

Incitec Pivot Limited

DYNO
Dyno Nobel



Results Presentation

Half Year ended

31 March 2014

Presentation 12 May 2014

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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**

Outlook

James Fazzino



Performance Overview

James Fazzino
Managing Director & CEO



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Safety performance

Half Year ended	2014	2013
Fatalities	0	2
TRIFR ⁽¹⁾	1.15	1.29
Recordable cases	41	49
Percentage of sites injury free	93%	89%

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

Safety - a continued focus

Group performance

Half Year Ended 31 March	A\$m	Change %
EBITDA	302.6	20%
EBIT	193.1	14%
NPAT	115.7	7%
Business Results		
- Explosives EBIT	159.8	10%
- Fertilisers EBIT	49.8	2%
Operating Cash Flow	(39.9)	38%
Dividend (cents per share)	3.5	3%

Strong result in a challenging environment

Half Year 2014: What were the highlights?

- ✓ Moranbah EBITDA of \$70m, EBIT of \$49m
- ✓ DNA Explosives EBIT growth of 7%
- ✓ Efficiency focus: Business Excellence (“BEx”) delivers
- ✓ Overhead restructure on track
- ✓ Sound balance sheet maintained

Focusing on execution

Half Year 2014: What needs to improve?

- ✖ Safety – not at zero
- ✖ Phosphate Hill
 - May/June shut:
 - Additional scope extending the shut
 - Glencore Xstrata shut timing change
 - 2014 expected tonnes 770kt to 800kt
 - Reliability post shut
 - Position on global cost curve

Focus on safety & manufacturing

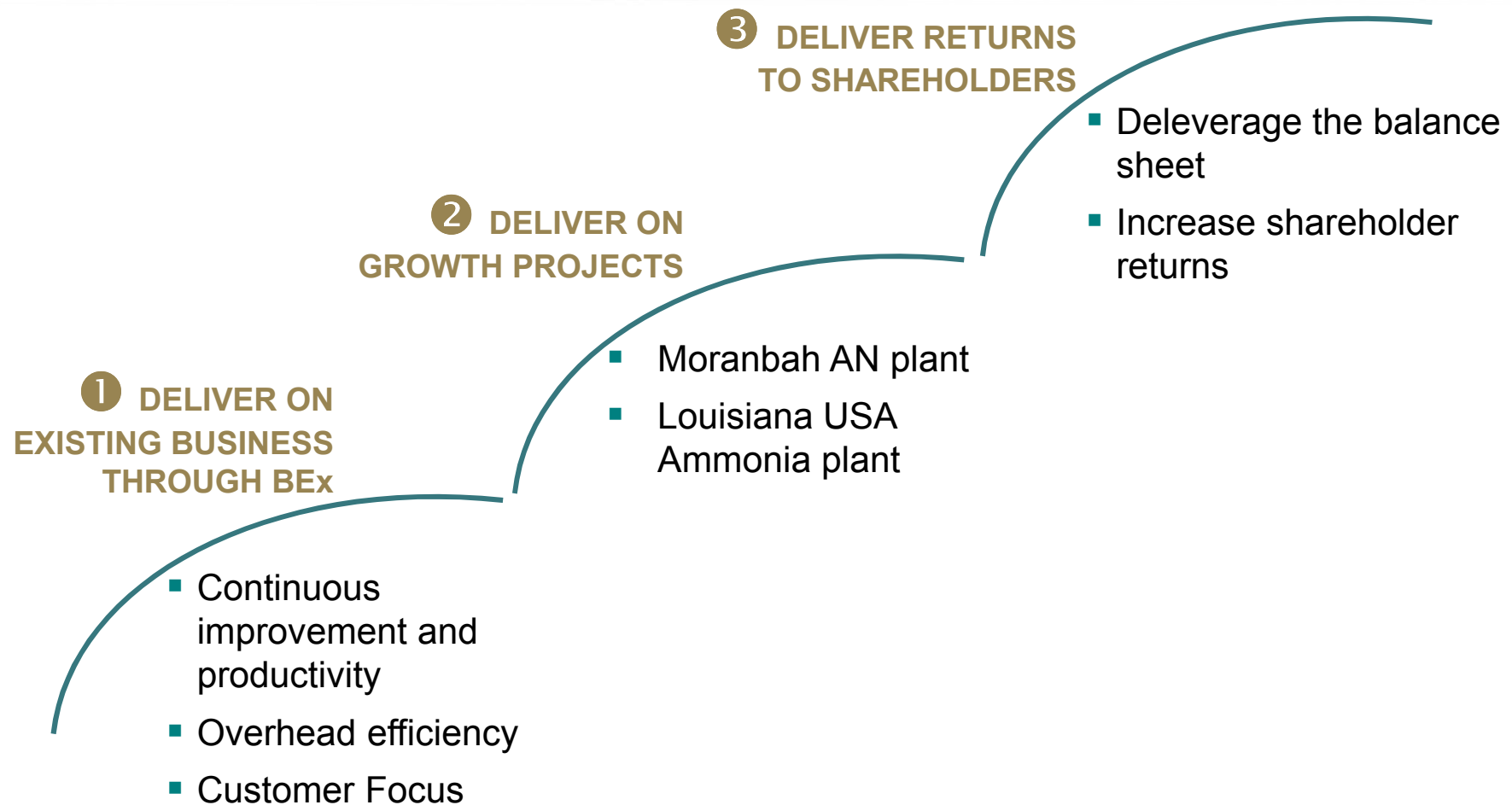
Half Year 2014: What were the external factors?

Net negative impact from external factors

- ✓ Weaker \$A
- ✗ Fertiliser prices
- ✗ Softer global mining markets
 - USA Coal
 - Asia Pacific hard rock & underground

Internal focus on the controllables

Strategy unchanged and delivering



Focus on execution and delivery

Moranbah update

Pre March/April 2014 shut

- ✓ Production to 31 March 134kt: On track for 300kt in FY 2014
- ✓ Residual reliability issues well managed

Post March/April 2014 shut

- ✓ Production at nameplate for the last two weeks
- ✓ Work on residual reliability issues
 - Steam balance achieved: additional boiler not required
 - Control systems fixed or replaced
 - Gas supply: additional node in place

Moranbah update – pending forecast finalisation

	Production	EBITDA A\$m	EBIT A\$m	COMMENT
2015 Initial Projections *	330kt	201	165	
Depreciation			-12	Amortisation of the recent shut and other capital variations from the business case
Other		-3	-3	
2015 Updated Projections *	330kt	198	150	

- ~ A difficult project, required some additional capital spend
- ✓ Cashflow on target
- ✓ Investment case thesis remains intact

* The projections include a \$10m carbon tax rebate benefit, this is offset by carbon tax cost elsewhere in the group.



Louisiana Video

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Louisiana ammonia plant update

- **As at 31 March 2014, the project is on track:**
 - Safety = No recordable injuries to date
 - Total construction cost = \$US850m
 - First production = Third Quarter 2016
- **Construction**
 - Excavations for the foundations are complete
 - Piling is 99% complete
 - Installation of the underground cooling water piping is almost complete
 - In progress: construction of the ammonia tank, foundations for the compressors, cooling tower, primary reformer and sumps
- **Outlook**
 - Fundamentals under-pinning project remain positive



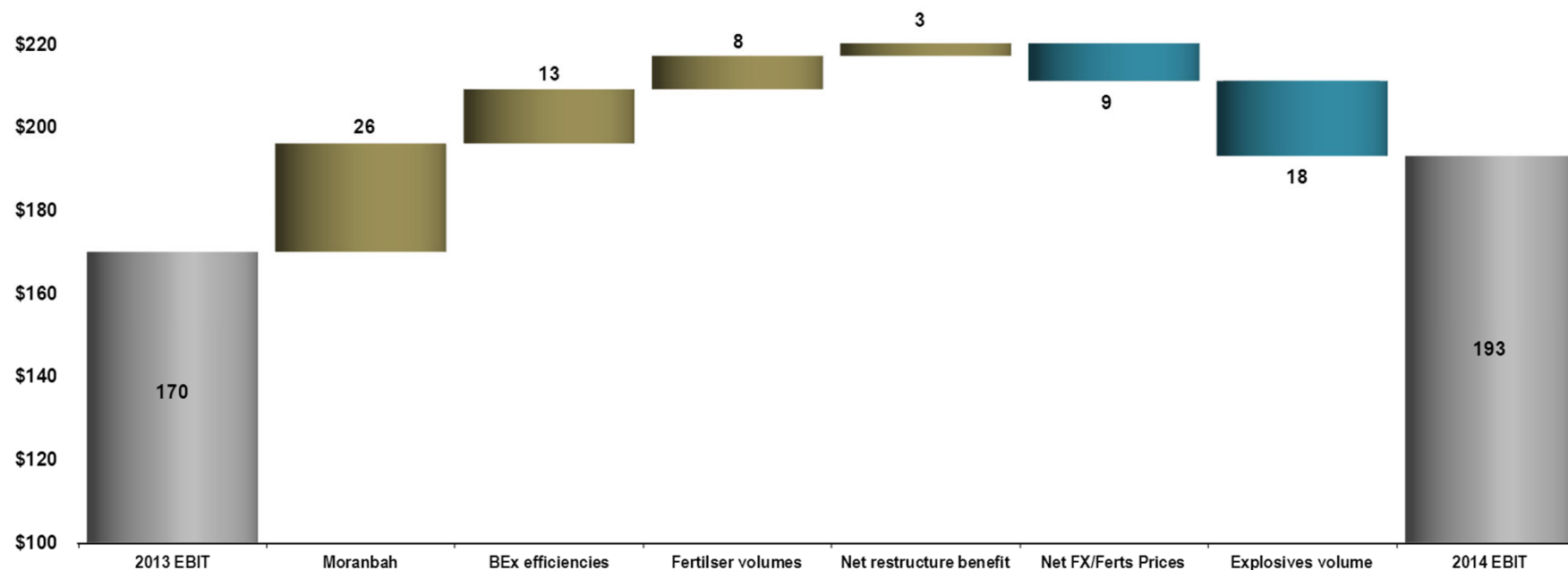
Financial Performance

Frank Micallef
Chief Financial Officer

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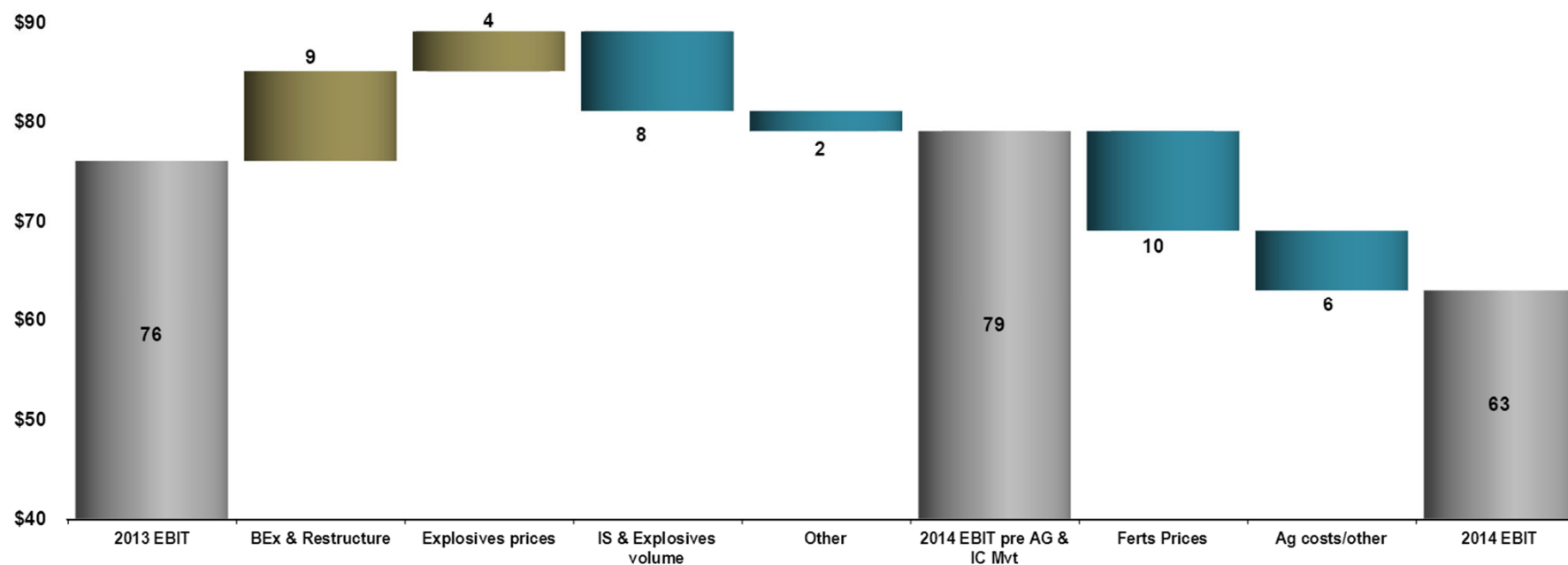
Incitec Pivot Fertilisers

Group – EBIT waterfall



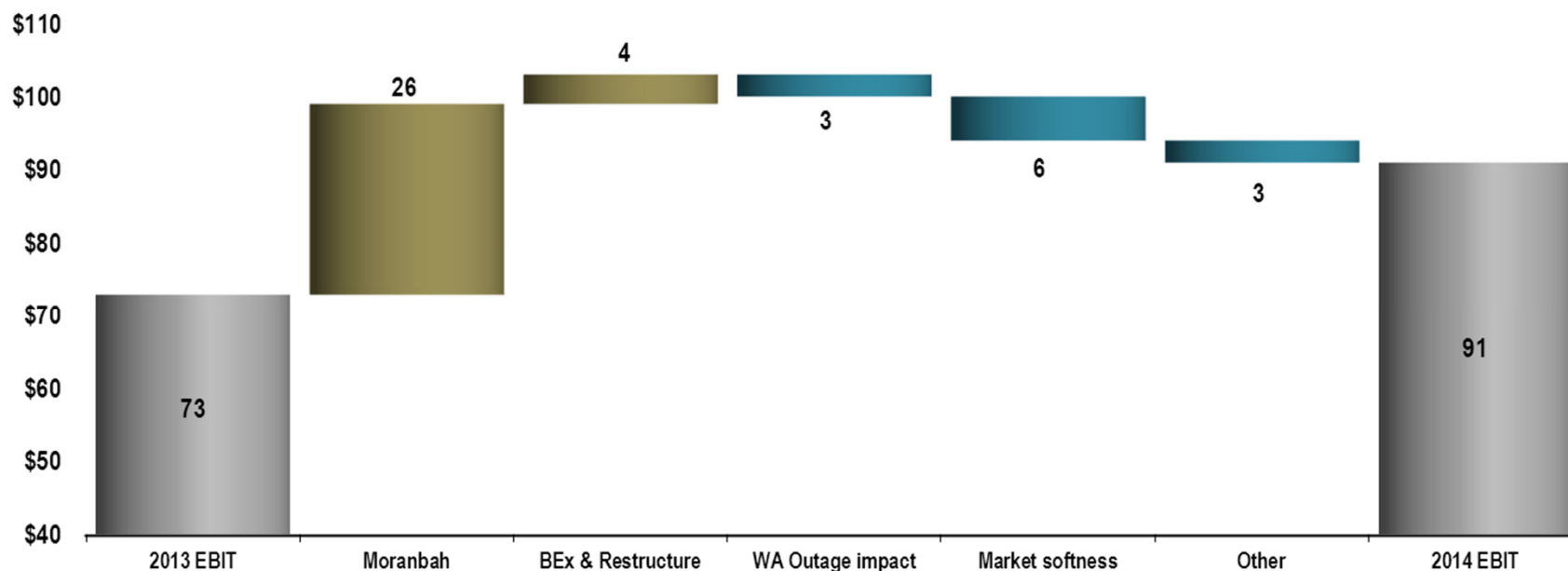
- ✓ Moranbah EBIT growth
- ✓ BEx & Restructure - Benefits on track
- ✓ Fertiliser volume growth
- ✗ Explosives markets are tough
- ✗ Fertilisers – Net negative external factors - fertiliser price & \$A

DNA (USD) – EBIT waterfall



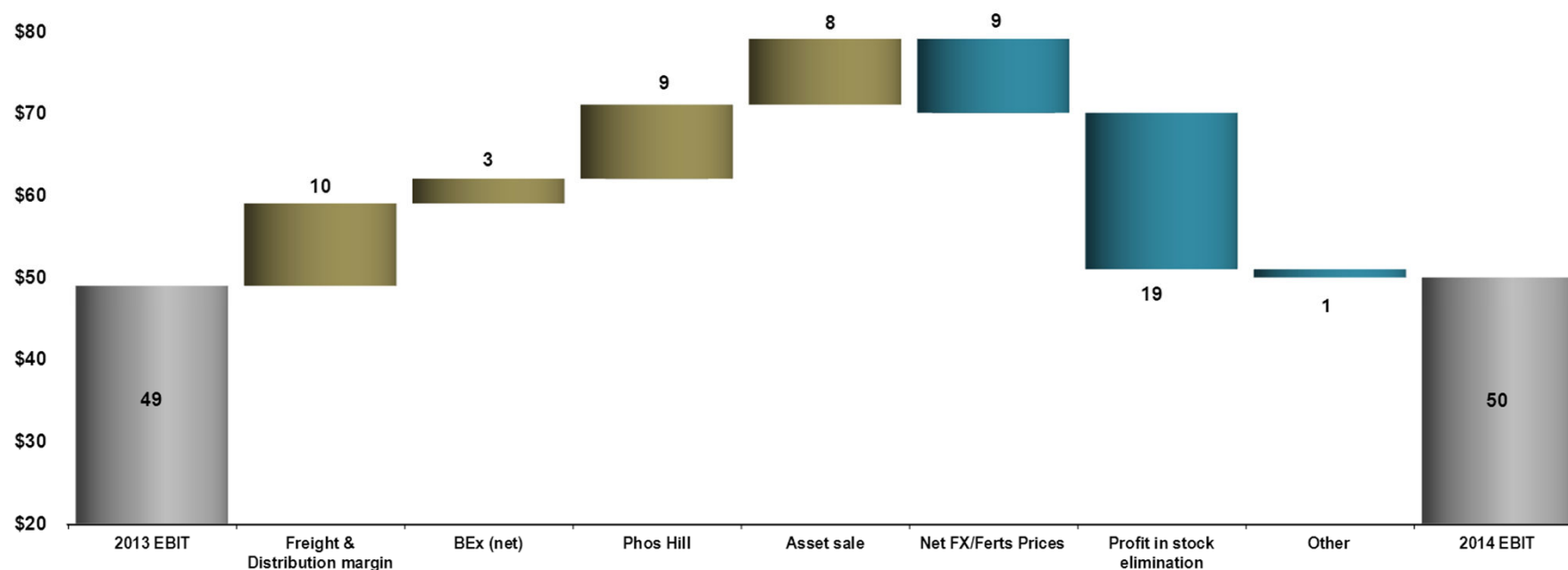
- ✓ Growth of 7% in earnings from Explosives
- ✓ BEx supply chain optimisation and process efficiencies
- ✓ Explosives price improvement
- ✗ Impact of falling Urea price & increased input costs
- ✗ Negative impact of US coal volumes & global IS sales

DNAP – EBIT waterfall



- ✓ Higher earnings & cashflow from Moranbah plant
- ✓ BEx and restructure benefits
- ✓ Moranbah ramp up complete
- ✗ Volume: soft market in Hard rock and Underground
- ✗ WA margin impact of interrupted AN supply (force majeure event)

Fertilisers – EBIT waterfall



- ✓ Distribution margin growth
- ✓ BEx efficiencies - manufacturing and supply chain
- ✓ Asset sale – Port Adelaide
- ✗ Net external Impacts: Lower fertiliser prices and weaker \$A
- ~ Profit in stock elimination, reverses in second half

Balance Sheet & other

	March 2014	March 2013	Target range
Net Debt /EBITDA ⁽¹⁾	2.4x	2.3x	< 2.5x
Interest cover ⁽²⁾	7.5x	6.8x	> 6.0x
Gearing Ratio ⁽³⁾	28%	29%	

- 38% improvement in operating cashflow; strong TWC performance
- Capital focus on major projects & turnarounds. Estimated FY14 capital spend:
 - Louisiana - US\$360m
 - Sustenance and minor growth - A\$275m
- Average interest rate 5.2% (pcp: 5.9%)
- Effective Tax Rate: 23% now and similar moving forward
- FX: covered at no worse than \$A0.95, full participation

(1) EBITDA = average 12 month rolling EBITDA

(2) Interest cover = Average 12 month rolling EBITDA / interest expense excluding discount unwind

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

OUTLOOK

James Fazzino
Managing Director & CEO



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Incitec Pivot Fertilisers

Outlook – 2014 Explosives

DNAP

- Moranbah FY14: 300kt of AN, \$100m to \$110m EBIT
- Other regions negative
 - Downturn in Australian mining
 - Excess supply of AN

DNA

- Low single digit volume growth in Coal and Quarry & Construction segments
- Mining & Metals is expected to be flat
- Agriculture volumes are expected to be flat

2014 – Focus on execution

Outlook – 2014 Fertilisers

- Northern region remains dry, but reasonable planting expected
- Southern region season appears average at this stage
- Phosphate Hill turnaround underway: Expected tonnes 770kt to 800kt
- Quantum & Industrial Chemicals businesses are expected to remain constant
- Sensitivities provided for fertiliser prices and \$A in the Profit Report

2014 – Focus on execution

IPL 2014 Investor Day

- Thursday, 4th September 2014 in Sydney
- Approximately 9am to 2pm, including lunch
- Focus:
 - Manufacturing – Moranbah & Phosphate Hill
 - Louisiana update
 - Fertiliser Distribution business overview
- Lunch with Executive team members

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Questions ?



Appendix 1

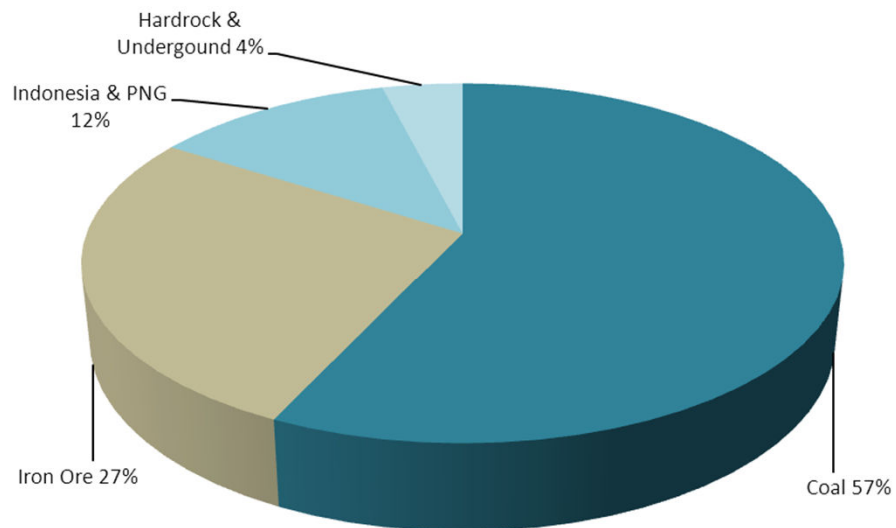
Other Business Information

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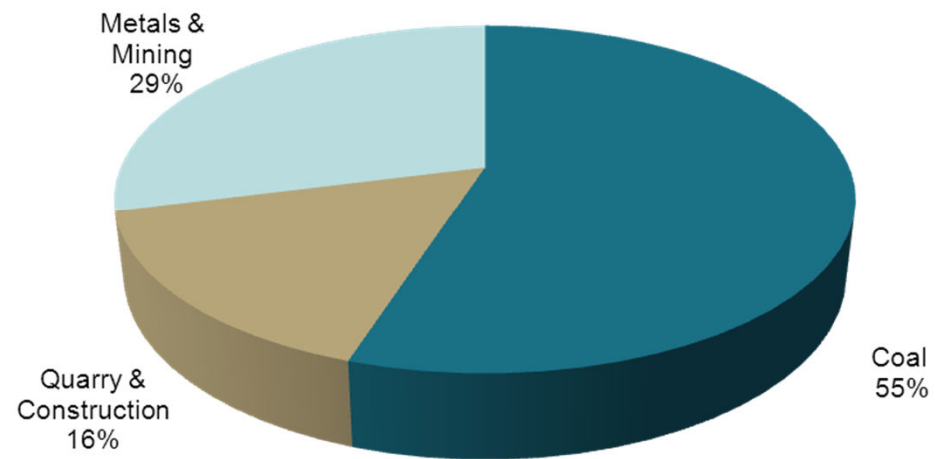


Explosives end-markets

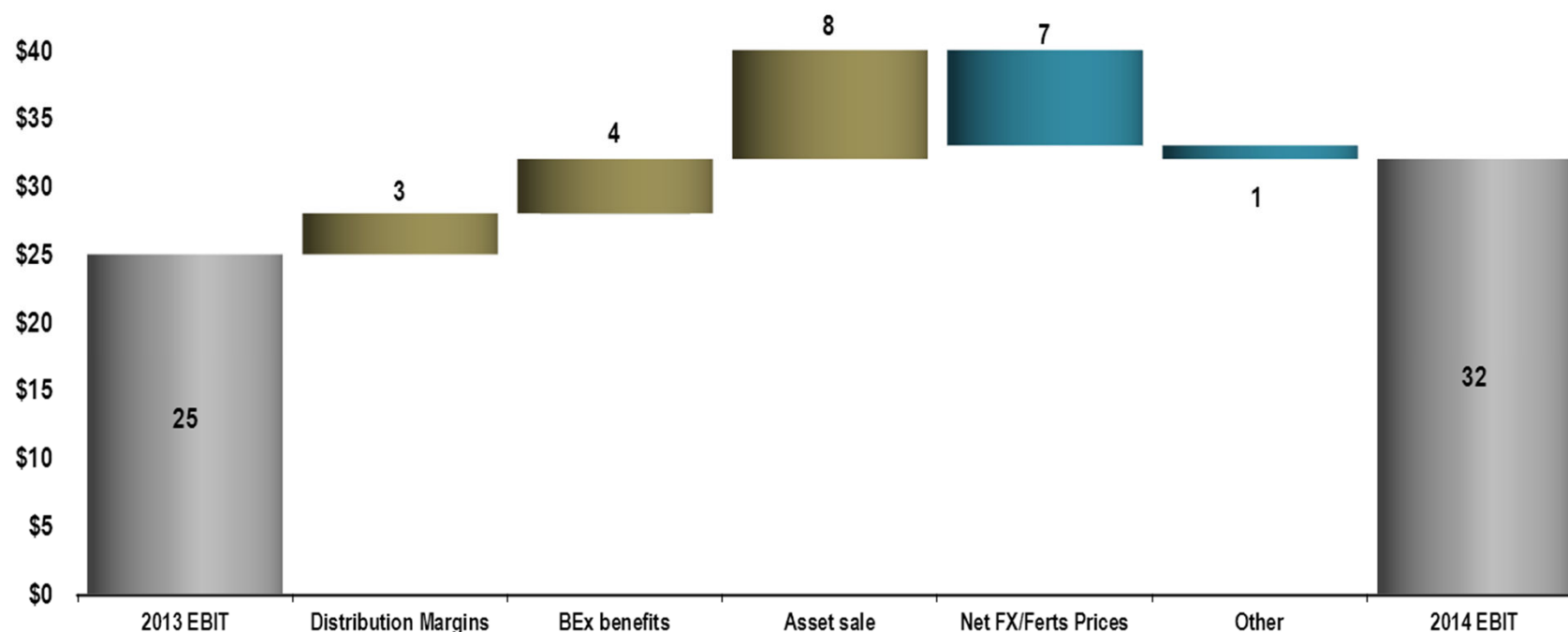
DNAP: AN Volumes by end-market



DNA: AN Volumes by end-market

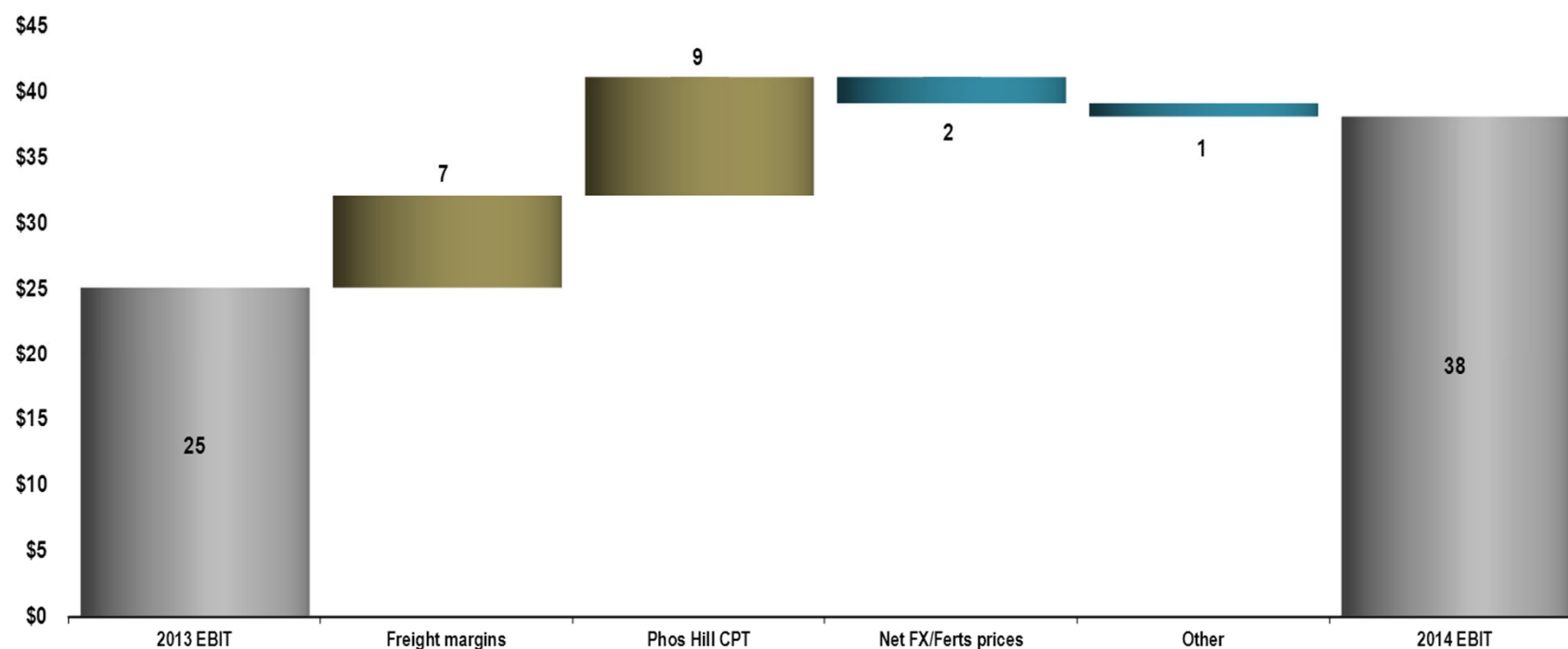


IPF – EBIT waterfall



- ✓ BEx efficiencies - manufacturing and supply chain
- ✓ Distribution margin growth
- ✓ Asset sale – Port Adelaide
- ✗ Net external Impacts: Lower fertiliser prices and weaker \$A

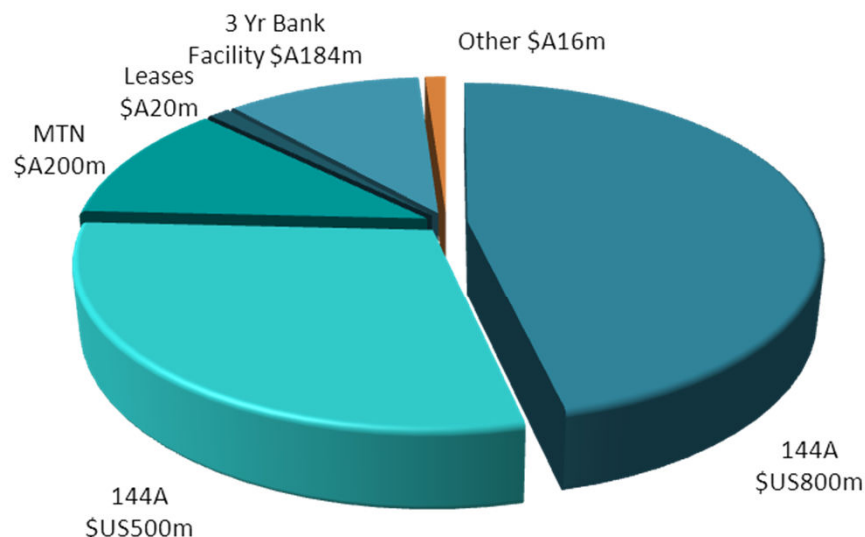
SCI – EBIT waterfall



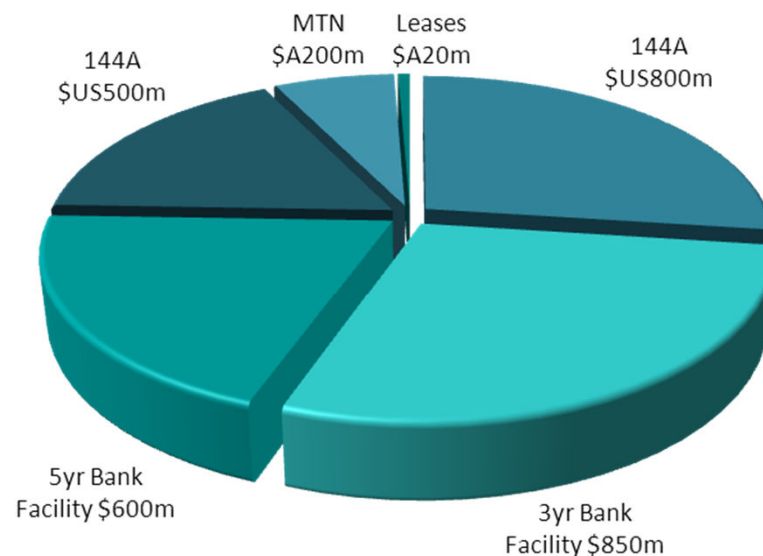
- ✓ Phosphate Hill cost per tonne (CPT) down
- ~ Neutral external impacts : lower DAP prices and weaker \$A
- ✗ Phosphate Hill full year expected volume now 770kt to 800kt

Debt structure with significant tenor

Drawn Funds



Available Limits



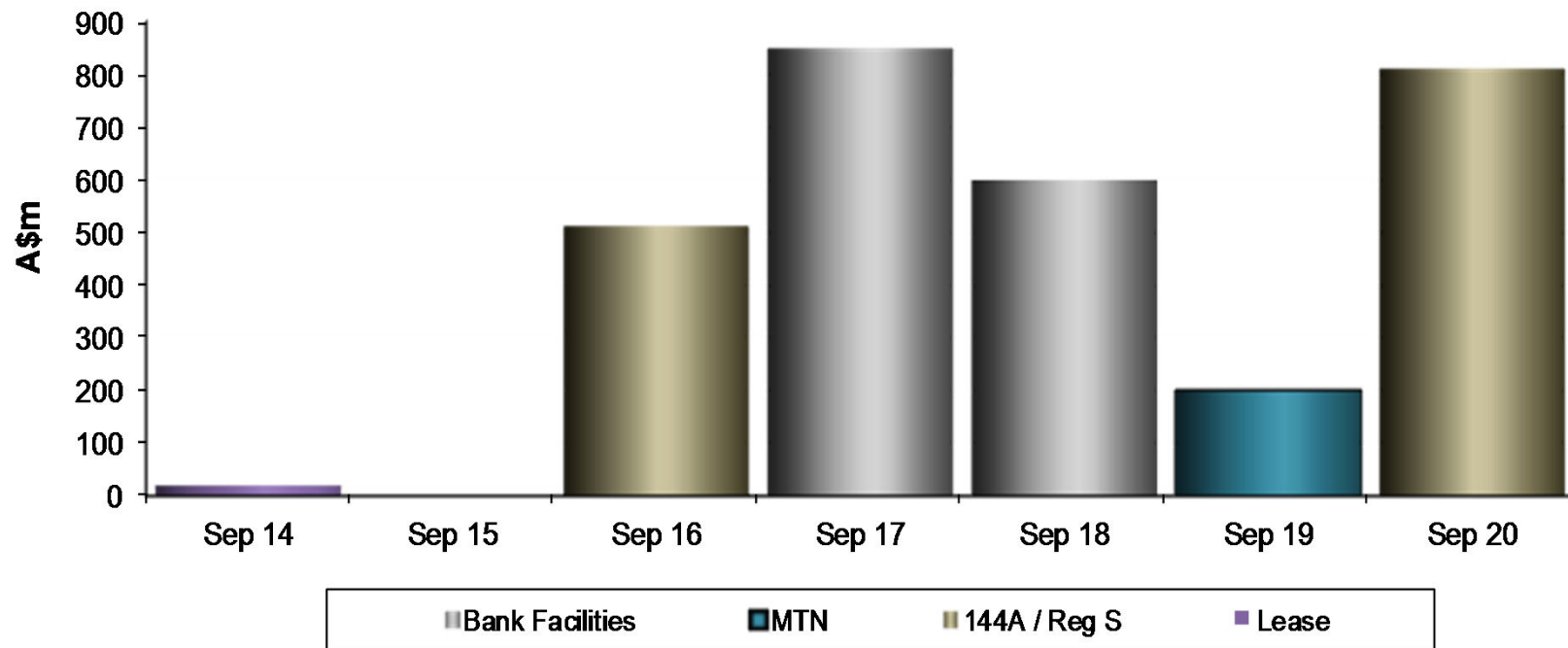
- ✓ Louisiana construction fully funded, increase in drawn funds reflects spend on project.
- ✓ Mix of \$A and \$US debt to mirror earnings and cash flows

Diverse sources; surplus headroom

Debt in place for Louisiana construction

Debt Maturity Profile

Per reporting period



- 4.2 years average tenor of drawn funds
- Headroom including cash: \$1.34b

Tenor and diversity

Foreign exchange & tax

2014H1: \$US Transactional exposure - Business was able to fully participate in favourable movements in the AUD/USD exchange rate.

- Australian manufactured fertilisers: exchange rate achieved is A\$0.9066

2014H2: Australian manufactured fertilisers 90% covered at no worse than \$A0.95, full participation

Effective Tax Rate: 23% now and moving forward

Risk management approach to FX

Appendix 2

External Market Information

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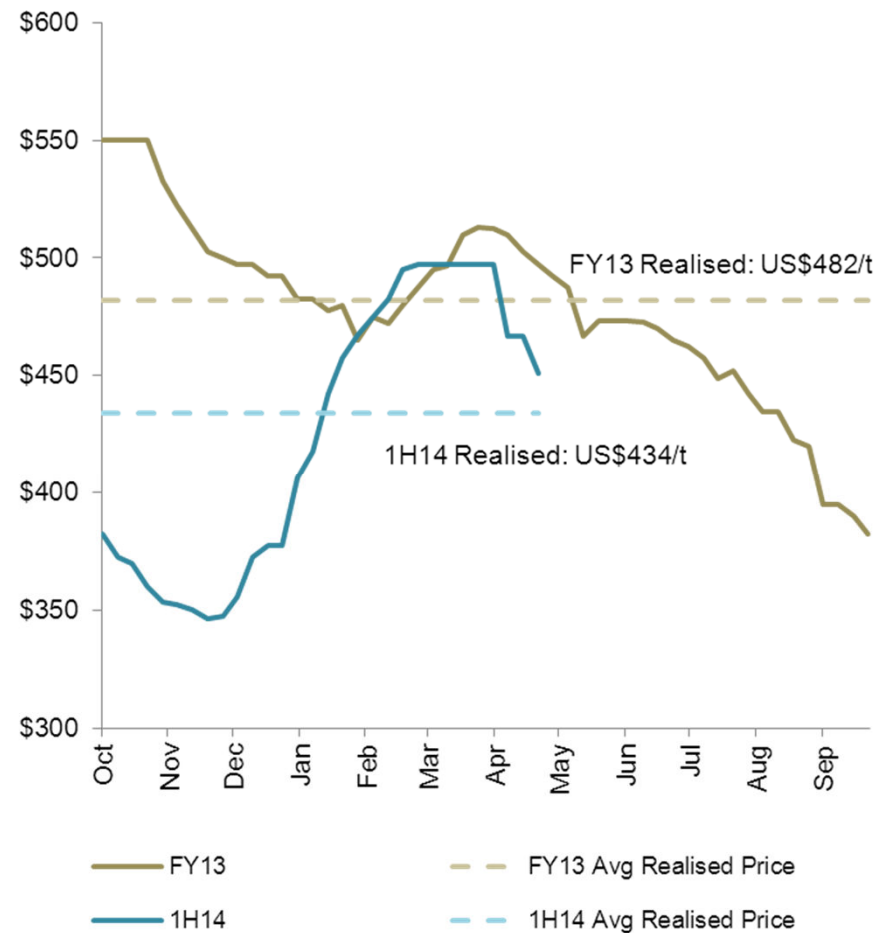


Market information - Ammonium Phosphates

- Ammonium phosphates global market size: ~60mt

Million tonnes	2008	2009	2010	2011	2012	2013
World DAP seaborne trade	10.4	14.7	16.3	14.3	14.8	12.6
India DAP imports	5.6	6.2	7.8	6.8	5.9	3.5
China DAP exports	0.8	2.1	4.2	4.2	4.1	3.3

DAP FOB Tampa prices (USD):



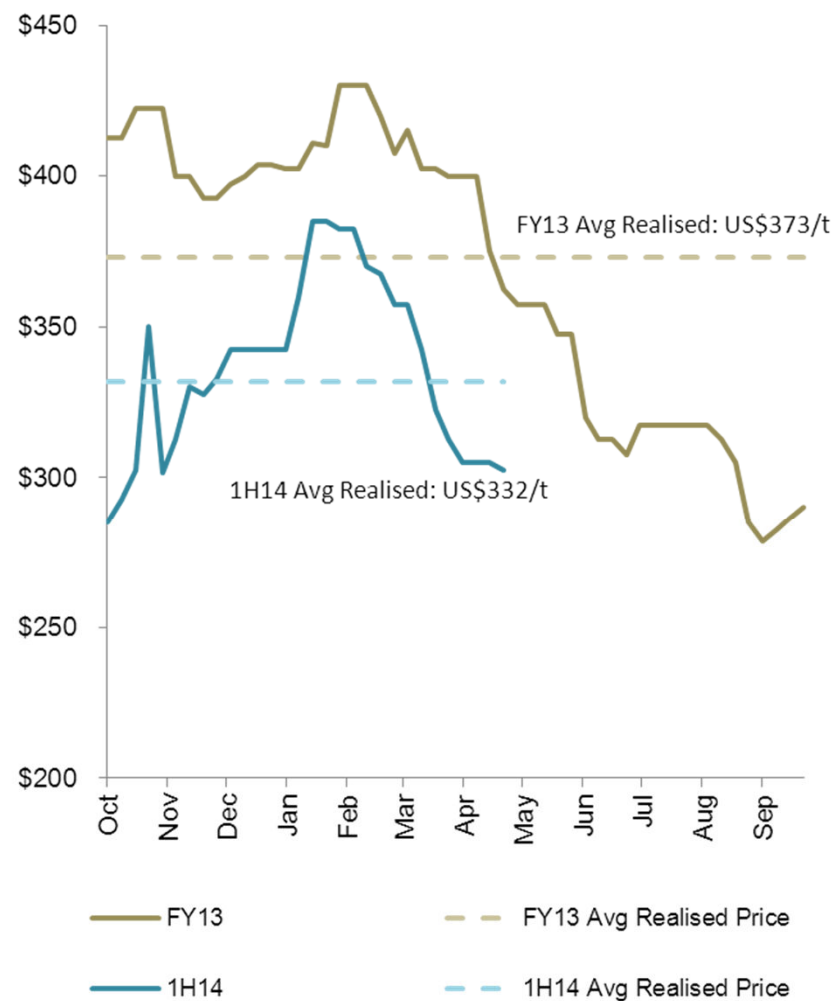
Source: Fertecon

Market information - Urea

▪ Urea global market size: ~155mt

Million tonnes	2008	2009	2010	2011	2012	2013
World Urea seaborne trade	34.0	36.7	41.0	41.0	43.9	45.2
India Urea imports	6.1	5.5	6.2	8.0	8.4	8.4
China Urea exports	4.8	3.6	7.1	4.4	6.9	7.5

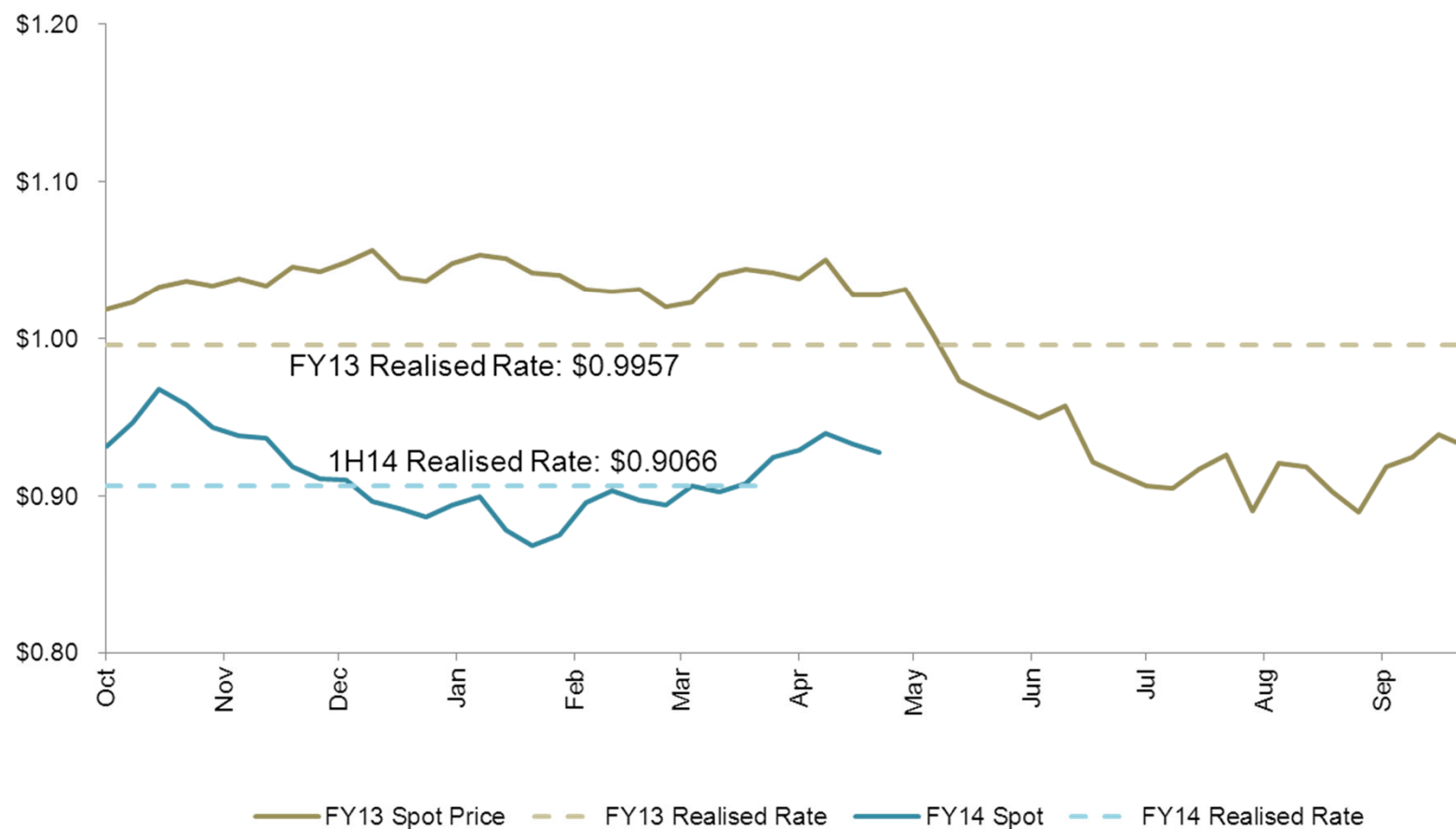
Urea (Granular) FOB Middle East prices (USD):



Source: Fertecon

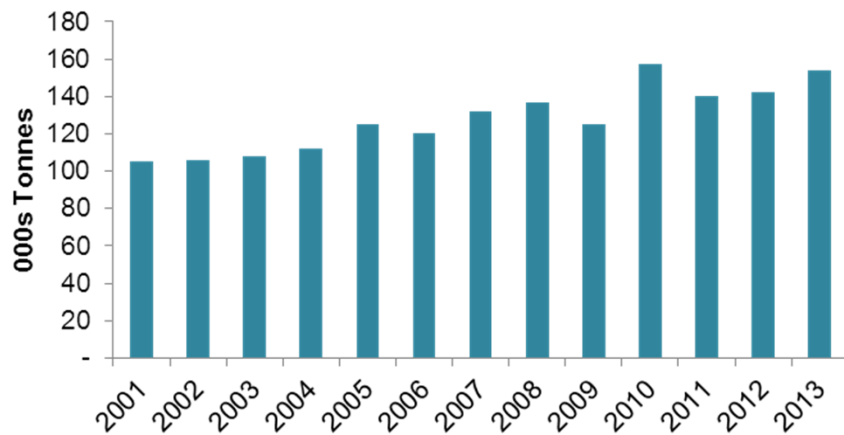
Market information – Foreign exchange

Foreign Exchange Rate (AUD:USD):

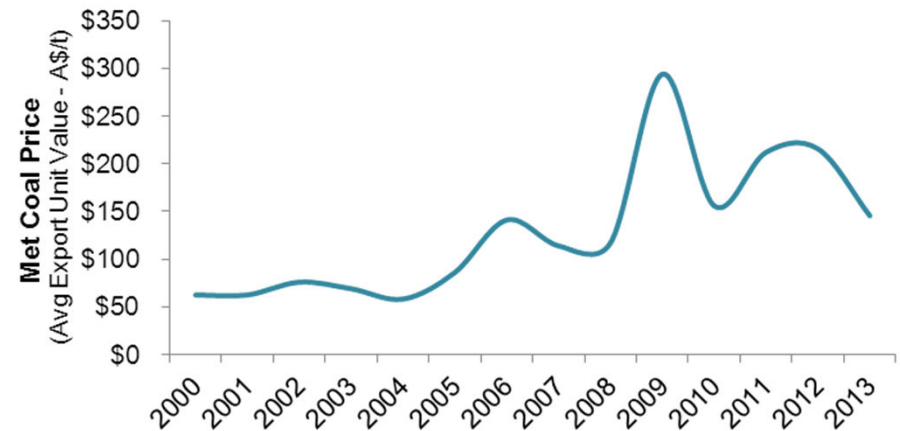


Market information - Australian hard commodities

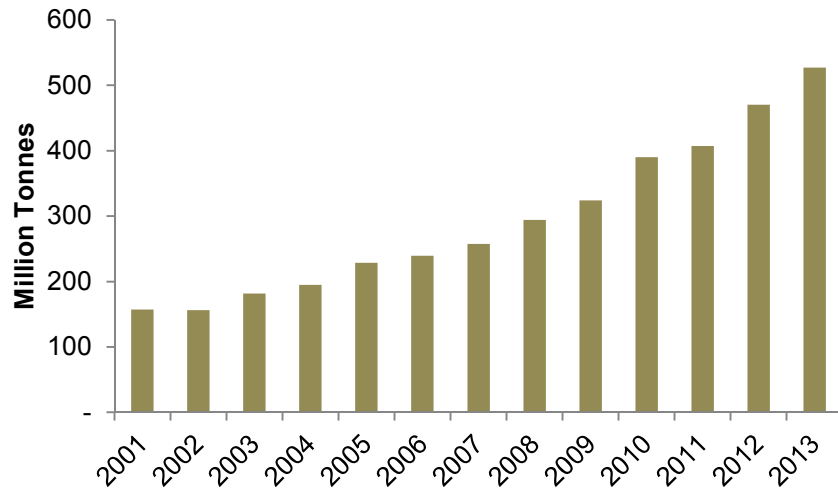
Australian metallurgical coal exports:



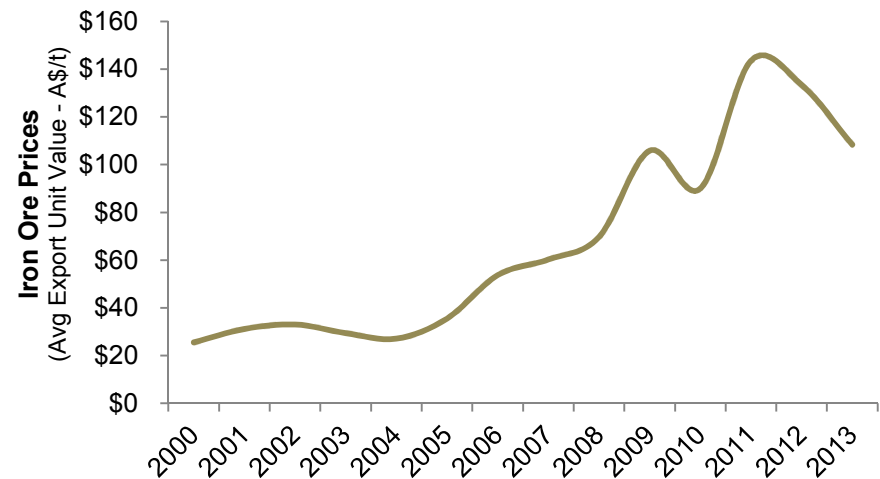
Metallurgical prices (Average export value):



Australian iron ore exports:



Iron Ore prices (Average export value):



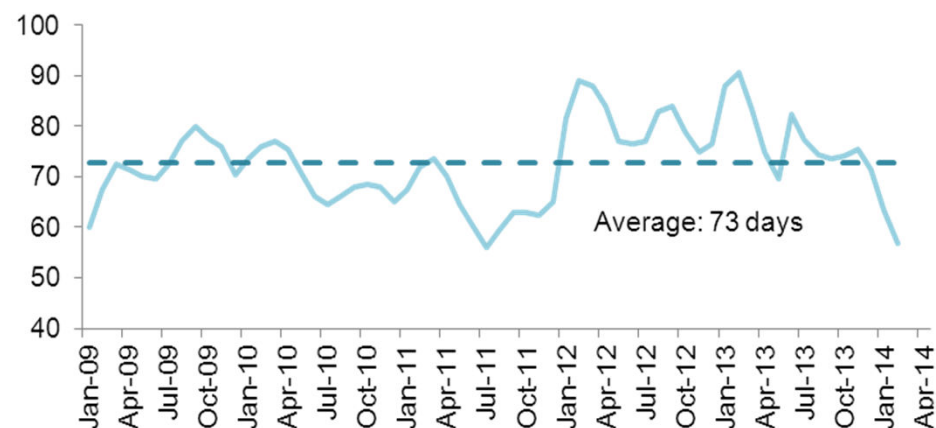
Source: Australian Government Bureau of Resources and Energy Economics, Resources and Energy Quarterly, March 2013
Reserve Bank of Australia Bulk Commodity Price Index (bulk commodities included are thermal coal, metallurgical coal and iron ore)

Market information - US coal

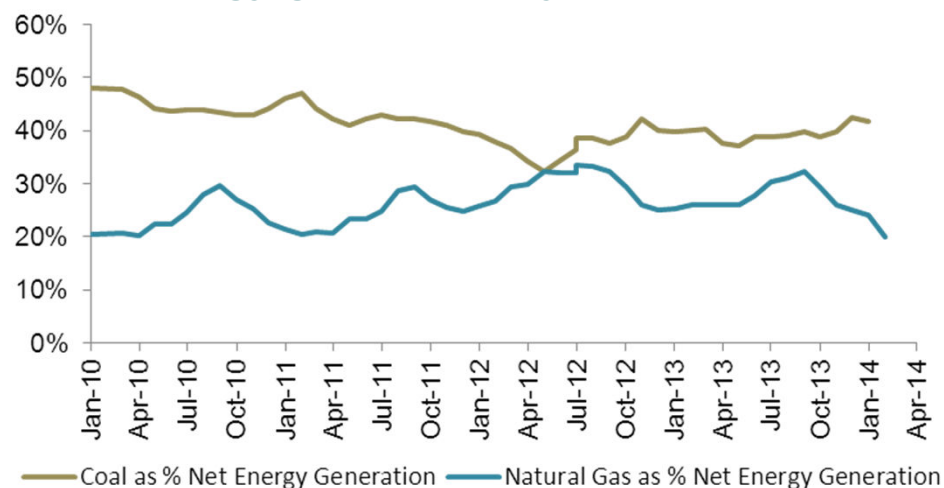
	1H14 Production	% Change to Pcp
Total US Coal Production	495.8	0.9%
Appalachia Coal Production	139.4	(2.5%)
Interior Coal Production	91.1	3.5%
Western Coal Production	265.5	1.9%
US Coal exports	55.0	(8.1%)

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
DNA coal exposure:	Powder River Basin: 50% Illinois Basin: 30% Appalachia: 20%

Average coal inventory days



Net energy generation by fuel source

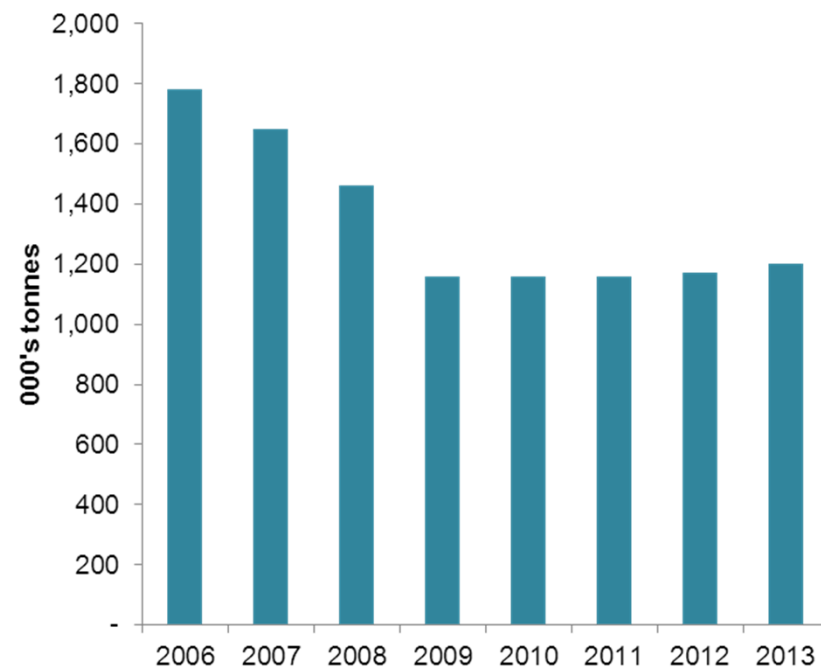


Source: EIA

Market information - US quarry & construction

US crushed stone production:

<i>Construction Value put in place (US\$ billion)¹</i>	1H14	% change to pcp
Total Construction	359	3.3%
Residential	133	11.2%
Non-residential - private	127	(1.1%)
Non-residential - public	100	(0.3%)
Highway and street	29	(6.1%)



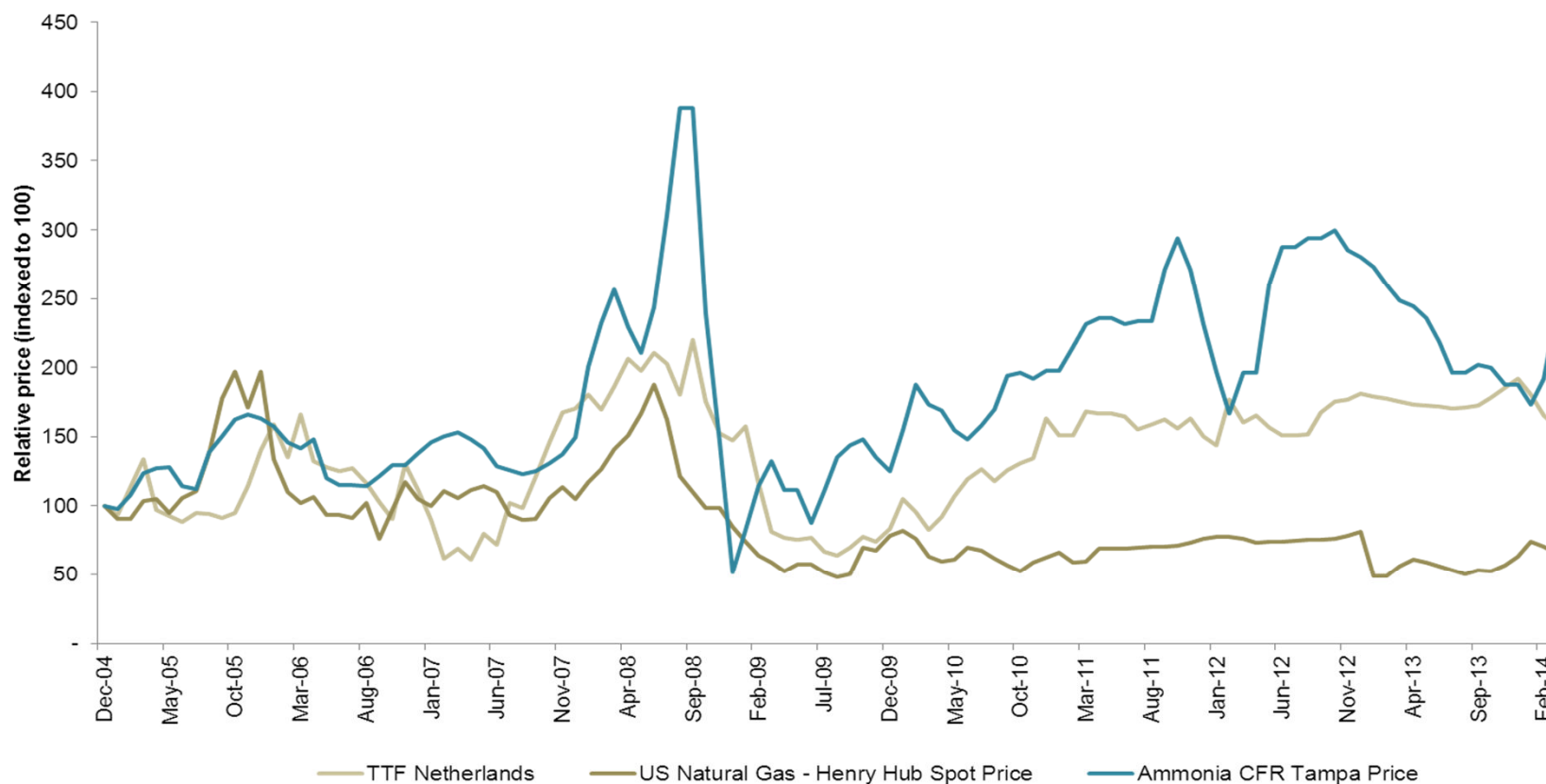
Source: US Geological Survey (USGS); US Census Bureau

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 - 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

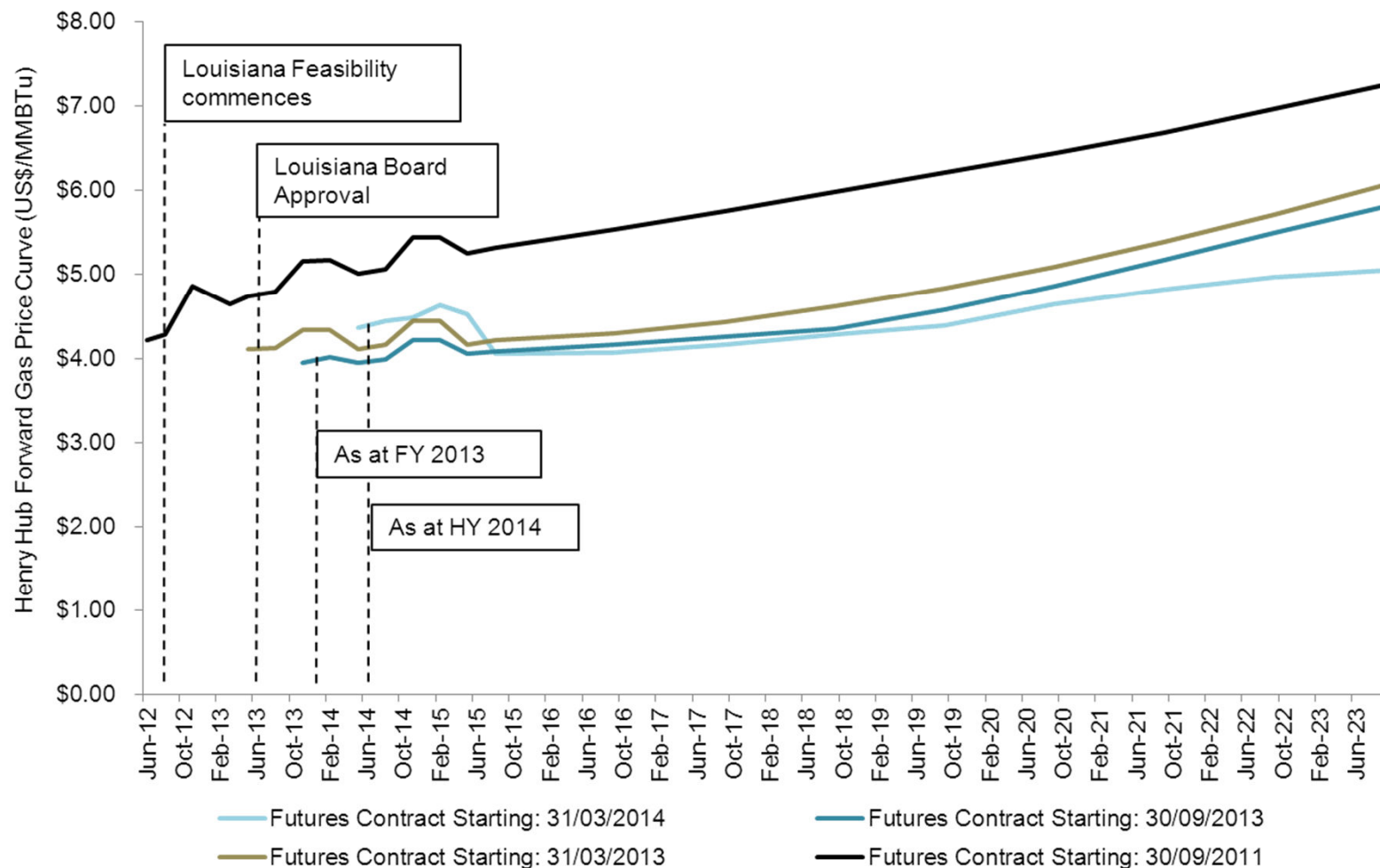
US vs. European gas price differential:



Source: Fertecon, Bloomberg

Market information – US gas

US Natural Gas Forward Curve (NYMEX):



Source: Bloomberg