

INCITEC PIVOT LIMITED PROFIT REPORT

“MERGER ON TRACK”



RESULTS FOR YEAR ENDED 30 SEPTEMBER 2003

Reported results (8 months of Pivot plus 4 months of Incitec Pivot):

Incitec Pivot produced a 66% increase in NPAT¹ excluding significant items to \$35.1M (2002: \$21.2M).

As expected the business recorded a net loss including significant items of \$18.6M (2002: profit \$18.5M). Significant items after tax of \$53.7M primarily related to business restructuring costs following the merger with Incitec Fertilizers Limited.

REPORTED RESULTS A\$M	Year Ended 30 September		
	2003	2002	Change
Sales revenue	686	604	14%
Merger synergies	6.1	-	-
EBIT	59.1	45.6	30%
NPAT excluding significant items	35.1	21.2	66%
Significant items after tax	(53.7)	(2.7)	>(100%)
NPAT including significant items	(18.6)	18.5	>(100%)

Proforma Results (12 months of Incitec Fertilizers + Pivot fertiliser business):

Incitec Pivot delivered robust earnings in the face of the worst drought in Australia in 100 years. Proforma NPAT¹ was \$45.7M, 29% below the 2002 result of \$64.1M with the most significant factor being a 9% decline in fertiliser volumes.

MERGER HIGHLIGHTS

- Incitec Pivot successfully listed on the ASX and had a market capitalisation at 30 September 2003 of \$913M.
- Synergies of \$6.1M delivered in the 4 months since the merger.
- Leading East Coast Australia market share retained.
- Strengthened financial position with year end gearing at 11%.

OUTLOOK - 2004

- Earnings underpinned by merger synergies.
- 2004 synergies on an annualised basis are expected to be \$30M, although as a result of the timing of the realisation of benefits, not all of the \$30M will be reflected in 2004 earnings.
- Improved weather outlook, albeit very early in the season.
- Pressure on sulphuric acid raw material costs following supplier plant closures in 2003.

PROFORMA RESULTS A\$M	Year Ended 30 September		
	2003	2002	Change
Sales revenue	1,064	1,148	(7)%
Merger synergies	6.1	-	-
EBITDA	120.0	151.7	(21)%
EBIT	75.2	106.4	(29)%
NPAT	45.7	64.1	(29)%
Earnings per share (cents)	78	110	(29)%
Return on shareholders' funds	8%	11%	
Financial Items			
Net debt	74	127	
Gearing	11%	19%	
Interest cover (times)	8.8	7.1	
Average exchange rate (A\$/US\$)	61.5	54.4	

MERGER WITH INCITEC

Pivot Limited (Pivot) merged with Incitec Fertilizers Limited (Incitec Fertilizers) on 1 June 2003 creating Australia's leading manufacturer and distributor of fertiliser. The Company changed its name to Incitec Pivot Limited on 29 May 2003. Incitec Pivot listed on the Australian Stock Exchange on 28 July 2003 and had a market capitalisation of \$913M at 30 September 2003.

SALES REVENUE

External sales revenue increased by \$82M or 14% over 2002 to \$686M (2002: \$604M).

- Underlying revenue in the Pivot fertilisers business was down 8% to \$447M (2002: \$487M). Volumes were impacted by the worst drought in Eastern Australia for 100 years.

- Sales from the Incitec Fertilizer business were \$208M in the 4 months since the merger.

- Sales in discontinued businesses were \$93M below 2002 (the stockfeed and grains businesses were exited in 2003).

EARNINGS

Net loss after tax and significant items was \$18.6M compared to a profit of \$18.5M in 2002. Excluding significant items, Net Profit After Tax (NPAT) was \$35.1M (2002: \$21.2M). Major factors were:

- 30% or \$13.5M increase in earnings before interest and tax (EBIT) to \$59.1M due to:

- 15% or \$6.8M reduction in earnings in the Pivot fertiliser business. Margin reductions from lower sales volumes and prices were partially offset by excellent cost control in the business.

- EBIT from the merged Incitec business of \$17.8M.

- Merger synergies of \$6.1M partially offset by amortisation of merger goodwill of \$3.1M.

- \$0.3M loss in discontinued businesses (2002: profit \$0.2M).

- Net interest cost was 50% lower than 2002 at \$6.8M with strong business cash flow and access to tighter credit spreads post-merger.

- Tax expense increased by \$6.5M or 60% to \$17.2M in line with improved earnings.

External sales summary	Year Ended 30 September		
	A\$M	2003	2002
Pivot fertilisers	447	487	(8)%
Incitec Fertilizers (4 months)	208	-	-
Discontinued businesses	20	113	(82)%
Sales to IFL* pre-merger	11	4	> 100%
Total external sales	686	604	14%
* Incitec Fertilizers Limited			

Earnings Summary	Year Ended 30 September			
	A\$M	2003	2002	Change
EBIT				
Pivot fertilisers	38.6	45.4	(15)%	
Incitec Fertilizers (4 months)	17.8	-	-	
Merger synergies	6.1	-	-	
Amortisation of merger goodwill	(3.1)	-	-	
Discontinued businesses	(0.3)	0.2	> (100%)	
Total EBIT	59.1	45.6	30 %	
Net Interest	(6.8)	(13.7)	50 %	
Tax expense	(17.2)	(10.7)	(61)%	
NPAT excluding significant items	35.1	21.2	66 %	
Significant items after tax	(53.7)	(2.7)	>(100%)	
NPAT including significant items	(18.6)	18.5	>(100%)	

SIGNIFICANT ITEMS

Total significant items after tax for 2003 were \$53.7M including \$49.9M of merger related costs.

Total merger costs are now estimated at \$67.4M after tax compared to \$62M advised in the information memorandum to the listing. The additional costs of \$5.4M after tax reflect asset write-downs following a detailed post-merger review of the existence and valuation of assets.

Merger costs of \$4.7M after tax are forecast for 2004.

DIVIDEND

No final dividend will be paid in 2003. A special dividend of \$1.40 per share (fully franked) was declared by directors in May payable to Pivot shareholders registered on the record date of the merger with Incitec Fertilizers.

The Board has reviewed the Company's dividend policy and recognises the importance, other than in exceptional circumstances, of:

- Maintaining a steady (if not increasing) rate of dividends in terms of cents per share.
- Distributing available franking credits.
- Targeting a dividend pay-out ratio of between 65% and 75% of net profit after tax.
- Utilising other mechanisms such as special dividends and capital returns to distribute surplus funds when available.

FINANCIAL POSITION

Incitec Pivot finished 2003 in a strong financial position.

- Since the merger there has been a focus on reducing the investment in trade working capital. Year end working capital to sales was 18.4%.
- September 2003 gearing (net debt/net debt + equity) at 11% was down from 35% recorded in 2002, reflecting strong business cash flow, increased equity on issue and the sound balance sheet of the merged Incitec Fertilizers business. Average gearing throughout the year on a proforma basis was 19%.
- The integrity of asset values has been assured through a rigorous post-merger review (refer significant items above).

Significant items - 2003		
A\$M	Before Tax	After Tax
Merger costs:		
Employee redundancy and allowances	(10.1)	(7.1)
Transaction and Implementation costs	(12.7)	(10.3)
Environmental	(7.3)	(5.1)
Site clean-up and rationalisation	(7.9)	(6.7)
Asset write-downs	(22.6)	(18.7)
Accounting policy adjustments	(2.9)	(2.0)
Sub-total	(63.5)	(49.9)
Other costs - pre merger	(1.1)	(3.8)
Total	(64.6)	(53.7)

Total Merger costs:		
A\$M	Before Tax	After Tax
2003 Significant items	(63.5)	(49.9)
2004 Significant items	(6.7)	(4.7)
Merger costs included in goodwill*	(17.3)	(12.8)
Total	(87.5)	(67.4)
* costs incurred in Incitec Fertilizers Limited allocated to goodwill.		

Statement of Financial Position			
A\$M	30-Sep 2003	1-Jun 2003	30-Sep 2002
Trade working capital	196	327	110
Net property, plant & equipment	297	305	117
Goodwill	185	188	-
Net other assets	-30	-59	5
Net Assets	648	761	232
Net Debt	74	194	81
Equity	574	567	151
Total capitalisation	648	761	232
Gearing	11%	25%	35%

CASH FLOW

Net operating cash flows were \$96.2M an increase of \$21.8M or 29% over 2002 (2002: \$74.4M). Major factors were:

- EBITDA was up 37% to \$83.4M reflecting the addition of the Incitec Fertilizers business.
- Cash flow from trade working capital reductions of \$58.8M.
- \$30.1M spent on merger implementation costs (including employee benefits).

Net investing cash flows were an outflow of \$8.5M (2002: \$3.2M).

- Capital spending of \$15.6M was 80% of depreciation with a focus on increasing the productivity of existing assets in the business post merger rather than reinvestment.
- Proceeds from asset sales were \$7.1M.

Net financing cashflow was \$87.7M (2002: \$71.2M) including:

- \$61.9M applied to the repayment of borrowings.
- Dividends of \$24.5M.

OTHER ITEMS

Employees

Total full time equivalent employee (FTE) numbers were 867 at the end of September 2003 a reduction of 89 FTE's over June 2003 (2002: 466).

Safety Health & Environment (SH&E)

Incitec Pivot delivered an all worker recordable case rate of 2.1 for 2003 (2002: 6.7). This compares to an Australian benchmark of 2 for companies in similar industries. Since the merger, good progress has been made in increasing safety awareness and setting new standards for SH&E. A significant improvement is planned for 2004 consistent with our safety vision of "No injuries to anyone, ever".

Cash Flow Items	Year Ended September		
	2003	2002	Change
A\$M			
Net operating cash flows			
EBITDA	83.4	60.9	22.5
Net borrowing costs	(8.1)	(13.7)	5.6
Net income tax paid	3.1	0.5	<u>2.6</u>
Merger costs (incl. employee benefits)	(30.1)	-	(30.1)
Trade working capital movement	58.8	27.2	31.6
Other	<u>(10.9)</u>	<u>(0.5)</u>	<u>(10.4)</u>
Total	<u>96.2</u>	<u>74.4</u>	<u>21.8</u>
Net investing cash flows			
Proceeds from asset sales	7.1	0.9	6.2
Capital spending	<u>(15.6)</u>	<u>(4.1)</u>	<u>(11.5)</u>
Total	<u>(8.5)</u>	<u>(3.2)</u>	<u>(5.3)</u>
Net financing cash flows			
Repayment of net borrowings	(61.9)	(71.2)	(9.3)
Dividends paid	(24.5)	-	24.5
Other	<u>(1.3)</u>	<u>-</u>	<u>1.3</u>
Total	<u>(87.7)</u>	<u>(71.2)</u>	<u>16.5</u>

"One company"

Incitec Pivot is establishing its own distinct identity as a specialist Australian supplier of essential nutrients to the nation's farmers.

One major challenge facing Incitec Pivot when it was formed was to mould two separate businesses into a single unified company. Progress has been pleasing with the successful completion of the corporate rebranding exercise built around the new name and the amalgamation of supply chain assets.

A comprehensive program is now underway which will reinforce the strength and solidarity of the 'one company' spirit already evident among our employees.

SALES VOLUME

Seasonal conditions in 2002/ 2003 were impacted by a “1 in 100 year” drought in Eastern Australia. Total fertiliser volumes were down 9% to 2.9M tonnes:

- Patchy rains severely reduced pre-plant fertiliser application in the winter cropping season. This was partially offset by late rains that produced good fertiliser demand for side dressing.
- Low dam levels in the cotton valleys resulted in the lowest cotton crop in 10 years. Sales of Big-N fertiliser reduced by 45%.
- Drought reduced fertiliser application in pasture markets particularly in NSW and Victoria (the 2002 pasture segment was extremely strong).
- Demand in sugar and horticulture markets was satisfactory.

East coast market share was maintained at above 70% during the first four months of the merger.

SALES REVENUE

Sales were down 7% on 2002 to \$1,064M (2002: \$1,148M) primarily as a result of lower fertiliser volumes.

EARNINGS BEFORE INTEREST AND TAX (EBIT)

Proforma EBIT reduced by \$31.2M or 29% to \$75.2M (2002: \$106.4M).

- Lower volumes reduced margins by \$38M.
- Selling prices in 2003 were unfavourable by \$3M compared to 2002:
 - average global urea prices increased from US\$106/t to US\$135/t albeit partially offset by the strengthening A\$ - margin up \$8M.
 - prices were weaker across the remaining product range with robust competition in a soft market - margin down \$11M.
- Depreciation and amortisation at \$40M was \$2M above 2002 including \$3M amortisation of goodwill arising from the merger.
- Cash costs were \$12M below 2002, with merger synergies contributing \$6M and generally tight cost control throughout the business. Synergies delivered to date represent “quick wins” with further gains dependent on the merging of computer systems scheduled to be complete early in 2004.

Sales Summary - Proforma			
A\$M	Year Ended 30 September		
	2003	2002	Change
Fertiliser tonnes	2,860	3,144	(9)%
Incitec Fertilizers	617	661	(7)%
Pivot fertilisers	447	487	(8)%
Total sales	1,064	1,148	(7)%

Earnings Summary - Proforma			
A\$M	Year Ended 30 September		
	2003	2002	Change
EBIT			
Incitec Fertilizers	33.6	61.0	(45)%
Pivot fertilisers	38.6	45.4	(15)%
Merger synergies	6.1	-	-
Goodwill	(3.1)	-	-
Total EBIT	75.2	106.4	(29)%
Net Interest	(8.5)	(15.0)	43 %
Tax expense	(21.0)	(27.3)	23 %
NPAT	45.7	64.1	(29)%
EBIT/Sales	7%	9%	
RONA	11%	15%	
ROSHF	8%	11%	

INTEREST AND TAX

- Interest expense reduced by 43% over 2002 to \$8.5M (2002: \$15M) with strong business cash flow and access to tighter credit spreads post-merger.
- Tax expense was \$21.0M compared with \$27.3M reflecting lower profits. The effective tax rate (pre goodwill amortisation) was 30%.

NET PROFIT AFTER TAX (NPAT)

Proforma NPAT at \$45.7M was 29% below 2002 at \$64.1M.

Further Information

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