

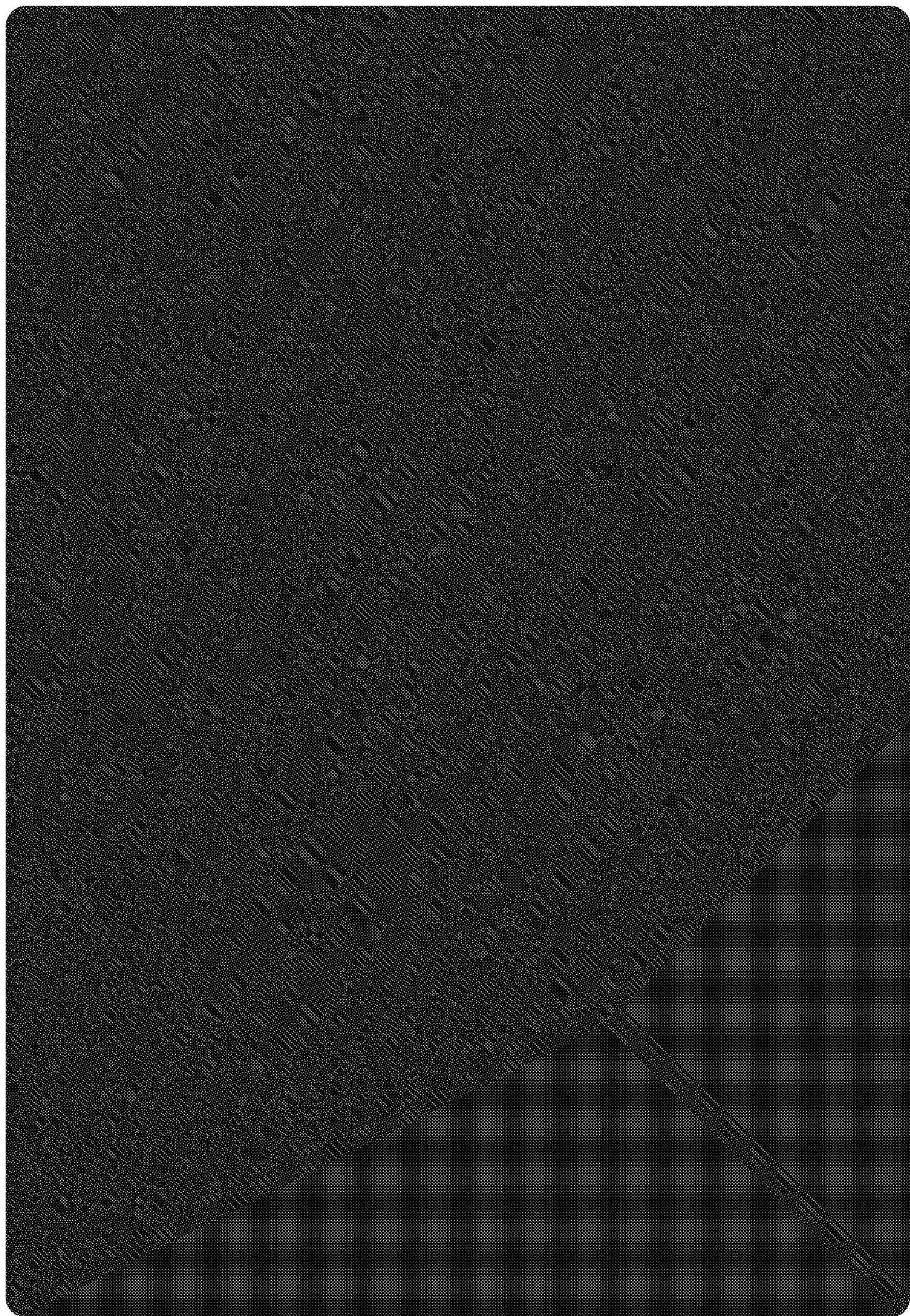
Getting things done.



Annual Report 2006

Incitec Pivot Limited ABN 42 004 080 264

Incitec Pivot



The focus on costs continues and is now embedded in Incitec Pivot’s culture to secure its position as the lowest cost base fertiliser supplier in Australia.

John C Watson, AM
Chairman

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For Incitec Pivot, the 2005/06 financial year was a year of transformation.

Chairman's Report

For Incitec Pivot, the 2005/06 financial year was a year of transformation. In its third full year since the merger, the Company completed a major cost-focused restructure, separated from its founding majority shareholder, Orica, and expanded significantly by acquiring Southern Cross Fertilisers Pty Ltd (SCF).

Transforming events

Incitec Pivot's restructure, which started in the 2004/05 year, was part of a Company-wide cost-efficiency program. This underpinned improved financial performance in 2005/06. The focus on costs continues and is now embedded in Incitec Pivot's culture to secure its position as the lowest cost base fertiliser supplier in Australia.

On 9 May 2006, Orica announced its intention to sell the 70 per cent shareholding it obtained in Incitec Pivot at the time of the merger in 2003.

The first phase of Orica's exit, the sale of 56.5 per cent of Incitec Pivot's shares to institutions, was completed on 10 May. The sell-down was heavily over-subscribed at \$21 per share, demonstrating investors' confidence in Incitec Pivot.

At the same time, Incitec Pivot announced its plan to buy back the remaining portion of Orica's holding and for those shares to be cancelled, subject to shareholder approval.

Simultaneously with these announcements, Incitec Pivot announced its proposal to purchase from BHP Billiton the Queensland based manufacturer, SCF.

As you know, on 6 July, Incitec Pivot's shareholders voted overwhelmingly to support the buy-back proposal and this was completed on 11 July. The acquisition of SCF completed on 1 August. With these events, Incitec Pivot is a fully integrated fertiliser company and a truly independent listed company with its shares freely available for trading. Incitec Pivot's destiny is now in its own hands.

Delivery of strategy

As a result of these developments, Incitec Pivot achieved the liquidity in its share register and scale of market capitalisation to be admitted to Standard and Poor's ASX 200 on 15 September 2006.

This was appropriate recognition for the strategies adopted by the Board and management and the dedication of the workforce to implement them in a fast-changing environment.

A measure of the success of the strategies Incitec Pivot has pursued is that in 2005/06 profitability increased 73 per cent to achieve Net Profit After Tax (NPAT), excluding individually material items, of \$82.8 million. This enabled your Directors to declare a final dividend of 81 cents per share,

which is an increase of 45 per cent on the total dividend paid in 2004/05. This is in line with the Board's continued policy of distributing surplus funds and franking credits to shareholders when available.

Total shareholder returns almost doubled in 2005/06 as a result of the increased total dividend, the \$165 million buy-back and a 64 per cent increase in the share price from \$15.82 to \$25.87 between 1 October 2005 and 30 September 2006.

While it has been a successful year for Incitec Pivot, we are acutely aware of the impact of the continuing drought in most regions. That this performance was delivered in poor seasonal conditions is testimony to the soundness of the strategy to achieve a cost base that allows the business to achieve its financial goals even in a difficult trading year.

Of course, our success would not have been possible without the loyalty of our distribution partners and the support of farmers, many of whom are also shareholders, who use our products.

Board and employees

Regarding the composition of your Board, the only change during the year was the resignation of John Chesterfield as a non-Executive Director following the departure of Orica from our share register. On behalf of the Board and shareholders, I would like to thank John for his professional and knowledgeable contribution and also pass on my gratitude to my fellow Directors for their positive and considered input during the year.

The Board now comprises six Directors and, apart from the Managing Director and the Finance Director, all Directors are considered independent as defined in the ASX Principles of Good Corporate Governance.

In conclusion, I would like to elaborate on my earlier reference to the role of all employees in Incitec Pivot's outstanding success in 2005/06. This team's determination to turn the Company around has been most impressive, especially given the unfavourable weather conditions and the competitive nature of the market. On behalf of the Board and shareholders, I thank all employees for their continued contribution to the business.


John C Watson, AM
Chairman



I sincerely thank my Incitec Pivot colleagues for their untiring efforts in a challenging and fast-changing environment. Together, I know we can continue to get things done.

Managing Director's Report

My first full year as Managing Director and CEO of Incitec Pivot has confirmed to me the underlying strength of the business. The major transforming events, as outlined by the Chairman, positioned the Company to deliver its strategy of being the supplier with the lowest cost base in the fertiliser industry.

Financial performance

The financial results for 2005/06 clearly demonstrate the success of our strategy.

In particular, the major cost-saving restructure launched in 2005 played a crucial part in delivering significantly improved earnings in the 2005/06 year, despite poor prevailing seasonal conditions.

The restructure was designed to reduce the underlying cost base sufficiently to allow satisfactory returns, even in a poor year, as a means of managing seasonal fluctuations. Our performance in the past year, which was characterised by unfavourable weather conditions, vindicates this strategy.

The magnitude and timing of the cost savings achieved to date deserves special mention. We promised a step change by reducing the fixed cost base by \$20 million in 2005/06, yet we were able to deliver cost savings of \$30.1 million before tax, a 52 per cent improvement on our target. The cost savings were achieved through a combination of initiatives, including improving efficiencies in our manufacturing and logistics operations.

In the future, we expect phase one of the restructure to deliver sustainable savings of \$38 million per year. On top of this, we have targeted \$89 million in further savings in phase two of the restructure, which involves additional efficiency improvements in manufacturing, including SCF, and a major supply chain optimisation program.

The improved efficiencies at our manufacturing plants, together with above-trend global fertiliser prices, which dictate the cost to Australian farmers, contributed to the 2005/06 financial results. Our expanded manufacturing capacity means that 70 per cent of the product we sell is made in our own plants.

From 1 August 2006, when SCF joined Incitec Pivot, the newly acquired operations contributed positively to earnings. From day one, the SCF business also generated an annual return on net assets (RONA) above our 18 per cent investment target.

An overall RONA for the business of 18 per cent was achieved in 2005/06, two years ahead of target. Continued financial discipline saw gearing held to 42 per cent, which was within the target range one year ahead of the planned paydown in debt following the SCF purchase and the share buy-back.

Leadership

In 2006, three new appointments were made to the Company's Executive Team. Alan Grace was appointed as General Manager SCF Integration, James Whiteside was appointed as General Manager Supply Chain and Trading and Mark Drew, formerly of SCF, was appointed as General Manager Sales and Customer Service. In addition, a number of other former SCF personnel were appointed to high-level, Company-wide roles, demonstrating the calibre of our new colleagues.

Health, safety and the environment

In 2005/06, Incitec Pivot continued to maintain its focus on health, safety and the environment. Tragically, however, the Company experienced its first fatality during the year at our primary distribution centre at Mackay. This is unacceptable and we are taking all possible steps to prevent this ever occurring again. Following the tragedy, safety audits were conducted at all of our sites and all employees attended workshops to reinforce our safety focus.

In respect of the environment, the decision was taken to cease single superphosphate production at Cockle Creek in New South Wales by September 2009. The decision to close the plant will enable rehabilitation and future sale of the site. Since year-end, we have closed our Wallaroo distribution centre in South Australia to allow remediation and ultimate development of the site to proceed.

I am also proud to report that our Company has achieved full accreditation with the fertiliser industry's national training and accreditation program, Fertcare®. This confirms our ongoing commitment to take a responsible approach to fertiliser handling, advice and application.

Product Development

During 2005/06, the Incitec Pivot brand was further strengthened in the market place and new products came on line to boost our offering to farmers. For instance, FertTerms Plus™ was introduced to offer farmers more flexible deferred payment options. The Company also launched the new Entec® treatment, which stabilises horticultural fertilisers, as well as Green Urea® fertiliser, which allows more efficient nitrogen application.

The year ahead

Looking to the future, in addition to continuing our efficiency drive, one of the top items on our agenda in the coming year is the scheduled maintenance of our ammonia and urea plants at Gibson Island.

This is a huge exercise involving 1,000 employees and contractors over four weeks at an estimated total cost of \$43 million, and is necessary to ensure the efficient operation of these plants until the next scheduled maintenance shut in five years time.

We will also be focusing on completing the integration of SCF into the Incitec Pivot Group while remaining alert for growth opportunities that similarly exceed our established investment criteria.

In closing, I sincerely thank my Incitec Pivot colleagues for their untiring efforts in a challenging and fast-changing environment. Together, I know we can continue to get things done.

Julian Segal
Managing Director and CEO

As a supplier of more than 50 per cent of the plant nutrient needs of the country's farmers, the Company plays an essential role in helping our customers increase productivity and remain internationally competitive.

Who we are and how we do business

Incitec Pivot is a vertically integrated fertiliser manufacturer and importer which has operations stretching from its newly-acquired phosphate mine in far north Queensland to the heart of all farm sectors in eastern and southern Australia.

As a supplier of more than 50 per cent of the plant nutrient needs of the country's farmers, the Company plays an essential role in helping our customers increase productivity and remain internationally competitive.

In doing this, Incitec Pivot takes its environmental responsibilities seriously, both in the manufacture and handling of our products and in their sustainable use on farm.

To this end, Incitec Pivot was proud in 2006 to achieve full accreditation with the national training and accreditation program, Fertcare®, a joint initiative of the Australian Fertiliser Services Association and the Fertilizer Industry Federation of Australia.

Incitec Pivot has six manufacturing plants in Queensland, New South Wales and Victoria and a distribution network stretching from Darwin in the Northern Territory to Brighton in southern Tasmania.

Together, these operations give the Company unequalled capacity to meet the market's needs. Incitec Pivot's product range includes urea, ammonium phosphates, superphosphate and anhydrous ammonia which are applied as solids in granulated form, as liquid nutrients or as gas injected into the soil.

These Australian-manufactured and imported fertilisers are sold through a comprehensive network of 450 strategically located business partners. These businesses, mostly long-established, locally owned enterprises in rural and regional centres, retail our products as agents, or as independent or corporate dealers.

Supporting Incitec Pivot's manufacturing, distribution and product strengths is our NATA-accredited Nutrient Advantage soil, plant and water testing laboratory and highly regarded agronomic services.

With the purchase of SCF in 2006, Incitec Pivot became the largest producer of ammonium phosphate fertilisers in Australia with capacity to export overseas from its Townsville facility.

Incitec Pivot was created with the merger of Pivot and Incitec Fertilizers in 2003, however the business has roots going back to the early part of last century when Australian superphosphate production was pioneered.

First listed on the Australian Stock Exchange in 2003, Incitec Pivot reached a new stage in its development when it joined Australia's top companies in the ASX 200 in September 2006.

Handling in excess of three million tonnes of fertiliser annually, Incitec Pivot's scale underpins its determination to secure its position as Australia's most efficient fertiliser supplier.

Company Values and Culture

Incitec Pivot's separation from Orica and expansion to embrace SCF gave the Company the opportunity to review the corporate values that drive our "getting things done" culture.

This review engaged most of the workforce, with 1100 employees attending 50 "New Beginnings" workshops.

These workshops defined the values which will guide the Company's corporate behaviour and the individual aspirations of its people.

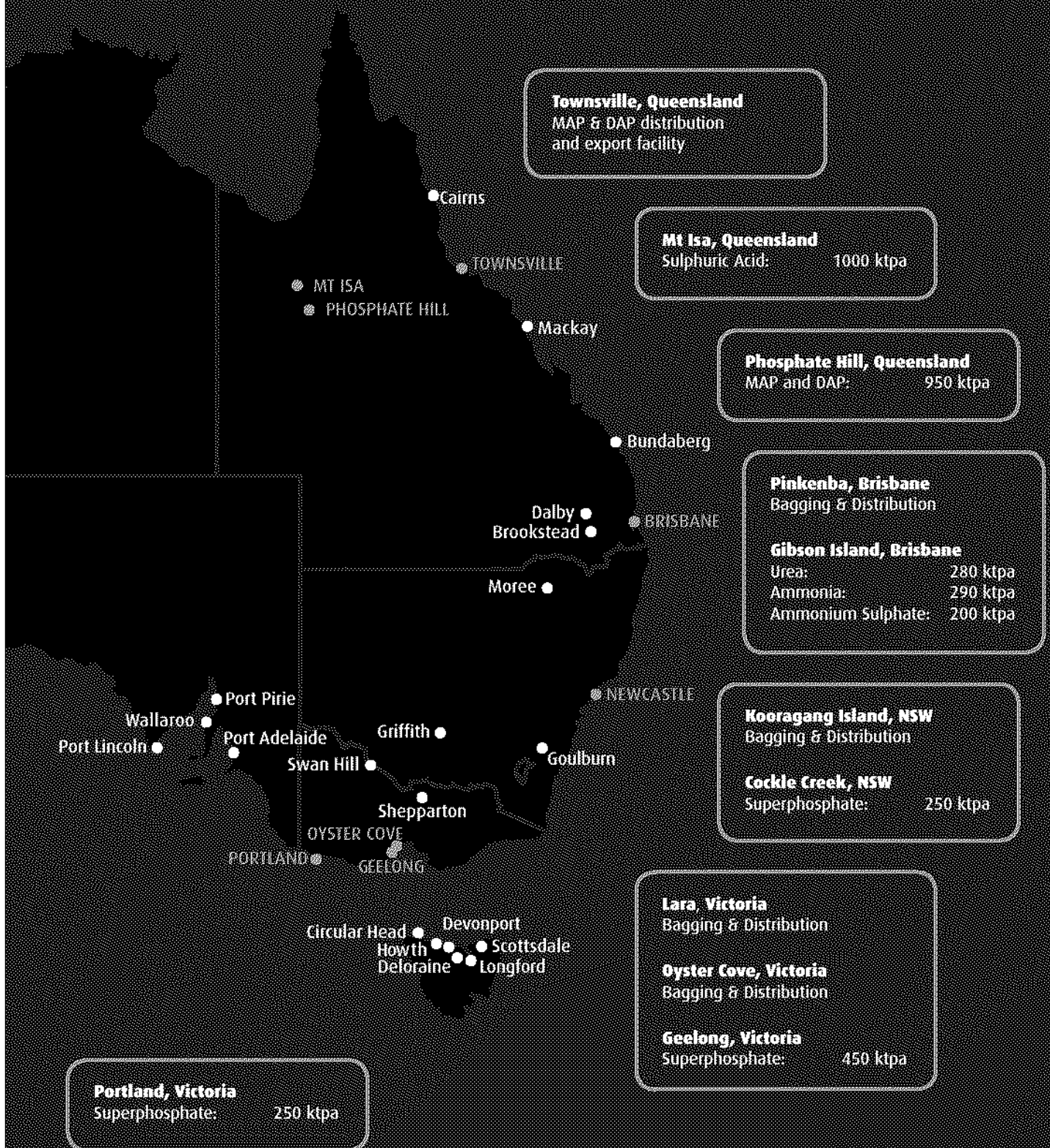
In "getting things done", we are committed to:

- Treating the business as our own
- Valuing people – respect, recognise, reward
- Zero harm for everyone, everywhere
- Caring for the community and the environment
- Challenging and improving the status quo
- Delivering on our promises

Key:

- Major manufacturing and distribution sites
- Distribution sites

ktpa: kilotonnes per annum

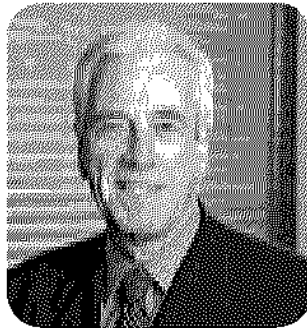


Board of Directors



John Watson AM, MAICD
Non-Executive Chairman,
Chairman of Remuneration and
Appointments Committee

Appointed Chairman of Incitec Pivot Limited in 2003, having been a Director of the Company from 1997 and Chairman from 1998. John is Chairman of Primesafe and of the Co-operative Research Centre for Innovative Dairy Products, a Director of Tassal Group Limited and Rural Press Limited, Councillor of the Royal Agricultural Society of Victoria and a member of the Rabobank Food and Agribusiness Advisory Board for Australia and New Zealand. He is also a past Deputy President of the National Farmers' Federation. In 2004, he was awarded a Membership in the Order of Australia for services to the agricultural and food production sectors. In 2006, he was the recipient of the inaugural Rabobank Leadership Award.



Brian Realey FAICD, FAIM
Non-Executive Director,
Deputy Chairman

Brian was appointed as a Director of the Company on 1 June 2003. He is Chairman of Centro Properties Group and Centro Retail Ltd. He is a former Senior Vice President of Nabisco Inc. and Sara Lee Corporation, a former Director of Foster's Group Ltd and Orica Limited, a former Chairman of Biota Holdings Ltd and Portfolio Partners Ltd and a former Chief Executive of Nicholas Kiwi.



Allan McCallum
Dip. Ag Science, MAICD
Non-Executive Director, Chairman
of Governance Committee

A Director of the Company since 1997, Allan is a farmer in northern Victoria. He is also a Director of Medical Developments International Ltd and Chairman of Tassal Group Limited. He is a former director of Graincorp Limited and Grain Growers Association Limited.



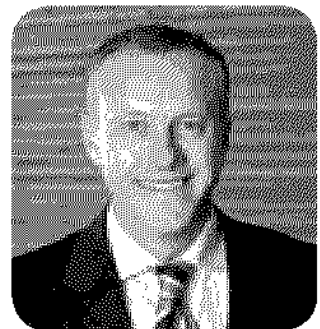
Anthony Larkin FCPA, FAICD
Non-Executive Director,
Chairman of Audit and Risk
Management Committee

Tony was appointed as a Director of the Company on 1 June 2003. He is a Director of Corporate Express Australia Limited and Zinifex Limited, and Chairman of Ausmelt Limited. Tony was previously Executive Director Finance of Orica Limited and Chairman of Incitec Ltd. In his 38-year career with BHP Ltd, he held the position of Group Treasurer after holding senior finance positions in its steel and minerals businesses and various senior corporate roles. From 1993 to 1997, he was seconded to Foster's Group Ltd as Senior Vice President Finance and Investor Relations. Until earlier this year, he was a Commissioner of the Victorian Essential Services Commission.



Julian Segal BSc, MBA
Managing Director and
Chief Executive Officer

Julian was appointed as Managing Director and CEO of Incitec Pivot Limited on 3 June 2005. Immediately prior to joining Incitec Pivot, he was Manager of Strategic Market Planning for the Orica Group. He joined Orica in 1999 and held various management positions including General Manager, Australia/Asia Mining Services and Senior Vice President - Marketing for Orica Mining Services globally.



James Fazzino BEc(Hons), CPA
Finance Director and
Chief Financial Officer

James was appointed as Chief Financial Officer of Incitec Pivot in May 2003 and was appointed to the Incitec Pivot Board as Finance Director on 18 July 2005. Before joining Incitec Pivot, he had many years experience with Orica Limited in several business financial roles, including Project Leader of Orica's group restructure in 2001 and Chief Financial Officer for the Orica Chemicals group. Immediately before joining Incitec Pivot, he was Orica's Investor Relations Manager.

Executive Team



Julian Segal BSc, MBA
Managing Director and
Chief Executive Officer



James Fazzino BEc(Hons), CPA
Finance Director and
Chief Financial Officer



Kerry Gleeson LLB(Hons)
General Counsel and
Company Secretary



Bernard Walsh BE(Mech),
MIEAust CPEng
General Manager Operations

Kerry is a practising solicitor having been admitted to practice in England and Wales in 1991, and in Victoria in 2001. Kerry was appointed to her current position in February 2004, having previously practised with Blake Dawson Waldron. Prior to emigrating in 1999, Kerry was a partner of an English law firm, Halliwell Landau.

Bernard has extensive manufacturing experience in petrochemicals, chemicals and mining services. Bernard joined Incitec Pivot Limited from Orica Limited where he held a variety of roles since 1987, the most recent being as General Manager of Initiating Explosives Systems (IES) Pty Ltd. Bernard was appointed to the Incitec Pivot Executive Team in April 2005.



Daryl Roe BSc
General Manager Strategy and
Business Development

Daryl joined Incitec Pivot Limited in January 2004 from Orica Limited where he held various business management roles. Within Incitec Pivot, Daryl has previously held the roles of General Manager Commercial and General Manager Planning.



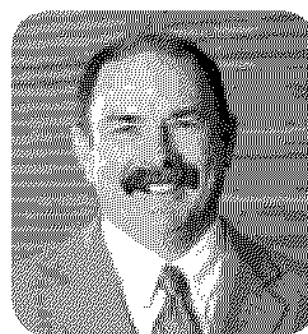
Alan Grace BSc Chem Eng,
MChemE
General Manager SCF Integration

Alan has extensive experience in the construction and operation of chemical and petrochemical manufacturing facilities. Alan joined Incitec Limited in 2000 and Incitec Pivot in 2003. Prior to this, Alan was responsible for managing Lend Lease's Process Services business unit. Alan was appointed to the Incitec Pivot Executive Team in June 2006.



James Whiteside BAgric Sc, Grad
Dip Bus Admin
General Manager Supply Chain
and Trading

James joined Pivot in 1992, following a number of years working for agricultural companies and a consulting firm. Since joining the Company, James has held a number of senior management roles, most recently as Group Procurement Manager. James was appointed to the Incitec Pivot Executive Team in June 2006.



Mark Drew BAgrSc(Hons),
MSc, MBA, MICO
General Manager Sales and
Customer Service

Mark joined Incitec Pivot in August 2006 from SCF, where he held the position of Sales and Marketing Manager. Prior to this, Mark held various senior roles in the agricultural chemicals industry in Australia and Asia.

2006 saw Incitec Pivot deliver on its business turnaround program, despite unfavourable weather conditions.

Review of Performance

Financial Highlights

- Net Profit After Tax (NPAT), excluding individually material items, for the year ended 30 September 2006 was up 73% to \$82.8M (2005: \$47.9M).
- NPAT, including individually material items, was \$46.7M (2005: \$14.5M).
- Delivered "phase one" restructuring cost savings of \$30.1M before tax, up 50% on the Company's target of \$20M as detailed in the September 2005 profit report.
- Business returns restored with 2006 Return on Net Assets (RONA) at 18% (2005: 11.3%), 2 years ahead of plan.
- Dividend up 45% to 103 cents per share (2005: 71 cps).
- \$165M (13.5%) buy-back of issued share capital completed at \$21 per share following Orica's sell-down.
- Share price up 64% to \$25.87 at 30 September 2006 (2005: \$15.82).
- Continued financial discipline, with year end gearing at 42%, 1 year ahead of the planned pay down in debt following the SCF acquisition and share buy-back.

Key Business Outcomes

- Competitive returns to shareholders generated notwithstanding unfavourable seasonal conditions.
- Acquisition of SCF which was earnings per share positive from day one, generating returns in excess of the Company's hurdle rate of 18% RONA.
- Supply agreement signed with ELF in February 2006.

Outlook – 2007

- Similarly to the 2002 drought, the 2006 drought will impact nutrient carry-over, water allocations, sub-soil moisture, farmer confidence and farmer cash flow going into the 2007 year.
- Earnings momentum from a full year ownership of SCF and "phase two" restructure cost savings.
- Continued above-trend global fertiliser prices underpinning manufacturing profitability.

External Sales Revenue

- Total sales revenue was up 3% to \$1,111M (2005: \$1,074M).
- Fertiliser revenue was down 1% to \$996M (2005: \$1,005M). This reflected a reduction in sales volume due to drought conditions and the changes in the competitive landscape from 2005, which together caused a \$119M decline in revenue, offset by higher fertiliser prices which increased revenue by \$110M.
- Fertiliser selling prices were up by 13% or \$50 per tonne on 2005 reflecting strong international fertiliser pricing with both urea (US\$245) and ammonium phosphates (US\$260) at top of cycle prices, partially offset by the strong Australian dollar, and a recovery of local Australian prices to import parity levels.
- External revenue from SCF was \$42M (2005: Nil).

Sales Summary	Year Ended September		
	2006	2005	Change
000's			
Fertiliser tonnes (base business)	2,322	2,656	(13%)
Total tonnes (including SCF)	2,740	2,934	(7%)
A\$M			
Fertiliser sales revenue (base business)	996.3	1,005.0	(1%)
Total sales revenue (including SCF)	1,111.2	1,073.9	3%
Other			
Average exchange rate (A\$/US\$)*	74.6	75.2	1%
Middle East Granular Urea price – US\$/t*	245	236	4%
DAP Price – FOB Tampa – US\$/t**	260	230	NA

*lagged by 3 months

**2006 DAP price 2 months to Sept 06, 2005: July 04 – June 05

Earnings summary

- NPAT, excluding individually material items, was up 73% or \$34.9M to \$82.8M (2005: \$47.9M). NPAT, including individually material items, was up 222% to \$46.7M (2005: \$14.5M).
- Earnings before interest and tax (EBIT) increased by 62% or \$48.3M to \$126.2M (2005: \$77.9M).
- Positive factors were:
 - \$30.1M: Lower costs throughout the business as a result of restructuring. Total "phase one" program benefits (exit rate) are now forecast at \$38M before tax (52% above the initial target of \$25M).
 - \$35.6M: Stronger manufacturing margins reflecting efficient plant operation and above trend global fertiliser prices. Gas profit share of \$11M (2005: \$11.4M).
 - \$21.8M: Improved trading margins reflecting a favourable opening stock position (\$13.2M) and a recovery in wholesale fertiliser prices to import parity levels.
 - \$3.5M: SCF profit (refer Southern Cross Fertilisers summary).
- Negative factors were:
 - \$25.1M: Lower sales volume (refer External Sales Revenue summary above).
 - \$10.5M: Increased rebates paid to channel partners.
 - \$4.8M: Provision for demolition of redundant plant and equipment following comprehensive site reviews conducted during the year.
- Quality of earnings was restored with:
 - EBIT margin up 4.2 percentage points to 11.4% of sales.
 - RONA up 7 percentage points to 18%, equal to target.
- Total borrowing costs were up \$3.4M to \$12.9M (2005: \$9.5M), reflecting:
 - net interest expense of \$7.2M in the base business was down 24% on 2005 (2005: \$9.5M) reflecting strong cash flow from improved earnings, reduced investment in working capital and strict control on capital spending.
 - interest cost incurred on the SCF acquisition (\$2.3M) and share buy-back (\$2.8M).
 - the Company incurring a non-cash expense of \$0.6M (2005: Nil) reflecting the unwinding of discounts on non-current provisions.
- Tax expense, excluding significant items, of \$30.5M was up 49% on 2005 (2005: \$20.5M) reflecting improved earnings. The effective tax rate was 27% (2005: 30%).

Earnings summary		Year Ended September		
A\$M	2006	2005	Change	
EBIT	126.2	77.9	62%	
Borrowing costs	(12.9)	(9.5)	(36%)	
Tax expense	(30.5)	(20.5)	(49%)	
NPAT excluding individually material items	82.8	47.9	73%	
Individually material items after tax	(36.1)	(33.4)	(8%)	
NPAT including individually material items	46.7	14.5	222%	
EBIT/sales	11.4%	7.3%		
RONA	18.0%	11.3%		

Individually material items

2006 individually material items after tax were \$36.1M reflecting:

- Restructuring costs of \$6.4M including \$4.6M for the closure of ammonium phosphate production at Kooragang Island.
- Cockle Creek closure and remediation costs of \$22M.
- \$7.7M relating to the 2005 Elders dispute.
- Separation costs of \$3.7M following the exit of Orica which completed in July 2006.
- SCF integration and restructuring costs of \$4.7M. Further restructuring costs of \$5M after tax are expected in 2007.
- A further \$8.4M profit following the sale of the Company's interest in Queensland Gas Company (total profit after tax on the investment was \$13.4M).

Southern Cross Fertilisers

The Company acquired SCF from BHP Billiton Limited on 1 August 2006 for \$155.3M (including transaction costs). SCF is Australia's largest producer of ammonium phosphate, which it manufactures in a modern, world scale plant at Phosphate Hill in Queensland. The acquisition reflects the Company's strategy of "owning the product" and builds on the Company's core manufacturing capability.

The acquisition exceeds the Company's investment hurdles by generating a RONA above 18% and being Earnings per Share (EPS) accretive from day one. SCF made a positive contribution to earnings in the 2 months ended September 2006.

In particular:

- Underlying EBIT was \$10.8M.
- Underlying NPAT, after interest on acquisition debt and applicable tax, was \$6.0M.
- After allowing for the impact of mark to market inventory revaluation at acquisition date (\$3.1M) and the elimination of profit in stock on sales to the Company's base business (\$4.2M), reported EBIT was \$3.5M and NPAT \$0.8M.

Southern Cross Fertilisers 2 Months Ended September 2006

	Underlying Eliminations Reported		
A\$M			
Production tonnes	163.6		
Sales tonnes	153.1	(33.9)	119.2
Revenue	54.9	(13.1)	41.8
EBITDA	12.1	(7.3)	4.8
EBIT	10.8	(7.3)	3.5
Net interest	(2.3)		(2.3)
Tax expense	(2.6)	2.2	(0.4)
NPAT excluding individually material items	6.0	(5.1)	0.8

Review of Performance – Continued

Dividend

Directors have declared a fully franked final dividend of 81 cents per share (cps) (2005: special dividend of 50 cps, fully franked). The record date for the dividend is 27 November 2006 and the payment date is 13 December 2006.

Total 2006 dividends are up 45% to 103 cps, fully franked (2005: 71cps fully franked). 2006 dividends represent a pay out of 65% of NPAT before individually material items, which is consistent with the Board's dividend policy of:

- Targeting a normal pay-out ratio of between 65% to 75% of NPAT through the cycle.
- Distributing available franking credits.
- Utilising other mechanisms such as special dividends and share buy-backs to distribute surplus funds to investors.

2006 dividend returns equate to a yield of 6.5% based on the opening share price of \$15.82 on 1 October 2005.

Shareholder returns	Year Ended September		
	2006	2005	Change
Final Dividend (cps)			
– normal	81	–	
– special ^(a)		50	
– sub-total	81	50	62%
– % franked	100%	100%	
Total Dividend (cps) ^(a)			
– normal	103	15	587%
– special		56	(100%)
– sub-total	103	71	45%
– % franked	100%	100%	
Dividend yield at:			
– opening share price on 1 October	6.5%	3.8%	
– closing share price on 30 September	4.0%	4.5%	
Share buy-back @ \$21ps – \$M	165		

(a) Including November 2005 Special Dividend

Balance sheet

Incitec Pivot maintained strong financial discipline in 2006 with a robust closing balance sheet position. This is an excellent result given poor seasonal conditions and significant cash outflows from the SCF acquisition and share buy-back.

2006 saw a continuation on the emphasis of reducing the capital intensity of the base business in order to boost RONA and shareholder returns:

- Trade Working Capital (TWC) was \$114M. On a like-for-like basis, that is restating September 2005 TWC for off balance sheet trade finance facilities of \$84M, TWC reduced by \$102M on 2005 (2005: \$216M).
- Property plant and equipment reduced by \$12M to \$280M with capital spending 76% of depreciation.

Environmental and restructuring provisions increased by \$25M to \$67M largely as a result of the decision to close the Cockle Creek plant by September 2009 (provision \$31.5M).

Incitec Pivot's investment in SCF was \$158M at year-end.

Net debt increased by \$266M over 2005. This reflects:

- Trade finance facilities being treated as on balance sheet under AIFRS of \$83.8M,
- SCF acquisition funding of \$155.3M,
- Buy-back funding of \$174.5M, and
- Net cash generation in the base business of \$147.2M.

September 2006 gearing was 42%, towards the bottom of the Company's target range of 40 – 45% through the cycle.

Balance Sheet – as at 30 September

A\$M	2006 Actual	2005 ⁽¹⁾ Proforma	2005 Actual
Excluding SCF:			
Trade working capital (TWC)	114	216	132
Net property plant and equipment	280	292	292
Goodwill	190	192	192
Environmental and restructuring	(67)	(42)	(42)
Tax assets	(6)	(9)	(9)
Net other (liabilities)/ assets	(14)	(2)	12
Sub-total	497	648	578
SCF:			
Trade working capital (TWC)	39		
Other assets	119		
Sub-total	158		
Net assets	655	648	578
Underlying net debt/ (cash)	(54)	93	9
SCF funding ⁽²⁾	155		
Buy-back funding ⁽²⁾	174		
Total net debt	275	93	9
Equity	380	555	569
Total capitalisation	655	648	578
Gearing	42.0%	14.4%	1.6%

(1) Proforma: 2005 adjusted for trade finance facilities (trade bills and seasonal finance \$83.8M) that are on balance sheet from 1 October 2005.

(2) Includes transaction costs.

Cash flow

The Company's strong 2006 earnings performance was matched by an equally strong cash flow outcome.

Net operating cash flows increased by \$117M to \$188.7M (2005: \$71.7M). Major factors were:

- EBITDA up \$50.9M to \$159.3M reflecting the business turnaround (2005: \$108.4M).
- Decrease in trade working capital in the base business of \$102.1M (2005: \$29.3M).
- Increase in SCF working capital of \$6.3M post acquisition with a return to normal inventory levels post the scheduled maintenance shutdown in July 2006.
- Business restructuring costs of \$17.7M (2005: \$17.6M).
- \$11.0M paid to Elders in settlement of the 2005 rebate dispute.
- Environmental and site clean up expenditure of \$11.1M (2005: \$5.8M) with the 2006 spend mainly associated with the clean up of the Parafield Gardens site in South Australia.
- Interest and tax payments of \$23.4M (2005: \$33.0M).

Net investing cash outflows were up \$123.7M to \$154.9M (2005: \$31.2M). Major items include:

- Purchase of SCF, including transaction costs, for \$155.3M.
- Sustenance capital spending down \$3.7M on 2005 to \$20.2M (76% of depreciation).
- Spending of \$3.8M on the planned maintenance shutdown of the Gibson Island ammonia and urea plants in February 2007. Total expenditure \$43M, with \$37M to be spent in 2007.
- Spending of \$4M on the construction of a new gypsum cell at SCF. Total cost of the cell is \$20M, with \$11M to be spent in 2007.
- Cash from the sale of the Company's shares in Queensland Gas Company (\$21.8M) and surplus asset sales (\$6.6M).

Net financing cash inflows were \$33.8M.

Cash Flow Items A\$M	Year Ended September		
	2006	2005	Change
Net operating cash flows			
EBITDA	159.3	108.4	50.9
Trade working capital – base business	102.1	29.3	72.8
Trade working capital – SCF	(6.3)		(6.3)
Net interest paid	(10.5)	(9.4)	(1.1)
Net income tax paid	(12.9)	(23.6)	10.7
Business restructuring costs	(17.7)	(17.6)	(0.1)
Elders settlement	(11.0)		(11.0)
Environmental and site clean-up	(11.1)	(5.8)	(5.3)
Other	(3.2)	(11.6)	8.4
AIFRS adjustments		2.0	(2.0)
Operating cash flow	188.7	71.7	117.0
Net investing cash flows			
SCF acquisition	(155.3)		(155.3)
Capital spending – sustenance	(20.2)	(23.9)	3.7
Capital spending – Gibson Island reset	(3.8)	(2.4)	(1.4)
Capital spending – SCF gypsum cell	(4.0)		(4.0)
QGC investment	21.8	(5.1)	26.9
Proceeds from asset sales	6.6	2.2	4.4
AIFRS adjustments		(2.0)	2.0
Investing cash flow	(154.9)	(31.2)	(123.7)
Net financing cash flows			
(Decrease)/increase in other net debt	(147.2)	30.0	(177.2)
SCF acquisition debt	155.3		155.3
Buy-back debt	174.5		174.5
Dividends paid	(41.9)	(70.5)	28.6
Buy-back payment	(174.5)		(174.5)
AIFRS adjustments			0.0
Financing cash flow	(33.8)	(40.5)	6.7

As part of the Company's guiding principle of "valuing people and the environment", Incitec Pivot continues to seek ways to use materials and energy in a sustainable manner.

Safety, Health & Environment

Incitec Pivot's continued focus on safety resulted in a reduction in overall injury rate for the third consecutive year since the formation of Incitec Pivot in 2003. Tragically, however the Company experienced a fatal incident at its Mackay site in May of this year. This is unacceptable and the Company is taking all possible steps to prevent this from ever occurring again.

Environmental performance improved in 2006 across all measurable elements. Notably, there was a significant improvement in licence compliance tests at both the Geelong and Portland manufacturing plants. This was largely due to the introduction of improvements in the control of fluoride emissions due to changes in the design and operation of the scrubber systems at both sites. In addition, for the second year in a row, there were no Category 2 losses of containment.

The acquisition of SCF on 1 August 2006 has created a new dimension in safety, health and environment management for Incitec Pivot in that mining operations have particular challenges and issues that need to be managed. SCF has a very strong safety, health and environment commitment and performance and, as such, is well aligned with Incitec Pivot.

SH&E performance summary

	2006	2005	2004	2003
Recordable injuries	10	12	13	23
Lost workday case rate	0.4	0.25	0.5	0.29
Recordable case rate	0.8	0.99	1.09	1.69
Distribution (Category 2+)	1	5	2	8
Losses of containment (Category 2)	0	0	1	1
Environmental licence non-complying tests	12	69	82	152
Hygiene monitoring Tests over occupational exposure limit	2	96.2%	97.0%	98.1%

Figures include SCF from 1 August 2006. Figures prior to 1 June 2003 are Incitec Pivot equivalent figures compiled from the former Incitec Fertilizers and Pivot businesses. Some adjustment has been made to the figures published in the 2003 annual report to more accurately reflect measures used by the Occupational Health and Safety Administration.

Definitions

Recordable injuries

Injuries which result in absence from work, restrictions from normal work activities, or are medically treated.

Recordable case rate is defined as the number of recordable injuries to all workers per 200,000 man hours worked.

Distribution incidents

Incidents not on a Company site, arising from the transport or storage of raw materials, products, intermediates or wastes owned by the Company or prior to delivery to the customer. A Category 2 incident is one in which there is significant loss of containment, injury and/or damage to equipment, property or the environment and/or major traffic disruption.

Losses of containment

Incidents where there is an unplanned release or spill on a Company site of material from a vessel, tank, pipe, pump, container or package in which it was designed to be contained. A Category 2 loss of containment is an incident which causes injury or damage, impacts the environment or causes concern in the surrounding community.

Environmental licence non-complying tests

Such non-compliance is an excursion outside statutory discharge or emission limits, as measured in a scheduled test.

Product stewardship

Many Australian soils are low in fertility and nutrients, making fertilisers essential for productive and profitable farming.

Fertilisers must always be used responsibly and at appropriate rates, as improper use may impact adversely on the environment and food quality. Incitec Pivot addresses these potential issues through sound product stewardship. Product stewardship is the responsible and ethical design and management of products, packaging and services throughout their entire lifecycle to protect public health and the environment.

Safety, Health & Environment – Continued

The Company's SH&E policy provides that the Company will:

- sell only those products that can be produced, transported, stored, used and disposed of safely;
- provide appropriate information and/or training to customers and consumers on the safe transportation, use and disposal of products; and
- seek to develop new or improved products and processes to enhance the contribution the Company makes to the quality of people's lives and minimise the impact on the environment.

Put simply, product stewardship involves helping farmers apply the right product at the right rate, in the right place at the right time.

Soil, plant tissue and water testing are techniques which can be used to promote product stewardship, as they can assist in the management of nutrients and the development of crop-specific fertiliser programs. Incitec Pivot offers these services through its laboratory, Nutrient Advantage Laboratory Services, located at Werribee in Victoria. The Nutrient Advantage laboratory is accredited by the National Association of Testing Authorities (NATA) and operates in accordance with the international standard ISO/IEC 17025. The laboratory regularly participates in inter-laboratory proficiency studies coordinated by the Australasian Soil and Plant Analysis Council (ASPAC). Company agronomists have also developed interpretative tools and decision support systems to allow employees, and accredited and licensed Agents and Dealers, to interpret laboratory results and develop fertiliser recommendations and programs for farmer customers.

At an industry level, Incitec Pivot addresses product stewardship through its membership of FIFa, the Fertilizer Industry Federation of Australia, and its participation in industry training and accreditation programs through Fertcare®, the fertiliser industry's national training and accreditation program. In June 2006, Incitec Pivot became a Fertcare® accredited organisation. A number of its agronomists and sales advisory staff have also undertaken the Fertcare® accreditation, giving them further knowledge to provide quality advice on fertiliser handling and use.

Incitec Pivot also participates in another national initiative, the Australian Cadmium Minimisation Strategy (ACMS). The ACMS' objectives include the development of Best Management Practices for the production and processing of agricultural produce in areas which have an existing or potential problem with cadmium, and a Code of Practice for the fertiliser industry to target low cadmium fertiliser to those industries or areas which have an existing or potential cadmium problem. Heavy metals, such as cadmium, may accumulate in soils which have been regularly treated with high rates of certain fertilisers. While permitted levels of cadmium are regulated by legislation, Incitec Pivot has set its own stricter standards and those of its fertilisers which contain heavy metals do so at levels well below the levels permitted by legislation. Incitec Pivot also regularly analyses manufactured and imported products to ensure they meet statutory requirements and label specifications.

During 2006, Victoria, New South Wales and South Australia followed in the footsteps of Queensland and the ACT by enacting legislation to control the use of Security Sensitive Ammonium Nitrate (SSAN) fertilisers, which are solid fertilisers containing more than 45% ammonium nitrate. Over the past year, Incitec Pivot invested considerable resources in response to this legislation, including upgrading security at various distribution centres, including the import facilities at Newcastle, Geelong and Adelaide.

In conjunction with this, Incitec Pivot has also developed a new range of fertiliser blends, the Cal-Gran range, which have a lower ammonium nitrate content and therefore are not subject to the SSAN legislation. These products provide necessary soil nutrients thereby removing the need for customers to be subject to the SSAN licensing regime.

Sustainability

As part of the Company's guiding principle of "valuing people and the environment", Incitec Pivot continues to seek ways to use materials and energy in a sustainable manner for the benefit of employees, contractors, customers, shareholders and the community. Incitec Pivot recognises that operating its business in a sustainable manner makes good business sense.

Legacy sites

In the drive towards a sustainable future, Incitec Pivot is working to address contamination issues caused by historical operations of the Company or inherited by the Company from predecessors or neighbouring activities.

There has been significant work undertaken in 2006 to investigate and remediate three such sites – two in South Australia and one in New South Wales.

At Parafield Gardens in South Australia, a Remediation Action Plan (RAP) for the site was endorsed by the South Australian Environment Protection Authority in December 2005. The RAP identified two key stages for the remediation process:

- the prevention of any future contamination of groundwater on the site by treating the affected soil on site through a stabilisation process; and
- removing existing contaminants from the groundwater.

The first stage was successfully completed in September 2006, and infrastructure has been installed in readiness for groundwater remediation. A catalytic oxidation process will be used to remove and destroy contaminants in the groundwater, and is expected to take approximately three years to complete. To date, a total of \$8.5 million has been spent to remediate the site.

At Wallaroo, also in South Australia, the Company commenced the treatment of contaminated groundwater in 2005 to remove heavy metals arising from smelter operations by former site owners. During the 2005/06 year, Incitec Pivot treated approximately one million litres of water a month and completed investigations to determine the nature and extent of contamination on the site. The distribution centre at this site was closed on 10 November 2006, following which the remediation program will commence. The remediation and redevelopment of the site is being conducted in close consultation with key government departments and the local council, with the objective of providing the best outcome for both the Company and the community. All work done on and surrounding the site has been done with the full support of the South Australian Environment Protection Authority from whom an endorsement of a RAP will be sought in 2007. To date a total of \$2.2 million has been spent on the investigation and remediation program.

At Incitec Pivot's Cockle Creek site near Newcastle in New South Wales, extensive investigation works were undertaken during 2006 to understand the nature and extent of contamination that has resulted from fill placed on the site from adjacent smelter operations over many years. In April 2006, the Company announced plans to close the Cockle Creek single superphosphate manufacturing operations by September 2009, and the creation of a provision of \$21.9 million, after tax, for costs of dismantling the plant and remediation. A total of \$1 million has been spent to date.



Water Wise

Incitec Pivot is demonstrating its principle of valuing the environment with the Gibson Island site responding to the ongoing drought with strategies to further reduce water consumption in its already water-efficient manufacturing process.

By June 2007, a reverse osmosis treatment plant will be installed on the existing effluent pond, recycling around 800 cubic metres of water per day back into the manufacturing plant. This will result in 100% recycling of the site's wastewater. An added benefit is that the site's licenced nitrogen discharge to Moreton Bay will be reduced to zero.

A three year program commencing later this year to build an extensive storm water collection and storage system will collect and redirect water from stormwater drains across the site to a storage dam. This water will then be recycled to the cooling tower or treated via the reverse osmosis treatment plant before re-use in the manufacturing process.

As these projects will take some time to complete, an interim solution of installing a desalinator, which will take river water and produce 1000 cubic metres of water for the cooling tower, is planned to be in place during the 2006/07 year.

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Directors' Report

The directors of Incitec Pivot Limited present the financial report of the Company and its controlled entities (collectively the "Consolidated entity") for the year ended 30 September 2006 and the related auditor's report.

Directors

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

Name, qualifications and special responsibilities	Experience
Current directors	
J C Watson AM, MAICD Independent Non-Executive Director and Chairman Chairman of the Remuneration and Appointments Committee Member of the Governance Committee	John was appointed as a director on 15 December 1997 and was appointed Chairman in 1998. John is Chairman of PrimeSafe and of the Co-operative Research Centre for Innovative Dairy Products, a Director of Tassal Group Limited and Rural Press Limited, Councillor of the Royal Agricultural Society of Victoria and a member of the Rabobank Food and Agribusiness Advisory Board for Australia and New Zealand. He is also a past Deputy President of the National Farmers' Federation. In 2004, he was awarded a Membership in the Order of Australia for services to the agricultural and food production sectors. In 2006, he was the recipient of the inaugural Rabobank Leadership Award.
J Segal BSc, MBA Managing Director and Chief Executive Officer	Julian was appointed as Managing Director and Chief Executive Officer on 3 June 2005. Immediately prior to joining Incitec Pivot, he was Manager of Strategic Market Planning for the Orica Group. He joined Orica in 1999 and held various management positions including General Manager, Australia/Asia Mining Services and Senior Vice President - Marketing for Orica Mining Services globally.
B Healey FAICD, FAIM Independent Non-Executive Director and Deputy Chairman Member of the Audit and Risk Management Committee Member of the Governance Committee Member of the Remuneration and Appointments Committee	Brian was appointed as a director on 1 June 2003. He is Chairman of Centro Properties Group and Centro Retail Ltd. He is a former Senior Vice President of Nabisco Inc. and Sara Lee Corporation, a former Director of Foster's Group Ltd and Orica Limited, a former Chairman of Biota Holdings Ltd and Portfolio Partners Ltd and a former Chief Executive of Nicholas Kiwi.
J E Fazzino BEc(Hons), CPA Finance Director and Chief Financial Officer	James was appointed as a director on 18 July 2005. James was appointed as Incitec Pivot's Chief Financial Officer in May 2003. Before joining Incitec Pivot, he had many years experience with Orica Limited in several business financial roles, including Project Leader of Orica's group restructure in 2001 and Chief Financial Officer for the Orica Chemicals group. Immediately before joining Incitec Pivot, he was Orica's Investor Relations Manager.
A C Larkin FCPA, FAICD Independent Non-Executive Director Chairman of the Audit and Risk Management Committee Member of the Remuneration and Appointments Committee	Tony was appointed as a director on 1 June 2003. He is a Director of Corporate Express Australia Limited and Zinifex Limited, and Chairman of Ausmelt Limited. Tony was previously Executive Director Finance of Orica Limited and Chairman of Incitec Ltd from July 2000 to April 2003. In his career with BHP Ltd, which spanned 38 years, he held the position of Group Treasurer and prior to that he held senior finance positions in its steel and minerals businesses and various senior corporate roles. From 1993 to 1997, he was seconded to Foster's Group Ltd as Senior Vice President Finance and Investor Relations. Until earlier this year, he was a Commissioner of the Victorian Essential Services Commission.
A D McCallum Dip. Ag Science, MAICD Independent Non-Executive Director Chairman of the Governance Committee Member of the Remuneration and Appointments Committee Member of the Audit and Risk Management Committee	Allan was first appointed as a director on 15 December 1997. Allan is a farmer in northern Victoria and is also a Director of Medical Developments International Ltd and Chairman of Tassal Group Limited. He is a former Director of Graincorp Limited and Grain Growers Association Limited.

Former director, John Chesterfield, retired on 11 July 2006.

Company Secretary

Mrs Kerry Gleeson holds the office of Company Secretary. Kerry is a practising solicitor, having been admitted to practice in England and Wales in 1991 and in Victoria in 2001. Kerry was appointed as Company Secretary on 16 February 2004, having previously practised with Blake Dawson Waldron in Melbourne. Prior to emigrating in 1999, Kerry was a partner of an English law firm, Halliwell Landau.

Directors' Report

Directors' interests in share capital

The relevant interest of each director in the share capital of the Company, as notified by the directors to the Australian Stock Exchange in accordance with section 205G(1) of the Corporations Act 2001 (Cth), as at the date of this report is as follows:

Director	Fully paid ordinary shares Incitec Pivot Limited
J C Watson	5,000
J Segal ⁽¹⁾	32,640
B Healey	1,000
J E Fazzino ⁽¹⁾	29,262
A C Larkin	-
A D McCallum	7,818

- (1) This interest includes, in the case of Mr Fazzino, shares acquired pursuant to Incitec Pivot's Long Term Incentive plan and, in the case of Mr Segal, shares acquired pursuant to his Retention Award; further details of which are set out in note 35, Share Based Payments.

Further details of directors' interests in share capital are set out in the remuneration report.

Directors' meetings

The number of directors' meetings held (including meetings of committees of directors) and the number of meetings attended by each of the directors of the Company during the financial year are listed below:

Director	Board		Audit and Risk Management		Remuneration and Appointments		Governance	
	Held ⁽¹⁾	Attended ⁽²⁾	Held ⁽¹⁾	Attended ⁽²⁾	Held ⁽¹⁾	Attended ⁽²⁾	Held ⁽¹⁾	Attended ⁽²⁾
Current								
J C Watson	18	18	-	-	8	8	6	6
J Segal	18	18	-	-	-	-	-	-
B Healey ⁽³⁾	18	18	-	-	8	7	6	5
J E Fazzino	18	18	-	-	-	-	-	-
A C Larkin	18	17	5	5	8	8	-	-
A D McCallum	18	18	5	5	8	8	6	6
Former								
J Chesterfield ⁽⁴⁾	14	13	4	4	6	6	-	-

- (1) This column shows the number of meetings held during the period that the director was a member of the Board or Committee.

- (2) This column shows the number of meetings attended during the period that the director was a member of the Board or Committee.

- (3) Brian Healey was appointed to the Audit and Risk Management Committee on 31 August 2006.

- (4) John Chesterfield retired from the Board on 11 July 2006.

Principal activities

The principal activities of the Consolidated entity during the course of the financial year were the manufacture and distribution of fertilisers. No significant changes have occurred in the nature of these activities during the financial year.

Review and results of operations

A review of the operations of the Consolidated entity during the financial year and of the results of those operations is contained in the review of performance on pages 8 to 11 of the annual report.

Directors' Report

Dividends

Dividends declared and paid since the last annual report were:

Type	Cents per share	Total amount \$000	Franked / Unfranked	Date of payment
<i>Declared and paid during the year</i>				
2005 final special	50	29,140	Franked	9 January 2006
2006 interim ordinary	22	12,822	Franked	9 June 2006
<i>Declared and paid after end of year</i>				
November 2006 final dividend	81	40,843	Franked	13 December 2006

Dealt with in the financial report as:	Note	\$000
Dividends	27	41,962
Subsequent event	39	40,843

Changes in the state of affairs

Incitec Pivot experienced a number of significant changes during the 2005/06 financial year.

On 20 April 2006, the Company announced plans to close the Cockle Creek single superphosphate manufacturing operations by September 2009. The Company also announced the creation of a provision of \$21.9 million after tax for the costs of dismantling the Cockle Creek plant and remediating the site, with the majority of spending against this provision to occur from the last quarter of 2009.

In July of this year, Orica exited as a shareholder of the Company after being a 70% majority shareholder since the merger of Pivot and Incitec Fertilizers in 2003. The exit occurred by way of a two-stage process. First, Orica sold 56.5% of Incitec Pivot's shares under an institutional placement which completed on 10 May 2006 and, secondly, Incitec Pivot bought back Orica's remaining 13.5% shareholding by way of a selective share buy-back approved by shareholders on 6 July 2006. Following the exit of Orica as a shareholder:

- the Company's Managing Director and CEO, Julian Segal, who was on secondment to Incitec Pivot from Orica, resigned from his employment with Orica and became an Incitec Pivot employee;
- John Chesterfield resigned from the Incitec Pivot Board; and
- the Company adopted a new Constitution following shareholder approval on 6 July 2006. The Constitution was amended to remove provisions that were no longer appropriate absent a majority shareholder and was generally updated to reflect current best practice.

In addition, Incitec Pivot acquired Southern Cross Fertilisers Pty Ltd (SCF) from BHP Billiton Limited on 1 August 2006. The focus since then has been on integrating SCF into the Incitec Pivot Group.

There have been no other significant changes to the Consolidated entity's state of affairs.

Events subsequent to balance date

Since the end of the financial year, the directors have declared a final dividend for the Company of 81 cents per share. This dividend is fully franked at the 30% corporate tax rate and is payable on 13 December 2006. (See note 27).

The directors have not become aware of any other significant matter or circumstance that has arisen since 30 September 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.

Likely developments

Likely developments in the operations of the Consolidated entity and the expected results of those operations are covered generally in the review of performance of the Consolidated entity on pages 8 to 11 of the annual report.

Further information as to likely developments in the operations of the Consolidated entity and the expected results of those operations in subsequent financial years has not been included in this report because, in the opinion of the directors, disclosure would be likely to result in unreasonable prejudice to the Consolidated entity.

Directors' Report

Environmental regulations

Manufacturing licences and consents are in place at each Incitec Pivot site, determined in consultation with local environmental regulatory authorities. The measurement of compliance with conditions of licences and consents involves numerous tests which are conducted regularly. The individual sites record their compliance and report that there is continued high compliance. Any breaches are reported to the authorities as required. More specific details of Incitec Pivot's safety, health and environmental performance are available in the Safety, Health and Environment section on pages 12 to 14 of the annual report.

Indemnification and insurance of officers

The Company's constitution provides that, to the extent permitted by law, the Company must indemnify any person who is, or has been, a director or secretary of the Company against any liability incurred by that person including for any liability incurred as an officer of the Company or a subsidiary of the Company and legal costs incurred by that person in defending an action.

The Constitution further provides that the Company may enter into an agreement with any current or former director or secretary or a person who is, or has been, an officer of the Company or a subsidiary of the Company to indemnify the person against such liabilities. The Company has entered into Deeds of Access, Indemnity and Insurance with each of its officers and pursuant to those Deeds the Company has paid a premium in respect of a contract insuring officers of the Company and of controlled entities against a liability for costs and expenses incurred by them in defending civil or criminal proceedings involving them as such officers, with some exceptions. The contract of insurance prohibits disclosure of the nature of the liability insured against and the amount of the premium paid.

Auditor

KPMG continues in office in accordance with section 327B(2) of the Corporations Act 2001(Cth).

Non-audit services

KPMG have provided non-audit services to the amount of \$33,000 during the year ended 30 September 2006. (See note 7).

Lead Auditor's Independence Declaration

The lead auditor has provided a written declaration that no professional engagement for the Consolidated entity has been carried out during the year that would impair KPMG's independence as auditor.

The lead auditor's independence declaration is set out on page 43 of the financial report.

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.

Directors' Report

Remuneration Report

The directors of Incitec Pivot Limited (the "Company" or "Incitec Pivot") present the remuneration report prepared in accordance with section 300A of the Corporations Act 2001 (Cth) for the Company and its controlled entities for the year ended 30 September 2006. This remuneration report is audited unless otherwise stated.

This remuneration report is prepared in respect of the key management personnel of the Company, being those persons who have authority and responsibility for planning, directing and controlling the activities of the Company. For Incitec Pivot, this means the non-executive directors, executive directors and the direct reports to the Managing Director & CEO.

Contents

- A. Remuneration and Appointments Committee
- B. Non-executive directors' fees
- C. Remuneration policy for Executives
- D. Managing Director & Chief Executive Officer's employment arrangements and remuneration
- E. Executives' employment arrangements and remuneration
- F. Equity instruments

The Board comprises 6 directors, 4 of whom are non-executive directors and 2 are executive directors. There are 8 members of the executive team, which includes the executive directors (the details for which are set out in sections C, D and E of this remuneration report).

When used in this report, the terms "Executive Team" or "executives" means the executive directors and the direct reports to the Managing Director & CEO.

A. Remuneration and Appointments Committee

The Remuneration and Appointments Committee, established by the Board, assists and advises the Board on remuneration policies and practices for the Board, Managing Director & CEO, the executives, senior management and other employees.

The policies and practices are designed to:

- enable Incitec Pivot to attract, retain and motivate directors, executives and employees who will create value for shareholders; and
- fairly and appropriately reward executives and employees having regard to the performance of Incitec Pivot and that of the relevant executive and employee.

B. Non-executive directors' fees

Non-executive directors' fees are determined by the Board subject to the aggregate limit of \$1,000,000 approved by shareholders at the 2003 Annual General Meeting. Non-executive directors receive a fee for being a director of the Board and additional fees for either chairing or being a member of a committee. The level of fees paid to non-executive directors reflects their time commitments and responsibilities.

The Remuneration and Appointments Committee develops, reviews and makes recommendations to the Board on the compensation of non-executive directors annually after receiving professional advice from an appropriately qualified external consultant. The Committee takes into account survey data on fees paid by comparable companies and the level of fees considered necessary to attract and retain directors of the appropriate calibre.

In order to maintain independence and impartiality, non-executive directors are not entitled to any form of incentive payments and the level of their fees is not set with reference to measures of Company performance.

The Company is phasing out retirement benefits for all non-executive directors. Non-executive directors who joined the Board after 30 May 2003 are not entitled to receive a retirement benefit. Retiring non-executive directors appointed before 1 June 2003 have contractual rights to a retirement benefit. This entitles them to a retirement benefit after 10 years of service equal to the total of the benefits they received from the Company in the 3 years immediately preceding their date of retirement. This retirement benefit will be paid pro-rata for less than 10 years of service. The service period is capped to 31 May 2003.

Details of non-executive directors' fees are included in the following table, together with details of the executive directors' remuneration (further details of which are set out in sections C, D and E of this remuneration report):

Directors' Report

Remuneration Report

B. Non-executive directors' fees (continued)

Directors' remuneration

For the year ended 30th September 2006

For the year ended 30th September 2005										
	Year	Short-term benefits			Post-employment benefits	Termination benefits	Share-based payments	Total	Proportion of remuneration performance related	Value of shares treated as options as proportion of remuneration
		Salary & Fees	Short term incentive & other bonuses (A)	Non-monetary benefits (B)	Superannuation benefits		Value of shares treated as Options (C)			
		\$	\$	\$	\$	\$	\$	\$	%	%
Directors										
Non-executive directors										
- Current										
J C Watson, Chairman (1)	2006	232,846	-	-	22,864	-	-	255,710	-	-
	2005	219,670	-	-	21,726	-	-	241,396	-	-
B Healey	2006	112,987	-	-	-	-	-	112,987	-	-
	2005	82,610	-	-	-	-	-	82,610	-	-
A C Larkin	2006	97,628	-	-	9,587	-	-	107,215	-	-
	2005	92,470	-	-	9,145	-	-	101,615	-	-
A D McCallum (1)	2006	107,641	-	-	10,646	-	-	118,287	-	-
	2005	102,093	-	-	10,097	-	-	112,190	-	-
- Former										
J R Chesterfield (2)	2006	77,000	-	-	-	-	-	77,000	-	-
	2005	19,250	-	-	-	-	-	19,250	-	-
L M Delahunty	2006	-	-	-	-	-	-	-	-	-
	2005	65,863	-	-	6,810	81,018	-	153,691	-	-
B J Gibson	2006	-	-	-	-	-	-	-	-	-
	2005	63,258	-	-	2,228	-	-	65,486	-	-
G R Liebelt	2006	-	-	-	-	-	-	-	-	-
	2005	57,750	-	-	-	-	-	57,750	-	-
D B Trebeck	2006	-	-	-	-	-	-	-	-	-
	2005	68,860	-	-	6,810	-	-	75,670	-	-
Total non-executive directors	2006	628,102	-	-	43,097	-	-	671,199	-	-
	2005	771,824	-	-	56,816	81,018	-	909,658	-	-
Executive directors										
- Current										
J Segal (3) Managing Director	2006	694,982	736,202	155,288	12,415	-	60,976	1,659,863	48%	4%
	2005	181,669	-	14,077	3,862	-	-	199,608	-	-
J E Fazzino Finance Director and Chief Financial Officer	2006	455,262	449,865	85,397	12,276	-	16,936	1,019,736	46%	2%
	2005	292,412	-	27,927	11,723	-	12,689	344,751	4%	4%
- Former										
G J Witcombe Managing Director	2006	-	-	808,967	-	-	-	808,967	-	-
	2005	493,633	34,132	85,530	8,689	-	59,524	681,508	14%	9%
Total executive directors	2006	1,150,244	1,186,067	1,049,652	24,691	-	77,912	3,488,566	36%	2%
	2005	967,714	34,132	127,534	24,274	-	72,213	1,225,867	9%	6%
Total of all directors	2006	1,778,346	1,186,067	1,049,652	67,788	-	77,912	4,159,765	30%	2%
	2005	1,739,538	34,132	127,534	81,090	81,018	72,213	2,135,525	5%	3%

(A) No short term incentive (STI) payment or other cash incentive bonus has been paid or accrued for the financial year ended 30 September 2006 for any of the non-executive directors. The STI and discretionary bonuses paid or accrued for the financial year ended 30 September 2006 to the executive directors are disclosed.

(B) Non-monetary benefits include Fringe Benefits Tax paid attributable to the FBT year (2006: 1 April 2005 to 31 March 2006) (2005: 1 April 2004 to 31 March 2005), rent and mortgage interest subsidy, relocation allowances and other allowances.

Directors' Report

Remuneration Report

- (C) For Mr Segal this relates to a Retention Award (refer to section D) and for Mr Fazzino, this relates to the LTI Performance plan 2003/06 (refer to sections C and F). The benefits received as a result of the Retention Award and participation in this LTI have been treated as options. External valuation advice from PricewaterhouseCoopers has been used to determine the fair value of the shares treated as options at grant date. The valuation has been estimated using a Monte Carlo simulation model, which generates possible future prices for the underlying shares based on assumptions similar to those underpinning the Black-Scholes option pricing model. The valuation under the Monte Carlo approach requires inputs such as the expected share price volatility, the expected dividend yield, price at grant date of the underlying shares, the exercise price and the expected life of these shares treated as options, the risk free rates, expected interest rates and an assumption for the value of the loans at grant date. Multiple simulations were performed to determine the mean value. The fair value has been allocated evenly over the period from grant date to the date when an entitlement to an award, in the form of loan waiver arises, being 30 September 2006 for the LTI Performance plan 2003/06 and 10 May 2009 for the Retention Award. The value disclosed in this table represents the portion of fair value allocated to this reporting period. Refer to section C of this remuneration report for further details of this LTI and section D for further details of the Retention Award applicable to Mr Segal.

The terms and conditions of each award affecting remuneration in this or future reporting periods are as follows:

	Grant date	Expiry date	Fair Value per share treated as option at grant date	Date exercisable	Exercise Price
LTI Performance plan 2003/06	20/09/2004	30/09/2006	\$5.71	From 1/10/2006 (i)	\$16.39
	4/10/2005	30/09/2006	\$1.66	From 1/10/2006 (i)	\$15.97
Retention award (ii)	5/07/2006	10/05/2009	\$21.20	From 11/05/2009	-

The number of shares (treated as options for the purposes of remuneration) held by each executive director is detailed in section F of this remuneration report and note 34 to the financial report.

- (i) Shares restricted until such time as the loan is repaid. The loan must be repaid in any event by 31 December 2007.
- (ii) Applicable to Mr Segal only.

- (1) If Mr Watson or Mr McCallum had ceased to be directors on 30 September 2006, the following benefits would have been payable under their respective contracts: Mr Watson \$391,597, Mr McCallum \$183,367.
- (2) Fees of \$77,000 per annum were paid to Mr Chesterfield's employer, Orica Limited.
- (3) On 3 June 2005 Mr Segal was seconded to Incitec Pivot pursuant to his employment agreement with Orica Limited and was appointed as a director of Incitec Pivot. Mr Segal resigned from Orica Limited on 9 May 2006 and was employed by Incitec Pivot pursuant to an agreement dated 29 May 2006. Further details are summarised in section D of this remuneration report.

Directors' Report

Remuneration Report

C. Remuneration policy for Executives

The remuneration of the executives is set by the Board on recommendation from the Remuneration and Appointments Committee. The Company's policy and practice for executive remuneration is designed to attract, retain and motivate appropriately qualified and experienced individuals capable of discharging their respective responsibilities in supporting the Company's business and strategy.

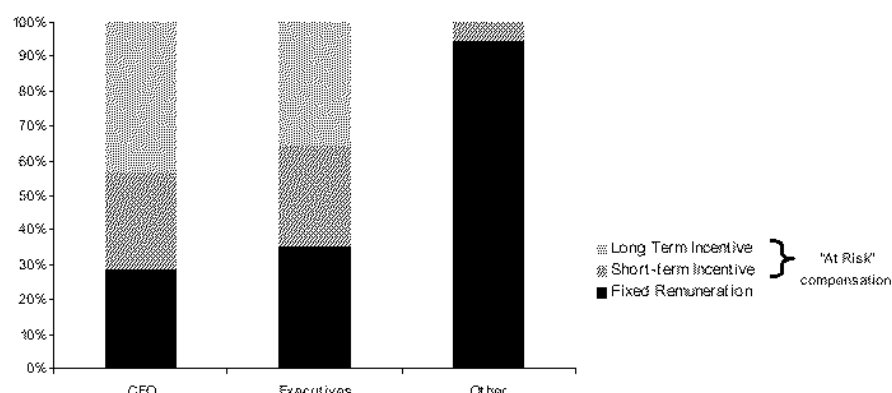
Executive remuneration is set at levels to properly reflect the duties and responsibilities of the executives. The remuneration packages include both a fixed component and an "at risk" component, as a performance-related component, designed to create a clear link between reward for the executive and the creation of shareholder value. The mix between fixed remuneration and "at risk" or performance-related remuneration varies according to the duties and responsibilities of executives and supports the needs of the Company in attracting, retaining and motivating executives.

Remuneration packages are reviewed annually by the Remuneration and Appointments Committee which may take advice from an appropriately qualified external consultant. The Committee takes into account survey data on remuneration packages for comparable companies, and the duties and responsibilities of the executives.

With Orica ceasing to be a majority shareholder, and the acquisition of SCF, the Remuneration and Appointments Committee engaged Godfrey Remuneration Group Pty Limited (GRG) to undertake a review of the remuneration of the executives in light of the changed circumstances. This review benchmarked the remuneration to market and took into account the changes in the scope of the roles performed by individuals, the changes required to meet the principles of the Company's remuneration policy and Incitec Pivot's market competitiveness.

The following table shows how remuneration for executives is structured:

Table C.1, Remuneration structure by level



This table has not been subject to audit. In determining the "at risk" compensation as a proportion of total remuneration, for each category of employee the maximum entitlement under the LTI or STI was taken into account.

Fixed Remuneration

The terms of employment for all executives contain a fixed remuneration component. Executives may receive their fixed remuneration in a variety of forms including cash, superannuation and fringe benefits, such as motor vehicles. The level of fixed remuneration is reviewed annually and is determined by the scope of each executive's role, their level of knowledge, skill and experience, and individual performance.

Directors' Report

Remuneration Report

C. Remuneration policy for Executives (continued)

Performance based remuneration – Short Term Incentive Plan (STI)

The Short Term Incentive Plan (STI) is an annual “at risk” cash bonus plan which delivers cash bonuses on achievement of specific performance targets. The Board considers the STI encourages executives to support Incitec Pivot's strategic objectives by providing rewards that are significantly differentiated on the basis of achievement against performance targets. STI awards are not an entitlement but rather a reward for overall Company performance and individual performance or contribution to Company performance.

The Board sets the criteria for awarding the STI annually. The targets are heavily weighted to improving the financial performance of the business as measured by growth in Net Profit after Tax (NPAT) before individually material items. NPAT (before individually material items) is considered the appropriate financial measure as, in the absence of capital initiatives, it equates to earnings per share growth, which is the key driver of shareholder value (driving both dividend pay-outs and share price movements).

In addition, part of the STI is awarded for improving safety performance – one of Incitec Pivot's core values. Safety performance is measured by the all worker Recordable Case Rate, which is the internationally recognised benchmark measure of safety. The balance of the STI is applied to the achievement of key milestones, which support the delivery of the approved strategy for the Company. The NPAT (before individually material items) hurdle must be reached before any payment is made for achievement of the non-financial elements of the STI.

Performance based remuneration – Long Term Incentive Plan (LTI)

Long Term Incentive Plans (LTIs) are designed to encourage executives and other senior employees to focus on the key performance drivers which underpin sustainable growth in shareholder value.

Incitec Pivot has a LTI designed to reward executives and other senior employees for delivering long term value to the Company and support the Company's strategy for retention and motivation of its employees. It creates the opportunity, and provides the discipline, for executives and other senior employees to contribute to short term performance with full regard to the delivery of sustainable growth in shareholder value.

Under the LTI, Incitec Pivot may grant awards to participants, subject to them satisfying particular conditions relating to the duration of their employment or individual or Company performance. In short, the LTI operates by way of the Company providing participants with limited recourse loans, which can be interest free or interest bearing, and which must be used to purchase Incitec Pivot shares on market. The loans are repayable in a number of circumstances, including the participant ceasing to be employed by Incitec Pivot, the participant selling his or her shares, or by a “sunset” date. The loans are repayable from the proceeds of sale of the shares, and are deemed satisfied by the application of the proceeds of the sale of the shares, including where there is a shortfall against the outstanding loan amount. Participants may directly repay the whole or part of their loan at any time. Interest is charged on the loans at the FBT benchmark rate (currently 7.30%). Net cash dividends after personal income tax obligations are applied to reduce the loan balance.

Awards, by way of forgiveness of loans, are granted only on the achievement of either conditions relating to duration of employment and/or individual or Company performance over a rolling three year period.

The Board sets the criteria for the granting of awards under the LTI at the beginning of the three year performance period covered by the LTI. The criteria set by the Board for measuring Company performance are based on the generation of targeted cumulative economic profit over the performance period. Economic profit targets are set at levels that equate to top quartile shareholder returns over the performance period. Cumulative economic profit was chosen as the relevant performance measure as it recognises:

- the need to both grow earnings and produce an acceptable return on shareholders funds;
- the desire to reward participants for the value they directly create, as opposed to movements in the general level of the share market which is an issue with share price based incentives; and
- the inherent seasonal volatility of the business which can positively or negatively impact any one year but is less likely to have an influence over a cumulative three year period.

If the Company waives any loan amount, a participant has full, unrestricted ownership of the shares to the value of the loan waiver. Prior to any loan waiver being awarded, a participant cannot deal in the shares.

In 2003, the Company established a LTI performance plan for the period from 1 October 2003 to 30 September 2006 (LTI Performance plan 2003/06).

Directors' Report

Remuneration Report

Relationship between Company performance and remuneration

Indices

In considering Incitec Pivot's performance and benefits for shareholders' wealth, the Board, through its Remuneration and Appointments Committee, has regard to financial and non-financial indices, including the following indices in respect of the current financial year and the prevailing four financial years, noting that Incitec Pivot, as the merged entity was formed in 2003.

Table C.2

	2006 (2)	2005 (2)	2004	2003	2002 (1)
Net Profit After Tax (before individually material items) (\$m)	82.8	47.9	80.9	35.0	21.2
Economic Profit (\$m)	21.8	(14.5)	19.1	(15.9)	(2.4)
Dividends paid (\$m)	42.0	70.5	16.9	24.5	-
Share price (\$) (Year End)	25.87	15.82	18.8	15.66	N/A

The above table has not been subject to audit.

(1) Indices for 2002 are for the Company and pre-date the merger of Incitec Fertilizers Limited and Pivot Limited.

(2) Stated on an AIFRS basis.

LTI Plan awards

Under the LTI Performance plan 2003/06, for the performance period from 1 October 2003 to 30 September 2006, participants were each advanced limited recourse, interest bearing, unsecured loans by the Company which were applied in the purchase of shares on market. The criteria set by the Board for the granting of awards under this LTI (in the form of waivers of loans) was based on the generation of targeted cumulative economic profit over the performance period (1 October 2003 to 30 September 2006).

With the decline in economic profit in 2005 reflecting a combination of poor seasonal conditions and strong competition, at the conclusion of the performance period at 30 September 2006, no awards (in the form of waivers of loans) were made.

In accordance with the LTI Plan rules, notwithstanding awards in the form of loan waivers have not been made, participants under the LTI Performance plan 2003/06 remain as the registered holders of the shares purchased with the loans. The loans are repayable prior to the participant dealing in the shares, and in any event must be repaid by 31 December 2007.

STI payments

Following the challenging seasonal conditions and strong competition in 2005 and the need to meet the near term performance imperatives to 30 September 2006, the Board reviewed the effectiveness of the LTI Performance plan 2003/06 and the then STI opportunity. To enable Incitec Pivot to attract, retain and motivate executives and employees to deliver the near term performance imperatives to 30 September 2006, given that no awards in the form of loan waivers could be made under the LTI Performance plan 2003/06, the Board established an increased STI for 2005/06.

The 2005/06 STI was structured such that it combined the STI and LTI for 2006 by increasing for each participant their STI percentage by half the amount of their then LTI percentage.

Directors' Report

Remuneration Report

D. Managing Director & Chief Executive Officer's Employment Arrangements and Remuneration

Managing Director & CEO – Mr J Segal

Mr Segal was on secondment to Incitec Pivot from Orica Limited until 9 May 2006, after which date he became an employee of the Company. Mr Segal's remuneration arrangements for the period commencing 10 May 2006 are in accordance with an agreement between Mr Segal and Incitec Pivot dated 29 May 2006.

Mr Segal may terminate his employment on 6 months notice. The Company may terminate Mr Segal's employment:

- immediately for cause, without payment of any separation sum, save as to accrued fixed annual remuneration, accrued annual leave or long service leave;
- on notice in the case of incapacity, in which case the Company must pay a separation payment plus accrued annual leave and long service leave;
- otherwise, without cause, with or without notice, in which case the Company must pay a separation payment plus accrued annual leave and long service leave.

The separation payment will be equal to 52 weeks of fixed annual remuneration at the date of termination.

The details of his remuneration are as follows:

- **Fixed Annual Remuneration**

Mr Segal's fixed annual remuneration is \$900,000, reviewed annually each January having regard to Incitec Pivot's executive remuneration policy.

- **Short Term Incentive**

Mr Segal is eligible to participate in Incitec Pivot's STI. Mr Segal's STI opportunity is 43.75% of fixed annual remuneration up to a maximum of 175% of fixed annual remuneration for over performance against specified measures pro rata for the period from 10 May 2006 to 30 September 2006.

Mr Segal was awarded a STI payment of \$586,202, being 95% of the maximum STI opportunity for the period 10 May 2006 to 30 September 2006. This equates to 65.13% of fixed annual remuneration for the period. Mr Segal was also awarded a discretionary bonus in recognition of his leadership and contribution to delivering shareholder value through the acquisition of SCF from BHP Billiton.

For the period commencing 1 October 2006, Mr Segal's STI opportunity is 25% of fixed annual remuneration up to a maximum of 100% of fixed annual remuneration for over performance against specified measures in the 2006/07 financial year.

Further details of the STI plan are set out in section C of this remuneration report.

- **Long Term Incentive**

Upon Mr Segal becoming an employee of the Company, he became eligible to participate in Incitec Pivot's LTI plan. From 1 October 2006, Mr Segal's LTI opportunity is 37.5% of fixed annual remuneration up to a maximum of 150% of fixed annual remuneration for over performance against specified measures over a three year period until 2009. In addition, given the Incitec Pivot's LTI plans are three year performance plans with the opportunity falling in the third year, the Board recognised that the retention of key executives was a crucial element to the success of the Company following Orica ceasing to be a majority shareholder and the acquisition of SCF. Accordingly, Mr Segal received a Retention Award in the form of an interest free, limited recourse, unsecured loan by Incitec Pivot for \$722,250 which was applied in the purchase of shares on market. The loan will be forgiven in full if Mr Segal remains in employment until 10 May 2009.

In respect of the period from 1 October 2005 until 9 May 2006, Mr Segal's remuneration arrangements were in accordance with an agreement between Mr Segal and Incitec Pivot dated 27 June 2005, which supplemented his employment agreement with Orica Limited. For the period 1 October 2005 to 9 May 2006:

- Mr Segal's fixed annual remuneration was \$560,000.
- Mr Segal's STI opportunity was 30% of fixed annual remuneration up to a maximum of 60% of fixed annual remuneration for over performance against specified measures.
- While Mr Segal was not eligible to participate in Incitec Pivot's LTI, he was eligible to participate in Orica's Long Term Incentive Plan.

Directors' Report

Remuneration Report

E. Executives' employment arrangements and remuneration

E.1 Service Contracts and Termination Provisions

Remuneration and other terms of employment for the executives (excluding Mr Segal, whose arrangements are set out in section D of this remuneration report and Ms Cleland, whose arrangements are set out below) are formalised in service agreements between the executive and the Company, details of which are summarised in the table below. Most executives are engaged on similar contractual terms with minor variations to address differing circumstances. The Company's policy is for service agreements for these executives and senior management to be unlimited in term, but capable of termination in the manner as described in the table below.

Fixed remuneration	Fixed remuneration comprising salary paid in cash and mandatory employer superannuation contributions. This is subject to an annual review.																																		
STI Plan	Participation is at the Board's discretion. For the 2005/06 STI, the STI opportunity for the executives was 65% of fixed annual remuneration, save for Mr Whiteside and Mr Grace, for whom it was 55%. From 1 October 2006, for all executives other than Mr Fazzino, the opportunity is 40% of fixed annual remuneration up to a maximum of 80% of fixed annual remuneration for over performance against specified measures. For Mr Fazzino, the opportunity is 50% of fixed annual remuneration up to a maximum of 100% of fixed annual remuneration for over performance against specified measures.																																		
LTI Plan	Participation is at the Board's discretion. The opportunity is 50% of fixed annual remuneration up to a maximum of 100% of fixed annual remuneration for over performance against specified measures.																																		
Termination by Incitec Pivot	Incitec Pivot may terminate the service agreements: • immediately for cause, without payment of any separation sum, save as to accrued fixed annual remuneration, accrued annual leave or long service leave; • on notice in the case of incapacity, and the Company must pay a separation payment plus accrued annual leave and long service leave; • otherwise, without cause, with or without notice and the Company must pay a separation payment plus accrued annual leave and long service leave. The amount of a separation payment is calculated on a 'capped' number of weeks, where the number of weeks is determined by length of any prior service with the Orica Group (where applicable), and is as follows for each executive (excluding Mr Segal and Ms Cleland): <table> <tr> <th></th><th>Current Fixed Annual Remuneration \$</th><th>Number of Weeks</th><th>Separation Payment \$</th></tr> <tr> <td>Mr Mark Drew</td><td>280,000</td><td>26.0 weeks</td><td>140,000</td></tr> <tr> <td>Mr James Fazzino</td><td>570,000</td><td>51.6 weeks</td><td>565,615</td></tr> <tr> <td>Mrs Kerry Gleeson</td><td>360,000</td><td>26.0 weeks</td><td>180,000</td></tr> <tr> <td>Mr Alan Grace</td><td>262,000</td><td>26.0 weeks</td><td>131,000</td></tr> <tr> <td>Mr Daryl Roe</td><td>320,000</td><td>70.48 weeks</td><td>433,723</td></tr> <tr> <td>Mr Bernard Walsh</td><td>400,000</td><td>61.81 weeks</td><td>475,462</td></tr> <tr> <td>Mr James Whiteside</td><td>280,000</td><td>45.41 weeks</td><td>244,515</td></tr> </table>				Current Fixed Annual Remuneration \$	Number of Weeks	Separation Payment \$	Mr Mark Drew	280,000	26.0 weeks	140,000	Mr James Fazzino	570,000	51.6 weeks	565,615	Mrs Kerry Gleeson	360,000	26.0 weeks	180,000	Mr Alan Grace	262,000	26.0 weeks	131,000	Mr Daryl Roe	320,000	70.48 weeks	433,723	Mr Bernard Walsh	400,000	61.81 weeks	475,462	Mr James Whiteside	280,000	45.41 weeks	244,515
	Current Fixed Annual Remuneration \$	Number of Weeks	Separation Payment \$																																
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Mr Bernard Walsh	400,000	61.81 weeks	475,462																																
Mr James Whiteside	280,000	45.41 weeks	244,515																																
Termination by executive	An executive may terminate his/her employment on 13 weeks' notice (save for Mr Grace and Mr Whiteside, who may terminate on 8 week's notice) and the Company may require the executive to serve out the notice period or may make payment in lieu.																																		

With regard to Abigail Cleland, Ms Cleland was on secondment to Incitec Pivot from Orica Limited pursuant to her employment agreement with Orica Limited dated 6 December 2004. This secondment commenced 6 June 2005 and ceased on 30 September 2006. In addition to her fixed annual remuneration she was eligible to participate in Incitec Pivot's 2005/06 STI. This was based on 65% of fixed annual remuneration. Ms Cleland was not eligible to participate in any Incitec Pivot LTI Plan. However, Ms Cleland was eligible to participate in Orica's Long Term Incentive Plan.

Details of the nature and amount of each element of remuneration of the executives (excluding the Managing Director & CEO and the Finance Director & Chief Financial Officer) are included in table E.3.

Directors' Report

Remuneration Report

E.2 Grants of cash bonuses, STI payments, and performance related awards under the LTI Performance plan 2003/06

For the 2005/06 STI, the principal measure established in order to determine whether STI payments were to be made was NPAT (before individually material items). In addition, in line with Company policy on the STI, part of the STI was to be measured on improving safety performance and the achievement of key milestones, to deliver the strategic objectives for 2006. In 2006, NPAT (before individually material items) is \$82.8m, an increase of 73% on the 2005 NPAT (before individually material items) of \$47.9m. Each of the executives were awarded STI payments at 95% of the maximum STI opportunity for 2005/06. In the case of Ms Cleland, Mr Fazzino, Mrs Gleeson, Mr Roe and Mr Walsh, the STI payment was 95% of their available maximum STI of 65%, and in the case of Mr Whiteside and Mr Grace, 95% of their available maximum STI of 55%. Mr Drew was awarded a STI payment at 95% of his available maximum STI of 65%, pro rata for the period from commencement of his service contract to 30 September 2006.

Each of Mr Fazzino, Mrs Gleeson, Mr Whiteside and Mr Grace were awarded discretionary bonuses in recognition of their contribution to delivering shareholder value through the negotiation of separation activities with Orica and the acquisition of SCF from BHP Billiton. For Ms Cleland, this was in recognition of her contribution to the acquisition of SCF from BHP Billiton.

Those of the executives who were participants in the LTI Performance plan 2003/06 for the performance period 1 October 2003 to 30 September 2006 (being, all of the executives, save for Mr Drew and Ms Cleland), did not receive any awards, in the form of loan waivers. Each of these executives remain as holders of the shares acquired with the loans granted under this plan, such loans to be repaid by 31 December 2007.

Directors' Report

Remuneration Report

E. Executives' employment arrangements and remuneration (cont')

E.3 Executives' remuneration

For the year ended 30th September 2006

Executive	Year	Short-term benefits			Post-employment benefits	Termination benefits	Share-based payments	Total	Proportion of remuneration performance related	Value of shares treated as options as proportion of remuneration
		Salary & Fees	Short term incentive & other bonuses (A)	Non-monetary benefits (B)	Superannuation benefits		Value of shares treated as Options (C)			
		\$	\$	\$	\$	\$	\$	\$	%	%
- Current										
K J Gleeson	2006	302,838	296,010	53,530	12,276	-	14,695	679,349	46%	2%
General Counsel & Company Secretary	2005	258,027	-	-	11,723	-	7,623	277,373	3%	3%
D A Roe	2006	295,750	197,600	6,522	12,276	-	15,618	527,766	40%	3%
General Manager Strategy & Business Development	2005	253,274	-	9,654	11,723	-	5,211	279,862	2%	2%
B C Walsh	2006	320,567	247,000	16,143	12,276	-	8,784	604,770	42%	1%
General Manager - Operations	2005	129,069	-	3,249	5,931	-	1,737	139,986	1%	1%
A Grace (1)	2006	83,148	154,011	13,775	4,183	-	2,125	257,242	61%	1%
General Manager - SCF Integration	2005	-	-	-	-	-	-	-	-	-
J Whiteside (1)	2006	85,452	164,208	8,408	4,183	-	1,795	264,046	63%	1%
General Manager - Supply Chain & Trading	2005	-	-	-	-	-	-	-	-	-
M Drew (1)	2006	44,554	28,817	-	2,114	-	-	75,485	38%	0%
General Manager - Sales & Customer Service	2005	-	-	-	-	-	-	-	-	-
A Cleland (2)	2006	253,974	256,725	-	12,276	-	-	522,975	49%	0%
General Manager Strategy & Marketing	2005	80,781	42,500	-	3,935	-	-	127,216	33%	0%
- Former										
J W Elmer	2006	-	-	117,747	-	-	-	117,747	-	-
General Manager Human Resources	2005	258,417	-	-	11,729	215,239	11,464	496,849	2%	2%
R Hoggard	2006	-	-	-	-	-	-	-	-	-
General Manager Manufacturing & SH&E	2005	140,583	-	40,799	5,792	-	6,251	193,425	3%	3%
J M Lloyd	2006	-	-	5,500	-	-	-	5,500	-	-
General Manager Commercial	2005	201,515	-	13,096	13,736	17,122	9,259	254,728	4%	4%
J R Warnock	2006	-	-	127,185	-	-	-	127,185	-	-
General Manager Logistics & Supply	2005	261,227	-	52,063	11,723	236,358	11,488	572,859	2%	2%
Total Executive	2006	1,386,283	1,344,371	348,810	59,584	-	43,017	3,182,065	44%	1%
	2005	1,582,893	42,500	118,861	76,292	468,719	53,033	2,342,298	4%	2%

For details of remuneration paid to executives and their employment arrangements refer also to sections C, E.1 and E.2 of this remuneration report.

- (A) The cash incentive bonuses paid or accrued to certain executives for the financial year ended 30 September 2006 are disclosed. Each of Ms Cleland, Mrs Gleeson, Mr Roe, Mr Walsh and Mr Drew were awarded STIs at 95% of their available maximum STI of 65%, and, in the case of Mr Drew, pro rata for the period from commencement of his service to 30 September 2006. Mr Grace and Mr Whiteside were awarded STIs at 95% of their available maximum STI of 55%. In addition, Ms Cleland, Mrs Gleeson, Mr Grace and Mr Whiteside received discretionary bonuses.

Directors' Report

Remuneration Report

- (B) Non-monetary benefits include Fringe Benefits Tax paid attributable to the FBT year (2006: 1 April 2005 to 31 March 2006) (2005: 1 April 2004 to 31 March 2005), rent and mortgage interest subsidy, relocation allowances and other allowances. Additionally, all executives are eligible to participate in an annual health assessment program designed to ensure executives have their health status reviewed on a regular basis.
- (C) This relates to the LTI Performance plan 2003/06. The benefits received as a result of participation by the relevant executives in this LTI have been treated as options. External valuation advice from PricewaterhouseCoopers has been used to determine the fair value of these shares treated as options at grant date. The valuation has been estimated using a Monte Carlo simulation model, which generates possible future prices for the underlying shares based on assumptions similar to those underpinning the Black-Scholes option pricing model. The valuation under the Monte Carlo approach requires inputs such as the expected share price volatility, the expected dividend yield, price at grant date of the underlying shares, the exercise price and the expected life of these shares treated as options, the risk free rates, expected interest rates and an assumption for the value of the loans at grant date. Multiple simulations were performed to determine the mean value. The fair value has been allocated evenly over the period from grant date to the date when an entitlement to an award, in the form of loan waiver arises, being 30 September 2006. The value disclosed in this table represents the portion of fair value allocated to this reporting period. Refer to section C of this remuneration report for further details of the LTI Performance plan 2003/06 and the LTI generally.

The terms and conditions of each award affecting remuneration in this or future reporting periods are as follows:

	Grant date	Expiry date	Fair Value per share treated as option at grant date	Date exercisable	Exercise Price
LTI Performance plan 2003/06	20/09/2004	30/09/2006	\$5.71	From 1/10/2006 (i)	\$16.39
	4/10/2005	30/09/2006	\$1.66	From 1/10/2006 (i)	\$15.97

The number of shares (treated as options for the purposes of remuneration) held by each executive director and executive is detailed in the section F of this remuneration report and note 34 to the financial report.

- (i) Shares restricted until such time as the loan is repaid. The loan must be repaid in any event by 31 December 2007.
- (1) The executives were appointed to the Executive Team during the financial year. These disclosures are from their appointment date. Mr Grace (1 June 2006), Mr Whiteside (22 June 2006) and Mr Drew (1 August 2006).
- (2) On 6 June 2005, Ms Cleland was seconded to Incitec Pivot Limited pursuant to her employment agreement with Orica Limited. Ms Cleland's secondment ceased on 30 September 2006.

Directors' Report

Remuneration Report

E.4 Analysis of bonuses included in remuneration

Details of the vesting profile of the STI payments or other bonuses awarded as remuneration to each executive director or executive are set out below:

		Short term incentive or bonus		
		Included in remuneration (A) \$	% vested in year	% forfeited in year (B)
Executive directors				
- Current				
J Segal	- STI	586,202	95%	5%
	- Discretionary	150,000	-	-
J E Fazzino	- STI	351,975	95%	5%
	- Discretionary	97,890	-	-
Executives				
- Current				
K J Gleeson	- STI	222,300	95%	5%
	- Discretionary	73,710	-	-
D A Roe	- STI	197,600	95%	5%
B C Walsh	- STI	247,000	95%	5%
A Grace	- STI	136,895	95%	5%
	- Discretionary	17,116	-	-
J Whiteside	- STI	146,300	95%	5%
	- Discretionary	17,908	-	-
M Drew	- STI	28,817	95%	5%
A Cleland	- STI	166,725	95%	5%
	- Discretionary	90,000	-	-

This table has not been subject to audit.

(A) In relation to the STI, the amounts included in remuneration for the financial year represent the amount that vest in the financial year based on achievement of personal and Company targets and satisfaction of relevant performance measures under the STI.

For further details of the discretionary bonuses paid to executive directors and executives refer to sections D and E.2.

(B) The amounts forfeited are due to the relevant performance measures (under the STI), not being met in relation to the financial year ended 30 September 2006.

Directors' Report

Remuneration Report

F. Equity instruments

F.1 Shares treated as options over equity instruments granted as remuneration

For the purposes of determining key management personnel remuneration, shares granted under the LTI Performance plan 2003/06 are treated as options. Such shares, which are treated as options, are subject to limited recourse loans, details of which have been disclosed in note 34 to the financial report.

Details of the shares, which are treated as options, that were granted to each key management person and those that vested during the reporting period and the prior reporting period are set out in the following tables and further details are also set out in sections C and D:

For the year ended 30th September 2006

		Number of shares treated as options						
		Grant date	Granted and vested during 2006 as remuneration (A)	Awards / Exercise of options (B)	Amount paid per share \$	Status at end of year (C)	Number of shares treated as options allocated since year end (D)	Status at end of year (C)
Key Management Personnel (1)								
Executive Directors								
- Current								
J Segal	Retention Award	5 July 2006	32,597	-	-	Restricted	-	-
J E Fazzino	Performance	4 October 2005	5,130	-	-	Restricted	-	-
Executives								
- Current								
K J Gleeson	Performance	4 October 2005	5,938	-	-	Restricted	-	-
D A Roe	Performance	4 October 2005	6,269	-	-	Restricted	-	-
B C Walsh	Performance	4 October 2005	3,199	-	-	Restricted	-	-
A Grace (2)	Performance	4 October 2005	1,925	-	-	Restricted	-	-
J Whiteside (2)	Performance	4 October 2005	1,960	-	-	Restricted	-	-

For the year ended 30th September 2005

		Number of shares treated as options		Amount paid per share \$	Status at end of year (C)	Number of shares treated as options allocated since year end (D1)		Status at end of year (C)
	Grant date	Granted and vested during 2005 as remuneration (A)	Awards / Exercise of options (B1)					
Key Management Personnel (1)								
Executive Directors								
- Current								
J E Fazzino	Retention (3)	1 June 2003	-	5,101	15.44	Unrestricted	-	-
	Performance	4 October 2005	-	-	-	-	5,130	Restricted
- Former								
G J Witcombe	Retention (3)	1 June 2003	-	32,269	15.44	Repaid	-	-
	Performance	20 September 2004	-	27,509	16.39	Repaid	-	-
Executives								
- Current								
K J Gleeson	Retention (3)	1 June 2003	-	3,327	15.44	Unrestricted	-	-
	Performance	4 October 2005	-	-	-	-	5,938	Restricted
D A Roe	Performance	4 October 2005	-	-	-	-	6,269	Restricted
B C Walsh	Performance	4 October 2005	-	-	-	-	3,199	Restricted
- Former								
J W Elmer	Retention (3)	1 June 2003	-	5,091	15.44	Repaid	-	-
	Performance	20 September 2004	-	4,332	16.39	Repaid	-	-
R Hoggard	Retention (3)	1 June 2003	-	-	-	Forfeited	-	-
	Performance	20 September 2004	-	-	-	Forfeited	-	-
J M Lloyd	Retention (3)	1 June 2003	-	-	-	Forfeited	-	-
	Performance	20 September 2004	-	-	-	Forfeited	-	-
J R Warnock	Retention (3)	1 June 2003	-	4,534	15.44	Repayable	-	-
	Performance	20 September 2004	-	4,042	16.39	Repayable	-	-

Directors' Report

Remuneration Report

- (A) Refers to the number of shares allocated to the participating executive or participating executive director during the financial year. These shares are treated as options.
- (B) No shares, which are treated as options, were awarded/exercised during the reporting period as no awards (in the form of waivers of loans) were granted to the applicable executives because the criteria under the LTI Performance plan 2003/06 was not satisfied.
- (B1) Represents the number of shares treated as options in respect of which awards (in the form of waivers of loans) were granted to the applicable executives who satisfied the criteria under the relevant LTI plan, that is, the Retention Plan and/or the LTI Performance plan 2003/06.
- (C) "Unrestricted" refers to shares, which are subject to a limited recourse loan, however the participant may sell these shares and repay the loan at any time.
- "Restricted" refers to those shares that are subject to a limited recourse loan; however the participant is not free to sell or otherwise deal in the underlying shares.
- "Repaid" means the underlying loan associated with the shares has been repaid in full.
- "Forfeited" means the executive ceased to be employed by the Company and thus forfeited all rights to the underlying shares.
- "Repayable" means the loan is repayable within 90 days of the executive's exit from the Company.
- (D) Since 30 September 2006, no shares, which are treated as options, have been granted under any LTI plan.
- (D1) Since 30 September 2005, a number of executives were granted additional loans under the LTI Performance plan 2003/06 for the performance period 2003/06 which were used to purchase shares on market. Refer to details of this LTI plan under section C of this remuneration report. These shares, treated as options for the purposes of remuneration, were allocated on 4 October 2005 and are included in this remuneration report.
- (1) No shares, treated as options, were granted as remuneration to the non-executive directors during the reporting period.
- (2) For Mr Grace and Mr Whiteside, shares (treated as options) were granted under the LTI Performance plan 2003/06 for the performance period 2003/06 prior to their appointment to the Executive Team.
- (3) The Company established the Retention Plan in respect of the period from 1 June 2003 to 30 September 2005 by way of interest free, limited recourse, unsecured loans by the Company which were used in the purchase of shares on market. For those participants satisfying the conditions of the Retention Plan, 51.5% of the loans were forgiven by the Company.

In respect of the shares that are treated as options for the purposes of remuneration, the following details of the particulars of the terms and conditions of each grant made during the reporting period are set out in sections B, C and D of the remuneration report and in notes 34 and 35 to the financial report:

- fair value per share at grant date, the exercise price per share, the amount, if any, paid or payable by the recipient, the expiry date and the date of exercise; and
- a summary of the service and performance criteria that must be met before the beneficial interest vests in the person.

F.2 Modification of terms of equity-settled share-based payment transactions

No terms of equity-settled share-based payment transactions (including shares which are treated as options granted to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

Directors' Report

Remuneration Report

F.3 Analysis of shares treated as options over equity instruments granted as remuneration

Details of the vesting profile of the shares treated as options granted as remuneration to each executive director and each of the five named executives is detailed below:

For the year ended 30th September 2006

							Value yet to Vest	
		Grant date	Number of shares treated as options granted	% Vested in year	% Forfeited in year (A)	Financial year in which grant vests	Min (B) \$	Max (C) \$
Key Management Personnel								
Executive Directors								
- Current								
J Segal	Retention Award	5 July 2006	32,597	-	-	2009	-	691,056
J E Fazzino	Performance Plan	20 September 2004	4,424	-	100%	2006	-	-
	Performance Plan	4 October 2005	5,130	-	100%	2006	-	-
Executives								
- Current								
K J Gleeson	Performance Plan	20 September 2004	2,542	-	100%	2006	-	-
	Performance Plan	4 October 2005	5,938	-	100%	2006	-	-
D A Roe	Performance Plan	20 September 2004	2,738	-	100%	2006	-	-
	Performance Plan	4 October 2005	6,269	-	100%	2006	-	-
B C Walsh	Performance Plan	20 September 2004	1,825	-	100%	2006	-	-
	Performance Plan	4 October 2005	3,199	-	100%	2006	-	-
A Grace (1)	Performance Plan	20 September 2004	1,705	-	100%	2006	-	-
	Performance Plan	4 October 2005	1,925	-	100%	2006	-	-
J Whiteside (1)	Performance Plan	20 September 2004	1,784	-	100%	2006	-	-
	Performance Plan	4 October 2005	1,960	-	100%	2006	-	-

This table has not been subject to audit.

- (A) The percentage forfeited in the year represents the reduction from the maximum number of shares treated as options available to vest, that is, in respect of which awards (in the form of loan waivers) could be made, due to the performance criteria not being achieved.
- (B) The minimum value of shares which are treated as options yet to vest is \$nil as the performance criteria may not be met and, in such circumstances, there would be no vesting.
- (C) The maximum value of shares which are treated as options yet to vest is not determinable as it depends on the market price of shares of the Company on the Australian Stock Exchange at the date of exercise. The maximum value presented above is based on assumptions that the share price on the date of exercise does not exceed \$21.20 for the grants issued on 5 July 2006. This share price represents a maximum price included in the volatility assumptions within the value of the shares which are treated as options.
- (1) For Mr Grace and Mr Whiteside, shares (treated as options) were granted under the LTI Performance plan 2003/06 for the performance period 2003/06 prior to their appointment to the Executive Team.

Directors' Report

Remuneration Report

F.4 Analysis of movements in shares (which are treated as options)

The movement during the reporting period, by value, of shares (which are treated as options for the purposes of remuneration) held by each executive director and each of the five named executives is detailed below:

For the year ended 30th September 2006

		Grant date	Value of shares treated as options		Total option value in year
			Granted during 2006 as remuneration (A)	Forfeited in year (B)	
			\$	\$	\$
Key Management Personnel					
Executive Directors					
- Current					
J Segal	Retention Award	5 July 2006	691,056	-	691,056
J E Fazzino	Performance Plan	4 October 2005	8,516	154,071	162,587
Executives					
- Current					
K J Gleeson	Performance Plan	4 October 2005	9,857	136,655	146,512
D A Roe	Performance Plan	4 October 2005	10,407	145,150	155,557
B C Walsh	Performance Plan	4 October 2005	5,310	80,984	86,294
A Grace (1)	Performance Plan	4 October 2005	-	58,540	58,540
J Whiteside (1)	Performance Plan	4 October 2005	-	60,380	60,380

This table has not been subject to audit.

- (A) The value of shares which are treated as options granted in the year is the fair value of those shares calculated at grant date using a binomial option-pricing model. The total value of these shares is included in the table above. This amount is allocated to the remuneration of the applicable executive over the vesting period (ie. in years 2006 to 2009 for the retention award, and 2006 for the LTI Performance plan 2003/06).
- (B) The value of the shares which are treated as options that lapsed during the year represents the benefit foregone and is calculated at the date they lapsed, as 100% of the loan balance outstanding at 30 September 2006.
- (1) For Mr Grace and Mr Whiteside, their shares were granted prior to their appointment to the Executive Team.

During the reporting period, no shares, which are treated as options, previously granted as compensation were exercised.

Directors' Report

Corporate Governance Statement

The Board is committed to achieving and demonstrating the highest standards of corporate governance. Since Incitec Pivot's listing on the Australian Stock Exchange (ASX) in July 2003, the Board has implemented, and operated in accordance with, a set of corporate governance policies adopted to reflect the ASX Corporate Governance Council "Principles of Good Corporate Governance and Best Practice Recommendations" (ASX Recommendations) which were introduced on 31 March 2003.

The Board has continued to review its corporate governance framework and practices to ensure they meet the interests of shareholders. Accordingly, following the exit of Orica as a majority shareholder in May 2006, the Board revised its corporate governance framework to remove provisions that were no longer appropriate, absent a majority shareholder, and to generally update the framework to reflect current best practice.

This Corporate Governance Statement outlines the key aspects of the Company's corporate governance framework. The Board considers that Incitec Pivot has been compliant with the ASX Recommendations throughout the year ended 30 September 2006.

Summaries of the charters, policies and codes referred to in this Statement are available on the Incitec Pivot website, www.incitecpivot.com.au.

Board of directors

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

The Board operates in accordance with the broad principles set out in its charter. The charter sets out the Board's own tasks and activities as well as the matters it has reserved for its own consideration and decision making.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated to the Managing Director & CEO. The Delegated and Reserved Powers Policy details the authority delegated to the Managing Director & CEO, including the limits on the way in which the Managing Director & CEO can exercise that authority.

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

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

Under its charter, the Board is to undertake an annual performance evaluation, comparing its performance against its charter, setting objectives and effecting any improvements to the charter. In August 2006, as part of the Board's annual performance review, and in light of the exit of its former majority shareholder, Orica, the Board's charter and the Delegated and Reserved Powers Policy were reviewed and updated.

Composition of the Board

The Board comprises six directors, including four non-executive directors and two executive directors (being the Managing Director & CEO and Finance Director & Chief Financial Officer).

John Watson and Allan McCallum were each appointed as directors by the shareholders on 15 December 1997, Brian Healey and Anthony Larkin were appointed as directors on 1 June 2003, Julian Segal, on 3 June 2005 and James Fazzino was appointed as a director on 18 July 2005.

The Board collectively has significant commercial, business, operational and financial experience in a range of industries. The directors all bring skills and expertise which, in aggregate, combine to form a Board which is equipped to discharge its responsibilities. The directors' biographies along with their term of office and information about their skills, expertise and experience are set out on page 16 of this report.

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

Directors' Report

Corporate Governance Statement

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

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

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

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

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

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

The Board considers that each of John Watson, Brian Healey, Allan McCallum and Anthony Larkin are independent when assessed on the criteria above, taking into account all the relevant interests, matters and relationships of the particular director.

In summary, of the six directors, the Board considers four directors are independent.

Performance evaluations

Incitec Pivot recognises the importance of regular performance evaluation of the directors. Assessment of individual director's performance and the Board as a whole is a process determined by the Chairman and the Remuneration and Appointments Committee. The Board's annual performance review took place in August 2006 by way of a self assessment of the Board's role, structure and processes, as well as the Board's performance in meeting its responsibilities. In addition, one-on-one interviews occurred between the directors and the Chairman. Individual director's performance will be reviewed throughout the 2006/07 financial year and will include one-on-one interviews with directors and the Chairman, as well as discussions on succession planning. Each of John Watson and Anthony Larkin, who are retiring and standing for re-election at the 2006 Annual General Meeting, were subject to a specific performance review prior to their nomination for re-election.

In addition, all Incitec Pivot executives are subject to annual performance reviews.

The annual review involves each executive being evaluated by their immediate superior, normally the Managing Director & CEO. The executive is assessed against agreed performance objectives including business/financial/operational targets, functional/managerial goals and personal accountabilities.

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

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

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

Directors' Report

Corporate Governance Statement

Directors' remuneration

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

Under the Company's Constitution, the maximum remuneration payable by the Company for the services of non-executive directors in total must not exceed the amount approved by shareholders in general meeting, which is \$1,000,000 as approved at the Annual General Meeting held in December 2003. The total remuneration paid to the non-executive directors during the financial year ended 30 September 2006 was within the maximum amount approved by shareholders.

Details of remuneration paid to the executive directors are included in the table titled "Directors' Remuneration" set out in section B of the remuneration report.

Board processes

To assist the Board in meeting its responsibilities, the Board has established three committees:

- the Audit and Risk Management Committee;
- the Remuneration and Appointments Committee; and
- the Governance Committee.

Other committees of the Board may be formed from time to time to deal with specific matters. Materials for the Board committee meetings are circulated in advance and minutes are circulated to all directors.

Each of these Committees have their own charters which establish the Committee's terms of reference and operating procedures. In line with the Board's own charter, each Board committee is to review its performance at least annually, review its charter annually, recommend any changes to the Board and report regularly to the Board as to its activities.

The Board has also established a framework for the management of the Group, including a system of internal control, and a business risk management process. These systems are designed to ensure effective and efficient operations, including financial reporting and compliance with laws and regulations, with a view to managing the risk of failure to achieve business objectives.

The Board reviews the effectiveness of the internal control systems and risk management on an ongoing basis, and monitors risk through the Audit and Risk Management Committee.

The Board regularly receives information about the financial position and performance of the Company. For annual and half-yearly accounts released publicly, the Managing Director & CEO and the Finance Director & Chief Financial Officer will certify to the Board:

- the accuracy of the accounts and that they represent a true and fair view, in all material respects, of the Company's financial condition and operational results, and have been prepared in accordance with applicable accounting standards; and
- that the representations are based on a system of risk management and internal compliance and control which implements the policies adopted by the Board, and that those systems are operating efficiently and effectively in all material respects.

The Company Secretary, Kerry Gleeson, is responsible for assisting the Chairman in developing and maintaining information systems and processes that are appropriate for the Board to fulfil its role and to achieve Incitec Pivot's objectives. Kerry is also responsible to the Board for ensuring board procedures and the Constitution are complied with. The Board appoints and removes the Company Secretary.

Board meetings

Details of the Board meetings held during the 2005/06 financial year are set out on page 17 of this report.

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

Materials for Board meetings are circulated to directors in advance. The agenda for meetings is formulated with input from the Managing Director & CEO and the Chairman. Directors are free to nominate matters for inclusion on the agenda for any Board or Board Committee meeting.

Directors' Report

Corporate Governance Statement

Presentations to the Board are frequently made by executives and senior management, and telecommunications technologies may be utilised to facilitate participation.

Access to information and independent advice

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

Audit and Risk Management Committee

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

The current members of the Audit and Risk Management Committee are Anthony Larkin (Chairman), Allan McCallum and Brian Healey, all of whom are independent non-executive directors.

The qualifications of those directors appointed to the Audit and Risk Management Committee are set out on page 16 of this report.

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

The attendance of the members of the Audit and Risk Management Committee at each meeting held during the financial year to 30 September 2006 is set out on page 17 of this report.

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

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

Financial reporting

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

Internal control and risk management

- risk management strategies – receive reports from management concerning the Company's risk management principles and policies, assess and manage business, financial and operational risk;
- risk reports and monitoring – receive reports on and oversee credit, market, balance sheet and operating risk and monitor risk implications of new and emerging risks, organisational change and major initiatives and also monitor resolution of significant risk exposures and risk events;
- reports on change in the environment – monitor anticipated changes in the economic and business environment and other factors relevant to future strategy;
- compliance – oversee compliance with applicable laws relating to the operation of the Company's business; and
- insurance – monitor the insurance strategy of the Company and recommend approval or variation of insurance policies.

Directors' Report

Corporate Governance Statement

External audit

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

Internal audit

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

Remuneration and Appointments Committee

The Remuneration and Appointments Committee has a charter approved by the Board. Under its charter, the Committee:

- *Appointments* – assists and advises the Board on director selection and appointment policy, performance evaluation, Board composition and succession planning for the Board and senior management; and
- *Remuneration* – assists and advises the Board on remuneration policy for the Board, the Managing Director & CEO and senior management, for such to be designed to enable Incitec Pivot to attract, retain and motivate its people to create value for shareholders.

The Committee comprises all the directors except the Managing Director & CEO, Julian Segal, and the Finance Director & Chief Financial Officer, James Fazzino, and is chaired by the Chairman, John Watson.

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

The attendance of the members of the Remuneration and Appointments Committee at each meeting held during the financial year to 30 September 2006 is set out on page 17 of this report.

Governance Committee

The Governance Committee has a charter approved by the Board. The Committee was established in 2003 pursuant to Incitec Pivot's Constitution in recognition of the Company's status as a subsidiary of Orica Limited with its primary role to consider related party transactions in light of the requirements of the Corporations Act 2001 (Cth). The Charter provides for the Committee members to comprise at least three independent non-executive directors. The current members of the Committee are Allan McCallum (Chairman), John Watson and Brian Healey.

The Committee is to meet as frequently as required but not less than two times a year. The attendance of the members of the Governance Committee at each meeting held during the financial year to 30 September 2006 is set out on page 17 of this report.

Following Orica ceasing to be a majority shareholder in May 2006, the Board intends to dissolve the Governance Committee in the 2006/07 financial year, given its role in considering related party matters is diminished and such matters can be appropriately addressed by the Board itself.

Directors' Report

Corporate Governance Statement

External auditor

KPMG is the Company's external auditor.

The lead audit partner and review partner of the Company's external auditor rotate every five years. The current lead audit partner and review partner were first appointed for the 2002/03 audit of the Company.

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

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

For the next Annual General Meeting to be held on 20 December 2006, the lead audit partner will attend. Shareholders have the right under the Corporations Act 2001 (Cth) to submit written questions on certain topics to the auditor and the auditor may table answers to such questions at the Annual General Meeting.

Procedures for ASX disclosure requirements

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

To achieve these objectives and satisfy the regulatory requirements, the Board has established a continuous disclosure policy and, in accordance with this policy, will provide information to shareholders and the market in several ways, including:

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

The Company Secretary is responsible for providing announcements to the ASX.

Share ownership and dealing

Details of shares in the Company held by the directors are set out in note 34, Key Management Personnel Disclosures.

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

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

In addition, certain members of staff, for example directors, the direct reports to the Managing Director & CEO, and those in the finance units are 'designated employees' and as such may not deal in shares in the Company outside of 'black out' periods unless, prior to the dealing, the relevant person has notified the Company Secretary and given written confirmation that they are not in possession of price sensitive information. In the case of the Company Secretary, she must notify the Chairman or Managing Director & CEO and also give the same written confirmation to the effect that she is not in possession of price sensitive information.

The ASX is notified of any share dealings by a director within five business days of the dealing taking place.

Directors' Report

Corporate Governance Statement

Codes of conduct

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

The Company has codes of conduct which set ethical standards for directors, senior management and employees. The codes describe core principles ensuring ethical conduct is maintained in the interests of shareholders and other stakeholders. Such principles address legal compliance, honesty and integrity, the avoidance of discrimination, separation of personal transactions from dealings with the Company, the maintenance of confidentiality in dealings with customers, avoidance of actual or potential conflicts of interest (or in the case of non-executive directors, matters which may affect their independence) and the avoidance of personal gain from those doing business with the Company.

Safety, environmental and quality policies

Incitec Pivot has adopted policies in relation to safety, the environment, and quality, details of which are summarised below:

Safety policy

Incitec Pivot has adopted a policy on safety, which seeks to ensure a safe working environment and safe systems of work thereby preventing injuries and reducing associated costs.

The objectives of Incitec Pivot, as set out in the policy, include meeting all regulatory authority requirements, establishing compliance mechanisms, striving to achieve zero work-related lost time injuries, ensuring a consistent focus on the management of safety and providing rehabilitation services to workers who have suffered an illness or injury in the course of their employment with the Company.

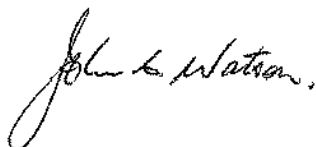
Environmental policy

Incitec Pivot has adopted a policy on its commitment to preserving the environment, preventing pollution and ensuring the health and wellbeing of its workforce and the community in which it operates. The objectives set out in the policy include meeting all regulatory authority requirements for groundwater, air emissions, stormwater, noise and soil contamination, establishing compliance mechanisms and maximising re-use of waste materials.

Quality policy

Incitec Pivot has adopted a policy on its commitment to providing products and services that meet its customers' needs. The objectives of the policy include meeting all regulatory requirements and establishing procedures and operating mechanisms consistent with accepted international standards.

Signed on behalf of the Board.



John C Watson, AM
Chairman

Dated at Melbourne this 15th day of November 2006



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 audit for the financial year ended 30 September 2006 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

The KPMG logo, featuring the letters 'KPMG' in a bold, sans-serif font, with a stylized graphic of four squares above the 'K'.

A handwritten signature in black ink, appearing to read 'Neil T Faulkner'.

Neil T Faulkner
Partner

Melbourne

15 November 2006

Income Statements

For the year ended 30 September 2006

	Notes	Consolidated		Company	
		2006	2005	2006	2005
		\$000	\$000	\$000	\$000
Revenue	(4)	1,111,239	1,073,872	939,501	947,548
Other income (incl. Individually material items)	(4)	14,864	8,818	84,066	42,818
Operating expenses					
Changes in inventories of finished goods and work in progress		4,020	23,225	5,137	23,225
Raw materials and consumables used and finished goods purchased for resale		(724,431)	(788,525)	(725,141)	(788,525)
Employee expenses (incl. Individually material items)		(91,110)	(98,900)	(82,520)	(98,900)
Costs recovered from subsidiaries under agency agreement	(33)	-	-	58,779	50,437
Depreciation and amortisation expense	(5)	(33,145)	(30,486)	(11,878)	(11,203)
Borrowing and finance costs	(5)	(14,918)	(10,329)	(14,736)	(9,805)
Purchased services (incl. Individually material items)		(58,198)	(57,873)	(50,457)	(57,873)
Repairs and maintenance		(33,772)	(26,790)	(27,738)	(26,790)
Outgoing freight		(40,114)	(30,995)	(30,504)	(30,995)
Lease payments - operating leases	(5)	(13,921)	(12,316)	(11,593)	(12,316)
Asset write-downs, clean-up and environmental provisions (incl. Individually material items)		(35,411)	(21,155)	(35,411)	(21,155)
Other expenses (incl. Individually material items)		(25,846)	(7,102)	(30,047)	(7,102)
		(1,066,846)	(1,061,246)	(956,109)	(991,002)
Profit before income tax		59,257	21,444	67,458	(636)
Income tax benefit/(expense)	(8)	(12,595)	(6,952)	4,071	10,291
Profit for the financial year		46,662	14,492	71,529	9,655

		cents	cents
Earnings per share			
Basic earnings per share from continuing operations	(9)	83	25
Diluted earnings per share from continuing operations	(9)	83	25

The Income Statements for the financial year ended 30 September 2005 do not include restatements in accordance with AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* which have been adopted from 1 October 2005. Refer Note 1xix.

The above Income Statements are to be read in conjunction with the Notes to the Financial Statements set out on pages 48 to 113.

Balance Sheets

As at 30 September 2006

		Consolidated		Company	
	Notes	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Current assets					
Cash and cash equivalents	(10)	161,658	3,351	161,252	3,351
Trade and other receivables	(11)	121,445	75,901	185,270	107,901
Other financial assets	(14)	2,019	12,341	2,019	12,341
Inventories	(12)	298,656	262,909	267,635	262,909
Other assets	(13)	8,885	1,638	7,007	1,638
Assets classified as held for sale	(15)	2,876	2,416	25	2,279
Total current assets		595,539	358,556	623,208	390,419
Non-current assets					
Trade and other receivables	(11)	264	1,633	280	383
Other financial assets	(14)	-	-	684,470	529,178
Property, plant and equipment	(16)	478,097	291,971	126,901	117,366
Intangible assets	(17)	196,210	192,250	12,147	8,441
Deferred tax assets	(18)	32,215	-	32,690	17,223
Other assets	(13)	877	839	876	839
Total non-current assets		707,663	486,693	857,364	673,430
Total assets		1,303,202	845,249	1,480,572	1,063,849
Current liabilities					
Trade and other payables	(19)	282,598	200,699	501,140	406,797
Interest bearing liabilities	(21)	7,103	12,514	7,103	12,514
Other financial liabilities	(20)	5,683	-	5,683	-
Current tax liabilities		19,329	4,101	19,329	4,101
Provisions	(22)	47,478	43,713	41,813	43,713
Total current liabilities		362,191	261,027	575,068	467,125
Non-current liabilities					
Trade and other payables	(19)	60,086	-	-	-
Interest bearing liabilities	(21)	430,000	-	430,000	-
Other financial liabilities	(20)	1,774	-	1,774	-
Deferred tax liabilities	(23)	-	7,114	-	-
Retirement benefit obligation	(24)	3,393	4,321	3,393	4,321
Provisions	(22)	65,761	12,821	40,837	12,821
Total non-current liabilities		561,014	24,256	476,004	17,142
Total liabilities		923,205	285,283	1,051,072	484,267
Net assets		379,997	559,966	429,500	579,582
Equity					
Issued capital	(25)	360,797	532,445	360,797	532,445
Reserves	(26)	(5,829)	(1,524)	718	-
Retained earnings	(26)	25,029	29,045	67,985	47,137
Total equity		379,997	559,966	429,500	579,582

The Balance Sheets for the financial year ended 30 September 2005 do not include restatements in accordance with AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* which have been adopted from 1 October 2005. Refer Note 1xix.

The above Balance Sheets are to be read in conjunction with the Notes to the Financial Statements set out on pages 48 to 113.

Statements of Recognised Income and Expense

For the year ended 30 September 2006

		Consolidated		Company	
		2006	2005	2006	2005
	Notes	\$000	\$000	\$000	\$000
Effect of changing an accounting policy - financial instruments	(38)	(5,186)	-	(5,186)	-
Changes in fair value of cash-flow hedges	(26)	(4,209)	-	(4,209)	-
Losses in cash-flow hedges transferred to profit and loss	(26)	648	-	648	-
Deferred tax adjustment on revaluation of property, plant and equipment		-	200	-	204
Actuarial gains on defined benefit plans		650	57	650	57
Net income/(expense) recognised directly in equity		(8,097)	257	(8,097)	261
Profit for the financial year		46,662	14,492	71,529	9,655
Total recognised income and expense for the financial year		38,565	14,749	63,432	9,916

Other movements in equity arising from transactions with owners as owners are set out in Note 25 and 26. The amounts recognised directly in equity are disclosed net of tax.

The Statements of Recognised Income and Expense for the financial year ended 30 September 2005 do not include restatements in accordance with AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* which have been adopted from 1 October 2005. Refer Note 1xix.

The above Statements of Recognised Income and Expenses are to be read in conjunction with the Notes to the Financial Statements set out on pages 48 to 113.

Cash Flow Statements

For the year ended 30 September 2006

		Consolidated		Company	
	Notes	2006 \$000	2005 \$000	2006 \$000	2005 \$000
		Inflows/ (Outflows)	Inflows/ (Outflows)	Inflows/ (Outflows)	Inflows/ (Outflows)
Cash flows from operating activities					
Receipts from customers		1,181,586	1,121,414	965,286	994,292
Payments to suppliers and employees		(969,785)	(1,017,188)	(802,747)	(912,654)
Interest received		1,529	1,139	1,519	1,139
Borrowing costs		(12,006)	(10,575)	(11,932)	(9,805)
Dividends received from wholly-owned controlled entity	(33)	-	-	43,446	20,500
Rental income		118	151	118	151
Royalties		-	-	-	-
Other trading revenue received		156	399	156	399
Income taxes paid		(12,888)	(23,619)	(12,888)	(23,619)
Net cash flows from operating activities	(29)	188,710	71,721	182,958	70,403
Cash flows from investing activities					
Payments for property, plant and equipment and intangibles		(27,976)	(28,214)	(22,667)	(26,897)
Payments for purchase of subsidiary, net of cash acquired		(155,329)	-	(155,292)	-
Payments for purchase of investments		-	(5,105)	-	(60,104)
Proceeds from sale of investments		21,800	-	21,800	-
Proceeds from sale of property, plant and equipment		6,637	2,164	6,637	2,164
Net cash flows from investing activities		(154,868)	(31,155)	(149,522)	(84,837)
Cash flows from financing activities					
Repayments of borrowings		(89,165)	(50,541)	(89,165)	-
Proceeds from borrowings		430,000	-	430,000	4,459
Payments for share buy-back transaction	(25)	(174,497)	-	(174,497)	-
Dividends paid		(41,873)	(70,520)	(41,873)	(70,520)
Net cash flows from financing activities		124,465	(121,061)	124,465	(66,061)
Net increase/(decrease) in cash and cash equivalents held		158,307	(80,495)	157,901	(80,495)
Cash and cash equivalents at the beginning of the financial year		3,351	83,846	3,351	83,846
Cash and cash equivalents at the end of the financial year	(29)	161,658	3,351	161,252	3,351

The Cash Flow Statements for the financial year ended 30 September 2005 do not include restatements in accordance with AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* which have been adopted from 1 October 2005. Refer Note 1xix.

The above Cash Flow Statements are to be read in conjunction with the Notes to the Financial Statements set out on pages 48 to 113.

Notes to the Financial Statements

For the year ended 30 September 2006

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Notes to the Financial Statements

For the year ended 30 September 2006

1. Significant accounting policies

Incitec Pivot Limited is a company domiciled in Australia. The consolidated financial report was authorised for issue by the directors on 15 November 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.

These policies have been consistently applied to all the years presented, unless otherwise stated.

(i) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASB) adopted by the Australian Accounting Standards Board and the Corporations Act 2001 (Cth). International Financial Reporting Standards (IFRS) form the basis of AASB adopted by the Australian Accounting Standards Board, and for the purpose of this report are called Australian equivalents to IFRS (AIFRS) to distinguish from previous Australian GAAP.

Compliance with IFRS

The financial reports of the consolidated entity also comply with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board. A statement of compliance with IFRS cannot be made for the parent entity financial statements as the Company has elected to apply the relief provided to parent entities by AASB 132 *Financial Instruments: Presentation and Disclosure* in respect of certain disclosure requirements.

Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards

These financial statements are the first of the consolidated entity to be prepared in accordance with AIFRS. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of the consolidated entity had, until 30 September 2005, been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the consolidated entity's 2006 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. The consolidated entity has taken the exemption available under AASB 1 to only apply AASB 132 and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 October 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the consolidated entity's equity, its net income and cashflows are given in note 38.

Historical cost convention

These financial statements have been prepared under the historical cost convention, 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.

The financial report is presented in Australian dollars.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Early adoption of standards

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, AASB 101 *Presentation of Financial Statements*, AASB 124 *Related Party Disclosures*
- AASB 2005-1 Amendments to Australian Accounting Standard amending AASB 139
- AASB 2005-3 Amendments to Australian Accounting Standards amending AASB 119 *Employee Benefits*
- AASB 2005-4 Amendments to Australian Accounting Standards amending AASB 139, AASB 132, AASB 1, AASB 1023 *General Insurance Contracts*, AASB 1038 *Life Insurance Contracts*
- AASB 2005-5 Amendments to Australian Accounting Standards amending AASB 1, AASB 139
- AASB 2005-7 Amendments to Australian Accounting Standards amending AASB 134 *Interim Financial Reporting*
- AASB 2006-1 Amendments to Australian Accounting Standards amending AASB 121 *The Effects of Changes in Foreign Exchange Rates*
- Interpretation 4 *Determining whether an Arrangement contains a Lease*
- Interpretation 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
- Interpretation 8 *Scope of AASB 2*
- Interpretation 9 *Reassessment of Embedded Derivatives*

Issued Standards not early adopted

The following standards and amendments were available for early adoption but have not been applied by the consolidated entity in these financial statements:

- AASB 7 *Financial Instruments: Disclosure* (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2005-9 Amendments to Australian Accounting Standards (September 2005) requires that liabilities arising from the issue of financial guarantee contracts are recognised in the balance sheet. AASB 2005-9 is applicable for annual reporting periods beginning on or after 1 January 2006.

Notes to the Financial Statements

For the year ended 30 September 2006

1. Significant accounting policies (continued)

- AASB 2005-10 *Amendments to Australian Accounting Standards* (September 2005) makes consequential amendments to AASB 132, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139, AASB 1, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

The consolidated entity plans to adopt AASB 7, AASB 2005-9 and AASB 2005-10 in the 2007 financial year.

The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of the Company and the consolidated entity as the standard and the amendment are concerned only with disclosures.

The initial application of AASB 2005-9 could have an impact on the financial results of the Company and the consolidated entity as the amendment could result in liabilities being recognised for financial guarantee contracts that have been provided by the Company and the consolidated entity. However, the quantification of the impact is not known or reasonably estimable in the current financial year as an exercise to quantify the financial impact has not been undertaken by the Company and the consolidated entity to date.

(ii) Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Incitec Pivot as at 30 September 2006 and the results of all subsidiaries for the year then ended. Subsidiaries are all those entities (including special purpose entities) over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the consolidated entity controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the consolidated entity (refer to note 1(xiv)).

Inter-company transactions, balances and unrealised gains on transactions between consolidated companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity. Investments in subsidiaries are accounted for at cost in the individual financial statements of Incitec Pivot.

(iii) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised for the major business activities as follows:

Sales Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there is significant uncertainty regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

Interest income is recognised as it accrues.

Dividends are recognised in the Income Statement when declared.

(iv) Borrowing costs

Borrowing 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. Borrowing 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.

(v) Share based payments

Under the Long Term Incentive Plan (LTI), Incitec Pivot may grant awards to executives and other senior employees, subject to individual and Company performance. The LTI operates by way of the Company providing participants with limited recourse loans, which can be interest free or interest bearing, and which must be used to purchase Incitec Pivot shares on market.

Awards, by way of forgiveness of loans, are granted only on the achievement of, either conditions relating to the duration of employment of individual and/or Company performance over a specific period.

The benefits received by the participants as a result of participation in the LTI are treated as options. The fair value of the shares treated as 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 amount recognised as an expense is adjusted to reflect the actual number of shares treated as options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting. The interest bearing loans are not recognised on the balance sheet.

(vi) Taxation

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 following temporary differences are not provided for; initial recognition of goodwill, the initial recognition of assets and liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

Notes to the Financial Statements

For the year ended 30 September 2006

1. Significant accounting policies (continued)

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

Due to the effect of applying Interpretation 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.

(vii) 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 merchantable goods, cost is net cost into store.

Engineering spares are held in inventory and expensed when used.

(viii) Trade and other receivables

Current accounting policy

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 consolidated entity will not be able to collect amounts due according to the original terms of the receivables. The amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the impairment loss is recognised in the income statement.

Derecognition

A number of customers use trade finance facilities that are guaranteed or partially guaranteed by Incitec Pivot. Where substantially all 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.

Prior period policy

Trade and other receivables are carried at invoice amounts.

The collectability of debts is assessed at balance date and specific provision is made for any doubtful debts based on a review of all outstanding amounts at year end. Bad debts are written off during their year in which they are identified.

(ix) Other financial assets

The consolidated entity's interests in financial assets included in note 14, other than controlled entities are stated at fair value, with movement in market value recognised in the Income Statement. Regular purchases and sales are recognised on trade-date – the date on which the consolidated entity commits to purchase or sell assets.

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

(x) Assets (or disposal groups) classified as held for sale

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 (or disposal groups) are recognised at the lower of carrying amount and fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell off an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet.

(xi) Property, plant and equipment and depreciation

Property, plant and equipment is stated at cost or deemed 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.

Notes to the Financial Statements

For the year ended 30 September 2006

1. Significant accounting policies (continued)

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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.

(xii) 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 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.

(xiii) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the consolidated entity's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(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 and impairment losses.

(iii) Other intangible assets

Other intangible assets that are acquired by the consolidated entity are stated at cost less accumulated amortisation and impairment losses.

(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 or when received. The estimated useful lives in the current and comparative periods are as follows:

• Software	3 – 7 years
• Asset Rights	1 – 2 years

(xiv) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the consolidated entity's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(xiii)). If the cost of acquisition is less than the consolidated entity's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Notes to the Financial Statements

For the year ended 30 September 2006

1. Significant accounting policies (continued)

(xv) Interest-bearing borrowings

Current accounting policy

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 principle amount, subject to set-off arrangements. Interest expense is accrued at the contracted rate and included in note 19 *Trade and Other Payables*.

(xvi) 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.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised in borrowing costs.

(i) 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.

(ii) 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 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 an interest expense in the Income Statement.

(iii) Employee entitlements

Annual leave and sick leave

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.

Long Service leave

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.

Profit sharing and bonus plans

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.

(iv) Retirement Benefit Obligation

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

For defined benefit schemes, the cost of providing superannuation 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.

(v) 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.

(vi) 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.

Notes to the Financial Statements

For the year ended 30 September 2006

1. Significant accounting policies (continued)

(vii) 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.

(xvii) Trade and other payables

Trade and other payables are stated at cost and represent liabilities for goods and services provided to the consolidated entity prior to the end of financial year which are unpaid.

(xviii) 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.

(xix) Derivative financial instruments

Current period policy

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. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. 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

On entering into a hedging relationship, the consolidated entity formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

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 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 to apply AASB 132 and AASB 139 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 and AASB 139. 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.

Notes to the Financial Statements

For the year ended 30 September 2006

1. Significant accounting policies (continued)

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.

(xx) Cash and cash equivalents

For cash flow statement presentation purposes, 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.

(xxi) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration. If the entity reacquires its own equity instruments, eg as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(xxii) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the consolidated entity is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The consolidated entity uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date. The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the consolidated entity for similar financial instruments.

(xxiii) Impairment of assets

The carrying amount of the consolidated entity's assets excluding defined benefit fund assets, inventories, 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 tested for impairment by comparing its recoverable amount to its carrying amount. Goodwill and indefinite life intangible assets are tested for impairment annually.

The recoverable amount of an asset (excl. receivables – refer to 1 viii) 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) Rounding of amounts

The company is of a kind referred to in Class order 98/0100 (updated by Class Order 05/641 and Class Order 06/51), issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

Notes to the Financial Statements

For the year ended 30 September 2006

2. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Management believes the following are the critical accounting policies and estimates used in the preparation of the AIFRS financial statements:

- the testing for impairment of assets;
- the testing for impairment of goodwill;
- income tax related assumptions and estimates;
- provision for environmental and restructuring liabilities;
- the calculation of annual superannuation costs and related assets and liabilities.

(i) Impairment of assets

The determination of impairment for property, plant and equipment, goodwill and other intangible assets involves the use of estimates that include, but is not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in competitive positions, expectations of growth, increased cost of capital, current replacement costs, increases in cost of inputs, and other factors which may indicate impairment. An asset is considered impaired when the recoverable amount is less than the carrying value. Recoverable amount is determined as the higher of fair value less costs to sell and value-in-use. In calculating value-in-use, the cash flows include projections of cash inflows and outflows from continuing use of the asset and cash flows associated with disposal of the asset. The cash flows are estimated for the asset in its current condition. In assessing value-in-use, the estimated 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 Cash Generating Unit (CGU). The identification of impairment indicators, the estimation of future cash flows and the determination of fair values of assets (or groups of assets) requires management to make significant estimates and judgements concerning the identification of impairment indicators, earnings before interest and tax, growth rates, applicable discount rates, useful lives and residual values. Refer Note 1 xxiii for further details regarding the accounting policy regarding 'Impairment of assets'.

Management believes that this policy is critical to the financial statements, particularly when evaluating the consolidated entity's assets for impairment. Varying results from this impairment analysis are possible due to the significant estimates and judgements involved.

(ii) Impairment of goodwill

The consolidated entity tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1 xiii. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including forecast earnings before interest and tax, growth rates and discount rates. Refer to note 17 for details of these assumptions and the potential impact of changes to the assumptions.

The assumptions are management's best estimates based on current and forecast market conditions. Changes in economic and operating conditions impacting these assumptions could result in additional impairment charges in future periods.

Management believes that this policy is critical to the financial statements, particularly when evaluating the consolidated entity's goodwill for impairment. Varying results from this analysis are possible due to the significant estimates and judgements involved in the Company's evaluations.

(iii) Income taxes

The consolidated entity is subject to income taxes in Australia. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

In addition, deferred tax assets are recognised only to the extent it is probable that future taxable profits will be available against which the assets can be utilised. The consolidated entity's assumptions regarding future realization may change due to future operating performance and other factors.

(iv) Environmental and Restructuring provisions

Provisions for environmental and restructuring/redundancy liabilities are based on the consolidated entity's best estimate of the outflow of resources required to settle commitments made by the consolidated entity. Where the outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income statement in the period in which such determination is made. Refer note 1 xvi (i) & (vi) to the financial statements for further details of the accounting policy relating to environmental and restructuring provisions. Also refer to note 22 for amounts recognised for environmental and restructuring provisions.

(v) Retirement Benefit obligations

A liability or asset in respect of defined benefit superannuation plans is recognised in the balance sheet, and is measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity. Refer Note 1 xvi (iv) to the financial statements for further details of the accounting policy relating to retirement benefit obligations. Refer Note 24 of the financial statements for details of the key assumptions used in determining the accounting for these plans. The following are the main categories of assumptions used:

- discount rate;
- rate of inflation;
- expected return on plan assets; and
- future salary increases

3. Segment report

During the years ended 30 September 2006 and 30 September 2005, 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.

Notes to the Financial Statements

For the year ended 30 September 2006

		Consolidated		Company	
	Notes	2006 \$000	2005 \$000	2006 \$000	2005 \$000
4. Revenue and other income					
Revenue					
External sales		1,088,899	1,035,437	917,161	909,113
Sales to entities subject to common control	(33)	22,340	38,435	22,340	38,435
Total Revenue		1,111,239	1,073,872	939,501	947,548
Other income					
Dividend income					
wholly-owned controlled entities	(33)	-	-	69,346	34,000
Interest income					
common controlled entities		-	246	-	246
external parties		2,026	653	2,016	653
Rental income		118	151	118	151
Other income		290	38	156	38
From outside operating activities					
Unrealised gain on listed investment held at fair value through profit and loss	(6)	-	7,236	-	7,236
Realised gain on listed investment held at fair value through profit and loss	(6)	9,459	-	9,459	-
Net gain on sale of property, plant and equipment		2,971	494	2,971	494
Total other income		14,864	8,818	84,066	42,818
Total revenue and other income		1,126,103	1,082,690	1,023,567	990,366

5. Expenses

Profit before income tax includes the following specific expenses:

Depreciation & Amortisation					
depreciation	(16)	31,028	28,678	9,847	9,435
amortisation	(17)	2,117	1,808	2,031	1,768
		33,145	30,486	11,878	11,203
Borrowing and Finance costs					
interest and finance charges paid/payable		14,188	10,329	14,188	9,805
unwinding of discount on provisions		730	-	548	-
		14,918	10,329	14,736	9,805
Recoverable amount write-down					
property, plant and equipment	(16)	5,038	11,842	5,038	11,842
		5,038	11,842	5,038	11,842
Amounts set aside to provide for					
impairment loss on trade and other receivables		106	106	90	490
employee entitlements		7,326	4,422	6,609	4,422
environmental liabilities	(22)	28,490	-	28,307	-
inventory losses and obsolescence		167	2,917	110	2,917
other provisions		-	424	-	424
restructuring	(22)	24,822	24,871	24,822	24,871
Net foreign exchange losses		217	361	217	361
Lease payments – operating leases		13,921	12,316	11,593	12,316
Research and development		101	602	101	602
Defined benefit superannuation expense	(24)	2,184	2,453	2,184	2,453

Notes to the Financial Statements

For the year ended 30 September 2006

	2006			2005		
	Gross \$000	Tax \$000	Net \$000	Gross \$000	Tax \$000	Net \$000
6. Individually material items						
Profit includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance of the entity:						
Consolidated/Company						
Litigation ruling and dispute ⁽¹⁾	(11,000)	3,300	(7,700)	-	-	-
Cockle Creek clean-up and closure costs ⁽²⁾						
Environmental clean-up	(21,023)	6,307	(14,716)	-	-	-
Redundancy	(1,753)	526	(1,227)	-	-	-
Closure and demolition	(8,690)	2,607	(6,083)	-	-	-
Total Cockle Creek clean-up and closure costs	(31,466)	9,440	(22,026)	-	-	-
Gain from investment in listed Company held at fair value through profit and loss ⁽³⁾						
Realised	9,459	(1,081)	8,378	-	-	-
Unrealised	-	-	-	7,236	(2,171)	5,065
Total gain from investment held for resale	9,459	(1,081)	8,378	7,236	(2,171)	5,065
Business restructuring costs ⁽⁴⁾						
Employee redundancies and allowances	-	-	-	(18,065)	5,420	(12,645)
Restructuring and other direct costs	(3,389)	1,016	(2,373)	(15,015)	4,145	(10,870)
Demolition	(660)	198	(462)	-	-	-
Asset write-downs ⁽⁵⁾	(5,038)	1,511	(3,527)	(21,155)	6,193	(14,962)
Total business restructuring	(9,087)	2,725	(6,362)	(54,235)	15,758	(38,477)
Business restructuring costs - Separation and Integration ⁽⁶⁾						
Employee redundancies and allowances	(3,758)	1,127	(2,631)	-	-	-
Restructuring and other direct costs	(8,241)	2,472	(5,769)	-	-	-
Total business restructuring	(11,999)	3,599	(8,400)	-	-	-
Individually material items	(54,093)	17,983	(36,110)	(46,999)	13,587	(33,412)

⁽¹⁾ Represents payments made 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.

⁽²⁾ A provision has been recognised in relation to the costs associated with dismantling the manufacturing facility, remediating the site, demolition works and redundancies at Cockle Creek as announced to the Australian Stock Exchange on 20 April 2006.

⁽³⁾ Realised gains in relation to the investment held for resale in the listed gas producer Queensland Gas Company Limited. Capital losses partly offset the tax in relation to this gain.

⁽⁴⁾ 2005 saw a significant rationalisation of the fertiliser industry, following which the Company incurred significant expenditure in reacting to the changed industry dynamics including developing and implementing a new business model and embarking on a major restructuring of the business. During 2006 additional provisions have been recognised in relation to further business and manufacturing efficiency projects.

⁽⁵⁾ As part of the restructuring program, a review of the long term manufacturing strategy around ammonium phosphates was undertaken and as a result, the manufacturing plant at Kooragang Island is to be mothballed in October 2006.

⁽⁶⁾ Provisions for restructuring costs, including employee redundancy, have been created after the separation from Orica during May 2006, and acquisition of SCF in August 2006.

Notes to the Financial Statements

For the year ended 30 September 2006

	Notes	Consolidated		Company	
		2006	2005	2006	2005
		\$	\$	\$	\$
7. Auditor's remuneration					
Total remuneration received, or due and receivable, by the auditors for:					
Audit services					
Auditors of the Company - KPMG		455,310	278,400	455,310	278,400
		455,310	278,400	455,310	278,400
Non audit services					
Auditors of the Company - KPMG					
taxation services		-	-	-	-
other services - SCF acquisition		33,000	-	33,000	-
		33,000	-	33,000	-
		488,310	278,400	488,310	278,400

From time to time, the auditors provide other services to the Company, which are subject to strict corporate governance procedures adopted by the Company which encompass the selection of service providers and the setting of their remuneration. The Audit and Risk Management Committee must approve non audit services provided by KPMG above a value of \$20,000.

8. Income tax expense

(a) Income tax expense/(benefit)

Current tax

Current year	30,633	11,535	7,317	(6,231)
Under/(over) provision in prior years	(2,836)	(111)	(2,836)	(111)
	27,797	11,424	4,481	(6,342)

Deferred tax

Origination and reversal of temporary differences	(15,202)	(4,472)	(8,552)	(3,949)
Total income tax expense/(benefit)	12,595	6,952	(4,071)	(10,291)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

Profit before income tax	59,257	21,444	67,458	(636)
Income tax expense attributable to profit before income tax				
Tax at the Australian tax rate of 30% (2005 at 30%) on profit before income tax	17,777	6,433	20,238	(191)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Depreciation and amortisation	483	479	137	86
Profit/(loss) on sale of property, plant and equipment	(165)	75	(80)	49
Research and development incentive	(760)	(433)	(760)	(433)
Dividends from wholly-owned entities	-	-	(20,804)	(10,200)
Debt forgiveness within wholly-owned group	-	-	1,964	-
Share-based payments	76	-	76	-
Sundry items	(223)	(4)	(249)	(4)
Under/(over) provision in prior years	(2,836)	(111)	(2,836)	(111)
Business restructuring costs	-	513	-	513
Capital losses not previously recognised brought to account	(1,767)	-	(1,767)	-
Sundry items	10	-	10	-
Income tax expense/(benefit) attributable to profit	12,595	6,952	(4,071)	(10,291)

(c) Amounts recognised directly in equity

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity

Net deferred tax - debited/(credited) directly to equity	(6,598)	29	(6,598)	25
	(6,598)	29	(6,598)	25

Recovery of deferred tax assets (see note 18) depends on future taxable earnings and the continuation of existing tax laws and compliance there with.

Notes to the Financial Statements

For the year ended 30 September 2006

	Consolidated	
	2006	2005
	Cents	Cents
	per share	per share

9. Earnings per share (EPS)

Basic earnings per share		
including individually material items	83	25
excluding individually material items	146	82
Diluted earnings per share		
including individually material items	83	25
excluding individually material items	146	82

	Number	Number
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share ⁽¹⁾	56,515,861	58,281,027

	\$'000	\$'000
Earnings used in the calculation of basic and diluted earnings per share including individually material items	46,662	14,492

Reconciliation of earnings used in the calculation of basic and diluted earnings per share excluding individually material items

Profit for the financial year	46,662	14,492
Add back individually material items after income tax	36,110	33,412
Earnings used in calculation of basic and diluted EPS excluding individually material items	82,772	47,904

⁽¹⁾ 7,857,142 shares were bought back during the year ended 30 September 2006.

	Consolidated		Company	
	2006	2005	2006	2005
	\$000	\$000	\$000	\$000

10. Cash and cash equivalents

Cash at bank and on hand	6,261	2,785	5,855	2,785
Deposits at call				
external	155,397	-	155,397	-
entity subject to common control	-	566	-	566
(29)	161,658	3,351	161,252	3,351

Bank Facilities

Committed bank overdraft facilities available	10,000	7,000	10,000	7,000
Amount of facilities unused	10,000	7,000	10,000	7,000
Committed standby and loan facilities available	210,000	250,000	210,000	250,000
Amount of facilities unused	210,000	250,000	210,000	250,000

The committed bank overdraft facilities are provided by banks and are subject to an annual review. Orica Finance Limited, provided the committed loan facilities. Repayment terms range from overnight to 90 days. With the separation from Orica Limited during the period, replacement committed loan facilities have been negotiated with financial institutions.

Notes to the Financial Statements

For the year ended 30 September 2006

		Consolidated		Company	
	Notes	2006 \$000	2005 \$000	2006 \$000	2005 \$000
11. Trade and other receivables					
Current					
Trade debtors					
external ⁽¹⁾		114,475	63,950	90,639	63,950
entities subject to common control		-	704	-	704
Less impairment losses					
external		(388)	(189)	(196)	(189)
		114,087	64,465	90,443	64,465
Sundry debtors/loans					
external		7,403	5,862	5,817	5,862
entities subject to common control		-	5,574	-	3,243
wholly-owned controlled entity	(33)	-	-	89,010	34,331
Less impairment losses					
external		(45)	-	-	-
		7,358	11,436	94,827	43,436
		121,445	75,901	185,270	107,901
Non-current					
Sundry debtors/loans					
external		264	1,633	280	383
		264	1,633	280	383

⁽¹⁾ If AASB 139 had been applied in the comparative year ending 30 September 2005, the external trade debtor amount would have been increased by \$83,754 to \$147,704. Refer to note 38 for a detailed description of AIFRS adjustments relating to AASB 139.

Significant terms and conditions

Trade debtors are carried at amounts due less impairment losses.

Net fair values

The directors consider the carrying amount of receivables to approximate their net fair values.

Credit risk

Credit risk in debtors is managed in the following ways:

- payment terms are generally 30 days from the end of invoicing month and payment compliance is high.
- a risk assessment process is used for all accounts, with a stop credit process for exceeding credit limits and for long overdue accounts. Interest may be charged where the terms of repayment exceed agreed terms.

12. Inventories

Raw materials and stores at cost	28,807	11,699	11,288	11,699
Work in progress at cost	5,718	-	-	-
Finished goods				
At cost	268,819	255,595	261,035	255,595
Less provision for inventory losses and obsolescence	(4,688)	(4,385)	(4,688)	(4,385)
	264,131	251,210	256,347	251,210
	298,656	262,909	267,635	262,909

13. Other assets

Current				
Prepayments	8,885	1,638	7,007	1,638
	8,885	1,638	7,007	1,638
Non-current				
Prepayments	877	839	876	839
	877	839	876	839

Notes to the Financial Statements

For the year ended 30 September 2006

	Notes	Consolidated		Company	
		2006	2005	2006	2005
		\$000	\$000	\$000	\$000
14. Other financial assets					
Current					
Investments in other entities					
Listed shares at current market value		-	12,341	-	12,341
Derivative financial instruments - cash flow hedges					
Option contracts	(32)	2,019	-	2,019	-
		2,019	12,341	2,019	12,341
Non-current					
Investments in controlled entities					
Unlisted shares at cost	(36)	-	-	684,470	529,178
		-	-	684,470	529,178

15. Assets classified as held for sale

Land held for sale	2,876	2,416	25	2,279
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Assets classified as held for sale consist of various sites which are either vacant land or sites which the Company has already exited or is planning to exit within the next 12 months.

16. Property, plant and equipment

Consolidated	Freehold land and buildings \$'000	Machinery, plant and equipment \$'000	Total \$'000
At 1 October 2004			
Cost	207,437	429,437	636,874
Accumulated depreciation	(91,001)	(259,244)	(350,245)
Construction in progress	-	14,621	14,621
Net book amount	116,436	184,814	301,250
Year ended 30 September 2005			
Opening net book amount	116,436	184,814	301,250
Reclassification from Assets classified as held for sale	6,965	-	6,965
Additions	6,406	18,801	25,207
Disposals	-	(931)	(931)
Depreciation charge	(5) (6,235)	(22,443)	(28,678)
Impairment of assets	-	(11,842)	(11,842)
Closing net book amount	123,572	168,399	291,971
At 1 October 2005			
Cost	220,682	439,294	659,976
Accumulated depreciation	(97,110)	(282,352)	(379,462)
Construction in progress	-	11,457	11,457
Net book amount	123,572	168,399	291,971
Year ended 30 September 2006			
Opening net book amount	123,572	168,399	291,971
Acquisition of business	23,210	175,169	198,379
Reclassification to Assets classified as held for sale	(318)	(142)	(460)
Additions	2,859	24,468	27,327
Disposals	(2,388)	(666)	(3,054)
Depreciation charge	(5) (5,809)	(25,219)	(31,028)
Impairment of assets	(798)	(4,240)	(5,038)
Reclassification	(8,865)	8,865	-
Closing net book amount	131,463	346,634	478,097
At 30 September 2006			
Cost	235,377	601,866	837,243
Accumulated depreciation	(104,478)	(278,107)	(382,585)
Construction in progress	564	22,875	23,439
Net book amount	131,463	346,634	478,097

Notes to the Financial Statements

For the year ended 30 September 2006

16. Property, plant and equipment (continued)

Company	Notes	Freehold land and buildings \$'000	Machinery, plant and equipment \$'000	Total \$'000
At 1 October 2004				
Cost		80,791	132,351	213,142
Accumulated depreciation		(32,174)	(78,728)	(110,902)
Construction in progress		-	14,621	14,621
Net book amount		48,617	68,244	116,861
Year ended 30 September 2005				
Opening net book amount		48,617	68,244	116,861
Reclassification to Assets classified as held for sale		(2,279)	-	(2,279)
Additions		6,097	17,771	23,868
Disposals		-	(931)	(931)
Depreciation charge	(5)	(3,234)	(6,201)	(9,435)
Impairment of assets		-	(11,842)	(11,842)
Movement in allocated assets		(395)	1,519	1,124
Closing net book amount		48,806	68,560	117,366
At 1 October 2005				
Cost		85,601	152,207	237,808
Accumulated depreciation		(36,795)	(95,104)	(131,899)
Construction in progress		-	11,457	11,457
Net book amount		48,806	68,560	117,366
Year ended 30 September 2006				
Opening net book amount		48,806	68,560	117,366
Reclassifications from Assets classified as held for sale		2,254	-	2,254
Additions		2,295	20,213	22,508
Disposals		(2,388)	(666)	(3,054)
Depreciation charge	(5)	(2,802)	(7,045)	(9,847)
Impairment of assets		(798)	(4,240)	(5,038)
Reclassification		(8,813)	8,813	-
Movement in allocated assets		786	1,926	2,712
Closing net book amount		39,340	87,561	126,901
At 30 September 2006				
Cost or fair value		71,954	135,193	207,147
Accumulated depreciation		(32,614)	(74,979)	(107,593)
Construction in progress		-	27,347	27,347
Net book amount		39,340	87,561	126,901

Non-current assets impairments

During the year ended 30 September 2006, the Company and consolidated entity recorded impairments of property, plant and equipment totalling \$5.0 million relating to the closure of the Kooragang Island manufacturing plant. The recoverable amount of this plant was determined using value in use with a discount rate of 6.64%.

During the year ended 30 September 2005, the Company and consolidated entity recorded impairments of property, plant and equipment totalling \$11.8 million relating to reassessments of carrying amounts in light of expected lower sales volumes.

Notes to the Financial Statements

For the year ended 30 September 2006

17. Intangible assets

Consolidated	Notes	Software \$'000	Goodwill \$'000	Other \$'000	Total \$'000
At 1 October 2004					
Cost		10,000	183,809	-	193,809
Accumulated amortisation		(2,758)	-	-	(2,758)
Net book amount		7,242	183,809	-	191,051
Year ended 30 September 2005					
Opening net book amount		7,242	183,809	-	191,051
Additions		3,007	-	-	3,007
Amortisation charge	(5)	(1,808)	-	-	(1,808)
Closing net book amount		8,441	183,809	-	192,250
At 1 October 2005					
Cost		13,007	183,809	-	196,816
Accumulated amortisation		(4,566)	-	-	(4,566)
Net book amount		8,441	183,809	-	192,250
Year ended 30 September 2006					
Opening net book amount		8,441	183,809	-	192,250
Acquisition of business		157	-	183	340
Additions		158	-	5,579	5,737
Amortisation charge	(5)	(2,044)	-	(73)	(2,117)
Closing net book amount		6,712	183,809	5,689	196,210
At 30 September 2006					
Cost		18,901	183,809	183	202,893
Accumulated amortisation		(6,610)	-	(73)	(6,683)
Net book amount		12,291	183,809	110	196,210

Notes to the Financial Statements

For the year ended 30 September 2006

17. Intangible assets (continued)

Company	Notes	Software \$'000	Goodwill \$'000	Other \$'000	Total \$'000
At 1 October 2004					
Cost		8,961	-	-	8,961
Accumulated amortisation		(1,781)	-	-	(1,781)
Net book amount		7,180	-	-	7,180
Year ended 30 September 2005					
Opening net book amount		7,180	-	-	7,180
Additions		3,029	-	-	3,029
Amortisation charge	(5)	(1,768)	-	-	(1,768)
Closing net book amount		8,441	-	-	8,441
At 1 October 2005					
Cost		11,989	-	-	11,989
Accumulated amortisation		(3,548)	-	-	(3,548)
Net book amount		8,441	-	-	8,441
Year ended 30 September 2006					
Opening net book amount		8,441	-	-	8,441
Additions		158	-	5,579	5,737
Amortisation charge	(5)	(2,031)	-	-	(2,031)
Closing net book amount		6,568	-	5,579	12,147
At 30 September 2006					
Cost		12,147	-	5,579	17,726
Accumulated amortisation		(5,579)	-	-	(5,579)
Net book amount		6,568	-	5,579	12,147

(a) Impairment tests for goodwill

Goodwill is not allocated to the Group's CGU's. Identified goodwill is managed on a group basis. Goodwill is therefore tested for impairment against forecasted group cash flows.

The recoverable amount of goodwill is determined based on value-in-use calculations. These calculations use cash-flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated growth rate as detailed below.

(b) Key assumptions used for value-in-use calculations

Key assumptions used within the impairment testing of goodwill include:

- discount rate of 10% representing a market based weighted average cost of capital
- growth rate of 2% representing inflation
- growth in budgeted gross margin rate of 2-3%

Management determined growth in budgeted gross margin based on past performance and its expectations for the future.

Notes to the Financial Statements

For the year ended 30 September 2006

		Consolidated		Company	
		2006	2005	2006	2005
	Notes	\$000	\$000	\$000	\$000
18. Deferred tax assets					
The balance comprises temporary differences attributable to:					
Doubtful debts provision		264	204	206	204
Employee entitlements provision		6,465	4,379	4,681	4,379
Retirement benefit obligations		1,189	1,436	1,189	1,436
Restructuring and rationalisation provision		5,654	5,612	5,654	5,612
Environmental provision		16,620	6,371	9,713	6,371
Other provisions		8,465	963	7,503	959
Inventories		2,631	1,316	1,407	1,316
Depreciation		482	1,879	475	1,869
Foreign exchange losses		182	47	60	47
Other		712	828	712	828
Share buy-back expenses		2,279	-	2,279	-
Cash flow hedges		2,237	-	2,237	-
Revaluation of property, plant and equipment		204	200	204	204
Unfavourable supplier contracts		20,244	-	-	-
Deferred tax assets		67,628	23,235	36,320	23,225
Set-off of deferred tax liabilities against deferred tax assets	(23)	(35,413)	(30,349)	(3,630)	(6,002)
Net deferred tax assets/(liabilities)		32,215	(7,114)	32,690	17,223
Movements:					
Opening balance at 1 October		23,235	18,429	23,225	15,051
Credited/(charged) to the income statement		6,914	4,608	5,575	4,734
Credited/(charged) to equity		7,203	(25)	7,203	(25)
Acquisition of subsidiary		29,959	-	-	-
Transfer of provisions from related entity		105	204	105	3,446
Under/(over) provision in prior years		212	19	212	19
Closing balance at 30 September		67,628	23,235	36,320	23,225

Notes to the Financial Statements

For the year ended 30 September 2006

		Consolidated		Company	
	Notes	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Trade and other payables					
Current					
Trade creditors					
external		259,600	194,067	232,480	194,067
entity subject to common control		-	900	-	900
wholly-owned controlled entity	(33)	-	-	160,643	117,509
		259,600	194,967	393,123	312,476
Sundry creditors and accrued charges					
external		14,455	5,658	14,213	18,851
entity subject to common control		-	74	-	74
wholly-owned controlled entity	(33)	-	-	93,804	75,396
unfavourable supplier contracts		8,543	-	-	-
		22,998	5,732	108,017	94,321
		282,598	200,699	501,140	406,797
Non-current					
Sundry creditors and accrued charges					
external		1,061	-	-	-
unfavourable supplier contracts		59,025	-	-	-
		60,086	-	-	-

Unfavourable Contracts

Unfavourable contracts were recognised as part of the SCF acquisition during the year. These amounts represent the difference between market and contractual rates at the time of acquisition and will be released to profit over the life of the contracts.

Significant terms and conditions

Trade creditors, including expenditures not yet billed, are recognised when the consolidated entity becomes obliged to make future payments as a result of a purchase of goods or services. Trade payables are normally settled within 62 days from invoice date month end or within the agreed payment terms with the supplier.

Net fair values

The directors consider that the carrying amount of trade creditors and other payables approximate their net fair values.

20. Other financial liabilities

Current

Derivative financial instruments					
Forward exchange contracts - cash flow hedges	(32)	144	-	144	-
Embedded derivative		5,539	-	5,539	-
		5,683	-	5,683	-

Non-Current

Derivative financial instruments					
Interest rate swaps - cash flow hedges	(32)	1,774	-	1,774	-
		1,774	-	1,774	-

Notes to the Financial Statements

For the year ended 30 September 2006

		Consolidated		Company	
	Notes	2006 \$000	2005 \$000	2006 \$000	2005 \$000
21. Interest bearing liabilities					
Current					
Unsecured					
other short term borrowings		7,103	-	7,103	-
other loans					
investment deposit scheme		-	12,514	-	12,514
	(32)	7,103	12,514	7,103	12,514
Non-current					
Unsecured					
other loans					
external - term facility		430,000	-	430,000	-
	(32)	430,000	-	430,000	-

Significant terms and conditions

Interest expense is recognised progressively over the life of the loan.

Net fair values

The directors consider the carrying amount of borrowings to approximate their net fair values.

Investment deposit scheme

Customers could invest funds with the Company in the Investment Deposit Scheme by way of unsecured notes issued under the prospectus dated 24 December 2004, as lodged with ASIC. The interest rate offered was 5.75%. The prospectus was effective until January 2006.

Term facility

The term facility matures in July 2011 and is repayable in whole or in part at the discretion of the Company. Part repayments constitute a cancellation of the facility for the amount repaid and thus cannot be redrawn.

22. Provisions

Current					
Employee entitlements		11,234	6,585	7,190	6,585
Restructuring and rationalisation		23,715	20,218	23,715	20,218
Environmental		10,607	16,428	10,607	16,428
Other		1,922	482	301	482
		47,478	43,713	41,813	43,713
Non-current					
Employee entitlements		10,314	8,012	8,413	8,012
Restructuring and rationalisation		10,670	-	10,670	-
Environmental		44,777	4,809	21,754	4,809
		65,761	12,821	40,837	12,821
Aggregate employee entitlements					
Current		11,234	6,585	7,190	6,585
Non-current		10,314	8,012	8,413	8,012
		21,548	14,597	15,603	14,597

The present values of employee entitlements not expected to be settled within twelve months of balance date have been calculated using the following assumptions:

Assumed rate of increase in wage and salary rates
Average discount rate
Settlement term

4% + age based scale

5.8%

10 years

Employees at year end	Number	Number	Number	Number
Full time equivalent	1,051	740	762	740

Notes to the Financial Statements

For the year ended 30 September 2006

22. Provisions (continued)

Reconciliations

Reconciliations of the carrying amounts of provisions at the beginning and end of the current financial year are set out below.

	Notes	Consolidated \$000	Company \$000
Current Provision - Dividends			
Carrying amount at the beginning of the financial year		-	-
Provisions made during the year	(27)	41,962	41,962
Payments made during the year	(27)	(41,962)	(41,962)
Carrying amount at the end of the financial year		-	-
Current Provision - Restructuring and rationalisation			
Carrying amount at the beginning of the financial year		20,218	20,218
Provisions made during the year	(5)	21,663	21,663
Transfers		1,099	1,099
Payments made during the year		(19,265)	(19,265)
Carrying amount at the end of the financial year		23,715	23,715
Current Provision - Environmental			
Carrying amount at the beginning of the financial year		16,428	16,428
Provisions made during the year	(5)	3,796	3,796
Transfers		(99)	(99)
Payments made during the year		(9,518)	(9,518)
Carrying amount at the end of the financial year		10,607	10,607
Current Provision - Other			
Carrying amount at the beginning of the financial year		482	482
Additions through acquisition of entities (see note 28)		1,621	-
Provisions written back during the year		(181)	(181)
Carrying amount at the end of the financial year		1,922	301
Non-Current Provision - Restructuring and rationalisation			
Carrying amount at the beginning of the financial year		-	-
Provisions made during the year	(5)	3,159	3,159
Transfers		7,511	7,511
Carrying amount at the end of the financial year		10,670	10,670
Non-Current Provision - Environmental			
Carrying amount at the beginning of the financial year		4,809	4,809
Additions through acquisition of entities (see note 28)		22,840	-
Provisions made during the year	(5)	24,694	24,511
Transfers		(8,511)	(8,511)
Unwinding of discount		945	945
Carrying amount at the end of the financial year		44,777	21,754

See note 1 xvi for further details on each provision noted above.

Notes to the Financial Statements

For the year ended 30 September 2006

	Notes	Consolidated		Company	
		2006	2005	2006	2005
		\$000	\$000	\$000	\$000
23. Deferred tax liabilities					
The balance comprises temporary differences attributable to:					
Inventories		1,667	1,767	1,284	1,767
Depreciation		16,690	13,183	-	-
Intangible assets		1,668	1,131	1,635	1,131
Financial assets at fair value		-	2,171	-	2,171
Other		310	933	300	933
Cash flow hedges		411	-	411	-
Revaluation of property, plant and equipment		14,667	11,164	-	-
Deferred tax liabilities		35,413	30,349	3,630	6,002
Set-off of deferred tax assets against deferred tax liabilities	(18)	(67,628)	(23,235)	(36,320)	(23,225)
Net deferred tax (assets)/liabilities		(32,215)	7,114	(32,690)	(17,223)
Movements:					
Opening balance at 1 October		30,349	30,209	6,002	4,526
Charged/(credited) to the income statement		(8,290)	136	(2,977)	1,476
Charged/(credited) to equity		605	4	605	-
Acquisition of subsidiary		12,749	-	-	-
Closing balance at 30 September		35,413	30,349	3,630	6,002

Notes to the Financial Statements

For the year ended 30 September 2006

24. Retirement Benefit Obligation

(a) Plan Information

The Company is a sponsoring employer of the Flexible Benefits Super Fund, a defined benefit superannuation fund which consists of a defined contribution section of membership as well as a defined benefit section. The Fund also pays pensions to a number of pensioners. The following sets out details in respect of the defined benefit section only.

	Consolidated/Company	
(b) Reconciliation of the present value of the defined benefit obligation	2006 \$'000	2005 \$'000
Present value of defined benefit obligations at beginning of the year	75,314	76,361
Current service cost	2,567	2,961
Interest cost	4,444	4,408
Actuarial losses	2,479	4,093
Contributions by plan participants	1,338	1,614
Benefits paid	(10,340)	(13,457)
Distributions	(670)	(666)
Present value of defined benefit obligations at end of the year	75,132	75,314
(c) Reconciliation of the fair value of plan assets		
Fair value of plan assets at beginning of the year	71,641	72,618
Expected return on plan assets	4,810	4,902
Actuarial gains	3,270	4,609
Employer contributions	2,199	2,021
Contributions by plan participants	1,338	1,614
Benefits paid	(10,340)	(13,457)
Distributions	(670)	(666)
Present value of defined benefit obligations at end of the year	75,132	75,314
(d) Reconciliation of assets and liabilities recognised in the balance sheet		
Present value of funded defined benefit obligations at end of year	75,132	75,314
Fair value of plan assets at end of year	(72,248)	(71,641)
Deficit in plan	2,884	3,673
Tax provision	509	648
Net Liability recognised in balance sheet at end of year	3,393	4,321
Amounts in the balance sheet:		
Liabilities	3,392,941	4,321,176
(Assets)	-	-
Net Liability / (Asset) recognised in balance sheet at end of year	3,392,941	4,321,176
(e) Expense recognised in income statement		
Current service cost	2,567	2,961
Interest cost	4,444	4,408
(Expected return on plan assets)	(4,810)	(4,902)
Adjustment for tax provision	(17)	(14)
Expense recognised in income statement	2,184	2,453
(f) Amounts recognised in the statement of recognised income and expense		
Actuarial (gains)/losses	(929)	(81)
(g) Cumulative amount recognised in the statement of recognised income and expense		
Cumulative amount of actuarial (gains)/losses	(1,010)	(81)

Notes to the Financial Statements

For the year ended 30 September 2006

24. Retirement Benefit Obligation (continued)

(h) Plan Assets

The percentage invested in each asset class at the reporting date:

Equities	48%	49%
Fixed Interest Securities	21%	24%
Property	11%	10%
Cash and Net Current Assets	10%	10%
Other	10%	7%

Fair value of plan assets

The fair value of plan assets includes no amounts relating to:

- any of the Company's own financial instruments
- any property occupied by, or other assets used by, the Company.

Expected rate of return on plan assets

The overall expected rate of return on assets assumption is determined by weighting the expected long-term rate of return for each asset class by the target allocation of assets to each class. The rates of return used for each class are net of investment tax and investment fees.

	2006 \$'000	Consolidated/Company 2005 \$'000
Actual return on plan assets	8,080	9,511

(i) Principal actuarial assumptions at the reporting date

Discount rate (net of tax)	4.80%	4.60%
Expected rate of return on plan assets	7.00%	7.00%
Future salary increases	4% + age based scale	4% + age based scale
Future inflation	2.50%	2.50%

(j) Historical Information

Present value of defined benefit obligation	75,132	75,314
(Fair value of plan assets)	(72,248)	(71,641)
(Surplus)/Deficit in plan	2,884	3,673
Experience adjustments arising on plan liabilities	(2,891)	(4,093)
Experience adjustments arising on plan assets	3,270	4,609

(k) Expected Contributions

	30 September 2007
Expected employer contributions	2,167,000
Expected contribution by plan participants	777,000

(l) Funding of the Fund

The table below shows the surplus/deficit of the Flexible Benefits Super Fund that relates to members and pensioners who are current and former employees of the Company, as determined in accordance with AAS 25 *Financial Reporting by Superannuation Plans*. These figures (rather than those disclosed above) are calculated for funding purposes and are used to determine the required level of company contributions.

The effective date of the amounts shown is 30 June 2003.	\$'000
Net market value of assets	73,632
Accrued benefits	(75,490)
Surplus/(deficit)	(1,858)

Notes to the Financial Statements

For the year ended 30 September 2006

24. Retirement Benefit Obligation (continued)

Employer Contributions

In the most recent actuarial review of the Fund, the Fund Actuary recommended that the Company make contributions to the Fund at the rate of 12.5% of salaries of the defined benefit members of the Fund and additional lump sum contributions.

The contribution rate recommendations described above were determined using a variation of the Attained Age Normal funding method. Under the Attained Age Method, a "normal cost" is calculated which is the estimated company contribution rate required to provide benefits in respect of future service (i.e. service in respect of the period after the investigation date). The normal cost ignores any excess or shortfall of assets over accrued liabilities. The "normal" cost is then adjusted to take into account any surplus (or deficiency) of assets over liabilities in respect of service prior to the investigation date. Any surplus or deficiency can be used to reduce or increase the "normal" Company contribution rate over a suitable period of time.

As part of the actuarial review of the Fund as at 30 June 2003, the Fund Actuary recommended that the Company contribute at the "normal" rate, plus additional lump sum contributions to ensure that the Fund remains in a satisfactory financial position.

The economic assumptions used to make the contribution recommendations at the last actuarial valuation of the fund as at 30 June 2003 were:

Expected Return on assets	8% pa
Salary increase rate	5% pa

The Flexible Benefits Super Fund imposes a legal liability on the Company to cover any deficit that exists in the Fund. If the Fund were wound up, there would be a legal obligation on the Company to make good any shortfall.

Under the Fund's Trust deed, the Company contribution rate in respect of defined benefit members is determined by the Company, having regard to the report of the Actuary.

The Company may benefit from any surplus in the Fund in the form of a contribution reduction or contribution holiday. Any reduction in contributions would normally be implemented only after advice from the Fund's Actuary.

	Consolidated/Company	
	2006	2005
	\$'000	\$'000

25. Issued Capital

Share Capital

Ordinary shares authorised and issued - 50,423,885 (2005 - 58,281,027) ⁽¹⁾

	360,797	532,445
	360,797	532,445

Movements in issued and fully paid ordinary shares of the Company during the financial year:

Date	Details	Number of Shares	\$'000
30 September 2005	Balance at the beginning of the financial year	58,281,027	532,445
11 July 2006	Shares bought back on market and cancelled		
	7,857,142 (2005: Nil) shares	(7,857,142)	(165,000)
	Buy-back transaction costs	-	(9,497)
	Deferred tax credit recognised directly in equity	-	2,849
30 September 2006	Balance at the end of the financial year	50,423,885	360,797

Share buy-back

On 11 July 2006, the Company purchased and cancelled 7,857,142 ordinary shares, representing 13.5% of ordinary shares on issue on that date, under the terms of a Buy-Back Agreement dated 9 May 2006. The share buy-back and cancellation were approved by shareholders at the General Meeting held on 6 July 2006. The shares were acquired at a price of \$21 per share. The total cost of \$171.6 million, including \$6.6 million of after tax transaction costs, was deducted from shareholder equity.

There is no current on-market buy-back.

Terms and conditions

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

⁽¹⁾ Ordinary shares authorised and issued have no par value.

Notes to the Financial Statements

For the year ended 30 September 2006

	Notes	Consolidated		Company	
		2006	2005	2006	2005
		\$000	\$000	\$000	\$000
26. Reserves and retained earnings					
Reserves					
Share-based payments		(6,547)	(1,524)	-	-
Cash flow hedging		718	-	718	-
Reserves at the end of the financial year		(5,829)	(1,524)	718	-
Movement in reserves during the financial year					
Share-based payments					
Balance at the beginning of the financial year		(1,524)	(2,781)	-	-
Option expense		243	227	-	-
Options forfeited		-	438	-	-
Loan repayments		459	592	-	-
Shareholder loans		(5,725)	-	-	-
Balance at the end of the financial year		(6,547)	(1,524)	-	-
Cash Flow Hedging Reserve					
Balance at the beginning of the financial year		-	-	-	-
Recognition of fair value of cash flow hedging instruments upon adoption of AASB 139		4,279	-	4,279	-
Balance at the beginning of the financial year restated		4,279	-	4,279	-
Changes in fair value of cash-flow hedges		(4,209)	-	(4,209)	-
Losses transferred to income statement		648	-	648	-
Balance at the end of the financial year		718	-	718	-
Movement in retained earnings during the financial year					
Retained earnings at the beginning of the financial year		29,045	84,588	47,137	107,513
Recognition of fair value of embedded derivative upon adoption of AASB 139		(9,466)	-	(9,466)	-
Retained earnings at the beginning of the financial year restated		19,579	84,588	37,671	107,513
Profit after income tax		46,662	14,492	71,529	9,655
Less dividends paid					
2004 Final and final special dividend	(27)	-	(58,281)	-	(58,281)
2005 Interim and interim special dividend	(27)	-	(12,239)	-	(12,239)
2005 Final special dividend	(27)	(29,140)	-	(29,140)	-
2006 Interim dividend	(27)	(12,822)	-	(12,822)	-
Share-based payment transactions					
Dividends received as loan repayment		98	228	98	228
Deferred tax adjustment on revaluation of property, plant and equipment		-	200	-	204
Actuarial gains on defined benefit plans		650	57	650	57
Retained earnings at the end of the financial year		25,029	29,045	67,985	47,137

Share-based payments reserve: The share-based payments reserve represents the amount receivable from employees in relation to non-recourse loans for shares issued under long term incentive plans.

Hedging reserve: The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Notes to the Financial Statements

For the year ended 30 September 2006

	Company	
	2006	2005
	\$000	\$000

27. Dividends

Dividends paid or declared in respect of the year ended 30 September were:

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
Interim dividend of 15 cents per share, fully franked at 30%, paid 7 July 2005	-	8,742
Interim special dividend of 6 cents per share, fully franked at 30%, paid 7 July 2005	-	3,497
November 2005 special dividend of 50 cents per share, fully franked at 30%, paid 9 January 2006	29,140	-
Interim dividend of 22 cents per share, fully franked at 30%, paid 9 June 2006	12,822	-
Total ordinary share dividends paid in cash	41,962	70,520

Redeemable preference shares

Quarterly dividend at 5.36% per share unfranked paid in cash on

27 November 2004	-	737
Total redeemable preference share dividends paid in cash	-	737
Total dividends paid in cash	41,962	71,257

Subsequent event

Since the end of the financial year, the directors have declared the following dividends:

Ordinary shares

November 2005 special dividend of 50 cents per share fully franked at 30% payable on 9 January 2006	29,140
Final dividend of 81 cents per share, fully franked at 30%, paid on 13 December 2006	40,843

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

Franking credits

Franking credits available to shareholders of the Company of \$24,275,870 (2005 \$14,267,909) at the 30% (2005 at 30%) corporate tax rate after allowing for tax payable in respect of the current year's profit. 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 year ended 30 September 2006

28. Business combination

a) Summary of acquisition

On 1 August 2006, the consolidated entity acquired all the shares in Southern Cross Fertilisers Pty Limited (SCF) for \$155.3 million, including \$6.4 million of transaction costs. The company manufactures and distributes ammonium phosphate fertilisers.

SCF contributed revenues of \$54.9 million and net profit after tax of \$7.4 million for the period from 1 August 2006 to 30 September 2006. If the acquisition had occurred on 1 October 2005, consolidated revenue and consolidated profit/(loss) for the year ended 30 September 2006 would have been \$1,347 million and \$96 million respectively. These amounts have been calculated using the consolidated entity's accounting policies and by adjusting the results of SCF to reflect lower depreciation charges assuming the fair value adjustments to property, plant and equipment had applied from 1 October 2005, together with the consequential tax effects.

	Consolidated 2006 \$000	2005 \$000	Company 2006 \$000	2005 \$000
b) Purchase consideration				
Consideration paid, satisfied in cash	155,292	-	155,292	-
Plus/(less) cash acquired	37	-	-	-
Net cash outflow	155,329	-	155,292	-

c) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount \$'000	Fair value ⁽¹⁾ adjustments \$'000	Fair Value \$'000
Acquiree's net assets at the acquisition date			
Cash and cash equivalents	(37)	-	(37)
Trade and other receivables	44,928	(192)	44,736
Inventories	32,772	3,109	35,881
Property, plant and equipment	489,434	(291,055)	198,379
Deferred Tax Assets	9,517	20,442	29,959
Trade, other payables and other provisions	(41,485)	(1,621)	(43,106)
Provision for site restoration and mine rehabilitation	(18,618)	(4,222)	(22,840)
Deferred Tax liabilities	(46,413)	33,665	(12,748)
Provision for employee entitlements	(6,233)	248	(5,985)
Intangible assets	157	183	340
Unfavourable Contracts	-	(68,140)	(68,140)
Other liabilities	-	(1,147)	(1,147)
Net identifiable assets and liabilities	464,022	(308,730)	155,292
Less consideration paid in cash			155,292
Goodwill/discount on acquisition recognised			-

⁽¹⁾ The fair value of assets and liabilities acquired have been accounted for provisionally in line with AASB 3 *Business Combinations*. Adjustments will be required to the fair value of assets and liabilities accounted for at acquisition date if further information is identified within 12 months of acquisition which provides better evidence of the item's fair value.

Notes to the Financial Statements

For the year ended 30 September 2006

	Notes	Consolidated		Company	
		2006	2005	2006	2005
		\$000	\$000	\$000	\$000
29. Reconciliation of profit after income tax to net cash inflow from operating activities					
Reconciliation of cash					
Cash at the end of the financial year as shown in the Cash Flow Statements is reconciled to the related items in the Balance Sheets as follows:					
Cash	(10)	161,658	3,351	161,252	3,351
		161,658	3,351	161,252	3,351
Reconciliation of profit for the financial year to net cash flows from operating activities					
Profit for the financial year		46,662	14,492	71,529	9,655
Depreciation and amortisation	(5)	33,145	30,486	11,878	11,203
(Decrease)/increase in net interest payable		1,685	(81)	1,759	165
Unrealised gain on listed investment	(4)	-	(7,236)	-	(7,236)
Write-down of property, plant and equipment (individually material items)	(5)	5,038	11,842	5,038	11,842
Net (profit)/loss on sale of property, plant and equipment	(4)	(2,971)	(494)	(2,971)	(494)
Net (profit)/loss on investment	(4)	(9,459)	-	(9,459)	-
Non-cash share based payment transactions		251	-	251	-
Right to receive rock		(5,579)	-	(5,579)	-
Unwinding of discount on provisions		730	-	548	-
Changes in assets and liabilities					
(increase)/decrease in receivables and other assets		72,137	49,133	966	34,803
(increase)/decrease in inventories		135	(25,740)	(4,726)	(25,740)
increase/(decrease) in deferred taxes payable		(2,772)	(4,491)	(32,186)	6,654
increase/(decrease) in financial instruments		(7,336)	-	(7,336)	-
increase/(decrease) in payables and provisions		54,565	15,986	138,018	26,696
increase/(decrease) in income taxes payable		2,479	(12,176)	15,228	2,855
Net cash flows from operating activities		188,710	71,721	182,958	70,403

Notes to the Financial Statements

For the year ended 30 September 2006

	Consolidated		Company	
	2006	2005	2006	2005
	\$000	\$000	\$000	\$000
30. Commitments				
a) Capital expenditure commitments				
Capital expenditure on property, plant and equipment contracted but not provided for and payable:				
no later than one year	1,892	3,313	1,892	3,313
	1,892	3,313	1,892	3,313
b) Lease commitments				
Lease commitments comprise a number of operating lease arrangements for the provision of certain equipment. These leases have varying durations, with expiry dates from 2007 to 2014. The future minimum rental commitments are as follows:				
no later than one year	28,078	10,811	11,017	10,811
later than one, no later than five years	63,686	25,609	28,753	25,609
later than five years	48,762	41,205	35,787	41,205
	140,526	77,625	75,557	77,625
Representing				
non-cancellable operating leases	140,526	77,625	75,557	77,625
	140,526	77,625	75,557	77,625
c) Other expenditure commitments				
Commitments for payments to suppliers under long-term executory contracts existing at balance date but not recognised as payable include:				
no later than one year	62,980	-	-	-
later than one, no later than five years	250,163	-	-	-
later than five years	358,433	-	-	-
	671,576	-	-	-

Notes to the Financial Statements

For the year ended 30 September 2006

31. 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.

Contracts, claims, guarantees and warranties

- Under a Deed of Cross Guarantee dated 9 September 2005 (as varied by an Assumption Deed dated 28 September 2006) both entered into in accordance with AS Class Order 99, each company which is party to the Deed has covenanted with the Trustee (or the Alternative Trustee as applicable) 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 entities which are party to the Deed are disclosed in note 3 Investment in controlled entities.
- A consolidated balance sheet and income statement for this closed group is shown in note 3, Deed of Cross Guarantee.
- 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.
- There are a number of 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.
- Contracts of sale covering companies and businesses, which were divested in current and 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. Controlled entities have 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

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(i)) 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.

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(i).

Cockle Creek (NSW)

The site at Cockle Creek (owned by Incitec Fertilisers 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 Basmenco 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 Basmenco Cockle Creek Smelter Pty Ltd (in administration) in relation to this site. An environmental provision has been recognised in respect of this site.

Notes to the Financial Statements

For the year ended 30 September 2006

31. Contingent liabilities (continued)

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.

Other environmental matters

For sites where there are significant uncertainties with respect to what the consolidated entity'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 11(i) no amounts have been expensed capitalised or provided for.

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.

32. Derivative financial instruments

The Consolidated entity uses several techniques to reduce the exposure to loss from financial risks. The major types of risks are:

- A. Foreign exchange risk
- B. Interest rate risk
- C. Liquidity risk
- D. Credit risk.

A. Foreign exchange risk management

Foreign exchange transaction risk management

The Consolidated entity is exposed to foreign exchange movements on sales and purchases denominated, either directly or indirectly, in foreign currencies. Where these exposures are significant and cannot be eliminated by varying contract terms or other business arrangements, formal hedging strategies are implemented within policy guidelines. The formal hedging strategies involve collating and consolidating exposures centrally, and hedging specific transactions, after taking into account offsetting exposures, by entering into derivative contracts with entities subject to common control and external parties in the financial markets. The derivative instruments used for hedging purchase and sales exposures are option contracts and forward contracts.

The table below outlines the forward foreign exchange contracts taken out to hedge committed purchases and sales denominated in foreign currencies.

Term	Weighted average rate		Forward FX Contract	
	2006	2005	2006	2005
	\$	\$	A\$000	A\$00
Buy dollars / sell Australian dollars				
More than one year	0.7461	0.769	150,190	00025

Notes to the Financial Statements

For the year ended 30 September 2006

32. Derivative financial instruments (continued)

A. Foreign exchange risk management (continued)

The profitability of the principal nitrogen manufacturing facility located at Gibson Island is impacted by foreign exchange movements due to the manufactured inputs (gas, electricity, labour) being Australian dollar linked, whilst the manufactured outputs (urea and ammonia) are sold on a United States dollar import parity basis.

The Company has bought a series of AUD Call/USD Put vanilla European options. The amount of the exposure hedged progressively reduces in future periods in line with guidelines set out by the Board of Directors. The premiums paid along with any unrealised gains are carried forward in the Balance Sheets and will be recognised in the Income Statements at the time the underlying transactions occur. All costs associated with these contracts have been incurred. Favourable outcomes will occur when the exchange rate at maturity is higher than the strike rate established at the inception of the hedge. These contracts allow full participation in favourable outcomes resulting from decreases in the AUD/USD exchange rate, but limit the unfavourable outcomes resulting from AUD/USD exchange rate increases.

These contracts are timed to mature in quarterly intervals to match anticipated sales of product manufactured at this facility over the following years subject to limits approved by the Board of Directors. The amount of anticipated future sales is forecast in light of plant capacities, current conditions in domestic agricultural and industrial markets, commitments from customers and historical seasonal impacts. All sales from the start of each quarter are designated as being hedged until all hedge contracts are fully utilised.

The table below summarises the vanilla option contracts taken out to hedge sales of the output of the Gibson Island plant.

Term	Weighted average AUD/USD strike rate		Contract amounts	
	2006	2005	2006	2005
	\$	\$	US\$000	US\$000
Not later than one year	0.6789	0.6824	15,000	30,000
Later than one year but not later than two years	-	0.6789	-	15,000
Total			15,000	45,000

(1) Vanilla options represent basic foreign currency options where the buyer has the option but no obligation to purchase currency on maturity. The option would only be exercised if the rate was favourable to the strike rate.

Foreign exchange translation risk management

The consolidated entity has no foreign operations and therefore is not exposed to translation risk resulting from foreign exchange rate movements impacting on the AUD equivalent value of self-sustaining foreign operations.

B. Interest rate risk management

The consolidated entity is exposed to interest rate risk on outstanding interest bearing liabilities and investments. The mix of floating and fixed rate debt is managed within guidelines determined by the Board of Directors.

The consolidated entity's interest rate risk arises from long term borrowings. During the year, long term borrowing have been acquired to finance the share buyback transaction and acquisition of SCF. Borrowings issued at variable rates expose the entity to interest rate risk. The consolidated entity manages its interest rate risk by using floating to fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the entity agrees with other parties to exchange, at specified intervals (either quarterly or semi-annually), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

The notional principal amounts and periods of expiry of these interest rate swap contracts are as follows:

	2006 \$'000	2005 \$'000
Not later than one year	-	-
Later than one year but no later than five years	300,000	-
Fixed interest rate range p.a.	6.37% - 6.45%	N/A
Floating interest rate range p.a.	6.23% - 6.28%	5.10% - 5.79%

Notes to the Financial Statements

For the year ended 30 September 2006

32. Derivative financial instruments (continued)

B. Interest rate risk management (continued)

The consolidated entity's exposure to interest rate risk and the weighted average effective interest rates on financial assets and liabilities at balance date are:

			Fixed interest rates				
		Floating interest rate	1 year or less	1 to 5 years	5 years or more	Non- interest bearing	Total
	Notes	\$000	\$000	\$000	\$000	\$000	\$000
30 September 2006							
Cash and cash equivalents	(10)	161,658	-	-	-	-	161,658
Trade and other receivables	(11)	-	-	-	-	121,709	121,709
Total financial assets		161,658	-	-	-	121,709	283,367
Weighted average effective interest rate ⁽¹⁾		5.92%	-	-	-	-	-
Trade and other payables	(19)	-	-	-	-	(342,684)	(342,684)
Interest bearing liabilities	(21)	(437,103)	-	-	-	-	(437,103)
Total financial liabilities		(437,103)				(342,684)	(779,787)
Net hedging activity ⁽²⁾		300,000	-	(300,000) ⁽³⁾	-	-	-
Net financial liabilities including hedging activities		(137,103)	-	(300,000) ⁽³⁾	-	(342,684)	(779,787)
Weighted average effective interest rate (after hedging activities)		6.22%	-	6.415%	-	-	-
Net financial assets/(liabilities)		24,555	-	(300,000)	-	(220,975)	(496,420)
30 September 2005							
Cash and cash equivalents	(10)	3,191	-	-	-	160	3,351
Trade and other receivables	(11)	-	-	-	-	77,534	77,534
Investment in listed entity	(14)	-	-	-	-	12,341	12,341
Total financial assets		3,191	-	-	-	90,035	93,226
Weighted average effective interest rate ⁽¹⁾		5.53%					
Trade and other payables	(19)	-	-	-	-	(200,699)	(200,699)
Interest bearing liabilities	(21)	(12,514)	-	-	-	-	(12,514)
Total financial liabilities		(12,514)	-	-	-	(200,699)	(213,213)
Weighted average effective interest rate ⁽¹⁾		5.54%	-	-	-	-	-
Net financial assets/(liabilities)		(9,323)	-	-	-	(110,664)	(119,987)

(1) Weighted average effective interest rate includes funding at local rates achieved.

(2) Net hedging activity represents the net impact on the Company's interest exposures from the utilisation of derivative financial instruments to hedge the Company's interest rate exposures i.e. interest rate swaps.

(3) Interest rate swaps held as at 30 September 2006 matures during August 2009.

C. Liquidity risk management

Liquidity risk arises from the possibility that a market for derivatives may not exist in some circumstances. To counter this risk, the consolidated entity deals only in derivatives in highly liquid markets.

D. Credit risk management

Credit risk represents the loss that would be recognised if counterparties failed to meet their obligations under the contract or arrangement. The major exposure to credit risk arises from trade receivables which have been recognised in the Balance Sheets net of any impairment losses (see note 11, Trade and other receivables) and from derivative financial instruments.

Notes to the Financial Statements

For the year ended 30 September 2006

32. Derivative financial instruments (continued)

The credit risk exposure arising from derivative financial instruments is the sum of all contracts with a positive replacement cost. As at 30 September 2006, the sum of all contracts with a positive replacement cost was \$1.0m (2005 \$2.3m).

Net fair values of financial assets and liabilities

On-balance sheet financial instruments

The directors consider that the carrying amount of recognised financial assets and liabilities approximates their net fair values.

Fair values of monetary financial assets and financial liabilities not readily traded in an organised financial market are determined by valuing them at the present value of contractual future cash flows on amounts due from customers, reduced for expected credit losses, or amounts due to suppliers. Cash flows are discounted using standard valuation techniques at the applicable market yield having regard to the timing of the cash flows.

Off-balance sheet financial instruments

The net fair values of the consolidated entity's unrecognised financial assets and liabilities at balance date are:

	Net fair value	
	2006 \$000	2005 \$000
Foreign exchange option contracts	-	6,486

Net fair values of unrecognised financial instruments are determined according to the estimated amounts which the consolidated entity would be expected to pay or receive to terminate the contracts. These values are determined using standard valuation techniques.

33. Related party disclosures

Controlling entities

Until 9 May 2006, the immediate parent entity was Orica IC Assets Ltd and the ultimate parent entity was Orica Limited (Orica), both incorporated in Australia. On 10 May 2006, Orica sold 32,939,577 shares of the Company into the market via an institutional placement for \$21 per share. From that date the Company does not have an immediate or ultimate parent entity.

Subsidiaries

Interest in subsidiaries is set out in note 36.

Key management personnel

Disclosures relating to key management personnel are set out in note 34.

Transactions with wholly owned controlled entities

Transactions between the Company and entities in the wholly owned group during the year included:

- Effective 1 November 2003, the Company was appointed as undisclosed agent for Incitec Fertilizers Limited. The Company manages certain operations of Incitec Fertilizers Limited, including manufacturing, marketing, selling, invoicing and distribution, and has assumed management of working capital. Incitec Fertilizers Limited has invoiced the Company for fertiliser sales made on its behalf, net of variable costs and amount to \$110,003,398 (2005 \$102,036,700). Fixed costs incurred by the Company in the performance of its obligations amounting to \$58,778,540 (2005 \$50,437,000) have been charged to Incitec Fertilizers Limited.
- Incitec Fertilizers Limited declared and paid an interim dividend to the Company of \$11,446,000 (2005 \$2,000,000) and declared a final dividend on 30 September 2006 of \$57,900,000 (2005 \$32,000,000). This dividend is eliminated on consolidation.
- Management fees were received and paid by the Company for accounting and administrative assistance on normal commercial terms and conditions and in the ordinary course of business.
- The Company's tax balances include the wholly-owned controlled entities tax related balances and the net tax balance as at 30 September 2006 was \$13,570,848 (2005 \$17,243,000).
- Effective 1 August 2006, the Company completed the acquisition of SCF. The Company manages operations of SCF. For the two months ended 30 September 2006, SCF sold fertiliser to the Company to the value of \$13,083,000 and invoiced the Company for salary and travel charges to the value of \$2,051,520. For the two month period, the Company invoiced SCF for insurance and corporate charges to the value of \$2,000,000. At 30 September 2006, SCF had an inter-company receivable from the Company of \$11,532,000. This is eliminated on consolidation.

Notes to the Financial Statements

For the year ended 30 September 2006

33. Related party disclosures (continued)

Transactions with other related parties

All transactions with other related parties are made on normal commercial terms and conditions and in the ordinary course of business, unless otherwise stated. Transactions during the year until effective date of separation from Orica (10 May 2006) were:

- Sales of products (mainly urea and sulphuric acid) to the value of \$22,340,000 (2005 \$38,435,000) to Orica Australia Pty Ltd.
- Sulphuric acid is purchased by the Company jointly with a common controlled entity, Orica Australia Pty Ltd. Accordingly the product is transferred to Orica Australia Pty Ltd at a zero margin. Total zero margin sales of sulphuric acid to Orica Australia Pty Ltd were \$4,953,028 (2005 \$6,442,000).
- Under various service level agreements, fees of \$5,977,051 (2005 \$6,337,000) were received or receivable by the Company from Orica Australia Pty Ltd.
- Purchases of products and services to the value of \$4,378,487 (2005 \$14,606,000) from Orica Australia Pty Ltd.
- Under a service level agreement, fees of \$5,914,227 (2005 \$9,597,000) were paid/payable to the ultimate parent entity in relation to accounting, information technology, engineering and administrative services.
- Interest expense paid or payable by the Company for money borrowed from Orica Finance Limited was \$4,712,120 (2005 \$8,069,000).
- Interest income received or receivable by the Company for money lent to Orica Finance Limited was \$nil (2005 \$246,000)
- Under the terms and conditions of the merger implementation deed, Orica Limited contributed \$nil (2005 \$1,300,000) to the corporate costs of the Company. The corporate cost contribution agreement ceased 31 May 2005.
- Insurance cover was purchased from Curasalus Pty Limited, a wholly owned subsidiary of Orica Limited on normal terms and conditions to the value of \$10,127,420 for the year ended 30 September 2006 (2005 \$13,800,000).
- Insurance claims were received or receivable from Curasalus Pty Limited, a wholly owned subsidiary of Orica Limited on normal terms and conditions to the value of \$2,000,000 (2005 \$2,600,000).

Additional related party disclosures

Additional relevant related party disclosures are shown throughout the notes to the financial statements as follows:

Interest income and expense	notes 4, 5
Cash and cash equivalents	note 10
Trade and other receivables	note 11
Investments in controlled entities	notes 14, 36
Trade and other payables	note 19
Interest bearing liabilities	note 21
Key management personnel disclosures	note 34

Notes to the Financial Statements

For the year ended 30 September 2006

34. Key management personnel disclosures

(a) Key Management Personnel

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Non-executive directors	
J C Watson	Chairman
J R Chesterfield ⁽¹⁾	
B Healey	
A C Larkin	
A D McCallum	
Executive directors	
J Segal ⁽²⁾	Managing Director and Chief Executive Officer
J E Fazzino	Finance Director and Chief Financial Officer
Executives	
K J Gleeson	General Counsel & Company Secretary
D A Roe	General Manager Strategy & Business Development
A Cleland ⁽³⁾	General Manager Strategy & Marketing
B C Walsh	General Manager Operations
A Grace ⁽⁴⁾	General Manager SCF Integration
J D Whiteside ⁽⁴⁾	General Manager Supply Chain & Trading
M Drew ⁽⁴⁾	General Manager Sales & Customer Service

- (1) Mr Chesterfield resigned from the position of non-executive director on 11 July 2006.
- (2) Mr Segal was seconded to Incitec Pivot from Orica Limited on 3 June 2005 and was appointed as a director of Incitec Pivot. Mr Segal resigned from Orica Limited effective 9 May 2006 and entered into an agreement with Incitec Pivot Limited dated 29 May 2006.
- (3) Ms Cleland was seconded to Incitec Pivot Limited on 6 June 2005 pursuant to her employment agreement with Orica Limited. Ms Cleland completed her secondment from Orica effective 30 September 2006.
- (4) The following executives were appointed to the Executive Team on the dates as noted: Mr Grace (1 June 2006), Mr Whiteside (22 June 2006), Mr Drew (1 August 2006).

All of the above persons were also key management persons during the year ended 30 September 2005, except for Mr Grace, Mr Whiteside and Mr Drew.

Notes to the Financial Statements

For the year ended 30 September 2006

34. Key management personnel disclosures (continued)

(b) Key management personnel compensation

The key management personnel compensation included in the income statement line "Employee Expenses" are as follows:

	Consolidated/Company	
	2006	2005
	\$	\$
Short-term employee benefits	7,093,529	3,645,458
Post-employment benefits	127,372	157,382
Other long-term benefits	-	-
Termination benefits	-	549,737
Share-based payments	120,929	125,246
	<u>7,341,830</u>	<u>4,477,823</u>

Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 and 2M.6.04 is provided in the Remuneration Report which is included in the Directors' report on pages 20 to 35. Disclosures of remuneration policies, service contracts and details of remuneration are included in the Remuneration Report on pages 23 to 28.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

Notes to the Financial Statements

For the year ended 30 September 2006

34. Key management personnel disclosures (continued)

(c) Loans to key management personnel and their related parties

No loans have been granted to directors and other key management personnel and their related parties with the exception of loans granted under the terms and conditions of the LTI Performance plan 2003/06 for the three year period 1 October 2003 to 30 September 2006 and the loan provided to Mr Segal by way of a Retention Award. Details of loans made to executive directors of Incitec Pivot Limited and other key management personnel of the consolidated entity, including their personally related parties, are set out below:

		Opening balance \$	Loan advanced during the year \$	Interest paid and payable during the year \$	Amount repaid during the year \$	Amount of loan forgiven \$	Closing balance \$	Highest indebtedness \$	Interest not charged \$
Directors									
- Current									
J Segal	2006	-	722,250	-	-	-	722,250	722,250	13,181
	2005	-	-	-	-	-	-	-	-
J E Fazzino	2006	102,298	81,926	9,296	(39,449)	-	154,071	186,641	1,499
	2005	150,156	-	3,718	(11,021)	(40,555)	102,298	150,156	4,815
- Former									
G J Witcombe (1)	2006	-	-	-	-	-	-	-	-
	2005	942,066	-	20,946	(572,968)	(390,044)	-	942,066	29,246
Total Directors	2006	102,298	804,176	9,296	(39,449)	-	876,321	908,891	14,680
	2005	1,092,222	-	24,664	(583,989)	(430,599)	102,298	1,092,222	34,061
Executives									
- Current									
K J Gleeson	2006	62,953	94,830	7,866	(28,994)	-	136,655	159,543	1,056
	2005	41,656	53,299	2,136	(6,689)	(27,449)	62,953	94,955	3,314
D A Roe	2006	43,154	100,116	8,365	(6,485)	-	145,150	145,150	-
	2005	44,868	-	2,301	(4,015)	-	43,154	44,868	-
B C Walsh	2006	28,765	51,088	4,748	(3,617)	-	80,984	80,984	-
	2005	29,907	-	1,534	(2,676)	-	28,765	29,907	-
A Grace (2)	2006	55,800	-	3,539	(799)	-	58,540	58,540	-
	2005	-	-	-	-	-	-	-	-
J D Whiteside (3)	2006	56,723	-	3,657	-	-	60,380	60,380	-
	2005	-	-	-	-	-	-	-	-
- Former									
J W Elmer	2006	-	-	-	-	-	-	-	-
	2005	148,496	-	4,478	(92,333)	(60,641)	-	148,496	4,614
R Hoggard	2006	-	-	-	-	-	-	-	-
	2005	148,534	-	2,497	(151,031)	-	-	148,534	2,461
J M Lloyd	2006	-	-	-	-	-	-	-	-
	2005	165,016	-	3,616	(168,632)	-	-	165,016	3,217
J R Warnock	2006	-	-	-	-	-	-	-	340
	2005	135,264	-	4,498	(9,963)	(55,665)	74,134	135,264	4,279
Total Executives	2006	247,395	246,034	28,175	(39,895)	-	481,709	504,597	1,396
	2005	713,741	53,299	21,060	(435,339)	(143,755)	209,006	767,040	17,885
Total for key management personnel and their related parties	2006	349,693	1,050,210	37,471	(79,344)	-	1,358,030	1,413,488	16,076
	2005	1,805,963	53,299	45,724	(1,019,328)	(574,354)	311,304	1,859,262	51,946

Notes to the Financial Statements

For the year ended 30 September 2006

34. Key management personnel disclosures (continued)

(c) Loans to key management personnel and their related parties (continued)

The descriptions below should be read in conjunction with the table on page 87.

All loans are secured by restrictions on dealings being placed over the shares. The loans under the previous, and completed, retention plan and Mr Segal's Retention Award are interest free. Interest on the loans under the LTI Performance plan 2003/06 is charged at the FBT benchmark rate, currently 7.30% (2005: 7.05%). The loans under the LTI Performance plan 2003/06 are repayable prior to the participant dealing in the shares and in any event must be repaid by 31 December 2007. Interest is payable annually. Interest received on the loans totalled \$37,471 (2005: \$45,742). The Company has not advanced any other loans to key management persons or their related parties. No amounts have been written down or recorded as allowances, as the balances are considered fully collectible.

- (1) Upon Mr Witcombe's resignation as a director and cessation of employment with Incitec Pivot Limited, Mr Witcombe received, as part of his severance payment, loan forgiveness in aggregate of \$390,044 in respect of his participation under the LTI Plan. In addition, Mr Witcombe repaid the balance of the loans outstanding under the LTI Plan.
- (2) Opening balance represents loan balance at date appointed to Executive Team (1 June 2006). Movements are from this date.
- (3) Opening balance represents loan balance at date appointed to Executive Team (22 June 2006). Movements are from this date.

The amounts shown for interest not charged in the tables above represent the difference between the amount paid and payable for the year and the amount of interest that would have been charged on an arm's length basis in relation to the previous, and completed, retention plan loans and Mr Segal's Retention Award.

(d) Other key management personnel transactions

The following transactions, entered into during the year with directors of the Company, were on terms and conditions no more favourable than those available to other customers, suppliers and employees:

- (i) During the year Mr McCallum purchased fertiliser to the value of \$30,514 (2005: \$20,132) from the Company, the balance owing at 30 September 2006 was \$nil (2005: \$nil).
- (ii) The spouse of Mr Fazzino, the Finance Director and Chief Financial Officer, is a partner in the accountancy and tax firm PricewaterhouseCoopers from which the Company purchased services of \$923,518 during the year (2005: \$352,852). Mr Fazzino's spouse does not directly provide these services.

Notes to the Financial Statements

For the year ended 30 September 2006

34. Key management personnel disclosures (continued)

(e) Movements in shareholdings of directors and executives

(1) Movements in shares in the Company

The movement during the reporting period in the numbers of shares in the Company held directly, indirectly or beneficially, by each key management person, including their related parties is set out in the table below:

		Number of Shares			
	Year	Opening balance (A)	Acquired during the year (B)	Disposed during the year (C)	Closing balance (D)
The Company - Incitec Pivot					
Non-executive directors					
- Current					
J C Watson	2006	2,700	2,300	-	5,000
	2005	2,700	-	-	2,700
B Healey	2006	-	1,000	-	1,000
	2005	-	-	-	-
A D McCallum	2006	6,818	2,993	(1,993)	7,818
	2005	6,818	-	-	6,818
- Former					
L M Delahunty	2006	-	-	-	-
	2005	6,478	-	(6,478)	-
D B Trebeck	2006	-	-	-	-
	2005	4,000	-	(4,000)	-
Executive directors					
- Current					
J Segal	2006	-	32,640	-	32,640
	2005	-	-	-	-
J E Fazzino	2006	9,649	19,613	-	29,262
	2005	9,581	68	-	9,649
- Former					
G J Witcombe	2006	-	-	-	-
	2005	59,778	-	(59,778)	-
Executives					
- Current					
K J Gleeson	2006	5,921	5,981	(3,327)	8,575
	2005	5,869	52	-	5,921
D A Roe	2006	2,790	6,269	-	9,059
	2005	2,738	52	-	2,790
B C Walsh	2006	1,933	5,742	-	7,675
	2005	1,881	52	-	1,933
A Grace ⁽¹⁾	2006	5,822	12	(1,000)	4,834
	2005	-	-	-	-
J Whiteside ⁽²⁾	2006	3,896	55	-	3,951
	2005	-	-	-	-
M Drew ⁽³⁾	2006	43	-	-	43
	2005	-	-	-	-
- Former					
J W Elmer	2006	-	-	-	-
	2005	9,479	52	(9,531)	-
R Hoggard	2006	-	-	-	-
	2005	9,482	38	(9,520)	-
J M Lloyd	2006	-	-	-	-
	2005	10,472	-	(10,472)	-
J R Warnock	2006	-	-	-	-
	2005	8,632	68	(8,700)	-

No shares were granted to key management personnel during the reporting period as compensation in 2005 or 2006. Shares treated as options, were granted as compensation to certain key management personnel during the reporting period. No shares were held by key management personnel related parties.

Notes to the Financial Statements

For the year ended 30 September 2006

34. Key management personnel disclosures (continued)

(e) Movements in shareholdings of directors and executives (continued)

The descriptions below should be read in conjunction with the table on page 89.

- (A) Represents the holding at 1 October 2005 of shares of Incitec Pivot held by non-executive and executive directors and executives who were directors and executives of the Company during the year ended 30 September 2006. This includes fully paid ordinary shares and shares acquired under the Employee Share Ownership Plan (ESOP) and shares treated as options for the purposes of remuneration which have been disclosed in section F of the Remuneration Report and movement disclosed in this note. Details of the ESOP are set out in Note 35, Share Based Payments.

The opening balances reflect the restatement of 2005 comparatives as appropriate.

- (B) Represents shares acquired by directors and executives while they are directors or executives of the Company including acquisitions by the directors and executives who were eligible to participate in the employee share ownership plan (ESOP) and who participated in the scheme during the year, as well as acquisition of shares treated as options for the purposes of remuneration under the LTI Performance plan 2003/06. Details of the ESOP are set out in Note 35, Share Based Payments.
- (C) Represents shares disposed of during the year. This includes fully paid ordinary shares, shares acquired under the Employee Share Ownership Plan (ESOP) and shares treated as options for the purposes of remuneration under the LTI Performance plan 2003/06. In the case of directors or executives who ceased their directorship or employment during the year ended 30 September 2005, all shares were treated as disposed as at the relevant date of cessation.
- (D) Represents the holding at 30 September 2006 of shares of Incitec Pivot.
- (1) Opening balance represents holdings at date of appointment to the executive team (1 June 2006). Movements are from this date.
- (2) Opening balance represents holdings at date of appointment to the executive team (22 June 2006). Movements are from this date.
- (3) Opening balance represents holdings at date of appointment to the executive team (1 August 2006). Movements are from this date.

Notes to the Financial Statements

For the year ended 30 September 2006

34. Key management personnel disclosures (continued)

(e) Movements in shareholdings of directors and executives (continued)

(2) Movements in Shares treated as options over equity instruments in the Company

The movement during the reporting period in the number of shares treated as options over ordinary shares in the Company, for the purposes of remuneration held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

		Number of Shares treated as Options				
	Year	Opening balance (A)	Granted as compensation (B)	Exercised during the year (C)	Other Changes (D)	Closing balance (E)
The Company - Incitec Pivot						
Executive directors						
- Current						
J Segal	2006	-	32,597	-	-	32,597
	2005	-	-	-	-	-
J E Fazzino	2006	4,424	5,130	-	(9,554)	-
	2005	9,525	-	(5,101)	-	4,424
- Former						
G J Witcombe	2006	-	-	-	-	-
	2005	59,778	-	(59,778)	-	-
Executives						
- Current						
K J Gleeson	2006	2,542	5,938	-	(8,480)	-
	2005	5,869	-	(3,327)	-	2,542
D A Roe	2006	2,738	6,269	-	(9,007)	-
	2005	2,738	-	-	-	2,738
B C Walsh	2006	1,825	3,199	-	(5,024)	-
	2005	1,825	-	-	-	1,825
A Grace ⁽¹⁾	2006	3,630	-	-	(3,630)	-
	2005	-	-	-	-	-
J Whiteside ⁽²⁾	2006	3,744	-	-	(3,744)	-
	2005	-	-	-	-	-
M Drew ⁽³⁾	2006	-	-	-	-	-
	2005	-	-	-	-	-
- Former						
J W Elmer	2006	-	-	-	-	-
	2005	9,423	-	(9,423)	-	-
R Hoggard	2006	-	-	-	-	-
	2005	9,426	-	-	(9,426)	-
J M Lloyd	2006	-	-	-	-	-
	2005	10,472	-	-	(10,472)	-
J R Warnock	2006	-	-	-	-	-
	2005	8,576	-	(8,576)	-	-

No shares treated as options held by key management personnel vested during the year ended 30 September 2006 or are vested and exercisable at 30 September 2006. Shares treated as options received under the retention plan vested and were exercisable at 30 September 2005. No shares treated as options were held by key management personnel related parties.

Notes to the Financial Statements

For the year ended 30 September 2006

34. Key management personnel disclosures (continued)

(e) Movements in shareholdings of directors and executives (continued)

The descriptions below should be read in conjunction with the table on page 91.

- (A) Represents the holding at 1 October 2005 of shares treated as options of Incitec Pivot held by non-executive and executive directors and executives who were directors and executives of the Company during the year ended 30 September 2006. Further details of these shares treated as options for the purposes of remuneration have been disclosed in section F of the Remuneration Report.

The opening balances reflect the restatement of 2005 comparatives as appropriate.

- (B) Represents shares, treated as options, granted as remuneration acquired during the year by directors and executives while they are directors or executives of the Company.
- (C) Represents shares, treated as options, previously granted as compensation, which were exercised during the reporting period when awards (in the form of waivers of loans) were granted to the applicable executives who satisfied the criteria under the relevant LTI Plan. Refer to section C of the Remuneration Report for further details generally on the LTI Plan and note 35 Share based payments for further details of the LTI Performance Plan 2003/06 and Retention plan and Julian Segal's Retention Award.
- (D) Represents shares treated as options that expired due to the holder ceasing to be eligible to the option of a loan waiver. The executive director or executive remains the registered holder of the underlying shares. Refer section C of the Remuneration Report for further details of the LTI. In the case of directors or executives who ceased their directorship or employment during the year, all shares treated as options were forfeited as at the relevant date of cessation.
- (E) Represents the holding at 30 September 2006 of shares, treated as options.
- (1) Opening balance represents holdings at date of appointment to the executive team (1 June 2006). Movements are from this date.
- (2) Opening balance represents holdings at date of appointment to the executive team (22 June 2006). Movements are from this date.
- (3) Opening balance represents holdings at date of appointment to the executive team (1 August 2006). Movements are from this date.

Notes to the Financial Statements

For the year ended 30 September 2006

34. Key management personnel disclosures (continued)

(e) Movements in shareholdings of directors and executives (continued)

(3) Movements in shares and options in the Ultimate parent entity (until 10 May 2006)

Orica Limited ceased to be Incitec Pivot's Ultimate parent entity effective 1 May 2006. The movement during the reporting period in the number of ordinary shares, trust shares and award rights and options for fully paid ordinary shares of the Ultimate parent entity (Orica Limited) held, directly, indirectly or beneficially, by each key management person, including their related parties, up to 1 May 2006 is as follows:

		Number of Shares				
	Year	Opening Balance (A)	Acquired during the period (B)	Received on exercise of options (C)	Disposed during the period (D)	Closing Balance (E)
Ultimate parent entity - Orica Limited (until 10 May 2006)						
Non-executive directors						
- Current						
B Healey	2006	9,300	1,163	-	-	10,463
	2005	9,300	-	-	-	9,300
A C Larkin	2006	38,000	4,750	-	(4,750)	38,000
	2005	38,000	-	-	-	38,000
- Former						
J R Chesterfield	2006	28,614	12,061	14,254	(34,189)	20,740
	2005	28,614	-	-	-	28,614
B J Gibson	2006	-	-	-	-	-
	2005	255,600	55,270	-	(310,870)	-
G R Liebelt	2006	-	-	-	-	-
	2005	454,778	423,281	-	(878,059)	-
D B Trebeck	2006	-	-	-	-	-
	2005	9,000	-	-	(9,000)	-
Executive directors						
- Current						
J Segal	2006	16,831	38,877	54,817	(55,397)	55,128
	2005	16,831	-	-	-	16,831
J E Fazzino	2006	29,808	3,726	-	(15,000)	18,534
	2005	18,642	11,166	-	-	29,808
- Former						
G J Witcombe	2006	-	-	-	-	-
	2005	103,374	196,962	-	(300,336)	-
Executives						
- Current						
D A Roe	2006	13,338	267	8,915	(8,915)	13,605
	2005	13,274	11,951	-	(11,887)	13,338
B C Walsh	2006	6,887	929	-	(4,340)	3,476
	2005	6,659	228	-	-	6,887
A Grace ⁽¹⁾	2006	4,554	-	-	-	4,554
	2005	-	-	-	-	-
- Former						
R Hoggard	2006	-	-	-	-	-
	2005	415	20,378	-	(20,793)	-
J R Warnock	2006	-	-	-	-	-
	2005	1,375	5,254	-	(6,629)	-

Notes to the Financial Statements

For the year ended 30 September 2006

34. Key management personnel disclosures (continued)

(e) Movements in shareholdings of directors and executives (continued)

The descriptions below should be read in conjunction with the table on page 93.

- A) Represents the holding at 1 October 2005 of shares of Orica Limited (including trust shares and award rights) held by non-executive and executive directors and executives who were directors and executives of the Company during the period ended 30 May 2006.
The opening balances reflect the restatement of 2005 comparatives as appropriate.
The opening balance represents holdings at appointment date (June 2005). Movements are from this date.
- B) Represents shares, trust shares and award rights of Orica Limited acquired during the period by directors and executives while they are directors or executives of the Company during the period ended 30 May 2006 and 30 September 2005.
- C) Shares of fully paid ordinary shares of Orica Limited received on exercise of options during the period ended 30 May 2006 and 30 September 2005.
- D) Represents shares disposed of during the period ended 30 May 2006 and 30 September 2005. In the case of directors or executives who ceased their directorships or employment during the year ended 30 September 2005, all shares were treated as disposed as at the relevant date of cessation.
- E) Represents the holding at 30 May 2006 and 30 September 2005 of shares, trust shares and award rights of Orica Limited, held by non-executive and executive directors and executives who were directors and executives of the Company during the period.

Notes to the Financial Statements

For the year ended 30 September 2006

34. Key management personnel disclosures (continued)

(e) Movements in shareholdings of directors and executives (continued)

		Number of Options				
	Year	Opening Balance (A)	Acquired during the period (B)	Exercised during the period (C)	Other Changes during the period (D)	Closing Balance (E)
Ultimate parent entity - Orica Limited (until 10 May 2006)						
Non-executive directors						
- Former						
J R Chesterfield	2006	28,508	-	(14,254)	-	14,254
	2005	28,508	-	-	-	28,508
B J Gibson	2006	-	-	-	-	-
	2005	50,000	-	(50,000)	-	-
G R Liebelt	2006	-	-	-	-	-
	2005	309,600	-	(292,000)	(17,600)	-
Executive directors						
- Current						
J Segal	2006	109,634	-	(54,817)	-	54,817
	2005	109,634	-	-	-	109,634
J E Fazzino	2006	-	-	-	-	-
	2005	10,861	-	(10,861)	-	-
Executives						
- Current						
D A Roe	2006	35,663	-	(8,915)	(19,616)	7,132
	2005	47,550	-	(11,887)	-	35,663
- Former						
J R Warnock	2006	-	-	-	-	-
	2005	5,254	-	(5,254)	-	-

- (A) Represents the holding at 1 October 2005 of options for fully paid ordinary shares of Orica Limited (the ultimate parent entity until 10 May 2006) held by non-executive and executive directors and executives who were directors and executives of the Company during the period ended 10 May 2006 and 30 September 2005.

The opening balances reflect the restatement of 2005 comparatives as appropriate.

- (B) Represents options for fully paid ordinary shares of Orica Limited acquired during the period ended 10 May 2006 and 30 September 2005 by directors and executives while they are directors or executives of the Company.
- (C) Represents options for fully paid ordinary shares of Orica Limited which were exercised during the period ended 10 May 2006 and 30 September 2005 by directors and executives while they are directors or executives of the Company.
- (D) Represents options for fully paid ordinary shares of Orica Limited which expired or were forfeited during the period ended 10 May 2006 and 30 September 2005 by directors and executives while they are directors or executives of the Company. In the case of directors or executives who ceased their directorship or employment during the 2005 financial year, all options of fully paid ordinary shares of Orica Limited were treated as disposed at the relevant date of cessation.
- (E) Represents the holding at 10 May 2006 and 30 September 2005 of shares, trust shares and award rights of Orica Limited, held by non-executive and executive directors and executives who were directors and executives of the Company during the period.

Notes to the Financial Statements

For the year ended 30 September 2006

35. Share based payments

(a) LTI Performance Plan – 2003/06

The Company established the LTI Performance Plan 2003/06 in 2003 in respect of the three year performance period, 1 October 2003 to 30 September 2006.

This plan was designed to reward executives and other senior employees for delivering long term value to the Company and support the Company's strategy for retention and motivation of its employees. It created the opportunity, and provided the discipline, for executives and other senior employees to contribute to short term performance with full regard to the delivery of sustainable growth in shareholder value.

Under its LTI plans, the Company may grant awards to participants (in the form of loan waivers), subject to them satisfying particular conditions relating to the duration of their employment or individual or Company performance. In short, the LTI operates by way of the Company providing participants with limited recourse interest bearing loans, which are used to purchase Incitec Pivot shares on market. The loans are repayable in a number of circumstances, including the participant ceasing to be employed by the Company, the participant selling his or her shares when they become unrestricted, or by a "sunset" date, 31 December 2007. The loans are repayable from the proceeds of sale of the shares, and are deemed satisfied by the application of the proceeds of the sale of the shares, including where there is a shortfall against the outstanding loan amount. Participants may directly repay the whole or part of their loan at any time. Interest is charged on the loans at the FBT benchmark rate (currently 7.30%). Net cash dividends after personal income tax obligations are applied to reduce the loan balance.

Awards, by way of forgiveness of loans, are granted only on the achievement of conditions relating to duration of employment and/or individual or Company performance over the rolling three-year period.

The Board set the criteria for the granting of awards under this LTI at the beginning of the three-year performance period covered by the LTI. The criteria set by the Board for measuring Company performance are based on the generation of targeted cumulative economic profit over the performance period. Economic profit targets are set at levels that equate to top quartile shareholder returns over the performance period. Cumulative economic profit was chosen as the relevant performance measure as it recognises:

- the need to both grow earnings and produce an acceptable return on shareholders funds;
- the desire to reward participants for the value they directly create, as opposed to movements in the general level of the share market which is an issue with share price based incentives; and
- the inherent seasonal volatility of the business which can positively or negatively impact any one year but is less likely to have an influence over a cumulative three year period.

If the Company waives any loan amount, a participant has full, unrestricted ownership of the shares to the value of the loan waiver. Prior to any loan waiver being awarded, a participant is the registered holder of the shares, however, cannot deal in the shares.

Under this plan all shares, treated as options, have expired due to the holders ceasing to be eligible to the option of a loan waiver. The participants remain as registered holders of the shares.

(b) Retention Award – Mr Segal

The Board recognised that the retention of key executives was a crucial element to the success of the Company following Orica Limited ceasing to be a majority shareholder and the acquisition of SCF. Accordingly, Mr Segal received a Retention Award in the form of a limited recourse, interest free unsecured loan for \$722,250 which was applied in the purchase of shares on market. Mr. Segal is restricted from dealing in the shares until 10 May 2009 and, until that time, the shares may be forfeited if he ceases to be employed by the Company. The loan is repayable on the earlier of Mr. Segal ceasing to be employed by the Company, selling of the shares or three years after the loan is made. If he remains in service until 10 May 2009, the full loan amount outstanding at that time will be forgiven by the Company.

(c) Retention Plan – 2003/05

From the date of merger on 1 June 2003 to 30 September 2005 the Company had established a specific LTI plan to retain key employees. Loans were granted and applied in the purchase of shares on market. For those participants satisfying the condition by remaining in employment until 30 September 2005, 51.5% of loans were waived as at 30 September 2005 and the balance of the loans repaid.

Notes to the Financial Statements

For the year ended 30 September 2006

35. Share based payments (continued)

Set out below are summaries

- for 2006 of shares treated as options, granted under the LTI Performance plan 2003/06 and to Mr. Segal, by way of a Retention Award; and
- for 2005, of shares treated as options, granted under the LTI Performance plan 2003/06 and the Retention plan 2003/05:

Consolidated/Company – 2006

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at the end of the year
			Number	Number	Number	Number	Number
Retention Award – Mr. Segal							
5 Jul 06	31 Mar 09	\$0	-	2,597	-	-	2,597
Total			-	32,597	-	-	32,597
LTI Performance plan – 2003/06							
20 Sep 04	30 Sep 06	\$0	-	-	0	-	-
4 Oct 05	30 Sep 06	\$1.97	-	8,022	-	(8,022)	-
Total			41,844	69,022	-	(110,866)	-
Weighted average exercise price			\$16.39	\$10.85	-	\$16.13	-

Consolidated/Company – 2005

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at the end of the year
			Number	Number	Number	Number	Number
Retention plan – 2003/05							
1 Jun 03	30 Sep 05	\$1.4	80,588	(294)	(294)	-	-
Total			80,588	-	(294)	(294)	-
LTI Performance plan – 2003/06							
20 Sep 04	30 Sep 06	\$0	92,5	0,3	(73)	0	-
Total			92,5	-	0,3	(73)	0
Weighted average exercise price			\$1.90	-	\$1.72	\$1.92	\$0

The weighted average share price at the date of exercise of shares treated as options exercised regularly during the year ended 30 September 2006 was \$1.20 (2005 - \$1.75) as no shares treated as options have been exercised.

The weighted average remaining contractual life of shares treated as options outstanding at the end of the period was 2.6 years (2005 - 1 year)

Fair value of shares treated as options granted

Retention Award - Mr. Segal

In respect of the Retention Award to Mr. Segal, the assessed fair value at grant date of the shares treated as options, granted during the year ended 30 September 2006 was \$1.20 per share treated as an option. The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the share treated as an option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the share treated as an option.

Notes to the Financial Statements

For the year ended 30 September 2006

35. Share based payments (continued)

The model inputs for the shares treated as options, granted during the year ended 30 September 2006 included:

- (a) shares treated as options are granted for no consideration, have a three year life, and vests and are exercisable after the third anniversary of the date of the grant
- (b) exercise price: \$0
- (c) grant date: 5 July 2006
- (d) expiry date: 10 May 2009
- (e) share price at grant date: \$22.75
- (f) expected price volatility of the company's shares: no material impact
- (g) expected dividend yield: 2.5%
- (h) risk-free interest rate: 3 year government bond rate.

LTI Performance Plan – 2003/06

In respect of the LTI Performance Plan 2003/06, the assessed fair value at grant date of the shares treated as options granted during the year ended 30 September 2006 was \$1.66 per share treated as an option. The fair value at grant date is independently determined using a Monte Carlo simulation approach that takes into account the exercise price, the term of the share treated as an option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the share treated as an option.

The model inputs for these shares treated as options, granted during the year ended 30 September 2006 included:

- (a) shares treated as options are granted at \$15.97 per share treated as an option, have a two year life, and vest after certain Cumulative Economic Profit Targets are met for the period 1 October 2003 to 30 September 2006 and are exercisable at the earlier of 31 December 2007 or cessation of employment
- (b) exercise price: \$15.97
- (c) grant date: 4 October 2005
- (d) expiry date: 30 September 2006
- (e) share price at grant date: \$15.82
- (f) expected price volatility of the company's shares: 20%
- (g) expected dividend yield: 6.13%
- (h) risk-free interest rate: Australian Government bond rate with approximately 2 years to maturity.

Employee Share Ownership Plan

The Board established the Incitec Pivot Employee Share Ownership Plan (ESOP) on 28 October 2003. Administration of the plan is held with Watson Wyatt Australia Pty Limited who have outsourced this to CitiStreet Australia Pty Limited, effective 1 November 2004. The Board determines which employees are eligible to receive invitations to participate in the ESOP. Invitations are made to eligible employees on the following basis:

- shares acquired are either newly issued shares or existing shares acquired on market.
- employees are each entitled to acquire shares on market with a maximum value of \$1,000.
- employees salary sacrifice the value of the shares by equal deductions through to 30 June the following year.
- employees cannot dispose of the shares for a period of three years from the date of acquisition or until they leave their employment with the Consolidated entity, whichever occurs first.
- employees who leave the Consolidated entity must salary sacrifice any remaining amount prior to departure.

Grant date	Date shares become unrestricted	Number of participants as at		Number of shares held as at	
		30 Sep 2006	30 Sep 2005	30 Sep 2006	30 Sep 2005
19 Mar 04	19 Mar 07	261	295	6,781	7,681
7 Jun 04	7 Jun 07	261	295	6,836	7,756
9 Sep 04	9 Sep 07	282	318	3,595	4,060
22 Dec 04	22 Dec 07	282	318	3,225	3,641
7 Mar 05	7 Mar 08	281	319	3,583	4,064
30 Jun 05	30 Jun 08	281	317	3,917	4,428
16 Sep 05	16 Sep 08	204	232	3,270	3,672
13 Jul 06	13 Jul 09	327		14,104	
23 Aug 06	23 Aug 09	180		7,020	
Total				52,331	35,302

These shares rank equally with all other fully paid ordinary shares from the date acquired by the employee and are eligible for dividends.

Notes to the Financial Statements

For the year ended 30 September 2006

35. Share based payments (continued)

Expenses arising from share-based payment transactions

Total expenses arising from sharebased payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated		Company	
	2006 \$'000	2005 \$00	2006 \$'000	2005 \$00
Shares treated as options issued under Retention Award and LTI Performance Plan 2006	243	227	243	227
	243	227	243	227

36. Investments in controlled entities

Name of Entity	Ownership interest	Country of incorporation
Company		
Incitec Pivot Limited		Australia
Controlled Entities - operating		
Incitec Fertilizers Limited	100%	Australia
Incitec Pivot LTI Plan Company Pty Limited	100%	Australia
Southern Cross Fertilisers Pty Limited	100%	Australia
TOP Australia Ltd	100%	Australia

On 1 August 2006 the Company acquired 100% of Southern Cross Fertilisers Pty Limited shares from BHP Billiton Limited.

On 30 September 2005 TOP Australia Ltd and Incitec Fertilizers Limited entered into a Deed of Cross Guarantee with Incitec Pivot Limited in respect of relief granted from specific accounting and financial reporting requirements in accordance with the ASIC Class order 98/1418. Southern Cross Fertilisers Pty Ltd was joined to this Deed of Cross Guarantee by way of an Assumption Deed dated 28 September 2006.

Notes to the Financial Statements

For the year ended 30 September 2006

	Closed Group	
	2006	2005
37. Deed of Cross Guarantee	\$000	\$000
Balance Sheet		
Current assets		
Cash and cash equivalents	161,658	3,351
Trade and other receivables	121,445	75,901
Other financial assets	2,019	12,341
Inventories	298,656	262,909
Other assets	8,885	1,638
Assets classified as held for sale	2,876	2,416
Total current assets	595,539	358,556
Non-current assets		
Trade and other receivables	280	(630)
Property, plant and equipment	478,097	291,971
Intangible assets	196,210	192,250
Deferred tax assets	32,215	-
Other assets	877	839
Total non-current assets	707,679	484,430
Total assets	1,303,218	842,986
Current liabilities		
Trade and other payables	282,614	198,436
Interest bearing liabilities	7,103	12,514
Other financial liabilities	5,683	-
Current tax liabilities	19,329	4,101
Provisions	47,478	43,713
Total current liabilities	362,207	258,764
Non-current liabilities		
Trade and other payables	60,086	-
Interest bearing liabilities	430,000	-
Other financial liabilities	1,774	-
Deferred tax liabilities	-	7,114
Retirement benefit obligation	3,393	4,321
Provisions	65,761	12,821
Total non-current liabilities	561,014	24,256
Total liabilities	923,221	283,020
Net assets	379,997	559,966
Equity		
Issued capital	360,797	532,445
Reserves	718	(1,524)
Retained earnings	18,482	29,045
Total equity	379,997	559,966
Income Statement		
Profit before income tax	52,710	21,444
Income tax benefit/(expense)	(12,595)	(6,952)
Profit for the financial year	40,115	14,492
Retained profits at the beginning of the financial year	29,045	84,588
Movements in retained earnings	(8,805)	257
Cash dividend paid	(41,873)	(70,292)
Retained profits at the end of the financial year	18,482	29,045

Entities which are party to a Deed of Cross Guarantee dated 30 September 2005 (as varied by an Assumption Deed dated 28 September 2006), entered into in accordance with ASIC Class Order 98/1418, are disclosed in note 36, Investments in controlled entities. A consolidated Balance Sheet and Income Statement for this closed group are shown above.

Notes to the Financial Statements

For the year ended 30 September 2006

38. Impact of adopting Australian Equivalents of International Financial Reporting Standards

This is Incitec Pivot's first full year financial report prepared in accordance with the requirements of AIFRS, which Incitec Pivot was required to adopt from 1 October 2005. Comparative information is required to be restated. 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 132 and AASB 139 which are 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.

Presented on the following pages are the restated Balance Sheets at 1 October 2004, 30 September 2005 and 1 October 2005 together with the restated Income Statements for the period ending 30 September 2005 as a result of the transition to AIFRS. There are no material changes to the Statements of Cash Flows 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 year ended 30 September 2006

38. Impact of adopting Australian Equivalents of International Financial Reporting Standards (continued)

1. Reconciliation of equity reported under previous AGAAP to equity under AIFRS

a) At the date of transition to AIFRS: 1 October 2004

		Previous AGAAP	Consolidated Effect of transition to AIFRS	AIFRS	Previous AGAAP	Company Effect of transition to AIFRS	AIFRS
	Notes	\$000	\$000	\$000	\$000	\$000	\$000
Current assets							
Cash and cash equivalents		83,846	-	83,846	83,846	-	83,846
Trade and other receivables		123,745	-	123,745	142,245	-	142,245
Inventories	a	246,292	(9,123)	237,169	246,292	(9,123)	237,169
Other assets	a	7,047	(4,748)	2,299	2,268	-	2,268
Assets classified as held for sale	m	-	9,381	9,381	-	-	-
Total current assets		460,930	(4,490)	456,440	474,651	(9,123)	465,528
Non-current assets							
Trade and other receivables	h	3,248	(3,025)	223	188	-	188
Other financial assets		-	-	-	474,179	-	474,179
Property, plant and equipment	a,f,m	296,132	5,118	301,250	114,918	1,943	116,861
Intangible assets	f	183,809	7,242	191,051	-	7,180	7,180
Deferred tax assets	b,j	17,108	(17,108)	-	13,730	(3,205)	10,525
Other assets	a	10,166	(7,870)	2,296	2,296	-	2,296
Total non-current assets		510,463	(15,643)	494,820	605,311	5,918	611,229
Total assets		971,393	(20,133)	951,260	1,079,962	(3,205)	1,076,757
Current liabilities							
Trade and other payables	h	192,854	-	192,854	385,019	244	385,263
Interest bearing liabilities		63,055	-	63,055	8,055	-	8,055
Current tax liabilities		16,277	-	16,277	1,246	-	1,246
Provisions		26,877	-	26,877	22,460	-	22,460
Total current liabilities		299,063	-	299,063	416,780	244	417,024
Non-current liabilities							
Deferred tax liabilities	j	19,049	(7,269)	11,780	4,526	(4,526)	-
Retirement benefit obligation	b	-	4,403	4,403	-	4,403	4,403
Provisions		21,762	-	21,762	15,372	-	15,372
Total non-current liabilities		40,811	(2,866)	37,945	19,898	(123)	19,775
Total liabilities		339,874	(2,866)	337,008	436,678	121	436,799
Net assets		631,519	(17,267)	614,252	643,284	(3,326)	639,958
Equity							
Issued capital		532,445	-	532,445	532,445	-	532,445
Reserves	a,h	35,922	(38,703)	(2,781)	43,694	(43,694)	-
Retained earnings	a,b,h,j	63,152	21,436	84,588	67,145	40,368	107,513
Total equity		631,519	(17,267)	614,252	643,284	(3,326)	639,958

Notes to the Financial Statements

For the year ended 30 September 2006

38. Impact of adopting Australian Equivalents of International Financial Reporting Standards (continued)

b) At the end date of the last reporting period under previous AGAAP: 30 September 2005

		Previous AGAAP	Consolidated Effect of transition to AIFRS	AIFRS	Previous AGAAP	Company Effect of transition to AIFRS	AIFRS
	Notes	\$000	\$000	\$000	\$000	\$000	\$000
Current assets							
Cash and cash equivalents		3,351	-	3,351	3,351	-	3,351
Trade and other receivables		75,901	-	75,901	107,901	-	107,901
Other financial assets		12,341	-	12,341	12,341	-	12,341
Inventories	a	271,650	(8,741)	262,909	271,650	(8,741)	262,909
Other assets	a	6,135	(4,497)	1,638	1,638	-	1,638
Assets classified as held for sale	m	-	2,416	2,416	-	2,279	2,279
Total current assets		369,378	(10,822)	358,556	396,881	(6,462)	390,419
Non-current assets							
Trade and other receivables	h	2,646	(1,013)	1,633	383	-	383
Other financial assets		-	-	-	529,178	-	529,178
Property, plant and equipment	a,f,m	283,855	8,116	291,971	116,983	383	117,366
Intangible assets	e,f	174,004	18,246	192,250	-	8,441	8,441
Deferred tax assets	b,j	19,885	(19,885)	-	19,885	(2,662)	17,223
Other assets	a	6,574	(5,735)	839	3,201	(2,362)	839
Total non-current assets		486,964	(271)	486,693	669,630	3,800	673,430
Total assets		856,342	(11,093)	845,249	1,066,511	(2,662)	1,063,849
Current liabilities							
Trade and other payables	h	200,699	-	200,699	394,135	12,662	406,797
Interest bearing liabilities		12,514	-	12,514	12,514	-	12,514
Current tax liabilities		4,101	-	4,101	4,101	-	4,101
Provisions		43,713	-	43,713	43,713	-	43,713
Total current liabilities		261,027	-	261,027	454,463	12,662	467,125
Non-current liabilities							
Deferred tax liabilities	j	17,335	(10,221)	7,114	17,335	(17,335)	-
Retirement benefit obligation	b	-	4,321	4,321	-	4,321	4,321
Provisions		12,821	-	12,821	12,821	-	12,821
Total non-current liabilities		30,156	(5,900)	24,256	30,156	(13,014)	17,142
Total liabilities		291,183	(5,900)	285,283	484,619	(352)	484,267
Net assets		565,159	(5,193)	559,966	581,892	(2,310)	579,582
Equity							
Issued capital		532,445	-	532,445	532,445	-	532,445
Reserves	a,h	35,922	(37,446)	(1,524)	43,694	(43,694)	-
Retained earnings	a,b,e,h,j,o	(3,208)	32,253	29,045	5,753	41,384	47,137
Total equity		565,159	(5,193)	559,966	581,892	(2,310)	579,582

Notes to the Financial Statements

For the year ended 30 September 2006

38. Impact of adopting Australian Equivalents of International Financial Reporting Standards (continued)

c) Adjustments on transition to AASB 132 and AASB 139: 1 October 2005

	Notes	AIFRS 30-Sep-05 \$000	Consolidated AASB 139 Adjustment \$000	AIFRS 1-Oct-05 \$000	AIFRS 30-Sep-05 \$000	Company AASB 139 Adjustment \$000	AIFRS 1-Oct-05 \$000
Current assets							
Cash and cash equivalents		3,351	-	3,351	3,351	-	3,351
Trade and other receivables	i	75,901	83,754	159,655	107,901	83,754	191,655
Other financial assets	i	12,341	4,345	16,686	12,341	4,345	16,686
Inventories		262,909	-	262,909	262,909	-	262,909
Other assets		1,638	-	1,638	1,638	-	1,638
Assets classified as held for sale		2,416	-	2,416	2,279	-	2,279
Total current assets		358,556	88,099	446,655	390,419	88,099	478,518
Non-current assets							
Trade and other receivables		1,633	-	1,633	383	-	383
Other financial assets	i	-	2,142	2,142	529,178	2,142	531,320
Property, plant and equipment		291,971	-	291,971	117,366	-	117,366
Intangible assets		192,250	-	192,250	8,441	-	8,441
Deferred tax assets	j,i	-	-	-	17,223	(17,223)	-
Other assets		839	-	839	839	-	839
Total non-current assets		486,693	2,142	488,835	673,430	(15,081)	658,349
Total assets		845,249	90,241	935,490	1,063,849	73,018	1,136,867
Current liabilities							
Trade and other payables		200,699	-	200,699	406,797	-	406,797
Interest bearing liabilities	i	12,514	83,754	96,268	12,514	83,754	96,268
Other financial liability	i	-	9,452	9,452	-	9,452	9,452
Current tax liabilities		4,101	-	4,101	4,101	-	4,101
Provisions		43,713	-	43,713	43,713	-	43,713
Total current liabilities		261,027	93,206	354,233	467,125	93,206	560,331
Non-current liabilities							
Other financial liabilities	i	-	4,444	4,444	-	4,444	4,444
Deferred tax liabilities	j,i	7,114	(2,223)	4,891	-	(19,446)	(19,446)
Retirement benefit obligation		4,321	-	4,321	4,321	-	4,321
Provisions		12,821	-	12,821	12,821	-	12,821
Total non-current liabilities		24,256	2,221	26,477	17,142	(15,002)	2,140
Total liabilities		285,283	95,427	380,710	484,267	78,204	562,471
Net assets		559,966	(5,186)	554,780	579,582	(5,186)	574,396
Equity							
Issued capital		532,445	-	532,445	532,445	-	532,445
Reserves	j,i	(1,524)	4,280	2,756	-	4,280	4,280
Retained earnings	j,i	29,045	(9,466)	19,579	47,137	(9,466)	37,671
Total equity		559,966	(5,186)	554,780	579,582	(5,186)	574,396

Notes to the Financial Statements

For the year ended 30 September 2006

38. Impact of adopting Australian Equivalents of International Financial Reporting Standards (continued)

2. Reconciliation of profit for the year ended 30 September 2005

		Previous AGAAP	Consolidated Effect of transition to AIFRS	AIFRS	Previous AGAAP	Company Effect of transition to AIFRS	AIFRS
	Notes	\$000	\$000	\$000	\$000	\$000	\$000
Revenue		1,073,872	-	1,073,872	947,548	-	947,548
Other income (incl. individually material items)	c,h	9,824	(1,006)	8,818	43,824	(1,006)	42,818
Changes in inventories of finished goods and work in progress		23,225	-	23,225	23,225	-	23,225
Raw materials and consumables used and finished goods purchased for resale		(788,525)	-	(788,525)	(788,525)	-	(788,525)
Employee expenses (including individually material items)	h	(99,502)	602	(98,900)	(99,502)	602	(98,900)
Costs recovered from subsidiary under agency agreement		-	-	-	50,437	-	50,437
Depreciation and amortisation expense	e	(40,291)	9,805	(30,486)	(11,203)	-	(11,203)
Borrowing costs		(10,329)	-	(10,329)	(9,805)	-	(9,805)
Purchased services (including individually material items)		(57,873)	-	(57,873)	(57,873)	-	(57,873)
Repairs and maintenance		(26,790)	-	(26,790)	(26,790)	-	(26,790)
Property, plant & equipment retired/disposed (excluding individually material items)	c	(931)	931	-	(931)	931	-
Outgoing freight		(30,995)	-	(30,995)	(30,995)	-	(30,995)
Lease payments - operating leases		(12,316)	-	(12,316)	(12,316)	-	(12,316)
Asset write-downs, clean-up and environmental provisions (including individually material items)		(21,155)	-	(21,155)	(21,155)	-	(21,155)
Other expenses from ordinary activities including individually material items		(7,102)	-	(7,102)	(7,102)	-	(7,102)
Profit/(loss) before income tax		11,112	10,332	21,444	(1,163)	527	(636)
Income tax expense		(6,952)	-	(6,952)	10,291	-	10,291
Profit for the financial year		4,160	10,332	14,492	9,128	527	9,655

Notes to the Financial Statements

For the year ended 30 September 2006

38. Impact of adopting Australian Equivalents of International Financial Reporting Standards (continued)

3. Reconciliation of the cash flow statement under previous AGAAP to AIFRS for the year ended 30 September 2005

	Notes	Previous AGAAP \$000	Consolidated Effect of transition to AIFRS \$000	AIFRS \$000	Previous AGAAP \$000	Company Effect of transition to AIFRS \$000	AIFRS \$000
		Inflows/ (Outflows)		Inflows/ (Outflows)	Inflows/ (Outflows)		Inflows/ (Outflows)
Cash flows from operating activities							
Receipts from customers		1,121,414	-	1,121,414	994,292	-	994,292
Payments to suppliers and employees	a	(1,019,168)	1,980	(1,017,188)	(914,634)	1,980	(912,654)
Interest received		1,139	-	1,139	1,139	-	1,139
Borrowing costs		(10,575)	-	(10,575)	(9,805)	-	(9,805)
Dividends received from wholly-owned controlled entity		-	-	-	20,500	-	20,500
Rental income		151	-	151	151	-	151
Other trading revenue received		399	-	399	399	-	399
Net income taxes received/(paid)		(23,619)	-	(23,619)	(23,619)	-	(23,619)
Net cash flows from operating activities		69,741	1,980	71,721	68,423	1,980	70,403
Cash flows from investing activities							
Payments for property, plant and equipment and intangibles	a	(26,234)	(1,980)	(28,214)	(24,917)	(1,980)	(26,897)
Payments for purchase of investments		(5,105)	-	(5,105)	(60,104)	-	(60,104)
Proceeds from sale of property, plant and equipment		2,164	-	2,164	2,164	-	2,164
Net cash flows from investing activities		(29,175)	(1,980)	(31,155)	(82,857)	(1,980)	(84,837)
Cash flows from financing activities							
Net movement in short term financing		(50,541)	-	(50,541)	4,459	-	4,459
Dividends paid		(70,520)	-	(70,520)	(70,520)	-	(70,520)
Net cash flows from financing activities		(121,061)	-	(121,061)	(66,061)	-	(66,061)
Net decrease in cash and cash equivalents held		(80,495)	-	(80,495)	(80,495)	-	(80,495)
Cash and cash equivalents at the beginning of the financial year		83,846	-	83,846	83,846	-	83,846
Cash and cash equivalents at the end of the financial year		3,351	-	3,351	3,351	-	3,351

Notes to the Financial Statements

For the year ended 30 September 2006

38. Impact of adopting Australian Equivalents of International Financial Reporting Standards (continued)

Notes to the reconciliations

(a) Reclassifications

On initial application of AIFRS, the consolidated entity has transferred the balance of general and other reserves of \$35,922,000 to retained earnings (Company \$43,694,000).

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 reclassification resulted in a decrease in current other assets in the consolidated entity by \$4,748,000, non-current other assets also decreased by \$7,870,000 and property, plant and equipment increased by \$12,618,000 as at 1 October 2004. There is no effect on the Company.

In 2005, the major cyclical maintenance expenditure has also been reclassified from other assets to property, plant and equipment. As at 30 September 2005, the reclassification from current other assets to property, plant and equipment was \$4,497,000 and non-current other assets to property, plant and equipment was \$5,735,000. There is no effect on the Company.

In addition capital spares have been reclassified from inventory to property, plant and equipment amounting to \$9,123,000 at 1 October 2004 and \$8,741,000 at 30 September 2005 for the consolidated entity and Company.

(b) Retirement benefit obligation

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 was debited through retained earnings.

On transition, retirement benefit obligation for the consolidated and the Company increased by \$4,403,000 and deferred tax assets of \$1,321,000, with a consequential reduction of \$3,082,000 in retained earnings.

As at 30 September 2005, the retirement benefit obligation decreased by \$82,000. The impact to the results was an increase in equity of \$57,000 net of tax and a reduction in deferred tax assets by \$25,000. The adjustment is the same for the Company.

(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 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 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 (Company \$931,000).

Notes to the Financial Statements

For the year ended 30 September 2006

38. Impact of adopting Australian Equivalents of International Financial Reporting Standards (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* (AASB 138), 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 \$9,805,000 (Company \$nil) for the year ended 30 September 2005. No impairment adjustments are required.

(f) Intangible assets – other intangible assets

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

Under AASB 138, 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 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 in the consolidated entity as at 1 October 2004 and \$8,441,000 as at 30 September 2005. For the Company the adjustments are \$7,180,000 and \$8,441,000 respectively. 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.

Notes to the Financial Statements

For the year ended 30 September 2006

38. Impact of adopting Australian Equivalents of International Financial Reporting Standards (continued)

(h) Share-based payments

Under previous AGAAP, no expense was recognised for share based payments. Under AASB 2 *Share-Based Payments* (AASB 2), 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, for the consolidated entity the amounts receivable from employees were reversed, resulting in a reduction in the loan receivable at 1 October 2004 by \$3,025,000 (Company \$nil), a reduction in reserves of \$3,069,000 (Company \$nil) and an increase in retained earnings with the net amount of loan forgiveness and dividends received up to 1 October 2004 of \$44,000 (Company \$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 for the consolidated entity by \$288,000 (Company \$288,000), and an increase to reserves by the same amount. Subsequent valuation has resulted in an incremental increase in employee expense by \$227,000 (Company \$227,000) for the year ended 30 September 2005, with a corresponding increase to reserves for the same amount.

In addition, as the dividends on these shares are returned to Incitec Pivot 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. At 30 September 2005 the net impact of these transactions to the consolidated entity is an increase in loan receivable by \$2,088,000 and increase shareholders equity by \$1,259,000 (Company \$nil). The profit and loss impact of \$829,000 is due to a reduction in employee expense (Company \$829,000).

Interest income on the loans is also reversed and at 30 September 2005 this resulted in a decrease in interest income of \$75,000 for the consolidated entity (Company \$75,000) and loan receivable by the same amount.

(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 30 September 2005, calculated on the adjusted results and the weighted average number of shares of 58,281,027 shares, are as follows:

	30 Sep 2005	
	AGAAP	AIFRS
	cents	cents
Basic EPS from continuing operations	7	25
Diluted EPS from continuing operations	7	25

(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 year ended 30 September 2006

38. Impact of adopting Australian Equivalents of International Financial Reporting Standards (continued)

(j) Taxation (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.

Under previous AGAAP, deferred tax balances are determined using the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity.

For the consolidated entity, the impact of the change in basis on the deferred tax balances and the previously reported tax expense at 1 October 2004 is an increase in deferred tax liabilities of \$11,160,000 and a decrease in retained earnings of \$11,160,000. There is no effect on the Company. In addition, other adjustments resulted in an increase in deferred tax assets of \$1,321,000 and an increase in retained earnings of \$1,321,000 for the consolidated entity and the Company. The deferred tax balances at 1 October 2004 have been netted off.

At 30 September 2005 the impact to the deferred tax balances as a result of the AIFRS adjustments is an increase in deferred tax liabilities of \$13,014,000 and deferred tax assets increased by \$3,350,000 for the consolidated entity. For the Company, the deferred tax liabilities decreased by \$11,333,000 and deferred tax assets increased by \$3,340,000. The deferred tax balances at 30 September 2005 have been netted off.

At 1 October 2005 the impact to the deferred tax balances as a result of the AASB 139 adjustments is an increase in deferred tax liabilities of \$1,946,000 (Company \$1,946,000) and deferred tax assets increased by \$4,169,000 (Company \$4,169,000). The deferred tax balances at 1 October 2005 have been netted off.

(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.

Notes to the Financial Statements

For the year ended 30 September 2006

38. Impact of adopting Australian Equivalents of International Financial Reporting Standards (continued)

(I) Classification of financial instruments and hedge accounting – change in accounting policy

Incitec Pivot has taken advantage of the election available in AASB 1 to apply AASB 132 and AASB 139 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.

This resulted in a change to the previous 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 for the consolidated entity was to increase current and non current other financial assets by \$4,345,000 and \$2,142,000 respectively, deferred tax assets by \$4,169,000, deferred tax liabilities by \$1,946,000, current and non current other financial liabilities by \$9,452,000 and \$4,444,000 respectively, increase cash flow hedging reserve by \$4,280,000 and decrease retained earnings by \$9,466,000. The adjustments are the same for the Company.

(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 trade and other receivables and an increase in interest bearing liabilities of \$83,754,000 at 1 October 2005 in both the consolidated entity and the Company.

(iii) Hedge accounting

Under AASB 139, 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.

Notes to the Financial Statements

For the year ended 30 September 2006

38. Impact of adopting Australian Equivalents of International Financial Reporting Standards (continued)

(m) Assets classified as 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 assets classified as held for sale of \$9,381,000 for the consolidated entity (Company \$nil) at 1 October 2004, \$2,416,000 at 30 September 2005 (Company \$2,279,000). This resulted in a reclassification from property, plant and equipment to a separate disclosure under assets classified as held for sale on the Balance Sheet.

(n) Changes in accounting policies

Under AIFRS, changes in accounting policies 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.

(o) Impact of AIFRS on retained earnings

The impact of the transition to AIFRS and adoption of AASB 132 and AASB 139 on retained earnings is as follows:

	1 October 2004		30 September 2005		1 October 2005	
	Consolidated	Company	Consolidated	Company	Consolidated	Company
	\$000	\$000	\$000	\$000	\$000	\$000
Reclassification of general and revaluation of assets	35,922	43,694	35,922	43,694	-	-
Share-based payments transactions	(244)	(244)	511	511	-	-
Retirement benefit obligations	(3,082)	(3,082)	(3,025)	(3,025)	-	-
Deferred tax	(11,160)	-	(10,960)	204	-	-
Goodwill amortisation	-	-	9,805	-	-	-
Derivative financial instruments	-	-	-	-	(9,466)	(9,466)
Total adjustment to retained earnings	21,436	40,368	32,253	41,384	(9,466)	(9,466)

Notes to the Financial Statements

For the year ended 30 September 2006

39. Events subsequent to balance date

Since the end of the financial year, in November 2006, the directors have declared a final dividend of 81 cents per share. This dividend is fully franked at the 30% corporate tax rate and is payable on 13 December 2006.

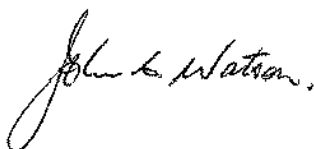
The directors have not become aware of any other significant matter or circumstance that has arisen since 30 September 2006, that has affected or may affect the operations of the Consolidated entity, the result of those operations, or the state of affairs of the Consolidated entity in subsequent years, which has not been covered in this report.

Directors' Declaration

on the Financial Statements set out on pages 44 to 113

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

1. (a) the financial statements and notes, set out on pages 40 to 43 and the remuneration disclosures that are contained in the Remuneration Report on pages 20 to 3 of the Directors' Report, are in accordance with the Corporations Act 2001 including:
 - (i) giving a true and fair view of the financial position of the Company and the Consolidated entity as at 30 September 2006 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia, including AASB 124 *Related Party Disclosures*, the Corporations Regulations 2001 and other mandatory professional reporting requirements; 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.
2. There are reasonable grounds to believe that the Company and the controlled entities identified in note 6 will be able to meet any obligations or liabilities to which they are or may become subject by virtue of the Deed of Cross Guarantee between the Company and those subsidiaries pursuant to AS Class Order 94 (as amended)
3. The directors have been given the declaration by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001 for the financial year ended 30 September 2006



John C Watson, AM

Chairman

Dated at Melbourne this 15th day of November 2006



Independent audit report to members of Incitec Pivot Limited

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the income statements, statements of recognised income and expense, balance sheets, statement of cash flows, accompanying notes 1 to 39 to the financial statements and the directors' declaration for both Incitec Pivot Limited (the "Company") and Incitec Pivot Limited and its Controlled Entities (the "Consolidated Entity"), for the year ended 30 September 2006. The Consolidated Entity comprises both the Company and the entities it controlled during that year.

As permitted by the *Corporations Regulations 2001*, the Company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Australian Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "Remuneration report" on pages 20 to 35 of the directors' report and not in the financial report.

The Remuneration report also contains information in Section C (Tables C1 and C2), Section E4 and Section F (Tables F3 and F4) not required by Australian Accounting Standard AASB 124 which is not subject to our audit.

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 responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards*. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and that the remuneration disclosures comply with AASB 124. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Australian Accounting Standard AASB 124.



We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

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

Audit opinion

In our opinion:

- (1) the financial report of Incitec Pivot Limited is in accordance with:
 - a) the *Corporations Act 2001*, including:
 - i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 September 2006 and of their performance for the financial year ended on that date; and
 - ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - b) other mandatory financial reporting requirements in Australia; and
- (2) the remuneration disclosures that are contained in the remuneration report in the directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*.

KPMG

Neil T Faulkner
Partner

Melbourne
15 November 2006

Shareholder Statistics

As at 7 November 2006

Distribution of ordinary shareholder and shareholdings

Size of holding			Number of holders	Percentage	Number of shares	Percentage
1	—	1,000	32,845	91.80%	8,747,238	17.35%
1,001	—	5,000	2,734	7.64%	4,901,231	9.72%
5,001	—	10,000	94	0.26%	644,092	1.28%
10,001	—	100,000	68	0.19%	2,066,039	4.10%
100,001 and over			37	0.10%	34,065,285	67.56%
Total			35,778	100.00%	50,423,885	100.00%

Included in the above total are 908 shareholders holding less than a marketable parcel of shares.

The holdings of the 20 largest holders of fully paid ordinary shares represent 61.81% of that class of shares.

Twenty largest ordinary fully paid shareholders

	Number of shares	Percentage
JP Morgan Nominees Australia Limited	5,372,786	10.66%
National Nominees Limited	4,870,114	9.66%
Westpac Custodian Nominees Limited	3,396,388	6.74%
RBC Dexia Investor Services Australia Nominees Pty Limited <PIPOOLED A/C>	3,365,925	6.68%
Citicorp Nominees Pty Limited	2,427,232	4.81%
ANZ Nominees Limited <CASH INCOME A/C>	2,053,152	4.07%
RBC Dexia Investor Services Australia Nominees Pty Limited <BKCUST A/C>	1,589,854	3.15%
Suncorp Custodian Services Pty Limited <AET>	1,495,773	2.97%
Cogent Nominees Pty Limited	1,422,609	2.82%
Queensland Investment Corporation	1,021,880	2.03%
RBC Dexia Investor Services Australia Nominees Pty Limited <PIIC A/C>	666,954	1.32%
Australian Foundation Investment Company Limited	632,801	1.25%
Cogent Nominees Pty Limited <SMP ACCOUNTS>	424,411	0.84%
Citicorp Nominees Pty Limited <CFSIL CWLTH AUST SHS 4 A/C>	421,562	0.84%
UBS Nominees Pty Ltd	375,086	0.74%
Citicorp Nominees Pty Limited <CFSIL CWLTH AUST SHS 18 A/C>	354,014	0.70%
Citicorp Nominees Pty Limited <CFS FUTURE LEADERS FUND A/C>	350,000	0.69%
AMP Life Limited	319,187	0.63%
Merrill Lynch (Australia) Nominees Pty Limited <BPB A/C>	311,777	0.62%
Abeles Pty Ltd	302,250	0.60%
Total	31,173,755	61.81%

Register of substantial shareholders

The names of substantial shareholders in the Company, and the number of fully paid ordinary shares in which each has an interest, as disclosed in substantial shareholder notices to the Company on the respective dates, are as follows:

23-Oct-2006	Perpetual Limited	5,688,474	11.28%
19-Oct-2006	IOOF Holdings Limited	4,678,679	9.28%

On-market buy-back

There is no current on-market buy-back.

Five Year Financial Statistics

Incitec Pivot Limited and its controlled entities

		2006 \$000	2005 \$000	2004 \$000
Sales		1,111,239	1,073,872	1,135,588
Earnings before depreciation, amortisation, net borrowing costs, individually material items and tax		159,387	108,359	167,179
Depreciation and amortisation (excluding goodwill)		(33,145)	(30,486)	(35,372)
Goodwill amortisation		-	-	(9,945)
Earnings before net borrowing costs, individually material items and tax (EBIT)		126,242	77,873	121,862
Net borrowing costs		(12,892)	(9,430)	(5,406)
Rebates				
Individually material items before tax		(54,093)	(46,999)	(9,327)
Taxation revenue / (expense)		(12,595)	(6,952)	(32,090)
Operating profit after tax and individually material items		46,662	14,492	75,039
Individually material items after tax attributable to members of Incitec Pivot		(36,110)	(33,412)	5,832
Operating profit after tax before individually material items (net of tax)		82,772	47,904	80,870
Dividends		41,962	70,520	16,902
Current assets		595,539	358,556	460,930
Property, plant and equipment		478,097	291,971	296,132
Investments		-	-	-
Intangibles		196,210	192,250	183,809
Other non-current assets		33,356	2,472	30,522
Total assets		1,303,202	845,249	971,393
Current borrowings and payables		295,384	213,213	272,186
Current provisions		66,807	47,814	26,877
Non-current borrowings and payables		491,860	-	19,049
Non-current provisions		69,154	24,256	21,762
Total liabilities		923,205	285,283	339,874
Net assets		379,997	559,966	631,519
Shareholders' equity		379,997	559,966	631,519
Total shareholders' equity		379,997	559,966	631,519
Ordinary Shares	thousands	50,424	58,281	58,281
Investor Shares	thousands	-	-	-
Number of shares on issue at year end	thousands	50,424	58,281	58,281
Weighted average number of shares on issue (investor and ordinary)	thousands	56,516	58,281	58,281
Earnings per share				
before individually material items	cents	146.5	82.2	138.8
including individually material items	cents	82.6	24.9	128.8
Dividends	cents	72	121	29
Dividend franking	%	100	100	100
Share price range – High		\$26.60	\$22.50	\$19.30
Low		\$15.31	\$15.00	\$15.65
Year end		\$25.87	\$15.82	\$18.80
Stockmarket capitalisation at year end	\$000	1,304,469	922,005	1,095,683
Net tangible assets per share	\$	3.64	6.31	7.68
Profit margin (earnings before net borrowing costs and tax/sales)	%	11.4	7.3	10.7
Net debt	\$000	275,445	9,163	(20,792)
Gearing (net debt/net debt plus equity)	%	42.0	1.6	(3.4)
Interest cover (earnings before net borrowing costs and tax/net borrowing costs)	times	9.8	8.3	22.5
Net capital expenditure on plant and equipment (cash flow)	\$000	21,339	26,050	29,387
Net capital expenditure on acquisitions/(disposals) (cash flow)	\$000	155,329	-	-
Return on average shareholders funds				
before individually material items	%	17.6	8.0	13.4
including individually material items	%	9.9	2.6	12.5

Note:

Financial year ended 30 September 2005 and 2006 are reported under AIFRS.

The financial year ended 30 September 2002, 2003 and 2004 are reported under AGAAP.

Five Year Financial Statistics

2003 \$000	2002 \$000
686,307	604,214
83,503	60,873
(21,225)	(15,267)
(3,128)	-
59,150	45,606
(6,816)	(13,663)
-	-
(64,568)	(8,015)
(6,389)	(5,402)
(18,623)	18,526
(53,656)	(2,651)
35,033	21,177
24,478	-
350,599	201,014
296,615	116,518
-	-
185,354	-
34,578	18,972
867,146	336,504
177,874	109,073
37,133	16,505
69,268	60,000
9,489	741
293,764	186,319
573,382	150,185
573,382	150,185
573,382	150,185
58,281	14,037
-	3,448
58,281	17,485
31,120	17,485
112.6	121.1
(59.8)	106.0
140	-
100	-
\$15.70	N/A
\$14.00	N/A
\$15.66	N/A
912,681	N/A
6.66	8.59
8.6	7.5
74,394	81,348
11.5	35.1
8.7	3.3
12,919	3,593
(4,393)	(400)
9.7	15.1
(5.1)	13.2

Shareholder Information

Annual General Meeting

2.00 pm Wednesday 20 December 2006
at The Arts Centre, 100 St Kilda Road,
Melbourne Victoria 3000, Australia,
in the ANZ Pavilion

Stock Exchange Listing

Incitec Pivot's shares are listed on the
Australian Stock Exchange (ASX) and
are traded under the code IPL

Share Registry

Link Market Services
Level 12, 680 George Street,
Sydney New South Wales 2000,
Australia

Locked Bag A14
Sydney South New South Wales 1235

Telephone: 1300 554 474
(for callers within Australia)
International: +61 2 8280 7111

General Facsimile: +61 2 9287 0303
Proxy Facsimile: +61 2 9287 0309
Email: registrars@linkmarketservices.com.au
Website: www.linkmarketservices.com.au

Auditor

KPMG
147 Collins Street,
Melbourne Victoria 3000,
Australia

Incitec Pivot Limited

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Southbank Victoria 3006,
Australia

GPO Box 1322
Melbourne Victoria 3001,
Australia

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Facsimile: +61 3 8695 4419
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