

INCITEC PIVOT LIMITED AGM 17 DECEMBER 2004

**ADDRESS BY THE CHAIRMAN**  
**JOHN WATSON AM**

Ladies and gentlemen, this Annual General Meeting is another important milestone in the evolution of your company.

At this time last year when Incitec Pivot held its first Annual General Meeting, we were able to report on only four months performance of the merged business.

Today your Board and management are able to present the financial results for a full 12 months.

**Financial performance**

In relation to financial performance, I am pleased to report that for the 2004 year, Incitec Pivot generated a net profit after tax, excluding significant items, of \$80.9 million.

This is an increase of 77 per cent when compared with the proforma profit for 2003. The proforma results calculate 2003 profit assuming Incitec Fertilizers and Pivot were merged for the full year.

Net profit after tax, including significant items, was \$75.1 million - a huge improvement on the net loss \$18.6 million reported in the previous year, which you will recall was largely a result of merger costs.

The 2004 year saw the company begin to reap the benefits of the merger. In addition to capturing the \$30 million in annual synergy savings forecast during the merger discussions, Incitec Pivot went on to secure a further \$20.6 million in business efficiency improvements.

These achievements, along with a strong contribution from manufacturing, underpinned first-year profitability.

Your company ended the year with an enviable balance sheet that shows \$20.8 million in net cash reserves, compared with a net debt of \$74.4 million at the previous year's end.

**Shareholder value**

These are impressive figures, but what do they mean in practical terms for you as shareholders?

Market practice is for investors to evaluate the performance of their investments by measuring total shareholder returns. That is the total return combining both the dividend yield and the capital growth in the share price.

For the vast majority of shareholders in Incitec Pivot who held their shares for the full year, total returns amount to a creditable 28.2 per cent.

The total dividend of \$1.29 per share – made up of a normal dividend of 90 cents per share and a special dividend of 39 cents per share - accounted for 8.2 per cent of that return.

As you know the dividend was fully franked, maximising the taxation advantage to shareholders.

The remaining 20 per cent of the total shareholder return came in capital growth through an increase in share price from \$15.66 on 1 October 2003 to \$18.80 on 30 September 2004.

Of course, to realise the growth element of this return, a shareholder would have needed to sell his or her shares at year end. In practice few did, preferring to maintain their investment in the company.

Since year end, shares in Incitec Pivot have risen further. Last night they closed at \$21.65.

### **Range of stakeholders**

Ladies and gentlemen, I have been referring to shareholders as a group. But putting our equity holders in one “box” does not fully capture the wide range of categories of shareholder that make up the Incitec Pivot register.

I believe this broad base of ownership gives the company one of its strengths and sets it apart from many other enterprises. Let me run through the diverse categories of shareholders we have.

Please bear in mind this slide shows only Incitec Pivot’s free float – the 30% of shares that are available for trade – and not Orica’s 70%.

First, there are those original Pivot shareholders who elected to continue as part of the company. A large number have maintained this connection for many years.

Some of these shareholders no longer farm themselves, but more than 30,000 are still on the land and regularly buy their fertiliser from Incitec Pivot.

These shareholders are in a special category as they are customers as well as equity holders and thus are both our past and our future.

It is a privilege to welcome many shareholders from this category today and, along with my fellow Directors, I look forward to speaking with you later.

Although much fewer in number, I also welcome those non-farmer retail investors who have made their judgement on Incitec Pivot’s prospects by joining the share register.

Among those with smaller holdings are another important category of shareholder – employees of Incitec Pivot who have shown their faith in the company’s future by purchasing shares.

## **Support of Orica**

Also with us today are representatives of our major shareholder, Orica.

Incitec Pivot is very fortunate to have a particularly strong and productive relationship with Orica at a number of levels.

This includes day-to-day cooperation which delivers practical business advantages such as securing greater buying power and improved efficiencies through shared services.

But in addition to the pure business outcomes, the relationship has also enabled Incitec Pivot to draw on the Orica culture, for example its leadership in workplace safety and health.

Incitec Pivot has its own distinct identity, but there is no question being part of the Orica family gives us a strength envied by our competitors.

Moving on to another category of shareholder, I also recognise the role of the institutions which have backed our company. We welcome your support.

For tightly-held companies such as Incitec Pivot, as institutions move on and off the share register they create the liquidity that gives private shareholders the opportunity to be part of the company.

It is very pleasing to see that our institutional shareholders include those who are regarded as “ethical investors”, those who measure social and environmental responsibility along with profit.

## **Corporate values**

That brings me to the important issue of how we would like Incitec Pivot to be seen by its stakeholders. I am speaking here about our farmer customers, agents and dealers in the marketplace, suppliers, employees, the communities we operate in and, of course, our owners.

I take the view that, in addition to being commercially successful, we must also be a “good” company in the sense that we observe values that earn us the respect of these stakeholders.

Increasingly, the public demands responsible behaviour - socially and environmentally as well as in commercial performance - from its corporate citizens.

I am proud to say that Incitec Pivot is committed to meeting these expectations.

## **Corporate governance**

Ladies and gentlemen, I can assure you that your Board is committed to adhering to the highest standards of corporate governance.

All Directors – most of whom, by the way, are independent of management and our major shareholder – discharge their duties in a responsible manner and are collectively focused on maximising shareholder value.

To achieve this aim, the Board's structure and processes are subjected to external review to ensure each Director is individually able to make a strong, positive and informed contribution.

Before closing I would like to mention briefly two matters that we will deal with as this meeting progresses.

## **Financial audit**

First, as previously advised in my letter accompanying the annual report and notice of meeting, a resolution approving the Directors' appointment of KPMG as auditors of the company inadvertently was not put at last year's annual general meeting.

The effect of this omission was that the financial report appearing in the Annual Report, while having been audited by a duly qualified auditor and in accordance with the Australian Auditing Standards, had not been audited by an auditor duly appointed by the Company.

In fact, KPMG attended all of the company's Audit and Risk Management Committee meetings and conducted an audit of the company for the year ended 30 September 2004. The results of which are set out in Incitec Pivot's annual report .

During the year, KPMG also conducted a review for the half year ended 31 March 2004 in accordance with Australian Auditing Standards.

The audit situation will be addressed at this meeting through a resolution approving the appointment KMPG as auditors.

If it is passed, this resolution will enable the Directors' declaration to be signed on behalf of the Directors and for KPMG to sign the audit report.

## **Staff incentives**

The second matter I wish to deal with is staff incentives. As described in the Directors' report, the company has a policy of offering market-competitive salaries to ensure we attract and retain executives of the highest calibre.

The salaries we offer are in two basic parts – the base salary and an "at risk" component made up of long and short term incentives.

As their name suggests, the "at risk" incentives are not paid if the individual and the company do not attain certain pre-determined performance levels.

The underlying purpose of the incentive plans is to ensure continual focus on achieving sustainable growth in shareholder value.

### **Long term incentive plans**

As you will have seen in the Notice of Annual General Meeting, Resolution 5 seeks shareholder approval of the Long Term Incentive Plans for the purpose of section 259B(2) of the Corporations Act.

This resolution has been proposed because under these plans, a participating executive must forfeit any shares awarded if he or she leaves the company.

To ensure the shares are returned by the relevant executive, the company holds an executed share transfer form empowering it to sell the shares.

The company has been advised that having the ability to sell shares in these circumstances may constitute the taking of security over the shares by the company.

This situation is not permitted by the Corporations Act unless the plans have been approved by shareholders pursuant to section 259B(2) of the Corporations Act.

### **Summary**

Before winding up, I would like to summarise the 2004 year for Incitec Pivot.

Because of ongoing drought conditions in most areas, the year was another difficult one for many of our farmer customers and the distribution partners who supply their fertiliser.

In addition to impacting on farm income, the unpredictable conditions made forecasting fertiliser demand and delivering short-notice orders a significant logistics challenge.

In spite of these difficulties, the company secured the merger synergies, laid the foundation for a healthy company culture and significantly improved safety health and environment performance on the way to delivering higher than expected profit.

This success would not have been possible without the ongoing support of the customer shareholders who continue to buy and apply Incitec Pivot fertiliser and our distribution partners.

On behalf of the Board and all shareholders, I would also like to thank Greg Witcombe and his management team for their leadership in securing a very sound first-year result.

The Directors also wish to thank all employees for meeting the challenges created by the drought and the merger to give the company a solid foundation we can build on in the years ahead.

Please have a happy and safe festive season.

I'd now like to pass over to our Managing Director and CEO, Greg Witcombe. #