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Incitec Pivot Limited today reported net profit after tax (NPAT), excluding individually material items, of \$82.8 million for the year ended 30 September 2006, up 73 percent from the previous year. EBIT was \$126.2 million, up 62 percent, driven by internally generated cost savings and an efficient manufacturing performance. Given drought conditions are prevailing over much of Australia, can you continue to drive earnings growth out of internal initiatives?

MD & CEO Julian Segal

The 2006 result is pleasing as it was driven by internal action rather than external factors. In fact, seasonal conditions in 2006 were the worst in a decade. The improvement in earnings reflected the delivery of phase 1 of our Tardis program and an efficient manufacturing performance that allowed us to take advantage of attractive global fertiliser prices.

Seasonal conditions going into our 2007 financial year appear challenging and the prevailing drought must be factored into the outlook. Negatives are nutrient carry-over from 2006 in broadacre cropping markets, reduced water allocations and sub-soil moisture across the east coast, low levels of farmer confidence and cash flow, and de-stocking in pasture markets. However the news isn't all bad, with the delayed sugar plant pushing 2006 fertiliser volumes into the 2007 financial year, positive early signs for the 2007 summer crop with good plantings of sorghum currently in progress, and good commodity prices for farm outputs. In addition, if it does rain, farmers will seek to recoup their 2006 losses by maximising their plant in winter. In summary, it's too early to make a definitive call on seasonal conditions and we'll watch the rainfall carefully.

We can't control the weather, so as in 2006, internal initiatives will drive earnings growth. For 2007, we expect earnings to increase with a full-year contribution from Southern Cross Fertilisers (SCF), the balance of Tardis phase 1 cost savings, and earnings growth as we implement Tardis phase 2 initiatives.

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Incitec Pivot achieved its targeted return on net assets (RONA) of 18.0 percent in 2006, compared with 11.3 percent in the previous year. What are the main risks to maintaining an acceptable RONA in the current year?

MD & CEO Julian Segal

For 2007, international fertiliser pricing and the exchange rate remain the key profit drivers outside our control. The current outlook for pricing is positive, with industry forecasts for continued strength in di-ammonium phosphate (DAP) and urea into calendar year 2007. As in 2006, the strength of the Australian dollar will take some of the gloss off above-trend pricing.

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The consensus forecast for EBIT for the current year ending 30 September 2007 is \$185 million, up \$59 million or 47 percent, and for NPAT of \$111 million, up \$28 million or 34 percent. Are these forecasts achievable in light of the drought?

MD & CEO Julian Segal

The consensus forecasts for 2007 essentially assume flat earnings in the base business plus a full year of SCF. In 2006, SCF's underlying EBIT contribution was \$10.8 million for two months, and subject to the DAP price remaining strong, we'd expect a good profit contribution in the current year.

The drought will impact 2007, however the extent of the impact will be determined by the timing and quantity of rainfall received. Assuming reasonable rainfall, we're comfortable with the range of the forecasts in the market.

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You've indicated that an improvement in manufacturing margin contributed \$35.6 million to the 2006 EBIT result and an improvement in trading margin, \$21.8 million. To what extent were these a reflection of the external pricing environment rather than internal factors and to what extent can they be carried forward?

MD & CEO Julian Segal

Given that we only took ownership of SCF in August, international urea prices were the relevant metric for our business in 2006. Urea prices were up by 4 percent to US\$246 per tonne for the year, contributing about \$4.5 million to EBIT. So the margin improvement reflected self-help rather than a free kick from urea prices. In particular we ran our plants extremely well, for example our Gibson Island plant recorded its second best ammonia production on record – that's from a 40-year-old plant in the year leading up to a major maintenance shut-down. In addition, our focus on our value not just volume strategy, led to a recovery in local fertiliser prices to import parity levels.

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In 2006, Incitec Pivot delivered cost savings of \$30 million pre-tax from phase 1 of the Tardis program, with an exit rate of \$38 million in annualised cost savings. This compares with your initial targets of \$20 million in savings for the year and an exit rate of \$25 million. In which specific areas was the out-performance achieved?

Finance Director & CFO James Fazzino

Given the emerging drought in the second half, we challenged the business to speed up both the quantum and timing of the delivery of Tardis to fill the potential earnings gap. I'm delighted we got that done, and delivered an extra \$4 million in this period. In particular, we brought forward cost savings in our distribution centres. At year-end we'd completed 75 efficiency projects to deliver the \$38 million in exit-rate savings.

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In Tardis phase 2, you're targeting further cost savings of \$83 million by 2008. This includes \$35 million of savings from improving the efficiency of SCF. Can you detail the expected efficiencies?

Finance Director & CFO James Fazzino

In total, Tardis phase 2 will deliver an additional \$83 million in EBIT as a 2008 exit rate. This comprises four parts. Firstly, \$13 million in improved manufacturing profit from our Gibson Island plant post the upcoming maintenance shut-down, or plant reset. Benefits will arise from lower gas usage per tonne of ammonia produced and improved plant uptime post shut. This represents a 30 percent RONA on the \$43 million we're spending to reset the plant.

Secondly, \$15 million in lower gas costs when we roll on to new coal seam methane based gas supply contracts from late 2007. Importantly, there's no urea price upside sharing under the new contracts, unlike under the current contracts where \$11 million was paid in 2006.

Thirdly, \$20 million from our supply chain optimisation project. Savings arise from 18 key initiatives across the supply chain in two major areas: \$14 million in benefits from site consolidations and \$6 million from the redesign of the sales and operations planning process. An example of the former is the expected \$2 million reduction in costs following the closure of our Kooragang Island granulated ammonium phosphate facility and switch to our Gibson Island and Phosphate Hill plants. The redesign of the sales and operations planning process is expected to result in a step-change in inventory holdings and reduce carrying costs by \$3 million, while a refresh of our demand planning system will allow us to optimise ship sizes and reduce port calls, leading to a further \$3 million in savings.

Fourthly, the \$35 million in planned profit improvement for SCF. Importantly, our acquisition modelling assumed no synergies, so the \$35 million per annum will go straight to our shareholders rather than being used to generate an acceptable return from the acquisition. We've worked closely with the team at SCF from day one and have identified over 80 profit improvement projects that

can be summarised under four headings: \$5.4 million in overhead and back office cost reductions reflecting the change in SCF's focus from an integrated operation with full head office function to a manufacturing focused operation; \$8.5 million in integration synergies with our base business, including co-shipping of product and joint procurement; \$11.3 million in additional ammonium phosphate sales from improved plant uptime and in industrial chemicals sales; and \$9.8 million in plant efficiencies through optimising maintenance spend and controlling end-product specifications.

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Under its previous ownership, SCF had significant issues in ramping up production to nameplate capacity. It also had relatively high fixed costs, partly due to its inland location. Can you comment on current capacity levels and how you intend to address these particular issues going forward?

MD & CEO Julian Segal

The SCF plant has been significantly modified to alleviate many of the original design issues. The remaining legacy issues, particularly those relating to the sulphuric acid plant, were addressed during the maintenance shut-down completed by BHP Billiton prior to the completion of our acquisition of SCF.

Plant performance in the three months to October has been better than expected, with the sulphuric acid plant producing 264,000 tonnes and 249,000 tonnes of ammonium phosphate being produced at Phosphate Hill. Tardis phase 2 will address cost issues and ensure we can generate adequate returns from the plant at the bottom of the commodity cycle.

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Will the separation from Orica, with which you had a shared services agreement, mean an increase in overheads? Can you comment on the expected impact on costs?

Finance Director & CFO James Fazzino

Overall we expect a minimal change in total costs following the separation. While we contributed to and shared in the benefits of Orica's shared services, we also incurred significant costs as a division in meeting the needs of a large group.

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In the two months to 30 September, SCF made a \$3.5 million contribution to EBIT and a \$0.8 million contribution to NPAT. Before the mark to market of inventories at acquisition date and elimination of profit in stock on sales to the existing Incitec Pivot business, the contributions were \$10.8 million and \$6.0 million respectively. Annualised, the latter is EBIT of \$64.8 million and NPAT of \$36 million. Is this a realistic indicator of SCF's potential contribution in 2007?

Finance Director & CFO James Fazzino

Operationally, in the two months post-acquisition, the plants have exceeded our expectations and we're far more advanced on our efficiency program than planned.

Ammonium phosphate sales at this time of the year are skewed to exports which have a lower net back than local sales due to freight differentials. In fact, about 70 percent of sales for the two months were to export markets compared with 30 percent for the full year. So, provided DAP prices remain at current levels, we should do better than your extrapolation.

Our numbers at acquisition saw SCF being EPS positive and exceeding our 18 percent RONA target from day one. Upsides on our investment case are the positive manufacturing performance post-acquisition, forecast favourable DAP prices in the short term and efficiency improvements of \$35 million per annum, of which we'll reach \$20 million in 2007.

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Your Gibson Island plant is scheduled for a 38-day maintenance and refurbishment shut-down from February 2007. What's the expected impact on volumes and earnings of having Gibson Island off-line for more than a month?

MD & CEO Julian Segal

The project, which we've called Reset 2007, will cost approximately \$10 million in lost manufacturing margin in 2007.

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What's the risk the shut-down period might be longer than expected and would an extension significantly increase the estimated \$43 million cost of the project?

MD & CEO Julian Segal

The planning for Reset 2007 has been extensive. The Reset 2007 team was formed in 2004 and has remained intact since then; we're confident the shut-down will go to plan.

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Incitec Pivot booked individually material items of \$36.1 million after tax in 2006, compared with \$33.4 million in the previous year. What's the expected level of individually material items in the current year and will there be further restructuring costs relating to Tardis phase 2 or the integration of SCF?

Finance Director & CFO James Fazzino

For 2007 we expect to incur a further \$5 million in individually material items after tax mainly associated with the efficiency program at SCF.

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Incitec Pivot generated net operating cash flow of \$188.7 million in 2006 compared with \$66.7 million the previous year. Capex was \$24.9 million, down from \$28.6 million, including sustenance capex of \$20.2 million, down from \$26.2 million. What's the outlook for operating cash flow and capex in 2007 given the Gibson Island shut-down and the integration of SCF?

Finance Director & CFO James Fazzino

In 2006, we drove a step change in the management of our debtors and creditors and released \$102 million in cash from working capital.

Moving forward, our aim is to hold sustenance capital to below depreciation and then spend an additional amount to bring the total capex spend up to depreciation – notionally \$5 million per annum – on minor expansion projects to drive EPS growth. We'll only approve minor expansion proposals that meet our financial hurdles of 18 percent RONA by the end of year two and a 15 percent internal rate of return.

In 2007 our major capex spending will comprise \$37 million on the Gibson Island reset, \$11 million on the SCF gypsum cell and \$4 million on the integration of SCF into our SAP system. In addition, we'd expect to spend \$10 million on supply chain optimisation in late 2007 and during 2008.

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As at the end of September, trade working capital stood at \$114 million, down from \$216 million a year earlier. Is the reduced level of trade working capital sustainable and to what extent is the working capital level controllable in the event of an extended drought?

Finance Director & CFO James Fazzino

The working capital improvement in 2006 was a result of three initiatives: the introduction of our Commonwealth Bank of Australia backed "Fert-Terms plus" finance facility for farmers; continued negotiations with key suppliers to align import payment terms with stock turnover; and improved debtor compliance. We achieved a step-change improvement in 2006 and would expect only incremental improvement in 2007.

In 2007 our focus will be on reducing our investment in inventory as part of the Tardis redesign of the sales and operations planning process. However we expect to reinvest part of these savings in providing extended terms to our channel partners in 2007, with an expected increase in the demand for input finance given reduced farm cash flow after the 2006 season. In addition, as customers temporarily suspend purchases to allow their stock levels to fall, our creditors balance will also fall. This means the cash benefit from the project won't be seen in our numbers until the 2008 year.

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Can you provide an update on your plan to participate in a feasibility study, as part of the three-way, international consortium, on an ammonia/urea complex in Brunei?

MD & CEO Julian Segal

We have not yet received a decision from the Brunei government on the syndicate proposal to build a world scale urea plant, for which we'd have off-take, management and equity rights.

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To what extent has the attractiveness to IPL of the Brunei project diminished as a result of the SCF acquisition?

MD & CEO Julian Segal

The Brunei project remains an attractive manufacturing opportunity for us, consistent with our stated strategy of ‘owning the product’. The acquisition of SCF has in no way diminished our enthusiasm for the project. In fact, the 1.2 million tonnes per annum of urea from Brunei would fit in well with the 1 million tonnes of ammonium phosphate at SCF and our 900,000 tonne single superphosphate manufacturing capacity.

Our distinctive low cost manufacturing competence has been enhanced by the SCF acquisition. We’re extremely impressed by the competency of the SCF workforce and have promoted several staff into company-wide roles in engineering and onto the Executive Team.

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Incitec Pivot announced a fully franked final dividend of 81 cents per share for 2006, bringing the full-year dividend to \$1.03. No final dividend was paid in 2005, although a fully franked special dividend of 50 cents brought the full-year payment to 71 cents. What’s the outlook for dividends in the current year?

Finance Director & CFO James Fazzino

The outlook for dividends is positive, reflecting our expectation of higher earnings in 2007 and our gearing position, which was back into our target range of between 40 to 45 percent at year-end. Our dividend policy is to pay out between 65 and 75 percent of earnings through the cycle and of course to maximise franking. Our aim is to have a steady or increasing dividend pay-out in dollar terms. “Through the cycle” refers to the fertiliser commodity pricing cycle and accordingly, pay-out would be towards the lower end of the range at the top of the cycle.

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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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