

INCITEC PIVOT LIMITED – PROFIT REPORT “FERTILISER MERGER DELIVERS STRONG FIRST HALF RESULT”



RESULTS FOR SIX MONTHS ENDED 31 MARCH 2004

REPORTED RESULTS

(2004: 6 months of Incitec Pivot v 2003: 6 months of Pivot)

Net Profit After Tax (NPAT) including significant items for the six months ended 31 March 2004 was \$16.7M, an increase of \$15.4M over the previous corresponding period (pcp) of \$1.3M.

NPAT excluding significant items was up 432% to \$20.2M (pcp: \$3.8M).

REPORTED RESULTS A\$M	6 Months Ended 31 March		
	2004	2003	Change
External sales revenue	432.9	181.7	138%
Merger synergies	18.0	-	
EBIT ²	32.0	9.3	244%
NPAT excluding significant items	20.2	3.8	432%
Significant items after tax	(3.6)	(2.5)	(44)%
NPAT including significant items	16.7	1.3	1185%

2004 REPORTED RESULTS V 2003 PROFORMA RESULTS¹

The Incitec Pivot merger has created significant shareholder value with NPAT excluding significant items up 296% to \$20.2M for the six months ended 31 March 2004.

The merger is now complete with all major activities completed. Progress was ahead of plan both in terms of timing and synergies delivered.

FINANCIAL HIGHLIGHTS

- NPAT excluding significant items of \$20.2M was up \$15.1M or 296% on pcp of \$5.1M.
- Strong financial position maintained with half year gearing at 18.5%.
- Merger value returned to shareholders with a maiden interim dividend declared of 29 cents per share (cps) fully franked (pcp: \$Nil).

RESULTS V 2003 PROFORMA A\$M	6 Months Ended 31 March		
	2004	2003	Change
External sales revenue	432.9	399.3	8%
Merger synergies	18.0	-	
EBITDA ³	56.6	32.2	76%
EBIT	32.0	11.4	181%
NPAT - pre goodwill and significant items	24.9	5.1	388%
NPAT excluding significant items	20.2	5.1	296%
Financial Items:			
Dividend per share (cents)	29.0	-	-
EPS ⁴ excluding significant items (cents)	34.7	8.8	296%
Net debt (\$M)	133.8	156.8	15%
Gearing (%)	18.5%	22.0%	
Interest cover (times)	10.3	2.7	281%
Average exchange rate (A\$/US\$)	74.3	57.8	(29)%

MERGER HIGHLIGHTS

- Synergies of \$18.0M delivered in the half.
- Leading East Coast Australia market share retained despite strong competition.
- Incitec Pivot operating as “One Company.”

OUTLOOK - SECOND HALF

- Earnings are biased to the second half which is significantly influenced by the winter planting season.
- Autumn and early winter rainfall, particularly in Central and Southern Australia, is required for earnings momentum to be sustained.
- Global urea pricing softening.

Notes

¹ Incitec Pivot proforma results = 6 months ended 31 March 2003 of the Pivot fertiliser business + 6 months ended 31 March 2003 of Incitec Fertilizers Ltd. Presentation of the prior year proforma results enables a “like-to-like” comparison of the merged business.

² Earnings Before Interest and Tax (EBIT).

³ Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA).

⁴ Earnings per share (EPS).

INCITEC PIVOT LIMITED – PROFIT REPORT (6 MONTHS OF INCITEC PIVOT v 6 MONTHS OF PIVOT)

MERGER WITH INCITEC

Pivot Limited (Pivot) merged with Incitec Fertilizers Limited (Incitec Fertilizers) on 1 June 2003. Pivot changed its name to Incitec Pivot Limited on 29 May 2003.

EXTERNAL SALES REVENUE

External sales revenue increased by \$251.2M or 138% over pcp to \$432.9M (pcp: \$181.7M).

- Revenue in the Pivot fertilisers business was up 9% to \$180.9M (pcp: \$165.8M) reflecting a partial recovery from the 2003 drought.
- Sales from the merged Incitec Fertilizers business were \$273.0M.
- Sales in discontinued businesses were \$18.9M below pcp (Pivot's stockfeed and grains businesses were exited in 2003).

External sales revenue A\$M	6 Months Ended 31 March		
	2004	2003	Change
Pivot fertilisers	180.9	165.8	9%
Incitec Fertilizers	273.0	-	
Discontinued businesses	-	18.9	(100)%
Intrasegment sales	(21.0)	(3.0)	(600)%
Total sales excluding intrasegment	432.9	181.7	138%

EARNINGS SUMMARY

NPAT and significant items was \$16.7M compared to \$1.3M in pcp. Excluding significant items, NPAT was \$20.2M (pcp: \$3.8M). Major factors were:

- 244% or \$22.7M increase in EBIT to \$32.0M due to:
 - 9% or \$0.9M decrease in earnings in the Pivot fertiliser business. Improved sales boosted margin. However, this was more than offset by a negative fixed cost in stock movement (FCISM)¹ reflecting lower manufactured stock on hand at 31 March 2004.
 - EBIT from the merged Incitec Fertilizers business of \$9.9M.
 - Merger synergies of \$18.0M partially offset by amortisation of merger goodwill of \$4.7M.
- Net interest was up \$0.2M on pcp to \$3.1M.
- Tax expense increased by \$6.1M to \$8.7M reflecting higher earnings.

Earnings Summary A\$M	6 Months Ended 31 March		
	2004	2003	Change
EBIT			
Pivot fertilisers	8.8	9.7	(9)%
Incitec Fertilizers	9.9	-	
Merger synergies	18.0	-	
Amortisation of merger goodwill	(4.7)	-	
Discontinued businesses	-	(0.4)	100 %
Total EBIT	32.0	9.3	244 %
Net Interest	(3.1)	(2.9)	(7)%
Tax expense	(8.7)	(2.6)	(235)%
NPAT excluding significant items	20.2	3.8	432 %
Significant items after tax	(3.6)	(2.5)	(44)%
NPAT including significant items	16.7	1.3	1185%

SIGNIFICANT ITEMS

Significant items were \$3.6M after tax and relate to merger restructuring and implementation costs. The classification of these costs as significant is consistent with previous reporting, including the Information Memorandum.

Notes

1. The lower level of manufactured stock on hand had a negative EBIT impact as fixed costs previously deferred into inventory increases were released to profit as inventories were drawn down.

INCITEC PIVOT LIMITED – PROFIT REPORT (6 MONTHS OF INCITEC PIVOT v 6 MONTHS OF PIVOT)

DIVIDEND

The directors have declared a fully franked interim dividend of 29 cps (pcp: zero), reflecting strong earnings in the half and a commitment to sound capital management.

The distribution is consistent with the Company's dividend policy and is comprised of:

- An ordinary dividend of 20 cps, being the mid point of the targeted dividend pay-out range of 65 - 75% of earnings.
- Plus a special dividend of 9 cps, in accordance with the policy of distributing surplus funds to shareholders when available, and to maximise the distribution of franking credits to shareholders.
- Dividend record date is 24 June 2004 with dividend payment date of 8 July 2004.

After the payment of the interim dividend, the balance of the franking account will be \$27.2M. Due to the timing of tax payments, this amount will not be materially different at year end.

FINANCIAL POSITION

Incitec Pivot has maintained its strong financial position. Fertiliser stocks are built in the first half in preparation for the winter cropping season. In 2004, the focus has been on controlling the seasonal build up to minimise funding requirements:

- March 2004 gearing (net debt / net debt + equity) was 18.5% compared to 2003 proforma gearing of 22.0%.
- Net debt at \$133.8M was only \$59.4M above September 2003 (\$74.4M) compared to a normal seasonal movement of around \$100.0M.
- Working capital to annualised sales³ was 23.9% compared to 24.8% for the pcp.

Dividend cents per ordinary share (cps)	6 Months Ended 31 March	
	2004	2003
Interim dividend	20.0	-
Special dividend	9.0	-
Total dividend	29.0	-
Franking (%)	100%	-

Statement of Financial Position 2004 v 2003 Reported			
A\$M	31-Mar 2004	30-Sep 2003	31-Mar 2003
Trade working capital	261.6	196.0	177.4
Net property, plant & equipment	294.1	296.6	114.3
Goodwill	180.7	185.4	-
Net other assets	(12.6)	(30.2)	9.3
Net assets excluding net debt	723.8	647.8	301.0
Net debt	133.8	74.4	149.9
Equity	590.0	573.4	151.1
Total capitalisation	723.8	647.8	301.0
Gearing	18.5%	11.5%	49.8%
NTA ¹ per share (cents)	702.0	666.0	864.0

Statement of Financial Position 2004 v 2003 Proforma			
A\$M	31-Mar 2004	31-Mar 2003 ²	Movement Up / (Down)
Trade working capital	261.6	264.5	(2.9)
Net property, plant & equipment	294.1	308.0	(13.9)
Goodwill	180.7	198.0	(17.3)
Net other assets	(12.6)	(58.9)	46.3
Net assets excluding net debt	723.8	711.6	12.2
Net debt	133.8	156.8	(23.0)
Equity	590.0	554.8	35.2
Total capitalisation	723.8	711.6	12.2
Gearing	18.5%	22.0%	
Working capital to annualised sales	23.9%	24.8%	

Notes

¹ Net tangible asset (NTA).

² Per 2003 listing Information Memorandum.

³ 2004 annualised sales represents first half 2004 sales plus second half 2003 sales.

**INCITEC PIVOT LIMITED – PROFIT REPORT
(6 MONTHS OF INCITEC PIVOT v 6 MONTHS OF PIVOT)**

CASH FLOW

Net operating cash flows were an outflow of \$44.3M (pcp: outflow \$68.2M). Major factors were:

- EBITDA up \$41.3M to \$56.6M (pcp: \$15.3M) reflecting merger synergies and the addition of the Incitec Fertilizers business.
- Tax paid of \$6.6M (pcp: \$Nil) reflecting the improved profitability of the merged business.
- \$11.5M spent on merger implementation costs (including employee benefits).
- Increase in trade working capital of \$65.6M (pcp: \$66.9M) with the normal seasonal build in stocks prior to the winter planting season.

Net investing cash flows were an outflow of \$15.0M (pcp: outflow \$0.4M):

- Capital spending of \$15.2M was 86% of depreciation including \$6.5M for IT integration.

Net financing cash flows at \$59.3M were \$9.3M below pcp (pcp: \$68.6M).

Cash Flow Items A\$M	6 Months Ended 31 March		
	2004	2003	Change
	Inflows/(Outflows)		
Net operating cash flows			
EBITDA	56.6	15.3	41.3
Net borrowing costs	(3.0)	(2.9)	(0.1)
Net income tax paid	(6.6)	-	(6.6)
Merger costs (incl. employee benefits)	(11.5)	-	(11.5)
Trade working capital movement	(65.6)	(66.9)	1.3
Other	(14.2)	(13.7)	(0.5)
Total	(44.3)	(68.2)	23.9
Net investing cash flows			
Proceeds from asset sales	0.2	3.8	(3.6)
Capital spending	(15.2)	(4.2)	(11.0)
Total	(15.0)	(0.4)	(14.6)
Total cash outflows from operating and investing activities	(59.3)	(68.6)	9.3
Net financing cash flows			
Increase in net borrowings	59.3	68.6	(9.3)
Total increase in borrowings	59.3	68.6	(9.3)

OTHER ITEMS

Employees

Total full time equivalent employee (FTE) numbers were 826 at the end of March 2004, a reduction of 135 FTEs since merger.

Safety Health & Environment (SH&E)

Some progress was made in safety with a recordable case rate¹ of 1.49 compared to 2.13 for the 2003 full year. This equates to 9 recordable injuries² for the company for the half year ended 31 March 2004. This result is still short of Incitec Pivot's safety vision of "no injuries to anyone ever". The focus will move to behavioural safety in order to improve performance.

The company withdrew fertiliser ammonium nitrate from the market on public security grounds on 5 April, 2004.

"One Company"

Incitec Pivot has established its own identity in order to "Grow from Good to Great":

- Workshops were held with employees throughout the company to develop a common set of values that underpin the way Incitec Pivot conducts its business.
- Research among dealers and agents showed overwhelming support for a single Incitec Pivot brand to replace the former Incitec Fertilizers and Pivot brands. Accordingly the Incitec Pivot corporate branding was extended to include both products and the distribution network of agents and dealers.
- In March 2004 a major regional newspaper and television campaign to emphasise the strength and reliability of the integrated business was launched in Eastern and Southern Australia.

Notes

¹ Recordable case rate is defined as the number of "recordable injuries" per 200,000 manhours worked.

² Recordable injuries are those injuries which result in absence from work, restrictions from normal work activities, or are medically treated.

INCITEC PIVOT LIMITED – PROFIT REPORT (6 MONTHS OF INCITEC PIVOT ACTUAL 2004 V PROFORMA 2003¹)

SALES VOLUME

Fertiliser volumes were up 5% to 1.2M tonnes with a patchy recovery from the 2003 drought.

- Incitec Pivot's leading East Coast market share was maintained.
- Fertiliser volumes into sugar markets were negatively impacted by poor industry structure and profitability.
- Demand from pasture markets was strong however large parts of NSW and Victoria remain drought affected.

SALES REVENUE

Sales were up 8% on pcp to \$432.9M (pcp: \$399.3M²), primarily as a result of improved fertiliser volumes.

EARNINGS BEFORE INTEREST AND TAX (EBIT)

EBIT excluding significant items increased by \$20.6M or 181% to \$32.0M (pcp: \$11.4M). Major positive factors were:

- Improved volumes combined with a favourable bias in mix towards manufactured products (compared to traded products) added \$6.1M.
- Higher global urea prices in the half (2004: US\$164/t, pcp US\$119/t) partially offset by the rising \$A - manufacturing margins up by \$9.8M.
- Merger synergies of \$18.0M. All major synergy projects have now been completed with the most significant milestone of the half being the successful merging of computer systems in December 2003.
- Reliable manufacturing performance was achieved from all major plants, with good improvements in single superphosphate production.

Negative factors were:

- Higher superphosphate costs of \$4.1M including sulphuric acid.
- Lower FCISM reflecting reduced manufactured inventories on hand resulted in an impact of \$3.9M.
- Amortisation of merger goodwill of \$4.7M.

Sales Summary - v 2003 Proforma

A\$M	6 Months Ended 31 March		
	2004	2003	Change
Fertiliser tonnes ('000s)	1,172.0	1,119.0	5 %
Fertiliser sales revenue	405.0	377.0	7 %
Total external sales revenue ²	432.9	399.3	8 %

Earnings Summary - v 2003 Proforma

A\$M	6 Months Ended 31 March		
	2004	2003	Change
EBIT			
Underlying EBIT	18.7	11.4	64 %
Merger synergies	18.0	-	
Goodwill	(4.7)	-	
Total EBIT excluding significant items	32.0	11.4	181 %
Net interest	(3.1)	(4.2)	26 %
Tax expense	(8.7)	(2.1)	(314)%
NPAT excluding significant items	20.2	5.1	296 %
EBIT/Sales	7%	3%	

INTEREST AND TAX

- Net interest expense reduced by 26% over pcp to \$3.1M (pcp: \$4.2M) with good control of working capital and access to lower interest rates post-merger.
- Tax expense was \$8.7M compared with \$2.1M reflecting higher profits. The effective tax rate was 29.9%.

NET PROFIT AFTER TAX (NPAT)

NPAT excluding significant items at \$20.2M was 296% above proforma earnings of \$5.1M recorded in the pcp.

Notes

- ¹ Incitec Pivot proforma results = 6 months ended 31 March 2003 of the Pivot fertiliser business + 6 months ended 31 March 2003 of Incitec Fertilizers Ltd. Presentation of the prior year proforma results enables a "like-to-like" comparison of the merged business.
- ² 2003 sales exclude pre-merger sales between Incitec Fertilizers and Pivot in 2003.

Further Information:

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