

# INCITEC PIVOT LIMITED – PROFIT REPORT

## “2004: A SOLID FOUNDATION YEAR”



### RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2004

#### REPORTED RESULTS <sup>1</sup>

Net Profit After Tax (NPAT) including significant items for the year ended 30 September 2004 was \$75.1M, an increase of \$93.7M over 2003 (2003: \$18.6M loss).

REPORTED RESULTS A\$M	Year Ended September		
	2004	2003	Change
NPAT excluding significant items	80.9	35.1	130%
Significant items after tax	(5.8)	(53.7)	
NPAT including significant items	75.1	(18.6)	> 100%

NPAT excluding significant items was up \$45.8M to \$80.9M (2003: \$35.1M).

#### Notes

<sup>1</sup> Incitec Pivot 2003 results represent 8 months of Pivot Limited + 4 months of Incitec Pivot Limited.

#### 2004 REPORTED RESULTS V 2003 PROFORMA RESULTS<sup>1</sup>

Incitec Pivot delivered significant value for shareholders in 2004 – the first full financial year for the company. Weather conditions were mixed, with earnings largely driven by internally generated efficiencies and a strong contribution from manufacturing. The result provides a solid foundation for the future.

#### FINANCIAL HIGHLIGHTS<sup>2</sup>

- NPAT of \$80.9M up by \$35.2M (2003: \$45.7M).
- Earnings per share (EPS) up 77% to 139 cents (2003: 78 cents).
- Profit returned to shareholders with a fully franked final dividend declared of 100 cents per share (cps). Total 2004 dividends of 129 cps (fully franked).
- Strong closing financial position with net cash of \$20.8M at year end (2003: net debt \$74.4M).
- 2004 returns above the cost of capital, with economic profit of \$19.1M, RONA<sup>3</sup> of 18.6% and ROSHF<sup>3</sup> of 13.4%.

#### SECURING THE FUTURE

- Competitive long-term gas supply secured for the Gibson Island Ammonia/Urea manufacturing facility, extending the site's life to 2017.
- Feasibility study into the construction of a world-scale Ammonia/Urea manufacturing facility in Brunei in progress.

2004 ACTUAL v 2003 PROFORMA <sup>1</sup> RESULTS A\$M	Year Ended September		
	2004	2003	Change
External sales revenue <sup>4</sup>	1,135.6	1,064.6	7%
EBITDA <sup>2,3</sup>	167.2	120.0	39%
EBIT <sup>2,3</sup>	121.9	75.2	62%
NPAT <sup>2,3</sup>	<b>80.9</b>	<b>45.7</b>	<b>77%</b>
EPS <sup>2,3</sup> (cents)	139	78	77%
Dividend per share (cents - total)	129	NA	
Economic profit <sup>2</sup>	19.1	(15.9)	
Return on shareholders' funds <sup>2</sup>	13.4%	8.1%	
<b>Financial Items</b>			
Net debt/ (cash)	(20.8)	74.4	
Gearing	NA	11%	

#### OUTLOOK – 2005

- Forecast generally dry conditions across south eastern Australia.
- Some nutrient carry-over into 2005 seasons.
- Roll off of 2004 foreign currency hedges.
- Global fertiliser prices, including nitrogen, currently at above trend levels.

#### Notes

<sup>1</sup> 2003 Proforma results = 12 months of the Pivot fertiliser business + 12 months of Incitec Fertilizers.

<sup>2</sup> All numbers are quoted before significant items

<sup>3</sup> Earnings Before Interest and Tax (EBIT), Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA), Earnings per share (EPS), Net Profit After Tax (NPAT), Return on Net Assets (RONA), Return on Shareholders' Funds (ROSHF).

<sup>4</sup> 2003 sales exclude pre-merger sales between Incitec Fertilizers and Pivot.

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### EXTERNAL SALES REVENUE<sup>1</sup>

External sales revenue increased by 66% or \$450M over 2003 to \$1,136M (2003: \$686M).

- The increase primarily resulted from the inclusion of a full 12 months sales from the Incitec Fertilizers business (2003 included only post merger sales for the 4 months to September).
- Sales volumes were otherwise flat with patchy rainfall and robust price competition – particularly in southern regions.

External sales revenue	Year Ended September		
	2004	2003	Change
A\$M			
Fertilisers	1,136	655	73%
Discontinued businesses	-	20	-
Sales to Incitec Fertilizers pre-merger	-	11	-
<b>Total external sales</b>	<b>1,136</b>	<b>686</b>	<b>66%</b>

### EARNINGS SUMMARY<sup>1</sup>

NPAT including significant items was \$75.1M compared with a loss of \$18.6M in 2003. Excluding significant items, NPAT was up \$45.8M to \$80.9M (2003: \$35.1M). Major factors for the improvement in earnings before significant items were:

- A \$62.8M increase in EBIT to \$121.9M. This was due to:
  - EBIT from a full 12 months of the merged Incitec Fertilizers business (refer sales revenue above).
  - Business efficiencies - up \$44.5M to \$50.6M.
  - A full 12 months of merger goodwill amortisation (up \$6.8M on 2003 to \$9.9M).
- Net interest costs reduced by \$1.4M on 2003 to \$5.4M.
- Tax expense increased by \$18.4M to \$35.6M in line with improved earnings.

Earnings Summary	Year Ended September		
	2004	2003	Change
A\$M			
<b>EBIT</b>			
Underlying fertiliser business	81.2	56.4	44%
Efficiencies	50.6	6.1	730%
Amortisation of Merger Goodwill	(9.9)	(3.1)	(219)%
Discontinued businesses	-	(0.3)	-
<b>Total EBIT</b>	<b>121.9</b>	<b>59.1</b>	<b>106%</b>
Net Interest	(5.4)	(6.8)	21%
Tax expense	(35.6)	(17.2)	(107)%
<b>NPAT excluding significant items</b>	<b>80.9</b>	<b>35.1</b>	<b>130%</b>
Significant items after tax	(5.8)	(53.7)	89%
<b>NPAT including significant items</b>	<b>75.1</b>	<b>(18.6)</b>	<b>&gt; 100%</b>

### SIGNIFICANT ITEMS

Significant items were \$5.8M after tax (2003: \$53.7M) and relate to merger restructuring and implementation costs.

#### Notes

<sup>1</sup> Incitec Pivot 2003 results represent 8 months of Pivot Limited and 4 months of Incitec Pivot Limited.

**DIVIDEND**

A fully franked final dividend of 100 cps will be paid to shareholders on 9 December 2004.

The total 2004 dividend is 129 cps (fully franked) equating to a yield of 8.2% based on the opening share price of \$15.66 on 1 October 2003.

2004 distributions are consistent with the Company's dividend policy of distributing available franking credits, targeting a normal dividend pay-out ratio of between 65% and 75% of NPAT and utilising other mechanisms such as special dividends to distribute surplus funds when available.

In 2003 a special fully franked dividend of 140 cps was paid to Pivot Limited shareholders registered pre-merger.

Dividends cents per share	Year Ended September	
	2004	% Franking
Final Dividend		
- normal	70	100%
- special	<u>30</u>	<u>100%</u>
- sub - total	100	100%
Total Year Dividend		
- normal	90	100%
- special	<u>39</u>	<u>100%</u>
- sub - total	129	100%
Yield at:		
- opening share price on 1/10/03 - \$15.66		8.2%
- average share price for 2004 - \$ 17.33		7.4%
- closing shareprice on 30/9/04 - \$18.80		6.9%

**FINANCIAL POSITION**

Incitec Pivot finished 2004 in a strong financial position.

Trade Working Capital (TWC) management was pleasing, with the September year-end balance \$25.4M below 2003. Average TWC/sales was 19% compared with 22% in 2003, with a continued focus on controlling the investment in working capital around the winter cropping season.

On finalising the 2004 accounts, an \$8.4M (\$12M before tax) adjustment was made to merger goodwill, reflecting an increase in pre-merger environmental provisions for the Parafield Gardens site in South Australia. Goodwill amortisation was \$9.9M (2003:\$3.1M).

Incitec Pivot ended 2004 with net cash of \$20.8M compared with net debt of \$74.4M in 2003. Average gearing was 9.7% compared with 19% on a proforma basis in 2003.

Financial Position	Sept 2004	Sept 2003
A\$M		
Trade Working Capital	170.4	195.8
Net property, plant & equipment	296.1	296.6
Goodwill	183.8	185.4
Net other assets	(39.6)	(30.0)
<b>Net Assets</b>	<b>610.7</b>	<b>647.8</b>
Net Debt/(Cash)	(20.8)	74.4
Equity	631.5	573.4
<b>Total capitalisation</b>	<b>610.7</b>	<b>647.8</b>
<b>Gearing - year end</b>	<b>NA</b>	<b>11.5%</b>
<b>Gearing - average (2003 proforma)</b>	<b>9.7%</b>	<b>19.0%</b>
<b>Average trade working capital/sales</b>	<b>19.0%</b>	<b>22.0%</b>

## INCITEC PIVOT LIMITED – PROFIT REPORT (REPORTED RESULTS)

### CASH FLOW<sup>1</sup>

Net operating cash flows were an inflow of \$141.5M (2003: \$96.2M). Major factors were:

- EBITDA of \$167.2M (2003: \$83.4M) up \$83.8M reflecting the addition of the Incitec Fertilizers business and associated business efficiencies.
- Tax paid of \$15.4M (2003: refund of \$3.1M) reflecting increased earnings.
- \$16.6M spent on merger implementation costs (2003: \$30.1M).
- Cash inflow of \$25.4M from reduced trade working capital (2003: \$58.8M).

Net investing cash flows were an outflow of \$29.4M (2003: outflow \$8.5M) resulting from sustenance capital spending at \$30.8M, which was 100% of depreciation.

Financing cash flows include:

- Dividends paid of \$16.9M (2003: \$24.5M paid to Pivot Limited shareholders registered pre-merger).
- A movement in net debt of \$95.2M comprising a decrease in short term financing of \$31M and an increase in cash on hand of \$64.2M.

#### Notes

<sup>1</sup> Incitec Pivot 2003 results represent 8 months of Pivot Limited and 4 months of Incitec Pivot Limited.

Cash Flow	Year Ended September		
	2004	2003	Change
ASM			
<b>Net operating cash flows</b>			
EBITDA	167.2	83.4	83.8
Net interest paid	(5.6)	(8.1)	2.5
Net income tax paid	(15.4)	3.1	(18.5)
Trade working capital movement	25.4	58.8	(33.4)
Merger costs	(16.6)	(30.1)	13.5
Other	(13.5)	(10.9)	(2.6)
Total	<u>141.5</u>	<u>96.2</u>	<u>45.3</u>
<b>Net investing cash flows</b>			
Proceeds from asset sales	1.4	7.1	(5.7)
Capital spending	(30.8)	(15.6)	(15.2)
Total	<u>(29.4)</u>	<u>(8.5)</u>	<u>(20.9)</u>
<b>Financing cash flows</b>			
Dividends paid	(16.9)	(24.5)	7.6
ASX listing fees		(1.3)	1.3
Movement in short term financing	(31.0)	(81.5)	50.5
Increase/ (decrease) in cash on hand	<u>64.2</u>	<u>(19.6)</u>	<u>83.8</u>

### SECURING THE FUTURE

#### Gibson Island (GI) Gas

- 10-year gas supply agreements signed with Queensland Gas Company Limited, Pangaea Oil and Gas Pty Ltd and Origin Energy CSG Marketing Pty Ltd.
- Competitive gas pricing in the new agreements underpins GI plant economics to 2017.
- Major maintenance shutdowns are now scheduled for 2007 and 2012. The 2007 shutdown expenditure will be approximately \$45M.
- GI plant and associated Big-N infrastructure economic lives have been extended from 2007 to 2017 for depreciation purposes in line with the new gas contracts (6 months impact booked in 2004 accounts).

#### Potential investment in Brunei Ammonia/Urea Plant

- Plant capacity of 1.2M tpa of urea - largest in Asia and equal to current world's largest.
- Lowest decile global operating costs based on low-cost gas and world-competitive construction and operating costs.
- Plant cost of US\$600M, largely project financed.
- Incitec Pivot would have part ownership of the project, have rights over the majority of the plant's off-take and provide operations and maintenance services to the plant.
- The feasibility study is in progress with scheduled completion end 2005.

### OTHER ITEMS

#### Employees

- Full time equivalent (FTE) employee numbers were 801 at the end of September 2004 (2003: 850).

#### Safety Health & Environment (SH&E)

- Excellent progress was made in safety with a recordable case rate<sup>1</sup> of 1.09 compared to 2.1 for the 2003 full year. This equates to 13 recordable injuries<sup>2</sup> for the company in 2004 compared to 23 injuries in 2003.
- An additional provision of \$8.4M after tax was booked against goodwill<sup>3</sup> recognising an increase in the expected costs for the clean-up of the Parafield Gardens site in South Australia. This takes the total clean-up provision to \$17M before tax.

#### Notes

- <sup>1</sup> Recordable case rate is defined as the number of "recordable injuries" to all workers per 200,000 manhours worked.
- <sup>2</sup> Recordable injuries are those injuries to all workers which result in absence from work, restrictions from normal work activities, or are medically treated.
- <sup>3</sup> Acquisition accounting standards require costs of this type relating to Incitec Fertilizers Limited to be capitalised into goodwill. However, these costs are expensed in the books of the major shareholder – Orica Limited.

## SALES VOLUME

2004 fertiliser volume was flat at 2.9M tonnes:

- Incitec Pivot's leading market share retained.
- Drought conditions prevailed in extensive pasture markets in central and southern Australia.
- Low milk prices in the first half, combined with low stock numbers post-drought, depressed fertiliser demand in intensive pasture markets.
- The 2004 winter cropping season was disappointing, with a patchy and late autumn break across Central and South Eastern Australia partially offset by good rains in the North.
- There was a partial recovery in fertiliser demand for summer crops (cotton) in Queensland and Northern NSW. However, demand in central NSW continued to be impacted by restricted water allocations and availability.
- Poor industry structure and profitability negatively impacted fertiliser volumes into sugar markets.

## SALES REVENUE

Sales were up 7% on 2003 to \$1,136M (2003: \$1,065M), primarily as a result of higher global fertiliser prices and a higher value sales mix.

## EARNINGS BEFORE INTEREST AND TAX (EBIT)<sup>3</sup>

EBIT increased by \$46.7M or 62% to \$121.9M (2003: \$75.2M).

Positive factors were:

- Business efficiencies, including merger synergies, of \$50.6M, \$44.5M above 2003.
- Improved sales mix biased to manufactured products (compared to traded products): \$11M.
- Improved manufacturing margins from higher global urea prices and freight rates: \$20M.
- Depreciation charge lower by \$5.8M primarily on extending the Gibson Island plant and related Big-N infrastructure asset lives to 2017 in line with new gas agreements.

Negative factors were:

- Strong competition in a soft market, particularly in ammonium phosphates: \$14.5M.
- Higher sulphuric acid costs following suspension of operations at Pt Kembla Copper: \$7M.
- Full year of merger goodwill amortisation – up \$6.8M to \$9.9M (2003: \$3.1M).
- Higher insurance costs: \$4M.

### Notes

- 1 2003 Proforma results = 12 months of the Pivot fertiliser business and 12 months of Incitec Fertilizers.
- 2 2003 sales exclude pre-merger sales between Incitec Fertilizers and Pivot.
- 3 All numbers quoted are before significant items.

### External Sales Summary - 2004 Actual v 2003 Proforma

A\$M	Year Ended September		
	2004	2003	Change
Fertiliser tonnes ('000s)	2,895	2,860	1%
Fertiliser sales revenue	1,076	1,018	6%
Total external sales revenue <sup>2</sup>	1,136	1,065	7%
Average exchange rate (A\$/US\$)	72.6	61.5	18%
Global Urea Price FOB - US\$/t	161	135	19%
Global Urea Price CIF - US\$/t	191	155	23%

### Earnings Summary - 2004 Actual v 2003 Proforma

A\$M	Year Ended September		
	2004	2003	Change
<b>EBIT</b>			
Underlying EBIT	81.2	72.2	12%
Business efficiencies	50.6	6.1	730%
Net efficiencies	(9.9)	(3.1)	(219)%
<b>Total EBIT</b>	<b>121.9</b>	<b>75.2</b>	<b>62%</b>
Net Interest	(5.4)	(8.5)	36%
Tax Expense	(35.6)	(21.0)	(70)%
<b>NPAT</b>	<b>80.9</b>	<b>45.7</b>	<b>77%</b>
<b>EBIT/Sales</b>	<b>10.7%</b>	<b>7.1%</b>	
<b>RONA</b>	<b>18.6%</b>	<b>11.1%</b>	

## INTEREST AND TAX<sup>3</sup>

Net interest expense of \$5.4M was 36% lower than 2003 reflecting strong business cash flow and good control of working capital.

Tax expense was \$35.6M compared with \$21M in 2003 reflecting improved earnings. The effective tax rate (including goodwill amortisation) was 30.6%.

## NET PROFIT AFTER TAX (NPAT)<sup>3</sup>

NPAT at \$80.9M was 77% above 2003 earnings of \$45.7M.