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Incitec Pivot Limited
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Incitec Pivot Limited (IPL) today reported net profit after tax (NPAT), excluding significant items, of A$171.1 million for the first half ended March 2008, up from A$49.6 million in the previous corresponding period, reflecting high global ammonium phosphate (AP) prices partly offset by the negative impact of the higher Australian dollar. What have been the key drivers of the current AP price strength and do you see them being sustained?

CEO Julian Segal
The first half result is pleasing. It reflects a step-change in our profitability driven by the ongoing implementation of the business strategy we adopted in 2005.

At that time, we identified exposure to the soft commodity super cycle as a good platform for long-term growth in shareholder value, and soft commodity inputs as having higher returns and lower volatility. We changed the positioning of the company, focusing on achieving a low cost base and building the business around core manufacturing assets, thereby moving upstream where most of the value in the fertiliser industry is generated. This strategy led to the acquisition of Southern Cross in 2006 and the renewal of the Gibson Island plant in 2007. The fact that over 80 percent of earnings are now generated from manufacturing demonstrates the success of our strategy.

The strategy has positioned us well to now benefit from the step-change in and ongoing strength of global soft commodity prices.

In recent times AP pricing has been demand-led for what some industry participants believe to be the first time in a generation. Growth in demand for nitrogen, phosphorous and potassium nutrients as agricultural inputs to satisfy demand for the "4 Fs," Food, Feed, Fibre and Fuel, has continued unabated from the developing economies, particularly China and India. Reflecting the rise in global diammonium phosphate (DAP) spot prices which increased to US$1,195 per tonne at 31 March 2008, up from US$433 per tonne at 30 September 2007, for the half year we realised a US$365 per tonne increase in our weighted average DAP price to US$658 per tonne.

We believe there has been a demand-led step-change in the value of soft commodities and a corresponding step-change in the value of agricultural inputs. We see this as a long-term trend similar to the cycles experienced in the 19th and 20th centuries with the industrialisation of the US, Korea and Japan. A major difference this time is that India and China have a population of 2.4 billion – one third of the global population – whereas the US had a population of less than 100 million at the time of its industrialisation.

Australian agriculture is a clear beneficiary of this and is wonderfully positioned to take advantage of the super cycle by virtue of proximity to India and China – in the same way the Australian mining industry has benefited from the boom in hard commodities.

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On 6 March IPL provided guidance for the current year ending September 2008 of A$700 million to A$730 million EBIT based on an average DAP price range of US$760 to US$790 per tonne for the year and an average US dollar exchange rate of 93 cents. At current prices and exchange rates a US$10 per tonne variation in the DAP prices has a A$9.7 million impact on EBIT over a full year. DAP is now trading at over US$1,000 per tonne, well up from the average of US$435 per tonne for the second half of the September 2007 year. This suggests that, if the DAP price is sustained in the current second half, it could add more than A$300 million to the previous second half's EBIT of A$229 million. Can you comment on this interpretation?

CFO James Fazzino
We continue to closely monitor developments in international soft commodity markets and the global DAP market as prices in both are driven by the same thematic. As Julian mentioned, recent DAP price increases have been largely driven by demand for the 4 Fs which will not easily abate, although where commodity output prices are regulated, some impact on demand is inevitable at current fertiliser prices.

Against this, global supply remains tight. Production costs for non-integrated producers continue to escalate, more recently driven by booming sulphur prices, and not all fertiliser producers are making adequate returns even with the current high global fertiliser prices. In addition, there are no planned major AP capacity additions coming on line until the Ma'aden plant which is scheduled for 2012.

Recently, China increased its tariff on DAP exports to 135 percent, effective for the period 1 May through 30 September 2008, in order to retain energy for internal consumption and fertiliser for internal agricultural production. We estimate that this will reduce the amount of internationally traded product by about 2 million tonnes which will further tighten global supply.

Following the introduction of these Chinese tariffs, international trading has paused as the impact is assessed by the market. We'd expect material trading to recommence in late May, with buyers from India and Latin America stepping back in.

With these factors, it's difficult to predict what the average price for DAP will be for 2008, and clearly our existing guidance now looks conservative. If you assume second half prices average US$1,100 per tonne – which is the current consensus forecast of fertiliser industry economists – the average DAP price for our financial year would be US$910 per tonne. Overlaying this against our previous guidance would give a full-year EBIT of approximately A$850 million.

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In light of a stronger global pricing outlook, how is IPL positioned to increase its DAP production capacity?

CEO Julian Segal
The longer-term outlook for global DAP pricing has changed significantly since we acquired Southern Cross less than two years ago. At that time, the industry view of trend pricing was US$210 per tonne. There has now been a step-change in that view with some analysts forecasting average prices of US$900 per tonne for the next five years, reducing to around US$600 per tonne once Ma'aden is operating at full rates.

Against this pricing outlook, we're currently engaged in a range of feasibility studies and trials at Southern Cross aimed at increasing plant capacity based on the phosphate rock deposit at Phosphate Hill and in the surrounding areas. This work is preliminary. However, we're moving as quickly as we can to unlock value for shareholders.

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Southern Cross Operations' EBITDA was A$192.5 million in the first half, up from A$69.7 million in the previous corresponding period. This primarily reflected a A$179.7 million positive impact from the increase in realised DAP price, offset by the negative impact of the higher Australian dollar and lower sales volumes due to floods and metgas feedstock supply interruptions, which reduced EBIT by A$48.4 million and A$31.9 million respectively. What are the potential constraints on production over the remainder of the year?

CEO Julian Segal
Our 2008 planned maintenance shutdown program is now complete and with the impact on railway line outages due to floods now behind us, our plan is to run Southern Cross at capacity for the balance of the year. The only production

constraints would be unforeseen outages similar to those we experienced in the first half with interruptions to metgas feedstock supply.

As announced in March 2008, to mitigate future interruptions to AP production we've initiated a program of capital investment, including the purchase of an additional string of 13 GATX wagons for sulphuric acid transport and increased sulphur storage at Mt Isa. This program is expected to cost approximately A$25 million over 2008 and 2009.

We expect Southern Cross AP production of 900,000 tonnes for the 2008 year. In 2009, we have a major maintenance turnaround scheduled and thereafter we see a return to capacity of 970,000 tonnes per annum.

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In the first half IPL saw a 17 percent pick-up in volumes in its domestic fertiliser distribution business to 933,000 tonnes as drought conditions in Australia eased. How has domestic demand been impacted by the rise in fertiliser prices and what has been the recent trend in demand heading into the key winter cropping season?

CEO Julian Segal
While there has been a general easing in drought conditions across east coast Australia, it hasn't been to the extent that you'd infer from the rainfall graphs and the Southern Oscillation Index. Most of the sales volume improvement in the domestic distribution business is attributable to the pull-forward of demand into the first half and increased demand in the pasture segment.

While it's too early to call the winter crop, ABARE's February 2008 forecast is for the east coast plant to increase by approximately 4 percent to 12.9 million hectares. Conversely, we expect that phosphate application rates will decline by a similar amount leaving overall demand flat year on year. While prima facie this is sub-optimal given the strength of international grain prices, we expect the greatest reductions in application rates to be in the more marginal cropping areas with the least leverage to international prices.

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The base business booked EBITDA of A$136.0 million in the first half, up from A$53.1 million. This partly reflected a A$30.2 million benefit from higher manufacturing margins on the increase in global fertiliser prices and A$27.0 million profit growth from the Fertiliser Trading business. How sustainable is this level of trading profit?

CEO Julian Segal
Once again our manufacturing positions drove profit in the base business in the first half, with increases in global nitrogen prices benefiting our Gibson Island urea and ammonia plants and, to a lesser extent, increases in AP demand and prices flowing through to improved profitability in our single superphosphate (SSP) plants.

Following poor Big N sales and the Gibson Island urea plant outage in the December 2007 quarter, we sold excess ammonia into industrial markets to keep the Gibson Island plant on line. Having our internal trading business has increased our capabilities in managing and securing the benefits of manufacturing output.

For SSP, the year on year improvement is off a low base. Going forward, we expect rising phosphate rock costs to place pressure on SSP margins, however our supply chain procurement team is working hard to mitigate these costs through alternative non-traditional sources of rock.

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EBITDA also benefited from additional cost savings of A$28.5 million under your Tardis business efficiency program, equal to your target for the full year of A$28 million. In which areas have the cost savings exceeded expectations and do you expect further benefits from Tardis over the remainder of the year?

CFO James Fazzino
Tardis efficiences in the first half largely reflect the exit rate from the 2007 year, where most of the savings were delivered in the second half. What has changed is that we've achieved an additional A$4.3 million in benefits from our new gas contract for Gibson Island which removes the previous urea price profit share. This benefit will be A$11.3 million for the full year.

With the Tardis program now complete, and the benefits delivered, we'll now turn our energies to a new business efficiency program, with a key focus on the integration of Dyno Nobel, assuming the Dyno Nobel Scheme of Arrangement is successful. On completion of the proposed transaction, we'll engage with the Dyno Nobel people and together develop initiatives across the business in line with our business efficiency model. We believe we'll be in a position to update the market on our progress at our full-year result presentation in November 2008.

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IPL booked net operating cash flow of A$21.1 million in the first half, compared with outflow of A$53.2 million in the previous corresponding year, with increases in trade working capital, interest and tax payments only partly offsetting the 2.6-fold increase in EBITDA. What scope is there to reduce trade working capital in an environment of rising prices and costs?

CFO James Fazzino
The increase in working capital since September 2007 reflects the normal pattern for this time of year leading into the winter cropping season. Working capital was flat at about A$255 million compared with March 2007.

This is a fantastic result given a negative impact of A$180 million from higher fertiliser prices on inventory balances. We identified working capital as an issue early in the year and did some great work in aligning creditor terms with inventory turns to counterbalance the price impact. This is borne out if you measure working capital performance as a percentage of rolling 12-month sales, where we saw a 4 percentage point reduction in working capital ratio to 16 percent.

Working capital, particularly debtors, will continue to be a challenge, given rising fertiliser prices.

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IPL had net debt of A$530 million as at the end of March 2008, compared with A$400 million a year earlier. The debt includes the A$257 million financing for your 13.2 percent investment in Dyno Nobel. Underlying net debt to EBITDA was 0.5 times, down from 1.9 times, and well below your target of 3 to 4 times. Post the proposed merger with Dyno Nobel, IPL has indicated gearing for the merged group would be less than 2.5 times EBITDA. Can you comment on how your gearing target for the merged group might vary from that of the current stand-alone fertiliser business?

CFO James Fazzino
We still see 3 to 4 times as the correct long-term target for gearing, albeit this is arguably more conservative post the Dyno Nobel acquisition given the relatively more stable cash flows of that business.

Given the state of global credit markets, it's prudent to accept an under-geared balance sheet in the short term where both the availability of debt and the cost of debt relative to equity will drive our gearing decision. This is why the initial gearing post the acquisition will be below 2.5 times EBITDA.

Importantly, over the long term, this gives us significant capacity to fund future growth through debt rather than equity, which will have a positive impact on EPS.

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The Dyno offer is to be effected through a Scheme of Arrangement that is to be voted on by Dyno shareholders on May 22. If the Scheme is accepted, what will be your initial priorities for the merged group?

CEO Julian Segal
When we announced the Dyno Nobel bid, we understood that we were acquiring a quality business, with privileged manufacturing positions, particularly in North America. Due diligence and integration planning has confirmed our belief in the quality of the business. In particular, we continue to be impressed by the quality and calibre of the Dyno Nobel people globally. We see similarities between the Dyno Nobel culture and ours that will streamline the delivery of business efficiencies. We have a lot of work to do but I'm confident we have the right people to deliver our targets.

The first priority will be the integration of the Dyno Nobel manufacturing operations with ours into a single function to leverage the "Fit and Flexibility" created by combining the two businesses and to create a centre of excellence for chemical manufacturing and engineering.

In addition, in readiness for completion, we've appointed global phosphate and nitrogen managers who will be responsible for optimising the global business across fertiliser and explosives end markets, ensuring we focus on global success.

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What are the growth options for the merged group, particularly as they relate to Dyno's suspension of its proposed Moranbah ammonium nitrate plant in Queensland and IPL's own plan to participate in fertiliser production in Aceh, Indonesia?

CEO Julian Segal
As part of the Scheme, we and Dyno Nobel agreed to consult in good faith in relation to the options for the project at Moranbah. As part of this some of our people are working with the Dyno Nobel team to progress our ongoing assessment of the feasibility of the project. Our full review of the project can't be finalised until after the transaction is complete but we'd hope to be in a position to announce our intentions prior to September 2008.

We're continuing to evaluate the Aceh opportunity, which includes seeking sources of coal at competitive prices. As everyone is aware, there's been a rapid rise in coal prices which is a challenge.

As announced recently, we've made an investment in Metex, which has underground coal gasification (UCG) technology developed with CSIRO. As part of this investment we get the exclusive rights globally to exploit the UCG technology in ammonia and related product manufacturing.

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Thank you Julian and James.

For more information about Incitec Pivot, visit www.incitecpivot.com.au or call Simon Atkinson, General Manager – Finance & Investor Relations, on +61 405 513 768

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