

Incitec Pivot Limited

INCITEC PIVOT LIMITED – ANNUAL GENERAL MEETING 23 DECEMBER 2009

SPEECH BY THE CHAIRMAN, JOHN WATSON, AM

Ladies and gentlemen, I am pleased to report on a year in which Incitec Pivot Limited demonstrated the fundamental strength of its business strategy and the resilience and commitment of our employees.

The Company has further transformed over the past four years and we now have a better balanced business, in terms of revenue streams, our exposure to end markets and our geographic spread. For example, in terms of end markets, in 2009, more than half our revenue was generated in explosives, one third in fertiliser sold into the Australian market and the balance in fertiliser traded into global markets.

Looking at geographic spread, around 40 % of our revenue came from Australia, 40 per cent from North America and the balance from Asia. In 2009, approximately half our revenue was from explosives and half from fertilisers. In comparison, in 2005, 100 per cent of our revenue was from fertiliser distributed in Australia.

This is the 90th anniversary of the company's incorporation in 1919 and we have seen few more extraordinary years in terms of the international economic environment. It was also an important year in terms of senior management at Incitec Pivot, with the appointment of James Fazzino as Managing Director & CEO.

My fellow directors and I were pleased to appoint James to the role following his outstanding performance as Finance Director & Chief Financial Officer. James joined IPL in 2003, and became a member of the Board in 2005. In that time, he has shown his capability, drive and commitment to IPL. On a personal note, let me say that I have enjoyed working with James both as a senior executive and as a fellow director and I look forward to working together in the years ahead.

There are a couple of observations I would like to add. First, the appointment of James validates the Board's succession planning. It is pleasing to see the results of encouraging and fostering our people to grow their careers within the Company. In addition, the appointment of Frank Micallef as Chief Financial Officer was an internal appointment and both James and Frank are fulfilling their new roles with distinction.

This reinforces the second point that I wish to make – the quality of our senior management team. James heads an Executive Team, many of whom are here today, who are the same leaders that have delivered the outstanding results that shareholders have enjoyed over the past half decade. For example, over the three years to 30 September 2009, IPL delivered total shareholder returns of 42 per cent per annum, outperforming the S&P/ASX 100 Accumulation Index which delivered 2.1 per cent per annum over the same period.

Looking back on 2009, the Company's underlying profit for the Full Year to 30 September 2009 was \$347.8 million. However, after the inclusion of Individually Material Items, we declared a loss of \$179.9 million. Despite the loss, IPL paid a final unfranked dividend of 2.3 cents per share, taking the total 2009 dividend to 4.4 cents per share, 48 per cent franked. Consistent with Board policy, the 2009 dividend returns all available franking credits to shareholders and represents a pay-out ratio of 20 per cent of NPAT excluding individually material items.

The Individually Material Items in the 2009 Result mainly related to a non-cash writedown of Dyno Nobel goodwill of \$491 million. Let me emphasise that the non-cash writedown should not be seen as any indication that Dyno Nobel is not performing to expectations. I would like to take a moment to explain to you the basis of the writedown and give you an overview of the performance of Dyno Nobel during the year.

The largest factor contributing to the writedown was the requirement in Accounting standards to revise the Weighted Average Cost of Capital consistent with current debt and equity risk premiums, which have increased following the global financial crisis. The 50 basis point increase in the Weighted Average Cost of Capital, used to discount the forecast cash flows of the Dyno Nobel business, resulted in approximately \$320 million of the \$491 million write-down. The remainder of the writedown related to adopting a more conservative view of the near term cash generated by the business. This reflects the current cyclical softness in the US economy. We've been conservative in our cash flow assumptions and are comfortable with the carrying value on the September 2009 balance sheet. As the writedown was a non-cash accounting entry, it doesn't impact our compliance with banking covenants.

In this context, the Company achieved some important milestones in the Board's capital management strategy over the past two years. Key objectives of our strategy were to achieve an investment grade profile and to diversify our sources of debt, and increase the spread of maturity profiles. During the year, we had three ratings agencies, Moody's, Standard and Poor's and Fitch, award investment grade credit ratings to IPL.

In terms of diversity in sources and maturity of our debt, we have achieved this through a range of funding vehicles. In September last year, we entered into a syndicated bank facility of \$1.7 billion involving a number of Australian and international banks.

You will recall that 12 months ago, we initiated the successful equity raising encompassing institutional and retail shareholders, raising approximately \$900 million. This was primarily to refinance the bridge facility which was put in place for the acquisition of Dyno Nobel. As you are aware, the Dyno Nobel acquisition was achieved substantially through a scrip-based offer, again demonstrating appropriate capital management.

Finally, earlier this month, we arranged an \$800 million US debt issue in the United States 144A bond market. The fixed rate senior unsecured notes were issued with a coupon of 6 per cent for a term of 10 years. The funding will be used primarily to repay the remaining \$352 million balance of, and cancel, the Company's Working Capital Facility entered into in March 2009. The additional proceeds will be used to repay a portion of the Syndicated Facility, which I mentioned earlier. These capital management initiatives have significantly increased the average tenor of the Company's debt and diversified our sources of funding. Today, we have \$1.4 billion in undrawn capacity against committed facilities.

I would now like to give you a brief overview of the performance of the business. Dyno Nobel's earnings were up by 27 per cent in US dollar terms, and 55 per cent in Australian dollar terms, in the middle of the worst financial market dislocation since 1930. This was particularly the case in North America where volumes in all business segments were down. The performance of the business, I believe, reflects the quality of Dyno Nobel's market position, assets and people, and our ability to improve efficiency via the Velocity program. Velocity is driven by employees suggesting innovative ways of improving business performance.

Dyno Nobel's Asia Pacific operations have performed well in an environment where, despite depressed market conditions, demand has grown and our volumes increased by 26 per cent. This demonstrates further that Dyno Nobel is a solid business and is positioned to be ready for the economic recovery, when it inevitably occurs.

Incitec Pivot Fertilisers, our fertiliser distribution business, was impacted by both the global financial crisis and the continued drought in Australia. Fertiliser prices, which reached unprecedented highs in mid-2008 as a result of global market forces, returned this year to levels around or below longer-term trends. But this did not result in increased sales as farmers remained cautious because of international soft commodity prices. Incitec Pivot Fertilisers experienced a 29 per cent contraction in sales volumes on the east coast. Despite this, we retain confidence in Incitec Pivot Fertilisers' value proposition as exemplified by the fact that we were able to maintain our market share on east coast Australia due to the efforts of our people and the quality of our products.

It is worthy of note that 100 per cent of EBIT in the fertiliser business came from manufacturing, primarily from Gibson Island and Southern Cross. This underlines the Own The Product approach which has been a cornerstone of our strategy over the past four years.

With the decreased local demand for fertiliser, an increased volume was exported, confirming the value of our trading business, Southern Cross International, another key element of our strategy. However, overall sales and revenue for Southern Cross International were down on last year, as international fertiliser trading was impacted by the economic environment. We have confidence in the potential for international trading to make an increased contribution to the business and have recently extended our footprint with a majority-owned joint-venture called Quantum Fertilisers, based in Hong Kong.

Successful delivery on the strategy is dependent upon attracting and retaining executives of quality. As I stated earlier, we are fortunate to have an outstanding Executive Team, led by James, and it is essential that we have a remuneration strategy to attract and motivate employees of the highest calibre. The elements of the remuneration strategy are set out in extensive detail in the Annual Report.

In short, the remuneration strategy is composed of fixed pay as well as short-term and long-term incentive programs, having regard to the performance of the Company and that of the individual executive or employee. An important principle in the incentive plans is that the reward criteria are directly related to shareholder value.

The remuneration strategy was developed following a comprehensive review by the Board which included independent expert advice on the long term incentive plan. The Board, in agreement with its executives, set a challenging measure for total shareholder returns. The performance rights vest in full only if IPL delivers total shareholder returns – or TSR - of 20 per cent per annum compounded over a three-year period.

In communicating with shareholders, there have been suggestions from some that perhaps absolute TSR is too harsh and that the remuneration measure should be set as a relative TSR. Firstly, let me explain the difference. Our Absolute TSR target means that IPL executives must deliver a 20 per cent return to shareholders in dividend and share price increase every year, no matter the market or economic environment. Relative TSR means that as long as IPL delivers a return that is better than another random group of companies, the executives receive their incentives. Under relative TSR, it is possible that executives would receive incentive payments for presiding over a falling share price and destroying shareholder value, as long as the comparison group was worse! We don't see the shareholder benefit in that outcome.

Another consideration would be the problem of finding a group of companies with which to compare our performance under a relative TSR approach. There is no other company quite like IPL in terms of our businesses, let alone a range of companies. The Board does, however, keep an open mind on being able to respond to changing circumstances in relation to Executive Remuneration to ensure it remains competitive and positions the Company to attract, retain and motivate high performing people.

I would like to take this opportunity to thank my fellow directors for the level of commitment they bring to their roles and the level of counsel they bring to the Board table. In speaking of commitment, I want to express the gratitude of the Board to the 4500 IPL employees who have demonstrated again that they can deliver in even the toughest circumstances.

I said at the beginning of my presentation that if there was ever a year to test commitment and resilience of a business, 2009 was that year. Based upon our performance in the past year, I believe that we can look to the future with confidence.

Finally, I thank you for your attendance here today and wish you all a safe and happy festive season.

John Watson, AM
Chairman