America.

2014 was somewhat of a watershed year, where about 30% of our production volumes went out to tender. Our approach was underscored by our key principals. First, that we're both a customer focused and a financially disciplined organisation.

Second -- that we're about value, not just volume. As a result, we re-contracted some business at higher prices and with other business, we took the decision to walk away. I don't resile from this approach and recognise that we may not always have the right cost position to service customers in every footprint.

As I said, it's all around value, not just volume. The net outcome is a positive margin result for the DNA business in 2015, notwithstanding a 10% reduction in volumes. So earnings will be up on renegotiating those contracts, notwithstanding the fact we've lost some volume.

However, this creates even more excess capacity in our AN system, which is an issue, particularly for our plant at Donora, which as you're aware, has been operating below name plate capacity for some years. That's mainly because of the plant's location in eastern US. You'll all be aware of the decline in the Appalachian coal markets, which have declined and our view is will continue to decline.

We're continuing to conduct a strategic review of our North American manufacturing footprint as a result. I'd stress that no decision has been made at this point in time on any plants. However, we have acted on Donora in terms of carrying value and we've written the asset off. This is an accounting decision and does not impact on the ongoing operate of the plant. The write-down is simply a non-cash book entry.

Offsetting the benefit from the re-contracting is the impact of higher purchased ammonia costs from our LOMO plant from 2015. The interim ammonia contracts reflect DNA moving from essentially through the cycle price for ammonia to a spot price for ammonia. This is a temporary change and will reverse when our Louisiana project comes online, at which point we'll revert to [through-the-cycle] pricing for ammonia to the downstream plants.

So we've had an increase in earnings from recontracting and that's offset by an increase in ammonia for 2015/2016 and then we'll get all of that back, once Louisiana comes online.

I want to turn to the Phosphate Hill plant and the associated facility at Mount Isa. We all recognise that the performance of Phosphate Hill over the last few years has been unacceptable. The asset's receiving considerable management focus because of a need to radically improve both reliability and productivity.

I'd note that in both plants we've got new site managers and new leadership teams in place. We took an important step forward in 2014 in ensuring that the four yearly turnaround at Phos. Hill and Mount Isa was absolutely thorough and comprehensive. The turnaround involved the largest scope of work that we've ever undertaken on the plant and it cost AUD74 million.

To give you an example of the size of the commitment, the 2014 turnaround had 30% more maintenance scope items than the one in 2010 and included more than 6000 more hours of maintenance that was executed on the granulation plant as compared to previous turnarounds. So we absolutely went into every vessel and did every piece of maintenance that we needed to do for a reliable four year run.

The value of the commitment is demonstrated by the recent performance of the plant in the final quarter of 2014 and in that quarter, Phosphate Hill produced 255,000 tonnes of ammonium phosphate. However, we're being cautious and we recognise that it's early days and three months doesn't make a trend, but it's a great first start.

At the recent investor briefing, we gave you an outline of the goals for Phosphate Hill and Mount Isa and our program to achieve those goals; getting production to name plates, essentially managing the cost base of the operation.

That's because it's got a such a large fixed cost base. Production at name plate will reduce cost per tonne and it also provides us with a greater opportunity for efficiency benefits. So in chemical plants, the rule is you get them up to capacity and you run them very flat and when you do that, you pick up a huge amount of efficiency. So you get the volume benefit, the -- spreading the production over more tonnes and the efficiency benefit of running the plant flat out.

Our milestone in 2015 is to produce above 900,000 tonnes of APs on the way to achieving a name plate capacity of about 950,000 tonnes. The other side of Phosphate Hill, of course, is inputs. A burden in the next two years is increased cost of gas.

That extra cost will be around AUD38 million this year and AUD50 million on a full year basis in 2016. We continue to seek access to competitively priced gas for operations. Some of you may have noticed an announcement earlier today by Central Petroleum about a heads of agreement with IPL for the supply of gas.

For some of those who have followed IPL for some time, you will recognise that the man behind Central Petroleum is Richard Cottee and Richard Cottee worked with me and the Gibson Island team to secure the current gas contract when he was running QGC. The heads of agreement is one of a number of strategic initiatives around gas that we've been developing over the best part of a decade, albeit with some intensity -- increased intensity over the last few years.

Strategy has involved working with government with the gas majors and the emerging gas companies. We've always said that the solution will require a portfolio approach. There's no silver bullet for solving a gas issue for Incitec Pivot.

It'll involve a range of suppliers, a range of technologies and a range of terms of contract. A key element to our strategy is to look for opportunities to work with emerging gas producers like Central Petroleum, to encourage not only more supply of gas, but importantly more gas suppliers. We began the process as long as a decade ago, when we took a small share in Carbon Energy, which is an underground coal gasification company in Queensland. Carbon Energy's program of development in Queensland continues.

In recent years, we've looked closely at a number of emerging companies that have the potential to produce gas at competitive price. We're continuing that process and we expect that we would be seeking arrangements similar to those with Central Petroleum with other players. It's logical that we'd seek to spread the risk of -- the business risk in an area such as this.

Obviously, this is all about IPL securing gas of sufficient volume and at a price within a delivery schedule. For example, the current agreement with Central Petroleum would involve the delivery of a tranche of gas of 15 petajoules per year over 10 years for a well head price which is substantially less than what we're paying to -- paying under the new agreements that we're reverting to. So it almost puts us back in the position we were pre-the increase in gas prices.

The heads of agreement with Central Petroleum is one of the several elements of our gas strategy. While we're hopeful of an outcome, we recognise the challenges involved and will continue to pursue a range of options to encourage a functioning east coast gas market and for IPL to secure gas at a competitive price.

So it's a range of options that we're chasing. Central Petroleum's one of those. It's a portfolio approach. We'll end up with a number of supply and we're actually confident that over time, we'll be able to get gas at the right price for our fertiliser plants in Australia.

Another major cost input is sulphur in sulphuric acid. As you know, we **buy** sulphuric acid from Sun Metals in Townsville and burn sulphur and capture waste [met] gas from the Glencore**copper** smelter to produce sulphuric acid in Isa. The arrangement with the **copper** smelter is a true win-win. The smelter can operate without releasing met gas to the atmosphere and also doesn't need to deal with **wind** protocols when we're on. For IPL, we've got a lower cost gas option.

Some years ago, Xstrata announced the closure of their **copper** smelter in 2016 and we continue to have discussions with Glencore about the future of smelter and at the same time, we've been working through alternative sulphuric acid solutions. So it's still relatively early days, but once again, we think we'll be able to find a way through on sulphur and sulphuric acid.

So what were the external factors that impacted on the 2014 result? While our focus is one what we control, it is important to look at the external factors that impacted on our earnings. The good news is that in 2014 two externals that have been significant weights on our performance finally started to move in our favour.

Firstly, the weaker Australian dollar, which for 2014, on average, was down by $0.08. Pleasingly, the dollar has continued to weaken further in October and every cent is worth around [AUD] 9 **million** in earnings for us, so we averaged $0.91 for 2014. Given we're at $0.86, $0.87; you can see there's significant upside on 2014, because of the currency.

Second, continuing growth in the quarry and construction segment in the US. We see the segment growing at about 5%, albeit it's quite patchy across the state, so there's areas where it's growing by more than that, areas where it's growing by less. The big picture, of course, is that both of these factors reflect the recovery of the US economy.

Strategically, Louisiana leverages these thematics, increasing our US dollar earnings and our exposure to growth in what is the world's largest economy. These positives in 2014 were offset by firstly softness in hard commodity prices, particularly **coal**, **iron ore** and **gold** and that's seen our **mining** customers high grading, insourcing services, switching to lower cost explosives, aggressively pursuing cost reduction and even some mine closures.

Combined with a regional excess of AN as new plants come online in the Asia Pacific region, these factors mean that there's been a step change in the competitive intensity in this market in Australia. In the fertiliser business in 2014, we saw both lower DAP prices and urea prices and weather conditions were also unfavourable with drought in key cotton markets in Queensland and also some frost in northern Australia.

Okay. Now, turning to the IMIs on slide 10. At our September investor day, you'll remember that we mentioned that we had three strategic reviews underway and we've now completed those with two of those reviews for Nitromak and Fabchem. Both Nitromak and Fabchem were required as part of the Dyno **acquisition** in 2008 and have experienced very challenging market conditions in the last year.

The outcome of the reviews are firstly in Nitromak we've taken a write-down in the asset value and also have a restructuring in the business in progress to right size the business for what we think is the new market conditions. There's been a step change in the number of players in the Turkish market. The market's gone from three to nine, with a further 11 new explosives licensees pending approval.

Demand is underpinned in Turkey by the Turkish government, which underpins explosives demand through infrastructure spend. Of course, the government's been impacted by the fall in the lira, which has impacted demand, obviously, through our customers. Finally, in that market, there's been a flood of cheap AN into Turkey from suppliers that we wouldn't deal with. Those suppliers are in Iran and Syria.

Adjusting for the new market realities has resulted in an AUD57 **million** charge against NPAT in this year. With respect to Fabchem, we've written down the value of our investment to market, resulting in a charge of AUD26 million after tax. The Fabchem business supplies AN and explosives into the Chinese market, which as you're aware, is oversupplied at the market.

The third IMI, as I mentioned earlier, is the write-off of our Donora plant of AUD27 million. Now, finally, we've still got a strategic review going on in terms of the SSP plants at Geelong and Portland in Victoria. Both of the plants today are profitable. However, the question we're asking is whether the configuration of having two plants relatively close to each other is the right answer going forward.

That's still under review and when we've concluded that review, we'll inform the market. Okay. So let's move to the bigger picture in the strategy and slide 12 is a familiar slide, for those who've followed IPL over the last few years. That slide summarises our strategy.

Simply, we look to leverage dislocations in the global economy. Firstly, the industrialisation and urbanisation of China and the shale gas revolution in the US. We leveraged these dislocations through our core competency in nitrogen manufacturing and we want to sit on the input side of the value chain, where returns are typically less volatile.

We execute through customer aligned downstream businesses and we think all of that will deliver above average shareholder returns. Slide 13 is also familiar to you. The key point is we choose to invest only in a small number of large growth projects that are close to our core competencies and truly move the dial. So you can see the step change in earnings from Moranbah in the Asia Pacific business. In Louisiana, we'll have another step change in earnings in DNA.

I guess, the key takeover from slide 13 and 14 is that the strategy is unchanged and it's working. You'll also be familiar with slide 14 and 15. BEx is our execution piece and the difference between average returns and outstanding returns, of course, lie in execution.

We think we're building a distinctive core competency in the way we execute the business under BEx. Growth is via Moranbah and Louisiana and our sole focus in the Company is on execution and the delivery, and not on new projects. Finally the third horizon's all about delivering increased returns to shareholders and internally we call that the payday for investors.

Slide 16 provides an update on our Louisiana ammonia project. Now this is a great project and, when fully operational as I said, will more than double the earnings in the DNA business. Quickly recapping on the investment thesis, firstly the gas market in the US has extraordinary depth. And we're confident that, even with potential for exports in the medium term, the depth of the US gas market will underpin competitive prices going forward.

We achieved a first mover advantage on the project and that's becoming more and more apparent as time goes by. Some of you will have noticed at the time of our decision that there were a large number of announcements by proponents for similar projects. The vast majority are now not proceeding and that's not because of concerns on the market, it's because they missed their opportunity around construction costs.

This is where we've benefitted from our decisiveness. First by securing a brownfield site. Second by locking in a lump sum turnkey contract with the world's premier ammonia technology and construction company, being KBR. Third by achieving approvals with the support of the Louisiana government, we did that in six months. And finally by locking in offtake with both Transammonia and Cornerstone Chemicals.

The build's on track and let me give you some statistics around that. We've had zero injuries to date and we've worked over a million hours on the project. At the end of October the project's 56% complete. The build involves almost 450 major pieces of equipment. That's quite a complex construction project and that's why you need a company with the competence of KBR. In terms of equipment, almost all of it's onsite by the end of this calendar year and the equipment's been sourced from the US, Germany, Belgium, Japan, Korea, India and also Argentina.

Let me provide an update on the progress on some of the major pieces of equipment. The reformer, which is the heart of the ammonia plant, is 50% complete. All four compressors, which are the long lead items, are onsite and have been lifted onto their footings. The purifier, which is the piece of technology that's unique to a KBR plant, has been installed. The cooling tower is 90% complete and the ammonia tank is 60% complete. And today we've got 450 people onsite and that's ramping up as we continue the construction. Importantly the fundamentals of the project are better today than when we approved the project.

So Frank will now take you through some of the financials in more detail.

FRANK MICALLEF, CFO, INCITEC PIVOT LIMITED: Thanks James. Good morning everyone. As per usual, what I will do this morning is go through some of the financial outcomes of the year in more detail. I'm trying to hit the highlights, rather than getting bogged in all of the detail. We continue to produce comprehensive information about the result in the profit report, the slides, there are some further materials in appendices to slides that we won't talk to this morning. But try and draw out, I guess, important aspects of performance for the year. And I guess that will also help people form their views about what next year will look like. Then we will hand over to James again, perhaps to delve into the outlook a little bit more.

This slide, our usual slide on EBIT for the Group and how that's changed from 2013 to 2014. At the Group level we now have a AUD519 million EBIT in 2014, versus the AUD461 million we recorded in 2013. There's a few moving pieces to that, at a general level.

The most significant of which is the extra earnings that have come out of the Moranbah project, AUD59 million in fact. I think the contract first, then build, the plant business model that we adopted on Moranbah, differentiates it and is enabling a fantastic project to produce returns that are well in excess of the cost of capital.

Another significant part of the 2014 result is the AUD27 million of benefits -- net benefits that is -- that BEx has achieved in the 2014 year and which James has already talked about. In fact, what we're seeing now is that BEx is becoming firmly entrenched across the Group as the way we do business. Therefore we see that order of magnitude benefit to be sustainable into the future.

We also had AUD12 million of improved margins in the explosives part of the DNA business, being a combination of product and customer mix, logistics savings and, significantly and importantly, price increases. James already touched on, also, the AUD9 million of net savings from the corporate restructuring that we did in 2014.

In fact AUD21 million of ongoing benefits, so we exit the 2014 year with an AUD21 million run rate of savings. But we did incur in 2014, of course, one off implementation costs. So we expect those savings to stick in the future and, going forward, our corporate costs should be in the range of AUD22 million to AUD24 million.

We had an AUD7 million negative, from the combination of FX and fertiliser prices, and I won't spend too long on that because we'll break it down when we look at the individual fertiliser businesses. But in total, Ferts prices gave rise to a negative AUD64 million movement over 2013. But the positive impact of the lower Australian dollar was worth AUD45 million in the fertiliser business. And there was a further AUD12 million that comes through with a lower dollar translating our US business earnings back to Aussie dollars.

Outside of Moranbah where we've got the contract model, the impact of falling hard commodity prices has obviously meant that our customers are doing it a bit tougher than they were. And that is flowing through to mining volumes in some cases, and certainly in those same cases into explosives volumes. So we see a negative AUD39 million impact across all of our business. So that's across the DNA business, the DNAP business and the smaller businesses that James has already touched on.

The DNA result was negatively impacted by AUD12 million as a result of lower initiating systems sales globally. So those of you that understand our business know that we produce our initiating systems in the US, in North America, and we export those to other parts of the world. So lower volumes meant, in particular in places like Latin America and Indonesia, we sold less IS out of the US.

There was also an AUD19 million adverse move to the prior year, resulting from softer volumes in the hard rock and underground segments and the run off of the loss of business in the Hunter Valley from 2013. As well as AUD7 million lower earnings from Nitromak and Fabchem. So you add all those together and that's where the AUD39 million comes from.

On a positive note though, quarry and construction in North America grew by 7% for the year. And importantly growth came from both the residential and non-residential components of that market. In addition, sales in the coal markets in the second half, meant that we were able to claw our way back, on a full year basis, to flat. And that hasn't happened for a while, in fact for about three years. So that's quite significant.

Finally the AUD3 million negative Other, that you can see on the graph here, includes a number of things, including a AUD13 million positive from the sale of assets during the year. I will touch on that in a little bit more detail when I talk about the fertiliser business.

Let's dive a little bit deeper in the Dyno Nobel North America business. What you can see from that slide is that DNA's EBIT decreased by 6% in US dollar terms, to $153 million in 2014. The falling Australian dollar delivered a small increase in the Aussie dollar EBIT attributable to the business overall. So when that translated at the Group level in Aussie dollars, we're up slightly.

The good news, when you look at that waterfall, is that the explosives component of the business was up 10%, in terms of earnings. The not so good news is that it was tougher in the agricultural and industrial components of the business. They were down 33%, dragging -- and that's what dragged the DNA total down in USD terms. In respect of the Ag and industrials part of the business, lower fertiliser prices cost us [$] 14 million for the year. And in the last winter, which you'll recall was quite severe; we had some gas cost spikes which impacted the profitability of the fertiliser part of our business in the US. We also got some slightly lower production out of St Helens and, together, those factors cost us [$] 6 million.

Notwithstanding the lower global sales of IS, which I mentioned before, the DNA explosives business has had a very strong result. And, to be up $11 million in what was essentially a tough market, I think is a very good outcome. Pleasingly, as in the rest of the business, in DNA BEx delivered strongly and in DNA we got a net $13 million of benefits. They came through particularly around the manufacturing and logistics parts of the business again, as well as some of the back office processes. It's also particularly pleasing to us, that the explosives business in the US delivered an $11 million of margin growth, which I mentioned earlier. That's been something that we have concentrated on, rather than focusing on volume at all costs.

The devaluation of the Canadian dollar versus the US dollar, cost us $4 million in USD terms. It's really a bit of noise because most of you understand that the Aussie and the CAD are highly correlated, so whilst that shows up in the division result, by the time it ends up in the Group result, it washes out basically.

In terms of the explosives markets in North America, I've already mentioned the strong growth of 7% in quarry and construction. It's certainly significant for us and I think we are seeing evidence of a sustained increase in the rate of growth in quarry and construction. Of course that's particularly significant for us because it is our highest margin business, by virtue of the product mix, that that segment takes.

I also flagged the return to flat coal volumes in North America, from negative coal volumes over the last few years. And that is significant too because, whilst it's significantly lower margin for example than Q&C, the fact that it makes up a little bit more than half of our volumes means it is an important component of our business.

What we saw with metals and mining in DNA this year, was flatter volumes than we have seen in the last few years. And I think, whilst some of the North American miners -- for example the gold miners have got probably better than the average Australian type mine cost positions, so they've got stronger cost positions, on average, in North America -- the realities of lower hard commodity prices have started to impact mining volumes in North America as well.

Let's now have a bit of a detailed look at Dyno Nobel Asia Pacific, on slide 20. You'll see that the EBIT increased by AUD41 million for the year and, we've already said, that AUD59 million of that came from Moranbah. So we now have total Moranbah EBIT of AUD115 million for 2014, which was up AUD59 million and obviously comfortably met the previous guidance that we gave you.

EBITDA relating to Moranbah was AUD158 million. In 2015 we expect the plant to produce 330,000 tonnes of ammonium nitrate and AUD140 million of EBIT and AUD185 million of EBITDA. That's why we are so happy with the project and we can unreservedly say that this project is producing real shareholder value.

In the DNAP business BEx also delivered an incremental AUD4 million in 2014. On the negative side in that business, we talked in the first half about an outage at our WA ammonium nitrate supplier, and that cost us AUD3 million for the year. We're certainly seeing some challenges in the Asia Pacific market, caused by a combination of low hard commodity prices which is having an impact on some of our customer base. And also coupled with the fact that supply of ammonium nitrate has changed, and is changing, in the region.

What we see, in particular in the Asia Pacific market, is hard rock and underground mining, the volumes for us went backwards during the year and cost us AUD16 million. We've already talked about market conditions in Turkey and China costing us AUD7 million, compared with 2013, in earnings.

Let's turn to a bit of a detailed look of IPF, Incitec Pivot Fertilisers. So I always feel the need to remind people of the terminology we use around the two parts of the fertiliser business. So IPF is what we used to call the legacy business or the original business. It contains the distribution business. It contains urea manufacturing at Gibson Island. And it contains -- those are the main components that fall in IPF. We'll talk about the rest of the fertiliser business when we look at SCI.

Overall the earnings were up AUD9 million for the year, from AUD95 million in 2013, to AUD104 million. Distribution margins were up AUD4 million on 2013, I guess mainly because prices were a bit less volatile. So we certainly didn't have ideal conditions to sell into, and that'll come through as I talk about some of the other bars, but prices were a little bit less volatile and therefore distribution margins were up a bit.

Volumes were down, from just over 2 million tonnes in 2013, to 1.85 million tonnes in 2014. James mentioned, even though the season actually got off to a great start, the second half we did have dry conditions in some of the key geographies up north. We had frost down south. And when we put that together with lower soft commodity prices, that put a bit of a dampener on farmer demand for fertiliser in the second half. That cost us about AUD7 million over the previous year.

Again, pleasingly, BEx produced an incremental AUD7 million in this business, particularly at Gibson Island and in the supply chain and the distribution network, where we continue to focus on efficiency and rationalisation of that distribution network.

Linked to that actually, the fertiliser result includes AUD13 million profits relating to the sale of surplus properties. This comes about as, essentially, we use BEx to right size some of our distribution network, which has been there for a long time. A lot of it was built in the days when the Company had, on a combined basis, 70% or 75% market share.

So what we're doing by using BEx is, we're finding that in some cases we can get out of properties -- get into slightly smaller, more efficient, smaller properties -- and realise cash actually out of our existing property holdings. Become more efficient, become more safer, with more modern facilities going forward, and actually liberate some cash.

So that AUD13 million in one sense we'd call it one-off but actually it's part of a program that we'll pursue over the next few years. Whilst the results that will come out of that are likely to be a little bit lumpy, we will see some activity in that space over the next couple of years.

Foreign currency was a positive AUD12 million in the IPF business over 2013, with that rate coming down to just over USD0.91, from just under USD1 in 2013. Lower urea prices cost us AUD22 million for the year because the average urea price was down about AUD50 on the previous year.

Now we turn to the other part of the fertiliser business which is Southern Cross International. So in Southern Cross what you've got is Phosphate Hill or ammonium phosphate production and sales, the industrials business and the Quantum business in Hong Kong. As you can see from that slide, the EBIT was up just over AUD9 million, or 13%, on the previous year's.

The improvements came from AUD6 million in freight margins, so higher global freight rates meant that we could capture that premium to the tune of AUD6 million. AUD2 million net from BEx in manufacturing. AUD33 million from a fall in the Aussie dollar, that $0.08 we've talked about a few times. And AUD2 million of incremental earnings from Quantum this year. Off a small base and still with a lot of control around the risks that we allow that business to undertake, but some increase in its profitability.

Now those positive movements were partly offset by AUD28 million from lower ammonium phosphate prices, the average Tampa DAP price having fallen about $32 from the previous year, and from lower earnings from the industrials business.

So that wraps up looking at the earnings out of each of the businesses. What I'd like to do now is just take a couple of minutes to wrap up the implications of the financial performance for 2014 on the Group, from a balance sheet and treasury point of view, before I hand back to James to give us some indicators of 2015 outlook.

Slide 24 deals with net debt and what it shows is that net debt increased by just over AUD200 million during the 2014 year. We had a decrease of AUD79 million in operating cash flows. Probably the main contributor there is a negative movement, on the last day if you like or at the end of September, in trade working capital due to the timing of fertiliser imports.

We also had a sustenance spend increase of AUD87 million, due to that intensive work that James referred to before on Phosphate Hill and, to a lesser degree, at Moranbah. We also spent some money on a gypsum cell at Phosphate Hill. So we did spend quite a bit of money in that sustenance space and there's an outlook in one of your appendices slides for sustenance spend next year, which would be considerably lower.

The DRP did conserve over AUD100 million of cash in respect of the dividends, compared to the previous year. When you think about the fact that we spent considerable amount of money -- AUD370 million on Louisiana, AUD257 million on sustenance, with a 50% dividend payout and AUD50 million extra going into trade working capital on the last day -- the fact that we have held the debt increase to AUD200 million is, in my mind, quite a strong achievement.

That, of course, has enabled us to hold the gearing ratio that we measure ourselves against -- net debt to EBITDA -- to 2 times, which is flat on the year before. In fact you'll see the interest cover has increased by almost 50%, from just over 6 times to just over 9 times. The average interest rate we delivered in 2014 is actually -- it's remarkable.

We did take advantage of floating rates, in both the US and Australia, in 2014. I guess we took a view which wasn't as bullish as some in relation to the speed at which those -- and the direction, in the case of Australia -- that they might move. So we remained floating on a significant part of our debt, that's delivered us a great result. I think, going forward, that's likely to adjust closer back to the historical norm of around 6%.

What I'd also note is that, as a result of our net debt and gearing positions, we have AUD1.5 **billion** of committed undrawn facilities. Which means that we can complete the construction and funding of the Louisiana project without having to go back to the debt markets.

Something that I've talked about a bit over the last three or four years, and I'll touch on again, is that even though at the end of September we had about an extra AUD50 **million** in trade working capital, what really counts at the end of the day is our average trade working capital as a percentage of sales, because that's what you pay your interest on.

Obviously, the funding you tie up in trade working capital, day in, day out, 365 days a year, is what determines your average daily debt balance and your interest expense. What you can see there is that, certainly, in the last couple of years, we've had a -- we've been able to make a dramatic impact on the fertiliser trade working capital.

Again, that really comes through from two sources. One source is that the new contract model in IPF, which means that we take a much less risky position on our fertiliser holdings during the year. The second thing is we've been able to use, I guess, the more subdued markets over the last couple of years to get better terms of supply when we're purchasing fertiliser off others, and that's made a very significant difference.

In terms of the explosives business, it's been more of a grind over the last five years to get our processes right, basic processes around receivables, basic processes around payables, more control over inventory levels, and we just continue to grind out a few points year-on-year.

From that perspective, since 2010, we've taken explosives as the combined US and Asia Pacific business from 16.2% to 12.2% working capital, and I think there's a little bit more to go.

Just to round things out, people are normally interested in our hedging profile. Right now we sit with the vast majority of our hedge **transactional** exposure on the US dollar relating to the fertiliser business. Most of that hedged at a top side of $0.89 -- so a worst rate of $0.89 -- with participation in movements down to $0.82. That's for the first six months, until March.

The second half of the year is work in progress. Obviously, we're seeing some pretty dramatic moves in the market right now. If and when the right opportunity presents itself over the next few months we'll move to put some hedging in place for the second half. Again, we'll be cognisant that we want to take some risk out of the business, which means trying to put a reasonable level of cover on the top side, but in this environment we'll want very significant participation for further falls in the Aussie dollar, should they eventuate.

I think there's another notable, I guess, issue in terms of our result this year which warrants some explaining for you, and that's the lower tax expense. It's given us an unusual effective tax rate for the year of around 19%. We don't see any change in our underlying tax rate. I think I said to you last year and at half year that we expect our tax rate to be somewhere round about the 23% mark, and that's what we expect, going forward.

We've had some unusual circumstances in 2014. We got to recoup some unbooked capital losses, mainly around those **property** sales that we made. We also were able to release some tax provisions which we've had for quite a while on settling some significant issues with major tax authorities during the year.

We also got some Government grants and tax credits which were uncertain in terms of our eligibility for them. We were able to get those, and they've had a -- the catch-up component of those, in as far as they related to previous years, has obviously brought down the effective tax rate for the year.

So at this stage I'll let you soak that in and hand back to James to provide us what he can in terms of outlook for 2015.

GERARD BUCKLE: We're very close to 11 o'clock, so we might just pause now for a minute's silence.

[Pause for minute of silence]

JAMES FAZZINO: Thanks, Frank and Gerard. Turning to the outlook on slide 29, as always we see some both positive and negative factors.

However, the thing that pleases me about the 2015 outlook is, clearly, there's more positives than negatives. We expect that Moranbah will deliver an EBIT of AUD140 million, which is AUD25 million above what we delivered in 2014. That reflects the benefits of a plant at full production.

Global mining markets remain challenging. The Aussie dollar has begun the year lower. I'm sure you've got your own views on where it goes, but what we do know is in the first half we've got a worst case rate of $0.89, and we'll participate below that. We're sitting at least $0.02 below that level today.

The growth that we've enjoyed in the Q&C market in the US should continue, and that should give us around about a 5% increase. As I mentioned, whilst margins will expand from the recontracting that we've done in the US, that's offset by interim ammonia cost increase, and those factors will leave the US business, explosives business, about flat in the coming year.

The fertiliser business will benefit from the reliability work done at Phos Hill in 2014. Some of that benefit will be offset by increased gas costs, but net-net will be positive out of Phos Hill.

Obviously, like in 2014 in ferts, growing conditions will remain challenging. But, of course, they were challenging in 2014, and they'll be challenging in 2015, so we shouldn't see that much of a change between the two years.

Finally, there'll be no corporate restructuring costs because the project was completed in 2014, and that adds AUD12 million on the 2015 earnings.

In terms of the bigger picture, Louisiana's on track, and in 2015 construction will advance significantly. And by the end of the year we should be in a position where we start to commission the plant in 2016 for full production from the third quarter of that year. Importantly, earnings for Louisiana should now start to come into your forecasting window.

In summary, the key take away from this slide is in 2015 we see more up sides than down sides.

So we'll now open it up to questions.

Questions and Answers

OPERATOR: Thank you. (Operator instructions).

JAMES FAZZINO: We'll take questions from the room here in Sydney first. Then we'll go to the telephones after that.

RAMOUN LAZAR, ANALYST, UBS: Ramoun Lazar from UBS. Just a couple of questions, James, on North America. Can you just remind us what that additional ammonia cost in 2015 and 2016 were likely to be?

JAMES FAZZINO: Yes. The cost will be offset, as I say, from the increase in the revenue we'll get from the recontracted volumes. We would expect to see around about a net-net of AUD5 million negative impact in the first half, and then that will be offset in the second half as those contracts roll in. So, overall, it's zero, but AUD5 million negative in the first half. If you like, AUD5 million positive in the second.

We don't want to go into detail on exactly what the numbers are because, obviously, there are -- the flip side of that is the recontracting we've done, and the basis on the recontracting is confidential.

RAMOUN LAZAR: James, you mentioned you've got some surplus capacity in North America in 2015. What does the rest of the industry look like over there?

JAMES FAZZINO: The industry itself actually has surplus capacity, like ourselves. If you look at the coal segment -- which is the largest market by volume for explosives -- you can understand why that's the case. So the market would be operating, probably, about an 80%, 82% capacity. For us, we've got that capacity in our system.

If you work it through our plants it, essentially, ends up in Donora, which is why we've taken the action on writing off the carrying value; albeit I will say that we still haven't made a decision on what to do with that plant. It changes because [PCS] are getting out of ammonium nitrate in the more medium term. So that will throw the market back into balance with a slight increase in the coal market.

RAMOUN LAZAR: So in that context, medium term, you still expect to get pricing and mix benefit as the underlying demand -- things like (inaudible) continue to improve.

JAMES FAZZINO: Well, in fact, we have. So that was exactly the outcome from the recontracting we've done this year. The issue we've got is with those interim ammonia costs. We were essentially going from buying ammonia through the cycle to buying it at spot. Of course, you know where spot ammonia prices are. That gets offset but, of course, once Louisiana comes online we will transfer price ammonia from that plant to the downstream businesses that are through-to- cycle level, so that washes out.

What I should say is if ammonia prices stay where they are, then you should be very excited about Louisiana. I'll let you do the maths.

MICHAEL WARD, ANALYST, COMMONWEALTH BANK OF AUSTRALIA: Hi. It's Michael Ward from CBA. Just a question on Southern Cross: you mentioned the run rate through the first quarter. Can you give us a sense of if that's maintained over the last six weeks?

JAMES FAZZINO: Yes. Actually, on the last five days of October we actually hit a production record at that plant. Now, you've got to be a little careful because around this time of year we're running with straight DAP. So that actually means that you've got no product changeovers.

During the year we also produced MAP, as you're aware, and also MAP specialties. The MAP specialities we sell at a slightly higher price, which is why we produce them; so you've got plant washouts. And, of course, at that plant, every six weeks, we'll take a small maintenance break.

The main reason why we do that is in the phosphate plants they're a highly aggressive environment. You end up with sludge build out. So in some respects the first -- sorry, the last quarter of the year is always the high quarter. But look, so far, so good.

An old business general manager of mine, Barbara Gibson, who I worked for in chemicals groups, always reminded me that a trend is six points on a graph, not three. So we'll wait until we get six points on the graph, but it's so far, so good on the production.

MICHAEL WARD: Okay. I might have missed this before, but during the presentation, James, you made the comment that you'd expect it to run for four years.

JAMES FAZZINO: Yes.

MICHAEL WARD: But in normal turnaround it used to be three. Is that--

JAMES FAZZINO: No. It's four years between shuts for now.

MICHAEL WARD: Okay. Just on cash flow: this might be my ignorance, but I can't make it all stack up in my own head, because if you back out the tax benefit that you got this year versus last year's cash flows, the decline in cash flow looks like it's approaching AUD150 **million**.

Then you mentioned -- you put up a great slide around what you're doing in the businesses, and then you say we got hit with AUD50 **million** on the last day of the year -- the shipment of fertiliser. Can you just explain what part of that I might actually be missing?

FRANK MICALLEF: I mean, Michael, it's -- mate, all the information's there in the cash flow statements, so I'**m** not sure how much more detail you want me to take you through. Clearly, at the -- we've reconciled the cash flow from **operations**, and then we've added some extra spending on sustenance. We've had a lower tax.

At the end of the year we've had a bit more; not a hell of a lot more, but a bit more in working capital, so it's not as clean a year as last year because some of those one-off items. But the information's all there and, on an underlying basis, the EBIT and EBITDA increased significantly.

MICHAEL WARD: Okay. Just also on interest, you made a comment, Frank, that you don't expect that 4.7% rate to maintain.

FRANK MICALLEF: Yes.

MICHAEL WARD: Can you just talk about -- do you think it might maintain in 2015 or 2016? You said it might get it back to 6%. I was just wondering over what time frame--

FRANK MICALLEF: Yes. Look, I mean there's a couple of factors. The other factor around the interest rate too, Michael, is that we had something we called a participation facility which was a -- which were facilities that -- finance facilities for the **Group** that were secured, if you like, against Phosphate Hill/ Mount Isa **operations**. They were something we put in place five or six years ago, in much tougher times, and in the middle of the GFC.

They had higher interest rates attaching to them. They've rolled off and, clearly, we're in a different place in terms of our financing profile now. We don't need to do things like that. So we've got a lower interest rate because of that roll-off.

But the other significant benefit we've had is we have very carefully managed our fixed interest rate position. We took a view, both in the US -- in the US we took a view that it was going to take a little longer for the interest rates to start to move up -- or for the market to price in and move up in the interest rates is probably the better way to say it -- and we took a view, actually, that even on the Australian debt the next move -- at one stage there everyone was talking about interest rate increases.

We thought otherwise, and so we did take a little bit of a view and managed that, and we got a lower rate. Now, as we progress forward, we think we are getting closer to interest rate increases in both jurisdictions, and we will, within our policy guidelines, take more of a view to fix a higher level of our debt. So that will drive an increase of our interest rates back towards somewhere, probably, over 5.5%.

ANDREW SCOTT, ANALYST, CIMB **GROUP** HOLDINGS: It's Andrew Scott from CIMB. Frank, in your -- the waterfall chart for DNAP you had the AUD16 **million** on market softness and the comment there was that was around the hard rock and underground market. Most of the commentary there seems to be around volumes. Can you talk about -- is that purely volume? Does that mean that prices held up quite well and then, maybe, if you talk about price more generally?

FRANK MICALLEF: Yes. I think, to some extent, it's both. I mean there's no doubt that because of the supply and demand situation in Australia around explosives that things that come up for bid are being bid more aggressively than they were a couple of years ago. That's pretty simple economics.

The demand and supply curve, in a sense, have both moved in the wrong direction. And when you get recontracting you've got -- there are people with plants or plants coming that don't have a full sales profile. Obviously, we need to compete against that.

In terms of volumes, it's a little bit lumpy. We don't have, in this Asia Pacific business, hundreds of customers, for example, dozens of customers, like our competitors or like we do in the US. So if we've got a significant number of customers in **gold** hard rock, for example, and they pull their volumes back, that's going to have an impact on us.

So we have seen some of our customers high-grading, hitting the stockpiles, doing all those things that miners do when they're trying to come to grips with the new world of -- a new level of hard commodity prices -- and they've tried to sort out their battle plan, going forward, in the interim. They do everything they can to conserve cash and increase revenue.

Now, the question is -- around things like **gold** miners -- does that stabilise a bit because, clearly, you can't high grade or hit the stockpiles forever. So what does it look like going forward is the real question.

We think it's likely to remain both on the demand side and on the pricing side of ammonium nitrate outside of Moranbah, reasonably difficulty.

ANDREW SCOTT: Thanks and just a couple on Moranbah. First of all if you could just let us know where you're running on your sort of maximum minimum levels? I assume you're sort of at the lower end there. Then secondly, just have you had any approaches by any of those foundation customers around looking at the terms of the contract?

JAMES FAZZINO: Yes so we are towards contract mins and we continue to have contracts that are robust. The discussion actually really is around how we can assist them, given where they're at, and that's why value-in-use is so important. That's why actually the customers are very interested in BEx, because that is along the value chain that we can improve. If we can jointly work together to create value, then we're very happy to share that with our customers.

JOHN PURTELL, ANALYST, MACQUARIE: G'day guys, John Purtell from Macquarie. Look I had two questions. Just firstly on BEx, you're targeting a similar level of BEx benefits in 2015 to 2014. Can you provide some colour on what specific areas are contributing to that?

JAMES FAZZINO: Yes it's really across the whole of the **Company** The AUD27 **million** that we reported is a result -- or more correctly, the AUD62 **million** we reported is 400 projects across the **Company** that we're looking at and wherever you go -- every **site** that you go to, there's something called loss and waste. So the teams actually sat down and said compared to the optimal, or compared to perfect, where are we compared to perfect and therefore let's use tools such as visual management and measurement to get us down to perfect.

So for example this coming year we'll have probably AUD2 **million** worth of benefit at our fertiliser distribution sheds because the teams worked out if you blow the fertiliser off the plants rather than if you wash if off the plants, you can save AUD2 **million**. How do you do that? If you wash it off, then you end up with a product that you've got to dispose of which is the waste wash water. If you blow the fertiliser off the plants, you end up with something you can sweep up and put back in the stockpile.

So it's stuff like that, and where that's so -- where this is so different to cost-cutting is if you think about it, only the people who run the sheds can come up with that type of stuff because how would you know sitting in head office. We'd see actually a lot of opportunity up at Phos Hill. We counted zero at Phos Hill in the year because -- not because there weren't any BEx projects. There were, but of course, if you're going to end up producing 770,000 tonnes of product where you should be more like 900,000, then we're just not going to count that stuff. We've got a lot of benefit in product cooling up at Phos Hill. It's one of the reasons why the production was so good in the last quarter. And for us, to hit a production record as it's getting hot and when you have conditions that are hot up there, you end up with reductions in efficiency, shows just how important that work around product cooling and screening was.

The interesting thing for me, it's the shift teams that are doing that work. So if you go into the granulation plant up at Phos Hill, you see a visual management **board** where the people on the shift are looking at the temperature and monitoring it hour by hour through the screens, they're looking at particle size. They've got a regime in place where they'll switch out the screens. Once again, that's stuff that you could never do. Importantly, what's actually done -- what's actually happened is we've changed the operating procedure so that's the way we operate the plant now, and that's the important piece on BEx because that's the sustainability piece.

In North America, we still see a lot of value in the supply chain. We've got 5000 ship-tos in North America. So obviously optimising the way that we move product around is pretty key. We've invested actually in some pretty significant data **mining** through some linear programming to optimise our footprint. There's a fantastic project we've got up at Wabash and [Bloom] Lake that I saw when I was out there where the team worked out that we weren't draining all of the emulsion out of the tankers as we delivered it and that was costing us [$]200,000 a year. They've now introduced visual management where they're ensuring that all of the product goes out of the tanker. Obviously we pick up the freight on that, but we don't have to pay for the washout.

At our St Helens plant, we've worked out that we can put an extra 200 kilos -- it's the pound equivalent of kilos, I've converted it to kilos in each real car. This year that'll save us AUD0.5 **million**.

So you can see all of those examples are stuff that is bottom up. None of that's top down, When you empower your employees to go and look for those things, when you provide them with the tools to make the changes in your business process to deliver on those, you end up with something that's far more sustainable. What's exciting is there's no end to this stuff. So we delivered [27] this year, we're saying in 2015 the number will be similar, in 2016 the number will be similar, in 2017 the number will be similar. In fact it ought to grow over time and that's the power of continuous improvement rather than one off cost-cutting.

JOHN PURTELL: Just the second question to better understand the outlook for Dyno Americas. You've obviously planned an increase in margin from renegotiating contracts, is offsetting the increase in ammonia costs so those two are a wash.

JAMES FAZZINO: Yes.

JOHN PURTELL: At the same time, you're flagging 4% to 5% growth in Q and C, so the question is why isn't that 4% to 5% growth in Q and C driving growth for the division overall? Are there other factors at play?

JAMES FAZZINO: Yes I mean we could just be a little conservative, John. So you can make your own mind up, but we're conservative at the moment. The question is where do ammonia prices go and -- so you know, that's kind of the outlook.

FRANK MICALLEF: And where urea prices go for the agg component of DNA as well, John, obviously.

SIMON THACKRAY, ANALYST, CITIGROUP: James, just looking at some of the contracts in the Americas and what's worked out there, just wondering if you could provide some details on what you think actually occurred there with the re-tendering in terms of is this existing players bidding more aggressively than you. Or is this more a distinct action on your part to step away from the volumes that aren't in your optimal (inaudible)?

JAMES FAZZINO: Yes, so I'**m** not going to comment on individual customers because obviously that's for us and the customers and covered by CAs. Look, you know, I think the mistake everyone makes about the North American business is they think it's just one market. Well it isn't. It's a series of markets around a series of plants and obviously in some of the plants we have a far more competitive footprint than in others. So for example in Cheyenne, we're sitting right on the base of Powder River Basin. And it makes sense that we'll have an attractive market share around that plant.

If you look in the east, number one, there's far more competitive product there and that's where you see both the fertiliser guys and the explosive guys operating. Because of the decline in the Appalachian market, not only are there more players but there's more ammonium nitrate.

I guess what we say is number one; we want to be customer focused. But customer focused absolutely means that we service our customers where we can jointly benefit. Customer focus is not writing a cheque from our shareholders to our customer's shareholders. So we ended up in a position where really we bid down to our walk away position and another player was able to end up with an offer that was more attractive and so they've won the business. Now that doesn't mean for the other player it's unprofitable. It just means for us it was unprofitable and there's a point where you've got to draw a line in the sand for that.

On a bigger picture result, you know the ammonium nitrate market globally is just like a big balloon. What market share you give up in one place you'll gain back in another. I mean that's the way the market works. It's the way commodities markets work. So over time, we'd expect to win more than we lose but it'll be footprint dependent and as I said, we'll be financially disciplined.

SIMON THACKRAY: Thanks, and just on pricing in fiscal 2014 in the US, can you give, try and quantify what the average increase was?

FRANK MICALLEF: Well I think we split it out at half year mark, so -- and then we've got a slightly -- a number with a few other things in it now so we'll leave it to you.

SIMON THACKRAY: Thanks very much. Simon Thackray from Citi. I just want to go back to the comment you made before, James, and maybe I'm going to express this rather crudely, but Moranbah in terms of their customer contracts are robust, you've made that point very clearly. And you said that the customers are coming back to you to understand more about BEx. Can you just explain what you mean by that? So the customers are kind of -- it's take it or leave it anyway, so better to learn what you're doing, is that the idea?

JAMES FAZZINO: Yes, I mean the thing about -- I mean because BEx is lean and with lean, you start with the customer. So what we're starting to do is run our business along value chains, not functionally. So what BEx teaches you is start with a tonne of ammonium nitrate initiated on a bench and then understand what the customer values to what the customer doesn't value. Obviously what the customer doesn't value is waste and so you eliminate that waste.

Where there are benefits that we can share is the way we configure our trucks, what they do when they're on the bench. If we have less time that we're waiting for holes to be drilled and therefore we can improve the productivity on the truck then that's an example where you can have a win-win. Where the customer will end up with less trucks on site and we won't have the cost of manning that truck.

If you think about BEx, productivity on the bench is all around saying, let's look at a bench and let's involve the employees in how you layout the bench and how you fill those holes in a way that is the most productive possible. So that's what we mean in terms of being able to say jointly what -- where's the value chain, what do we value, what do we don't value and how can we jointly work together to eliminate the stuff that we don't need.

On top of that of course you've got your value-in-use program where we can overlay that with saying can we change the explosives we're blasting and bring in stuff like electronics to end up with a better blasting result, which ends up with improvements in the crusher, less cost on the draglines, et cetera.

So it's a real combination of all of that and I can see because we're creating this competency in BEx, us doing more and more of that.

SIMON THACKRAY: Sorry just to clarify, in terms of take or pay arrangements over volume, is that including take or pay arrangements over blasting services that you're providing [insight 5:35] or your--

JAMES FAZZINO: Yes, all of the blasting--

SIMON THACKRAY: Or can they more the blasting service?

JAMES FAZZINO: All the blasting income is not in the Moranbah investment case. The Moranbah investment case is ammonium nitrates, it's initiating systems.

SIMON THACKRAY: The (inaudible) portion as it was across DOP for that market, we could be in the services side.

JAMES FAZZINO: Yes and generally, you know if you look -- not talking about the Bowen Basin but in the west, a lot of those services are now starting to be in-sourced.

SIMON THACKRAY: That's not a bad segue just to talk about the west. You made comments about capacity in Western Australia.

JAMES FAZZINO: Yes.

SIMON THACKRAY: And how you're seeing it playing out over the next couple of years, seeing the **iron ore** forecast being revised constantly, to market.

JAMES FAZZINO: Well I guess the big picture is there is more volume that's coming online than there is demand. You've got the Kwinana plant ramping up and also the Burrup plant will ramp up. The thing about ammonium nitrate is -- sorry, **iron ore**, is it doesn't have the type of explosives intensity that **coal** has. So the growth projections that you have, you can't translate them at the same index as you do in the east when it comes for **coal**.

As you're aware, we don't have ammonium nitrate production in the west. We made the strategic decision not to invest on ammonium nitrate. However we have invested in our emulsion plant and that leaves us in pretty good stead, but the market's just highly competitive and I guess where you have local production competing against local production, there's only one direction that margins can go.

FRANK MICALLEF: Look most of that's probably -- a lot of it's in the market already. I mean you've only got one of those local plants that actually online now, but effectively you've got imports coming into Western Australia which almost mimic at least another half a plant being on the ground. So it's not like that's all to happen. We're already seeing that competition in the market over there.

SIMON THACKRAY: Just one final one, quick admin one, Frank is the depreciation attached to the impairments that you've run through, what's the adjustment in the depreciation on the back of those impairments?

FRANK MICALLEF: Probably about AUD5 **million**.

SIMON THACKRAY: So that's pretty immaterial.

FRANK MICALLEF: Yes.

SIMON THACKRAY: Thank you.

GRANT SALIGARI, ANALYST, CREDIT SUISSE: Hi, Grant Saligari, Credit Suisse. Just a couple of clarifications from me if I could. Just first, you mentioned obviously the Central Petroleum heads of agreement. In that announcement it talks about assistance by Incitec in sourcing some capital--

JAMES FAZZINO: Yes.

GRANT SALIGARI: For that development. So just wondering whether you could clarify whether there is any actual commitment of capital likely from Incitec in that development?

JAMES FAZZINO: Yes the thing that we bring to any emerging gas supplier is an offtake agreement. Because that offtake agreement has an investment grade credit rating behind it, it's essentially debt. So if you look at the model that we're doing with Central Petroleum, it's actually -- and what I should say is it's early days by the way. But it's exactly the same model that we had when we signed with Richard Cottee and the team at Queensland Gas **Company** for Gibson **Island** and that was we provided offtake and that really underpinned the whole capital structure of Queensland Gas **Company**. So it's the benefit of a foundation customer.

Now quite interestingly, the other thing I'd point to is I can remember when we signed the contract for GI, everyone said this **coal** seam methane was never going to work. Richard Cottee made it work which is exactly why whilst the Northern Territory is challenging, because it needs a pipeline, if anyone can make that project work it's Richard and we're happy to back him.

GRANT SALIGARI: Okay, so just to clarify, if it didn't go ahead or if the [local] was low, there would be no downside in terms of capital?

JAMES FAZZINO: That's right, yes.

GRANT SALIGARI: Just a second thing, second clarification from me. Just on the inventory risk around [IBF], notwithstanding obviously some of the re-contracting agreements, the trade working capital just did increase I guess and just wondering how you feel about inventory, just given the soft outlook you've got for fertiliser volumes?

FRANK MICALLEF: We certainly have no -- I don't feel like we've got any carrying value risk on the inventory if that's what you're getting at. I don't think so, can't see the future perfectly but don't think we've got an issue there. The inventory that we got, I mean you're always in this business, there's always a ship either coming a bit earlier or a bit later than you anticipate. They're big ships, they're 40,000 tonnes full of product priced somewhere between AUD300 and AUD500 a tonne, so it only takes a ship essentially to move your working capital numbers around.

We -- in the case of 2014, it was essentially a urea driven thing because the market sort of was much slower in the second half. So we try where we can, we've made orders to adjust our shipping to meet changes in domestic demand and sometimes actually these things move even when we don't want them to. In other words, we don't always control shipping schedules. Occasionally stuff goes wrong and the ship's late or a ship's early or whatever. That's just part of being in the fertiliser business.

The point I made before is we're in a significantly better position than we used to be because essentially we take less price risk on fertiliser because a pretty high proportion, if you want to take it like this, on average of every ship we **buy** is pre-contracted, pre-**sold**.

GERARD BUCKLE: So that wraps up the questions from the floor. I don't think we've got any questions on the line, so we might call it a day. So thank you very much for attending in person or on the lines. Goodbye.

OPERATOR: That does conclude our conference for today. Thank you for participating. We will disconnect.

CO pspcop : Incitec Pivot Limited

IN i25 : Chemicals | i2513 : Fertilizer | iagro : Agrochemicals | ibasicm : Basic Materials/Resources

NS c151 : Earnings | ntra : Transcripts | c15 : Performance | ccat : Corporate/Industrial News | ncat : Content Types | nfact : Factiva Filters | nfce : C&E Exclusion Filter | nfcpex : C&E Executive News Filter | nfcpin : C&E Industry News Filter | niwe : IWE Filter

RE usa : United States | sydney : Sydney | apacz : Asia Pacific | ausnz : Australia/Oceania | austr : Australia | namz : North America | nswals : New South Wales

PUB CQ-Roll Call, Inc.

AN Document FNDW000020141113eaba000ul