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Incitec Pivot Limited
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Southbank, Victoria 3006

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Incitec Pivot Limited today reported net profit after tax (NPAT), excluding material items, of $202.5 million for the year ended 30 September 2007, up from $82.8 million in the previous year. EBIT was $312.5 million, up from $126.2 million, primarily reflecting the full-year earnings contribution from Southern Cross Fertilisers (SCF) and cost savings and efficiencies under the "Tardis" program, which offset the negative impact of the drought on sales volume and mix. How sustainable is this level of earnings?

CEO Julian Segal
I'm delighted with our performance in 2007 and personally gratified to lead a team that's delivered this outstanding outcome. The results reflect a transformed business that's no longer captive to the variability of the Australian east coast agricultural market. Through the strategy we continue to pursue we've diversified our earning streams, and in doing so, delivered a record profit. While our domestic business partners and farmer customers remain a core part of our business, we're now significantly more levered to global soft commodity markets than domestic ones. In fact in 2007, rather than rainfall maps for the east coast, we maintained a closer eye on global soft commodity demand and the demand for food, fibre, feed and fuel that influence it.

In 2007 east coast conditions were again extremely poor, with fertiliser market volume 23 percent or 900,000 tonnes off the record of 4 million tonnes in 2002. While a reversion to normal seasonal conditions would represent a significant profit improvement of up to $75 million, with increased sales and improved product mix, such a reversion would take a number of years of above average rainfall to achieve. Under our strategy, we retain the capability to respond to the market as any recovery takes shape.

Like 2006, with the underlying softness in the domestic market in 2007, we needed to expedite the Tardis program to ensure we delivered. The outcome has been extremely pleasing with record production at SCF and our Tardis program delivering $73.6 million for the year, well above the forecast we made in November 2006 of $25.5 million. We've now achieved a permanent step-change in our cost base. However the work is never finished. Our embedded culture is to be forever diligent in maintaining our lowest cost base.

As for the sustainability of our 2007 earnings, concurrent with the step-change in our cost base, we've seen a step-up in global fertiliser prices with the first demand-lead cycle experienced this generation. Our long-term view of the di-ammonium phosphate, or DAP, price has now changed and we see a long-term trend of above $US300 per tonne through the cycle, which is significantly higher than the $US210 price we assumed when we acquired SCF some 15 months ago. We acknowledge that international industry analysts and participants have more bullish views than ours.

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The savings under the Tardis program of $73.6 million pre-tax, were not only well ahead of your original target of $25.5 million but also the upgraded target of $53 million announced in May 2007. What's been the Tardis implementation process, how has it differed from initial plans, and in which specific areas have you out-performed the targets?

CFO James Fazzino
Firstly let me say how proud I am of the outcomes of the Tardis program and the people who delivered it. The financial outcomes speak for themselves with $103.7 million in cumulative cost savings and efficiencies delivered and a further $155.5 million reduction in working capital. By all measures these changes have generated significant improvements in our performance and underpinned our lowest cost base strategy.

In achieving a savings result almost three times that announced a year ago, we've out-performed our targets in all areas of the Tardis program.

The success of the Tardis program reflects the quality and proficiency of our people, the performance culture that's developed over the term of the program, and the momentum that's been created in the business. Tardis was a culture-transforming program, designed, implemented and delivered by our own hard working people. It's transformed our culture and embedded a strong shareholder value discipline across the business. Every function within the business now has an absolute shareholder value focus.

The open secret of Tardis is that delivery is managed and controlled by our people, not consultants. We have an absolute accountability and reward culture that ensures programs are delivered. The program benefits are measured and people rewarded immediately, ensuring a self-motivating culture. I'd like to personally thank Chris Trotter, our project office manager, who's kept me and other project owners on track and focused through her tenacious commitment to delivery. Chris is a long-term employee with a broad experience within the business.

The lasting legacy of Tardis is that it's now become a core competence in the management of the business and will underpin our diligence in monitoring and maintaining our lowest cost base and efficiencies in our operations.

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Incitec Pivot previously targeted Tardis efficiencies at an annual run-rate of $88 million by the end of 2008. What potential is there for upside to the 2008 target or for further efficiencies, post 2008, beyond the scope of the original Tardis plans?

CFO James Fazzino
We've achieved a step-change in our cost base and by the end of 2008 we'll have delivered cost and productivity savings in the business of $131.8 million.

For 2008 our primary focus will be to deliver the balance of Tardis 2, being a further $28.2 million.

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Tardis efficiencies at SCF were $40.4 million, on a par with the $39 million targeted by the end of 2009. What scope is there for further efficiencies at these operations?

CFO James Fazzino
The level of efficiencies in 2007 was two years ahead of schedule. Around half the benefits related to the extra volume we've been able to liberate from the plants since acquisition. Production totalled 978,000 tonnes in 2007 and we now see a sustainable level of production at around 970,000 tonnes per annum. We delivered the balance of the savings across the cost bar. We're forecasting an additional $4.2 million in savings for the 2008 year.

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What are the growth options for SCF? Are you planning an expansion of capacity? What would be the cost?

CEO Julian Segal
We're currently investigating a range of options to expand production at both Phosphate Hill and Mount Isa, ranging from minor de-bottlenecking opportunities to more substantial expansions. As we haven't completed the feasibility studies we're not in a position to provide any details at this time.

Our work to date has shown that capital costs are twice what they were when the plants were built and that Australia ranks amongst the most expensive countries in the world in which to build new plants. So projects such as a doubling of capacity are unlikely. However, this highlights the value of owning SCF.

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Incitec Pivot's fertiliser volume increased 16 percent in 2007 to 3.2 million tonnes, reflecting a full-year contribution from SCF compared with a two-month contribution in 2006. However, domestic fertiliser distribution volume was down 15 percent to 1.9 million tonnes as a result of the drought. What's the current outlook for domestic fertiliser demand over the current financial year?

CEO Julian Segal

It's early in the year and as you're aware, we earn two thirds of our profit in the second half and we're very early into the year. There have been some promising signs but the la Nina development has so far failed to deliver the above average east coast rainfall normally associated with it.

As for current cropping, the sugar plant is once again late due to above average rainfall, and a weaker sugar price is likely to result in adverse sales mix as sugar farmers choose lower value products commensurate with the crop price. That said, our domestic fertiliser demand is predominantly dependent on the performance of the broadacre winter cropping segment and pasture segments. With record soft commodity prices, the potential for a strong broadacre market this year is good, albeit subject to the required pre- and in-season rainfall.

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Trade sales of fertiliser totalled 972,000 tonnes, up from 236,000 tonnes, with external sales from SCF reaching 645,000 tonnes. What ability do you have to grow this part of the business given SCF production is at capacity?

CEO Julian Segal

We established Southern Cross International as our trading business in March 2007, and it has the remit to develop domestic, regional and global trading positions in fertilisers and base chemicals manufactured by us and sourced from other manufacturers. So clearly the growth in the business is not limited by our current manufacturing capacity.

In 2007, the trading business, excluding product manufactured at SCF, contributed an additional $12.4 million in earnings above that in 2006. This is the value added from having established our trading business. This is particularly relevant in times of poor seasonal conditions. For example, rather than turn down production at our single superphosphate plants in 2007, we opened new export markets into regions such as Latin America, India, Pakistan and New Zealand, and will build on these in future years.

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Incitec Pivot generated net operating cash flow of $259.2 million in 2007 compared with $188.7 million in the previous year. Capex was $91.6 million, up from $28.0 million, including sustenance capex of $30.7 million, up from $17.1 million, and spending on the Gibson Island "Reset 07" of $42.1 million. What's the outlook for operating cash flow and capex in 2008?

CFO James Fazzino
We see continued strength in cash flow in 2008, consistent with earnings.

We're forecasting 2008 capex of about $70 million. From 2008 onwards sustenance capex will be around $40 million. That's the spend required for reliable operation of our plants and is consistent with their replacement value. In addition we'll be spending $21 million at SCF mainly on a catalyst refresh at Mount Isa and also on the finalisation of the gypsum cell project we started last year. We'll incur one-off IT spending of $4 million following the exit from Orica IT in June 2007 and $5 million on a supply chain efficiency project.

Looking forward, for growth projects, we have a blank cheque for projects which have an internal rate of return of 15 percent.

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As at the end of September, trade working capital stood at $121.3 million, down from $153.1 million a year earlier in spite of a $17 million negative impact on inventory from higher fertiliser prices. Is the reduced level of trade working capital sustainable if volume starts to recover post drought?

CEO Julian Segal, CFO James Fazzino
Under Tardis, we've worked hard to reduce our investment in working capital and believe that the improvement is sustainable. Over the last two years we've liberated $155.5 million in cash from the base business – or if you like, paid for the acquisition of SCF from this leg of Tardis.

We achieved a $60.5 million reduction in inventory in the base business, with bulk fertiliser tonnes on hand at year end 34 percent lower than a year earlier. This was a result of changes we've made in our sales forecasting and supply chain planning processes.

In practice we focus on the average working capital balance rather than the year-end balance because this is what you have to fund. In 2007 average working capital was $58 million lower than in 2006.

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In August, Incitec Pivot announced it had acquired a 13.2 percent equity stake in Dyno Nobel for $257.1 million, and was seeking to explore further opportunities with Dyno. What are the potential opportunities you see and to what extent have you progressed any dialogue with Dyno?

CEO Julian Segal
As you know, the key determinate of any action we take is what the numbers tell us. We're continuing to review our position. Like all Dyno shareholders, we'll be interested in the company's guidance on the costs of the Moranbah project and details of its proposed efficiency project.

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Incitec Pivot announced a fully franked final normal dividend of 191 cents per share for 2007, plus a 40 cent special dividend, bringing the full-year dividend to

300 cents, up from 103 cents. The normal pay-out ratio was 65 percent, at the bottom of your target range of 65 to 75 percent. How do you justify the relatively low pay-out when underlying net debt stood at 0.45 times EBITDA as at the end of September, well below your range of 3.0 to 3.5 times?

CFO James Fazzino
NPAT, pre-individually material items, increased by 145 percent over 2006 whereas the total 2007 dividend increased by 191 percent – 46 percent above the change in NPAT. We set the special dividend at 40 cents as this enabled us to return 100 percent of available franking credits to our shareholders as we're mindful franking credits have no value to the company but can reduce our shareholders' tax burden by up to 30 percent.

In setting the normal pay-out range, we balance the returns to shareholders that we can generate via reinvesting cash in the business with the returns that can be made by dividend payments.

The 2007 normal divided pay-out of 65 percent is consistent with 2006 and is at the high end of pay-outs for our sectoral peers and companies of similar market capitalisations which average 55 to 65 percent.

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Thank you Julian and James.

For more information about Incitec Pivot, visit www.incitecpivot.com.au or call Nerida Mossop, Investor Relations Manager, on (+61 3) 8695 4515

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