

# Incitec Pivot Limited

**DYNO**  
Dyno Nobel



INNOVATION ON THE GROUND

## FY 2019 Financial Results

12 November 2019

**Jeanne Johns**

Managing Director & Chief Executive Officer



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Incitec Pivot Limited

ABN 42 004 080 264

# Table of Contents

FY19 Overview

Jeanne Johns  
Managing Director & Chief Executive Officer

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Zero Harm

Jeanne Johns  
Managing Director & Chief Executive Officer

---

Group Results & Strategic Highlights

Jeanne Johns  
Managing Director & Chief Executive Officer

---

Operational Review

- Dyno Nobel Americas
  - Dyno Nobel Asia Pacific
  - Fertilisers Asia Pacific
  - Focus on Key Strategic Drivers
    - Manufacturing Excellence
    - Leading Technology Solutions
- 

Jeanne Johns  
Managing Director & Chief Executive Officer

Profit & Loss, Corporate and Balance Sheet

Frank Micallef  
Chief Financial Officer

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Sustainability

Jeanne Johns  
Managing Director & Chief Executive Officer

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Outlook and Strategic Priorities – FY20

Jeanne Johns  
Managing Director & Chief Executive Officer

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Questions & Answers

# Incitec Pivot Limited



## FY19 Overview

Jeanne Johns

Managing Director & Chief Executive Officer

# FY19 Overview

Strong progress on embedding Strategic Drivers despite challenging year

## Challenging year impacted by non-recurring events

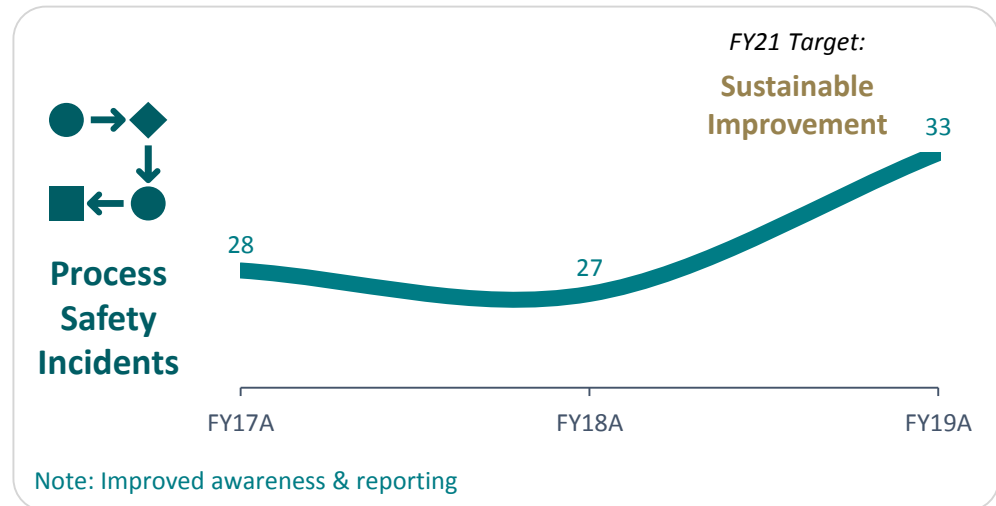
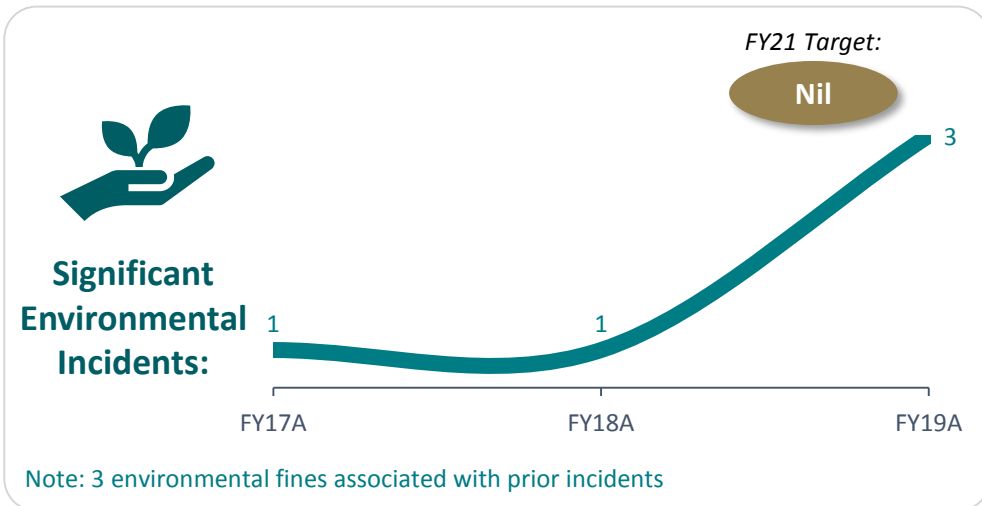
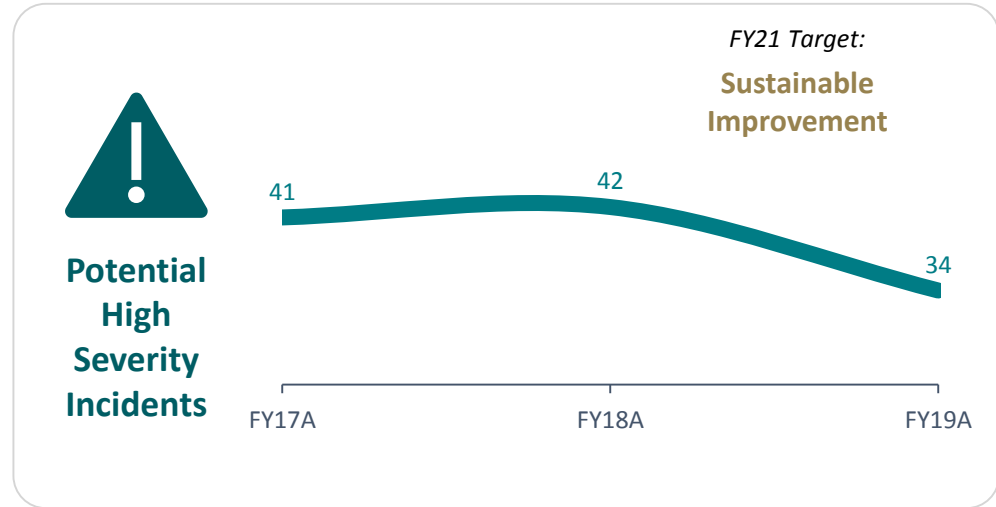
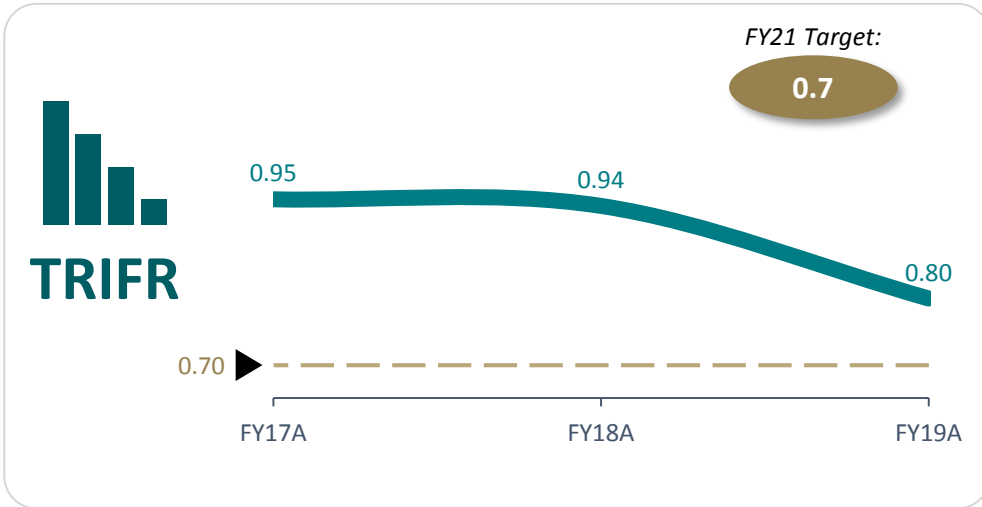
- FY19 EBIT of \$304m, after \$197m of non-recurring items
  - External events impacts of \$131m (including \$115m from Queensland floods)
  - Manufacturing outages and Other impacts, net \$66m
- Above market growth in US Explosives, strong performance in Q&C
- Underlying DNAP business strong, result impacted by recontracting
- Fertilisers impacted by dry weather and higher gas costs
- Underlying business fundamentals remain positive
- Improved operating cashflows expected in FY20

## Progress on Strategic Agenda

- Step change improvement in Total Recordable Injury Frequency Rate (TRIFR)
- Recontracting of Australian explosives volumes
- Manufacturing Excellence strategy being rolled out, with significant earnings benefits opportunity
- Strong growth in technology with accelerating adoption of electronics by mining sector
- Secured Gibson Island gas supply until 2022
- Strategic review of Fertilisers initiated and progressing

# Zero Harm

Continuous improvement in Health, Safety & Environmental measures



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## Group Results & Strategic Highlights

Jeanne Johns  
Managing Director & Chief Executive Officer

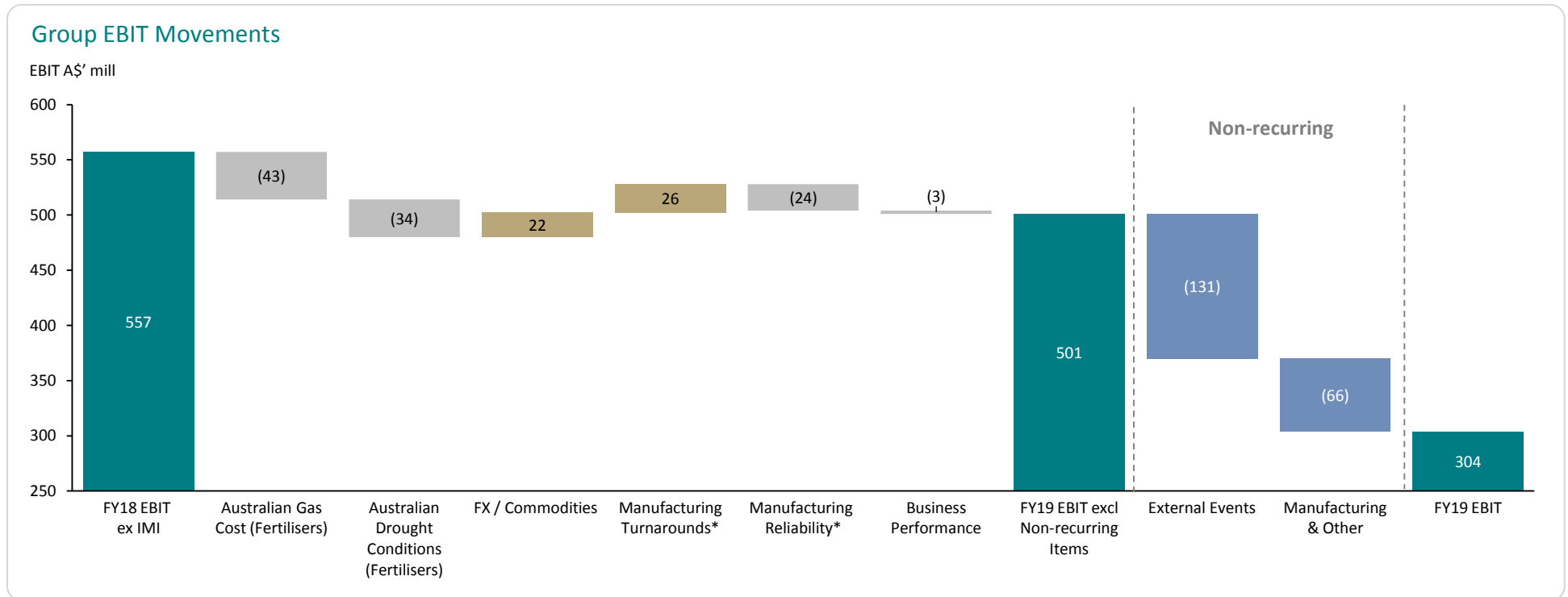


# IPL Group Result FY19

## Result impacted by non-recurring items and extreme weather

Statutory EBIT of \$304m, ▼ from \$321m in pcp; Statutory NPAT of \$152m, ▼ from \$208m in pcp

EBIT of \$501m, before non-recurring items, ▼ \$56m from \$557m in pcp



(\*) Refer Appendix



# Manufacturing Reliability Update

Good progress on steps outlined at the Half Year to address operating issues

## FY19 Performance

Production at Waggaman and Phosphate Hill were in line with FY19 earnings guidance, as updated on 2 September 2019

## Status

### Waggaman

- Outages in 2H19 caused by faulty trips and alarm processes
- Reliability improvement plan rolled out, with ongoing continuous improvement loop
- Focus on eliminating single point of failure vulnerabilities
- Improving protection of instrumentation against elements of nature
- Long lead reliability improvement projects slated for FY21 turnaround
- Currently on 2<sup>nd</sup> longest uninterrupted production run at Waggaman

### Phosphate Hill

- One-off issues with reactor linings addressed
  - Fully relined reactor in service mid-September
  - Reline of final reactor underway
- Detailed reliability plan implemented
  - Improving operational discipline and adopting high reliability mindset
  - Maintenance improvement – implement global maintenance standards
  - Known one-off issue addressed (sulphuric acid reactors)
- Monthly run rate from June to October 2019 at ~975k mt annualised equivalent

New manufacturing strategy being implemented to drive step change improvement in reliability

# Update on Strategic Review of Fertilisers Business

## Strategic review progressing to plan

Strategic review announced on 2 September 2019 and work progressing

- Various attractive growth opportunities identified under leadership of Stephan Titze
- Several options under assessment, including a potential sale of the business, a demerger or retaining the business and investing for growth

As part of the strategic review, undertaking a formal process to explore potential market interest in order to properly assess the best outcome for shareholders whilst having regard for other stakeholders

Review expected to progress over FY20

Outcome driven by objectives of maximising shareholder value and enabling the Fertilisers strategy



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## Operational Review

**Jeanne Johns**

Managing Director & Chief Executive Officer



# Dyno Nobel Americas

## Continued growth in Explosives earnings despite the weather impact on the market

Explosives EBIT, up US\$6m despite demand impacts from weather and underlying coal market

Net US\$7m adverse impact from commodity prices

- Waggaman earnings impact – lower ammonia prices (US\$9m) and higher gas prices (US\$1m)
- Ag & IC impact – higher urea price benefit US\$3m

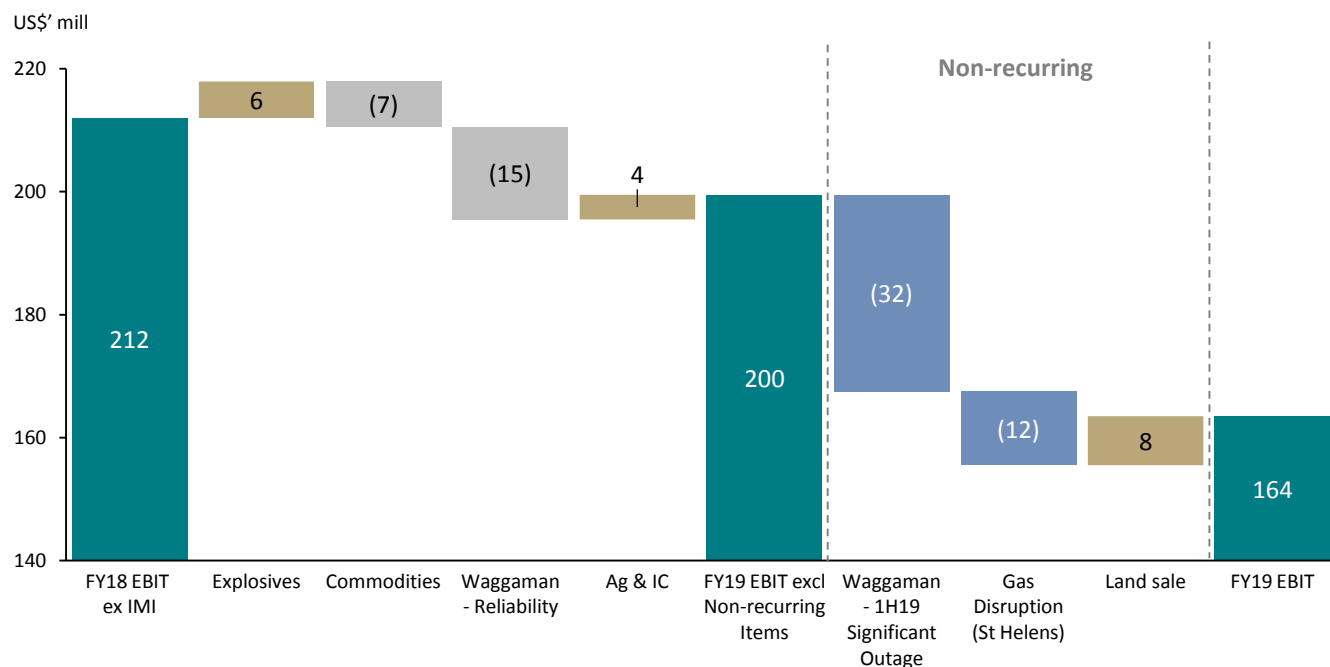
Waggaman manufacturing reliability impact of US\$15m

Ag & IC EBIT, excluding non-recurring items, up US\$4m absent FY18 turnaround, and higher sales volumes

Statutory FY19 EBIT of US\$164m, ▼ from US\$212m in pcp

EBIT of A\$283m (US\$200m), before non-recurring items, ▲ 2% vs pcp

Dyno Nobel Americas EBIT Movements



# Dyno Nobel Americas - Explosives

## Delivering strong growth despite challenging weather and coal market conditions

Good business performance considering unseasonal wet weather and flooding impacting Quarry & Construction (Q&C) and Coal industries

- Explosives earnings growing 5% in FY19 to US\$136m (or 13% to A\$194m), driven by demand growth in Q&C and Base & Precious Metals (B&PM) sectors

### Continued growth in higher margin Q&C sector

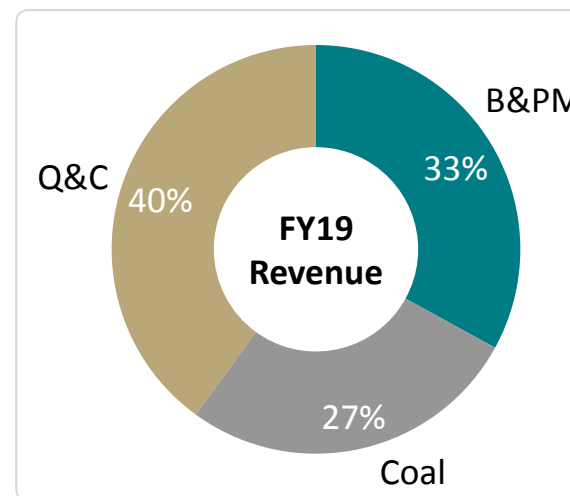
- FY19 Q&C volume growth of 5%,
- Wet weather and flooding slowed demand early in the year
- Strong demand and volume recovery through US summer

### B&PM volume growth in line with industry

- As expected, FY19 demand was skewed to second half
- Volume growth in FY19 of 3% compared to pcp
- Robust outlook for Copper and Gold, with Iron Ore expected to be stable

### Market share gains, partially offsetting Coal industry declines

- Combination of industry structural declines and extreme wet weather/flooding saw industry volumes down 8% year-on-year
- Coal sector volumes down 4% vs pcp. The better than market performance (industry decline of 8% in FY19) was driven by market share gains, due to industry consolidation, underpinned by Dyno Nobel's strategically located assets and strong supply chain position



# Dyno Nobel Americas – Explosives

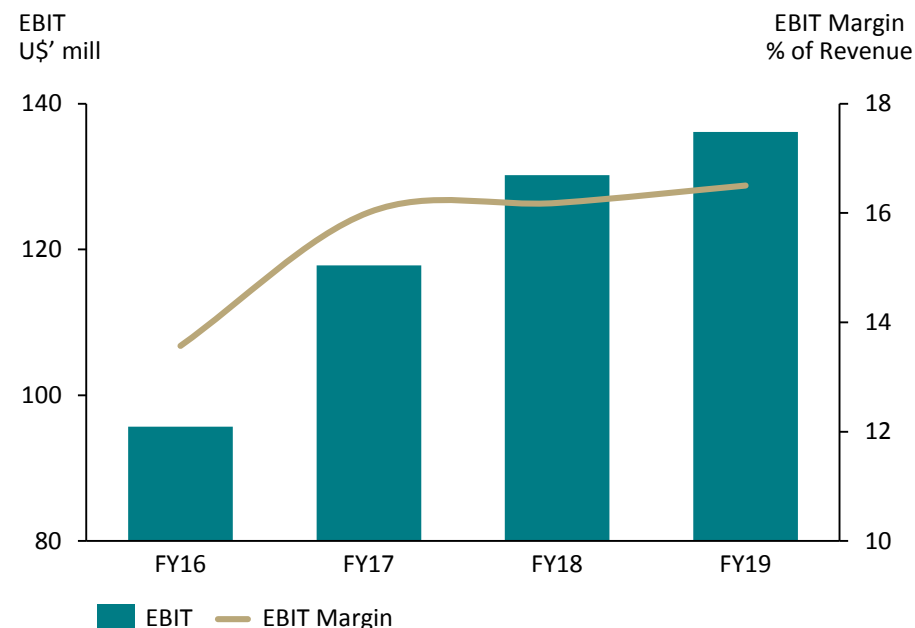
Delivering double digit growth and increased margins from technology pull through

## Strong Explosives earnings growth history

- 13% EBIT CAGR\*
- EBIT margin >16%, up from ~13% in FY16
- Higher margin Q&C sales representing 40% of Explosives revenue in Americas
- Substantial technology growth
  - Electronic Detonator Systems (EDS) CAGR\* 36%
  - Premium Emulsions CAGR\* 28%

\* Compound annual growth rate from FY16 to FY19

## Explosives - EBIT & Margin Growth



Business well positioned for continued growth

# Dyno Nobel Americas – Explosives

## Well positioned to continue above market growth

Explosives earnings growth expected to continue, underpinned by strategically located assets and strong technology platform

### Continue to grow profitable market share

- Market share growth across all Explosives sectors in FY19, with strong growth expected for Q&C and B&PM in FY20
- Commissioned new Ammonium Nitrate emulsion plant in Chile, customer trials commencing Q1 FY20
- Continued strengthening and expansion of extensive Explosives distribution footprint

### Technology solutions

- Continue to build on growth momentum in premium technologies

### Manufacturing Excellence

- Expected higher operating margins and production volumes, driven by improved plant reliability across operations

Strong demand continuing for EDS and Premium emulsions



# Dyno Nobel Asia Pacific

## FY19 results impacted by contract re-basing, benefits from stronger demand in Western Australia

Higher sales volumes to Iron Ore customers driving \$6m increase in earnings

Strong 2H19 performance at Moranbah reduced the impact from 1H19 abatement equipment related outages and costs

Joint Venture, QNP, earnings down \$5m, impacted by additional supply capacity on the East Coast of Australia

International earnings down net \$4m, impact from lower infrastructure spend in Turkey was partially offset by strong mining sector growth in Indonesia

Contract re-basing impact of \$20m in FY19, in line with disclosures at the Half Year

FY19 EBIT of \$179m, ▼ from \$205m in pcp

Dyno Nobel Asia Pacific EBIT Movements



Australian explosives market fundamentals remain strong



# Dyno Nobel Asia Pacific

## Underlying business strong, short-term performance impacted by contract re-basing

### Accelerating customer demand for premium technologies driving growth

- Strong growth in technology volumes in Western Australia and Bowen Basin
  - EDS CAGR\* of 64%
  - Premium Emulsions CAGR\* of 16% , expecting introduction of Delta E to accelerate growth

### Strong manufacturing performance driving efficiencies

- Moranbah plant delivered record production in 2H19 of 198k mt (annualised equivalent of 396k mt)
- Abatement equipment issues resolved in FY19, expecting strong performance through to next major turnaround in FY21

### Contract re-basing

- Consistent with previous market disclosures, expecting \$22m additional impact from contract re-basing in FY20 (\$10m from WA contract losses, and \$12m from recontracting)
- Technology played pivotal role in recontracted Australian volumes and mitigating some of AN (Ammonium Nitrate) pricing impact

\* Compound annual growth rate from FY16 to FY19



# Dyno Nobel Asia Pacific

## Medium-term earnings upside expected from re-based business

### Contract renewals underpinned by premium technology

- Strategic technology alliance established with large innovating customer in FY19

### Strong demand for premium technology driving growth

- Progressively rolling out Delta E and expected to continue growing EDS volumes across Asia Pacific in FY20
- Accelerating customer demand for premium technologies, underpinning planned FY20 expansion of IS and Emulsion plants

### Well placed to leverage strategically located assets

- Strong AN market fundamentals, especially on the East Coast, opportunity to de-bottleneck Moranbah in FY21

Accelerated adoption of technology across the mining industry expected to drive strong growth in EDS and delivery systems



# Fertilisers Asia Pacific

## Result impacted by non-recurring items and prolonged drought

Net \$43m impact from higher Australian East Coast gas cost

Drought conditions across East Coast of Australia, impact of \$34m from lower sales volumes and adverse sales mix

A\$:US\$ favourable, but ammonium phosphates prices softer, net positive \$10m earnings impact

Net \$22m favourable impact from timing of turnarounds

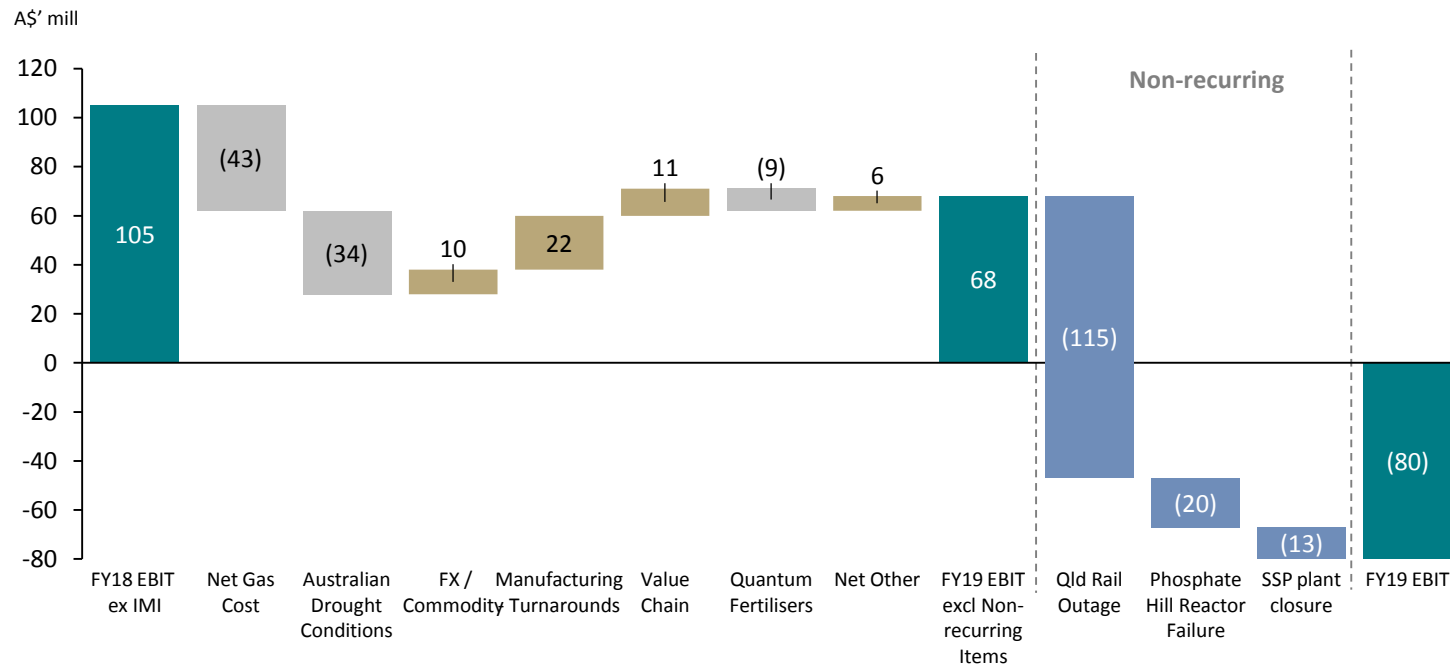
Value chain optimisation realised \$11m of benefits

Lower Quantum Fertilisers trading activity, impact of \$9m

Statutory FY19 EBIT loss of (\$80m), ▼ from \$105m in pcp

EBIT of \$68m, before non-recurring items

### Fertilisers Asia Pacific EBIT Movements



Improved Phosphate Hill output and lower gas cost expected to deliver FY20 earnings uplift



# Fertilisers Asia Pacific

## Clear focus on what can be controlled in FY20

### Lower gas cost in FY20, following significant cost increase in FY19

- FY20 full year benefit of \$8m from Phosphate Hill gas supply contract that commenced during FY19
- FY20 EBIT benefit of \$5m at Gibson Island following new gas supply contract to commence in April 2020

### Value chain optimisation benefitting Distribution business earnings

- Improved trading capability and margin management, underpinned by new supply contracts with key fertiliser suppliers
- Full ownership of Quantum Fertilisers to optimise exports and international sourcing

### Manufacturing improvement and operational efficiencies

- Stable Phosphate Hill manufacturing performance expected to deliver better plant efficiencies in FY20
- Operational cost savings of \$4m per year\* from FY20 from consolidated Single Super Phosphates (SSP) operations

Well placed to benefit when weather conditions  
and commodity prices improve

\* \$4m cash savings, consisting of \$3m EBIT benefits and \$1m lower sustenance capital spending



# Fertilisers Asia Pacific

## Progress on strategy

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### New products and Precision agriculture

- Invested in improving distribution centre dispatch capacity and efficiency, supporting supply chain optimisation and volumes throughput
  - Expanding capability to manufacture speciality blends and coated fertiliser products
  - Launched patented Di-ammonium Phosphates (DAP) inhibitor, eNpower™, for horticulture and sugar cane application, reducing leaching and denitrification losses
  - New Nutrient Advantage Pro® Precision agriculture soil testing software in the field delivering precise recommendations to agronomists and growers
- 

### New growth horizons

- Agreement signed with Grains Research Development Corporation and the University of Melbourne to develop next generation inhibitors to enhance fertiliser efficiency
  - Accelerating the development of a liquid fertiliser business for precision agriculture
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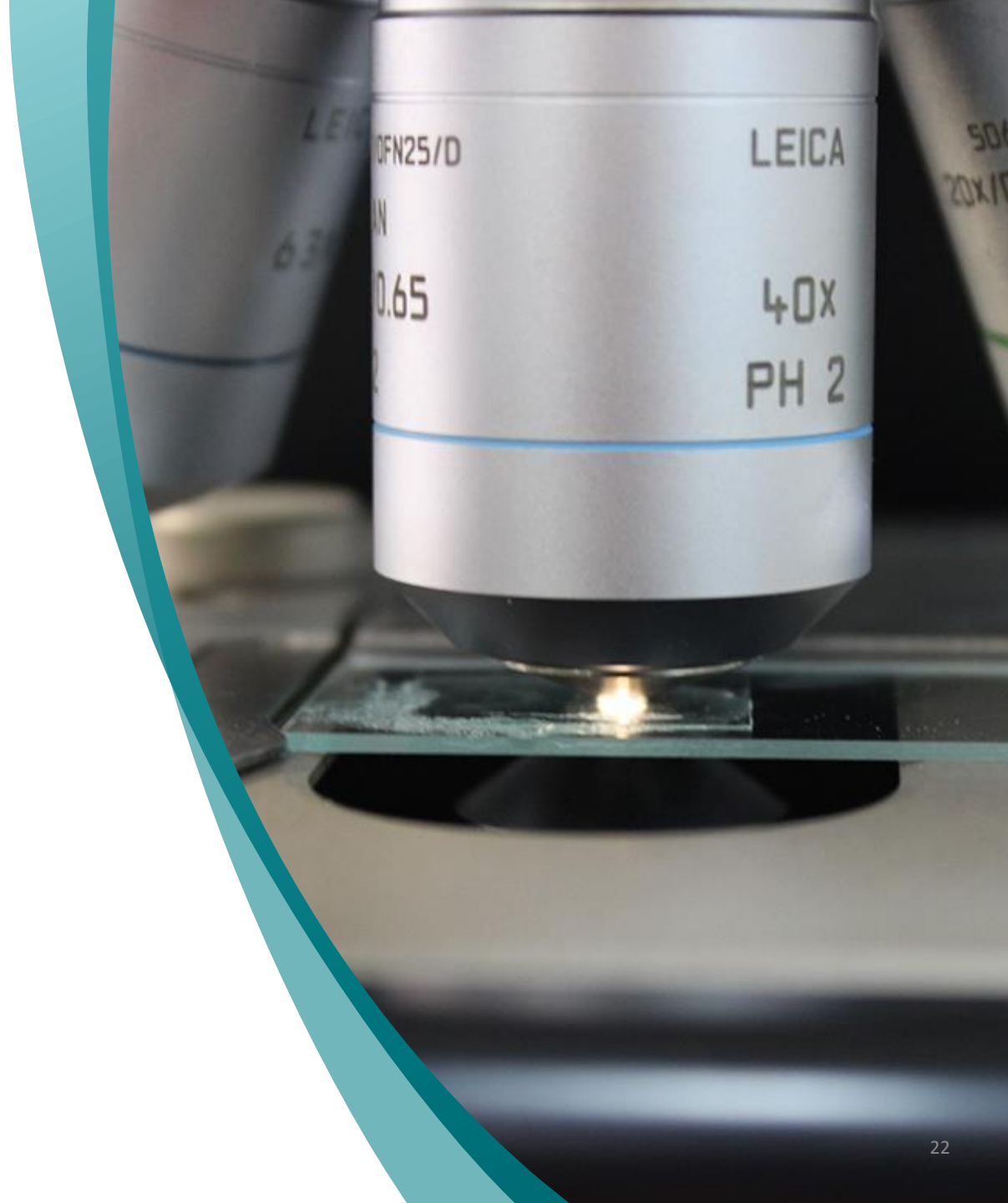


INNOVATION ON THE GROUND

## Focus on Key Strategic Drivers

**Jeanne Johns**

Managing Director & Chief Executive Officer



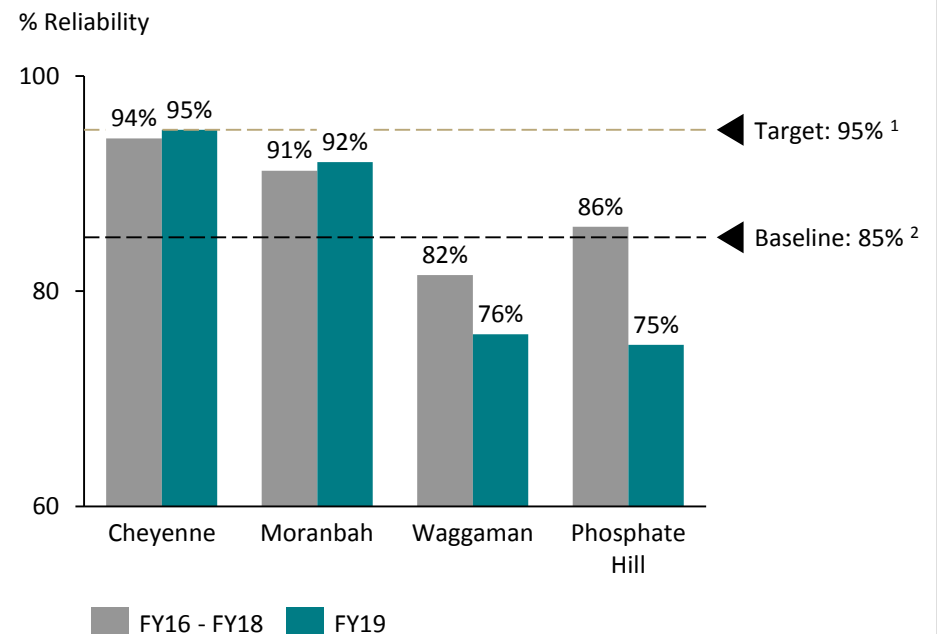
# Manufacturing Excellence

## Good progress on Manufacturing Excellence strategy

### Improving plant reliability

- Improved 2H19 reliability and performance across all plants
- Cheyenne achieved target reliability of 95% in FY19
- Reliable performance at Moranbah, delivered record 2H19 production
- Comprehensive reliability plans continue to be implemented across Waggaman and Phosphate Hill
- Waggaman operating reliably since end of July, currently on 2nd longest run campaign since plant commissioning in 2016
- Phosphate Hill performance improvement plan driving improved production and reliability since June

### Ammonia Reliability – Major Plants



Manufacturing Excellence opportunity of \$40m to \$50m<sup>3</sup> by FY22

1. Baseline, target and actual performance are calculated using the Phillip Townsend Associates (PTA) Global Ammonia plant benchmarking definition
2. Reliability performance of 85% is the equivalent of 80% Overall Equipment Effectiveness (OEE)
3. Sustained incremental earnings uplift by FY22, based on average volume uplift compared with historical baseline average production and FY18 product margins for Waggaman, Phosphate Hill, Moranbah and Cheyenne

# Strong Growth of Premium Technology

Continued technology growth across key markets in FY19

## Significant growth in Electronic Detonator Systems

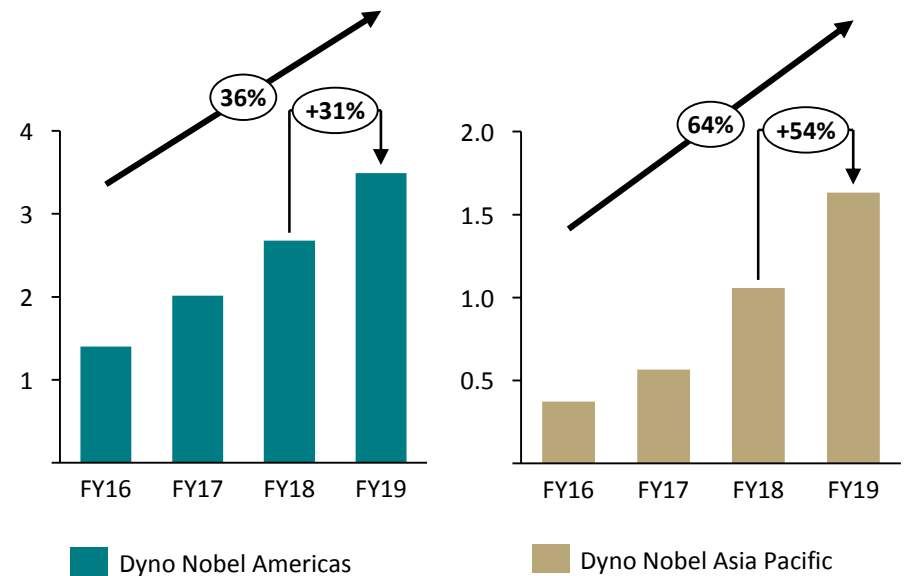
- Accelerating customer demand driving significant technology growth momentum
- Significant growth in EDS in Australia, underpinned by large customer converting to EDS in 2019
- Building technology capacity to meet growing demand in Americas and Asia Pacific



*Unparalleled safety inherent in design of Electronic Detonator Systems*

*Rapid programming more than 5x faster than anything else available today*

## Electronic Detonator Systems (million units sold)





# Strong Growth of Premium Technology

## Delta E volume growth and fleet expansion

Delta E Technology remains a key market differentiator

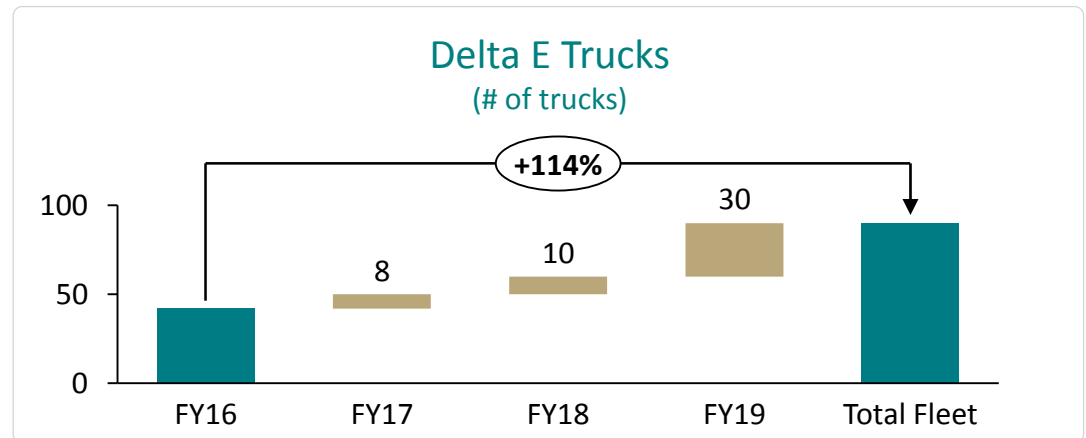
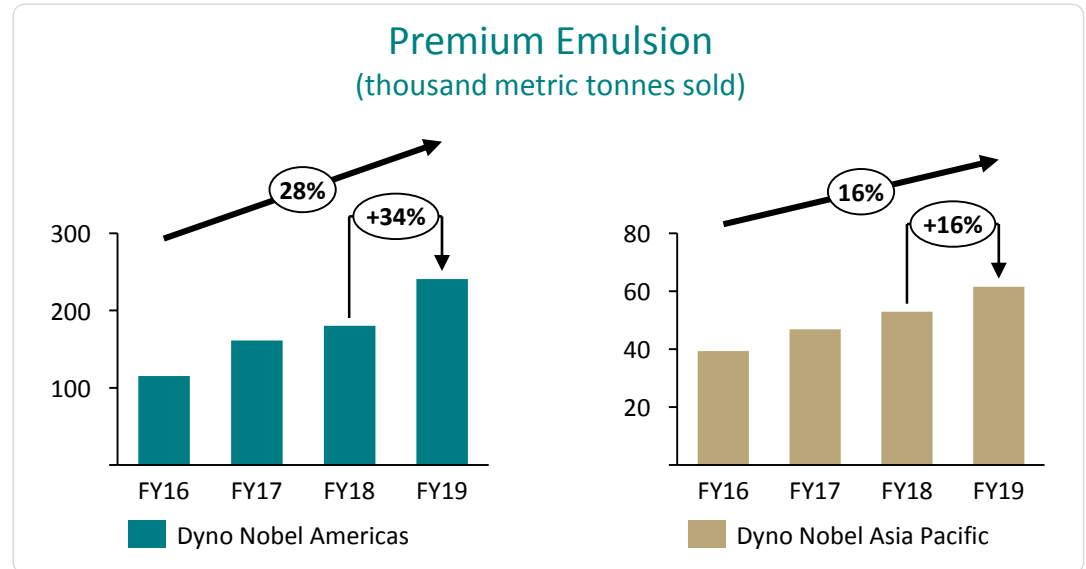
- Delivers improved operational, safety and environmental outcomes for our customers
- Continues to underpin market share and margin growth in Americas
- Progressively being rolled out across Asia Pacific
- Ongoing investment in Delta E fleet, driven by strong customer demand



*Tailored energy profiles*

*Single product logistics with better flexibility*

*Lower emissions and increased safety*



# Leading Technology Solutions

## Long-term Customer Technology Partnerships

- Established a joint technology alliance with large mining customer in Australia
- Partnering and investing in a five year program to develop technology improvements

## Nobel Fire™ Central Digital Control System

- Fully connecting drill and blast operations, whilst improving and tracking fragmentation outcomes is integral to IPL's automation program
- Launched three releases of Nobel Fire through FY19
- Detailed three year digital roadmap established

## Automated Drill & Blast Program

- Unique integration of IPL technology is driving improved customer outcomes
- IPL's automation program designed for a fully automated, digitally controlled drill & blast environment to optimise end-to-end mining operations



# Incitec Pivot Limited



## Profit & Loss, Corporate and Balance Sheet

Frank Micallef  
Chief Financial Officer

# Group Profit & Loss / Corporate

Profit & Loss	FY19 A\$m	FY18 A\$m
<b>Statutory Profit &amp; Loss</b>		
Revenue	3,918	3,856
Statutory EBIT	304	321
Interest	(144)	(128)
Tax	(8)	18
Minority Interest	0.3	(3)
<b>Statutory NPAT</b>	<b>152</b>	<b>208</b>
Statutory EPS (cents)	9.5	12.5
Dividend per share (cents)	4.7	10.7

Profit & Loss excluding IMIs		
EBIT ex IMIs	304	557
Interest	(144)	(128)
Tax ex IMIs	(8)	(78)
Minority Interest	0.3	(3)
<b>NPAT ex IMIs</b>	<b>152</b>	<b>347</b>
EPS ex IMIs (cents)	9.5	20.9

## Corporate & Group

### Net Borrowing Costs up \$16m to \$144m

- Higher average debt levels compared to pcp
- Lower average A\$:US\$ exchange rate of \$0.70 (pcp: \$0.76)
- Higher borrowing rates after replacing short-term banking facilities with long-term funding

### Corporate Costs of \$28m, lower vs pcp

- Continued investment in technology development pipeline
- Lower incentives payout compared to pcp

### Tax Expense down to \$8m (pcp: \$78m excl IMI)

- Decreased tax expense primarily driven by lower earnings vs pcp

### Dividend Payment

- FY19 final dividend of 3.4 cps, 30% franked, 50% payout ratio maintained
- Dividend Reinvestment Plan recommenced for final FY19 dividend

### Hedging Program

- Average realised A\$:US\$ exchange rate for FY19 was \$0.70, largely in line with market rate

# Balance Sheet

## Refinancing successfully completed in FY19

- Extended average tenor of facilities to 5.7 years<sup>3</sup> (pcp: 3.2 years)
- Increased diversity of funding sources
- Lower credit margins on long term debt

## Investment grade credit ratings

- Standard & Poor's: BBB (stable outlook)
- Moody's: Baa2 (negative outlook)

## Balance Sheet metrics

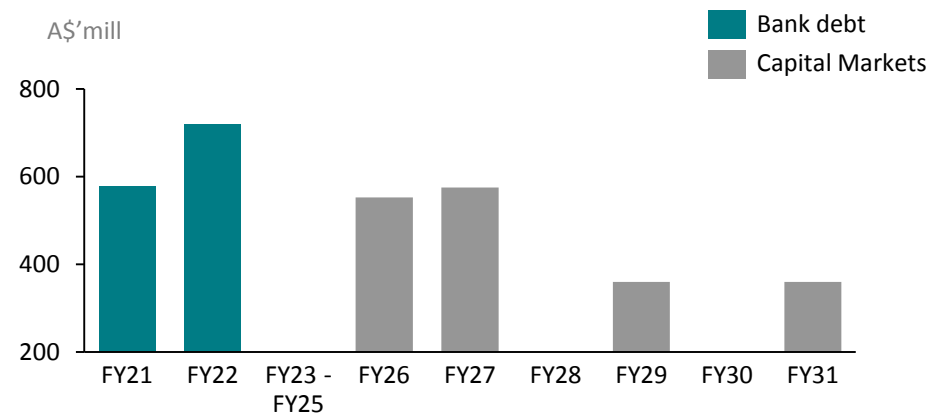
- Increased debt levels and gearing primarily due to the impact of non-recurring items (\$197m) on FY19 operating cash flows
  - Net debt<sup>1</sup> of \$1.69bn (pcp: \$1.37bn)
  - Net debt/EBITDA<sup>2</sup> of 2.8x (pcp: 1.6x)
- Improvement expected from 2H20, absent FY19 one-off impacts
- Target lower debt levels for Balance Sheet strength and growth capacity
- Balance Sheet (net debt) hedges extended to December 2022

1. Interest bearing liabilities net of cash and fair value of debt hedges

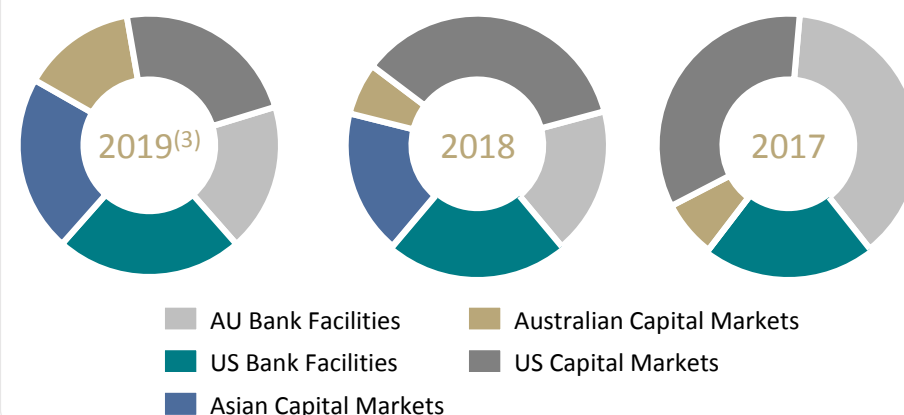
2. Net debt / 12 month rolling EBITDA excluding individually material items

3. Excluding US\$800m 144A bond maturing December 2019 and US\$350m Bridge facility cancelled in October 2019. Including USD500m US Private Placement Notes funded in October 2019

## Debt Maturity<sup>3</sup>



## Source of funding



# Capital Discipline

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## Continued focus on expenditure

- Remain disciplined as free cash flows expected to improve from FY20
  - Value spending on technology, delivering growth opportunities
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## Sustenance expenditure

- Sustenance capital expenditure for FY19 of \$293m including lease buy-out
  - FY20 sustenance capital expenditure, including turnarounds, expected to range between \$260m and \$280m
- 

## Low capital, high return investment focus

- Disciplined growth capital expenditure – minor growth capital of \$55m in FY19, including growth spend on technology
  - Evaluation of growth opportunities to remain rigorous and disciplined
  - Clear focus on improving Return On Invested Capital (ROIC), pursuing range of low capital high return investment opportunities
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## Sustainability

**Jeanne Johns**

Managing Director & Chief Executive Officer



# Sustainability

## Climate change philosophy being integrated into Strategic Drivers

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### Smarter manufacturing

- Focused on reducing our carbon footprint and that of our customers
  - Local manufacturing results in lowest carbon footprint
  - Investment in equipment that reduces environmental impact
- 

### Leading technologies

- Support customers in reducing their carbon footprint
  - Explosives – Delta E technology reducing NOx emissions, energy use, and greenhouse gas (GHG), with less dust, noise and ground vibration while increasing productivity
  - Fertilisers – products which increase efficiency and yields while reducing nutrient losses to waterways and to air
- 

### Renewable focus

- Exploring potential to produce ammonia from solar hydrogen
  - \$2.7m feasibility study at Moranbah (with \$1m from ARENA)
  - If successful, will deliver the largest renewable ammonia plant in the world
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## Outlook – FY20

**Jeanne Johns**

Managing Director & Chief Executive Officer



# Outlook – FY20

Dyno Nobel Americas	Dyno Nobel Asia Pacific	Fertilisers Asia Pacific	Corporate
<p><b>Explosives</b></p> <p>Continued earnings growth expected, underpinned by stronger Q&amp;C and B&amp;PM volumes; and efficiencies</p> <p><b>Waggaman operations</b></p> <p>Ammonia production expected to be slightly below nameplate* capacity in FY20</p> <p><b>Ag &amp; IC</b></p> <p>Improved performance expected absent FY19 3<sup>rd</sup> party gas supply interruption</p>	<ul style="list-style-type: none"> <li>▪ Premium technology sales are expected to increase, with expansion activities planned for the Port Hedland Emulsion Plant and Helidon EDS assembly plant</li> <li>▪ Moranbah sales volumes being optimised in FY20 to better match production capacity and reduce 3rd party purchases</li> <li>▪ Impact from contract re-basing in FY20:               <ul style="list-style-type: none"> <li>- \$12m additional impact from major contract renewals</li> <li>- \$10m incremental earnings impact from contract losses in Western Australia (FY18 ASX announcements)</li> </ul> </li> </ul>	<p><b>SCI</b></p> <ul style="list-style-type: none"> <li>▪ Phosphate Hill expected to produce ~975k mt of ammonium phosphates</li> <li>▪ Gas cost at Phosphate Hill to reduce ~\$8m (full year of new gas contract)</li> </ul> <p><b>IPF</b></p> <ul style="list-style-type: none"> <li>▪ Gibson Island earnings to benefit \$5m from new gas supply in FY20</li> <li>▪ Production at Gibson Island expected to improve compared to FY19, with less planned downtime in FY20</li> <li>▪ Distribution margins and volumes subject to Australian East Coast weather conditions and global fertilisers prices</li> </ul>	<ul style="list-style-type: none"> <li>▪ Corporate costs expected at ~\$30m</li> <li>▪ Borrowing costs expected at ~\$140m</li> <li>▪ Effective tax rate of 25% to 28% due to higher expected earnings; and changed tax regimes</li> <li>▪ Hedging: 50% of 1H20 fertilisers sales hedged at \$0.70 with full participation below this level</li> </ul>

\* Waggaman plant nameplate ammonia production of 800k mt per annum

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## Strategic Priorities – FY20

**Jeanne Johns**

Managing Director & Chief Executive Officer



# Strategic Priorities – FY20

Year-on-year improvement across our Zero Harm balanced scorecard

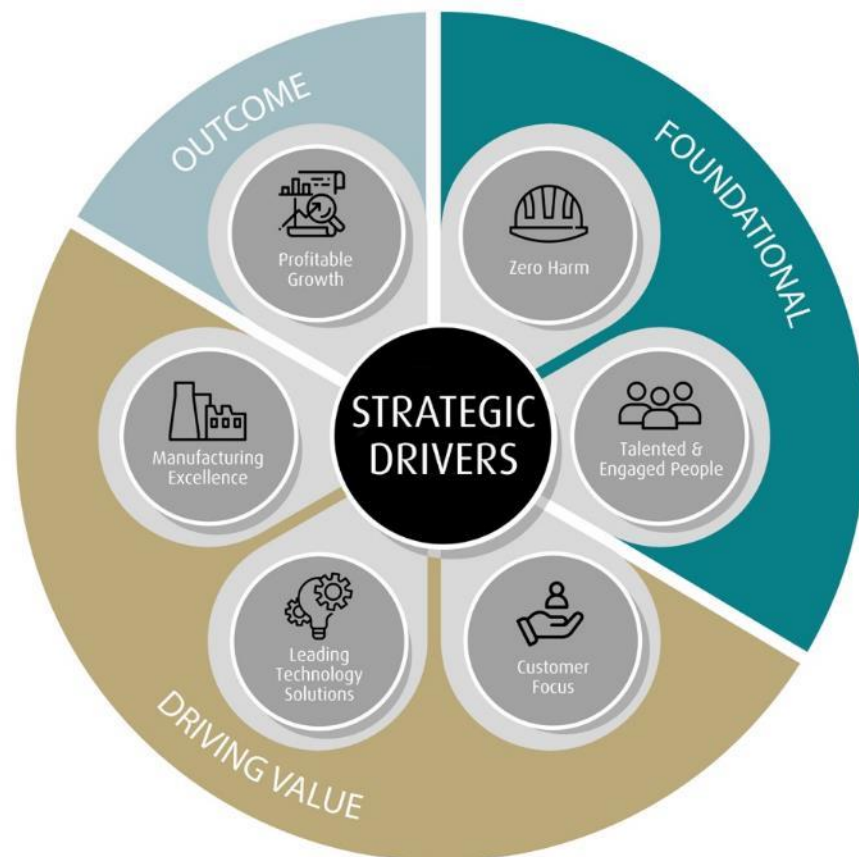
Continued implementation of Manufacturing Excellence strategy, focus on plant reliability

Maintain growth in Dyno Nobel Americas, leveraging strategically located assets and strong technology platform

Leverage technology across Asia Pacific as adoption of electronic detonation and explosives delivery systems accelerates across mining sector

Invest in technology expansion to meet expected demand growth

Completion of Fertilisers strategic review, with a decision to sell, demerge or retain the business to be made in FY20



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## Questions & Answers



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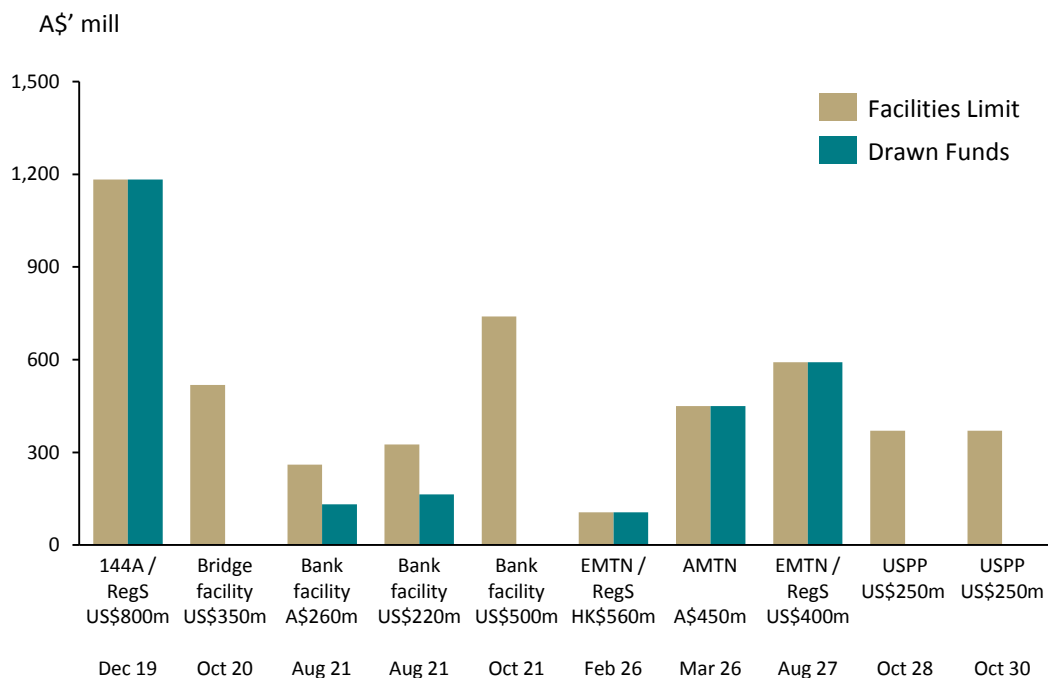
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## Appendix



# Debt Maturities & Net Debt Reconciliation

## Debt Maturities\* – 30 September 2019



## Gross to Net Debt Reconciliation

30 September 2019	\$'mill
<b>Total gross debt (A\$ mill)</b>	<b>2,626</b>
Fair value and other adjustments	(7)
Loans to JVs, associates / other short term facilities	37
Cash and cash equivalents	(576)
Fair value of hedges	(389)
<b>Net debt</b>	<b>1,691</b>
<b>Net debt / EBITDA</b>	<b>2.8x</b>

\* Bridge facility was cancelled in October 2019 following the funding of the US\$500m USPP Notes.

# FY19 Manufacturing Impacts

## FY19 Group EBIT – Manufacturing Impacts, excluding Non-recurring items

