

Incitec Pivot Limited

DYNO
Dyno Nobel



Year End Results

Full Year ended

30 September 2013

Presentation 12 November 2013



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INCITEC PIVOT LIMITED ABN 42 004 080 264

Presentation outline

Performance Overview

**James Fazzino,
Managing Director & CEO**

Financial Performance

**Frank Micallef,
Chief Financial Officer**

Balance Sheet & Treasury

Frank Micallef

Outlook

James Fazzino



Performance Overview

James Fazzino
Managing Director & CEO



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Safety performance

2013

2012

Fatalities	2	0
TRIFR ⁽¹⁾	1.16	1.45
Recordable cases	87	106
Percentage of sites injury free	86%	83%

(1) Total Recordable Injury Frequency Rate – rolling twelve months

Unacceptable performance – continued focus

Group performance

Year Ended 30 September (\$Am)	\$m	Change %
Reported Earnings		
Earnings Before Interest and Tax (EBIT)	466.2	(22%)
Net Profit After Tax (NPAT)	372.0	(27%)
Adjusted Earnings⁽¹⁾		
Group EBIT	466.2	(10%)
- Explosives EBIT	327.7	3%
- Fertilisers EBIT	169.7	(37%)
NPAT	298.4	(18%)
Operating Cash Flow	614.5	(1%)
Dividend (cents per share)	9.2	(26%)

(1) Earnings are before Individually Material Items and the 2012 Moranbah unfavourable contract liability release

Challenging external environment

2013: What were the highlights?

- ✓ Fertilisers trading & distribution margin recovery
- ✓ Efficiency focus: Business Excellence (“BEx”) delivers
- ✓ Louisiana ammonia plant under construction
- ✓ Strong free cash flow & sound balance sheet maintained
- ✓ Manufacturing – 14 of 17 sites performing to plan
 - Moranbah 4Q production

Focusing on the controllables

2013: What needs to improve?

- ✘ Safety – 2 fatalities

- ✘ Manufacturing (3 of 17 sites)
 - Moranbah to 3Q – Ramp up guidance too optimistic
 - Phosphate Hill & Mt Isa (2010 shutdown)

- ✘ Adjusted NPAT (1) down 18%

(1) Earnings are before Individually Material Items and the 2012 Moranbah unfavourable contract liability release

Focus on safety & manufacturing

2013: What were the external factors?

Significant impact from external factors

- ✘ Fertiliser prices
- ✘ Stubbornly strong \$A
- ✘ Softer mining markets
 - Coal in US
 - Consolidation in Australia

Internal focus on the controllables



Strategy Overview

JAMES FAZZINO

Managing Director & CEO



Strategy on a page

**Industrialisation
of China**



**Shale gas
revolution**

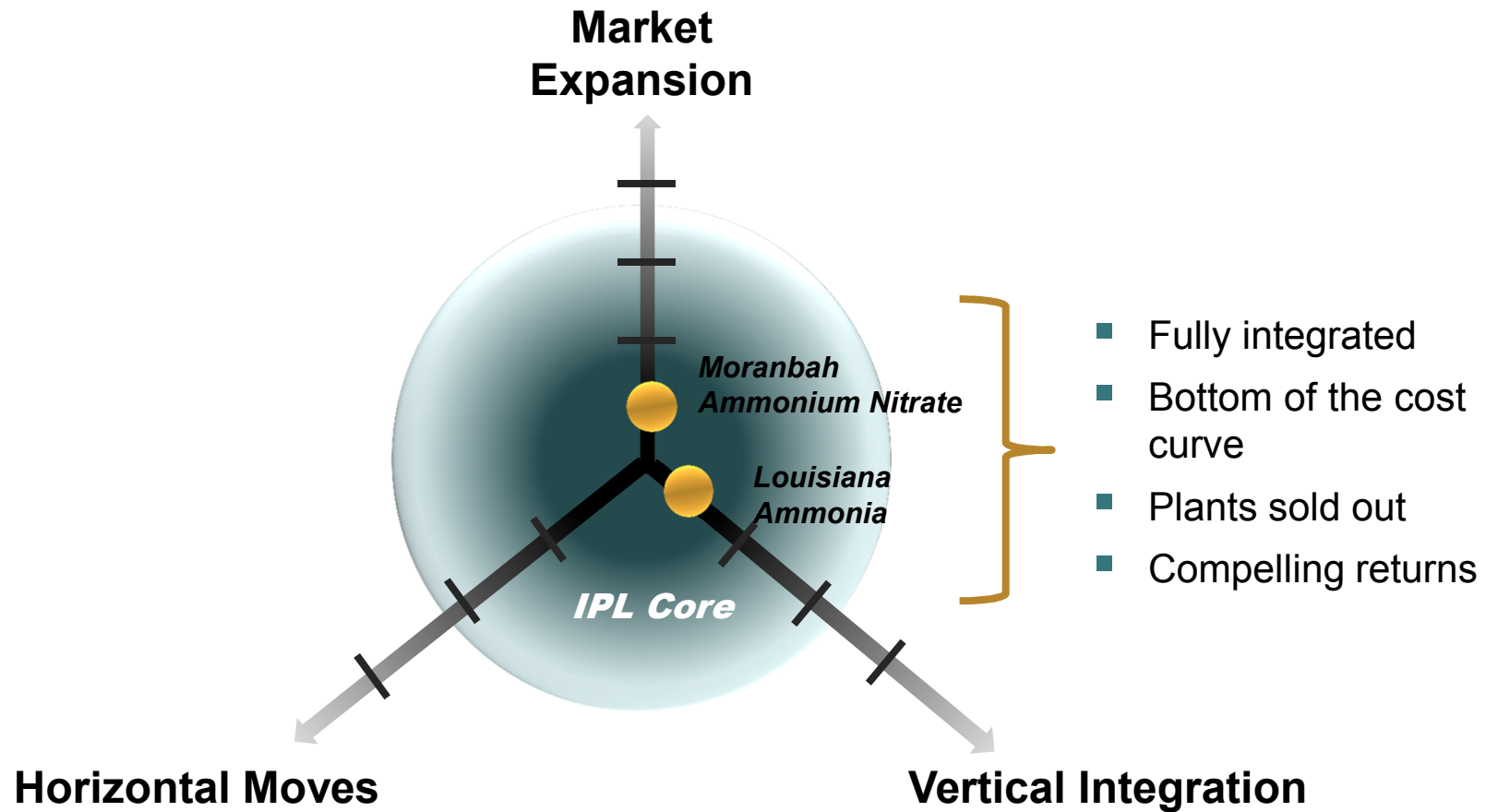
**Core nitrogen
manufacturing**

**Input side of value
chain**

**Customer aligned
downstream
businesses**

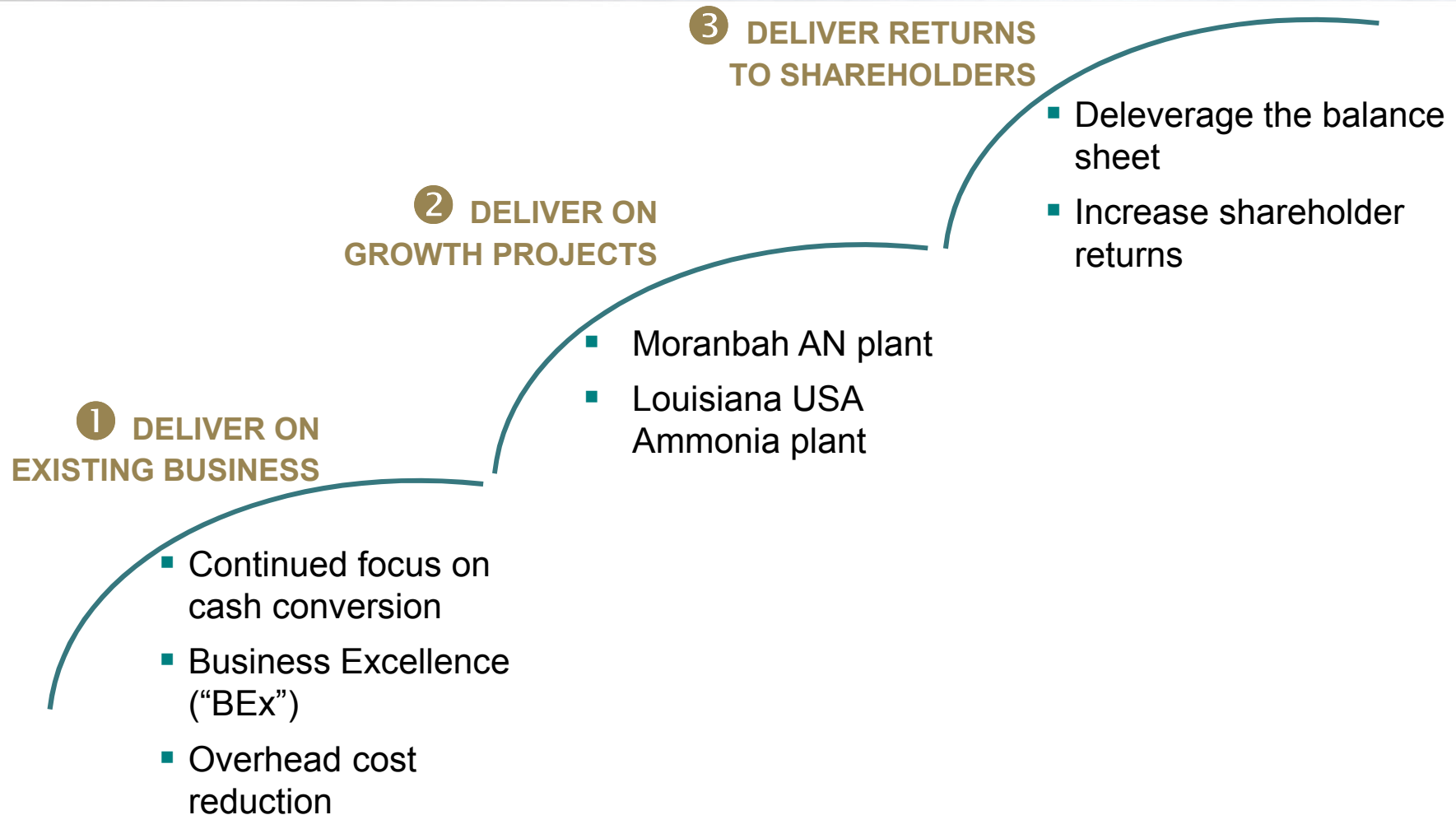


Low risk growth projects close to the core



Focus is on execution

Strategy execution



Focus on execution and delivery

Louisiana ammonia plant update

- **As at 30 September 2013, Project is on budget and schedule:**

- Safety = No recordable injuries to date
- Total construction cost = \$US850m
- First production = Third Quarter 2016

- **Construction**

- Demolition and excavation has commenced
- Piling has commenced - ~ 8,000 piles

- **Operations establishment**

- IPL Plant Manager has been appointed (based in Louisiana)

- **Outlook**

- Fundamentals under-pinning project remain positive



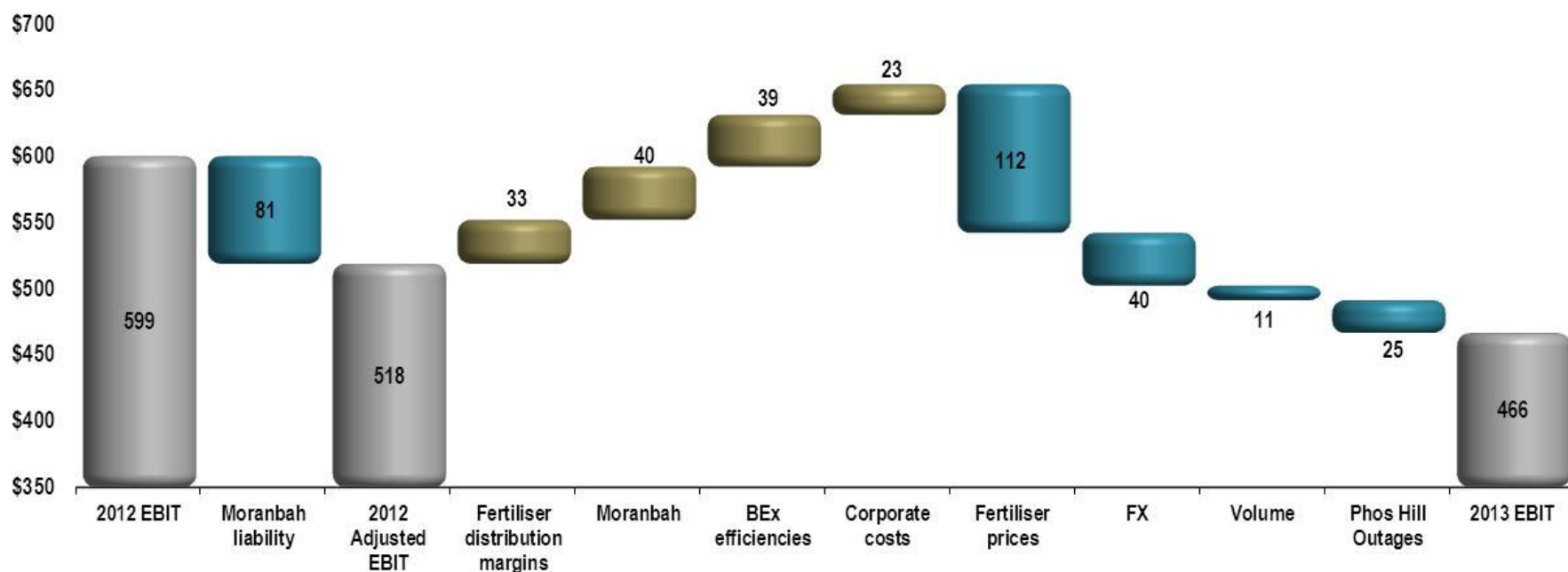
Financial Performance

Frank Micallef
Chief Financial Officer

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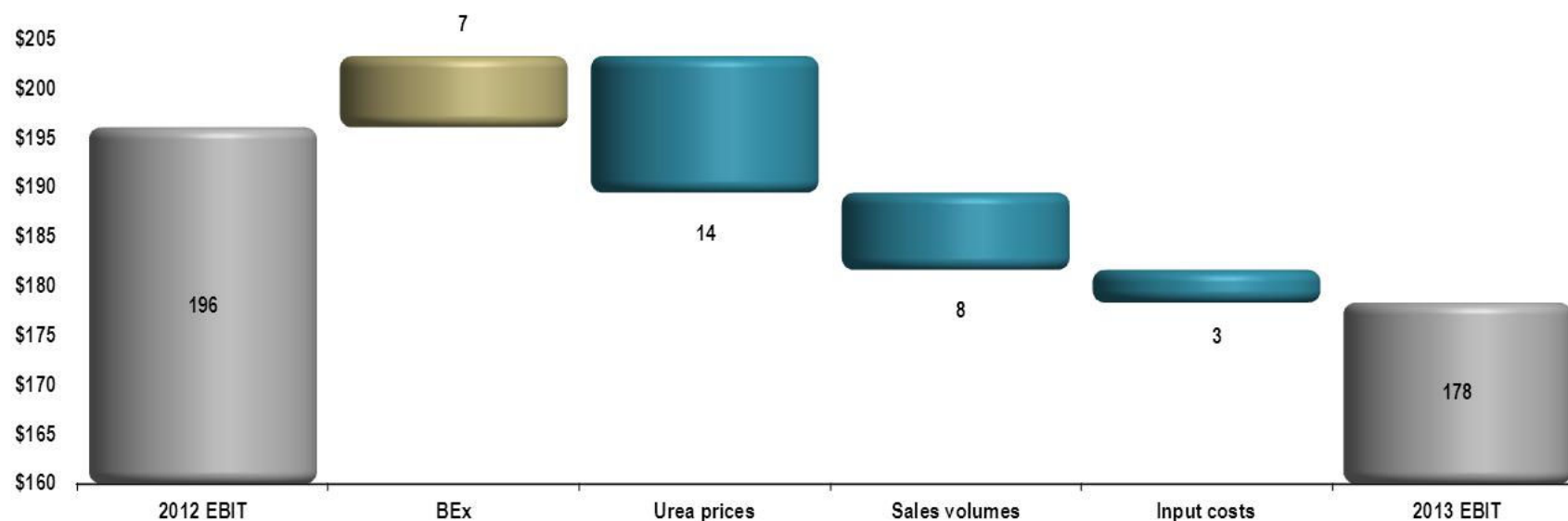


GROUP – EBIT waterfall



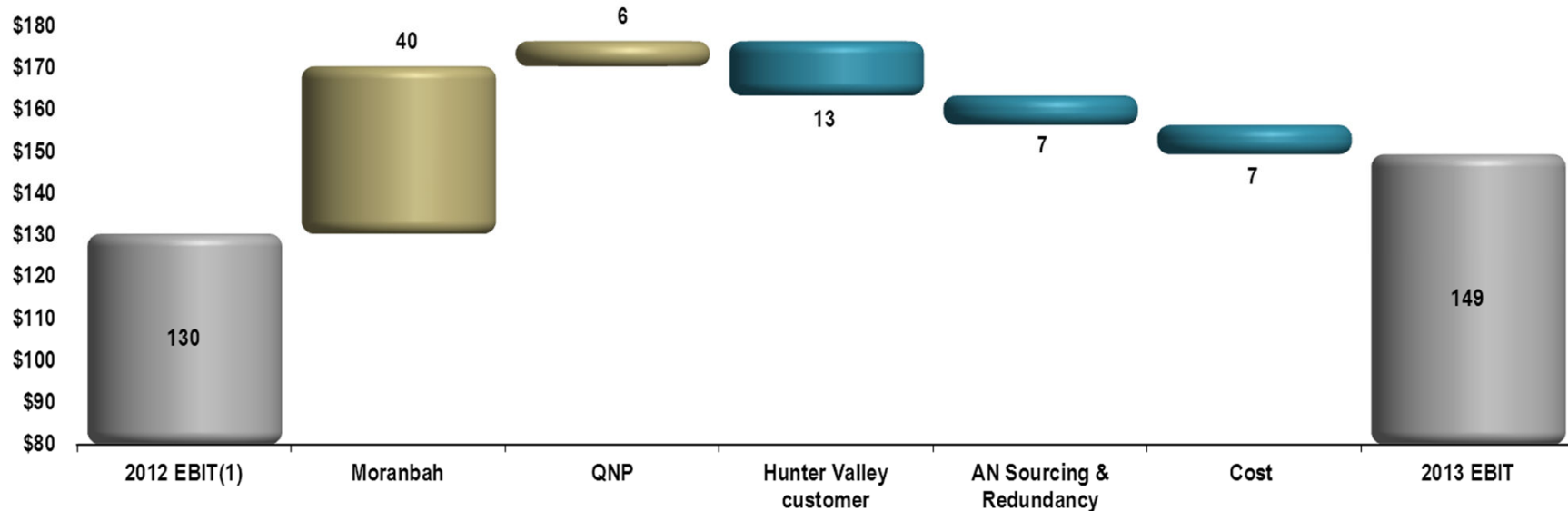
- ✓ Fertilisers trading & distribution margin recovery
- ✓ Moranbah EBIT growth
- ✓ BEx - Benefits in DNA and Fertilisers
- ✗ Fertilisers – Negative external factors - fertiliser price & \$A
- ✗ Phosphate Hill outages

DNA (USD) – EBIT waterfall



- ✓ BEx supply chain optimisation and process efficiencies
- ✗ Impact of falling Urea price
- ✗ Negative impact of US coal volumes
- ✗ Initiating Systems input costs not able to be passed through in 1H

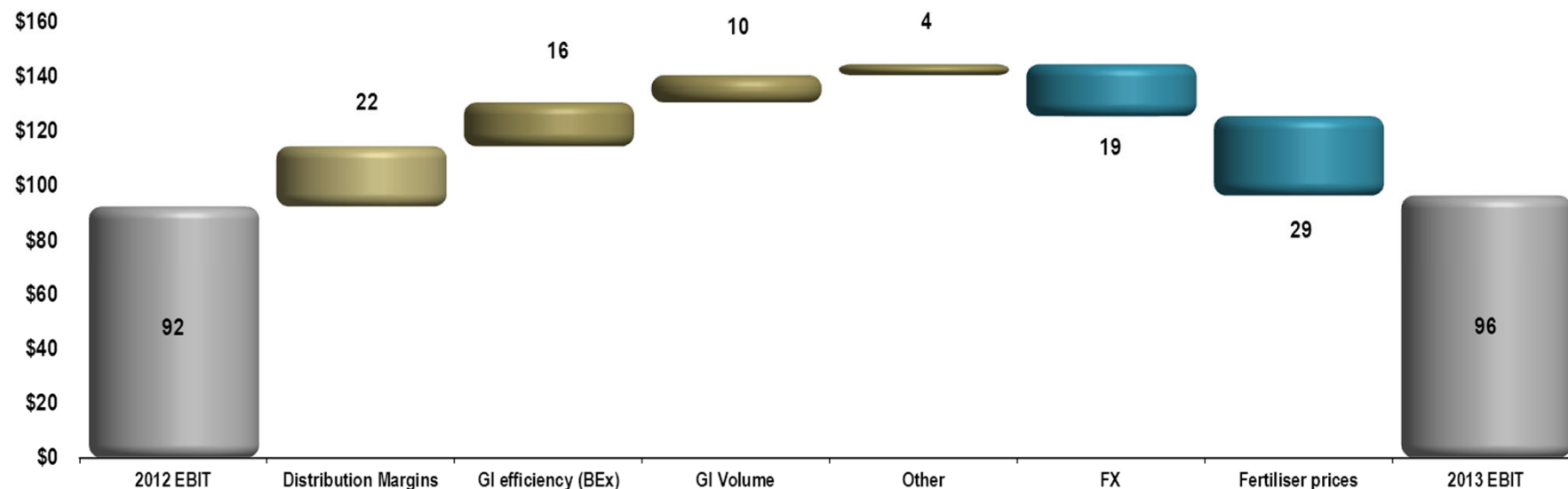
DNAP – EBIT waterfall



- ✓ Higher earnings from Moranbah plant
- ✓ Higher earnings from QNP (production volume)
- ✗ Volume: Loss of Hunter Valley customer
- ✗ Support costs increased (investment in business)

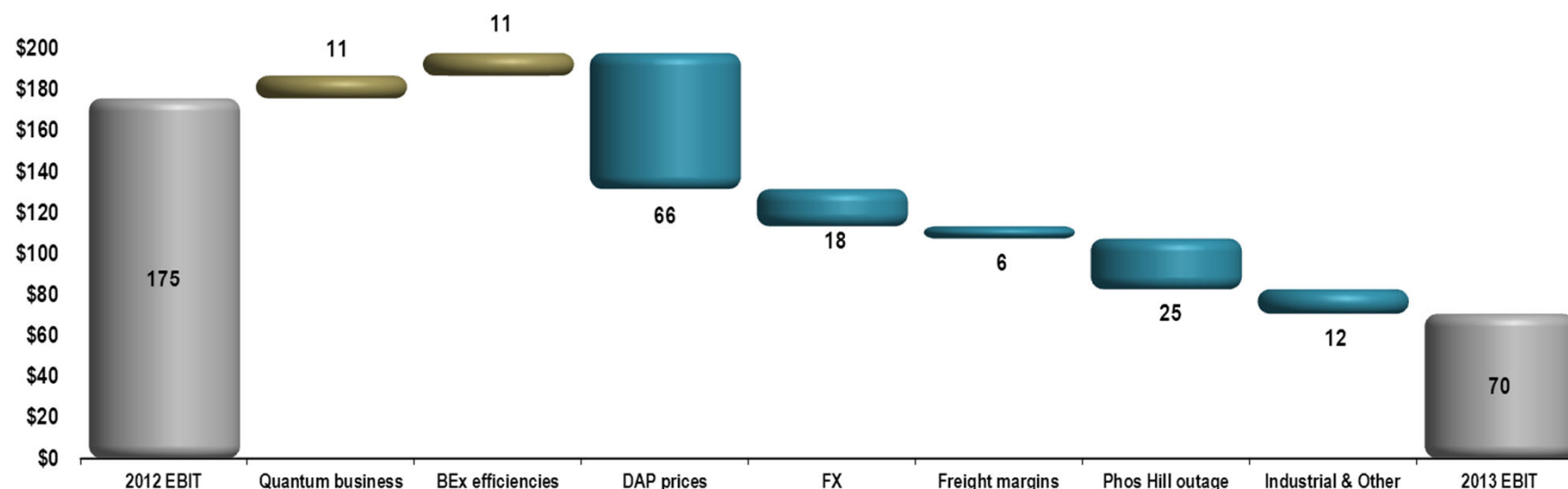
(1) Earnings are before Individually Material Items and 2012 Moranbah unfavourable contract liability release.

IPF – EBIT waterfall



- ✓ Distribution margin recovery
- ✓ Significant BEx efficiencies generated at Gibson Island
- ✓ Higher Gibson Island (GI) production delivers margin growth
- ✗ External Impacts: Lower fertiliser prices and higher \$A

SCI – EBIT waterfall



- ✓ Quantum profit recovery: Risk management processes in place
- ✓ BEx efficiencies – Decant project and other
- ✗ External Impacts: lower DAP prices, higher \$A and soft freight rates
- ✗ Phosphate Hill outage
- Industrial business – External impact & IPF volume shift for higher netback

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Balance Sheet & Treasury

Frank Micallef
Chief Financial Officer

Strong investment grade capital structure

	Sept. 2013	Sept. 2012	Target range
Net debt /Adj EBITDA ⁽¹⁾	2.0x	1.8x	< 2.5x
Interest cover ⁽²⁾	6.2x	7.9x	> 6.0x
Gearing Ratio ⁽³⁾	23%	24%	
Headroom (including cash)	\$1.7b		
Average tenor of drawn funds	4.7 years		

(1) 2012 EBITDA is adjusted to exclude the 2012 Moranbah unfavourable contract liability release

(2) Interest cover = EBITDA / interest expense excluding discount unwind

(3) Net Debt / (Net Debt + Equity)

Sound credit metrics maintained

Capital management outcomes – Net debt

No significant movement in net debt at \$1.28bn (2012: 1.23Bn)

- Operating cash flow decreased by \$6.3m to an inflow of \$614.5m
 - Good results in challenging market conditions
 - Continued trade working capital improvement
- Louisiana construction spend \$107.3m (excludes capitalised interest)
- Sustenance spend of \$169.7M (2012: \$154.7m)
- Dividend payment \$203.6m (+9%)
- Average interest rate 6.1% (inclusive of upfront costs and commitment fees)

Credit metrics remain strong

New debt facilities

Syndicated bank facility - \$A1.45bn

- Facility increase of \$A550m
- \$A850m expires in October 2016
- \$A600m in September 2018

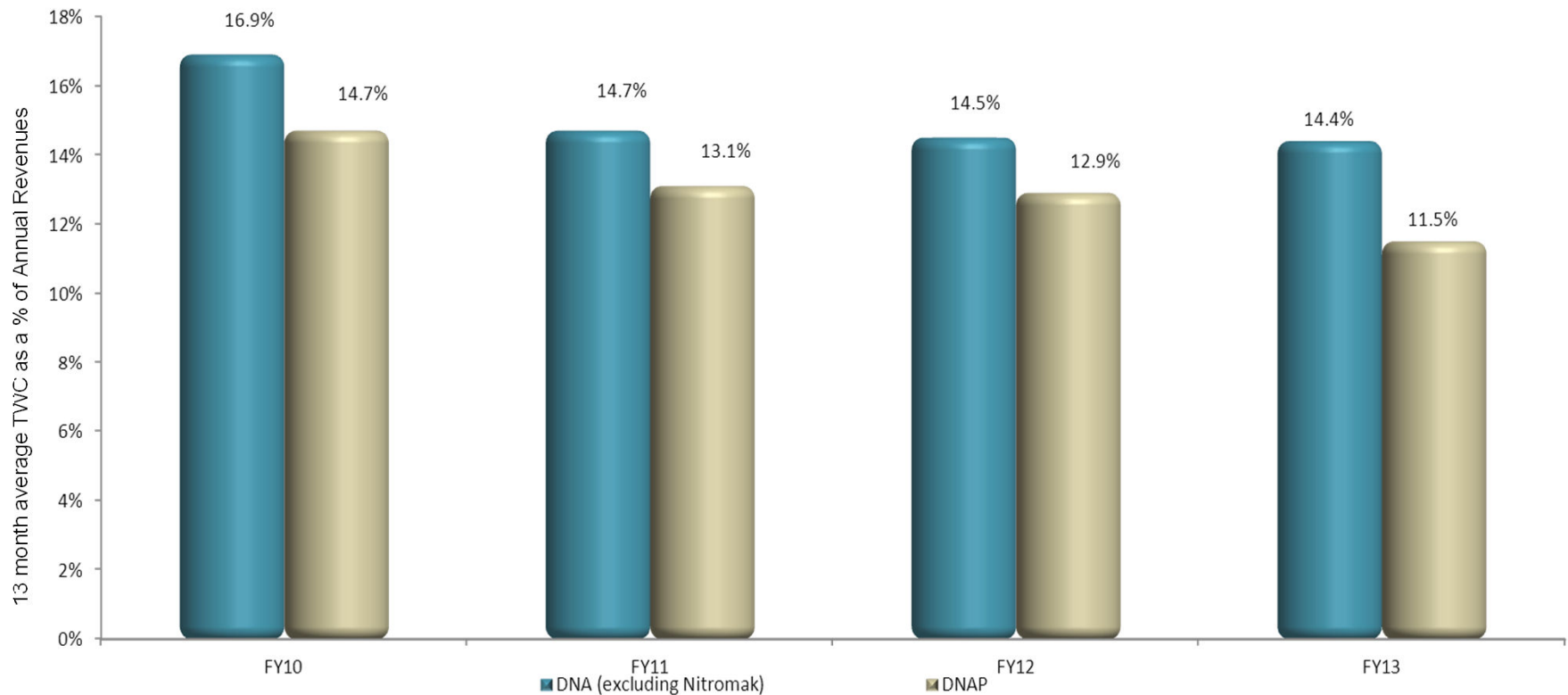
Medium term note

- \$A200m
- Matures in Feb 2019
- Fixed rate 5.75%

Increase in tenor & diversity of debt facilities

Improving trade working capital position

Explosives Business – 13 month rolling average Trade Working Capital as % of Annual Net Revenue



Value-adding risk management – FX exposures

- 2013: FX hedging strategy gave protection at \$A1.05 for the year, with full participation in \$A favourable movements, with achieved rate of A\$0.996
- 2014: \$US Transactional exposure – Australian manufactured fertilisers
- 90% covered at no worse than \$A0.95, full participation

Risk management approach to FX

OUTLOOK

James Fazzino
Managing Director & CEO



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Outlook – 2014 Explosives

■ DNAP

- Moranbah AN plant expected to produce 300kt of AN in FY14, generating an expected \$110m of EBIT (incremental \$54m)
- Remaining regions flat
 - Consolidation by miners
 - Excess supply of AN

■ DNA

- Tempered outlook for the coal segment
- Low single digit volume growth in other segments
- Agriculture volumes are expected to be flat

2014 – Focus on execution

Outlook – 2014 Fertilisers

- Phosphate Hill turnaround consists of 2 shutdown periods:
 - 2014 production (shutdown year): 830kt of APs
- No scheduled major shutdown for Gibson Island in 2014
- Distribution margins are now back at normal levels
- Quantum & Industrial businesses are expected to remain constant
- Sensitivities provided for fertiliser prices and \$A

2014 – Focus on execution

2014 – Focus on execution

- Safety
- Moranbah to 300kt and \$110m EBIT
- Phosphate Hill and Mt Isa shutdowns
- Louisiana construction – 2014 spend: US\$360m
- Renew Phosphate Hill gas contract from 2015
- Focus on the controllables
 - Continued to deliver business efficiencies via BEx
 - Overhead reduction: \$20m 2014 exit rate, \$12m in 2014 & \$10 implementation cost
 - Cash conversion

2014 – Focus on execution

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Questions ?



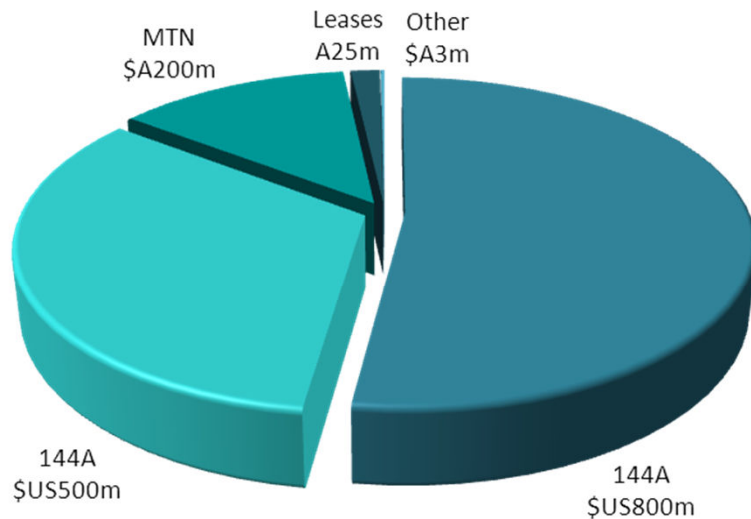
Appendices

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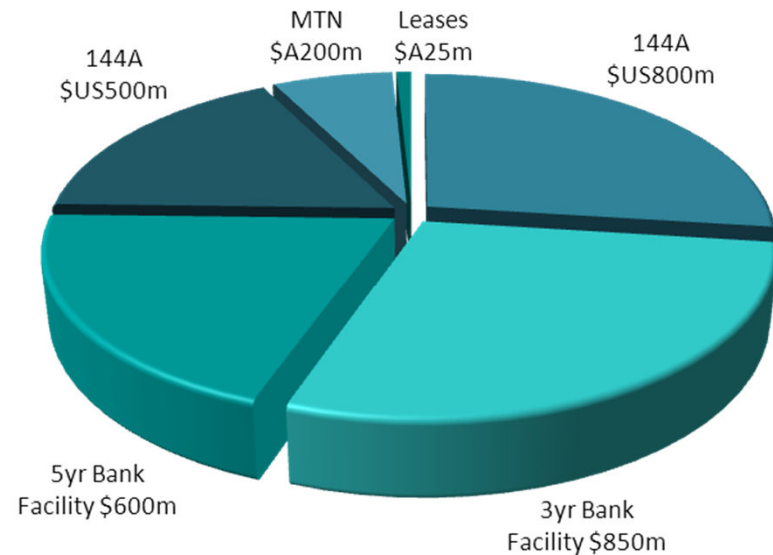


Debt structure with significant tenor

Drawn Funds



Available Limits

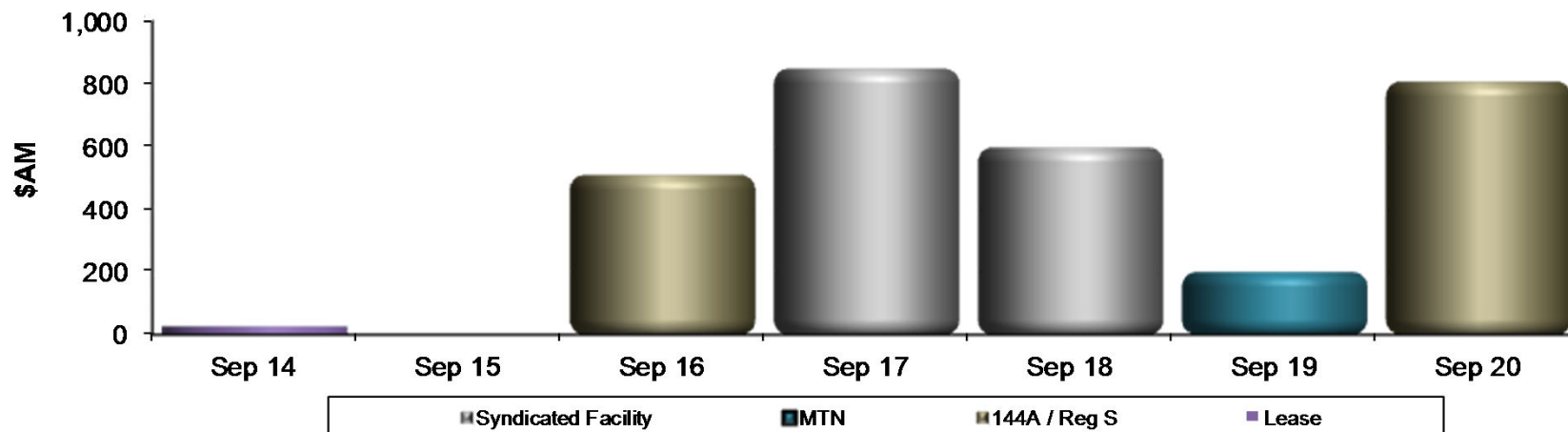


- ✓ Debt tenor extended
- ✓ Louisiana construction fully funded
- ✓ Mix of \$A and \$US debt to mirror earnings and cash flows

Diverse sources; surplus headroom

Debt in place for Louisiana construction

Debt Maturity Profile



- 4.7 years average tenor of drawn funds
- Headroom including cash: \$1.7b

Tenor and diversity

Capital management - Interest cost

Year Ended 30 September (\$m)	2013	2012	Change
Total borrowing costs	110.6	121.1	9%
Less unwinding of discount on provisions	6.4	25.3	
Underlying interest cost	104.2	95.8	(9%)
Average interest rate	6.1%	5.8%	

- Full impact of Moranbah project borrowings in 2013 underlying interest cost
- 2013 includes some one off loan establishment fees

2014 Capital Spend – Major Items

Louisiana construction cash flows

- 2014 \$US360m, 2015 \$US250m, 2016 \$US130m
- 50% funded by Nth American business cash generation
- \$A cash flows are hedged at no worse than \$A0.96

Non shut related sustenance capital approximately \$150m

- Regular sustenance \$120m
- Gypsum cell at Phosphate Hill \$30m

Shut related capital approximately \$95m

- Phosphate Hill approximately \$65m, two shuts:
 - 16 days in Oct/Nov
 - 35 days in May/Jun
- Other minor shuts \$30m

EBIT sensitivities

IPF: Urea - Middle East Granular Urea (FOB) ⁽¹⁾	+/- US\$10/t = +/- A\$4.1m
SCI: DAP - Di-Ammonium Phosphate Tampa (FOB) ⁽²⁾	+/- US\$10/t = +/- A\$9.5m
Forex - transactional (DAP & Urea) ⁽³⁾	+/- 1 cent = A\$6.2m
DNA: Urea (FOB) ⁽⁴⁾	+/- US\$10/t = +/- US\$1.8m
DNA: Forex - translation of Explosives earnings ⁽⁵⁾	+/- 1 cent = A\$2.0m

Assumptions:

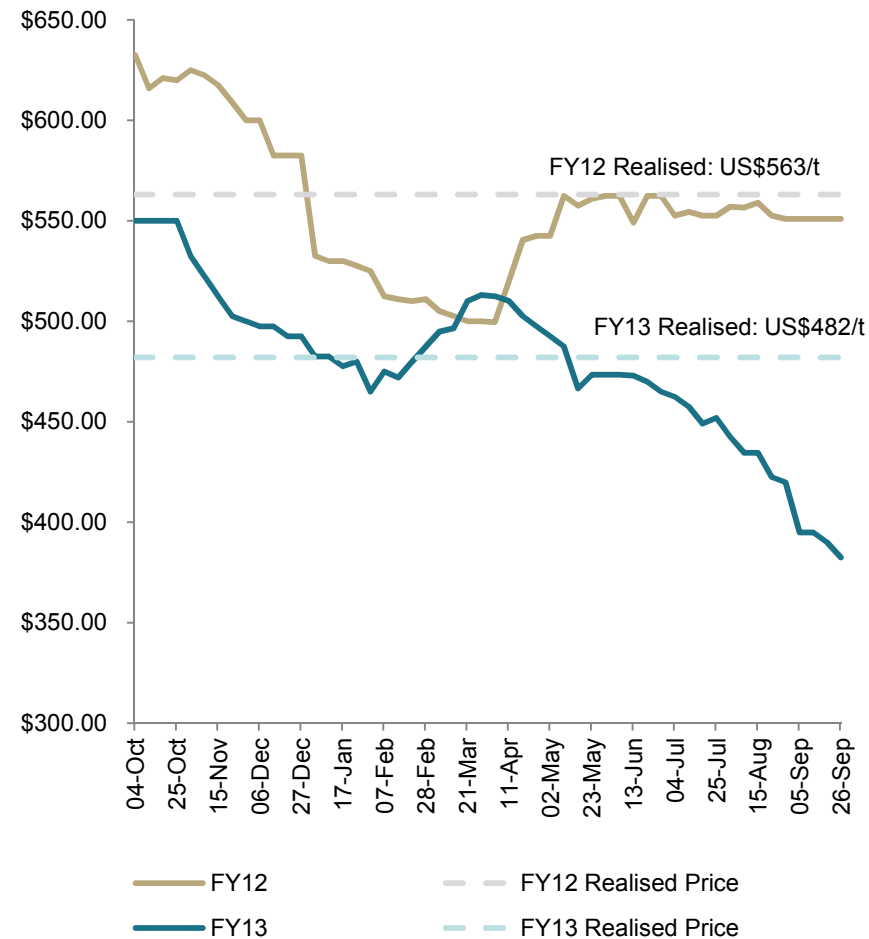
- (1) 405kt (Gibson Island Fertiliser name plate production capacity) urea equivalent sales at 2013 realised price of US\$373/t and the 2013 realised exchange rate of A\$/US\$0.9957
- (2) 950kt (Phosphate Hill Fertiliser name plate production capacity) DAP sales at 2013 realised price of US\$482/t and the realised exchange rate of A\$/US\$0.9957
- (3) DAP and Urea volumes, as well as FOB price based on assumptions (1) and (2) (excludes the impact of hedging)
- (4) 180kt (St Helens Fertiliser name plate production capacity - short tonnes) urea equivalent sales at 2013 NOLA Urea average price of US\$395/t and the 2013 realised exchange rate of A\$/US\$0.9957
- (5) For each US\$200m EBIT

Market information - Ammonium Phosphates

- Ammonium phosphates global market size: ~60mt

Million tonnes	2008	2009	2010	2011	2012
World DAP seaborne trade	10.4	14.7	16.3	14.3	14.8
India DAP imports	5.6	6.2	7.8	6.8	5.9
China DAP exports	0.8	2.1	4.2	4.2	4.1

DAP FOB Tampa prices (USD):



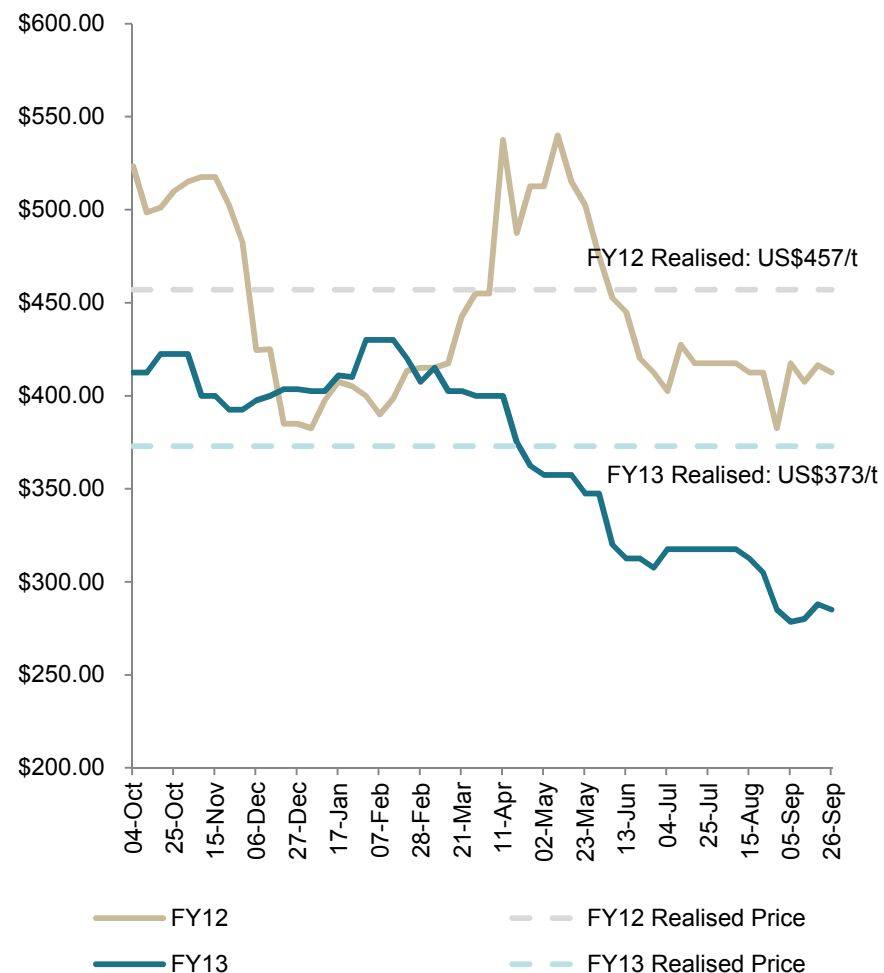
Source: Fertecon

Market information - Urea

- Urea global market size: ~155mt

Million tonnes	2008	2009	2010	2011	2012
World Urea seaborne trade	34.0	36.7	41.0	41.0	43.9
India Urea imports	6.1	5.5	6.2	8.0	8.4
China Urea exports	4.8	3.6	7.1	4.4	6.9

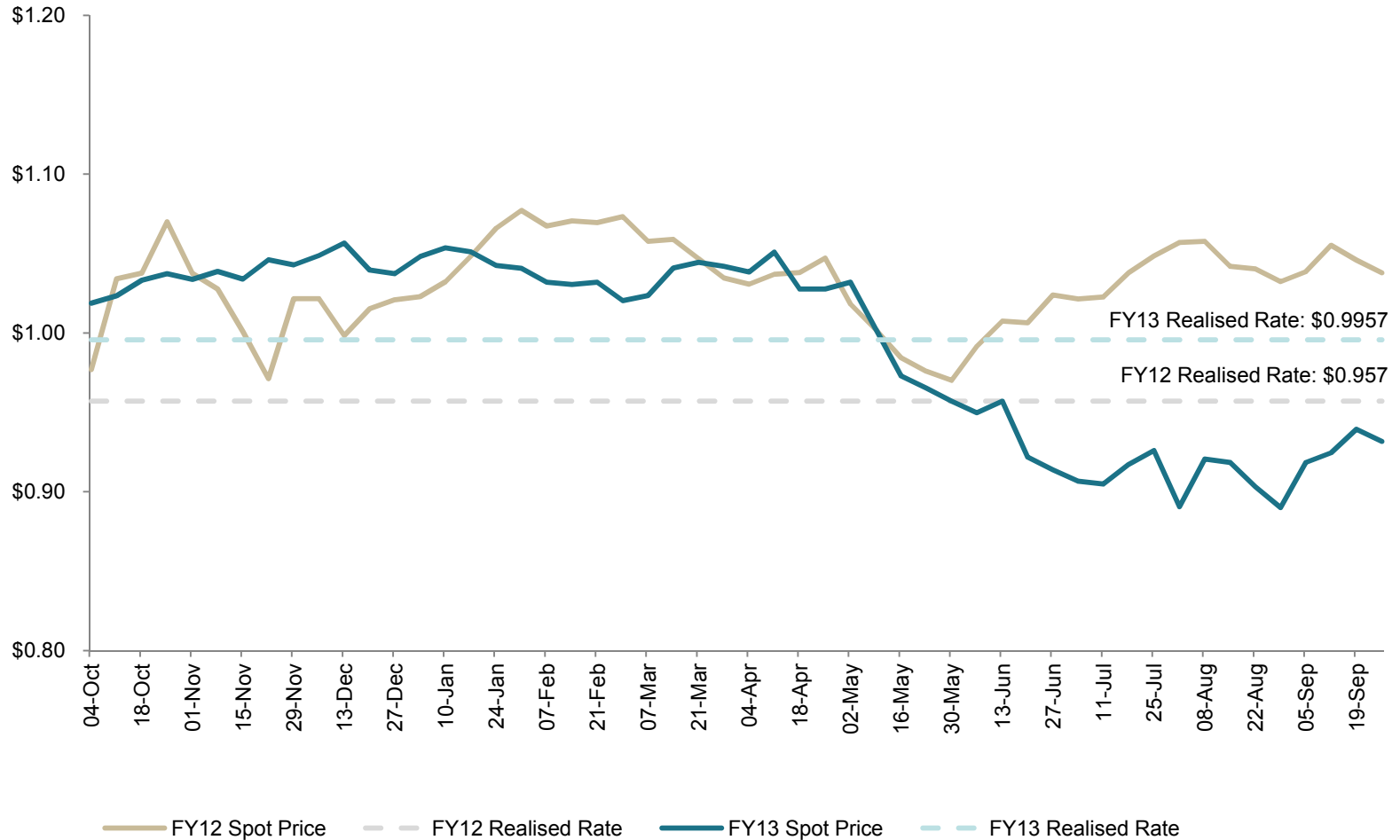
Urea (Granular) FOB Middle East prices (USD):



Source: Fertecon

Market information – Foreign Exchange

Foreign Exchange Rate (AUD:USD):

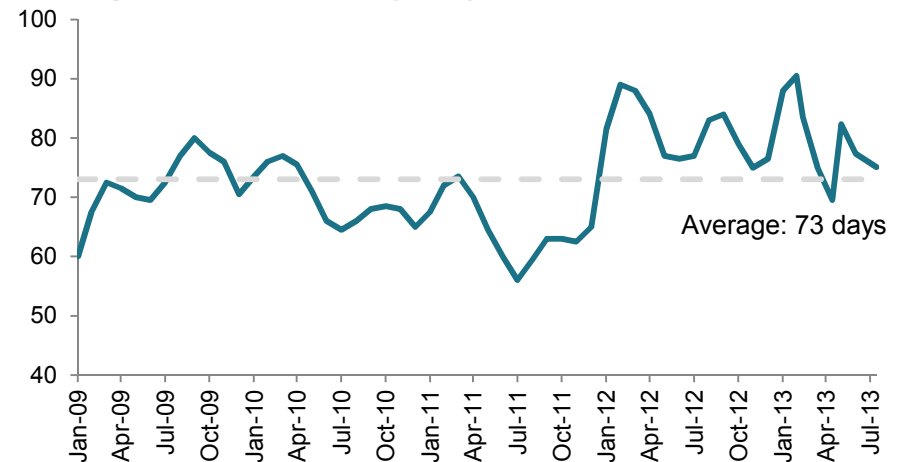


Market information - US Coal

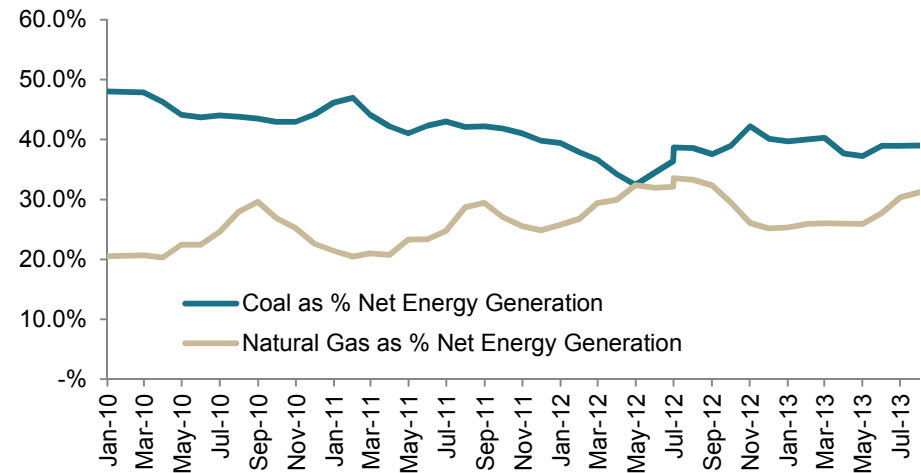
	FY13	% change to pcp
Total US coal Production (mt)	1,000.0	(4.7%)
Appalachia coal Production (mt)	289.4	(6.2%)
Interior coal Production (mt)	177.7	0.1%
Western coal Production (mt)	533.0	(5.5%)

Key facts	
Switching point from coal to gas	Powder River Basin: \$2.50-2.75 Illinois Basin: \$3.25-3.50 Central Appalachia: > \$4.50
DNNA coal exposure:	Powder River Basin: 50% Illinois Basin: 30% Appalachia: 20%

Average coal inventory days



Net energy generation by fuel source:

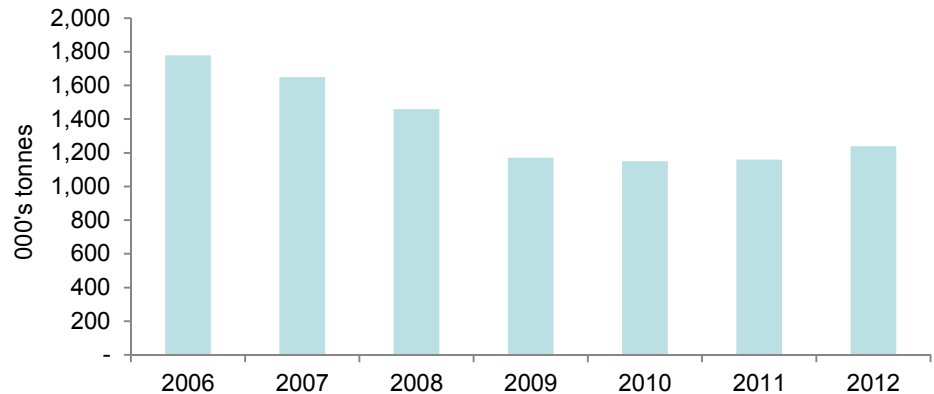


Source: EIA

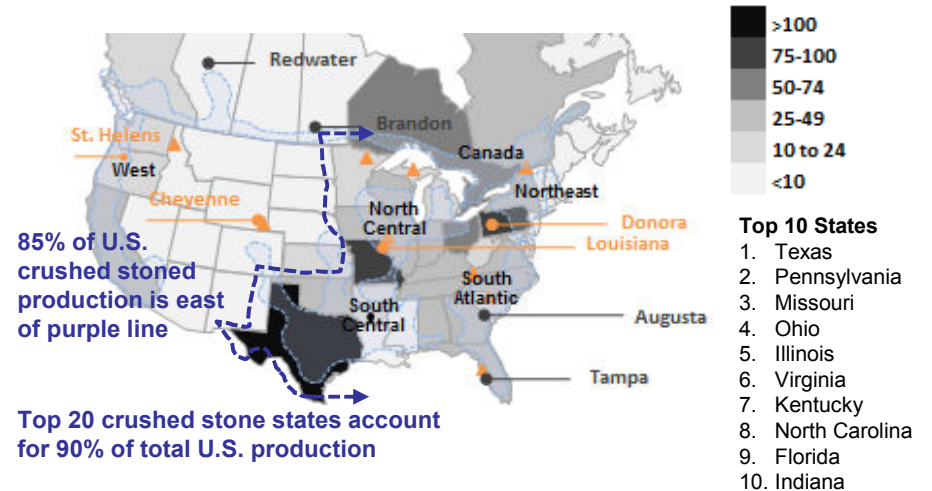
Market information - US Quarry & Construction

Construction Value put in place (US\$ billion) ¹	FY13	% change to pcp
Total Construction	809	7.4%
Residential	297	23.3%
Non-residential - private	273	2.1%
Non-residential - public	238	(2.4%)
Highway and street	70	(2.0%)

US crushed stone production:



North American Crushed Stone Production (million metric tonnes)



Key facts

DNA Q&C Exposure

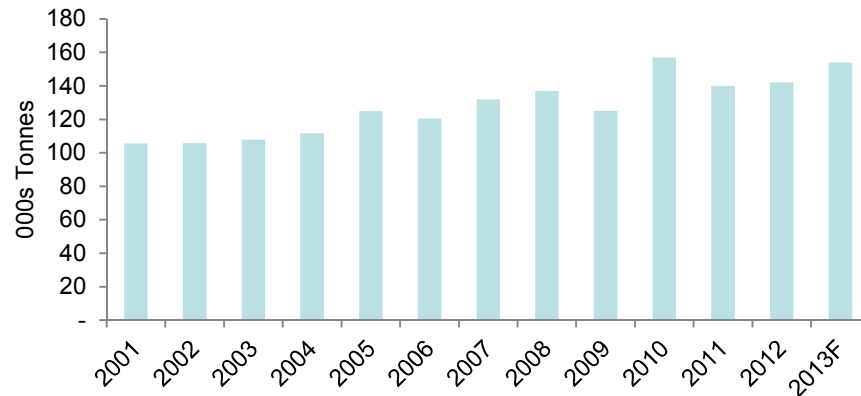
Public construction:	50%
Non-residential:	25%
Residential:	25%

Source: US Geological Survey (USGS); US Census Bureau

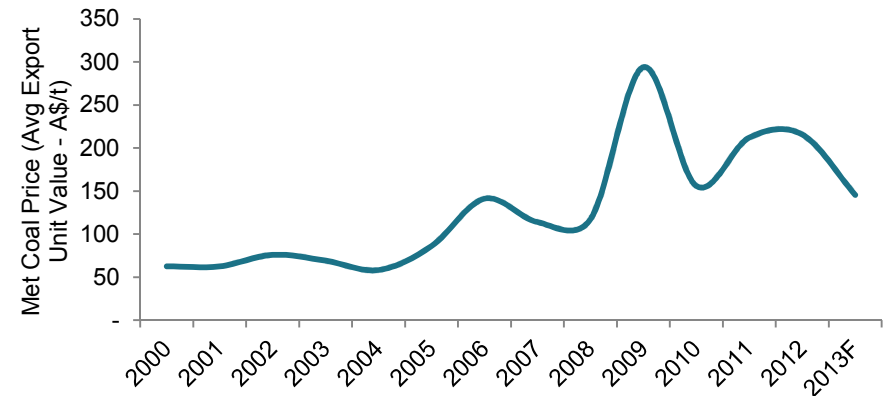
1. A measure of all the costs of labour and materials, architectural and engineering work and overhead costs associated with construction work done each month on new private residential, non-residential construction and public construction

Market information - Australian hard commodities

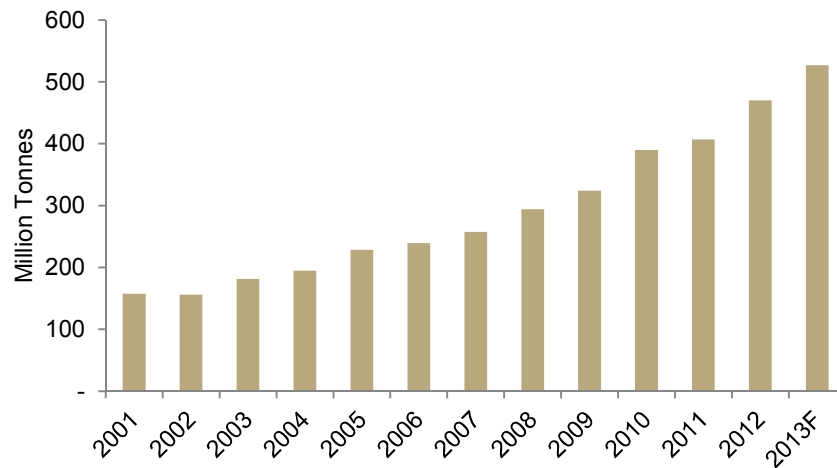
Australian metallurgical coal exports:



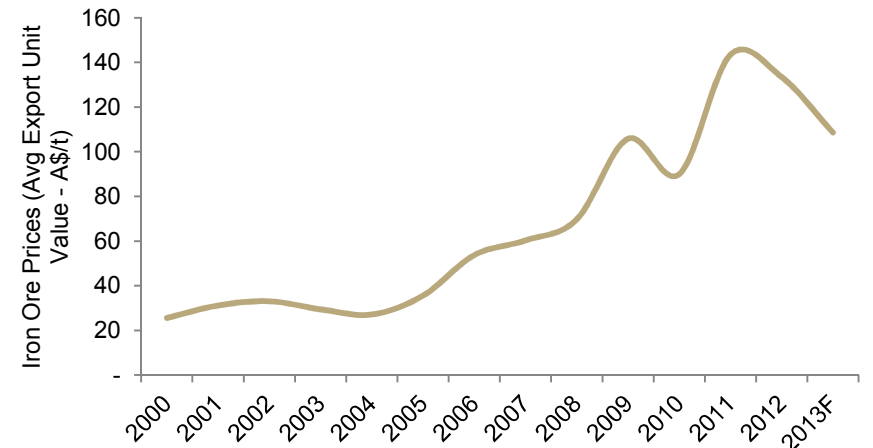
Metallurgical prices (Average export value):



Australian iron ore exports:



Iron Ore prices (Average export value):

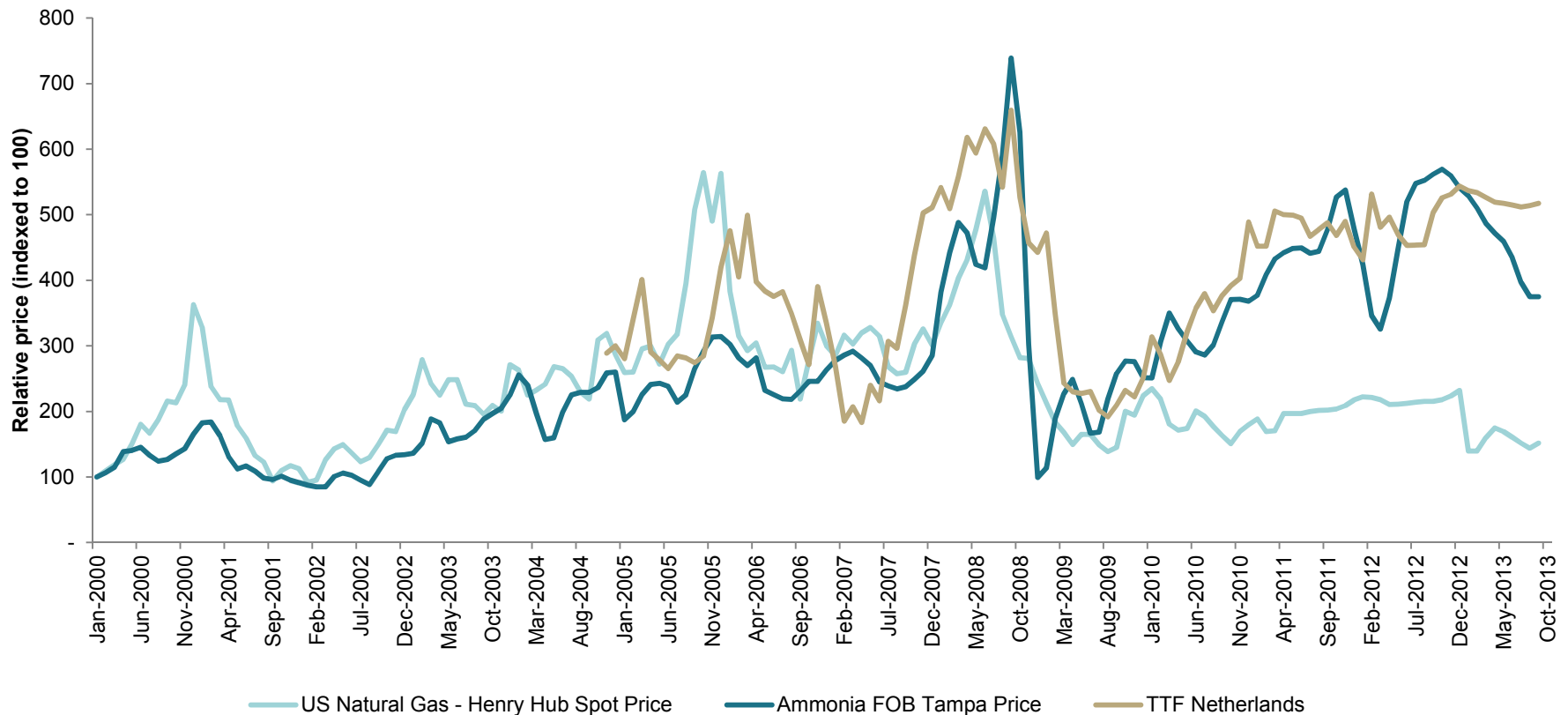


Source: Australian Government Bureau of Resources and Energy Economics, Resources and Energy Quarterly, March 2013
Reserve Bank of Australia Bulk Commodity Price Index (bulk commodities included are thermal coal, metallurgical coal and iron ore)

Market information - Ammonia

- US has a deep, low-cost supply curve for gas with multiple suppliers
- Global ammonia price has historically trended closely with cash costs of marginal production, currently from European producers

US vs. European gas price differential:



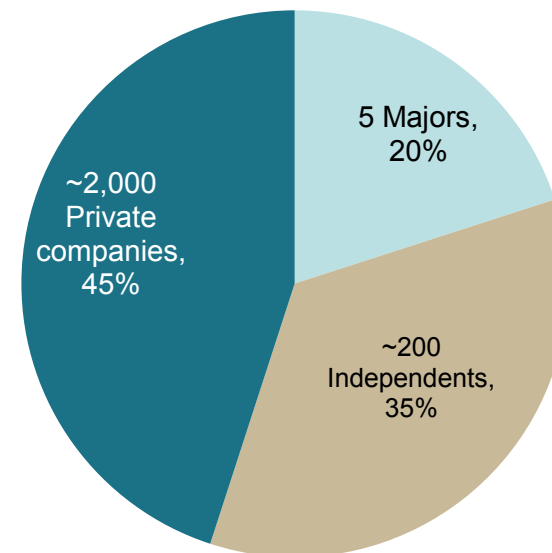
Source: Fertecon, Bloomberg

Market information - US gas supply

1 Gas market structure

- Current over capacity of gas in US
 - Expected to continue into medium-long term
- US has deep gas supplies with significant resources remaining economic at low gas prices
- Current Henry Hub natural gas spot price is \$3.62/MMBtu¹
- Highly fragmented market for gas production

Fragmented US gas market:



Gas prices:

	US\$/MMBtu
Current (as at 30 Sep 2013)	3.62
Last 18 months	4.43
5 year historic average	5.34

Source: EIA
1. As at 30 September 2013

Market information - US gas supply (cont.)

2 Technological improvements driving alternative gas production

- Greater drilling rig and well efficiencies

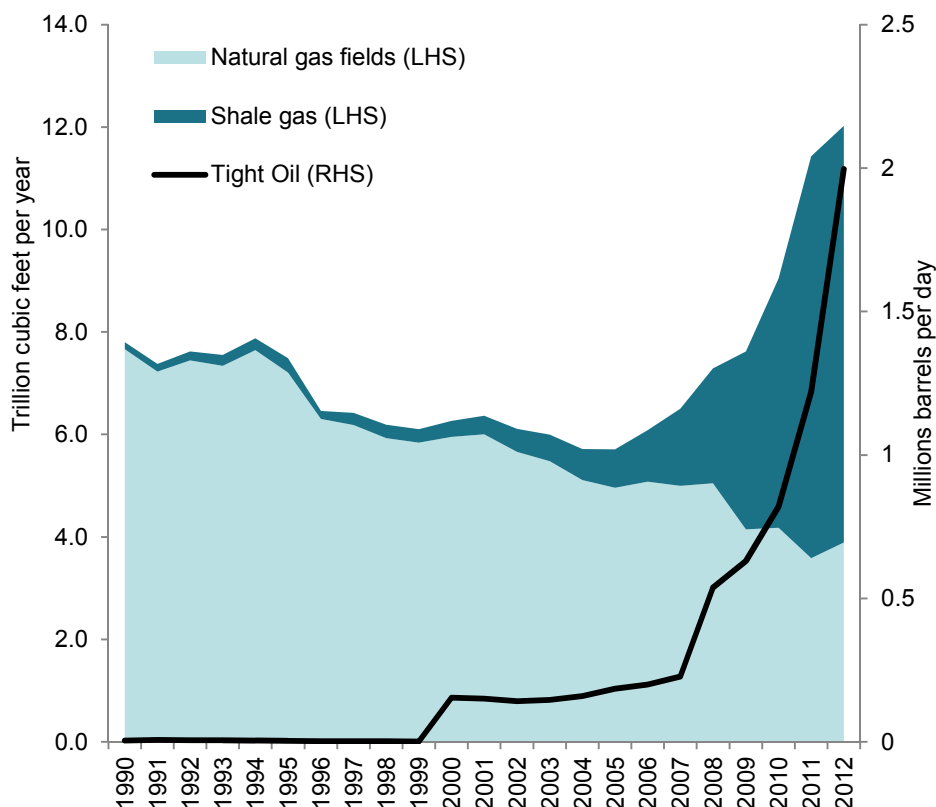
Shale gas

- Shale gas production as a percentage of US gas production increased from 6% in 2007 to 31% in 2012

Light tight oil

- Gas is a by-product of light tight oil production
- Light tight oil production has increased from ~200,000 barrels per day to ~2 million barrels per day over the last 10 years
- Increased development of light tight oil and other gas-from-liquids focused drilling

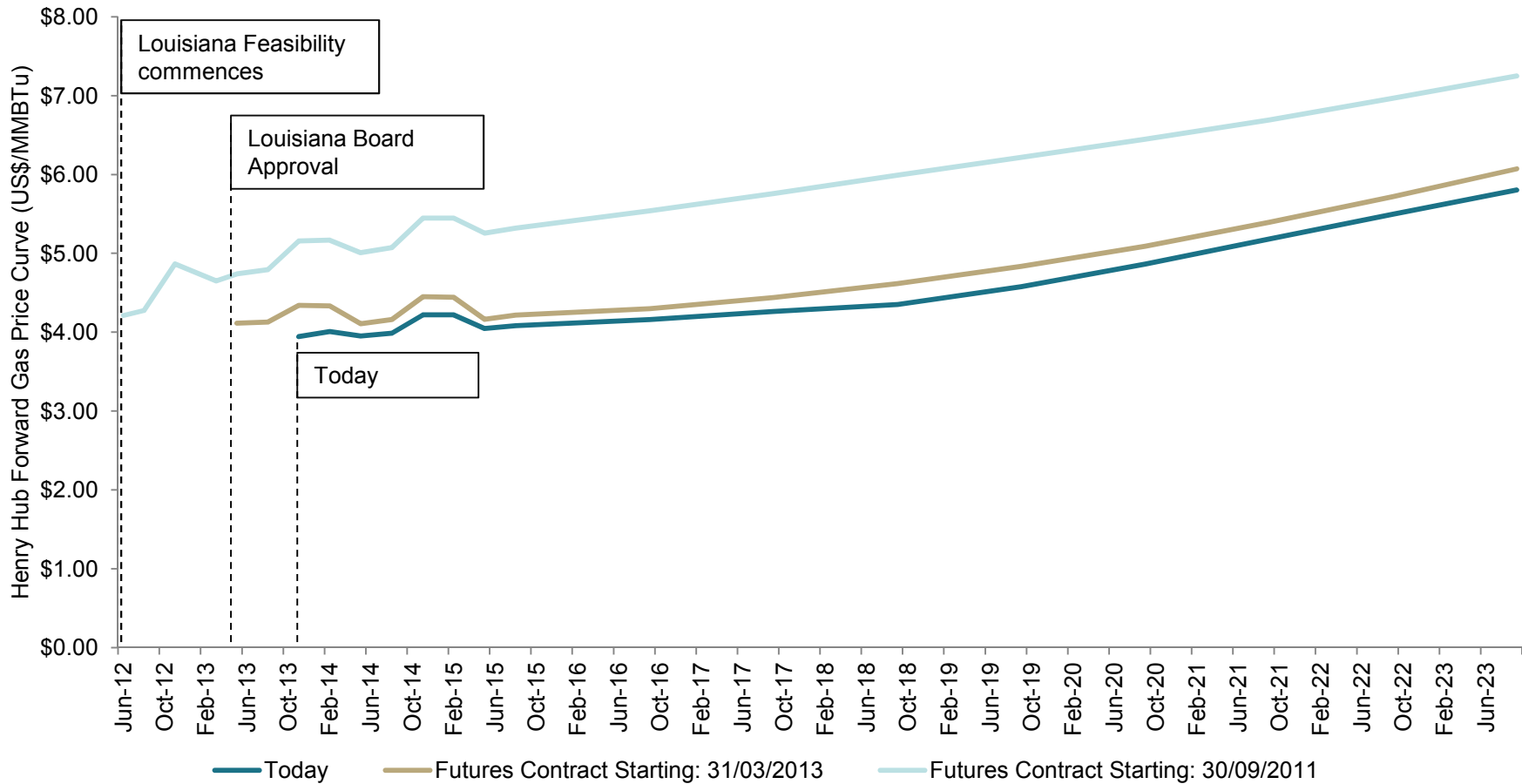
US shale gas and light tight oil production:



Source: EIA

Market information – US gas

US Natural Gas Forward Curve (NYMEX):



Source: Bloomberg

Key raw materials - Australia

Natural Gas:

Gas tranche	Amount (PJs/pa)	Contract Expiry
Tranche 1	10.5	31 December 2014
Tranche 2	16.8	30 September 2017 *
Tranche 3	7.0	31 March 2025

* Includes gas banking of approximately 2 PJs/pa

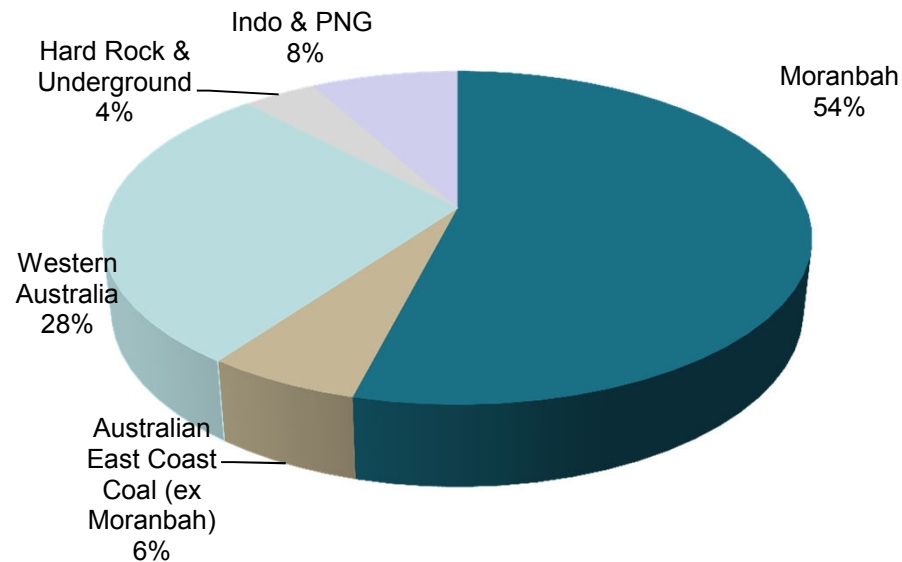
Sulphuric Acid:

Sources	Sulphuric Acid (%)	Location
Metallurgical gas	45%	Mt Isa
Sulphur burn	25%	Mt Isa
Purchased & Reclaimed sulphuric acid	30%	Through Townsville & Decant
Total Sulphuric Acid	1,290kt	
Uses		
DAP Production (nameplate)	950kt	Phosphate Hill

Source: IPL

Explosives end-markets

DNAP – AN Volumes by end-market



DNA – AN Volumes by end-market

