

# Incitec Pivot Limited

## INCITEC PIVOT LIMITED – ANNUAL GENERAL MEETING 23 DECEMBER 2009

### **SPEECH BY THE MANAGING DIRECTOR & CEO, JAMES FAZZINO**

Thank you, John.

Ladies and Gentlemen.

I am delighted to be presenting this address as the Managing Director & CEO of Incitec Pivot Limited. In almost seven years with the Company, I have developed an unqualified respect for the people I work with at IPL. To now lead this group of people is a privilege and I appreciate the confidence in me shown by John and the Board. I have benefited greatly in my four years on the Board as Finance Director from the supportive but challenging approach of the directors and in particular, from John's counsel and encouragement.

Since my appointment in August this year, I have focused on continuing to deliver the Company's strategy, which has created substantial shareholder value, and also I have been concentrating on four internal priorities: safety, customer relationships, efficiency and people. My objective is to lead a team that delivers competitive shareholder returns equating to ASX 100 top quartile performance. We will achieve this by leveraging our exposure to the industrialisation of Asia.

Since 2005, the Company has been transformed, doubling profit from manufacturing, trebling the production tonnes and quadrupling our market capitalisation. More recently, we have diversified our earnings streams, particularly with the acquisition of Dyno Nobel, and improved the quality of our earnings. This has reduced our business risk.

Notwithstanding this, the 2009 Result, including Individually Material Items, was a loss of \$179.9 million. The underlying Result for 2009, excluding Individually Material Items, was a Net Profit After Tax of \$348 million. Although the profit was 46 per cent down on the previous year, we shouldn't lose sight of the fact that five years ago, we set an objective to be profitable even in challenging years and built the strategy to achieve that outcome. That strategy has been vindicated in a year when we were impacted by the global financial crisis, and the extraordinary volatility in the market for our products. Trading conditions in 2009 were the toughest I've seen in my 20 years in the chemical industry, with unprecedented reductions in global fertiliser demand and the consequent volatility in global fertiliser prices, plus the recession in the US impacting on volumes in our North American explosives business.

John has given an overview of the 2009 Result and there are a couple of comments I'd like to also make. To me, the most pleasing aspect was the way that our employees maintained their commitment to focusing on those elements that we could control. We executed well and acted quickly to mute the impact of the tough trading conditions on both our income statement and balance sheet. We made progress across a range of areas, ensuring that we came out of the financial and market storms of 2009 better placed to weather the challenges of 2010.

In relation to the 2010 year, we normally don't get a strong indication of the likely direction of the year until the second quarter. However, the results for the first quarter, so far, show that our businesses are performing as expected. In relation to the potential development of the Ammonium Nitrate plant at Moranbah in Central Queensland, I will provide an update on progress before the end of March next year.

Another positive aspect of 2009 was the performance of Incitec Pivot manufacturing. While the sales and marketing of our explosives and fertiliser products are made on a regional basis to enable closer customer contact, management of manufacturing is structured globally under our President of Global Manufacturing, Bernard Walsh.

With manufacturing, we have a focus on risk and reliability and have established a special team to manage this responsibility globally, based out of our Gibson Island site. In 2009, we began to see the benefits of this approach with record production at our fertiliser plants at Gibson Island, near Brisbane, Australia, and at St Helens, Oregon, in the US. Our Phosphate Hill fertiliser plant broke a production record in the last quarter. We also saw the benefit of our global approach to maintenance management with the successful maintenance turnaround at St Helens in October.

Continued progress in the supply chain was another positive from the year. Working capital was at record lows at September, a result driven by the common sales and operations planning process we've implemented throughout the group. We're only at the beginning of this process in the Explosives business, so there are further benefits to be derived.

Finally, we have a common approach to business improvement across the group through the Velocity program office, which is led by Christine Trotter. In 2009, the program delivered cumulative benefits of US \$71 million per year in EBIT, plus a further US\$73.5 million in cash from asset optimisation. In 2010, the Velocity efficiency program is targeted to deliver a further US\$60 million per year in EBIT benefit and US\$20 million in cash. This equates to sustainable EBIT savings per year of US\$130 million. It is important to note that to achieve these sustainable savings, there is an initial cost of US\$43 million which means a payback on this investment of less than a year.

As John pointed out, much of the benefit of the Velocity program came from Dyno Nobel and I want to reinforce his remarks that we have a high level of comfort in the performance of the Dyno Nobel business. The fact that Dyno Nobel's earnings were up by 27 per cent in US dollar terms - 55 per cent in Australian dollars - in the middle of the worst financial market dislocation since 1930, reflects the quality of the business's market position, assets and people. I also want to emphasise that the writedown is not, or will not be, a signal of a relaxation of the performance targets set for the business. The management of the Dyno Nobel business will be held accountable for achievement of the same challenging targets as the other businesses in the IPL Group.

I mentioned at the start that I have four internal priorities – safety, customer relationships, efficiency and people. I want to give you a brief outline of our performance in these four key areas. Safety is the highest priority. I firmly believe that it is impossible to have a good business if we have poor safety performance. While our statistics tell me there has been an improvement in our safety performance, we can never be satisfied until we do achieve our objective of Zero Harm. We recently announced a new global safety structure so that safety management and, therefore, responsibility for safety sits close to our plants, to the mine sites and to the farms. In addition, a separate team, reporting directly to me, is working to improve our safety management systems and standards, to create one uniform system across the Group's businesses.

My priority around customers is based upon the principle that we don't have a business unless we have positive customer relationships; relationships where IPL and our customers can prosper together. We have created a new Company Value: Think Customer. Everyone. Every day. This is a daily reminder to everyone in IPL as to the importance of our customers. In my role, I am spending much of my time meeting with customers, reinforcing to them our focus on manufacturing reliability, process excellence and improving the quality of our service through training.

We are also determined to improve communication with both our explosives and fertiliser customers. For example, there has been a good deal of misunderstanding around fertiliser pricing in Australia and we have made the commitment to our fertiliser dealers and to farmers that we will be better in advising of price changes and the impact of global movements on fertiliser prices in Australia.

Efficiency is an area in which our business has a strong culture and is performing well. Financial discipline is an element of our business that is totally within our control, and everyone in the IPL Group recognises that we need to maintain our lowest cost base culture. I want to stress that efficiency does not mean simply cost-cutting. As I previously pointed out with the Velocity example, we will invest money to make money and support successful parts of the business to make savings or increase revenue that goes to the bottom line.

Success for our business, ultimately, will come only through our people. It is people who accomplish the strategy; who deliver the outcomes. Two programs which are receiving my attention are the reinvigoration of our Values program and the start of an Organisation Development program. We now have one set of Values for the IPL Group, which is absolutely critical in developing the culture of the organisation. The Organisational Development program which will begin in 2010 is predicated on the need to invest in our people to foster our talent. Our people are THE competitive advantage that can't be copied.

I want to take this opportunity to thank my fellow directors, my executive team members and all IPL employees for their commitment in the past year. While I anticipate another challenging year for 2010, I am confident about the future because of the quality of the IPL team.

Thank you.

**James Fazzino**  
**Managing Director & CEO**