



INCITEC PIVOT LIMITED – ANNUAL GENERAL MEETING
23 JANUARY 2006

SPEECH BY THE CHAIRMAN, JOHN WATSON, AM

Ladies and gentlemen, this is the 86th Annual General Meeting of Incitec Pivot Limited under its various names and the third since the merger in 2003.

Today is our opportunity to review the company's performance for its second full financial year since the merger, which ended on 30 September 2005.

We all know 2005 was a difficult year for Incitec Pivot, largely as a result of continuing drought in many areas and fiercely competitive market conditions brought about by the establishment of the Elders and Landmark consortium.

As a result, our sales volumes, revenues and, most importantly, margins were affected. At the same time, the cost of raw materials and shipping rates remained exceptionally high.

In a moment, I will explain the decisive action the company took to address these challenges. But first let me summarise Incitec Pivot's financial performance.

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Sales revenue in 2005 fell 5% to \$1,074 million and, as a result of the factors I referred to previously, net profit after tax before significant items was down 54% to \$37.6 million.

Net profit after tax including significant items – largely business restructuring costs – fell 94% to \$4.2 million.

As I acknowledged in the Annual Report, this was unsatisfactory and the company's overall financial performance was disappointing.

However, the balance sheet at year-end was sound, with net debt at \$9.2 million indicating modest gearing of 1.6 per cent.

This provides the company with a strong base on which to rebuild earnings and shareholder returns in 2006.

As you know, in 2005 Directors declared fully franked dividends totalling 71 cents per share, which included the November 2005 special dividend. This is in line with the Board's policy of distributing surplus funds and franking credits when available to shareholders.

The decision to declare this dividend is a strong indication of the Board's confidence in the strategies adopted to restore the company's profitability.

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Last year it became clear that the combination of weather conditions and a dramatically changed industry landscape would impact on the 2005 financial performance.

In response to this combination of pressures, a plan was devised to substantially restructure the company. The objective was to lower the fixed cost base and make the business less vulnerable to seasonal and market conditions.

Sweeping changes to create a leaner, simpler and more responsive Incitec Pivot were introduced in the second half of the financial year.

Every part of the company was put under the spotlight, and the result was a reduction in the size of the Board, in management numbers and in the overall staffing level.

The restructure, which involved the consolidation of the key manufacturing and logistics divisions, is now almost complete and the company is already benefiting from the significant savings introduced.

Improvements of this magnitude are costly to implement, and the restructuring costs further impacted on profitability in 2005.

Restructuring costs before tax were \$54 million, consisting of \$21 million in asset write-downs, redundancies of \$18 million and other costs of \$15 million.

However, we must not lose sight of the fact that the restructure is expected to take \$30 million in costs out of the business annually from 2007.

With most of the structural improvements now in place to secure Incitec Pivot the advantage of having the industry's lowest cost base, the Board believes that the business has a sustainable and successful future.

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In parallel with the reshaping of the company's operations – which is largely an internal exercise – great steps have been made to build Incitec Pivot's presence externally.

This program to raise the company's profile and promote sales is built around stronger positioning in the market, which is in evidence here today, and a new slogan.

The theme "Because the land is your life" reinforces the company's links with generations of farmers over more than eight decades.

It says to farmers, we understand the needs of your business on the land, including soil health, nutrient efficiency and improving farm economics.

The theme also recognises the long-term commitment to responsible environmental management practised by farmers and Incitec Pivot to ensure a sustainable future for farming.

Many of you will have seen the new eye-catching branding in advertising in the rural press, in brochures and, of course, in the Annual Report.

You will see a lot more of it as the company launches more new products – both innovative fertilisers and customer services, such as the FertTerms Plus offer introduced late last year.

I believe that, together, our major initiatives – lowering the ongoing cost base and strengthening Incitec Pivot's market position – form a powerful mix of internal and external improvements to take the business forward.

As we look to the future, we must never lose sight of the fact that the prime purpose of this company is to supply the key ingredient fertiliser to farmers to enable them to maintain and improve productivity.

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Despite the pressures on the business, I am pleased to advise that the day-to-day activities of the company continued to be undertaken successfully.

Among the achievements were progressive improvements in Incitec Pivot's critical Safety, Health and Environment performance.

Workplace safety has always been a priority and in the 2005 year the company achieved a recordable case rate of 0.99 per cent, indicating less than one recordable injury per 200,000 hours worked.

As you can see in this slide, this represented a 10 per cent improvement on the 2004 rate of 1.09 per cent.

The environmental performance of our manufacturing plants and logistics operations also improved.

This progress was demonstrated by a substantial reduction in non-compliance with environmental licence limits as measured in prescribed licence tests.

It is appropriate that the continued focus on Safety, Health and Environment by the entire workforce is recognised and I thank everyone for their continued vigilance on this most important aspect of our activities.

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As I mentioned earlier, the restructure led to changes across the company.

In July 2005, I announced that the number of Directors had reduced from nine to seven in line with a general reduction in staffing levels to streamline administration and secure cost savings.

Mr Leo Delahunty, Ms Barbara Gibson, Mr Graeme Liebelt and Mr David Trebeck resigned as non-executive Directors on 18 July 2005.

I would like to take this opportunity to thank Leo, Barbara, Graeme and David for their valuable contribution to the company after being appointed to the Board of Incitec Pivot at the time of the merger.

At the same time, the Board has appointed James Fazzino, Incitec Pivot's Chief Financial Officer since the merger in 2003, as Finance Director and John Chesterfield, Orica Limited's Chief Risk Officer, as a non-executive Director.

I congratulate James and John on their appointments and welcome them to this meeting in their new roles.

It is relevant to note that the changes I have referred to resulted in the Board continuing to have a majority of Independent Directors as defined by the ASX Corporate Governance guidelines.

In addition, on behalf of the Board, I would like to thank Greg Witcombe for his important role as Managing Director and CEO in the company's first two years following the merger.

Greg, who helped build the foundations we are now building on, resigned from Incitec Pivot on 3 June 2005 to take up a senior management position with Orica.

On your behalf I welcome Julian Segal, who was appointed Managing Director and CEO following Greg's resignation. Julian has already played a very significant role in leading the company restructure and repositioning.

I have every confidence in the Directors currently serving shareholders, in the management team and all employees across the business.

I would also like to thank everyone, especially those at the front line of the business in the field, for their efforts in a difficult year.

Across the company, dedicated men and women refused to be distracted by external events and maintained their focus on doing their best to help Incitec Pivot navigate major changes.

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Looking at the future, I would like to report on the business's performance for the first quarter of the current 2006 financial year.

I can say that we have made a sound start to the year and that our financial targets to date are being exceeded.

Our first-quarter performance showed a comfortable improvement on the first quarter in the previous year.

However, we all know the critical time for us in sales and profitability is the winter cropping season and, as always, that depends on the weather.

Ladies and gentlemen, I have explained the predicament Incitec Pivot found itself in during 2005 as a result of changed market dynamics and unfavourable seasonal conditions.

I've also talked about the company-wide restructure which saw reductions in the size of the Board, management team and overall staffing as part of our cost control measures, along with our new market positioning.

As a result of these initiatives, we have started the new financial year well positioned to achieve our objective of being the lowest cost base manufacturer and supplier in the industry.

Accordingly, your Board is cautiously optimistic about the company's performance for the remainder of the current financial year.

I'd like to close with a preview of one of the marketing tools that customers will encounter in the coming months.

Our eye-catching and practical 'Please shut the gate' signs carry the message 'Because the land is your life' as a reminder that this company understands your needs.

Like you, Incitec Pivot is committed to building a sustainable future for farming.

Thank you.