

# Incitec Pivot Limited

## EXPLOSIVES DELIVERS TO STRATEGY. FERTILISERS DECLINE.

### Results for the six months ended 31 March 2012

#### BUSINESS PERFORMANCE

Incitec Pivot Limited (IPL) reported Net Profit After Tax (“NPAT”) of \$143.5m, down \$22.1m from \$165.6m in the previous corresponding period (“pcp”).

#### KEY FINANCIALS

- NPAT excluding individually material items (“NPAT ex IMIs”) decreased by 20%, or \$35.1m, to \$143.5m (pcp: \$178.6m).
- EBIT excluding individually material items (“EBIT ex IMIs”) decreased by 22% or \$59.4m to \$214.4m (pcp: \$273.8m), due to a 56% fall in Fertiliser EBIT, partially offset by 21% growth in Explosives EBIT.
- Operating cash flows decreased by \$212.6m to an outflow of \$127.3m (pcp: \$85.3m inflow) reflecting the decline in Fertiliser earnings and the resumption of tax payments.
- Net Debt increased by \$445.5m to \$1.6Bn (30 September 2011: \$1.2Bn), with \$267m of capital reinvested into the business (including the Moranbah Ammonium Nitrate (“AN”) project) and the normal seasonal build of inventory in the fertiliser business (\$199m).
- Strong credit metrics were maintained at peak funding levels for the Moranbah project: Net Debt/EBITDA 1.9 times (pcp: 1.6 times) and interest cover 10.6 times (pcp: 11.2 times).

#### SHAREHOLDER RETURNS

- Earnings per share down 13% to 8.8 cents per share (“cps”) (pcp: 10.2 cps).
- The interim dividend remained unchanged at 3.3 cps reflecting an increase in the dividend payout ratio to 37% of NPAT ex IMIs. The resumption of dividend franking, at 50% for the interim dividend.

#### BUSINESS SUMMARY – FERTILISERS

While volumes increased in the first half, EBIT from Fertilisers was down by 56% to \$60.9m (pcp: \$138.6m), reflecting the impact of global price fluctuations. In March 2012, the Group’s domestic and international fertiliser businesses were merged to form one business.

- Distribution and trading margins in the Fertiliser business were \$50m lower than the previous corresponding period, impacted by falling global fertiliser prices.
- The planned turnaround at the Mt Isa plant was extended to address structural weaknesses in the final absorption tower, resulting in \$22m in repair costs and plant and cost inefficiencies during the turnaround.
- The higher average AUD:USD hedged exchange rate had an adverse impact on earnings of \$13m.

A\$M	Six months ended 31 March		
	2012	2011	Change
Sales Revenue	1,548.2	1,424.4	9%
EBITDA(1)	290.8	348.5	(17%)
EBIT(2)	214.4	273.8	(22%)
NPAT excluding IMIs(3)	143.5	178.6	(20%)
Individually Material Items	-	(13.0)	(100%)
NPAT	143.5	165.6	(13%)
<b>Business EBIT</b>			
Explosives	177.5	146.9	21%
Fertilisers	60.9	138.6	(56%)
<b>Shareholder Returns</b>			
Earnings per share (cents)	8.8	10.2	(13%)
Dividend per share (cents)	3.3	3.3	0%
<b>Financing KPIs</b>			
Operating cash flow s	(127.3)	85.3	
Net Debt	(1,634.3)	(1,355.8)	21%
Interest cover (times) (4)	10.6	11.2	
Net Debt/EBITDA (times)	1.9	1.6	

#### BUSINESS SUMMARY - EXPLOSIVES

Explosives earnings were up 21% to \$177.5m (pcp: \$146.9m), vindicating the strategy to prioritise growth in this business.

- DNAP EBIT grew by 20% reflecting strong underlying volume growth and a recovery from the adverse impact of the 2011 floods.
- DNA’s USD EBIT grew by 27% as a result of strong earnings growth in the Canadian explosives business, highlighting the benefits of the business restructure undertaken in 2011 (Velocity). The business also capitalised on favourable market conditions for the St Helens Urea plant via higher Urea prices and lower gas costs.
- The construction of the Moranbah AN plant remains on track, with production expected to commence in July 2012.

#### BUSINESS SUMMARY – CORPORATE

- The BEx rollout within the business is continuing to plan, with a further \$10m spent in the first half. There have been some early gains delivered from the roll-out, confirming that the program will deliver long term productivity improvements across the Group.

### 2012 OUTLOOK – SECOND HALF

#### DNAP

- DNAP is expected to deliver moderate volume growth in the second half in all regions. This assumes “normal” weather conditions and minimal operating interruptions at customer sites.
- Production at Moranbah is expected in July 2012, with 50kt of AN forecast to be produced in the 2012 financial year. The EBIT contribution from production will be minimal in the 2012 financial year.

#### DNA

- DNA second half volumes are expected to be impacted by the recent decline in coal production and high coal inventories held by power generators.
- The St Helens fertiliser plant is due to have its planned turnaround in the second half, which will result in one month of production downtime.

#### Fertilisers

- Given events of the first half, and assuming no interruption to production in the second half, it is expected that the Phosphate Hill plant should produce 860kt of Ammonium Phosphates for the full year and the Gibson Island plant should produce 275kt of Ammonia for the full year.
- Profit in IPF is expected to rebound in the second half, with total fertiliser sales volumes expected to exceed 2mt. Assuming consistent production and Urea prices to the pcp, the business should generate at least the same EBIT as the second half of the 2011 financial year (\$80.1m).
- Quantum is expected to generate positive earnings in the second half.

#### Corporate Costs

- BEx costs are expected to be around \$25m for the full year.

#### MAJOR PROJECT UPDATE

- Newcastle AN plant: The feasibility study into the construction of a world scale AN plant, to supply Hunter Valley coal customers, is progressing to schedule with a final investment decision expected early in the 2013 calendar year.
- US Ammonia plant: During the half year a feasibility study commenced into the construction of a world scale Ammonia plant in the USA. The plant would leverage low cost US gas and backward integrate the entire AN production of the business. A final investment decision is expected in Q1 of the 2013 calendar year.

#### Full Year EBIT Sensitivities

IPF: Urea - Middle East Granular Urea (FOB) <sup>(1)</sup>	+/- US\$10/t = +/- A\$3.9M
SCI: DAP - Di-Ammonium Phosphate Tampa (FOB) <sup>(2)</sup>	+/- US\$10/t = +/- A\$9.0M
Forex - transactional (DAP & Urea) <sup>(3)</sup>	+/- 1 cent = A\$7.4M
DNA: Urea (FOB) <sup>(4)</sup>	+/- US\$10/t = +/- US\$1.7M
DNA: Forex - translation of Explosives earnings <sup>(5)</sup>	+/- 1 cent = A\$1.4M

#### Assumptions:

- (1) 360kT (Forecast Gibson Island 2012 production) urea equivalent sales at 2011 realised price of US\$397 and a 2012 hedged exchange rate of A\$/US\$ 0.96
- (2) 860kT (Forecast Phosphate Hill 2012 production) DAP sales at 2011 realised price of US\$617 and hedged exchange rate of A\$/US\$ 0.96
- (3) DAP & Urea volumes & FOB price based on assumptions 1 & 2 (excludes impact of hedging)
- (4) 165kT (Forecast St Helens 2012 production - short tonnes) urea equivalent sales at 2011 realised price of \$453/t
- (5) For each US\$ 150M EBIT

#### SENSITIVITIES

The sensitivities have been calculated based on the 2011 achieved di-ammonium phosphate (“DAP”) and Urea prices, at an AUD/USD exchange rate of 0.96c (representing the 2012 cover level), and forecast 2012 Urea and DAP production.

The AUD/USD rate has a significant impact on the profitability of the business. The business has hedging in place to cover 2012 USD denominated fertiliser sales, which at internally forecast fertiliser prices guarantees a realised rate of AUD/USD 0.96 with full participation to AUD/USD 0.88 for the second six months. A limited amount of participation exists below these levels.

#### 2013 HEDGING PROGRAM

The business has hedged approximately 50% of its estimated USD Fertiliser sales exposure in 2013 at a worst case rate of \$1.05 (including the cost of premiums), with full participation down to \$0.90.

### REVENUE

Sales revenues increased by \$124m to \$1,548m (pcp: \$1,424m). Significant movements included:

- Higher sales volumes in the Incitec Pivot Fertilisers ("IPF") business, which increased from 707kT in the pcp to 778kT in 2012.
- DNAP revenues increased, reflecting higher sales volumes.
- DNA revenues increased as a result of higher Urea prices and higher Initiating Systems ("IS") sales volumes.

Revenues A\$M	Six months ended 31 March		
	2012	2011	Change
<b>Revenues</b>			
- SCI	362.3	340.4	6%
- IPF	442.0	423.4	4%
- Elimination	(97.2)	(110.9)	
<b>Fertilisers</b>	<b>707.1</b>	<b>652.9</b>	<b>8%</b>
- DNAP	285.6	234.1	22%
- DNA	570.5	550.1	4%
- Elimination	(13.7)	(12.7)	
<b>Explosives</b>	<b>842.4</b>	<b>771.5</b>	<b>9%</b>
<b>Elimination of Expl to Ferts</b>	<b>(1.3)</b>	<b>0.0</b>	
<b>Total Revenues</b>	<b>1,548.2</b>	<b>1,424.4</b>	<b>9%</b>

### EBIT ex IMIs

EBIT ex IMIs fell by 22% or \$60m to \$214m (pcp: \$274m), primarily due to:

- (\$50m): Decrease in margins earned in IPF (\$37m) and Quantum (\$13m) as a result of the impact of falling global fertiliser prices on distribution and trading margins.
- (\$22m): Costs associated with the extended turnaround at the Mt Isa sulphuric acid plant, with \$8m of costs incurred to repair the final absorption tower and \$14m of production and cost inefficiencies caused by lower production output at Phosphate Hill.
- (\$19m): Negative impact of the higher achieved AUD:USD rate, which, despite being hedged at 96c, resulted in lower earnings from USD denominated fertiliser sales (\$16m) and a negative impact on the translation of DNA's USD earnings (\$3m).
- (\$10m): Costs incurred in implementing BEx business improvement across the Group.
- (\$6m): Higher depreciation related to the spending to improve plant reliability.

This was partially offset by the following:

- \$38m: Volume growth in the Explosives businesses (\$28m) and the Australian Industrial business (\$10m).
- \$4m Improved earnings in the US explosives business via price increases.
- \$2m Net impact of commodity prices, including; higher Urea prices (+\$18m), lower US gas costs (+\$2m), which were offset by lower DAP prices (-\$8m), higher sulphuric acid costs (-\$5m) and lower SSP prices (-\$5m).

Earnings Summary A\$M	Six months ended 31 March		
	2012	2011	Change
<b>EBIT(2)</b>			
- SCI	63.1	109.4	(42%)
- IPF	2.2	48.7	(95%)
- Elimination	(4.4)	(19.5)	
<b>Fertilisers</b>	<b>60.9</b>	<b>138.6</b>	<b>(56%)</b>
- DNAP	96.0	79.8	20%
- DNA	82.5	67.1	23%
- Elimination	(1.0)	-	
<b>Explosives</b>	<b>177.5</b>	<b>146.9</b>	<b>21%</b>
<b>Corporate</b>	<b>(24.0)</b>	<b>(11.7)</b>	<b>(105%)</b>
<b>Total EBIT</b>	<b>214.4</b>	<b>273.8</b>	<b>(22%)</b>
Borrowing costs	(27.5)	(29.8)	8%
Tax expense(5)	(47.1)	(64.5)	27%
NPAT excluding IMIs	139.8	179.5	(22%)
Minority interests	3.7	(0.9)	
<b>NPAT attributable to shareholders - excluding IMIs</b>	<b>143.5</b>	<b>178.6</b>	<b>(20%)</b>
Individually material items after tax	-	(13.0)	100%
<b>NPAT attributable to shareholders</b>	<b>143.5</b>	<b>165.6</b>	<b>(13%)</b>

### BORROWINGS AND INTEREST

- Net Debt increased by \$445m in the six months ended 31 March 2012 to \$1,634m. The increase in Net Debt is a result of capital expenditure (\$267m), the seasonal increase in Trade Working Capital ("TWC") (\$229m), and the final dividend paid during the period (\$133m). This was partially offset by EBITDA generated during the period (\$291m).
- Net interest expense pre accounting adjustments increased by \$4.9m to \$47.5m (pcp: \$42.6m), reflecting an achieved average interest rate in the first half of the 2012 financial year of 6.3% (inclusive of upfront costs and commitment fees) (pcp: 5.6%). The higher average interest rate is a result of an increase in the proportion of debt denominated in AUD vs USD (AUD interest rates are higher) as the Australian Bank Facility was drawn down to fund the Moranbah project.
- Net borrowing costs are inclusive of an increase in non-cash accounting expense for unwinding of discount applied to longer term liabilities of \$13.9m (pcp: \$9.4m). In 2012, \$10.5m of this expense related to the unfavourable contract liability for Moranbah foundation customers, the balance results from lower rates used to remeasure long term liabilities, as required by Australian Accounting Standards.

### TAX

- Tax expense (excluding tax on individually material items) decreased to \$47.1m (pcp: \$64.5m). This represents an effective tax rate of 25.2% (pcp: 26.4%).

### RETURNS TO SHAREHOLDERS

- The Directors have determined to pay a 50% franked dividend of 3.3 cps, which will be paid on 3 July 2012.
- The dividend represents an increase in the payout ratio from 2011 full year (35% of NPAT ex IMI's) to 37% of NPAT ex IMIs.

The interim dividend is 50% franked, reflecting that the Group returned to a tax payable position during the half.

Borrowing Costs /Credit Metrics A\$M	Six months ended 31 March		
	2012	2011	Change
Net interest expense pre accounting adjustments	(47.5)	(42.6)	(12%)
Non-cash unwinding of liabilities	(13.9)	(9.4)	(48%)
<b>Total borrowing costs</b>	<b>(61.4)</b>	<b>(52.0)</b>	<b>(18%)</b>
Less Capitalised Interest (Moranbah)	33.9	22.2	53%
<b>Net Borrowing Costs</b>	<b>(27.5)</b>	<b>(29.8)</b>	<b>8%</b>
Interest cover (times) (4)	10.6	11.2	
Net Debt/EBITDA (times)	1.9	1.6	

Return to Shareholders Cents per share (cps)	Six months ended 31 March		
	2012	2011	Change
Interim Dividend	3.3	3.3	0%
Franking (%)	50%	0%	
Record date: 24 May 2012			
Dividend paid: 3 July 2012			

Individually material items A\$M	Six months ended 31 March		
	2012	2011	Change
Velocity integration & restructuring	-	(5.3)	(5.3)
Manufacturing & Distribution restructuring	-	(7.7)	(7.7)
<b>Total IMI's</b>	<b>-</b>	<b>(13.0)</b>	<b>(13.0)</b>

### INDIVIDUALLY MATERIAL ITEMS

The business did not record any individually material items for the first half of the 2012 financial year.

### BALANCE SHEET

IPL's Balance sheet remains strong, reflecting ongoing financial discipline throughout the business. The key movements in the balance sheet include:

- Fertiliser TWC is consistent with 31 March 2011 and has increased by \$199m from 30 September 2011 reflecting the seasonal stock build in the business. TWC as a percentage of twelve months rolling revenue has increased slightly from 30 September 2011.
- Explosives TWC at 31 March 2012 also reflects the seasonal nature of this business, as the business builds inventory ahead of the North American summer and during the wet season on the East Coast of Australia. The business continues to improve TWC as a percentage of twelve months rolling revenues, which reflects a strong focus of the businesses to reduce their cash cycle.
- Net property plant and equipment increased by \$157m from 30 September 2011 to 31 March 2012, to \$2,447m. The increase is a result of capital expenditure of \$268m (of which the significant project spend was on the Moranbah AN plant), disposals of \$11m, depreciation of \$64m and the negative impact of the appreciating AUD (\$36m).
- Movements in Intangible assets reflect the impact of the higher AUD on the translation of USD intangible assets and amortisation.

### NET DEBT

The average tenor of drawn debt is now approximately 5.3 years with no major debt facilities maturing until April 2014.

At 31 March 2012, IPL's net debt was \$1,634m (pcp: \$1,356m), with committed headroom available of \$736m (pcp: \$1.2bn), representing an undrawn amount of \$696m on the three year Bank Facility and cash on hand at 31 March 2012.

Balance Sheet A\$M	31-Mar 2012	30-Sep 2011	31-Mar 2011
Trade Working Capital - Fertilisers	270	71	272
Trade Working Capital - Explosives	231	208	233
Net property plant and equipment	2,447	2,290	2,016
Intangible assets	2,783	2,942	2,816
Environmental, restructuring & ARO	(103)	(116)	(108)
Tax (liabilities)/assets	(228)	(244)	(154)
Net other (liabilities)/assets	(98)	(255)	(163)
<b>Net Debt</b>	<b>(1,634)</b>	<b>(1,189)</b>	<b>(1,356)</b>
<b>Net Assets</b>	<b>3,668</b>	<b>3,707</b>	<b>3,556</b>
<b>Equity</b>	<b>3,668</b>	<b>3,707</b>	<b>3,566</b>
Fertilisers - Average TWC % Rev <sup>(6)</sup>	14.0%	12.2%	15.0%
Explosives - Average TWC % Rev <sup>(6)</sup>	14.9%	15.3%	15.6%
Group - Average TWC % Rev <sup>(6)</sup>	14.4%	13.5%	15.3%

### HEDGING PROGRAM

Recent movements in the AUD/USD exchange rate have demonstrated the importance of the hedging strategy employed by IPL. The foundations of the strategy are:

- To fund the business with US dollar debt. The US dollar debt strategy provides a natural hedge of some of the Group's exposure arising from the need to translate earnings from the America's explosives business. The USD dollar debt strategy also provides a partial hedge against movements in the AUD/USD exchange rate on the translation of the Group's USD net assets. In addition, the USD debt strategy enables IPL to target tenor and diversity in its debt profile, thus assisting in reducing refinancing risk.
 

Important enablers of the USD debt strategy are the investment grade credit ratings from Standard and Poors, Moody's and Fitch, which enable the group to target a number of USD debt markets and maintain a focus on retaining a strong balance sheet and on remaining financially disciplined.
- An active, "insurance based" approach to hedging transactional exposures resulting from a rising Australian dollar ("AUD") versus the USD. The basis of this approach is to attempt to cost effectively cover a significant portion of the risk of an appreciating AUD, while maintaining meaningful participation levels if the AUD depreciates.

### CASH FLOW

Net operating cash decreased by \$212.6m to a cash outflow of \$127.3m (pcp: \$85.3m inflow), primarily due to:

- A 17% decrease in EBITDA, as a result of lower Fertiliser business earnings (\$57.7m).
- A return to a tax payable position for the business, resulting in a tax outflow of \$55.3m for the period (a \$75.3m adverse movement compared to the pcp).
- Other Non Trade Working Capital ("NTWC"): a \$22.1m prepayment for gas under the long term supply agreement to the Moranbah AN plant.
- Other NTWC: a \$20.0m hedge receivable at 31 March 2012.
- Other NTWC: \$22.6m of insurance prepaid in the first half.

Net investing cash outflows decreased by \$60.0m to \$259.1m (pcp: \$319.1m), significant movements included:

- Moranbah AN plant expenditure of \$123.5m (pcp: \$143.1m) and associated capitalised interest \$33.9m (pcp: \$22.2m). Total cash project expenditure life-to-date is now \$872.2m and life-to-date capitalised interest is \$126.4m.
- Growth capital of \$52.1m (pcp: \$13.0m), which included spending on new emulsion plants and mobile production units in the Explosives business and the Third Phosphoric Acid filter train at the Phosphate Hill plant.
- Spending on sustenance capital of \$57.3m (pcp: \$123.7m). This included \$9m on the Mount Isa plant turnaround (excluding the \$8m expensed relating to the Final Absorption Tower repair), with the balance spent on smaller projects across the Group's manufacturing plants in Australia and North America. Spending on sustenance is consistent with IPL's risk and reliability strategy.
- Payment for a 49% share in Maine Drilling and Blasting ("MD&B") for a joint venture share, in line with Dyno Nobel America's channel strategy (\$33.0m).

Net financing cash flows were an outflow of \$59.1m (pcp: \$24.9m), an increase of \$34.1m. Major financing cash flows included:

- Payment of a cash dividend of \$133.6m (pcp: \$97.7m).
- A gain on the translation of US debt of \$73.8m, reflecting the higher AUD:USD rate at 31 March 2012 versus 30 September 2011.

Cash Flow Items A\$M	Six months ended 31 March		
	2012	2011	Change
<b>Net operating cash flows</b>			
Group EBITDA	290.8	348.5	(17%)
Net interest paid	(12.4)	(15.4)	19%
Net income tax (paid) / received	(55.3)	20.0	
TWC movement (excluding FX impact)	(229.1)	(215.4)	(6%)
Moranbah Provision release	(40.5)	(42.0)	4%
Dyno Nobel profit from associates	(8.5)	(11.1)	23%
Integration & restructuring costs	(6.7)	(11.2)	40%
Environmental and site clean up	(6.3)	(8.0)	21%
Other NTWC	(59.3)	19.9	
<b>Operating cash flows</b>	<b>(127.3)</b>	<b>85.3</b>	
<b>Net investing cash flows</b>			
Growth - Moranbah	(123.5)	(143.1)	14%
Growth - Moranbah capitalised interest	(33.9)	(22.2)	(53%)
Growth - Other	(52.1)	(13.0)	(301%)
Proceeds from asset sales	7.5	3.5	114%
Sustenance	(57.3)	(123.7)	54%
Investments	(34.0)	0.0	100%
Net investment hedge	29.2	(20.6)	
Loans provided to Joint Ventures	5.0	0.0	100%
<b>Investing cash flows</b>	<b>(259.1)</b>	<b>(319.1)</b>	<b>19%</b>
<b>Net financing cash flows</b>			
Dividends paid	(133.6)	(97.7)	(37%)
Gain on translation of US\$ Net Debt	74.3	73.7	1%
Realised market value gains on derivatives	0.0	(8.0)	100%
Non-cash movement in Net Debt	0.2	7.1	97%
<b>Financing cash flows</b>	<b>(59.1)</b>	<b>(24.9)</b>	<b>(137%)</b>
<b>Decrease/(increase) in net debt</b>	<b>(445.5)</b>	<b>(258.7)</b>	

### 2012 Capital Projects

In the year to date, the business has not made any further major capital commitments. At 31 March 2012 the following major projects are ongoing and on track:

- \$40m: Pilbara Emulsion plant.
- \$50m: Phosphate Hill Third Phosphoric Acid filter train. The investment will increase reliability of the phosphoric acid plant and over the long term allow the processing of a wider range of phosphate rock.

### DYNO NOBEL AMERICAS (DNA)

#### BUSINESS PERFORMANCE

DNA's USD EBIT increased by \$18.0m or 27% to \$84.9m (pcp: \$66.9m). This represents a record half year result for the business, driven by higher Nitrogen pricing for Agricultural products and improved EBIT generated by the restructured Canadian explosives business including Velocity benefits. AN volumes sold by the explosives business in North America were flat. Significant drivers of North America's result include:

- \$10m: The impact of higher Urea and Urea ammonium nitrate ("UAN") prices generated \$8m of incremental margin in the Agriculture business on tonnes produced at the St Helens and Cheyenne plants. This was supplemented by savings in production costs as a result of lower US gas prices of \$2m.
- \$8m: The Canadian business grew as a result of savings and higher sales volumes to customers in the mining sector.
- \$4m: Net price increase benefits delivered.
- (\$4m): Net decrease as a result of higher depreciation associated with the plant reliability program (\$3m), costs associated with the maintenance of the Maitland plant in light of potential re-opening (\$3m), lower equity income (\$2m) offset by a one-off gain on the sale of assets (\$4m).

DNA	Six months ended 31 March		
	2012	2011	Change
<b>US\$m</b>			
Revenues	587.8	547.9	7%
EBIT	84.9	66.9	27%
<b>A\$m</b>			
Revenues	570.5	550.1	4%
EBIT	82.5	67.1	23%
Translation exch. rate - A\$/US\$	1.03	1.00	(3%)
St Helens - average Urea price (USD kst)	520	418	24%

#### MARKET SUMMARY

The DNA explosives business sells product into the following major markets:

##### **Coal**

The Coal segment accounted for 59% of the AN volumes sold by the DNA business (on a rolling year basis). In the first half of 2012, sales volumes to coal customers were down 5% compared to the pcp, reflecting the impact that the unseasonably warm North American winter had on power generation.

##### **Quarry & Construction**

The Quarry and Construction segment accounted for 16% of the AN volumes sold by the DNA business (on a rolling year basis). Sales volumes grew by a modest 2%. The business is yet to see any increase in volumes associated with commercial or residential construction industry recovery. However it remains highly leveraged to volume growth in this sector.

##### **Metals & Mining**

The Metals and Mining segment accounted for 25% of the AN volumes sold by the DNA business (on a rolling year basis). In the first half sales volumes were up 12%, reflecting the overall market growth and, specifically, customer growth in the Canadian Iron Ore.

The DNA **Agriculture** business experienced strong EBIT growth in the first half as a result of an increase in Urea prices and lower US gas prices (gas is purchased on a spot basis). The average achieved rate for Urea equivalent volumes sold from the St Helens plant was up \$102 per short tonne to US\$520/t (pcp: \$418/t).

### DYNO NOBEL ASIA PACIFIC (DNAP)

#### BUSINESS PERFORMANCE

DNAP's EBIT increased by \$16.2m or 20% to \$96.0m (pcp: \$79.8m). Underlying earnings, excluding the Moranbah unfavourable contract liability release, increased by 47% or \$17.7m to \$55.5m (pcp: \$37.8m), which is a new record first half for the DNAP business. Significant drivers of DNAP's result include:

- \$17m: An increase in sales volumes resulted in a \$17m increase in EBIT for the half. Of this increase, \$10m was from the base business customers (refer below for regional analysis) and \$7m related to incremental sales of initiating systems to Moranbah foundation customers.
- \$3m: Increased earnings from the Indonesian and PNG businesses, representing a return on growth capital employed in the prior year.
- (\$2m): Earnings from the QNP plant were lower due to a major, planned maintenance outage and some production difficulties experienced during the half, which resulted in lower JV equity accounted income.

#### MARKET SUMMARY

The DNAP explosives business sells product into the following major markets:

##### *Australian East Coast Coal*

Sales of AN to Australian east coast coal customers accounted for 47% of total AN sold by the DNAP business (on a rolling year basis). In the first half of 2012, volumes grew 88%, reflecting a volume recovery from the impact of the severe weather conditions in 2011 and the underlying growth of coal customers in the Bowen Basin.

##### *Western Australia*

WA sales account for 30% of the AN volumes sold by the DNAP business (on a rolling year basis). In the first half of 2012, sales volumes increased by 13%, which was a reflection of the growth of the business' largest customer in the region, partially offset by the loss of a customer contract in the first months of the financial year.

##### *Hard Rock and Underground*

Hard Rock and Underground sales account for 7% of the AN volumes sold by the DNAP business (on a rolling year basis). Volumes grew in line with the recovery from the impact of the extreme weather conditions in the first half of 2011.

DNAP	Six months ended 31 March		
	2012	2011	Change
<b>A\$</b>			
Revenues	285.6	234.1	22%
EBIT	96.0	79.8	20%
<b>Impact of the Moranbah Unfavourable Contract Liability</b>			
Moranbah Unfavourable Contract Liability release	40.5	42.0	(4%)
Losses incurred on Moranbah contracts	(2.1)	(3.1)	32%
<b>EBIT impact</b>	<b>38.4</b>	<b>38.9</b>	<b>(1%)</b>
Provision discount unw ind (classified as interest)	(10.5)	(8.0)	(31%)
Tax effect	(8.4)	(9.3)	10%
<b>NPAT impact</b>	<b>19.5</b>	<b>21.6</b>	<b>(10%)</b>

#### *Indonesia and PNG*

This market accounts for 16% of the AN volumes sold by the DNAP business (on a rolling year basis). In 2012, volumes were flat, however EBIT growth has been achieved as a result of higher emulsion tolling revenues.

#### MORANBAH AN PROJECT

##### *Safety*

The Moranbah AN plant construction project has achieved 3.25 million construction hours worked without a lost time injury.

##### *Schedule*

At the time that this report was issued the complex was 96% complete. The site utility plants have been commissioned, the Nitric Acid, AN solution, AN prill and emulsion plants have all commenced commissioning and the Ammonia plant is in pre commissioning. It is expected that ammonium nitrate will be produced in July 2012.

##### *Project Cost*

The project is likely to come in above the budget of \$935m. However, the overspend is not expected to be material to the total project cost.

##### *Operations*

The Operations team has now been fully employed and are directly involved with the commissioning of the plant.



### INCITEC PIVOT FERTILISERS (IPF)

#### BUSINESS PERFORMANCE

IPF's EBIT decreased by \$46.5m or 95% to \$2.2m (pcp: \$48.7m). Factors impacting the result include the following:

- (\$37m): In the first half, falling global fertiliser prices put pressure on distribution margins. The period on period comparison is exacerbated by the expanding margins in the pcp (refer price graphs below). However, the business also incurred incremental losses in the first half of 2012 by mis-timing the purchase of Urea and Ammonium Phosphates.
- (\$8m): The business sold less Gibson Island manufactured product. This represents a timing difference to the pcp, as 30kt of Ammonia equivalent production was on hand at 31 March 2012.
- (\$5m): Business costs increased during the half, including; higher depreciation at Gibson Island relating to the 2011 turnaround (\$3m) and costs incurred in the business restructure (\$2m). The cost of the business restructure will be recovered in the future via at least an equivalent amount of annual savings.
- (\$5m): Despite an increase in volumes, SSP margins were further impacted by falling Ammonium Phosphate prices.
- (\$3m): A higher average AUD:USD hedged exchange rate of 96c (pcp: 91c) resulted in lower revenues from USD denominated Gibson Island produced Urea sales.
- \$10m: The impact of higher global Urea prices, which averaged US\$445/t in 2012 (pcp: US\$366t).

#### MARKET SUMMARY

The IPF business sells product into the following major markets:

##### Winter Crop

The season was again delayed as a result of farmers being cautious to pre-buy in a falling global price environment. Sales volumes were slightly lower than in 2011, with significant volumes expected to be sold in the months of May and June.

Fertilisers - Tonnes sold	Six months ended 31 March		
	2012	2011	Change
<b>Tonnes '000's</b>			
Incitec Pivot Fertilisers (IPF)	778	707	10%
Southern Cross International (SCI)	666	568	17%
Inter-company eliminations	(158)	(167)	
<b>Tonnes - Fertilisers</b>	<b>1,286</b>	<b>1,108</b>	<b>16%</b>

Incitec Pivot Fertilisers	Six months ended 31 March		
	2012	2011	Change
Revenue	442.0	423.4	4%
EBIT	2.2	48.7	(95%)
<b>IPF - KPIs</b>			
Tonnes Sold '000's	778.0	707.0	10%
Middle East Granular Urea (US\$/t)	445	366	22%
Average exchange rate - cents A\$/US\$	96.0	91.0	(5%)
Gibson Island Production - Nitrogen	127.6	93.9	36%
- Nitrogen sold via SCI (Industrials)	25.6	17.9	43%
- Nitrogen sold via IPF	71.3	86.2	(17%)
Net Nitrogen sold vs production	(30.7)	10.2	
IPF Nitrogen / Urea Equivalent	122.3	147.9	(17%)

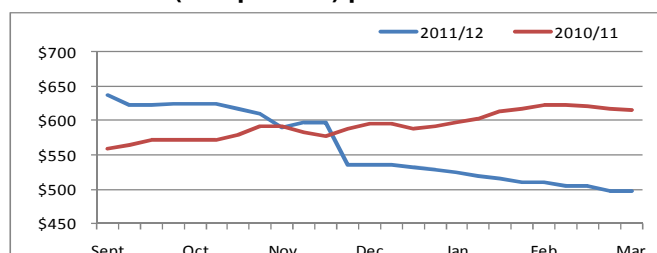
#### Summer Crop

While volumes sold into the Sugar and Cotton crop top and side dress seasons were consistent with the prior year, the expectation of significant volume growth in these crops was not realised due to significant rainfall in Southern Queensland and Northern NSW during the application season. This coupled with falling Nitrogen prices resulted in the business incurring losses on imported tonnes as the market liquidated its long position.

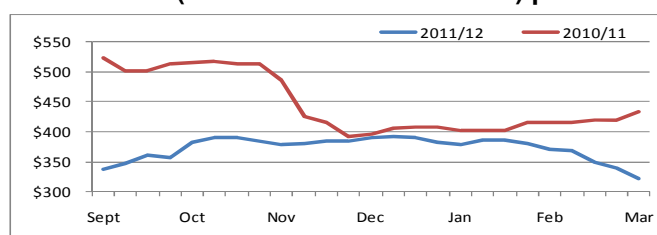
#### Pasture

SSP sales volumes were 70kt higher than the prior year, due primarily to an increase in application as seasonal conditions trended back towards normal, with significantly lower rainfall in Southern Australia prior to the application season.

#### 1H USD DAP (Tampa FOB) prices



#### 1H USD Urea (Middle East Granular FOB) prices



### SOUTHERN CROSS INTERNATIONAL (SCI)

#### BUSINESS PERFORMANCE

SCI's EBIT decreased by \$46.3m or 42% to \$63.1m (pcp: \$109.4m). SCI's result is split into four businesses, significant movements are explained below:

**Phosphate Hill EBIT** decreased by \$44.8m to \$49.8m (pcp: \$94.6m). Significant factors included:

- (\$27m): Manufacturing costs were higher for a number of reasons, including; \$22m of costs associated with the extended Mt Isa planned turnaround, resulting from repairs (\$8m) and production inefficiencies at the Phosphate Hill plant which ran at reduced rates (\$14m); \$5m in increased sulphuric acid costs, which was a result of higher sulphur and sulphuric acid prices during the half. Phosphate Hill is one of the pilot plants for BEx rollout, and it is expected that this will deliver a reduction in the cost of production in 2013.
- (\$13m): A higher average AUD:USD hedged exchange rate of 96c (pcp: 91c) resulted in lower revenues from USD denominated DAP sales.
- (\$8m): The impact of lower global DAP prices, which averaged US\$568/t in 2012 (pcp: US\$588/t).
- (\$2m): Lower freight margins, caused by lower global freight rates.
- \$7m: Despite lower production, the business sold higher volumes of manufactured AP's in the first half of 2012 than in the pcp due to the timing of sales.

**Industrials EBIT** increased by \$10.3m or 77% to \$23.6m (pcp: \$13.3m), as a result of higher sales volumes of manufactured ammonia and Urea related products sold by the business in 2012.

**Quantum EBIT** decreased by \$13.6m to a loss of \$10.6m (pcp: profit of \$3.0m). The loss incurred in the first half was caused by the business holding long positions late in the first quarter when the European financial instability significantly impacted global trade and resulted in a fall in global fertiliser prices, which fell by up to 30% within a month. During the period when the losses were incurred, the IPL trading policy was complied with and the stop loss on each position was enforced.

Southern Cross International	Six months ended 31 March		
	2012	2011	Change
<b>SCI Tonnes '000's</b>			
Phosphate Hill production sold	371	354	5%
SCI Trading	49	34	44%
Industrial	141	129	9%
Quantum - gross sales	105	51	106%
<b>Total</b>	<b>666</b>	<b>568</b>	<b>17%</b>
Quantum - net margin	1,074	551	95%
<b>Total Quantum</b>	<b>1,179</b>	<b>602</b>	<b>96%</b>

Southern Cross International	Six months ended 31 March		
	2012	2011	Change
<b>SCI Revenue \$Am</b>			
Phosphate Hill production sold	244.6	256.0	(4%)
SCI Trading	20.7	21.0	(1%)
Industrial	51.1	36.4	40%
Quantum	45.9	27.0	70%
<b>Total</b>	<b>362.3</b>	<b>340.4</b>	<b>6%</b>
<b>SCI EBIT \$Am</b>			
Phosphate Hill plant	49.8	94.6	(47%)
SCI	0.3	(1.5)	
Industrial	23.6	13.3	77%
Quantum	(10.6)	3.0	
<b>Total</b>	<b>63.1</b>	<b>109.4</b>	<b>(42%)</b>
<b>SCI KPIs</b>			
Average DAP Tampa (\$US/t)	568	588	(3%)
Average freight Margin (\$US/t)	28.6	32.4	(12%)
Average exchange rate A\$/US\$	96.0	91.0	(5%)
Phosphate Hill Production Tonnes ('000's)	383	438	(13%)

### Health and Safety

In line with its corporate Value “Zero Harm for everyone, everywhere”, IPL has an objective of Zero Harm. The Zero Harm culture is led by the CEO as the Group’s highest priority. The Group’s Total Recordable Injury Frequency Rate for the rolling twelve months (“TRIFR”) reduced to 1.17 (pcp: 1.60). The result reflects a significant gap to Zero Harm, which the business is striving to achieve via BEx driven culture change.

The Moranbah AN plant construction project has continued to be lost time injury free in the last six months. The project has now achieved 3.25 million construction hours worked without lost time injury.

### Carbon Regulation

IPL’s approach to carbon regulation is one of mitigating risk and leveraging opportunities, in line with its broader Sustainability position. Preparations for carbon regulation are well advanced and have focused on impact assessment, risk /opportunity review, process implementation and education.

The IPL Group’s global carbon footprint of 2.8 million tonnes of carbon dioxide equivalent is representative of the scale and capacity of its manufacturing plants and, in particular, the energy intensive manufacture of nitrogen-derived products, such as ammonia and ammonium nitrate which require natural gas as a feed-stock for production. From 1 July 2012, IPL’s annual Australian emissions (including Moranbah) are forecast at 1.6 million tonnes of carbon dioxide equivalent.

IPL estimate that, with the receipt of assistance for its ammonia, ammonium nitrate and Urea manufacturing activities, its final annual carbon tax liability will be less than \$10m per annum during the 3 year fixed price period from 1 July 2012 to 30 June 2015. This is largely due to expenditure IPL has undertaken to abate emissions at its ammonium nitrate facility at Moranbah.

### BEx

BEx (Business Excellence) will drive a new way of doing business in IPL based on lean principles. BEx will transform IPL and drive long-term productivity.

During the half, Business Excellence (BEx) has been rolled out to our medium and large manufacturing sites across the organisation. The first phase of the rollout is focussed around evaluation and training. It is expected that approximately one year after implementation, the sites will begin to deliver benefits from BEx.

BEx will be introduced into supply chain and logistics in the second half of this financial year.

An incremental \$10 million has been spent on BEx in the half year, with BEx costs expected to be around \$25m for the 2012 Full Year. This is a reduction from the initial estimate of total spend in 2012 of \$35m, as the business is taking its time to ensure that it has the right resource in place for every position within the BEx team. It is expected that once the team is fully resourced, the total cost to the business will be \$35m in 2013.

Although still early in the life of BEx, good results are being achieved:

- The Gibson Island ammonia and fertiliser plant in Brisbane achieved a \$1.7m productivity benefit through increased efficient management of a planned maintenance turnaround.
- At the Cheyenne, Wyoming, ammonium nitrate plant, an annual estimated benefit of US\$1m was realised in nitric acid production.

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**NOTE & DEFINITIONS:** Numbers in this report are subject to rounding.

1. EBITDA = Earnings before Interest, Tax, Depreciation and Amortisation, excluding individually material items
2. EBIT = Earnings before Interest and Tax, excluding individually material items
3. Attributable to shareholders of IPL, excluding minority interests
4. Interest cover = EBITDA/Net interest expense before accounting adjustment
5. Excluding Individually material items
6. Average TWC % = 13 month average trade working capital / Annual Revenues



INCITEC PIVOT LIMITED FINANCIAL POSITION	March 2012 HY \$mill	September 2011 FY \$mill	September 2011 HY \$mill	March 2011 HY \$mill	September 2010 FY \$mill	September 2010 HY \$mill	March 2010 HY \$mill	September 2009 FY \$mill	September 2009 HY \$mill	March 2009 HY \$mill
Cash	40.3	379.7	379.7	116.5	48.7	48.7	76.7	125.2	125.2	493.8
Inventories	577.8	477.9	477.9	606.0	336.2	336.2	446.7	397.1	397.1	737.5
Trade Debtors	375.6	431.5	431.5	396.1	432.3	432.3	303.8	275.3	275.3	384.3
Trade Creditors	(452.7)	(630.1)	(630.1)	(503.4)	(476.7)	(476.7)	(398.7)	(413.5)	(413.5)	(574.0)
Trade Working Capital	500.7	279.3	279.3	498.7	291.8	291.8	351.8	258.9	258.9	547.8
Net Property, Plant & Equipment	2,447.1	2,289.8	2,289.8	2,015.8	1,853.2	1,853.2	1,672.3	1,673.7	1,673.7	1,930.2
Intangibles	2,782.8	2,942.3	2,942.3	2,823.0	3,010.0	3,010.0	3,005.2	3,153.0	3,153.0	4,452.7
Net Other Assets	(428.3)	(615.9)	(615.9)	(425.6)	(446.6)	(446.6)	(316.2)	(282.6)	(282.6)	(595.3)
Net Interest Bearing Liabilities										
Current	(105.6)	(95.7)	(95.7)	(98.6)	(108.5)	(108.5)	(144.8)	(432.2)	(432.2)	(173.2)
Non-Current	(1,569.0)	(1,472.8)	(1,472.8)	(1,373.7)	(1,037.3)	(1,037.3)	(1,208.4)	(1,156.4)	(1,156.4)	(2,426.0)
<b>Net Assets</b>	<b>3,668.0</b>	<b>3,706.7</b>	<b>3,706.7</b>	<b>3,556.1</b>	<b>3,611.3</b>	<b>3,611.3</b>	<b>3,436.6</b>	<b>3,339.6</b>	<b>3,339.6</b>	<b>4,230.0</b>
<b>Total Equity</b>	<b>3,668.0</b>	<b>3,706.7</b>	<b>3,706.7</b>	<b>3,556.1</b>	<b>3,611.3</b>	<b>3,611.3</b>	<b>3,436.6</b>	<b>3,339.6</b>	<b>3,339.6</b>	<b>4,230.0</b>
<b>Capital Expenditure (Accruals Basis)</b>										
Total Capital Expenditure	268.0	612.2	335.2	277.0	359.3	268.3	91.0	328.7	133.4	195.2
Depreciation and amortisation	76.4	148.2	73.5	74.7	139.0	72.5	66.5	170.5	78.6	91.9
<b>Ratios</b>										
EPS, cents pre individually material items	8.8	32.5	21.5	11.0	27.3	18.3	9.0	22.6	11.1	11.5
EPS, cents post individually material items	8.8	28.4	18.2	10.2	25.3	17.1	8.2	(14.4)	(21.1)	6.7
DPS, cents	3.3	11.5	8.2	3.3	7.8	6.0	1.8	4.4	2.3	2.1
Franking, %	50%	0%	0%	0%	0%	0%	0%	48%	0%	100%
Interest Cover (times)	10.6	10.8	10.8	11.2	12.2	12.2	9.5	6.4	6.4	11.5
Gearing (net debt/net debt plus equity)	30.8%	24.3%	24.3%	27.6%	23.3%	23.3%	27.1%	30.5%	30.5%	33.2%

Note i) Where applicable, balances have been adjusted to disclose them on the same basis as current period figures.

Note ii) Interest cover is calculated as 12 month rolling EBITDA/12 month rolling interest cost (where interest cost is calculated as interest expense less unwind on provisions plus capitalised interest)

INCITEC PIVOT LIMITED CASH FLOWS	March 2012 FY \$mill Inflow s/ (Outflow s)	September 2011 FY \$mill Inflow s/ (Outflow s)	September 2011 HY \$mill Inflow s/ (Outflow s)	March 2011 HY \$mill Inflow s/ (Outflow s)	September 2010 FY \$mill Inflow s/ (Outflow s)	September 2010 HY \$mill Inflow s/ (Outflow s)	March 2010 HY \$mill Inflow s/ (Outflow s)	September 2009 FY \$mill Inflow s/ (Outflow s)	September 2009 HY \$mill Inflow s/ (Outflow s)	March 2009 HY \$mill Inflow s/ (Outflow s)
<b>Net operating cash flows</b>										
Group EBITDA	290.8	920.3	571.8	348.5	787.3	490.7	296.6	743.0	382.7	360.3
Net interest paid	(12.4)	(17.9)	(2.5)	(15.4)	(38.7)	(17.3)	(21.4)	(92.2)	(35.9)	(56.3)
Net income tax received/(paid)	(55.3)	(4.5)	(24.5)	20.0	(10.3)	(3.4)	(6.9)	(146.3)	(69.3)	(77.0)
TWC movement (excluding FX impact)	(229.1)	11.1	226.5	(215.4)	(34.3)	65.6	(99.9)	50.8	289.5	(238.7)
Moranbah provision release	(40.5)	(84.0)	(42.0)	(42.0)	(85.4)	(42.7)	(42.7)	(61.6)	(30.8)	(30.8)
Dyno Nobel profit from associates	(8.5)	(24.2)	(13.1)	(11.1)	(30.5)	(16.2)	(14.3)	(19.8)	(10.3)	(9.5)
Integration & restructuring costs	(6.7)	(53.4)	(34.2)	(19.2)	(52.0)	(31.5)	(20.5)	(87.4)	(57.3)	(30.1)
Environmental and site clean up	(6.3)	(20.2)	(12.1)	(8.1)	(5.0)	(3.0)	(2.0)	(11.5)	(6.9)	(4.6)
Other NTWC	(59.3)	(8.1)	(36.1)	28.0	(2.2)	7.5	(9.7)	(37.6)	(11.5)	(26.1)
<b>Operating cash flows</b>	<b>(127.3)</b>	<b>719.1</b>	<b>633.8</b>	<b>85.3</b>	<b>528.9</b>	<b>449.7</b>	<b>79.2</b>	<b>337.4</b>	<b>450.2</b>	<b>(112.8)</b>
<b>Net investing cash flows</b>										
Grow th - Moranbah	(123.5)	(347.1)	(204.0)	(143.1)	(73.9)	(69.0)	(4.9)	(247.8)	(87.8)	(160.0)
Grow th - Moranbah capitalised interest	(33.9)	(52.1)	(29.9)	(22.2)	(25.2)	(14.7)	(10.5)	(14.2)	(8.0)	(6.2)
Grow th - Other	(52.1)	(43.0)	(30.0)	(13.0)	(18.5)	(12.1)	(6.4)	(26.2)	(26.2)	-
Proceeds from surplus asset sales	7.5	37.9	34.4	3.5	19.0	17.2	1.8	52.5	21.1	31.4
Sustenance	(57.3)	(204.4)	(80.7)	(123.7)	(198.7)	(131.8)	(66.9)	(104.8)	(30.3)	(74.5)
Investments	(34.0)	(0.2)	(0.2)	-	(103.7)	(99.8)	(3.9)	(2.0)	(2.0)	-
Other	34.2	1.1	21.7	(20.6)	-	-	-	-	-	-
<b>Investing cash flows</b>	<b>(259.1)</b>	<b>(607.8)</b>	<b>(288.7)</b>	<b>(319.1)</b>	<b>(401.0)</b>	<b>(310.2)</b>	<b>(90.8)</b>	<b>(342.5)</b>	<b>(133.2)</b>	<b>(209.3)</b>
<b>Net financing cash flows</b>										
Equity raising	-	-	-	-	-	-	-	901.7	-	901.7
Equity raising fees	-	-	-	-	-	-	-	(37.8)	(1.1)	(36.7)
Dividends paid	(133.6)	(151.4)	(53.7)	(97.7)	(18.3)	(18.3)	-	(237.4)	-	(237.4)
Gain/(Loss) on translation of US\$ Debt	74.3	12.3	(61.4)	73.7	48.0	39.2	8.8	(342.7)	21.6	(364.3)
Realised market value gains/(losses) on derivatives	0.0	-	8.0	(8.0)	201.3	27.3	174.0	306.3	306.3	-
Non-cash movement in Net Debt	0.2	(63.9)	(71.0)	7.1	7.4	(8.3)	15.7	(18.3)	(2.0)	(16.3)
<b>Financing cash flows</b>	<b>(59.1)</b>	<b>(203.0)</b>	<b>(178.1)</b>	<b>(24.9)</b>	<b>238.4</b>	<b>39.9</b>	<b>198.5</b>	<b>571.8</b>	<b>324.8</b>	<b>247.0</b>
<b>Decrease/(increase) in net debt</b>	<b>(445.5)</b>	<b>(91.7)</b>	<b>167.0</b>	<b>(258.7)</b>	<b>366.3</b>	<b>179.4</b>	<b>186.9</b>	<b>566.7</b>	<b>641.8</b>	<b>(75.1)</b>