

29 May 2018

Committee Secretary
Environment & Communications Reference Committee
PO Box 6100
Parliament House
Canberra ACT 2600

By email: committee.sen@aph.gov.au

Dear Bonnie

Inquiry into water use by the extractive industry

I thank you for your email of 14 May giving me and my organization the opportunity to publicly respond to the aspersions cast upon both myself and Central Petroleum by Mr Lee McNicholl on page 6 of the transcript. I will restrict my comments strictly to the aspersions and not join the debate out of which the aspersions arose.

ATP(A)2031 was indeed awarded to Central Petroleum on the basis that the Authority to Prospect would be granted jointly with Incitec Pivot Limited on a 50:50 benefit interest basis (see IPL release dated 1 March 2018 – Attachment 1). Incitec Pivot Limited owns a fertilizer plant on Gibson Island at the mouth of the Brisbane River. Its present gas supply essentially expires at the end of this year. Gas is required there not only as an energy source but as an essential input in the manufacturing process itself. The fertilizer is in turn required for Australian food production.

Central Petroleum will supply interim gas from its extensive acreage in the Northern Territory to keep Gibson Island open whilst ATP(A)2031 is brought into production. The Australian (see Attachment 2) reported that this arrangement will preserve up to 2000 jobs.

Central Petroleum Limited is far from a \$2 company and was listed on the ASX over a decade ago (i.e. not a start-up) and has an enterprise value of around \$200 million (i.e. not \$2). Incitec Pivot Limited is responsible for the financing of the work programme required by the permit up to a cap of \$20 million. The senior management of Central Petroleum consists of Mike Herrington, Leon Devaney and myself. Prior to the takeover of QGC by BG, Mike was its Chief Operating Officer, Leon its Chief Commercial Officer, and I was its Managing Director. Central intends to continue to utilize the services of Adavale Pty Ltd, a principal of which is Dr S. Scott, the General Manager – Exploration of QGC before the BG takeover.

The award of the permit was part of a competitive tender process aimed at increasing the supply of gas for the domestic market. The tender expressly stated a preference for Australian mid-cap companies, which Central presently is. To suggest that the Authority to Prospect was given to me “because Richard Cottey’s got mates in the Queensland Government” is plainly totally inaccurate. It was a public tender process, and Central’s tender not only complied with the terms of the tender but also helped to preserve 2000 jobs in manufacturing a product required in the agricultural sector.

I can only hope that the rest of their evidence is not as recklessly indifferent to facts as these unwarranted aspersions clearly are.

Yours sincerely

Richard Cottee

Managing Director and Chief Executive Officer

Attachment 1 - IPL ASX Release, dated 1 March 2018

Attachment 2 - The Australian news article, dated 10 May – Gas deal saves 2000 Incitec jobs

Incitec Pivot Limited

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1 March 2018

The Manager
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Australian Securities Exchange
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Rialto
525 Collins Street
MELBOURNE VIC 3000

Dear Sir or Madam

Electronic Lodgement – Queensland Government Gas Tender Update

In accordance with the Listing Rules, I attach a copy of an ASX Announcement for release to the market.

Yours faithfully

Daniella Pereira
Company Secretary

Attach.

Incitec Pivot Limited

GLOBAL DIVERSIFIED INDUSTRIAL CHEMICALS

ASX RELEASE

Queensland Government Gas Tender Update

1 March 2018

Incitec Pivot Limited (ASX:**IPL**) today announced it has been advised that Central Petroleum Limited (ASX:**CTP**) has been selected as the preferred bidder for the Queensland Government's tender for acreage (PLR201718-1-1) dedicated to the domestic market.

IPL has a Memorandum of Understanding with Central Petroleum that provides a period of exclusivity relating to the negotiation of commercial arrangements for the development of this acreage with the intention that some of this gas would be used to supply IPL's Gibson Island plant. Along with the development of the acreage, IPL will pursue commercial terms with Central Petroleum for the supply of interim gas to Gibson Island from cessation of the current gas contracts until at least the end of 2019, by which time it is expected that the appraisal works on the acreage will have been completed.

As part of these arrangements, it is contemplated that IPL may provide up to \$20 million of funding to support appraisal and drilling activities in relation to the acreage. If the reserves are proven following appraisal and drilling activities, it is anticipated that development of the acreage will yield gas in 2022.

IPL Managing Director & CEO, Ms Jeanne Johns, said: "We were very pleased to partner with Central in support of its tender application for this tenement. While the economics for the supply of gas on both an interim and longer term basis remain challenging, the award of this acreage to Central Petroleum by the Queensland Government creates a pathway for IPL to work with Central to secure an affordable source of gas for our Gibson Island plant."

THE AUSTRALIAN

Business

Gas deal saves 2000 Incitec jobs

MATT CHAMBERS, INDUSTRIALS

10 May 2018

The Australian

22

Incitec Pivot's Gibson Island fertiliser plant and the 2000 Brisbane jobs it supports look to have had a looming closure delayed, with the plant close to signing an interim gas deal with Central Petroleum to keep it going for another year.

But even if that deal is secured, which Incitec chief Jeanne Johns says will let the plant "wash its face" for a year, the long-term future of the plant is uncertain.

It will still need success at untested coal seam gas exploration ground that Incitec and Central, run by former QGC chief Richard Cottee, secured in a Queensland government auction last year and more bridging gas until 2022.

The update on the plant was announced yesterday with a 3 per cent slip in first-half underlying net profit to \$147 million, in a result that missed some expectations and delivered mixed guidance.

The shares fell 20c, or 5.3 per cent, to a one-month low of \$3.55. Ms Johns described the earnings, for the six months to the end of March, as a strong operational performance delivered in mixed market conditions.

Strong explosives demand in the US and Australia was offset by two contract West Australian losses to rival Orica, which has just bought a new explosives plant on line and pushed prices lower.

There has also been dry weather on Australia's east coast, hitting fertiliser demand and threatening to reduce second-half profits if it continues.

"We're well positioned for the second half and this business has historically had a second-half bias," Ms Johns said.

"We expect the explosives business in America to grow in line with the market and we expect higher demand for met (metallurgical) coal customers in Australia to continue." Underlying net profit was in line with Macquarie expectations but missed Citi forecasts of \$177m.

A 4.5c-per-share interim dividend was declared.

Incitec revealed it was close to securing a one-year interim contract with Central from October, when cheap legacy supply at Gibson Island runs out, at a price increase of \$3.50 per gigajoule.

This indicates the plant will face a \$49m earnings hit that would make it break even.

Ms Johns would not say what gas price would be paid in the interim contract but said estimates of \$7 to \$8 per gigajoule were not far off the mark. After that, Incitec will help fund Central's exploration of

Queensland coal seam gas ground that the state government has earmarked for domestic use, in the hope it will produce gas cheap enough to make the plant profitable.

“Our thinking is that gas, for the long-term future of Gibson Island, needs to be more on a cost basis, than what the participants are giving us on what they say is a market basis,” Ms Johns said.

The former BP executive said it was fairly certain there was gas in the exploration ground. But how easily it flows is yet to be tested and if fracking is needed it could push the costs up.

Industry sources say that if the Queensland plots are successful, Gibson Island could secure gas for \$4-\$5 a gigajoule, implying \$30m of annual earnings based on sensitivities released yesterday.

Gibson Island employs about 500 people and Incitec has said it supports another 1500 jobs.

Bridging gas — required from 2020 to 2021 if Central’s drilling is successful and the field gets developed for Gibson Island — will also need to be secured.

Ms Johns said talks with major gas suppliers had not yielded prices that would keep the plant going. “People always want to start with \$10,” she said. “We don’t expect to get to \$3 but we certainly need to get a long way off \$10. They clearly feel pressure from the government but it hasn’t been enough to make them move substantially to prices to the level we need them to.”