

Notice of General Meeting & Explanatory Memorandum



Proposed buy-back of Orica's remaining 13.5% shareholding in Incitec Pivot

The Independent Expert has stated in its report that the proposed selective buy-back of shares held by Orica is fair and reasonable to Non-Orica Shareholders.

Your Independent Directors unanimously recommend Shareholders vote in favour of all resolutions at the General Meeting.

General Meeting details

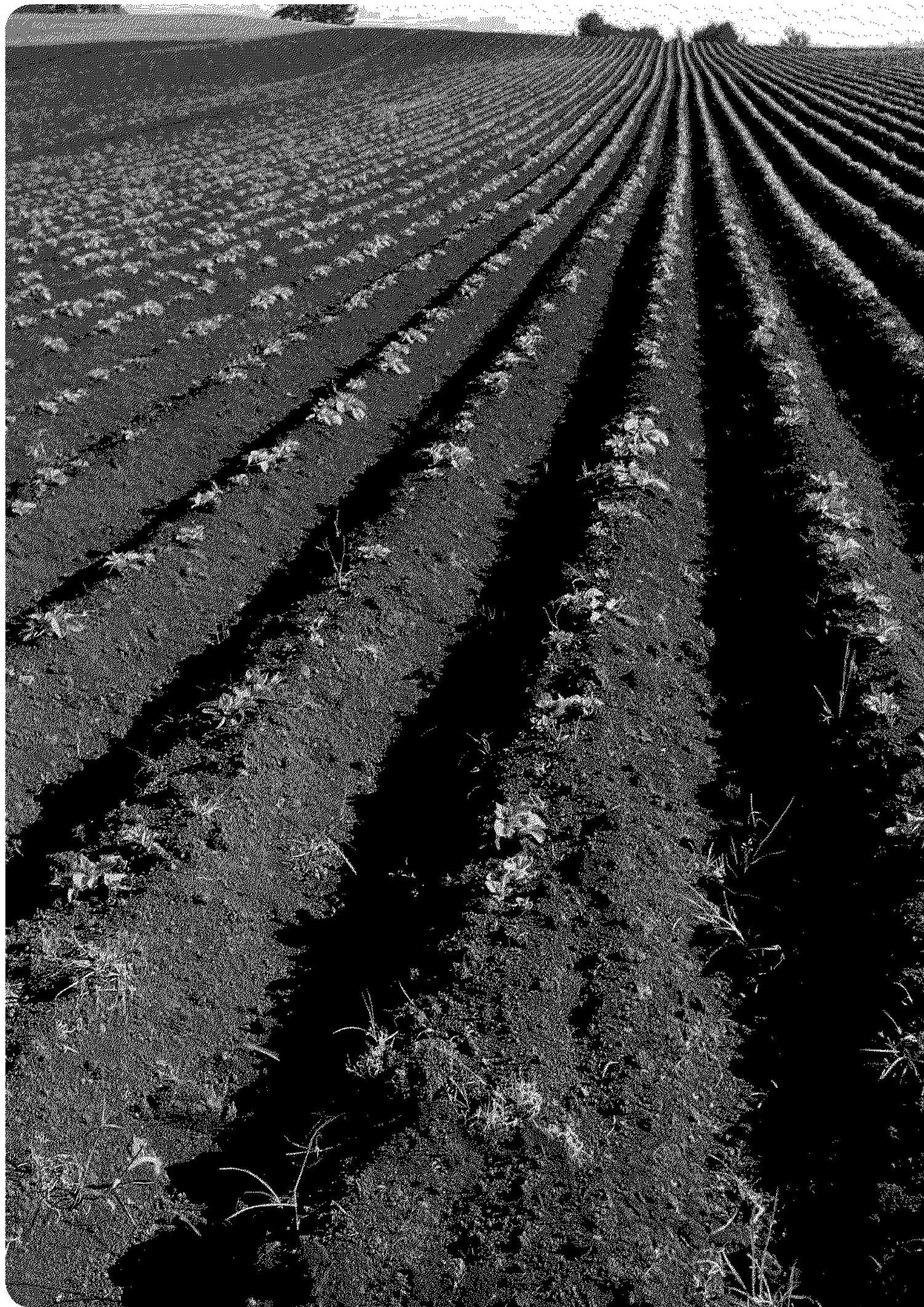
Date 6 July 2006

Time 11:00am

Location The Arts Centre
ANZ Pavilion
Level 8
100 St Kilda Road
Melbourne, Victoria

This is an important document.

If you are in any doubt about the information provided, or the action you should take, you should consult your financial, taxation or other professional adviser.



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Important Dates

Record date to determine entitlement to vote at General Meeting	7:00pm, 4 July 2006
Latest time for lodgement of proxy form	11:00am, 4 July 2006
General Meeting to vote on Buy-back	11:00am, 6 July 2006
Expected drawdown of new debt facilities and payment of Buy-back funds to Orica*	11 July 2006

Notes: All times represent AEST. These dates are indicative only and subject to change.

* Assumes the Buy-back is approved at the General Meeting.

The Incitec Pivot Shareholder Information Line may be contacted on 1300 303 780 from within Australia or +612 8280 7765 from outside Australia between 9:00am and 5:00pm AEST.



Incitec Pivot is a leading Australian agribusiness

Letter from the Chairman

5 June 2006

Dear Shareholder,

The merger of Incitec Fertilizers Limited and Pivot Limited in 2003 formed Incitec Pivot Limited, a leading Australian agribusiness. Since the merger, Incitec Pivot has provided Shareholders with competitive financial returns and delivered high quality products to Australian farmers at competitive prices. Your Directors are committed to ensuring that Incitec Pivot continues to be a leading and trusted supplier of fertiliser.

Incitec Pivot's position as Australia's leading fertiliser manufacturer and supplier has been significantly boosted recently by the announcement of two exciting and company-transforming transactions.

Firstly, Incitec Pivot agreed to acquire Southern Cross Fertilisers Pty Ltd (**SCF**), Australia's largest producer of ammonium phosphate fertilisers, from BHP Billiton Limited for \$165 million. SCF is a natural extension of Incitec Pivot's core manufacturing capability. The acquisition will enable Incitec Pivot to combine world-scale ammonium phosphate manufacturing with its existing single superphosphate and urea production facilities.

Secondly, Orica announced its intention to sell its 70% shareholding in Incitec Pivot. On 10 May 2006, Orica announced that it had sold a 56.5% shareholding in Incitec Pivot for \$21.00 per Share through an institutional bookbuild. In addition, Incitec Pivot has offered to undertake a selective buy-back of Orica's remaining 13.5% shareholding at \$21.00 per Share (being aggregate consideration of \$165 million), subject to the approval of Shareholders other than Orica and those associated with Orica. Orica's exit is the natural next step in the evolution of Incitec Pivot and positions the Company well to pursue its corporate and business strategy.

The Buy-back is subject to Shareholder approval. Accordingly, a General Meeting of Incitec Pivot Shareholders has been convened for 6 July 2006 at The Arts Centre (in the ANZ Pavilion), Level 8, 100 St Kilda Road, Melbourne, Victoria.

If the Buy-back is approved, all Shares bought back will be cancelled. The Buy-back will be debt funded and Credit Suisse has underwritten the funding in full. The Independent Directors believe:

- The Buy-back provides earnings per share accretion and higher returns on shareholders' equity due to a more efficient capital structure; and
- The price of the Buy-back is reasonable in light of the recent acquisition of SCF and other relevant business and market conditions.

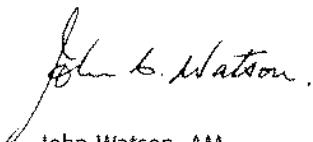
Your Independent Directors believe the Buy-back of Orica's remaining shares in Incitec Pivot is in your interests as a Shareholder. Each of your Independent Directors recommends that you support the Buy-back and vote in favour of all proposed resolutions.

The Independent Expert engaged to consider whether the Buy-back is fair and reasonable to Shareholders, not including Orica and those associated with Orica, has concluded that the Buy-back is fair and reasonable to those Shareholders.

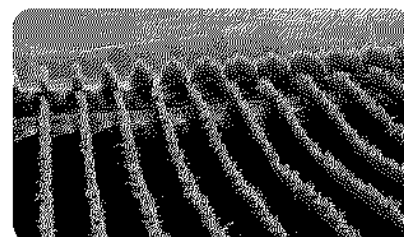
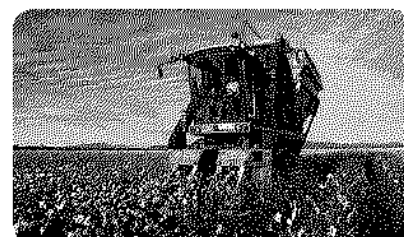
Your Directors firmly believe that Incitec Pivot is well positioned to pursue an independent future. The management team, led by Julian Segal who was appointed as Managing Director and CEO in 2005, is very experienced and has delivered a strong business turnaround in 2006. This was evidenced by Incitec Pivot's recently reported improved financial results for the first half of the 2006 financial year, which saw a significant improvement in earnings before interest and tax (before significant items) of 54% compared to the corresponding period in 2005.

Your support and your vote at the General Meeting are important and critical in determining whether or not the Buy-back proceeds. I urge you to read this Explanatory Memorandum carefully as it provides information which will assist you in making an informed decision as to how you will vote at the General Meeting. If you have any questions, you should consult your legal or financial adviser or call the Incitec Pivot Shareholder Information Line on 1300 303 780 from within Australia or +612 8280 7765 from outside Australia. I look forward to seeing you at the General Meeting or, if you are unable to attend in person, receiving your proxy vote in advance.

Yours sincerely



John Watson, AM
Chairman



Incitec Pivot

Incitec Pivot's Independent Directors unanimously recommend Shareholders vote in favour of all resolutions at the General Meeting

Summary of the Buy-back and changes to the Constitution

- A General Meeting of the shareholders of Incitec Pivot will be held on 6 July 2006 to consider the proposed selective buy-back of Orica's remaining 13.5% shareholding in Incitec Pivot.
- The aggregate consideration payable to Orica for the Buy-back is \$165 million, based on 7,857,142 Shares to be bought back at \$21.00 per Share. The cost of the Buy-back (as well as associated transaction costs) will be fully debt funded.
- The new debt facility for funding the Buy-back will only be drawn down if the Buy-back is approved by Shareholders.
- All Shares bought back will be cancelled. Following the Buy-back, the number of Shares on issue will reduce from 58.3 million to 50.4 million.
- The Independent Directors unanimously recommend you vote in favour of the Buy-back for the following key reasons:
 - The Buy-back provides earnings per share accretion and higher returns on shareholders' equity due to a more efficient capital structure; and
 - The price of the Buy-back is reasonable in light of the recent acquisition of SCF and other relevant business and market conditions.
- The Independent Expert, BDO Corporate Advisory Pty Ltd, in considering whether the Buy-back is fair and reasonable to Shareholders (not including Orica and those associated with Orica), concluded that the Buy-back is fair and reasonable to those Shareholders. The Independent Expert's Report is set out in the Appendix.
- Incitec Pivot is also seeking Shareholder approval to adopt a new Constitution in place of its existing Constitution which included provisions appropriate to Orica's majority shareholding. The new Constitution will be fully compliant with the ASX Listing Rules and Corporations Act 2001 (Cth).
- The support of 75% of Incitec Pivot's Shareholders, other than Orica and those associated with Orica, voting in person or by proxy, is required to approve the Buy-back. The support of 75% of Shareholders is also required to approve the adoption of the new Constitution.
- Incitec Pivot's Independent Directors unanimously recommend Shareholders vote in favour of all resolutions at the General Meeting.
- Shareholders should read the Notice of General Meeting and Explanatory Memorandum carefully. Shareholders unable to attend the meeting are encouraged to complete the enclosed proxy form and return it in the enclosed reply paid envelope.

Notice of General Meeting

Notice of General Meeting

Incitec Pivot Limited gives notice that a General Meeting of members will be held at The Arts Centre, ANZ Pavilion, Level 8, 100 St Kilda Road, Melbourne, Victoria on 6 July 2006 at 11:00am.

The Explanatory Memorandum, which accompanies this Notice of General Meeting, describes the various matters to be considered.

Business

Proposed Resolution 1: Approval of the Buy-back

To consider and, if thought fit, pass the following as a special resolution:

"That, for the purposes of section 257D of the Corporations Act 2001 (Cth) and ASX Listing Rule 10.1 and for all other purposes, the following be approved:

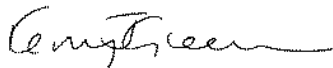
- a) the terms of the Buy-back Agreement dated 9 May 2006 between Orica Limited, Orica IC Assets Pty Ltd and the Company, a copy of which is tabled at the meeting and signed by the Chairman for the purposes of identification and details of which are set out in the Explanatory Memorandum accompanying this Notice of General Meeting; and
- b) the selective buy-back of 7,857,142 fully paid ordinary Shares by the Company from Orica IC Assets Pty Ltd upon the terms of and subject to the conditions set out in the Buy-back Agreement."

Proposed Resolution 2: Adoption of new Constitution

To consider and, if thought fit, pass the following as a special resolution:

"That, for the purpose of section 136 of the Corporations Act 2001 (Cth) and for all other purposes and with effect from the date on which this resolution is passed, the existing Constitution be repealed and that the replacement Constitution, in the form tabled at this meeting and signed by the Chairman for the purposes of identification, be approved and adopted as the Constitution of the Company."

By order of the Board.



Kerry Gleeson
Company Secretary
5 June 2006

Notes

These notes form part of the Notice of General Meeting.

1 Voting exclusion statement

The Company will disregard any votes cast by Orica and its respective Associates in respect of Proposed Resolution 1. In accordance with the ASX Listing Rules, the Company need not disregard a vote if:

- a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

2 Entitlement to attend and vote

Pursuant to regulation 7.11.37 of the Corporations Regulations 2001 (Cth), the Directors have determined that, for the purposes of the meeting (including voting at the meeting), members are those persons who are the registered holders of Shares at 7:00pm on 4 July 2006.

3 Proxy votes

A proxy form is enclosed. A member who is entitled to attend and vote at the General Meeting may appoint a proxy. A proxy can be either an individual or a body corporate. A proxy does not need to be a member of the Company. The appointment may specify the proportion or number of votes the proxy may exercise.

Should you appoint a body corporate as your proxy, that body corporate will need to ensure that it:

- a) appoints an individual as its corporate representative to exercise its powers at the General Meeting, in accordance with section 250D of the Corporations Act 2001 (Cth); and
- b) provides satisfactory evidence of the appointment of its corporate representative prior to commencement of the General Meeting (Refer to Note 4).

If satisfactory evidence of appointment as corporate representative is not received before the General Meeting, then the body corporate (through its representative) will not be permitted to act as your proxy.

Any member who is entitled to cast two or more votes may appoint no more than two proxies to attend and act for that member at the General Meeting and may specify the proportion of votes each proxy is appointed to exercise. If a member appoints two proxies and the appointment does not specify the proportion or number of the member's votes each proxy may exercise, each proxy may then exercise half of those votes. If a member appoints two proxies, neither may vote on a show of hands. If you require a second proxy form, please call the Incitec Pivot Shareholder Information Line on 1300 303 780 from within Australia or +612 8280 7765 from outside Australia.

To be effective, your completed proxy form must be received at the Share Registry by no later than 48 hours prior to the General Meeting either by mail:

**Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235**

Or by facsimile:

Link Market Services Limited on +612 9287 0309

A proxy form must be signed by the member or the member's attorney. In the case of Shares held jointly by two or more persons, all joint holders must sign the proxy form. Where a proxy is executed by an attorney, the power of attorney or a certified copy of the power of attorney must be received at the Share Registry no later than 48 hours prior to the meeting. Powers of attorney may be sent by fax to the Share Registry on +612 9287 0309.

Members who wish to appoint the Chairman of the meeting as proxy to vote on their behalf may leave open their votes to the discretion of the Chairman. The Chairman of the meeting intends to vote undirected proxies in favour of each resolution.

4 Corporate representatives

A body corporate which is a member may appoint an individual as its corporate representative to exercise any of the powers the body corporate may exercise at meetings of a company's members. The appointment must comply with the requirements of section 250D of the Corporations Act 2001 (Cth). The appointment may be a standing one. Unless the appointment states otherwise, the corporate representative may exercise all of the powers that the appointing body corporate could exercise at a meeting or in voting on a resolution.

The corporate representative should bring to the meeting evidence of his or her appointment, including any authority under which the appointment is signed, unless it has previously been given to the Company.

Explanatory Memorandum

1 The Buy-back

1.1 Overview of the Buy-back

(a) Background

Incitec Pivot Limited (**Incitec Pivot** or the **Company**) is a leading Australian agribusiness which was created through the merger of Incitec Fertilizers Limited and Pivot Limited in June 2003 (the **Merger**). Prior to the Merger, Incitec Fertilizers Limited was 100% owned by Orica IC Assets Pty Ltd, a wholly owned subsidiary of Orica Limited (together, **Orica**). Following the Merger, Orica held a 70% shareholding in Incitec Pivot. The former Pivot Limited shareholders, the large majority of whom are also farming customers of the Company, held the remaining 30%.

Incitec Pivot's position as Australia's leading fertiliser manufacturer and supplier has been significantly boosted recently by the announcement of two company-transforming transactions.

Firstly, Incitec Pivot agreed to acquire Southern Cross Fertilisers Pty Ltd (**SCF**), Australia's largest producer of ammonium phosphate fertilisers, from BHP Billiton Limited for \$165 million (including transaction costs). SCF is a natural extension of Incitec Pivot's core manufacturing capability. The acquisition will enable Incitec Pivot to combine world-scale ammonium phosphate manufacturing with its existing single superphosphate and urea production facilities.

Secondly, on 9 May 2006, Orica announced its intention to sell its 70% shareholding in Incitec Pivot in two stages. As a first step, Orica sold a 56.5% shareholding in Incitec Pivot for \$21.00 per Share through an institutional bookbuild which was announced to ASX on 10 May 2006 (**Orica Selldown**). As a second step, Incitec Pivot has offered to undertake a selective buy-back of Orica's remaining 13.5% shareholding at \$21.00 per Share (being aggregate consideration of \$165 million), subject to the approval of Shareholders other than Orica and those associated with Orica (**Non-Orica Shareholders**). Orica's exit is the natural next step in the evolution of Incitec Pivot and positions the Company well to pursue its corporate and business strategy.

The Buy-back will be debt funded and this funding is underwritten in full by Credit Suisse (refer to Sections 1.6 and 1.7).

The Independent Directors believe:

- The Buy-back provides earnings per share accretion and higher returns on shareholders' equity due to a more efficient capital structure; and
- The price of the Buy-back is reasonable in light of the recent acquisition of SCF and other relevant business and market conditions.

(b) Mechanics of the Buy-back

On approval of the Buy-back by Non-Orica Shareholders the following will occur:

- Total funds of \$170 million will be drawn down under a new debt facility with \$165 million paid to Orica in consideration for the Shares bought back and \$5 million used to pay associated transaction costs; and
- the Shares bought back from Orica will be cancelled pursuant to section 257H of the Corporations Act 2001 (Cth) (**Corporations Act**). This will reduce the total Shares on issue from 58.3 million to 50.4 million.

As a result of the Buy-back, Orica will cease to be a shareholder of Incitec Pivot.

The material terms of the Buy-back Agreement, the debt financing agreements relating to the Buy-back and the acquisition of SCF (the **Debt Financing Agreements**) and the relevant regulatory requirements concerning the proposed Buy-back are summarised in Sections 1.5, 1.6 and 1.7(f).

(c) Benefits of the Buy-back

Following the Buy-back, Orica will no longer be a Shareholder. As such, Incitec Pivot will have increased flexibility to pursue its corporate and business strategy, and increased ability to react promptly to opportunities for increasing Shareholder value. In addition, the exit of Orica as a Shareholder will not result in any material change in the day-to-day operations of Incitec Pivot.

The Independent Directors consider that the Buy-back is in the best interests of the Company as a whole and is fair and reasonable to the Non-Orica Shareholders for the following reasons:

(i) Results in a more efficient capital structure providing earnings per share accretion and higher returns on shareholders' equity

On completion of the Buy-back, Incitec Pivot will have a more efficient capital structure and greater flexibility to manage its capital to respond to growth opportunities as they arise. As a result of this more efficient capital structure, the Buy-back will deliver earnings per share accretion and improved returns on equity for Shareholders:

- Earnings per share on a normalised basis for the 12 months ended 31 March 2006 are expected to increase from \$1.73 per Share pre Buy-back to \$1.83 per Share post Buy-back, representing 6.0% accretion; and
- Return on shareholders' equity is expected to increase from 19.1% to 25.9% based on adjusted shareholders' equity at 31 March 2006 and normalised net profit after tax for the 12 months ended 31 March 2006.

Further details of the financial impact of the Buy-back are provided in Section 1.4.

(ii) Buy-back price is reasonable

The Independent Directors believe that the price at which Incitec Pivot has agreed to buy back Orica's remaining Shares is reasonable given the recent acquisition of SCF and other relevant business and market factors. This view has been supported by the Independent Expert, BDO Corporate Advisory Pty Ltd (**BDO Corporate Advisory**), who was engaged to consider whether the Buy-back is fair and reasonable to Non-Orica Shareholders. The Independent Expert has concluded that the Buy-back is fair and reasonable to those Shareholders.

(d) Potential disadvantages of the Buy-back

The Independent Directors believe the Buy-back does not pose any material disadvantage to Shareholders. However, in making their decision, Shareholders should evaluate the following factors:

(i) Transaction costs

Transaction costs of the Buy-back are estimated at \$5.0 million, representing approximately 3.0% of the value of the Buy-back. These costs include financial advisory fees, Independent Expert fees and legal, accounting and other fees.

(ii) Increased gearing

Historically, Incitec Pivot has been modestly geared. Following the Buy-back, the Company will operate under increased gearing. The Independent Directors believe that the new capital structure is appropriate and consistent with the Company's future objectives. However, it should be noted that any company which increases its gearing will have a corresponding increase in risk profile.

(e) What if the Buy-back does not proceed?

If the Buy-back is not approved by Shareholders, the Shares owned by Orica will not be cancelled and Orica will remain a 13.5% Shareholder. Implications of this may include the following:

- An overhang in the trading of Incitec Pivot shares may occur while this stake is retained by Orica given it has indicated its intention to fully divest its shareholding in the Company; and
- The earnings per share accretion and the improvement in return on shareholders' equity resulting from the Buy-back will not be realised.

Shareholders should note that if the Buy-back is not approved, the separation of Orica from Incitec Pivot (discussed in Section 1.7) and the acquisition of SCF will still proceed.

(f) Approvals required to proceed

In order for the Buy-back to proceed, Non-Orica Shareholders must approve Proposed Resolution 1, by a 75% majority of votes cast. The Shareholder approval requirements are explained in more detail in Section 1.6(b).

(g) Independent Expert's opinion

As required by the ASX Listing Rules (**Listing Rules**) and as recommended in ASIC Policy Statement 110, the Company has appointed BDO Corporate Advisory to prepare an Independent Expert's Report to consider whether the Buy-back is fair and reasonable to Non-Orica Shareholders.

BDO Corporate Advisory has concluded in its report that the proposed Buy-back is fair and reasonable to Non-Orica Shareholders.

The Independent Expert's Report is set out in the Appendix. BDO Corporate Advisory has given, and has not withdrawn, its consent to the inclusion of its report in this Explanatory Memorandum in the form and the context in which it appears.

You are encouraged to read the report in full.

(h) Independent Directors' recommendation

Your Independent Directors believe that the Buy-back is in the interests of Non-Orica Shareholders. Having regard to the findings of the Independent Expert, your Independent Directors unanimously recommend that Shareholders vote in favour of Proposed Resolution 1.

1.2 Overview of the acquisition of SCF

As announced on 9 May 2006, Incitec Pivot has entered into an agreement to acquire SCF from BHP Billiton Limited for approximately \$165 million (including transaction costs). SCF is the largest producer of ammonium phosphate fertilisers in Australia and the only domestic manufacturer of di-ammonium phosphate (**DAP**) and mono-ammonium phosphate (**MAP**). It supplies approximately 43% of the domestic ammonium phosphate market.

SCF's MAP/DAP operations at Phosphate Hill in Queensland are vertically integrated from mine to production, making it the only fertiliser production facility of its kind in Australia, and one of very few globally. The mine has estimated phosphate rock reserves of 85 million tonnes, equivalent to a mine life of 30 years.

SCF strengthens Incitec Pivot's position as Australia's leading fertiliser manufacturer and supplier and will significantly boost the Company's export sales. SCF is a natural extension of Incitec Pivot's core manufacturing capability. The acquisition will enable Incitec Pivot to combine world-scale ammonium phosphate manufacturing with its existing single superphosphate and urea production facilities. From year one, SCF is expected to generate an 18% return on net assets and to be significantly earnings per share accretive.

The acquisition, which is expected to complete by the end of July 2006, is conditional on the Australian Competition and Consumer Commission not objecting to the acquisition and also on completion by BHP Billiton, at its cost, of a scheduled maintenance shutdown of the facilities at Phosphate Hill and Mount Isa. The acquisition of SCF is not conditional upon Shareholders voting in favour of the Buy-back.

SCF's earnings and capital expenditure for the twelve months ended 31 December 2005 are set out in the following table.

SCF Financial Performance for Twelve Months Ended 31 December 2005

(A\$ in millions)	
Sales to Incitec Pivot	102.1
Other sales revenue	233.8
Total sales revenue	335.9
EBITDA	72.5
<i>% EBITDA margin</i>	<i>21.6%</i>
Capital expenditure	18.6

- (1) Under the Corporations Act, SCF has not been required to prepare, audit or lodge accounts while part of the former WMC Resources group or the BHP Billiton group. Consequently, this information has been extracted from SCF's unaudited monthly management accounts. This information was prepared in accordance with Australian Accounting Standards prior to the adoption of Australian International Financial Reporting Standards (**AIFRS**). Incitec Pivot management does not believe that there would have been any material differences to the above as a result of the adoption of AIFRS.
- (2) When considering the financial information above, it should be noted that major plant shutdowns are required every three years and result in lost production in the year of shutdown. The next scheduled shutdown is to be completed at BHP Billiton's cost prior to acquisition completion.

1.3 Derivation of Incitec Pivot's normalised financial performance (post SCF) for the twelve months ended 31 March 2006

The following table details the derivation of Incitec Pivot's normalised financial performance for the twelve months ended 31 March 2006, including the impact of the SCF acquisition. Incitec Pivot's reported financial performance (before significant items) for this twelve month period has been adjusted to reflect:

- A full year's impact of AIFRS accounting;
- The annualised impact of benefits expected to be achieved by the Company in accordance with its current restructuring program;
- The exclusion of costs or benefits that are non-recurring or related to prior periods;
- Additional ongoing operating costs to be incurred as a result of the separation from Orica; and
- A full year's impact of the SCF acquisition. (Note that the SCF adjustments are based on SCF's financial performance for the twelve months ended 31 December 2005, consistent with the financials presented in Section 1.2 and have not been adjusted for any future synergies or fair value adjustments that Incitec Pivot will make in its acquisition accounting.)

Normalised Financial Performance for Twelve Months Ended 31 March 2006 (Post SCF)

(A\$ in millions)	IPL (Pre-normalisation) ⁽¹⁾	Normalisation adjustments ⁽²⁾	IPL Normalised (Pre SCF)	SCF ⁽³⁾	IPL Normalised (Post SCF)
Total sales revenue	1,029.7	-	1,029.7	233.8	1,263.5
EBITDA	123.1	7.0	130.1	72.5	202.6
Depreciation and amortisation	(27.6)	0.5	(27.1)	(12.0)	(39.1)
EBIT	95.5	7.5	103.0	60.5	163.5
Interest expense	(10.3)	(0.4)	(10.7)	(11.6)	(22.3)
Profit before tax	85.2	7.1	92.3	48.9	141.2
Income tax expense	(22.3)	(3.5)	(25.8)	(14.7)	(40.5)
NPAT pre significant items	62.9	3.6	66.5	34.2	100.7

(1) This financial information has been prepared by subtracting Incitec Pivot's half year results to 31 March 2005 (as reviewed by KPMG) from Incitec Pivot's audited full year results to 30 September 2005 (both prepared prior to the adoption of AIFRS) and adding this to Incitec Pivot's half year results to 31 March 2006 (as reviewed by KPMG and prepared in accordance with AIFRS). Financials for the period 1 April 2005 to 30 September 2005 have then been AIFRS adjusted.

(2) EBIT normalisation adjustments include:

- * Adjustment to reflect total annual restructuring program benefits of \$34 million before tax (as per the half year results to 31 March 2006 announcement) (+\$21.4m);
- * Other one-off and non-recurring benefits and costs (-\$11.9m), including adjustments for:
 - Rebates not paid to Elders and Landmark for the period following the termination of the supply agreements;
 - Removal of one-off benefits associated with recognition of the surplus in the defined benefits fund; and
 - Timing differences.
- * Ongoing additional annual costs to be incurred following the separation from Orica (-\$2.0m).

Interest expense normalisation adjustments include:

- * Cost associated with funding \$5 million of post-tax transaction and separation costs arising from the Orica Selldown and separation (-\$0.4m).

(3) SCF's actual results for the twelve months ended 31 December 2005 have been adjusted for the following:

- * Sales exclude \$102.1m sales to Incitec Pivot;
- * Depreciation reflects an estimated \$8.0m p.a. for fixed assets acquired (subject to completion accounting for the fair value of assets and liabilities acquired), increased by \$4.0m p.a. for depreciation of expenditure associated with the gypsum cell; and
- * Interest expense reflects an estimate of Incitec Pivot's proposed funding cost for the acquisition.

The balance sheet impact of the Orica Sell-down and SCF acquisition is given in the table below. Pro forma net debt post SCF and pre Buy-back is \$308 million.

Adjusted Capital Structure as at 31 March 2006 (Post SCF)

(A\$ in millions)	31-Mar-06 reported	Sell-down adjustment ⁽¹⁾	SCF adjustment ⁽²⁾	31-Mar-06 adjusted
Net debt	137.9	5.0	165.0	307.9
Shareholders' equity	532.1	(5.0)		527.1

(1) Adjustments reflect accounting for the post-tax transaction and separation costs associated with the Orica Sell-down and separation. These costs are debt funded.

(2) This reflects that the cost of the SCF acquisition (including transaction costs) is fully debt funded.

1.4 Effect of the Buy-back on Incitec Pivot

The financial impact of the Buy-back on Incitec Pivot is summarised below.

In order to analyse the financial impact of the Buy-back on Incitec Pivot, the following assumptions have been made:

- \$170 million of new debt is drawn to fund the Buy-back and associated transaction expenses with an associated pre-tax charge of 7.0% per annum; and
- 7,857,142 million Shares are bought back from Orica under the Buy-back and cancelled.

(a) Pro forma impact on financial performance

The Buy-back will result in an improvement to Incitec Pivot's earnings per share. Management considers an appropriate way to illustrate this impact is to show the effect of the Buy-back on Incitec Pivot's normalised financial performance (post SCF) for the twelve months ended 31 March 2006, as derived in Section 1.3. On this basis, the Buy-back results in accretion of 6.0% as illustrated in the following table.

Pro forma financial performance for 12 months ended 31 March 2006

(A\$ in millions)	Pre Buy-back normalised ⁽¹⁾	Post Buy-back pro forma
Total sales revenue	1,263.5	1,263.5
EBITDA	202.6	202.6
Depreciation and amortisation	(39.1)	(39.1)
EBIT	163.5	163.5
Interest expense	(22.3)	(34.2)
Profit before tax	141.2	129.3
Income tax expense	(40.5)	(36.9)
NPAT pre significant items	100.7	92.4
Shares on issue (m)	58.3	50.4
EPS A\$	\$1.73	\$1.83
<i>Accretion</i>		<i>6.0%</i>

(1) Pre Buy-back normalised financial performance as per Section 1.3.

(b) Improvement in return on shareholders' equity

As a result of the Buy-back, there will be an aggregate decrease in shareholders' equity of \$170 million due to the cancellation of Shares bought back from Orica and associated transaction costs.

When measured against Incitec Pivot's adjusted shareholders' equity as at 31 March 2006 per Section 1.3, the Buy-back results in an increase in return on shareholders' equity from 19.1% to 25.9% as illustrated in the following table.

Pro forma shareholders' equity as at 31 March 2006

(A\$ in millions)	31-Mar-06 adjusted	Buy-back adjustment	31-Mar-06 pro forma
Shareholders' equity	527.1⁽¹⁾	(170.0)	357.1
Return on equity ⁽²⁾	19.1%		25.9%

(1) As per Section 1.3.

(2) Based on normalised NPAT pre significant items as per Section 1.4(a).

(c) Increased gearing

As a result of the Buy-back, there will be an aggregate increase in net debt of \$170 million due to the debt funding of the Buy-back and associated post-tax transaction costs.

When compared to Incitec Pivot's pre Buy-back adjusted capital structure as at 31 March 2006 (per Section 1.3), the Buy-back results in the following increase in gearing and reduction in interest coverage:

- Debt / EBITDA increases from 1.5x to 2.4x; and
- EBIT to interest cover decreases from 7.3x to 4.8x.

This is illustrated in the following table.

Pro forma capital structure as at 31 March 2006

(A\$ in millions)	31-Mar-06 adjusted	Buy-back adjustments	31-Mar-06 pro forma
Net debt	307.9 ⁽¹⁾	170.0	477.9
Shareholders' equity	527.1	(170.0)	357.1
EBIT / interest expense ⁽²⁾	7.3x		4.8x
Net debt / EBIT ⁽²⁾	1.9x		2.9x
Net debt / EBITDA ⁽²⁾	1.5x		2.4x
Net debt / net total capital ⁽³⁾	36.9%		57.2%

(1) Net debt pre Buy-back as per Section 1.3

(2) Based on normalised financial performance pre Buy-back for the twelve months ended 31 March 2006 as per Section 1.3.

(3) Calculated as net debt / (net debt + shareholders' equity).

(d) Dividend policy unchanged

The increased gearing following completion of the Buy-back will not impact Incitec Pivot's dividend policy. The Company plans to continue to target an average dividend payout ratio of 65% to 75% of net profit after tax through the cycle and will frank dividends to the maximum extent possible.

(e) No material non-financial impacts

There are no material non-financial impacts on Incitec Pivot as a result of the Buy-back.

However, the Buy-back will lead to the departure of the largest Shareholder from the Company's share register. Upon completion of the Buy-back and cancellation of the Shares bought back, the proportionate shareholding of each Shareholder in the Company, other than Orica, will increase by approximately 15.6%. For example, a Shareholder holding 1% of the Company's Shares prior to the proposed Buy-back would hold approximately 1.156% after the proposed Buy-back. Accordingly, as the proportional increase in the holding of each Shareholder would be small, the Directors believe that the proposed Buy-back will not have significant impact on the control of the Company.

1.5 Summary of the Buy-back Agreement

(a) Number of Shares and Buy-back consideration

Under the Buy-back Agreement, Orica has offered to sell, and the Company has offered to buy back, all of the Shares held by Orica following the Orica Selldown. The Shares are to be bought back at a price equal to the bookbuild price achieved in the Orica Selldown (being \$21.00 per Share), subject to a maximum aggregate consideration of \$165 million.

As at the date of this Explanatory Memorandum, the Shares proposed to be bought back represent approximately 13.5% of the issued share capital of the Company.

The total consideration payable to Orica in respect of the Buy-back is \$165 million, which the Company will pay in cash upon completion of the Buy-back.

(b) Conditions precedent

In accordance with the Corporations Act and the Listing Rules, the Buy-back Agreement provides that the Buy-back will not take place without Shareholder approval of the Buy-back as set out in Proposed Resolution 1. If Shareholder approval is obtained, completion of the proposed Buy-back is expected to occur on 11 July 2006. If Shareholder approval is not obtained the Buy-back Agreement will be terminated.

In addition to Shareholder approval, the Buy-back is conditional on the satisfaction of all conditions to funding for the Buy-back under the Debt Financing Agreements and satisfaction of all applicable legal requirements.

(c) Effect of the Buy-back Agreement

Pursuant to section 257H of the Corporations Act:

- all rights attaching to the Shares the subject of the Buy-back Agreement will be suspended when the Company enters into an agreement to buy back Orica's remaining 13.5% shareholding. This means that Orica is unable to vote or receive dividends in respect of those Shares declared after this time;
- the Company is prohibited from disposing of Shares it buys back; and
- immediately after the registration of the transfer to the Company of the Shares to be bought back, those Shares will be cancelled.

(d) Other provisions of the Buy-back Agreement

Under the Buy-back Agreement, Orica represents and warrants to the Company that:

- Orica IC Assets Pty Ltd is the registered and beneficial owner of the Shares the subject of the Buy-back Agreement free from all Encumbrances;
- there is no restriction on the transfer of the Shares which are the subject of the Buy-back Agreement; and

- it has procured Orica IC Assets Pty Ltd to obtain all consents necessary to enable Orica IC Assets Pty Ltd to transfer the Shares that are the subject of the Buy-back Agreement to the Company, except for approval of Proposed Resolution 1 and the consent of the Directors to the registration of the transfer of the Shares.

Under the Buy-back Agreement, the Company represents and warrants to Orica that:

- the Buy-back Agreement and, subject to satisfaction of the conditions precedent, completion of the Buy-back do not conflict with or result in a breach of or default under any law or any provisions of the Constitution;
- as at the date of the Buy-back Agreement, it has disclosed all price-sensitive information;
- it has obtained all consents necessary to enable it to transfer the Shares bought back to the Company, except for Shareholder approval of the Buy-back;
- the debt funding available to the Company under the Debt Financing Agreements will be sufficient to fully fund the Buy-back; and
- neither it nor any of its subsidiaries has gone into liquidation or passed any resolution for winding up.

The Company undertakes that until the date of completion of the Buy-back or termination of the Buy-back Agreement, whichever is the earlier, it will not, without Orica's consent:

- issue Shares or other securities exercisable or convertible into Shares;
- alter the terms of its incentive plans for executives and employees of the Company;
- buy back Shares (other than pursuant to the Buy-back Agreement) or otherwise reduce its share capital;
- dispose of the whole or a substantial part of its business, property or undertaking or acquire a material asset (other than the acquisition of SCF or a transaction announced to ASX prior to execution of the Buy-back Agreement); or
- declare, determine to pay or pay any dividend or any distribution to Shareholders, except the payment of the interim 2006 dividend declared on 1 May 2006 and payable on 9 June 2006.

In addition, each party warrants to the other that:

- it has the power and it has taken all action necessary to enter into and perform its obligations under the Buy-back Agreement;
- the Buy-back Agreement constitutes legal, valid and binding obligations; and
- neither the entry into nor performance of the Buy-back Agreement will constitute a breach of any obligation or default under any agreement or undertaking binding on it.

Each party indemnifies the other party against all losses and liabilities arising from or incurred by the other party in connection with any inaccuracy in or breach of the warranties given under the Buy-back Agreement.

(e) Proposed timetable

The indicative timetable for the Buy-back is:

Date of General Meeting	6 July 2006
Expected completion of Buy-back	11 July 2006

(f) Inspection of the Buy-back Agreement

A copy of the Buy-back Agreement is available for inspection by Shareholders at the Registered Office of the Company and will be available for inspection by Shareholders at the General Meeting.

1.6 Other arrangements relevant to the Buy-back

(a) Debt financing for the Buy-back

Incitec Pivot has committed financing from Credit Suisse for a \$265 million senior unsecured term loan facility (**Buy-back Facility**) to fund the Buy-back, associated transaction costs and other agreed general corporate and core working capital requirements in accordance with the terms of the relevant Debt Financing Agreement.

The Buy-back Facility will have a term of five years with the principal repayable on the maturity date, and will be denominated in Australian dollars.

Incitec Pivot has extended invitations to a range of domestic and international banks to participate in the syndication of this facility. The final terms and conditions of the financing will be decided in conjunction with this tender process, including:

- Interest rate;
- Any required amortisation;
- Covenants; and
- Undertakings, representations and warranties.

(b) Legal and regulatory requirements

(i) Financial Statements

The Company will provide a copy of the audited financial statements for the Company for the 2005 financial year, free of charge, to any Shareholder who requests it prior to the date of the General Meeting.

(ii) Requirement of Shareholder approval

The Buy-back is a selective buy-back. Under section 257A of the Corporations Act, the Company may only buy back its own shares if:

- the Buy-back does not materially prejudice the Company's ability to pay its creditors; and
- the Company follows the procedures for selective buy-backs set out in the Corporations Act.

Section 257D of the Corporations Act requires that the terms of the Buy-back Agreement be approved by a special resolution passed at a general meeting of the company, with no votes being cast in favour of the resolution by any person whose Shares are proposed to be bought back or by their Associates.

As Orica is a related party (within the meaning of the Corporations Act) of the Company, approval by Shareholders under Listing Rule 10.1 is also required.

As Orica is a party to the Buy-back Agreement, neither Orica nor its Associates are entitled to vote on Proposed Resolution 1.

The Directors consider that the proposed Buy-back will not materially prejudice the Company's ability to pay its creditors.

1.7 Other arrangements relevant to Orica's exit as a Shareholder

(a) Merger agreement

To effect the Merger, the Company and Orica entered into a share purchase agreement under which the Company acquired all the issued shares in Incitec Fertilizers Limited. This agreement included certain non-compete restrictions, which were to apply for an agreed period after the Merger. In particular, Orica was not permitted to conduct any business in Australia or New Zealand which competed with the Company's and Incitec Fertilizer Limited's fertiliser business and the Company could not conduct any business in Australia or New Zealand which competed with Orica's industrial chemicals business (other than that existing at the time of the merger). Given Orica's exit as Incitec Pivot's major shareholder, the Company and Orica agreed to terminate these non-compete restrictions with effect from the Orica Selldown.

(b) Commercial agreements

Given Orica's exit as Incitec Pivot's major shareholder, the commercial supply agreements which the Company entered into with Orica at the time of the Merger in 2003 were reviewed and amended to remove clauses only appropriate for related companies. These arrangements include an agreement for Incitec Fertilizers Limited to supply Orica with sulphuric acid, and agreements for Orica to supply Incitec Fertilizers Limited with nitram and alum.

In addition, Incitec Pivot and Orica have entered into an ammonia swap and sales/purchase agreement in relation to ammonia generated at Gibson Island (by Incitec Pivot) and Kooragang Island and Yarwun (by Orica). This arrangement is underpinned by an agreement for Orica to have a first right to acquire the Gibson Island manufacturing operations if Incitec Pivot should elect to sell these assets in the future.

(c) Separation term sheet

As the Buy-back will result in Orica completing its exit as a shareholder of Incitec Pivot, Orica and the Company have entered into an agreement to facilitate the orderly separation of Incitec Pivot from Orica. In particular, Orica will use its best endeavours to assist Incitec Pivot in the transitioning from shared services such as information technology, treasury and accounting and payroll functions for a period of up to six months. To oversee the separation, the Company and Orica have established a separation committee.

(d) Revised employment arrangements for the Managing Director and Chief Executive Officer

Incitec Pivot's Managing Director and Chief Executive Officer, Julian Segal, was appointed as a Director on 1 June 2005, and subsequently re-elected as a Director at the Incitec Pivot Annual General Meeting in January 2006.

In his capacity as Managing Director and Chief Executive Officer, Julian Segal was on secondment to Incitec Pivot from Orica. Following the Orica Selldown, Julian Segal resigned from his employment with Orica and entered into an employment agreement with Incitec Pivot. The agreement provides for fixed annual remuneration of \$900,000 (**FAR**) and other benefits on terms commensurate with his position, the industry and the size of the Company.

Julian Segal is entitled to a short term incentive (**STI**), by way of a cash payment, of a sum from 43.75% of FAR for performance, and up to 175% of FAR for over performance, against specified measures, pro rata for the period from commencement of his agreement to 30 September 2006. In addition, he has been granted a retention award under Incitec Pivot's long term incentive plan (**LTI**) in the form of an interest free, limited recourse, unsecured loan by the Company of \$481,500 to be applied in the purchase of Shares on market. The loan will be forgiven in full if Julian Segal remains employed by Incitec Pivot until May 2009.

From 1 October 2006, Julian Segal will be entitled to an STI of a sum from 25% of FAR for performance, and up to 100% of FAR for over performance, against specified measures in the 2006/07 financial year, and an opportunity to participate in the LTI from 37.5% of FAR for performance, and up to 150% of FAR for over performance, against specified measures over a three year period to 2009.

Incitec Pivot may terminate the agreement:

- immediately for cause, without any separation payment, save as to accrued fixed annual remuneration, accrued annual leave or long service leave;
- on notice in the case of incapacity, and the Company must pay a separation payment plus accrued annual leave and long service leave; or
- otherwise, without cause, with or without notice and the Company must pay a separation payment plus accrued annual leave and long service leave.

The amount of any separation payment is equal to 52 weeks of fixed annual remuneration at the date of termination.

Mr Segal may terminate his employment on six months notice and the Company may require him to serve out the notice period or may make payment in lieu.

(e) Change in Director

Following the Buy-back, John Chesterfield, an Orica associated Director, will resign from the Board. The Board is considering appropriate appointments to complement the skills and expertise of the Directors.

(f) Other new debt financing arrangements

Incitec Pivot has committed financing from Credit Suisse for a \$165 million senior unsecured term loan facility (**Acquisition Facility**) to fund the acquisition of SCF and associated transaction costs in accordance with the terms of the relevant Debt Financing Agreement.

The Acquisition Facility will have a term of five years with the principal repayable on the maturity date, and will be denominated in Australian dollars.

As for the Buy-back Facility, Incitec Pivot has extended invitations to a range of domestic and international banks to participate in the syndication of the Acquisition Facility. The following terms will be decided through this tender process:

- Interest rate;
- Required amortisation;
- Covenants; and
- Undertakings, representations and warranties.

Incitec Pivot also currently has a \$250 million working capital facility, provided by Orica, to accommodate the Company's seasonal working capital funding requirements. As part of the separation process, Incitec Pivot intends to refinance this facility with new debt providers in November 2006.

1.8 Directors' interests

Set out over the page are details of the relevant interests of each Director in the share capital of Incitec Pivot and Orica as at the date of this Explanatory Memorandum.

Directors' shareholdings in Incitec Pivot and Orica

Director	Fully paid ordinary shares in Incitec Pivot	Fully paid ordinary shares in Orica
J C Watson	5,000	-
J Segal	-	16,412
B Healey	-	10,463
J Chesterfield ⁽¹⁾	-	47,375 ⁽²⁾
J E Fazzino	14,763 ⁽³⁾	18,534
A C Larkin	-	38,000
A D McCallum	6,818	-

(1) Mr Chesterfield also has 14,254 options over ordinary shares in Orica.

(2) This interest includes shares acquired pursuant to Orica's long term employee incentive plan.

(3) This interest includes Shares acquired pursuant to Incitec Pivot's LTI.

Having regard to their relevant interests, matters and relationships with Orica, John Watson, Allan McCallum, Brian Healey and James Fazzino have been assessed as being independent of Orica (**Independent Directors**) for the purposes of considering whether the Buy-back is in the interests of Shareholders. Each of the Independent Directors has recommended Shareholders vote in favour of the Buy-back.

Julian Segal has resigned as an employee of Orica and has entered into a service agreement with Incitec Pivot. However, given this is only a recent event, Mr Segal was not considered to be independent of Orica for the purposes of considering and recommending the Buy-back. Anthony Larkin, given his interests in Orica, was not considered to be independent for this purpose. In addition, John Chesterfield, by virtue of his employment relationship with, and his interests in, Orica, was considered not to be independent of Orica for the purpose of considering and recommending the Buy-back.

1.9 Share price information

Since the announcements on 9 May 2006 of Incitec Pivot's company-transforming transactions, being the acquisition of SCF and Orica's intention to sell its entire shareholding in the Company, Incitec Pivot shares have undergone a significant re-rating.

In the month prior to these announcements, the volume weighted average share price (**VWAP**) was \$19.61, however for the 10 trading days since these announcements the VWAP increased to \$22.97. Key Share price trading data for these respective time periods is provided in the table below.

Incitec Pivot Share trading data (\$ per Share)

Time Period	High	Low	VWAP
10 April – 8 May 2006	19.80	19.00	19.58
10 May – 23 May 2006	23.82	22.00	22.97

Source: Iress

1.10 Other information

There is no further information known to the Company that is material to the decision as to how to vote on Proposed Resolution 1. Any Shareholder who has any doubt about the information provided in the Notice of General Meeting and the Explanatory Memorandum, or the action he or she should take should consult their financial, taxation or other professional adviser.

2 Amendments to the Constitution

2.1 General

The existing Constitution contains provisions which were included at the time of the Merger when Orica became a 70% shareholder of Incitec Pivot. Those provisions were appropriate to reflect the fact that Orica was the majority Shareholder. For example, the existing Constitution includes a provision giving certain Directors terms in excess of three years (for which an ASX waiver was required).

On completion of the Orica Selldown, Orica ceased to be the majority shareholder of the Company, and such provisions are no longer appropriate for the Constitution. Accordingly, if approved, various amendments to the Constitution will take effect from the date of such approval.

The Company now has the opportunity to generally update the Constitution to ensure that it reflects current best practice and legislative and regulatory requirements (including all requirements of the Corporations Act and the Listing Rules). The Company considers it preferable to replace the Constitution in its entirety, rather than put before Shareholders the detailed amendments required.

2.2 Key changes to the Constitution

The more material changes to the existing Constitution which are proposed include the following:

(a) Directors

New Articles 6.6(a)(ii) and (iii), which have no comparative provisions under the existing Constitution, provide that a Director may hold an office or otherwise be interested in any related body corporate of the Company and may act, or the Directors' firm may act, in any professional capacity for the Company (except as auditor) and retain the benefits of doing so if the Director discloses (in accordance with the Corporations Act) the interest giving rise to those benefits.

New Article 6.5(h), which has no comparative provision under the existing Constitution, provides that subject to relevant legislation, any Director may participate in any fund, trust or scheme for the benefit of past or present employees or Directors (or for the benefit of persons connected to past or present employees or Directors) of the Company or a related body corporate of the Company.

(b) Members meetings

(Chairperson's powers) Existing Rule 14.7 provides that the chairperson of a meeting of members is responsible for the conduct of meetings of members and provides that the chairperson's rights under existing Rule 14.7 are exclusive to the chairperson. New Article 5.8 more exhaustively sets out the powers of the chairperson of a meeting of members and also provides that these powers may be delegated to any person.

(Voting at meetings of members) New Articles 5.12(e) and 5.12(h), which have no comparative provision in the existing Constitution, respectively set out the voting rights of preference shareholders and members who hold restricted securities.

(Polls) New Article 5.10(a) prohibits members from demanding a poll on a resolution at a meeting of members concerning the adjournment of that meeting. No similar restriction is imposed on members under the existing Constitution. Further, under new Article 5.10(c)(i), members are entitled to demand a poll before a vote on a resolution is taken whereas, under the existing Constitution, members are only entitled to demand a poll after a vote on a resolution is taken.

(c) Unmarketable parcels

(Notice of sale of unmarketable parcel) Existing Rule 31 requires the Company to notify a member if it seeks to sell an unmarketable parcel of shares held by that member *irrespective of when the member acquired those shares*. Under new Article 2.5 and clause 2.4 of Schedule 4, the Company is only required to notify a member if it seeks to sell an unmarketable parcel of shares held by that member, if the member acquired those shares before 1 September 1999. In either situation, the Company is required under the new Constitution to provide the proceeds from the sale of an unmarketable parcel of shares to the member who held the unmarketable parcel of shares.

(d) Shares

(Preference shares) The Company presently has the power to issue preference shares under existing Rule 22.2. The new Constitution retains this power in new Article 2.1(a)(ii) but provides the Company with the flexibility to issue preference shares without having to amend the Constitution or seek Shareholder approval.

Section 254A(2) of the Corporations Act requires that certain rights of preference shares either be set out in the constitution of a company or be approved in general meeting by special resolution.

While it has been customary for a constitution to provide for the issue of preference shares, the position in practice has generally been that when proposing to issue preference shares a company has made amendments to its constitution to reflect the particular commercial terms of a specific preference share issue.

In an endeavour to provide flexibility and maximise the possibility of allowing an issue of preference shares without the delay caused by the need to obtain shareholder approval for a change to the Constitution, new Articles 2.1(a)(ii) and 2.1(c) provide for the issue of preference shares in accordance with the terms of Schedule 6.

Schedule 6 contains specific rights of a class of preference shares to the repayment of capital, participation in surplus assets and profits, voting rights (as required by the Listing Rules) and priority to payment of capital and dividends. However, the rights to dividends refer to the Board resolution by which the preference shares were issued.

While these "standard" rights may not be applicable in every case, it will permit the Directors to issue certain preference shares without having to hold a general meeting to pass a special resolution to amend the Constitution. There may of course be other reasons why in a particular case an issue of preference shares may require shareholder approval (for example, Listing Rule 7.1 provides that the Company cannot issue more than 15% of a company's equity securities in a 12 month period without shareholder approval) in which case the benefit of the flexibility intended to be gained from the inclusion of Schedule 6 would not be available.

(Variation of class rights) New Article 2.2 duplicates the requirements imposed under existing Rule 22.6 regarding the variation of class rights, but in addition requires a special resolution of the Company to vary class rights and provides that the variation of rights attached to shares is subject to the terms of issue of the shares.

(Voluntary escrow) Listing Rules 3.10.5 and 3.10A require a listed company to make such arrangements as are necessary with allottees of securities to enable compliance by the company with its disclosure obligations relating to voluntary escrows. These arrangements could consist of a separate contract or a provision of the Constitution. New Article 2.8 enables the Company to comply with Listing Rules 3.10.5 and 3.10A.

(e) Proportional Takeover Approval Provisions

The proposed replacement Constitution, at Article 4.5(e) and Schedule 5, includes proportional takeover approval provisions which enable the Company to refuse to register Shares acquired under a proportional takeover bid unless a resolution is passed by the members in general meeting approving the offer. The existing Constitution does not contain similar provisions as this was considered not to be required given Orica's majority shareholding in the Company.

The Corporations Act requires the Company to provide Shareholders with an explanation of the proposed proportional takeover approval provisions as set out below.

(i) What is a proportional takeover bid?

A proportional takeover bid is a takeover offer sent to all members but only in respect of a specified portion of each member's Shares. Accordingly, if a member accepted in full an offer under a proportional takeover bid, they would dispose of the specified portion of their Shares and retain the balance of the Shares.

(ii) Effect of the proposed article

Under new Article 4.5(e) and Schedule 5, in the event that a proportional takeover offer is made to members of the Company, the Board will be required to convene a meeting of members to vote on a resolution to approve the proportional takeover. That meeting must be held at least 15 days before the offer under the proportional takeover bid closes.

The resolution shall be taken to have been passed if a majority of Shares voted at the meeting, excluding the Shares of the bidder and its Associates, vote in favour of the resolution. If no resolution is voted on at least 15 days before the close of the offer the resolution will be deemed to have been passed. Where the resolution approving the offer is passed or deemed to have been passed, transfers of Shares resulting from accepting the offer will be registered provided they otherwise comply with the Corporations Act, the Listing Rules, the ASTC Operating Rules and the Constitution. If the resolution is rejected, then in accordance with the Corporations Act the offer will be deemed to be withdrawn.

(iii) Reasons for proposing the resolution

The Directors consider that members should have the opportunity to include the proposed Article 4.5(e) in the new Constitution. Without Article 4.5(e), a proportional takeover bid for the Company may enable effective control of the Company to be acquired without members having the opportunity to dispose of all of their Shares to the bidder. Accordingly, members could be at risk of passing control to the bidder without payment of an adequate control premium for all their Shares while leaving themselves as part of a minority interest in the Company.

Without new Article 4.5(e), if there was a proportional takeover bid and members considered that control of the Company was likely to pass, members would be placed under pressure to accept the offer even if they did not want control of the Company to pass to the bidder. The proposed article in the new Constitution will make this situation less likely by permitting members to decide whether a proportional takeover bid should be permitted to proceed.

(iv) No knowledge of present acquisitions proposals

As at the date of this Explanatory Memorandum, no Director is aware of a proposal by any person to acquire, or to increase the extent of, a substantial interest in the Company.

(v) Potential advantages and disadvantages for the Directors and members of the Company

The proposed Article 4.5(e) will enable the Directors to formally ascertain the views of members in respect of a proportional takeover bid. Without such provisions, the Directors are dependent upon their perception of the interests and views of Shareholders. Other than this advantage, the Directors consider that proposed Article 4.5(e) has no potential advantages or potential disadvantages for them as they remain free to make a recommendation on whether a proportional takeover offer should be accepted.

The Directors consider that the new Article 4.5(e) will advantage all members in that they will have an opportunity to consider a proportional takeover bid and then attend or be represented by proxy at a meeting of members called specifically to vote on the proposal. Accordingly, members will be able to prevent a proportional takeover bid proceeding if there is sufficient support for the proposition that control of the Company should not be permitted to pass under the bid. Furthermore, knowing the view of members assists each individual member in assessing the likely outcome of a proportional takeover bid and whether to accept or reject that bid.

As to the possible disadvantages to members of proposed Article 4.5(e), it may be argued that the proposal makes a proportional takeover bid more difficult and that such proportional takeover bids will therefore be discouraged. This may reduce the opportunities which members may have to sell all or some of their Shares at a premium to persons seeking control of the Company and may reduce any takeover speculation element in the Company's share price. The proposed Article 4.5(e) may also be considered an additional restriction on the ability of individual members to deal freely in their Shares.

The Directors consider the proposed Article 4.5(e) to be in the interests of Shareholders.

Glossary

Glossary

A\$, \$ or cents	Australian currency
Acquisition Facility	as defined in Section 1.7
AGAAP	Australian Generally Accepted Accounting Principles
AIFRS	Australian equivalents to International Financial Reporting Standards
ASIC	Australian Securities and Investments Commission
Associate	has the meaning given in the Corporations Act
ASTC Operating Rules	The operating rules of ASX Settlement and Transfer Corporation in its capacity as a Clearing and Settlement (CS) facility licensee
ASX	Australian Stock Exchange Limited (ABN 98 008 624 691)
BDO Corporate Advisory	BDO Corporate Advisory Pty Ltd (ABN 12 092 588 522)
BHP Billiton Limited	BHP Billiton Limited (ABN 49 044 028 077)
Board	the board of Directors of the Company
Buy-back	selective buy-back by the Company from Orica of 7,857,142 Shares, being all the Shares held by Orica, pursuant to the terms of the Buy-back Agreement
Buy-back Agreement	the Buy-back agreement executed by Incitec Pivot and Orica dated 9 May 2006
Buy-back Facility	as defined in Section 1.6
Chairman	The chairman of the Board
Company	Incitec Pivot Limited (ABN 42 004 080 264)
Constitution	the constitution of the Company
Corporations Act	Corporations Act 2001 (Cth)
Credit Suisse	Credit Suisse Sydney Branch (ABN 17 061 700 712)
Debt Financing Agreements	the agreements dated 9 May 2006 between Credit Suisse and the Company in relation to the debt funding arrangements for the Buy-back, the acquisition of SCF and the Company's other general corporate purposes, as described in Section 1.6(a) and 1.7(f)
Director	a member of the Board
EBIT	earnings before interest and taxation expenses
EBITDA	earnings before interest, tax, depreciation and amortisation expenses
Encumbrance	a third party interest, mortgage, charge, pledge, lien, encumbrance, security interest, title retention, preferential right, trust arrangement, contractual right of set-off, or any other agreement of arrangement in favour of any person
Explanatory Memorandum	the Explanatory Memorandum dated 5 June 2006 contained in this document, and any supplementary or replacement Explanatory Memorandum
FAR	fixed annual remuneration

General Meeting	general meeting of Shareholders to be held at The Arts Centre, ANZ Pavilion, Level 8, 100 St Kilda Road, Melbourne, Victoria on 6 July 2006 at 11:00am
Incitec Fertilizers Limited	Incitec Fertilizers Limited (ABN 56 103 709 155)
Incitec Pivot	Incitec Pivot Limited (ABN 42 004 080 264)
Independent Directors	All the Directors with the exception of Julian Segal, Anthony Larkin and John Chesterfield, as described in Section 1.8
Independent Expert	BDO Corporate Advisory
Independent Expert's Report	the Independent Expert's Report prepared by BDO Corporate Advisory at the request of the Independent Directors in relation to Proposed Resolution 1, as set out in the Appendix
Listing Rules	listing rules of ASX
LTi	long term incentive plan
Merger	the merger of Pivot Limited and Incitec Fertilizers Limited on 1 June 2003
Non-Orica Shareholders	Shareholders other than Orica and those associated with Orica
Notice of General Meeting	the Notice of General Meeting dated 5 June 2006 contained in this document, and any supplementary or replacement Notice of General Meeting
NPAT	net profit after taxation expense
Orica	Orica Limited (ABN 24 004 145 868) and its wholly owned subsidiaries, including Orica IC Assets Pty Ltd
Orica IC Assets Pty Ltd	Orica IC Assets Pty Ltd (ABN 41 010 767 263), a wholly owned subsidiary of Orica which holds a 13.5% shareholding in Incitec Pivot
Orica Selldown	the sale by Orica on 10 May 2005 of 56.5% of the issued Shares in Incitec Pivot through an institutional bookbuild
Pivot Limited	Pivot Limited (ABN 42 004 080 264), now known as Incitec Pivot
Registered Office	the registered office of the Company, being 70 Southbank Boulevard, Southbank, Victoria 3006, Australia
SCF	Southern Cross Fertilisers Pty Ltd (ABN 34 004 936 850)
Share	a fully paid ordinary share in the Company
Shareholder	a holder of Shares
Share Registry	Link Market Services Limited (ACN 083 214 537) (formerly ASX Perpetual Registrars Limited)
STI	short term incentive
VWAP	Volume weighted average share price

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Appendix – Independent Expert’s Report

Financial Services Guide

Dated 24 May 2006

BDO Corporate Advisory Pty Ltd ("**BDO Corporate Advisory**" or "**we**" or "**us**" or "**ours**" as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

1. Financial Services Guide

In the above circumstances, we are required to issue to you, as a retail client, a Financial Services Guide ("**FSG**"). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licencees. This FSG includes information about:

- who we are and how we can be contacted;
- the services we are authorised to provide under our Australian Financial Services Licence, Licence Nos: 264147;
- remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- any relevant associations or relationships we have; and
- our complaints-handling procedures and how you may access them.

2. Financial Services We Are Licensed To Provide

We hold an Australian Financial Services Licence which authorises us to provide general product advice to retail and wholesale clients in securities.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly, but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report. Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in this report.

3. General Financial Product Advice

In our report, we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice, having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

4. Fees, Commissions And Other Benefits That We May Receive

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees will be agreed on an hourly basis or a fixed amount depending on the terms of the agreement.

Except for the fees referred to above, neither BDO Corporate Advisory, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

5. Remuneration Or Other Benefits Received By Our Employees

All our employees and those of related entities receive a salary. Certain employees are eligible for bonuses depending on the achievement of certain performance criteria, none of which are connected to the provision of this report.

6. Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

7. Associations And Relationships

From time to time, BDO Corporate Advisory or BDO and/or BDO related entities may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

8. Complaints Resolution

8.1. Internal Complaints Resolution Process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to the Complaints Officer, BDO Corporate Advisory Pty Ltd, 563 Bourke Street, Melbourne VIC 3000.

When we receive a written complaint, we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practicable, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of the determination.

8.2. Referral To External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Industry Complaints Service Limited ("FICS"). FICS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

BDO Corporate Advisory is a member of FICS Complaints Handling Tribunal Nos. F4040. Further details about FICS are available at the FICS website www.fics.asn.au or by contacting them directly via the details set out below.

Financial Industry Complaints Service Limited
PO Box 579
Collins Street West
MELBOURNE VIC 8007
Toll free: 1300 780 808
Facsimile: (03) 9621 2291

9. Contact Details

You may contact us using the details set out in our letterhead on the first page of this FSG.

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24 May 2006

The Directors
Incitec Pivot Limited
70 Southbank Boulevard
SOUTHBANK VIC 3006

Dear Sirs

INDEPENDENT EXPERT'S REPORT – INCITEC PIVOT

1. Introduction

BDO Corporate Advisory Pty Ltd ("BDO Corporate Advisory") has been engaged by the Directors of Incitec Pivot Limited ("Incitec Pivot" or "the Company") to prepare an Independent Expert's Report ("the Report") to express an opinion as to whether or not the proposed selective share buy-back of Incitec Pivot shares from Orica IC Assets Pty Limited ("Orica") ("the Proposal") is fair and reasonable to the shareholders of Incitec Pivot other than Orica or those associated with Orica ("Non-Orica Shareholders") based on the price at which the shares will be bought back.

Incitec Pivot will undertake a selective buy-back of 7,857,142 shares currently held by Orica at \$21.00 per share for total consideration of \$165 million.

Our Report is to be included in the Explanatory Memorandum prepared by Incitec Pivot to be sent to all Shareholders to assist them in deciding whether to accept or reject the Proposal.

The announcement of the buy-back coincides with the Company's announcement that it plans to acquire Southern Cross Fertilisers Pty Ltd ("SCF") from BHP Billiton Ltd. SCF is Australia's largest producer of ammonium phosphate fertilisers. In accordance with the terms of our engagement, we have not been requested to comment on the decision of the Company to acquire SCF.

2. Summary And Opinion

In accordance with our basis of evaluation, as set out in Section 5, we have considered the terms of the Proposal as outlined in this Report and have concluded that the Proposal is fair and reasonable to the Non-Orica Shareholders of Incitec Pivot.

The summary of our analysis undertaken in forming the above opinion is provided below.

2.1 Fairness

In accordance with the adopted basis of evaluation, set out in Section 5, we have assessed whether or not the price to be paid to acquire the Incitec Pivot shares owned by Orica is fair. The results of our analysis are summarised below.

	Section	Low	High
Value of Incitec Pivot shares	7.3	\$23.31	\$24.66
Share buy-back price range		\$21.00	\$21.00

2.2 Reasonableness

We have considered the analysis in Section 9 of this Report in terms of the advantages and disadvantages of accepting the Proposal (other than those relating to value) to the Non-Orica Shareholders of Incitec Pivot.

The respective advantages and disadvantages are summarised below.

Advantages of buy-back	Disadvantages of buy-back
- Earnings per share accretion and improvements in return on shareholders' equity - More efficient capital structure - Increased access to capital markets - Improved ability to pursue corporate and business strategy	Increased debt levels

3. Outline Of Proposal

Incitec Pivot has announced its intention to undertake a selective buy-back of 7,857,142 shares currently held by Orica at \$21.00 per share for a total consideration of \$165 million.

The pricing of the buy-back has been determined by reference to the price achieved through the institutional book-build that was completed on 10 May 2006 pertaining to the sale by Orica of 32,939,577 Incitec Pivot shares, being 56.5% of the issued capital of the Company ("Orica Sell-down").

The funds used to purchase the shares from Orica under the buy-back will be provided by a syndicated term loan facility.

Full details of the Proposal are provided in the Explanatory Memorandum.

4. Report Requirements

The selective share buy-back is to be implemented pursuant to Section 257A of the Corporations Act 2001 (Cth) ("Corporations Act"). This allows a Company to buy back its own shares if:

- the buy-back does not materially prejudice the Company's ability to pay its creditors; and
- the Company follows the procedures laid down in the Division.

Section 257D(2) of the Corporations Act states that the Company must include with the Notice of Meeting a statement setting out all information known to the Company that is material as to the decision on how to vote on the resolution.

The Company is required under Australian Stock Exchange ("ASX") Listing Rule 10.10 to engage an independent expert in relation to the Proposal as Orica is a related party.

Incitec Pivot has engaged BDO Corporate Advisory to prepare this Report for provision to the Non-Orica Shareholders to assist them in deciding whether to accept or reject the Proposal.

We have not been asked to comment on whether the Proposal materially prejudices the Company's ability to pay its creditors.

5. Basis Of Evaluation

5.1 Regulatory Guidelines

In assessing the Proposal, we have considered, to the extent relevant, ASIC Policy Statement 110 "Share buy-backs" and ASIC Practice Note 29 "Selective Capital Reductions". Under Practice Note 29, an independent expert's report should state whether, in the opinion of the expert, the proposal is fair and reasonable to the expropriated and to the continuing shareholders, in that it strikes a fair balance between the interests of the persons whose shares are to be cancelled and those who will remain shareholders in the Company.

Policy Statement 110 states that in situations where the buy-back relates to a significant percentage of shares or the holdings of a major shareholder, the Company should consider providing a statement by its independent directors as to whether the shareholders should vote in favour of the buy-back particularly regarding the amount the Company is paying for the shares. In some instances, an independent expert's report containing a valuation of the shares may be appropriate (especially when the consideration is not cash).

Practice Note 29 does not further define “fair and reasonable” other than to imply it is similar to the definition provided by ASIC Policy Statement 74 “Independent Expert Report to Shareholders”. Policy Statement 74 states that what is fair and reasonable should be judged in all circumstances of the Proposal.

Such assessment includes a comparison of the likely advantages and disadvantages to all shareholders if the Proposal is accepted compared with the advantages and disadvantages to all shareholders if the Proposal is rejected. Policy Statement 74 states that the comparison of the value of the consideration paid to the value of the asset being acquired or sold is only one element of this assessment.

5.2 Adopted Basis Of Evaluation

BDO Corporate Advisory considers that a report and analysis undertaken under the broad concepts of fair and reasonable as expressed in Policy Statement 74 is consistent with determining whether the Proposal is fair and reasonable to the Non-Orica Shareholders.

Having regard to the above, BDO Corporate Advisory has completed the analysis as follows:

- A comparison of the buy-back price and the value of each Incitec Pivot share as a result of the announcement of the Proposal (fairness); and
- An investigation into other significant factors to which the Non-Orica Shareholders might give consideration, prior to approving the Proposal, after reference to the value derived above (reasonableness).

We have assessed that in all cases, the advantages and disadvantages of rejecting the Proposal are the inverse of accepting the Proposal. Thus, for simplicity and ease of evaluation, we have set out the significant factors in Section 9 only in the context of accepting the Proposal.

Whilst all aspects of the Proposal need to be considered as a whole before reaching a conclusion, for ease of evaluation, we have set out the components of fairness’ and reasonableness’ in separate sections of our Report.

6. Profile Of Incitec Pivot

6.1 History

Incitec Pivot was created through the merger of Incitec Fertilisers Limited and Pivot Limited in June 2003.

Incitec Pivot is a leading agribusiness involved in the manufacture and supply of fertiliser to farmers on Australia’s eastern seaboard. Supplying in excess of 50% of Australia’s agricultural plant nutrient needs, the scale of Incitec Pivot’s operations underpins its ability to be a sustainable low-cost supplier. Prior to the acquisition of SCF, the Company had five manufacturing facilities which produced approximately 50% of the total group product. The Company has announced plans to close its manufacturing operations at Cockle Creek by September 2009.

The Company supplies approximately three million tonnes of fertiliser per annum, generating sales in excess of \$1 billion annually.

The Company supplies the rural sector with a range of fertilisers specifically tailored for Australian farming conditions. Key customer segments include winter crops (wheat, barley, canola), summer crops (cotton, rice, sorghum), sugar, intensive dairy pasture and horticulture.

6.2 Capital Structure

The table below summarises the spread of Incitec Pivot shareholders as at 15 May 2006.

Top 20 shareholders as at 15 May 2006	Nos of shares	%
Orica IC Assets Pty Ltd	7,857,142	13.48%
B Morgan Nominees Australia Limited	4,831,088	8.29%
Westpac Custodian Nominees Limited	4,158,012	7.13%
National Nominees Limited	3,601,402	6.18%
RBC Global Services Australia Nominees Pty Limited	3,378,786	5.80%
Woodcross Nominees Pty Ltd	3,043,559	5.22%
ANZ Nominees Limited Cash Income AC>	1,458,073	2.50%
Queensland Investment Corporation C/ National Nominees Limited	1,181,298	2.03%
Citicorp Nominees Pty Limited	1,169,855	2.01%
Cogent Nominees Pty Limited	724,978	1.24%
HSBC Custody Nominees (Australia) Limited-SI ECSA	716,536	1.23%
Cogent Nominees Pty Limited SMP Accounts>	611,653	1.05%
Idameneo (No 79) Nominees Pty Limited	504,367	0.87%
Suncorp Custodian Services Pty Limited AET>	484,965	0.83%
AMP Life Limited	413,379	0.71%
UCA Growth Fund Limited	400,000	0.69%
HSBC Custody Nominees (Australia) Limited	397,606	0.68%
Citicorp Nominees Pty Limited EFS Future Leaders Fund AC>	350,000	0.60%
Citicorp Nominees Pty Limited EFSIL CFS WS Small Comp AC>	350,000	0.60%
RBC Dexia Investor Services Australian Nominees Pty Limited	350,000	0.60%
Sub Total Top 20	35,982,699	61.74%
Total Shares	58,281,027	
Total Other Investors	22,298,328	
Total Investors	36,270	

Source:Link Market Services

6.3 Historical Statements Of Financial Position

The consolidated historical Statements of Financial Position for Incitec Pivot are set out below.

Incitec Pivot	As at September 2004 \$000s AGAAP	As at September 2005 \$000s AGAAP	As at March 2006 \$000s AIFRS
CURRENT ASSETS			
Cash assets	83,846	3,351	11,699
Receivables	123,745	75,901	141,742
Other financial assets	-	12,341	4,970
Inventories	246,292	271,650	380,992
Other assets	7,047	6,135	9,285
Assets held for sale	-	-	2,166
Total current assets	460,930	369,378	550,854
NON CURRENT ASSETS			
Receivables	3,248	2,646	319
Property, plant and equipment	296,132	283,855	286,120
Intangible assets (incl. goodwill)	183,809	174,004	191,391
Deferred tax assets	17,108	19,885	34,995
Retirement benefit surplus	-	-	618
Other assets	10,166	6,574	665
Total non current assets	510,463	486,964	514,108
TOTAL ASSETS	971,393	856,342	1,064,962
CURRENT LIABILITIES			
Payables	192,854	200,699	267,424
Interest bearing liabilities	63,055	12,514	149,627
Current tax liabilities	16,277	4,101	3,618
Provisions	26,877	43,713	45,463
Total current liabilities	299,063	261,027	466,132
NON CURRENT LIABILITIES			
Deferred tax liabilities	19,049	17,335	29,577
Provisions	21,762	12,821	37,124
Total non current liabilities	40,811	30,156	66,701
TOTAL LIABILITIES	339,874	291,183	532,833
NET ASSETS	631,519	565,159	532,129
EQUITY			
Contributed equity	532,445	532,445	532,445
Reserves	35,922	35,922	(4,359)
Retained profits(Accumulated losses)	63,152	(3,208)	4,043
TOTAL EQUITY	631,519	565,159	532,129

Sources: Audited Financial Report for the year ended 30 September 2005, Interim Financial Report for the six months ended 31 March 2006

6.4 Historical Statements Of Financial Performance

The consolidated historical Statements of Financial Performance for Incitec Pivot are summarised below.

Incitec Pivot	12 mths ended September 2004 \$000s AGAAP	12 mths ended September 2005 \$000s AGAAP	6 mths ended March 2006 \$000s AIFRS
Sales revenue	1,135,588	1,073,872	395,461
Other income	2,310	9,824	11,437
Total revenue	1,137,898	1,083,696	406,898
Operating expenses			
Changes in inventories of finished goods and work in progress	40,060	23,225	118,241
Raw materials and consumables used and finished goods purchased for resale	(810,573)	(788,525)	(370,292)
Employee expenses	(83,524)	(99,502)	(36,082)
Depreciation and amortisation	(45,317)	(40,291)	(15,001)
Borrowing costs	(5,960)	(10,329)	(4,550)
Purchased services	(51,830)	(57,873)	(26,555)
Repairs and maintenance	(26,580)	(26,790)	(15,136)
Property, plant and equipment retired/disposed	(673)	(931)	-
Outgoing freight	(31,044)	(30,995)	(12,562)
Lease payments	(11,534)	(12,316)	(5,422)
Asset write-downs, clean up and environmental provisions	(679)	(21,155)	(28,306)
Other expenses from ordinary activities	(3,115)	(7,102)	(1,630)
Total expenses	(1,030,769)	(1,072,584)	(397,295)
Profit from ordinary activities before income tax	107,129	11,112	9,603
Income tax (expense) benefit	(32,090)	(6,952)	448
Profit from ordinary activities after income tax	75,039	4,160	10,051

Sources: Audited Financial Report for the year ended 30 September 2005, Interim Financial Report for the six months ended 31 March 2006

6.5 Industry Outlook

According to IBISWorld Pty Ltd ("IBISWorld"), recent trends indicate that the fertiliser manufacturing sector is in a mature phase based on the following observations:

- Clearly defined product and market segments;
- Generally weak growth in revenues and value-added services over the past decade;
- Slow rate of technological change; and
- Small, but stable, number of market participants.

In the immediate future, further increases in the use of nitrogenous fertilisers are expected as marketing authorities begin to pay a premium for the protein content of grain. Coupled with continued product innovation, especially in the provision of value-added services, upgrades in existing manufacturing facilities and the establishment of new blending and regional distribution facilities, and the expansion of operators into new geographic markets, it is expected that the sector as a whole will move into a new phase. With this transition, further industry rationalisation may occur.

The key sensitivities that impact on the industry include:

(i) The level of agricultural income

Changes in international and domestic commodity prices can markedly affect agricultural production and prices. This subsequently impacts on the demand for fertilisers.

(ii) Downstream demand for the industry's products

The performance of the general agricultural industry has a key bearing on the level of demand for various industry products.

(iii) Average annual rainfall in Australia

Favourable seasonal weather conditions generally lead to increased demand for fertilisers.

IBISWorld considers the following factors as being the key success factors for the industry:

(i) Availability of inputs

Close proximity to key materials such as phosphate, ammonium, sulphur and natural gas in particular is important.

(ii) Supply relationships within key markets

Total Australian demand is sourced relatively evenly between Australian manufactured product and imported product, and therefore it is considered important that domestic manufacturers secure reliable and competitive distribution links with overseas suppliers.

(iii) Economies of scale

Increasing price competition from both domestic and imported products has heightened the need to generate economies of scale and vertical integration.

(iv) Ability to expand and curtail operations rapidly in line with market demand

Seasonal and climatic variations significantly affect demand throughout the year and from year-to-year. Reduced capacity can lead to a contraction in both sales and margins. Therefore excellent production management is required.

(v) Control of distribution arrangements

Strategically placed rural distribution centres offering customer service facilities such as soil testing and fertiliser consultancy, are important outlets for manufacturers in gaining exposure to a geographic region.

Industry revenue is forecast to increase from \$1,930 million in 2004/05 to \$2,225 million in 2009/10, representing average growth of 3.5% per annum. Over the corresponding period, domestic demand is forecast to increase at an average rate of approximately 3% per annum. The difference in the growth rates reflects higher exports and the trend towards import replacement rather than growth in domestic demand.

The performance of Australia's agricultural industry will have a significant influence on the fertiliser manufacturing industry. In turn, weather will remain a significant variable. This season's winter crop is currently in the process of being planted and continued good seasonal conditions will impact its progress. Australian Summer crop plantings are still somewhat off. ABARE noted that the 2005/06 winter crop is estimated to have been around 40 million tonnes, up 15% from the previous season. In 2005/06 summer crop production is forecast to rise by 21% to 4.8 million tonnes. To the extent that commodity prices weaken and/or the Australian dollar firms this may in turn flow through as subdued demand for fertiliser products and may be exacerbated by the existence of fertiliser inventories remaining from previous seasons.

In view of these conditions, IBISWorld anticipates that industry revenues will increase by 1% in 2005/06 before increasing by a stronger 4% in 2006/07 as farm production reflects a stronger performance. Assuming average seasonal conditions, year on year growth rates are expected to average between 2 to 4%.

7. Approach To Determining Fairness

In accordance with our adopted basis of evaluation, as set out in Section 5.2, we have considered the fairness of the Proposal by comparing the value of the Incitec Pivot shares immediately after the announcement of the Proposal with the share buy-back price.

We have not been provided with any forecast financial information pertaining to the future financial performance of the Company. Therefore we are precluded from adopting the two most commonly accepted methodologies for valuing assets and businesses (being a valuation using either a capitalisation of future maintainable earnings or a discounted cash flow approach) to determine the value of the Incitec Pivot shares. However, given the circumstances of this particular transaction and the significant amount of other empirical evidence available in relation to Incitec Pivot's prospects, we do not believe our ability to express an opinion on the fairness of the Proposal has been impeded by the lack of forecast financial information.

Given the circumstances, we consider the value of Incitec Pivot's shares based on a variety of measures, including quoted market prices and consensus views of future share price movements.

7.1 Quoted Market Price

Where there is a ready market for securities such as the ASX through which shares are traded, recent prices at which shares are bought and sold can be taken as an indication of the market value per share.

Such market value includes all factors and influences that impact not only on the Company but also other factors that impact on the Australian equities market as a whole. The use of ASX pricing is more relevant where a stock displays regular high volume trading, creating a "deep" market in that share.

Any analysis of a listed Company's share value must also consider that the market has been fully informed under the ASX Listing Rules relating to continuous disclosure.

We note that since 17 November 2005 (the date the Company announced its trading result for the year ended 30 September 2005), the Company has made a number of significant announcements to the market including:

Date	Announcement	Summary of announcement
15 Feb 2006	Reaches agreement to supply ELF	The Company announced that it had signed agreements to supply ELF with a range of fertiliser products. The Company expected that the new supply arrangements would deliver an increase in sales volume of approximately 10%
20 April 2006	Provision for plant closure and remediation	The Company announced plans to close the Cockle Creek superphosphate manufacturing operations by September 2009.
1 May 2006	Announcement of interim results for the six months ended 31 March 2006	The Company reported NPAT (pre non-recurring items) of \$27.5 million up 60% on the previous corresponding period.

On 9 May 2006, the Company announced the following major initiatives:

- (i) the acquisition of SCF (Australia's largest producer of ammonium phosphate fertilisers) from BHP Billiton for \$165 million (including transaction costs); and
- (ii) the sale by Orica of its 70% shareholding in the Company by way of the Orica Selldown and a selective share buy-back.

Given the magnitude of these two announcements to the future operations of the Company and the significant increase in trading volumes since announcement, it is our opinion that the share trading price in the period immediately subsequent to the announcement provides some guidance as to the underlying value of the Incitec Pivot shares.

The table below summarises the trading price for the period 10 May 2006 to 23 May 2006.

Date	Low \$	High \$	Close \$	Volume
10 May 2006	23.00	23.75	23.35	4,410,520.0
11 May 2006	23.10	23.82	23.10	3,467,984.0
12 May 2006	22.77	23.04	22.90	1,439,542.0
15 May 2006	22.41	22.75	22.47	1,498,051.0
16 May 2006	22.21	22.37	22.33	1,040,849.0
17 May 2006	22.42	22.54	22.50	505,900.0
18 May 2006	22.00	22.41	22.25	403,568.0
19 May 2006	22.30	22.55	22.40	499,386.0
22 May 2006	22.30	22.55	22.38	646,430.0
23 May 2006	22.05	22.35	22.05	238,056.0

Source: Bloomberg

The volume weighted average price ("VWAP") for this period is **\$22.97** per share.

Whilst we recognise that the number of days on which our analysis is based is limited, the analysis of historical share trading does provide some insight as to the market expectation of Incitec Pivot share price value.

Accordingly, based on the share price movements immediately after the announcement of the acquisition of SCF and the Orica Selldown, we have identified the range of \$21.82 to \$24.12 per share as being an indicator of the underlying value of the shares. This is broadly calculated by applying a 5% downward/upward tolerance to the VWAP for the period 10 May 2006 to 23 May 2006.

7.2 Broker Consensus Views

The relevance of share price targets represented by broker reports is reliant upon the source, date and number of broker reports, as well as recent corporate activity.

In completing our analysis of these reports, we have utilised the reports that were issued after the Company announced its intention to acquire SCF (5 in total) and to buy back Orica's remaining shares through the selective share buy-back after the Orica Selldown was completed.

The following tables summarise the consensus views of forecast Earnings per Share estimates and the twelve month share price targets for the Company, published immediately after the announcement of the SCF acquisition, the Orica Selldown and the selective buy-back.

	Earnings per share(\$)		
	09/06 Forecast	09/07 Forecast	09/08 Forecast
Low	1.43	2.00	1.74
High	1.55	2.38	2.58
Median	1.46	2.16	2.21

	Twelve Month Target Share Price (\$)	Forecast Market Cap \$million
Low	22.70	1,145
High	26.00	1,312
Median	25.20	1,271
Average	24.82	1,252

Based on the above information, we estimate a range of between \$24.80 and \$25.20 per share as another indicator of the underlying value of Incitec Pivot shares based on broker consensus views.

7.3 Underlying Assessment Of Value Of Incitec Pivot Shares

The table below summarises our assessment of the value of the Incitec Pivot shares:

	Section	Low \$	High \$
Quoted Market Price	7.1	21.82	24.12
Broker Consensus Views	7.2	24.80	25.20
Average		23.31	24.66

Taking the above assessments into account, we have determined that the indicative market value of the Incitec Pivot shares at the time of the announcement of the buy-back is in the range of **\$23.31** and **\$24.66** per share.

7.4 Comparison Of Buy-Back Discount To Market Value

The share buy-back price is \$21.00 per share. To determine how the price of the buy-back compares with the underlying buy-back value, we have considered the difference between the current value of the shares and the buy-back price.

This analysis is summarised in the table below.

	\$	\$
Expected value of shares	23.31	24.66
Share buy-back price	21.00	21.00
Difference	2.31	3.66
Discount to expected value	9.9%	14.8%

For the purpose of this assessment, the major determining factor in considering the reasonableness or otherwise of the discount is understanding the basis on which the buy-back price has been determined.

The buy-back price reflects the price achieved in the Orica Sell-down through a fully underwritten institutional book-build ("the book-build").

In our opinion, it is reasonable to assume that:

- (i) the pricing of the book-build has been negotiated on an arm's length basis between the participants of the book-build reflecting the market's assessment of the future growth prospects of the Company;
- (ii) the price of the book-build process reflects the sale of a 56.5% shareholding in Incitec Pivot, and the broader shareholder base is considered a positive for the Company moving forward; and
- (iii) the price determined through the book-build process takes into account the proposed purchase of SCF and the impact this acquisition will have on the Company and its future prospects.

In our opinion, it is reasonable to expect that given the exit of Orica as a shareholder of the Company through the Orica Sell-down and the buy-back, there will be an increase in the spread of shareholdings and a strong possibility of increased liquidity in the stock. In such circumstances, increases in liquidity generally have a positive impact on share prices.

8. Consideration Of Fairness

In determining whether the terms of the buy-back are fair to the Non-Orica Shareholders, we make the following observations:-

1. The buy-back price is less than the assessed value of the Incitec Pivot shares; and
2. The price of the buy-back has been determined through an underwritten institutional book-build that accounts for a significant quantum of the Orica shareholding. In our opinion, it is reasonable to assume the price of the book-build process reflects the sale of a 56.5% shareholding in Incitec Pivot and reflects the market's expectation of the Company's future prospects with a broader shareholder base.

On the basis of the factors listed above, it is our opinion that the terms of the buy-back are fair to the Non-Orica Shareholders.

9. Advantages And Disadvantages – Non-Orica Shareholders

In accordance with our basis of evaluation, as set out in Section 5.2, we have also considered the position of non-associated Shareholders if the Proposal is accepted, and have taken into account the following advantages and disadvantages in this assessment.

9.1 Advantages To The Non-Orica Shareholders

9.1.1 Earnings per Share accretion and improvements in Return on Shareholders' Equity

When the buy-back is debt-financed and the shares bought back will be cancelled, Incitec Pivot will have a more efficient capital structure following the buy-back. This will result in a positive impact on the Earnings per Share ("EPS") of the Company as well as an increase in Return on Shareholders' Equity.

In our opinion, it is reasonable to assume that where demonstrable improvements in economic measures such as EPS and Return on Shareholders' Equity occur, there will be a corresponding improvement in the Company's share price which is considered beneficial to shareholders both from a capital and dividend growth perspective.

9.1.2 More efficient capital structure

Upon implementation of the buy-back, Incitec Pivot will have a more efficient capital structure with a lower cost of capital and an improved ability to pursue its corporate and business strategy.

9.1.3 Increased access to capital markets

The Orica Sell-down and the buy-back together provide for a more effective shareholding structure with Orica disposing of its 70% interest. With greater share liquidity and shareholder spread, it is reasonable to expect that the Company will be able to access capital markets in the future to fund possible growth opportunities.

This would not be as possible or as efficient if Orica maintained its position as the majority shareholder of the Company and there was seen to be limited free float in the Company's capital base.

9.1.4 Improved ability to pursue corporate and business strategy

Following the buy-back, Incitec Pivot will have more flexibility to manage its capital to respond to growth opportunities as they arise.

9.2 Disadvantages To The Non-Orica Shareholders

The Proposal provides for the Company to fund the buy-back through a five year term loan facility. This additional debt will increase certain of the Company's long-term funding ratios, however, on a pro forma basis, these are not considered overly aggressive.

The increased gearing levels may also limit the ability to pay "special" dividends that have been paid in the past due to surplus cash levels.

9.3 Conclusion As To Advantages And Disadvantages

We have considered the advantages and the disadvantages of accepting the Proposal and also consider that these are equally the inverse if the Proposal is rejected. It is our opinion that, on balance, the advantages of accepting the Proposal outweigh the disadvantages.

10. Sources Of Information

BDO Corporate Advisory has relied upon the following information for the purposes of this Report:

- Incitec Pivot's Financial Reports for the six months ended 31 March 2006 and for the twelve months ended 30 September 2005;
- Incitec Pivot's announcements to ASX
- IBISWorld Pty Ltd;
- Explanatory memorandum to shareholders;
- Bloomberg;
- ABARE; and
- Information generally available in the public domain.

11. Independence

BDO Corporate Advisory is entitled to receive a fee of approximately \$65,000 (excluding GST) for the preparation of this Report. Except for this fee, BDO Corporate Advisory has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this Report. BDO Corporate Advisory is wholly owned by BDO Partners Pty Ltd, a member of BDO International, which has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

Prior to accepting this engagement BDO Corporate Advisory considered its independence with respect of Incitec Pivot and any of its respective associates with reference to the ASIC Practice Note 42 "Independence of Expert's Reports". In BDO Corporate Advisory's opinion, it is independent of Incitec Pivot and its respective associates.

A draft of this Report was provided to Incitec Pivot and its advisers for confirmation of the factual accuracy of the comments. No significant changes were made to this Report as a result of this review.

12. Qualifications

BDO Corporate Advisory holds an Australian Financial Services Licence issued by the Australian Securities and Investment Commission covering the provision of financial services, including giving expert reports pursuant to the Listing Rules of the ASX and the Corporations Act.

The persons specifically involved in preparing and reviewing this report were Craig Bryan and Sebastian Stephens. They have significant experience in the preparation of independent expert's reports, valuations and merger and acquisitions advice across a wide range of industries in Australia.

13. Disclaimers And Consents

This Report has been prepared at the request of Incitec Pivot for inclusion in the Explanatory Memorandum which will be sent to all Shareholders. Incitec Pivot engaged BDO Corporate Advisory to prepare an independent expert's report to consider the Proposal on behalf of the Non-Orica Shareholders.

BDO Corporate Advisory hereby consents to this Report being included in the above Explanatory Memorandum. Apart from such use, neither the whole or part of this Report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Corporate Advisory.

BDO Corporate Advisory takes no responsibility for the contents of the Explanatory Memorandum other than this Report.

BDO Corporate Advisory has not independently verified the information and explanations supplied to us, nor has it conducted anything in the nature of an audit of Incitec Pivot, however we have no reason to believe that any of the information or explanations supplied to us are false or that material information has been withheld.

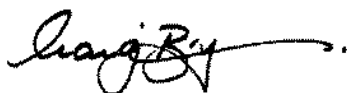
With respect to taxation implications, it is recommended that individual Shareholders obtain their own taxation advice in respect of the Proposal, tailored to their own particular circumstances. Furthermore, the advice provided in this Report does not constitute legal or taxation advice to the shareholders of Incitec Pivot, or any other party.

The statements and opinions included in this Report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO Corporate Finance has no obligation to update this Report for events occurring subsequent to the date of this Report.

Yours faithfully

BDO CORPORATE ADVISORY PTY LTD



Director

General Meeting Venue and Other Details

The General Meeting will be held on Thursday, 6 July 2006 at 11:00am at:

**The Arts Centre, ANZ Pavilion
Level 8, 100 St Kilda Road
Melbourne, Victoria**

The Arts Centre is on St Kilda Road, near Flinders Street Station. The Arts Centre carpark may be accessed via Kavanagh Street or Sturt Street.

Light refreshments will be served at the conclusion of the General Meeting.

Corporate Directory

Directors

John Watson, AM	Non-Executive Chairman
Brian Healey	Non-Executive Director and Deputy Chairman
Julian Segal	Managing Director and Chief Executive Officer
James Fazzino	Finance Director and Chief Financial Officer
Anthony Larkin	Non-Executive Director
Allan McCallum	Non-Executive Director
John Chesterfield	Non-Executive Director

Company Secretary

Kerry Gleeson

Registered Office

Incitec Pivot Limited
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Telephone: +613 8695 4400

Facsimile: +613 8695 4419

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Auditor

KPMG
147 Collins Street
Melbourne VIC 3000

Corporate Adviser

Credit Suisse (Australia) Limited
Level 41, 101 Collins Street
Melbourne VIC 3000

Gateway

1 Macquarie Place
Sydney NSW 2000

Legal Adviser

Clayton Utz
Level 18, 333 Collins Street
Melbourne VIC 3000

Independent Expert

BDO Corporate Advisory Pty Ltd
563 Bourke Street
Melbourne VIC 3000

Share Registry

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000

Postal Address:

Locked Bag A14
Sydney South NSW 1235

Incitec Pivot Shareholder Information Line

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+612 8280 7765 from outside Australia
Monday to Friday, 9:00am – 5:00pm AEST

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Monday to Friday
9:00am – 5:00pm AEST


Incitec Pivot