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**Lodgement of Open Briefing**

Incitec Pivot Limited
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Incitec Pivot Limited today reported net profit of $75.1 million for the year ended 30 September 2004 compared with a loss of $18.6 million in the previous year, which included eight months of Pivot earnings and four months of the merged Incitec Pivot business. Excluding significant items, net profit was $80.9 million, up from $35.1 million, compared with analysts' forecasts of around $75 million. What were the key drivers of the better than anticipated result?

**MD & CEO Greg Witcombe**
There were three key drivers. Firstly, we delivered business efficiencies, including merger synergies, of $50.6 million before tax in the year. This reduces to $40.7 million after merger goodwill amortisation of $9.9 million.

Secondly, we had a strong contribution from manufacturing. Manufacturing profit was up by just under $30 million before tax.

Finally, our customers continue to support the business and we retained our leading east-coast market share position.

**corporatefile.com.au**
You reported EBIT of $121.9 million for 2004, up 62 percent from a pro-forma result of $75.2 in the previous year (based on 12 months of Pivot earnings and 12 months of Incitec Fertilisers' earnings). This was partly driven by the $50.6 million of business efficiencies, including merger synergies. At the time of the merger of Incitec Fertilisers and Pivot you targeted merger synergies of $30 million on an annualised basis. Were the merger synergies achieved during 2004

in line with your forecast and what specifically drove the additional business efficiencies?

**MD & CEO Greg Witcombe**
We set an original target for merger synergies of $30 million and as we flagged at the half-year, we've exceeded this target by a significant amount. Just as important of course is that every dollar of the synergies has dropped to the bottom line.

In terms of new efficiencies, we made further progress in manufacturing cost cuts, supply chain efficiencies and business overhead reduction. The most pleasing of these was the improvement at our Geelong single superphosphate plant, where we had a step change in performance. Up-time improved by 10 percent, we proved an instantaneous production capability equivalent to 400,000 tonnes per annum, and manufacturing cost per tonne reduced by over 15 percent.

**corporatefile.com.au**
What scope is there to achieve further efficiencies within the business?

**MD & CEO Greg Witcombe**
We believe we still have significant efficiency improvement opportunities, however, the nature of the opportunities are more of the ilk of continuous improvement than step change. Accordingly, we're unlikely to see new efficiencies of the quantum delivered in 2004.

We'll focus on two areas in 2005. Firstly, we're determined to improve our customer-facing processes, from account management, to order taking, to fulfilment via supply chain, to invoicing and finally cash collection. Secondly, we'll continue to focus on improving our manufacturing performance. We see further opportunities to improve operating efficiencies at all our manufacturing sites.

**corporatefile.com.au**
Your statement on the outlook for the current year ending September 2005 is relatively cautious. To what extent will earnings growth be driven by generating greater efficiencies and to what extent will it depend on top-line growth?

**MD & CEO Greg Witcombe**
Everyone in agribusiness is cautious about making forecasts, and for good reason, as shown by our flat sales volume for the 2004 year despite the more positive seasonal outlook this time last year. Having said that, the outlook for fertiliser demand in 2005 is currently not particularly promising, with continued dry conditions in the south-east, a lack of sub-soil moisture and some carry-over of nutrients from the 2004 season.

The outlook for fertiliser pricing is more positive given current strong global fertiliser price levels. However, that will be tempered in the event of high Australian dollar levels and because of our less attractive currency hedging position in 2005.

Whilst we'll be pushing for top-line growth, which is needed in any business to significantly grow earnings, we'll concurrently be working on the efficiency improvements I talked about earlier.

**corporatefile.com.au**
You've indicated that improved manufacturing margins from high global urea prices and freight contributed $20 million to EBIT in 2004. What's driving the current high level of urea prices and what's the outlook for the current year?

**MD & CEO Greg Witcombe**
Middle East urea prices are currently around US$250 per tonne. By comparison, our view of trend prices is closer to US$135 per tonne. Current prices are being driven both on the demand and the supply side. Global demand is growing at greater than 3 percent per annum. Demand in Asia remains high and is particularly strong in China and India. At the same time, production is down. US producers continue to be hampered by high gas costs, and maintenance turnarounds and unplanned outages have substantially reduced the tonnage available for export.

So the outlook for pricing in the current year looks positive. Of course for us, the critical time for urea prices is leading into the winter crop season in January and February and into the cotton pre-plant period of July and August.

**corporatefile.com.au**
At the beginning of the year, you had US$55 million of Australian dollar call options at US$0.58. To what extent did currency hedging contribute to the $20 million improvement in manufacturing margins, and what's your hedging position for the current year and the anticipated impact on earnings?

**MD & CEO Greg Witcombe**
The benefit of hedging was that our manufactured nitrogen margins were effectively exposed to a constant US$0.58 Australian dollar rate in both 2003 and 2004. The $20 million therefore reflects the full benefits of higher global urea prices and freight rates at a constant currency. In 2005, we have $50 million of cover in place at US$0.68. Assuming a US$0.70 exchange rate, reverting to the new hedge position will adversely impact 2005 profit, compared with 2004, by around $17 million including option premium costs. That's in addition to any exposure over US$50 million, which is unhedged.

I should add that under the current Gibson Island gas contract, in 2005 some of the benefit of higher global prices will be shared with our gas supplier.

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You've also said that an improved sales mix biased to manufactured products, compared with traded products, contributed $11 million to EBIT in 2004. What level of control do you have over the sales mix; is demand for your manufactured products dictated by seasonal conditions in the various crop and pasture regions?

**MD & CEO Greg Witcombe**
The lowest cotton plant in 10 years impacted our 2003 product mix, with abnormally low sales of Big-N, our premium manufactured nitrogen product. So 2004 was closer to a normal year in terms of manufacturing mix. While we can't control the weather, many of our manufactured products offer significant benefits to farmers over commodity fertilisers, and we actively market these products. In this respect we can directly impact mix.

We were particularly successful in 2004 in switching the market from commodity ammonium phosphates to granulated ammonium phosphates, which we manufacture at Kooragang Island. Our granulated products are good for farmers as they improve crop yields by offering more available zinc and sulphur in a homogenous form. The plus for us is that we make a manufacturing margin rather than a traded margin on these products.

**corporatefile.com.au**
You recently secured 10-year natural gas supply and transport agreements for your ammonia/urea plant at Gibson Island in Queensland, which take effect from 2007. What implications do these agreements have for your manufacturing margins going forward?

**MD & CEO Greg Witcombe**
Securing the contracts was a significant achievement for the year. As our 2004 results show, manufacturing is our profit engine, and Gibson Island is the core of that engine. The alternative was to shut the Gibson Island site in 2007, so arguably the contracts underpin our profitability going forward. While we won't disclose the pricing achieved under the deals, I can confirm it's competitive and below what we pay today. So margins will improve from the last quarter of 2007.

The direct impact in 2004 was a reduction in depreciation expense as we extended the plant and associated Big-N distribution assets' life by ten years to 2017 to match the new contract duration.

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About half of the gas will be supplied by the Argyle coal-seam methane gas field, which is yet to be developed. Isn't this a potential risk?

**MD & CEO Greg Witcombe**
We're confident the Queensland Gas Company/Pangaea Oil and Gas will be able to supply gas from 2007. We've provided a debt facility of up to $5 million to assist the project in moving to start-up.

**corporatefile.com.au**
One adverse factor during 2004 was the increase in competition, particularly in ammonium phosphates, which had a negative impact on EBIT of $14.5 million. Can you comment on the trend in your market share over 2004 and the current competitive environment, particularly in light of the proposed acquisition by ABB Grains of the Direct Fertilisers business?

**MD & CEO Greg Witcombe**
We maintained our east-coast Australia market share at above 70 percent in 2004. This is the key metric for the business as it underpins our scale advantage, and as the $14.5 million shows, we're prepared to invest profit to retain share.

With respect to ABB's proposed purchase of Direct, our understanding is that ABB has been working closely with Direct for a number of years, so in some ways the purchase simply formalises the relationship.

**corporatefile.com.au**
Incitec Pivot generated net operating cash flow of $141.5 million in 2004 compared with $96.2 million previously. Capex was $30.8 million compared with $15.6 million. What's the outlook for operating cash flow and capex in the current year?

**MD & CEO Greg Witcombe**
We expect ongoing sustenance capex to be around the 2004 levels. Operating cash flow will continue to be strong in 2005.

**corporatefile.com.au**
As of the end of September 2004, the company had net cash of $20.8 million, compared with net debt of $74.4 million a year earlier. What are your plans for this cash ahead of any equity commitment to an ammonia/urea complex in Brunei, for which you're part of the three-way, international consortium selected to conduct a feasibility study?

**MD & CEO Greg Witcombe**
We'll return $58.3 million in cash to shareholders on December 9 when we pay out the final 2004 dividend. Moving forward, we'll look to either reinvest the cash back into the business, if we can find opportunities that meet our strict investment hurdles of 18 percent return on net assets (RONA) and 15 percent internal rate of return (IRR), or we'll return the cash to shareholders.

**corporatefile.com.au**
What's the rationale for participating in the Brunei consortium and what do you see as the key risks for Incitec Pivot in this potential investment?

**MD & CEO Greg Witcombe**
The consortium brings together our off-take capability with the local and broader Asian business experience of our consortium partners. We and Mitsubishi Corporation also have considerable and relevant experience in constructing and running ammonium and urea plants. The key risk for the project is ensuring the plant operates at lowest decile cash cost of manufacture, this requires world-competitive gas, operating costs and construction costs.

**corporatefile.com.au**
What's the outlook for annual urea demand and supply in the region when the plant comes on line?

**MD & CEO Greg Witcombe**
As I mentioned earlier, global urea demand is growing at more than 3 percent per annum, which is equivalent to the capacity of three of these world-scale plants per annum. We'll have off-take rights for the majority of the plant's output, and with our strong domestic urea sales position, we expect to sell the majority of our output into the Australian market. The plant is also well positioned to service the high growth markets in Asia if needed.

**corporatefile.com.au**
Given your potential entry into production in Brunei, are you looking at growth options outside the Australian market? What are the opportunities?

**MD & CEO Greg Witcombe**
At this stage we're focussed on consolidating our lowest cost supply position in the Australian market, which the Brunei project would provide for us in urea.

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Incitec Pivot paid a fully franked final dividend of $1.00 per share, bringing the total dividend for the year to $1.29. This is equivalent to a pay-out of 100 percent of earnings after significant items. Given the company's net cash position, what's the outlook for dividends going forward?

**MD & CEO Greg Witcombe**
We have the capacity to both pay competitive dividends and reinvest in the business in the future, so the outlook is positive.

**corporatefile.com.au**
Thank you Greg.

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For more information about Incitec Pivot, visit www.incitecpivot.com.au, or call James Fazzino on (+61 3) 8695 4498

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