

# Incitec Pivot Limited

## 2010 Interim Results

10 May 2010

**DYNO**  
Dyno Nobel



SouthernCross  
International 

**Incitec Pivot Limited**

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INCITEC PIVOT LIMITED ABN 42 004 080 264

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# Presentation outline

- IPL Group performance  
James Fazzino  
Managing Director and CEO
- Strategy  
James Fazzino
- Business Unit performance  
James Fazzino
  - Explosives
  - Fertilisers
- Capital Management  
Frank Micallef  
Chief Financial Officer
- Outlook  
James Fazzino
- Summary  
James Fazzino

# James Fazzino

## Managing Director & CEO



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# IPL Group performance

## Overview

NPAT excluding IMIs ↓ 14% to \$146.2M

Explosives business – EBIT 3% ↑

- ✓ Asia Pacific Business – improved performance
- ✗ Challenging market conditions persist in North America
- ✓ Velocity program on track
- ✗ Higher A\$

Fertiliser business – EBIT 32% ↓

- ✓ Volume recovery in domestic distribution business
- ✗ Lower global fertiliser prices, higher A\$

Balance sheet in excellent shape

**Diverse markets deliver sound result**

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# IPL Group financial performance

## Results summary

Half year ended 31 March (A\$M)	2010	2009	Change
Revenue	1,236.4	1,708.0	(28%)
EBIT <sup>(1)</sup>	230.1	272.2	(15%)
NPAT <sup>(2)</sup> – excluding individually material items	146.2	169.8	(14%)
Operating cashflow	79.2	(112.8)	170%
Dividends per share (cents) <sup>(3)</sup>	1.8	2.1	(14%)
Net Debt	1,276.5	2,105.4	39%

(1) Pre individually material items

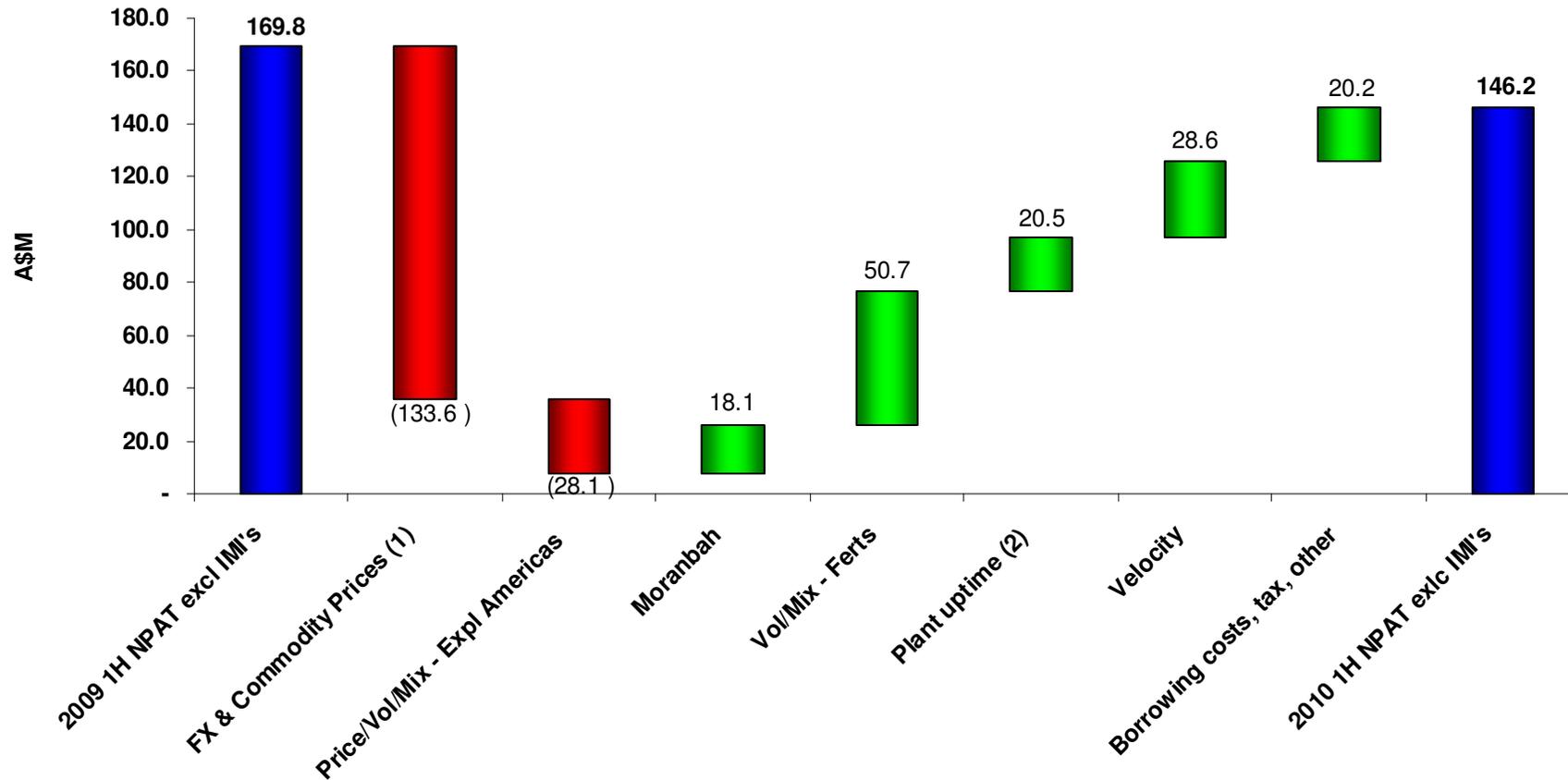
(2) Net Profit After Tax

(3) 2010 based on a diluted 1,619,569,865 weighted average number of issued shares. 2009 based on a diluted 1,478,060,354 weighted average number of shares

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# IPL Group performance

NPAT waterfall 1H 09 : A\$169.8M v 1H 10 : A\$146.2M



(1) Refer Appendix 2  
(2) Cheyenne & QNP

# Strategy

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## Strategy remains focused

Incitec Pivot's strategy is to leverage the industrialisation and urbanisation of the developing world (particularly China and India):

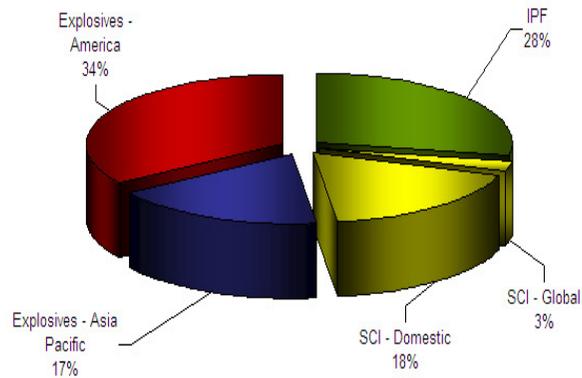
- Positioned on the input side of the value chain where returns are highest and less volatile
  - Explosives for hard commodities and fertiliser for soft commodities
  
- Capture value upstream through low cost, vertically integrated nitrogen based chemical manufacturing positions. Synergy created via common:
  - Nitrogen manufacturing core
  - Supply chain processes
  - Business efficiency program office processes

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# IPL Group performance

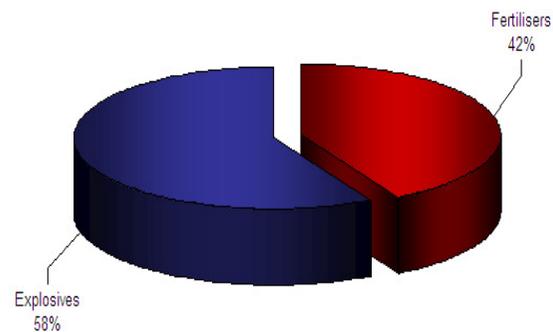
## Balance of revenue & earnings

### Diverse End-market exposures



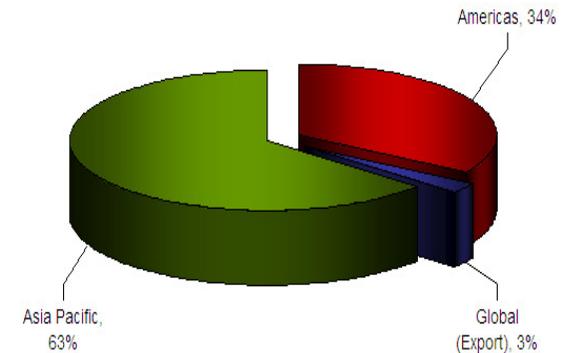
1H 2010 Revenue - A\$1,236.4M

### From a common nitrogen core



1H 2010 EBIT - A\$230.1M

### Geographically spread



1H 2010 Revenue - A\$1,236.4M

**Diverse markets deliver sound earnings**

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# Business alignment to strategy

## **Americas Explosives**

- ✓ Largest explosives market in the world
  - Industry size builds scale and expertise, which can be leveraged in other markets
  - Provides base scale across the broader business (eg. Initiating Systems Manufacturing)

## **Asia Pacific Explosives**

- ✓ Growth engine of the IPL Group
  - Moranbah underpins and grows the Asia Pacific explosives business
  - Servicing customers with a direct link to the Asian growth thematic

## **Incitec Pivot Fertilisers**

- ✓ Niche geographical positions leveraged to the global fertiliser market
  - Manufacturing assets and distribution position are directly linked to global fertiliser pricing – driven by demand for soft commodities

## **Southern Cross International**

- ✓ Provides scale and market access for global sourcing, supply and sales

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# Strategic priorities

## What we promised

- Value – Zero Harm at the core



## What we delivered

- 1H 2010 TRIFR<sup>(1)</sup> reducing to 1.30 from 1.37 in 1H 2009
- 36 recordable cases compared with 53 1H 2009
- 90% sites recordable case free (up from 80% 1H 2009)

Note: On 5 May, 2010 an employee fatality occurred in Quebec, Canada

- Deliver on the investment in Dyno Nobel



- Velocity program delivered US\$25.9M, 43% of 2010 target of US\$60M
- US\$96.9M delivered to date of program target of US\$204M
- Moranbah sourcing mitigates impact of project delay on customer contracts

(1) Total Recordable Injury Frequency Rate per 200,000 hours

# Strategic priorities

## What we promised

- Improve plant and supply chain reliability
- Growth from the nitrogen core – Moranbah
- Continue to strengthen balance sheet



## What we delivered

- Phosphate Hill / Mt Isa planned shut completed
- Cheyenne uptime
- Moranbah construction in progress
- 90% of plant sold out
- Project “confidently in control”
- 39% reduction in net debt to \$1.28Bn
- undrawn headroom \$1.14Bn
- Gearing 1.9x net debt / EBITDA

# Moranbah update

## Construction

- Engineering largely complete
- Full site mobilised 5 May 2010
- Peak workforce 4Q 2010, 1Q 2011
- 35% complete end March 2010
- \$333M spend of \$935M budget
- Production on track for end Q1 2012

## Customers

- 90% sold out
- Confident 100% sold out prior to commissioning



**Confidently in control**

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# Explosives

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# Explosives scorecard

## Results summary

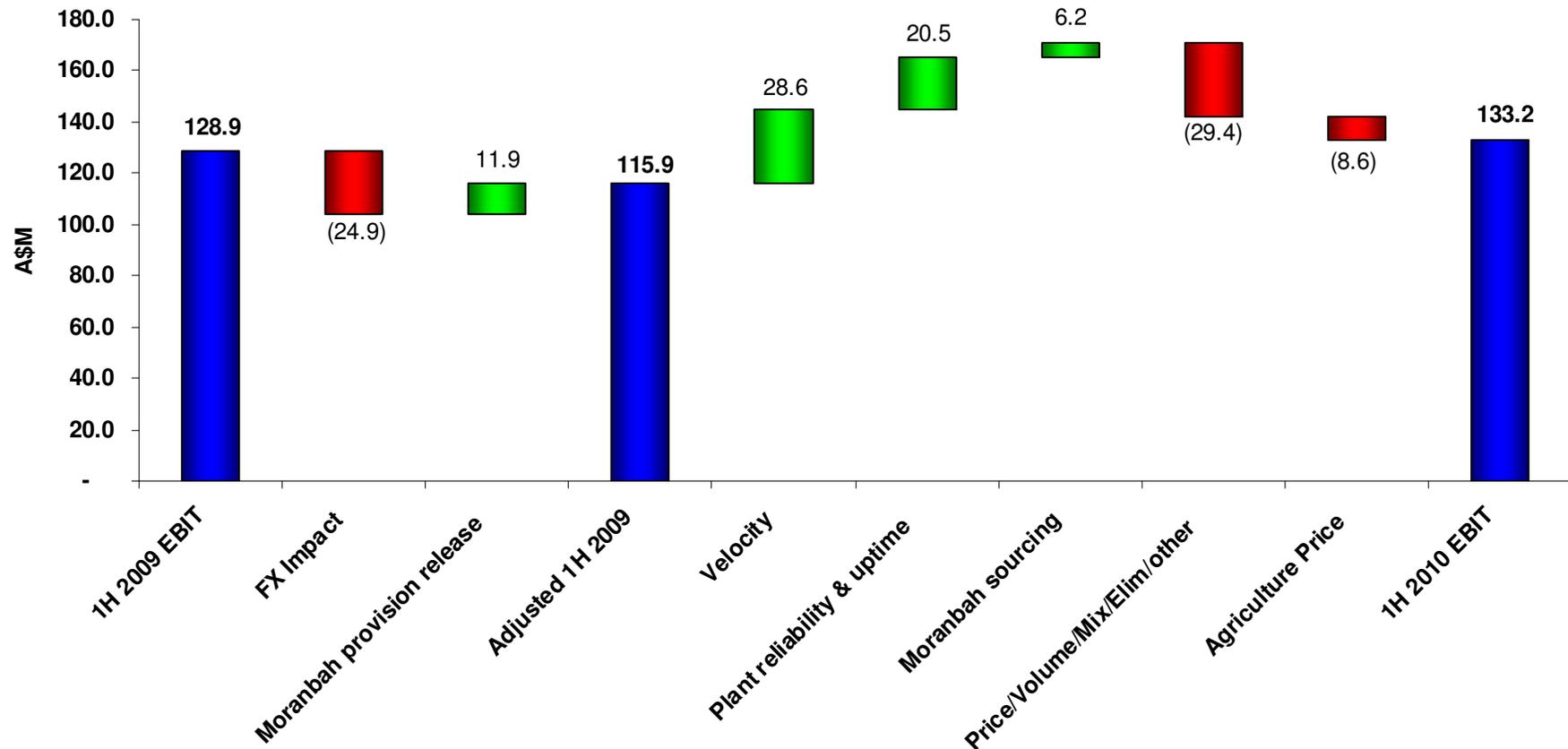
- ✘ External market
  - ✘ North American US\$ revenues down 19%
  - ✘ FX impact on translation of US earnings \$24.9M
- ✓ Internal execution
  - ✓ Velocity: US\$25.9M cumulative EBIT benefits & US\$7.3M in cash
  - ✓ Plant reliability
    - Cheyenne uptime
    - QNP joint venture uprate benefits delivered
  - ✓ Improved sourcing in Asia Pacific – global supply chain
  - ✓ Managing Moranbah supply
- ✓ Disciplined approach to Moranbah construction
  - Construction restarted – “confidently in control”
  - Plant 90% committed

**Improved performance in Asia Pacific,  
soft US markets**

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# Explosives performance

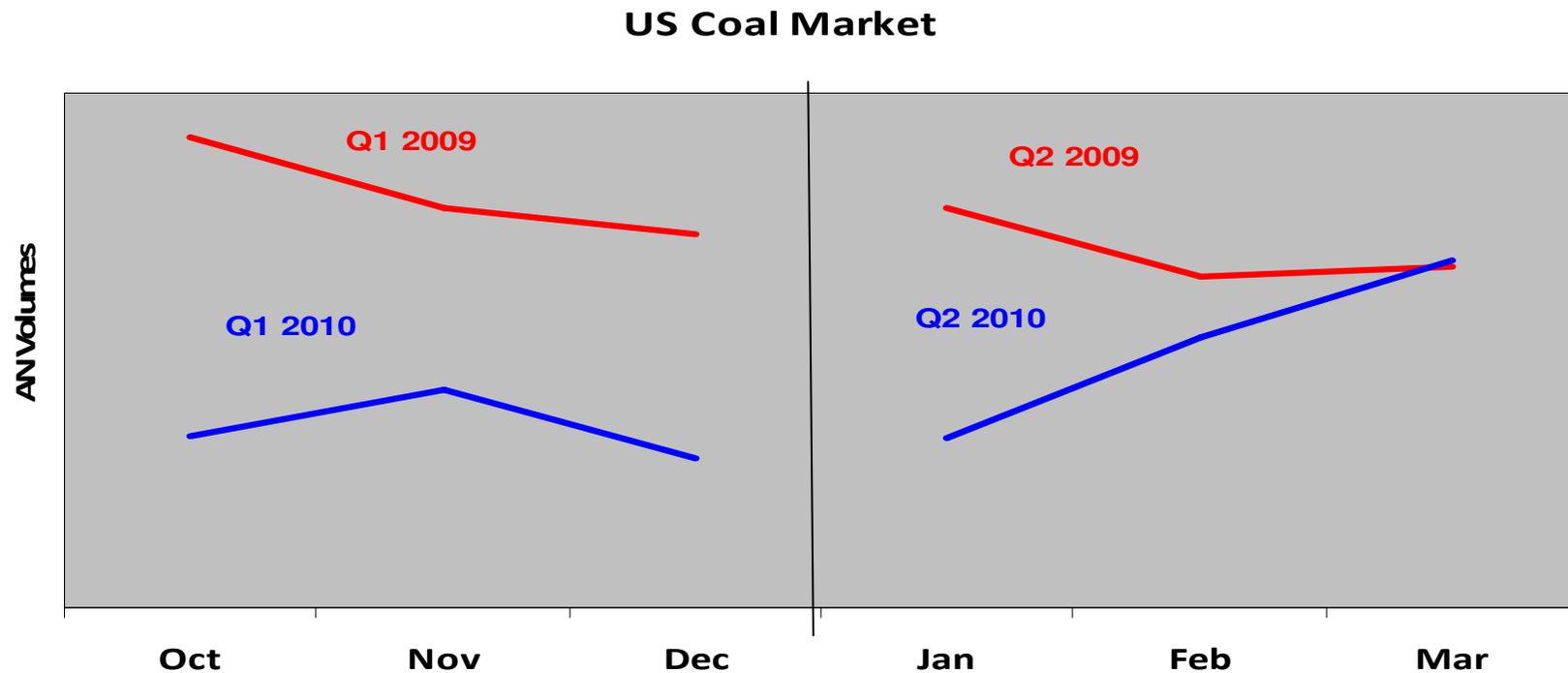
EBIT waterfall - 1H 09: A\$128.9M v 1H 10: A\$133.2M



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# Coal market

Destocking in 1H, inventories approaching average



**Coal Stocks at Power Stations:**

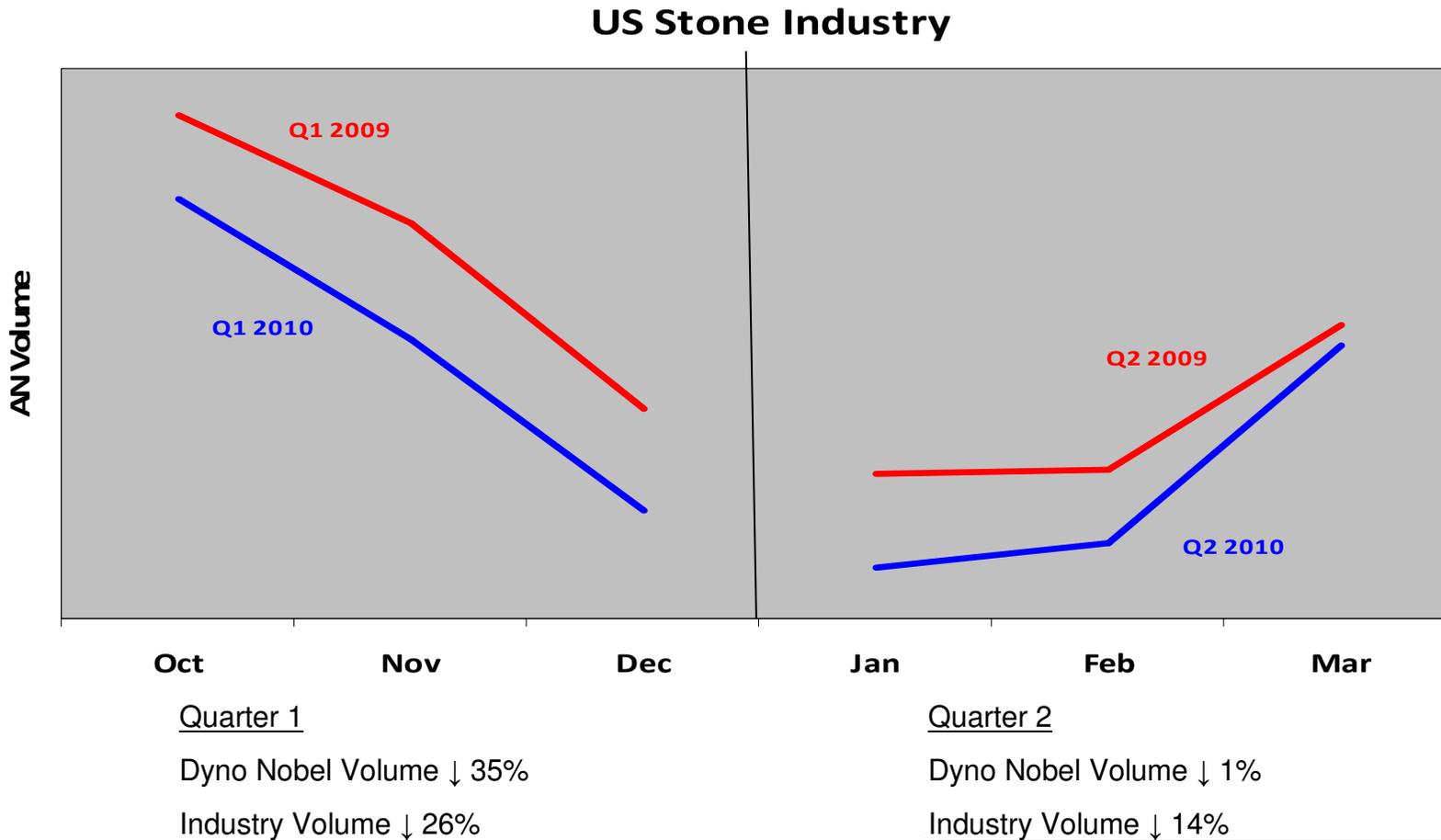
Sept 09 83 days  
Feb 10 59 days  
3yr average 50 days

**Drawdown on inventories during winter  
in the US**

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# US quarry and construction

## Leading share in US stone industry



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# Fertilisers

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# Fertilisers scorecard

## Results summary

### External market

- ✘ FX and commodity prices
- ✓ Volume and margin recovery to normal levels in distribution business

### Internal execution

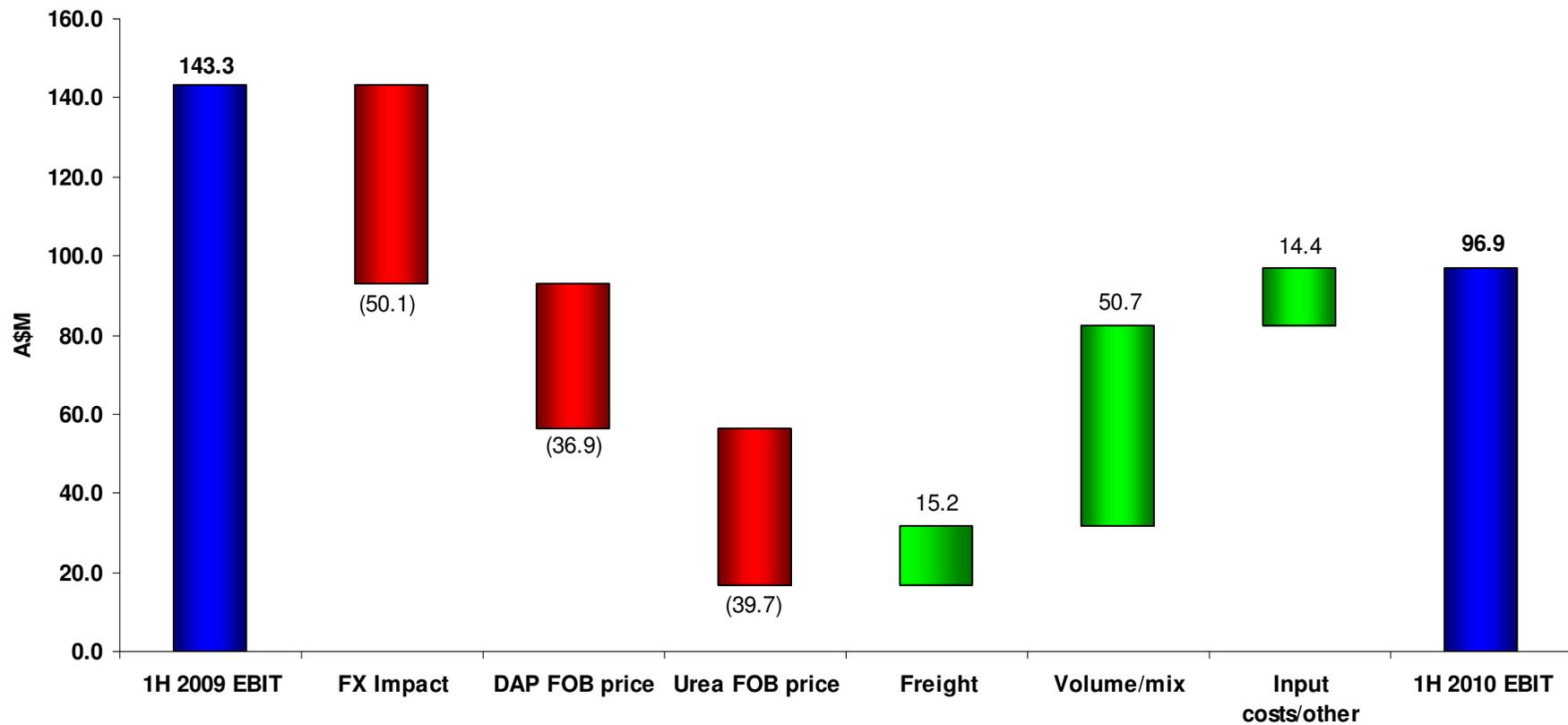
- ✓ More ammonium phosphate production for domestic sale (mostly benefits 2H 2010)
- ✓ Reliability issues at Phosphate Hill addressed:
  - planned shutdown complete (phosphoric acid reactors rebuilt)
- ✓ Strong cost control
- ✓ Efficient management of working capital

**Strong internal execution; volume recovery**

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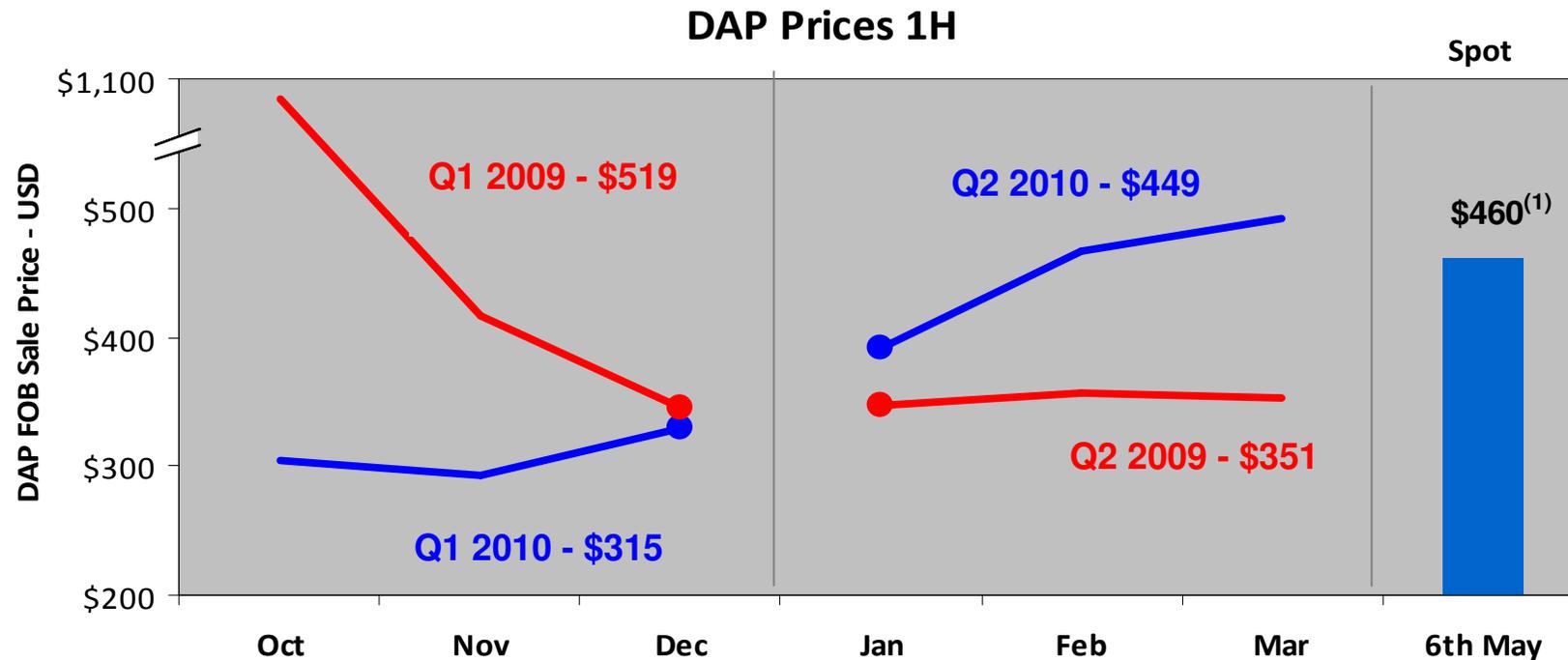
# Fertilisers

EBIT waterfall - 1H 09: A\$143.3M v 1H 10: A\$96.9M



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# Di-Ammonium Phosphate (DAP)



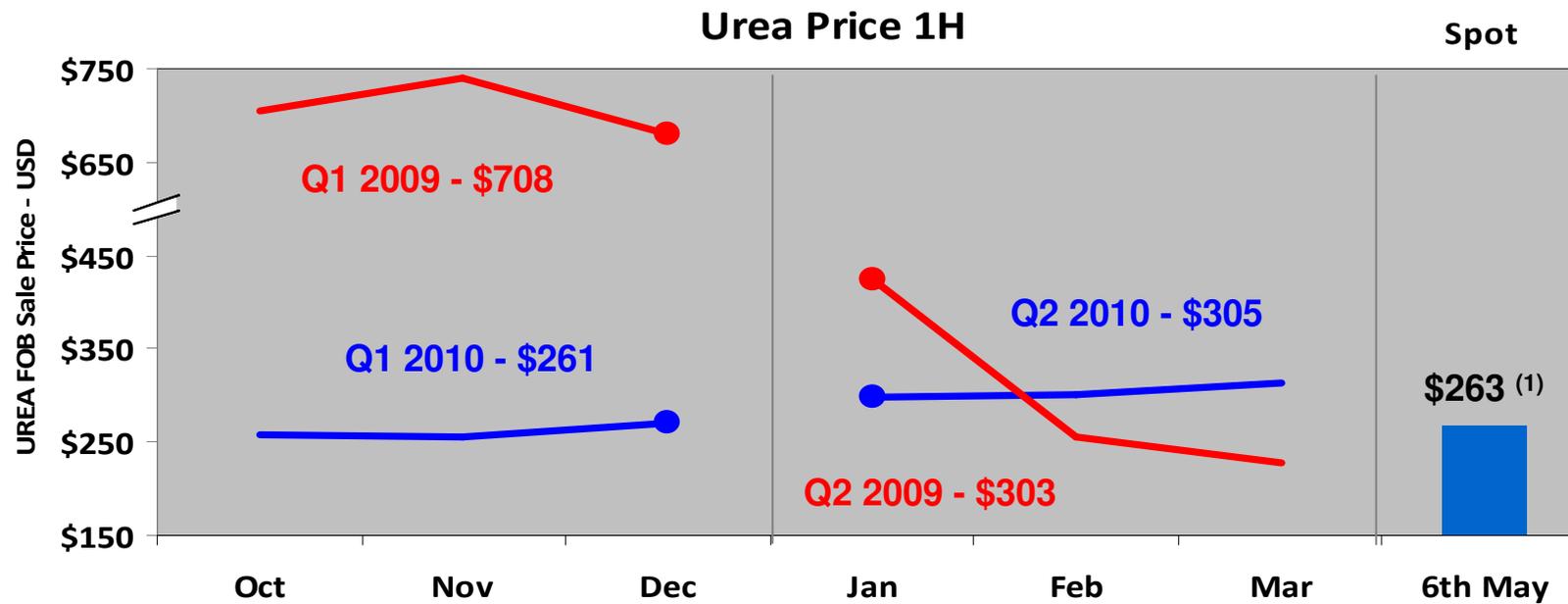
	<u>1H</u>	<u>2H</u>	<u>FY</u>
2009	US\$455	US\$310	US\$366
2010	US\$371		

A\$M impact @ 2009 FX rate: A\$36.9M

(1) Fertilizer Week 6 May, 2010

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# Urea



	<u>1H</u>	<u>2H</u>	<u>FY</u>
2009	US\$505	US\$275	US\$339
2010	US\$283		

A\$M impact @ 2009 FX rate: A\$39.7M

(1) Fertilizer Week 6 May, 2010

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# Frank Micallef

## Chief Financial Officer

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# Capital Management

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## Capital management outcomes –

### Net debt

Net debt reduced by A\$187M in 1H 2010 - from A\$1,464M to A\$1,277M and by A\$829M since March 2009:

- ✓ Positive operating cash flow for 1H 2010 \$79.2M
- ✓ Working capital management in both fertilisers and explosives
- ✓ Sustenance & turnaround capex tightly controlled
- ✓ US debt strategy delivers 5.1% average interest rate

**Exceptional first half net debt outcome**

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# Capital management initiatives - Funding

Funding Initiatives – Increased tenor and diversity of debt:

- ✓ 144A / Regulation S Bond issue: US\$800M; 10 years
- ✓ Diversity of funding
- ✓ Tenor of drawn funds – Average 7 years
- ✓ US Debt strategy

**tenor and diversity of funding has  
been delivered as promised**

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# Capital management – Headroom & credit metrics

## Net debt at 31 March 2010

	<u>A\$Bn</u>
Net debt	1.28
Headroom including cash	1.14

## Investment grade credit metrics

	<u>March 2010</u>	<u>Target range</u>
Net debt / EBITDA <sup>(1)</sup>	1.9x	< 2.5x
Interest cover <sup>(2)</sup>	9.5x	>6.0x

**strong headroom and credit metrics**

- (1) Based on last 12 month historical EBITDA / Net debt at point in time  
 (2) Interest cover = 12 month rolling EBITDA/net interest expense

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# Capital management – Dividends

## Dividend policy

- 20 - 40% pay-out of NPAT pre IMIs subject to franking capacity, capital requirements and other relevant factors

## 2010 Interim dividend

- 1.8 cents per share, unfranked, to be paid 6 July 2010 (record date 20 May 2010)
- Dividend Reinvestment Plan will not be underwritten

**prudent financial management**

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# Transactional hedging

2H 2010 ammonium phosphates and urea sales

- 95% hedged @ no worse than 89.5 cents

FY 2011 ammonium phosphates and urea sales

- 60% hedged @ no worse than 91 cents, fully participating down to 80 cents and partially participating below 80 cents

# James Fazzino

## Managing Director & CEO



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# Outlook

- Challenging trading conditions to persist through 2010 in each of our downstream markets
  
- Positives for medium term outlook
  - rebuilding of soil nutrients
  - recovery in US economy
  
- Continued efficiency improvements from the Velocity program and plant reliability

**continued focus on controllables in 2H  
2010**

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# Summary

- Diverse markets delivered a sound result, despite the higher A\$, lower global fertiliser prices, and the US economy which was at its cyclical bottom in the 1H
- Velocity program on track
- Improved plant reliability - global risk and reliability focus
- Significantly improved cash flows and net debt position underpin a strong balance sheet

**A sound result**

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***Questions?***

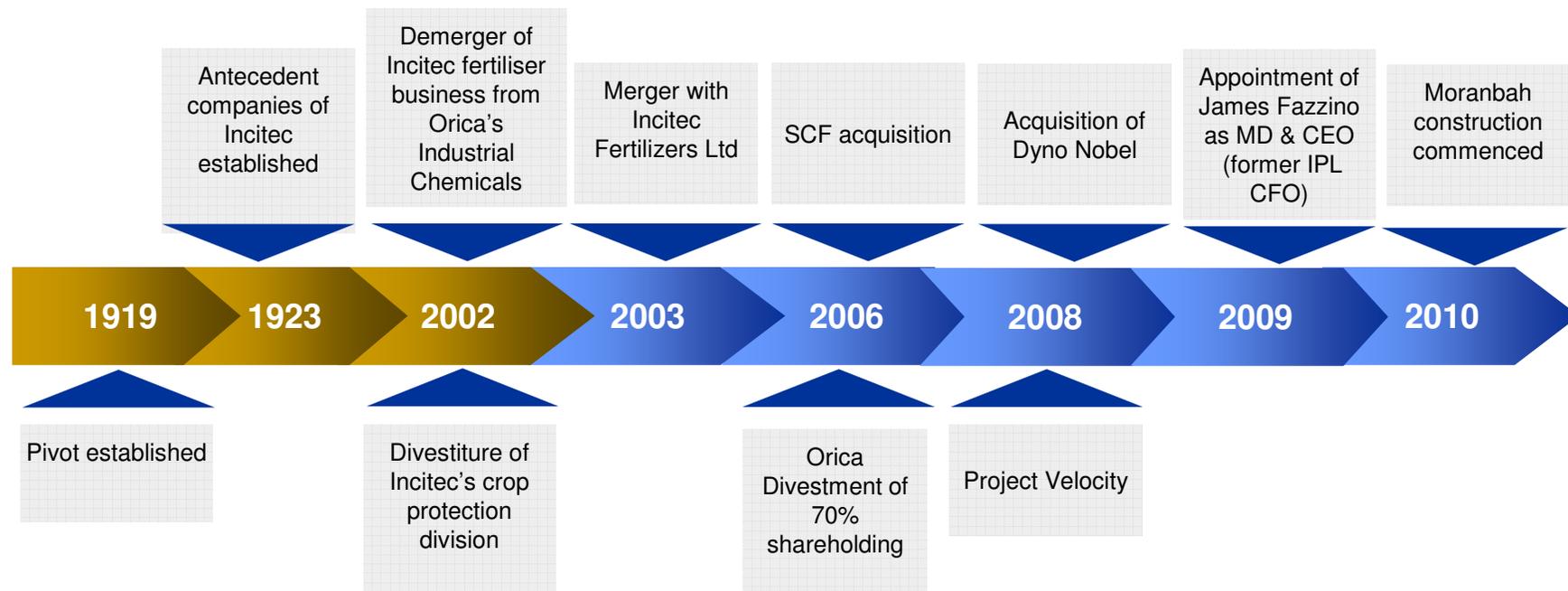
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# Appendix 1: IPL history & evolution

## Corporate History



**Transition of business**

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## Appendix 2: FX and commodity pricing

<u>Commodity Prices</u>	<u>A\$M</u>	
DAP US\$371 vs US\$455	(36.9)	
Urea US\$285 vs US\$505	(39.7)	
Nitrogen – US Ag business	(8.6)	
Sulphur/other	11.4	
Freight (urea & DAP)	<u>15.2</u>	(58.6)
<u>FX Rate</u>		
DAP 71.9 vs 89.8	(39.8)	
Urea	(10.3)	
Translational FX 90.7 vs 66.8	<u>(24.9)</u>	<u>(75.0)</u>
FX & Commodity Pricing		(133.6)

## Appendix 3: Capital management - Interest cost

<b>Half year ended 31 March (A\$M)</b>	<b>2010</b>	<b>2009</b>	<b>Change</b>
Total borrowing costs	41.7	65.5	36%
Less back unwinding of discount on provisions	<u>(5.6)</u>	<u>(4.1)</u>	(37%)
Interest cost	36.1	61.4	41%
Average net debt during the period	1,413	2,225	36%
Average interest rate	5.1%	5.5%	

## Appendix 4: 2010 full year EBIT sensitivities

Urea – Middle East Granular Urea (FOB) <sup>(1)</sup>	+/- US\$10/t = +/- A\$4.6M
DAP – Di-Ammonium Phosphate Tampa (FOB) <sup>(2)</sup>	+/- US\$10/t = +/- A\$10.8M
FX – transactional (DAP & Urea) <sup>(3)</sup>	+/- 1 cent = A\$5.8M
FX – translation of Explosives US\$ earnings <sup>(4)</sup>	+/- 1 cent = A\$0.6M

### 2010 earnings sensitive to DAP, urea and US\$ currency

Assumptions:

1. 405kt urea equivalent sales at the 1H 2010 realised price of US\$285/t
2. 970kt DAP sales at the 1H 2010 realised price of US\$371/t
3. DAP & Urea based on assumptions 1 and 2
4. For each US\$50M EBIT

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