



# Incitec Pivot Limited

## Macquarie Conference

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# Incitec Pivot - Snapshot

- ASX listed company (ASX:IPL)
- A\$8.6bn <sup>(1)</sup> market capitalisation - S&P ASX100 and MSCI index
- Australia's largest integrated fertiliser manufacturer and distributor
  - ✓ Operations across the fertiliser value chain
  - ✓ World class integrated manufacturing assets
  - ✓ 70% (~ 2.4mt) of IPL sales are domestically manufactured.
  - ✓ Extensive distribution network throughout eastern Australia
- Provides a balanced and diversified exposure to Australian agriculture

**Offers exposure to global soft commodities**

(1) Based on Friday 2 May 2008 closing share price of A\$171.50

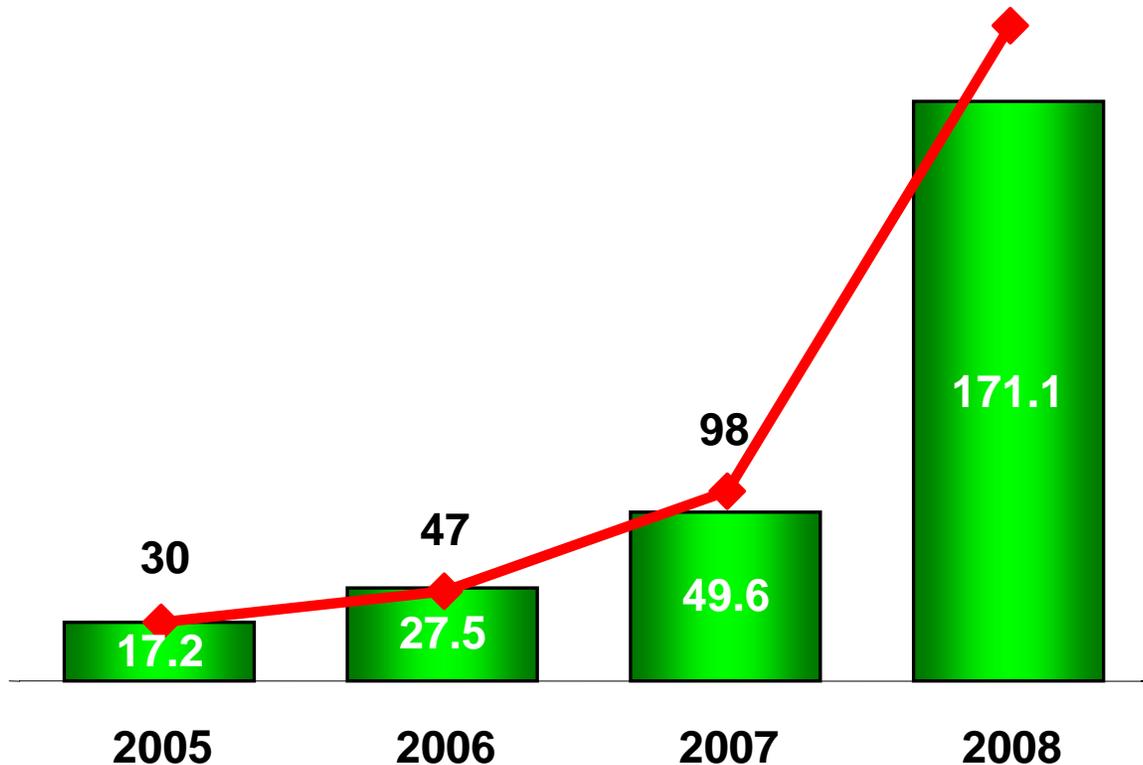


# 1H 2008

## Step change in financial performance

NPAT - A\$m\* (bars) & EPS - cps\* (line)

6 months to 31 March 2008 339

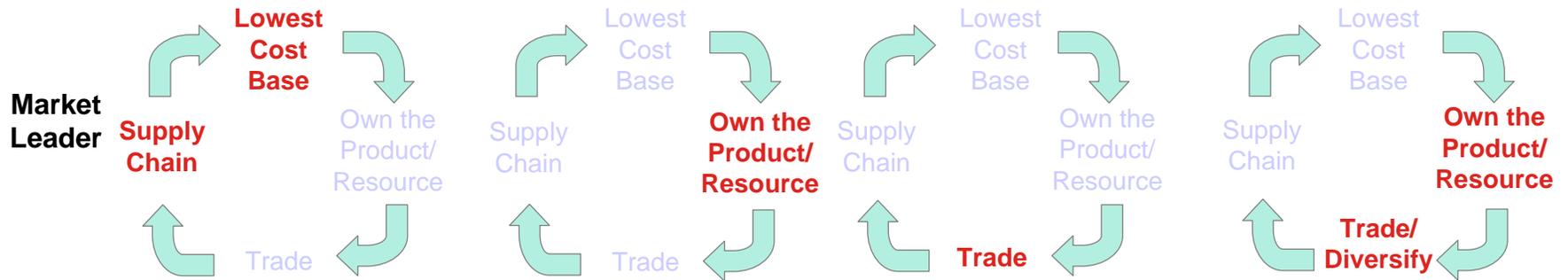


**Result driven by strategy**

\* excluding individually material items



# IPL is executing on its growth strategy



Evolution of Incitec Pivot



# World Scale ammonium phosphate production at Southern Cross



- World scale asset
- Bottom of the global cost curve
  - Low cost rock deposit
  - Low cost sulphuric acid
  - Low cost ammonia (underpinned by long term gas contract)
- Nameplate capacity 970,000 tonnes per annum

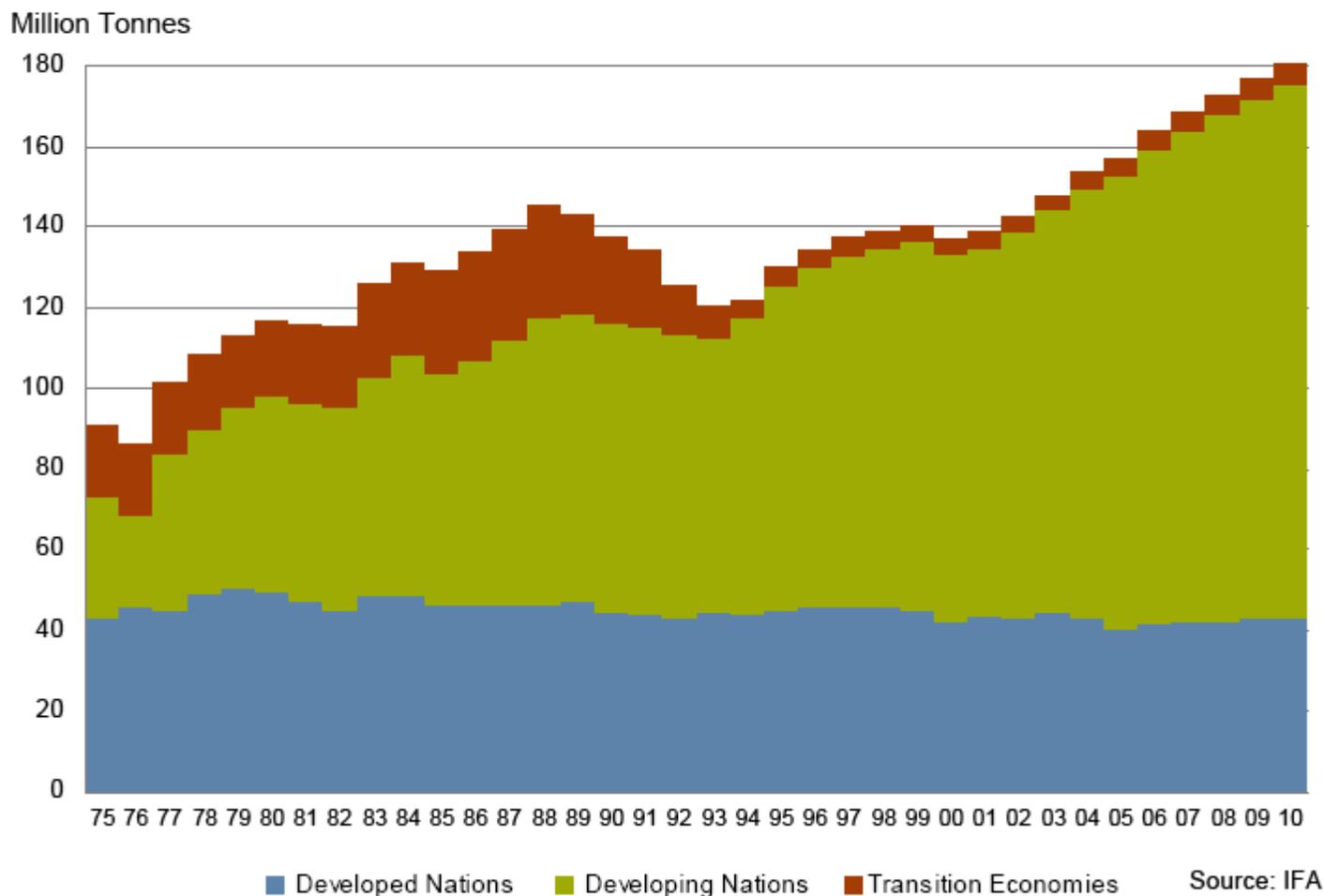
# Outlook - Global Fertiliser Demand

“ the 4 F's ”



# Demand is growing

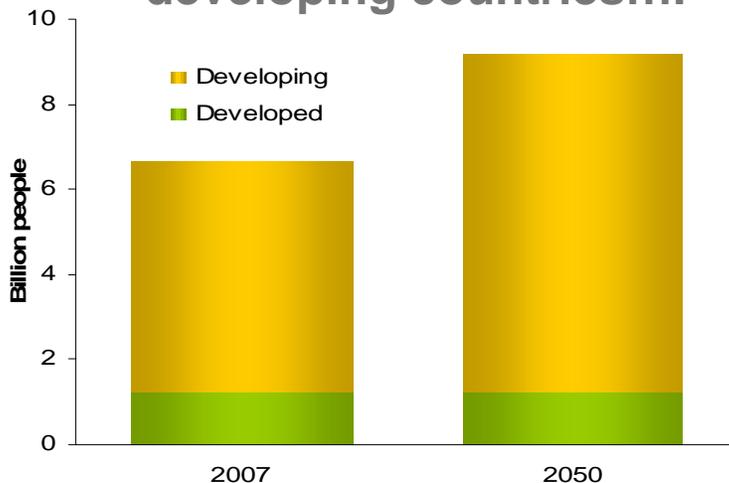
## World Nutrient Demand Through 2010



# Food & Fibre

- Population growth and economic prosperity in developing countries is increasing demand for food
- Global net population growth ~200,000 people per day
- Step change in quantity and quality of food consumption as GDP/capita increases to between US\$3k - US\$5k

**Strong population growth in developing countries....**



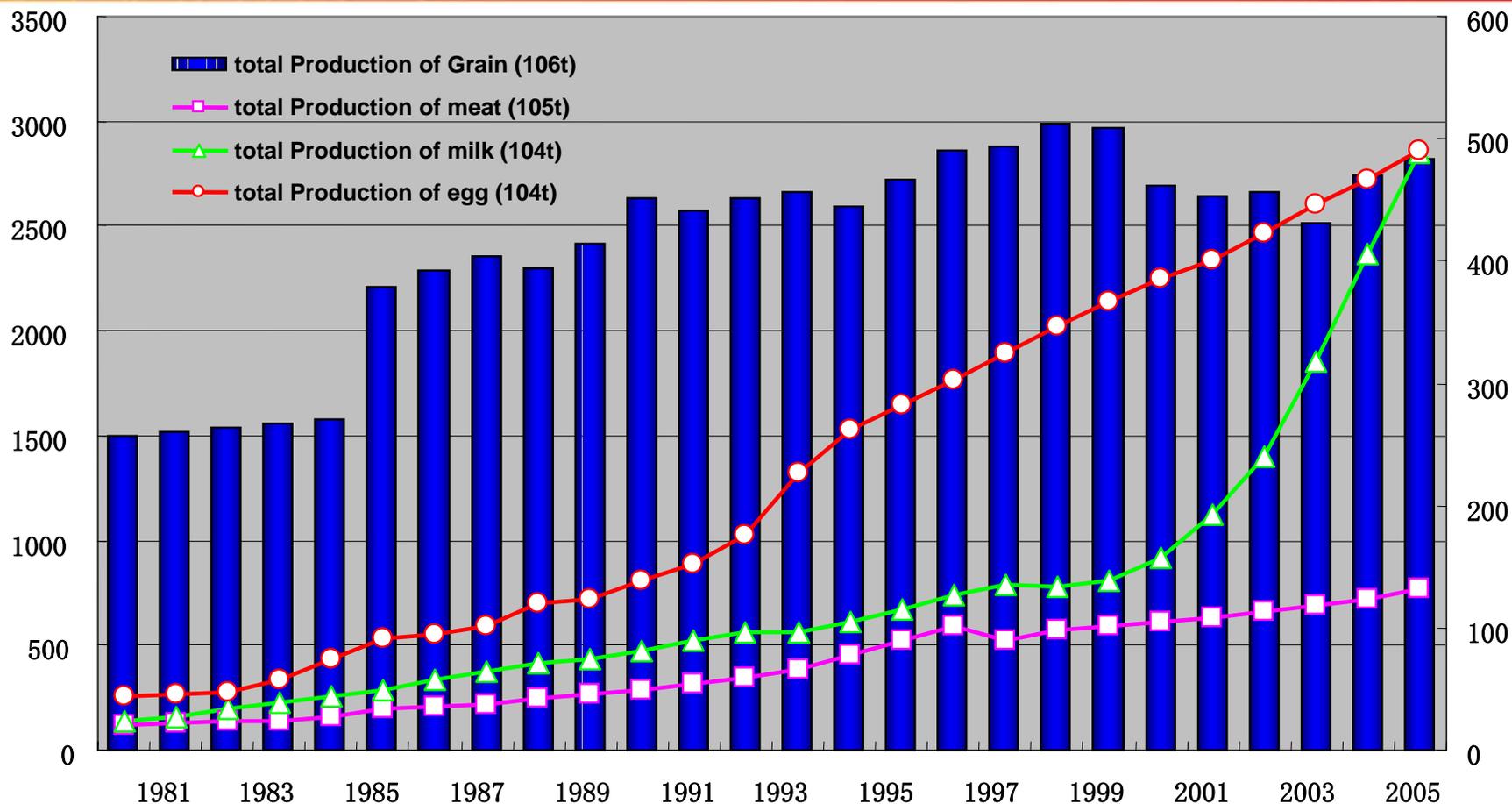
Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat (2007), Incitec Pivot

**....and increasing economic prosperity**

Country	2007 GDP growth
China	11.4%
India	8.9%
Argentina	8.7%
Indonesia	6.3%
Brazil	5.2%

Source: Economist Intelligence Unit

# Feed

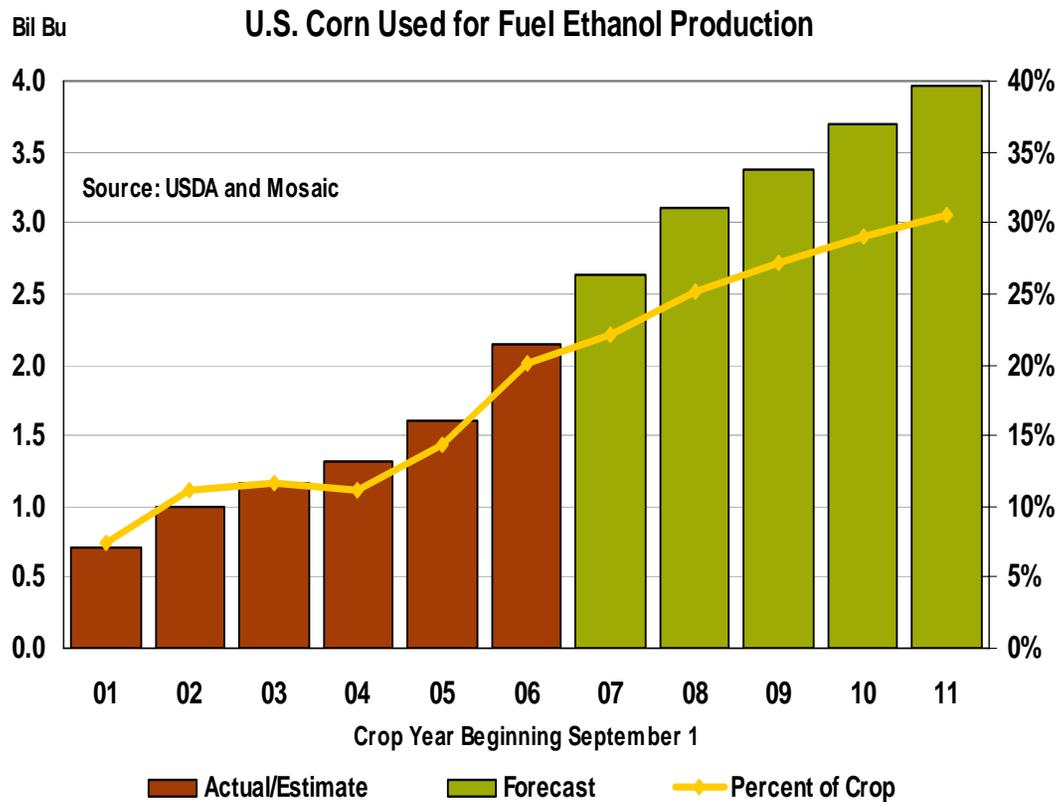


Compared to **1980**, grain production increased by **89%**, while the production of meat, egg and milk increased **6.4**, **11.2** and **20.8** times respectively in 2005

Source: China Agriculture University, Beijing, 100094 P.R.CHINA



# Fuel



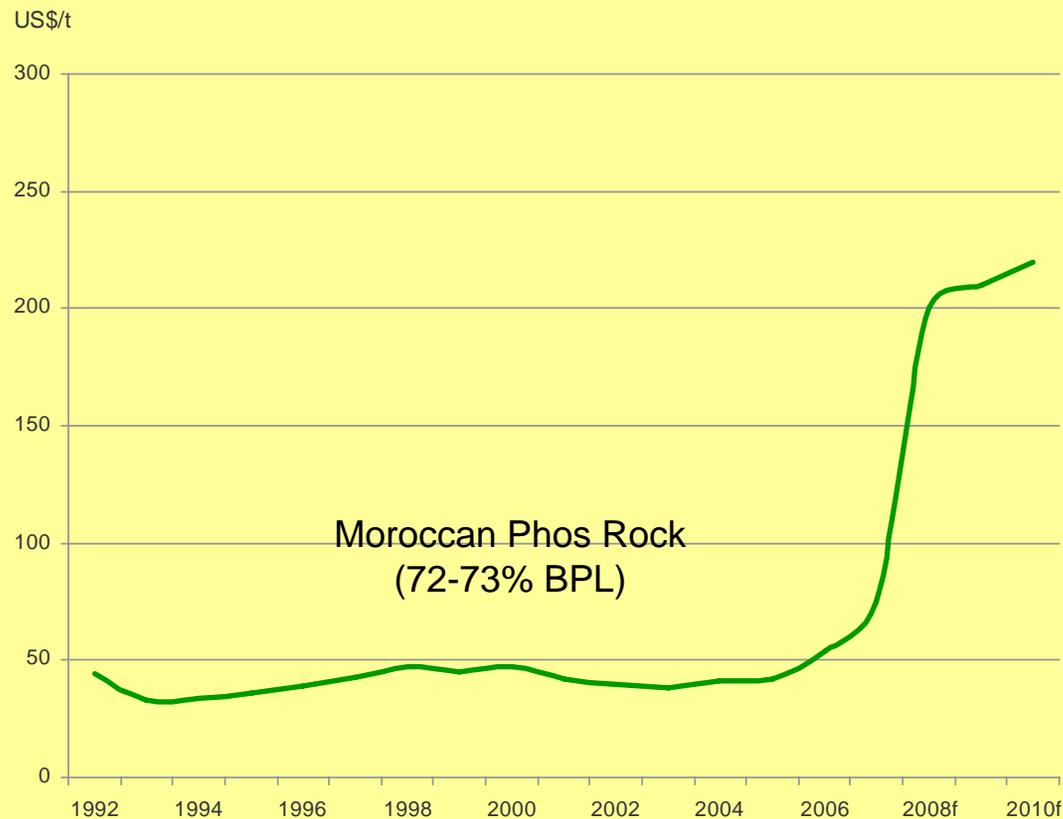
- Recent dislocation in nutrient demand has been driven by biofuel
- Government mandates underpinning demand for renewable fuels
- Corn, sugar, palm oil are nutrient intensive crops

# Outlook – Ammonium Phosphate Supply



# Phosphate Rock Prices should remain strong

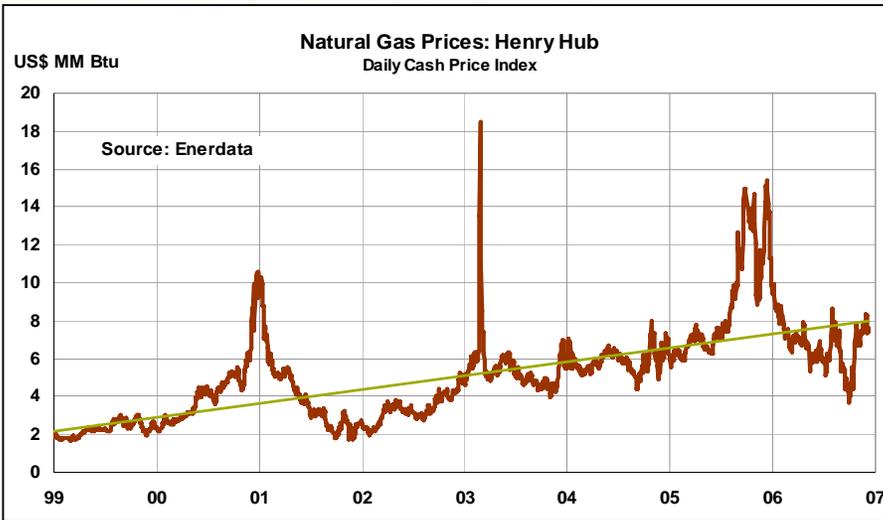
There has been a fundamental shift in the value of phosphate rock.



- Limited planned new capacity additions to Phosphate Rock capacity
- 4-year lead-time for new capacity in an increasing capital cost environment
- Rock suppliers seeking parity with other phosphate products
- Spot Rock prices currently US\$350 - \$400/t fob (March 2008)

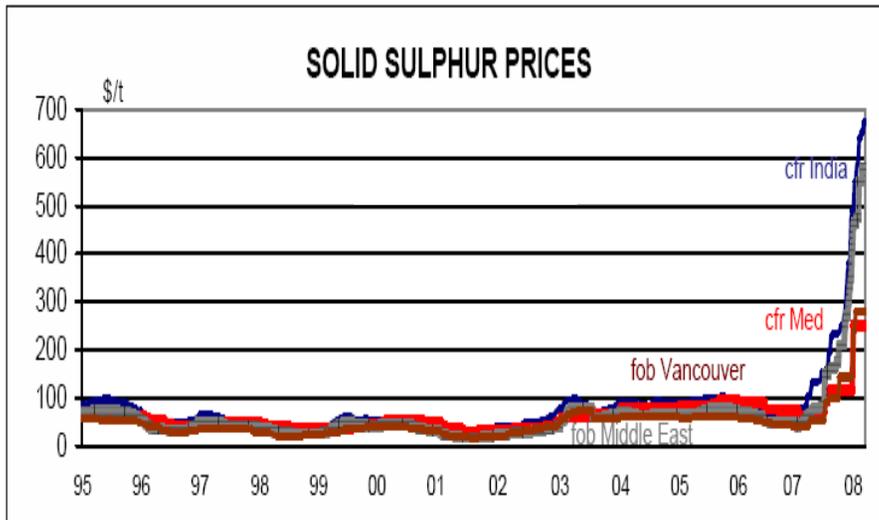
Source: British Sulphur Consultants  
A Division of CRU

# Step change in outlook for other input costs



## Increasing Cost of Natural Gas

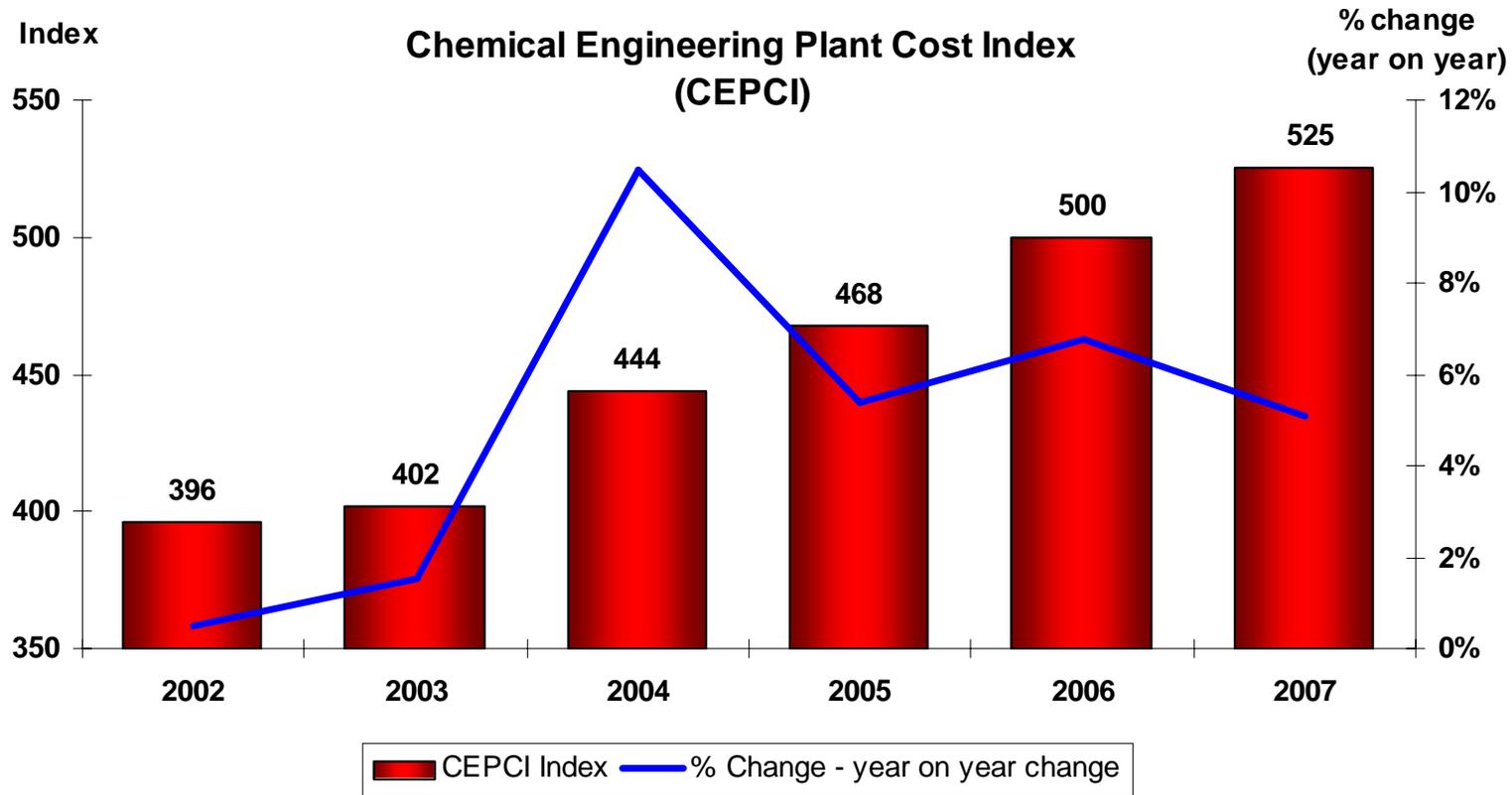
- Natural gas is a key determinant of cost, price and margin
- Step change in global energy costs. Stranded gas not necessarily cheap gas



## Higher Sulphur Costs

- Increasing demand – China, India
- Supply interruptions – Canada, Middle East
- No new capacity in the near-term (Kazakhstan & Qatar ~2009/2010)

# Escalating cost of new capacity

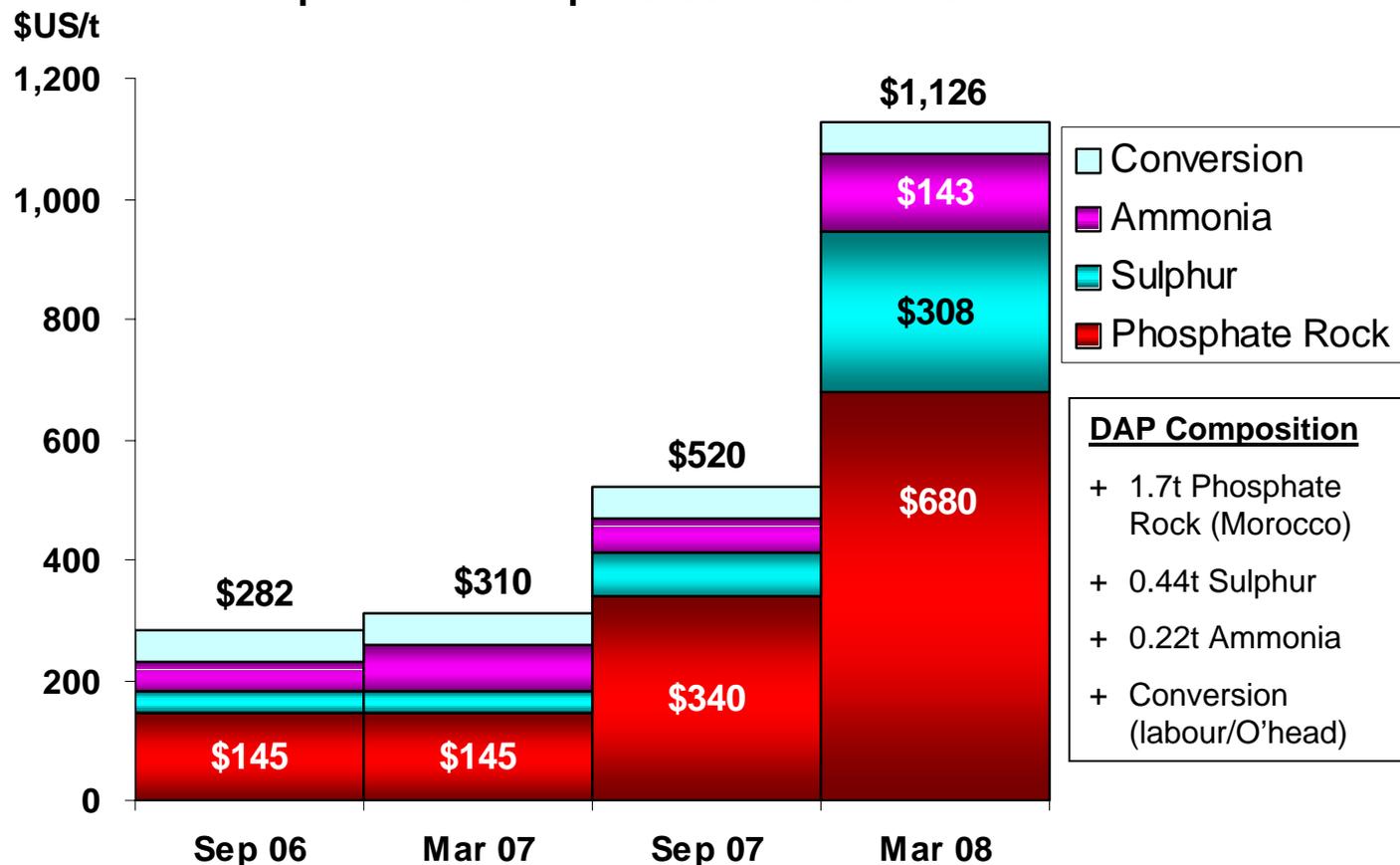


- Higher construction costs coincide with hard commodity boom
- Higher long-term commodity prices required to generate required rates of return

*Note - Construction cost index includes completed projects only*

# Non-integrated ammonium phosphate producer costs to set the floor price

DAP production - input & conversion costs

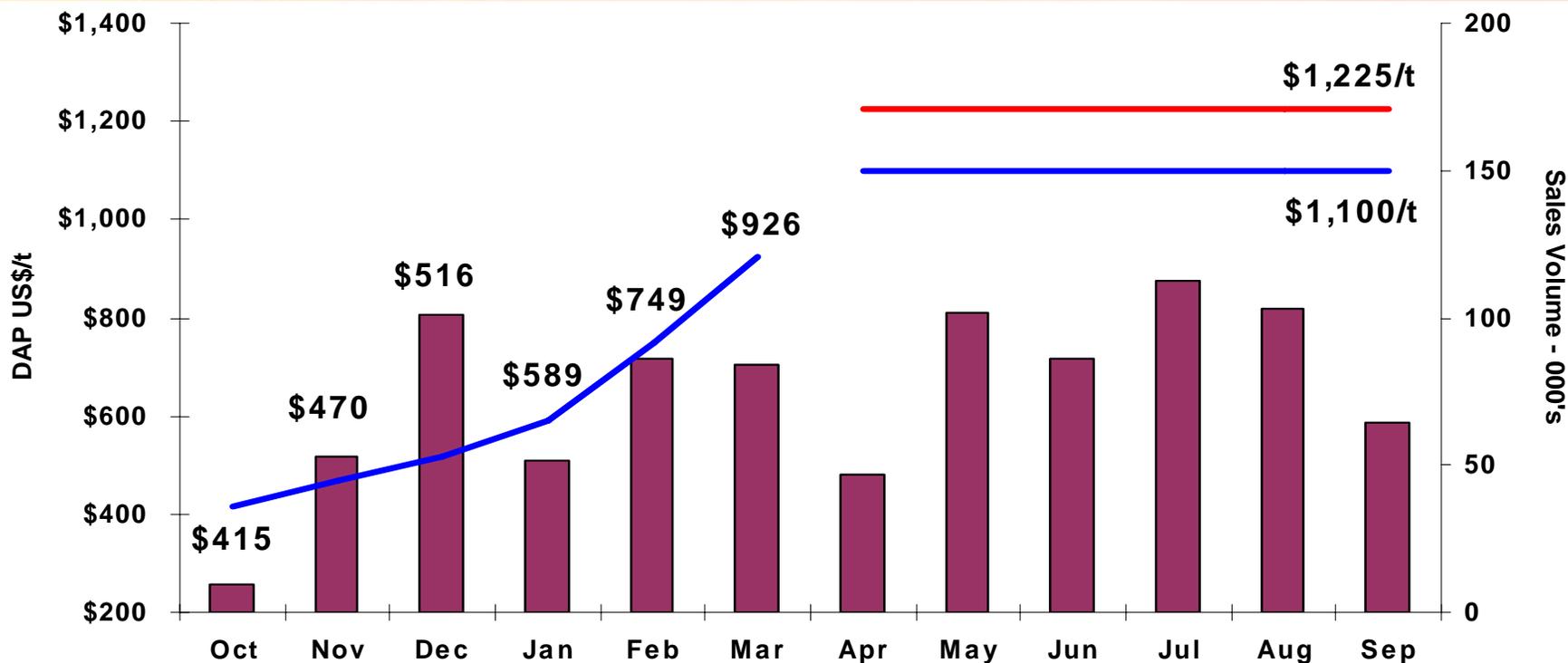


**Ownership of raw material inputs = value leverage**

Note – Mar'08 cost comprises spot prices for: Phosphate Rock \$350/t FOB + freight, Sulphur at US\$600/t, & Ammonia US\$600/t



# 2008 Outlook for DAP Pricing



Sales Volume - Actual YTD / Forecast YTG
  Actual Realised DAP Price
  Spot DAP Tampa US\$/t FOB - 1/5/08

Consensus of Fertiliser Industry Economists

<u>Sensitivities:</u>	YTG	Yr Ave	EBIT	(1)
Mar'08 <sup>(1)</sup>	\$ 874/t	\$775/t	\$715M	(1) Mid-point of 6 March 2008 guidance
Ind Econ <sup>(2)</sup>	\$1,100/t	\$910/t	\$850M	(2) Average fertiliser industry economists as at 1 May 2008 (1-month lag)
Spot <sup>(3)</sup>	\$1,225/t	\$980/t	\$915M	(3) Spot at 1 May – Fertiliser Week



# Growth - IPL's Recommended offer for Dyno Nobel

" the other 2 F's "



# Dyno Nobel - Overview

- ASX listed company (ASX:DXL)
- Leading supplier of industrial explosives and blasting services for mining, quarrying and construction industries
- #1 in North America (worlds largest explosives market)
- #2 in Australia (worlds 3rd largest explosives market)
- Employs over 3,500 people and has 36 manufacturing facilities and operations in North America, Australia, Mexico, Indonesia & PNG
- 2007 Business metrics:
  - Revenue: US\$1,398M
  - EBIT<sup>(1)</sup>: US\$179.9M
  - NPAT<sup>(1)</sup>: US\$101.9M

**Offers exposure to global hard commodities**

(1) Excludes significant non-recurring items



# Dyno Nobel – a value accretive acquisition

- Proposed A\$3.3bn acquisition of Dyno Nobel
- Unanimous recommendation from the Dyno Nobel Board
- Implementation by Scheme of Arrangement
- Price of A\$2.80 per share for outstanding shares<sup>(1)</sup>
- 75% scrip, 25% cash mix (with mix and match option)
- Including IPL's existing stake, average price to IPL of A\$2.74 per Dyno Nobel share<sup>(2)</sup>
- Scheme implementation expected in June 2008

## Fit and Flexibility

(1) Implied price for the 86.8% of shares that IPL does not already own at IPL share price of A\$149.36

(2) The average price takes into account the 13.2% of Dyno Nobel acquired by IPL in August 2007



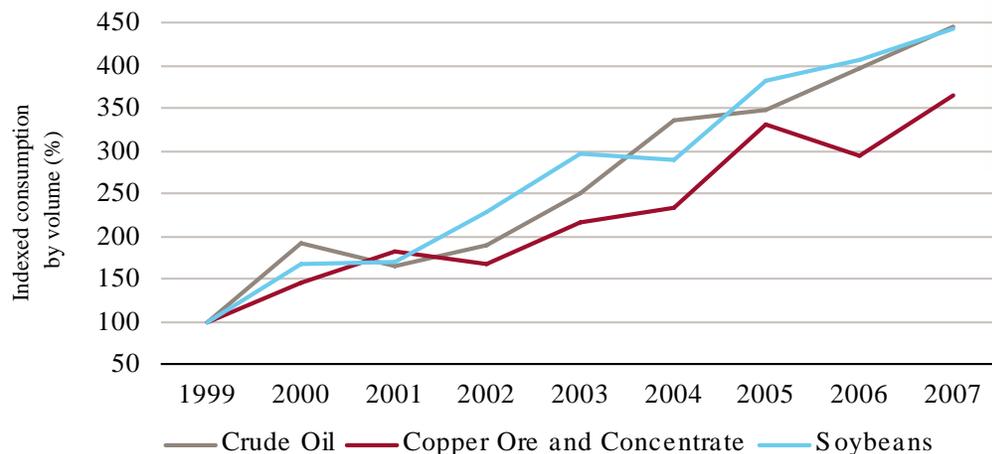
# IPL & Dyno are a natural combination

- The combination is about **FIT** and **FLEXIBILITY**
- Fertilisers and explosives **FIT** together because of the commonality in underlying chemical processes and inputs
  - ✓ Nitrogen-based chemical manufacturing is at the core of both companies
  - ✓ Manufacturing drives profitability
  - ✓ Incitec manufactured both fertiliser and explosives pre-2003
  - ✓ Dyno Nobel already manufactures and sells fertiliser in North America – Cheyenne expansion to further assist
  - ✓ Agrium (AGU:US) produces both fertiliser and explosives
- **FLEXIBILITY** is about the ability to swing production between fertilisers and explosives to maximise shareholder value

# What is the strategic rationale?

- The super cycle is driving demand in **both** hard and soft commodities

- Chinese/Indian economies driving the mining boom
- Growth in China and India per capita GDP driving a step change in food consumption (a shift from “starch to protein”)



Source: Bloomberg and WASDE

- Exposure to the super cycle from the **input** side
  - Fertiliser and explosives both key inputs to soft and hard commodities production
  - Input side returns are typically higher and less volatile (“pick and shovel” investment thesis)

**A 30-year investment thematic**



# How do we deliver > 15% IRR

**IPL's track record of delivery**

## **Improve Dyno Nobel business efficiency**

- Acceleration and delivery of current efficiency program
- Manufacturing improvement
- Overhead rationalisation
- Swing of production between fertilisers and explosives
- Proven management team – delivery and experience

**Leverage IPL's strong financial profile**

## **Option values**

- Moranbah project
- Targeted Country re-entry
- Plant expansions – scale and scope (explosives and fertiliser)

# Incitec Pivot - Growth platform



# IPL Strategy for growth

## Lowest Cost Base

**Position the business to generate adequate returns in all conditions**

Achieved:

- ✓ Savings and business efficiency benefits to date of \$103M
- ✓ A further \$28M benefit in 2008



## Supply Chain

**Handling of millions of tonnes of bulk commodities per annum generates opportunities to magnify efficiency savings across a large base**

Achieved:

- ✓ >\$150M reduction in trade working capital since 2005

## Own the Product

**Generate exposure to most profitable part of the industry value chain – manufacturing – while maintaining financial discipline**

Achieved:

- ✓ Southern Cross successfully integrated

Proposed:

- ✓ Brownfield & greenfield expansion opportunities
- ✓ Dyno Nobel Acquisition
- ✓ Aceh feasibility & China JV's
- ✓ Metex investment

## Trade

**Reduce volatility of returns by increasing exposure to more products and markets and increasing scale**

Achieved:

- ✓ Southern Cross International established



# Summary

## - Investment Thesis



# Summary – Investment Thesis

- Leverage to the global soft commodity super cycle
- Robust outlook for global fertiliser industry
- Low cost manufacturing assets close to key markets
- Leading market position in Australia
- Proposed A\$3.3bn acquisition of Dyno Nobel (hard commodity leverage)
- Strong platform for growth

*Questions?*

