

**ADDRESS BY JOHN WATSON
CHAIRMAN
INCITEC PIVOT LIMITED
19 DECEMBER 2003**

Sound start for our new Company

Welcome to the first Annual General Meeting of Incitec Pivot Limited.

This is an important and an historic occasion. The fertiliser industry merger we discussed, debated and negotiated has come about. Our new company is fact and not just a proposal.

Consider for a moment the size of our enterprise. We distribute around three million tonnes of fertiliser a year, turn over more than \$1 billion in revenue annually, employ more than 800 people mostly in rural and regional areas and make a significant contribution to the national, state, regional and local economies.

The new name Incitec Pivot is already well known and nearly three weeks ago on 1 December, the company clocked up its first six months of trading.

That six months has seen very encouraging progress. We have established the new name and identity and announced our first financial results, which highlighted the core strengths of the business.

There is good demand for Incitec Pivot shares on the Australian Stock Exchange and strong support from our customers has enabled us to maintain our market share in eastern Australia.

Most observers – including the financial markets – believe we made a sound start in a difficult year impacted by the worst drought in 100 years.

Financial results

Let me just make a few broad comments on the financial results

For the year ending 30 September 2003 – covering eight months of Pivot Limited and four months of Incitec Pivot Limited – we have experienced tough trading conditions and we have had to absorb costs associated with the merger.

The net result after tax was a loss of \$18.6 million, which includes significant items of \$53.7m, the bulk of which related to restructuring costs following the merger. Excluding these significant items, we made a net profit of \$35.1 million which primarily came about as a result of excellent cost controls in the merged business partially offset by reduced sales volumes and lower selling prices.

Our Managing Director and CEO, Greg Witcombe will provide more details on these results but suffice to say that operational results to date are most encouraging.

No final dividend will be paid in 2003 however, former Pivot shareholders have already received a special dividend of \$1.40 per share fully franked, totalling \$24.5 million, in June 2003.

On the issue of dividend, I can advise that the Board recognises the importance, other than in exceptional circumstances, of making a steady or increasing rate of dividends per share and distributing available franking credits.

I would now like to speak further on the merger.

Why the merger is working

So why have we got off on the right foot when so many mergers have failed? To answer that, I'll use a football analogy.

Those of you who attended the 2002 annual meeting in April may recall I talked about the proposal to merge Melbourne and Hawthorn football clubs. I opposed that merger, simply because it didn't make sense.

This time around I'll use another football analogy to highlight what happens when the "fit" is right, just as it proved to be with Pivot and Incitec Fertilizers.

I'm talking about the amalgamation of the Brisbane Bears and the Fitzroy Lions.

The "fit" between these clubs just felt right. Each had much to contribute and both took strengths – and their best players - into the merger.

We all know the results – the Brisbane Lions have now won three premierships on the trot and are virtually invincible.

Incitec Pivot is not invincible, but its formation and early successes show what can be achieved when the "best of the best" are joined into a single force.

We have a long way to go but, like the Brisbane Lions, we aspire to be the best. Not just the best fertiliser business in Australia, but perhaps the best agribusiness.

This is a big call, and I do not make it lightly. But less than seven months into the new business, I am more convinced than ever of the potential of our merged company.

We have the assets, the products and the people to make Incitec Pivot highly successful.

And we will do this by maintaining our focus on delivering value to all our stakeholders, from shareholders such as yourselves, to customers (some of you are also in this category), business partners such as agents and dealers, our employees and the communities in which we operate.

Measure of success

So how can we judge what sort of a start Incitec Pivot has made on its journey to become a great Australian agribusiness?

In the lead-up to the merger, you may recall that one of strongest cases for combining Pivot and Incitec Fertilizers was the level of potential efficiency improvements that would be available.

At the time we were very clear about what synergy cost savings we anticipated the merged company to deliver. That figure was \$30 million per year and has become one of the measures that the success of the merger will be judged on.

I am pleased to report that in its first four months, Incitec Pivot put early runs on the board by capturing \$6.1 million in synergy savings – an annualised rate of about \$18m - much of this by eliminating duplicated logistics facilities and overheads.

Currently our annualised sustainable synergy savings rate is at \$20 million.

This achievement early in the life of the new business makes the Board and management confident and determined that the targeted annualised rate of \$30 million will be reached by the end of the 2004 financial year.

Another significant achievement has been securing the combined business's position in the market place. You may recall that originally it was anticipated that competitor activity following the merger might have affected the market share our products enjoy.

Thanks to the efforts of our market and sales people – and the loyalty of our agent and dealer partners in the distribution network – that has not occurred and our leadership of the East Coast fertiliser market has been maintained.

To me, this confirms that we have a strong business, and I can tell you that the company is totally committed to retaining its position as the market leader by meeting and exceeding the requirements of our customers.

If we want to be the best agribusiness in Australia, we must be the farmers' first-choice supplier for fertiliser.

Rewarding key stakeholders

We are equally determined to live up to shareholder expectations for the new company. At Pivot's last annual general meeting, shareholders gave overwhelming support for the merger.

The merger and subsequent listing of the new company on the Australian Stock Exchange gave you an option for your investment – hold or sell. Despite the opportunity to sell into a strong market, most shareholders have opted to retain their stake in Incitec Pivot.

In fact, to date more than 90 per cent of the former Pivot shareholders have maintained their investment. This is an impressive vote of confidence in Incitec Pivot and makes the Board and management even more determined to reward your commitment.

The partnership with Orica as our major shareholder is proving very valuable. We welcome Orica's continuing interest in the business, both as an investor and through the provision of shared services.

This co-operation – particularly in the areas of information technology, human resources administration and procurement - has already led to significant savings in overhead costs for our business.

We also want to reward the dedication of our employees because we believe that, by being a good employer, we will attract and retain staff of the highest calibre. The introduction this month of an employee share purchase plan is an important step in this direction.

For senior management, the Board has approved arrangements that link salary with performance. The scheme was designed with independent external professional advice and benchmarked against similar enterprises.

A significant part of the remuneration of senior executives is at risk and is dependent of the achievement of challenging short-term goals as well as the long-term success of the company.

The short-term incentive is tied to key business performance measures, including achievement of predetermined profit and safety, health and environment.

A long-term incentive scheme is also performance based and is designed to align the interests of management and shareholders. It recognises management actions that result in a sustained improvement in the performance of the business.

Safety, Health and Environment

Workplace safety continues to be one of the top items on our agenda, and the company continues to make progress towards our ultimate goal of eliminating injuries at work. We have set our sights on further improvements in the current financial year.

Sharing high priority with workplace safety is our commitment to improving environmental performance, both at our manufacturing plants and by encouraging efficient and responsible use of our products on farm.

We still have some environmental issues to work through at some of our sites, and we are working closely with regulatory agencies to resolve outstanding matters.

Our aim remains to meet – and exceed – all the standards required of us as we pursue the vision set out in our Safety, Health and Environment Policy of managing:

“ . . . all of our activities with concern for people and the environment and conducting our business without compromising the quality of life of present or future generations.”

The fact is, like any business, to be successful in the long-term we must meet community expectations and not merely our licence requirements.

Efforts recognised

Ladies and gentlemen, I would now like to recognise the efforts of our management and staff in getting the company off to a sound start.

We have a highly competent and well-regarded executive team led by Managing Director and CEO Greg Witcombe. Greg and his senior team have developed a strong working relationship with the Board.

Thank you, Greg, for your enthusiasm and leadership. Please pass on the Board's appreciation to your executive team and, in fact, to all your staff. Their skill and dedication have played a vital role in sometimes difficult circumstances.

That you have welded two businesses, which were head-on competitors for many years, into a single, focused team is a wonderful achievement that deserves the highest praise.

I detect from my regular visits to the corporate office, the emergence of a positive, “can-do” approach. I interpret that as a quiet confidence to complete the job that was started on 1 June.

There are also many others who have played their part in getting the company where it is today. My thanks go to the former Directors of both Pivot Limited and Incitec Ltd for embracing the merger, even though for most there would be no position on the Board of the new company.

The merger also meant a number of employees would not be continuing with the merged company, but almost without exception all continued to contribute to the best of their ability right up to their last day. Incitec Pivot is indebted to their dedication.

My appreciation also goes to the advisers who contributed to the success of the merger in many areas, including financial, corporate, legal and communications. These advisers each had an important role in achieving a successful outcome.

I would also like to place on record my thanks to the new Board that I am privileged to chair. Your Directors bring an extensive and balanced range of commercial skills, including a vast knowledge of agribusiness, to the table.

Every Director has contributed positively and my sincere thanks go to each one individually for their professionalism and fellowship.

Teamwork

Together, the new team that has created Incitec Pivot – right from employees at our plants and in the field, to the corporate staff at Southbank and my fellow Directors – have put together a successful merger where many others have failed.

Of course, like the successful Brisbane Lions merger, this would not have happened without the vision and support of those at grass-roots level.

I am talking here of our shareholders. Thank you, ladies and gentlemen, for having the foresight and confidence to seize the opportunity when it was presented.

Please take care returning home at this busy time of the year and best wishes for Christmas and the New Year.

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