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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Nufarm Limited annual results briefing. (Operator instructions) I would now like to hand the conference over to your host today, Mr Mark Keating. Thank you sir. Please go ahead.

Mark Keating ***- Nufarm Limited - General Manager IR***

Thank you Eddie and good morning everybody. Welcome to the Nufarm full year results conference call. Earlier this morning the Company released its results via the ASX for the 12 months to July 31, 2016. A copy of the presentation we're using this morning was also released to the ASX and can also be found on the corporate website. Just before we start, let me just draw your attention to the disclaimer on slide 2, particularly the sections on forward-looking statements and the non-IFRS information.

Participating in this morning's call are Greg Hunt, Nufarm's Managing Director and CEO and Paul Binfield, Nufarm's Chief Financial Officer. After the presentation we'll be happy to take questions. At that point I'll throw back to Eddie to introduce the Q&A process. Now I'll hand over to Greg.

Greg Hunt ***- Nufarm Limited - MD and CEO***

Thank you Mark. Good morning to everyone on the call. Today I'm pleased to present what I believe are a very solid set of results for the Company. A little over 18 months ago, we committed to a substantial change program that was aimed at improving the long term performance of the business and increasing shareholder returns. At that time we announced a target of delivering net benefits of AUD116 million by July 2018. We are now at the midpoint of that program. I am pleased to be able to report that we have made very good progress against that target.

Importantly the results that we've released today show that the benefits we have achieved are flowing through to our bottom line. Our underlying EBIT growth is a result of our cost reductions and our focus on margin expansion. The performance improvement program has delivered AUD75 million of net benefits -- AUD15 million in last year's result and AUD60 million in this year.

We have also made very good progress in relation to our working capital targets. At the end of 2014 we set ourselves a target to reach an average net working capital to sales ratio below 40% by the end of the 2016 financial year. We have met this target. As a result we have reduced working capital by AUD200 million over the last two years.

While we have made very good progress on achieving these targets over the past 12 months, we have been negatively impacted by structural changes in the Brazilian market. In the past, up to 50% of our sales had been invoiced in US dollars. In 2016 the market changed to invoicing in local currency, Reais, and the level of our US dollar sales reduced to around 10%. This change resulted in higher interest costs. In addition, a significant devaluation of the Brazilian Real resulted in material foreign exchange losses during the period.

Paul will address the aspects of this in our result in more detail during his presentation and also comment on the measures that we are taking to better manage these impacts on our ongoing business in Brazil.

Despite the global crop protection market experienced little to no growth throughout the year we are achieving underlying growth in many parts of our business. This growth, coupled with our performance improvement program, has resulted in our strong underlying EBIT growth of 21% for the period. The momentum also gives us some confidence as we move into the 2017 financial year.

An important achievement during the year was the completion of our strategic review. As a result of this review we are now focusing our efforts into a smaller number of crops in four geographical regions. We believe that we can achieve growth and drive better returns from a deeper rather than a broader focus. We also believe that there may be some opportunities from the current round of industry consolidation to further strengthen our product portfolio. So we believe we are making very good progress on our journey to build a better Nufarm.

Turning to the headline results, against a background of challenging conditions where the total crop protection industry sales contracted around 10%, we were able to grow our revenues and materially improve our underlying earnings. A 21% increase in underlying EBIT reflects the benefit of an improved profit margin and the benefits from our performance improvement program.

Underlying NPAT was lower than the prior year with higher interest costs and significant foreign exchange losses predominantly in relation to our Brazilian operations. Our reported net profit includes the impact of material items, which are largely associated with the changes that we are making to improve the business.

The extent of the foreign exchange losses and the increased cost of doing business in Brazil have been a negative over the last 12 months. I am however very pleased with the progress that we are making in terms of our performance improvement program, our focus on working capital and the improvements in our margins.

I will now hand over to Paul to take you through the detail of the financial results.

Paul Binfield ***- Nufarm Limited - CFO***

Thank you Greg. Good morning everyone. This full year result is characterized by four primary elements; an excellent underlying operational result, the performance improvement program delivering net benefits at a more rapid rate than originally expected, the continued and successful focus removing inefficient capital from the business in terms of both net working capital and also the divestment of non-core assets. On the other side of the ledger significantly higher financing costs in the form of interest expense and foreign exchange losses, largely attributable to the structural shift in the crop protection market in Brazil.

The result has been achieved against a background of tough competitive conditions with lower global crop prices putting pressure on both demand for and pricing of farm inputs. Group revenues are up 2% on the prior year. However underlying

EBIT has increased by 21% to almost AUD287 million. The underlying EBITDA of [*AUD372 million is $55 million higher this year compared with last year.*

The current year has also seen solid progress in the quality of earnings. Gross profit margin is up 160 basis points, driven largely by the performance improvement program.

Underlying net profit after tax was $108.9 million, down 7.0% on the $117.1 million reported in the prior period. The underlying net profit was impacted by a higher cost of doing business in Latin America, where a structural shift in the market with customers choosing to be invoiced in local currency resulted in higher interest expense and significantly higher foreign exchange losses.

Net material items included in the FY16 result total $99 million pre-tax.] (corrected by company after the call due to line drop out during briefing)

The majority of material items relate to the costs associated with the performance improvement program, totaling AUD126 million. We have also ceased to equity account for our interest in the Indian crop protection company Excel Crop Care resulting in an unrealized profit of AUD27 million. After deducting post tax material items of AUD81 million, the reported NPAT for the year is AUD28 million.

The strong operating result and the continued focus on capital management has resulted in a strong lift in return on funds employed, up from 9.1% in FY14 to 13% in the current year. We remain fully committed to our ROFE target of 16% by FY18.

Reflecting the confidence around our future growth prospects, the Board has declared a AUD0.07 unfranked final dividend, making AUD0.11 for the full year, a AUD0.01 per share increase over the prior year.

The current year result includes cost savings from the performance improvement program but it helped deliver an EBIT benefit of approximately AUD60 million. The majority of these savings are reflected in lower cost of goods sold. Added to the AUD15 million of net benefits that we generated last year, the program has cumulatively generated AUD75 million of the AUD116 million net benefits that we targeted when we first announced it 18 months ago. I'll take you through further detail on where we've exceeded our original expectations on the timing of these benefits on the next slide.

Underlying organic EBIT growth was approximately 5% and came largely from the Americas and Asia. This is a credible outcome given the broader industry headwinds. In February we announced that we have reassessed the useful life of the product related intangible assets resulting in a higher rate of amortization and that this would be effective from February 1. We estimate that the incremental amortization in FY16 has been approximately AUD6 million with the projected full year impact in FY17 to be approximately AUD12 million.

Foreign exchange rates in FY16 have been very volatile. In particular during the year the Brazilian Real weakened substantially, only to recover again towards the end of the reporting period. This mid period weakness of the Real and the impact of other FX rate movements had a negative translation impact on the current year EBIT of approximately AUD17 million.

The 160 basis point growth in gross profit margin in the current year is on top of the 123 basis point increase in the prior year. This improvement is reassuring evidence that the benefits of our performance improvement program are being banked.

So turning to the detail of the profit improvement program -- we have been pleasantly surprised at the speed at which we have been able to realize the benefits arising from the profit improvement program. We remain confident in our ability to continue to extract further benefits and are committed to our target of delivering AUD116 million in net benefits by FY18. I will quickly run through the status of the major projects.

The manufacturing footprint review is largely finished. In Australia and New Zealand the three plants that have been closed and remediation is complete. However the focus on the growing -- the focus on growing the sales of higher margin products has come at the expense of lower sales of larger volume commodity products with a resulting negative impact on plant recoveries in the ANZ region. This should be reversed in the current year as we target a greater market share of this segment.

The benefits of the closure of the Botlek plant in Europe have been realized. Finally with Calgary ceasing production in June of this year the benefits from this plant closure will not flow through until FY17. We will enjoy the majority of the full run rate savings from the manufacturing efficiency review in FY17 with the projects in the UK and Australia having been completed during FY16. Smaller benefits in sites in Austria and France will be delivered in FY18.

Benefits in the central A procurement functions have flowed through far more quickly than expected. We're mid-way through this program. But it should be recognized too that part of the procurement benefits comes from the form of lower input prices but also part come in the form of more favorable terms with suppliers.

Then finally moving to supply chain management processes and procedures -- this program is very well progressed and on track but will not start to deliver significant benefit in the form of lower working capital until the program is complete in FY18.

On SG&A costs -- some administration costs have been eliminated in the ANZ region and the head office but the major process improvement project is the harmonization of back office processes and procedures within and across regions. This project is still in its planning phase. We do not expect to start realizing benefits in this until FY18.

The portfolio rationalization process is underway, with those low margin products that do not match our strategic focus being progressively deleted.

So moving on to the structural shift in Brazil that I mentioned earlier -- at the half year I explained there had been an important structural shift in the crop protection market in Brazil. This has had a significant impact on these full year results. Hence I felt it was worthwhile to spend some time explaining the consequences of the change and how the team in Brazil is managing this issue.

As Greg mentioned, in the past almost 50% of our sales, whilst invoiced in Brazilian Real, have been pegged to the US dollar. In FY16 the proportion of the USD peg sales reduced to around 10% as growers chose to be invoiced in local currency due to the rapid weakening of the Real versus the US dollar. Furthermore, the markets suffer from a lack of available bank credit for growers in Brazil.

This structural shift has had a number of material consequences in our business including increased exposure to foreign exchange impacts, increased costs of hedging, higher interest costs and the need to extend the terms to customers and take security. These issues have had to be actively managed during a period of significant market volatility. I'll step you through each of these consequences.

When we import raw materials and finished goods into Brazil, our suppliers typically invoice us in US dollars. In the past the US dollars receivables that I mentioned earlier provide us with a natural hedge. The absence of the US dollar receivables meant that we had large unhedged net USD liabilities. And during 2016 there was significant currency volatility and a general weakening of the Real which resulted in foreign exchange losses on this unhedged exposure. This is particularly true in the first half.

To protect against this volatility we chose to more fully hedge our exposure. As a consequence our hedging costs have increased. The hedging costs are included within the net FX losses captured in the accounts. Half of our foreign exchange losses for the year came from Brazil alone.

The impact of this structural shift is clearly seen in the chart on the slide. The chart shows the net exposure we have to receivables and payables invoiced in US dollars over two financial years, FY15 and FY16. The month-end USD denominated receivables are in green. The red bars are the month-end USD denominated trade payables. The black line is the USD-Brazilian Real and monthly exchange rate over the two year period.

FY15 are the bars on the left hand side of the chart. You can see that typically the green bar -- the asset -- is larger than the red bar, the liability showing that in 2015 we were usually in a net asset position,that is receivables higher than payables. During this period we would hedge this net asset position by drawing down USD denominated debt at low rates of interest.

From the middle of the chart, around August 2015 you can see that dynamic changing with the red bars, payables, always being larger than the green bars. Hence for FY16 we were always in a net liability position. At the same time, you can see the Brazilian Real rapidly weakening. To protect our exposure we had to undertake hedging. Hedging costs were typically AUD1 million to AUD1.5 million a month dependent on the extent of that exposure and the level of protection that we wanted.

Moving on to the impact on interest expense -- as I mentioned prior to the structural shift US receivables usually exceeded payables. This would allow us to fund the working capital needed for the business by drawing down debt in US dollars whilst at the same time providing that natural hedge to our net USD asset exposure. The interest rate on this debt was typically 4% to 5%. So the absence of the US dollar receivables during the year has meant that during FY16 we've had to fund the working capital needs of the business using Brazilian Real denominated debt with interest rates approaching 20% which has had a substantial impact on our interest expense during the year, added to which, in local currency terms the business has grown. This has caused our average net debt to be higher year over year.

The lack of available bank credit to growers has forced farm input suppliers such as Nufarm to play a far more significant role in supporting their customer base, especially in areas of the country where there has been reduced yield caused by adverse climatic conditions. For Nufarm in Brazil this has meant judiciously extending credit terms to customers where we believe they have a strong underlying business impacted by a temporary adverse climatic event.

As a consequence there has been an increase in the level of trade receivables classified as non-current, in fact AUD62 million at July 2016, up from AUD32 million in the prior year. A condition of this term's extension is that we take security over this debt, either in the form of physical assets or over the crop. It's also resulted in increased interest income as we've charged interest on this extension. Naturally interest expense as well we've had to fund the increase of the working capital. At a group level, that interest expense has increased AUD21 million. And the Brazilian business accounts for all of this increase.

Now moving to the initiatives that we are taking in Brazil to address this situation. We've actively managed this structural shift through a series of initiatives. We've strengthened the treasury function in Latin America, by recruiting a new treasurer in each of Brazil and Argentina and a risk manager in Brazil. We have beefed up the credit assessment team working alongside the sales reps in the field. We are encouraging customers to be invoiced in USD by maximizing the use of tools such as Barter; to be replacing imported raw materials denominated in US dollars with locally sourced product invoiced in Real.

Importantly, too, senior managers in the region have been incentivized using a profit before tax measure including both interest and foreign exchange losses. We're making use of off balance sheet debtor securitization facilities to mitigate credit risk, diversify our funding base and increase tenor, all at a competitive interest rate.

Early indications are that for FY17 the level of invoicing pegged to USD is higher than the prior year due to the more stable economic conditions in Brazil. A stronger and less volatile Real coupled with the tools we've rolled out will help to mitigate the cost of doing business in Brazil. Whilst these costs have clearly increased, it remains a strategically important market. We're confident that we can continue to generate profitable growth over the long term.

Our net interest bill for 2016 was more than AUD20 million higher than the prior year. This increase is a consequence, as I mentioned just previously, on the structural shift in the Brazilian crop protection market. While net interest costs increased sharply in FY16 we have measures in place to contain these costs. In fact, in FY17 we expect a modest reduction in net interest expense in spite of our plans for future growth.

In addition to the measures taken to reduce interest expense in Brazil we have recently negotiated a lower credit margin on our two primary group financing facilities being revolving credit facility and also the debtor securitization facility. The proceeds from the divestment of non-core assets will be used to retire debt. Of course there will be a continued focus on managing down working capital throughout the group. All executives are incentivized accordingly.

As we flagged at the half year results announcement, we have incurred significant foreign exchange losses during 2016, the majority of which were incurred in Brazil and Argentina. The net underlying loss of AUD41.5 million is a combination of both the cost of hedging and the actual net exchange loss. The majority of this is realized at year end. The primary reason for the large net loss in Brazil was the structural shift in invoicing currency, as I have previously explained. We estimate the cost of hedging in Lat Am during FY17 to be in the range of AUD1 million to AUD1.5 million a month.

In the second half of the year we also incurred some foreign exchange losses as the Aussie dollar strengthened relative to the US dollar. There are also some emerging markets where we do business where we have foreign exchange exposures where it's either uneconomic or difficult to hedge, such as the Ukraine and Colombia.

Moving on to expenses -- it was pleasing to see the ratio of SG&A expenses to revenue fall slightly compared with the prior year. We continue to invest in additional customer facing resources whilst at the same time maintaining tight control over back office costs. Over time, we believe that further savings in this expense category are possible as we look to harmonize back office processes and procedures across and within regions.

Group cost control was also maintained at a corporate level with head office expenses down a little on the prior year. We believe that we can do more to reduce our operating expenses. This will remain an important management objective for the coming year.

The underlying effective tax rate was low at 26.8%. This reflects the geographical mix of our profits and also the R&D tax incentives that we enjoy in a number of countries. I would expect the underlying effective tax rate to be in the range of 28% to 29% for FY17.

It's pleasing to see that we have achieved our stated aim of getting average net working capital over sales below our target of 40%. This means that over the last two years we have successfully eliminated more than AUD200 million of working capital from the balance sheet.

We mentioned in the last two reporting periods that we've embarked on a three year program to strengthen and harmonize the processes and procedures supporting our supply chain process. This project is well progressed. It's this program that will help us drive average net working capital lower in a systematic and controlled manner and once fully operational in FY18 will progressively reduce working capital further.

With the structural shift in the market in Brazil and the tightening credit conditions in that market, non-current trade receivables have increased to AUD62 million in July 2016. Given this increase, we have included non-current trade receivables in our calculation of average net working capital. We are reviewing other parts of the balance sheet to assess where else we can unlock value in terms of divesting non-core assets. Since year end we have received proceeds of almost AUD10 million from the sale of two ex-manufacturing properties in Queensland and WA. We have also registered to participate in the open market offer to sell our interest in our Indian associate, Excel Crop Care. We are currently awaiting confirmation of the outcome of that offer process.

Should we be successful it should generate further proceeds approaching AUD40 million. So these proceeds will all be used to retire debt. We will continue to look for more opportunities to divest other assets that are not core to our corporate strategy.

Net material items included in the FY16 result total AUD99 million pre-tax. The majority of the material items relate to the costs associated with the performance improvement program. These are little changed from the amounts disclosed at the half year.

The reclassification of our holding in Excel Crop Care to available for sale resulted in an unrealized gain of AUD27 million.

The cash outflow associated with material items in FY16 was AUD52 million. However the cash outflow in FY17 relating to material items booked in prior years will be significantly lower, at no more than AUD15 million.

The vast majority of the restructuring work has been completed. The only major project that is in the planning phase is the harmonization of the back office functions which is unlikely to result in additional restructuring costs until this time next year, making it a potential FY18 impact.

Finally cash flow -- the underlying operating cash flow for the period is AUD189 million. This has been helped by good control over net working capital at a time that we continue to grow the business. For the coming year we expect to see improved cash flow performance to a number of regions. We will maintain the focus on net working capital that we've demonstrated over the last couple of years. The cash outflow, stated material items in FY16 was AUD52 million. But next year our view is that cash outflow will be no more than AUD15 million.

The divestments of non-core assets should provide a meaningful cash inflow as I talked about. The manufacturing site rationalization will result in lower capital expenditure demands in relation to PP&E at approximately AUD40 million.

CapEx in relation to intangible assets will be approximately in line with the prior year in spite of the fact that we continue to invest in a number of key projects that will unlock future value. For example, the technology platforms for supply chain improvement program and the harmonization of the back office functions and also the Canola Omega 3 development program.

I'll now pass you back to Greg who will take you through the segment results.

Greg Hunt ***- Nufarm Limited - MD and CEO***

Thank you Paul. This slide shows the breakdown of the group sales of AUD2.79 billion by product segment and geography. Whilst the composition of our product segments is similar to last year, the improvements that we've made to our manufacturing base is significantly enhancing the cost competitiveness of our phenoxies business. There has been some volatility in recent years in the demand for fungicides and insecticides and we believe our strength in herbicides provides us with a more stable revenue stream from year to year.

The geographical diversity of our revenue streams underlines the strength of our global footprint. This diversity is an important risk mitigator given the potential impact of varying seasonal and market conditions in different parts of the world.

Turning to our regional markets, in Australia and New Zealand we generated crop protection sales of AUD554 million which was down almost 5% on the previous year. The reduction in sales was a result of our decision to focus on lower volume, higher margin products. However, as a consequence of this decision was reduced volumes of commodity products and a detrimental impact on plant recoveries. We are working to improve the volume price margin mix during 2017. We have completed the restructuring of our manufacturing operations. The closure of the three plants has been finalized. We have also completed the redevelopment of our new insecticides and fungicides facility at Laverton in Victoria. The full benefit of these changes will be realized in the 2017 financial year.

Given the recent widespread rains, our lower cost base, better plant utilization and improved efficiencies and some recovery in sales volumes, we would expect to see an improved result over the next 12 months from our Australian business.

In North America, crop protection sales grew by 11% to AUD654 million. Underlying EBIT improved strongly to AUD59.3 million, up nearly 53% on the prior year. Last year, we made changes to our management team and established the sales structure to more closely align with our channel partners. These changes, coupled with a number of new product launches, have enabled us to grow both volume and margin. Following the closure of our Canadian plant we successfully transitioned that production to our facility in Chicago.

These changes give us a more competitive cost base, which combined with important procurement savings have materially improved the profitability of our business.

In Latin America, our business was -- also posted an excellent underlying EBIT result. We have grown sales in local currency, maintained our market share and achieved margins in line with the prior year in a market where lower commodity prices put pressure on grower spends. Regional sales were AUD740.7 million, compared to AUD706.5 million in the prior year. Underlying EBIT was just over AUD100 million, up strongly on the AUD76.7 million reported in 2015.

In Brazil, we took a conservative approach to sales, given the volatile market conditions. We successfully launched eight new products during the year and we have additional product launches to support further sales growth in the 2017 financial year. Importantly, channel inventories of Nufarm product remain at normal levels. Management of credit risk continues to be a major focus for us. Collections are closely monitored and at this point we are not experiencing any deterioration in our receivables. It should be noted that the doubtful debt expense was back to normal historical levels compared to the increased expense last year and as Paul outlined, there were significant additional interest costs and foreign exchange losses resulting from structural changes in the Brazilian market. These impacts highlight some of the challenges of managing a growing business in Brazil.

Brazil is the world's largest crop protection market and is forecast to continue to grow on the back of expanded cropping acres and increased investment in technology. Whilst we've had some challenges this year, Nufarm has been able to deliver consistent profits from this market in recent years and now has a fundamentally stronger business and despite those challenges, we have confidence in the underlying fundamentals of this market.

Turning to Europe, sales were up slightly on the prior period and underlying EBIT at AUD73 million was up 13.5% on the prior year. Margin improved as a result of more disciplined selling policies, higher sales of differentiated formulation, the launch of several new products and the cost out benefits associated with the changes to our manufacturing platform. The Botlek plant in the Netherlands is now closed and our MCPA production has been successfully moved to our facility in Northern England.

In Asia, crop protection sales fell by 4% to AUD148 million as a result of very dry seasonal conditions in Indonesia. However underlying EBIT increased 26% to AUD23 million. This improvement was a result of higher sales in the stronger margin markets such as Japan and Korea.

Finally to our seed technology segment, this segment covers both the seed and trait business managed under our new seed entity and our seed treatment chemistry business. Sales were lower by 10% at AUD143 million and the underlying EBIT contribution fell by a similar percentage to AUD28.7 million. This was another tough period with most industry players feeling the impact of lower commodity prices. Dry conditions in Australia leading up to both the canola planting period and last year's summer crop planting window had a material impact on our growth expectations for the year. We did achieve growth in both our European sunflower business and in our global seed treatment sales with the launch of several new products.

The further launch of new traits, hybrids and seed treatments plus a full full-year impact of efficiency improvements will provide growth in 2017 and over the past 12 months, saw important continued progress on our canola omega-3 development program. Ongoing field trials are yielding very encouraging results and we are working with some large industry groups to validate the technology. We have also continued to strengthen the intellectual property which protects our position in this valuable technology. Commercialisation remains on track for the 2018-2019 period, but it is, of course, subject to a regulatory approval process.

I'd now like to make some comments in relation to our focus and priorities for 2017. At this time last year, we had the tragic death of one of our colleagues at our manufacturing plant in Austria. A major focus for us over the past year as part of our business improvement program is building a better safety culture across the Company. We now start every meeting with a safety moment. We have implemented our safety rules and have communicated our expectations for how safety will be managed across the business. This includes common systems, processes and standards. Injury reporting and classification processes have been reset to ensure consistent Company-wide reporting. As these initiatives continue to impact, we have seen our serious injury frequency rate start to decline. This gives us confidence that our safety initiatives are working.

During the year, we also completed a strategic review of the business. As a result of this review, we believe that we can drive better returns by focusing on a smaller number of crops in a smaller number of important markets. The countries and regions that we have chosen to focus on are markets where we already have a presence and are both large and growing markets. The crops that we have chosen to focus on are significant in terms of area planted and have very good growth prospects as we strive to meet the needs of a growing global population. Previously our approach has been about breadth -- spreading our investments more broadly across both geography and product portfolio.

We believe that we can generate better returns by increasing our relative market share with a deeper, rather than broader focus.

Turning to growth, we have a number of opportunities to drive growth across our business. We have a strong pipeline with several new products to be launched in 2017. We believe that we can drive additional value from our industry relationships, in particular our relationship with Sumitomo. The omega-3 platform, we believe, will be a very valuable business post the commercialisation in 2018-2019. As I mentioned earlier, we are also actively monitoring the potential opportunities that might arise from the industry consolidation that is now playing out, particularly in relation to our portfolio.

It is important that we continue to pursue these growth opportunities so that we can fully leverage the benefits that are being secured from our cost out and improvement program. These opportunities, combined with the benefits of our performance improvement program, provide a strong base for future growth.

Turning now to our One Nufarm platform, Paul provided an update on the performance improvement program and I would like to provide some detail on the structure and the investments that we are making that will further support our growth platform. In relation to procurement, we made purchases of just over AUD2 billion a year and we have changed our operating model so that our procurement is now more centre-led. We have invested resources in China, where we now negotiate directly with our suppliers on behalf of all of our operating entities. There are meaningful procurement savings in this year's result and we expect to gain further savings with the investment that we're making in our supply chain capability. This is a AUD27 million investment that will deliver a more effective supply chain and result in further efficiencies relating to the management of our working capital. We expect this project to be completed in the 2018 financial year.

An important part of our growth opportunity will come from our investments in our product portfolio. Similar to our procurement function, our portfolio function is also now centre led. In the past, capital was allocated to the various regions. This resulted in suboptimal decisions and under the new structure, capital will be allocated to support the focus on our key crop strategy. We are also investing in systems and capabilities to protect margins and ensure sustainable performance improvement. These investments include the rollout of a CRM system and the implementation of net promoter score. These are designed to strengthen the relationship and to receive appropriate feedback from our channel partner customers. It is our intention to have these systems implemented in all of our key and -- sorry -- our key hub and spoke countries.

Finally as part of our One Nufarm structure, we will be making investments to make our back office systems and processes a lot more efficient. This investment is also significant and we believe will result in meaningful savings. Finally, over the next 12 months, we are setting our sights on some important priorities that can impact our near term performance. We are committed to continuing to implement the remainder of our improvement program and remain confident of delivering on our AUD116 million net benefit target.

Another important challenge is the alignment of our business to focus on our core crops and geographies. This will ensure we allocate capital more effectively and continue to remove the cost and complexity in our business. In Brazil, we are working towards more balanced US dollar exposure that will contribute to a lower impact from interest costs and foreign exchange swings on that business. A clear short-term priority is to recover market share in Australia. This is important so that we can secure the benefits of our cost-out program.

Let me now turn to the outlook. Over the next year, we expect to see continued pressure on commodity prices and limited industry growth. Our 2016 underlying earnings growth was largely driven by margin expansion. As we look forward to the next 12 months, we believe that we can drive additional margin expansion by further benefits of performance improvement program, a continued focus on higher valued products and the introduction of new products to support growth in many of our businesses.

As I have said, we are taking measures to recover sales and volumes in the Australian market and we expect that to flow through to both revenue and profit growth and stronger plant recoveries in the 2017 period. We will need to see increased demand for hybrid canola seed in Australia to see a meaningful recovery of earnings in that segment. However, we will benefit from a stronger position in the sunflower market and further operational efficiencies in the next 12 months. We remain committed to our 2018 target of at least AUD116 million in net benefits from the performance improvement program, with more good progress to be achieved across a number of those initiatives in the current period.

Further to Paul's comments, net interest expense is likely to be modestly lower and while it is difficult to provide guidance on total foreign exchange impacts, we have highlighted the AUD1 million to AUD1.5 million per month related to the costs of hedging our exposures in South America.

So in summary, I am confident that the business will again deliver underlying EBIT growth in 2017 and is well positioned for sustainable and profitable growth over the long term. Thank you and I will hand you back to Mark.

Mark Keating ***- Nufarm Limited - General Manager IR***

Thank you Greg. We will now move onto Q&A and I'll hand you back to Eddie, our operator, to introduce that session and step you through the process for asking questions. Eddie?

QUESTION AND ANSWER

Operator

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. (Operator instructions).

Your first question comes from the line of Ramoun Lazar of UBS. Your line is open. Please ask your question.

Ramoun Lazar ***- UBS - Analyst***

Good morning guys.

Greg Hunt ***- Nufarm Limited - MD and CEO***

Hi Ramoun.

Mark Keating ***- Nufarm Limited - General Manager IR***

Hi Ramoun.

Ramoun Lazar ***- UBS - Analyst***

Just a couple from me. Just I guess the first part of the period being pretty important for Australia and Latin America, just keen to get some comments on how you're seeing the market in the first half and I think with some commentary from some market observers sort of alluding to we might see a summer crop in Australia for the first time in three or four years. Just keen to get a couple of comments.

Greg Hunt ***- Nufarm Limited - MD and CEO***

Yes, thanks Ramoun. Well we'd certainly be hopeful that we get a summer crop for the first time in a couple of years and certainly with the rainfall that we've had, it's been both significant and widespread and where we sit today, we would certainly believe that there'd be enough subsoil moisture to get us a summer crop this year.

In relation to Brazil, the season this year was early in June and July with quite strong sales and we certainly are seeing generally favourable seasonal conditions down there. I'll just make some comments in relation to the performance of Brazil this year over last year. We need to adjust for the doubtful debt provision last year. We've taken a very careful approach. We're not pushing our people to grow share. I mean it's still quite a volatile market. We're pleased to see the savings that have been coming through with procurement but we would expect to see an improvement in Brazil for the half over last year.

Ramoun Lazar ***- UBS - Analyst***

Okay great and just on Australia, I guess if we use a result in the first half where we have had a summer crop, you sort of think that the position or your position in Australia today will be pretty similar if we do get that summer crop coming through in the first half? Just acknowledging the market share, the market share declines in the last couple of years.

Greg Hunt ***- Nufarm Limited - MD and CEO***

Look I think most of that market share loss really has been more in the winter crop. In the summer, the fact that there hasn't been a summer crop has impacted everybody, but if we get a summer crop that certainly helps us. In relation to the market share losses, that is fundamentally around the large commodity products and the winter crop plantings and I think we have pushed it very hard and arguably pushed it too hard. I think as I said in my commentary, it's really about trying to get the volume price margin mix right. We certainly don't want to return to the practices of trying to gain every litre. So I think our approach is going to be a lot more balanced, a lot more targeted by both customer channel and geography.

We would certainly expect to see, with the rainfall that we've had, a better result from our Australian business both for the half and for the full year 2017.

Ramoun Lazar ***- UBS - Analyst***

Okay great and just one quick one for Paul. Paul, just I guess in relation to the foreign exchange impacts. So just I know you've guided to AUD1 million to AUD1.5 million per month but I guess what have you seen in sort of August or August-September month to date? Are the numbers you're seeing consistent with that AUD1 million to AUD1.5 million?

Paul Binfield ***- Nufarm Limited - CFO***

Yes it is. Essentially Ramoun, we've seen a period of relative stability in Brazil over that time frame. So we've made the decision to be largely hedged in that market so all the things come in around that AUD1 million to AUD1.5 million level. Again, just to be clear Ramoun, the AUD1 million AUD1.5 million we're talking about there relates solely to Lat Am, so there will still be markets where we choose to undertake hedging. There will still be places where we've got unhedged exposures as well. So just to be clear, that AUD1 million to AUD1.5 million is Lat Am only and that's hedging costs.

Ramoun Lazar ***- UBS - Analyst***

Yes, right. Okay thank you.

Paul Binfield ***- Nufarm Limited - CFO***

Thanks Ramoun.

Operator

Thank you. Thank you very much. Your next question comes from the line of Brook Campbell-Crawford of JP Morgan. Your line is open. Please ask your question.

Brook Campbell-Crawford ***- JP Morgan - Analyst***

Hi guys. It's Brook Campbell-Crawford from JP Morgan. Just a question around the performance improvement program. Can you give us a sense of what the gross benefits that were delivered in FY16. I know net was AUD60 million and also can you give us the -- across the geographies please?

Paul Binfield ***- Nufarm Limited - CFO***

Yes look, we've not given sort of across geographies, Brook. I mean I think we've given you some fairly detailed breakdown in terms of where we're seeing benefits come through project by project. I mean it's fair to say I think we've seen some good procurement savings as Greg mentioned coming out of Brazil. I think that project generally globally is actually progressing a little bit better than we'd expected, seems a little bit faster than we expected.

In terms of Europe, our major project there really was the closure of Botlek and the transfer of that MCPA production to the UK. That occurred towards the start of 2016, so we got the majority of that benefit in the recent financial year just closed. We'll get a little bit of a kicker in 2017 but not too much more and in terms of North America again, I think the guys there have done a really nice job in terms of getting some good benefits through.

Just focusing on Aus a second, clearly the plant closure program is largely complete there. We'll get the full benefit coming through in 2017 but really one of the points that Greg was alluding to is because there has been an element of losing some share in this market, particularly in the low value commoditised end of the market, that's impacted the throughput in our plants which has also adversely impacted our plant coverage and that's one of the key drivers you'll see for our profitability being down in ANZ. Hence the fact we're talking about looking to be more closely focused on the appropriate mix between commodity products and higher margin products.

Does that give you some flavour, Brook, as to where we're seeing the benefits coming through?

Brook Campbell-Crawford ***- JP Morgan - Analyst***

Yes, that's very helpful. Thanks for that. Just a non-related question, just insofar as your comments with respect to growth options outside of organic initial. Can you provide some detail around that and an update on your targeted levels for gearing and leverage on your approach to dividends going forwards?

Paul Binfield ***- Nufarm Limited - CFO***

Yes, sure, I mean I guess our comments, Brook, are completely non-specific. You know, the industry consolidation is happening right now and it's widely talked about that there is likely to be some forced divestments from some of these major companies and clearly if that were to happen, we will naturally participate in potential transactions that closely fit with our strategic focus, both geographically and crop-wise. At this stage, it's theoretical. So dividend policy is completely unchanged.

At the moment you've seen that we've improved our balance sheet profile, so leverage is down this year in terms of both points in time and average during the year and we'll continue to work on that, Brook.

Brook Campbell-Crawford ***- JP Morgan - Analyst***

That's great, and do you -- what targeted gearing level would you be comfortable running the business at?

Paul Binfield ***- Nufarm Limited - CFO***

Primary focus we have is around average leverage. We currently are north of 200%. I'm comfortable with that. Longer term, I'd like to see us probably a little bit below 200%.

Brook Campbell-Crawford ***- JP Morgan - Analyst***

That's great, thanks.

Operator

Thank you very much. Your next question comes from the line of James Ferrier of Wilson HTM. Please ask your question.

James Ferrier ***- Wilson HTM - Analyst***

Thanks -- James, thanks for your time and congratulations on the result. Can we just firstly elaborate on a comment you made in response to an earlier question about the pull forward of some activity in Latin America into the months of June and July? Could you possibly give us a rough estimate of what sort of sales and EBIT you're talking about there?

Paul Binfield ***- Nufarm Limited - CFO***

James, just to quickly sort of pull forward, this is simply the fact that it's an enormous market down there and to meet the needs of our customers physically, it's actually very demanding to get all the product we need to out into the primary selling zones of August, September, October and therefore we will look to try and get some sales out early simply because of capacity constraints from purely -- the logistical side of things.

In terms of estimate, I've not got anything top of head, James. It isn't a significant difference. We've had a stronger half in Lat Am right the way through the half. It's not been a June-July phenomenon.

James Ferrier ***- Wilson HTM - Analyst***

Okay, yes. That was the follow up question I had. I mean it was a very significant second half for Latin America, sales growth at 15% and AUD42 million of EBIT and sort of the previous best Nufarm's achieved has been around AUD11 million I think. So is there anything else you can comment on in response or in relation to that?

Paul Binfield ***- Nufarm Limited - CFO***

Well a couple of things. Obviously as Greg mentioned, the doubtful debt that we incurred last year all was in the second half, that was about AUD10 million and in terms of procurement savings, clearly the nature of those sorts of savings are that they tend to be back end loaded. You do the work perhaps in the first half. You don't get any benefits until you actually start to sell through product and buy the new product at cheaper rates. So that's the primary driver.

James Ferrier ***- Wilson HTM - Analyst***

Yes, okay. In terms of the increase in the non-current receivables, does that relate to the June-July sales for the new crop or is that in relation to last year's crop?

Paul Binfield ***- Nufarm Limited - CFO***

No, it's in relation to last year's crop, James. So it's the situation where there are certain regions in Brazil which have had obviously a less good crop, principally driven for climatic reasons. It's a good underlying customer, a good underlying business. They've struggled to pay, based off their yields from the most recent harvest. If we make the assessment that the underlying business is actually a good quality business, that we're willing to support them and extend the terms for a further 12 months to allow them to pay off the back of the crop that they are in the throes of planting now.

James Ferrier ***- Wilson HTM - Analyst***

Okay, yes. Then Paul, final question from me. On page 10 of the slide deck, you referenced an off-balance sheet debtor securitisation facility. Can you just clarify --

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Paul Binfield ***- Nufarm Limited - CFO***

Yes.

James Ferrier ***- Wilson HTM - Analyst***

-- whether that is in the accounts or not in the accounts?

Paul Binfield ***- Nufarm Limited - CFO***

It is off-balance sheet so the genuine risk transfer, the amount of debtors in that facility at the end of July -- in fact there are two facilities but the total value of the off-balance sheet component is about AUD50 million at the end of the year, but it's a genuine risk transfer James, so essentially it's off balance sheet. It's non-recourse.

James Ferrier ***- Wilson HTM - Analyst***

Yes, okay great. Thanks for your time.

Paul Binfield ***- Nufarm Limited - CFO***

Sorry, just on that James, too, before I finish. You know this is -- one of the challenges of financing the Brazilian business is trying to get some tenor into the debt portfolio and it's actually quite hard to achieve in that market. These facilities, one's a three year facility, one's a five year facility, actually gives us that tenor and because of the quality of the asset that we're putting in there, again the interest rates are extremely competitive. So they're actually cheaper than a typical one year bank debt. So it does meet a very important need for us, both in terms of credit risk mitigation, but also controlling the interest cost as well.

James Ferrier ***- Wilson HTM - Analyst***

Thanks Paul.

Operator

Thank you very much. Your next question comes from the line of Ben Levin of Credit Suisse. Your line is open. Please ask your question.

Ben Levin ***- Credit Suisse - Analyst***

G'day Paul. You made a comment with regard to assets that are non-core. I'm just wondering if you can give us a bit of colour as to what might be within your portfolio that fits that description.

Paul Binfield ***- Nufarm Limited - CFO***

I guess those obvious things, Ben, are things like the ex-manufacturing asset portfolio. So we have sold and received the proceeds for Welshpool and Lytton. We're in the throes of mitigating -- of marketing our property in Auckland that we recently closed down and I think we alluded to the fact that the Excel Crop Care holding is -- India is no longer a core market to us and therefore we're looking to exit that investment as well.

There are other assets that we're obviously having a bit of a look at, but nothing very material, Ben.

Ben Levin ***- Credit Suisse - Analyst***

Yes. Okay great and then Greg, I'm just wondering if you can make a comment about the phenoxy herbicides business, how it performed in the second half and it looks like pricing's coming off. I'm just wondering if that's related to the input costs, lower oil or if you're starting to see maybe some pricing pressure in that market.

Greg Hunt ***- Nufarm Limited - MD and CEO***

Certainly with the closure of Botlek and the transfer of the MCPA production into Wyke, I mean that's had a significant impact. The manufacturing efficiency programs in both Laverton and in Linz, both of those are around AUD6 million or AUD7 million. So combined in relation to the phenoxies operation, there's probably somewhere between AUD25 million and AUD30 million of improvements in those operations.

Just in relation to the revenues, I think phenoxy revenues are up about 3% on the previous year and gross margin increased by about 11%. So we're still seeing quite strong demand, particularly in North America and Latin America for our phenoxies portfolio.

Ben Levin ***- Credit Suisse - Analyst***

Great, thanks guys.

Operator

Thank you very much. Your next question comes from the line of Richard Johnson of Citigroup. Your line is open, please ask your question.

Richard Johnson ***- Citigroup - Analyst***

Thank you very much. Paul, you've given a very comprehensive run through of some of the issues in Brazil. I just wanted to sort of try and understand one thing a little bit better if I could. I mean when I think about other industries in that part of the world that face US dollar denominated raw material costs with local currency invoicing, you've had a natural reaction in end-product pricing, which isn't able to offset the entire difference. It does make a big difference.

I was just wondering what was your experience in that regard or how I should think about it?

Paul Binfield ***- Nufarm Limited - CFO***

Yes, it's been a challenge, Richard, just because of the speed of the depreciation. So if you look at that period through from August to September, October, the Real depreciated 20% against the USD and it was very rapid. To be honest, clearly our guys have been out there trying to get the prices up and I think they've generally done a good job. We've seen a little bit of margin compression at the gross margin level around -- because it's been hard to recover all of that, but it's fair to say that everyone in the industry is faced with the same problems and therefore it's more a case of -- often it revolves around the timing of when you've got product in. So if you've got a bunch of entries sitting on the shelf, you can often deal with those issues better than if you don't.

Our focus has been very much on keeping working capital well-controlled and skinny and therefore it probably was, it was a bit more of a challenge for us to keep up with that at that pricing pressure.

Richard Johnson ***- Citigroup - Analyst***

Okay, that's helpful, thanks. Then just finally on the timing of the remaining cost savings, the AUD40-odd million that you've got still to go, it sounds to me from what you're saying, the costs of that are going to split roughly equally, 2017 on 2018, with a major part being the AUD27 million around the SG&A number. I'm just trying to understand what that means -- well presumably that then means you've got an equal net number 2017 and 2018, but it almost by definition should mean it's an incremental in 2019 as well?

Paul Binfield ***- Nufarm Limited - CFO***

I think just to be clear, Richard, the AUD27 million is the investment we're putting into the SG&A back office activity. That won't start to deliver benefits until 2018, so you're absolutely right. We will get further benefits into 2019 and beyond, but we are committed to delivering AUD116 million of net benefits by the end of 2018.

Richard Johnson ***- Citigroup - Analyst***

Okay so the remaining net, it's not unreasonable to assume we have 50% in 2017 and 50% in 2018. Is that the best way to think about it?

Paul Binfield *- Nufarm Limited - CFO*

Yes, that's a pretty fair way to think about it, Richard.

Richard Johnson *- Citigroup - Analyst*

Okay and more to come in 2019 then?

Paul Binfield *- Nufarm Limited - CFO*

A little bit more, yes.

Richard Johnson *- Citigroup - Analyst*

Perfect. Thank you very much. It's very helpful.

Mark Keating *- Nufarm Limited - General Manager IR*

Eddie, we might just take one more question.

Operator

Certainly sir. Your last question comes from the line of Larry Gandler of Credit Suisse. Your line is open. Please go ahead.

Larry Gandler *- Credit Suisse - Analyst*

Hi. My question is for Paul. Can I refer you to the slide where you've got the Brazilian crop protection market? I think it's page 10.

Paul Binfield *- Nufarm Limited - CFO*

Yes.

Larry Gandler *- Credit Suisse - Analyst*

Paul, I'm just wondering why, if -- with such a strong two wage in Brazil, would you USD trade payables be lower? I think you mentioned you're sourcing more raw materials from within Brazil.

Paul Binfield *- Nufarm Limited - CFO*

Yes.

Larry Gandler *- Credit Suisse - Analyst*

It seems maybe perhaps quite substantial.

Paul Binfield *- Nufarm Limited - CFO*

There's I guess two elements to that, Larry. You're right. You can see payables in that period, May, June, July being flatter than the prior year. Two primary reasons -- 1) fairly significant input for us is glyphosate. Glyphosate asset is lower, cost-wise, this year compared to last and secondly too, the point that you made that we raised as in we're looking to source additional product locally as opposed to importing in USD.

Or encouraging our suppliers to invoice us in Real as opposed to USD.

Larry Gandler *- Credit Suisse - Analyst*

Okay, yes thanks.

Mark Keating *- Nufarm Limited - General Manager IR*

Okay Eddie, if I might just conclude the call?

Operator

Yes, please go ahead, sir.

Mark Keating *- Nufarm Limited - General Manager IR*

Thanks everybody for joining us this morning. Look, over the next few days, we will meet up with a number of investors to take further questions and continue the discussion on the results. Thank you for joining us this morning. Just one quick thing. I understand we might have lost audio for a small section at the start. If that was the case, we'll certainly have a transcript of the whole presentation up on our website later today or early tomorrow, so look out for that. But thanks everyone for joining us and we'll look forward to catching up with you all soon. Thank you.

Operator

Thank you very much ladies and gentlemen. That does conclude our conference for today. (Operator instructions).