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Difficult year made worse by Queensland's 100 year flood

Company/ASX Code	Incitec Pivot Ltd/IPL
AGM date	Friday 20 December 2019
Time and location	10:30am, Clarendon Auditorium, MEC, 2 Clarendon St, South Wharf
Registry	Link Market Services
Webcast	Yes Audio
Poll or show of hands	Poll
Monitor	Peter Aird, assisted by Mike Robey
Pre AGM Meeting?	Yes, with Chair Brian Kruger, NED Kathryn Fagg (Chair, Remuneration Committee) and Company Secretary Richa Puri

Item 1	**Consideration of accounts and reports**
ASA Vote	No vote required

Summary of ASA Position

Incitec Pivot (IPL) had a difficult year with its performance affected by a number of non-recurring events, including a one in one-hundred-year flood in Queensland preventing rail services to their Phosphate Hill facility for 3 months. Apart from this, there were other unplanned outages in their Waggaman (Louisiana) and Phosphate Hill plants.

Financial performance:

Whilst overall sales revenue was up by 1.6% going up to $3,918.2 million (m) from $3,856.3m in Financial Year 2018 (FY18), Earnings Before Interest and Tax (EBIT) were down in all businesses. This resulted in an overall group EBIT of $303.7m in FY19 as compared to $320.7m in FY18. Group Net Profit After Tax (NPAT) fell to $152.4m (FY18 $208m).

The impact of non-recurring events (flood, plant shutdowns) was reported as $197m across the group with the Fertiliser business suffering a $184.3 EBIT reversal to post a $79.7m loss (Flood and Phosphate Hill reactor failure of -$135m). The Fertiliser business was further affected by increased gas costs and drought conditions, whilst the Dyno Nobel businesses were affected by contract renewals (Asia Pacific) and plant reliability (Waggaman). However, management believe the FY20 outlook across the business remains positive.

A strategic review of the Fertiliser business was announced in September with the full menu of options (sale, demerger, retain and invest) under assessment. The Chair indicated that there was market interest in the business despite current conditions and they would take the time required to "properly assess the best outcome".

Key Board / senior management changes:

Chair Paul Brasher retired at the end of June and Mr Brian Kruger was appointed as his replacement. Mr Kruger has been a Non-Executive Director (NED) since 2017 and brings experience in manufacturing and the industrial sectors though executive roles with BHP, BlueScope Steel and Toll Holdings. His knowledge and influence were evident during our meeting.

The company announced the appointment of two new NEDs in October (see below) and that Ms Kathryn Fagg would not seek re-election at the AGM. These changes maintain the current Board gender balance and support the Board Skills and Experience analysis provided in the Corporate Governance statement (Principle 2: Structure of the Board to add Value).

Executives Tim Wall (Global Manufacturing) and Stephan Titze (Incitec Pivot Fertiliser) joined the Executive team during the year.

Governance and culture

IPL has a very clear focus on safety, environment and sustainability in their business with clear priority given to safety in management reporting (eg 1st item in CEO's report). This was made even clearer in response to the monitor's question regarding motivation of employees to focus on the company's targets (eg TRIFR, Environment Incidents) where these were described as "a basic requirement of employment" and were, for example, addressed at the start of every work shift.

The company publishes a detailed analysis of its Corporate Governance performance under 8 Principles that are consistent with the ASX Corporate Governance Council's Governance Principles and Recommendations.

Summary

(As at FYE)	2019	2018	2017	2016	2015
NPAT ($m)	152.4	207.9	318.7	128.1	398.6
UPAT ($m)	152.4	347.4	318.7	428.1	576.5
Share price ($)	3.39	3.98	3.60	2.82	3.90
Dividend (cents)	4.7	10.7	9.4	8.7	11.8
TSR (%)	(13.1)	13.5	27.9	(27.7)	42.6
EPS before IMI's (cents)	9.5	20.9	18.9	17.5	23.8
CEO total remuneration, actual ($m) Note	2.77 *	1.6	2.4	4.2	4.0

- Includes STI cash from 2018

For 2019, the CEO's total actual remuneration was **31 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Item 2a	**Re-election of Dr Xiaoling Liu as a Director**
ASA Vote	**For**

Summary of ASA Position

Dr Liu has an impressive academic background (extractive metallurgy) and executive experience with Rio Tinto (26 years) which includes international appointments. She is currently a NED of Newcrest Mining and South32 and will become the Chancellor of QUT in 2020.

The company provides clear justification in the AGM Notice Explanatory Notes for her re-election to the Board in terms of both her international experience, especially in the United States, and wide range of skills and expertise which are relevant to those identified in the Board Skills and Experience analysis. On this basis, a Vote For is appropriate.

Item 2b	**Re-election of Mr Gregory Robinson as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Robinson has extensive executive experience in the finance and resources industries which includes time with Merrill Lynch and BHP before joining Newcrest Mining as Finance Director and subsequently Chief Executive.

The company provides clear justification in the AGM Notice Explanatory Notes for his re-election to the Board in terms of his "deep understanding of domestic gas supply" and mining operations and expertise in finance and management which are relevant to those identified in the Board Skills and Experience analysis. On this basis, a Vote For is appropriate.

Item 3	Adoption of Remuneration Report
ASA Vote	**For**

Summary of ASA Position

CEO Remuneration FY19	Target $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.735	28.5%	1.735	25.0%
STI - Cash	0.867	14.3%	1.301	18.7%
STI - Equity	0.867	14.3%	1.301	18.7%
LTI	2.602	42.9	2.602	37.5%
Total	6.073	100%	6.94	100%

The Remuneration Report is well set out, clear and provides extensive relevant information. A single page Introduction from the Chairman of the Remuneration Committee provides the highlights. The Report includes details of the Strategy, the Framework and outcomes of Executive and Board Remuneration.

After the 2019 year, no Short Term Incentives (STI) were paid to Executives as the Group Financial Gateway was not achieved. Long Term Incentive (LTI) financial targets (Total shareholder Return (TSR) and Return on Equity (RoE)) were also not achieved so that only performance rights relating to Strategic Initiatives (20% of total) would partially vest. However, a Special Discretionary Bonus was paid to Mr Greg Haynes, President of Dyno Nobel Asia Pacific, “in recognition of an exceptional customer driven outcome for the Australian business” which centred around customer partnerships and IPL’s technology.

Following the major review of Remuneration carried out in 2018, only minor changes have been made for FY2020. The CEO’s Fixed Annual Remuneration (FAR) was increased by 2.5%, the first change since her employment in 2017, with no change for other Executives.

The STI remains based on Group and Business unit financial performance (some adjusted against commodity prices and exchange rates), safety and strategic initiatives, with Gateways based on financial performance and Board discretion applicable to Zero Harm performance. A breakdown of the weighting of STI awards for each Executive is provided (Table 2). Up to 50% of any STI award is deferred whilst Executive build their shareholding to meet their Minimum Shareholding Requirement (MSR, set out in the 2018 Remuneration Report). An additional Gate (Group overall credit rating) has been introduced in FY2020 to ensure a focus on cash and cash flow.

The LTI has continued to be based on TSR, RoE and Strategic Initiatives over a three year period, with changes made to the weighting of these measures in each period. In FY20, the RoE measure has been replaced by Return on Invested Capital (ROIC). The Board believes this is a better measure as it is a “key determinant of efficient use of capital” and can be drilled down to individual business units. It includes working capital and Goodwill, the latter making up a significant proportion of balance sheet assets.

Directors are also subject to a Minimum Shareholding Requirement (MSR) and an option of fee sacrifice has been put in place to facilitate this requirement.

The report includes Executive statutory and actual remuneration, remuneration of Directors and shareholdings of Directors and Executives.

As the Report is comprehensive and meets ASA guidelines (except LTI period), it is appropriate to support it.

Item 4	**Grant of Performance Rights to Managing Director & CEO Jeanne Johns**
ASA Vote	**For**

Summary of ASA Position

The basis of the Entitlement calculation has been changed in FY2020 from the volume weighted average price (VWAP) of company shares in the period before the end of the previous financial year to the VWAP of company shares in the 5 business days following release of the previous year’s results. The company believes this is a more accurate way of valuing the company, as the market was fully informed. Review of recent previous year’s VWAP did not indicate that this revised method made a significant difference. It does however mean that the actual VWAP used to calculate Rights may not be included in the Notice of Meeting.

The Performance Conditions are TSR (40%), Strategic Initiatives (30%) and ROIC (30%) as set out in the Notice of Meeting. The new ROIC condition specified is for the absolute ROIC in the Final Year of the performance period, making this a clear target over the 3 year period. This target “represents significant improvement in ROIC”.

The Grant meets ASA guidelines (except for the 3 year period) and the new performance condition has the objective of improving performance whilst providing a clearer link to individual business units. This provides a connection between those business units and overall company performance, focusing executive and management actions. This business model has been used successfully by many diversified companies. On this basis, it is appropriate to support the Grant.

The individual (or their associates) involved in the preparation of this voting intention has no shareholding in this company.