

Incitec Pivot Limited

INCITEC PIVOT LIMITED – ANNUAL GENERAL MEETING 17 DECEMBER 2015

SPEECH BY THE CHAIRMAN, PAUL BRASHER

Introduction

Ladies and Gentlemen.

My focus today will be to give you a brief summary of the highlights of our 2015 year within the framework of the Incitec Pivot Limited strategy. James Fazzino, our Managing Director & CEO, will then review the 2015 results and will also talk in further detail around the Company's strategy for the medium to long term.

I am looking forward to hearing your questions and comments about the Company during today's meeting. At the end of the meeting, the Board and management will be available to take your questions and to also talk with you over tea and coffee in the foyer.

Safety Performance

As always, I begin with Safety.

Safety is our number one priority and comes before everything we do. Tragically, in May this year, one of our colleagues lost his life in an underground mine in Western Australia. To his family and loved ones, I want to express our deepest sympathy. Immediately following the incident, James led a global safety stand down which was carried out at all sites, across all levels. The stand down was focused on ensuring that everyone who works in the IPL Group understands and appreciates the risks they face every day at work, and are focused on the controls that are in place to keep them safe.

The terrible paradox is that this incident occurred in a year in which we saw considerable improvement in many areas of our safety performance, with 92% of our sites injury free as at 30 September, and our rolling 12-month total recordable injury frequency rate reducing by 30% compared to 2014. Zero Harm will continue to be our most important value and our highest priority for our people and the wider communities in which we operate.

In this respect, safety leadership is absolutely essential. When the Board visits Group sites, a critical part of our interaction is to view the site safety process to independently observe, ask questions and challenge these safety processes. The Board's Health, Safety, Environment and Community Committee led by Rebecca McGrath also continues to play a critical role in providing safety oversight and leadership across the Group.

But make no mistake, whatever improvements we achieved in safety this year, the big picture is that we failed, and we will go into 2016 determined that this will not happen again.

Financial Performance

The Company's financial performance for the year is outlined in detail in our financial statements, and of course, we will be happy to take any questions on these from Shareholders. In a year where our customers have been challenged by structural and cyclical shifts, the positive results achieved by the Company in 2015 demonstrate that we have absolutely the right strategy, the right leadership, the right people and the right execution via our Business Excellence model, otherwise known as BEx.

At a business level, some of the highlights included:

- A 12% increase in Net Profit After Tax excluding Individually Material Items
- Our Fertiliser business EBIT increasing by 22%;
- Our Explosives business EBIT increasing by 1%; and
- A 10% increase in Earnings Per Share excluding IMIs to 23.8 cents per share.

Given the end of the mining boom in Australia, structural changes in coal markets in the United States and Australia and ongoing drought in our key agricultural markets in Northern Australia, these achievements were significant.

In relation to the Balance Sheet, operating cash flow increased by 41% to \$756.2m, driven by strong growth in EBITDA and a reduction in trade working capital, mainly as a result of improved stock turns and our focus on continuous improvements and efficient cash management using our BEx model, which James will talk more about.

Financial leverage, a key management metric measured as Net Debt to EBITDA, was 1.6 times, well within the target range, notwithstanding the current investment being made in WALA, the new ammonia plant under construction in Louisiana.

And interest cover improved over the year up to 9.7 times from 9.1 last year.

Our strong Balance Sheet, higher underlying earnings and strong cash generation enabled the Board to determine to pay a final 2015 dividend of 7.4 cents per share. The dividend was 60% franked, bringing the total dividend in respect of the 2015 financial year to 11.8 cents per share, an increase of 9% on the 2014 dividend.

Strategy

Of course, these results could not have been achieved without the right strategy.

IPL's strategy is focused on the two biggest global dislocations, being the demand for hard and soft commodities associated with growth in Asia, and the seismic shift in the world's largest economy – the United States - as a result of the shale gas boom.

It is important that any strategic development decisions are able to deliver results 'through the cycle'. What I mean by that is that these decisions need to deliver from the short, to the long term.

Let me give you a couple of examples of where we have been, and are, achieving this:

1. Firstly, the decision to develop our \$1 billion Moranbah ammonium nitrate plant to come on stream at the height of the resources boom in Australia to feed the immense increase in demand for resources from Asia, particularly China, was absolutely the right strategic decision.

And at the same time, the decision to contract all the production from Moranbah is now proving a prescient judgement, as the demand for resources has cooled in the current cycle. The profitability of the Moranbah plant was the core differential for the Dyno Nobel Asia Pacific business achieving an acceptable result under the trading conditions we have seen this year. The Moranbah plant produced 320,000 tons of ammonium nitrate and total earnings of \$131 million, offsetting the impact of challenging mining markets in Australia, Indonesia and Turkey.

2. The second example I wanted to highlight was the decision to invest in WALA, our new ammonia plant under construction in Louisiana, timed to capitalise on the shale gas surge in the US. You may have seen the video running when you entered the room before the meeting started which showed the progress of construction to date.

When this plant comes on line late next year, it will be a transformational event for our Dyno Nobel Americas business, providing very robust cash flows and further strengthening our Balance Sheet, which is already in excellent shape.

However, as I alluded to earlier, our business is not without its challenges. In the past year, we have seen significant debate around the future of coal. Following the Climate Change Conference in Paris in recent weeks, there is now agreement on a framework to address climate change into the future. In particular, there is strong focus on future energy requirements, and our customers in the coal industry, and their customers in turn, are very much aware of some of the challenges ahead of them.

James will say some more about the implications of this in his address, but I would like to just make four points:

- Firstly, declarations of the death of coal as an energy source are premature, probably by decades, as the developing world continues to seek solutions to energy poverty.
- Secondly, while we will continue to see the closure of the older, high emission coal fired power plants, we will also see continued technological innovation and construction of high energy, low emission power plants.
- Thirdly, we will continue to work with our customers as they deal with challenges to their industry and as they seek to manage the cost of their operations.
- And finally, as a Board, our strategy discussions will be clearly focussed on the implications for our business of the long term changes to the industries in which our major customers operate.

NEGI Pipeline

In the context of the debate around energy, you will recall that in the last few years I have spoken about the challenges for Australian manufacturing of maintaining reliable, committed sources of gas at economically viable prices. Against this backdrop, IPL's position has been that there is an urgent need for a coherent national energy policy and, in particular, a need to encourage new sources of gas supply into the market.

Interestingly, you may have seen last week Energy Minister Frydenberg picking up exactly this theme as he urged the Commonwealth and States to work together on innovative and practical solutions to the gas supply side problem.

I am delighted to say that we are part of just such a solution, with the Northern Territory Government recently approving construction of a new gas pipeline from Tennant Creek to Mt Isa as part of a coordinated project with the Queensland Government.

Reflecting the importance of this pipeline, it was granted Major Project status by the Northern Territory Government and also has the support of the Council of Australian Governments.

Subject to the satisfaction of certain conditions precedent, the Company will be the foundation customer of the new pipeline which will provide conventional gas to our Phosphate Hill plant in North West Queensland for approximately 10 years from around late 2018. This agreement is expected to result in our gas costs decreasing by about \$55 million against the current cost. The entry into this agreement marks an important milestone for the Company. Several years ago, we set our long term gas strategy to develop or create opportunities for more gas supply from more producers. This agreement rewards the perseverance of James and his Executive Team, and is also a credit to the Governments and private sector companies involved.

Board and Management

I want to take this opportunity to thank my fellow directors for their collegiality and knowledgeable contribution to our Board discussion and debate this past year. The Company continues to be led by an experienced Board, with significant knowledge and expertise. With its collective skills, experience and diversity, the Board is well positioned to guide the Company and support the management team and its employees.

I also want to thank James and his Executive Team, who have shown outstanding leadership in implementing the Company's strategy and delivering the positive results this year.

Further, I want to thank the entire IPL global workforce. Despite many challenges this year, they are all truly living the Company Values and have continued to embrace BEx. I truly believe the Company's success is a reflection of our employees' hard work, dedication and commitment.

Closing

In closing, I would like to say that to have achieved the result we have in the face of such challenging conditions, gives me great confidence for the future.

Of course there will be some issues we face that are beyond our control – input costs, global prices, exchange rates.

But our strategy is sound, and we will continue to succeed if we maintain our focus on those things that underpin our performance: Zero Harm, BEx, manufacturing reliability, customer relationships and partnerships and financial discipline.

Our financial strength will continue to improve beyond 2016 and will provide us with further scope to maximise shareholder value, which may involve a combination of capital management and strategic growth opportunities. In this context, I can assure you that the Board will continue to be disciplined in strategic decision making.

Shareholders, thank you and I very much look forward to your questions and comments later.