



INCITEC PIVOT LIMITED – ANNUAL GENERAL MEETING
19 DECEMBER 2008

SPEECH BY THE CHAIRMAN, JOHN WATSON, AM

Ladies and gentlemen, I am pleased to report another year of successful delivery on a corporate strategy, which has produced good returns to shareholders and has provided the company with the strength to move forward with confidence despite the current uncertain global financial environment.

In 2008, Earnings Before Interest and Tax more than tripled to a record \$969 million. Net profit excluding individually material items was also a record at \$657 million – it too was up more than three times on the prior year. Likewise, operating cash flow more than tripled to \$823 million. We have maintained our commitment to financial discipline. Shareholders benefited from a dividend distribution that almost doubled from 15 cents per share last year to 29.7 cents per share.

It was these results which gave our shareholders confidence in supporting the pro-rata Entitlement Offer which was made to all of our shareholders last month. We undertook the capital raising to secure our strong balance sheet position and to position us to repay debt. The offer price, of \$2.50 per share was appropriate, given the current volatility in the global equity markets. Moreover, the IPL board wanted to give our shareholders a strong incentive to reinvest in IPL. We believe this approach has been vindicated, firstly, by the support for the offer from existing IPL shareholders, where I note, in the case of the institutional offer, 99% of the offer was taken up by existing shareholders, and for the retail offer, there was solid support. Secondly, IPL's entitlement offer occurred in an environment where there have been increasing numbers of companies undertaking similar offers in recent weeks. We were prudent and prescient to be among the first to take this approach.

Earlier in the year, we successfully sought shareholder support for a 20 to 1 share split. The share split was initiated in response to shareholder requests that we lower the nominal value of shares. The share split enabled the introduction, also at the request of shareholders, of a Dividend Reinvestment Plan which would have been difficult to implement when shares have a high nominal value. While the Dividend Reinvestment Plan was established, it was suspended for the 2008 final dividend because of the capital raising.

We are all well aware of the impact of the global financial crisis on global commodity markets, on global credit markets and on global equity markets. There has been an impact on the share price of many companies in the ASX 200 and we have not been immune. Let me say that we remain confident that the company's strategy will continue to deliver shareholder value into the future. The fundamentals, underpinning the business strategy, remain. IPL supplies industries which provide for basic human needs such as food, shelter, power. These are not discretionary and will continue to be in demand.

In relation to our domestic fertiliser business, there has been public debate on the issue of fertiliser prices in Australia leading to two inquiries during 2008, one by the Australian Competition and Consumer Commission and the other by a Select Committee of the Australian Senate. We presented to both inquiries, as did a range of other interested parties including other manufacturers and distributors, retailers and farmers.

IPL has maintained strongly that fertiliser prices in Australia are the result of international supply and demand influences. Fertiliser is a freely traded product and Australia imports half of its fertiliser needs. I note that the Australian Competition and Consumer Commission inquiry concluded that Australian fertiliser prices are the result of global supply and demand factors. The ACCC inquiry also concluded that it had not been provided with any evidence suggesting a likely breach of the Trade Practices Act by any participant in the Australian fertiliser industry.

The Senate Select Committee released an interim report earlier this month which was unable to identify any specific examples of improper conduct by IPL. On several occasions during the Committee's hearings, we requested that direct evidence, if available, be provided for unbiased scrutiny and investigation rather than the anecdote, innuendo and hearsay continually presented to the committee. No such factual evidence has been provided. We will continue to co-operate with the Senate Committee in providing accurate information and we await the Committee's final report in the middle of next year.

In this context, I note that the impact of global forces on Australian fertiliser prices has been clearly demonstrated in recent weeks with prices to farmers dropping dramatically as lower priced imported products enter the market and local manufacturers, including IPL, continue to adjust prices in accordance with import parity.

The acquisition of Dyno Nobel was completed in June 2008. This strategic growth opportunity took us into the international arena and into the resources sector thereby providing us with exposure to hard as well as soft commodities. There is a natural fit between fertilisers and explosives as both businesses have nitrogen-based manufacturing at their core. Also, the two companies are leaders in their chosen industries with well recognised brands.

I had the pleasure of leading my fellow directors on a visit of the Full Board to Dyno Nobel's North American operations earlier in the year to meet with the employees and inspect the sites. We saw a strong level of commitment by the Dyno Nobel team to safety, customer focus and cost vigilance. I was also impressed by the quality assets in prime locations to service the centres of demand. The Dyno Nobel business is performing to expectations and we are looking forward to continuing strong performance.

It is our employees in all our businesses who are responsible for delivery on our strategy. We will continue to create value for shareholders only if we hold and attract people that are capable, committed and motivated. Accordingly, we have a remuneration strategy designed 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 new long term incentive plan, which is now a performance rights plan, as opposed to a loan backed incentive plan. Executives and senior employees have been invited to participate, and subject to shareholders' approval today, Mr Segal and Mr Fazzino will be invited to participate on the same basis as other executives and employees. In particular, I note 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 of 20% per annum compounded over the three-year period to 2011.

We similarly took independent expert advice in relation to remuneration for Non-Executive Directors. Non-executive directors' fees are determined by the Board subject to an aggregate limit which is currently \$1.4 million. There is a resolution before you today which seeks to increase the maximum total amount of fees from which the Company may pay the non-executive directors by a total of \$600,000 to a maximum of \$2 million per annum. This increase is necessary given the growth of IPL and the increased level of responsibilities on directors. The pool of \$2 million has been proposed following an independent review of comparable companies, and is set at the median level of such companies. From within this pool, the Board will be able to set its fees at levels necessary to attract and retain directors of the appropriate expertise and experience.

In discussing the board, it is timely for me to pay tribute to the deputy chairman, Brian Healey, who is retiring as a director of IPL at the conclusion of this meeting. Brian was appointed as a director of IPL on the first of June 2003 and since that time has made an erudite and astute contribution on the strategic direction established by the board which has seen an unparalleled period of growth for the company in size, shareholder value and prominence. On behalf of my fellow directors and the senior management, I would like to thank Brian and to wish him well.

In this context, I am also pleased to announce that Graham Smorgon has today been appointed by the Board as a non executive director with his appointment to commence from the close of this meeting. Graham was invited to join the board following a rigorous external review on the qualities and experience required for the IPL Board. Graham has extensive experience both as a director and in senior management. A lawyer by profession, Graham was actively involved in the Smorgon Steel business which he chaired after its listing and before its acquisition by One Steel. He then became a non executive director of One Steel in 2007. The Board considers that Graham has the skills and expertise to make a valuable contribution to IPL. As required by the Company's Constitution, Graham will resign at the next General Meeting of shareholders and, if eligible, may offer himself for election by shareholders.

In closing, I want to pay tribute to the IPL team which continues to achieve outstanding performance. The board has set the IPL management and employees challenging strategic targets in the knowledge that we have a team which is committed to delivery and to "getting things done". On behalf of the board, I wish all of our employees a safe and pleasant festive season and we all look forward to a rewarding year in 2009. Also, I want to thank you for your attendance today and wish you and your families all the best for the festive season.

John Watson, AM
Chairman