

Directors' Report

Corporate Governance Statement

The Board is committed to achieving and demonstrating the highest standards of corporate governance. Since Incitec Pivot's listing on the Australian Securities Exchange (ASX) in July 2003, the Board has implemented, and operated in accordance with, a set of corporate governance principles which the Board sees as fundamental to the Company's continued growth and success and the achievement of its corporate ambition and strategy.

The Board continues to review its corporate governance framework and practices to ensure they meet the interests of shareholders and are consistent with the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (2nd edition, 2007) (ASX Recommendations).

This corporate governance statement outlines the key aspects of the Company's corporate governance framework. This statement is structured and numbered in the order of the Principles set out in the ASX Recommendations. It includes cross-references to other relevant information in this report and the Company's charters, policies and codes, details of which are available on the Company's website, www.incitecpivot.com.au.

The Board considers that Incitec Pivot's corporate governance framework and practices have complied with the ASX Recommendations throughout the year ended 30 September 2009.

Summaries or copies of the charters, policies and codes referred to in this statement are available on the corporate governance section of Incitec Pivot's website, www.incitecpivot.com.au.

Principle 1: Lay solid foundations for management and oversight

Role of the Board and management

The Board of directors of Incitec Pivot is responsible for charting the direction, policies, strategies and financial objectives of the Company. The Board serves the interests of the Company and its shareholders, as well as Incitec Pivot's other stakeholders such as employees, customers and the community, in a manner designed to create and continue to build sustainable value for the Company.

The Board operates in accordance with the broad principles set out in its Board Charter. A copy of the Board Charter is available on the corporate governance section of the Company's website, www.incitecpivot.com.au. The Charter sets out the Board's own tasks and activities as well as the matters it has reserved for its own consideration and decision-making.

The Board Charter has specifically reserved a number of key matters for consideration and decision by the Board. These responsibilities include:

- *Direction and objectives* – approving the Company's corporate strategy and budgets;
- *Compliance* – ensuring and monitoring compliance with all laws, governmental regulations and accounting standards;
- *Ethical* – monitoring and influencing Incitec Pivot's culture and implementing procedures and principles to promote ethical and responsible decision-making and confidence in Incitec Pivot's integrity; and
- *Managing Director & CEO and direct reports* – appointing the Managing Director & CEO and the direct reports to the Managing Director & CEO, monitoring management's performance and reviewing executive succession planning.

Each year, as provided for by the Board Charter, the Board undertakes an annual performance evaluation, comparing its performance against its Charter, setting objectives and effecting any improvements to the Charter.

To assist the Board in meeting its responsibilities, the Board currently has the following three Committees:

- the Audit and Risk Management Committee;
- the Remuneration and Appointments Committee; and
- the Health, Safety, Environment and Community Committee.

The Board Charter provides that the Board may establish other committees of the Board from time to time as may be necessary to deal with specific matters.

Each of these Committees has its own Charter which establishes the Committee's terms of reference and operating procedures. In line with the Board Charter, each Board Committee is to review its performance at least annually, review its Charter annually, recommend any changes to the Board and report regularly to the Board as to its activities. Further information about the governance framework and activities of the Committees is set out below.

Day-to-day management of Incitec Pivot's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated to the Managing Director & CEO. The Delegated and Reserved Powers Policy details the authority

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delegated to the Managing Director & CEO, including the limits on the way in which the Managing Director & CEO can exercise that authority. A summary of the Delegated and Reserved Powers Policy is set out on the corporate governance section of the Company's website, www.incitecpivot.com.au.

Management performance evaluation

As part of the Board's oversight of senior management, all Incitec Pivot executives are subject to annual performance reviews. The annual review involves each executive being evaluated by their immediate superior, normally the Managing Director & CEO. The executive is assessed against agreed performance objectives including business/financial/operational targets, functional/managerial goals and personal accountabilities.

The outcomes of performance reviews are directly related to remuneration levels for all executives. The Remuneration and Appointments Committee has overall responsibility for ensuring performance evaluation processes are in place for all executives and that such evaluations are linked to executive remuneration. Incitec Pivot's policy in relation to executive remuneration is set out in section B of the remuneration report on page 14.

The Remuneration and Appointments Committee also considers the performance and remuneration of the Managing Director & CEO and makes recommendations as to his remuneration to the Board.

The performance evaluation of the Managing Director & CEO is conducted by the Chairman and the Board. This evaluation involves an assessment of a range of performance standards as determined by the Board, including the overall performance of the Company.

The executive performance evaluations for the 2008 financial year were conducted in November 2008 in accordance with the process outline above. Performance evaluations for the 2009 financial year are being conducted in the final quarter of the 2009 calendar year.

Principle 2: Structure the Board to add value

Composition of the Board

Incitec Pivot's Constitution requires that the Company must have not less than three and no more than nine directors. Under the Company's Board Charter, the number of directors and composition of the Board is determined having regard to what is appropriate for Incitec Pivot to achieve efficient and prudent decision making. The Board will consist of a majority of non-executive, independent directors.

The Board comprises six directors, including five non-executive directors and one executive director (being the Managing Director & CEO). The Company engages all non-executive directors by a letter of appointment setting out the key terms and responsibilities of their role.

John Watson and Allan McCallum were each appointed as directors by the shareholders on 15 December 1997, Anthony Larkin was appointed as a director on 1 June 2003, James Fazzino on 18 July 2005, John Marlay on 20 December 2006 and Graham Smorgon was appointed to the Board by the directors on 19 December 2008.

Incitec Pivot aims to have directors with an appropriate range of skills, experience and expertise and an understanding of and competence to deal with current and emerging issues in the Company's business. Incitec Pivot's succession plans are designed to maintain an appropriate balance of skills, experience and expertise on the Board.

In these respects, the Board collectively has significant commercial, business, operational and financial experience in a range of industries. The directors all bring skills and expertise which, in aggregate, combine to form a Board which is equipped to discharge its responsibilities. The directors' biographies along with their term of office and information about their skills, expertise and experience are set out on page 7 of this report.

The ASX Listing Rules require that no member of the Board (other than the Managing Director & CEO) may serve for more than three years without being re-elected by shareholders at an annual general meeting of the Company.

The Company's Constitution provides that, at each annual general meeting, one-third of the directors (not including the Managing Director & CEO) must retire and are eligible to be re-elected by the shareholders.

Mr Anthony Larkin is retiring by rotation and standing for re-election at the 2009 Annual General Meeting. Mr Graham Smorgon, who was appointed by the Board to fill a casual vacancy on 19 December 2008, will stand for re-election at the 2009 Annual General Meeting.

The Managing Director & CEO serves as a director until he ceases to be the Managing Director & CEO.

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The roles of Chairman and Managing Director & CEO are separate.

The Board's role is assisted by the Company Secretary. The Company Secretary is responsible for assisting the Chairman in developing and maintaining information systems and processes that are appropriate for the Board to fulfil its role and to achieve Incitec Pivot's objectives. The Company Secretary is also responsible to the Board for ensuring that Board procedures and the Constitution are complied with. The Board appoints and removes the Company Secretary and the Company Secretary is accountable to the Board, through the Chair, on all governance matters.

Board meetings

Details of the Board meetings held during the 2008/09 financial year are set out on page 8 of this report.

The Board holds 10 scheduled meetings during each year, plus any extraordinary meetings that may be necessary to address any significant matters, as and when they arise.

Materials for Board meetings are circulated to directors in advance. The agendas for meetings are formulated with input from the Managing Director & CEO and the Chairman. Directors are free to nominate matters for inclusion on the agenda for any Board meeting. Presentations to the Board are frequently made by executives and senior management, and telecommunications technologies may be used to facilitate participation.

Director independence

The Board comprises a majority of independent non-executive directors.

The Board, excluding the director in question, will regularly assess the independence of each director, in light of any interest disclosed by them. The Board considers all of the circumstances relevant to a director in determining whether the director is independent and free from any interest, relationship or matter which could, or may reasonably be expected to, interfere with the director's ability to act in the best interests of the Company. A range of factors is considered by the Board in assessing the independence of its directors, including those set out in the ASX Recommendations.

In assessing the independence of a director, consideration is given to the underlying purpose behind any relationship a director may have with a third party that is identified as relevant to the assessment and overall purpose of independence. In determining whether a sufficiently material relationship (as defined in Box 2.1 of the ASX Recommendations) exists between Incitec Pivot and a third party for the purposes of determining the independence of a director, the Board has regard to all the circumstances of the relationship, including among other things:

- the value (in terms of aggregate and proportionate expenses or revenues) that the relationship represents to both Incitec Pivot and the third party;
- the strategic importance of the relationship to Incitec Pivot's business; and
- the extent to which the services provided by or to Incitec Pivot are integral to the operation of Incitec Pivot's business, including the extent to which the services provided are unique and not readily replaceable.

The Board considers that each of John Watson, Allan McCallum, Anthony Larkin, John Marlay and Graham Smorgon are independent when assessed on the criteria above, taking into account all the relevant interests, matters and relationships of the particular director. As Managing Director & CEO of the Company, James Fazzino is not considered to be an independent director. In summary, of the six directors, the Board considers five directors are independent.

The Board Charter requires that an independent non-executive director hold the position of Chairman.

Access to information and independent advice

Directors are entitled to full access to the information required to discharge their responsibilities. Subject to obtaining the prior approval of the Chairman, the directors have the right to seek independent professional advice at Incitec Pivot's expense to assist in carrying out their Board duties.

Remuneration and Appointments Committee

The Remuneration and Appointments Committee has a Charter approved by the Board. A copy of the Charter for the Remuneration and Appointments Committee is available on the corporate governance section of the Company's website, www.incitecpivot.com.au. Under its Charter, the Committee:

- *nominations and appointments* – assists and advises the Board on director selection and appointment policy, performance evaluation, Board composition and succession planning for the Board and senior management; and

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- *remuneration* – assists and advises the Board on remuneration policy for the Board, the Managing Director & CEO, executives, senior management and other employees, for such to be designed to enable Incitec Pivot to attract, retain and motivate its people to create value for shareholders.

In relation to Board nominations and appointments, under the Board Charter, the process of selection and appointment of new directors to the Board is that, when a vacancy arises, the Remuneration and Appointments Committee identifies candidates with appropriate skills, experience and expertise. In turn, under the Remuneration and Appointments Committee Charter, candidates with the skills, experience and expertise that best complement the Board's effectiveness are recommended to the Board. When the Board considers that a suitable candidate has been found, that person is appointed by the Board to fill a casual vacancy in accordance with Incitec Pivot's constitution, however must stand for re-election by shareholders at the next annual general meeting.

The Committee, which formerly comprised all non-executive directors, was reconstituted on 5 September 2008 to comprise three independent non-executive directors, being John Watson, Allan McCallum and John Marlay, and is chaired by the Chairman, John Watson.

The Committee is to meet as frequently as required but not less than twice a year.

The attendance of the members of the Remuneration and Appointments Committee at each meeting held during the financial year to 30 September 2009 is set out on page 8 of this report.

Health, Safety, Environment and Community Committee

The Health, Safety, Environment and Community Committee has a Charter approved by the Board. A copy of the Charter is available on the corporate governance section of the Company's website, www.incitecpivot.com.au. The Committee was established in February 2007 to assist the Board in discharging its overall responsibilities in relation to health, safety, environment and community matters arising out of the Company's activities as they may affect employees, contractors, and the local communities in which it operates. The Charter provides for the Committee members to comprise at least three independent non-executive directors. The current members of the Committee are Allan McCallum (Chairman), John Watson, Anthony Larkin and James Fazzino.

The Committee is to meet as frequently as required but not less than four times a year. The attendance of the members of the Health, Safety, Environment and Community Committee at each meeting held during the financial year to 30 September 2009 is set out on page 8 of this report.

Performance evaluations

Incitec Pivot recognises the importance of regular performance evaluations of its directors. Assessment of individual directors' performance and the Board as a whole is a process determined by the Chairman and the Remuneration and Appointments Committee. The Board's annual performance review took place in September 2009 by way of self-assessment of the Board's role, structure and processes, as well as the Board's performance in meeting its responsibilities. The outcomes of that review are included in the 2009/10 objectives for the Board and will be implemented throughout the Company's 2009/10 financial year. In addition, one-on-one interviews occurred between each director and the Chairman. For the director who is retiring by rotation and standing for re-election at the 2009 Annual General Meeting, Mr Anthony Larkin, his performance was reviewed as part of his nomination for re-election. For Mr Graham Smorgon, who is retiring, having been appointed by the Board in 2008, and is standing for re-election at the 2009 Annual General Meeting, his performance was reviewed as part of his nomination for re-election.

The Remuneration and Appointments Committee is responsible for developing and reviewing induction procedures for new appointees to the Board to enable them to effectively discharge their duties. Additionally, the Committee ensures that continuous education measures are in place to enhance director competencies, keep directors up to date and enhance directors' knowledge and skills.

Principle 3: Promote ethical and responsible decision-making

Codes of conduct

Incitec Pivot is committed to operating to the highest standards of ethical behaviour and honesty with full regard for the safety and health of its employees, customers, the wider community and the environment.

The Company has codes of conduct which set ethical standards for directors, senior management and employees. The codes describe core principles designed to ensure ethical conduct is maintained in the interests of shareholders and other stakeholders.

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In particular, Incitec Pivot's key codes of conduct, copies of which are available on the corporate governance section of the Company's website, www.incitecpivot.com.au, are:

- *Incitec Pivot's Code of Ethics – Compliance Policies and Guide*, which is a code of conduct for all employees. The Code's key principles require employees to comply with the letter and spirit of the laws affecting Incitec Pivot's business, as well as the Company's policies and codes; to act honestly and with integrity, and to strive to earn and maintain the respect and trust of co-employees, customers and the wider community; to use Incitec Pivot's resources, including information systems, in an appropriate and responsible way; and to work safely and with due regard for the safety and well-being of fellow employees, contractors, customers and all persons affected by Incitec Pivot's operations or products; to avoid situations which involve or may involve a conflict between their personal interests and the interests of Incitec Pivot; to have due regard for cultural diversity in the workplace; and to respect the environment and ensure that work activities are managed in an acceptable manner so as to give benefit to society.
- *Incitec Pivot's Code of Conduct for Directors and Senior Management*, which sets out additional ethical standards for directors and senior management reporting to the Managing Director & CEO.
- *Incitec Pivot's Health, Safety, Environment & Community Policy*, which sets out the Company's commitment to the Company's values of "Zero Harm for Everyone, Everywhere" and "Care for the Community and our Environment". The Policy provides that the Company will establish and maintain health and safety management standards and systems in compliance with relevant industry standards and regulatory requirements, and that the Company will provide a safe and healthy working environment. The Policy also provides for the Company to conduct its operations in compliance with all relevant environmental licences and regulations, and to strive to be a valued corporate citizen in the communities in which it operates.

Employees are encouraged to raise any concerns, including those arising out of activities or behaviour that may not be in accordance with Incitec Pivot's Codes of Conduct, any of its other policies, or any other regulatory requirements with management, the human resources team or the legal and compliance team. Employees can also raise concerns about breaches of the Company's regulatory obligations or internal policies or procedures on an anonymous basis through its whistleblower reporting system. The Company's Whistleblower Protection Policy protects employees who raise concerns about suspected breaches of Incitec Pivot's policies. Incitec Pivot's whistleblower reporting system meets all relevant Australian legislative requirements, and Australian Standard AS8004 (Whistleblower Protection Programs for Entities). Reports on the operation of the system are made to the Audit and Risk Management Committee.

Share ownership and dealing

The Board has adopted a Share Trading Policy which regulates dealings in the Company's shares. The policy aims to ensure that Incitec Pivot's directors, employees, advisors, auditors and consultants (staff) are aware of the legal restrictions on trading in securities while a person is in possession of inside information.

Under the policy, all staff are prohibited from trading in the Company's shares while in possession of inside information. Also, there are certain 'black out' periods, from the end of the financial year or half year until two business days after the relevant financial results are announced, where trading is prohibited.

In addition, certain members of staff (for example, directors, the direct reports to the Managing Director & CEO, and those in the finance units) are 'designated employees' and as such may not deal in shares in the Company outside of 'black out' periods unless, prior to the dealing, the relevant person has notified the Company Secretary and given written confirmation that they are not in possession of price sensitive information. Additionally, 'designated employees' must not enter into hedging arrangements which operate to limit the economic risk of their security holding in Incitec Pivot. In the case of the Company Secretary, she must notify the Chairman or Managing Director & CEO of the proposed share trading and must also give the same written confirmation as a 'designated employee' to the effect that she is not in possession of price sensitive information.

All directors have entered into agreements with Incitec Pivot under which they agree to provide details of changes in their notifiable interests in Incitec Pivot's shares within three business days after the date of change, enabling the ASX to be notified of any share dealings by a director within five business days of the dealing taking place, as required by the ASX Listing Rules.

The Company's Share Trading Policy is available on the corporate governance section of Incitec Pivot's website, www.incitecpivot.com.au.

Details of shares in the Company held by the directors are set out in Note 35, Key management personnel disclosures.

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Principle 4: Safeguard integrity in financial reporting

Audit and Risk Management Committee

The Audit and Risk Management Committee has a Charter approved by the Board. The Committee assists the Board in its review of financial reporting principles and policies, controls and procedures, internal control and risk management and internal audit. It also assists the Board in its review of the integrity and reliability of the Company's financial statements, the external audit and the Company's compliance with legal and regulatory requirements.

The current members of the Audit and Risk Management Committee are Anthony Larkin (Chairman), John Marlay and Graham Smorgon, all of whom are independent non-executive directors.

The qualifications of those directors appointed to the Audit and Risk Management Committee are set out on page 7 of this report.

The Committee meets as frequently as required but not less than four times a year. The Committee reviews its performance by self-assessment at least annually.

The attendance of the members of the Audit and Risk Management Committee at each meeting held during the financial year to 30 September 2009 is set out on page 8 of this report.

The internal and external auditors, the Managing Director & CEO and the Chief Financial Officer are invited to attend Audit and Risk Management Committee meetings. The Committee regularly meets with the internal and external auditors without management being present.

The primary objectives of the Audit and Risk Management Committee, as set out in its Charter, are as follows:

Financial reporting

- review of reports and analyses – review management, internal audit and external audit reports and analyses of financial reporting issues;
- review of financial statements – review all audited financial statements and all other financial information prior to release through the ASX to shareholders and the financial community;
- accounting policies – review the critical accounting policies with external auditors and management; and
- Managing Director & CEO and Chief Financial Officer certification – review the certification provided by the Managing Director & CEO and the Chief Financial Officer on annual and half-yearly reports.

Internal control and risk management

- risk management strategies – receive reports from management concerning the Company's risk management principles and policies, and assess and manage business, financial and operational risk;
- risk reports and monitoring – receive reports on and oversee credit, market, balance sheet and operating risk and monitor risk implications of new and emerging risks, organisational change and major initiatives and also monitor resolution of significant risk exposures and risk events;
- compliance – oversee compliance with applicable laws relating to the operation of the Company's business;
- disclosure – review the form of disclosure to be made in the Annual Report given by the Managing Director & CEO and Chief Financial Officer as to the effectiveness of the Company's management of material business risks; and
- insurance – monitor the insurance strategy of the Company and recommend approval or variation of insurance policies.

External audit

- appointment/replacement – manage the relationship between the Company and the external auditor including making recommendations to the Board on the selection, evaluation and replacement of the external auditor;
- terms of engagement – determine the terms of engagement and remuneration of the external auditor and make recommendations to the Board;
- effectiveness and independence – monitor the effectiveness and independence of the external auditor, including requiring the external auditor to prepare and deliver an annual statement as to its independence;
- scope of audit – review the scope of the external audit with the external auditor; and
- non-audit services – review and assess the provision of non-audit services by the external auditor, provide pre-approval or otherwise of all non-audit services which may be provided by the external auditor and ensure disclosure to shareholders of the Committee's approval of non-audit work.

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Internal audit

- appointment/replacement – evaluate the expertise and experience of potential internal auditors and make recommendations to the Board on the selection, evaluation and replacement of the internal auditor;
- terms of engagement – determine the terms of engagement and remuneration of the internal auditor and make recommendations to the Board;
- scope of audit and plan – review and assess the scope of the audit and the internal audit plan;
- internal audit findings – receive reports from the internal auditor, management's response and the internal auditor's recommendations; and
- assessment – conduct an annual assessment of the effectiveness of internal controls and financial reporting procedures.

External auditor

The role of the external auditor is to provide an independent opinion that the Company's financial reports are true and fair and comply with the applicable regulations.

KPMG is the Company's external auditor.

The lead audit partner and review partner of the Company's external auditor rotate every five years. The current lead audit partner and review partner were appointed for the 2006/07 audit of the Company, replacing the lead audit partner and review partner previously appointed for the audits from 2002/03.

Restrictions are placed on non-audit work performed by the auditor and projects outside the scope of the audit require the approval of the Audit and Risk Management Committee. Further details are set out in Note 7, Auditor's remuneration.

Since KPMG's appointment in 2003, KPMG's lead audit partner and other representatives from KPMG have attended the Company's annual general meetings and were available to answer questions from shareholders, as appropriate.

For the next Annual General Meeting to be held on 23 December 2009, the lead audit partner or appropriate alternates will attend. Shareholders have the right under the Corporations Act 2001 (Cth) to submit written questions on certain topics to the auditor and the auditor may table answers to such questions at the Annual General Meeting.

Principle 5: Make timely and balanced disclosure

The Company is subject to continuous disclosure obligations under the ASX Listing Rules and Corporations Act 2001 (Cth). Subject to some limited exceptions, under the continuous disclosure requirements, the Company must immediately notify the market, through ASX, of any information which a reasonable person would expect to have a material effect on the price or value of the Company's shares.

To achieve these objectives and satisfy the regulatory requirements, the Board has implemented a Continuous Disclosure Policy. The Policy aims to ensure the proper and timely disclosure of information to shareholders and the market in several ways, including:

- in annual reports and financial statements, releases of results to ASX each half and full year, and at the Company's Annual General Meeting;
- releasing price sensitive announcements and other relevant significant announcements directly to the market via ASX;
- conducting briefings with analysts and institutions from time to time – in doing so, Incitec Pivot recognises the importance of ensuring that any price sensitive information provided during these briefings is made available to all shareholders and the market at the same time and in accordance with the requirements of the Corporations Act 2001 (Cth), ASX and the Australian Securities and Investments Commission; and
- providing information on the Company's website, which contains information about the Company and its activities, including statutory reports and investor information.

The Policy appoints the Company Secretary as the Continuous Disclosure Officer whose role includes providing announcements to the ASX and ensuring senior management and employees are kept informed of the Company's obligations and the accountability of the Company and its directors, officers and employees for compliance with the disclosure rules.

The Company's Continuous Disclosure Policy is available on the corporate governance section of Incitec Pivot's website, www.incitecpivot.com.au.

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Principle 6: Respect the rights of shareholders

Incitec Pivot is committed to giving all shareholders comprehensive, timely and equal access to information about its activities so as to enable shareholders to make informed investment decisions and effectively exercise their rights as shareholders.

To achieve these objectives, the Board has adopted a Group Communications Policy. The Policy aims to ensure:

- that the Company's announcements are presented in a factual, clear and balanced way;
- that all shareholders have equal and timely access to material information concerning the Company; and
- shareholder access to information about, and shareholder participation in, general meetings of the Company.

The Company regularly reviews the methods by which it communicates with shareholders so as to ensure it can make best use of new technologies to enhance shareholder communication. The Company places all relevant announcements made to the market, and related information, on the Company's website after they have been released to the ASX.

The Group Communications Policy is available on the corporate governance section of Incitec Pivot's website, www.incitecpivot.com.au.

Principle 7: Recognise and manage risk

Risk oversight and management

Risk is present in all aspects of Incitec Pivot's business. It has the potential to impact people, the environment, the community and the reputation, assets and financial performance of the Company. Incitec Pivot is committed to the effective management of risk, which is central to its continued growth and success and the achievement of the Company's corporate objective and strategy.

Incitec Pivot has adopted a Group Risk Policy for the oversight and management of material business risks and manages risk within a comprehensive risk management process which is consistent with the Australian/New Zealand Standard for Risk Management (AS/NZS 4360:2004). A key element of this risk management process is the Board's assessment on risk, which is based on the level of risk Incitec Pivot is able to sustain in achieving its corporate objective of delivering value to shareholders. Risks are identified, analysed and prioritised using common methodologies and risk controls are designed and implemented having regard to the overall corporate strategy.

The risk controls adopted by Incitec Pivot are administered via a Group-wide framework, and include:

- identifying, evaluating, treating, monitoring, and reporting on material business risks to the Audit and Risk Management Committee;
- the internal audit function;
- annual budgeting and monthly reporting systems to monitor performance;
- delegations of authority;
- guidelines for the authorisation of capital expenditure;
- a compliance program supported by approved guidelines and standards covering health, safety and environment, and regulatory compliance;
- policies and procedures for the management of financial risk and treasury operations, including exposures to foreign currencies and movements in interest rates;
- a letter of assurance process to provide assurance from management that all controls are in place and operating appropriately; and
- business continuity plans.

A summary of the Group Risk Policy is available on the corporate governance section of Incitec Pivot's website, www.incitecpivot.com.au.

Risk management roles and responsibilities

The Board is responsible for reviewing and approving the overall management of risk and internal control. The Board monitors the Company's risk profile, risks and mitigating strategies primarily through the Audit and Risk Management Committee. The Audit and Risk Management Committee's duties with respect to internal control and risk management have been summarised

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under the discussion of Principle 4 on page 37 of this report. The Audit and Risk Management Committee and, through it, the Board, receive regular reports from management on the effectiveness of the Company's risk management process.

Incitec Pivot has identified the following material business risks, which it has categorised under its Risk Management Framework as follows:

General Economic and Business Conditions

The current global economic business climate and any sustained downturn in the global, North American or Australian economy may adversely impact Incitec Pivot's overall performance. This may affect, among other things, profitability and demand for fertilisers, industrial chemicals, industrial explosives, and related products and services.

Product price deteriorations could adversely affect Incitec Pivot's business and financial performance:

- Fertilisers are internationally traded commodities with pricing based on international benchmarks and are affected by global supply and demand forces, as well as fluctuations in foreign currency exchange rates, particularly the exchange rate between the Australian dollar and the US dollar.
- Industrial explosives products, particularly ammonium nitrate based explosives, are affected more directly by supply and demand dynamics in industrial explosives markets, such as quarrying, construction and mining.

The appreciation or depreciation of the Australian dollar against the US dollar may materially affect Incitec Pivot's financial performance. A large proportion of Incitec Pivot's sales are denominated either directly or indirectly in foreign currencies, primarily the US dollar. In addition, Incitec Pivot also borrows funds in US dollars, and the Australian dollar equivalent of these borrowings will fluctuate with the exchange rate.

Operational Risks

Incitec Pivot operates manufacturing plants and facilities and is exposed to operational risks associated with the manufacture, distribution and storage of fertilisers, ammonium nitrate and industrial chemicals and industrial explosives products and services. These risks include the need for plant reliability and timely and economic supply of adequate raw materials, such as natural gas, ammonia, phosphate rock, sulphur and sulphuric acid.

Incitec Pivot's manufacturing and distribution systems are vulnerable to unforeseen human error, equipment breakdowns, energy or water disruptions, natural disasters and acts of God, sabotage, terrorist attacks, and other events which may disrupt Incitec Pivot's operations and materially affect its financial performance. In addition, loss from such events may not be recoverable in whole or in part under Incitec Pivot's insurance policies.

A shortage of skilled labour or loss of key personnel could disrupt Incitec Pivot's business operations or adversely affect Incitec Pivot's business and financial performance. Incitec Pivot's manufacturing plants require skilled operators drawn from a range of disciplines, trades and vocations. In addition, the loss of services of one or more of Incitec Pivot's senior management could impede execution of Incitec Pivot's business strategy and result in reduced profitability.

In regard to Incitec Pivot's Fertiliser business, seasonal conditions, particularly rainfall, is a key factor for determining the timing and production of crops, which drives fertiliser demand and sales. Any prolonged adverse weather conditions could impact future profitability and prospects of Incitec Pivot.

Strategy and Planning

Incitec Pivot operates in a competitive environment. The domestic and international fertiliser and industrial explosives industries are highly competitive. The actions of competitors of Incitec Pivot or the entry of new competitors may result in loss of sales and market share which could adversely affect Incitec Pivot's financial performance.

Health Safety and Environment

Incitec Pivot is subject to various operational hazards, including from the manufacture, processing and transportation of its fertiliser and explosives products and in the provision of its related services, which could potentially result in injury or incident to employees, contractors, the public or the environment. Incitec Pivot has adopted a "Zero Harm" policy to manage its health and safety risks.

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Compliance and Regulatory Risks

Changes in federal or state government legislation, regulations or policies in any of the countries in which it operates may adversely impact on Incitec Pivot's business, financial condition and results of operations. For instance, Incitec Pivot, as a significant manufacturer, may be affected by the impact of future carbon trading or carbon tax regimes, or future regulation of carbon emissions, together with any legislative requirements relating to climate change or associated issues.

Incitec Pivot's business is subject to environmental laws and regulations that require specific operating licences and impose various requirements and standards. Changes in these laws and regulations, or changes to licence conditions may have a detrimental effect on Incitec Pivot's operations and financial performance, including the need to undertake environmental remediation.

Incitec Pivot is exposed to potential legal and other claims or disputes in the course of its business, including contractual disputes, property damage and personal liability claims in connection with operational and health and safety matters.

Management, through the Managing Director & CEO and Chief Financial Officer, is responsible for the overall design, implementation, management and coordination of the Company's risk management and internal control system.

Each business unit has responsibility for identification and management of risks specific to their business. This is managed through an annual risk workshop within each business unit. The risk workshops are facilitated by the Company's internal auditors, and form part of the annual internal audit program, thereby aligning the internal audit activities with material business risks. The outcomes of the business unit risk workshops are assessed as part of the annual corporate risk workshop. The resultant Corporate Risk Workbook is presented to the Audit and Risk Management Committee on an annual basis, and management is required to present regular updates to the Committee on material business risks.

Internal audit independently monitors the internal control framework and provides regular reports to the Audit and Risk Management Committee. The annual internal audit program is approved by the Audit and Risk Management Committee. Internal audit provides written reports to the Committee on the effectiveness of the management of risk and internal controls, and meets regularly with the Committee without the presence of management.

The Audit and Risk Management Committee and the Board have received reports from management on the effectiveness of the Company's management of its material business risks for the financial year ended 30 September 2009.

CEO and CFO Declaration and Assurance

In accordance with the ASX Recommendations, for the financial year ended 30 September 2009, the Board received written assurance from the Managing Director & Chief Executive Officer and each person performing the function of Chief Financial Officer that the declaration provided by them in accordance with section 295A of the Corporations Act 2001 (Cth) is founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to the reporting of financial risks.

Principle 8: Remunerate fairly and responsibly

The Board and Remuneration and Appointments Committee are primarily responsible in relation to the oversight of the Company's remuneration framework and policies. Details of Incitec Pivot's remuneration arrangements are set out in the remuneration report on pages 12 to 31. As set out on page 34 of this report, the Remuneration and Appointments Committee is formed under a Charter approved by the Board, a copy of which is available on the corporate governance section of the Company's website, www.incitecpivot.com.au. The members of the Committee are three independent non-executive directors, being John Watson, Allan McCallum and John Marlay, and the Committee is chaired by the Chairman, John Watson.

Incitec Pivot's broad policy in relation to non-executive directors' fees and payments is to ensure that these fees and payments are consistent with the market and are sufficient to enable Incitec Pivot to attract and retain directors of an appropriate calibre. Details of these fees and payments are included in the table titled "Non-executive directors' remuneration" set out in section A of the remuneration report on page 13.

Under the Company's Constitution, the maximum remuneration payable by the Company for the services of non-executive directors in total must not exceed the amount approved by shareholders in general meeting, which is \$2,000,000 as approved at the Annual General Meeting held on 19 December 2008. The total remuneration paid to the non-executive directors during the financial year ended 30 September 2009 was within the maximum amount approved by shareholders.

Directors' Report

Corporate Governance Statement

Details of remuneration paid to the Managing Director & CEO are included in table D.4 "Executives' remuneration" in the remuneration report on page 23. The attendance of the members of the Remuneration and Appointments Committee at each meeting held during the financial year to 30 September 2009 is set out on page 8 of this report.

Signed on behalf of the Board.

John C Watson, AM
Chairman

Dated at Melbourne this 13th day of November 2009