

# Appendix 4E

## Preliminary final report

<b>Incitec Pivot Limited</b> <b>ABN 42 004 080 264</b>
---

Financial year ended  
(‘current period’)

Previous financial year ended  
(‘previous corresponding period’)

**30 September 2006**

30 September 2005

### Results for announcement to the market

Extracts of the Incitec Pivot Limited results for the financial year ended 30 September 2006

**\$A'000**

Revenues from ordinary activities	up	3%	to	1,111,239
Profit for the financial year	up	222%	to	46,662
Net profit for the financial year	up	222%	to	46,662

<b>Dividends</b>	Amount per security cents	Franked amount per security cents
<b>Current Period</b>		
Interim dividend	22.0	22.0
Final dividend	81.0	81.0
<b>Previous corresponding period</b>		
Interim dividend	15.0	15.0
Interim special dividend	6.0	6.0
November 2005 special dividend	50.0	50.0
Record date for determining entitlements to the final dividend:	<b>27 November 2006</b>	
Payment date of final dividend:	<b>13 December 2006</b>	

	Current period	Previous corresponding period
<b>Net tangible asset backing per ordinary security</b>	\$3.64	\$6.31

For the profit commentary and any other significant information needed by an investor to make an informed assessment of Incitec Pivot's results please refer to the profit report on pages 2 to 8.

The information should be read in conjunction with the financial report, which is set out on pages 9 to 41.

## Contents

---

Profit Report	2
Financial Report	9

---

The profit report and the financial report provide information on material factors affecting the earnings and operations of the economic entity during the financial year ended 30 September 2006.

### Annual General Meeting

The Annual General Meeting will be held as follows:

Location	The Arts Centre Level 8, 100 St Kilda Road In the ANZ Pavilion Melbourne VIC 3000
Date	20 December 2006
Time	2.00 pm
Approximate date the annual report will be available	During the week commencing 20 November 2006

### Compliance Statement

This report has been prepared under accounting policies which comply with the Corporations Act 2001 (Cth), the Accounting Standards and other mandatory professional reporting requirements in Australia, and the Corporations Regulations 2001 (Cth).

This report and the financial statements prepared under the Corporations Act 2001 (Cth), use the same accounting policies. This gives a true and fair view of the matters disclosed.

For further information, please contact:

### Investor Relations

Simon Atkinson – Deputy Chief Financial Officer

T: 03 8695 4515 M: 0405 513 768

E: [simon.atkinson@incitecpivot.com.au](mailto:simon.atkinson@incitecpivot.com.au)

# INCITEC PIVOT LIMITED – PROFIT REPORT

## GETTING THINGS DONE



### RESULTS FOR THE YEAR ENDED 30 September 2006

Incitec Pivot has delivered on its business turnaround program with Net Profit After Tax (NPAT), excluding individually material items, up 73% to \$82.8M (2005: \$47.9M). Weather conditions were unfavourable, with the improvement in earnings driven by internally generated cost savings from the business restructure announced in 2005, and efficient manufacturing performance.

NPAT, including individually material items, was \$46.7M (2005: \$14.5M).

#### FINANCIAL HIGHLIGHTS

- NPAT, excluding individually material items, was \$82.8M, up \$34.9M (2005: \$47.9M).
- Delivered “phase one” restructuring cost savings of \$30.1M before tax – 50% up on the 2006 target of \$20M<sup>(7)</sup>.
- Business returns restored with 2006 RONA<sup>(3)</sup> at 18% (2005:11.3%) – 2 years ahead of plan<sup>(7)</sup>.
- Continued financial discipline, with year end gearing<sup>(6)</sup> at 42% - 1 year ahead of the planned pay down in debt following the Southern Cross Fertilisers (SCF) acquisition and share buy-back.

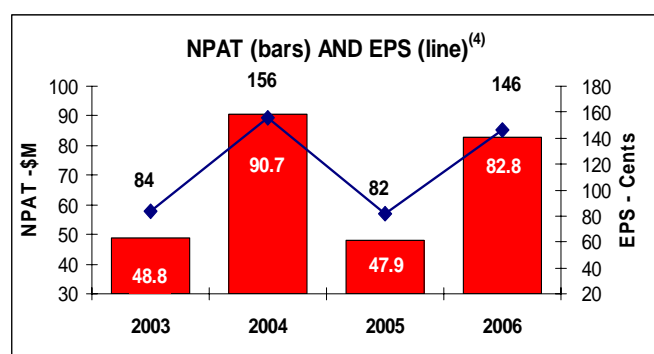
#### SHAREHOLDER RETURNS

- Return on shareholders’ funds<sup>(4)</sup> 16.0% (2005: 8.2%).
- Dividend up 45% to 103 cents per share (2005: 71 cps).
- \$165M (13.5%) buy-back of issued share capital completed at \$21 per share.
- Share price up 64% to \$25.87 at 30 September 2006 (2005: \$15.82).

#### BUSINESS OUTCOMES

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

A\$M	Year Ended September		
	2006	2005 <sup>(4)</sup>	Change
Sales Revenue	1,111.2	1,073.9	3%
EBITDA <sup>(2)</sup>	159.3	108.4	47%
EBIT <sup>(1)</sup>	126.2	77.9	62%
NPAT - excl. Individually material items	82.8	47.9	73%
NPAT - incl. Individually material items	46.7	14.5	222%
<b>Returns excluding individually material items:</b>			
Return On Net Assets (RONA) <sup>(3)</sup>	18.0%	11.3%	
Return on shareholders' funds <sup>(4)</sup>	16.0%	8.2%	
Dividend per share (cents) <sup>(4)</sup>	103	71	45%
Earnings per share (cents) <sup>(4)</sup>	146	82	78%
Share price at 30 September (\$)	25.87	15.82	64%
<b>Financial Items</b>			
Net debt <sup>(5)</sup>	275.4	93.0	(196%)
Gearing <sup>(5),(6)</sup>	42.0%	14.4%	
Interest cover (times)	10.3	8.2	



#### OUTLOOK – 2007

- Similarly to the 2002 drought, the 2006 drought will impact nutrient carry-over, water allocations, sub-soil moisture, farmer confidence and farmer cash flow going into the 2007 year.
- Earnings momentum from a full year ownership of SCF and “phase 2” restructure cost savings.
- Continued above-trend global fertiliser prices underpinning manufacturing profitability.

#### Further Information:

Investor relations: Simon Atkinson – Deputy CFO  
T: 03 8695 4515 M: 0405 513 768  
E: simon.atkinson@incitecpivot.com.au  
Media: Neville Heydon – 0408 123 160

#### Notes

- EBIT – Earnings Before Interest and Tax and excluding individually material items
- EBITDA – EBIT plus depreciation and amortisation
- RONA – Return on Net Assets – EBIT/(average working capital + fixed assets + goodwill + investments).
- 2006 Return on Shareholders’ Funds and Earnings Per Share (EPS) are diluted for the share buyback on 11/07/06
- 2005 working capital, debt and gearing adjusted to include Trade Bills and Seasonal Finance of \$83.8M which were off balance sheet and reported in contingent liabilities under AGAAP in 2005. These facilities are on balance sheet under AASB139.
- Gearing – Net debt / total capitalisation.
- In the September 2005 profit report a target of \$20M was set for 2006 cost savings and an 18% RONA exit rate for the 2007 financial year.

# INCITEC PIVOT LIMITED – PROFIT REPORT

## GETTING THINGS DONE



### SALES

#### SALES VOLUME

Base business fertiliser sales volume was down 12.6% in 2006 to 2.3M tonnes (2005: 2.7M tonnes) as a result of general market factors (5.9%) and changes in the competitive landscape (6.7%).

#### Market Conditions:

Excluding the impact of competition, sales volumes were down 5.9% or 157kt on 2005 because of drought conditions on the east coast.

- Weather conditions were poor, with rainfall approximately 85% of normal levels and around 10% lower than 2005<sup>(1)</sup>. Importantly, in season rainfall in the key April – September period was among the lowest on record.
- Sales into the winter crop markets (29% of volume) were down 5% or 42kt on 2005 – itself a poor year. With the exception of South Australia, which received good rains in early May, the autumn break that eventuated in mid June was patchy and late. A winter crop was not planted in much of the Darling Downs in Queensland. Phosphate application rates were down as farmers took a conservative approach to planting and very little pre-plant nitrogen was applied. Follow-up rains did not eventuate, which resulted in widespread crop failure. This severely impacted post-emergent nitrogen sales in the last quarter.
- Fertiliser volumes sold into pasture markets (39% of volume) were down 8% or 83kt on 2005. Market conditions were soft, with strong pasture growth in late spring 2005 combined with drought conditions and a poor wool outlook reducing demand.
- Fertiliser volumes into sugar markets (7% of volume) were flat year on year. The 2006 planting season was delayed due to high post cyclone rainfall in the key planting window. Industry confidence has improved following significant increases in global sugar prices (global sugar demand for bio-fuel production has increased).
- Sales into the summer crop segment (10% of total volume) were down 8% or 22kt, reflecting poor water availability for cotton.
- Sales into horticulture markets (8% of volume) were down 5% or 10kt.

Sales Summary	Year Ended September		
	2006	2005	Change
<b>000's</b>			
Fertiliser tonnes (base business)	2,322	2,656	(13%)
Total tonnes (including SCF)	2,740	2,934	(7%)
<b>A\$M</b>			
Fertiliser sales revenue (base business)	996.3	1,005.0	(1%)
Total Sales revenue (including SCF)	1,111.2	1,073.9	3%
<b>Other</b>			
Average exchange rate (A\$/US\$)*	74.6	75.2	1%
Middle East Granular Urea price - US\$/t*	245	236	4%
DAP price - FOB Tampa - US\$/t**	260	230	NA
* lagged by 3 months			
** 2006 DAP price 2 months to Sept 06; 2005: July 04 - June 05			

#### Competition

Changes in the fertiliser competitive landscape from 2005 continued to impact the business in 2006, reducing volumes by 6.7% or 177kt.

#### SALES REVENUE

Total sales revenue was up 3% to \$1,111M (2005: \$1,074M):

Fertiliser revenue was down 1% to \$996M (2005: \$1,005M) with higher fertiliser prices (\$110M) offset by weaker sales volumes (\$119M).

Fertiliser selling prices were up by 13% or \$50 per tonne on 2005 reflecting:

- Strong international fertiliser pricing with both urea (US\$245) and ammonium phosphates (US\$260) at top of cycle prices, partially offset by the strong A\$.
- A recovery of local Australian prices to import parity levels.

External revenue from SCF was \$42M (2005: Nil).

#### Notes

1. Source – Australian Bureau of meteorology rainfall percentage of mean series

# INCITEC PIVOT LIMITED – PROFIT REPORT

## GETTING THINGS DONE



### EARNINGS BEFORE INTEREST AND TAX (EBIT)

2006 EBIT increased by 62% or \$48.3M to \$126.2M (2005: \$77.9M).

Positive factors were:

- \$30.1M: Lower costs throughout the business as a result of restructuring. Total “phase one” program benefits (exit rate) are now forecast at \$38M before tax (52% above the initial target of \$25M).
- \$35.6M: Stronger manufacturing margins reflecting efficient plant operation and above trend global fertiliser prices. The gas profit share was \$11.0M (2005: \$11.4M).
- \$21.8M: Improved trading margins reflecting a favourable opening stock position (\$13.2M) and a recovery in wholesale fertiliser prices to import parity levels.
- \$3.5M: SCF profit (refer next page).

Negative factors were:

- \$25.1M: Lower sales volume (refer sales previous page).
- \$10.5M: Increased rebates paid to channel partners.
- \$4.8M: Provision for demolition of redundant plant and equipment following comprehensive site reviews conducted during the year.

Quality of earnings was restored with:

- EBIT margin up 4.2 percentage points to 11.4% of sales.
- RONA up 7 percentage points to 18%, equal to target.

### BORROWING COSTS

Total 2006 borrowing costs were \$12.9M, \$3.4M up on 2005 of \$9.5M:

- Net interest expense of \$7.2M in the base business was 24% down on 2005 (2005: \$9.5M) reflecting strong cash flow from improved earnings, reduced investment in working capital and strict control on capital spending.
- Interest cost incurred on the SCF acquisition (\$2.3M) and share buy-back (\$2.8M).
- A non-cash expense of \$0.6M (2005: Nil) was incurred reflecting the unwinding of discounts on non-current provisions.

### TAX

Tax expense, excluding significant items, of \$30.5M was 49% up on 2005 (2005: \$20.5M) reflecting improved earnings. The effective tax rate was 27% (2005: 30%).

### NET PROFIT AFTER TAX (NPAT)

NPAT, excluding individually material items, was up 73% to \$82.8M (2005: \$47.9M). NPAT, including individually material items, was up 222% to \$46.7M (2005: \$14.5M).

Earnings Summary A\$M	Year Ended September		
	2006	2005	Change
EBIT	126.2	77.9	62%
Borrowing costs	(12.9)	(9.5)	(36%)
Tax Expense	(30.5)	(20.5)	(49%)
<b>NPAT - excl. individually material items</b>	<b>82.8</b>	<b>47.9</b>	<b>73%</b>
Individually material items after tax	(36.1)	(33.4)	(8%)
<b>NPAT - incl. individually material items</b>	<b>46.7</b>	<b>14.5</b>	<b>222%</b>
EBIT/sales	11.4%	7.3%	
RONA	18.0%	11.3%	

Borrowing Costs A\$M	Year Ended September		
	2006	2005	Change
Net interest - base business	(7.2)	(9.5)	24%
Interest - SCF acquisition	(2.3)		
Interest - buyback	(2.8)		
<b>Net interest - base business</b>	<b>(12.3)</b>	<b>(9.5)</b>	<b>(29%)</b>
Non-cash unwinding of discounts	(0.6)		
<b>Total</b>	<b>(12.9)</b>	<b>(9.5)</b>	<b>(36%)</b>
EBIT interest cover (times)	10.3	8.2	

Once off costs: A\$M	Gross	Tax	Net
<b>2006 Individually material items:</b>			
Business restructuring costs	(9.1)	2.7	(6.4)
Cockle Creek closure	(31.5)	9.5	(22.0)
Elders settlement	(11.0)	3.3	(7.7)
Orica separation	(5.2)	1.5	(3.7)
SCF integration & restructuring	(6.8)	2.1	(4.7)
Profit on sale of QGC shares	9.5	(1.1)	8.4
<b>Total</b>	<b>(54.1)</b>	<b>18.0</b>	<b>(36.1)</b>
<b>Costs capitalised:</b>			
Buyback costs - charged to equity	(9.5)	2.9	(6.7)
SCF transaction costs	(6.4)	1.9	(4.5)
<b>Total cash:</b>			
SCF acquisition/ restructuring			(9.2)
Share buyback/ Orica separation			(10.4)

### INDIVIDUALLY MATERIAL ITEMS

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

- Restructuring costs of \$6.4M including \$4.6M for the closure of ammonium phosphate production at Kooragang Island.
- Cockle Creek closure and remediation costs of \$22.0M.
- \$7.7M relating to the 2005 Elders dispute.
- Separation costs of \$3.7M following the sell down by Orica in May 2006.
- SCF integration and restructuring costs of \$4.7M. Further restructuring costs of \$5M after tax are expected in 2007.
- A further \$8.4M profit following the sale of IPL's interest in Queensland Gas Company (total profit after tax on IPL's investment was \$13.4M).

# INCITEC PIVOT LIMITED – PROFIT REPORT

## GETTING THINGS DONE



### SOUTHERN CROSS FERTILISERS (SCF)

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

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

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

### SHAREHOLDER RETURNS:

#### DIVIDEND

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

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

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

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

Southern Cross Fertilisers A\$M	2 Months Ended September 2006		
	Underlying	Eliminations	Reported
Production tonnes	163.6		
Sales tonnes	153.1	(33.9)	119.2
Revenue	54.9	(13.1)	41.8
EBITDA	12.1	(7.3)	4.8
<b>EBIT</b>	<b>10.8</b>	<b>(7.3)</b>	<b>3.5</b>
Net Interest	(2.3)		(2.3)
Tax Expense	(2.6)	2.2	(0.4)
<b>NPAT - excl. individually material items</b>	<b>6.0</b>	<b>(5.1)</b>	<b>0.8</b>

Shareholder returns	Year Ended September		
	2006	2005	Change
Final Dividend (cps)			
- normal	81	-	
- special <sup>(a)</sup>		50	
- sub-total	81	50	62%
- % franked	100%	100%	
Total Dividend (cps) <sup>(a)</sup>			
- normal	103	15	587%
- special		56	(100%)
- sub-total	103	71	45%
- % franked	100%	100%	
Dividend yield at:			
- opening share price on 1 October	6.5%	3.8%	
- closing share price on 30 September	4.0%	4.5%	
Share buy-back @ \$21ps - \$M	165		
Share price			
- Opening 1 October	\$ 15.82	\$ 18.80	
- Closing 30 September	\$ 25.87	\$ 15.82	64%

(a) including November 2005 Special Dividend

### BUY-BACK

On 9 May 2006, Orica announced its intention to sell its 70% interest in IPL. On 11 July 2006, after a supportive vote from shareholders on 6 July 2006, IPL bought back 13.5% of issued share capital from Orica at \$21ps. At the time it was noted that the buy-back:

- was EPS accretive,
- was at a reasonable price, and
- created a more efficient capital structure.

### SHARE PRICE

IPL's share price increased by 64% during the year and closed at \$25.87 on 30 September 2006.

Total shareholder returns (TSR) for 2006 was 70% (pre franking).

# INCITEC PIVOT LIMITED – PROFIT REPORT

## GETTING THINGS DONE



### BALANCE SHEET

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

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

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

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

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

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

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

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

Balance Sheet - as at 30 September A\$M	2006 Actual	2005 <sup>(1)</sup> Proforma	2005 Actual
<b>Excluding SCF:</b>			
Trade working capital (TWC)	114	216	132
Net property plant and equipment	280	292	292
Goodwill	190	192	192
Environmental and restructuring	(67)	(42)	(42)
Tax assets	(6)	(9)	(9)
Net other (liabilities)/ assets	(14)	(2)	12
<b>Sub-total</b>	<b>497</b>	<b>648</b>	<b>578</b>
<b>SCF:</b>			
Trade working capital (TWC)	39		
Other assets	119		
<b>Sub-total</b>	<b>158</b>		
<b>NET ASSETS</b>	<b>655</b>	<b>648</b>	<b>578</b>
Underlying net debt/ (cash)	(54)	93	9
SCF funding <sup>(2)</sup>	155		
Buyback funding <sup>(2)</sup>	174		
<b>Total Net Debt</b>	<b>275</b>	<b>93</b>	<b>9</b>
Equity	380	555	569
<b>TOTAL CAPITALISATION</b>	<b>655</b>	<b>648</b>	<b>578</b>
Gearing	42.0%	14.4%	1.6%

(1) proforma: 2005 adjusted for trade finance facilities (Trade Bills and Seasonal finance \$83.8M) that are on balance sheet from 1 October 2005.  
(2) Includes transaction costs

# INCITEC PIVOT LIMITED – PROFIT REPORT

## GETTING THINGS DONE



### CASH FLOW

Incitec Pivot's strong 2006 earnings performance was matched by an equally strong cash flow outcome.

Net operating cash flows increased by \$117.0M to \$188.7M (2005: \$71.7M). Major factors were:

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

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

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

Net financing cash inflows were \$33.8M.

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



### VALUES AND CULTURE

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

This review engaged most of the workforce, with 1100 employees attending over 50 New Beginning workshops. These workshops defined the following values which will guide IPL's corporate behaviour and the individual aspirations of its people:

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

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

### SAFETY HEALTH AND ENVIRONMENT (SHE)

In 2006 Incitec Pivot continued to maintain its focus on safety, health and the environment. The all worker recordable case rate (number of injuries and illnesses per 200,000 hours worked) was 0.80 compared with 0.99 in 2005. IPL's continued focus on safety resulted in a reduction in overall injury rate for the third consecutive year since the formation of Incitec Pivot in 2003. However this result was overshadowed by the workplace fatality at Incitec Pivot's primary distribution centre in Mackay, Queensland in May 2006. This tragedy is unacceptable and the company is taking all possible steps to ensure such a tragedy never occurs again.

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

# Financial Report

## Contents

Consolidated Income Statement	10
Consolidated Balance Sheet	11
Consolidated Statement of Recognised Income and Expense	12
Consolidated Statement of Cash Flows	13
Notes to the Financial Statements	14
1 Significant accounting policies	14
2 Critical accounting estimates and judgements	21
3 Segment report	22
4 Revenue and other income	23
5 Individually material items	24
6 Earnings per share (EPS)	25
7 Issued capital	26
8 Reserves and retained earnings	27
9 Dividends	28
10 Contingent liabilities	29
11 Impact of adopting Australian Equivalents of International Financial Reporting Standards	30
12 Events subsequent to reporting date	41

## Consolidated Income Statement

For the year ended 30 September 2006

	Notes	September 2006 \$000	September 2005 \$000
Revenue	(4)	1,111,239	1,073,872
Other income (incl. Individually material items)	(4)	14,864	8,818
<b>Operating expenses</b>			
Changes in inventories of finished goods and work in progress		4,020	23,225
Raw materials and consumables used and finished goods purchased for resale		(724,431)	(788,525)
Employee expenses (incl. Individually material items)		(91,110)	(98,900)
Depreciation and amortisation expense		(33,145)	(30,486)
Borrowing and finance costs		(14,918)	(10,329)
Purchased services (incl. Individually material items)		(58,198)	(57,873)
Repairs and maintenance		(33,772)	(26,790)
Outgoing freight		(40,114)	(30,995)
Lease payments - operating leases		(13,921)	(12,316)
Asset write-downs, clean-up and environmental provisions (incl. Individually material items)		(35,411)	(21,155)
Other expenses (incl. Individually material items)		(25,846)	(7,102)
		<b>(1,066,846)</b>	<b>(1,061,246)</b>
<b>Profit before income tax</b>		<b>59,257</b>	<b>21,444</b>
Income tax expense		(12,595)	(6,952)
<b>Profit for the financial year</b>		<b>46,662</b>	<b>14,492</b>
		<b>cents</b>	<b>cents</b>
<b>Earnings per share</b>			
Basic earnings per share from continuing operations	(6)	83	25
Diluted earnings per share from continuing operations	(6)	83	25

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

The Consolidated Income Statement should be read in conjunction with the accompanying notes.

## Consolidated Balance Sheet

As at 30 September 2006

	Notes	30 September 2006 \$000	30 September 2005 \$000
<b>Current assets</b>			
Cash and cash equivalents		161,658	3,351
Trade and other receivables		121,445	75,901
Other financial assets		2,019	12,341
Inventories		298,656	262,909
Other assets		8,885	1,638
Assets held for sale		2,876	2,416
<b>Total current assets</b>		<b>595,539</b>	<b>358,556</b>
<b>Non-current assets</b>			
Trade and other receivables		264	1,633
Property, plant and equipment		478,097	291,971
Intangible assets		196,210	192,250
Deferred tax assets		32,215	-
Other assets		877	839
<b>Total non-current assets</b>		<b>707,663</b>	<b>486,693</b>
<b>Total assets</b>		<b>1,303,202</b>	<b>845,249</b>
<b>Current liabilities</b>			
Trade and other payables		282,598	200,699
Interest bearing liabilities		7,103	12,514
Other financial liabilities		5,683	-
Current tax liabilities		19,329	4,101
Provisions		47,478	43,713
<b>Total current liabilities</b>		<b>362,191</b>	<b>261,027</b>
<b>Non-current liabilities</b>			
Trade and other payables		60,086	-
Interest bearing liabilities		430,000	-
Other financial liabilities		1,774	-
Deferred tax liabilities		-	7,114
Retirement benefit obligations		3,393	4,321
Provisions		65,761	12,821
<b>Total non-current liabilities</b>		<b>561,014</b>	<b>24,256</b>
<b>Total liabilities</b>		<b>923,205</b>	<b>285,283</b>
<b>Net assets</b>		<b>379,997</b>	<b>559,966</b>
<b>Equity</b>			
Issued capital		360,797	532,445
Reserves		(5,829)	(1,524)
Retained earnings		25,029	29,045
<b>Total equity</b>		<b>379,997</b>	<b>559,966</b>

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

The Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

## Consolidated Statement of Recognised Income and Expense

For the year ended 30 September 2006

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

Other movements in equity arising from transactions with owners as owners are set out in Note 7 and 8. The amounts recognised directly in equity are disclosed net of tax.

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

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

## Consolidated Statement of Cash Flows

For the year ended 30 September 2006

	September 2006 \$000 Inflows/ (Outflows)	September 2005 \$000 Inflows/ (Outflows)
<b>Cash flows from operating activities</b>		
Receipts from customers	1,181,586	1,121,414
Payments to suppliers and employees	(969,785)	(1,017,188)
Interest received	1,529	1,139
Borrowing costs	(12,006)	(10,575)
Rental income	118	151
Other trading revenue received	156	399
Income taxes paid	(12,888)	(23,619)
<b>Net cash flows from operating activities</b>	<b>188,710</b>	<b>71,721</b>
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment and intangibles	(27,976)	(28,214)
Payments for purchase of subsidiary, net of cash acquired	(155,329)	-
Payments for purchase of investments	-	(5,105)
Proceeds from sale of investments	21,800	-
Proceeds from sale of property, plant and equipment	6,637	2,164
<b>Net cash flows from investing activities</b>	<b>(154,868)</b>	<b>(31,155)</b>
<b>Cash flows from financing activities</b>		
Repayments of borrowings	(89,165)	(50,541)
Proceeds from borrowings	430,000	-
Payments for share buy-back transaction	(174,497)	-
Dividends paid	(41,873)	(70,520)
<b>Net cash flows from financing activities</b>	<b>124,465</b>	<b>(121,061)</b>
<b>Net increase/(decrease) in cash and cash equivalents held</b>	<b>158,307</b>	<b>(80,495)</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>	<b>3,351</b>	<b>83,846</b>
<b>Cash and cash equivalents at the end of the financial year</b>	<b>161,658</b>	<b>3,351</b>

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

The Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

## For the year ended 30 September 2006

### 1. Significant accounting policies

Incitec Pivot Limited is a company domiciled in Australia. The consolidated financial report was authorised for issue by the directors on 14 November 2006.

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

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

#### (i) Basis of preparation

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

#### Compliance with IFRS

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

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

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

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

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the consolidated entity's equity, its net income and cashflows are given in note 11.

#### Historical cost convention

These financial statements have been prepared under the historical cost convention, except for derivative financial instruments and financial instruments held for trading which have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair value attributable to the risks that are being hedged.

The financial report is presented in Australian dollars.

#### Critical accounting estimates

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

#### Early adoption of standards

Incitec Pivot has elected to early adopt Australian Accounting Standards and interpretations which permit early adoption. The decision to early adopt those standards and interpretations ensures that policy elections described below, including AIFRS transition exemptions, are available. The principal standards and interpretations that have been early adopted are:

- Revised AASB 119 *Employee Benefits*
- AASB 2004-3 *Amendments to Australian Accounting Standards amending AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards, AASB 101 Presentation of Financial Statements, AASB 124 Related Party Disclosures*
- AASB 2005-1 *Amendments to Australian Accounting Standard amending AASB 139 Financial Instruments: Recognition and Measurement*
- AASB 2005-3 *Amendments to Australian Accounting Standards amending AASB 119 Employee Benefits*
- AASB 2005-4 *Amendments to Australian Accounting Standards amending AASB 139 Financial Instruments: Recognition and Measurement, AASB 132 Financial Instruments: Presentation, AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards, AASB 1023 General Insurance Contracts, AASB 1038 Life Insurance Contracts*
- AASB 2005-5 *Amendments to Australian Accounting Standards amending AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards, AASB 139 Financial Instruments: Recognition and Measurement*
- AASB 2005-7 *Amendments to Australian Accounting Standards amending AASB 134 Interim Financial Reporting*
- AASB 2006-1 *Amendments to Australian Accounting Standards amending AASB 121 The Effects of Changes in Foreign Exchange Rates*
- Interpretation 4 *Determining whether an Arrangement contains a Lease*

# Notes to the Financial Statements

## For the year ended 30 September 2006

### 1. Significant accounting policies (continued)

- Interpretation 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- Interpretation 8 Scope of AASB 2
- Interpretation 9 Reassessment of Embedded Derivatives

#### Issued Standards not early adopted

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

- AASB 7 *Financial Instruments: Disclosure* (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2005-9 *Amendments to Australian Accounting Standards* (September 2005) requires that liabilities arising from the issue of financial guarantee contracts are recognised in the balance sheet. AASB 2005-9 is applicable for annual reporting periods beginning on or after 1 January 2006.
- AASB 2005-10 *Amendments to Australian Accounting Standards* (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosures and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

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

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

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

#### (ii) Consolidation

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

is transferred to the consolidated entity. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the consolidated entity (refer to note 1(xiv)).

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

#### (iii) Revenue recognition

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

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

*Interest income* is recognised as it accrues.

*Dividends* are recognised in the Income Statement when declared.

#### (iv) Borrowing costs

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

#### (v) Share based payments

Under the Long Term Incentive Plan (LTI), Incitec Pivot may grant awards to executives and other senior employees, subject to individual and Company performance. The LTI operates by way of the Company providing participants with limited recourse loans, which can be interest free or interest bearing, and which must be used to purchase Incitec Pivot shares on market. Awards, by way of forgiveness of loans, are granted only on the achievement of either conditions relating to duration of employment of individual and/or Company performance over a specific period. The benefits received by the participants as a result of participation in the LTI are treated as options. The fair value of the shares treated as options is recognised as an employee expense over the relevant vesting period with a corresponding increase in equity. An option pricing model is used to derive a fair value at grant date. Loan forgiveness and other terms and conditions are incorporated into the option valuation.

## Notes to the Financial Statements

### For the year ended 30 September 2006

#### 1. Significant accounting policies (continued)

The fair value is allocated to the Income Statement evenly over the period from grant date to the date when an entitlement to an award, in the form of a loan waiver, arises. The amount recognised as an expense is adjusted to reflect the actual number of shares treated as options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting. The interest bearing loans are not recognised on the balance sheet.

##### (vi) Taxation

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at reporting date, and any adjustments to tax payable in respect of previous years. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for; initial recognition of goodwill, the initial recognition of assets and liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided will be based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantively enacted at reporting date. A deferred tax asset will be recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets will be reduced to the extent it is no longer probable that the related tax benefit will be realised.

##### Tax Consolidation

Legislation to allow groups, comprising a parent entity and its Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantially enacted on 21 October 2002. This legislation, which includes both mandatory and elective elements, is applicable to the Company. Incitec Pivot Limited is the parent entity in the tax consolidated group comprising all wholly-owned entities. The implementation date for the tax-consolidated group was 1 October 2003.

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

##### (vii) Inventories

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

Engineering spares are held in inventory and expensed when used.

##### (viii) Trade and other receivables

###### Current accounting policy

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

Collectibility of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An impairment loss is recognised when there is objective evidence that the consolidated entity will not be able to collect amounts due according to the original terms of the receivables. The amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the impairment loss is recognised in the income statement.

###### Derecognition

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

###### Prior period policy

Trade and other receivables are carried at invoice amounts.

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

##### (ix) Other financial assets

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

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

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up-to-date in accordance with

# Notes to the Financial Statements

## For the year ended 30 September 2006

### 1. Significant accounting policies (continued)

applicable accounting standards. Then, on initial classification as held for sale, non-current assets (or disposal groups) are recognised at the lower of carrying amount and fair value less costs to sell.

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

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

#### (xi) Property, plant and equipment and depreciation

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

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

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

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

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

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

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

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

#### (xii) Leased assets

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

Finance leases are capitalised at the present value of the minimum lease payments and amortised on a straight-line basis over the period during which benefits are expected to flow from the use of the leased assets. A corresponding liability is established and each lease payment is allocated between finance

charges and reduction of the liability.

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

#### (xiii) Intangible assets

##### (i) Goodwill

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

##### (ii) Research and development

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

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

The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

##### (iii) Other intangible assets

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

##### (iv) Subsequent expenditure

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

##### (v) Amortisation

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

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

##### (xiv) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are

## Notes to the Financial Statements

### For the year ended 30 September 2006

#### 1. Significant accounting policies (continued)

acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

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

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

#### (xv) Interest-bearing borrowings

##### Current accounting policy

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

##### Comparative period policy

Bank loans are recognised at their principle amount, subject to set-off arrangements. Interest expense is accrued at the contracted rate.

#### (xvi) Provisions

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

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

#### (i) Environmental

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

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

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

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

#### (ii) Decommissioning

The present value of the estimated costs of dismantling and removing an asset and restoring the site on which it is located are recognised as an asset within property, plant and equipment and as a provision where a legal or constructive obligation exists. At each reporting date, the liability is remeasured in line with changes in discount rates, timing and estimated cash flows. Any changes in the liability are added or deducted from the related asset, other than the unwinding of the discount which is recognised as an interest expense in the Income Statement.

#### (iii) Employee entitlements

##### Annual leave and sick leave

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

##### Long Service leave

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

##### Profit sharing and bonus plans

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

#### (iv) Retirement Benefit Obligation

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

## Notes to the Financial Statements

### For the year ended 30 September 2006

#### 1. Significant accounting policies (continued)

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

All actuarial gains and losses as at 1 October 2004, the date of transition to AIFRS, were recognised in retained earnings.

The consolidated entity has early adopted the revised AASB 119 *Employee Benefits* and all actuarial gains and losses that arise subsequent to 1 October 2004 are recognised directly in equity.

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

##### (v) Dividends

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

##### (vi) Restructuring and employee termination benefits

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

##### (vii) Onerous contracts

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

##### (xvii) Trade and other payables

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

##### (xviii) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction.

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

##### (xix) Derivative financial instruments

###### Current period policy

The consolidated entity uses derivative financial instruments to

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

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

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

###### Hedging

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

###### Cash flow hedges

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

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

If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains and losses that were recognised directly in equity are reclassified into the Income Statement in the same period or periods during which the asset acquired or liability assumed affects the Income Statement.

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

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

# Notes to the Financial Statements

## For the year ended 30 September 2006

### 1. Significant accounting policies (continued)

longer expected to take place, then the cumulative unrealised gain or loss recognised in equity is recognised immediately in the Income Statement.

#### Hedge of monetary assets and liabilities

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

#### Comparative period policy

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

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

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

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

#### Anticipated transactions

Foreign currency transactions are translated at the exchange rate prevailing at the date of the transaction. Foreign currency receivables and payables outstanding at balance date are translated at the exchange rates current at that date.

Exchange gains and losses on retranslation of outstanding receivable and payables are taken to the Income Statement.

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

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

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

Statement.

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

#### (xx) Cash and cash equivalents

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

#### (xxi) Share capital

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

#### (xxii) Fair value estimation

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

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

#### (xxiii) Impairment of assets

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

## Notes to the Financial Statements

### For the year ended 30 September 2006

#### 1. Significant accounting policies (continued)

impairment. If such indication exists, the asset is tested for impairment by comparing its recoverable amount to its carrying amount. Goodwill and indefinite life intangible assets are tested for impairment annually.

The recoverable amount of an asset (excl. receivables – refer to 1 viii) is determined as the higher of net selling price and value in use. The recoverable amount is estimated for each individual asset or where it is not possible to estimate for individual assets, it is estimated for the cash generating unit to which the asset belongs.

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

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

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

#### (xxiv) Goods and services tax

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

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

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

#### (xxv) Rounding of amounts

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

#### 2. Critical accounting estimates and judgements

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

##### Critical accounting estimates and assumptions

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

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

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

##### (i) Impairment of assets

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

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

## Notes to the Financial Statements

For the year ended 30 September 2006

### 2. Critical accounting estimates and judgements (continued)

#### (ii) Impairment of goodwill

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

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

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

#### (iii) Income taxes

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

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

#### (iv) Environmental and Restructuring provisions

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

#### (v) Retirement Benefit obligations

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

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

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

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

### 3. Segment report

During the years ended 30 September 2006 and 30 September 2005, the Consolidated entity operated in one business segment in which the principal activities were the manufacture and distribution of fertiliser, and in one geographic location, Australia.

## Notes to the Financial Statements

For the year ended 30 September 2006

### 4. Revenue and other income

	Notes	30 September 2006 \$000	30 September 2005 \$000
<b>Revenue</b>			
External sales		1,088,899	1,035,437
Sales to entities subject to common control		22,340	38,435
<b>Total Revenue</b>		<b>1,111,239</b>	<b>1,073,872</b>
<b>Other income</b>			
Interest income			
common controlled entities		-	246
external parties		2,026	653
Rental income		118	151
Other income		290	38
<b>From outside operating activities</b>			
Unrealised gain on listed investment held at fair value through profit and loss	(5)	-	7,236
Realised gain on listed investment held at fair value through profit and loss	(5)	9,459	-
Net gain on sale of property, plant and equipment		2,971	494
<b>Total other income</b>		<b>14,864</b>	<b>8,818</b>
<b>Total revenue and other income</b>		<b>1,126,103</b>	<b>1,082,690</b>

## Notes to the Financial Statements

For the year ended 30 September 2006

### 5. Individually material items

	30 September 2006			30 September 2005		
	Gross \$000	Tax \$000	Net \$000	Gross \$000	Tax \$000	Net \$000
Profit includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance of the entity:						
Litigation ruling and dispute <sup>(1)</sup>	(11,000)	3,300	(7,700)	-	-	-
Cockle Creek clean-up and closure costs <sup>(2)</sup>						
Environmental clean-up	(21,023)	6,307	(14,716)	-	-	-
Redundancy	(1,753)	526	(1,227)	-	-	-
Closure and demolition	(8,690)	2,607	(6,083)	-	-	-
Total Cockle Creek clean-up and closure costs	(31,466)	9,440	(22,026)	-	-	-
Gain from investment in listed Company held at fair value through profit and loss <sup>(3)</sup>						
Realised	9,459	(1,081)	8,378	-	-	-
Unrealised	-	-	-	7,236	(2,171)	5,065
Total gain from investment held for resale	9,459	(1,081)	8,378	7,236	(2,171)	5,065
Business restructuring costs <sup>(4)</sup>						
Employee redundancies and allowances	-	-	-	(18,065)	5,420	(12,645)
Restructuring and other direct costs	(3,389)	1,016	(2,373)	(15,015)	4,145	(10,870)
Demolition	(660)	198	(462)	-	-	-
Asset write-downs <sup>(5)</sup>	(5,038)	1,511	(3,527)	(21,155)	6,193	(14,962)
Total business restructuring	(9,087)	2,725	(6,362)	(54,235)	15,758	(38,477)
Business restructuring costs - Separation and Integration <sup>(6)</sup>						
Employee redundancies and allowances	(3,758)	1,127	(2,631)	-	-	-
Restructuring and other direct costs	(8,241)	2,472	(5,769)	-	-	-
Total business restructuring	(11,999)	3,599	(8,400)	-	-	-
Individually material items	(54,093)	17,983	(36,110)	(46,999)	13,587	(33,412)

<sup>(1)</sup> Represents payments made in respect of the dispute in the 2005 proceedings with Elders Limited for which orders were made by the Supreme Court of South Australia in favour of Elders Limited in April 2006.

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

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

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

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

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

## Notes to the Financial Statements

For the year ended 30 September 2006

### 6. Earnings per share (EPS)

	30 September 2006 Cents per share	30 September 2005 Cents per share
Basic earnings per share		
including individually material items	83	25
excluding individually material items	146	82
Diluted earnings per share		
including individually material items	83	25
excluding individually material items	146	82
	<b>Number</b>	Number
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share <sup>(1)</sup>	56,515,861	58,281,027
	<b>\$000</b>	\$000
<b>Earnings used in the calculation of basic and diluted earnings per share including individually material items</b>	<b>46,662</b>	14,492
<b>Reconciliation of earnings used in the calculation of basic and diluted earnings per share excluding individually material items</b>		
Profit for the financial year	46,662	14,492
Add back individually material items after income tax	36,110	33,412
Earnings used in calculation of basic and diluted EPS excluding individually material items	82,772	47,904

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

## Notes to the Financial Statements

For the year ended 30 September 2006

### 7. Issued capital

	<b>30 September 2006 \$000</b>	30 September 2005 \$000
<b>Share Capital</b>		
Ordinary shares authorised and issued - 50,423,885 (2005 - 58,281,027) <sup>(1)</sup>	<b>360,797</b>	532,445
	<b>360,797</b>	532,445

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

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

#### Share buy-back

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

There is no current on-market buy-back.

#### Terms and conditions

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

<sup>(1)</sup> Ordinary shares authorised and issued have no par value.

## Notes to the Financial Statements

For the year ended 30 September 2006

### 8. Reserves and retained earnings

	30 September 2006 \$000	30 September 2005 \$000
<b>Reserves</b>		
Share-based payments	(6,547)	(1,524)
Cash flow hedging	718	-
<b>Reserves at the end of the financial year</b>	<b>(5,829)</b>	<b>(1,524)</b>
<b>Movement in reserves during the financial year Share-based payments</b>		
Balance at the beginning of the financial year	(1,524)	(2,781)
Option expense	243	227
Options forfeited	-	438
Loan repayments	459	592
Shareholder loans	(5,725)	-
<b>Balance at the end of the financial year</b>	<b>(6,547)</b>	<b>(1,524)</b>
<b>Cash Flow Hedging Reserve</b>		
Balance at the beginning of the financial year	-	-
Recognition of fair value of cash flow hedging instruments upon adoption of AASB 139	4,279	-
Balance at beginning of the financial year restated	4,279	-
Changes in fair value of cash-flow hedges	(4,209)	-
Losses transferred to income statement	648	-
<b>Balance at the end of the financial year</b>	<b>718</b>	<b>-</b>
<b>Movement in retained earnings during the financial year</b>		
Retained earnings at the beginning of the financial year	29,045	84,588
Recognition of fair value of embedded derivative upon adoption of AASB 139	(9,466)	-
Retained earnings at the beginning of the financial year restated	19,579	84,588
Profit after income tax	46,662	14,492
Less dividends paid		
2004 Final and final special dividend	-	(58,281)
2005 Interim and interim special dividend	-	(12,239)
2005 Final special dividend	(29,140)	-
2006 Interim dividend	(12,822)	-
Share-based payment transactions		
Dividends received as loan repayment	98	228
Deferred tax adjustment on revaluation of property, plant and equipment	-	200
Actuarial gains on defined benefit plans	650	57
<b>Retained earnings at the end of the financial year</b>	<b>25,029</b>	<b>29,045</b>

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

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

## Notes to the Financial Statements

For the year ended 30 September 2006

### 9. Dividends

	30 September 2006 \$000	30 September 2005 \$000
Dividends paid or declared in respect of the year ended 30 September were:		
<b>Ordinary Shares</b>		
Final dividend of 70 cents per share, fully franked at 30%, paid on 9 December 2004	-	40,797
Final special dividend of 30 cents per share, fully franked at 30%, paid on 9 December 2004	-	17,484
Interim dividend of 15 cents per share, fully franked at 30%, paid 7 July 2005	-	8,742
Interim special dividend of 6 cents per share, fully franked at 30%, paid 7 July 2005	-	3,497
November 2005 special dividend of 50 cents per share, fully franked at 30%, paid 9 January 2006	29,140	-
Interim dividend of 22 cents per share, fully franked at 30%, paid 9 June 2006	12,822	-
<b>Total ordinary share dividends paid in cash</b>	<b>41,962</b>	<b>70,520</b>
<b>Redeemable preference shares</b>		
Quarterly dividend at 5.36% per share unfranked paid in cash on 27 November 2004	-	737
<b>Total redeemable preference share dividends paid in cash</b>	<b>-</b>	<b>737</b>
<b>Total dividends paid in cash</b>	<b>41,962</b>	<b>71,257</b>

#### Subsequent event

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

#### Ordinary shares

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

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

#### Franking credits

Franking credits available to shareholders of the Company of \$24,275,870 (2005 \$14,267,909) at the 30% (2005 at 30%) corporate tax rate after allowing for tax payable in respect of the current year's profit. The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

## Notes to the Financial Statements

### For the year ended 30 September 2006

#### 10. Contingent Liabilities

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

##### *Contracts, claims, guarantees and warranties*

- Under a Deed of Cross Guarantee dated 30 September 2005 (as varied by an Assumption Deed dated 28 September 2006), both entered into in accordance with ASIC Class Order 98/1418, each company which is party to the Deed has covenanted with the Trustee (or the Alternative Trustee as applicable) of the Deed to guarantee the payment of any debts of the other companies which are party to the Deed which might arise on the winding up of those companies.
- The consolidated entity has entered into various long-term supply contracts. For some contracts, minimum charges are payable regardless of the level of operations, but in all cases the levels of operations are expected to remain above those that would trigger minimum payments.
- There are a number of legal claims and exposures, which arise from the ordinary course of business. There is significant uncertainty as to whether a future liability will arise in respect of these items. The amount of liability, if any, which may arise cannot be reliably measured at this time. In the opinion of the directors, any further information about these matters would be prejudicial to the interests of the Company.
- There are guarantees relating to certain leases of property, plant and equipment and other agreements arising in the ordinary course of business.
- Contracts of sale covering companies and businesses, which were divested in current and prior years include normal commercial warranties and indemnities to the purchasers. The Company is not aware of any material exposure under these warranties and indemnities.
- From time to time, the consolidated entity is subject to claims for damages arising from products and services supplied by the consolidated entity in the normal course of business. Controlled entities have received advice of claims relating to alleged failure to supply products and services suitable for particular applications. The claims in the entities concerned are considered to be either immaterial or the entity is defending the claim with no expected financial disadvantage. No specific disclosure is considered necessary.

##### *Environmental*

###### 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 xvi), 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(xvi).

##### *Cockle Creek (NSW)*

The site at Cockle Creek (NSW) (owned by Incitec Fertilizers Limited) was declared and gazetted as a "remediation site" on 29 July 2005 by the Department of Environment and Conservation under the Contaminated Land Management Act, 1997. The contamination on the site arose from the use of fill material, mainly sourced from the adjacent smelter on the Pasminco site, by previous owners of the site. The Company is in discussion with the relevant regulatory authority to develop a voluntary Remediation Action Plan ("RAP") and has confirmed its position that it intends to work cooperatively with both the regulatory authority and Pasminco Cockle Creek Smelter Pty Ltd (in administration) in relation to this site. An environmental provision has been recognised in respect of this site.

## Notes to the Financial Statements

### For the year ended 30 September 2006

#### 10. Contingent Liabilities (Continued)

##### *Parafield Gardens (South Australia)*

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

##### *Wallaroo (South Australia)*

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

#### III. *Other environmental matters*

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

##### *Taxation*

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

#### 11. Impact of adopting Australian Equivalents of International Financial Reporting Standards

This is Incitec Pivot's first full year financial report prepared in accordance with the requirements of AIFRS, which Incitec Pivot was required to adopt from 1 October 2005. Comparative information is required to be restated. In general, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet as at transition date, being 1 October 2004, with the exception of the requirements of AASB 132 and AASB 139 which are only applicable from 1 October 2005 and no comparative information is required. AASB 1 also allows a number of exemptions and exceptions to this general principle, to assist in the transition to reporting under AIFRS, which are set out below.

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

## Notes to the Financial Statements

For the year ended 30 September 2006

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

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

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

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

## Notes to the Financial Statements

For the year ended 30 September 2006

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

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

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

## Notes to the Financial Statements

For the year ended 30 September 2006

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

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

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

## Notes to the Financial Statements

For the year ended 30 September 2006

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

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

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

## Notes to the Financial Statements

For the year ended 30 September 2006

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

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

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

## Notes to the Financial Statements

### For the year ended 30 September 2006

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

##### Notes to the reconciliations

###### (a) Reclassifications

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

At the date of transition to AIFRS, major cyclical maintenance expenditure has been reclassified from other assets to property, plant and equipment and it is being depreciated over the period to the next scheduled major shutdown. The reclassification resulted in a decrease in current other assets in the consolidated entity by \$4,748,000, non-current other assets also decreased by \$7,870,000 and property, plant and equipment increased by \$12,618,000 as at 1 October 2004. There is no effect on the Company.

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

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

###### (b) Retirement benefit obligation

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

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

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

###### (c) Property, plant and equipment

Property, plant and equipment is measured at cost under AIFRS. However, as permitted by the election made under AASB 1 at transition date, property, plant and equipment were recognised at deemed cost, being a revalued amount prior to transition date that approximates the fair value as at the date of transition.

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

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

## Notes to the Financial Statements

### For the year ended 30 September 2006

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

##### (d) Business combinations

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

##### (e) Intangible assets – goodwill

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

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

##### (f) Intangible assets – other intangible assets

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

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

On transition other intangible assets have been reviewed to ensure they are capable of recognition under AASB 138 and tested for impairment. Software assets that are intangible assets under AASB 138 have been reclassified from property, plant and equipment to intangible assets on transition to AIFRS. As a result, the net book value of property, plant and equipment decreased by \$7,242,000 in the consolidated entity as at 1 October 2004 and \$8,441,000 as at 30 September 2005. For the Company the adjustments are \$7,180,000 and \$8,441,000 respectively. No impairment adjustments are required.

##### (g) Impairment of assets

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

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

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

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

Incitec Pivot has defined its CGUs, reassessed its impairment testing policy and tested all assets for impairment as at transition date and at 30 September 2005. No impairment write-downs were required.

## Notes to the Financial Statements

### For the year ended 30 September 2006

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

##### (h) Share-based payments

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

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

In addition, as the dividends on these shares are returned to Incitec Pivot to reduce the loans, these dividends are treated as if they were not paid and are reversed and any loan forgiveness, loan repayment, and forfeit are also reversed. At 30 September 2005 the net impact of these transactions to the consolidated entity is an increase in loan receivable by \$2,088,000 and increase shareholders equity by \$1,259,000 (Company \$nil). The profit and loss impact of \$829,000 is due to a reduction in employee expense (Company \$829,000).

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

##### (i) Earnings per share

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

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

	30 Sep 2005	
	AGAAP	AIFRS
	cents	cents
Basic EPS from continuing operations	7	<b>25</b>
Diluted EPS from continuing operations	7	<b>25</b>

##### (j) Taxation

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

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

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

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

## Notes to the Financial Statements

For the year ended 30 September 2006

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

#### (j) Taxation (continued)

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

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

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

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

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

#### (k) Borrowing costs

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

Incitec Pivot did not have any qualifying assets in 2005.

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

## Notes to the Financial Statements

For the year ended 30 September 2006

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

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

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

#### (i) Classification

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

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

This resulted in a change to the previous AGAAP accounting policy, which does not classify financial instruments and where measurement was at amortised cost, with certain derivative financial instruments not recognised on Balance Sheet. The effect at 1 October 2005 for the consolidated entity was to increase current and non current other financial assets by \$4,345,000 and \$2,142,000 respectively, deferred tax assets by \$4,169,000, deferred tax liabilities by \$1,946,000, current and non current other financial liabilities by \$9,452,000 and \$4,444,000 respectively, increase cash flow hedging reserve by \$4,280,000 and decrease retained earnings by \$9,466,000. The adjustments are the same for the Company.

#### (ii) Recognition of assets and liabilities

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

#### (iii) Hedge accounting

Under AASB 139, in order to achieve a qualifying hedge, the entity is required to meet the following criteria:

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

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

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

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

## Notes to the Financial Statements

For the year ended 30 September 2006

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

#### (m) Assets classified as held for resale

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

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

#### (n) Changes in accounting policies

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

#### (o) Impact of AIFRS on retained earnings

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

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

### 12. Events subsequent to balance date

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

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