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Incitec Pivot Limited today reported net profit after tax (NPAT), excluding individually material items, of $49.6 million for the first half ended March 2007, up 80 percent from the previous corresponding period. EBIT was $83.9 million, up 106 percent or $43.2 million, reflecting business efficiencies and the contribution from Southern Cross, which was acquired in August 2006. How do you reconcile such a strong result with the poor conditions arising from the drought?

MD & CEO Julian Segal
We've made a truly outstanding start to the year, particularly given the drought conditions on the east coast of Australia, not only this year but also the year before – we've had poor conditions for two years running. We've been able to deliver this result because of the strategies we've put in place and because they've been extremely well executed by our people.

Our strategy comprises four themes that are complementary – we believe the "whole" creates more value than the sum of its parts.

The first strategic theme is "lowest cost base" and in the first half our "Tardis" business efficiency program delivered an additional $21.7 million in benefits. The second theme is "owning the product," demonstrated in the first half by the fact that Southern Cross delivered underlying earnings, before Tardis efficiencies, of

$28.8 million and that we generated over 80 percent of first-half earnings from manufacturing.

Our third strategic theme is “the trading model” and in the first half trade accounted for 28 percent of our sales, facilitating the final theme of our strategy, being the “supply chain value engine,” where we realised a $46 million reduction in working capital compared with the previous corresponding period, a cash benefit of 91 cents per share.

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Previously one of the themes of your strategy was “multi-channels to market,” whereas now you’re talking about the trading model and the supply chain. What’s behind this change in emphasis?

MD & CEO Julian Segal
Multi-channels to market is very much still one of the components of our strategy, but it now sits under the headline of the trading model. If you look at the strategic theme of owning the product, it’s a question of how you take that product to the market. The way we do that in Australia on the east coast is through the multi-channel approach, but that’s only part of our overall trading business now. Outside the east coast of Australia we’re trading big parcels of product to other geographies that we traditionally hadn’t entered such as New Zealand, the west coast of Australia, India, Pakistan etc.

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The consensus forecast for NPAT for the current full year ending September 2007 is $159 million, up 92 percent, and for EBIT, $252 million, up 100 percent. Can you comment on the consensus forecasts in light of recent steep rises in global urea and diammonium phosphate (DAP) prices and concerns over water allocation from the Murray Darling Basin?

MD & CEO Julian Segal
As you’re aware, we earn two thirds of our profit in the second half, so it’s still very early in the year. We’re aware of the range of forecasts currently in the market, and believe the differences mainly arise from assumptions on global fertiliser prices and the exchange rate.

In terms of the outlook, there are a number of positives. They include forecasts of a general easing of drought conditions and above-trend global fertiliser prices, albeit with a normal softening in prices after the US planting season finishes in about May. We’ll also have a full-year contribution from Southern Cross and continuing efficiencies from Tardis.

On the negative side, the strong Australian dollar will offset some of the fertiliser pricing benefit and uncertain water allocations will impact sales into cotton markets in particular. The water problem isn’t restricted to the Murray Darling. Average rainfall this year will not be sufficient to replenish irrigation reservoirs and increase water allocations. Many irrigated crops, including irrigated pasture and horticulture, will be affected. Of course, it's not as if we're coming off full allocations last year, so it's a relative position. But for some of our customers the situation is dire.

Another negative is that we'll forego about $10 million in manufacturing margin in the second half as a result of the planned Gibson Island maintenance shut-down in the first half. Our stock turnover tends to be 30 to 40 days, so the fact that Gibson Island didn't produce in February/March means we don't have manufactured product we'd usually be selling in April/May – we'll sell imports this year. So year-on-year there's a $10 million hole.

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In the first half, Incitec Pivot delivered $19.7 million in cost savings under its Tardis phase 2 program, equivalent to your previous target for the full year of $15 million to $20 million in savings. In which specific areas have the cost savings exceeded your initial expectations?

Finance Director & CFO James Fazzino
We're delighted with progress on Tardis 2 which is well ahead of plan in terms of both the quantum of efficiencies delivered and the timing. We're now forecasting Tardis 2 savings of $45 million for 2007, more than double our initial target for the year. Manufacturing was the highlight, at our Gibson Island, Mt Isa and Phosphate Hill sites.

Just after we acquired it, we set an efficiency target of $35 million for Southern Cross to ensure the plant generates an 18 percent return on net assets (RONA) – our minimum return metric – at the bottom of the DAP cycle. We gave the team three years to achieve the savings and it's on track to deliver $29.6 million in 2007, with $16 million delivered in the first half. This is a real tribute to the team at Southern Cross and the manufacturing competency we've got in the business.

The $35 million efficiency target was based on an "aspirational" cash cost per tonne with delivery via the simple formula of producing more at a lower cost. In total we're working on 99 projects at Southern Cross to deliver the savings. Quick wins have come from improved plant reliability, which ensures we can consistently operate the plant at 970,000 tonnes per annum, up from 907,000 tonnes at acquisition, and from overhead and back office cost reductions.

Our team at Gibson Island also excelled in the first half. During February and early March we completed our largest-ever planned maintenance shutdown, which the team completed on time and on budget, a remarkable achievement given the current mining boom in Queensland. Plant performance post shutdown has been above our expectations with $1.5 million in efficiencies delivered in the first half and $8.5 million forecast for the year as part of the Tardis deliverables.

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With the revised target for Tardis 2 cost savings in 2007 of $45.0 million, you're now forecasting an exit rate of $73.9 million, up from an initial expectation of $50.9 million. The exit rate in 2008 is now expected to be $88.2 million, up from $83.0 million. This suggests you're seeing a faster than expected delivery of the savings rather than a significant upgrade in the overall program deliverables. Is there potential upside in the new targets?

Finance Director & CFO James Fazzino

The risk is on the upside for 2009, although it's too early to quantify the amount. We see major opportunities at both Southern Cross and Gibson Island to generate higher earnings, albeit we'd need to invest new capital to realise the potential at both plants.

Tardis 2 delivers a step change in our manufacturing cost base which means both plants will exceed 18 percent RONA even at below trend pricing. Combined with a favourable outlook in fertiliser pricing in the medium term, this leaves us well placed to pursue de-bottlenecking and both minor and major expansion projects. We've challenged our engineering teams to develop these projects and we'll keep the market informed of our progress.

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In the first half Southern Cross produced 492,000 tonnes, and EBIT was up 48 percent from the acquisition proforma level of $30.2 million to $44.8 million. The improvement reflected the $16.0 million in efficiency benefits from Tardis 2 and a $30.2 million positive impact from the increase in global DAP prices. Do you see the current level of DAP prices as sustainable?

MD & CEO Julian Segal

DAP prices averaged US$293 per tonne in the first half compared with US$247 per tonne in our acquisition proforma, with every US$10 per tonne increase in prices contributing US$9.7 million to our earnings.

Spot DAP prices peaked in April at US$440 per tonne, reflecting a short squeeze, particularly in North America. Globally the supply side has seen low pre-season stock levels combined with unplanned outages and a cut in US production of 2.4 million tonnes as uneconomic plants were closed in 2006. On the demand side, corn planting for bio-fuel and shortages across most soft commodities drove an increase in acreage.

We think current spot prices are not indicative of trend pricing going forward. However, we think demand and supply side fundamentals will support above trend pricing through to at least the end of this decade.

On the global supply side, no significant new capacity will be added until the Ma'aden plant in Saudi Arabia is commissioned early next decade. We also see a step change in the global cost curve for fertilisers as a result of higher energy input costs and capital costs for new plants. So when the new capacity does come on line, we're not expecting the drop-off in pricing we've historically seen when new plant is added. Typically, new fertiliser plants are project-financed and to that extent there's a requirement to service the related debt, which forms part of the cost base. That higher fertiliser cost curve will increase the value of installed capacity such as our Southern Cross operations.

We see what the fertiliser industry calls the "four Fs" – food, feed, fuel and fibre – as unrelenting drivers on the demand side. Population growth, with 200,000 new mouths to feed per day, places constant pressure on the demand for food which, given the constraints on available arable land, can only be met by increased farm productivity and inevitably, higher fertiliser use.

In feed, as income levels per capital push through the $US3,500 level, below which 80 percent of the world's population live, demand for more complex foods increases, driving animal feed demand. For example, meat demand in Asia has increased by more than 60 percent in five years.

While bio-fuel isn't new, significant capacity has been added in 2007 in the US and this places further pressure on the demand for agricultural outputs. Further bio-fuel capacity is planned in the US, Europe and Asia driven by energy security and greenhouse concerns.

Finally, demand for fibre is expected to continue to grow with global GDP.

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EBIT generated by Incitec Pivot's traditional business was $39.1 million, down 4 percent, reflecting the impact of the drought on the summer crop and pasture markets, and adverse fixed cost into stock movement on the back of reduced stock levels. These were offset by $5.7 million in cost savings from the Tardis program and $5.5 million from increased pre-season winter crop volume. In the absence of an improvement in seasonal conditions, what ability do you have to further improve earnings in this part of the business?

MD & CEO Julian Segal
I'm delighted with the result from the traditional business given the difficult seasonal conditions of the first half. The result reflects our goal of delivering acceptable returns in a bad year by rightsizing the cost base.

There's still $52 million in earnings improvement to come in the traditional business as we focus on the Tardis manufacturing efficiency and supply chain optimisation program. In addition, over coming years the business will benefit from more normal volumes as the east coast market recovers to normal levels of fertiliser consumption post-drought.

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In 2006, manufacturing margin and trading margin were significant contributors to an improvement in the EBIT of the base business, helping to offset weaker volumes. What was the trend in manufacturing and trading margin in the first half and what is the outlook for the remainder of the current year?

MD & CEO Julian Segal
In the first half trading margins were flat year-on-year. The fertiliser wholesale distribution business operates in an extremely competitive environment with narrow margins.

We've seen expansion in manufacturing margins as we've moved up the fertiliser value chain with the Southern Cross acquisition and delivery of our Tardis manufacturing efficiency initiatives. This is reflected in the expansion in our EBIT margin by more than 5 percent over the previous corresponding period and the increase in profit from manufacturing to over 80 percent of total earnings. Continued strength in global fertiliser prices will support margins for the remainder of the year, albeit with the impact softened by the strong Australian dollar.

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Incitec Pivot recognised individually material items of $7.6 million after tax in the first half, compared with negative $17.4 million in the previous corresponding period. This reflected a profit on the sale and leaseback of equipment, a gain on the write-back of Southern Cross acquisition provisions, partly offset by costs associated with the implementation of business efficiency initiatives, the separation from Orica and integration of Southern Cross. What is the expected level of individually material items for the current year?

Finance Director & CFO James Fazzino
We expect to incur an additional cost of $5 million after tax in the second half as part of the Orica separation and Southern Cross integration project.

On the positive side, we expect land sales which, depending on timing, will either be booked in the fourth quarter of 2007 or first quarter of the 2008 financial year. Profit on these sales is likely to exceed $10 million after tax.

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Incitec Pivot booked net operating cash outflow of $53.2 million in the first half compared with outflow of $90.5 million the previous corresponding year. Trade working capital was $251 million, down from $263 million in spite of an additional $34 million from Southern Cross. Because of the drought, you were expecting little improvement in trade working capital in 2007. How have actual cash flows differed from your expectations?

Finance Director & CFO James Fazzino
We're pleased with the cash result at half year, in particular working capital. This of course followed the 2006 result where we delivered a $102 million reduction in

working capital. The improvement is directly attributable to the Tardis 2 supply chain project where we're targeting a $50 million reduction in inventories in addition to a $20 million improvement in supply chain costs.

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Capex was $53.1 million, up from $16.8 million. Sustenance capex of $12.8 million compared to $13.4 million in the previous corresponding period, while project capex increased to $40.3 million from $3.4 million, primarily reflecting spending of $29.0 million on the Gibson Island maintenance shut-down. Where will project capex be targeted going forward?

Finance Director & CFO James Fazzino
Second half project capex will be $22.6 million, reflecting the balance of the Gibson Island reset expenditure, a desalination plant at Gibson Island that will reduce our consumption of potable water by about one sixth, completion of the gypsum cell at Phosphate Hill and IT spending for the separation from Orica and integration of Southern Cross.

In addition we'll spend $6.5 million of our environmental provisions, $4.5 million to top up our defined benefits superannuation fund post the redundancy program and $4 million on demolition. An offset will be the planned land sales I mentioned before, which will deliver over $20 million in cash in either the fourth quarter of this year or first quarter of next year.

With respect to growth capex, we have a "blank cheque" provided the projects fit our strategy and meet our hurdle IRR of 15 percent. Our balance sheet is modestly geared and we believe the equity market would support larger projects if additional funding was required.

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Incitec Pivot had net debt of $400 million as at the end of March 2007, compared with $138 million a year earlier. Gearing stood at 50.5 percent, up from 20.6 percent. You've announced a fully franked interim dividend of 69 cents per share, up from 22 cents in the previous year. What is the expected level of gearing at the end of September and can shareholders expect an additional distribution of excess funds at the end of the year?

Finance Director & CFO James Fazzino
Year-end book gearing should be at the lower end our current target range of 40 to 45 percent assuming no major investments in the second half. We think it's more appropriate to look at our debt as a multiple of EBITDA, by which measure our average debt for 2007 should be around 1 times, compared with our peers at 2.7 to 3 times. This provides significant capacity to fund the expansion of the business and/or return cash to shareholders.

Our interim dividend pay-out was 70 percent of NPAT excluding individually material items or 100 percent of available franking credits. This distribution was in the middle of our normal pay-out range. It's a little too early to predict the final distribution, however we're aware of the need to quickly return excess funds to shareholders.

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Given the strength of the balance sheet, are you actively looking at acquisitions?

MD & CEO Julian Segal
We're alert to those opportunities, but we won't talk about any specific project. Certainly, if the right M&A opportunity comes up that meets our financial criteria, we've got huge capacity to fund it.

If we don't find the right opportunity, we'll return funds to our shareholders.

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Thank you Julian and James.

For more information about Incitec Pivot, visit www.incitecpivot.com.au or call Simon Atkinson on (+61 3) 8695 4515

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