

# Incitec Pivot Limited

## DIVERSE MARKETS DELIVER SOUND RESULT

### Results for the six months ended 31 March 2010

#### BUSINESS PERFORMANCE

Incitec Pivot Limited (IPL) has delivered Net Profit After Tax (NPAT), including individually material items (IMIs)<sup>(1)</sup>, of \$132.4M, compared with \$99.6M for the previous corresponding period (pcp). NPAT excluding individually material items was down \$23.6M to \$146.2M (pcp: \$169.8M).

#### KEY FINANCIALS

- NPAT excluding individually material items was down 14% to \$146.2M (pcp: \$169.8M).
- EBIT<sup>(3)</sup> down 15% or \$42.1M to \$230.1M (pcp: \$272.2M) largely reflecting lower global fertiliser prices and the impact of the higher A\$, partially offset by business improvement initiatives.
- Operating cash flows improved by \$192M to an inflow of \$79.2M (pcp: outflow of \$112.8M), reflecting a continued focus on cash generation.
- Net debt reduced by \$0.83Bn to \$1.28Bn (pcp: \$2.11Bn). Headroom available on committed facilities at 31 March 2010 is \$1.14Bn.

#### SHAREHOLDER RETURNS

- Earnings per share<sup>(4)</sup> excluding individually material items down 22% to 9.0 cents (pcp: 11.5 cents). Earnings per share<sup>(4)</sup> including individually material items up 22% to 8.2 cents (pcp: 6.7 cents).
- Dividend per share declined 14% to 1.8 cents (pcp: 2.1 cents). The dividend will be unfranked and represents a pay-out of 20% of available profits excluding IMIs.

#### BUSINESS HIGHLIGHTS

- The mix of earnings in the period was 58% Explosives and 42% Fertilisers (pcp: Explosives 47% and Fertilisers 53%).
- Explosives EBIT of \$133.2M was 3% above pcp of \$128.9M, largely as a result of the improved margins in Asia Pacific, offset by the impact of challenging market conditions in North America and the higher A\$.
- The Velocity program continues on track, with incremental benefits US\$25.9M, representing 43% of the full year target of US\$60.0M.
- Fertilisers EBIT of \$96.9M was 32% below pcp of \$143.3M, due to lower average global fertiliser prices and the higher A\$.

Financial Summary A\$M	6 Mths Ended 31 March		
	2010	2009	Change
Sales Revenue	1,236.4	1,708.0	(28%)
EBITDA <sup>(2)</sup>	296.6	360.3	(18%)
EBIT <sup>(3)</sup>	230.1	272.2	(15%)
NPAT - exc. individually material items	146.2	169.8	(14%)
NPAT - inc. individually material items <sup>(1)</sup>	132.4	99.6	33%
<b>Shareholder Returns</b>			
Earnings per share (cents) exc. IMIs <sup>(4)</sup>	9.0	11.5	(22%)
Earnings per share (cents) inc. IMIs <sup>(4)</sup>	8.2	6.7	22%
Dividend per share (cents)	1.8	2.1	(14%)
Share price at 31 March (\$)	3.47	2.12	64%
<b>Financial Items</b>			
Operating cash flows	79.2	(112.8)	
Net debt	1,276.5	2,105.4	39%
Net Debt/EBITDA <sup>(5)</sup>	1.9x	1.9x	

#### OUTLOOK – SECOND HALF

- Earnings will be biased towards the second half, reflecting the seasonality of Australian agriculture and the North American explosives market.
- Americas Explosives Business will continue to face challenging cyclical trading conditions, partly offset by delivery of the Velocity program. The business is well placed to benefit from the eventual recovery in the US economy, although the timing of any recovery is uncertain.
- Continued earnings momentum in the Asia Pacific Explosives Business, with lower cost sourcing.
- Moranbah construction recommenced in May 2010, as previously announced.
- Domestic fertiliser demand will be dependent on sufficient in-season rainfall, with farmers challenged by a higher A\$ (reducing returns for globally traded crop production).

#### Definitions and Notes

1. NPAT attributable to shareholders of Incitec Pivot Limited, excluding minority interests.
2. EBITDA: EBIT + depreciation + amortisation.
3. EBIT: Earnings before interest and tax, and excluding individually material items.
4. 2010 EPS based on a diluted 1,619,569,865 weighted average number of issued shares. 2009 EPS based on a diluted 1,478,060,354 weighted average number of issued shares.
5. Net debt / EBITDA is based on Net debt at period end / last 12 month historical EBITDA.

### GROUP EARNINGS BEFORE INTEREST & TAX (EBIT)

Total EBIT decreased 15% to \$230.1M (pcp: \$272.2M), reflecting the higher A\$ and lower earnings from Fertilisers, driven by lower average global pricing, offset by an improved performance from Explosives. The adverse impact of the rise in the A\$ was approximately \$74.9M for the Group.

The 1H results reflect improved quality of earnings, driven by cost efficiency gains through initiatives including the Velocity program, evidenced by the higher EBIT/Sales ratio of 19% (pcp: 16%).

The mix of earnings in the period was 58% Explosives and 42% Fertilisers (pcp: Explosives 47%; Fertilisers 53%), reflecting the improved diversification and balance of earnings.

### BORROWING COSTS / CREDIT METRICS

Net borrowing costs decreased to \$31.2M (pcp: \$59.3M). The decrease is due to a reduction in net debt and lower interest costs resulting from the strategy of funding the Group in US\$.

Interest cover declined but remained very strong at 9.5 times (pcp: 11.5 times). Despite lower EBITDA, Net debt to EBITDA<sup>(5)</sup> remained at 1.9 times (pcp: 1.9 times), with lower EBITDA for the period offset by the benefit of holding debt in US\$.

### TAX

Tax expense (excluding tax on individually material items) of \$52.7M was 22% higher than 1H 2009 (pcp: \$43.1M) and reflects an effective tax rate of 26% (pcp: 20%).

### RETURNS TO SHAREHOLDERS

IPL has maintained a dividend payout within the previously announced dividend policy range of 20% - 40% of NPAT excluding IMIs.

Accordingly, an interim unfranked dividend of 1.8 cents per share will be paid on 6 July 2010 (pcp: 2.1 cents fully franked).

The 2010 interim dividend is wholly unfranked due to the lack of available franking credits at this time, and represents a pay-out ratio of 20% of NPAT excluding individually material items. The company's dividend reinvestment plan will operate. The dividend will not be underwritten.

Earnings Summary A\$M	6 Mths Ended 31 March		
	2010	2009	Change
<b>EBIT</b>			
Fertilisers	96.9	143.3	(32%)
Explosives	133.2	128.9	3%
<b>EBIT Total</b>	<b>230.1</b>	<b>272.2</b>	<b>(15%)</b>
Borrowing costs <sup>(6)</sup>	(31.2)	(59.3)	47%
Tax expense <sup>(6)</sup>	(52.7)	(43.1)	(22%)
<b>NPAT - exc. individually material items</b>	<b>146.2</b>	<b>169.8</b>	<b>(14%)</b>
Individually material items after tax	(14.1)	(70.2)	80%
<b>NPAT - inc. individually material items</b>	<b>132.1</b>	<b>99.6</b>	<b>33%</b>
Minority interests	0.3	0.0	
<b>NPAT - inc. individually material items attributable to shareholders</b>	<b>132.4</b>	<b>99.6</b>	<b>33%</b>
EBIT/Sales	19%	16%	

Borrowing Costs /Credit Metrics A\$M	6 Months Ended 31 March		
	2010	2009	Change
Interest expense	(36.1)	(61.4)	41%
Non-cash unwinding of liabilities	(5.6)	(4.1)	(37%)
<b>Total borrowing costs</b>	<b>(41.7)</b>	<b>(65.5)</b>	<b>36%</b>
Less Capitalised Interest (Moranbah)	10.5	6.2	
<b>Net Borrowing Costs</b>	<b>(31.2)</b>	<b>(59.3)</b>	<b>47%</b>
Interest cover	9.5x	11.5x	
Net debt/EBITDA <sup>(5)</sup>	1.9x	1.9x	

Interim Dividend Cents per share (cps)	6 Months Ended 31 March		
	2010	2009	Change
Normal dividend	1.8	2.1	(14%)
Franking (%)	0%	100%	
Record date: 20 May 2010			
Dividend paid: 6 July 2010			

### INDIVIDUALLY MATERIAL ITEMS

Individually material items (net of tax)<sup>(7)</sup> were a cost of \$14.1M, down \$56.1M (pcp: \$70.2M). Components were:

\$5.6M: Velocity integration and restructuring costs

\$8.5M: Manufacturing restructuring costs, predominantly relating to cessation of manufacturing at Maitland and Battle Mountain, ammonium nitrate plants in the US, as announced in November 2009.

Individually Material Items A\$M	6 Months Ended 31 March 2010		
	Gross	Tax	Net
Velocity integration & restructuring	(8.5)	2.9	(5.6)
Manufacturing & Distribution restructuring	(12.0)	3.5	(8.5)
<b>Total</b>	<b>(20.5)</b>	<b>6.4</b>	<b>(14.1)</b>

### BALANCE SHEET

IPL's March 2010 Balance Sheet is robust. Strong credit metrics have been maintained and \$1.14Bn of undrawn committed finance facilities are in place.

### NET ASSETS

IPL has continued to demonstrate strong financial discipline. When comparing current balances with September 2009:

- Fertilisers trade working capital at 31 March 2010 was \$116M, an increase of \$80M since September 2009, largely as a result of the seasonal stock build. Fertiliser trade working capital as a percentage of 12 month rolling revenue was 8.1% (pcp: 10.3%).
- Explosives trade working capital increased by \$13M since 30 September 2009 due to seasonal stock build. Explosives trade working capital as a percentage of 12 month rolling revenue was 15.6% (pcp: 16.0%).
- Property, plant and equipment fell by \$2M to \$1,672M since 30 September 2009 as a result of the following movements:
  - Additions \$91M
  - Depreciation (\$66M)
  - Impact of higher A\$ (\$27M)
- Intangibles of \$2,958M have reduced by \$89M since 30 September 2009 due primarily to the higher A\$.
- Net other liabilities have increased by \$63M since September 2009 to \$253M, due largely to a reduction in financial assets. This is a result of the closure of cross currency swaps subsequent to the 144A bond issue.

Balance Sheet A\$M	31-Mar 2010	30-Sep 2009	31-Mar 2009
Trade Working Capital - Fertilisers	116	36	237
Trade Working Capital - Explosives	236	223	311
Net property plant and equipment	1,672	1,674	1,930
Intangibles	2,958	3,047	4,453
Environmental & restructuring	(112)	(125)	(103)
Tax (liabilities)/assets	49	74	(138)
Net other liabilities	(253)	(190)	(355)
Net Debt	(1,277)	(1,464)	(2,105)
<b>NET ASSETS</b>	<b>3,389</b>	<b>3,275</b>	<b>4,230</b>
<b>Equity</b>	<b>3,389</b>	<b>3,275</b>	<b>4,230</b>
<b>Net Debt/EBITDA</b>	<b>1.9x</b>	<b>2.0x</b>	<b>1.9x</b>

### Definitions and Notes

7. These items are considered individually material because they require corporate disclosure in accordance with accounting standards as they are non-recurring in nature.

**NET DEBT**

IPL net debt was \$1,276.5M at 31 March 2010, a \$186.9M reduction since September 2009, and a reduction of \$828.9M since March 2009. This reduction includes cash inflow from operating activities of \$79.2M (pcp: \$112.8M outflow).

Net debt also benefited from the strategy of borrowing in US\$, with realised gains on cross currency swaps reducing debt by \$174.0M.

**Debt Facilities**

The US\$800M 144A/Regulation S 10 year bonds issued in December 2009 add tenor and diversity to IPL's debt structure. This bond transaction, combined with various other financing activities and the cash inflows from operating activities, has allowed the Group to repay and cancel the Working Capital Facility (limit of \$420M at September 2009), reduce the limit on the Syndicated Facility Agreement by \$400M and reduce drawings under the Syndicated Facility Agreement by \$720.9M.

As at 31 March 2010, IPL had \$2.43Bn of committed financing facilities in place, against which \$1.28Bn was drawn:

1. Syndicated Facility
  - Committed: A\$1.28Bn
  - Term: 3 years
  - Matures: September 2011
2. 144A/Regulation S Bond
  - Committed: US\$0.8Bn (A\$0.85Bn)
  - Term: 10 years
  - Matures: December 2019
  - Proceeds of this bond were used to repay and cancel the Working Capital Facility, with remaining proceeds used to partially repay the Syndicated Facility.
3. Participation Agreements
  - Committed: A\$0.3Bn
  - Term: 5 years (amortising)
  - Matures: August 2013 and September 2014.

In addition, the Group has a number of small facilities (such as transactional overdraft and inventory financing facilities) that are utilised from time to time. A total of \$85M has been drawn against these facilities.

### CASH FLOW

Net operating cash flow improved by \$192.0M to an inflow of \$79.2M (pcp: outflow of \$112.8M). Major factors were:

- Fertiliser EBITDA decreased by \$45.6M to \$117.8M (pcp: \$163.4M).
- Explosives EBITDA decreased by \$18.1M to \$178.8M (pcp: \$196.9M).
- Net interest payments decreased by \$34.9M to \$21.4M (pcp: \$56.3M), reflecting lower interest costs resulting from US\$ debt, combined with lower overall debt.
- Net income tax paid was \$6.9M (pcp: \$77.0M) reflecting the tax payments on 2009 earnings versus the payments on 2008 earnings.
- Seasonal build of working capital was \$99.9M (pcp: \$238.7M).
- Profits generated by Dyno Nobel joint ventures during the period were \$14.3M (pcp: \$9.5M).
- Integration restructuring costs paid, including Velocity program, were \$20.5M.

Net investing cash outflows reduced by \$118.5M to \$90.8M (pcp: \$209.3M). Major outflows were:

- Total sustenance capital of \$66.9M (pcp: \$74.5M), which is 100% of depreciation expense for the period.
- Moranbah project expenditure of \$4.9M, following the temporary cessation of construction, announced in February 2009 (pcp: \$160.0M). Total project expenditure to date is now \$333.0M.
- A further investment in Carbon Energy Ltd (ASX.CNX) to maintain IPL's shareholding above 10%.

Net financing cash flows were a net inflow of \$198.5M (pcp: \$247.0M) largely reflecting an inflow of \$174.0M resulting from realised gains on cross currency swaps.

Net debt decreased by \$186.9M.

Cash Flow Items A\$M	6 Months Ended 31 March		
	2010	2009	Change
<b>Net operating cash flows</b>			
EBITDA - Fertiliser	117.8	163.4	(28%)
EBITDA - Explosives	178.8	196.9	(9%)
Net interest paid	(21.4)	(56.3)	62%
Net income tax paid	(6.9)	(77.0)	91%
TWC movement	(99.9)	(238.7)	58%
Moranbah Provision release	(42.7)	(30.8)	(39%)
Dyno Nobel profit from associates	(14.3)	(9.5)	(51%)
Integration & restructuring costs	(20.5)	(30.1)	32%
Other NTWC	(11.7)	(30.7)	62%
<b>Operating cash flows</b>	<b>79.2</b>	<b>(112.8)</b>	<b>170%</b>
<b>Net investing cash flows</b>			
Growth - Moranbah	(4.9)	(160.0)	97%
Growth - Moranbah capitalised interest	(10.5)	(6.2)	(69%)
Growth - Other	(6.4)	0.0	
Sustenance	(66.9)	(74.5)	10%
Investment	(3.9)	0.0	
Proceeds from surplus asset sales	1.8	31.4	(94%)
<b>Investing cash flows</b>	<b>(90.8)</b>	<b>(209.3)</b>	<b>57%</b>
<b>Net financing cash flows</b>			
Equity raising	0.0	901.7	
Equity raising fees	0.0	(36.7)	
Dividends paid	0.0	(237.4)	
Loss on translation of US\$ Debt	0.0	(364.3)	
Realised market value gains on cross currency swaps	174.0	0.0	
Borrowing costs	8.8	(16.3)	
Non-cash movement in Net Debt	15.7	0.0	
<b>Financing cash flows</b>	<b>198.5</b>	<b>247.0</b>	<b>(20%)</b>
<b>Decrease/(increase) in net debt</b>	<b>186.9</b>	<b>(75.1)</b>	

### SENSITIVITIES

Full Year EBIT Sensitivities A\$M	
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
Forex - transactional (DAP & Urea) <sup>(3)</sup>	+/- 1 cent = A\$5.8M
Forex - translation of Explosives earnings <sup>(4)</sup>	+/- 1 cent = A\$0.6M
Assumptions:	
(1) 405kt urea equivalent sales at the 1H 2010 realised price of US\$285	
(2) 970kt DAP sales at the 1H 2010 realised price of US\$371	
(3) DAP & Urea based on assumptions 1 and 2	
(4) For each US\$50M EBIT	

### EXPLOSIVES

#### REVENUE

Total explosives revenue fell 32% to \$688.5M (pcp: \$1,010.9M), due to softer volumes and adverse product mix in the Americas, reduced nitrogen pricing, and the increased A\$.

#### AMERICAS

Revenue from the Americas decreased by US\$100.5M or 19% to US\$429.6M (pcp: US\$530.1M), with all market segments being adversely impacted by volume contraction (total volume down by 14% on pcp), combined with adverse product mix as customers temporarily switched to lower value products during the US recession.

In A\$ terms, revenue from the Americas decreased by 40%.

#### Coal

Volumes sold into coal markets were down 8% on pcp, reflecting destocking at power utilities. Coal inventories held by utilities reduced to 59 days cover at the end of February 2010, from a peak of 83 days cover in September 2009<sup>(9)</sup>. The 3 year average inventory level is 50 days cover.

#### Quarry & Construction (Q&C)

This market continued to be soft, with volumes down 23% on pcp. This is a result of continued deterioration in US construction markets, exacerbated by a severe winter.

#### Metals & Mining

Volumes in this sector declined 24% on pcp, mainly as a result of the loss of a significant customer in 2009.

#### ASIA PACIFIC

Asia Pacific revenue decreased marginally to \$238.1M (pcp: \$251.2M), mainly as a result of lower spot sales in 2010.

#### EARNINGS BEFORE INTEREST & TAX (EBIT)

Total Explosives EBIT improved by 3% to A\$133.2M (pcp: \$128.9M). Major factors were:

- US\$ EBIT in the Americas decreased by 20% to US\$50.8M (pcp: US\$63.2M), largely reflecting:
  - Incremental Velocity program benefits of US\$22.4M;
  - Plant uptime efficiency improvements of US\$13.9M,

Sales Summary - Explosives	6 Mths Ended 31 March		
	2010	2009	Change
<b>US\$ Revenue</b>			
Americas	429.6	530.1	(19%)
<b>A\$ Revenue</b>			
Americas	473.6	793.6	(40%)
Asia Pacific	238.1	251.2	(5%)
Eliminations	(23.2)	(33.9)	
<b>Total Explosives Revenue</b>	<b>688.5</b>	<b>1,010.9</b>	<b>(32%)</b>
Translation exch. rate - cents A\$/US\$ <sup>(8)</sup>	90.7	66.8	(36%)

Earnings Summary - Explosives	6 Mths Ended 31 March			
	A\$M	2010	2009	Change
<b>US\$ EBIT</b>				
Americas	50.8	63.2	(20%)	
<b>A\$ EBIT</b>				
Americas	56.0	94.6	(41%)	
Asia Pacific	75.2	46.5	62%	
Eliminations	2.0	(12.2)		
<b>Total Explosives EBIT</b>	<b>133.2</b>	<b>128.9</b>	<b>3%</b>	
Moranbah provision w riteback (gross) included in Asia Pacific	42.7	30.8	39%	
Costs to supply Moranbah Customers	(15.4)	(21.6)		
Translation exch. rate - cents A\$/US\$ <sup>(8)</sup>	90.7	66.8	(36%)	

#### Offset by:

- Volume contraction of US\$18.0M;
- Decreased margins due to product mix and pricing of US\$20.4M, including lower pricing to the Asia Pacific Explosives Business for tonnes supplied for Moranbah foundation customers;
- Lower nitrogen pricing in agriculture markets of US\$7.8M.
- The impact of the stronger A\$ on the translation of US\$ earnings was A\$24.9M.
- A\$ EBIT in Asia Pacific increased 62% to \$75.2M (pcp: \$46.5M), reflecting:
  - An increase in the Moranbah provision writeback of \$11.9M;
  - Lower costs to supply Moranbah foundation customers \$6.2M, reflecting lower global nitrogen prices and the higher A\$;
  - Incremental Velocity program benefits of A\$3.8M (US\$3.5M); and
  - Increased contribution from the QNP JV of \$5.2M.

#### Definitions and Notes

8. Average exchange rate is the weighted average of the US\$/A\$ exchange rate.
9. US Energy Information Administration and Citi Investment Research & Analysis

### EXPLOSIVES, cont'd.

#### VELOCITY PROGRAM

The Velocity business efficiency improvement program continues to deliver real improvement to the bottom line, focused on the Dyno Nobel business.

The Velocity program involves multiple initiatives across five streams and is forecast to deliver US\$204M per annum by the end of the 2012 financial year. Program benefits delivered to 31 March 2010 are:

	<b>Delivered</b>	<b>Target</b>
	<b>US\$</b>	<b>US\$</b>
2008 FY	9.0	9.0
2009 FY	62.0	62.0
2010 1H	<u>25.9</u>	60.0
Total	<u>96.9</u>	

The key streams are:

1. Overhead reduction – restructuring and optimisation of the Americas Explosives Business, consolidation of the Australian corporate office into IPL and integration of supply chain and back office functions for Dyno Nobel Asia Pacific and IPL.
2. Plant efficiency – optimisation of global manufacturing.
3. Cost to Serve – improving customer profitability and adoption of a “value, not just volume” approach to sales. Optimisation of service sites and distribution costs to increase asset utilisation and lower costs.
4. Global supply chain optimisation – implementation of sales and operations planning process (S&OP) across Dyno Nobel.
5. Asset efficiency/optimisation – rigorous review of non-core and surplus assets and trade working capital management.

#### PROGRAM STATUS

Despite challenging market conditions in the Americas, the Velocity program is on track to deliver the target US\$60M in incremental earnings in 2010:

<b>US\$M</b>	<b>YTD</b>	<b>2010 Target</b>
1. Overhead reduction	3.7	11.0
2. Plant efficiency	13.7	25.3
3. Cost to serve	6.9	14.9
4. Global supply chain	1.6	8.8
Total profit improvement	<u>25.9</u>	<u>60.0</u>
5. Asset optimisation	7.3	20.0

Additionally, as at 31 March 2010, there were 259 initiatives delivering benefits in EBIT, working capital or cash, with an additional 72 new projects in progress and forecast to deliver value by the end of the year.

#### MORANBAH AMMONIUM NITRATE (AN) PROJECT

On 8 February 2010, IPL announced the re-commencement of construction of a 330ktpa fully integrated ammonium nitrate (AN) complex at Moranbah in central Queensland, Australia, following a 12 month delay to better align AN supply with anticipated demand. The complex comprises an ammonia, nitric acid and ammonium nitrate plant plus infrastructure, utilities and housing. Project costings of \$935M have been independently reviewed and confirmed. 90% of the plant's output is now committed under long term contracts.

The plant is at the bottom of the cost curve in the North Bowen Basin by virtue of its back-to-gas ammonia position. Mechanical completion is targeted for the last quarter of calendar 2011 and beneficial operation for the first quarter of calendar 2012.

The project is based in the heart of Australia's largest metallurgical coal region and adjacent to some of the largest coal mines in the world.

Re-mobilisation of the construction workforce commenced in April 2010 with the deployment of the civil construction team. The recruitment of owner and contractor workforces is progressing well.

Progressive re-mobilisation for the remaining workforce is scheduled for May 2010.

Procurement is on-track to provide the bulk materials required to support the developing work fronts.

#### NITROMAK

In March 2010, the joint venture partner in Nitromak<sup>(10)</sup> exercised an option to sell their 50% interest in Nitromak to IPL. Closing on the transaction is expected during 2H 2010. The cost of the investment is expected to be approximately \$100M.

Nitromak produces bulk and packaged explosives and non-electric initiating systems for distribution within Turkey and neighbouring countries.

### FERTILISERS

#### SALES

Total fertiliser volume increased by 20% to 1,209kt (pcp: 1,011kt), driven by increased volume in the Incitec Pivot Fertilisers (IPF) distribution business.

Total sales revenue was \$547.9M, down 21% (pcp: \$697.1M), due to lower average global fertiliser prices and the higher A\$.

#### FERTILISER DISTRIBUTION (IPF)

Sales volumes in IPF increased by 57%, or 285kt, to 788kt compared with 503kt in the pcp. This represents a recovery following the dramatic decline in agriculture during 2009, aided by generally improved seasonal rainfall. However, the recovery has been muted by relatively soft global agricultural commodity prices and the high A\$.

#### Pasture segment

SSP and associated blend volumes increased by 150kt, reflecting:

- positive seasonal conditions (improved rainfall in pasture regions);
- improved commodity prices, particularly lamb and beef prices; and
- increased nutrient requirements following under-application in the prior year.

#### Winter Crop segment

Early purchasing of ammonium phosphates resulted in an increase of 45kt sold into this segment.

#### Sugar segment

Urea volumes increased by 45kt compared to pcp, mainly due to the late 2009 sugar season extending into 2010.

#### SOUTHERN CROSS INTERNATIONAL (SCI)

Gross sales volumes remained in line with the previous year.

Manufactured ammonium phosphate sales volumes were up 37% to 432kt (pcp: 316kt), reflecting the sale of carry-over stock in 2010, and the impact of rail outages on sales in the pcp.

Exports during the first quarter were limited, and product diverted to meet expected domestic demand. Accordingly, exports early in the half were limited to 94kt, at prices contracted earlier in the calendar year (weighted average price of US\$310/t FOB). Instead, SCI supplied higher volumes to IPF for sale into the east coast Australian domestic market, most of which is for sale in 2H 2010.

Sales Summary - Fertilisers	6 Mths Ended 31 March		
	2010	2009	Change
<b>Tonnes '000's</b>			
Incitec Pivot Fertilisers (IPF)	788	503	57%
Southern Cross International (SCI)	649	650	0%
Inter-company eliminations	(228)	(142)	
<b>Tonnes - Fertilisers</b>	<b>1,209</b>	<b>1,011</b>	<b>20%</b>
<b>Sales Revenue A\$M</b>			
Incitec Pivot Fertilisers (IPF)	379.1	384.5	(1%)
Southern Cross International (SCI)	279.9	400.0	(30%)
Inter-company eliminations	(111.1)	(87.4)	
<b>Sales Revenue - Fertilisers</b>	<b>547.9</b>	<b>697.1</b>	<b>(21%)</b>
Middle East Granular Urea (US\$/t) <sup>(11)</sup>	285	505	(44%)
Average DAP Tampa (US\$/t) <sup>(12)</sup>	371	455	(18%)
Average exchange rate - cents A\$/US\$ <sup>(13)</sup>	89.8	71.9	(25%)

Southern Cross International A\$M	6 Months Ended 31 March		
	2010	2009	Change
<b>Phosphate Hill Operations</b>			
Production Tonnes ('000's)	362	366	(1%)
Sales Tonnes ('000's)	432	316	37%
Sales Revenue	214	221	(3%)
<b>SCI Trading</b>			
Sales Tonnes ('000's) - Traded & Non-APs <sup>(14)</sup>	85	188	(55%)
Sales Tonnes ('000's) - Industrial	132	146	(10%)
<b>Tonnes - Southern Cross International</b>	<b>649</b>	<b>650</b>	<b>0%</b>
Average DAP Tampa (US\$/t) <sup>(12)</sup>	371	455	(18%)
Average freight margin - (US\$/t)	50.5	23.8	112%

#### PHOSPHATE HILL OPERATIONS

Production tonnes at the Phosphate Hill operations were below nameplate capacity due to the planned maintenance shutdown commencing March 2010. The duration of the shutdown was 39 days, including recommissioning of the plant. Long term reliability issues at Phosphate Hill were addressed, with phosphoric acid reactors rebuilt.

Production volume for the period was 362kt, compared with 366kt in the pcp (which included 2009 rail outages).

#### Definitions and Notes

11. Middle East Granular Urea is the weighted average of the international price lagged by 3 months in 2009, and 1 month in 2010.

12. DAP Tampa based on the weighted average achieved price for the period.

13. Average exchange rate is the weighted average of the US\$/A\$ exchange rate realised on sales of manufactured DAP and related products for the period.

14. Ammonium Phosphates.

### FERTILISERS cont'd.

#### EARNINGS BEFORE INTEREST & TAX (EBIT)

Fertiliser EBIT fell by 32% to \$96.9M (pcp: \$143.3M). This was the result of 10% increase in IPF earnings to \$51.5M (pcp: \$47.0M), and a 23% decrease in the earnings of SCI to \$73.8M (pcp: \$95.5M).

The 10% increase in IPF EBIT was largely reflective of:

- Decreased manufacturing margins of \$12.7M, comprised of:
  - The adverse impacts of the lower Urea US\$ FOB (\$39.7M) and higher A\$ (\$10.3M);
  - Offset by a positive freight differential of \$3.7M and the mix impact of selling more manufactured product of \$33.7M;
- Increased distribution margin of \$17.0M, reflecting the impact of the 284kT volume uplift and return to normal distribution margins, following the abnormal 2009 year.

The 23% decline in SCI's EBIT, reflects the net impact of:

- Increased ammonium phosphate sales volumes of \$31.6M;
  - Improved freight margins of \$11.5M; and
  - Lower costs (including sulphur) of \$11.4M;
- Offset by:
- Lower achieved ammonium phosphate FOB price of \$36.9M; and
  - Adverse impact of higher A\$ of \$39.8M.
- An increase in elimination adjustments to -\$28.4M (pcp: \$0.8M), reflecting the timing of sales of manufactured ammonium phosphates between SCI and IPF. In 1H 2009, there were higher export sales relative to 2010.

Earnings Summary - Fertilisers A\$M	6 Mths Ended 31 March		
	2010	2009	Change
<b>EBIT</b>			
Fertiliser Distribution	51.5	47.0	10%
Southern Cross International	73.8	95.5	(23%)
Elimination	(28.4)	0.8	
<b>EBIT - Fertilisers</b>	<b>96.9</b>	<b>143.3</b>	<b>(32%)</b>

#### TRANSACTIONAL HEDGING

Hedging has been undertaken to limit the risk to IPL from an appreciation of the A\$ against the US\$. This is primarily achieved with options and collars, and allows some participation in favourable currency movements.

Hedging is in place to cover the currency exposure on approximately 95% of forecast sales of manufactured ammonium phosphates and urea for the balance of the 2010 financial year. This hedging will result in these sales being recorded at a A\$/US\$ rate of 89.5 cents or less, inclusive of premium costs.

In addition, approximately 60% of 2011 sales of manufactured ammonium phosphates and urea have been hedged and will be recorded at a A\$/US\$ rate of 91 cents or better, inclusive of premium costs, with full participation down to 80 cents, and partial participation below 80 cents.

### HEALTH SAFETY AND THE ENVIRONMENT

#### HEALTH & SAFETY

IPL remains committed to its vision of Zero Harm.

Health and safety performance was improved in the first half of FY 2010. The Group's Total Recordable Injury Frequency Rate (TRIFR)<sup>(15)</sup> was 1.30 (pcp: 1.37). Approximately 90% of all IPL sites were at zero incidents at the end of 1H 2010.

IPL started the second Half with a tragic fatality of a work colleague at a quarry site in Quebec on 5 May 2010. Within 24 hours of the incident, every site in the IPL Group conducted a Safety Stand down to re-focus on the principle of Zero Harm: that all incidents are preventable. An internal investigation team has been established and the company is co-operating with authorities in their investigations.

Several substantial projects are being undertaken to enhance IPL's global health, safety and environment management system (HSE MS), expand and improve general risk management, enhance and further integrate focus on process safety management, and emergency preparedness.

#### ENVIRONMENT

IPL lodged its first Australian National Greenhouse and Energy Report in October 2009. IPL's Australian carbon footprint of 1.2mt of carbon dioxide equivalent (CO<sub>2</sub>e) emissions was included in the Australian Government's data publication in February. While this data publication highlighted that IPL is not among the more significant carbon emitters, IPL is committed to lowering its emissions through economically responsible energy saving projects across the Group.

Of particular note is IPL's participation in the Australian Energy Efficiency Opportunity (EEO) program. Last year's program effectively assessed 96% of IPL's Australian energy use and has implemented savings of 0.36PJ of energy with more opportunities subject to ongoing evaluation. IPL has received both Government best practice recognition and industry recognition for its assessment approach.

Globally, IPL's carbon footprint in 2009 was 3.2mt of CO<sub>2</sub>e with 95% relating directly to manufacturing sites.

#### Definitions and Notes

15. Total Recordable Injury Frequency Rate is defined as the number of injuries and illnesses per 200,000 hours worked.

#### Further Information

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### PEOPLE & CULTURE

IPL believes that a competent and engaged workforce is critical to its ongoing success. Accordingly, we have implemented an Organisational Development Strategy with the following goals:

- maintenance of the critical capabilities required for competitive advantage;
- creation and nurturing of a "Talent Culture";
- the existence of appropriate leadership capability at all levels; and
- acceleration of performance across all levels through engaged, capable and highly motivated employees.

Work has begun on implementing the strategy, including:

- the development of a leadership competencies framework and the roll out of a leadership development program and comprehensive performance assessment and development program for current and future leaders of IPL; and
- a special program for all IPL employees with supervisory responsibility.

### NEW OPERATING SEGMENTS

The operating segments for 2010 comprise:

#### Explosives:

- Americas – includes North and South America
- Asia Pacific – includes Australia and the Asia Pacific region

#### Fertilisers:

- Incitec Pivot Fertilisers (IPF) – includes fertiliser distribution, and the manufacturing facilities at Portland and Gibson Island.
- Southern Cross International (SCI) – includes manufactured ammonium phosphates and fertiliser trading, including Quantum JV, and Industrial Chemicals.
- Fertilisers Eliminations: represents elimination of profit on sales from SCI to IPF and corporate costs.

2009 comparatives have been adjusted to align with these segments.