

Because the land is your life.



Annual Report 2005

The logo for Incitec Pivot, featuring a stylized yellow and red swoosh above the text "Incitec Pivot".
Incitec Pivot

In 2005, Incitec Pivot Limited launched its new market position, 'Because the land is your life'.

The new positioning reflects the fundamental connection between primary producers and the land.

Incitec Pivot shares a similar connection to the land, as a major supplier to rural producers through its extensive Agent and Dealer network.

As Australia's leading and largest supplier, the company is ideally placed to take advantage of the growing fertiliser market.

Julian Segal Managing Director and CEO

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On behalf of the Board, I am pleased to report on Incitec Pivot's second full financial year, which ended on 30 September 2005.

Chairman's Report

The year saw the successful completion of the merger and the bedding in of synergy benefits in the order of \$50 million annually. It was also marked by continuing drought in many areas and significant changes in the fertiliser market, factors which led to a disappointing financial result.

There is no doubt, however, that the impact of the seasonal conditions was mitigated by the wider exposure to market sectors flowing from the merger. This helped the business maintain reasonable sales volumes in spite of severe drought in many areas.

Net profit after tax including significant items after tax of \$33.4 million – largely as a result of business restructuring costs – was unsatisfactory at \$4.2 million, compared with \$75 million in 2004.

However, the balance sheet at year-end was sound, with net debt at \$9.2 million indicating modest gearing at 1.6 per cent. This provides the business with a strong base on which to rebuild earnings and shareholder returns in 2006.

Directors were able to declare fully franked dividends totalling 71 cents per share. This is in line with the Board's policy of distributing surplus funds and franking credits to shareholders when available and is a strong indication of Directors' confidence in the strategy adopted to restore Incitec Pivot's profitability.

Company-wide restructure

In the second half of the year, the business was re-engineered to reduce costs and to improve the company's ability to manage changes in the market place.

The restructure was company-wide – from reducing the number of Directors and the number of senior executives, consolidating the manufacturing and logistics functions, and reducing the total workforce by more than 100 positions.

Together, these changes have made Incitec Pivot leaner and more flexible. Continuous refinement of the business model will be required to enable the company to manage – and take advantage of – further dynamic changes anticipated in the domestic and international fertiliser market.

As well as lowering our fixed cost base, we will also need to continuously improve our systems and processes to improve service and create added value for customers and shareholders.

While trading conditions did not permit a satisfactory financial outcome in 2005, it is pleasing to note that improvements were recorded in two important areas – safety and the environment.

With workplace safety, the business achieved a recordable case rate of 0.99 per cent (recordable injuries per 200,000 hours worked), a 10 per cent improvement on the 2004 rate of 1.09.

This world-class performance reflects sound management, operational excellence and, crucially, our continuing commitment to workplace safety by employees and contractors.

The year also saw a substantial reduction in non-compliance with environmental licence limits, as measured in prescribed licence tests, reflecting Incitec Pivot's ongoing endeavours to improve in this area also.

Executive changes

With the restructure, which led to changes across the company, it is appropriate for me to recognise the efforts, and in some cases sacrifices, of all those who have played a part in bringing about change or have been impacted by it.

Our foundation Managing Director and CEO, Greg Witcombe, resigned on 3 June 2005 to take up a senior executive position at Orica. I thank Greg for successfully guiding Incitec Pivot through its first two years.

His position was taken by Julian Segal, who led the company through its recent restructure and will head up the company during the next phase of its development.

On 18 July 2005, as part of the restructure, we announced the smaller board, for which four non-executive Directors – Leo Delahunty, Barbara Gibson, Graeme Liebelt and David Trebeck – resigned. I thank them for their dedication and contribution to the company.

At that time James Fazzino, Incitec Pivot's Chief Financial Officer, joined the Board as Finance Director, and John Chesterfield became a non-executive Director. I congratulate both James and John on their appointments.

Finally, I would like to express the Board's appreciation to all employees who contributed to the company during 2005. Our objective is to continue to make Incitec Pivot an employer of choice so that we can draw on the best available resources to reinvigorate our enterprise for the benefit of all stakeholders.

John C Watson, AM
Chairman



In every transaction, our focus is on securing value – not just volume – for our customers and business partners as well as for the company.

Managing Director's Report

In many ways, 2005 has been a watershed year for Incitec Pivot. Having successfully completed the merger and captured the resulting synergies, the business was impacted by two significant external forces – continuing drought and a changed competitive landscape.

For the year ended 30 September 2005, sales revenue dropped five per cent to \$1,074 million on an eight per cent reduction in total sales volumes to 2.933 million tonnes. This resulted in net profit after tax before significant items of \$37.6 million, compared with \$80.9 million in 2004.

This is without doubt a disappointing result and it raises the obvious question: What are you doing about it?

The answer is that management took decisive action when the impact of the trading situation became clear as the year progressed. This action was in the form of a major company-wide restructure to reduce our fixed cost base substantially.

Streamlined processes

Incitec Pivot's strategy is to build on our position as the supplier with the lowest cost base in the fertiliser industry, and we are well on the way to setting this benchmark.

Having the most efficient structure will give us the flexibility to be competitive on price, while enabling us to deliver a sustainable level of service and quality products to farmers. By streamlining our systems and processes, we will be both lean and responsive.

The weather and the actions of competitors may largely be beyond the company's control, but we are tackling costs head-on. By year-end we were nearly half way to achieving our target of \$30 million in cost savings annually in 2007.

We are doing this through a combination of initiatives, including consolidating divisions, reducing the size of our workforce including senior executives, investing in smarter processes and improving the efficiency of our manufacturing and logistics operations.

Even when we reach the \$30 million savings target we won't be happy, because there's a further element to our strategy.

We express this additional goal by referring to creating an "unassailable" lowest cost base. By this we mean we will permanently build-in the efficiency advantages that will transform the company.

Multi-channel strategy

On the distribution side of the business, we have adopted a multi-channel route to market that encompasses selling through agents, independent dealers and, where it makes commercial sense, through corporate dealers.

As our channel partners are an extension of our organisation into the market, we will seek out the channel that supports the lowest cost distribution path to farmers for the level of product quality and availability they require. We will also sell direct to farmers when our channel partners cannot alone deliver the most effective service to farmers.

In every transaction, our focus is on securing value – not just volume – for our customers and business partners as well as for the company.

My relatively short time at Incitec Pivot has convinced me of the underlying strength of the business, even in a difficult year.

These strengths include its geographical spread across eastern and southern Australia, its well-established manufacturing base and distribution network, its strong balance sheet and the resilience and enterprise of its employees.

All this, combined with a cautiously positive outlook for seasonal conditions in 2006, provides Incitec Pivot with a sound foundation on which to build renewed earnings momentum.

Julian Segal
Managing Director and CEO

Incitec Pivot Limited is a leading agribusiness involved in the manufacture and supply of fertiliser to farmers in Australia's eastern states.

Who we are

Incitec Pivot Limited is a leading agribusiness involved in the manufacture and supply of fertiliser to farmers in Australia's eastern states.

Fertiliser plays an essential role in enabling Australian farmers and producers to achieve sustainable and increased economic performance.

Supplying more than 50 per cent of Australia's agricultural plant nutrient needs, the scale of Incitec Pivot's operations underpins its position as a sustainable low cost supplier. The company has five manufacturing plants, import facilities in strategic locations and a distribution network stretching from far north Queensland to Tasmania and South Australia, giving it unequalled capacity to meet the market's needs.

Backing up Incitec Pivot's manufacturing and logistics advantages is a major soil, plant and water testing laboratory accredited to the highest standards and supported by highly regarded agronomic services. These services ensure farmers can identify the most cost-effective nutrient solutions to optimise their productivity.

Combined with an understanding of customer needs, these advantages enable the company to supply about three million tonnes of fertiliser a year, generating sales in excess of \$1 billion annually.

Incitec Pivot was created by the merger of Incitec Fertilizers Limited and Pivot Limited, in June 2003. However, its component enterprises have roots going back to the early part of last century when Australian superphosphate production was pioneered.

How we do business

Incitec Pivot supports farmers in all of eastern Australia's major agricultural industries, from cane growers in north Queensland, to cotton growers in New South Wales, to dairy farmers in Tasmania and grain growers in South Australia.

To do this, the company has extensive manufacturing and distribution facilities in strategic locations from Cairns in the north to Port Lincoln on the South Australian west coast.

These facilities support our Agent and Dealer network which comprises over 800 outlets located through eastern Australia.

Contact details of local Agents and Dealers may be found on the internet at Incitec Pivot's web address, www.incitecpivot.com.au.

Key:

- Major manufacturing and distribution sites
 - Distribution sites
- tpa: tonnes per annum



Gibson Island, Brisbane

Urea	275,000 tpa
Ammonia	290,000 tpa
Ammonium sulphate	200,000 tpa

Cockle Creek, NSW

Superphosphate	250,000 tpa
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Kooragang Island, NSW

Granulated phosphates	60,000 tpa
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Geelong, Victoria

Superphosphate	450,000 tpa
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Portland, Victoria

Superphosphate	250,000 tpa
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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 Rabo Bank 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.



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

Brian is Chairman of Centro Properties Group and Centro Retail Ltd and a Director of Foster's Brewing Group Ltd. He is a former Senior Vice President of Nabisco Inc. and Sara Lee Corporation, a former Director of Orica Limited, a former Chairman of Biota Holdings Ltd and Portfolio Partners Ltd and a former Chief Executive of Nicholas Kiwi.



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 as General Manager, Australia/Asia Mining Services, and in 2001 moved to the United States to take up the role of Senior Vice President – Marketing for Orica Mining Services globally.



Julian Segal BSc, MBA
Managing Director and
Chief Executive Officer



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

Executive Team



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

Until January 2002, Tony was Executive Director Finance of Orica Limited. He previously held the position of Group Treasurer BHP Ltd. His 38 year career with BHP included senior finance positions in its steel and minerals businesses and various senior corporate roles. From 1993 to 1997, he was seconded to Foster's Brewing Group as Senior Vice President Finance and Investor Relations. He is a Commissioner of the Victorian Essential Services Commission, Director of Corporate Express Australia Limited and Zinifex Limited, and Chairman of Ausmelt Limited. He was Chairman of Incitec Ltd from July 2000 to April 2003.



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.



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.



John Chesterfield BBus, MBA
Non-Executive Director

Orica Limited's Chief Risk Officer, John was appointed to the Incitec Pivot Board as a non-executive Director on 18 July 2005. John has been with Orica for 17 years and was General Manager of Chemnet Australia, its chemicals trading business, prior to becoming Chief Risk Officer in 2004.



Kerry Gleeson LLB(Hons)
General Counsel and
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 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.



Abigail Cleland
BCom, BA, MBA
General Manager Strategy and
Business Development

Abi was appointed to her current position in June 2005, having previously been General Manager Corporate Strategy at Orica Limited. Prior to this, Abi held a variety of commercial and strategic roles in industrial and resource companies globally, her most recent being with Amcor Ltd as General Manager Business Development.



Bernard Walsh
BE(Mech), MIEAust CPEng
General Manager Supply Chain

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 joined the Incitec Pivot Executive Team in April 2005.



Daryl Roe BSc
General Manager Commercial

Daryl joined Incitec Pivot Limited in January 2004 from Orica Limited where he held various business management roles. Daryl was General Manager Planning before moving to his current position on 1 June 2005.

2005 was a watershed year for Incitec Pivot. Poor seasonal conditions in key markets and strong competition negatively impacted earnings. Management responded by embarking on a major restructuring program to drive a step change in the business cost base, leaving Incitec Pivot well placed for the future.

Review of Performance

Key Financials

- Net Profit After Tax (NPAT) excluding significant items for the year ended 30 September 2005 was down 54% to \$37.6M (2004: \$80.9M).
- NPAT including significant items was down by 94% to \$4.2M (2004: \$75M).
- 2005 significant items of negative \$33.4M after tax, primarily business restructuring costs.
- Cash returned to shareholders with a fully franked special dividend declared of 50 cents per share (cps). Total 2005 dividends (including the November 2005 special dividend) of 71 cps (2004: 129 cps).
- Financial discipline was maintained despite tough seasonal conditions. 2005 closing net debt was \$9.2M (2004: net cash \$20.8M), providing a strong base for rebuilding earnings in 2006.

Key Business Outcomes

- A major business restructure to reduce costs was announced in June 2005. The program aims to achieve a 15% improvement in fixed cost efficiency in the business – equal to \$30M before tax. The 2005 exit rate of savings was \$14M.
- East coast market leadership was maintained despite strong competition.

Outlook – 2006

- Renewed earnings momentum from the business restructuring program.
- Above trend global fertiliser prices underpinning manufacturing profitability.
- Early seasonal conditions look promising with a good summer crop plant, an improved moisture profile across southern Australia and minimal nutrient carryover expected into the 2006 season.

External Sales Revenue

- Total sales revenue was down 5% to \$1,074M (2004: \$1,136M) reflecting an 8% decline in sales volume, offset by higher global fertiliser prices combined with the continued strength in the global shipping market. Both impacts were partially dampened by the strength of the Australian dollar.
- 2005 fertiliser sales volume was down 8% to 2.6M tonnes (2004: 2.9M tonnes), comprised of 2% due to market factors and 6% due to competition.
- The 6% decline in sales volume due to competition resulted from increased competition in fertiliser wholesaling with sales to Elders and Landmark (combined) down by 42% in 2005 to approximately 500kt (2004: 880kt).
- Sales to new independent channel partners and new direct farmer accounts were 183kt (exit rate of 400kt pa).

Sales Summary	Year Ended September		
	2005	2004	Change
000's			
Fertiliser tonnes	2,656	2,895	(8%)
Total tonnes	2,933	3,186	(8%)
A\$M			
Fertiliser sales revenue	1,005.0	1,076.2	(7%)
Total sales revenue	1,073.9	1,135.6	(5%)
Other			
Average exchange rate (\$A/US\$)*	75.2	71.3	(5%)
Global Urea price FOB – US\$/t*	236	161	47%

*lagged by 3 months

Earnings summary

- Net Profit After Tax (NPAT) excluding significant items of \$37.6M was down by \$43.3M (2004: \$80.9M). NPAT including significant items of \$4.2M was down \$70.8M (2004: \$75M).
- Earnings before interest and tax, excluding significant items (EBIT) decreased by \$54.4M to \$67.5M (2004: \$121.9M).
- Positive factors were:
 - \$7.4M: improved net nitrogen manufacturing margins from higher global urea prices (\$18.1M selling price benefit offset by \$10.7M in increased gas costs).
 - \$8.4M: reduced rebates paid to Elders (This is subject to a legal challenge by Elders in the South Australian Supreme Court. The case was heard in April 2005 and judgment is awaited.)
 - \$4.9M: reduced depreciation arising from the extension to 2017 of the asset lives of the Gibson Island plant and the BIG N fertiliser facilities as a result of new gas contracts.
- Negative factors were:
 - \$26.6M: lower sales volume/change in sales mix.
 - \$20.9M: impact of strong competition on fertiliser pricing. This prevented higher import prices being passed on to customers – particularly in traded urea.
 - \$17.2M: impact on reverting to a less favourable hedge position (2005 hedges were at 68 US cents, 2004 hedges were at 58 US cents).
 - \$10.5M: increased phosphate rock costs with high global shipping rates compounded by limited product availability from key suppliers.
- Net interest expense increased by \$4M primarily reflecting higher stock holdings arising from the delayed winter crop and higher global fertiliser prices.
- 2005 tax expense was \$20.5M compared with \$35.6M in 2004, reflecting lower earnings.

Earnings summary

A\$million	Year Ended September		
	2005	2004	Change
EBIT	67.5	121.9	(45%)
Net interest	(9.4)	(5.4)	(74%)
Tax expense	(20.5)	(35.6)	42%
NPAT excluding significant items	37.6	80.9	(54%)
Significant items after tax	(33.4)	(5.8)	>100%
NPAT including significant items	4.2	75.0	(94%)
EBIT/sales	6.3%	10.7%	
RONA	10.8%	18.6%	

Significant items

2005 significant items after tax were \$33.4M comprised of business restructuring costs of \$38.5M offset by an unrealised mark-to-market gain of \$5.1M after tax in relation to Incitec Pivot's investment in Queensland Gas Company (QGC).

Dividend

No final dividend will be paid for the 2005 financial year (2004:100cps).

In November 2005, the Board declared a fully franked special dividend of 50 cps which will be paid to shareholders on 9 January 2006. This distribution is consistent with the Board's policy of distributing surplus funds and franking credits to shareholders when available.

Total dividends declared in 2005 including the November 2005 special dividend amounted to 71 cps (2004: 90 cps normal, 39 cps special) representing a yield of 4.5% based on the closing share price of \$15.82 on 30 September 2005.

Dividend Cents per share	Year Ended September		
	2005	2004	Change
Final Dividend			
– normal	–	70	
– special	–	30	
– sub-total	–	100	
– % franked	–	100%	
November Special Dividend			
– cps	50	–	
– % franked	100%	100%	
Total Dividend^(a)			
– normal	15	90	(83%)
– special	56	39	44%
– sub-total	71	129	(45%)
– % franked	100%	100%	
Yield at:			
– opening share price on 1 Oct	3.8%	8.2%	
– closing share price on 30 Sept	4.5%	6.9%	

(a) including November 2005 Special Dividend

Financial position - balance sheet

Notwithstanding difficult trading conditions, Incitec Pivot maintained financial discipline in the business, which is reflected in the robust closing balance sheet.

Trade Working Capital (TWC) at \$141.1M was \$29.3M below 2004. Careful management of debtors and creditors more than offset the impact of higher closing stocks. Average TWC to sales was 24.3% reflecting a higher average inventory carry during the year because of the abnormal winter cropping season.

Net debt was \$9.2M at 30 September 2005 (2004: net cash \$20.8M). This equates to modest gearing of 1.6% providing the business with a strong base on which to rebuild earnings and shareholder returns in 2006.

Financial Position

A\$million	Sep 2005	Sep 2004
Trade working capital (TWC)	141.1	170.4
Net property, plant & equipment	283.9	296.1
Goodwill	174.0	183.8
Net other assets	(24.6)	(39.6)
Net assets	574.4	610.7
Net debt/(cash)	9.2	(20.8)
Equity	565.2	631.5
Total capitalisation	574.4	610.7
Gearing	1.6%	NA
Average TWC to sales	24.3%	19.0%

Review of Performance – Continued

Cash flow

Net operating cash flows were an inflow of \$69.6M, down \$71.9M on 2004 (2004: \$141.5M). Major factors were:

- EBITDA of \$107.8M (2004: \$167.2M) down \$59.4M reflecting lower earnings.
- Tax paid of \$23.6M up by \$8.2M (2004: \$15.4M) reflecting the final tax payment for the 2004 year.
- Business restructuring project expenditure of \$16M (merger costs in 2004 were \$16.6M).

Net investing cash flows were an outflow of \$29.1M (2004: \$29.4M). Major items were:

- A reduction in sustenance capital spending by \$4.6M to \$26.2M – around the level of depreciation.
- An investment of \$5.1M in Queensland Gas Company underpinning competitive gas supply to the Gibson Island site.

Financing cash flows include:

- \$70.5M of cash returned to shareholders as fully franked dividends (2004: \$16.9M).
- A movement in net debt of \$30M, including an \$80.5M reduction in cash on hand and a \$50.5M reduction in short-term borrowings.

Cash Flow Items A\$million	Year Ended September		
	2005	2004	Change
Net operating cash flows			
EBITDA	107.8	167.2	(59.4)
Net interest paid	(9.4)	(5.6)	(3.8)
Net income tax paid	(23.6)	(15.4)	(8.2)
Trade working capital movement	29.3	25.4	3.9
Merger costs (inc. Employee Benefits)	(1.6)	(16.6)	15.0
Business restructuring costs	(16.0)	0.0	(16.0)
Other	(16.9)	(13.5)	(3.4)
Total	69.6	141.5	(71.9)
Net investing cash flows			
Proceeds from asset sales	2.2	1.4	0.8
Capital spending	(26.2)	(30.8)	4.6
QGC Investment	(5.1)	0.0	(5.1)
Total	(29.1)	(29.4)	0.3
Net financing cash flows			
Movement in short term borrowings	(50.5)	(31.0)	(19.5)
Dividends paid	(70.5)	(16.9)	(53.6)
Other	0.0	0.0	0.0
Total	(121.0)	(47.9)	(73.1)
Increase/(decrease) in cash on hand	(80.5)	64.2	(144.7)

Strategy

Incitec Pivot's short-term focus is to rebuild earnings to deliver competitive returns to shareholders. The initial milestone is to exit the 2007 financial year at an 18% RONA (Return on Net Assets).

“Unassailable lowest cost base”

The overriding principle driving all activity in the business is to enhance Incitec Pivot's competitive position of having the lowest fertiliser cost base delivered to farm. For 2006, execution is focused on cost and capital:

Cost

- Delivering at least \$20M of savings from the business restructure program in the 2006 year (exit 2006 and 2007 at a rate of \$25M and \$30M respectively in savings).
- Savings arise mainly on restructuring manufacturing, logistics and administrative functions while leaving customer-facing functions largely unchanged.
- Cost savings will result in a further step change in Incitec Pivot's cost position following the \$50.6M merger synergies recorded in 2004.

Capital

- Restricting sustenance capital spend to depreciation and improving working capital management.
- Optimising assets utilisation (in particular, manufacturing reliability and the efficiency of major distribution centres) rather than investing in new assets.
- Completing the scheduled 2007 Gibson Island shutdown on budget (total budget \$43M, \$20M 2006, \$23M 2007).

“Multi channel route to market with a focus on Agents and Dealers”

Incitec Pivot's principal route to market remains the Agent and Dealer network (both independent and corporate), which provides the most efficient services and last-mile logistics to farmers.

The business is committed to maintaining and building on its relationship with loyal Agents and Dealers while focussing on:

- Ensuring equitable commercial arrangements are in place, which recognise the value and cost to serve of each channel.
- Rewarding channel partners for the value they create for Incitec Pivot through their support in implementing product and marketing strategies.
- Providing product and service differentiation which ensures Incitec Pivot remains their business partner of choice.

At Incitec Pivot Limited, we believe that all work-related injuries, illnesses and environmental incidents are preventable.

Safety, Health & Environment

Incitec Pivot's strong focus on Safety, Health and Environment (SH&E) continued in the year to 30 September 2005, with improved performance in a number of key areas:

- The total number of recordable injuries continued to decline from 13 in 2004 to 12 in 2005.
- There were no Category 2 losses of containment.
- There was a further decline in non-complying environmental licence tests, down to 69 from the previous year's 82.

Incitec Pivot's operations are managed with concern for people and the environment. We are committed to meeting changing environmental, social and community obligations and expectations in a sustainable manner, ensuring that our operations today do not compromise the quality of life for future generations.

As part of this concern for people and the environment, an ISO 14000 accredited Environmental Management System has been developed for the management of the company's primary and regional distribution facilities.

The company also recognises the need for continuous improvement at its major manufacturing works at Brisbane, Geelong, Portland and Newcastle. The company is striving to meet growing community expectations, today and into the future as well as ensuring regulatory compliance.

In 2005, the following major environmental improvement works were undertaken:

- At the single superphosphate plant at Portland in Victoria, \$1.9 million was invested to capture and clean fugitive fluoride emissions at the plant. As a result, fugitive fluorine emissions have been reduced by 80% and stack emissions are well within licence limits. Work is continuing to further optimise these improvements.
- At Geelong, a series of projects totalling \$1 million have significantly reduced dust emissions from the single superphosphate plant.

Over the past two years, the Gibson Island site in Brisbane has successfully reduced its consumption of fresh water by approximately 10% through recycling efforts in the urea and ammonia plants. Traditionally a large consumer of fresh water in its manufacturing operations, these reductions have been made by introducing improved controls to reduce waste and redirect process water flows in cooling systems.

Trials have also been initiated at this site to further treat processed water and stormwater for reuse in the plants, particularly in the cooling systems. This has the potential to reduce water consumption by a further 10%. In 2006, there will be a strong focus on making improvements to the management of stormwater at this site.

SH&E performance summary

	2005	2004	2003	2002
Recordable injuries	12	13	23	49
Lost workday case rate	0.25	0.50	0.29	1.07
Recordable case rate	0.99	1.09	1.69	3.07

Environmental

Distribution incidents: Category 2	5	2	8	7
Losses of containment: Category 2	0	1	1	0
Environmental licence non-complying tests	69	82	152	265

Hygiene monitoring

Tests under occupational exposure limit	96.2%	97.0%	98.1%	–
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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 was significant loss of containment, injury and/or damage to equipment, property or the environment and/or major traffic disruption.

Safety, Health & Environment – Continued

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

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.

While fertilisers are an essential nutrient source in productive and profitable farming systems, they may impact on the environment, so it is essential that they are used at appropriate rates and in a responsible manner.

Incitec Pivot's SH&E policy addresses product stewardship, stating 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 our customers and consumers on the safe transportation, use and disposal of our products.
- seek to develop new or improved products and processes to enhance the contribution we make to the quality of people's lives and minimise the impact on the environment.

Soil, plant tissue and water tests are key tools for managing the soil's nutrient status and developing fertiliser programs. Incitec Pivot offers these analytical services and other decision support tools to farmers and their advisers through its Nutrient Advantage laboratory at Werribee, near Melbourne.

These tools assist farmers to make better decisions on nutrient management and application rates to minimise any potentially adverse environmental impact.

Incitec Pivot also addresses product stewardship at an industry level, through its membership of the Fertilizer Industry Federation of Australia (FIFA) and its support for Fertcare, the industry's national training and accreditation program for all fertiliser businesses and staff.

A key activity in the past year has been preparing for legislation controlling the handling and sale of Security Sensitive Ammonium Nitrate (SSAN) fertilisers, which addresses any solid fertiliser containing more than 45% ammonium nitrate. This legislation will affect the company's product range and the formulation of a number of fertiliser blends.

The legislation has resulted in the company investigating and offering alternative formulations so that customers can have access to fertiliser blends containing up to 45% ammonium nitrate, which are not classified as SSAN fertilisers.

Distribution centres have been audited and upgraded for security, and procedures have been developed to allow blend ingredients classified as SSAN to be stocked at company sites in Queensland where the legislation took effect from 1 July 2005.

Attention has now turned to other States and Territories. SSAN legislation will take effect in New South Wales and Victoria in January 2006.

Sustainability

Incitec Pivot is committed to running all of its businesses in a sustainable manner. The company SH&E policy states:

“We will manage all our activities with concern for people and the environment and will conduct our business without compromising the quality of life for future generations.”

Central to this philosophy is the need to monitor and measure inputs and outputs such as water, energy and waste. These measures are recorded in total and on a per tonne basis, to provide better monitoring of efficiency as production volumes change from year to year.

Legacy sites

A key requirement in the drive towards a sustainable future is to ensure that business activities do not degrade the land and environment and that past activities on a site, whether by the company or inherited by the company are managed effectively to minimise impact on the environment.

In South Australia, there has been significant work undertaken in 2005 to remediate two contaminated sites:

- At Wallaroo, an interim groundwater treatment plant has been established and investigations completed to understand the extent of contamination that occurred when fill was placed on the site from smelter operations by the former site owners dating back to the 1920s. This work has been done in full collaboration with the South Australian Environmental Protection Agency (SA EPA). A total of \$2 million has been spent so far against a provision of \$7.1 million.

- At Parafield Gardens, preliminary results from trials undertaken to address contaminated soils have been good and groundwater decontamination trials have been completed.

It is expected that remediation action plans will be submitted and approvals sought from the SA EPA for both sites in 2006.

A remediation program to address redundant rail sidings leased from the rail authorities and primarily used for transporting fertiliser in South Australia and Victoria has attracted positive feedback for Incitec Pivot from local communities. The \$350,000 program has allowed the remediation of 26 sites and their return to rail authorities this year.

This year, the company's Cockle Creek site near Newcastle was declared a remediation site by the New South Wales Department of Environment and Conservation. Extensive work is under way to understand the nature and extent of land contamination that has resulted from fill placed on the site from adjacent smelter operations over many years.

Incitec Pivot assists young drivers

Incitec Pivot's commitment to safety and to rural communities extended to its major corporate sponsorship in 2005, in support of young driver safety. The company's Drive for Life program was designed to help more than 1,000 young men and women from farming regions to become safer drivers.

Drive for Life gave 18 to 25 year olds the opportunity to learn potentially life-saving skills through a program of free one-day training courses from March to July 2005.

Statistics show that young people in their first few years of being licensed are at the highest risk in their driving careers, with this risk rising dramatically for rural drivers.

Accredited trainers from Murcotts Driving Excellence took the program to more than 70 rural towns in Victoria, Tasmania, South Australia, New South Wales and Queensland.

Drive for Life was launched by Peter Brock, a household name in Australian motor sport and ambassador for driver safety, who congratulated Incitec Pivot on its strong safety culture and its vision of extending this to rural families.

The success of the program was made possible by the contribution of hundreds of Incitec Pivot Agents and Dealers, community groups, local police and Incitec Pivot staff.



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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 2005 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, qualification and special responsibilities	Experience
Current directors	
<p>J C Watson AM, MAICD Non-Executive Director and Chairman Chairman of the Remuneration and Appointments Committee Member of the Governance Committee</p>	<p>John was first appointed as a director on 15 December 1997 and as 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 Rabo Bank 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.</p>
<p>J Segal BSc, MBA Managing Director and Chief Executive Officer</p>	<p>Julian was appointed as Managing Director & CEO 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 has held various management positions including General Manager, Australia/Asia Mining Services and Senior Vice President - Marketing for Orica Mining Services globally.</p>
<p>B Healey, FAICD, FAIM Non-Executive Director and Deputy Chairman Member of the Governance Committee Member of the Remuneration and Appointments Committee</p>	<p>Brian was appointed as a director on 1 June 2003. He is Chairman of Centro Properties Group and Centro Retail Ltd and a Director of Foster's Brewing Group Ltd. He is a former Senior Vice President of Nabisco Inc. and Sara Lee Corporation, a former Director of Orica Limited, a former Chairman of Biota Holdings Ltd and Portfolio Partners Ltd and a former Chief Executive of Nicholas Kiwi.</p>
<p>J Chesterfield BBus, MBA Non-Executive Director Member of the Remuneration and Appointments Committee Member of the Audit and Risk Management Committee</p>	<p>John was appointed as a director on 18 July 2005. John is Orica Limited's Chief Risk Officer and has been with Orica for 17 years. His previous position was General Manager of Chemnet Australia, Orica's chemicals trading business.</p>
<p>J E Fazzino BEc(Hons), CPA Finance Director and Chief Financial Officer</p>	<p>James was appointed as a director on 18 July 2005. James has been Incitec Pivot's Chief Financial Officer since 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 turn around program in 2001 and Chief Financial Officer for the Orica Chemicals group. Immediately before joining Incitec Pivot, he was Orica's Investor Relations Manager.</p>
<p>A C Larkin FCPA, FAICD Non-Executive Director Chairman of the Audit and Risk Management Committee Member of the Remuneration and Appointments Committee</p>	<p>Tony was appointed as a director on 1 June 2003. Until January 2002, Tony was Executive Director Finance of Orica Limited. He previously held the position of Group Treasurer BHP Ltd. During his 38 year career with BHP, Tony 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 Brewing Group as Senior Vice President Finance and Investor Relations. He is a Commissioner of the Victorian Essential Services Commission, Director of Corporate Express Australia Limited and Zinifex Limited, and Chairman of Ausmelt Limited. He was Chairman of Incitec Ltd from July 2000 to April 2003.</p>
<p>A D McCallum Dip. Ag Science, MAICD Non-Executive Director Chairman of the Governance Committee Member of the Remuneration and Appointments Committee Member of the Audit and Risk Management Committee</p>	<p>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.</p>

Directors' Report

Directors (Continued)

Former directors	Resignation date
G J Witcombe, Managing Director and CEO	3 June 2005
L M Delahunty	18 July 2005
B J Gibson	18 July 2005
G R Liebelt	18 July 2005
D B Trebeck	18 July 2005

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' 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 s205G(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 The Company	Fully paid ordinary shares Orica Limited The ultimate parent entity
J C Watson	2,700	-
J Segal	-	16,412
B Healey	-	9,300
J Chesterfield	-	28,614
J E Fazzino	9,649 ⁽¹⁾	29,808
A C Larkin	-	38,000
A D McCallum	6,818	-

(1) This interest includes shares acquired pursuant to long term incentive plans; a general description of which is provided in note 32, Employee share plans.

Further details of directors' interests in share capital is 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	Held ⁽¹⁾	Attended	Held ⁽¹⁾	Attended	Held ⁽¹⁾	Attended
Current								
J C Watson	18	17			4	4	5	5
J Segal	8	6						
J Chesterfield	4	4	2	2	1	1		
J E Fazzino	4	4						
B Healey	18	15			4	3	2	2
A C Larkin	18	16	5	5	4	3		
A D McCallum	18	18	5	5	4	4	5	5
Former								
G J Witcombe	10	10						
L M Delahunty	15	15			3	3	3	3
B J Gibson	15	15			3	3		
G R Liebelt	15	14			3	3		
D B Trebeck	15	15	3	3	3	3		

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

Directors' Report

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 on pages 8 to 10 of the annual 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>				
2004 final ordinary	70	40,797	Franked	9 December 2004
2004 final special	30	17,484	Franked	9 December 2004
2005 interim ordinary	15	8,742	Franked	7 July 2005
2005 interim special	6	3,497	Franked	7 July 2005
Fixed redeemable preference ⁽¹⁾	-	737	Unfranked	27 November 2004
<i>Declared and paid after end of year</i>				
November 2005 special dividend	50	29,141	Franked	9 January 2006

Dealt with in the financial report as:	Note	\$000
Dividends	25	70,520
Subsequent event	39	29,141
Interest ⁽¹⁾	18, 25	737

(1) Dividends paid in respect of the redeemable preference shares were paid by Incitec Fertilizers Limited, a wholly owned subsidiary of the Company and were paid quarterly at 5.36% per share unfranked. These dividends were charged to the Statements of Financial Performance as borrowing costs because these shares were classified as liabilities.

Changes in the state of affairs

2005 saw a significant rationalization of the fertiliser industry. ELF Australia Pty Ltd (ELF) was formed in December 2004, and is owned 50% by Landmark Operations Ltd and 50% by Elders Limited. ELF purchased a 66.7% shareholding in Hi-Fert Pty Ltd. At the same time Elders Limited and Landmark Operations Ltd (who combined, purchased 29% of the fertiliser volume sold by the Company in 2004) announced that they intended to purchase fertiliser exclusively through ELF and that ELF would source product from Hi-Fert Pty Ltd with the balance from other suppliers in the open market. Incitec Pivot 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. Significant costs associated with this restructure are set out in note 5, Individually significant items, in the financial report.

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 special dividend for the Company of 50 cents per share. This dividend is fully franked at the 30% corporate tax rate and is payable on 9 January 2006. (see note 25).

The directors have not become aware of any other significant matter or circumstance that has arisen since 30 September 2005 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 operations of the Consolidated entity on pages 8 to 10 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, including management processes, are available in the Safety, Health and Environment section on pages 11 to 13 of the annual report.

Indemnification and insurance of officers

The Company's constitution provides the Company must indemnify any person who is, or has been, an officer of the Company or its wholly owned subsidiaries, including the directors, the secretary and other executive officers, against any liability incurred by such an officer including for any liability incurred as a result of appointment or nomination by the Company or subsidiary as a trustee or as an officer of another corporation, unless the liability arises out of conduct involving a lack of good faith.

The Constitution further provides that subject to the Corporations Act 2001(Cth), the Company may enter into agreements with officers or former officers to give effect to this right of indemnity. 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 no non-audit services during the year ended 30 September 2005. (See note 6)

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 39 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 2005. This Remuneration Report is audited unless otherwise stated.

Contents

- A. Non-executive directors' fees
- B. Executives' remuneration policy
- C. Managing Director & Chief Executive Officer's employment arrangements and remuneration
- D. Executives' employment arrangements and remuneration
- E. Equity instruments held by directors and specified executives

The Board comprises 7 directors, 5 of whom are non-executive directors and 2 are executive directors. There are 6 members of the executive team which includes the executive directors (the details for which are set out in sections B, C and D of this remuneration report). When used in this report, the term "executives" or "specified executives" means both the executive directors and the executive team. For the purposes of AASB 1046, the specified executives had the greatest authority for the strategic direction and management of the Consolidated entity during the financial year.

A. 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 directors reflect the time commitments and responsibilities of non-executive directors.

In determining the level of fees, the Remuneration and Appointments Committee, which makes recommendations to the Board, takes into account:

- the current level of fees;
- external professional advice;
- 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. 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 the nature and amount of each element 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 and D of this remuneration report):

Directors' Report

Remuneration Report

A. Non-executive directors' fees (continued)

Directors' remuneration

For the year ended 30th September

	Year	Primary			Equity	Post	Other	Total	Performance
		Fees / base salary \$	Short term incentive ^(A) \$	Non-monetary benefits ^(B) \$	compensation Value of options ^(C) \$	employment Superannuation benefits \$	compensation Retirement benefits \$		related remuneration %
Non-executive directors									
- Current									
J C Watson, Chairman ⁽¹⁾	2005	219,670	-	-	-	21,726	-	241,396	-
	2004	193,908	-	-	-	18,855	-	212,763	-
J R Chesterfield ^{(2) (5)}	2005	19,250	-	-	-	-	-	19,250	-
	2004	-	-	-	-	-	-	-	-
B Healey	2005	82,610	-	-	-	-	-	82,610	-
	2004	71,500	-	-	-	3,053	-	74,553	-
A C Larkin	2005	92,470	-	-	-	9,145	-	101,615	-
	2004	84,385	-	-	-	8,190	-	92,575	-
A D McCallum ⁽¹⁾	2005	102,093	-	-	-	10,097	-	112,190	-
	2004	93,427	-	-	-	9,067	-	102,494	-
- Former^{(3) (4)}									
L M Delahunty	2005	65,863	-	-	-	6,810	81,018	153,691	-
	2004	75,344	-	-	-	7,313	-	82,657	-
B J Gibson ^{(5) (6)}	2005	63,258	-	-	-	2,228	-	65,486	-
	2004	71,500	-	-	-	-	-	71,500	-
G R Liebelt ⁽⁵⁾	2005	57,750	-	-	-	-	-	57,750	-
	2004	71,500	-	-	-	-	-	71,500	-
D B Trebeck	2005	68,860	-	-	-	6,810	-	75,670	-
	2004	75,344	-	-	-	7,313	-	82,657	-
Total non-executive directors	2005	771,824	-	-	-	56,816	81,018	909,658	-
	2004	736,908	-	-	-	53,791	-	790,699	-
Executive directors									
- Current									
J Segal ⁽⁷⁾	2005	181,669	-	14,077	-	3,862	-	199,608	-
Managing Director and CEO	2004	-	-	-	-	-	-	-	-
J E Fazzino ⁽²⁾	2005	292,412	-	27,927	12,689	11,723	-	344,751	4%
Finance Director and Chief Financial Officer	2004	273,852	68,672	16,102	12,689	11,147	-	382,462	21%
- Former									
G J Witcombe ⁽⁷⁾	2005	493,633	34,132	85,530	59,524	8,689	-	681,508	14%
Managing Director and CEO	2004	624,353	228,749	70,609	79,365	11,147	-	1,014,223	30%
Total executive directors	2005	967,714	34,132	127,534	72,213	24,274	-	1,225,867	9%
	2004	898,205	297,421	86,711	92,054	22,294	-	1,396,685	28%
Total of all directors	2005	1,739,538	34,132	127,534	72,213	81,090	81,018	2,135,525	5%
	2004	1,635,113	297,421	86,711	92,054	76,085	-	2,187,384	18%

(A) No short term incentive (STI) payment or other cash incentive bonus has been paid or accrued for the 30 September 2005 financial year for any of the current directors.

(B) Non monetary benefits include Fringe Benefits Tax paid, rent and mortgage interest subsidy, relocation allowances, other allowances and gap payments in relation to health expenses. 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 Long Term Incentive Plans (LTIs). The benefit received as a result of participation by JE Fazzino and GJ Witcombe in the LTIs have been treated as options. There is currently no Australian Accounting requirement to record an expense for the fair value of such options. However AASB 1046: "Director and Executive Disclosures by Disclosing Entities" requires Incitec Pivot to derive a value for these and include the value in the director and executive remuneration disclosures. The combination of shares and the loan provided to fund those shares together constitute an immediately vesting option under AASB 1046. Accordingly, an option pricing model was adopted to derive a value. Loan forgiveness is incorporated into the option valuations. External valuation advice from PricewaterhouseCoopers has been used to determine the fair value of the 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 the 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 a loan waiver arises, being 30 September 2005 and 30 September 2006 for the retention plan and performance plan respectively. The value disclosed in the remuneration tables represents the portion of fair value allocated to this reporting period. Refer to section B of this remuneration report for further details of the LTIs. The "value of options" column does not include the shares (treated as options for the purposes of remuneration) allocated in October 2005 under the performance plan. Refer to section E.2 of this remuneration report. The terms and conditions of each award affecting remuneration in this or future reporting periods are as follows:

LTIs	Grant date	Expiry date	Value per share at grant date	Date exercisable
Retention plan	1/06/2003	30/09/2005	\$1.95	From 1/10/2005
Performance plan	1/10/2003	30/09/2006	\$5.71	From 1/10/2006

The number of shares (treated as options for the purposes of remuneration) held by each specified director and each specified executive is detailed in section E of this remuneration report.

Directors' Report

Remuneration Report

A. Non-executive directors' fees (continued) Directors' remuneration (continued)

- (1) If J C Watson or A D McCallum had ceased to be directors on 30 September 2005, the following benefits would have been payable under their respective contracts: Mr Watson \$314,475, Mr McCallum \$157,411.
- (2) J R Chesterfield and J E Fazzino were appointed on 18 July 2005. Total remuneration paid to Mr Fazzino whilst he was a specified executive was \$280,407, and total remuneration paid to Mr Fazzino whilst he was an executive director was \$64,344.
- (3) L M Delahunty, B J Gibson, G R Liebelt and D B Trebeck resigned as directors on 18 July 2005.
- (4) On resignation as a director, L M Delahunty was paid \$81,018 as his contractual entitlement for retirement benefit. B J Gibson, G R Liebelt and D B Trebeck were not entitled to, and were not paid, any retirement benefit.
- (5) The fees were paid to their employer, Orica Limited, the ultimate parent company.
- (6) Fees of \$38,500 were paid to Ms Gibson's employer, Orica Limited, the ultimate parent company, until her resignation from Orica on 31 March 2005. Fees of \$26,986 (including superannuation) were paid directly to Ms Gibson prior to her resignation as a director of Incitec Pivot on 18 July 2005.
- (7) 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 Witcombe resigned as a director on 3 June 2005. Further details are summarised in sections C and D of this remuneration report.

B. Executives' remuneration policy

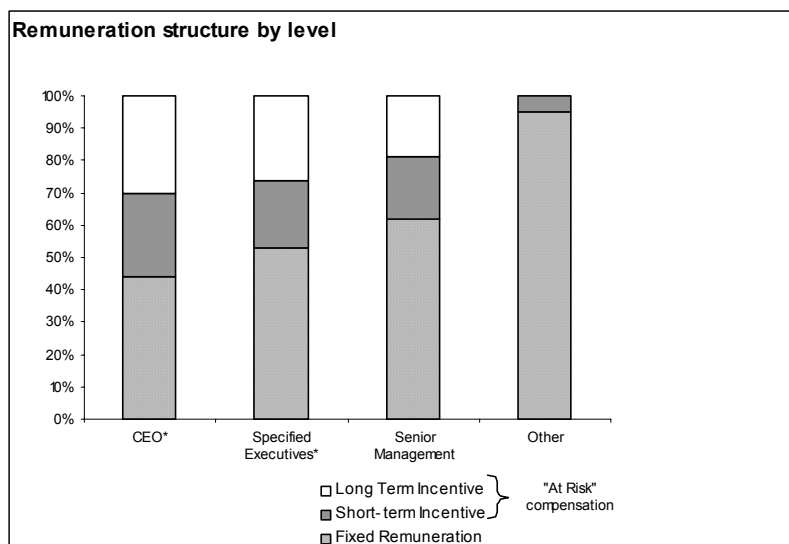
The remuneration of the executives is set by the Board on recommendation from the Remuneration and Appointments Committee. The Company's policy and practice for executive remuneration is designed to attract, retain and motivate appropriately qualified and experienced individuals capable of discharging their respective responsibilities in supporting the Company's business and strategy. The remuneration packages for executives include both a fixed component and an incentive or performance-related component, designed to create a clear link between reward for the executive and the creation of shareholder value.

The remuneration of executives is set at levels to properly reflect the duties and responsibilities of those executives. The mix between fixed remuneration and incentive 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 and are benchmarked to market using information and advice from external consultants.

The following table shows how remuneration for executives is structured:

Table B.1



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 LTIs or STIs was taken into account.

* Participation in a long term incentive plan for Mr Segal, as Managing Director and CEO, and Ms Cleland, as a specified executive, is under Orica's Long Term Incentive plan, not Incitec Pivot's LTIs. Refer to sections C and D of this remuneration report.

Directors' Report

Remuneration Report

B. Executives' remuneration policy (continued)

Fixed Remuneration

The terms of employment for all executives contain a fixed remuneration component. In general, this is expressed as a total amount of salary and other benefits that the executive may take in a form agreed with the Company. 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.

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. For the executives, this comprises, in general, an amount equal to 20% of their fixed annual remuneration for target performance and up to an amount equal to 40% of their fixed annual remuneration for stretch performance well in excess of target performance. No incentives are awarded where performance falls below the minimum.

The Board sets the criteria for awarding the STI annually. The targets are heavily weighted (60% in 2005) to improving the financial performance of the business as measured by growth in Net Profit after Tax (NPAT) before individually significant items. NPAT (before individually significant 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).

15% 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 individual significant 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 Plans (LTIs)

Overview

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 2 types of LTIs: the retention plan and the performance plan. The LTIs are designed to reward executives for delivering long term value to the Company and support the Company's strategy for retention and motivation of executives.

Under the LTIs, Incitec Pivot may grant awards to executives, subject to them satisfying particular conditions relating to the duration of their employment (retention plan) or individual or Company performance (performance plan). In short, the LTIs operate by way of the Company providing executives 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. The Company may forgive repayment of part of a loan amount depending on, in the case of the retention plan, the satisfaction of a condition as to duration of employment, and in the case of the performance plan, the achievement of performance measures. Participants receiving shares under the LTIs hold full voting and dividend rights.

Further details of each of the LTIs are set out below.

Retention Plan

At the time of the merger of Incitec Fertilizers Limited and the Company, the Board recognised that a crucial element to the success of the merger was the retention of key senior management and certain key employees. This was necessary to ensure the capture of synergies and the uninterrupted delivery of service to Incitec Pivot's customers. Accordingly, a one-off long term incentive was granted 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. These loans were used in the purchase of shares on market and the shares were registered in the name of the participants. The participants were restricted from dealing in the shares until 30 September 2005 and, until that time, the shares could be forfeited if the participant ceased to be employed by Incitec Pivot. The loans are repayable on the earlier of the participant ceasing to be employed by Incitec Pivot, the participant selling his/her shares or three years after the loan is made. On repayment, for those participants satisfying the condition by remaining in employment until 30 September 2005, 51.5% of the amount of their outstanding loan will be forgiven by the Company.

Performance Plan

Under the performance plan, awards, by way of forgiveness of loans, are granted only on the achievement of certain performance measures over a rolling three year period. Adoption of this longer term incentive plan created the opportunity, and provided the discipline, for executives and other senior employees to contribute to short term performance but with full regard to the delivery of sustainable growth in shareholder value.

Directors' Report

Remuneration Report

B. Executives' remuneration policy (continued)

Performance Plan (continued)

For the period from 1 October 2003 to 30 September 2006, participants were each advanced limited recourse, interest bearing, unsecured loans by the Company, which were used in the purchase of shares in the Company. The shares were allocated in 2 tranches, in September 2004 and October 2005.

The Company may require shares to be forfeited if the relevant participant ceases to be employed by Incitec Pivot prior to 30 September 2006. Subject to the Company achieving certain performance measures, the whole or part of the loan will be waived on or after 1 October 2006. 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. LTI awards, in the form of waivers of loans, 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 executives 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. The loans are immediately repayable on the earlier of a relevant participant ceasing to be employed by Incitec Pivot, the participant dealing in his or her shares, or 31 December 2007. 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 7.05%). Net cash dividends after personal income tax obligations are applied to reduce the loan balance.

Relationship between Company performance and remuneration

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 B.2

	2005	2004	2003	2002 ¹	2001 ¹
Net Profit After Tax (before individually significant items) (\$m)	37.6	80.9	35.0	21.2	(6.5)
Economic Profit (\$m)	(18.2)	19.1	(15.9)	(2.4)	(30.2)
Dividends paid (\$m)	70.5	16.9	24.5	-	-
Share price (\$) (Year End)	15.82	18.8	15.66	N/A	N/A

The above table has not been subject to audit.

⁽¹⁾ Indices for 2001 and 2002 are for the Company and pre-date the merger of Incitec Fertilizers Limited and Pivot Limited.

For the STI, Net Profit After Tax (before individually significant items) is the principal measure. In 2004, NPAT, (before individually significant items) increased by 131% over 2003 to \$80.9m which largely reflected the generation of \$50.6m before tax in merger synergies. In 2005, NPAT (before individually significant items) declined by 54% to \$37.6m reflecting a combination of poor seasonal conditions and strong competition. On safety, in 2004 there was excellent progress made with the recordable case rate of 1.09 compared to 1.69 for 2003 full year which equated to 13 recordable injuries for the Company in 2004, compared to 23 injuries in 2003. In 2005, good progress was made in safety with the recordable case rate declining to 0.99 and most of the performance measures supporting the delivery of the strategy were delivered.

Notwithstanding the performance in safety and against strategic measures, no STI payments were awarded to the executives in 2005 due to the decline in NPAT (before individually significant items).

In the case of the retention plan, which was designed to retain and motivate high calibre executives in order to deliver the synergies from the merger, awards in the form of waivers of loans were made to Mr Fazzino and Mrs Gleeson, each of whom satisfied the conditions for an award to be made, that is, remaining with the Company until 30 September 2005. In accordance with the rules of the retention plan, notwithstanding their employment ceased prior to 30 September 2005, Mr Witcombe, Mr Warnock and Mr Elmer were also granted awards in the form of pro rata waivers of loans.

As referred to above, for the performance plan, no awards (in the form of waivers of loans) have been made under the performance plan, as such are not to be determined until 30 September 2006, when the cumulative three year performance period concludes.

Directors' Report

Remuneration Report

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

Managing Director & CEO – Mr J Segal

Mr Segal is on secondment to Incitec Pivot from Orica Limited with whom he has been employed pursuant to an agreement dated 22 April 2002. His remuneration arrangements are in accordance with an agreement between Mr Segal and Incitec Pivot Limited dated 27 June 2005, which supplements his employment agreement with Orica Limited. The details of his remuneration are as follows (all remuneration is from Incitec Pivot unless otherwise stated):

Fixed Annual Remuneration

Mr Segal's fixed annual remuneration is \$560,000, to be 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 30% of fixed annual remuneration up to a maximum of 60% of fixed annual remuneration for over performance against specified measures.

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

Long Term Incentive

Mr Segal is not eligible to participate in Incitec Pivot's LTIs. However, Mr Segal is eligible to participate in Orica's Long Term Incentive Plan under which he is entitled to equity compensation from Orica Limited of a value equal to 70% of his fixed annual remuneration, subject to achievement of long term performance targets related to growth in the Orica Group's total shareholder return over a 3 year period.

Former Managing Director & CEO – Mr G J Witcombe

Mr Witcombe resigned as a director of Incitec Pivot on 3 June 2005. Prior to his resignation, while in employment, Mr Witcombe was entitled to an annual base salary of \$682,640 and other benefits on terms commensurate with his position, the industry and the size of the Company.

Mr Witcombe's employment agreement also included an entitlement for him to participate in Incitec Pivot's STI. Mr Witcombe's participation was based on 30% of base salary and was subject to achievement of certain performance targets, and for over performance of such targets, could increase to 60% of base salary. In addition, Mr Witcombe was eligible to participate in Incitec Pivot's LTIs. His participation in the retention plan was based on 35% per annum of base salary applied to the period 1 June 2003 to 30 September 2005. His participation in the performance plan was based on 70% per annum of base salary for the period 1 October 2003 to 30 September 2006, subject to achievement of certain performance targets, and, for over performance of such targets, could increase to 140% per annum of base salary. Details of the performance measures used for the STI and the hurdles against which performance is measured for an award under the performance plan are set out in section B of this remuneration report.

On his resignation, Mr Witcombe's entitlement to the STI and LTIs were reduced to reflect his actual period of employment with the Company, and he received:

- a payment on account of his entitlement to a STI of \$34,132.
- a loan forgiveness of \$256,550 against the loan granted to Mr Witcombe in 2003 which was applied in the purchase of shares in the Company in accordance with the rules of the retention plan. The amount of the loan forgiveness was calculated by reference to his period of employment with the Company up to June 2005.
- a loan forgiveness of \$133,494 against the loans made under the performance plan, equal to 40.25% of fixed annual remuneration. The Board determined this amount after assessment of performance against the relevant hurdles up to June 2005, the date Mr Witcombe's employment with Incitec Pivot ceased.

Mr Witcombe did not receive a retirement benefit.

Directors' Report

Remuneration Report

D. Executives' employment arrangements and remuneration

Remuneration and other terms of employment for the specified executives (excluding Mr Segal, whose arrangements are set out in section C 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. Opportunity is 20% of fixed annual remuneration up to a maximum of 40% of fixed annual remuneration for over performance against specified measures.								
LTI Plan	Participation is at the Board's discretion. Opportunity is 25% of fixed annual remuneration up to a maximum of 50% of fixed annual remuneration for over performance against specified measures.								
Termination by Incitec Pivot	<p>Incitec Pivot may terminate the service agreements:</p> <ul style="list-style-type: none"> 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. <p>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 service with the Orica Group, and is as follows for each Specified Executive (excluding Mr Segal and Ms Cleland):</p> <table border="0"> <tr> <td>Mr James Fazzino</td> <td>51.6 weeks</td> </tr> <tr> <td>Mrs Kerry Gleeson</td> <td>26.0 weeks</td> </tr> <tr> <td>Mr Daryl Roe</td> <td>70.48 weeks</td> </tr> <tr> <td>Mr Bernard Walsh</td> <td>61.81 weeks</td> </tr> </table>	Mr James Fazzino	51.6 weeks	Mrs Kerry Gleeson	26.0 weeks	Mr Daryl Roe	70.48 weeks	Mr Bernard Walsh	61.81 weeks
Mr James Fazzino	51.6 weeks								
Mrs Kerry Gleeson	26.0 weeks								
Mr Daryl Roe	70.48 weeks								
Mr Bernard Walsh	61.81 weeks								
Termination by executive	The executive may terminate his/her employment on 13 weeks' 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 is 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. In addition to her fixed annual remuneration she is eligible to participate in Incitec Pivot's STI. This is based on 20% of fixed annual remuneration up to a maximum of 40% of fixed annual remuneration for over performance against specified measures.

Ms Cleland is not eligible to participate in Incitec Pivot's LTIs. However, Ms Cleland is eligible to participate in Orica's Long Term Incentive Plan under which she is entitled to equity compensation of a value equal to 25% of fixed annual remuneration, subject to achievement of long term performance targets related to growth in the Orica Group's total shareholder return over a 3 year period.

In addition, under the terms of her secondment, Ms Cleland was granted a discretionary bonus of up to 50% of her fixed annual remuneration (pro-rata) against agreed objectives until 1 October 2005, in respect of which Ms Cleland was awarded \$42,500 against objectives supporting the delivery of the Company's strategy.

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 the following table.

Directors' Report

Remuneration Report

D. Executives' employment arrangements and remuneration (continued)

Specified executives remuneration

For the year ended 30th September

	s300A/ AASB 1046	Year	Primary			Equity compensation	Post employment	Other compensation	Total	Performance related remuneration
			Base salary \$	Short term incentive or bonus ^(A) \$	Non-monetary benefits ^(B) \$	Value of options ^(C) \$	Superannuation benefits \$	Termination benefits \$		\$
Specified executives										
- Current										
K J Gleeson	a, b	2005	258,027	-	-	7,623	11,723	-	277,373	3%
General Counsel & Company Secretary	b	2004	157,554	29,603	-	4,838	7,113	-	199,108	17%
D A Roe	a, b	2005	253,274	-	9,654	5,211	11,723	-	279,862	2%
General Manager Commercial	b	2004	171,603	31,880	9,254	5,212	8,397	-	226,346	16%
A Cleland ⁽¹⁾	b	2005	80,781	42,500	-	-	3,935	-	127,216	33%
General Manager Strategy & Business Development		2004	-	-	-	-	-	-	-	0%
B C Walsh ⁽²⁾	b	2005	129,069	-	3,249	1,737	5,931	-	139,986	1%
General Manager Supply Chain		2004	-	-	-	-	-	-	-	0%
- Former										
J W Elmer	a, b	2005	258,417	-	-	11,464	11,729	215,239	496,849	2%
General Manager Human Resources	b	2004	268,769	50,438	-	12,506	11,607	-	343,320	18%
R Hoggard	b	2005	140,583	-	40,799	6,251	5,792	-	193,425	3%
General Manager Manufacturing & SH&E	a, b	2004	280,127	67,133	28,443	12,501	11,147	-	399,351	20%
J M Lloyd	b	2005	201,515	-	13,096	9,259	13,736	17,122	254,728	4%
General Manager Commercial	a, b	2004	275,622	74,592	8,799	13,888	35,635	-	408,536	22%
A K Sharma	b	2005	-	-	-	-	-	-	-	0%
General Counsel & Company Secretary	a, b	2004	92,002	-	212,144	-	7,083	124,521	435,750	0%
J R Warnock	a, b	2005	261,227	-	52,063	11,488	11,723	236,358	572,859	2%
General Manager Logistics & Supply	a, b	2004	247,602	62,752	19,942	11,488	11,147	-	352,931	21%
Total specified executives	b	2005	1,582,893	42,500	118,861	53,033	76,292	468,719	2,342,298	4%
	b	2004	1,493,279	316,398	278,582	60,433	92,129	124,521	2,365,342	16%

(A) No STI or other cash incentive bonus has been paid or accrued for the 30 September 2005 financial year with the exception of Ms Cleland, who was awarded a discretionary bonus.

(B) Non monetary benefits include Fringe Benefits Tax paid, rent and mortgage interest subsidy, relocation allowances, other allowances and gap payments in relation to health expenses. 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 LTIs. The benefit received as a result of participation by the relevant specified executives in the LTIs have been treated as options. There is currently no Australian Accounting requirement to record an expense for the fair value of such options. However AASB1046: "Director and Executive Disclosures by Disclosing Entities" requires Incitec Pivot to derive a value for these items and include the value in the director and executive remuneration disclosures. The combination of shares and the loan provided to fund those shares together constitute an immediately vesting option under AASB1046. Accordingly, an option pricing model was adopted to derive a value. Loan forgiveness is incorporated into the option valuations. External valuation advice from PricewaterhouseCoopers has been used to determine the fair value of the 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 the 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 2005 and 30 September 2006 for the retention plan and performance plan, respectively. The value disclosed in the remuneration tables represents the portion of fair value allocated to this reporting period. Refer to section B of this remuneration report for further details of the LTIs. The "value of options" column does not include the shares allocated in October 2005 under the performance plan. Refer to section E.2 of this remuneration report. The terms and conditions of each award affecting remuneration in this or future reporting periods are as follows:

LTIs	Grant date	Expiry date	Value per share at grant date	Date exercisable
Retention plan	1/06/2003	30/09/2005	\$1.95	From 1/10/2005
Performance plan	1/10/2003	30/09/2006	\$5.71	From 1/10/2006

The number of shares (treated as options for the purposes of remuneration) held by each specified director and each specified executive is detailed in the section E of this remuneration report.

- (1) On 6 June 2005, Ms Cleland was seconded to Incitec Pivot Limited pursuant to her employment agreement with Orica Limited.
- (2) Mr Walsh was appointed to the executive team on 1 April 2005, following the resignation of Mr Hoggard.

Directors' Report

Remuneration Report

D. Executives' employment arrangements and remuneration (continued)

Specified executives remuneration (continued)

- (a) Executive is included as one of the five named company executives or relevant group executives who receive the highest remuneration in the current financial year in accordance with Section 300A of the Corporations Act 2001 (Cth). For 2005 and 2004, J E Fazzino is also one of the five named company executives who received the highest remuneration. Mr Fazzino was appointed an executive director on 18 July 2005, and details of his remuneration are in the table titled "Directors' Remuneration" set out in section A of this remuneration report.
- (b) Executive is included as a specified executive in accordance with Accounting Standard AASB 1046 Director and Executive Disclosures for Disclosing Entities for the consolidated entity. For 2004, J E Fazzino is also one of the specified executives. Mr Fazzino was appointed an executive director on 18 July 2005, and details of his remuneration are in the table titled "Directors' Remuneration" set out in section A of this remuneration report.

For details of remuneration paid to executives and their employment arrangements refer to sections C and D of this remuneration report.

Analysis of bonuses included in remuneration

Details of the vesting profile of the STI payments or other bonuses awarded as remuneration to each 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	-	-	100%
J E Fazzino	-	-	100%
- Former			
G J Witcombe	34,132	11%	89%
Specified executives			
- Current			
K J Gleeson	-	-	100%
D A Roe	-	-	100%
A Cleland ^(C)	42,500	100%	0%
B C Walsh	-	-	100%
- Former			
J W Elmer	-	-	100%
R Hoggard	-	-	100%
J M Lloyd	-	-	100%
J R Warnock	-	-	100%

(A) 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. No amounts vest in future financial years in respect of the STI for the 2005 financial year.

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

(C) For further details of the amount paid to Ms Cleland, refer to remuneration arrangements as set out in section D of this remuneration report.

Directors' Report

Remuneration Report

E. Equity instruments held by directors and specified executives

E.1 Shareholdings of directors and specified executives

The movement during the reporting period in the number of ordinary shares (including shares treated as options for the purposes of remuneration) of Incitec Pivot and 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 specified director and specified executive (including by their personally-related entities) is as follows:

	Number of Shares			
	Opening balance (A)	Acquired during the year (B)	Disposed during the year (C)	Closing balance (D)
The Company - Incitec Pivot				
Specified non-executive directors				
- Current				
J C Watson	2,700	-	-	2,700
A D McCallum	6,818	-	-	6,818
- Former				
L M Delahunty	6,478	-	(6,478)	-
D B Trebeck	4,000	-	(4,000)	-
Specified executive directors				
- Current				
J E Fazzino ⁽¹⁾	9,581	68	-	9,649
- Former				
G J Witcombe	59,778	-	(59,778)	-
Specified executives				
- Current				
K J Gleeson	2,542	3,395	-	5,937
D A Roe	2,738	68	-	2,806
B C Walsh ⁽²⁾	1,881	52	-	1,933
- Former				
J W Elmer	9,479	52	(9,531)	-
R Hoggard	9,482	38	(9,520)	-
J M Lloyd	10,472	-	(10,472)	-
J R Warnock	8,632	68	(8,700)	-
Ultimate parent entity - Orica Limited				
Specified non-executive directors				
- Current				
J R Chesterfield ⁽¹⁾	28,614	-	-	28,614
B Healey	9,300	-	-	9,300
A C Larkin	38,000	-	-	38,000
- Former				
B J Gibson	255,600	55,270	(310,870)	-
G R Liebelt	454,778	423,281	(878,059)	-
D B Trebeck	9,000	-	(9,000)	-
Specified executive directors				
- Current				
J Segal ⁽²⁾	16,412	-	-	16,412
J E Fazzino	18,642	11,166	-	29,808
- Former				
G J Witcombe	103,374	196,962	(300,336)	-
Specified executives				
- Current				
D A Roe	4,534	11,913	-	16,447
B C Walsh ⁽³⁾	4,340	-	-	4,340
- Former				
R Hoggard	415	20,378	(20,793)	-
J R Warnock	1,375	5,254	(6,629)	-

Directors' Report

Remuneration Report

E. Equity instruments held by directors and specified executives (continued)

E.1 Shareholdings of directors and specified executives (continued)

The Company

- (A) Represents the holding at 1 October 2004 of shares of Incitec Pivot held by specified non-executive and executive directors and specified executives who were specified directors and specified executives of the Company during the year ended 30 September 2005. 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 as disclosed section E.2 of this remuneration report. Details of the ESOP are set out in Note 32, Employee Share Plans.
- (B) Represents shares acquired by specified directors and specified executives while they are directors or executives of the Company including:
- Acquisitions by the specified directors and specified executives who were eligible to participate in the employee share ownership plan (ESOP) and who participated in the scheme during the year. Details of the ESOP are set out in Note 32, Employee Share Plans.
 - Acquisition of shares under the LTIs (treated as options for the purposes of remuneration).
- (C) Represents shares disposed of during the year. In the case of specified directors or specified executives who ceased their directorships or employment during the year, all shares were treated as disposed as at the relevant date of cessation.
- (D) Represents the holding at 30 September 2005 of shares of Incitec Pivot, held by specified executive directors and specified executives who were directors and executives of the Company at 30 September 2005.
- (1) Includes movements and holdings as a specified executive prior to appointment as a specified executive director on 18 July 2005 in addition to movements and holdings as a specified executive director.
- (2) Opening balance represents holdings at appointment date (1 April 2005). Movements are from this date.

The Ultimate parent entity

- (A) Represents the holding at 1 October 2004 of shares of Orica Limited (including trust shares and award rights) held by specified non-executive and executive directors and specified executives who were directors and executives of the Company during the year ended 30 September 2005.
- (B) Represents shares, trust shares and award rights of Orica Limited acquired during the year by specified directors and specified executives while they are directors or executives of the Company. Acquisitions also includes options exercised which were converted to fully paid ordinary shares of Orica Limited during the year ended 30 September 2005.
- (C) Represents shares of Orica Limited disposed of during the year and trust shares converted to ordinary shares or disposed of during the year and award rights exercised or lapsed during the year. In the case of specified directors or specified executives who ceased their directorships or employment during the year, all shares were treated as disposed as at the relevant date of cessation.
- (D) Represents the holding at 30 September 2005 of shares, trust shares and award rights of Orica Limited, held by specified non-executive and executive directors and specified executives who were directors and executives of the Company at 30 September 2005.
- (1) Opening balance represents holdings at appointment date (18 July 2005). Movements are from this date.
- (2) Opening balance represents holdings at appointment date (3 June 2005). Movements are from this date.
- (3) Opening balance represents holdings at appointment date (1 April 2005). Movements are from this date.

Directors' Report

Remuneration Report

E. Equity instruments held by directors and specified executives (continued)

E.1 Shareholdings of directors and specified executives (continued)

	Number of Options				
	Opening Balance ^(A)	Acquired during the year ^(B)	Exercised during the year ^(C)	Lapsed during the year ^(D)	Closing Balance
Ultimate parent entity - Orica Limited					
Specified non-executive directors					
- Current					
J R Chesterfield ⁽¹⁾	28,508	-	-	-	28,508
- Former					
B J Gibson	50,000	-	(50,000)	-	-
G R Liebelt	309,600	-	(292,000)	(17,600)	-
Specified executive directors					
- Current					
J Segal ⁽²⁾	109,634	-	-	-	109,634
J E Fazzino ⁽³⁾	10,861	-	(10,861)	-	-
Specified executives					
- Current					
D A Roe	47,550	-	(11,887)	-	35,663
- Former					
J R Warnock	5,254	-	(5,254)	-	-

The Ultimate parent entity

- (A) Represents the holding at 1 October 2004 of options for fully paid ordinary shares of Orica Limited (the Ultimate parent entity) held by specified non-executive and executive directors and specified executives who were directors and executives of the Company during the year ended 30 September 2005.
- (B) Represents options for fully paid ordinary shares of Orica Limited acquired during the year by specified non-executive and executive directors and specified executives while they are directors or executives of the Company.
- (C) Represents options for fully paid ordinary shares of Orica Limited which were exercised or lapsed during the year by specified non-executive and executive directors and specified executives while they are directors or executives of the Company. In the case of specified directors or specified executives who ceased their directorship or employment during the year, all options of fully paid ordinary shares of Orica Limited were treated as disposed as at the relevant date of cessation.
- (D) Represents the holding at 30 September 2005 of options for fully paid ordinary shares of Orica Limited (the Ultimate parent entity) held by specified non-executive and executive directors and specified executives who were directors and executives of the Company during the year ended 30 September 2005.
- (1) Opening balance represents holdings at appointment date (18 July 2005). Movements are from this date.
- (2) Opening balance represents holdings at appointment date (3 June 2005). Movements are from this date.
- (3) Opening balance includes movements and holdings as a specified executive prior to appointment as a specified executive director on 18 July 2005, in addition to movements and holdings as a specified executive director.

Directors' Report

Remuneration Report

E. Equity instruments held by directors and specified executives (continued)

E.2 Options over equity instruments granted as remuneration

For the purposes of determining director and executive remuneration, the shares granted to the participants under the LTIs 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 35 to the Financial Report.

For the year ended 30th September 2005

	Plan	Effective grant date	Opening balance	Granted during the year as remuneration ^(A)	Awards ^(B)	Retirements / forfeits during the year ^(C)	Closing balance	Status at end of year ^(D)	Options allocated since year end ^(E)	Status ^(D)
Specified executive directors										
- Current										
J E Fazzino	Retention	1 June 2003	5,101	-	-	-	5,101	Unrestricted	-	
	Performance	1 October 2003	4,424	-	-	-	4,424	Restricted	5,130	Restricted
- Former										
G J Witcombe	Retention	1 June 2003	32,269	-	(32,269)	-	-	Repaid	-	
	Performance	1 October 2003	27,509	-	(27,509)	-	-	Repaid	-	
Specified executives										
- Current										
K J Gleeson ⁽¹⁾	Retention	1 June 2003	-	3,327	-	-	3,327	Unrestricted	5,938	Restricted
	Performance	1 October 2003	2,542	-	-	-	2,542	Restricted	-	
D A Roe	Performance	1 October 2003	2,738	-	-	-	2,738	Restricted	6,269	Restricted
B C Walsh	Performance	1 October 2003	1,825	-	-	-	1,825	Restricted	3,199	Restricted
- Former										
J W Elmer	Retention	1 June 2003	5,091	-	(5,091)	-	-	Repaid	-	
	Performance	1 October 2003	4,332	-	(4,332)	-	-	Repaid	-	
R Hoggard	Retention	1 June 2003	5,101	-	-	(5,101)	-	Forfeited	-	
	Performance	1 October 2003	4,325	-	-	(4,325)	-	Forfeited	-	
J M Lloyd	Retention	1 June 2003	5,667	-	-	(5,667)	-	Forfeited	-	
	Performance	1 October 2003	4,805	-	-	(4,805)	-	Forfeited	-	
J R Warnock	Retention	1 June 2003	4,534	-	(4,534)	-	-	Repayable	-	
	Performance	1 October 2003	4,042	-	(4,042)	-	-	Repayable	-	

- (A) Refers to the number of shares allocated to the participating executive or participating executive director during the financial year. These options are immediately vesting, meaning they vest upon the shares being allocated to the participant.
- (B) Represents awards (in the form of waivers of loans) granted to the applicable executives who satisfied the criteria under the relevant LTI plan. Refer to section B of this remuneration report for further details of the LTIs.
- (C) The applicable executive ceased to be employed by the Company and thus forfeited all rights to the underlying shares. Consequently the Company sold the underlying shares.
- (D) "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. All retention shares became unrestricted on 30 September 2005, as current participating executives satisfied the retention criteria.
"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.
- (E) Since year end a number of executives were granted additional loans which were used to purchase shares on market. Refer to details of the performance plan under section B of this remuneration report. These shares, treated as options for the purposes of remuneration, were allocated on 4 October 2005 and will be included in the remuneration report for year ended 2006.
- (1) With respect to Mrs Gleeson, her employment with Incitec Pivot commenced in February 2004 and she was granted pro-rata participation in the retention plan with effect from 1 June 2003.

Directors' Report

Corporate Governance Statement

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 considers that Incitec Pivot complies with the requirements set out in the ASX Recommendations.

For ease of reference, the table below notes those ASX Recommendations that deal with information to be disclosed in the Corporate Governance Statement and indicates where that information can be found in this report.

Disclosure required by the ASX recommendations	Reference
Functions reserved to the Board and those delegated to management	Board of Directors on page 33
Skills, experience and expertise relevant to the position of Director	Information on Directors on pages 6 to 7 and pages 15 to 16
Details of directors considered by Incitec Pivot as independent and the criteria/thresholds applied	Composition of the Board on pages 33 to 34
Procedure for independent professional advice	Access to information and independent advice on page 33
Directors' terms of office	Information on directors on pages 6 to 7
Names of the Remuneration and Appointments Committee members and attendance at meetings	Remuneration and Appointments Committee and Board meetings of directors on page 16
Composition of Board, Chairman, role of Chairman and Managing Director & CEO	Role and composition of Board on page 33
Code of conduct for directors, executives and employees	Codes of conduct on page 38
Share trading policy	Share ownership and dealing on page 38
Risk oversight	Audit and Risk Management Committee on pages 35 and 36
Audit and Risk Management Committee members and qualifications	Audit and Risk Management Committee on pages 35 and 36
Audit and Risk Management Committee meetings and attendance	Meetings of directors on page 16
Risk management and internal controls	Internal control and risk management on page 37
Financial statements sign off and structure of Audit and Risk Management Committee	Audit and Risk Management Committee on pages 35 and 36
Procedures for ASX disclosures	Procedures for ASX disclosure requirements on pages 32 and 33
Shareholder communications strategy	Procedures for ASX disclosure requirements on page 32 and Incitec Pivot website (www.incitecpivot.com.au)
Attendance of auditor	External auditor on page 37
Performance review	Board evaluation on page 34
Company's remuneration policies and disclosure	The remuneration report and also in note 35, Director and executive disclosures
Retirement benefits for non-executive directors	The remuneration report
Codes of conduct to guide compliance with legal and other obligations	Codes of conduct on page 38

This Corporate Governance Statement outlines the key aspects of the Company's governance framework which was established, and is continually reviewed, by the Board. Summaries of the charters, policies and codes referred to in this statement are available on the Incitec Pivot website, www.incitecpivot.com.au.

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) (Corporations Act). 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 the ASX each half year and at the Company's Annual General Meeting;
- releasing price sensitive announcements and other relevant significant announcements directly to the market via the ASX;
- conducting briefings with analysts and institutions from time to time – in doing so, Incitec Pivot recognises the importance of making sure 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

Directors' Report

Corporate Governance Statement

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.

Board of directors

The Board is responsible for directing the business of the Company towards increasing shareholder wealth and promoting the interests of Incitec Pivot's other stakeholders such as employees, customers and the community.

The Board has adopted a delegated and reserved powers policy which details those powers which are delegated to the Managing Director & CEO for exercise by businesses or corporately. The policy also reserves a number of key matters for consideration and decision by the Board, these include:

- *Direction and objectives* - charting and monitoring the direction, policies and financial objectives of the Company;
- *Compliance* - ensuring and monitoring compliance with legal requirements and standards of performance;
- *Ethical* - implementing procedures and principles to ensure the Company carries on its business ethically, with openness, honesty and integrity; and
- *Managing Director & CEO and other Officers* - appointing, terminating and reviewing the performance of the Managing Director & CEO and implementing appropriate succession planning for the Board and management.

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.

The Board is assisted by the Company Secretary, who advises on the management of meetings, the implementation of governance procedures and compliance with regulatory requirements.

Composition of the Board

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

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 pages 6 to 7 of the annual 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.

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. In addition, to ensure continuity of directors with farming experience and agricultural connections following the merger and listing on ASX, the constitution then adopted included specific retirement provisions regarding such directors. Under these provisions, each of John Watson and Allan McCallum are eligible to hold office until the third annual general meeting after the constitution was adopted (the constitution was adopted in April 2003) and then to offer themselves for re-election. Prior to his resignation as a director in July 2005, these provisions also applied to Leo Delahunty. Thereafter, to avoid a common retirement date for directors with farming experience, the constitution provided for staggered retirement dates. Given the requirements of the Listing Rules of the ASX, as referred to above, the Company sought and obtained, from ASX, a waiver from its requirement with regard to terms in excess of three years in relation to each of these directors.

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. The Board's consideration is undertaken in recognition of its status as a subsidiary of Orica Limited. A range of factors are considered by the Board in assessing the independence of its directors, including those set out in the ASX Recommendations.

Directors' Report

Corporate Governance Statement

In assessing the independence of a director, in addition to the relationship of the director (if any) with Orica Limited (as to which see further below), 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 seven directors, the Board considers four directors are independent.

In addition at the merger, Orica Limited and Incitec Pivot entered into a Merger Implementation Deed dated 21 February 2003 under which Orica Limited agreed that, at any time when Orica is the ultimate listed holding company of Incitec Pivot and while Incitec Pivot is listed on the official list of ASX, Orica will exercise its power as holding company to support Incitec Pivot being governed in accordance with certain principles of good corporate governance. This included the Board adopting policies and procedures according to the principles of good governance consistent with those adopted by a substantial number of ASX 200 companies and for the Board to include a diversity of experience, expertise and community connections so that no individual or small group of individuals could dominate it. In this respect, Orica Limited agreed to exercise its power as holding company to support the Company having at least three members of its nine member Board having at least 10 years practical experience in managing a commercial farming business.

In July 2005, as part of the Company's restructure, which included the merger of key divisions and a reduction in staffing numbers to streamline administration and secure cost savings, the Board reviewed its composition and that of the Company's shareholders and reduced its number of Directors from nine to seven. On a smaller board, the Board sought to ensure that a good diversity of experience, expertise and community connections was achieved, reflective of the profile of the shareholder base. Of the board of seven directors, five are non-executive and, of those, four are independent. Of the four that are independent, John Watson and Allan McCallum have farming experience and agricultural connections.

Further, Incitec Pivot and Orica agreed at the time of the merger that robust documented protocols be maintained between Orica companies and Incitec Pivot companies to govern the transactions between the two corporate economic entities and to ensure the independence of Incitec Pivot companies. As part of this, Incitec Pivot's Board has a special Governance Committee which is responsible for reviewing related party transactions and making appropriate recommendations to the Board.

Performance evaluation

Board

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 2005, the Board undertook its annual performance evaluation by way of a self assessment which addressed Board structure, processes, people and dynamics.

Board committees

The Board has established three committees (for further information on these committees refer to the section "Committees of the Board" on pages 35 to 37 of this report). 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.

Directors

John Watson and Allan McCallum were first appointed as directors 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 and John Chesterfield were each appointed as directors on 18 July 2005.

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. As mentioned, a Board operational review took place in August 2005 and individual director's performance will be reviewed throughout the 2005/2006 financial year and will include one-on-one interviews with directors and the Chairman, as well as discussions on succession planning. Each of Brian Healey, John Watson and Allan McCallum who are retiring and standing for re-election at the 2006 Annual General Meeting, together with Julian Segal, John Chesterfield and James Fazzino, who were appointed by the Board and who are standing for election at the Annual General Meeting, were subject to a specific performance review prior to their nomination for re-election.

Directors' Report

Corporate Governance Statement

Executives

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 B and 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 Board. This evaluation involves an assessment of a range of performance standards as determined by the Board, including the overall performance of the Company.

Board meetings

Details of the Board meetings held during the 2004/2005 financial year are set out on page 16 of this report.

Procedures are also in place to ensure that directors can meet to consider and decide urgent 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.

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

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 in the table titled "Directors' Remuneration" set out in section A 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 2005 was within the maximum amount approved by shareholders.

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

Committees of the Board

As part of Incitec Pivot's corporate governance policy, the Incitec Pivot Board has established the following committees:

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

The committees operate in accordance with charters established by the Board. 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. In addition, regular reports of the committees' activities are provided to the Board.

Audit and Risk Management Committee

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

The qualifications of those directors appointed to the Audit and Risk Management Committee are set out on pages 6 to 7 of the annual report.

Directors' Report

Corporate Governance Statement

The current members of the Audit and Risk Management Committee are Anthony Larkin (Chairman), Allan McCallum and John Chesterfield. Although John Chesterfield is employed by Orica and is not considered independent, the majority of the Committee is independent, as recommended by the ASX Recommendations.

The attendance of the members of the Audit and Risk Management Committee at each meeting held during the financial year to 30 September 2005 is set out on page 16 of this report.

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 being made public;
- 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 its business; and
- insurance - monitor the insurance strategy of the Company and recommend approval or variation of insurance policies.

External audit

- appointment/replacement - make recommendations to the Board on the selection, evaluation and replacement of the external auditor;
- terms of engagement - review and agree with the external auditor its terms of engagement;
- 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 - make recommendations to the Board on the selection, evaluation and replacement of the internal auditor;
- scope of audit and plan - review and assess the scope of the audit and the internal audit plan;
- internal audit findings - receive reports from internal audit, management's response and the internal audit recommendations; and
- assessment - conduct an annual assessment of the effectiveness of internal controls and financial reporting procedures.

Remuneration and Appointments Committee

In recognition of the need to ensure that proper processes are in place to deal with succession issues at Board level, the Board established a Remuneration and Appointments Committee which, under its charter, is to comprise at least 3 independent non-executive directors.

The Committee comprises all Incitec Pivot Board members except the Managing Director & CEO, Julian Segal and the Finance Director and Chief Financial Officer, James Fazzino, and is chaired by the Chairman, John Watson. The Committee's charter was approved by the Incitec Pivot Board on 3 June 2003 and sets out the Committee's responsibilities. The main items of responsibility of the Committee are:

- to identify those individuals believed to be qualified to become Board members;
- in consultation with the Managing Director and CEO, to review and recommend to the Board for approval the Company's approach to compensation and to oversee the establishment of those compensation proposals;
- to identify Board members qualified to fill vacancies on any committee of the Board (including the Remuneration and Appointments Committee);

Directors' Report

Corporate Governance Statement

- to recommend the appropriate process for evaluation of the performance of the directors;
- to consider the appointment, performance and remuneration of the Managing Director & CEO; and
- to review and make recommendations to the Board as to appropriate incentive schemes for senior executives and employees.

The attendance of the members of the Remuneration and Appointments Committee at each meeting held during the financial year to 30 September 2005 is set out on page 16 of this report.

Governance Committee

This Committee was established pursuant to Incitec Pivot's constitution in recognition of the Company's status as a subsidiary of Orica Limited.

Under its charter, the Governance Committee is to comprise at least 3 independent non-executive directors. The current members of the Committee are Allan McCallum (Chairman), John Watson and Brian Healey.

The primary purposes of the Governance Committee are to ensure:

- all executives of Incitec Pivot are aware of the rules relating to related party transactions;
- that Incitec Pivot, its subsidiaries and its employees all comply with the Company's related party transactions policy;
- that any transactions that are likely to constitute related party transactions comply with the law; and
- that any related party transactions, where appropriate, are disclosed.

Except as may be provided in a power of attorney given to the members of the Committee by Incitec Pivot (in order to procure that Incitec Pivot appropriately enforces Orica's agreement with regard to corporate governance matters, as summarised under the heading Composition of the Board), the Governance Committee has no executive powers with regard to its recommendations and does not relieve the Board of its responsibilities.

Internal control and risk management

The Board has overall responsibility for the Company's systems of internal control. 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 sign off 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.

External auditor

KPMG is the Company's external auditor.

The lead audit partner and review partner of the Company's external auditor rotate every 5 years. The current lead audit partner and review partner were first appointed for the 2002/2003 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 6, Auditor's remuneration.

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

For the next Annual General Meeting to be held on 23 January 2006, the lead audit partner will attend. Shareholders now 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.

Directors' Report

Corporate Governance Statement

Share ownership and dealing

Details of shares in the Company held by the directors are set out in section E.1 of the remuneration report.

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

Under the policy, all associates are prohibited from trading in the Company's securities or Orica's securities, while in possession of inside information. Also, there are certain 'black out' periods, from the end of the financial year or half year until the relevant financial results are announced.

In addition, directors, all employees in the legal, finance, commercial and marketing business units and all other associates, who are not employees, are not permitted to trade in Incitec Pivot securities or Orica securities at any time outside designated trading windows, without a current no objection notice. Under the policy, a no objection notice is issued by the Company Secretary, or in the case of a director, the Chairman, upon the relevant person (excluding a director) confirming he or she is not aware of inside information.

The ASX is notified of any share dealings by a director within 5 business days of the dealing taking place.

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 its 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 reuse 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 16th day of November 2005



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

To: the directors of Incitec Pivot Limited

I declare to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 September 2005, there have been:

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

KPMG

Neil T Faulkner

Partner

Melbourne

16 November 2005

Statements of Financial Position

As at 30 September 2005

	Notes	Consolidated		Company	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
Current assets					
Cash assets	(9)	3,351	83,846	3,351	83,846
Receivables	(10)	75,901	123,745	107,901	142,245
Other financial assets	(13)	12,341	-	12,341	-
Inventories	(11)	271,650	246,292	271,650	246,292
Other assets	(12)	6,135	7,047	1,638	2,268
Total current assets		369,378	460,930	396,881	474,651
Non-current assets					
Receivables	(10)	2,646	3,248	383	188
Other financial assets	(13)	-	-	529,178	474,179
Property, plant and equipment	(14)	283,855	296,132	116,983	114,918
Intangible assets	(15)	174,004	183,809	-	-
Deferred tax assets	(16)	19,885	17,108	19,885	13,730
Other assets	(12)	6,574	10,166	3,201	2,296
Total non-current assets		486,964	510,463	669,630	605,311
Total assets		856,342	971,393	1,066,511	1,079,962
Current liabilities					
Payables	(17)	200,699	192,854	394,135	385,019
Interest bearing liabilities	(18)	12,514	63,055	12,514	8,055
Current tax liabilities	(19)	4,101	16,277	4,101	1,246
Provisions	(20)	43,713	26,877	43,713	22,460
Total current liabilities		261,027	299,063	454,463	416,780
Non-current liabilities					
Deferred tax liabilities	(21)	17,335	19,049	17,335	4,526
Provisions	(20)	12,821	21,762	12,821	15,372
Total non-current liabilities		30,156	40,811	30,156	19,898
Total liabilities		291,183	339,874	484,619	436,678
Net assets		565,159	631,519	581,892	643,284
Equity					
Contributed equity	(22)	532,445	532,445	532,445	532,445
Reserves	(23)	35,922	35,922	43,694	43,694
Retained profits /(losses)	(23)	(3,208)	63,152	5,753	67,145
Total equity	(24)	565,159	631,519	581,892	643,284

The Statements of Financial Position are to be read in conjunction with the Notes to the Financial Statements set out on pages 43 to 81.

Statements of Cash Flows

For the year ended 30 September 2005

	Notes	Consolidated		Company	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
		Inflows/ (Outflows)	Inflows/ (Outflows)	Inflows/ (Outflows)	Inflows/ (Outflows)
Cash flows from operating activities					
Receipts from customers		1,121,414	1,121,161	994,292	863,755
Payments to suppliers and employees		(1,019,168)	(959,165)	(914,634)	(704,217)
Interest received		1,139	388	1,139	531
Borrowing costs		(10,575)	(6,038)	(9,805)	(446)
Dividends received from wholly-owned controlled entity	(33)	-	-	20,500	16,000
Rental income		151	289	151	244
Other trading revenue received		399	191	399	-
Net income taxes paid		(23,619)	(15,351)	(23,619)	(8,842)
Net cash flows from operating activities	(26)	69,741	141,475	68,423	167,025
Cash flows from investing activities					
Payments for property, plant and equipment		(26,234)	(30,814)	(24,917)	(28,724)
Payments for purchase of investments		(5,105)	-	(60,104)	-
Proceeds from sale of property, plant and equipment		2,164	1,427	2,164	1,431
Net cash flows used in investing activities		(29,175)	(29,387)	(82,857)	(27,293)
Cash flows from financing activities					
Net movement in short term financing		(50,541)	(31,032)	4,459	(51,847)
Dividends paid	(25)	(70,520)	(16,902)	(70,520)	(16,902)
Net cash flows used in financing activities		(121,061)	(47,934)	(66,061)	(68,749)
Net (decrease)/increase in cash held		(80,495)	64,154	(80,495)	70,983
Cash at the beginning of the financial year		83,846	19,692	83,846	12,863
Cash at the end of the financial year	(26)	3,351	83,846	3,351	83,846

The Statements of Cash Flows are to be read in conjunction with the Notes to the Financial Statements set out on pages 43 to 81.

Notes to the Financial Statements

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Notes to the Financial Statements

For the year ended 30 September 2005

1. Significant accounting policies

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 to assist in a general understanding of this financial report. These policies have been consistently applied except as otherwise indicated.

(i) Basis of preparation

The financial report is a general purpose financial report prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001(Cth).

The financial report has been prepared on the basis of historical cost and, except where stated, does not take into account changing money values or fair values of non-current assets.

(ii) Change in accounting policy

During the financial year ended 30 September 2005, there have been no changes in accounting policy.

(iii) Consolidation

The controlled entities included in the consolidated financial statements are listed in note 36. Investments in controlled entities. All inter-entity transactions and balances have been eliminated on consolidation. Where entities are not controlled throughout the entire financial year, the consolidated results include the results of those entities for that part of the year during which control existed.

(iv) Revenue recognition (see note 3)

External sales, royalty income and other income are recognised when the goods and services are provided. Interest income is recognised as it accrues. Gross proceeds from sale of businesses, controlled entities and other non-current assets are recognised when there is a signed unconditional contract of sale. Dividends are recognised in the statements of financial performance when declared. Revenues are recognised at fair value of the consideration received net of the amount of GST payable to the taxation authority.

(v) Borrowing costs (see note 4)

Borrowing costs include interest, 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, borrowing costs are capitalised using a weighted average interest rate. Ancillary costs incurred in connection with the arrangement of borrowings are capitalised and amortised over the life of the borrowings.

(vi) Research and development costs (see note 4)

Research and development costs are expensed as incurred.

(vii) Taxation (see note 7)

Income tax has been brought to account using the income statement method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the Statements of Financial Position as a future income tax benefit or a provision for deferred income tax. Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt, or if relating to tax losses when realisation is virtually certain.

Capital gains tax is provided in the Statements of Financial Performance in the year in which an asset is sold.

Tax consolidation

The Company is the head entity of the tax-consolidated group comprising all the Australian wholly-owned subsidiaries set out in Note 36. The implementation date for the tax-consolidated group is 1 October 2003. The head entity recognises all the current and deferred tax assets and liabilities of the tax-consolidated group (after elimination of intragroup transactions).

The tax-consolidated group has entered into a tax funding agreement that requires wholly-owned subsidiaries to make contributions to the head entity for:

- deferred tax balances recognised by the head entity on implementation date, including the impact of any relevant reset tax cost bases: and
- current tax assets and liabilities and deferred tax balances arising from external transactions occurring after the implementation of tax consolidation.

Under the tax funding agreement, the contributions are calculated on a "stand-alone basis" so that the contributions are equivalent to the tax balances generated by external transactions entered into by wholly-owned subsidiaries. The contributions are payable as set out in the agreement and reflect the timing of the head entity's obligations to make payments for tax liabilities to the relevant tax authorities. The assets and liabilities arising under the tax funding agreement are recognised as intercompany assets and liabilities with a consequential adjustment to income tax expense.

(viii) Inventories (see note 11)

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

(ix) Maintenance, repairs and other costs (see note 12)

Expenditure for maintenance, repairs and replacements of a minor nature is expensed as incurred. Major cyclical expenditure is undertaken at the principal manufacturing plant in four to five year cycles. This plant operates continuous production processes twenty-four hours per day, seven days per week. Major cyclical expenditure, incorporating new capital expenditure, enables this plant to extend its estimated useful life and improve its performance. This expenditure is deferred and amortised over the period to which future economic benefits relate, which is generally until the

Notes to the Financial Statements

For the year ended 30 September 2005

1. Significant accounting policies (continued)

commencement of the next cycle.

The unamortised expenditure is added to the respective net book value of the major plant for the purposes of assessing recoverable value.

(x) Other financial assets (see note 13)

The Company's interests in financial assets other than controlled entities are stated at fair value, being quoted market prices at reporting date. Investment income includes dividends which are recognised in the statements of financial performance when declared.

The Company's interests in controlled entities are stated at cost. Where, in the opinion of the directors, there has been a diminution in the carrying value of an investment, the investment is written down to its recoverable amount. The expected net cash flows included in determining recoverable amounts are discounted to their present values.

(xi) Property, plant and equipment and depreciation (see note 14)

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. Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made adjustments are reflected prospectively in current and future periods only.

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
Software	3 to 7 years

The carrying amounts of all non-current assets are reviewed half-yearly to determine whether they are in excess of their recoverable amounts. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is revalued downwards to its recoverable amount and the decrement is recognised as an expense in the Statements of Financial Performance.

The expected net cash flows included in determining recoverable amounts of non-current assets are discounted to their present values.

Profits and losses on disposal of property, plant and equipment are taken to the Statements of Financial Performance.

(xii) Leased assets

Operating leases are not capitalised and lease rental payments are taken to the Statements of Financial Performance as incurred.

(xiii) Goodwill (see note 15)

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired. Goodwill is amortised on a straight-line basis over the period in which the benefits are expected to arise, not exceeding twenty years.

The carrying value is reviewed half-yearly and written down to recoverable amount. The expected net cash flows included in determining recoverable amount of goodwill are discounted to their net present values.

(xiv) Provisions (see note 20)

A provision is recognised when there is a legal, equitable 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 and the timing or amount is uncertain.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money, being risk free rates on government bonds most closely matching the expected future payments, except where otherwise noted and the risks specific to the liability. The unwinding of the discount is treated as part of the expense related to the particular provision.

Environmental liabilities

The cost of monitoring operations and treating operating wastes is taken to the Statements of Financial Performance as an operating cost as incurred.

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 Statements of Financial Performance in total as soon as the requirement to remediate 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 as it is incurred.

For sites where there are uncertainties with respect to what Incitec Pivot's remediation obligations might be or what remediation techniques might be approved, no reliable estimate can presently be made of regulatory and remediation costs and no amounts have been capitalised expensed or provided for (see note 28)

Employee entitlements

Provisions are made for liabilities to employees for annual leave, sick leave and other current employee entitlements that represent the amount for which the Consolidated entity has a present obligation. These have been calculated at nominal amounts based on the wage and salary rates that the Consolidated entity expects to pay as at each reporting date and include related on-costs. Liabilities for employee entitlements which are not expected to be settled within twelve months of balance date, such as long service leave, are accrued at the present value of future amounts expected to be paid. The present value is determined using interest rates applicable to government guaranteed securities with maturities within the next ten years.

Contributions for superannuation are taken to the Statements of Financial Performance in the year in which the payment is made (see note 34).

A liability is recognised for bonus plans when there is no realistic alternative, the benefit calculations are formally documented and determined before signing the financial report and past practice supports the calculation.

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.

Notes to the Financial Statements

For the year ended 30 September 2005

1. Significant accounting policies (continued)

Restructuring and employee termination benefits

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

Onerous contracts

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

(xv) Foreign currency translation

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 are taken to the Statements of Financial Performance.

(xvi) Cash flows (see note 26)

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

(xvii) Derivative financial instruments (see note 31)

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

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 Statements of Financial Performance.

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 Statements of Financial Performance 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 Statements of Financial Performance.

(xviii) Redeemable preference shares

Redeemable preference shares which provide for mandatory redemption are included in liabilities as they are, in substance, borrowings. Dividends payable on these shares are recognised in the Statements of Financial Performance as borrowing costs on an accruals basis.

(xix) 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 Statements of Financial Position.

Cash flows are included in the Statements 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.

(xx) Comparative figures

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

2. Segment report

During the years ended 30 September 2005 and 30 September 2004, 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 2005

	Notes	Consolidated		Company	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
3. Revenue from ordinary activities					
External sales		1,035,437	1,107,098	909,113	913,084
Sales to entities subject to common control		38,435	28,490	38,435	28,397
Other revenue from operating activities					
Dividend income					
wholly-owned controlled entities	(33)	-	-	34,000	34,500
Interest income					
common controlled entities		246	33	246	33
wholly-owned controlled entities		-	-	-	56
external parties – banks		728	521	728	530
Rental income		151	289	151	244
Other income ⁽¹⁾		38	40	38	-
From outside operating activities					
Unrealised gain on listed investment	(5)	7,236	-	7,236	-
Sale of property, plant and equipment		1,425	1,427	1,425	1,431
Total other revenue		9,824	2,310	43,824	36,794
Total revenue		1,083,696	1,137,898	991,372	978,275

(1) Includes unrealised foreign exchange gains and losses.

4. Profit/(loss) from ordinary activities before income tax expense

Profit/(loss) from ordinary activities before income tax expense is arrived at after crediting:

Profit/(loss) on sale of property, plant and equipment		494	2,238	494	2,238
Amounts withdrawn from provisions for:					
doubtful debts – trade debtors		536	-	536	-
doubtful debts – sundry debtors		247	-	247	-
Net gain/(loss) on foreign currency transactions		(361)	705	(361)	597

Profit/(loss) from ordinary activities before income tax expense is arrived at after charging:

Cost of goods sold		796,295	770,513	796,295	736,146
Borrowing costs paid/payable to					
entity subject to common control		8,069	1,669	8,069	1,677
external parties		2,260	4,291	1,736	1,148
Depreciation on property, plant and equipment					
buildings and improvements		6,235	8,288	3,234	5,070
machinery, plant and equipment ⁽¹⁾		19,503	22,336	7,969	5,123
Amortisation					
goodwill		9,805	9,945	-	-
deferred maintenance expenditure		4,748	4,748	-	-
Amounts set aside to provide for					
doubtful debts – sundry debtors		490	-	490	-
employee entitlements		4,422	4,137	4,422	840
environmental liabilities		-	270	-	270
inventory losses and obsolescence		2,917	1,276	2,917	1,276
other provisions	(20)	424	487	424	487
restructuring (significant items)	(5), (20)	24,871	-	24,871	-
Bad debts written off in respect of trade debtors		37	95	37	95
Lease payments – operating leases		12,316	11,534	12,316	11,534
Research and development		602	277	602	277
Superannuation contributions		5,826	8,113	5,826	3,336

(1) The remaining useful lives of certain manufacturing assets were extended in the second half of 2004 to align the depreciation charge with actual expected remaining useful lives.

Notes to the Financial Statements

For the year ended 30 September 2005

	2005			2004		
	Gross \$000	Tax \$000	Net \$000	Gross \$000	Tax \$000	Net \$000

5. Individually significant items

(Loss)/profit from ordinary activities includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance of the entity:

Consolidated

Business restructuring costs

Employee redundancies and allowances ⁽¹⁾	(18,065)	5,420	(12,645)	-	-	-
Restructuring and other direct costs ⁽¹⁾	(15,015)	4,145	(10,870)	-	-	-
Asset write-downs ⁽²⁾	(21,155)	6,193	(14,962)	-	-	-
Total business restructuring	(54,235)	15,758	(38,477)	-	-	-

Other

Unrealised gain from investment held for resale in listed Co ⁽³⁾	7,236	(2,171)	5,065	-	-	-
Over provision of income tax in previous years ⁽⁴⁾	-	-	-	-	697	697
Total other	7,236	(2,171)	5,065	-	697	697

Merger implementation costs

Employee redundancies and allowances	-	-	-	(6,255)	1,877	(4,378)
Environmental	-	-	-	(270)	81	(189)
Corporate launch	-	-	-	(1,498)	449	(1,049)
Asset write-downs	-	-	-	(409)	123	(286)
Transaction and implementation costs	-	-	-	(895)	269	(626)
Total merger implementation costs ⁽⁵⁾	-	-	-	(9,327)	2,799	(6,528)
Individually significant items	(46,999)	13,587	(33,412)	(9,327)	3,496	(5,831)

Company

Business restructuring costs

Employee redundancies and allowances ⁽¹⁾	(18,065)	5,420	(12,645)	-	-	-
Restructuring and other direct costs ⁽¹⁾	(15,015)	4,145	(10,870)	-	-	-
Asset write-downs ⁽²⁾	(21,155)	6,193	(14,962)	-	-	-
Total business restructuring	(54,235)	15,758	(38,477)	-	-	-

Other

Unrealised gain from investment held for resale in listed Co ⁽³⁾	7,236	(2,171)	5,065	-	-	-
Over provision of income tax in previous years ⁽⁴⁾	-	-	-	-	828	828
Total other	7,236	(2,171)	5,065	-	828	828

Merger implementation costs

Employee redundancies and allowances	-	-	-	(5,485)	1,645	(3,840)
Environmental	-	-	-	(270)	81	(189)
Corporate launch	-	-	-	(1,498)	449	(1,049)
Asset write-downs	-	-	-	(409)	123	(286)
Transaction and implementation costs	-	-	-	(895)	269	(626)
Total merger implementation costs ⁽⁵⁾	-	-	-	(8,557)	2,567	(5,990)
Individually significant items	(46,999)	13,587	(33,412)	(8,557)	3,395	(5,162)

(1) 2005 saw a significant rationalisation of the fertiliser industry. ELF Australia Pty Ltd (ELF) was formed in December 2004 and is owned 50% by Landmark Operations Ltd and 50% by Elders Limited. ELF purchased a 66.7% shareholding in Hi-Fert Pty Ltd. At the same time Elders Limited and Landmark Operations Ltd (who combined, purchased 29% of the fertiliser volume sold by Incitec Pivot in 2004) announced that they intended to purchase fertiliser exclusively through ELF and that ELF would source product from Hi-Fert Pty Ltd with the balance from other suppliers in the open market. Incitec Pivot incurred significant expenditure in reacting to the changed industry dynamics including developing and implementing a new

(2) Asset write-downs following the reassessment of carrying amounts in light of expected lower sales volumes post ELF.

(3) Unrealised gain in relation to the investment held for resale in the listed gas producer Queensland Gas Company Limited.

(4) Adjustment to income tax expense to reconcile to income tax returns as lodged.

(5) Merger implementation costs in the prior year related to the restructuring and reorganisation activities following the acquisition of Incitec Fertilizers Limited.

Notes to the Financial Statements

For the year ended 30 September 2005

	Consolidated		Company	
	2005	2004	2005	2004
	\$	\$	\$	\$
6. Auditor's remuneration				
Total remuneration received, or due and receivable, by the auditors for:				
Audit services				
Auditors of the Company - KPMG	278,400	200,000	278,400	200,000
	278,400	200,000	278,400	200,000
Non audit services				
Auditors of the Company - KPMG				
taxation services	-	95,754	-	95,754
other services	-	8,415	-	8,415
	-	104,169	-	104,169
	278,400	304,169	278,400	304,169

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.

	Consolidated		Company	
	2005	2004	2005	2004
	\$000	\$000	\$000	\$000
7. Income tax expense				
The amount of income tax attributable to the financial year differs from the amount prima facie payable on the operating profit/(loss). The differences are reconciled as follows:				
Income tax expense attributable to operating profit before significant items				
Prima facie income tax expense calculated at 30% (2004 at 30%) on profit from ordinary activities before significant items	17,434	34,937	13,751	31,901
Tax effect of permanent differences which increase/(reduce) tax expense:				
non-allowable depreciation of buildings	479	450	86	41
research and development	(433)	(287)	(433)	(287)
dividends from wholly-owned entities	-	-	(10,200)	(10,350)
tax under/(over) provided in prior years	(111)	(2,098)	(111)	(1,853)
non-allowable goodwill amortisation	2,941	2,984	-	-
non taxable (loss)/profit on sale of property, plant and equipment	75	(512)	49	(592)
income tax expense related to current and deferred tax transactions of the wholly-owned subsidiaries in the tax consolidated group	-	-	17,243	-
recovery of income tax expense under a tax funding agreement	-	-	(17,243)	-
sundry items	154	112	154	(1,388)
Income tax expense attributable to operating profit before significant items	20,539	35,586	3,296	17,472
Income tax expense attributable to significant items				
Prima facie income tax benefit calculated at 30% (2004 at 30%) on loss from significant items	(14,100)	(2,798)	(14,100)	(2,567)
Tax effect of permanent differences which increase/(reduce) tax expense				
business restructuring costs	513	-	513	-
sundry items	-	(1)	-	-
tax under/(over) provided in prior years	-	(697)	-	(828)
net deferred tax balances recognised by head entity in relation to wholly-owned subsidiaries within the tax consolidated group upon implementation of Tax Consolidation	-	-	11,145	-
recovery of income tax expense under a tax funding agreement at transition	-	-	(11,145)	-
Income tax benefit attributable to operating loss from significant items	(13,587)	(3,496)	(13,587)	(3,395)

Notes to the Financial Statements

For the year ended 30 September 2005

	Consolidated		Company	
	2005	2004	2005	2004
	\$000	\$000	\$000	\$000
7. Income tax expense (continued)				
Income tax expense/(benefit) attributable to operating profit	6,952	32,090	(10,291)	14,077
Income tax expense comprises:				
provision for income tax	11,647	18,510	11,647	3,594
deferred income tax	(1,714)	5,478	(1,714)	7,382
future income tax benefit	(2,981)	8,102	(2,981)	3,101
tax related receivable from wholly-owned tax consolidated entities	-	-	(17,243)	-
	6,952	32,090	(10,291)	14,077

Recovery of future income tax benefits included in deferred tax assets (see note 16) depends on future taxable earnings and the continuation of existing tax laws and compliance therewith.

There are no future tax benefits attributable to tax losses carried forward by controlled entities (2004 \$nil).

Deferred tax balances

As a consequence of the enactment of the Tax Consolidation legislation and the Company, as the head entity in a tax-consolidated group, implementing tax consolidation from 1 October 2003, the head entity has applied UIG 52 *Income Tax Accounting under the Tax Consolidation System*.

Where assets have had their tax value reset under tax consolidation, the subsidiary-related deferred tax balances recognised in the Company and Consolidated entity have been determined based on the tax-consolidated group carrying amount for the subsidiaries' assets less the reset tax bases. For other assets and liabilities, the subsidiary-related deferred tax balances recognised in the Company and Consolidated entity have been determined based on the previous timing differences at the level of the tax-consolidated group. The Consolidated entity has reflected all adjustments in income tax expenses as it has elected not to open past acquisition accounting. Future acquisition accounting will take deferred tax balances into account.

In the Company, the effect of implementing tax consolidation and of applying UIG 52 at 1 October 2003 was:

- an increase in deferred tax liabilities transferred from wholly owned subsidiaries in the tax consolidated group of \$8,617,000; and
- a corresponding increase in non-current intercompany receivables of \$8,617,000.

In the Consolidated entity the effect for the year ended 30 September 2005 is nil.

In the Company, the effect for the year ended 30 September 2005 has been:

- an increase in deferred tax liabilities of \$2,028,000;
- an increase in current tax liabilities of \$15,215,000; and
- an increase in current intercompany receivables of \$17,243,000.

In the Consolidated entity the effect for the year ended 30 September 2005 is nil.

Notes to the Financial Statements

For the year ended 30 September 2005

	Notes	Consolidated	
		2005 Cents per share	2004 Cents per share
8. Earnings per share (EPS)			
Basic and diluted earnings/(loss) per share			
including significant items		7	129
excluding significant items		64	139
		Number	Number
Weighted average number of shares used as the denominator:			
Number for basic and diluted earnings per share ⁽¹⁾		58,281,027	58,281,027
		\$000	\$000
Reconciliation of earnings used in the calculation of basic earnings per share including individually significant items			
Profit/(loss) from ordinary activities after income tax expense		4,160	75,039
Earnings used in calculation of EPS including individually significant items		4,160	75,039
Reconciliation of earnings used in the calculation of basic earnings per share excluding individually significant items			
Profit/(loss) from ordinary activities after income tax expense		4,160	75,039
Add back individually significant items after income tax	(5)	33,412	5,831
Earnings used in calculation of EPS excluding individually significant items		37,572	80,870

(1) No shares were issued during the year ended 30 September 2005 and 2004, thus the weighted average number of shares represents issued shares at year end.

The average market price of ordinary shares was \$18.25 (2004 \$17.33).

	Consolidated		Company	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
9. Cash assets				
Cash at bank and on hand	2,785	705	2,785	705
Deposits at call				
entity subject to common control	566	83,141	566	83,141
	(26),(31)	3,351	3,351	83,846

Notes to the Financial Statements

For the year ended 30 September 2005

	Notes	Consolidated		Company	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
10. Receivables					
Current					
Trade debtors					
external		63,950	98,384	63,950	98,384
entities subject to common control		704	3,892	704	3,892
Less provision for doubtful debts					
external		(189)	(762)	(189)	(762)
		64,465	101,514	64,465	101,514
Sundry debtors/loans					
external		5,862	18,988	5,862	18,988
entities subject to common control		5,574	3,243	5,574	3,243
wholly-owned controlled entity	(33)	-	-	32,000	18,500
		11,436	22,231	43,436	40,731
		75,901	123,745	107,901	142,245
Non-current					
Sundry debtors/loans					
external		2,646	3,248	383	188
		2,646	3,248	383	188

Significant terms and conditions

Trade debtors are carried at amounts due.

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 the year in which they are identified.

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.

11. Inventories

Raw materials and stores

At cost	(1viii)	20,440	18,775	20,440	18,775
Less provision for inventory losses and obsolescence		-	(468)	-	(468)
		20,440	18,307	20,440	18,307

Finished goods

At cost	(1viii)	255,595	230,130	255,595	230,130
Less provision for inventory losses and obsolescence		(4,385)	(2,145)	(4,385)	(2,145)
		251,210	227,985	251,210	227,985
		271,650	246,292	271,650	246,292

12. Other assets

Current

Deferred maintenance expenditure	(1ix)	21,286	16,789	-	-
Less accumulated amortisation		(16,789)	(12,041)	-	-
		4,497	4,748	-	-
Prepayments		1,638	2,299	1,638	2,268
		6,135	7,047	1,638	2,268

Non-current

Deferred maintenance expenditure	(1ix)	5,735	7,870	2,362	-
Prepayments		839	2,296	839	2,296
		6,574	10,166	3,201	2,296

Notes to the Financial Statements

For the year ended 30 September 2005

	Notes	Consolidated		Company	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
13. Other financial assets					
Current					
Investments in other entities					
Listed shares at current market value	(5),(1x)	12,341	-	12,341	-
Non-current					
Investments in controlled entities					
Unlisted shares at cost	(36)	-	-	529,178	474,179

14. Property, plant and equipment

Land, buildings and improvements					
At cost		206,809	202,790	71,591	66,763
Accumulated depreciation		(95,741)	(90,308)	(35,426)	(31,481)
At recoverable amount		16,289	14,028	16,289	14,028
Accumulated depreciation		(1,369)	(693)	(1,369)	(693)
Total net book value	(1xi)	125,988	125,817	51,085	48,617
Machinery, plant and equipment					
At cost		428,762	414,938	149,545	130,408
Accumulated depreciation		(282,352)	(259,244)	(95,104)	(78,728)
Capital works in progress		11,457	14,621	11,457	14,621
Total net book value	(1xi)	157,867	170,315	65,898	66,301
Total net book value of property, plant and equipment		283,855	296,132	116,983	114,918
Carrying value of freehold land					
(included with land, buildings and improvements)		46,368	56,135	4,067	7,025
Land held for resale					
At cost - current		2,416	9,381	2,279	-
Total (included in value of freehold land)		2,416	9,381	2,279	-

Current valuations

The most recent valuations of freehold land, buildings and improvements, which are prepared every three years, are listed below. These valuations are not incorporated in the financial statements.

	2005 \$000	2004 \$000
At directors' valuation	148,271	148,271

Valuations of land and buildings

The valuations were independently determined in 2003 on a market value for existing use basis. Capital gains tax has not been taken into account in these valuations.

Capitalised borrowing costs

No interest was capitalised during the financial year (2004 \$nil).

Notes to the Financial Statements

For the year ended 30 September 2005

14. Property, plant and equipment (continued)

Reconciliations

Reconciliations of the consolidated carrying amounts of property, plant and equipment at the beginning and end of the current financial year are set out below.

	Notes	Land, buildings and improvements \$000	Machinery, plant and equipment \$000	Total \$000
Consolidated 2005				
Carrying amount at the beginning of the financial year		125,817	170,315	296,132
Additions		6,406	19,828	26,234
Disposals		-	(931)	(931)
Depreciation expense	(4)	(6,235)	(19,503)	(25,738)
Write-down to recoverable amount	(5)	-	(11,842)	(11,842)
Carrying amount at the end of the financial year		125,988	157,867	283,855
Company 2005				
Carrying amount at the beginning of the financial year		48,617	66,301	114,918
Additions		6,097	18,820	24,917
Disposals		-	(931)	(931)
Depreciation expense	(4)	(3,234)	(7,969)	(11,203)
Write-down to recoverable amount	(5)	-	(11,842)	(11,842)
Movement in allocated assets within group		(395)	1,519	1,124
Carrying amount at the end of the financial year		51,085	65,898	116,983

	Consolidated		Company	
	2005	2004	2005	2004
	\$000	\$000	\$000	\$000
15. Intangible assets				
Goodwill, at cost	196,882	196,882	-	-
Less accumulated amortisation	(22,878)	(13,073)	-	-
Total net book value of goodwill	(1xiii) 174,004	183,809	-	-

16. Deferred tax assets

Future income tax benefit	(1vii)	19,885	17,108	19,885	13,730
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17. Payables

Current

Trade creditors					
external		194,067	177,240	194,067	177,240
entity subject to common control		900	134	900	134
wholly-owned controlled entity	(33)	-	-	118,043	120,911
Sundry creditors and accrued charges					
external		5,658	15,480	5,655	15,234
wholly-owned controlled entity	(33)	-	-	75,396	71,500
entity subject to common control		74	-	74	-
		200,699	192,854	394,135	385,019

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 32 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.

Notes to the Financial Statements

For the year ended 30 September 2005

	Notes	Consolidated		Company	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
18. Interest bearing liabilities					
Current					
Unsecured					
redeemable preference shares		-	55,000	-	-
other loans					
investment deposit scheme		12,514	8,055	12,514	8,055
		12,514	63,055	12,514	8,055

Significant terms and conditions

Interest expense is recognised progressively over the life of the loan. Refer to note 31 for financial instruments disclosures.

Net fair values

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

Redeemable preference shares

A subsidiary of the consolidated entity issued 11,000 redeemable preference shares at \$5,000 per share on 27 May 2003, which were redeemed 27 November 2004 at face value. Holders received interest of 5.36% per annum. Redemption was in the sum of \$55m funded by the subscription by the Company for ordinary shares in Incitec Fertilizers Limited. This was funded by borrowings from Orica Finance Limited, a common controlled entity.

Investment deposit scheme

Customers may invest funds with Incitec Pivot by way of unsecured notes in the Investment Deposit Scheme issued under the prospectus dated 24 December 2004, as lodged with ASIC. The interest rate offered at the date of this report is 5.75%. The scheme will be closed to new deposits on 24 January 2006.

19. Current tax liabilities

Provision for income tax	(1vii)	4,101	16,277	4,101	1,246
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20. Provisions

Current

Employee entitlements		6,585	7,823	6,585	3,406
Restructuring and rationalisation		20,218	6,130	20,218	6,130
Environmental		16,428	11,393	16,428	11,393
Other		482	1,531	482	1,531
	(1xiv)	43,713	26,877	43,713	22,460

Non-current

Employee entitlements		8,012	9,101	8,012	2,711
Environmental		4,809	12,661	4,809	12,661
	(1xiv)	12,821	21,762	12,821	15,372

Aggregate employee entitlements

Current		6,585	7,823	6,585	3,406
Non-current		8,012	9,101	8,012	2,711
		14,597	16,924	14,597	6,117

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	4.0%
Average discount rate	5.2%
Settlement term	10 years

Employees at year end	Number	Number	Number	Number
Full time equivalent	740	801	740	391

Notes to the Financial Statements

For the year ended 30 September 2005

20. 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			
Provisions made during the year	(25)	70,520	70,520
Payments made during the period	(25)	(70,520)	(70,520)
Carrying amount at the end of the financial year		-	-
Current Provision - Restructuring and rationalisation			
Carrying amount at the beginning of the financial year		6,130	6,130
Provisions made during the year	(4)	24,871	24,871
Payments made during the period		(10,783)	(10,783)
Carrying amount at the end of the financial year		20,218	20,218
Current Provision - Environmental			
Carrying amount at the beginning of the financial year		11,393	11,393
Transfers from non-current environmental provision		7,852	7,852
Payments made during the period		(2,817)	(2,817)
Carrying amount at the end of the financial year		16,428	16,428
Current Provision - Other			
Carrying amount at the beginning of the financial year		1,531	1,531
Provisions made during the year	(4)	424	424
Payments made during the period		(1,473)	(1,473)
Carrying amount at the end of the financial year		482	482
Non-Current Provision - Environmental			
Carrying amount at the beginning of the financial year		12,661	12,661
Transfers to current environmental provision		(7,852)	(7,852)
Carrying amount at the end of the financial year		4,809	4,809

	Notes	Consolidated		Company	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
21. Deferred tax liabilities					
Deferred income tax	(1vii)	17,335	19,049	17,335	4,526

Notes to the Financial Statements

For the year ended 30 September 2005

Company/Consolidated
2005 2004
\$000 \$000

22. Contributed equity

Share capital

Ordinary shares - 58,281,027 (2004 - 58,281,027)	532,445	532,445
	532,445	532,445

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

Details	Date	Number of shares	\$000
Closing balance	30 Sep 04	58,281,027	532,445
Closing balance	30 Sep 05	58,281,027	532,445

Terms and conditions

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

Notes	Consolidated		Company	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000

23. Reserves and retained profits

Reserves

Realisation and revaluation of assets	34,423	34,423	43,686	43,686
General and other	1,499	1,499	8	8
Reserves at the end of the financial year	35,922	35,922	43,694	43,694

Movement in reserves during the financial year

Realisation and revaluation of assets				
Balance at beginning of year	34,423	34,423	43,686	43,686
Balance at end of year	34,423	34,423	43,686	43,686
General and other				
Balance at beginning of year	1,499	1,499	8	8
Balance at end of year	1,499	1,499	8	8

Movement in retained profits during the financial year

Retained profits at the beginning of the financial year	63,152	5,015	67,145	343
Operating profit/(loss) after income tax attributable to members of Incitec Pivot	4,160	75,039	9,128	83,704
Less dividends paid: (25)				
2004 interim and interim special dividend	-	(16,902)	-	(16,902)
2004 final and final special dividend	(58,281)	-	(58,281)	-
2005 interim and interim special dividend	(12,239)	-	(12,239)	-
Retained profits at the end of the financial year	(3,208)	63,152	5,753	67,145

Nature and purpose of reserves

Realisation and revaluation of assets: The realisation and revaluation of assets reserve includes the net revaluation increments and decrements arising from the revaluation of non-current assets in accordance with Australian Accounting Standards.

General and other: The general reserve has been created as a result of transfers from other reserve accounts and is available for non-specific purposes.

Notes to the Financial Statements

For the year ended 30 September 2005

	Notes	Consolidated		Company	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
24. Total equity reconciliation					
Total equity at the beginning of the financial year		631,519	573,382	643,284	576,482
Total changes recognised in the Statements of Financial Performance		4,160	75,039	9,128	83,704
Transactions with owners as owners					
Dividends provided for or paid	(25)	(70,520)	(16,902)	(70,520)	(16,902)
Total equity at the end of the financial year		565,159	631,519	581,892	643,284

		Company	
		2005 \$000	2004 \$000
25. Dividends			

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

Ordinary Shares

Interim dividend of 20 cents per share, fully franked at 30%, paid 8 July 2004			11,656
Interim special dividend of 9 cents per share, fully franked at 30%, paid 8 July 2004			5,246
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	
Total ordinary share dividends paid in cash		70,520	16,902

Redeemable preference shares

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

27 November		737	737
27 February		-	737
27 May		-	737
27 August		-	737
Total redeemable preference share dividends paid in cash		737	2,948
Total dividends paid in cash		71,257	19,850

Subsequent event

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

Ordinary shares

No final 2005 dividend has been declared		-	40,797
November 2005 special dividend of 50 cents per share fully franked at 30% payable on 9 January 2006		29,141	17,484

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

Redeemable preference shares

Dividends paid in respect of the redeemable preference shares were paid by Incitec Fertilizers Limited, a wholly owned subsidiary of the Company and were paid quarterly at 5.36% per share, unfranked. Dividends on these shares were charged to the Statements of Financial Performance as borrowing costs because the shares are classified as liabilities (see note 18, Interest bearing liabilities).

Franking credits

Franking credits available to shareholders of the Company of \$14,267,909 (2004 \$2,273,063) at the 30% (2004 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.

Tax consolidation legislation

On 1 October 2003, Incitec Pivot Limited and its wholly-owned subsidiaries adopted the Tax Consolidation legislation which requires a tax-consolidated group to keep a single franking account. The amount of franking credits available to shareholders of the parent entity (being the head entity in the tax-consolidated group) disclosed at 30 September 2005 has been measured under the new legislation as those available from the tax-consolidated group.

The comparative information has not been restated for this change in measurement. Had the comparative information been calculated on the new basis, the "franking credits available" balance as at 30 September 2004 would have been \$32,061,567.

Notes to the Financial Statements

For the year ended 30 September 2005

	Notes	Consolidated		Company	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
26. Notes to the Statements of Cash Flows					
Reconciliation of cash					
Cash at the end of the financial year as shown in the Statements of Cash Flows is reconciled to the related items in the Statements of Financial Position as follows:					
Cash	(9)	3,351	83,846	3,351	83,846
		3,351	83,846	3,351	83,846
Reconciliation of (loss)/profit from ordinary activities after income tax to net cash flows from operating activities					
(Loss)/profit from ordinary activities after income tax expense		4,160	75,039	9,128	83,704
Depreciation and amortisation	(4)	40,291	45,317	11,203	10,193
(Decrease)/increase in net interest payable		(81)	(243)	165	2,291
Unrealised gain on listed investment	(5)	(7,236)	-	(7,236)	-
Write-down of property, plant and equipment (significant items)	(5)	11,842	-	11,842	-
Net (profit)/loss on sale of property, plant and equipment		(494)	(2,238)	(494)	(2,238)
Changes in assets and liabilities					
(increase)/decrease in receivables and other assets		47,298	(8,138)	32,968	(92,956)
(increase)/decrease in inventories		(25,358)	(40,649)	(25,358)	(171,926)
increase/(decrease) in deferred taxes payable		(4,491)	6,774	6,654	3,990
increase/(decrease) in payables and provisions		15,986	55,648	26,696	332,721
increase/(decrease) in income taxes payable		(12,176)	9,965	2,855	1,246
Net cash flows from operating activities		69,741	141,475	68,423	167,025

27. Commitments

Capital expenditure commitments

Capital expenditure on property, plant and equipment contracted but not provided for and payable:

no later than one year	3,313	413	3,313	413
	3,313	413	3,313	413

Lease commitments

Lease expenditure contracted for at balance date but not recognised in the financial statements and payable:

no later than one year	10,811	10,901	10,811	10,901
later than one, no later than five years	66,814	24,690	66,814	24,690
later than five years	-	37,520	-	37,520
	77,625	73,111	77,625	73,111

Representing

non-cancellable operating leases	77,625	73,111	77,625	73,111
	77,625	73,111	77,625	73,111

Notes to the Financial Statements

For the year ended 30 September 2005

28. Contingent liabilities

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

Discounted bills of exchange

A discounted bill of exchange facility is in place and is utilised by a number of customers for the purpose of trade finance. The majority of these discounted bills of exchange are used for periods less than 120 days. In the event that bills are not repaid, there is 100% recourse to the Company. In this circumstance the contingency would crystallise into an actual liability and the Company would repay the bill. The amount would only be written off if the Company was unsuccessful in collecting the underlying debt. Total discounted bills of exchange outstanding at 30 September 2005 amounted to \$65.9m (2004 \$13.7m).

Contracts, guarantees and warranties

- The Company has guaranteed seasonal borrowings of certain customers. A \$70 million facility is in place with Suncorp Metway for the calendar year ending 31 December 2005. The total amount drawn down by customers under the terms and conditions of this facility is \$25.6m. The amount guaranteed by Incitec Pivot is 4% of the total facility or \$2.8 million. In the event that customers default on the borrowing, there is recourse to the Company of up to a maximum of \$2.8m. The amount would be written off if the Company was unsuccessful in collecting the underlying debt.
- Under the terms of a Deed of Cross Guarantee entered into in accordance with the ASIC Class Order 98/1418 dated 30 September 2005, each company which is a party to the Deed has covenanted with the Trustee (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 36, Investment in controlled entities. A consolidated Statement of Financial Position and Statement of Financial Performance for this closed group is shown in note 37, 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.
- Incitec Fertilizers Limited, a wholly owned subsidiary of Incitec Pivot, terminated its supply agreement with Elders effective 16 December 2004. This termination and the payment of rebates up to \$7.4m are in dispute, the trial for which was held in the Supreme Court of South Australia in April 2005. Judgment is awaited.

There are a number of other legal claims and exposures which arise from the ordinary course of business. There is significant uncertainty as to whether a future liability will arise in respect of these items. The amount of liability, if any, which may arise cannot be reliably measured at this time. In the opinion of the directors, any further information about these matters would be prejudicial to the interests of the Company.

- There are guarantees relating to certain leases of property, plant and equipment and other agreements arising in the ordinary course of business.
- 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.

Notes to the Financial Statements

For the year ended 30 September 2005

28. Contingent liabilities (continued)

Environmental

I. *General*

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

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

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

Parafield Gardens (South Australia)

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

Wallaroo (South Australia)

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

III. *Other environmental matters*

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

The site at Cackle Creek (NSW) (owned by Incitec Fertilizers Limited) was declared and gazetted as a "remediation site" on 29 July 2005 by the Department of Environment and Conservation under the Contaminated Land Management Act, 1997. The contamination on the site arose from the use of fill material, mainly sourced from the adjacent smelter on the Pasminco site, by previous owners of the site. The Company is in discussion with the relevant regulatory authority to develop a voluntary Remediation Action Plan ("RAP") and has confirmed its position that it intends to work cooperatively with both the regulatory authority and Pasminco Cackle Creek Smelter Pty Ltd (in administration) in relation to this site. The regulatory authority has not issued a remediation order as at the date of this report.

Consistent with accounting policy set out in note 1(xiv), no environmental provision has been recognised in respect to this site on the basis that there are uncertainties surrounding Incitec Pivot's obligation with respect to the remediation requirements on the site.

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.

Notes to the Financial Statements

For the year ended 30 September 2005

29. Standby arrangements and credit facilities

	Consolidated		Company	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
Committed bank overdraft facilities available	7,000	7,000	7,000	7,000
Amount of facilities unused	7,000	7,000	7,000	7,000
Committed standby and loan facilities available	250,000	220,000	250,000	220,000
Amount of facilities unused	250,000	220,000	250,000	220,000

The committed bank overdraft facilities are provided by banks and are subject to an annual review. Orica Finance Limited, a common controlled entity, provides the committed loan facilities on arms-length commercial terms. Repayment terms range from overnight to 90 days.

30. Amounts receivable and payable denominated in foreign currencies

The Consolidated entity enters into a range of financial instruments to hedge its foreign currency receivables and payables. At year end, the Consolidated entity was exposed to currency movements on net foreign currency amounts payable of \$103.9m (2004 \$104.4m). This exposure was predominantly against the US dollar.

The Consolidated entity does not have any material exposure to currency movements on foreign currency amounts receivable and payable due to the policy of entering into a range of financial instruments to hedge the Consolidated entity's exposures.

31. Additional financial instruments disclosures

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.

For contracts which specifically hedge anticipated sales and purchases, any unrealised gains and losses on the contracts, together with the premium of the contracts are carried forward in the Statements of Financial Position and are recognised in the Statements of Financial Performance at the time the underlying transactions occur.

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

Term	Weighted average rate		Forward FX Contract	
	2005 \$	2004 \$	2005 A\$000	2004 A\$000
Buy US dollars / sell Australian dollars Not later than one year	0.7609	0.7011	106,025	110,419

Notes to the Financial Statements

For the year ended 30 September 2005

31. Additional financial instruments disclosures (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. 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 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 Statements of Financial Position and will be recognised in the Statements of Financial Performance 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.

The table below summarises the vanilla option⁽¹⁾ contracts taken out to hedge sales of the output of the Gibson Island plant.

Term	Weighted average		Contract amounts	
	AUD/USD strike rate		2005	2004
	2005	2004	2005	2004
	\$	\$	A\$000	A\$000
Not later than one year	0.6824	0.6827	30,000	50,000
Later than one year but not later than two years	0.6789	0.6824	15,000	30,000
Later than two years but not later than three years	-	0.6789	-	15,000
Total			45,000	95,000

(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 Treasury Steering Committee.

Due to the maturity of the fixed interest redeemable preference share borrowings in November 2004, the Consolidated entity is no longer exposed to fixed interest rate risk. As a consequence the interest rate swaps, which matured in October 2004, were not replaced. The notional principal amounts and periods of expiry of prior year interest rate swap contracts are as follows:

	2005	2004
	\$000	\$000
Not later than one year	-	5,000
Notional principal	-	5,000
Fixed interest rate range p.a.	N/A	6.47%
Floating interest rate range p.a.	5.10% - 5.79%	4.98% - 5.58%

Notes to the Financial Statements

For the year ended 30 September 2005

31. Additional financial instruments disclosures (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:

	Notes	Floating interest rate \$000	Fixed interest rates			Non- interest bearing \$000	Total \$000	Weighted average effective interest rate ⁽¹⁾ % p.a.
			1 year or less \$000	1 to 5 years \$000	5 years or more \$000			
30 September 2005								
Cash assets	(9)	3,191	-	-	-	160	3,351	5.53
Trade debtors	(10)	-	-	-	-	64,465	64,465	-
Investment in listed entity	(13)	-	-	-	-	12,341	12,341	-
Total financial assets		3,191	-	-	-	76,966	80,157	-
Trade creditors	(17)	-	-	-	-	(194,967)	(194,967)	-
Other borrowings	(18)	(12,514)	-	-	-	-	(12,514)	5.54
Employee entitlements	(20)	-	-	-	-	(14,597)	(14,597)	-
Total financial liabilities		(12,514)	-	-	-	(209,564)	(222,078)	-
Net financial assets/(liabilities)		(9,323)	-	-	-	(132,598)	(141,921)	-
30 September 2004								
Cash assets	(9)	83,744	-	-	-	102	83,846	5.29
Trade debtors	(10)	-	-	-	-	101,514	101,514	-
Total financial assets		83,744	-	-	-	101,616	185,360	-
Trade creditors	(17)	-	-	-	-	(177,374)	(177,374)	-
Other borrowings	(18)	(8,055)	-	-	-	-	(8,055)	5.10
Employee entitlements	(20)	-	-	-	-	(16,924)	(16,924)	-
Interest rate swaps ⁽²⁾		5,000	(5,000)	-	-	-	-	6.47
Redeemable preference shares	(18)	-	(55,000)	-	-	-	(55,000)	5.36
Total financial liabilities		(3,055)	(60,000)	-	-	(194,298)	(257,353)	-
Net financial assets/(liabilities)		80,689	(60,000)	-	-	(92,682)	(71,993)	-

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

(2) Notional principal amount.

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 Statements of Financial Position net of any provision for doubtful debts (see note 10, Receivables) and from derivative financial instruments.

The credit risk exposure arising from derivative financial instruments is the sum of all contracts with a positive replacement cost. As at 30 September 2005, the sum of all contracts with a positive replacement cost was \$2.3m (2004 \$4.3m).

Notes to the Financial Statements

For the year ended 30 September 2005

31. Additional financial instruments disclosures (continued)

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	
	2005 \$000	2004 \$000
Interest rate swaps	-	(9)
Foreign exchange option contracts	6,486	6,627

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.

32. Employee share plans

Overview

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 2 types of LTIs: the retention plan and the performance plan. The LTIs are designed to reward executives and senior employees for delivering long term value to the Company and support the Company's strategy for retention and motivation of executives and senior employees.

Under the LTIs, Incitec Pivot may grant awards to executives and senior employees, subject to them satisfying particular conditions relating to the duration of their employment (retention plan) or individual or Company performance (performance plan). In short, the LTIs operate by way of the Company providing executives and senior employees 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. The Company may forgive repayment of part of a loan amount depending on, in the case of the retention plan, the satisfaction of a condition as to duration of employment, and in the case of the performance plan, the achievement of performance measures. Participants receiving shares under the LTIs hold full voting and dividend rights.

Further details of each of the LTIs are set out below.

Retention Plan

At the time of the merger of Incitec Fertilizers Limited and the Company, the Board recognised that a crucial element to the success of the merger was the retention of key senior management and certain key employees. This was necessary to ensure the capture of synergies and the uninterrupted delivery of service to Incitec Pivot's customers. Accordingly, a one-off Long Term Incentive was granted 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. These loans were used in the purchase of shares on market and the shares were registered in the name of the participants. The participants were restricted from dealing in the shares until 30 September 2005 and, until that time, the shares could be forfeited if the participant ceased to be employed by Incitec Pivot. The loans are repayable on the earlier of the participant ceasing to be employed by Incitec Pivot, the participant selling his/her shares or three years after the loan is made. On repayment, for those participants satisfying the condition by remaining in employment until 30 September 2005, 51.5% of the amount of their outstanding loan will be forgiven by the Company.

Notes to the Financial Statements

For the year ended 30 September 2005

32. Employee share plans (continued)

Performance Plan

Under the performance plan, awards, by way of forgiveness of loans, are granted only on the achievement of certain performance measures over a rolling three year period. Adoption of this longer term incentive plan created the opportunity, and provided the discipline, for executives and other senior employees to contribute to short term performance but with full regard to the delivery of sustainable growth in shareholder value.

For the period from 1 October 2003 to 30 September 2006, participants were each advanced limited recourse, interest bearing, unsecured loans by the Company, which were used in the purchase of shares in the Company. The shares were allocated in 2 tranches, in September 2004 and October 2005.

The Company may require shares to be forfeited if the relevant participant ceases to be employed by Incitec Pivot prior to 30 September 2006. Subject to the Company achieving certain performance measures, the whole or part of the loan will be waived on or after 1 October 2006. 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. LTI awards, in the form of waivers of loans, 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 executives and senior employees 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. The loans are immediately repayable on the earlier of a relevant participant ceasing to be employed by Incitec Pivot, the participant dealing in his or her shares, or 31 December 2007. 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 7.05%). Net cash dividends after personal income tax obligations are applied to reduce the loan balance.

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 to CitiStreet Australia Pty Limited effective 1 November 2004. A sub-committee of 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 with a market value to a maximum 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 2005	30 Sep 2004	30 Sep 2005	30 Sep 2004
19 Mar 04	19 Mar 07	295	350	7,681	9,111
7 Jun 04	7 Jun 07	295	350	7,756	9,210
9 Sep 04	9 Sep 07	318	368	4,060	-
22 Dec 04	22 Dec 07	318	-	3,641	-
7 Mar 05	7 Mar 08	319	-	4,064	-
30 Jun 05	30 Jun 08	317	-	4,428	-
16 Sep 05	16 Sep 08	232	-	3,672	-
Total		232	318	35,302	18,321

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 2005

33. Related party disclosures

Controlling Entities

The immediate parent entity is Orica IC Assets Ltd and the ultimate parent entity is Orica Limited, both incorporated in Australia.

Specified director and specified executive disclosures

Specified director and specified executive disclosures other than the director transactions listed below are set out in the remuneration report and in note 35, Director and executive disclosures.

Other directors' 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:

- During the year Mr McCallum purchased fertiliser to the value of \$20,132 (2004 \$26,779) from the Company, the balance owing at 30 September 2005 was \$nil (2004 \$nil).
- Mr Trebeck is a director of GrainCorp Limited, to which the Company sold fertiliser products to the value of \$37,546,098 (2004 \$30,070,255) and purchased services (including shed and site rental) to the value of \$2,448,930 (2004 \$1,560,080). All dealings with Graincorp are on normal commercial terms and conditions. Mr Trebeck resigned from the board of Incitec Pivot on 18 July 2005.
- Mr Trebeck is a principal of ACIL Tasman Pty Ltd which provided consulting services to the Company to the value of \$17,260 (2004 \$6,000). Mr Trebeck resigned from the board of Incitec Pivot on 18 July 2005.
- 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 \$352,852 during the year (2004 \$390,303). Mr Fazzino's spouse does not directly provide these services.

Transactions with wholly owned controlled entities

Transactions between Incitec Pivot 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 \$102,036,700 (2004 \$71,500,000). Fixed costs incurred by the Company in the performance of its obligations amounting to \$50,437,000 (2004 \$24,853,000) have been charged to Incitec Fertilizers Limited.
- Incitec Fertilizers Limited declared and paid an interim dividend to the Company of \$2,000,000 (2004 \$16,000,000) and declared a final dividend on 30 September 2005 of \$32,000,000 (2004 \$18,500,000). This dividend is eliminated on consolidation.
- Management fees were received and paid by Incitec Pivot for accounting and administrative assistance on normal commercial terms and conditions and in the ordinary course of business.
- Incitec Pivot's tax balances include the wholly-owned controlled entities tax related balances and the net tax balance as at 30 September 2005 was \$17,243,000.

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 were:

- Sales of products (mainly urea and sulphuric acid) to the value of \$38,434,000 (2004 \$28,490,400) to Orica Australia Pty Ltd.
- Sulphuric acid is purchased by Incitec Pivot 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 \$6,442,000 (2004 \$6,675,000).
- Under various service level agreements, fees of \$6,337,000 (2004 \$11,100,000) were received or receivable by the Company from Orica Australia Pty Ltd.
- Purchases of products and services to the value of \$14,606,000 (2004 \$10,699,000) from Orica Australia Pty Ltd.
- Under a service level agreement, fees of \$9,597,000 (2004 \$8,000,000) 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 \$8,069,000 (2004 \$1,669,000).
- Interest income received or receivable by the Company for money lent to Orica Finance Limited was \$246,000 (2004 \$33,000)
- Under the terms and conditions of the merger implementation deed, Orica Limited contributed \$1,300,000 (2004 \$2,000,000) to the corporate costs of the Company. The corporate cost contribution agreement ceased 31 May 2005.

Notes to the Financial Statements

For the year ended 30 September 2005

33. Related party disclosures (continued)

- Insurance cover was purchased from Curasalus Pty Limited, a wholly owned subsidiary of the ultimate parent entity on normal terms and conditions to the value of \$13,800,000 for the year ended 30 September 2005 (2004 \$13,600,000).
- Insurance claims were received or receivable from Curasalus Pty Limited, a wholly owned subsidiary of the ultimate parent entity on normal terms and conditions to the value of \$2,600,000 (2004 \$9,700,000).

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 3, 4
Cash assets	note 9
Receivables	note 10
Investments in controlled entities	notes 13, 36
Payables	note 17
Interest bearing liabilities	note 18

34. Superannuation commitments

The Consolidated entity contributes to a number of superannuation funds that exist to provide benefits for employees and their dependants on retirement, disability or death. The superannuation funds cover company sponsored funds and multi-employer industry/union plans.

Company sponsored plans

- The principal benefits are pensions or lump sum payments for members on resignation, retirement, disability or death. The benefits are provided on either a defined benefit basis or a defined contribution basis.
- Employee contribution rates are either fixed by the rules of the funds or selected by members from time to time from a specified range of rates. The employer companies contribute the balance of the cost required to fund the defined benefits or, in the case of defined contribution funds, the amounts required by the rules of the fund.
- The contributions made by the employer companies to defined contribution funds are legally enforceable.

Industry/union plans

- These plans operate on an accumulation basis and provide lump sum benefits for members on resignation, retirement, disability or death.
- The employer entity has a legally enforceable obligation to contribute a regular amount for each employee member of these plans.
- The employer entity has no other legal liability to contribute to the plans.

Flexible Benefits Super Fund

During the year the Consolidated entity made employer contributions of \$2.5m (2004 \$4.1m) to the defined benefit fund. Employer contributions by the Company to the defined benefit fund during the year were \$2.5m (2004 \$nil).

The Consolidated entity's proportionate interest in the accrued benefits, based on the most recent actuarial assessments or estimates, the plan assets at most recent estimates of net market values and the vested benefits as at the most recent reporting date are:

		Accrued benefits	Net market value plan assets	Net surplus accrued benefits to plan assets	Vested benefits	Net surplus vested benefits to plan assets
		\$000	\$000	\$000	\$000	\$000
The Flexible Benefits Super Fund	2005	96,200	101,100	4,900	97,200	3,900
	2004	72,300	73,100	800	72,300	800

Notes to the Financial Statements

For the year ended 30 September 2005

34. Superannuation commitments (continued)

Incitec Fertilizers Limited (which was acquired by the Company on 1 June 2003) is an associated employer of The Flexible Benefits Super Fund. The principal sponsor of the fund is the ultimate parent entity, Orica Limited. Only certain employees of Incitec Fertilizers Limited are members of The Flexible Benefits Super Fund. The Flexible Benefits Super Fund has a defined benefit member category and a defined contribution member category. The balance date of the fund is 30 June. The full actuarial review as at 30 June 2003, performed by G E Miller FIAA was completed during 2004. The next full actuarial review is due at 30 June 2006.

Asset values are estimated at 30 September 2005, based on audited values as at 30 June 2005, adjusted to reflect estimated investment performance between 1 July 2005 and 30 September 2005. The estimate for accrued benefits and vested benefits has been calculated using membership data as at 30 June 2005, adjusted to reflect estimated investment performance, expected cash flows and benefit accrual between 1 July 2005 and 30 September 2005.

Differences between accrued benefits to plan assets depend on many diverse factors and can vary significantly over time having regard for movements in investment markets, future salary increases and changes in employee patterns. The Consolidated entity's current intention is to contribute at rates which are determined after taking into account sound actuarial principles and to enable all defined benefits to meet retirement expectations and relevant regulatory requirements as and when they fall due.

35. Director and executive disclosures

Remuneration of specified directors and specified executives

Disclosures of remuneration policies, service contracts and details of remuneration are included in the remuneration report on pages 19 to 31.

Notes to the Financial Statements

For the year ended 30 September 2005

35. Director and executive disclosures (continued)

Loans to specified executive directors and specified executive

No loans have been granted to specified directors and specified executives with the exception of loans granted under the terms and conditions of the Incitec Pivot long term incentive plans. The movement during the year in the value of loans is 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
		\$	\$	\$	\$	\$	\$	\$
Specified executive directors								
- Current								
J E Fazzino	2005	150,156	-	3,718	(11,021)	(40,555)	102,298	150,156
	2004	-	151,244	-	(1,088)	-	150,156	151,244
- Former								
G J Witcombe ⁽¹⁾	2005	942,066	-	20,946	(572,968)	(390,044)	-	942,066
	2004	-	948,951	-	(6,885)	-	942,066	948,951
Total specified executive directors	2005	1,092,222	-	24,664	(583,989)	(430,599)	102,298	1,092,222
	2004	-	1,100,195	-	(7,973)	-	1,092,222	1,100,195
Specified executives								
- Current								
K J Gleeson	2005	41,656	53,299	2,136	(6,689)	(27,449)	62,953	94,955
	2004	-	41,656	-	-	-	41,656	41,656
D A Roe	2005	44,868	-	2,301	(4,015)	-	43,154	44,868
	2004	-	44,868	-	-	-	44,868	44,868
B C Walsh	2005	29,907	-	1,534	(2,676)	-	28,765	29,907
	2004	-	-	-	-	-	-	-
Total specified executives - Current	2005	116,431	53,299	5,971	(13,380)	(27,449)	134,872	169,730
	2004	-	86,524	-	-	-	86,524	86,524
Specified executives - Former								
J W Elmer	2005	148,496	-	4,478	(92,333)	(60,641)	-	148,496
	2004	-	149,582	-	(1,086)	-	148,496	149,582
R Hoggard	2005	148,534	-	2,497	(151,031)	-	-	148,534
	2004	-	149,622	-	(1,088)	-	148,534	149,622
J M Lloyd	2005	165,016	-	3,616	(168,632)	-	-	165,016
	2004	-	166,225	-	(1,209)	-	165,016	166,225
J R Warnock	2005	135,264	-	4,498	(9,963)	(55,665)	74,134	135,264
	2004	-	136,231	-	(967)	-	135,264	136,231
A K Sharma	2005	-	-	-	-	-	-	-
	2004	-	72,912	-	(72,912)	-	-	72,912
Total specified executives - Former	2005	597,310	-	15,089	(421,959)	(116,306)	74,134	597,310
	2004	-	674,572	-	(77,262)	-	597,310	674,572
Total specified executive directors and executives	2005	1,805,963	53,299	45,724	(1,019,328)	(574,354)	311,304	1,859,262
	2004	-	1,861,291	-	(85,235)	-	1,776,056	1,861,291

All loans are secured by shares in Incitec Pivot Limited. The loan under the retention plan is interest free. Interest on the loan under the performance plan is charged at the FBT benchmark rate, currently 7.05% (2004: 6.55%).

(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 of \$256,550 for the retention plan and \$133,494 for the performance plan. In addition, Mr Witcombe repaid the outstanding amount of loans under the retention plan and performance plan.

Notes to the Financial Statements

For the year ended 30 September 2005

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
TOP Australia Ltd	100%	Australia

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. As at 30 September 2004 only TOP Australia Ltd had entered into such a Deed of Cross Guarantee with Incitec Pivot Limited.

37. Deed of Cross Guarantee

	Closed Group	
	2005	2004
	\$000	\$000
Statement of Financial Position		
Current assets		
Cash assets	3,351	83,846
Receivables	75,901	142,245
Investments	12,341	-
Inventories	271,650	246,292
Other	6,134	2,267
Total current assets	369,377	474,650
Non-current assets		
Receivables	383	188
Other financial assets	-	467,900
Property, plant and equipment	283,855	120,710
Intangible assets	174,004	-
Deferred tax assets	19,885	14,205
Other	6,574	2,297
Total non-current assets	484,701	605,300
Total assets	854,078	1,079,950
Current liabilities		
Payables	198,431	384,534
Interest bearing liabilities	12,514	8,055
Current tax liabilities	4,101	-
Provisions	43,713	23,706
Total current liabilities	258,759	416,294
Non-current liabilities		
Deferred tax liabilities	17,335	4,526
Provisions	12,822	15,370
Total non-current liabilities	30,157	19,896
Total liabilities	288,916	436,191
Net assets	565,162	643,759
Equity		
Contributed equity	532,445	532,445
Reserves	35,923	35,923
Retained profits	(3,206)	75,391
Total equity	565,162	643,759
Statement of Financial Performance		
Profit/(loss) from ordinary activities before income tax expense	11,112	97,763
Income tax (expense)/benefit attributable to profit/(loss) from ordinary activities	(6,952)	(15,647)
Profit/(loss) from ordinary activities after income tax expense	4,160	82,116
Retained profits at the beginning of the financial year	63,154	10,177
Cash dividend paid	(70,520)	(16,902)
Retained profits at the end of the financial year	(3,206)	75,391

Entities which are party to a Deed of Cross Guarantee, entered into in accordance with ASIC Class Order 98/1418 dated 30 September 2005, are disclosed in note 36, Investments in controlled entities. A consolidated Statement of Financial Position and Statement of Financial Performance for this closed group are shown above.

Notes to the Financial Statements

For the year ended 30 September 2005

38. Impact of adopting AASB equivalent to International Financial Reporting Standards

This financial report has been prepared in accordance with Australian Accounting Standards and other financial reporting requirements (Australian GAAP). Incitec Pivot has commenced transitioning its accounting policies and financial reporting from current Australian Standards to Australian equivalents of International Financial Reporting Standards (AIFRS). The Company has allocated internal resources, who together with representatives from Orica Limited, the ultimate parent entity, have engaged expert consultants to perform diagnostics and conduct impact assessments to isolate key areas that will be impacted by the transition to AIFRS. As a result of these procedures, Incitec Pivot has graded impact areas as either high, medium or low and has established a project team to address each of the areas. Half yearly updates are provided to the Audit and Risk Management Committee.

At the date of this report, the project team has analysed all of the AIFRS and has identified a number of accounting policy changes that will be required. In some cases, choices of accounting policies are available, including elective exemptions under AASB 1 - First-time Adoption of Australian Equivalents to International Financial Reporting Standards. The Consolidated entity is fully prepared for the transition.

The impact of transition to AIFRS, including the transitional adjustments disclosed below, are based on AIFRS standards that management expect to be in place, or where applicable, early adopted, when preparing the first complete AIFRS financial report being the half-year ending 31 March 2006. Only a complete set of financial statements and notes together with comparative balances can provide a true and fair presentation of the Company's and Consolidated entity's financial position, results of operations and cash flows in accordance with AIFRS. Therefore, this note provides only a summary - further disclosure and explanations will be required in the first complete AIFRS financial report for a true and fair view to be presented under AIFRS.

Revisions to the selection and application of the AIFRS accounting policies may be required as a result of changes in financial reporting requirements arising from new or revised accounting standards or interpretations issued by the Australian Accounting Standards Board, additional guidance on the application of AIFRS in a particular industry or to a particular transaction and changes to the Incitec Pivot's operations.

There is a significant amount of judgement involved in the preparation of the reconciliations from current Australian GAAP to AIFRS - therefore the final reconciliations presented in the first financial report prepared in accordance with AIFRS may vary materially from the reconciliations provided in this Note.

The rules for first time adoption of AIFRS are set out in AASB 1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards. In general, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet as at transition date, being 1 October 2004. The Standard allows a number of exemptions and exceptions to this general principle to assist in the transition to reporting under AIFRS.

The known or reliably estimable impacts on the financial report for the year ended 30 September 2005 had it been prepared using AIFRS are set out below. The expected financial effects of adopting AIFRS are shown for each line item in the statements of financial performance and statements of financial position, with descriptions of the differences. No material impacts are expected in relation to the statements of cash flows.

Notes to the Financial Statements

For the year ended 30 September 2005

38. Impact of adopting AASB equivalent to International Financial Reporting Standards (continued)

Balance Sheets under AIFRS

The following table sets out the expected adjustments to the statements of financial position of Consolidated entity and the Company at transition to AIFRS on 1 October 2004.

	Notes	AGAAP 2004 \$000	Consolidated Adjustment \$000	AIFRS 2004 \$000	AGAAP 2004 \$000	Company Adjustment \$000	AIFRS 2004 \$000
Current assets							
Cash assets		83,846	-	83,846	83,846	-	83,846
Receivables		123,745	-	123,745	142,245	-	142,245
Inventories		246,292	-	246,292	246,292	-	246,292
Other assets	a	7,047	(4,748)	2,299	2,268	-	2,268
Non-current assets held for sale	m	-	9,381	9,381	-	9,381	9,381
Total current assets		460,930	4,633	465,563	474,651	9,381	484,032
Non-current assets							
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	(4,005)	292,127	114,918	(16,561)	98,357
Goodwill	e	-	183,809	183,809	-	-	-
Intangible assets	e,f	183,809	(176,567)	7,242	-	7,180	7,180
Deferred tax assets	b,j	17,108	1,321	18,429	13,730	1,321	15,051
Other assets	a	10,166	(7,870)	2,296	2,296	-	2,296
Total non-current assets		510,463	(6,337)	504,126	605,311	(8,060)	597,251
Total assets		971,393	(1,704)	969,689	1,079,962	1,321	1,081,283
Current liabilities							
Payables		192,854	-	192,854	385,019	-	385,019
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	-	416,780
Non-current liabilities							
Deferred tax liabilities	j	19,049	11,160	30,209	4,526	-	4,526
Retirement benefit obligations	b,j	-	4,403	4,403	-	4,403	4,403
Provisions		21,762	-	21,762	15,372	-	15,372
Total non-current liabilities		40,811	15,563	56,374	19,898	4,403	24,301
Total liabilities		339,874	15,563	355,437	436,678	4,403	441,081
Net assets		631,519	(17,267)	614,252	643,284	(3,082)	640,202
Equity							
Contributed equity		532,445	-	532,445	532,445	-	532,445
Reserves	c,h	35,922	(38,703)	(2,781)	43,694	(43,694)	-
Retained profits	b,c,h,j	63,152	21,436	84,588	67,145	40,612	107,757
Total equity		631,519	(17,267)	614,252	643,284	(3,082)	640,202

Notes to the Financial Statements

For the year ended 30 September 2005

38. Impact of adopting AASB equivalent to International Financial Reporting Standards (continued)

Balance Sheets under AIFRS

The following table sets out the expected adjustments to the statements of financial position of Consolidated entity and the Company as at 30 September 2005.

	Notes	AGAAP 2005 \$000	Consolidated Adjustment \$000	AIFRS 2005 \$000	AGAAP 2005 \$000	Company Adjustment \$000	AIFRS 2005 \$000
Current assets							
Cash assets		3,351	-	3,351	3,351	-	3,351
Receivables		75,901	-	75,901	107,901	-	107,901
Other financial assets		12,341	-	12,341	12,341	-	12,341
Inventories		271,650	-	271,650	271,650	-	271,650
Other assets	a	6,135	(4,497)	1,638	1,638	-	1,638
Non-current assets held for sale	m	-	2,416	2,416	-	2,416	2,416
Total current assets		369,378	(2,081)	367,297	396,881	2,416	399,297
Non-current assets							
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	(625)	283,230	116,983	(8,495)	108,488
Goodwill	e	-	183,809	183,809	-	-	-
Intangible assets	e,f	174,004	(165,563)	8,441	-	8,441	8,441
Deferred tax assets	b,h,j	19,885	23	19,908	19,885	-	19,885
Retirement benefit surplus	b	-	618	618	-	618	618
Other assets	a	6,574	(5,735)	839	3,201	(2,362)	839
Total non-current assets		486,964	11,514	498,478	669,630	(1,798)	667,832
Total assets		856,342	9,433	865,775	1,066,511	618	1,067,129
Current liabilities							
Payables	h	200,699	-	200,699	394,135	(550)	393,585
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	(550)	453,913
Non-current liabilities							
Deferred tax liabilities	j	17,335	11,192	28,527	17,335	32	17,367
Provisions		12,821	-	12,821	12,821	-	12,821
Total non-current liabilities		30,156	11,192	41,348	30,156	32	30,188
Total liabilities		291,183	11,192	302,375	484,619	(518)	484,101
Net assets		565,159	(1,759)	563,400	581,892	1,136	583,028
Equity							
Contributed equity		532,445	-	532,445	532,445	-	532,445
Reserves	c,h	35,922	(37,446)	(1,524)	43,694	(43,694)	-
Retained profits/(losses)	b,c,h,j	(3,208)	35,687	32,479	5,753	44,830	50,583
Total equity		565,159	(1,759)	563,400	581,892	1,136	583,028

Notes to the Financial Statements

For the year ended 30 September 2005

38. Impact of adopting AASB equivalent to International Financial Reporting Standards (continued)

Income Statement under AIFRS

The following table sets out the expected adjustments to the statements of financial performance of Consolidated entity and the Company for the year ended 30 September 2005.

	Notes	AGAAP 2005 \$000	Consolidated Adjustment \$000	AIFRS 2005 \$000	AGAAP 2005 \$000	Company Adjustment \$000	AIFRS 2005 \$000
Revenue		1,073,872	-	1,073,872	947,548	-	947,548
Other income	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 significant items)	b,h	(99,502)	4,117	(95,385)	(99,502)	4,117	(95,385)
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 significant 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 significant 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 (significant items)		(21,155)	-	(21,155)	(21,155)	-	(21,155)
Other expenses from ordinary activities including significant items		(7,102)	-	(7,102)	(7,102)	-	(7,102)
Profit/(loss) from ordinary activities before income tax expense		11,112	13,847	24,959	(1,163)	4,042	2,879
Income tax expense attributable to profit/(loss) from ordinary activities	j	(6,952)	23	(6,929)	10,291	23	10,314
Profit/(loss) from ordinary activities after income tax relating to members of Incitec Pivot Limited		4,160	13,870	18,030	9,128	4,065	13,193

Notes to the Financial Statements

For the year ended 30 September 2005

38. Impact of adopting AASB equivalent to International Financial Reporting Standards (continued)

Summary of impact of transition to AIFRS on retained earnings

The impact of the transition to AIFRS on retained earnings at 1 October 2004 and 30 September 2005 are summarised below:

	AIFRS Consolidated \$000	AIFRS Company \$000
Retained Earnings at 1 October 2004 under AGAAP	63,152	67,145
AIFRS adjustments:		
- Transfer from realisation and revaluation of assets	35,922	43,694
- Share-based payments adjustments	(244)	-
- Recognise defined benefit fund - net deficit	(3,082)	(3,082)
- Recognise deferred tax liability on pre-merger fair value adjustments for land and buildings	(11,160)	-
Retained Earnings at 1 October 2004 under AIFRS	84,588	107,757
Profit/(loss) from ordinary activities after income tax for the financial year ended 30 September 2005 under AGAAP	4,160	9,128
Less dividends paid:		
- 2004 Final dividend and special dividend	(58,281)	(58,281)
- 2005 Interim dividend and special dividend	(12,239)	(12,239)
AIFRS adjustments:		
- Increase defined benefit fund	3,515	3,515
- Reverse goodwill amortisation	9,805	-
- Share-based payments adjustments	778	550
- Write down carrying value of Regional Service Centres land and buildings	153	153
Retained Earnings at 30 September 2005 under AIFRS	32,479	50,583

Impact of transition to AIFRS

(a) Reclassifications

On the initial application of AIFRS, Incitec Pivot will reclassify expenditure on major cyclical maintenance from other assets to property, plant and equipment. Expenditure will then be amortised over the period to the next scheduled major shutdown. The expected reclassification would result in a decrease in current other assets in the Consolidated entity by \$4,748,064, non-current other assets will also decrease by \$7,869,532 and property, plant and equipment will increase by \$12,617,596 as at 1 October 2004. As at 30 September 2005, the expected reclassification from other assets to property, plant and equipment will be \$4,748,064 representing the amortisation for the year. There is no effect on the parent entity.

The additional major cyclical maintenance expenditure of \$2,362,000 during the financial year ended 30 September 2005 for the Consolidated entity and the Company will be expected to be reclassified from other assets to property, plant and equipment.

(b) Retirement benefit obligations

Under AASB 119 *Employee Benefits*, employer sponsors are required to recognise the net surplus or deficit in their employer sponsored defined benefit funds as an asset or liability respectively. This will result 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 will be 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 will be debited through retained earnings. As a result the superannuation liabilities for the Consolidated entity and the Company will increase 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 1 October 2004.

Notes to the Financial Statements

For the year ended 30 September 2005

38. Impact of adopting AASB equivalent to International Financial Reporting Standards (continued)

As at 30 September 2005, the defined benefit fund is expected to be a surplus of \$433,000 after tax. The impact to the results would be an increase in profit of \$3,515,000 and a decrease in deferred tax assets of \$1,506,000. The adjustment is the same for the Company.

(c) Property, plant and equipment

Property, plant and equipment will be measured at cost under AIFRS. However, as permitted by the election available under AASB1, at transition date certain items of property, plant and equipment will be recognised at deemed cost, being a revalued amount prior to transition date that approximates the fair value as at the date of transition.

On initial application of AIFRS, Incitec Pivot will transfer the balance of general and other reserves to retained earnings. This is expected to result in a reclassification of \$35,922,000 for the Consolidated entity and \$43,694,000 for the Company as at 1 October 2004.

Under AIFRS, the profit or loss on disposal of property, plant and equipment will be 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. Consolidated revenue would decrease for 2005 by \$931,000 (Company \$931,000).

Software assets included in property plant and equipment under Australian GAAP will be reclassified under AIFRS to intangible assets on transition to AIFRS. Refer to Note (f) below for further details.

(d) Business combinations

An election is available in AASB1 which provides the ability to choose whether the acquisition accounting of business combinations prior to transition date is restated under AIFRS. Entities can choose to restate all prior business combinations, only those after a certain date, or none at all. Incitec Pivot currently expects to take advantage of the election available and will not 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 the identifiable assets, liabilities and contingent liabilities acquired. Under AASB 138 *Intangible Assets*, internally generated goodwill is not recognised as an intangible asset.

Goodwill will be stated at cost less any impairment losses. Goodwill will be tested annually for impairment based on the cash flows of the total business, rather than being allocated to cash generating units for the purpose of impairment testing. (Refer Note (g) for further details on impairment testing). Under AASB 3 *Business Combinations*, amortisation of goodwill will be prohibited. This will result in a change to the current accounting policy under which goodwill is amortised on a straight-line basis over its useful life but not exceeding 20 years.

As a result of this, the impact to the Consolidated entity on transition would be an increase in net profit of \$9,805,000 (Company \$nil) for the year ended 30 September 2005 following the cessation of the amortisation charge. No impairment adjustments are required.

In addition, goodwill of \$183,809,000 as at 1 October 2004 will be reclassified from Intangible assets to Goodwill on the AIFRS Balance Sheet.

(f) Intangible assets – Other intangible assets

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

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

On transition other intangible assets have been reviewed to ensure they are capable of recognition under AASB 138 and tested for impairment. No impairment adjustments are required.

Software assets will be reclassified from property, plant and equipment to intangible assets on transition to AIFRS. This is expected to result in a reclassification of \$7,242,000 in the consolidated entity as at 1 October 2004 and \$1,199,000 as at 30 September 2005. For the Company the expected adjustments are \$7,180,000 and \$1,261,000 respectively.

Notes to the Financial Statements

For the year ended 30 September 2005

38. Impact of adopting AASB equivalent to International Financial Reporting Standards (continued)

(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 will result in a change in the existing accounting policy that determines 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) will be reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset will be tested for impairment.

Goodwill and intangible assets with indefinite life will be 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 will be 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. Cash flows will be estimated for each cash-generating unit in its current condition and therefore will exclude cash inflows and outflows improving or enhancing the asset's performance.

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 are required.

(h) Share-based payments

Under current Australian GAAP, no expense is recognised for equity compensation. Under AASB 2 *Share-Based Payments*, Incitec Pivot will be required to determine the fair value of share-based payments issued to employees as remuneration and recognise an expense in the Statements of Financial Performance 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. The expected impact to the Consolidated entity will be to decrease retained earnings as at 1 October 2004 by \$288,000 (Company \$288,000) and increase shareholders equity. For the financial year to 30 September 2005, the expense relating to share-based payments is \$227,000 (Company \$227,000) with a corresponding increase in shareholders' equity.

In addition, AASB2 will require that shares issued under a long term incentive scheme in conjunction with non-recourse loans be treated as options. As a result, the receivable from employees in relation to these loans will be credited (Consolidated \$3,025,000, Company \$nil), shareholders equity will be debited with the original loan value (Consolidated \$3,069,000, Company \$nil) and retained earnings will be credited with the net amount of loan forgiveness and dividends received up to 1 October 2004 (Consolidated \$44,000, Company \$nil).

(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 earnings per share for the year ended 30 September 2005, calculated on the adjusted results and the weighted average number of shares of 58,281,027 shares, are expected to be:

	AGAAP	AIFRS
Basic EPS from continuing operations	7 cents	31 cents
Diluted EPS from continuing operations	7 cents	31 cents

Notes to the Financial Statements

For the year ended 30 September 2005

38. Impact of adopting AASB equivalent to International Financial Reporting Standards (continued)

(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 statements of financial position 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 will not be 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 provided would 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.

This will result in a change to the existing accounting policy, under which 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.

The expected 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. The adjustments in respect of the Company are expected to be \$nil. In addition, other transition adjustments are likely to result 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.

At 30 September 2005 the expected impact to the deferred tax liabilities is an increase of \$11,192,000 for the Consolidated entity (Company \$32,000) as a result of all the AIFRS adjustments. In addition, the deferred tax assets would also increase by \$23,000 for the Consolidated entity (Company \$nil).

(k) Borrowing costs

Current 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 incurred, or to capitalise them as part of the cost of the asset.

Incitec Pivot did not have any qualifying assets in 2005.

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

(l) Classification of financial instruments and hedge accounting

Incitec Pivot will take advantage of the election available in AASB 1 not to restate comparatives for AASB132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*. 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.

Under AASB 132, the current classification of financial instruments issued by entities in the Consolidated entity would not change.

(i) Classification

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

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

Notes to the Financial Statements

For the year ended 30 September 2005

38. Impact of adopting AASB equivalent to International Financial Reporting Standards (continued)

This will result in a change in the current accounting policy that does not classify financial instruments. Current measurement is at amortised cost, with certain derivative financial instruments not recognised on balance sheet.

The future financial effect of this change in accounting policy is not yet known as the classification and measurement process has not yet been fully completed.

As a result of the application of the exemption referred to above, there would have been no adjustment to classification or measurement of financial assets or liabilities from the application of AIFRS during the year ended 30 September 2005. Changes in classification and measurement will be recognised from 1 October 2005.

(ii) Recognition of assets and liabilities

Under AIFRS certain trade finance facilities organised for Incitec Pivot customers are expected to be brought back onto the balance sheet as Incitec Pivot has guaranteed a portion of these facilities. Currently, the guaranteed portion is disclosed in note 28 Contingent Liabilities. However under AASB139, the full amount of the facilities will be brought back onto the balance sheet.

This is expected to result in an increase in receivables and an increase in borrowings for Consolidated entity of \$91,526,000 at 1 October 2005. The adjustment is the same for the Company.

(iii) Hedge accounting

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

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

This may result in a change in the consolidated entity's current accounting policy if 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.

Under the new policy hedge accounting may no longer be able to be applied to such contracts and gains and losses on the contracts may be recognised in the Statements of Financial Performance. Reliable estimation of the future financial effect of this change in accounting policy has not yet been measured.

(m) Non-current assets held for resale

Under AASB 5 *Non-current assets held for sale and discontinued operations*, a non-current asset will be 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 will be measured at the lower of carrying amount and fair value, less costs to sell.

On transition to AIFRS, Incitec Pivot would be expected to recognise non-current assets held for resale of \$9,381,000 for the Consolidated entity and the Company as at 1 October 2004. As at 30 September 2005, the expected non-current assets held for resale for the Consolidated entity and the Company would be \$2,416,000. This would result in a reclassification from property, plant and equipment to a separate disclosure under non-current assets held for resale on the AIFRS 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 Australian GAAP.

Notes to the Financial Statements

For the year ended 30 September 2005

39. Events subsequent to balance date

Since the end of the financial year, in November 2005, the directors have declared a special dividend of 50 cents per share. This dividend is fully franked at the 30% corporate tax rate and is payable on 9 January 2006.

The directors have not become aware of any other significant matter or circumstance that has arisen since 30 September 2005, 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 40 to 81

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 81, and the remuneration disclosures that are contained in the Remuneration Report on pages 19 to 31 of the Directors' Report, are in accordance with the Corporations Act 2001 (Cth), including:
 - (i) giving a true and fair view of the financial position of the Company and the Consolidated entity as at 30 September 2005 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia, including AASB 1046 Director and Executive Disclosures by Disclosing Entities, and the Corporations Regulations 2001 (Cth); and
- (b) there are reasonable grounds to believe the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the controlled entities identified in note 36 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 ASIC Class Order 98/1418 (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 (Cth) for the financial year ended 30 September 2005.



John C Watson, AM
Chairman

Dated at Melbourne this 16th day of November 2005



Independent audit report to members of Incitec Pivot Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes 1 to 39 to the financial statements, the disclosures made as required by Australian Accounting Standard AASB 1046 *Director and Executive Disclosures by Disclosing Entities*, in the "Remuneration report" on pages 19 to 31 of the Director's report as permitted by the *Corporations Regulations 2001* ("remuneration disclosures") and the directors' declaration for both Incitec Pivot Limited (the "Company") and Incitec Pivot Limited (the "Consolidated Entity"), for the year ended 30 September 2005. The Consolidated Entity comprises both the company and the entities it controlled during that year.

The Remuneration report also contains information in Section B (Tables B1 and B2) not required by Accounting Standard AASB 1046 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 and the Remuneration 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.

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 the remuneration disclosures comply with Accounting Standard AASB 1046 and the *Corporations Regulations 2001*. 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 Accounting Standard AASB 1046 and the *Corporations Regulations 2001*.

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, the financial report, including the audited remuneration disclosures in the Remuneration report on pages 19 to 31 of the Directors' 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 2005 and of their performance for the financial year ended on that date; and;
 - ii. complying with Accounting Standards in Australia, including AASB 1046 *Director and Executive Disclosures by Disclosing Entities* and the Corporations Regulations 2001; and
- b) other mandatory financial reporting requirements in Australia.

KPMG

Neil T Faulkner
Partner
Melbourne
16 November 2005

Shareholder Statistics

As at 7 November 2005

Distribution of ordinary shareholder and shareholdings

Size of holding			Number of	Percentage	Number of	Percentage
			holders		shares	
1	–	1,000	33,367	92.49%	8,761,529	15.03%
1,001	–	5,000	2,601	7.21%	4,542,561	7.79%
5,001	–	10,000	76	0.21%	501,236	0.86%
10,001	–	100,000	21	0.06%	527,490	0.91%
100,001 and over			12	0.03%	43,948,211	75.41%
Total			36,077	100%	58,281,027	100%

Included in the above total are 1,302 shareholders holding less than a marketable parcel of shares.

The holdings of the 20 largest holders of fully paid ordinary shares represent 76.1% of that class of shares.

Twenty largest ordinary fully paid shareholders

	Number of	Percentage
	shares	
Orica IC Assets Ltd	40,796,719	70.00
RBC Global Services Australia Nominees Pty Limited	1,296,879	2.23
JP Morgan Nominees Australia Limited	502,541	0.86
National Nominees Limited	319,129	0.55
Citicorp Nominees Pty Limited	276,502	0.47
Australian Foundation Investment Company Limited	272,801	0.47
Ross Investment (Aust) Pty Ltd	151,496	0.26
Westpac Custodian Nominees Limited	122,853	0.21
Gwynvill Trading Pty Limited	118,127	0.20
Mirrabooka Investments Limited	115,936	0.20
Ross Investment (Aust) Pty Ltd	100,159	0.17
Mr Gregory Witcombe	59,778	0.10
Cogent Nominees Pty Limited	46,553	0.08
ANZ Nominees Limited	38,157	0.07
Mr Mark Cubit & Mrs Amanda Cubit (Nenkin Super Fund account)	27,000	0.05
ICM Agriculture Pty Ltd	25,546	0.04
Ross Investment (Aust) Pty Ltd	24,534	0.04
Tallageira Pastoral Co. Pty Ltd	23,721	0.04
Mrs Amanda Cubitt	18,000	0.03
Ajay Nominees Pty Ltd	17,285	0.03
Total	44,353,716	76.10

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:

1 June 2003	Orica IC Assets Limited	40,796,719	70.00%
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On-market buy-back

There is no current on-market buy-back.

Five Year Financial Statistics

Incitec Pivot Limited and its controlled entities

		2005	2004
		\$000	\$000
Sales		1,073,872	1,135,588
Earnings before depreciation, amortisation, net borrowing costs and tax		107,757	167,179
Depreciation and amortisation (excluding goodwill)		(30,486)	(35,372)
Goodwill amortisation		(9,805)	(9,945)
Earnings before net borrowing costs and tax (EBIT)		67,466	121,862
Net borrowing costs		(9,355)	(5,406)
Rebates			
Individually significant items before tax		(46,999)	(9,327)
Taxation revenue / (expense)		(6,952)	(32,090)
Operating profit after tax and individually significant items		4,160	75,039
Individually significant items after tax attributable to members of Incitec Pivot		33,412	5,832
Operating profit after tax before individually significant items (net of tax)		37,572	80,870
Dividends		70,520	16,902
Current assets		369,378	460,930
Property, plant and equipment		283,855	296,132
Investments		-	-
Intangibles		174,004	183,809
Other non-current assets		29,105	30,522
Total assets		856,342	971,393
Current borrowings and payables		217,309	272,186
Current provisions		43,713	26,877
Non-current borrowings and payables		17,335	19,049
Non-current provisions		12,824	21,762
Total liabilities		291,181	339,874
Net assets		565,161	631,519
Shareholders' equity		565,161	631,519
Total shareholders' equity		565,161	631,519
Ordinary Shares	thousands	58,281	58,281
Investor Shares	thousands	-	-
Number of shares on issue at year end	thousands	58,281	58,281
Weighted average number of shares on issue (investor and ordinary)	thousands	58,281	58,281
Earnings per share			
before individually significant items	cents	64.5	138.8
including individually significant items	cents	7.1	128.8
Dividends	cents	121	29
Dividend franking	%	100	100
Share price range – High		\$22.50	\$19.30
Low		\$15.00	\$15.65
Year end		\$15.82	\$18.80
Stockmarket capitalisation at year end	\$000	922,005	1,095,683
Net tangible assets per share	\$	6.71	7.68
Profit margin (earnings before net borrowing costs and tax/sales)	%	6.3	10.7
Net debt	\$000	9,162	(20,792)
Gearing (net debt/net debt plus equity)	%	1.6	(3.4)
Interest cover (earnings before net borrowing costs and tax/net borrowing costs)	times	7.2	22.5
Net capital expenditure on plant and equipment (cash flow)	\$000	24,068	29,387
Net capital expenditure on acquisitions/(disposals) (cash flow)	\$000	-	-
Return on average shareholders funds			
before individually significant items	%	6.3	13.4
including individually significant items	%	0.7	12.5

Five Year Financial Statistics

2003 \$000	2002 \$000	2001 \$000
686,307	604,214	627,748
83,503	60,873	40,563
(21,225)	(15,267)	(21,458)
(3,128)	-	(187)
59,150	45,606	18,918
(6,816)	(13,663)	(24,358)
-	-	-
(64,568)	(8,015)	(19,897)
(6,389)	(5,402)	7,840
(18,623)	18,526	(17,497)
(53,656)	(2,651)	(10,962)
35,033	21,177	(6,535)
24,478	-	-
350,599	201,014	204,522
296,615	116,518	127,825
-	-	-
185,354	-	-
34,578	18,972	25,123
867,146	336,504	357,470
177,874	109,073	124,208
37,133	16,505	15,483
69,268	60,000	85,000
9,489	741	1,563
293,764	186,319	226,254
573,382	150,185	131,216
573,382	150,185	131,216
573,382	150,185	131,216
58,281	14,037	14,059
-	3,448	3,428
58,281	17,485	17,486
31,120	17,485	17,486
112.6	121.1	(37.4)
(59.8)	106.0	(100.1)
140	-	-
100	-	-
\$15.70	N/A	N/A
\$14.00	N/A	N/A
\$15.66	N/A	N/A
912,681	N/A	N/A
6.66	8.59	7.50
8.6	7.5	3.0
74,394	81,348	152,579
11.5	35.1	53.8
8.7	3.3	0.8
12,919	3,593	(9,362)
(4,393)	(400)	(75,935)
9.7	15.1	(4.7)
(5.1)	13.2	(12.5)

Shareholder Information

Annual General Meeting

2.00 pm Monday 23 January 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 8, 580 George Street,
Sydney New South Wales 2000,
Australia

Locked Bag A14
Sydney South New South Wales 1235

Telephone: 1300 303 780
(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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Australia

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Facsimile: +61 3 8695 4419
www.incitecpivot.com.au

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FertTerms
plus[™]

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