Appendix 4D
Half-year report

Incitec Pivot Limited
ABN 42 004 080 264

Financial half-year ended ('current period')	Previous financial half-year ended ('previous corresponding period')
31 March 2006	31 March 2005

Results for announcement to the market

Extracts of the Incitec Pivot Limited results for the financial half-year ended 31 March 2006 **$A'000**

Revenues from ordinary activities	down	8%	to	406,898
Profit from ordinary activities after tax attributable to members	down	42%	to	10,051
Net profit for the period attributable to members	down	42%	to	10,051

Dividends	Amount per security cents	Franked amount per security cents
Current Period		
Interim dividend	22.0	22.0
Previous corresponding period		
Interim dividend	15.0	15.0
Interim special dividend	6.0	6.0
Year End Dividend - 2005		
Final dividend	-	-
November 2005 special dividend	50.0	50.0

Record date for determining entitlements to the interim dividend:	**10 May 2006**
Payment date of interim dividend:	**9 June 2006**

	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	$5.85	$6.53

For the profit commentary and any other significant information needed by an investor to make an informed assessment of Incitec Pivot's results please refer to the profit report on pages 2 to 5.

The information should be read in conjunction with the most recent annual financial report.

Contents

The profit report and the half-year financial report provide information on material factors affecting the earnings and operations of the economic entity during the financial half-year ended 31 March 2006.

For further information, please contact:

Investor Relations
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INCITEC PIVOT LIMITED – PROFIT REPORT
TURNAROUND ON TRACK

Because the land is your life.

RESULTS FOR THE SIX MONTHS ENDED 31 March 2006

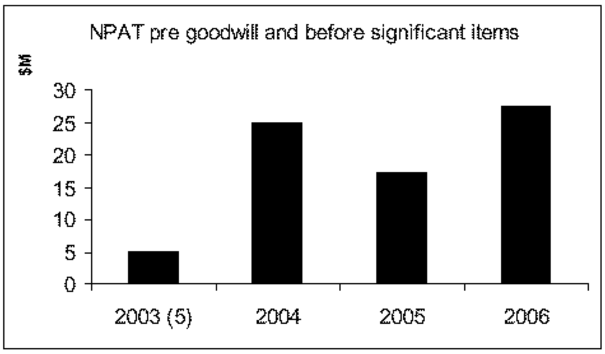
Incitec Pivot has delivered on the first phase of its business turnaround program with Net Profit After Tax (NPAT) excluding significant items up 60% to $27.5M (pcp[6] $17.2M). This is the first step towards the initial financial milestone of exiting the 2007 financial year at an 18% RONA.

NPAT including significant items for the six months ended 31 March 2006 was $10.1M (pcp $17.2M).

	6 Months Ended 31 March		
A$m	**2006**	**2005**	**Change**
Sales Revenue	395.5	439.6	(10%)
EBITDA [1]	56.0	42.2	33%
EBIT [2]	40.7	26.5	54%
NPAT - excluding significant items	27.5	17.2	60%
NPAT - including significant items	10.1	17.2	(41%)
Financial Items			
Dividend per share (cents)	22	21	5%
EPS [3] - pre significant items (cents)	47	29	65%
Net debt (AIFRS adjusted) [4]	137.9	199.6	31%
Gearing (AIFRS adjusted) [4]	20.6%	25.4%	
Interest cover (times)	10	8	
Average exchange rate (A$/US$)	74.0	76.6	(3%)

KEY FINANCIALS

- NPAT excluding significant items of $27.5M up $10.3M (pcp: $17.2M).
- Restructuring benefits of $11M before tax delivered, with expected full year 2006 benefits of $25M before tax. Total program benefits are now expected to be $34M before tax (36% above initial target).
- Dividend up 5% to 22 cents per share (pcp: 21 cps [7]).
- Financial discipline maintained with gearing at 20.6% (Australian equivalents to International Financial Reporting Standards [AIFRS] adjusted pcp [4]: 25.4%).



KEY BUSINESS OUTCOMES

- Supply agreement signed with ELF in February 2006, which is expected to deliver an annual net 10% increase in fertiliser volumes representing a significant step towards rebuilding business volumes.
- Commercial discipline improved with a focus on "value not just volume".

OUTLOOK – SECOND HALF

- Continued earnings momentum from commercial discipline and restructuring benefits.
- Earnings are biased to the second half which is significantly influenced by the winter cropping period and pre-plant fertiliser application for the cotton crop.
- Expected return to normal weather conditions.
- Continued strong global fertiliser prices underpinning manufacturing profitability.

Further Information:
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Notes
1: EBITDA – EBIT plus depreciation and amortisation
2: EBIT – Earnings Before Interest and Tax and excluding significant items
3: EPS – Earnings Per Share
4: 2005 debt and gearing adjusted to include Trade Bills and Suncorp Seasonal Finance of $69.1M which was off balance sheet and reported in contingent liabilities under AGAPP in 2005.
5: 2003 Proforma results = 6 months of the Pivot fertiliser business + 6 months of Incitec Fertilizers.
6: pcp – previous corresponding period
7: cps – cents per share

SALES

SALES VOLUME

Sales volume for the six months to 31 March 2006 was down 21% to 1.0M tonnes (pcp 1.3M tonnes) as a result of general market factors (10%) and changes in the competitive landscape (11%).

Market Conditions:
Excluding the impact of competition, sales volumes were down 10% or 130kt on pcp because of mixed weather conditions, high fertiliser prices and depressed demand in the first half as detailed below:

- Weather conditions were mixed with above average rainfall in the first quarter followed by abnormally dry conditions in the second quarter.
- Fertiliser volumes into sugar markets were up 10% on pcp. This reflected a late start to the 2005 season, with planting commencing in October and continuing well into December. Normal planting occurs in the August to October period. Recent increases in global sugar prices bode well for the 2006 season.
- Sales into the summer crop segment were flat year on year.
- Fertiliser volumes sold into pasture markets were down 25% or 130kt on pcp. Market conditions were soft, with strong pasture growth in late spring combined with high fertiliser prices and a poor wool outlook reducing demand.
- Pre-season sales leading into the winter cropping season were down 25% on pcp. Farmers reacted to the combination of high fertiliser prices and no early delivery discount offers by delaying purchases until the winter break.

Competition
Changes in the fertiliser competitive landscape from 2005 continued to impact the business in 2006 reducing volumes by 11% or 140kt as detailed below:

- Sales to Elders and Landmark (combined) declined by 78% or 250kt to 70kt in the first half.
- Sales to independent channel partners appointed in 2005 were 110kt.
- In February 2006 Incitec Pivot announced the successful completion of new supply arrangements with ELF Australia Pty Ltd. This is expected to deliver a net increase in volume of 300kt in a full year. Sales under the agreements commenced from 1st March 2006.

Sales Summary	6 Months Ended 31 March 2006	2005	Change
Total tonnes - 000's	1,020	1,283	(21%)
Total Sales revenue - $M	395.5	439.6	(10%)
Average fertiliser price per tonne	413.9	355.4	16%
Total selling price per tonne	387.7	342.7	13%
Other			
Lagged exchange rate (A$/US$)*	75.0	73.2	2%
Global Urea price FOB - US$/t*	242	229	6%

* lagged by 3 months reflecting stock turns on imported product

SALES REVENUE

Sales revenue was down $44M or 10% to $396M (pcp: $440M), reflecting a reduction in volumes which saw a $84M decline in revenue, partially offset by higher selling prices, which increased revenue by $40M.

Selling prices were up by 13% or $46 per tonne on pcp reflecting:

- Strong international fertiliser pricing with both urea (US$242) and ammonium phosphates (US$261) at record prices in the half.
- A recovery of local Australian prices to import parity levels.
- Improved commercial discipline in the sales team, with a focus on capturing value rather than just volume. This was supported by tighter centralised control of pricing and a reduction in discretionary discounting authority levels in the field.

INCITEC PIVOT LIMITED – PROFIT REPORT
TURNAROUND ON TRACK

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EARNINGS BEFORE INTEREST AND TAX (EBIT)

EBIT increased by 54% or $14.2M to $40.7M (pcp: $26.5M). Quality of earnings was restored with EBIT margin up 4.3 percentage points to 10.3% of sales.

Earnings Summary	6 Months Ended 31 March		
A$m	2006	2005	Change
EBIT	40.7	26.5	54%
Net interest	(4.2)	(3.2)	31%
Tax expense	(9.0)	(6.1)	48%
NPAT - excluding significant items	**27.5**	**17.2**	60%
Significant items after tax	(17.4)	-	
NPAT - including significant items	**10.1**	**17.2**	(41%)
EBIT/sales	10.3%	6.0%	

Positive factors were:

- $14M: improved manufacturing margins reflecting a recovery in domestic nitrogen and superphosphate prices to import parity levels.
- $13M: improved trading margins reflecting higher selling prices and a favourable opening stock position.
- $11M: lower costs as a result of business restructuring. 2006 full year benefits are expected to be $25M up 25% on planned delivery as reported in November 2005.

Significant items - 2006	6 Months Ended 31 March	
A$m	Pre tax	After tax
Cockle creek closure and remediation	(28.3)	(19.8)
Elders litigation	(7.4)	(5.2)
Gain on QGC shares	8.8	7.6
Total	**(26.9)**	**(17.4)**

Negative factors were:

- $24M: lower sales volume.

INTEREST AND TAX

Net interest expense was up $1M to $4.2M (pcp $3.2M) due to unwinding of discounts on non current provisions ($0.4M) and the impact of carryover stock from the 2005 year.

Tax expense excluding significant items of $9M compared with $6.1M in pcp, reflecting improved first half earnings in 2006.

NET PROFIT AFTER TAX (NPAT)

NPAT excluding significant items of $27.5M up $10.3M (pcp: $17.2M). NPAT including significant items was $10.1M (pcp $17.2M).
Significant items were negative $17.4M after tax comprising:

- Closure and remediation costs of $19.8M relating to the Cockle Creek single superphosphate manufacturing plant. The plant will be closed by September 2009 when groundwater remediation will start. The charge against profit includes plant demolition and remediation expenses. A further $2.1M provision for redundancy costs and associated plant closure and demolition at Kooragang Island will be booked in the second half.
- Pending a determination by the Supreme Court of South Australia as to quantum, $5.2M in respect of the 2005 disputed termination of the supply agreement between Elders and IPL for which orders were made by the Court in favour of Elders on 19 April 2006.
- A gain of $7.6M relating to Incitec Pivot's shareholding in listed coal seam gas producer Queensland Gas Company Limited. This gain was largely tax free because of the historical capital tax losses recouped.

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TURNAROUND ON TRACK

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DIVIDEND

Directors have declared a fully franked interim dividend of 22 cps (pcp: 21 cps). This dividend returns substantially all retained earnings to shareholders.

Interim Dividend	6 Months Ended 31 March		
Cents per share (cps)	2006	2005	Change
Dividend	22.0	21.0	5%
Franking (%)	100%	100%	
Record Date: 10 May 2006			
Dividend paid: 9 June 2006			

BALANCE SHEET

Incitec Pivot has maintained strong financial discipline in the business reflected by the balance sheet position as at 31 March 2006.

Trade Working Capital (TWC) at $263M was down $2.6M (pcp $265.6M), notwithstanding the inclusion of trade finance facilities on the balance sheet in 2006 under AIFRS. On a like-for-like basis, ie, adjusting March 2005 TWC for trade facilities of $69.1M, TWC is down $71.7M on pcp $334.7M.

Net other liabilities of $70.5M was up $44.7M (pcp $25.8M) primarily resulting from an increase in environmental provisions associated with Cockle Creek closure and remediation.

Debt peaks at half year with the seasonal build of TWC ahead of the winter cropping season. March 2006 net debt of $137.9M equates to gearing (measured as net debt to total capitalisation) of 20.6%.

Balance Sheet - at 31 March A$m	2006 Actual	2005 (1) Proforma	2005 Actual
Trade working capital (TWC)	263.0	334.7	265.6
Net property plant and equipment	286.1	307.6	297.5
Goodwill	183.8	183.8	178.9
Other intangibles - Software	7.6	9.2	0.0
Net other assets / (liabilities)	(70.5)	(62.1)	(25.8)
Net Assets	**670.0**	**773.2**	**716.2**
Net Debt/ (cash)	137.9	199.6	130.5
Equity	532.1	573.6	585.7
Total Capitalisation	**670.0**	**773.2**	**716.2**
Gearing	20.6%	25.4%	18.2%

(1) Proforma is adjusted for trade finance facilities (Trade Bills and Suncorp Seasonal finance $69.1m) that were off balance sheet under AGAAPand other AIFRS adjustments

CASH FLOW

Net operating cash flows were an outflow of $90.5M (pcp: outflow $115.1M). Major factors were:

- EBITDA up $13.8M to $56M reflecting the business turnaround.
- Increase in trade working capital of $121.9M (pcp: $131.3M) with the normal seasonal build up of inventory prior to winter planting season.
- Other cash flow items of $11.2M (pcp: $4.2M) include redundancy payments and other related restructuring costs.

Net investing cash outflows of $9.1M (pcp: $14M) include:

- Capital spending comprised sustenance capital of $13.4M (89% of depreciation) reflecting strong controls on business reinvestment, and $3.4M relating to the planned maintenance shutdown of the Gibson Island Urea plant in 2007.
- Cash from sale of shares in QGC ($7M) and surplus asset sales ($0.7M).

Net financing cash inflows at $108M were up $60M (pcp: $48M) reflecting the lower 2005 dividend and the lower operating outflows noted above.

Cash Flow Items	6 Months Ended 31 March		
A$m	2006	2005	Change
Net operating cash flows			
EBITDA	56.0	42.2	33%
Net interest paid	(4.5)	(3.7)	22%
Net income tax paid	(8.9)	(18.1)	(51%)
Trade working capital movement	(121.9)	(131.3)	(7%)
Other	(11.2)	(4.2)	167%
Total	**(90.5)**	**(115.1)**	(21%)
Net investing cash flows			
Proceeds from surplus asset sales	0.7	1.8	(60%)
Capital spending	(16.8)	(14.3)	18%
Other (QGC)	7.0	(1.5)	(567%)
Total	**(9.1)**	**(14.0)**	(35%)
Net financing cashflows			
Movement in short term borrowings	137.1	106.3	29%
Dividends paid	(29.1)	(58.3)	(50%)
Total	108.0	**48.0**	125%
Increase/(decrease) in cash on hand	8.4	**(81.1)**	(110%)

Half-year Financial Report

Contents

Directors' Report

The directors of Incitec Pivot Limited present their report together with the consolidated financial report for the half-year ended 31 March 2006 and the auditor's review report thereon.

Directors

The directors of the Company during the financial half-year and up to the date of this report are:

Name, qualification and special responsibilities	Period of directorship
Non-executive directors	
J C Watson AM, MAICD Chairman	Appointed as a director on 15 December 1997 and was appointed Chairman in 1998.
B Healey, FAICD, FAIM Deputy Chairman	Appointed as a director on 1 June 2003.
J Chesterfield BBus, MBA	Appointed as a director on 18 July 2005.
A C Larkin FCPA, FAICD	Appointed as a director on 1 June 2003.
A D McCallum Dip. Ag Science, MAICD	Appointed as a director on 15 December 1997.
Executive directors	
J Segal BSc, MBA Managing Director and Chief Executive Officer	Appointed as Managing Director & CEO on 3 June 2005.
J E Fazzino BEc(Hons), CPA Finance Director and Chief Financial Officer	Appointed as a director on 18 July 2005.

Review and results of operations

A review of the operations of the consolidated entity during the half-year and of the results of those operations is contained in the accompanying Profit Report on pages 2 to 5.

Earnings are biased to the second half of the financial year and are significantly influenced by the winter planting season which is dependent upon autumn and early winter rainfall.

Events subsequent to balance date

In respect of the 2005 trial in the Supreme Court of South Australia under which the termination of a supply agreement and the payment of rebates of up to $7.4m was in dispute, on 19 April 2006, orders were made by the Court in favour of Elders Limited to the effect that the supply agreement was held to terminate in June 2005. Pending a determination by the Court as to quantum, the Company has made a provision up to the amount in dispute.

On 20 April 2006, the Company announced that a remediation and closure provision for the Cockle Creek single superphosphate manufacturing operations of $19.8m after tax, and this has been included in the half year result. Additional costs related to this closure and remediation of approximately $2.1m after tax will be booked prior to 30 September 2006 for demolition of related plant and redundancies.

Since the end of the half-year, the directors have declared an interim dividend of 22 cents per share. This dividend is fully franked at the 30% corporate tax rate and is payable on 9 June 2006.

The directors have not become aware of any other significant matter or circumstance that has arisen since 31 March 2006, that has affected or may affect the operations of the consolidated entity, the result of those operations, or the state of affairs of the consolidated entity in subsequent years, which has not been covered in this report.

Directors' Report (continued)

Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 9 and forms part of the directors' report for the half-year ended 31 March 2006.

Rounding

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and, in accordance with that Class Order, the amounts shown in this report and in the financial statements have been rounded off, except where otherwise stated, to the nearest thousand dollars.

Signed on behalf of the Board

John C Watson, AM
Chairman
Dated at Melbourne this 28th day of April 2006

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Incitec Pivot Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 March 2006 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Neil Faulkner
Partner

Melbourne

28 April 2006

Condensed Consolidated Interim Income Statement

For the half-year

	Notes	March 2006 $000	March 2005 $000
Sales revenue		**395,461**	439,655
Other income		**11,437**	1,777
Operating expenses			
Changes in inventories of finished goods and work in progress		**118,241**	118,435
Raw materials and consumables used and finished goods purchased for resale		**(370,292)**	(420,747)
Employee expenses		**(36,082)**	(42,177)
Depreciation and amortisation expense		**(15,001)**	(15,185)
Borrowing and finance costs		**(4,550)**	(3,733)
Purchased services (including significant items)	(3)	**(26,555)**	(20,015)
Repairs and maintenance		**(15,136)**	(14,618)
Outgoing freight		**(12,562)**	(11,775)
Lease payments - operating leases		**(5,422)**	(6,428)
Environmental costs (significant items)	(3)	**(28,306)**	-
Other expenses		**(1,630)**	(1,895)
Profit before income tax		**9,603**	23,294
Income tax benefit/(expense) attributable to profit		**448**	(6,102)
Profit after income tax attributable to members of Incitec Pivot Limited		**10,051**	17,192

		cents	cents
Earnings per share			
Basic earnings per share from continuing operations			
Ordinary shares	(4)	**17**	29
Diluted earnings per share from continuing operations			
Ordinary shares	(4)	**17**	29

The consolidated entity has elected not to restate the condensed consolidated interim Income Statement for the half-year ended 31 March 2005 for financial instruments within the scope of *AASB 132 Financial Instruments: Presentation* and *AASB 139 Financial Instruments: Recognition and Measurement* as permitted on the first-time adoption of AIFRS. Refer Note 1.

Condensed Consolidated Interim Balance Sheet
As at:

	31 March 2006 $000	30 September 2005 $000	31 March 2005 $000
Current assets			
Cash assets	**11,699**	3,351	2,704
Receivables	**141,742**	75,901	113,093
Other financial assets	**4,970**	12,341	2,908
Inventories	**380,992**	262,909	356,253
Other assets	**9,285**	1,638	8,572
Assets held for sale	**2,166**	2,416	367
Total current assets	**550,854**	358,556	483,897
Non-current assets			
Receivables	**319**	1,633	2,074
Property, plant and equipment	**286,120**	291,971	307,636
Goodwill	**183,809**	183,809	183,809
Intangible assets	**7,582**	8,441	9,190
Deferred tax assets	**34,995**	19,908	17,023
Retirement benefit surplus	**618**	618	-
Other assets	**665**	839	2,296
Total non-current assets	**514,108**	507,219	522,028
Total assets	**1,064,962**	865,775	1,005,925
Current liabilities			
Payables	**267,424**	200,699	217,374
Interest bearing liabilities	**149,627**	12,514	133,250
Current tax liabilities	**3,618**	4,101	2,692
Provisions	**45,463**	43,713	22,719
Total current liabilities	**466,132**	261,027	376,035
Non-current liabilities			
Deferred tax liabilities	**29,577**	28,480	30,418
Retirement benefit obligations	**-**	-	4,403
Provisions	**37,124**	12,821	21,513
Total non-current liabilities	**66,701**	41,301	56,334
Total liabilities	**532,833**	302,328	432,369
Net assets	**532,129**	563,447	573,556
Equity			
Contributed equity	**532,445**	532,445	532,445
Reserves	**(4,359)**	(1,524)	(2,581)
Retained profits /(losses)	**4,043**	32,526	43,692
Total equity	**532,129**	563,447	573,556

The consolidated entity has elected not to restate the condensed consolidated interim Balance Sheet for the half-year ended 31 March 2005 and the year ended 30 September 2005 for financial instruments within the scope of *AASB 132 Financial Instruments: Presentation* and *AASB 139 Financial Instruments: Recognition and Measurement* as permitted on the first-time adoption of AIFRS. Refer Note 1.

The condensed consolidated interim Balance Sheet should be read in conjunction with the accompanying notes.

Condensed Consolidated Interim Statement of Recognised Income and Expense

For the half-year

	Notes	March 2006 $000	March 2005 $000
Cash flow hedges			
Recognition of fair value of cash flow hedging instruments	(8)	**(6,795)**	-
Effective portion of changes in fair value	(8)	**(4,718)**	-
Share-based payment transactions	(8)	**(715)**	393
Net income/(expense) recognised directly in equity		**(12,228)**	393
Profit for the half-year		**10,051**	17,192
Total recognised income and expense for the half-year attributable to members of Incitec Pivot Limited		**(2,177)**	17,585

The consolidated entity has elected not to restate the condensed consolidated interim Statement of Recognised Income and Expense for the half-year ended 31 March 2005 for financial instruments within the scope of *AASB 132 Financial Instruments: Presentation* and *AASB 139 Financial Instruments: Recognition and Measurement* as permitted on the first-time adoption of AIFRS. Refer Note 1.

The condensed consolidated interim Statement of Recognised Income and Expense should be read in conjunction with the accompanying notes.

Condensed Consolidated Interim Statement of Cash Flows

For the half-year

	March 2006 $000 Inflows/ (Outflows)	March 2005 $000 Inflows/ (Outflows)
Cash flows from operating activities		
Receipts from customers	**362,344**	439,875
Payments to suppliers and employees	**(417,144)**	(499,565)
Interest received	**314**	695
Borrowing costs	**(3,680)**	(2,241)
Rental income	**59**	70
Other trading revenue received	**81**	194
Net income taxes paid	**(8,906)**	(18,071)
Net cash flows from operating activities	**(66,932)**	(79,043)
Cash flows from investing activities		
Payments for property, plant and equipment	**(16,627)**	(11,511)
Payments for intangibles	**(156)**	(2,769)
Proceeds from sale of investments	**6,992**	-
Payments for purchase of investments	**-**	(1,500)
Proceeds from sale of property, plant and equipment	**722**	1,767
Net cash flows used in investing activities	**(9,069)**	(14,013)
Cash flows from financing activities		
Net movement in short-term financing	**113,420**	70,195
Dividends paid	**(29,071)**	(58,281)
Net cash flows used in financing activities	**84,349**	11,914
Net increase/(decrease) in cash held	**8,348**	(81,142)
Cash at the beginning of the half-year	**3,351**	83,846
Cash at the end of the half-year	**11,699**	2,704

The consolidated entity has elected not to restate the condensed consolidated interim Statement of Cash Flows for the half-year ended 31 March 2005 for financial instruments within the scope of *AASB 132 Financial Instruments: Presentation* and *AASB 139 Financial Instruments: Recognition and Measurement* as permitted on the first-time adoption of AIFRS. Refer Note 1.

The condensed consolidated interim Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements
For the half-year

1. Significant accounting policies

Incitec Pivot Limited is a company domiciled in Australia. The condensed consolidated interim financial report was authorised for issue by the directors on 28 April 2006.

The significant accounting policies adopted in preparing the financial report of Incitec Pivot Limited ('the Company' or 'Incitec Pivot') and of its controlled entities (collectively 'the consolidated entity') are stated below to assist in a general understanding of this financial report.

(i) Basis of preparation

This general purpose financial report for the half-year reporting period ended 31 March 2006 has been prepared in accordance with the requirements of applicable Accounting Standards including AASB 134 *Interim Financial Reporting*, the Corporations Act 2001 and other mandatory professional reporting requirements.

International Financial Reporting Standards ("IFRS") form the basis of Australian Accounting Standards adopted by the Australian Accounting Standards Board ("AASB"), being Australian equivalents to IFRS ("AIFRS"). The interim financial report of the consolidated entity also complies with IFRSs and interpretations adopted by the International Accounting Standards Board.

The half-year financial report has been prepared on a historical cost basis, except for derivative financial instruments and financial instruments held for trading which have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair value attributable to the risks that are being hedged.

This is the consolidated entity's first interim financial report under Australian Equivalents to International Financial Reporting Standards (AIFRS) for part of the period covered by the first AIFRS annual financial report. This half-year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 September 2005 prepared under Australian GAAP (AGAAP), changes in accounting policy for AIFRS requirements summarised in these Financial Statements and any announcements made by Incitec Pivot Limited.

The financial report is presented in Australian dollars.

(ii) Changes in accounting policies

The consolidated entity changed its accounting policies on 1 October 2005 to comply with AIFRS. The transition to AIFRS is accounted for in accordance with Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, with 1 October 2004 as the date of transition. An explanation of how the transition from superseded policies to AIFRS has affected the consolidated entity's Balance Sheet, Income Statement and Statement of Cash Flows is discussed in note 11(I).

The accounting policies set out below have been applied in preparing the Financial Statements for the half-year ended 31 March 2006, the comparative information presented in these Financial Statements, and in the preparation of the opening AIFRS balance sheet at 1 October 2004, the consolidated entity's date of transition, except for the accounting policies in respect of financial instruments. The consolidated entity has not restated comparative information for financial instruments, including derivatives, as permitted under the first-time adoption transitional provisions. The accounting policies for financial instruments applicable to the comparative information are consistent with those adopted and disclosed in the lodged 2005 annual financial report. The impact of changes in these accounting policies on 1 October 2005, the date of transition for financial instruments, is disclosed in note 11(I).

This interim financial report has been prepared on the basis of AIFRS on issue that are effective, or available for early adoption in Incitec Pivot's first AIFRS annual reporting date, 30 September 2006. Based on these AIFRS, the directors have made assumptions about the accounting policies expected to be adopted when the first AIFRS annual financial report is prepared for the year ending 30 September 2006. Incitec Pivot has elected to early adopt Australian Accounting Standards, and interpretations which permit early adoption. The decision to early adopt those standards and interpretations ensures that policy elections described below, including AIFRS transition exemptions, are available. The principal standards and interpretations that have been early adopted are:

- Revised AASB 119 *Employee Benefits*
- *AASB 2004-3 Amendments to Australian Accounting Standards amending AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards, AASB 101 Presentation of Financial Statements, AASB 124 Related Party Disclosures*
- AASB 2005-1 *Amendments to Australian Accounting Standard* amending AASB 139 *Financial Instruments: Recognition and Measurement*
- AASB 2005-3 Amendments to Australian Accounting Standards amending AASB 119 *Employee Benefits*
- AASB 2005-4 Amendments to Australian Accounting Standards amending AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 132 *Financial Instruments: Presentation*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 1023 *General Insurance Contracts*, AASB 1038 *Life Insurance Contracts*
- AASB 2005-5 *Amendments to Australian Accounting Standards* amending AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 139 *Financial Instruments: Recognition and Measurement*
- AASB 2005-7 *Amendments to Australian Accounting Standards* amending AASB 134 *Interim Financial Reporting*
- UIG 4 *Determining whether an Arrangement contains a Lease*

Notes to the Financial Statements

For the half-year

1. Significant accounting policies (continued)

- UIG 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
- UIG 1052 *Tax Consolidation accounting*

(iii) Consolidation

The consolidated Financial Statements are prepared by combining the Financial Statements of all the entities that comprise the consolidated entity, being the Company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 *Consolidated and Separate Financial Statements.* Consistent accounting policies are employed in the preparation and presentation of the consolidated Financial Statements. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceed the cost of acquisition, the excess is credited to the Income Statement in the period of acquisition.

The consolidated Financial Statements include the information and results of each subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control such entity.

In preparing the consolidated Financial Statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

(iv) Revenue recognition

External sales and other income are recognised when the risks and rewards of ownership are transferred to the purchaser. Interest income is recognised as it accrues. Dividends are recognised in the Income Statement when declared.

(v) Finance costs

Finance costs include interest on borrowings, amortisation of discounts or premiums relating to borrowings and amortisation of ancillary costs incurred in connection with the arrangement of borrowings, including lease finance charges. Finance costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets that take more than twelve months to get ready for their intended use or sale. Where funds are borrowed specifically for the production of a qualifying asset, the interest on those funds is capitalised, net of any interest earned on those borrowings. Where funds are borrowed generally, finance costs are capitalised using a weighted average interest rate.

(vi) Research and development costs

Research costs are expensed as incurred. Development costs are expensed as incurred except when it is probable that future economic benefits associated with the item will flow to the consolidated entity, in which case they are capitalised.

(vii) Share based payments

Under the Long Term Incentive Plan (LTI), Incitec Pivot may grant awards to executives, subject to individual and Company performance (the Performance Plan). The LTIs operate by way of the Company providing executives with limited recourse interest bearing loans which must be used to purchase Incitec Pivot shares on market.

The benefits received by the executives as a result of participation in the LTI plan are treated as options. The fair value of the options is recognised as an employee expense over the relevant vesting period with a corresponding increase in equity. An option pricing model is used to derive a fair value at grant date. Loan forgiveness and other terms and conditions are incorporated into the option valuation.

The fair value is allocated to the Income Statement evenly over the period from grant date to the date when an entitlement to an award, in the form of a loan waiver, arises. The interest bearing loans are not recognised on the balance sheet.

(viii) Taxation

Under AASB 112 *Income Taxes*, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the balance sheets and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at reporting date, and any adjustments to tax payable in respect of previous years. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The amount of deferred tax provided will be based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantively enacted at reporting date.

A deferred tax asset will be recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets will be reduced to the extent it is no longer probable that the related tax benefit will be realised.

Tax Consolidation

Legislation to allow groups, comprising a parent entity and its Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantially enacted on 21 October 2002. This legislation, which includes both mandatory and elective elements, is applicable to the Company. Incitec Pivot Limited is the parent entity in the tax consolidated group comprising

Notes to the Financial Statements

For the half-year

1. Significant accounting policies (continued)

all wholly-owned entities. The implementation date for the tax-consolidated group was 1 October 2003.

Due to the effect of applying UIG 1052 *Tax Consolidation Accounting* and the existence of a tax funding agreement between the entities in the tax consolidated group, the parent entity recognises the tax effects of its own transactions and the current tax liabilities and the deferred tax assets arising from unused tax losses and unused tax credits assumed by the subsidiary entities. In accordance with the tax funding agreement, the subsidiary entities are compensated for the assets and liabilities assumed by the parent entity as intercompany receivables and payables and for amounts which equal the amounts initially recognised by the subsidiary entities. There is no adjustment for tax consolidation contribution by (or distribution to) equity participants.

(ix) Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and selling expenses. Cost is based on a weighted average method. For manufactured goods, cost includes direct material and labour costs plus an appropriate proportion of fixed and variable overheads based on normal operating capacity of the production facilities. For merchanted goods, cost is net cost into store.

Spare parts purchased for a particular asset or class of assets are classified as capital spares in property, plant and equipment and depreciated. Engineering spares are held in inventory and expensed when used.

(x) Trade and other receivables

Trade and other receivables are recognised at their cost less any impairment losses.

Collectibility of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An impairment loss is recognised when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivables.

Derecognition

A number of customers use bank facilities that are guaranteed or partially guaranteed by Incitec Pivot. Where the entire risks and rewards relating to these facilities have been transferred to the financial institution, the receivable is derecognised. Where this has not occurred, the receivable and the equivalent interest bearing liability have been recognised in the balance sheet.

Comparative period policy

Full detail of the comparative period policy are included in the consolidated entity's 30 September 2005 financial report.

(xi) Other financial assets

The consolidated entity's interests in financial assets other than controlled entities are stated at fair value, with movement in market value recognised in the Income Statement.

Investment income includes dividends which are recognised in the Income Statement when declared.

(xii) Non-current assets held for sale and disposal groups

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable accounting standards. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in the Income Statement. The same applies to gains and losses on subsequent remeasurement.

Classification as a disposal group occurs when the operation meets the criteria to be classified as held for sale.

(xiii) Property, plant and equipment and depreciation

Property, plant and equipment is stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of overheads. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the consolidated entity and the cost of the item can be measured reliably.

Property, plant and equipment, other than freehold land, is depreciated on a straight-line basis at rates calculated to allocate the cost less the estimated residual value over the estimated useful life of each asset to the consolidated entity.

Estimated useful lives of each class of asset are as follows:

Buildings and improvements	20 to 40 years
Machinery, plant and equipment	3 to 30 years

Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 October 2004, the date of transition to AIFRS, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Profits and losses on disposal of property, plant and equipment are taken to the Income Statement.

Spare parts purchased for a particular asset or class of assets are classified as capital spares in property, plant and equipment and depreciated over the useful life of the asset or class of assets to which they relate. Engineering spares are held in inventory and expensed when used.

(xiv) Leased assets

Leases under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases are capitalised at the present value of the minimum lease payments and amortised on a straight-line basis over the period during which benefits are expected to

Notes to the Financial Statements
For the half-year

1. Significant accounting policies (continued)

flow from the use of the leased assets. A corresponding liability is established and each lease payment is allocated between finance charges and reduction of the liability.

Operating leases are not capitalised and lease rental payments are taken to the Income Statement as incurred.

(xv) Intangible assets

(i) Goodwill business combination

Business combinations prior to 1 October 2004

Goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 October 2004 has not been restated in preparing the consolidated entity's opening AIFRS balance sheet at 1 October 2004 (see note 11(e)).

Business combinations since 1 October 2004

There have been no business combinations since 1 October 2004.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the consolidated entity has sufficient resources to complete development.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see h(v) below) and impairment losses (see accounting policy (xxiii)).

(iii) Other intangible assets

Other intangible assets that are acquired by the consolidated entity are stated at cost less accumulated amortisation (see h(v) below) and impairment losses (see accounting policy (xxiii)).

(iv) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(v) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each annual balance sheet date. Other intangible assets are amortised from the date that they are available for use. The estimated useful lives in the current and comparative periods are as follows:

- Software 3 – 7 years

(xvi) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Income Statement over the period of the borrowings on an effective interest basis. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on issuance. Gains and losses are recognised in the Income Statement in the event that the liabilities are derecognised.

Comparative period policy

Bank loans are recognised at their principal amount. Interest expense is accrued at the contracted rate.

(xvii) Provisions

A provision is recognised when there is a legal or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the effect of discounting is recognised as a finance cost.

Environmental

Estimated costs relating to the remediation of soil, groundwater and untreated waste that have arisen as a result of past events are usually taken to the Income Statement as soon as the need is identified and a reliable estimate of the liability is able to be assessed.

However, where the cost relates to land held for resale then, to the extent that the expected realisation exceeds both the book value of the land and the estimated cost of remediation, the cost is capitalised as part of the holding value of that land.

For sites where there are uncertainties with respect to what Incitec Pivot's remediation obligations might be or what remediation techniques might be approved and no reliable estimate can presently be made of regulatory and remediation costs, no amounts have been capitalised, expensed or provided for.

The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes are reflected in the present value of the restoration provision at the end of the reporting period.

Decommissioning

The present value of the estimated costs of dismantling and removing an asset and restoring the site on which it is located are recognised as an asset within property, plant and equipment and as a provision where a legal or constructive obligation exists. At each reporting date, the liability is

Notes to the Financial Statements
For the half-year

1. Significant accounting policies (continued)

remeasured in line with changes in discount rates, timing and estimated cash flows. Any changes in the liability are added or deducted from the related asset, other than the unwinding of the discount which is recognised as a financing cost in the Income Statement.

Employee entitlements

Provisions are made for liabilities to employees for annual leave, sick leave and other current employee entitlements that represent the amount for which the consolidated entity has a present obligation. These have been calculated at undiscounted amounts based on the wage and salary rates that the consolidated entity expects to pay as at each reporting date and include related on-costs.

Liabilities for employee entitlements which are not expected to be settled within twelve months of balance date, such as long service leave, are accrued at the present value of future amounts expected to be paid. The present value is determined using interest rates applicable to government guaranteed securities with maturities approximating to the terms of the consolidated entity's obligations.

A liability is recognised for bonus plans on the achievement of predetermined bonus targets and the benefit calculations are formally documented and determined before signing the financial report.

Superannuation

Contributions to defined contribution superannuation funds are taken to the Income Statement in the year in which the payment is made.

For defined benefit schemes, the cost of providing pensions is charged to the Income Statement so as to recognise current and past service costs, interest cost on defined benefit obligations, and the effect of any curtailments or settlements, net of expected returns on plan assets.

All actuarial gains and losses as at 1 October 2004, the date of transition to AIFRS, were recognised in retained earnings. The consolidated entity has early adopted the revised AASB 119 *Employee Benefits* and all actuarial gains and losses that arise subsequent to 1 October 2004 are recognised directly in equity.

The consolidated entity's net obligation in respect of defined benefit superannuation plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on government bonds that have maturity dates approximating the terms of the consolidated entity's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

Restructuring and employee termination benefits

Provisions for restructuring or termination benefits are only recognised when a detailed plan has been approved and the restructuring or termination benefits have either commenced or been publicly announced, or firm contracts related to the restructuring or termination benefits have been entered into. Costs related to ongoing activities are not provided for.

Onerous contracts

A provision for onerous contracts is recognised after impairment losses on assets dedicated to the contract have been recognised and when the expected benefits are less than the unavoidable costs of meeting the contractual obligations. A provision is recognised to the extent that the contractual obligations exceed unrecognised assets.

(xviii) Trade and other payables

Trade and other payables are stated at cost.

(xix) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Income Statement.

(xx) Derivative financial instruments

The consolidated entity uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the consolidated entity does not hold or issue derivative financial instruments for trading purposes.

However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Income Statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

Hedging

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity.

When the forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains and losses that were recognised directly

Notes to the Financial Statements
For the half-year

1. Significant accounting policies (continued)

in equity are reclassified into the Income Statement in the same period or periods during which the asset acquired or liability assumed affects the Income Statement.

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the Income Statement in the same period or periods during which the hedged forecast transaction affects the Income Statement. The ineffective part of any gain or loss is recognised immediately in the Income Statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, then the cumulative unrealised gain or loss recognised in equity is recognised immediately in the Income Statement.

Hedge of monetary assets and liabilities

When a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, hedge accounting is not applied and any gain or loss on the hedging instrument is recognised in the Income Statement.

Comparative period policy

The consolidated entity has taken the exemption available under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* to apply AASB 132 *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* only from 1 October 2005. The consolidated entity has applied previous AGAAP to the comparative information on the financial instruments within the scope of AASB 132 *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*. The accounting policies applied in the comparative period are as follows:

Derivative financial instruments are used to hedge interest rate and foreign currency exposures.

Accordingly, hedge accounting principles are applied, under which gains and losses on derivatives are brought to account on the same basis as the gains and losses on the underlying physical exposures. Derivative financial instruments are not held for speculative purposes.

The effect of interest received, paid or accrued under interest rate swap and forward rate agreements is included in the calculation of net interest expense. The amount receivable or payable at balance date is included in assets or liabilities respectively.

Anticipated transactions

Foreign currency transactions are translated at the exchange rate prevailing at the date of the transaction. Foreign currency receivables and payables outstanding at balance date are translated at the exchange rates current at that date. Exchange gains and losses on retranslation of outstanding receivable and payables are taken to the Income Statement.

Where hedge transactions are designated as a hedge of the anticipated purchase or sale of goods or services, purchase of qualifying assets, or an anticipated interest transaction, gains and losses, on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the Income Statement.

The net amount receivable or payable under open swaps, forward rate agreements and futures contracts and the associated deferred gains or losses are not recorded in the Income Statement until the hedged transaction matures. The net receivables or payables are then revalued using the foreign currency, interest or commodity rates current at balance date.

When the anticipated transaction is no longer expected to occur as designated, the deferred gains and losses relating to the hedged transaction are recognised immediately in the Income Statement.

Gains and losses that arise prior to and upon the maturity of transactions entered into under hedge strategies are deferred and included in the measurement of the hedged anticipated transaction if the transaction is still expected to occur as designated. If the anticipated transaction is no longer expected to occur as designated, the gains and losses are recognised immediately in the Income Statement.

(xxi) Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash includes cash at bank, cash on hand and deposits at call which are readily convertible to cash on hand and which are used in the cash management function, net of bank overdrafts.

(xxii) Share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from total equity.

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

Redeemable preference shares

Redeemable preference shares which provide for mandatory redemption are included in liabilities as they are, in substance, borrowings. Dividends payable on these shares are recognised in the Income Statement as finance costs on an accruals basis.

(xxiii) Impairment of assets

The carrying amount of the consolidated entity's assets excluding defined benefit fund assets, deferred tax assets, goodwill and indefinite life intangible assets is reviewed at each reporting date to determine whether there is any evidence of impairment. If such indication exists, the asset is

Notes to the Financial Statements
For the half-year

1. Significant accounting policies (continued)

tested for impairment by comparing its recoverable amount to its carrying amount. Goodwill and indefinite life intangible assets will be tested for impairment annually.

The recoverable amount of an asset is determined as the higher of net selling price and value in use. The recoverable amount is estimated for each individual asset or where it is not possible to estimate for individual assets, it is estimated for the cash generating unit to which the asset belongs.

A cash generating unit is the smallest identifiable group of assets that generate cash inflows largely independent of the cash inflows of other assets or group of assets with each cash generating unit being no larger than a segment. In calculating recoverable amount, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects the current market assessments of the risks specific to the asset or cash generating unit. Cash flows are estimated for the asset in its present condition and therefore do not include cash inflows or outflows that improve or enhance the assets performance or that may arise from future restructuring.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount.

Impairment losses are recognised in the Income Statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units and then, to reduce the carrying amount of the other assets in the unit.

(xxiv) Goods and services tax

Revenues, expenses, assets and liabilities other than receivables and payables, are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the relevant taxation authorities. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

The net amount of GST recoverable from, or payable to, the relevant taxation authorities is included as a current asset or liability in the Balance Sheet.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the relevant taxation authorities are classified as operating cash flows.

(xxv) Comparative figures

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

Notes to the Financial Statements
For the half-year

2. Sales revenue and other income

	March 2006 $000	March 2005 $000
Sales revenue		
External sales	**376,852**	423,230
Sales to entities subject to common control	**18,609**	16,425
Total sales revenue	**395,461**	439,655
Other income		
Interest income		
common controlled entities	**-**	246
external parties – banks	**314**	283
Rental income	**59**	70
Other income (1)	**2,218**	1,013
From outside operating activities		
Unrealised gain on listed investment	**1,929**	-
Realised gain on listed investment	**6,892**	-
Profit on sale of property, plant and equipment	**25**	165
Total other income	**11,437**	1,777
Total sales revenue and other income	**406,898**	441,432

(1) Includes unrealised foreign exchange gains and losses.

Seasonality of operations

Earnings are biased to the second half of the financial year which is significantly influenced by the winter planting season. The following table presents selected results for the consolidated entity for the 12 months ended 31 March 2006:

Revenue from ordinary activities	**1,048,156**	n/a (1)
Profit from ordinary activities before income tax	**11,268**	n/a (1)

(1) No comparative information is provided for the 12 months ended 31 March 2005 as part of this period was reported under previous AGAAP and the information in accordance with AIFRS is not readily available.

Notes to the Financial Statements
For the half-year

3. Individually significant items

	March 2006 Gross $000	March 2006 Tax $000	March 2006 Net $000	March 2005 Gross $000	March 2005 Tax $000	March 2005 Net $000
Profit includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance of the entity:						
Litigation ruling and dispute[1]	(7,400)	2,220	(5,180)	-	-	-
Gain from investment held for resale in listed Co [2]						
Realised	6,892	(670)	6,222	-	-	-
Unrealised	1,929	(579)	1,350	-	-	-
Total gain from investment held for resale	8,821	(1,249)	7,572	-	-	-
Cockle Creek clean-up and closure costs [3]						-
Environmental clean-up	(21,023)	6,307	(14,716)	-	-	-
Closure and demolition	(7,283)	2,185	(5,098)	-	-	-
Total Cockle Creek clean-up and closure costs	(28,306)	8,492	(19,814)	-	-	-
Individually significant items	(26,885)	9,463	(17,422)	-	-	-

(1) Pending a determination by the Court as to quantum, a provision has been raised in respect of the dispute in the 2005 proceedings with Elders Limited for which orders were made by the Supreme Court of South Australia in favour of Elders Limited in April 2006. It is expected that the quantum hearing will be held in the second half of 2006.

(2) Realised and unrealised gains in relation to the investment held for resale in the listed gas producer Queensland Gas Company Limited. Capital losses offset the tax in relation to this gain.

(3) A provision has been recognised in relation to the costs associated with dismantling the manufacturing facility and remediating the site at Cockle Creek as announced to the Australian Stock Exchange on 20 April 2006.

Notes to the Financial Statements
For the half-year

4. Earnings per share (EPS)

	Notes	March 2006 Cents per share	March 2005 Cents per share
Basic and diluted earnings per share			
including significant items		**17**	29
excluding significant items		**47**	29
		Number	Number
Weighted average number of shares used as the denominator:			
Number for basic and diluted earnings per share (1)		**58,281,027**	58,281,027
		$000	$000
Reconciliation of earnings used in the calculation of basic and diluted earnings per share including individually significant items			
Profit from ordinary activities after income tax		**10,051**	17,192
Earnings used in calculation of EPS including individually significant items		**10,051**	17,192
Reconciliation of earnings used in the calculation of basic and diluted earnings per share excluding individually significant items			
Profit from ordinary activities after income tax		**10,051**	17,192
Add back individually significant items after income tax		**17,422**	-
Earnings used in calculation of EPS excluding individually significant items		**27,473**	17,192

The average market price of ordinary shares during the half-year ended 31 March 2006 was $16.67 (2005 $20.49).

(1) No shares were issued in 2005 or during the six month period ended 31 March 2006, thus the weighted average number of shares at 31 March 2005 and 31 March 2006 represents issued share capital.

Notes to the Financial Statements

For the half-year

5. Dividends

	March 2006 $000	March 2005 $000
Dividends paid during the half-year		
Ordinary Shares		
Final dividend of 70 cents per share, fully franked at 30%, paid on 9 December 2004	-	40,797
Final special dividend of 30 cents per share, fully franked at 30%, paid on 9 December 2004	-	17,484
November 2005 special dividend of 50 cents per share, fully franked at 30%, paid on 9 January 2006	**29,141**	-
Total ordinary dividends paid in cash	**29,141**	58,281
Redeemable Preference Shares		
Quarterly dividend at 5.36% per share unfranked paid in cash on 27 November 2004	-	737
Total dividends paid in cash	**29,141**	59,018

Subsequent event

Since the end of the half-year, the directors have declared the following dividend:

Ordinary shares		
Interim dividend of 22 cents per share, fully franked at 30%, payable on 9 June 2006	**12,822**	

The financial effect of this dividend has not been recognised in the financial report and will be recognised in subsequent financial reports.

Redeemable Preference Shares

Dividends paid in respect of the redeemable preference shares were paid by Incitec Fertilizers Limited, a wholly-owned subsidiary of the Company, and were paid quarterly at 5.36% per share, unfranked. Dividends on these shares were charged to the Income Statement as borrowing costs because the shares are classified as liabilities.

Franking credits

Franking credits available to shareholders of the Company of $10,159,000 (2005 $26,800,000) at the 30% (2005 at 30%) corporate tax rate after allowing for tax payable in respect of the current half-year. Subsequent to the payment of the interim dividend, the franking credits available will be $4,664,000 (2005 $14,600,000). The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

Notes to the Financial Statements
For the half-year

6. Contributed equity

	March 2006 $000	March 2005 $000
Share capital		
Ordinary shares - 58,281,027 (2005 - 58,281,027)	**532,445**	532,445

Movements in issued and fully paid ordinary shares of the Company during the past two years were as follows:

Details	Date	Number of shares	$000
Opening balance	1 April 2004	58,281,027	532,445
Closing balance	31 March 2005	58,281,027	532,445
Closing balance	**31 March 2006**	**58,281,027**	**532,445**

Terms and conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

7. Total equity reconciliation

	March 2006 $000	March 2005 $000
Total equity at the beginning of the half-year	**563,447**	614,252
Total recognised income and expense for the half-year	**(2,177)**	17,585
Transactions with equity holders in their capacity as equity holders		
Dividends provided for or paid	**(29,141)**	(58,281)
Total equity at the end of the half-year	**532,129**	573,556

Notes to the Financial Statements

For the half-year

8. Reserves and retained profits

	March 2006 $000	March 2005 $000
Reserves		
Share-based payments	(2,312)	(2,581)
Cash flow hedging	(2,047)	-
Reserves at the end of the half-year	(4,359)	(2,581)
Movement in reserves during the half-year		
Share-based payments		
Balance at beginning of half-year	(1,524)	(2,781)
Option expense	95	129
Options forfeited	-	71
Loan repayments	219	-
Shareholder loans	(1,102)	-
Balance at end of half-year	(2,312)	(2,581)
Hedging		
Balance at beginning of half-year	-	-
Recognition of fair value of cash flow hedging instruments upon transition	2,671	-
Net change in fair value of cash flow hedging instruments	(4,718)	-
Balance at end of half-year	(2,047)	-
Movement in retained profits during the half-year		
Retained profits at the beginning of the half-year	32,526	84,588
Operating profit after income tax attributable to members of Incitec Pivot Limited	10,051	17,192
Less dividends paid		
2004 Final dividend and special dividend	-	(58,281)
2005 Special dividend	(29,141)	-
Recognition of fair value of cash flow hedging instruments upon transition	(9,466)	-
Share-based payment transactions		
Dividends received as repayment	73	193
Retained profits at the end of the half-year	4,043	43,692

Notes to the Financial Statements

For the half-year

9. Segment Report

During the financial year ended 30 September 2005 and during the half-year ended 31 March 2006, the consolidated entity operated in one business segment in which the principal activities were the manufacture and distribution of fertiliser, and in one geographic location, Australia.

10. Contingent Liabilities

The following contingent liabilities are generally considered remote, however the directors consider they should be disclosed. The directors are of the opinion that provisions are not required.

Discounted bills of exchange

A discounted bill of exchange facility is in place and is utilised by a number of customers for the purpose of trade finance. The majority of these discounted bills of exchange are used for periods less than 120 days. In the event that customers default and bills are not repaid to the underlying financial institution, there is 100% recourse to the Company. In this circumstance the Company would be required to repay the bill. The amount would only be written off if the Company was unsuccessful in collecting the underlying debt.

The adoption of AIFRS has meant the full amount of this trade finance facility has been brought onto the balance sheet. Prior to the adoption of AIFRS the full amount of the facility was disclosed as a contingent liability. Total discounted bills of exchange outstanding at 31 March 2006, recognised on the balance sheet as a current interest bearing liability and also as current trade receivables, amounted to $15.3m (30 September 2005 $65.9m, 31 March 2005 $60.3m).

Contracts, guarantees and warranties

- The Company has guaranteed seasonal borrowings of certain customers. A $70 million facility historically has been in place with Suncorp Metway, however has not been renewed for the 2006 / 2007 season. The amount guaranteed by Incitec Pivot is 4% of the total facility or $2.8 million. In the event that customers default on the borrowing, there is recourse to the Company of up to a maximum of $2.8m. The amount would be written off if the Company was unsuccessful in collecting the underlying debt.
  The adoption of AIFRS has meant the full amount of this trade finance facility has been brought onto the balance sheet. Prior to the adoption of AIFRS the guaranteed portion of the facility was disclosed as a contingent liability. The total amount of the facility outstanding at 31 March 2006, recognised on the Balance Sheet as a current interest bearing liability and also as current trade receivables, amounted to $8.4m (30 September 2005 $17.9m, 31 March 2005 $9.1m).
- Under the terms of a Deed of Cross Guarantee entered into in accordance with the ASIC Class Order 98/1418 dated 30 September 2005, each company which is a party to the Deed has covenanted with the Trustee of the Deed to guarantee the payment of any debts of the other companies which are party to the Deed which might arise on the winding up of those companies.
- The consolidated entity has entered into various long term supply contracts. For some contracts minimum charges are payable regardless of the level of operations, but in all cases the levels of operations are expected to remain above those that would trigger minimum payments.
- In respect of the 2005 trial in the Supreme Court of South Australia under which the termination of a supply agreement and the payment of rebates of up to $7.4m was in dispute, on 19 April 2006, orders were made by the Court in favour of Elders Limited to the effect that the supply agreement was held to terminate in June 2005. Pending a determination by the Court as to quantum, the Company has made a provision up to the amount in dispute.
- There are a number of other legal claims and exposures which arise from the ordinary course of business. There is significant uncertainty as to whether a future liability will arise in respect of these items. The amount of liability, if any, which may arise cannot be reliably measured at this time. In the opinion of the directors any further information about these matters would be prejudicial to the interests of the Company.
- There are guarantees relating to certain leases of property, plant and equipment and other agreements arising in the ordinary course of business.

Notes to the Financial Statements
For the half-year

10. Contingent Liabilities (continued)

- Contracts of sale covering companies and businesses which were divested in prior years include normal commercial warranties and indemnities to the purchasers. The Company is not aware of any material exposure under these warranties and indemnities.
- From time to time the consolidated entity is subject to claims for damages arising from products and services supplied by the consolidated entity in the normal course of business. The consolidated entity has received advice of claims relating to alleged failure to supply products and services suitable for particular applications. The claims in the entities concerned are considered to be either immaterial or the entity is defending the claim with no expected financial disadvantage. No specific disclosure is considered necessary.

Environmental

I. *General*

The Company has identified a number of sites as requiring environmental clean up and review. Appropriate implementation of clean up requirements is ongoing. In accordance with current accounting policy (see note 1 xvii), provisions have been created for all known environmental liabilities that can be reliably estimated. While the directors believe that, based upon current information, the current provisions are appropriate, there can be no assurance that new information or regulatory requirements with respect to known sites or the identification of new remedial obligations at other sites will not require additional future provisions for environmental remediation and such provisions could be material.

II. *Environmental matters subject to voluntary requirements with regulatory authority*

For sites where the requirements have been assessed and are capable of reliable measurement, estimated regulatory and remediation costs have been capitalised, expensed as incurred or provided for in accordance with the accounting policy included in note 1(xvii).

Cockle Creek (NSW)
The site at Cockle Creek (NSW) (owned by Incitec Fertilizers Limited) was declared and gazetted as a "remediation site" on 29 July 2005 by the Department of Environment and Conservation under the Contaminated Land Management Act, 1997. The contamination on the site arose from the use of fill material, mainly sourced from the adjacent smelter on the Pasminco site, by previous owners of the site. The Company is in discussion with the relevant regulatory authority to develop a voluntary Remediation Action Plan ("RAP") and has confirmed its position that it intends to work cooperatively with both the regulatory authority and Pasminco Cockle Creek Smelter Pty Ltd (in administration) in relation to this site. On 20 April 2006, the Company announced that a remediation and closure provision for the Cockle Creek single superphosphate manufacturing operations of $19.8m after tax would be included in the half year result. Additional costs related to this closure and remediation of approximately $2.1m after tax will be booked prior to 30 September 2006 for demolition of related plant and redundancies.

Parafield Gardens (South Australia)
The Company has entered into a voluntary arrangement with the relevant regulatory authority to investigate and remediate where appropriate land and groundwater contamination at Parafield Gardens. An environmental provision has been recognised in respect of this site.

Wallaroo (South Australia)
Wallaroo has been identified as a site requiring soil and groundwater investigation and clean up. An independent environmental auditor is working with the Company and community groups in relation to this site including the identification of the most appropriate future use of this site. An environmental provision has been recognised in respect of this site.

III. *Other environmental matters*

For sites where there are significant uncertainties with respect to what Incitec Pivot's remediation obligations might be or what remediation techniques might be approved, no reliable estimate can presently be made of regulatory and remediation costs. In accordance with accounting policy included in note 1(xvii), no amounts have been expensed, capitalised or provided for.

Notes to the Financial Statements
For the half-year

10. Contingent Liabilities (continued)

Taxation

Consistent with other companies of the size of Incitec Pivot Limited, the group is subject to periodic information requests, investigations and audit activities by the Australian Taxation Office. Provisions for such matters will be booked if a present obligation in relation to a taxation liability exists which can be reliably estimated.

11. Explanation of transition to AIFRSs

This is Incitec Pivot's first interim financial report prepared in accordance with the requirements of AIFRS, which Incitec Pivot was required to adopt from 1 October 2005. Incitec Pivot's first fully compliant Financial Statements will be presented for the year ended 30 September 2006. The rules for first time adoption of AIFRS are set out in AASB 1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards. In general, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet as at transition date, being 1 October 2004, with the exception of the requirements of AASB 139 Financial Instruments: Recognition and Measurement which is only applicable from 1 October 2005 and no comparative information is required. AASB 1 also allows a number of exemptions and exceptions to this general principle, to assist in the transition to reporting under AIFRS, which are set out below.

The accounting policies in Note 1 have been applied in preparing the consolidated interim Financial Statements for the six months ended 31 March 2006, the comparative information for the six months ended 31 March 2005, the Financial Statements for the year ended 30 September 2005 and the preparation of an opening AIFRS Balance Sheet at 1 October 2004.

Presented on the following pages are the restated Balance Sheets at 1 October 2004, 31 March 2005, 30 September 2005 and 1 October 2005 together with the restated Income Statements from the periods ended 31 March 2005 and 30 September 2005. There are no material changes to the Statement of Cash Flow identified as part of AIFRS transition. An explanation of how the transition from previous AGAAP to AIFRSs has affected the consolidated entity's Balance Sheet, Income Statement and Statement of Cash Flows is set out in the following tables and the notes that accompany the tables.

Notes to the Financial Statements

For the half-year

11. Explanation of transition to AIFRSs (continued)

Balance Sheets under AIFRS

The following table sets out the adjustments to the Balance Sheets of the consolidated entity as at:

		1 October 2004			31 March 2005		
		Previous AGAAP	Effect of transition to AIFRS	AIFRS	Previous AGAAP	Effect of transition to AIFRS	AIFRS
	Notes	$000	$000	$000	$000	$000	$000
Current assets							
Cash assets		83,846	-	83,846	2,704	-	2,704
Receivables		123,745	-	123,745	113,093	-	113,093
Other financial assets		-	-	-	2,908	-	2,908
Inventories	a	246,292	(9,123)	237,169	364,824	(8,571)	356,253
Other assets	a	7,047	(4,748)	2,299	13,194	(4,622)	8,572
Assets held for sale	m	-	9,381	9,381	-	367	367
Total current assets		460,930	(4,490)	456,440	496,723	(12,826)	483,897
Non-current assets							
Receivables	h	3,248	(3,025)	223	4,862	(2,788)	2,074
Other financial assets		-	-	-	-	-	-
Property, plant and equipment	a,f,m	296,132	5,118	301,250	297,500	10,136	307,636
Goodwill	e	-	183,809	183,809	-	183,809	183,809
Intangible assets	e,f	183,809	(176,567)	7,242	178,906	(169,716)	9,190
Deferred tax assets	b,j	17,108	1,321	18,429	15,702	1,321	17,023
Retirement benefit surplus		-	-	-	-	-	-
Other assets	a	10,166	(7,870)	2,296	8,796	(6,500)	2,296
Total non-current assets		510,463	2,786	513,249	505,766	16,262	522,028
Total assets		971,393	(1,704)	969,689	1,002,489	3,436	1,005,925
Current liabilities							
Payables		192,854	-	192,854	217,374	-	217,374
Interest bearing liabilities		63,055	-	63,055	133,250	-	133,250
Current tax liabilities		16,277	-	16,277	2,692	-	2,692
Provisions		26,877	-	26,877	22,719	-	22,719
Total current liabilities		299,063	-	299,063	376,035	-	376,035
Non-current liabilities							
Deferred tax liabilities	j	19,049	11,160	30,209	19,258	11,160	30,418
Retirement benefit obligations	b,j	-	4,403	4,403	-	4,403	4,403
Provisions		21,762	-	21,762	21,513	-	21,513
Total non-current liabilities		40,811	15,563	56,374	40,771	15,563	56,334
Total liabilities		339,874	15,563	355,437	416,806	15,563	432,369
Net assets		631,519	(17,267)	614,252	585,683	(12,127)	573,556
Equity							
Contributed equity		532,445	-	532,445	532,445	-	532,445
Reserves	c,h	35,922	(38,703)	(2,781)	35,922	(38,503)	(2,581)
Retained profits	b,c,h,j,o	63,152	21,436	84,588	17,316	26,376	43,692
Total equity		631,519	(17,267)	614,252	585,683	(12,127)	573,556

Notes to the Financial Statements
For the half-year

11. Explanation of transition to AIFRSs (continued)

Balance Sheets under AIFRS

The following table sets out the adjustments to the Balance Sheets of the consolidated entity as at:

		30 September 2005			1 October 2005	
	Notes	Previous AGAAP 30-Sep-05 $000	Effect of transition to AIFRS $000	AIFRS 30-Sep-05 $000	AASB 139 Adjustment $000	AIFRS 1-Oct-05 $000
Current assets						
Cash assets		3,351	-	3,351	-	3,351
Receivables		75,901	-	75,901	83,754	159,655
Other financial assets		12,341	-	12,341	-	12,341
Inventories	a	271,650	(8,741)	262,909	-	262,909
Other assets	a,l	6,135	(4,497)	1,638	2,886	4,524
Assets held for sale	m	-	2,416	2,416	-	2,416
Total current assets		369,378	(10,822)	358,556	86,640	445,196
Non-current assets						
Receivables	h	2,646	(1,013)	1,633	-	1,633
Other financial assets		-	-	-	-	-
Property, plant and equipment	a,f,m	283,855	8,116	291,971	-	291,971
Goodwill	e	-	183,809	183,809	-	183,809
Intangible assets	e,f	174,004	(165,563)	8,441	-	8,441
Deferred tax assets	b,j,l	19,885	23	19,908	4,169	24,077
Retirement benefit surplus	b	-	618	618	-	618
Other assets	a,l	6,574	(5,735)	839	1,303	2,142
Total non-current assets		486,964	20,255	507,219	5,472	512,691
Total assets		856,342	9,433	865,775	92,112	957,887
Current liabilities						
Payables	l	200,699	-	200,699	13,896	214,595
Interest bearing liabilities	l	12,514	-	12,514	83,754	96,268
Current tax liabilities		4,101	-	4,101	-	4,101
Provisions		43,713	-	43,713	-	43,713
Total current liabilities		261,027	-	261,027	97,650	358,677
Non-current liabilities						
Deferred tax liabilities	j,l	17,335	11,145	28,480	1,257	29,737
Provisions		12,821	-	12,821	-	12,821
Total non-current liabilities		30,156	11,145	41,301	1,257	42,558
Total liabilities		291,183	11,145	302,328	98,907	401,235
Net assets		565,159	(1,712)	563,447	(6,795)	556,652
Equity						
Contributed equity		532,445	-	532,445	-	532,445
Reserves	c,h,l	35,922	(37,446)	(1,524)	2,671	1,147
Retained profits /(losses)	b,c,h,j,l,o	(3,208)	35,734	32,526	(9,466)	23,060
Total equity		565,159	(1,712)	563,447	(6,795)	556,652

Notes to the Financial Statements

For the half-year

11. Explanation of transition to AIFRSs (continued)

Income Statements under AIFRS

The following table sets out the adjustments to the Income Statement of the consolidated entity:

		For the Half Year ended 31 March 2005			For the Year ended 30 September 2005		
		Previous AGAAP	Effect of transition to AIFRS	AIFRS	Previous AGAAP	Effect of transition to AIFRS	AIFRS
	Notes	$000	$000	$000	$000	$000	$000
Sales revenue		439,655	-	**439,655**	1,073,872	-	**1,073,872**
Other income	c,h	1,777	-	**1,777**	9,824	(1,006)	**8,818**
Changes in inventories of finished goods and work in progress		118,435	-	**118,435**	23,225	-	**23,225**
Raw materials and consumables used and finished goods purchased for resale		(420,747)	-	**(420,747)**	(788,525)	-	**(788,525)**
Employee expenses (including significant items)	b,h	(42,021)	(156)	**(42,177)**	(99,502)	4,117	**(95,385)**
Depreciation and amortisation expense	e	(20,088)	4,903	**(15,185)**	(40,291)	9,805	**(30,486)**
Borrowing costs		(3,733)	-	**(3,733)**	(10,329)	-	**(10,329)**
Purchased services (including significant items)		(20,015)	-	**(20,015)**	(57,873)	-	**(57,873)**
Repairs and maintenance		(14,618)	-	**(14,618)**	(26,790)	-	**(26,790)**
Property, plant & equipment retired/disposed (excluding significant items)	c	-	-	**-**	(931)	931	**-**
Outgoing freight		(11,775)	-	**(11,775)**	(30,995)	-	**(30,995)**
Lease payments - operating leases		(6,428)	-	**(6,428)**	(12,316)	-	**(12,316)**
Asset write-downs, clean-up and environmental provisions (significant items)		-	-	**-**	(21,155)	-	**(21,155)**
Other expenses from ordinary activities including significant items		(1,895)	-	**(1,895)**	(7,102)	-	**(7,102)**
Profit from ordinary activities before income tax expense		18,547	4,747	**23,294**	11,112	13,847	**24,959**
Income tax expense attributable to profit from ordinary activities	j	(6,102)	-	**(6,102)**	(6,952)	23	**(6,929)**
Profit from ordinary activities after income tax relating to members of Incitec Pivot Limited		12,445	4,747	**17,192**	4,160	13,870	**18,030**

Notes to the Financial Statements

For the half-year

11. Explanation of transition to AIFRSs (continued)

Reconciliation of Statement of Cash Flow

There are no material differences between the Statement of Cash Flows presented under AIFRS and the Statement of Cash Flows presented under previous AGAAP.

Impact of transition to AIFRS

The significant changes in accounting policies adopted in preparing the AIFRS reconciliations and the elections made under AASB 1 are set in this note.

(a) Reclassifications

On initial application of AIFRS, Incitec Pivot has transferred the balance of general and other reserves of $35,922,000 to retained earnings.

At the date of transition to AIFRS, major cyclical maintenance expenditure has been reclassified from other assets to property, plant and equipment and it is being depreciated over the period to the next scheduled major shutdown. The reclassifications at each reporting date are as follows:

	1 Oct 2004 $000	31 Mar 2005 $000	30 Sep 2005 $000
Decrease current other assets by	4,748	4,622	4,497
Decrease non-current other assets by	7,870	6,500	5,735
Increase property, plant and equipment by	12,618	11,122	10,232

In addition capital spares have been reclassified from inventory to property, plant and equipment amounting to $9,123,000 at 1 October 2004, $8,571,000 at 31 March 2005 and $8,741,000 at 30 September 2005. The method for identifying and calculating the amount of capital spares for reclassification was only able to be determined post 30 September 2005.

(b) Retirement benefit surplus / obligations

Under AASB 119 *Employee Benefits*, employer sponsors are required to recognise the net surplus or deficit in their employer sponsored defined benefit funds as an asset or liability respectively. This resulted in a change in the consolidated entity's current accounting policy where defined benefit plans are accounted for on a cash basis, with no defined benefit obligations or plan assets recognised on the balance sheet. Under the new policy, Incitec Pivot is required to recognise an asset/liability of the defined benefit fund for the net surplus/deficit based on an actuarial calculation of the position of the fund.

On transition, the net deficit of the defined benefit fund is debited through retained earnings. As a result, the superannuation liabilities increased by $4,403,000 and deferred tax assets of $1,321,000, with a consequential reduction of $3,082,000 in retained earnings.

For the period ended 31 March 2005, the adjustments were those as at 30 September 2005.

As at 30 September 2005, the defined benefit fund was a surplus of $618,000 gross ($433,000 after tax). The impact to the results was an increase in net profit of $3,515,000, decrease deferred tax assets by $1,321,000 and increase deferred tax liability by $185,000.

(c) Property, plant and equipment

Property, plant and equipment is measured at cost under AIFRS. However, as permitted by the election made under AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards*, at transition date, property, plant and equipment were recognised at deemed cost, being a revalued amount prior to transition date that approximates the fair value as at the date of transition.

Intangible software assets included in property plant and equipment under AGAAP have been reclassified under AIFRS to intangible assets at 1 October 2004, 31 March 2005 and 30 September 2005. Refer to Note (f) below for further details.

Under AIFRS, the profit or loss on disposal of property, plant and equipment is recognised on a net basis in the Income Statement rather than separately recognising the consideration as revenue. There is no profit and loss effect of this change. However, consolidated revenue for the year ended 30 September 2005 decreased by $931,000.

Notes to the Financial Statements

For the half-year

11. Explanation of transition to AIFRSs (continued)

(d) Business combinations

An election is available in AASB 1, which provides the ability to choose whether the acquisition accounting of business combinations prior to transition date is restated under AIFRS. Entities could choose to restate all prior business combinations, only those after a certain date, or none at all. Incitec Pivot has elected not to restate business combinations prior to transition date.

(e) Intangible assets – goodwill

Goodwill represents the difference between the cost of a business combination over the net fair value of identifiable assets, liabilities and contingent liabilities acquired. Under AASB 138 *Intangible Assets*, internally generated goodwill is not recognised as an intangible asset.

Under the previous AGAAP goodwill was amortised on a straight-line basis over its useful life but not exceeding 20 years. From 1 October 2004, goodwill is no longer amortised, but is tested annually for impairment (refer Note (g) for details on impairment testing). The result of the cessation of the amortisation charge is to increase the value of goodwill in the Balance Sheet and reduce the goodwill amortisation expense in the Income Statement by $4,903,000 for 31 March 2005 and $9,805,000 for 30 September 2005. No impairment adjustments are required.

In addition, goodwill of $183,809,000 as at 1 October 2004 has been reclassified from intangible assets to goodwill on the Balance Sheet.

(f) Intangible assets – other intangible assets

Other intangible assets acquired will be stated at cost less accumulated amortisation and impairment losses.

Under AASB 138 *Intangible Assets*, internally generated intangible assets (except development phase expenditure in certain circumstances) will not be recognised and intangible assets can only be revalued if there is an active market.

On transition other intangible assets have been reviewed to ensure they are capable of recognition under AASB 138 *Intangible Assets* and tested for impairment. Software assets that are intangible assets under AASB 138 have been reclassified from property, plant and equipment to intangible assets on transition to AIFRS. As a result, the net book value of property, plant and equipment decreased by $7,242,000 at 1 October 2004, by $9,190,000 at 31 March 2005 and by $8,441,000 at 30 September 2005. The amounts represent the written down value of the software assets at these reporting dates.

No impairment adjustments are required.

(g) Impairment of assets

AASB 136 *Impairment of Assets* determines the recoverable amount of an asset as the higher of net selling price and value in use. This resulted in a change in the existing accounting policy, which determined the recoverable amount of an asset on the basis of discounted cash flows. Under AIFRS, the carrying amount of non-current assets (excluding defined benefit assets, deferred tax assets, goodwill and indefinite life intangible assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset is tested for impairment by comparing its recoverable amount to its carrying amount.

Goodwill and indefinite life intangible assets are tested for impairment annually (refer note (e) and (f)).

The recoverable amount will be estimated for each individual asset or where it is not possible to estimate for individual assets, it will be estimated for the cash-generating unit (CGU) to which the asset belongs. A CGU is the smallest identifiable group of assets that generate cash inflows largely independent of the cash inflows of other assets or group of assets, with each CGU being no larger than a segment. In calculating the recoverable amount, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the risks specific to the asset or CGU. Cash flows are estimated for each asset in its current condition and therefore will exclude cash inflows and outflows improving or enhancing the asset's performance or that may arise from future restructuring.

An impairment loss will be recognised whenever the carrying amount of an asset, or its CGU, exceeds its recoverable amount. Impairment losses will be recognised in the Income Statement.

Incitec Pivot has defined its CGUs, reassessed its impairment testing policy and tested all assets for impairment as at transition date and at 30 September 2005. No impairment write-downs were required. Indicators of impairment were reviewed at 31 March 2005 to determine whether there was any evidence of impairment. No indicators existed and accordingly no impairment testing was required.

Notes to the Financial Statements

For the half-year

11. Explanation of transition to AIFRSs (continued)

(h) Share-based payments

Under previous AGAAP, no expense was recognised for share based payments. Under AASB 2 *Share-Based Payments*, Incitec Pivot has determined the fair value of share-based payments issued to employees as remuneration and recognised an expense in the Income Statement with a corresponding increase in equity. This applies to all share based payments issued after 7 November 2002, which have not vested as at 1 January 2005. Accordingly, the amounts receivable from employees were reversed, resulting in a reduction in the loan receivable at 1 October 2004 by $3,025,000, a reduction in reserves of $3,069,000 and an increase in retained earnings with the net amount of loan forgiveness and dividends received up to 1 October 2004 of $44,000.

In addition, AASB 2 requires that shares issued under a long term incentive scheme in conjunction with non-recourse loans be treated as options. These options are valued at each reporting date, resulting in decrease in retained earnings at 1 October 2004 by $288,000, and an increase to reserves by the same amount. Subsequent valuations at 31 March 2005 resulted in an increase in employee expense by $129,000 for the 6 months to 31 March 2005 and $227,000 for the year ended 30 September 2005, with a corresponding increase to reserves for the same amounts.

In addition, as the dividends on these shares are returned to the Company to reduce the loans, these dividends are treated as if they were not paid and are reversed and any loan forgiveness, loan repayment, and forfeit are also reversed. The net impact of this at 31 March 2005 is an increase in loan receivable by $237,000, increase in employee expense by $27,000 and an increase in shareholders equity by $264,000. At 30 September 2005 the net impact is an increase in loan receivable by $2,088,000, decrease in employee expense by $829,000 and an increase in shareholders equity by $1,259,000.

Interest income on the loans is also reversed and at 30 September 2005 this resulted in a decrease in interest income and loan receivable by $75,000, with a tax effect impact of an increase in deferred tax assets of $23,000 and a decrease in income tax expense of $23,000.

(i) Earnings per share

Under AIFRS basic and diluted earnings per share are calculated using the profit or loss from continuing operations attributable to ordinary shareholders.

The restated earnings per share for 31 March 2005 and 30 September 2005, calculated on the adjusted results and the weighted average number of shares of 58,281,027 shares, are as follows:

	31 Mar 2005		30 Sep 2005	
	AGAAP	**AIFRS**	AGAAP	**AIFRS**
	cents	**cents**	cents	**cents**
Basic EPS from continuing operations	21	**29**	7	**31**
Diluted EPS from continuing operations	21	**29**	7	**31**

(j) Taxation

Under AASB 112 *Income Taxes*, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the Balance Sheet and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying value amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for: the initial recognition of assets and liabilities that affect neither accounting or taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax is based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantively enacted at reporting date.

Notes to the Financial Statements
For the half-year

11. Explanation of transition to AIFRSs (continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent it is no longer probable that the related tax benefit will be realised.

The transition to AIFRS increased the deferred tax asset as follows:

	1 Oct 2004	31 Mar 2005	30 Sep 2005	1 Oct 2005
	$000	$000	$000	$000
Share-based payment transactions	-	-	23	-
Retirement benefit obligations	1,321	1,321	-	-
Cash flow hedging instruments	-	-	-	4,169
Increase in deferred tax asset	1,321	1,321	23	4,169

The transition to AIFRS increased the deferred tax liability as follows:

	1 Oct 2004	31 Mar 2005	30 Sep 2005	1 Oct 2005
	$000	$000	$000	$000
Property, plant and equipment	11,160	11,160	10,960	-
Retirement benefit surplus	-	-	185	-
Cash flow hedging instruments	-	-	-	1,257
Increase in deferred tax liability	11,160	11,160	11,145	1,257

(k) Borrowing costs

Under previous AGAAP requires borrowing costs relating to qualifying assets to be capitalised as part of the cost of the asset. Under AIFRS, there is an option to either expense borrowing costs in the period in which they are incurred, or to capitalise them as part of the cost of the asset.

Incitec Pivot did not have any qualifying assets in 2005.

Incitec Pivot expects to apply the allowed alternative treatment under AASB 123 *Borrowing Costs* and therefore will continue to capitalise borrowing costs where they are directly attributable to the acquisition, construction or production of a qualifying asset.

(l) Classification of financial instruments and hedge accounting

Incitec Pivot has taken advantage of the election available in AASB 1 to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* only from 1 October 2005. This allows Incitec Pivot to apply previous AGAAP to the comparative information of financial instruments within the scope of AASB 132 and AASB 139 for the 30 September 2006 Financial Report.

(i) Classification

Under AASB 139, financial instruments are required to be classified into one of five categories which will, in turn, determine the accounting treatment of the item. The classifications are:

a) Loans and receivables – measured at amortised cost;
b) Held to maturity – measured at amortised cost;
c) Held for trading – measured at fair value with fair value changes charged to net profit or loss;
d) Available for sale – measured at fair value with fair value changes taken to equity; and
e) Non-trading liabilities – measured at amortised cost.

Notes to the Financial Statements
For the half-year

11. Explanation of transition to AIFRSs (continued)

This resulted in a change to the former AGAAP accounting policy, which does not classify financial instruments and where measurement was at amortised cost, with certain derivative financial instruments not recognised on Balance Sheet. The effect at 1 October 2005 was to increase current and non current derivative assets by $4,189,000, deferred tax assets by $4,169,000, derivative liabilities by $13,896,000, deferred tax liabilities by $1,257,000, increase cash flow hedging reserve by $2,671,000 and decrease retained earnings by $9,466,000.

(ii) Recognition of assets and liabilities

Under AASB 139 certain trade finance facilities organised for Incitec Pivot customers have been brought back onto the balance sheet as Incitec Pivot has guaranteed a portion of these facilities. This has resulted in an increase in receivables and an increase in borrowings of $83,754,000 at 1 October 2005.

(iii) Hedge accounting

Under AASB 139 *Financial Instruments: Recognition and Measurement*, in order to achieve a qualifying hedge, the entity is required to meet the following criteria:

- Identify the type of hedge - fair value or cash flow;
- Identify the hedged item or transaction;
- Identify the nature of the risk being hedged;
- Identify the hedging instrument;
- Demonstrate that the hedge has and will continue to be highly effective; and
- Document the hedging relationship, including the risk management objectives and strategy for undertaking the hedge and how effectiveness will be tested.

This resulted in a change in the consolidated entity's existing accounting policy where hedge transactions are designated as a hedge of:

- The anticipated purchase or sale of goods or services;
- Purchase of qualifying assets; or
- An anticipated interest transaction.

Gains and losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, were deferred under AGAAP and included in the measurement of the anticipated transaction when the transaction has occurred as designated.

Under AIFRS, hedge accounting may no longer be able to be applied to such contracts and gains and losses on the contracts will be recognised in the Income Statement.

(m) Non-current assets held for resale

Under AASB 5 *Non-current assets held for sale and discontinued operations*, a non-current asset is classified as held for sale if its carrying amount is to be recovered principally through a sale transaction rather than through continued use. The asset is measured at the lower of carrying amount and fair value, less costs to sell. These assets are required to be separately disclosed on the Balance Sheet.

On transition to AIFRS, Incitec Pivot has recognised non-current assets held for resale of $9,381,000 at 1 October 2004, $367,000 at 31 March 2005 and $2,416,000 at 30 September 2005. This resulted in a reclassification from property, plant and equipment to a separate disclosure under non-current assets held for resale on the Balance Sheet.

(n) Changes in accounting policies

Under AIFRS, changes in accounting polices will be recognised by restating comparatives rather than making current year adjustments, with note disclosure of prior year effects, as is the existing practice under previous AGAAP.

Notes to the Financial Statements

For the half-year

11. Explanation of transition to AIFRSs (continued)

(o) Impact of AIFRS on retained earnings

The impact of the transition to AIFRS on retained earnings is as follows:

	1 Oct 2004	31 Mar 2005	30 Sep 2005	1 Oct 2005
	$000	$000	$000	$000
Reclassification of general and revaluation of assets	35,922	35,922	35,922	-
Share-based payments adjustments	(244)	(207)	534	-
Retirement benefit surplus / (obligations)	(3,082)	(3,082)	433	-
Deferred tax	(11,160)	(11,160)	(10,960)	-
Goodwill amortisation	-	4,903	9,805	-
Derivative financial instruments	-	-	-	(9,466)
Total adjustment to equity	21,436	26,376	35,734	(9,466)

12. Events subsequent to reporting date

In respect of the 2005 trial in the Supreme Court of South Australia under which the termination of a supply agreement and the payment of rebates of up to $7.4m was in dispute, on 19 April 2006, orders were made by the Court in favour of Elders Limited to the effect that the supply agreement was held to terminate in June 2005. Pending a determination by the Court as to quantum, the Company has made a provision up to the amount in dispute.

On 20 April 2006, the Company announced that a remediation and closure provision for the Cockle Creek single superphosphate manufacturing operations of $19.8m after tax, and this has been included in the half year result. Additional costs related to this closure and remediation of approximately $2.1m after tax will be booked prior to 30 September 2006 for demolition of related plant and redundancies.

Since the end of the half-year, the directors have declared an interim dividend of 22 cents per share. This dividend is fully franked at the 30% corporate tax rate and is payable on 9 June 2006.

The directors have not become aware of any other significant matter or circumstance that has arisen since 31 March 2006, that has affected or may affect the operations of the consolidated entity, the result of those operations, or the state of affairs of the consolidated entity in subsequent years, which has not been covered in this report.

Directors' Declaration

I, John C Watson, being a director of Incitec Pivot Limited, do hereby state in accordance with a resolution of the directors that in the opinion of the directors,

(a) the consolidated financial report in the form of Appendix 4D of the Australian Stock Exchange (ASX) Listing Rules, set out on pages 6 to 38, is in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the financial position of the consolidated entity as at 31 March 2006 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
- (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001 (Cth); and

(b) there are reasonable grounds to believe the Company will be able to pay its debts as and when they become due and payable.

John C Watson, AM
Chairman
Dated at Melbourne this 28th day of April 2006

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Independent review report to the members of Incitec Pivot Limited

Scope

The financial report and directors' responsibility

The financial report comprises the condensed consolidated interim statement of income, balance sheet, statement of recognised income and expense, statement of cash flows, accompanying notes 1 to 12 to the financial statements, and the directors' declaration for the Incitec Pivot Limited Consolidated Entity ("the Consolidated Entity"), for the half-year ended 31 March 2006. The Consolidated Entity comprises Incitec Pivot Limited ("the Company") and the entities it controlled during that half-year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for preparing the relevant reconciling information regarding adjustments required under the Australian Accounting Standard AASB 1 *First-Time Adoption of Australian equivalents to International Financial Reporting Standards*.

Review approach

We conducted an independent review in order for the Company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether on the basis of the procedures described anything has come to our attention that would indicate the financial report does not present fairly, in accordance with the Corporations Act 2001, Australian Accounting Standard AASB 134 *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Consolidated Entity's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which were limited primarily to:

- enquiries of company personnel; and
- analytical procedures applied to the financial data.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

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The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

A review cannot guarantee that all material misstatements have been detected.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe the half-year financial report of Incitec Pivot Limited is not in accordance with:

a) the Corporations Act 2001, including:

   i. giving a true and fair view of the Consolidated Entity's financial position as at 31 March 2006 and of its performance for the half-year ended on that date; and

   ii. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

b) other mandatory financial reporting requirements in Australia.

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Neil Faulkner
Partner

Dated at Melbourne this 28th day of April 2006.