

Incitec Pivot Limited

Office of the Company Secretary

ABN 42 004 080 264

Registered Office:
Level 8, 28 Freshwater Place
Southbank Victoria 3006

Tel: (61 3) 8695 4400
Fax: (61 3) 8695 4419

www.incitecpivot.com.au

25 November 2011

The Manager
Company Announcements Office
Australian Securities Exchange
Level 45, South Tower
Rialto
525 Collins Street
MELBOURNE VIC 3000

Dear Sir or Madam

Electronic Lodgement

2011 Annual Report

In accordance with the listing rules, I attach a copy of Incitec Pivot Limited's Annual Report for 2011 for release to the market.

Yours faithfully



Kerry Gleeson
Company Secretary

Attach.

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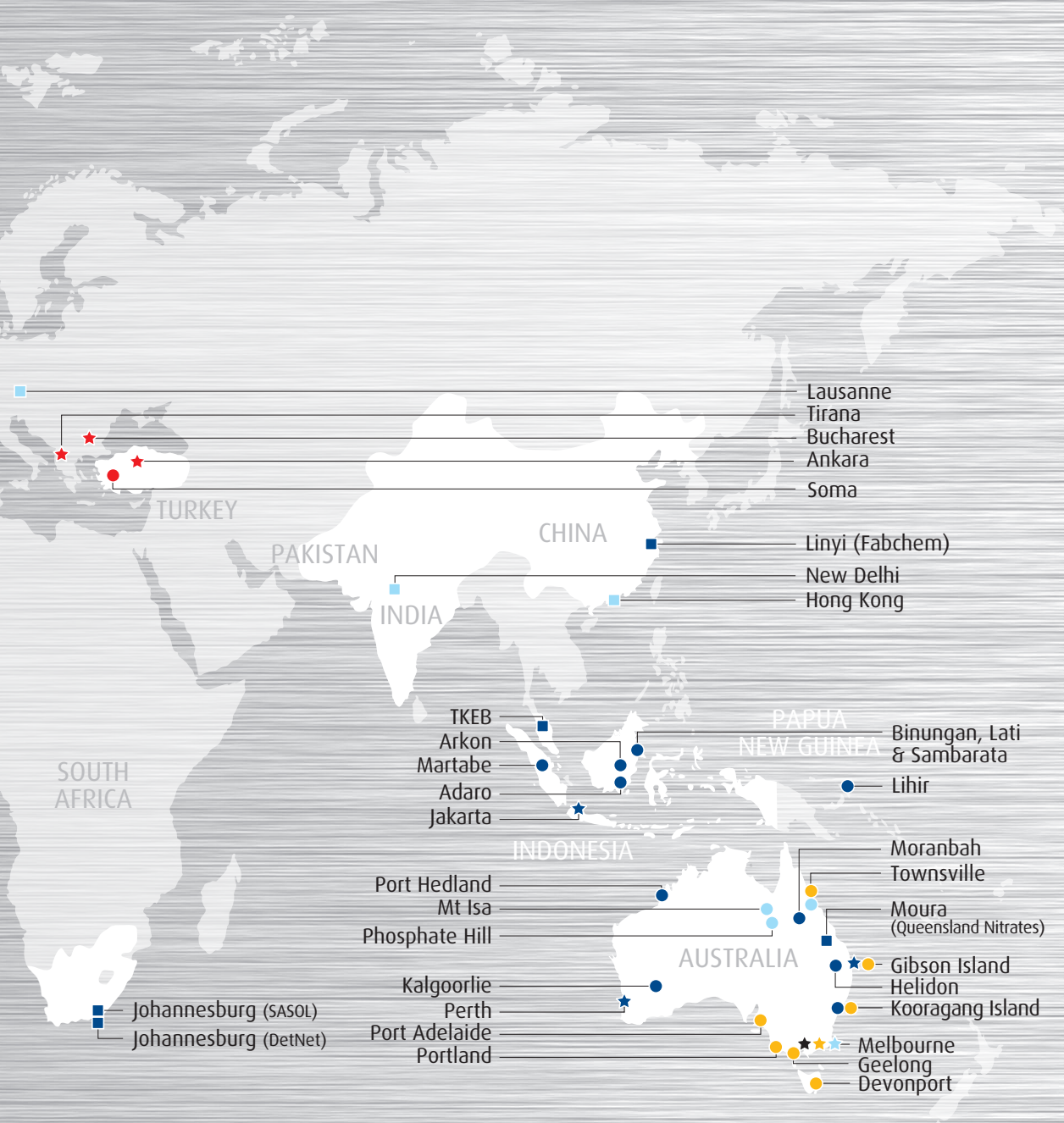
2011

ANNUAL REPORT 2011



Incitec Pivot Limited

STRATEGY ON TRACK AND DELIVERING

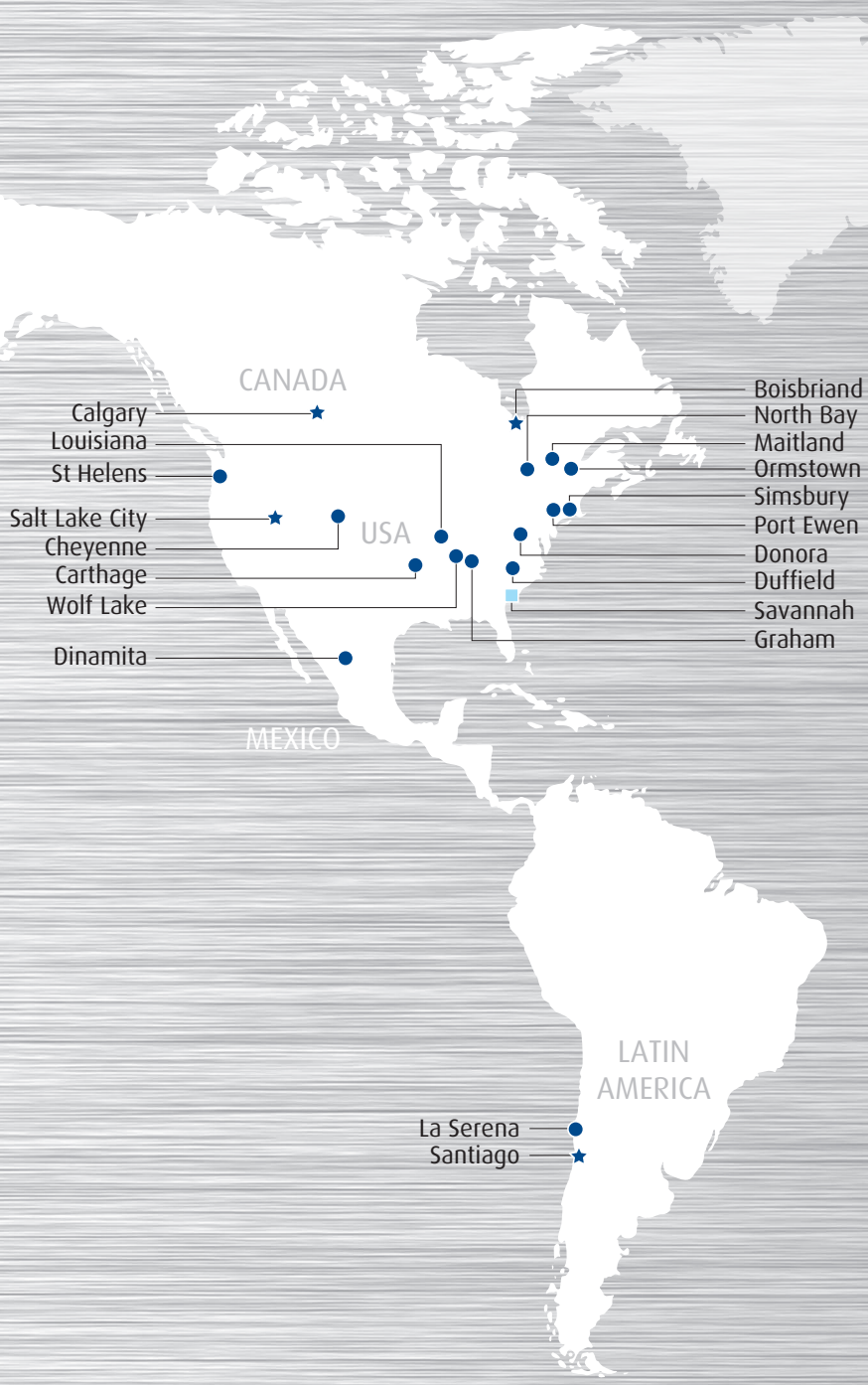


“Incitec Pivot’s strategy is to leverage value from the industrialisation and urbanisation of Asia by positioning ourselves on the input side of the value chain for both hard and soft commodities, that is, in explosives and fertilisers.”

John C Watson AM
 Chairman

Incitec Pivot Limited ★ Company Headquarters	
Incitec Pivot Fertilisers ★ Corporate Office ● Manufacturing/Distribution	Nitromak ★ Corporate Office ■ Manufacturing/Distribution
Dyno Nobel ★ Corporate Office ● Manufacturing/Distribution ■ Joint Ventures/Investments	Southern Cross International ★ Corporate Office ● Manufacturing ■ Quantum Joint Venture

FORTRESS
 INTERNATIONAL
 AUSTRALIAN
 DYNOL
 CHEMICALS
 GROUP



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Explosives

Customers in the mining, quarry, construction, pipeline and geophysical exploration industries trust Dyno Nobel, a global leader in the commercial explosives industry, to deliver Groundbreaking Performance through Practical Innovation.

Fertilisers

Incitec Pivot Fertilisers is a key supplier of Australia's soil health and nutrition needs, helping farmers maximise productivity to remain competitive in global markets.

Trading

Southern Cross International is focussed on sales to Australian distributors and export sales to Asia Pacific, the Indian sub-continent and Latin America.

Chairman's Report



At the core of Incitec Pivot is our strong culture, underpinned by our Group's Values. I see these values being lived across the many facets of our business.

I am pleased to report another successful year for Incitec Pivot. Despite a two-speed Australian economy and mixed conditions globally, Incitec Pivot achieved an underlying growth in Net Profit After Tax, before individually material items (IMIs), of 20% to \$530.1 million. A highlight of the result was the return to shareholders, including a full year dividend of 11.5 cents per share, a 47% increase on the 2010 dividend, and Earnings Per Share, before IMIs, rising 19% to 32.5 cents per share.

Incitec Pivot's strategy is to leverage value from the industrialisation and urbanisation of Asia by positioning ourselves on the input side of the value chain for both hard and soft commodities, that is, in explosives and fertilisers. Incitec Pivot achieves this with vertically integrated manufacturing through a multi-regional approach with customer aligned channels to market.

This strategy is driven by a motivated senior management team whose disciplined execution focusses both on the "controllables" and on ensuring the impacts of the "uncontrollables", such as weather conditions and the recent global economic crisis, are mitigated.

Good management demands that the business is managed for the long-term and, through the evolution of the strategy, we have addressed the "uncontrollables" and, to a large extent, mitigated their impacts on the business. The merger in 2003 of the Company, then southern Australian-based, with the northern-based Incitec Fertilizers, provided greater geographic spread to mitigate the impacts of localised weather conditions. The acquisition of Southern Cross Fertilisers in 2006, including the prized Phosphate Hill plant, mine and assets, continued the focus on manufacturing and moved the Group's business further up the value chain. The creation of the trading businesses, Southern Cross International in 2007 and Quantum last year, provided the capacity to trade fertilisers on global markets and helped to manage the impacts of demand fluctuations in Australia.

The 2008 Dyno Nobel acquisition established our exposure to the global resources industry.

As the Group has grown, debt financing risk has been actively managed following principles established under the Group's comprehensive capital management strategy. The key principle of this Board endorsed strategy is a commitment to an investment grade credit profile, including a requirement for diversification of funding sources and a spread of debt maturities. The implementation of this strategy has resulted in an enviable outcome, including an average interest rate paid on our debt of 5.7%.

In the past year, risk mitigation has also been evidenced by the steps taken to actively manage the volatility in the unprecedented Australia/United States currency exchange rates. Incitec Pivot's hedging program delivered a benefit of \$95 million through a transactional Australian dollar exchange rate of US\$0.91 in 2011 which was US\$0.12 better than the average spot rate. For 2012, Incitec Pivot continues to actively manage currency risk and we have significant cover in place for 2012 and a foundation level of cover for the 2013 financial year. In recognition of the Treasury Team's outstanding performance, they were named Corporate Treasury Team of the Year at the 2011 CFO Dealbook Awards.

In addition, throughout the years we have maintained focus on developing businesses that are "fit for purpose" for the economic environment, applying the disciplines of our business efficiency programs. This has been illustrated more recently through our Velocity program, which has delivered cumulative benefits of US\$204 million as at the end of 2011, and also through our other business specific strategies, which have included realigning our channels to market, developing technological solutions for customers and applying rigorous maintenance programs to increase plant reliability and productivity.

2012 will see Incitec Pivot embark on its next phase of continuous improvement, building from its strong disciplines applied in Velocity, and its predecessor, Tardis. This next phase, which is known as BEx, from "Business Excellence", will transform the way Incitec Pivot does business and will drive long term and sustainable productivity improvement in the Group. BEx will introduce well known methodologies, such as Lean principles, which I have seen in operation when visiting some of our North American plants, and will empower all of our employees in continuous improvement - ultimately across every part of our international business.



August 2011 Board tour of Western Australian operations.

The IPL Group Values



Own.Breakout.Deliver

Own.Breakout.Deliver embodies the IPL Group's Values which are at our core. They reflect the fairness and trust in which we believe and are the guiding principles which we draw upon in our day-to-day decision making.



Zero Harm for Everyone Everywhere



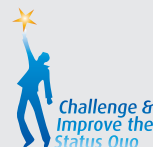
Care for the Community & our Environment



Value People - Respect, Recognise & Reward



Treat the Business as our Own



Challenge & Improve the Status Quo



Deliver on our Promises



Think Customer. Everyone. Every day.

We are also continuing to invest for the future where projects fit our strategic direction. By this time next year, our ammonium nitrate plant at Moranbah, in the Bowen Basin, will be in production and supplying our coal mining customers. Earlier this year, the Board visited Moranbah. It was pleasing to see the plant under construction and the development of the Moranbah community where we have built over 70 houses at a cost of \$25 million which means our people are part of the local community. Also, next year, we will start production from an emulsion plant at Port Hedland in the Pilbara which is currently under construction at a cost of \$40 million, underpinning our customer relationships in Western Australia.

Additionally, we are pursuing debottlenecking and minor expansion opportunities in our existing plants, such as Phosphate Hill, where we are starting the development of a third phosphoric acid filter train, at a cost of \$50 million, which will allow the processing of more varied rock feedstock and increase phosphoric acid production.

In 2011, we continued our investment in our people, supporting their development and improving their leadership skills. In addition to BEx, we are making a substantial investment in leadership training for managers and supervisors, both in management and also in safety, which is the priority for everyone working at Incitec Pivot. It will remain a permanent priority, even beyond the time when our safety performance reaches our goal of Zero Harm. I know Zero Harm is possible - indeed the majority of our sites have been injury free for many years. Board members continue to visit the Group's operations

to reinforce the focus which must be maintained on safety. This year we visited operations in Australia, the US and in Canada where we met with employees, customers and community representatives and toured the operations as well as customers' mine sites. In Canada, we were pleased to meet with the First Nations people in the North West Territories. We encourage close relationships with all Incitec Pivot communities such as residents and commercial neighbours around our plants and this year, in Australia, we saw with pride, the efforts of our employees at Gibson Island, in Brisbane, who volunteered their time and skill to assist in the flood recovery effort.

Another priority for the Board and management is to encourage diversity, in gender, in culture and in ethnicity. We recognise that diversity will assist in fostering a broader range of talent in the Group which reflects the communities in which we operate.

Earlier in the year I was pleased to announce that Rebecca McGrath had been appointed to the Board as a non-executive director. Rebecca was appointed following an extensive process, commencing with a review on the spread of skills, experience and expertise among the existing directors from which we identified those skills needed to complement the Board's composition. We interviewed a number of high quality applicants and I am delighted that Rebecca accepted our invitation. Rebecca, who has had a long term career with BP, with experience in operational, marketing and commercial roles, has joined a Board which comprises people with broad experience and expertise. Rebecca's appointment also adds to board

diversity as she is the first female director to join the Board since 2005. Rebecca will stand for re-election at the forthcoming Annual General Meeting and the Board unanimously recommends her election by shareholders.

I would like to take this opportunity to thank my fellow directors for their contribution to Incitec Pivot's strategic direction this year and for their ongoing commitment to the Group as it embarks on its next transformation through BEx. I want to pay tribute to our Managing Director & CEO, James, and the Executive Team, for their leadership and dedication, as well as our 5000 people who contributed this year to the success of the Group. The Board recognises that the Group's performance is a direct reflection of the quality of our people and their ability to execute on the strategy.

At the core of Incitec Pivot is our strong culture, underpinned by our Group's Values. I see these values being lived across the many facets of our business, and with this culture, our disciplined approach to business, a clear strategy and strong management, I feel confident in the future.

John C Watson AM
Chairman

Managing Director's Report



We believe in taking control of our own destiny, and that BEx, our next phase of continuous improvement, will transform the Group.

The 2011 full year result represents a strong performance by the Incitec Pivot team in successfully delivering on our strategy – in simple terms, to leverage the industrialisation of Asia, particularly China.

Net Profit After Tax, before individually material items (IMIs), was \$530.1 million, an increase of 20% or \$87.3 million on the financial results for 2010. Earnings Before Interest And Tax (EBIT) before IMIs improved to \$772.1 million, compared with \$648.3 million in 2010. In 2011, the benefit of Incitec Pivot's strategic direction was realised with each of the businesses achieving double-digit earnings growth: the explosives business achieved record earnings, with the fertilisers business recording a 34% increase in EBIT.

In Dyno Nobel Asia Pacific (DNAP), EBIT increased by 11% to \$195.4 million, a record for this business. This result is even more satisfying in that it came despite the significant impact of adverse weather conditions in Australia in the first half. The outlook for DNAP is positive: the ammonium nitrate plant at Moranbah, Queensland, is due to commence commercial production by the third quarter in 2012 and the development of the emulsion plant at Port Hedland, Western Australia, is slated for commercial production this time next year.

Dyno Nobel Americas (DNA) also achieved a record result with US dollar denominated earnings up 21% to US\$179.4 million. Putting this into context, this is a commendable result, noting in 2007 earnings were US\$131 million at a time when US construction was at its peak. Since 2007, volumes in the quarry and construction segment, our most attractive market, have declined by over 40%. The result highlights the improvement in the quality of earnings and underlying cost base brought about by the Velocity efficiency program and a renewed focus on execution. DNA is now well positioned for when the US economy recovers, which we expect will occur

slowly over the next few years. In the longer term, we are positive about the US given it remains the world's largest economy by a factor of almost three.

Incitec Pivot Fertilisers' 15% increase in EBIT to \$128.8 million reflects a recovery in domestic fertiliser volumes and strong global fertiliser prices. Similarly, Southern Cross International's EBIT increased by 46% to \$323.9 million. We hold a positive long-term view on fertilisers with global world food demand and, in turn, agricultural commodity prices, set to rise at a multiple of global inflation, driven by the urbanisation and industrialisation of the developing world.

The 2011 result reflects the actions we took in securing and strengthening the base business and sharpening our strategic focus. The balance sheet was strengthened by increasing the diversity and tenor of our debt with the Company successfully completing its second US 144A bond issue raising US\$500 million in December 2010 and refinancing our syndicated facility in April 2011.

We remain committed to the strategy, with our portfolio approach to managing the business allowing us to balance risk and return.

2011 saw a step change in leadership capability through the continued development of our leaders, with over a quarter of our people participating in leadership programs. We have made this investment in our people as independent research over many years shows clear leadership can create a positive climate with fully engaged employees which will result in outstanding performance, including, most importantly, in relation to safety. On surveying our organisational climate this year, I was pleased to learn that there was a 16% improvement in employee engagement across the Group. Our safety performance is improving with 83% of our sites injury free. At Moranbah, with our construction partners, we have achieved over 2.5 million man-hours without a lost-time injury, which is world-class performance compared to the Australian benchmark of around half



Moranbah ammonium nitrate manufacturing complex currently under construction (October 2011).

a million hours. When I visit Moranbah and our other sites, it is clear to me that leadership at a site drives the culture and relentless focus on safety and Zero Harm. This makes me confident that our safety objectives are achievable and that we must "stay the course" on the safety journey.

While the 2011 result is good, we can do better. This is not only my view, it is also a view held by many of our employees, who, through the employee engagement survey earlier this year, expressed how important continuous improvement is to them.

We are now positioned to take the business to the next level by pursuing growth opportunities which align with our core strategy. While M&A activity grabs the media headlines, the most compelling source of value in any business is driving earnings from current assets. We are focussed on capturing value through strategic organic development, such as the Moranbah and Port Hedland projects, and through productivity transformation via BEx.

Notwithstanding this, we are alert to M&A opportunities that will add value. Central to our strategic analysis is strict financial discipline. We will be patient to ensure we pursue only the right projects and, ultimately, if we cannot find re-investment opportunities that exceed our hurdles, we will return excess funds to shareholders.

We believe in taking control of our own destiny and that BEx, our next phase of continuous improvement, will transform the Group and ultimately create long-term, year-on-year productivity benefits. BEx involves engaging all of our employees in continuous improvement in their individual work practices, formally identifying and solving opportunities to improve the work "flow". Through BEx, our people will be empowered to identify areas where safety can be improved, waste reduced and productivity increased.

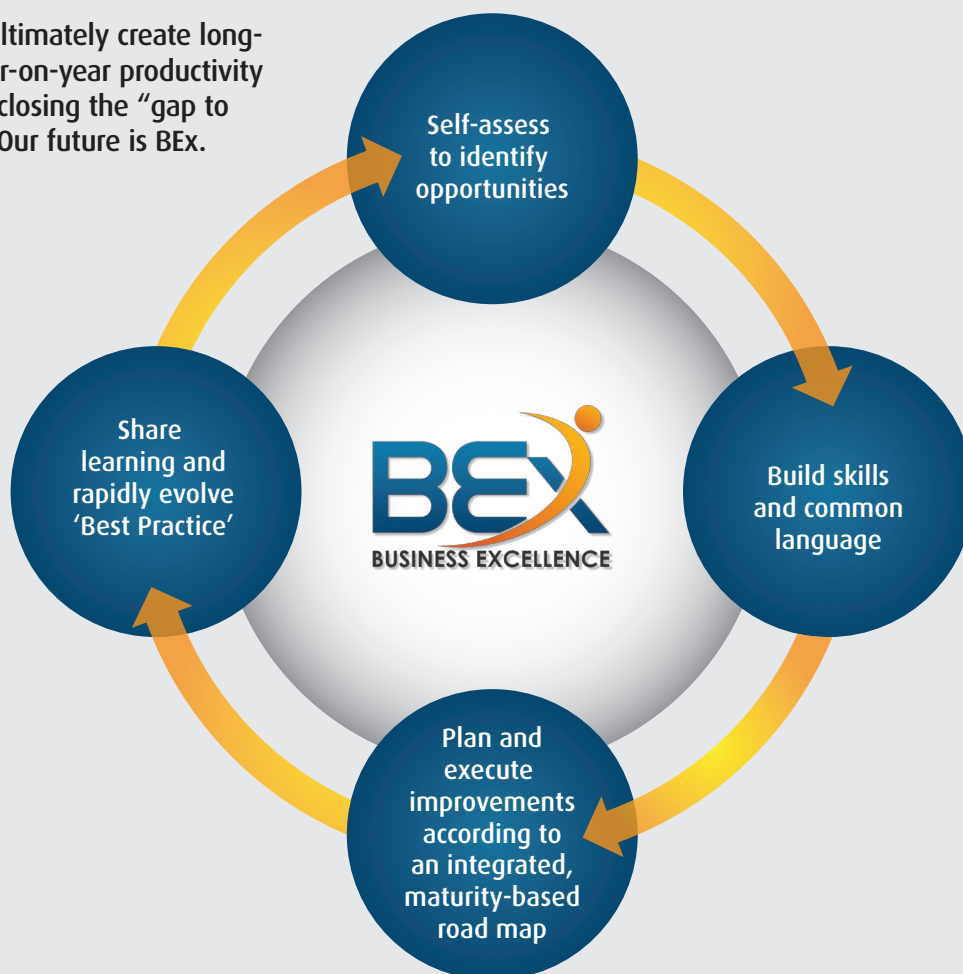
The initial BEx focus will be in manufacturing, where we will create our own "IPL production system" that will change the way we run our plants

globally - creating standard work, focussing our attention on eliminating waste and improving flow or removing bottlenecks. Supply Chain will follow in late 2012.

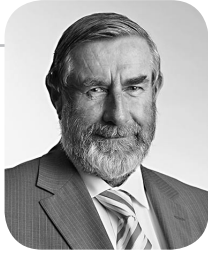
It is appropriate that we turn to our people, through BEx, to create the long-term future for our business. It is our people who make our business what it is, through their commitment to the Values, and who provide our sustainable competitive advantage. My commitment to our people is to provide the support and training they need to achieve their personal and professional goals and, in doing so, to make Incitec Pivot the best in the world at everything we do.

James Fazzino
Managing Director &
Chief Executive Officer

BEx will ultimately create long-term, year-on-year productivity benefits; closing the "gap to perfect". Our future is BEx.



Board of Directors



First row (l to r):
John Watson,
Allan McCallum,
Anthony Larkin,
John Marlay

Second row (l to r):
Graham Smorgon,
Paul Brasher,
Rebecca McGrath,
James Fazzino

John Watson AM MAICD
Non-executive Chairman

John was appointed as a director on 15 December 1997 and was appointed Chairman in January 1998. John is also a non-executive director of Tassal Group Limited. He is a past Chairman of the Export Wheat Commission, the Cooperative Research Centre for Innovative Dairy Products, PrimeSafe, the National Rural Advisory Council and Tasman Farms Limited, Governor of Van Diemen's Land Company and Deputy President of the National Farmers' Federation. John is also a former non-executive director of Rural Press Limited, Wool Partners International Limited (NZ), Eastern Energy Limited and was a member of the Rabobank Food and Agribusiness Advisory Board for Australia and New Zealand. He is a recipient of the Australian Centenary Medal and, in 2004, he was awarded a Membership in the Order of Australia for services to the agricultural and food production sectors.

Allan McCallum Dip. Ag Science, FAICD
Non-executive director
Chairman of the Health, Safety,
Environment and Community Committee

Allan was appointed as a director on 15 December 1997. Allan is Chairman of Tassal Group Limited and is a director of Medical Developments International Limited. He is a former Chairman of CRF Group Limited, CRF (Colac Otway) Pty Ltd and Vicgrain Limited and a former director of Graincorp Limited.

Anthony Larkin FCPA, FAICD
Non-executive director
Chairman of the Audit and Risk
Management Committee

Tony was appointed as a director on 1 June 2003. He is also a non-executive director of Oakton Limited. Tony was previously a non-executive director of OZ Minerals Limited, Corporate Express Australia Limited and Eyecare Partners Limited, Executive Director Finance of Orica Limited, Chairman of Incitec Limited and Chairman of Ausmelt Limited. During his career with BHP Limited, which spanned 38 years, he held the position of Group Treasurer and, prior to that, he held

senior finance positions in its steel and minerals businesses and various senior corporate roles. From 1993 to 1997, he was seconded to Foster's Group Limited as Senior Vice President Finance and Investor Relations. Until early 2006, he was a Commissioner of the Victorian Essential Services Commission.

John Marlay BSc, FAICD
Non-executive director
Chairman of the Remuneration and
Appointments Committee

John was appointed to the Board on 20 December 2006. John is a non-executive director of Boral Limited and Cardno Limited as well as independent Chairman of Tomago Aluminium Company Pty Ltd, a joint venture between Rio Tinto, Alcan, CSR/AMP and Hydro Aluminium companies. John is a former Chief Executive Officer and Managing Director of Alumina Limited, a former director of Alcoa of Australia Limited, Alcoa World Alumina LLC and the Business Council of Australia, the former Deputy Chairman of Alcoa World Alumina and Chemicals Strategic Council, and the former Chairman of the Australian Aluminium Council. In addition, he previously held executive positions with Esso Australia Limited, James Hardie Industries Limited, Pioneer International Group Holdings and Hanson plc.

Graham Smorgon B.Juris, LLB
Non-executive director

Graham was appointed to the Board on 19 December 2008. Graham is a non-executive director of OneSteel Limited, Chairman of Smorgon Consolidated Investments, the GBM Group and the Print Mint Group, a trustee of the Victorian Arts Centre Trust and Chairman of the Victorian Arts Centre Foundation. His former roles include Chairman of Smorgon Steel Group Limited, President of the Carlton Football Club, director of Fed Square Pty Ltd, Deputy Chairman of Melbourne Health, director of the Walter and Eliza Hall Institute and partner of law firm Barker Harty & Co, where he practised as a commercial lawyer for 10 years.

Paul Brasher BEc(Hons), FCA
Non-executive director

Paul was appointed to the Board on 29 September 2010. Paul is a non-executive director of Perpetual Limited and the Essendon Football Club and a trustee of the Victorian Arts Centre Trust. From 1982 to 2009, Paul was a partner of PricewaterhouseCoopers (and its predecessor firm, Price Waterhouse), one of the world's major chartered accounting and professional services firms, including five years as the Chairman of the Global Board of PricewaterhouseCoopers. Paul is a former Chairman of the Reach Foundation, and of the National Gallery of Victoria's Business Council, a former member of the Committee for Melbourne, a former board member of Asialink and a former trustee of the Committee for Economic Development of Australia.

Rebecca McGrath BTP(Hons), MASc,
MAICD
Non-executive director

Rebecca was appointed to the Board on 15 September 2011. Rebecca is currently Chief Financial Officer, BP Australasia and a member of BP's Executive Management Board for Australia and New Zealand. She has announced her resignation from this position, which will come into effect in early 2012. During her career with BP, Rebecca has held a number of senior roles in operations, marketing and functional leadership. She has held executive positions in Australia, the United Kingdom and Europe. Rebecca is also a non-executive director of OZ Minerals Limited and a former director of Big Sky Credit Union Limited.

James Fazzino BEc(Hons)
Managing Director & CEO

James was appointed Managing Director & CEO on 29 July 2009. James was first appointed as a director on 18 July 2005, following his appointment as Chief Financial Officer in May 2003. Before joining Incitec Pivot, he had many years experience with Orica Limited in several business financial roles, including Investor Relations Manager, Chief Financial Officer for the Orica Chemicals group and Project Leader of Orica's group restructure in 2001.

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Executive Team



First row (l to r):
James Fazzino,
Frank Micallef,
Kerry Gleeson,
Bernard Walsh,
James Whiteside



Second row (l to r):
Gary Brinkworth,
Stephen Dawson,
Brian Wallace,
Jamie Rintel,
Simon Atkinson

James Fazzino BEc(Hons)
Managing Director & CEO

Frank Micallef BBus, MAcc, FCPA, FFTA
Chief Financial Officer

Frank was appointed as Chief Financial Officer on 23 October 2009. Frank joined IPL in May 2008 as General Manager, Treasury and Chief Financial Officer, Trading. Prior to joining IPL, Frank had significant experience in the explosives and mining industries as Global Treasurer and Investor Relations Manager at Orica Limited and General Manager Accounting at North Limited.

Kerry Gleeson LLB(Hons)
General Counsel & Company Secretary

Kerry was appointed as General Counsel and Company Secretary in February 2004. Prior to joining the Company, Kerry had extensive private practice experience in IPOs, international mergers and acquisitions, equity markets, financing and restructuring, while practising in Australia, with Blake Dawson, and prior to that, as a partner of an English law firm. Kerry qualified as a lawyer in 1991, in England & Wales, and subsequently in Victoria, Australia in 2001. In 2009, Kerry received the ALB Australasian Law Award for In-House Lawyer of the Year.

Bernard Walsh BE(Mech), MIEAust CPEng
President, Global Manufacturing

Bernard joined IPL in 2003 and has extensive manufacturing experience in petrochemicals, chemicals and mining services. Bernard joined IPL from Orica Limited where he held a variety of roles from 1987, including General Manager of Initiation Explosives Systems (IES) until 2003. IES was a joint venture between Orica Limited and Ensign Bickford Industries Inc. and manufactured a full range of initiating systems at its Helidon, Queensland, and Deer Park, Melbourne, sites.

James Whiteside BAgricSc,
GradDipBusAdmin, GAICD
Chief Operating Officer, Supply Chain & Trading

James joined IPL (then known as Pivot Limited) in 1992, following extensive experience in agricultural companies and consulting. Since joining IPL, James has held a number of senior management roles, including Group Procurement Manager. As Chief Operating Officer, Supply Chain & Trading, James is responsible for Southern Cross International and its international and domestic trading business, and is Chief Executive Officer of the Quantum joint venture.

Gary Brinkworth BEc, GAICD
Chief Operating Officer, Incitec Pivot
Fertilisers & General Manager, Human
Resources

Gary joined IPL in November 2008. He has extensive local and international experience across wholesale fuel distribution, retail and financial services industries. Gary has held several senior leadership positions with BP Oil in Australia, New Zealand, the United Kingdom and the United States and brings a strong customer focus to the business. Immediately prior to joining IPL, Gary held the position of General Manager – Group Business Development with Coles Group.

Stephen Dawson BSc(Hons) Mining
Engineering, MBA
President, Dyno Nobel Asia Pacific

Stephen joined the Company upon its acquisition of Dyno Nobel in 2008. Stephen is responsible for leading the Dyno Nobel industrial explosives business in the Asia-Pacific region, including Australia, Indonesia and Papua New Guinea. He commenced his career with British Coal and subsequently worked with mining companies Amcoal Collieries Limited and Randcoal in South Africa. Stephen has also worked with AECI Explosives Limited (now AEL) in a variety of sales and operational roles.

Brian Wallace MSc, MBA
President, Dyno Nobel Americas

Brian joined the Company in 2008 and is responsible for Dyno Nobel's North American business. He has extensive experience in the industrial explosives business, having worked in the industry for over 25 years starting with AECI Explosives Limited (now AEL) in Johannesburg and, prior to joining Incitec Pivot, held positions with Austin Powder Company in the United States and Orica.

Jamie Rintel BA
President, Strategy & Business
Development

Jamie joined IPL in February 2005, following extensive experience in consulting across a range of industries both in Australia and overseas. Within IPL, Jamie has held a number of roles including, Marketing Manager for Incitec Pivot Fertilisers. Jamie was appointed to his current role as President, Strategy & Business Development in June 2008.

Simon Atkinson BBus, CA
President, New Markets

Simon joined the Company on its merger with Incitec Fertilizers Limited in 2003, having commenced with Incitec Limited in 2001 and Orica Limited in 1999. He has extensive finance experience, having been the Company's Commercial Finance Manager for the Australian fertilisers business. Simon was previously the Company's Investor Relations Manager and more recently, the Global CFO for the Group's explosives business. Simon was appointed to his current role as President, New Markets in May 2010 and has responsibility for new markets, including Turkey and Chile.

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Directors' Report

The directors of Incitec Pivot Limited present the directors' report, together with the financial report, of the Company and its controlled entities (the Group) for the year ended 30 September 2011 and the related auditor's report.

Directors

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

Name, qualifications and special responsibilities	Experience
<p>J C Watson AM MAICD Independent non-executive director and Chairman Member of the Remuneration and Appointments Committee Member of the Health, Safety, Environment and Community Committee</p>	<p>John was appointed as a director on 15 December 1997 and was appointed Chairman in January 1998. John is also a non-executive director of Tassal Group Limited. He is a past Chairman of the Export Wheat Commission, the Cooperative Research Centre for Innovative Dairy Products, PrimeSafe, the National Rural Advisory Council and Tasman Farms Limited, Governor of Van Diemen's Land Company and Deputy President of the National Farmers' Federation. John is also a former non-executive director of Rural Press Limited, Wool Partners International Limited (NZ), Eastern Energy Limited and was a member of the Rabobank Food and Agribusiness Advisory Board for Australia and New Zealand. He is a recipient of the Australian Centenary Medal and, in 2004, he was awarded a Membership in the Order of Australia for services to the agricultural and food production sectors.</p>
<p>A C Larkin FCPA, FAICD Independent non-executive director Chairman of the Audit and Risk Management Committee</p>	<p>Tony was appointed as a director on 1 June 2003. He is also a non-executive director of Oakton Limited. Tony was previously a non-executive director of OZ Minerals Limited, Corporate Express Australia Limited and Eyecare Partners Limited, Executive Director Finance of Orica Limited, Chairman of Incitec Limited and Chairman of Ausmelt Limited. During his career with BHP Limited, which spanned 38 years, he held the position of Group Treasurer and, prior to that, he held senior finance positions in its steel and minerals businesses and various senior corporate roles. From 1993 to 1997, he was seconded to Foster's Group Limited as Senior Vice President Finance and Investor Relations. Until early 2006, he was a Commissioner of the Victorian Essential Services Commission.</p>
<p>A D McCallum Dip. Ag Science, FAICD Independent non-executive director Chairman of the Health, Safety, Environment and Community Committee</p>	<p>Allan was appointed as a director on 15 December 1997. Allan is Chairman of Tassal Group Limited and is a director of Medical Developments International Limited. He is a former Chairman of CRF Group Limited, CRF (Colac Otway) Pty Ltd and Vicgrain Limited and a former director of Graincorp Limited.</p>
<p>J Marlay BSc, FAICD Independent non-executive director Chairman of the Remuneration and Appointments Committee</p>	<p>John was appointed to the Board on 20 December 2006. John is a non-executive director of Boral Limited and Cardno Limited as well as independent Chairman of Tomago Aluminium Company Pty Ltd, a joint venture between Rio Tinto, Alcan, CSR/AMP and Hydro Aluminium companies. John is a former Chief Executive Officer and Managing Director of Alumina Limited, a former director of Alcoa of Australia Limited, Alcoa World Alumina LLC and the Business Council of Australia, the former Deputy Chairman of Alcoa World Alumina and Chemicals Strategic Council, and the former Chairman of the Australian Aluminium Council. In addition, he previously held executive positions with Esso Australia Limited, James Hardie Industries Limited, Pioneer International Group Holdings and Hanson plc.</p>
<p>G Smorgon B.Juris, LLB Independent non-executive director Member of the Audit and Risk Management Committee Member of the Health, Safety, Environment and Community Committee</p>	<p>Graham was appointed to the Board on 19 December 2008. Graham is a non-executive director of OneSteel Limited, Chairman of Smorgon Consolidated Investments, the GBM Group and the Print Mint Group, a trustee of the Victorian Arts Centre Trust and Chairman of the Victorian Arts Centre Foundation. His former roles include Chairman of Smorgon Steel Group Limited, President of the Carlton Football Club, director of Fed Square Pty Ltd, Deputy Chairman of Melbourne Health, director of the Walter and Eliza Hall Institute and partner of law firm Barker Harty & Co, where he practised as a commercial lawyer for 10 years.</p>

Name, qualifications and special responsibilities	Experience
<p>P V Brasher BEc(Hons), FCA Independent non-executive director Member of the Audit and Risk Management Committee Member of the Remuneration and Appointments Committee</p>	<p>Paul was appointed to the Board on 29 September 2010. Paul is a non-executive director of Perpetual Limited and the Essendon Football Club and a trustee of the Victorian Arts Centre Trust. From 1982 to 2009, Paul was a partner of PricewaterhouseCoopers (and its predecessor firm, Price Waterhouse), one of the world's major chartered accounting and professional services firms, including five years as the Chairman of the Global Board of PricewaterhouseCoopers. Paul is a former Chairman of the Reach Foundation, and of the National Gallery of Victoria's Business Council, a former member of the Committee for Melbourne, a former board member of Asialink and a former trustee of the Committee for Economic Development of Australia.</p>
<p>R J McGrath BTP(Hons), MASc, MAICD Independent non-executive director</p>	<p>Rebecca was appointed to the Board on 15 September 2011. Rebecca is currently Chief Financial Officer, BP Australasia and a member of BP's Executive Management Board for Australia and New Zealand. She has announced her resignation from this position, which will come into effect in early 2012. During her career with BP, Rebecca has held a number of senior roles in operations, marketing and functional leadership. She has held executive positions in Australia, the United Kingdom and Europe. Rebecca is also a non-executive director of OZ Minerals Limited and a former director of Big Sky Credit Union Limited.</p>
<p>J E Fazzino BEc(Hons) Managing Director & Chief Executive Officer Member of the Health, Safety, Environment and Community Committee</p>	<p>James was appointed as Managing Director & Chief Executive Officer on 29 July 2009. James was first appointed as a director on 18 July 2005, following his appointment as Chief Financial Officer in May 2003. Before joining Incitec Pivot, James had many years of experience with Orica Limited in several business financial roles, including Investor Relations Manager, Chief Financial Officer for the Orica Chemicals group and Project Leader of Orica's group restructure in 2001.</p>

Company Secretary

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

Directors' interests in share capital

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

Director	Fully paid ordinary shares Incitec Pivot Limited
J C Watson	100,000
A C Larkin	5,000
A D McCallum ⁽¹⁾	216,501
J Marlay ⁽¹⁾	37,926
G Smorgon	0
P V Brasher ⁽¹⁾	20,600
R J McGrath	400
J E Fazzino ⁽¹⁾	1,708,180

(1) Held both directly and indirectly.

Further details of directors' interests in share capital are set out in Note 35 to the financial statements, Key management personnel disclosures.

Directors' Report

Directors' meetings

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

Director	Board		Audit and Risk Management		Remuneration and Appointments		Health, Safety, Environment and Community	
	Held ⁽¹⁾	Attended ⁽²⁾	Held ⁽¹⁾	Attended ⁽²⁾	Held ⁽¹⁾	Attended ⁽²⁾	Held ⁽¹⁾	Attended ⁽²⁾
J C Watson	10	10	-	-	7	7	4	4
A C Larkin ⁽³⁾	10	10	5	5	-	-	1	1
A D McCallum ⁽⁴⁾	10	10	-	-	2	2	4	4
J Marlay ⁽⁵⁾	10	10	1	1	7	7	-	-
G Smorgon ⁽⁶⁾	10	9	5	3	-	-	3	2
P V Brasher ⁽⁷⁾	10	10	4	4	5	5	-	-
R J McGrath ⁽⁸⁾	1	1	-	-	-	-	-	-
J E Fazzino	10	10	-	-	-	-	4	4

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

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

(3) Mr Anthony Larkin ceased to be a member of the Health, Safety, Environment and Community Committee on 24 February 2011.

(4) Mr Allan McCallum ceased to be a member of the Remuneration and Appointments Committee on 24 February 2011.

(5) Mr John Marlay ceased to be a member of the Audit and Risk Management Committee on 24 February 2011.

(6) Mr Graham Smorgon was appointed as a member of the Health, Safety, Environment and Community Committee on 24 February 2011.

(7) Mr Paul Brasher was appointed as a member of the Audit and Risk Management Committee and the Remuneration and Appointments Committee on 24 February 2011.

(8) Ms Rebecca McGrath was appointed to the Board on 15 September 2011.

Principal activities

The principal activities of the Group during the course of the financial year were the manufacture, trading and distribution of fertilisers, industrial explosives and chemicals, and the provision of related services. No significant changes have occurred in the nature of these activities during the financial year.

Review and results of operations

Group Financial Highlights

- Net Profit After Tax excluding minority interests (including individually material items⁽¹⁾) for the year ended 30 September 2011 was up 13% or \$52.7m to \$463.2m (2010: \$410.5m).
- Net Profit After Tax excluding minority interests (excluding individually material items) for the year ended 30 September 2011 was up 20% or \$87.3m to \$530.1m (2010: \$442.8m).
- Earnings Before Interest and Tax (EBIT) (excluding individually material items) was up 19% or \$123.8m to \$772.1m (2010: \$648.3m). The increase reflects double digit earnings growth in all business units.
- Earnings Per Share (excluding individually material items) was up 5.2 cents to 32.5 cents (2010: 27.3 cents).

- Operating cash flows were up 36% or \$190.2m to \$719.1m (2010: \$528.9m) as a result of improved Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) and lower trade working capital balances at year end.

Business Segment Financial Highlights

- Dyno Nobel Asia Pacific (DNAP) EBIT was up 11% to \$195.4m (2010: \$176.0m) as a result of lower losses on the costs to serve Moranbah foundation customer contracts and the benefits delivered by the Velocity program.
- Dyno Nobel Americas (DNA) EBIT was up 6% to \$173.8m (2010: \$163.2m). When measured in its base currency of US dollars, the business EBIT was up 21%. The increase in EBIT reflects the benefits delivered by the Velocity program and improved pricing to agriculture customers.
- Southern Cross International (SCI) EBIT was up 46% to \$323.9m (2010: \$222.6m) due to higher selling prices for di-ammonium phosphate, offset by the impact of the higher Australian dollar on US dollar priced fertilisers.
- Incitec Pivot Fertilisers (IPF) EBIT was up 15% to \$128.8m (2010: \$112.4m) reflecting higher volumes sold in the Australian market in 2011.

(1) Individually material items are revenues or expenses that are outside the normal operations of the business and are non-recurring in nature.

External Sales Revenue

- Revenue increased by \$974.6m to \$3,906.3m (2010: \$2,931.7m) in the year ended 30 September 2011. The increase was primarily due to the impact of higher fertiliser prices, higher sales volumes in the IPF business, the impact of higher revenues from the Quantum business and the impact of higher ammonia prices on sales by the Explosives business. Of the total revenue of \$3,906.3m in the year ended 30 September 2011, \$2,230.3m or 57.1% was derived from the Fertilisers business and \$1,676.0m or 42.9% was derived from the Explosives business.

Returns to Shareholders

- A final dividend of 8.2 cents per share (cps) unfranked is to be paid on 16 December 2011.
- This brings the total 2011 dividend to 11.5 cps.

Dividends

Dividends paid since the last annual report were:

Type	Cents per share	Total amount \$'000	Franked/ Unfranked	Date of payment
<i>Paid during the year</i>				
2010 final dividend	6	97,724	Unfranked	17 December 2010
2011 interim dividend	3.3	53,700	Unfranked	5 July 2011
<i>Paid after end of year</i>				
2011 final dividend	8.2	133,556	Unfranked	16 December 2011

Dealt with in the financial report as:	Note	\$'000
Dividends	27	151,400
Subsequent event	27	133,556

Balance Sheet

- Net debt increased by \$91.7m to \$1,188.8m (2010: \$1,097.1m) as a result of higher capital spend on the Moranbah Ammonium Nitrate plant and an increase in cash dividends paid during the year, partially offset by an increase in operating cash flows.
- The Net Debt/EBITDA⁽²⁾ ratio was 1.29 at 30 September 2011 (2010: 1.39).

(2) Net Debt/EBITDA equals interest bearing liabilities less cash and cash equivalents/Earnings Before Interest, Tax, Depreciation and Amortisation, excluding individually material items.

Directors' Report

Changes in the state of affairs

There have been no significant changes to the Group's state of affairs during the year.

Events subsequent to reporting date

Since the end of the financial year, in November 2011, the directors determined to pay a final dividend for the Company of 8.2 cents per share on 16 December 2011. The dividend is unfranked (Refer Note 27 to the financial statements).

The Commonwealth parliament has recently passed the 'Clean Energy Future' legislation. The legislation will introduce a carbon pricing scheme and require the Group to purchase and surrender carbon permits in relation to its carbon emissions in Australia. The scheme, anticipated to commence on 1 July 2012, will have a three-year fixed price period and subsequently transition to an emissions trading scheme. It is anticipated that the introduction of a carbon pricing scheme will have implications for the Group's Australian operations, particularly its manufacturing operations. The financial impact for the Group cannot be estimated until the Company can assess the effect of the industry assistance program to be implemented as part of the 'Clean Energy Future' legislation. However, based on the draft regulations regarding the industry assistance program and the Group's forecast future emissions, the impact of the carbon pricing scheme is not, at this stage, anticipated to have a material impact on the future profitability of the Group during the fixed price period of the carbon pricing scheme. As the market price of carbon permits under the subsequent emissions trading scheme cannot be predicted and the details of the industry assistance program (and its duration) are unknown, the financial impact for the Group cannot be estimated.

On 27 October 2011, the Group announced a feasibility study into the construction of an ammonium nitrate manufacturing plant on the site of its fertiliser facility on Kooragang Island, Newcastle, NSW. Development of the plant would proceed only on meeting the Group's strict financial hurdles and achieving firm customer commitments, regulatory approvals and support from the local and broader communities.

Other than the matters reported on above, the directors have not become aware of any other significant matter or circumstance that has arisen since 30 September 2011 that has affected or may affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent years, which has not been covered in this report.

Likely developments

Further information on likely developments in the operations of the Group and the expected results of the operations has not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulations

Manufacturing licences and consents are in place at each Group site, determined in consultation with local environmental regulatory authorities. The measurement of compliance with conditions of licences and consents involves numerous tests which are conducted regularly. The individual sites record their compliance and report that there is continued high compliance. When breaches occur, they are reported to the authorities as required and actions taken to prevent recurrences.

Indemnification and insurance of officers

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

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

Auditor

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

Non-audit services

KPMG has provided non-audit services to the amount of \$7,800 during the year ended 30 September 2011 (Refer Note 7 to the financial statements).

Lead Auditor's Independence Declaration

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

The lead auditor's independence declaration is set out on page 40 of this Annual Report.

Rounding

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

Directors' Report

Remuneration Report

The directors of Incitec Pivot Limited (the Company or Incitec Pivot) present the Remuneration Report prepared in accordance with section 300A of the Corporations Act 2001 (Cth) for the Company and its controlled entities (collectively referred to in this report as the "Group") for the year ended 30 September 2011. This Remuneration Report is audited.

This Remuneration Report forms part of the Directors' Report.

Details of the Group's remuneration strategy and arrangements for the 2010/11 financial year are set out in this Remuneration Report.

This Remuneration Report is prepared in respect of the Key Management Personnel, being those persons who have authority and responsibility for planning, directing and controlling the activities of the Group.

The Board has determined that the Key Management Personnel are the non-executive directors of the Company (refer to table B.1), certain former executives (refer to table C.3) and the people referred to in the table below, which includes the five most highly remunerated Group executives.

When used in this Remuneration Report, the term "Executives" means the people listed in the following table (and certain former executives, as the context requires).

Name	Position
Mr James Fazzino	Managing Director & CEO
Mr Frank Micallef	Chief Financial Officer
Mrs Kerry Gleeson	General Counsel & Company Secretary
Mr Bernard Walsh	President, Global Manufacturing
Mr James Whiteside	Chief Operating Officer, Supply Chain & Trading
Mr Gary Brinkworth	Chief Operating Officer, Incitec Pivot Fertilisers & General Manager, Human Resources
Mr Stephen Dawson	President, Dyno Nobel Asia Pacific
Mr Brian Wallace	President, Dyno Nobel Americas
Mr Jamie Rintel	President, Strategy & Business Development
Mr Simon Atkinson	President, New Markets

The structure of this Remuneration Report is as follows:

Section	Page
A. Executive Remuneration Overview	14
B. Non-Executive Director Remuneration	16
C. Executive Remuneration	
Executive remuneration policy and practice	17
Key features of the components of Executive remuneration	17
– Fixed annual remuneration	17
– At risk remuneration – Short Term Incentive (STI) Plan	18
– At risk remuneration – Long Term Incentive (LTI) Plans	19
Analysis of relationship between the Group's performance, shareholder wealth and remuneration	22
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– Executive remuneration	26
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Directors' Report

Remuneration Report

A. Executive Remuneration Overview

Incitec Pivot aims to generate competitive returns for its shareholders through its strategy as a leading global chemicals Group, manufacturing and distributing industrial explosives, fertilisers and related products and services. Incitec Pivot recognises that, to achieve this, the Group needs outstanding people who are capable, committed and motivated. The philosophy of Incitec Pivot's remuneration strategy is that it should support the objectives of the business and enable the Group to attract, retain and reward Executives of the necessary skill and calibre. Accordingly, the key principles of Incitec Pivot's remuneration strategy are as follows:

- to provide market competitive remuneration to attract, retain and reward Executives;
- for the majority of Executive remuneration to be "at risk" and linked to performance and the creation of sustained shareholder value;
- to apply demanding financial and non-financial performance objectives for the short and long term incentive plans; and
- for the long term incentive, to result in share ownership on the achievement of demanding objectives, linking remuneration to Company performance as experienced by shareholders.

2010/11 Remuneration in Review

Key Highlights	Commentary
<p>Strong Alignment to Shareholders</p> <ul style="list-style-type: none">• <i>Challenging targets driving creation of shareholder value</i>• <i>Reward only where exceptional performance</i>	<p>The majority of Executive remuneration is at risk, in the form of short term and long term incentives. As such, Executives are rewarded only where value is delivered to shareholders, for example:</p> <p>STI</p> <p>The key measure for the STI is Earnings Per Share (EPS) before individually material items (IMIs), a profit based metric, which is consistent with market practice. In the 2010/11 financial year, EPS (before IMIs) has grown 19% and, accordingly, Executives received payments under the STI Plan. Details of the amounts awarded are set out in table C.4.</p> <p>LTI</p> <p>The Company's approach is to set challenging targets to drive the creation of shareholder value. LTI awards are made only where there is exceptional performance over a sustained period, noting that under the Company's recent LTI plans, for awards to be made in full, the total return to the Company's shareholders (TSR) over the relevant performance period was required to exceed 20% per annum compounded over the period.</p> <p>In relation to the last four LTI plans that have matured, being the LTI 2006/08, the LTI 2006/09, the LTI 2007/10 and the LTI 2008/11:</p> <ul style="list-style-type: none">• For two of these plans, the LTI 2006/08 and the LTI 2006/09, which matured on 30 September 2008 and 30 September 2009, respectively, the TSR was substantially in excess of the stretch target (2008: 93% and 2009: 42.2%) and, accordingly, Executives received awards in full.• For the remaining two plans, the LTI 2007/10 and the LTI 2008/11, no awards were made as the Company's TSR did not meet the minimum hurdle, in particular, with regard to the LTI 2008/11, no performance rights vested as the minimum hurdle of 10% per annum compounded over the performance period was not met. <p>Refer to table C.2.</p>

Key Highlights	Commentary
<p>Positive Shareholder Support for Remuneration Practices</p> <ul style="list-style-type: none"> • <i>Consistent and responsive strategy</i> • <i>Strong advisory vote at all annual general meetings</i> 	<p>Over the years, the Board has been consistent in the application of the remuneration strategy, maintaining stability in its practices while annually reviewing executive remuneration, having regard to the need to offer competitive remuneration packages and to respond to shareholder sentiment.</p> <p>The Company has consistently received strong shareholder support for the remuneration report and, thus, the Company's remuneration policy and practices. At each annual general meeting the resolution to adopt the remuneration report has been passed on a show of hands. In addition, in 2010, had the resolution gone to a poll, 96% of the votes registered by proxy were in favour of the adoption of the report (2009: 89%, 2008: 93%).</p>
<p>Responsive to Shareholder Views</p> <ul style="list-style-type: none"> • <i>Adoption of two new metrics in line with market practice</i> <ul style="list-style-type: none"> – <i>Relative TSR</i> – <i>EPS</i> 	<p>For the 2010/11 financial year, consistent with the Board's remuneration philosophy and strategy and in response to shareholder views, having regard to market practice, the Board established two new challenging performance conditions for LTI plans, commencing with the 2010/13 Long Term Incentive Plan:</p> <ul style="list-style-type: none"> • Relative TSR: with vesting of the performance rights attached to this condition starting where the Company's TSR is above the 50th percentile of the companies in the S&P/ASX 100 ranked by their TSR performance and full vesting of the performance rights attached to this condition occurring where the Company's TSR is equal to or above the 75th percentile of such companies ranked by their TSR performance; and • Earnings Per Share: with vesting of the performance rights attached to this condition starting where the compound annual growth rate of the Company's EPS (before IMIs) over the performance period, from the base year, is equal to or greater than 7% per annum with full vesting in the performance rights attached to this condition occurring where the compound annual growth rate of the Company's EPS (before IMIs) over the performance period is 15% or greater. <p>Prior to the 2010/11 financial year, a single metric was used for the Company's LTI plans, absolute TSR. Accordingly, the move to having dual metrics and to have as those metrics Relative TSR and EPS growth is consistent with market practice and ensures strong alignment with shareholders' interests.</p>

Directors' Report

Remuneration Report

B. Non-Executive Director Remuneration

Incitec Pivot's policy is to:

- remunerate non-executive directors by way of fees and payments which may be in the form of cash, non-cash benefits and superannuation benefits; and
- set the level of non-executive directors' fees and payments to be consistent with the market and to enable Incitec Pivot to attract and retain directors of an appropriate calibre.

Non-executive directors are not remunerated by way of options, shares, performance rights, bonuses nor by incentive-based payments.

Non-executive directors receive a fee for being a director of the Board and non-executive directors, other than the Chairman of the Board, receive additional fees for either chairing or being a member of a Board Committee. The level of fees paid to a non-executive director is determined by the Board after an annual review and reflects a non-executive director's time

commitments and responsibilities. For the 2010/11 financial year, the fees paid to non-executive directors amounted to \$1,600,000, which was below the \$2,000,000 limit approved by shareholders at the 2008 Annual General Meeting.

Non-executive directors joining the Board after 31 May 2003 are not entitled to receive a retirement benefit. There are two non-executive directors who were appointed before 1 June 2003, Mr J Watson and Mr A McCallum, who have contractual rights to a retirement benefit. The contracts, which were entered into prior to the merger with Incitec Fertilizers Limited in 2003, provide that on their respective retirements from the Board, on condition of them serving 10 years on the Board, each of Mr Watson and Mr McCallum receive a payment calculated as to approximately 54% of the aggregate remuneration they respectively receive from the Company in the three years immediately preceding their date of retirement, where the percentage represents their years of service from the date of appointment to 31 May 2003, as a proportion of 10 years service.

Table B.1: Non-executive directors' remuneration

Details of the non-executive directors' remuneration for the financial year ended 30 September 2011 are set out in the following table:

For the year ended 30 September 2011

	Year	Short-term benefits ^(A)	Post-employment benefits	Other long term benefits ^(B)	Total
		Fees	Superannuation benefits		
		\$000	\$000	\$000	\$000
Non-executive directors					
Current					
J C Watson, Chairman ⁽¹⁾	2011	453	42	62	557
	2010	410	41	85	536
A C Larkin	2011	198	18	-	216
	2010	187	18	-	205
J Marlay	2011	189	18	-	207
	2010	176	17	-	193
A D McCallum ⁽¹⁾	2011	187	18	22	227
	2010	177	18	35	230
G Smorgon	2011	180	17	-	197
	2010	155	15	-	170
P V Brasher ⁽²⁾	2011	173	16	-	189
	2010	1	-	-	1
R J McGrath ⁽³⁾	2011	6	1	-	7
	2010	-	-	-	-
Total non-executive directors	2011	1,386	130	84	1,600
	2010	1,106	109	120	1,335

(A) Apart from the fees paid or payable to the non-executive directors, no other short term benefits were paid or are payable in respect of the reporting period.

(B) Consistent with best practice, with the exception of the contractual entitlements for Mr Watson and Mr McCallum who were appointed to the Board before 1 June 2003, the Company does not pay additional benefits to non-executive directors.

(1) If Mr Watson or Mr McCallum had ceased to be a director on 30 September 2011, the following benefits would have been payable under their respective contracts: Mr Watson \$766,000, Mr McCallum \$329,000.

(2) The disclosures for the 2009/10 financial year are with effect from Mr Brasher's appointment to the Board as a non-executive director, 29 September 2010.

(3) The disclosures for the 2010/11 financial year are with effect from Ms McGrath's appointment to the Board as a non-executive director, 15 September 2011.

C. Executive Remuneration

Executive remuneration policy and practice

The remuneration of the Executives is set by the Board.

In alignment with its remuneration strategy, the Board's policy on executive remuneration is that it comprises both a fixed component (fixed annual remuneration (FAR)) and an "at risk" or performance-related component (being short term and long term incentives) where:

- (i) the majority of executive remuneration is "at risk"; and
- (ii) the level of FAR will be benchmarked against that paid at the 50th percentile of companies in a comparator group with a range of market capitalisations (50%-200% of that of Incitec Pivot).

Remuneration arrangements for Executives are reviewed annually to ensure the arrangements continue to remain market competitive and consistent with the strategy of creating sustained shareholder value and in alignment with the Group's business strategy. For the 2010/11 financial year, the Remuneration and Appointments Committee engaged Godfrey Remuneration Group, an appropriately qualified and independent remuneration consultant, to assist in a review of the continued appropriateness of the Board's policy, remuneration strategy and structure of remuneration packages offered to Executives. As part of the review:

- **FAR:** this was benchmarked against the median of that paid for similar roles in comparable companies and in light of there being no increases in the fixed annual remuneration for Executives in the 2009/10 financial year, the Board approved, with effect from 1 January 2011, an increase of 8% to the fixed annual remuneration of Executives, save for the following Executives who

received the following increases due to the market benchmark data for their particular roles:

- Mr Frank Micallef: 10%
- Mr Jamie Rintel: 10.3%
- Mr Stephen Dawson: 10.3%.

- **LTI:** the performance measures used in the LTI were reviewed and, in line with market practice, the Board established two new challenging performance conditions for LTI plans, relative TSR and EPS growth.

The relative proportion of the Executives' total remuneration packages for the 2010/11 financial year that is performance-based is set out in the table below, and indicates a majority of the Executives' total remuneration is "at risk" (64-67%).

Table C.1: Remuneration structures by level

	% of Total Remuneration (annualised)		
	Fixed Remuneration	Performance-based Remuneration	
	FAR	STI	LTI
Managing Director & CEO	33%	33%	34%
Executives	36%	36%	28%

In calculating the "at risk" compensation as a proportion of total remuneration for the 2010/11 year, for each Executive, the maximum entitlement under the STI or LTI was taken into account.

Key features of the components of Executive remuneration

The following tables set out the key features of the three components of Executive remuneration that are relevant to the 2010/11 financial year.

Fixed annual remuneration

Fixed annual remuneration	
Who receives fixed annual remuneration?	The terms of employment for each of the Executives contain a fixed annual remuneration component.
What is the purpose of the fixed annual remuneration component?	The purpose of the fixed component is to remunerate the Executives at a level that is market competitive and reflects the experience and performance of the individual Executive.
What is included in fixed annual remuneration?	Executives may receive their fixed annual remuneration in a variety of forms, including cash, superannuation and fringe benefits, such as motor vehicles.
When is fixed annual remuneration reviewed?	The level of fixed annual remuneration is reviewed by the Board annually with reference to, among other things, changes in role and responsibilities and market data provided by an appropriately qualified and independent external consultant. In setting the level of the fixed component of remuneration, regard is had to the median of that paid for similar roles by a group of comparator companies where the group includes companies with a range of market capitalisations across various industries.
When does an increase in fixed annual remuneration take effect?	The Board determined that increases in the fixed annual remuneration for an Executive took effect from 1 January.
What was the fixed annual remuneration for the Executives for the year ended 30 September 2011?	Refer to table C.3 for details of the fixed annual remuneration for the Executives for the year ended 30 September 2011.

Directors' Report

Remuneration Report

At risk remuneration – Short Term Incentive (STI) Plan

STI Plan	
What is the STI?	The STI is an annual “at risk” cash incentive which is dependent on the achievement of particular performance conditions in the financial year to 30 September 2011.
Who participates in the STI Plan?	All of the Executives (as well as other selected employees) participate in the STI Plan.
Why does the Board consider the STI to be an appropriate incentive?	<p>The Board considers the STI is appropriate as it encourages the Executives to support Incitec Pivot’s strategic objectives by putting a large proportion of the Executives’ remuneration “at risk” against meeting challenging performance targets linked to the Group’s annual business objectives.</p> <p>STI awards are not an entitlement, but rather a reward for annual Group performance and individual performance or contribution to overall Group performance.</p>
What are the criteria for awarding the STI to Executives?	<p>The criteria for awarding the STI is the satisfaction of performance conditions where performance is measured over the year.</p> <p>The performance conditions used are growth in EPS (before IMIs) and, where relevant for a particular Executive, the EBIT of a particular business segment in the Group or production outcomes coupled with, where appropriate, non-financial performance conditions, such conditions not to exceed 20% of the STI opportunity for a particular Executive. In respect of non-financial performance conditions, in 2010/11 Executives were set objectives in relation to the organisational climate of the Group and, specifically, the level of engagement achieved within the Executives’ respective business units as measured by the results of a global employee survey.</p>
Why were these criteria chosen?	<p>In respect of EPS, this is considered an appropriate financial measure because it aligns Executive reward with the creation of shareholder value. In addition, by also using the EBIT of a business segment or production outcomes as measures for Executives in relevant business segments, this ensures robust alignment of performance in a particular business segment with reward for the Executive managing that business segment.</p> <p>In respect of the non-financial performance conditions, organisational climate and the level of engagement, since 2010 Incitec Pivot has established comprehensive leadership programs designed to address leaders’ roles in developing a strong organisational climate. Independent research over many years has shown that outstanding companies come from having a fully engaged workforce, with clear leadership creating a positive climate. Given the focus on leadership programs and on organisational climate, this measure was chosen to align Executive reward with improved organisational climate, as measured by the results of a global employee survey.</p>
When are the criteria set?	The criteria for awarding the STI were set by the Board prior to the commencement of the 2010/11 financial year.
What is the method for determining if the criteria are satisfied?	The method for determining if performance conditions are met is, for financial performance conditions, based on a review of the audited accounts for the financial year and, for any non-financial performance conditions, based on the review by the Board of recommendations made by the Remuneration and Appointments Committee following the annual performance review process for the Executives.
What STI awards were made to Executives with respect to the year ended 30 September 2011?	With EPS (before IMIs) having grown 19% for the year ended 30 September 2011 and having regard to the EBIT for relevant business segments, production outcomes and performance with regard to improved organisational climate, Executives were entitled to awards under the 2010/11 STI. Refer to tables C.3 and C.4 for further details of STI awards to Executives for the year ended 30 September 2011.

At risk remuneration – Long Term Incentive (LTI) Plans

LTI Plans	
<p>What are the Company's LTI Plans that are relevant to the 2010/11 financial year?</p>	<p>The current LTI Plans are:</p> <ul style="list-style-type: none"> • Long Term Incentive Performance Rights Plan for 2008/11 (LTI 2008/11); • Long Term Incentive Performance Rights Plan for 2009/12 (LTI 2009/12); and • Long Term Incentive Performance Rights Plan for 2010/13 (LTI 2010/13). <p>In addition, there are incentive arrangements for Executives and other selected employees based outside of Australia (see 'What are the Long Term Incentive Performance Cash Plans?' below).</p> <p>Details of the Executives' participation in these plans are set out in tables C.5 and C.6.</p>
<p>What is the purpose of the LTIs?</p>	<p>The LTIs are the long term incentive component of remuneration for employees, including the Executives, who are able to influence the sustained generation of shareholder value through their direct contribution to the Company's performance.</p> <p>The LTIs are designed to link reward with the key performance drivers which underpin sustainable growth in shareholder value – which comprises EPS, share price growth and returns to shareholders. By rewards resulting in share ownership on the achievement of demanding targets, this ties remuneration to Company performance as experienced by shareholders. The arrangements also support the Company's strategy for retention and motivation of the Executives and senior employees.</p>
<p>What is the design of the LTI Plans?</p>	<p>The LTI 2008/11 and LTI 2009/12 are performance rights plans which have a performance period of three years and performance conditions based on Incitec Pivot's TSR, being the percentage increase in the Company's share price over the three year performance period plus the after tax value of dividends paid, assuming the dividends are reinvested in the Company's shares (Absolute TSR).</p> <p>The LTI 2010/13 is a performance rights plan which also has a performance period of three years. However, the performance conditions are based on the Company's TSR relative to a comparator group, the S&P/ASX 100 (Relative TSR) and growth in EPS (before IMIs).</p>
<p>What is the method for determining if the criteria are satisfied?</p>	<p>The method for determining if the performance conditions are met is to test the performance conditions once only, following the end of the relevant performance period. For the LTI 2008/11 and LTI 2009/12, this is done by reviewing the share price over the three year performance period and taking into account dividends paid. For the LTI 2010/13, this is done by reviewing both the share price over the three year performance period relative to the comparator group and the growth in EPS (before IMIs) over that period.</p>
<p>What are the Long Term Incentive Performance Cash Plans?</p>	<p>Certain employees and Executives based in some jurisdictions participate in long term incentive cash plans which are operated by the Group, through its offshore entities. Cash plans are used where performance rights are not appropriate by reason of the particular jurisdiction. They are designed to deliver a similar benefit to those outlined above on achievement of sustained performance over the relevant three year performance period, with similar performance conditions as the Long Term Incentive Performance Rights Plans.</p>

Directors' Report

Remuneration Report

LTI 2008/11 LTI 2009/12 LTI 2010/13	
Who participates in the LTI 2008/11, the LTI 2009/12 and the LTI 2010/13?	Executives and other selected managers participate in the LTI 2008/11, the LTI 2009/12 and the LTI 2010/13. For details of the Executives' participation in these Plans refer to tables C.5 and C.6.
What form do the LTI 2008/11, LTI 2009/12 and LTI 2010/13 take?	The plans are 'performance rights' plans which entitle the participant to acquire ordinary shares in the Company for no consideration at a later date, subject to the satisfaction of certain conditions. As no shares are issued until exercise, performance rights have no dividend entitlement.
What is the process for deciding who will participate in the LTI plans?	The decision to grant performance rights and to whom they will be granted is made annually by the Board, noting that the grant of performance rights to the Managing Director is subject to shareholder approval. Grants of performance rights to participants are based on a percentage of the relevant participant's fixed annual remuneration. Whether or not those performance rights will vest is determined in accordance with the plan rules for the LTI 2008/11, LTI 2009/12 and LTI 2010/13.
What are the performance periods for these plans?	The performance period for the LTI 2008/11 is 1 October 2008 to 30 September 2011. The performance period for the LTI 2009/12 is 1 October 2009 to 30 September 2012. The performance period for the LTI 2010/13 is 1 October 2010 to 30 September 2013.
What are the conditions for the performance rights under the plans to vest and who approved the conditions?	The performance rights will only vest if certain conditions are met. The Board approved the conditions on the commencement of the relevant plans. The conditions focus on the performance of the Company and include a condition relating to duration of employment. For the LTI 2008/11 and LTI 2009/12, the performance condition is based on Absolute TSR. If, at the end of the relevant performance period, Absolute TSR (calculated in accordance with the applicable plan rules): <ul style="list-style-type: none"> • is equal to or less than 10% per annum compounded over the performance period, none of the performance rights vest; • is greater than 10% and less than 20% per annum compounded over the performance period, an increasing proportion of the performance rights will vest from zero on a straight line basis; and • is 20% or more per annum compounded over the performance period, all of the performance rights will vest. For the LTI 2010/13, the Board determined to adopt the following performance conditions: <ul style="list-style-type: none"> • the Company's total shareholder returns, relative to a comparator group, the S&P/ASX 100, with vesting of the performance rights attached to this condition starting where the Company's TSR is above the 50th percentile of the companies in the comparator group, ranked by their TSR performance and full vesting in the performance rights attached to this condition occurring where the Company's TSR is equal to or above the 75th percentile of the companies in the comparator group ranked by their TSR performance; and • Earnings Per Share growth, with vesting of the performance rights attached to this condition starting where the compound annual growth rate of the Company's EPS (before IMIs) over the performance period, from the base year (the financial year ended 30 September 2010), is equal to or greater than 7% per annum with full vesting in the performance rights attached to this condition occurring where the compound annual growth rate of the Company's EPS (before IMIs) over the performance period is 15% or greater. This condition is designed to give a total shareholder return equivalent to the top quartile of comparable companies in a three year period. These performance conditions are equally weighted.

LTI 2008/11 LTI 2009/12 LTI 2010/13	
When do performance rights lapse?	Performance rights will lapse if the performance conditions are not satisfied during the performance period or, in certain circumstances, if a participant ceases to be employed by the Group during the performance period. Additionally, under the LTI 2008/11 and the LTI 2009/12, the performance rights will also lapse if they are not exercised within five years from their grant date.
What happens if a participant leaves the Group?	Generally, the performance rights will lapse except where the participant has died, become totally and permanently disabled, is retrenched or retires. In those circumstances, the performance rights will be reduced pro rata to the proportion of days worked during the relevant performance period.
Do participants pay for the performance rights or the shares issued on exercise of performance rights?	Participants do not pay for the performance rights or shares.
What performance rights have vested under the LTI 2008/11, the LTI 2009/12 and the LTI 2010/13?	LTI 2008/11: no performance rights have vested. LTI 2009/12 and LTI 2010/13: these plans are each for a three year period and the performance conditions will not be tested until after 30 September 2012 and 30 September 2013 respectively.
Which Executives have been granted performance rights under these plans?	Refer to table C.5 in respect of performance rights granted to Executives.

Directors' Report

Remuneration Report

Analysis of relationship between the Group's performance, shareholder wealth and remuneration

In considering the Group's performance, the benefit to shareholders and appropriate remuneration for the Executives and other selected senior employees, the Board, through its Remuneration and Appointments Committee, has regard to financial and non-financial indices, including the following indices in respect of the current financial year and the preceding four financial years.

Table C.2: Indices relevant to the Board's assessment of the Group's performance and the benefit to shareholders

	2007 ⁽¹⁾	2008 ⁽²⁾	2009	2010	2011
Net Profit After Tax excluding minority interests (before individually material items) (NPAT (before IMI)) (\$m)	202.5	647.5	347.8	442.8	530.1
Earnings Per Share (before individually material items) (EPS (before IMI)) (cents)	20.1	60.5	22.6	27.3	32.5
Dividends – paid in the financial year – per share (cents)	7.5	21.8	21.6	4.1	9.3
Dividends – declared in respect of the financial year – per share (DPS (declared)) (cents)	15.0	29.7	4.4	7.8	11.5
Share price (\$) (Year End)	4.28	5.07	2.83	3.59	3.27
Absolute TSR (3 Year Compound per annum) (%)	74	93	42	3	(10)

(1) In respect of the financial year ended 30 September 2007, all indices except for Net Profit After Tax excluding minority interests (before individually material items) have been restated as a result of the 20:1 share split approved by shareholders in September 2008.

(2) Restated for change in accounting standard. In the financial statements for the year ended 30 September 2009, the Group's prior year Income Statement (i.e. in respect of the year ended 30 September 2008) was restated (reduced) by \$13.8m (\$9.7m net of tax) thereby reducing NPAT (before individually material items) from \$657.2m to \$647.5m.

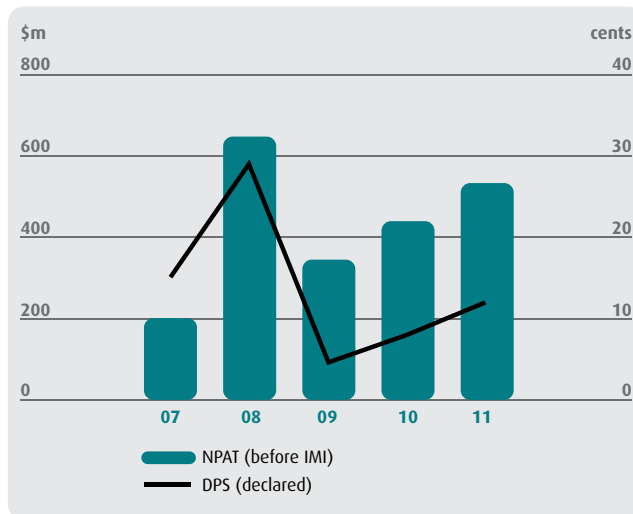
The "at risk" or performance related components of the Executives' total remuneration, in the form of short term and long term incentives, reward Executives only where value is delivered to shareholders, directly linking the reward to the Group's financial results and its overall performance, in the case of the long term incentive, over a sustained period of three years.

The Company's approach is to set challenging targets to drive the creation of shareholder value with LTI awards being made only where there is exceptional performance over a sustained period.

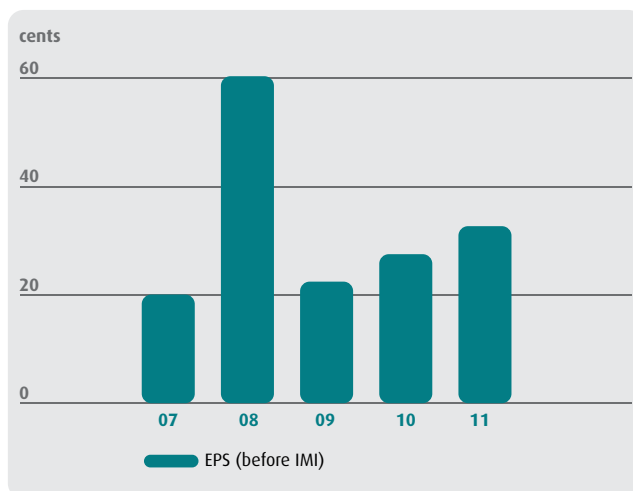
The charts on the following page show NPAT, EPS (before IMIs) and the total shareholder return to shareholders in the Company, compounded over three years and, notably, where awards were made under the LTI 2006/08 and LTI 2006/09, this was in alignment with the results achieved over the period.

In relation to the short term incentives, for the STI Plan 2010/11, EPS (before IMIs) has grown 19% for the year ended 30 September 2011 and, accordingly, as referred to in table C.4, Executives have been awarded short term incentives in cash.

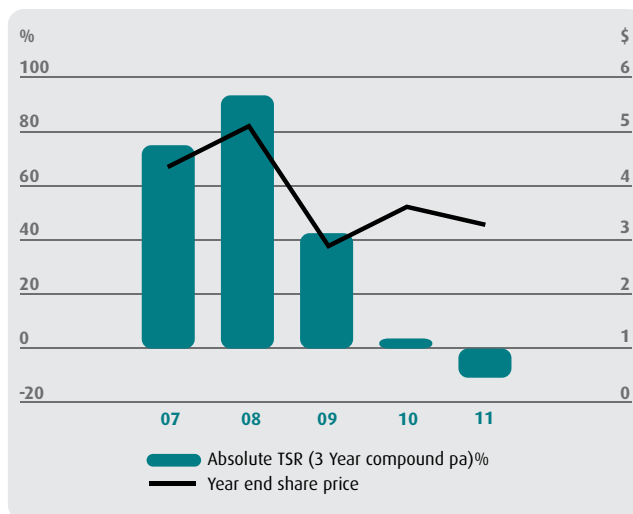
Net Profit After Tax excluding minority interests (before individually material items) \$m and Dividends Per Share cents declared⁽¹⁾



Earnings Per Share (before individually material items) cents⁽¹⁾



Absolute Total Shareholder Return (3 Year Compound per annum) %⁽¹⁾ and Year End Share price \$⁽¹⁾



(1) In respect of the 2007 financial year, all indices except for Net Profit After Tax excluding minority interests (before individually material items) have been restated as a result of the 20:1 share split approved by shareholders in September 2008.

Directors' Report

Remuneration Report

Executives' remuneration arrangements

Managing Director & Chief Executive Officer

Mr James Fazzino was appointed as Managing Director & CEO on 29 July 2009. The terms of Mr Fazzino's appointment as Managing Director & CEO are set out in a single contract of service dated 29 July 2009.

Details of the nature and amount of each element of remuneration of the Managing Director & CEO are included in table C.3.

The following is a summary of Mr Fazzino's employment arrangements and remuneration.

Fixed annual remuneration

For 2010/11, Mr Fazzino's fixed annual remuneration was \$1,944,000, effective 1 January 2011. His fixed annual remuneration is reviewed annually having regard to Incitec Pivot's executive remuneration policy.

STI

Mr Fazzino is eligible to participate in Incitec Pivot's STI Plan.

For 2010/11, Mr Fazzino's STI opportunity was between 50% and 100% of his fixed annual remuneration and was determined by reference to growth in EPS (before IMIs) in the 2010/11 financial year.

Given EPS (before IMIs) has grown 19% in the 2010/11 financial year, Mr Fazzino was awarded a STI payment of \$1,944,000 in respect of the period from 1 October 2010 to 30 September 2011.

LTI

Mr Fazzino currently participates in the following LTI Plans:

- the LTI 2008/11 pursuant to which Mr Fazzino was issued 222,482 performance rights as approved by shareholders in accordance with the ASX Listing Rules at the 2008 Annual General Meeting held on 19 December 2008;
- the LTI 2009/12 pursuant to which Mr Fazzino was issued 600,000 performance rights as approved by shareholders in accordance with the ASX Listing Rules at the 2009 Annual General Meeting held on 23 December 2009; and
- the LTI 2010/13 pursuant to which Mr Fazzino was issued 511,364 performance rights as approved by shareholders in accordance with the ASX Listing Rules at the 2010 Annual General Meeting held on 21 December 2010.

For the LTI 2008/11, Mr Fazzino's LTI opportunity was between 50% and 100% of fixed annual remuneration and was determined by reference to a performance condition based on Absolute TSR for the three year performance period to 30 September 2011. For the performance rights to vest, Absolute TSR of 10% per annum compounded over the performance period was required. In order for the performance condition to be satisfied in full, Absolute TSR of at least 20% per annum compounded over the performance period was required.

On determination of performance measured against the performance conditions, in accordance with the LTI 2008/11 plan rules, none of Mr Fazzino's performance rights vested.

The LTI 2009/12 and LTI 2010/13 are each for a three year period and the performance conditions will not be tested until after 30 September 2012 and 30 September 2013 respectively.

Termination by Incitec Pivot

The Company may terminate Mr Fazzino's employment:

- immediately for cause, without payment of any separation payment, save as to accrued fixed annual remuneration, accrued annual leave and long service leave;
- otherwise, without cause, with or without notice, in which case the Company must pay a separation payment plus accrued fixed annual remuneration, accrued annual leave and long service leave. The separation payment will be equal to 52 weeks of fixed annual remuneration as at the date of termination.

Termination by Managing Director & CEO

The agreement provides that Mr Fazzino may terminate his employment on six months' notice.

Effect of termination on long term incentives

In respect of the LTI 2009/12 and LTI 2010/13, generally the performance rights will lapse except in circumstances of death, total and permanent disablement, retrenchment or retirement. In those circumstances, the performance rights will be reduced pro rata to the proportion of days worked during the relevant performance period.

Executive Team

Remuneration and other terms of employment for the Executives (excluding Mr Fazzino, whose arrangements are set out on the previous page) are formalised in service agreements between the Executive and the Group, details of which are summarised below. Most Executives are engaged on similar contractual terms, with minor variations to address differing circumstances. The Group's policy is for service agreements for the Executives to be unlimited in term, but capable of termination in the manner described below. Details of the nature and amount of each element of remuneration of the Executives are included in table C.3.

Fixed annual remuneration

Fixed annual remuneration comprises salary paid in cash and mandatory employer superannuation contributions. Fixed annual remuneration may also come in other forms such as fringe benefits (eg. motor vehicles).

This component of remuneration is subject to annual review. Noting that there was no increase in the fixed annual remuneration for the Executives in the 2009/10 financial year, for the 2010/11 financial year, the fixed annual remuneration for the Executives was increased with effect from 1 January 2011 by 8% from the 2008/09 levels. Three Executives received increases of approximately 10% in line with market benchmark data for their roles.

STI

Participation is at the Board's discretion. For all Executives, for the 2010/11 financial year, the STI opportunity was 50% of fixed annual remuneration up to a maximum of 100% of fixed annual remuneration and was determined with reference to performance conditions outlined on page 18.

LTI

Participation is at the Board's discretion. For the LTI 2008/11 and LTI 2009/12, for all Executives the LTI opportunity is 50% of fixed annual remuneration up to a maximum of 100% of fixed annual remuneration for each plan in which they participate (except for Mr Atkinson whose LTI opportunity is 25% to a maximum of 50% of fixed annual remuneration) and vesting of rights is determined with reference to conditions based on Absolute TSR. For the LTI 2010/13, for all Executives the LTI opportunity is 40% of fixed annual remuneration up to a maximum of 80% of fixed annual remuneration and the vesting of rights is determined with reference to conditions based on Relative TSR and growth in EPS (before IMIs).

Termination by Incitec Pivot

Incitec Pivot may terminate the service agreements:

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

The amount of a separation payment is calculated on a 'capped' number of weeks basis as set out in the contract with each Executive and, in the case of Mr Walsh, his contractual entitlement has regard to the length of prior service with the Orica group. The following table sets out the 'capped' number of weeks for each Executive.

	Number of Weeks
Mr Frank Micallef	26 weeks
Mrs Kerry Gleeson	26 weeks
Mr Bernard Walsh	61.81 weeks
Mr James Whiteside	45.41 weeks
Mr Gary Brinkworth	26 weeks
Mr Stephen Dawson	26 weeks
Mr Brian Wallace	52 weeks
Mr Jamie Rintel	26 weeks
Mr Simon Atkinson	52 weeks

Termination by the Executive

An Executive may terminate his/her employment on 13 weeks' notice (save for Mr Atkinson who may terminate on 8 weeks' notice) and the Company may require the Executive to serve out the notice period or may make payment in lieu.

Effect of termination on long term incentives

In respect of the LTI 2009/12 and LTI 2010/13, generally the performance rights will lapse except in circumstances of death, total and permanent disablement, retrenchment or retirement. In those circumstances, the performance rights will be reduced pro rata to the proportion of days worked during the relevant performance period.

Directors' Report

Remuneration Report

Details of Executive remuneration

Table C.3 – Executive remuneration

Details of the remuneration paid to Executives is set out below.

For the year ended 30 September 2011

	Year	Short-term benefits			Post-employment benefits	Other long term benefits ^(c)	Termination benefits	Share-based payments	Total	Proportion of remuneration performance related	Share-based payments as proportion of remuneration
		Salary & Fees	Short Term Incentive & other bonuses ^(a)	Other Short Term benefits ^(b)	Super-annuation benefits	Accounting Value ^(d)	Accounting Value ^(d)				
		\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	%	%
Executive Current											
J E Fazzino	2011	1,893	1,944	-	15	89	-	899	4,840	59%	19%
Managing Director & CEO	2010	1,785	1,800	-	15	38	-	431	4,069	55%	11%
F Micallef⁽¹⁾	2011	694	726	-	15	-	-	285	1,720	59%	17%
Chief Financial Officer	2010	601	528	-	14	-	-	128	1,271	52%	10%
K J Gleeson	2011	614	642	-	15	17	-	265	1,553	58%	17%
General Counsel & Company Secretary	2010	579	475	-	15	11	-	175	1,255	52%	14%
B C Walsh	2011	672	595	-	15	35	-	290	1,607	55%	18%
President – Global Manufacturing	2010	633	451	-	15	14	-	192	1,305	49%	15%
J Whiteside	2011	500	525	-	15	22	-	217	1,279	58%	17%
Chief Operating Officer – Supply Chain & Trading	2010	471	389	9	15	10	-	141	1,035	51%	14%
G Brinkworth	2011	500	499	-	15	-	-	205	1,219	58%	17%
Chief Operating Officer – Incitec Pivot Fertilisers & General Manager – Human Resources	2010	427	389	-	15	-	-	85	916	52%	9%
S Dawson⁽²⁾	2011	497	472	-	15	26	-	166	1,176	54%	14%
President – Dyno Nobel Asia Pacific	2010	408	381	20	13	12	-	42	876	48%	5%
B Wallace⁽³⁾	2011	492	514	17	7	-	-	222	1,252	59%	18%
President – Dyno Nobel Americas	2010	454	255	32	16	-	-	108	865	42%	12%
J Rintel	2011	525	525	48	15	4	-	225	1,342	56%	17%
President – Strategy & Business Development	2010	489	393	61	15	24	-	93	1,075	45%	9%
S Atkinson⁽⁴⁾	2011	428	449	118	15	8	-	145	1,163	51%	12%
President – New Markets	2010	301	258	156	11	6	-	41	773	39%	5%
Former											
K Lynch⁽⁵⁾	2011	-	-	-	-	-	-	-	-	-	-
General Manager – Human Resources	2010	27	-	-	1	-	-	-	28	0%	0%
D Brinker⁽⁶⁾	2011	-	-	-	-	-	-	-	-	-	-
General Manager – Explosives	2010	164	383	176	35	-	1,003	9	1,770	0.5%	0.5%
A Grace⁽⁷⁾	2011	-	-	-	-	-	-	-	-	-	-
General Manager – Major Projects – Moranbah Project Director	2010	471	389	-	15	9	-	141	1,025	52%	14%
Total Executives	2011	6,815	6,891	183	142	201	-	2,919	17,151	57%	17%
	2010	6,810	6,091	454	195	124	1,003	1,586	16,263	45%	10%

- (A) Certain STI payments are awarded in US\$. Such STI payments were converted to A\$ at the spot rate on 30 September 2011, being 0.9782. In respect of Mr. Brinker, he received a short term incentive payment in January 2010 in accordance with his contractual entitlements established in 2008 as part of his employment arrangements.
- (B) Other short term benefits include the taxable value of fringe benefits paid attributable to the fringe benefits tax year (2011: 1 April 2010 to 31 March 2011) (2010: 1 April 2009 to 31 March 2010), rent and mortgage interest subsidies, relocation allowances and other allowances. Additionally, all Executives are eligible to participate in an annual health assessment program designed to ensure Executives have their health status reviewed on a regular basis.
- (C) Other long term benefits represents long service leave accrued during the reporting period.
- (D) In accordance with accounting standards, the share-based payments accounting value included as remuneration represents the fair value of shares, treated as options, and rights that have not vested. The value disclosed in table C.3 represents the portion of fair value allocated to this reporting period and is not indicative of the benefit, if any, that may be received by the Executive should the performance conditions with respect to the relevant long term incentive plan be satisfied. In respect of the LTI 2008/11, the performance conditions have not been satisfied and, while the accounting value is recorded in the table above, no performance rights will vest.

External valuation advice from PricewaterhouseCoopers has been used to determine the fair value at grant date of these rights. The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the right, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the right. The fair value has been allocated evenly over the performance period.

Refer to section C of this Remuneration Report for further details of the LTI 2008/11, the LTI 2009/12, the LTI 2010/13, the LTI performance cash plans and LTIs generally.

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

	Grant date	Vesting date	Fair Value per share treated as rights at grant date	Date exercisable	Exercise Price
LTI 2008/11	19/12/2008	30/09/2011	\$0.30	From 1/10/2011	\$nil
LTI performance cash plan 2008/11	19/12/2008	30/09/2011	\$0.13	From 1/10/2011	\$nil
LTI 2009/12	16/12/2009	30/09/2012	\$1.60	From 1/10/2012	\$nil
LTI 2010/13 – TSR	23/12/2010	30/09/2013	\$2.77	From 1/10/2013	\$nil
LTI 2010/13 – EPS	23/12/2010	30/09/2013	\$3.76	From 1/10/2013	\$nil

The number of rights for the purposes of remuneration, held by each Executive is referred to in section C of this Remuneration Report and Note 35 to the financial statements.

- (1) Mr Micallef was appointed as Chief Financial Officer during the 2010 financial year. The disclosures for the 2010 financial year are from the date he became Chief Financial Officer, 23 October 2009.
- (2) Mr Dawson became a Key Management Person during the 2010 financial year. The disclosures for the 2010 financial year are from the date he became a Key Management Person, 12 November 2009.
- (3) Mr Wallace became a Key Management Person during the 2010 financial year. The disclosures for the 2010 financial year are from the date he became a Key Management Person, 12 November 2009. Included within Mr Wallace's share-based payments accounting value for the 2011 financial year is an amount of \$4,000 relating to the LTI performance cash plan 2008/11.
- (4) Mr Atkinson became a Key Management Person during the 2010 financial year. The disclosures for the 2010 financial year are from the date he became a Key Management Person, 1 January 2010.
- (5) On 16 October 2009, Mr Lynch ceased employment with the Company.
- (6) On 30 November 2009, Mr Brinker ceased employment with the Group. Mr Brinker's termination benefits received during the 2010 financial year include a separation payment, accrued holiday leave and relocation costs. Mr Brinker was entitled to the termination benefits under his employment contract. Except in relation to the termination benefits, Mr Brinker's benefits were converted from US\$ to A\$ at the average exchange rate for 1 October 2009 to 30 November 2009 being 0.91323. Termination benefits were converted from US\$ to A\$ at the spot rate on 30 November 2009 being 0.91290.
- (7) With Mr Grace's role as Moranbah Project Director, Mr Grace's sole focus was the Project and he ceased to be a member of the Executive Team on 30 September 2010.

Directors' Report

Remuneration Report

Details of performance related remuneration: short term incentives

Table C.4 – Short term incentives awarded for the year ended 30 September 2011

Details of the vesting profile of the STI payments awarded for the year ended 30 September 2011 as remuneration to each Executive are set out below:

	Included in remuneration ^(A) \$000	Short term incentive	
		% vested in year	% forfeited in year
Executives			
Current			
J E Fazzino	1,944	100%	-
F Micallef	726	100%	-
K J Gleeson	642	100%	-
B C Walsh	595	85%	15%
J Whiteside	525	100%	-
G Brinkworth	499	95%	5%
S Dawson	472	90%	10%
B Wallace	514	100%	-
J Rintel	525	100%	-
S Atkinson	449	100%	-

(A) In relation to the STI, the amounts included in the remuneration for the financial year represent the amounts that vest in the financial year based on the satisfaction of performance conditions under the STI Plan.

Details of performance related remuneration: long term incentives

Table C.5 – Details of long term incentives granted and vested in the year ended 30 September 2011 and the vesting profile of long term incentives granted as remuneration

		Grant date	Number granted ^(A)	Number vested ^(B)	% Vested in year	% Forfeited in year ^(C)	Financial year in which grant vests
Key Management Personnel							
Executives							
Current							
J E Fazzino	Performance Rights Plan 2008/11	19 December 2008	222,482	-	0%	100%	2011
	Performance Rights Plan 2009/12	23 December 2009	600,000	-	-	-	2012
	Performance Rights Plan 2010/13	23 December 2010	511,364	-	-	-	2013
F Micallef ⁽¹⁾	Performance Rights Plan 2008/11	19 December 2008	46,838	-	0%	100%	2011
	Performance Rights Plan 2009/12	16 December 2009	220,000	-	-	-	2012
	Performance Rights Plan 2010/13	23 December 2010	150,000	-	-	-	2013
K J Gleeson	Performance Rights Plan 2008/11	19 December 2008	128,806	-	0%	100%	2011
	Performance Rights Plan 2009/12	16 December 2009	198,000	-	-	-	2012
	Performance Rights Plan 2010/13	23 December 2010	135,000	-	-	-	2013
B C Walsh	Performance Rights Plan 2008/11	19 December 2008	140,515	-	0%	100%	2011
	Performance Rights Plan 2009/12	16 December 2009	216,000	-	-	-	2012
	Performance Rights Plan 2010/13	23 December 2010	147,273	-	-	-	2013
J Whiteside	Performance Rights Plan 2008/11	19 December 2008	105,386	-	0%	100%	2011
	Performance Rights Plan 2009/12	16 December 2009	162,000	-	-	-	2012
	Performance Rights Plan 2010/13	23 December 2010	110,455	-	-	-	2013
G Brinkworth	Performance Rights Plan 2008/11	19 December 2008	98,361	-	0%	100%	2011
	Performance Rights Plan 2009/12	16 December 2009	140,000	-	-	-	2012
	Performance Rights Plan 2010/13	23 December 2010	110,455	-	-	-	2013
S Dawson ⁽²⁾	Performance Rights Plan 2008/11	19 December 2008	55,738	-	0%	100%	2011
	Performance Rights Plan 2009/12	16 December 2009	79,333	-	-	-	2012
	Performance Rights Plan 2010/13	23 December 2010	108,182	-	-	-	2013
B Wallace ⁽³⁾	Performance Cash Plan 2008/11	19 December 2008	100,984	-	0%	100%	2011
	Performance Rights Plan 2009/12	16 December 2009	180,494	-	-	-	2012
	Performance Rights Plan 2010/13	23 December 2010	111,528	-	-	-	2013
J Rintel	Performance Rights Plan 2008/11	19 December 2008	81,967	-	0%	100%	2011
	Performance Rights Plan 2009/12	16 December 2009	140,000	-	-	-	2012
	Performance Rights Plan 2010/13	23 December 2010	130,948	-	-	-	2013
S Atkinson ⁽⁴⁾	Performance Rights Plan 2008/11	19 December 2008	46,838	-	0%	100%	2011
	Performance Rights Plan 2009/12	16 December 2009	69,333	-	-	-	2012
	Performance Rights Plan 2010/13	23 December 2010	94,545	-	-	-	2013

(A) This includes the number of rights allocated to the participating Executives during the reporting period.

(B) For the 2010/11 financial year, this refers to the number of rights that vested during the reporting period.

(C) The percentage forfeited in the year represents the reduction in the maximum number of rights available to vest due to the performance conditions or other conditions not being achieved, noting that the LTI 2009/12 and LTI 2010/13 are not tested until 30 September 2012 and 30 September 2013 respectively.

(1) Mr Micallef's rights granted under the LTI 2008/11 were granted prior to his appointment as Chief Financial Officer on 23 October 2009.

(2) Mr Dawson's rights were granted under the LTI 2008/11 prior to him becoming a Key Management Person on 12 November 2009.

(3) Mr Wallace's entitlements granted under the LTI performance cash plan 2008/11 were granted prior to him becoming a Key Management Person on 12 November 2009.

(4) Mr Atkinson's rights were granted under the LTI 2008/11 and the LTI 2009/12 prior to him becoming a Key Management Person on 1 January 2010.

Details of the terms and conditions of each grant of rights made during the reporting period are set out in section C of this Remuneration Report and in Notes 35 and 36 to the financial statements including:

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

Modification of terms of equity-settled share-based payment transactions

No terms of equity-settled share-based payment transactions (including shares, treated as options, and rights) granted to a Key Management Person have been altered or modified by the issuing entity during the reporting period or the prior period.

Directors' Report

Remuneration Report

Table C.6 – Analysis of movements in long term incentives during the year ended 30 September 2011

The movement during the reporting period, by value, of shares, treated as options, and rights for the purposes of remuneration held by each Executive is detailed below:

For the year ended 30 September 2011

			Granted during 2011 as remuneration ^(A)	Vested in year ^(B)	Forfeited in year ^(C)	Exercised in year ^(D)
			\$000	\$000	\$000	\$000
Grant date						
Key Management Personnel						
Executives						
Current						
J E Fazzino	Performance Rights Plan 2010/13	23 December 2010	1,670	-	-	-
	Performance Rights Plan 2008/11	19 December 2008	-	-	67	-
	Performance Share Plan 2007/10	12 November 2007	-	-	-	-
F Micallef ⁽¹⁾	Performance Rights Plan 2010/13	23 December 2010	490	-	-	-
	Performance Rights Plan 2008/11	19 December 2008	-	-	14	-
	Performance Share Plan 2007/10	12 November 2007	-	-	-	-
K J Gleeson	Performance Rights Plan 2010/13	23 December 2010	441	-	-	-
	Performance Rights Plan 2008/11	19 December 2008	-	-	39	-
	Performance Share Plan 2007/10	12 November 2007	-	-	-	-
B C Walsh	Performance Rights Plan 2010/13	23 December 2010	481	-	-	-
	Performance Rights Plan 2008/11	19 December 2008	-	-	42	-
	Performance Share Plan 2007/10	12 November 2007	-	-	-	-
J Whiteside	Performance Rights Plan 2010/13	23 December 2010	361	-	-	-
	Performance Rights Plan 2008/11	19 December 2008	-	-	32	-
	Performance Share Plan 2007/10	12 November 2007	-	-	-	-
G Brinkworth ⁽²⁾	Performance Rights Plan 2010/13	23 December 2010	361	-	-	-
	Performance Rights Plan 2008/11	19 December 2008	-	-	30	-
	Performance Share Plan 2007/10	12 November 2007	-	-	-	-
S Dawson ⁽³⁾	Performance Rights Plan 2010/13	23 December 2010	353	-	-	-
	Performance Rights Plan 2008/11	19 December 2008	-	-	17	-
	Performance Share Plan 2007/10	12 November 2007	-	-	-	-
B Wallace ⁽⁴⁾	Performance Rights Plan 2010/13	23 December 2010	364	-	-	-
	Performance Cash Plan 2008/11	19 December 2008	-	-	13	-
	Performance Share Plan 2007/10	12 November 2007	-	-	-	-
J Rintel ⁽⁵⁾	Performance Rights Plan 2010/13	23 December 2010	428	-	-	-
	Performance Rights Plan 2008/11	19 December 2008	-	-	25	-
	Performance Share Plan 2007/10	12 November 2007	-	-	-	-
S Atkinson ⁽⁶⁾	Performance Rights Plan 2010/13	23 December 2010	309	-	-	-
	Performance Rights Plan 2008/11	19 December 2008	-	-	14	-
	Performance Share Plan 2007/10	12 November 2007	-	-	-	-

(A) The value of rights granted in the year is the fair value of those rights calculated at grant date using a Black-Scholes option-pricing model. The value of these rights is included in the table above. This amount is allocated to the remuneration of the applicable Executive over the vesting period (i.e. in financial years 2011 to 2013 for the LTI 2010/13).

(B) The value of rights that vested during the year represents awards to the applicable executives who satisfied the criteria under the LTI performance plan. As the criteria under the LTI 2008/11 were not satisfied, no rights vested during the 2010/11 financial year.

(C) The value of rights that were forfeited during the year represents the benefit foregone and is calculated by reference to the fair value of those rights calculated at grant date using a Black-Scholes option-pricing model. Please refer to footnote (D) of table C.3 for further details of the fair value of performance rights at grant date.

(D) The value of shares, treated as options, exercised during the year represents where shares, treated as options, previously granted as compensation, were exercised (by the making of an award) during the reporting period. No awards (in the form of waivers of loans) were granted in relation to the LTI 2007/10.

(1) Mr Micallef's shares, treated as options, granted under the LTI 2007/10 and rights granted under the LTI 2008/11 were granted prior to him becoming a Key Management Person on 23 October 2009.

(2) Mr Brinkworth's employment commenced on 17 November 2008 and he is not a participant in the LTI 2007/10.

(3) Mr Dawson's rights were granted under the LTI 2008/11 prior to him becoming a Key Management Person on 12 November 2009. Mr Dawson is not a participant in the LTI 2007/10.

(4) Mr Wallace's shares, treated as options, under the LTI 2007/10 and entitlement under the LTI performance cash plan 2008/11 were granted prior to him becoming a Key Management Person on 12 November 2009.

(5) Mr Rintel's shares, treated as options, under the LTI 2007/10 were granted prior to his appointment as a Key Management Person on 1 June 2008.

(6) Mr Atkinson's rights were granted under the LTI 2008/11 and shares, treated as options, were granted under the LTI 2007/10 prior to him becoming a Key Management Person on 1 January 2010.

The minimum value of shares, which are treated as options, and rights yet to vest is \$nil as the performance criteria may not be met and, in such circumstances, there would be no vesting. This does not apply to shares, which are treated as options, that vested during the reporting period. The maximum value of shares, which are treated as options, and rights yet to vest is not determinable as it depends on the market price of the Company's shares on the ASX at the date of exercise. This does not apply to shares, which are treated as options, or rights, that vested during the reporting period.

Directors' Report

Corporate Governance Statement

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

The Board continues to review its corporate governance framework and practices to ensure they meet the interests of shareholders and are consistent with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Recommendations), revisions to which were released by the ASX Corporate Governance Council on 30 June 2010 and which are applicable to financial years commencing on or after 1 January 2011 (Revised Recommendations). Although the Revised Recommendations will not be applicable to Incitec Pivot until the 2011/12 financial year, the Board reviewed its corporate governance framework and practices and has, where possible, introduced changes, for example to its Charter for the Remuneration and Appointments Committee, and such changes are referred to in this Corporate Governance Statement. This Corporate Governance Statement outlines the key aspects of the Company's corporate governance framework. This statement is structured and numbered in the order of the Principles set out in the ASX Recommendations. It includes cross-references to other relevant information in this Annual Report and the Company's charters, policies and codes, details of which are available on the Company's website, www.incitecpivot.com.au.

The Board considers that Incitec Pivot's corporate governance framework and practices have complied with the ASX Recommendations throughout the year ended 30 September 2011.

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

Principle 1: Lay solid foundations for management and oversight

Role of the Board and management

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

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

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

- *Direction and objectives* – approving the Company's corporate strategy and budgets;
- *Compliance* – ensuring and monitoring compliance with all laws, governmental regulations and accounting standards;

- *Ethical* – monitoring and influencing Incitec Pivot's culture and implementing procedures and principles to promote ethical and responsible decision-making and confidence in Incitec Pivot's integrity; and
- *Managing Director & CEO and direct reports* – appointing the Managing Director & CEO and the direct reports to the Managing Director & CEO, monitoring management's performance and reviewing executive succession planning.

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

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

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

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

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

Day-to-day management of Incitec Pivot's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated to the Managing Director & CEO. The Delegated and Reserved Powers Policy details the authority delegated to the Managing Director & CEO, including the limits on the way in which the Managing Director & CEO can exercise that authority. A summary of the Delegated and Reserved Powers Policy is set out on the corporate governance section of the Company's website, www.incitecpivot.com.au.

Management performance evaluation

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

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

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

Directors' Report

Corporate Governance Statement

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

The executive performance evaluations for the 2009/10 financial year were conducted in the final quarter of the 2010 calendar year in accordance with the process outlined above. Performance evaluations for the 2010/11 financial year are being conducted in the final quarter of the 2011 calendar year in accordance with the process outlined above.

Principle 2: Structure the Board to add value

Composition of the Board

Incitec Pivot's Constitution requires that the Company must have not less than three, and not more than nine, directors. Under the Company's Board Charter, the number of directors and composition of the Board is determined having regard to what is appropriate for Incitec Pivot to achieve efficient and prudent decision making. The Board will consist of a majority of non-executive, independent directors.

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

The directors were appointed on the following dates:

- John Watson: 15 December 1997;
- Allan McCallum: 15 December 1997;
- Anthony Larkin: 1 June 2003;
- James Fazzino: 18 July 2005;
- John Marlay: 20 December 2006;
- Graham Smorgon: 19 December 2008;
- Paul Brasher: 29 September 2010; and
- Rebecca McGrath: 15 September 2011.

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

In these respects, the Board collectively has significant commercial, business, operational and financial experience in a range of industries. The directors all bring skills and expertise which, in aggregate, combine to form a Board which is equipped to discharge its responsibilities. The directors' biographies along with their term of office and information about their skills, expertise and experience are set out on pages 8 and 9 of this Annual Report.

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

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

Mr John Watson and Mr Anthony Larkin are retiring by rotation and standing for re-election at the 2011 Annual General Meeting. Ms Rebecca McGrath, who was appointed by the Board as a director on 15 September 2011, will stand for re-election at the 2011 Annual General Meeting.

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

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

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

Board meetings

Details of the Board meetings held during the 2010/11 financial year are set out on page 10 of this Annual Report.

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

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

Director independence

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

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

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

- the value (in terms of aggregate and proportionate expenses or revenues) that the relationship represents to both Incitec Pivot and the third party;

- the strategic importance of the relationship to Incitec Pivot's business; and
- the extent to which the services provided by or to Incitec Pivot are integral to the operation of Incitec Pivot's business, including the extent to which the services provided are unique and not readily replaceable.

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

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

Access to information and independent advice

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

Remuneration and Appointments Committee

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

- *nominations and appointments* – assists and advises the Board on director selection and appointment practices, performance evaluation, Board composition, succession planning for the Board and senior management and oversees the development of strategies to address Board diversity; and
- *remuneration* – assists and advises the Board on remuneration policies and practices for the Board, the Managing Director & CEO, the Executive Team, senior management and other employees, for such to be designed to enable Incitec Pivot to attract, retain and motivate its people to create value for shareholders.

In relation to Board nominations and appointments, under the Board Charter, the process of selection and appointment of new directors to the Board is that, when a vacancy arises or an existing non-executive director retires, the Remuneration and Appointments Committee will, having regard to the skills and competencies represented on the Board and the competencies required, implement a process to identify suitable candidates with the process to include a search being undertaken by an appropriate third party. In turn, under the Remuneration and Appointments Committee Charter, the Committee will make recommendations to the Board for the appointment of new Board members having regard to a number of factors including a candidate's judgment, skill, diversity and experience. When the Board considers that a suitable candidate has been found, that person is appointed by the Board to fill a casual vacancy in accordance with Incitec Pivot's constitution, however must stand for re-election by shareholders at the next annual general meeting.

The Committee comprises three independent non-executive directors, being John Marlay (Chairman), John Watson and Paul Brasher.

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

The attendance of the members of the Remuneration and Appointments Committee at each meeting held during the financial year ended 30 September 2011 is set out on page 10 of this Annual Report.

Health, Safety, Environment and Community Committee

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

The Committee is to meet as frequently as required but not less than four times a year. The attendance of the members of the Health, Safety, Environment and Community Committee at each meeting held during the financial year ended 30 September 2011 is set out on page 10 of this Annual Report.

Performance evaluations

Incitec Pivot recognises the importance of regular performance evaluations of its directors. Assessment of individual directors' performance and that of the Board is a process determined by the Chairman and the Remuneration and Appointments Committee. Performance assessments are intended to assist the Board in carrying out its responsibilities (as set out in its Charter) and ensure the Board remains effective. The Board's annual performance review took place in August 2011 by way of self-assessment of the Board's role, structure and processes, as well as the Board's performance in meeting its responsibilities under its Charter. The outcomes of that review are included in the 2011/12 objectives for the Board and will be implemented throughout the Company's 2011/12 financial year. In addition, one-on-one interviews occurred between each director and the Chairman. For the directors who are retiring by rotation and standing for re-election at the 2011 Annual General Meeting, Mr John Watson and Mr Anthony Larkin, their performance was reviewed as part of their nomination for re-election. Periodically, the Board engages external consultants to undertake comprehensive reviews of the effectiveness of the Board. The next external review is scheduled to take place in the 2011/12 financial year.

The Remuneration and Appointments Committee is responsible for developing and reviewing induction procedures for new appointees to the Board to enable them to effectively discharge their duties. The Charter for the Committee provides that the induction procedures should enable new appointees to gain an understanding of the Company's financial, strategic, operational and risk management position, the culture and values of Incitec Pivot, the rights, duties and responsibilities of the directors, the roles and responsibilities of senior executives, the role of Board Committees and meeting arrangements and director interaction. In this respect, the Company is in compliance with the Revised Recommendations.

Directors' Report

Corporate Governance Statement

Additionally, the Committee ensures that continuous education measures are in place to enhance director competencies, keep directors up to date and enhance directors' knowledge and skills. The measures are to include having access to education concerning key developments in the Company and in the industry in which Incitec Pivot operates. In this respect, the Company is in compliance with the Revised Recommendations.

Principle 3: Promote ethical and responsible decision-making

Codes of conduct

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

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

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

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

Whistleblower protection

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

Share ownership and dealing

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

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

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

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

The Company's Share Trading Policy is available on the corporate governance section of Incitec Pivot's website, www.incitecpivot.com.au. The Company's Share Trading Policy is in compliance with the requirements under the relevant ASX Listing Rules.

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

Diversity

The Revised Recommendations, with regard to diversity, take effect for Incitec Pivot in its 2011/12 financial year, when Incitec Pivot will establish a policy addressing gender diversity as required by the Revised Recommendations.

However, in the meantime, Incitec Pivot has already introduced a number of changes within its governance framework, for example, under its Charter, the Remuneration and Appointments Committee is charged with:

- reviewing and reporting to the Board about the proportion of women at all levels of the Company; and
- overseeing the development of, and making recommendations to the Board about strategies to address diversity, including the development of a diversity policy.

The Board has a number of initiatives in place to ensure a diverse board, including placing diversity on the agenda regularly for meetings of the Remuneration and Appointments Committee and establishing a process to regularly assess the skills, experience and background of the Board members with a view to ensuring a diverse mix relative to the Group's business and operations. In addition, the Chairman participated in the AICD ASX 200 Chairmen's mentoring program which was designed to assist in the development of a broader pool of Board candidates.

During the 2010/11 financial year, in furtherance of the Group's recognition of the important contribution made to its business and operations by its people working across many different countries, with diverse experience, background, age, gender and cultural association, Incitec Pivot established a Diversity Council.

The Diversity Council was formed in recognition of the challenges presented by the industries within which the Group operates and the nature of its operations, which includes heavy manufacturing sites and remote and regional operations. The remit of the Diversity Council is to champion, influence and support the Company's diversity agenda, leading to the development of a diversity strategy directly relevant to Incitec Pivot's business and operations.

The Diversity Council has undertaken a diagnostic of the Group's operations and practices, accessing qualitative and quantitative data which has led to the development of key priorities for diversity in 2012, including:

- reward and recognition practices; and
- an indigenous employment program noting that in 2011 Incitec Pivot signed the Australian Employment Covenant.

Underpinning these priorities is the Group's continued focus on leadership development. The Group's leadership program, in place since 2010, was designed to create a strong organisational climate resulting from enhanced employee engagement, which independent research has shown leads to outstanding performance. This leadership program will be reviewed in 2012 with a view to establishing a clearer understanding of diversity among leaders.

In 2011, as was the case in 2010, the Company received confirmation from the Australian Government's Equal Opportunity for Women in the Workplace Agency that it was compliant with the Equal Opportunity for Women in the Workplace Act 1999. The table below shows the percentage of females employed in the following categories as at 30 September 2011.

% Females at 30 September 2011

Board	12%
Executive	10%
Management	13.7%
Global	14.2%

In accordance with the Revised Recommendations, Incitec Pivot will commence reporting on its diversity policy in the 2012 Annual Report.

Principle 4: Safeguard integrity in financial reporting

Audit and Risk Management Committee

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

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

The qualifications of those directors appointed to the Audit and Risk Management Committee are set out on pages 8 and 9 of this Annual Report.

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

The attendance of the members of the Audit and Risk Management Committee at each meeting held during the financial year ended 30 September 2011 is set out on page 10 of this Annual Report.

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

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

Financial reporting

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

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Internal control and risk management

- risk management strategies – receive reports from management, the internal auditor and external auditor concerning risk management principles and policies, strategies, processes and controls and concerning the processes for determining and monitoring material business risks;
- risk reports and monitoring – receive reports from management on risk implications from new and emerging risks, changes in the economic and business environment and other factors relevant to the Group's performance and strategy; receive reports from management and monitor resolution of significant risk exposures;
- compliance – receive reports from management, monitor and oversee compliance with applicable laws relating to the operation of the business and review and monitor policies and systems to manage compliance risk;
- disclosure – review the form of disclosure to be made in the Annual Report given by the Managing Director & CEO and Chief Financial Officer as to the effectiveness of the Company's management of material business risks; and
- insurance – receive reports from management and monitor the insurance strategy of the Group and recommend approval or variation of insurance policies.

External audit

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

Internal audit

- appointment/replacement – evaluate the expertise and experience of potential internal auditors and make recommendations to the Board on the selection, evaluation and replacement of the internal auditor;
- terms of engagement – determine the terms of engagement and remuneration of the internal auditor and make recommendations to the Board;
- scope of audit and plan – review and assess the scope of the audit and the internal audit plan;
- internal audit findings – receive summaries of significant reports to management from the internal auditor, management's response and the internal auditor's recommendations;
- monitor internal audit plan – monitor, and review compliance with, and the effectiveness of implementation of, audit plans of the internal auditor; and

- assessment – conduct an annual assessment of the effectiveness of internal controls and financial reporting procedures.

External auditor

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

KPMG is the Company's external auditor.

The lead audit partner and review partner of the Company's external auditor rotate every five years. The current lead audit partner was appointed for the 2006/07 audit of the Company, replacing the lead audit partner and review partner previously appointed for the audits from 2002/03. The current review partner was appointed for the 2010/11 audit of the Company.

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

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

For the next Annual General Meeting to be held on 20 December 2011, the lead audit partner or appropriate alternates will attend. Shareholders have the right under the Corporations Act 2001 (Cth) to submit written questions on certain topics to the auditor and the auditor may table answers to such questions at the Annual General Meeting.

KPMG was appointed as auditor of the Company on 4 September 2003 following the merger with Incitec Fertilizers Limited. Since that time, KPMG has conducted the audit in an effective and competent manner. Given KPMG's tenure, the Board undertook a detailed review of accounting firms with the necessary capabilities to undertake the Company's audit. Following this review, the directors recommended the appointment of Deloitte Touche Tohmatsu as auditor of the Company in respect of the financial year commencing 1 October 2011 and a resolution to this effect is to be proposed at the 2011 Annual General Meeting.

Internal auditor

During the financial year ended 30 September 2011, Deloitte Touche Tohmatsu was the Company's internal auditor, undertaking internal audits to an annual plan approved by the Audit and Risk Management Committee. With the proposed appointment of Deloitte Touche Tohmatsu as external auditor, Deloitte Touche Tohmatsu will cease to be internal auditor. Management has established an internal audit function and this function's internal audit plan will be approved by the Committee.

Principle 5: Make timely and balanced disclosure

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

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

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

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

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

Principle 6: Respect the rights of shareholders

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

The Shareholder Communications Policy aims to ensure:

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

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

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

Principle 7: Recognise and manage risk oversight and management

Risk is present in all aspects of Incitec Pivot's business. It has the potential to impact people, the environment,

the community and the reputation, assets and financial performance of the Group. Incitec Pivot is committed to the effective management of risk, which is central to its continued growth and success and the achievement of the Group's corporate objective and strategy.

Incitec Pivot has adopted a Group Risk Policy for the oversight and management of material business risks and manages risk within a comprehensive risk management process which is consistent with the Australian/New Zealand Standard for Risk Management (AS/NZS ISO 31000:2009). A key element of this risk management process is the Board's assessment of risk, which is based on the level of risk Incitec Pivot is able to sustain in achieving its corporate objective of delivering value to shareholders. Risks are identified, analysed and prioritised using common methodologies and risk controls are designed and implemented having regard to the overall corporate strategy.

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

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

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

Risk management roles and responsibilities

The Board is responsible for reviewing and approving the overall management of risk and internal control. The Board monitors the Group's risk profile, risks and mitigating strategies primarily through the Audit and Risk Management Committee. The Audit and Risk Management Committee's duties with respect to internal control and risk management have been summarised under the discussion of Principle 4 on page 35 of this Annual Report. The Audit and Risk Management Committee and, through it, the Board, receive regular reports from management on the effectiveness of the Group's risk management process.

The following paragraphs describe the material risks associated with Incitec Pivot's business and operations. There may be additional risks unknown to Incitec Pivot and other risks, currently believed to be immaterial, which could become material. These risks, which may occur individually or concurrently, could significantly affect the Company's business and operations. The risks outlined below do not include details as to how each risk is managed and the mitigation strategies adopted, or the manner in which those risks may have a

Directors' Report

Corporate Governance Statement

positive or negative impact on the Group. The Group's process for managing risk is set out in the above section titled "Risk oversight and management".

General Economic and Business Conditions

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

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

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

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

Operational Risks

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

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

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

Further, in relation to both its Fertilisers business and its Explosives business, seasonal conditions, particularly rainfall, are a key factor for determining demand and sales. Any prolonged adverse weather conditions could impact the future profitability and prospects of Incitec Pivot.

Strategy and Planning

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

Health, Safety and Environment

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

Compliance and Regulatory Risks

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

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

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

Risk management and internal controls

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

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

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

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The Audit and Risk Management Committee and the Board have received reports from management on the effectiveness of the Group's management of its material business risks for the financial year ended 30 September 2011.

CEO and CFO Declaration and Assurance

In accordance with the ASX Recommendations, for the financial year ended 30 September 2011, the Board received written assurance from the Managing Director & CEO and the Chief Financial Officer that the declaration provided by them in accordance with section 295A of the Corporations Act 2001 (Cth) is founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to the reporting of financial risks.

Principle 8: Remunerate fairly and responsibly

The Board and Remuneration and Appointments Committee are primarily responsible in relation to the oversight of the Company's remuneration framework and policies. Details of Incitec Pivot's remuneration arrangements are set out in the Remuneration Report. As set out on page 33 of this Annual Report, the Remuneration and Appointments Committee is formed under a Charter approved by the Board, a copy of which is available on the corporate governance section of the Company's website, www.incitecpivot.com.au. The members of the Committee are three independent non-executive directors, being John Marlay (Chairman), John Watson and Paul Brasher.

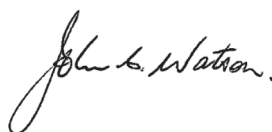
The Revised Recommendations provide that a remuneration committee should be structured so that it consists of a majority of independent directors, is chaired by an independent director and has at least three members. The Charter for the Remuneration and Appointments Committee provides that each member of the Committee must be a non-executive director and a majority of members of the Committee must be independent. The Charter also provides that the Chairman of the Committee must be an independent director. As each member of the Remuneration and Appointments Committee (including Mr John Marlay, the Chairman of the Committee) is considered to be an independent non-executive director, the structure of the Committee fulfils the requirements under the Revised Recommendations.

Incitec Pivot's policy is to remunerate non-executive directors by way of fees and payments which may be in the form of cash, non-cash benefits and superannuation benefits. Incitec Pivot's broad policy in relation to the level of non-executive directors' fees and payments is to ensure that these fees and payments are consistent with the market and enable Incitec Pivot to attract and retain directors of an appropriate calibre. Details of these fees and payments are included in the table titled "Non-executive directors' remuneration" set out in section B of the Remuneration Report on page 16. The Company's policy is that non-executive directors should not be remunerated by way of options, shares, performance rights, bonuses nor incentive-based payments.

Under the Company's Constitution, the maximum remuneration payable by the Company for the services of non-executive directors in total must not exceed the amount approved by shareholders in general meeting, which is \$2,000,000 as approved at the Annual General Meeting held on 19 December 2008. The total remuneration paid to the non-executive directors during the financial year ended 30 September 2011 was within the maximum amount approved by shareholders.

Details of remuneration paid to the Managing Director & CEO and other executives are included in table C.3 "Executive remuneration" in the Remuneration Report on page 26. The attendance of the members of the Remuneration and Appointments Committee at each meeting held during the financial year to 30 September 2011 is set out on page 10 of this Annual Report.

Signed on behalf of the Board.



John C Watson AM
Chairman
Dated at Melbourne
this 11th day of November 2011



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

To: the directors of Incitec Pivot Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 September 2011 there have been:

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

KPMG

KPMG

Suzanne Bell

Suzanne Bell
Partner

Melbourne

11 November 2011

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Consolidated Income Statement

For the year ended 30 September 2011

	Notes	Consolidated	
		2011 \$mill	2010 \$mill
Revenue	(4)	3,906.3	2,931.7
Financial and other income	(4)	46.3	53.7
Operating expenses			
Changes in inventories of finished goods and work in progress		141.2	(69.3)
Raw materials and consumables used and finished goods purchased for resale		(2,062.1)	(1,141.9)
Employee expenses		(549.1)	(516.5)
Depreciation and amortisation expense	(5)	(148.2)	(139.0)
Financial expenses	(5)	(63.1)	(58.3)
Purchased services		(159.7)	(144.0)
Repairs and maintenance		(119.2)	(110.0)
Outgoing freight		(218.5)	(166.5)
Lease payments - operating leases	(5)	(60.3)	(55.0)
Share of profit on equity accounted investments	(16)	24.2	30.5
Asset write-downs, clean-up and environmental provisions		(23.7)	(28.3)
Other expenses		(92.7)	(47.2)
		(3,331.2)	(2,445.5)
Profit before income tax		621.4	539.9
Income tax expense	(8)	(154.1)	(127.7)
Profit for the financial year		467.3	412.2
Profit attributable to:			
Members of Incitec Pivot Limited		463.2	410.5
Non-controlling interest		4.1	1.7
		cents	cents
Earnings per share			
Basic earnings per share	(9)	28.4	25.3
Diluted earnings per share	(9)	28.4	25.3

The above Consolidated Income Statement is to be read in conjunction with the Notes to the Consolidated Financial Statements set out on pages 47 to 111.

Consolidated Statement of Comprehensive Income

For the year ended 30 September 2011

	Notes	Consolidated 2011 \$mill	2010 \$mill
Profit for the financial year		467.3	412.2
Other comprehensive income / (expense)			
Cash-flow hedging reserve			
Changes in fair value of cash-flow hedges		51.7	45.6
Profit in cash-flow hedges transferred to Consolidated Income Statement		(90.5)	3.1
Income tax on movements in the cash-flow hedging reserve		8.1	(17.9)
		(30.7)	30.8
Fair value reserve			
Change in fair value of equity instruments		(20.1)	(18.5)
Income tax on change in fair value of equity instruments		6.0	5.5
		(14.1)	(13.0)
Foreign currency translation reserve			
Exchange differences on translation of foreign operations		(84.6)	(183.7)
Net (loss) / gain on hedge of net investment		(21.8)	67.7
Income tax on movements in foreign currency translation reserve		(61.3)	(20.1)
		(167.7)	(136.1)
Actuarial losses on defined benefit plans			
Actuarial losses on defined benefit plans	(25)	(29.5)	(16.9)
Income tax on actuarial losses on defined benefit plans		10.0	6.4
		(19.5)	(10.5)
Total other comprehensive (expense)		(232.0)	(128.8)
Total comprehensive income for the financial year		235.3	283.4
Total comprehensive income attributable to:			
Members of Incitec Pivot Limited		231.2	281.7
Non-controlling interest		4.1	1.7

The above Consolidated Statement of Comprehensive Income is to be read in conjunction with the Notes to the Consolidated Financial Statements set out on pages 47 to 111.

Consolidated Statement of Financial Position

As at 30 September 2011

	Notes	Consolidated	
		2011 \$mill	2010* \$mill
Current assets			
Cash and cash equivalents	(10)	379.7	48.7
Trade and other receivables	(11)	451.9	437.5
Inventories	(12)	477.9	336.2
Other assets	(13)	31.2	36.2
Other financial assets	(14)	40.8	111.6
Assets classified as held for sale	(15)	6.5	9.1
Total current assets		1,388.0	979.3
Non-current assets			
Trade and other receivables	(11)	16.1	15.3
Other assets	(13)	17.5	2.5
Other financial assets	(14)	52.9	28.7
Investments accounted for using the equity method	(16)	257.1	256.5
Property, plant and equipment	(17)	2,283.3	1,844.1
Intangible assets	(18)	2,942.3	3,010.0
Deferred tax assets	(19)	44.7	173.9
Total non-current assets		5,613.9	5,331.0
Total assets		7,001.9	6,310.3
Current liabilities			
Trade and other payables	(20)	875.1	697.5
Interest bearing liabilities	(21)	95.7	108.5
Other financial liabilities	(22)	0.6	1.7
Provisions	(23)	98.3	82.6
Current tax liabilities		93.5	25.1
Total current liabilities		1,163.2	915.4
Non-current liabilities			
Trade and other payables	(20)	281.9	378.3
Interest bearing liabilities	(21)	1,472.8	1,037.3
Other financial liabilities	(22)	2.9	-
Provisions	(23)	63.8	82.6
Deferred tax liabilities	(24)	195.3	190.1
Retirement benefit obligations	(25)	115.3	95.3
Total non-current liabilities		2,132.0	1,783.6
Total liabilities		3,295.2	2,699.0
Net assets		3,706.7	3,611.3
Equity			
Issued capital	(26)	3,265.9	3,265.9
Reserves		(192.8)	7.0
Retained earnings		628.6	336.3
Minority interest		5.0	2.1
Total equity		3,706.7	3,611.3

*Comparative information has been restated to reflect the amendments to provisional asset and liability fair values on the acquisition of Nitromak DNX Kimya Sanayii A.S. in the prior financial year.

The above Consolidated Statement of Financial Position is to be read in conjunction with the Notes to the Consolidated Financial Statements set out on pages 47 to 111.

Consolidated Statement of Cash Flows

For the year ended 30 September 2011

	Notes	Consolidated	
		2011 \$mill	2010 \$mill
		Inflows/ (Outflows)	Inflows/ (Outflows)
Cash flows from operating activities			
Receipts from customers		4,279.3	3,145.3
Payments to suppliers and employees		(3,565.5)	(2,599.2)
Interest received		4.8	4.9
Financial expenses paid		(22.7)	(43.6)
Other revenue received		27.7	31.8
Income taxes paid		(4.5)	(10.3)
Net cash flows from operating activities	(29)	719.1	528.9
Cash flows from investing activities			
Payments for property, plant and equipment and intangibles		(646.6)	(316.3)
Payments for purchase of subsidiaries, net of cash acquired	(28)	-	(97.1)
Payments for purchase of investments		(0.2)	(6.6)
Proceeds from sale of investments		1.7	-
Proceeds from sale of property, plant and equipment		36.2	19.0
Loans to equity-accounted investees		(15.0)	-
Proceeds from settlement of net investment hedge derivatives		16.1	-
Net cash flows from investing activities		(607.8)	(401.0)
Cash flows from financing activities			
Repayments of borrowings		(127.2)	(1,380.4)
Proceeds from borrowings		509.7	1,003.5
Payment of borrowing costs		(10.7)	(8.3)
Realised market value gains on cross currency swaps		-	201.3
Dividends paid		(151.4)	(18.3)
Net cash flows from financing activities		220.4	(202.2)
Net increase / (decrease) in cash and cash equivalents held		331.7	(74.3)
Cash and cash equivalents at the beginning of the financial year		48.7	125.2
Effect of exchange rate fluctuation on cash and cash equivalents held		(0.7)	(2.2)
Cash and cash equivalents at the end of the financial year	(10)	379.7	48.7

The above Consolidated Statement of Cash Flows is to be read in conjunction with the Notes to the Consolidated Financial Statements set out on pages 47 to 111.

Consolidated Statement of Changes in Equity

For the year ended 30 September 2011

Consolidated	Issued capital	Cash flow hedging reserve	Share based payments reserve	Foreign currency translation reserve	Fair value reserve	Retained earnings	Total	Minority interest	Total equity
	\$mill	\$mill	\$mill	\$mill	\$mill	\$mill	\$mill	\$mill	\$mill
Balance at 1 October 2009	3,217.8	(10.6)	(7.0)	113.9	22.8	2.7	3,339.6	-	3,339.6
Profit for the financial year	-	-	-	-	-	410.5	410.5	1.7	412.2
Total other comprehensive income / (expense) for the period	-	30.8	-	(136.1)	(13.0)	(10.5)	(128.8)	-	(128.8)
Sale of share capital to minority interest holder	-	-	-	-	-	-	-	0.4	0.4
Dividends paid	-	-	-	-	-	(66.4)	(66.4)	-	(66.4)
Shares issued during the period	48.1	-	-	-	-	-	48.1	-	48.1
Share based payment transactions									
Dividends received as loan repayment	-	-	0.1	-	-	-	0.1	-	0.1
Option expense	-	-	3.8	-	-	-	3.8	-	3.8
Deferred tax on share based payments	-	-	0.6	-	-	-	0.6	-	0.6
Loan repayments	-	-	1.7	-	-	-	1.7	-	1.7
Balance at 30 September 2010	3,265.9	20.2	(0.8)	(22.2)	9.8	336.3	3,609.2	2.1	3,611.3
Balance at 1 October 2010	3,265.9	20.2	(0.8)	(22.2)	9.8	336.3	3,609.2	2.1	3,611.3
Profit for the financial year	-	-	-	-	-	463.2	463.2	4.1	467.3
Total other comprehensive (expense) for the period	-	(30.7)	-	(167.7)	(14.1)	(19.5)	(232.0)	-	(232.0)
Dividends paid	-	-	-	-	-	(151.4)	(151.4)	(1.2)	(152.6)
Share based payment transactions									
Dividends received as loan repayment	-	-	0.1	-	-	-	0.1	-	0.1
Option expense	-	-	7.7	-	-	-	7.7	-	7.7
Loan repayments	-	-	4.9	-	-	-	4.9	-	4.9
Balance at 30 September 2011	3,265.9	(10.5)	11.9	(189.9)	(4.3)	628.6	3,701.7	5.0	3,706.7

The Consolidated Statement of Changes in Equity should be read in conjunction with the Notes to the Consolidated Financial Statements set out on pages 47 to 111.

Cash flow hedging reserve

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

Share-based payments reserve

The share-based payments reserve comprises the fair value of shares treated as options and of rights recognised as an employee expense over the relevant vesting period and transactions associated with the 2006/09 and the 2007/10 Long Term Incentive plans.

Foreign currency translation reserve

Exchange differences arising on translation of foreign controlled operations are taken to the foreign currency translation reserve, as described in Note 1(xix). The relevant portion of the reserve is recognised in the Consolidated Income Statement when the foreign operation is disposed of.

The foreign currency translation reserve is also used to record gains and losses on hedges of net investments in foreign operations.

Fair value reserve

The fair value reserve represents the cumulative net change in the fair value of equity instruments.

Minority interest

Represents a 35% outside equity interest in Quantum Fertilisers Limited, a Hong Kong based fertiliser marketing company.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

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Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

1. Significant accounting policies

Incitec Pivot Limited ('the Company' or 'Incitec Pivot') is a company domiciled in Australia. The consolidated financial statements were authorised for issue by the directors on 11 November 2011.

The significant accounting policies adopted in preparing the consolidated financial statements of Incitec Pivot and of its controlled entities (collectively 'the Group') are stated below to assist in a general understanding of the consolidated financial statements. Interests in jointly controlled entities and associates are equity accounted (recorded as Investments accounted for using the equity method) and do not form part of the Group (Refer Note 1 (ii) (b)).

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

(i) Basis of preparation

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements of the Group comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

Historical cost convention

These consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments, investments in equity instruments, financial instruments held for trading and liabilities for cash settled share based payment arrangements, all of which have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and that would be otherwise carried at cost, are adjusted to record changes in the fair value attributable to the risks that are being hedged to match the fair value accounting applied to the derivative financial instruments used to hedge these items.

The consolidated financial statements are presented in Australian dollars.

Critical accounting estimates

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 2.

Early adoption of standards

Incitec Pivot has elected to early adopt certain 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 IFRS transition exemptions, are available. The principal standards and interpretations that have been early adopted are:

- AASB 124 *Related Party Disclosures* (revised December 2009)
- AASB 1054 *Additional Australian Disclosures*
- AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project*
- AASB 9 *Financial Instruments* (2009)

The early adoption of AASB 124 increased the related party disclosure requirements to include disclosure of transactions between jointly controlled entities of the IPL Group. This has resulted in changes to Related Party disclosures as disclosed in Note 34.

The early adoption of AASB 9 requires that an entity classify its financial assets as subsequently measured at either amortised cost or fair value depending on the entity's business model for managing the financial assets and their contractual cash flow characteristics. This resulted in changes to the classification of financial assets. Refer to Note 1(ix) for the accounting policy on other financial assets.

Other than the impact of AASB 124 and AASB 9, as described above, the early adoption of these standards did not have a significant impact on the Group's results in the current and/or prior year.

Issued Standards not early adopted

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

- AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* increases the disclosure requirements for transactions involving transfers of financial assets. AASB 2010-6 will become mandatory for the Group's 30 September 2012 consolidated financial statements. The Group has not yet determined the potential impact of this standard.
- *Amendments to AASB 119: Employee Benefits* eliminates the option to apply the 'corridor method' when accounting for defined benefit funds, amends the measurement methodology for calculating net interest expense in relation to defined benefit funds, enhances disclosure requirements for defined benefit plans and changes the measurement methodology for employee entitlements not expected to be settled in less than twelve months. The amendments will become mandatory for the Group's 30 September 2014 consolidated financial statements. The Group has not yet quantified the potential impact of these amendments.
- *Amendments to AASB 101: Presentation of Financial Statements* retains the option to present the consolidated statement of comprehensive income either in a single continuous statement or in two separate, but consecutive statements, but introduces the requirement that items that will never be recognised in profit or loss are to be presented separately from those that are subject to subsequent reclassification (recycling). The amendments which will become mandatory for the Group's 30 September 2013 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.
- AASB 13: *Fair Value Measurement* provides a new definition of fair value based on exit price and additional guidance for measuring fair value. The amendments also require additional disclosure related to fair value measurements and valuation techniques. The amendments, which will become mandatory for the Group's 30 September 2014 consolidated financial statements, are not expected to have a significant impact on the Group's consolidated financial statements.
- AASB 11: *Joint Arrangements* reduces the 'types' of joint arrangements from three to two and eliminates the option to apply proportionate consolidation. The amendments, which will become mandatory for the Group's 30 September 2014 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.
- AASB 10: *Consolidated Financial Statements* creates a broader definition of control whereby control is defined as the power to direct the activities of another entity to generate returns. IFRS 10, which will become mandatory for the Group's 30 September 2014 consolidated financial statements, is not expected to have a significant impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

1. Significant accounting policies (continued)

(i) Basis of preparation (continued)

Issued Standards not early adopted (continued)

- *AASB 12: Disclosure of Interests in Other Entities*, requires more extensive qualitative disclosures around judgement used by management in determining whether an entity is controlled by the Group and additional financial disclosures of the Group's material non-controlling interest in subsidiaries. AASB 12, which will become mandatory for the Group's 30 September 2014 consolidated financial statements, is not expected to have a significant impact on the Group's consolidated financial statements.

(ii) Consolidation

(a) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Incitec Pivot Limited as at 30 September 2011 and the results of all subsidiaries for the year then ended. Subsidiaries are all those entities over which the Group 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 Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. 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 Group (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 Group.

(b) Associates and jointly controlled entities

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(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, where the costs incurred or to be incurred cannot be measured reliably, where there is a significant risk of return of goods or where there is continuing management involvement with the goods.

Commissions when the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

Interest income is recognised as it accrues.

Dividends receivable are recognised in the Consolidated Income Statement when declared, or received, whichever occurs first.

(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, a weighted average interest rate is used for capitalising interest to qualifying assets.

(v) Share based payments

The grant date fair value of shares treated as options, and rights, granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that employees become unconditionally entitled to the options or rights. The amount recognised as an expense is adjusted to reflect the actual number of options, shares and rights for which the related service and non-market vesting conditions are met.

The fair value of the amount payable to employees in respect of rights, which are settled in cash, is recognised as an expense, with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is remeasured during each reporting period and at settlement date. Any changes in the fair value of the liability are recognised as employee expenses in the Consolidated Income Statement.

(vi) Taxation

Income tax expense comprises current and deferred tax and is recognised in the Consolidated 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 period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is recognised using the balance sheet method in which temporary differences are calculated based on the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill; the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied when the temporary difference reverses, that is, when the asset is realised or the liability is settled, based on the laws that have been enacted or substantively enacted at the reporting date.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

1. Significant accounting policies (continued)

(vi) Taxation (continued)

Deferred tax assets are recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which the assets can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current tax assets and liabilities are offset where the Group has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred tax balances relate to the same taxation authority.

The assumptions regarding future realisation, and therefore the recognition of deferred tax assets, may change due to future operating performance and other factors.

Incitec Pivot provides for income tax in both Australia and overseas jurisdictions where a liability exists.

Tax Consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group and are, therefore, taxed as a single entity. The head entity within the tax-consolidated group is Incitec Pivot Limited.

(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 third-party sourced finished goods, cost is net cost into store. Engineering spares are held in inventory and expensed when used.

(viii) Trade and other receivables

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

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group may not be able to collect amounts due according to the original terms of the receivables. The amount of the impairment allowance 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 Consolidated Income Statement within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectable in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Consolidated Income Statement.

Where substantially all risks and rewards relating to receivables have been transferred to a financial institution, the receivable is derecognised. Where this has not occurred, the receivable and the equivalent interest bearing liability have been recognised in the Consolidated Statement of Financial Position.

(ix) Other financial assets

Change in Accounting Policy:

The Group has early adopted AASB 9 *Financial Instruments* as issued in 2009, with initial application from 1 October 2010 (being the beginning of the period). AASB 9 requires that an entity classify its financial assets as subsequently measured at either amortised cost or fair value depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

This change in accounting policy has been applied on a retrospective basis, from 1 October 2010 without restatement of prior periods. The adoption of this standard has no material impact on the measurement of the Group's financial assets and, therefore, has no impact on the Group's earnings per share for the year.

The adoption of AASB 9 resulted in Cash and cash equivalents, Trade receivables and Other receivables being measured at amortised cost, which is a change from the classification of Loans and receivables as previously measured under AASB 139.

In accordance with AASB 9, the Group has designated its investment in equity securities that were formerly designated as "available-for-sale", as "fair value through other comprehensive income". This results in all realised and unrealised gains and losses from the investment portfolio being recognised directly in equity through "other comprehensive income" in the Consolidated Statement of Comprehensive Income. Dividend income is recognised in the Consolidated Income Statement.

The adoption of AASB 9 does not impact the original carrying amount of the Group's financial assets, previously measured under AASB 139.

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

Impairment losses are 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 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 in the Consolidated Statement of Financial Position.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

1. Significant accounting policies (continued)

(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 Group 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 Group.

Estimated useful lives in the current and comparative periods 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 IFRS, 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 Consolidated 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 Group assumes substantially all the risks and benefits of ownership of the asset 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 recognised in the Consolidated Income Statement on a straight line basis over the term of the lease.

(xiii) Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary 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.

(b) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the Consolidated 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 Group intends 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 Consolidated Income Statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

(c) Other intangible assets

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

(d) 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 such expenditure is expensed as incurred.

(e) Amortisation

Amortisation is charged to the Consolidated Income Statement on a straight-line basis over the estimated useful lives of intangible assets, unless such lives are indefinite. Goodwill and brand names are systematically tested for impairment at each annual reporting 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
- Product trademarks 4 – 10 years
- Patents 13 – 15 years
- Customer contracts 10 – 17 years

(xiv) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange. For acquisitions occurring in stages, goodwill is determined at the acquisition date. Goodwill is determined after the previously held equity interest is adjusted to fair value.

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.

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 Group's share of the identifiable net assets acquired is recorded as goodwill (refer to Note 1(xiii) (a)). If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the Consolidated 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. When control is obtained in successive share purchases, each significant transaction is accounted for separately and the identifiable assets, liabilities and contingent liabilities acquired are stated at fair value when control is obtained.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

1. Significant accounting policies (continued)

(xv) Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's Executive Team to make decisions about resources to be allocated to the operating segment and assess their performance.

Operating segment results that are reported to the Executive Team include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and head office expenses.

Operating segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and software.

(xvi) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Consolidated 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 Consolidated Income Statement in the event that the liabilities are derecognised.

(xvii) Provisions

A provision is recognised when there is a legal or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting 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.

(a) 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 Consolidated 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.

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. 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.

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

(b) 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 part of the 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 to or deducted from the related asset, other than the unwinding of the discount which is recognised as an interest expense in the Consolidated Income Statement.

(c) Self-insurance

The Group self-insures for certain insurance risks. Outstanding claims are recognised when an incident occurs that may give rise to a claim and are measured at the cost that the entity expects to incur in settling the claims.

(d) Employee entitlements

Current Entitlements

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

Non-current Entitlements

Liabilities for employee entitlements which are not expected to be settled within twelve months of reporting 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 the terms of the Group's obligations.

Short term incentive plans

A liability is recognised for short term incentive plans on the achievement of predetermined short term incentive plan performance measures and the benefit calculations are formally documented and determined before signing the consolidated financial statements.

(e) Retirement benefit obligation

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

For defined benefit schemes, the cost of providing superannuation and pension benefits is charged to the Consolidated 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 IFRS, were recognised in retained earnings. All actuarial gains and losses that arise subsequent to 1 October 2004 are recognised directly in equity.

The Group's net obligation in respect of defined benefit superannuation and pension 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 reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

1. Significant accounting policies (continued)

(xvii) Provisions (continued)

(f) Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are paid, or a legal right to pay is established, for the entire undistributed amount, regardless of the extent to which they will be paid.

(g) 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.

(h) Onerous contracts

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

(xviii) Trade and other payables

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

Unfavourable sales / supplier contracts

Liabilities are recognised on acquisition where it is probable that an outflow of resources embodying economic benefits will be required to settle an obligation (probable loss), and the fair value of the loss can be measured reliably. If the terms of a contract are unfavourable relative to market terms at the acquisition date, a liability is recognised as part of accounting for the business combination.

(xix) Foreign currency transactions

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Income Statement, except when they are deferred in equity as qualifying cash flow hedges or net investment hedges.

Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign operations

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised in the Consolidated Income Statement on disposal of the foreign operation.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at exchange rates prevailing at the reporting date.

(xx) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange, commodity price and interest rate risks arising from operational, financing and investment activities.

In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

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 Consolidated Income Statement. However, where derivatives qualify for hedge accounting, the gain or loss is transferred to the cash flow hedging reserve or foreign currency translation reserve.

Hedging

On entering into a hedging relationship, the Group 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

Changes in fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the Consolidated Income Statement.

Amounts accumulated in equity are recycled in the Consolidated Income Statement in the periods when the hedged item affects profit or loss. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised.

If the hedged transaction is no longer expected to take place, then the cumulative unrealised gain or loss recognised in equity is recognised immediately in the Consolidated Income Statement.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of monetary item that is accounted for as part of the net investment, are accounted for in a similar way as cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity (foreign currency translation reserve) while any gains or losses relating to the ineffective portion are recognised in the Consolidated Income Statement. On disposal of the foreign operation, the cumulative value of such gains or losses recognised directly to equity is transferred to other comprehensive income based on the amount calculated using the direct method of consolidation.

(xxi) Cash and cash equivalents

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

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

1. Significant accounting policies (continued)

(xxii) 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 Consolidated Income Statement and the consideration paid, including any directly attributable incremental costs (net of income taxes), is recognised directly in equity.

(xxiii) Fair value estimation

The fair value of financial assets and financial liabilities is 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 equity instruments) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group 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 Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting 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 contracts is calculated as the present value of the estimated future cash flows. The fair value of cross currency interest rate swaps is determined using market based forward interest and exchange rates and the present value of estimated future cash flows. The fair value of foreign exchange options is determined using market rates and a present value calculation based on the Black Scholes method. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date and the present value of the estimated future cash flows. 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 is estimated by discounting the future cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(xxiv) Impairment of assets

The carrying amount of the Group's assets excluding defined benefit fund assets, inventories, deferred tax assets, goodwill and indefinite life intangible assets is reviewed at each reporting date to determine whether there is any evidence of impairment. If such indication exists, the asset is tested for impairment by comparing its recoverable amount to its carrying amount. Goodwill and indefinite life intangible assets are tested for impairment annually.

The recoverable amount of an asset (excluding receivables – refer to Note 1 (viii)) is determined as the higher of fair value less cost to sell 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 asset's 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 Consolidated Income Statement.

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

(xxv) 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 Consolidated Statement of Financial Position.

Cash flows are included in the Consolidated 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.

(xxvi) Rounding of amounts

The Group 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 consolidated financial statements.

Amounts in the consolidated financial statements have been rounded off in accordance with that Class Order to the nearest one hundred thousand dollars, or in certain cases, the nearest one thousand dollars.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

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 Group 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 subsequent 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 consolidated 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 and pension costs and related assets and liabilities; and
- valuation of assets and liabilities acquired in a business combination.

(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 are 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 or terminal values. Refer Note 1 (xxiv) for further details regarding the accounting policy regarding 'Impairment of assets'.

(ii) Impairment of goodwill

The Group tests annually whether goodwill has incurred any impairment, in accordance with the accounting policy stated in Note 1 (xiii) (a). The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of assumptions, including forecast earnings before interest and tax, growth rates and discount rates. Refer to Note 18 for details of these assumptions and the potential impact of changes to the assumptions.

The assumptions are management's best estimates based on current and forecast market conditions. Changes in economic and operating conditions impacting these assumptions could result in additional impairment charges in future periods. Management believes that this policy is critical to the consolidated financial statements, particularly

when evaluating the Group's goodwill for impairment. Varying results from this analysis are possible due to the significant estimates and judgements involved in the Group's evaluations.

(iii) Income taxes

The Group is subject to income taxes in Australia and overseas jurisdictions. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group 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 Group's assumptions regarding future realisation 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 Group's best estimate of the outflow of resources required to settle commitments made by the Group. Where the outcome of these matters is different from the amounts that were initially recorded, such differences will impact the Consolidated Income Statement in the period in which such determination is made. Refer Note 1 (xvii) (a) & Note 1 (xvii) (f) to the consolidated financial statements for further details of the accounting policy relating to environmental and restructuring provisions. Also refer to Note 23 for amounts recognised for environmental and restructuring provisions.

(v) Retirement benefit obligations

A liability or asset in respect of defined benefit superannuation and pension plans is recognised in the Consolidated Statement of Financial Position, 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 (xvii) (d) to the consolidated financial statements for further details of the accounting policy relating to retirement benefit obligations. Refer Note 25 of the consolidated financial statements for details of the key assumptions used in determining the accounting for these plans. The following are the main categories of assumptions used:

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

(vi) Business combinations

Fair valuing assets and liabilities acquired in a business combination involves making assumptions about the timing of cash inflows and outflows, commodity prices, growth assumptions, discount rates and cost of debt. Refer to Note 28 for details of acquisitions made during the period.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

3. Segment report

(a) Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Group's Executive Team in assessing performance and in determining the allocation of resources.

The operating segments are identified by management and are based on the market and region in which product is sold. Discrete financial information about each of these operating businesses is reported to the Executive Team on at least a monthly basis.

(b) Description of operating segments

Fertilisers:

Incitec Pivot Fertilisers (IPF): manufactures and distributes fertilisers in Eastern Australia. The products that IPF manufactures include Single Super Phosphate, Urea and Ammonia. IPF also imports products from overseas suppliers and purchases Ammonium Phosphates from Southern Cross International for resale.

Southern Cross International (SCI): manufactures Ammonium Phosphates, is a distributor of its manufactured fertiliser product to wholesalers in Australia (including IPF) and the export market. SCI also has a 65% share of the Hong Kong marketing company, Quantum Fertilisers Limited and operates an Industrial Chemicals business.

Fertilisers Elimination (Elim): represents the elimination of profit in stock arising from SCI sales to IPF.

Explosives:

Dyno Nobel Americas (DNA): principal activity is the manufacture and sale of industrial explosives and related products and services to the mining, quarrying and construction industries in the Americas (USA, Canada, Mexico and Chile) and Turkey, and the manufacture and sale of Agricultural chemicals.

Dyno Nobel Asia Pacific (DNAP): principal activity is the manufacture and sale of industrial explosives and related products and services to the mining industry in the Asia Pacific region.

Explosives Eliminations (Elim): represents eliminations of profit in stock arising from DNA sales to DNAP.

(c) Accounting policies and inter-segment transactions

Corporate (Corp):

Corporate costs include all head office expenses that cannot be directly attributed to the operation of any of the Group's businesses.

Inter-entity sales are recognised based on an arm's length transfer price. The price aims to reflect what the business operation could achieve if they sold their output and services to external parties.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

3. Segment report (continued)

(d) Reportable segments

	IPF	SCI	Elim	Total Fertilisers	DNAP	DNA	Elim	Total Explosives	Corp/Group Elim	Consolidated Group
	\$mill	\$mill	\$mill	\$mill	\$mill	\$mill	\$mill	\$mill	\$mill	\$mill
30 September 2011										
Sales to external customers	1,185.5	1,238.6	(193.8)	2,230.3	533.1	1,172.5	(27.5)	1,678.1	(2.1)	3,906.3
Share of profits in associates and joint ventures accounted for by the equity method	-	-	-	-	12.1	12.1	-	24.2	-	24.2
Earnings before interest, related income tax expense, depreciation and amortisation and individually material items	156.0	353.3	(3.7)	505.6	215.3	244.3	(0.4)	459.2	(44.5)	920.3
Depreciation and amortisation	(27.2)	(29.4)	-	(56.6)	(19.9)	(70.5)	-	(90.4)	(1.2)	(148.2)
Earnings before interest, related income tax expense and individually material items	128.8	323.9	(3.7)	449.0	195.4	173.8	(0.4)	368.8	(45.7)	772.1
Net interest expense										(58.2)
Income tax expense										(179.7)
Profit after tax (excluding individually material items)										534.2
Non-controlling interest										(4.1)
Individually material items										(66.9)
Profit after tax										463.2

	IPF	SCI	Elim	Total Fertilisers	DNAP	DNA	Elim	Total Explosives	Corp/Group Elim	Consolidated Group
	\$mill	\$mill	\$mill	\$mill	\$mill	\$mill	\$mill	\$mill	\$mill	\$mill
30 September 2010										
Sales to external customers	885.9	647.1	(145.4)	1,387.6	499.8	1,092.5	(48.2)	1,544.1	-	2,931.7
Share of profits in associates and joint ventures accounted for by the equity method	-	-	-	-	12.9	17.6	-	30.5	-	30.5
Earnings before interest, related income tax expense, depreciation and amortisation and individually material items	141.6	236.9	(0.6)	377.9	196.0	236.5	1.5	434.0	(24.6)	787.3
Depreciation and amortisation	(29.2)	(14.3)	-	(43.5)	(20.0)	(73.3)	-	(93.3)	(2.2)	(139.0)
Earnings before interest, related income tax expense and individually material items	112.4	222.6	(0.6)	334.4	176.0	163.2	1.5	340.7	(26.8)	648.3
Net interest expense										(53.0)
Income tax expense										(150.8)
Profit after tax (excluding individually material items)										444.5
Non-controlling interest										(1.7)
Individually material items										(32.3)
Profit after tax										410.5

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

3. Segment report (continued)

(e) Geographical information – secondary reporting segments

The Group operates in four principal countries being Australia (country of domicile), USA, Canada and Turkey.

In presenting information on the basis of geographical information, revenue is based on the geographical location of the entity making the sale. Assets are based on the geographical location of the assets.

30 September 2011	Australia \$mill	USA \$mill	Canada \$mill	Turkey \$mill	Other/Elim \$mill	Consolidated \$mill
Revenue from external customers	2,303.6	811.0	225.0	82.9	483.8	3,906.3
Non-current assets other than financial instruments and deferred tax assets	3,170.2	2,074.8	54.8	129.6	97.0	5,526.4

30 September 2010	Australia \$mill	USA \$mill	Canada \$mill	Turkey \$mill	Other/Elim \$mill	Consolidated \$mill
Revenue from external customers	1,871.8	770.3	235.9	14.8	38.9	2,931.7
Non-current assets other than financial instruments and deferred tax assets	2,702.5	2,115.4	80.0	153.6	76.9	5,128.4

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

	Notes	Consolidated 2011 \$mill	2010 \$mill
4. Revenue and other income			
Revenue			
External sales		3,906.3	2,931.7
Total revenue		3,906.3	2,931.7
Financial income			
Interest income from external parties		4.1	2.8
Interest income from jointly controlled entities	(34)	0.8	2.5
Total financial income		4.9	5.3
Other income			
Net foreign exchange gains		-	0.6
Royalty income and management fees	(34)	20.7	23.8
Net gain on sale of property, plant and equipment	(29)	18.0	4.3
Other income		2.7	0.7
Gain on Nitromak acquisition		-	19.0
Total other income		41.4	48.4
Total financial and other income		46.3	53.7
5. Expenses			
Profit before income tax includes the following specific expenses:			
Depreciation & Amortisation			
depreciation	(17)	124.7	112.1
amortisation	(18)	23.5	26.9
	(29)	148.2	139.0
Recoverable amount write-down property, plant and equipment	(17),(29)	7.6	0.7
		7.6	0.7
Amounts set aside to provide for			
impairment loss on trade and other receivables		5.9	1.1
employee entitlements		6.4	8.3
environmental liabilities	(23)	7.2	24.9
inventory losses and obsolescence		0.9	1.2
other provisions	(23)	4.1	1.8
restructuring	(23)	15.0	6.8
Lease payments – operating leases		60.3	55.0
Net foreign exchange losses		1.8	-
Research and development expense		7.9	7.8
Defined contribution superannuation expense		15.8	11.1
Defined benefit superannuation/pension expense	(25)	5.0	8.0
Financial expenses			
Unwinding of discount on provisions and other payables	(29)	25.2	13.8
Interest expenses on financial liabilities		37.8	44.2
Interest expenses on financial liabilities with jointly controlled entities	(34)	0.1	0.3
Total financial expenses		63.1	58.3

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

	Notes	Consolidated					
		2011		2010			
		Gross \$mill	Tax \$mill	Net \$mill	Gross \$mill	Tax \$mill	Net \$mill
6. Individually material items							
Profit includes the following revenues / (expenses) whose disclosure is relevant in explaining the financial performance of the Group:							
Business restructuring costs - Dyno Nobel Integration ⁽¹⁾							
		(25.9)	10.0	(15.9)	(7.8)	2.4	(5.4)
		(28.3)	9.4	(18.9)	(16.7)	5.3	(11.4)
		(54.2)	19.4	(34.8)	(24.5)	7.7	(16.8)
Business restructuring costs - Manufacturing and Distribution ⁽²⁾							
		(11.9)	3.5	(8.4)	(18.7)	5.8	(12.9)
		(4.4)	1.2	(3.2)	(8.0)	2.7	(5.3)
		(16.3)	4.7	(11.6)	(26.7)	8.5	(18.2)
Other							
		-	-	-	19.0	-	19.0
		-	-	-	(23.2)	6.9	(16.3)
		(41.1)	1.5	(39.6)	-	-	-
		19.1	-	19.1	-	-	-
		(22.0)	1.5	(20.5)	(4.2)	6.9	2.7
	(9)	(92.5)	25.6	(66.9)	(55.4)	23.1	(32.3)

(1) Following the acquisition of Dyno Nobel Limited, restructuring and integration expenditure has been incurred including employee redundancy costs as well as IT expenditure in creating common networks and collaboration between sites.

(2) The impact of the Global Financial Crisis resulted in the Group changing its strategy in how it manages its manufacturing and distribution assets. The Group changed from a growth focus to a maintenance focus which has resulted in a restructuring of manufacturing and distribution operations leading to redundancies, termination of capital projects and exiting / idling certain sites (Cockle Creek, Geelong, Maitland, Port Ewen and Battle Mountain).

(3) During 2010, the Group acquired the remaining 50% interest in Nitromak DNX Kimya Sanayii A.S. (Nitromak), making Nitromak a fully owned subsidiary. AASB 3 *Business Combinations* requires that the original 50% investment is revalued to fair value in the Income Statement when the Group gained control of Nitromak, which resulted in a gain of \$33.4 million, offset by \$14.4 million of foreign exchange losses, resulting in a net gain of \$19.0 million.

(4) Environmental costs at various sites, including estimated costs to remediate asbestos identified at some sites.

(5) During 2011, the Group sold its 100% ownership interest in the Canadian drilling business DNX Castonguay Inc (Castonguay) for \$1.5m. A loss on the sale of \$35.2m (including foreign exchange losses) was recorded. Additionally, an impairment charge against property, plant and equipment of \$6.0m was recognised in relation to other drilling businesses.

(6) Gain on sale of land.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

Consolidated
2011 2010
\$000 \$000

7. Auditor's remuneration

Total remuneration received, or due and receivable,
by the auditors for:

Audit services

Auditors of the Group - KPMG Australia	1,052.9	1,092.5
Auditors of the Group - KPMG Overseas	633.9	992.7
Other auditors	62.7	25.0
Other assurance services - debt issue	252.0	231.0
Other assurance services	121.7	-
	2,123.2	2,341.2

Non audit services

Auditors of the Group - KPMG Australia		
taxation services	7.8	-
other services	-	80.1
	7.8	80.1
	2,131.0	2,421.3

From time to time, the auditors provide other services to the Group, which are subject to strict corporate governance procedures adopted by the Group which encompass the selection of service providers and the setting of their remuneration. The Board Audit and Risk Management Committee must approve individual non audit services provided by KPMG above a value of \$100,000, as well as where the aggregate amount exceeds \$250,000 per annum.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

	Consolidated	
	2011	2010
	\$mill	\$mill
8. Income tax expense		
(a) Income tax expense		
Current tax		
Current year	105.4	100.6
Over provision in prior years	(0.5)	(4.1)
	104.9	96.5
Deferred tax		
Origination and reversal of temporary differences	49.2	31.2
Total income tax expense	154.1	127.7
(b) Reconciliation of income tax expense and pre-tax accounting profit		
Profit before income tax	621.4	539.9
Income tax expense attributable to profit before income tax		
Tax at the Australian tax rate of 30% (2010 at 30%) on profit before income tax	186.4	162.0
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:		
Research and development incentive	(5.5)	(3.5)
Share-based payments	-	0.7
Participation facility	(15.6)	(13.2)
Valuation allowances	7.6	-
Sundry items	(21.4)	(16.1)
	151.5	129.9
Difference in overseas tax rates	3.1	1.9
Overprovision in prior years	(0.5)	(4.1)
Income tax expense attributable to profit	154.1	127.7
(c) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or charged to equity		
Net deferred tax - debited directly to equity	37.2	26.1
	37.2	26.1

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

	Notes	Consolidated	
		2011 Cents per share	2010 Cents per share
9. Earnings per share (EPS)			
Basic earnings per share			
including individually material items		28.4	25.3
excluding individually material items		32.5	27.3
Diluted earnings per share			
including individually material items		28.4	25.3
excluding individually material items		32.5	27.3
		Number	Number
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share ⁽¹⁾		1,628,730,107	1,623,134,164

(1) No shares were issued during the year ended 30 September 2011, refer Note 26.

		Consolidated	
		2011 \$mill	2010 \$mill
Profit attributable to ordinary shareholders		463.2	410.5
Reconciliation of earnings used in the calculation of basic and diluted earnings per share excluding individually material items			
Profit attributable to ordinary shareholders		463.2	410.5
Add back individually material items after income tax	(6)	66.9	32.3
Profit attributable to ordinary shareholders excluding individually material items		530.1	442.8

10. Cash and cash equivalents

Cash at bank and on hand		95.5	47.9
Deposits at call			
external		284.2	0.8
	(29)	379.7	48.7

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

	Notes	Consolidated 2011 \$mill	2010 \$mill
11. Trade and other receivables			
Current			
Trade debtors			
external		417.1	419.4
jointly controlled entities and associates	(34)	26.6	24.8
Less impairment losses			
external	(33)	(12.2)	(11.9)
		431.5	432.3
Sundry debtors / loans			
external		5.0	4.9
jointly controlled entities and associates	(34)	15.4	0.3
		20.4	5.2
		451.9	437.5
Non-current			
Sundry debtors / loans			
external		2.7	3.4
jointly controlled entities and associates		13.4	13.8
Less impairment losses			
external		-	(1.9)
		16.1	15.3

12. Inventories

Raw materials and stores at cost		52.1	51.6
Work in progress at cost		45.0	32.5
Finished goods			
at cost		388.1	259.9
less provision for inventory losses, obsolescence and net realisable value		(7.3)	(7.8)
Finished goods		380.8	252.1
		477.9	336.2

13. Other assets

Current			
Prepayments		26.3	26.6
Other		4.9	9.6
		31.2	36.2
Non-current			
Prepayments		13.0	0.7
Other		4.5	1.8
		17.5	2.5

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

	Notes	Consolidated 2011 \$mill	2010 \$mill
14. Other financial assets			
Current			
Investments - equity instruments		-	30.2
Derivative financial instruments			
cross currency swaps		35.4	61.3
option contracts	(33)	5.4	-
forward exchange contracts		-	20.1
		40.8	111.6
Non-current			
Investments - equity instruments		10.1	-
Derivative financial instruments			
interest rate swaps	(33)	42.8	-
cross currency swaps	(33)	-	28.7
		52.9	28.7

Sensitivity analysis – equity price risk

All of the equity investments are listed on the Australian Securities Exchange. A 5% increase in the share prices of these equities at the reporting date would have increased equity (pre-tax) by \$0.5m (2010: \$1.5m); an equal decrease would have decreased equity (pre-tax) by \$0.5m (2010: \$1.5m).

15. Assets classified as held for sale

Land and buildings held for sale	1.9	4.8
Machinery, plant and equipment held for sale	4.6	4.3
	6.5	9.1

Assets classified as held for sale consist of various sites which are either vacant land or sites which the Group has already exited or is planning to dispose of within the next 12 months.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

16. Investments accounted for using the equity method

Name of Entity	Principal Activity	Ownership interest	Country of incorporation
Jointly controlled entities			
Alpha Dyno Nobel Inc	Delivery of explosives and related products	50%	USA
Boren Explosives Co., Inc.	Delivery of explosives and related products	50%	USA
Buckley Powder Co.	Delivery of explosives and related products	51%	USA (1)
IRECO Midwest Inc.	Delivery of explosives and related products	50%	USA
Wampum Hardware Company	Delivery of explosives and related products	50%	USA
Pepin-IRECO, Inc.	Delivery of explosives and related products	50%	USA
Midland Powder Company	Delivery of explosives and related products	50%	USA
Mine Equipment & Mill Supply Company	Delivery of explosives and related products	50%	USA
Controlled Explosives Inc.	Delivery of explosives and related products	50%	USA
Western Explosives Systems Company	Delivery of explosives and related products	50%	USA
Newfoundland Hard-Rok Inc.	Delivery of explosives and related products	50%	Canada
Dyno Nobel Labrador Inc.	Delivery of explosives and related products	50%	Canada
Quantum Explosives Inc.	Inactive	50%	Canada
Dene Dyno Nobel Inc.	Delivery of explosives and related products	49%	Canada
Qaaqtuq Dyno Nobel Inc.	Delivery of explosives and related products	49%	Canada (2)
Denesoline Western Explosives Inc.	Delivery of explosives and related products	49%	Canada (3)

(1) Refer to footnote description on next page.

(2) Refer to footnote description on next page.

(3) Refer to footnote description on next page.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

16. Investments accounted for using the equity method (continued)

Name of Entity	Principal Activity	Ownership interest	Country of incorporation	
Jointly controlled entities (continued)				
Queensland Nitrates Pty Ltd	Production of ammonium nitrate	50%	Australia	(4)
Queensland Nitrates Management Pty Ltd	Management services	50%	Australia	(4)
DetNet International Limited	Distribution of electronic detonators	50%	Ireland	
DetNet South Africa (Pty) Ltd	Development, manufacture and supply of electronic detonators	50%	South Africa	
DNEX Mexico, S. De R.L. de C.V.	Mexican investment holding company	49%	Mexico	
Explosivos De La Region Lagunera, S.A. de C.V.	Distribution of explosives and related products	49%	Mexico	
Explosivos De La Region Central, S.A. de C.V.	Distribution of explosives and related products	49%	Mexico	
Nitro Explosivos de Ciudad Guzman, S.A. de C.V.	Distribution of explosives and related products	49%	Mexico	
Explosivos Y Servicios Para La Construccion, S.A. de C.V.	Distribution of explosives and related products	49%	Mexico	
Tenaga Kimia Ensign-Bickford Sdn Bhd	Manufacture of explosive accessories	50%	Malaysia	
Sasol Dyno Nobel (Pty) Ltd	Distribution of detonators	50%	South Africa	(4)
Associates				
Labrador Maskua Ashini Ltd	Delivery of explosives and related products	25%	Canada	
Fabchem China Ltd	Manufacture of commercial explosives	30%	Singapore	(5)
Valley Hydraulics Ltd	Delivery of explosives and related products	25%	Canada	
Apex Construction Specialities Ltd	Delivery of explosives and related products	25%	Canada	
Innu Namesu Ltd	Delivery of explosives and related products	25%	Canada	
St Lawrence Explosives Inc	Inactive	33%	Canada	
Warex Corporation	Delivery of explosives and related products	25%	USA	
Warex LLC	Delivery of explosives and related products	25%	USA	

- (1) Due to the contractual and decision making arrangement between the shareholders of the entities, despite the legal ownership exceeding 50%, this entity is not considered to be a subsidiary.
- (2) Due to legal requirements in the Canadian Northwest Territories, the Group cannot own more than 49% of the shares in Qaaqtuq Dyno Nobel Inc. However, under the joint venture agreement, the Group is entitled to 75% of the profit of Qaaqtuq Dyno Nobel Inc.
- (3) Due to legal requirements in the Canadian Northwest Territories, the Group cannot own more than 49% of the shares in Denesoline Western Explosives Inc. However, under the joint venture agreement, the Group is entitled to 95% of the profit of Denesoline Western Explosives Inc.
- (4) These jointly controlled entities have a 30 June year end. For the purpose of applying the equity method of accounting, the unaudited financial information through to 30 September 2011 has been used.
- (5) Fabchem China Ltd has a 31 March year end. For the purpose of applying the equity method of accounting, the unaudited financial information through to 30 September 2011 has been used.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

16. Investments accounted for using the equity method (continued)

Summarised financial information of jointly controlled entities and associates:

	Notes	Consolidated	
		2011 \$mill	2010 \$mill
Current assets		264.4	252.3
Non-current assets		297.2	280.4
Total assets		561.6	532.7
Current liabilities		139.7	131.7
Non-current liabilities		81.4	95.6
Total liabilities		221.1	227.3
Net assets		340.5	305.4
Revenue		723.3	796.8
Net profit		48.8	65.6
Share of jointly controlled entities and associates' profit:			
Share of jointly controlled entities and associates' profit before tax		36.5	42.4
Share of jointly controlled entities and associates' income tax expense		(12.3)	(11.9)
Share of jointly controlled entities and associates' profit	(29)	24.2	30.5
Carrying amount of investments in jointly controlled entities and associates			
Carrying amount at the beginning of the year		256.5	254.0
Share of net profit from jointly controlled entities and associates		24.2	30.5
Less: dividends received / receivable	(34)	(8.6)	(17.1)
Elimination of profit on transactions with jointly controlled entities and associates		(2.4)	-
Foreign exchange movement		(12.6)	(10.9)
Carrying amount at end of the financial year		257.1	256.5

The Group's share of capital commitments, other expenditures and contingent liabilities are disclosed in Notes 30 and 31.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

17. Property, plant and equipment

Consolidated		Freehold land and buildings	Machinery, plant and equipment	Construction in progress	Total
	Notes	\$mill	\$mill	\$mill	\$mill
At 1 October 2009					
Cost		425.1	1,347.9	404.4	2,177.4
Accumulated depreciation		(128.8)	(385.2)	-	(514.0)
Net book amount		296.3	962.7	404.4	1,663.4
Year ended 30 September 2010					
Opening net book amount		296.3	962.7	404.4	1,663.4
Reclassification from fixed assets classified as held for sale		-	0.5	-	0.5
Additions		14.8	120.3	224.2	359.3
Disposals		(6.7)	(8.0)	-	(14.7)
Acquisition of business		6.1	2.1	-	8.2
Depreciation charge	(5)	(13.2)	(98.9)	-	(112.1)
Impairment of assets	(5)	-	(0.7)	-	(0.7)
Reclassification		21.3	20.5	(41.8)	-
Foreign exchange movement		(10.3)	(48.7)	(0.8)	(59.8)
Closing net book amount		308.3	949.8	586.0	1,844.1
At 1 October 2010					
Cost		449.4	1,471.1	586.0	2,506.5
Accumulated depreciation		(141.1)	(521.3)	-	(662.4)
Net book amount		308.3	949.8	586.0	1,844.1
Year ended 30 September 2011					
Opening net book amount		308.3	949.8	586.0	1,844.1
Reclassification (to) / from fixed assets classified as held for sale		2.9	(0.3)	-	2.6
Additions		3.9	18.8	589.5	612.2
Disposals		(10.0)	(23.2)	(1.7)	(34.9)
Depreciation charge	(5)	(13.1)	(111.6)	-	(124.7)
Impairment of assets	(5)	-	(7.6)	-	(7.6)
Reclassification		22.9	126.3	(149.2)	-
Foreign exchange movement		(2.6)	(3.0)	(2.8)	(8.4)
Closing net book amount		312.3	949.2	1,021.8	2,283.3
At 30 September 2011					
Cost		461.3	1,518.7	1,021.8	3,001.8
Accumulated depreciation		(149.0)	(569.5)	-	(718.5)
Net book amount		312.3	949.2	1,021.8	2,283.3

Non-current asset impairment

During the year ended 30 September 2011, impairment of property, plant and equipment occurred to the value of \$7.6m (2010: \$0.7m) as a result of the Group's fixed asset verification procedures, the abandonment of certain assets and assets identified where the recoverable amount is less than carrying value.

Capitalised interest

During the year ended 30 September 2011 interest of \$52.1m (2010: \$25.2m) was capitalised relating to interest bearing liabilities used specifically to fund qualifying assets (expansion projects) as defined under AASB123 Borrowing Costs.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

18. Intangible assets

Consolidated	Notes	Software \$mill	Goodwill \$mill	Patents, Trademarks & Customer Contracts \$mill	Brand Names \$mill	Total \$mill
At 1 October 2009						
Cost		59.9	2,649.3	235.1	255.4	3,199.7
Accumulated amortisation		(22.5)	-	(24.2)	-	(46.7)
Net book amount		37.4	2,649.3	210.9	255.4	3,153.0
Year ended 30 September 2010						
Opening net book amount		37.4	2,649.3	210.9	255.4	3,153.0
Acquisition of business		0.2	157.4	1.1	4.0	162.7
Additions		3.8	2.0	-	-	5.8
Amortisation charge	(5)	(9.2)	-	(17.7)	-	(26.9)
Foreign exchange movement		(2.3)	(247.8)	(13.5)	(21.0)	(284.6)
Closing net book amount		29.9	2,560.9	180.8	238.4	3,010.0
At 1 October 2010						
Cost		60.4	2,560.9	220.6	238.4	3,080.3
Accumulated amortisation		(30.5)	-	(39.8)	-	(70.3)
Net book amount		29.9	2,560.9	180.8	238.4	3,010.0
Year ended 30 September 2011						
Opening net book amount		29.9	2,560.9	180.8	238.4	3,010.0
Additions		5.2	-	-	-	5.2
Amortisation charge	(5)	(7.3)	-	(16.2)	-	(23.5)
Foreign exchange movement		(0.2)	(44.3)	(2.1)	(2.8)	(49.4)
Closing net book amount		27.6	2,516.6	162.5	235.6	2,942.3
At 30 September 2011						
Cost		65.3	2,516.6	218.3	235.6	3,035.8
Accumulated amortisation		(37.7)	-	(55.8)	-	(93.5)
Net book amount		27.6	2,516.6	162.5	235.6	2,942.3

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

18. Intangible assets (continued)

(a) Allocation of goodwill

The Group's indefinite life intangible assets are allocated to CGU's as follows:

	Goodwill	Brand	Total	Goodwill	Brand	Total
	2011	Names	2011	2010	Names	2010
	\$mill	\$mill	\$mill	\$mill	\$mill	\$mill
IPF	183.8	-	183.8	183.8	-	183.8
SCI	1.9	-	1.9	1.9	-	1.9
DNAP	1,091.0	40.3	1,131.3	1,098.4	40.3	1,138.7
DNA	1,119.8	192.3	1,312.1	1,126.5	194.1	1,320.6
Nitromak	120.1	3.0	123.1	150.3	4.0	154.3
	2,516.6	235.6	2,752.2	2,560.9	238.4	2,799.3

(b) Impairment testing

The carrying amount of goodwill and intangible assets with indefinite lives are tested for impairment annually at 30 September and all other assets are tested when there is an indicator that an asset may be impaired. If an asset is deemed to be impaired it is written down to its recoverable amount. The recoverable amount is based on the higher of fair value less costs to sell and value in use. Value-in-use is calculated using cash flow projections based on financial forecasts for a period of five years as approved by management.

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

Key assumptions used to test for impairment, include:

	Terminal Growth Rate		Discount Rate*	
	2011	2010	2011	2010
	%	%	%	%
IPF	0.0	0.0	9.0	9.0
SCI	0.0	0.0	9.0	9.0
DNAP	2.5	2.5	9.0	9.0
DNA	2.5	2.5	9.0	9.0
Nitromak	2.5	2.5	15.5	15.5

* The post-tax discount rate used reflects underlying cost of capital adjusted for market risk.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

Notes	Consolidated	
	2011	2010
	\$mill	\$mill

19. Deferred tax assets

The balance comprises temporary differences attributable to:

Impairment of trade and other receivables		0.5	8.0
Employee entitlements provision		15.4	10.8
Retirement benefit obligations		37.1	28.5
Restructuring and rationalisation provision		5.3	3.9
Environmental provision		23.9	28.0
Other provisions		13.9	10.9
Inventories		3.4	3.5
Property, plant and equipment		32.5	33.3
Foreign exchange losses		3.3	13.8
Share issue expenses		-	1.1
Cash flow hedges		0.2	0.5
Unfavourable supplier contracts		105.0	128.7
Tax losses		44.3	69.9
Other		23.9	23.2
Deferred tax assets		308.7	364.1
Set-off of deferred tax liabilities pursuant to set-off provisions	(24)	(264.0)	(190.2)
Net deferred tax assets		44.7	173.9
Movements:			
Opening balance at 1 October		364.1	490.5
Charged to the Income Statement		(65.6)	(115.2)
Credited / (charged) to equity		18.0	(26.1)
Foreign exchange movement		(1.4)	20.0
Adjustments in respect of prior years		(6.4)	(5.1)
Closing balance at 30 September		308.7	364.1

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

	Notes	Consolidated	
		2011 \$mill	2010 \$mill
20. Trade and other payables			
Current			
Trade creditors			
external		625.6	475.1
jointly controlled entities and associates	(34)	4.5	1.6
		630.1	476.7
Sundry creditors and accrued charges			
external		176.3	171.5
jointly controlled entities and associates	(34)	0.1	-
unfavourable sales / supplier contracts		68.6	49.3
		245.0	220.8
		875.1	697.5
Non-current			
Sundry creditors and accrued charges			
external		0.6	-
unfavourable sales / supplier contracts		281.3	378.3
		281.9	378.3

Unfavourable contracts

Unfavourable contracts were recognised as part of the Southern Cross Fertilisers Pty Ltd acquisition in 2006 and the Dyno Nobel Limited acquisition in 2008. The liability is measured at acquisition date based on the unfavourable difference between the market rate and contractual rate with suppliers and customers and multiplying it by the volumes required to be purchased / supplied that are specified in the contracts. Where contract terms are greater than one year, cash flows are discounted by applying a pre-tax interest rate equivalent to the Group's cost of debt. The liability is amortised based on contracted volumes determined in measuring the liability at acquisition date over the life of the contracts.

Amortisation of the Moranbah unfavourable customer contracts recorded in the Consolidated Income Statement for the year ended 30 September 2011 was \$67.9m (2010: \$75.7m).

Significant terms and conditions

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

Net fair values

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

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

	Notes	Consolidated 2011 \$mill	2010 \$mill
21. Interest bearing liabilities			
Current			
Secured			
bank loans			
participation facilities		77.0	75.5
inventory finance facility		-	10.3
lease liability		-	0.2
Unsecured			
bank loans		9.6	12.5
other loans			
jointly controlled entities and associates ⁽¹⁾		9.1	10.0
	(33)	95.7	108.5
Non-current			
Secured			
bank loans			
participation facilities		114.1	179.5
lease liability		0.1	1.7
Unsecured			
fixed interest rate bonds		1,358.6	804.7
bank loans			
bank facility		-	51.4
	(33)	1,472.8	1,037.3

⁽¹⁾ Loans from jointly controlled entities and associates relate to unsecured loans from joint venture Wampum Hardware Co.

During the year, the Group undertook a number of financing activities:

- In December 2010 the Group completed a US\$500.0m 5 year bond issuance in the US 144A / Regulation S debt capital market. The bond is denominated in USD, has a fixed rate semi-annual coupon of 4% and matures in December 2015. The proceeds of this funding are being used to reduce future reliance on bank funding.
- The Bank Facility was renegotiated for a further 3 year term with the Group choosing to reduce the limit from \$1,080.0m to \$900.0m. The facility now matures in April 2014.
- The Group chose to cancel the Inventory Finance Facility.
- A number of uncommitted trade finance facilities were negotiated on behalf of the Group's 65% owned subsidiary, Quantum Fertilisers. These facilities are fully guaranteed by Incitec Pivot.
- An uncommitted overdraft and guarantee facility was negotiated for the Group's wholly owned North American businesses.

Significant terms and conditions

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

Fixed Interest Rate Bonds

The Group has on issue the following Fixed Interest Rate Bonds in the US 144A / Regulation S debt capital market:

- US\$800.0m 10 year bond denominated in USD, with a fixed rate semi-annual coupon of 6%, maturing in December 2019.
 - US\$500.0m 5 year bond denominated in USD, with a fixed rate semi-annual coupon of 4%, maturing in December 2015.
- During December 2010 the Group entered into a 5 year US\$500.0m Interest Rate Swap to receive fixed interest and pay floating interest. In January 2011 the Group entered into a 8.5 year US\$300.0m Interest Rate Swap, which started in June 2011, to receive fixed interest and pay floating interest.

Bank Facility

The Bank Facility was a 3 year revolving facility that could be drawn in either AUD or USD. It had a facility limit of A\$1,080.0m (2009: A\$1,680.0m) with a maturity date of 4 October 2011. The Bank Facility was cancelled during the year and replaced by a new A\$900.0m 3 year Bank Facility, maturing in April 2014. The terms and conditions of the new facility are principally the same as the previous agreement.

Participation Facilities

The Participation Facilities mature in June 2013 and September 2014. The carrying amount of the facilities is A\$191.1m and is secured against certain assets operated by Southern Cross Fertilisers Pty Ltd. The facilities are denominated in AUD and have fixed nominal interest rates of 8.93% and 9.63% respectively for the term of the facilities.

Inventory Finance Facility

The Inventory Finance Facility was cancelled during the year at the Group's request.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

	Notes	Consolidated	
		2011 \$mill	2010 \$mill
22. Other financial liabilities			
Current			
Derivative financial instruments			
commodity contracts	(33)	-	1.7
forward exchange contracts	(33)	0.6	-
		0.6	1.7
Non-Current			
Derivative financial instruments			
cross currency swaps		2.9	-
		2.9	-

23. Provisions

Current

Employee entitlements		27.6	24.5
Restructuring and rationalisation		21.7	13.4
Environmental		41.0	34.6
Asset retirement obligation		2.4	1.4
Other		5.6	8.7
		98.3	82.6

Non-current

Employee entitlements		12.2	13.1
Restructuring and rationalisation		2.1	4.0
Environmental		31.6	51.3
Asset retirement obligation		16.9	13.5
Other		1.0	0.7
		63.8	82.6

Aggregate employee entitlements

Current		27.6	24.5
Non-current		12.2	13.1
		39.8	37.6

The present value of the Group's employee entitlements not expected to be settled within twelve months of reporting date have been calculated using the following assumptions:

Assumed rate of increase in wage and salary rates	3.5% + age based scale
Average discount rate (risk free rate)	4.87%
Settlement term	10 years

	2011	2010
Employees at year end	Number	Number
Full time equivalent	4,910	4,998

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

23. Provisions (continued)

Reconciliations

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

	Notes	Consolidated 2011 \$mill
Current Provision - Dividends		
Carrying amount at the beginning of the financial year		-
Provisions made during the year		151.4
Payments made during the year	(27)	(151.4)
Carrying amount at the end of the financial year		-
Current Provision - Restructuring and rationalisation		
Carrying amount at the beginning of the financial year		13.4
Provisions made during the year	(5)	15.0
Provisions written back during the year		(0.4)
Payments made during the year		(8.6)
Transfers from non-current		2.0
Foreign currency exchange differences		0.3
Carrying amount at the end of the financial year		21.7
Current Provision - Environmental		
Carrying amount at the beginning of the financial year		34.6
Provisions made during the year	(5)	0.2
Provisions written back during the year		(1.9)
Payments made during the year		(20.2)
Transfers from non-current		28.3
Disposal of subsidiaries		(0.2)
Foreign currency exchange differences		0.2
Carrying amount at the end of the financial year		41.0
Current Provision - Asset retirement obligations		
Carrying amount at the beginning of the financial year		1.4
Transfers from non-current		1.0
Carrying amount at the end of the financial year		2.4
Current Provision - Other		
Carrying amount at the beginning of the financial year		8.7
Provisions made during the year	(5)	3.2
Payments made during the year		(6.3)
Transfers from non-current		0.3
Foreign currency exchange differences		(0.3)
Carrying amount at the end of the financial year		5.6

See Note 1(xvii) for further details on the provisions noted above.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

23. Provisions (continued)

Reconciliations (continued)	Notes	Consolidated 2011 \$mill
Non-current Provision - Restructuring and rationalisation		
Carrying amount at the beginning of the financial year		4.0
Transfers to current		(2.0)
Discount unwind		0.1
Carrying amount at the end of the financial year		2.1
Non-current Provision - Environmental		
Carrying amount at the beginning of the financial year		51.3
Provisions made during the year	(5)	7.0
Provisions written back during the year		(0.2)
Transfers to current		(28.3)
Discount unwind		2.4
Foreign currency exchange differences		(0.6)
Carrying amount at the end of the financial year		31.6
Non-current Provision - Asset retirement obligations		
Carrying amount at the beginning of the financial year		13.5
Provisions made during the year		1.1
Transfers to current		(1.0)
Discount unwind		3.4
Foreign currency exchange differences		(0.1)
Carrying amount at the end of the financial year		16.9
Non-current Provision - Other		
Carrying amount at the beginning of the financial year		0.7
Provisions made during the year	(5)	0.9
Provisions written back during the year		(0.1)
Transfers to current		(0.3)
Foreign currency exchange differences		(0.2)
Carrying amount at the end of the financial year		1.0

See Note 1(xvii) for further details on the provisions noted above.

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Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

		Consolidated	
	Notes	2011	2010
		\$mill	\$mill
24. Deferred tax liabilities			
The balance comprises temporary differences attributable to:			
Inventories		2.5	0.7
Property, plant and equipment		210.7	219.6
Intangible assets		111.5	116.2
Foreign exchange (losses) / gains		10.5	(9.5)
Provisions		-	4.4
Other		124.1	48.9
Deferred tax liabilities		459.3	380.3
Set-off of deferred tax liabilities pursuant to set-off provisions	(19)	(264.0)	(190.2)
Net deferred tax liabilities		195.3	190.1
Movements			
Opening balance at 1 October		380.3	490.6
Credited to the Income Statement		(16.4)	(84.0)
Charged to equity		55.2	-
Acquisition of subsidiaries		-	0.1
Foreign exchange movements		(3.1)	(29.7)
Adjustments in respect of prior years		43.3	3.3
Closing balance at 30 September		459.3	380.3

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

25. Retirement benefit obligations

(a) Information on Plans

The Group operates a number of defined benefit plans to provide benefits for employees and their dependants on retirement, disability or death. In the Americas (comprising Canada, USA and Mexico), several defined benefit pension plans are in operation. Contributions to the plans are determined by actuarial valuation using the projected unit credit method.

The Company is the sponsoring employer of the Incitec Pivot Employees Superannuation Fund, a defined benefit superannuation fund which consists of a defined contribution section of membership as well as a defined benefit section. The Fund also pays pensions to a number of pensioners.

The key assumptions and amounts recognised in the Consolidated Income Statement and Consolidated Statement of Financial Position are set out below.

(b) Reconciliation of the present value of the defined benefit obligation

	Notes	Consolidated	
		2011 \$mill	2010 \$mill
Present value of defined benefit obligations at beginning of the year		287.6	288.4
Current service cost		6.2	7.5
Past service benefit		(0.8)	(1.3)
Interest cost		13.4	16.2
Actuarial losses		15.1	20.1
Contributions by plan participants		1.1	1.2
Benefits paid		(15.0)	(22.3)
Foreign exchange differences on foreign plans		(3.2)	(22.2)
Present value of defined benefit obligations at end of the year		304.4	287.6

(c) Reconciliation of the fair value of plan assets

Fair value of plan assets at beginning of the year		192.3	196.8
Expected return on plan assets		13.8	14.4
Actuarial gains / (losses)		(14.4)	3.2
Employer contributions		14.5	12.3
Contributions by plan participants		1.1	1.2
Benefits paid		(15.0)	(22.3)
Foreign exchange differences on foreign plans		(3.2)	(13.3)
Fair value of plan assets at end of the year		189.1	192.3

(d) Reconciliation of assets and liabilities recognised in the Consolidated Statement of Financial Position

Present value of funded defined benefit obligations at end of year		303.4	286.9
Tax provision		1.0	0.7
Total value of funded defined benefit obligations at end of year		304.4	287.6
Fair value of plan assets at end of year		(189.1)	(192.3)
Net liability recognised in the Consolidated Statement of Financial Position at end of year		115.3	95.3

(e) Expense recognised in Consolidated Income Statement

Current service cost		6.2	7.5
Past service benefit		(0.8)	(1.3)
Interest cost		13.4	16.2
Expected return on plan assets		(13.8)	(14.4)
Expense recognised in Consolidated Income Statement	(5)	5.0	8.0

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

25. Retirement benefit obligations (continued)

	Consolidated				
	2011	2010			
	\$mill	\$mill			
(f) Amounts recognised in the Consolidated Statement of Comprehensive Income					
Actuarial losses (before income tax)	29.5	16.9			
(g) Cumulative amount recognised in the Consolidated Statement of Comprehensive Income					
Cumulative amount of actuarial losses (before income tax)	115.1	85.6			
(h) Plan assets					
The percentage invested in each asset class at the reporting date:					
Equities	66%	60%			
Fixed Interest Securities	21%	28%			
Property	7%	8%			
Other	6%	4%			
(i) Fair value of plan assets					
The fair value of plan assets includes no amounts relating to:					
- any of the Group's own financial instruments					
- any property occupied by, or other assets used by, the Group					
(j) Expected rate of return on plan assets					
The overall expected rate of return on assets assumption is determined by weighting the expected long-term rate of return for each asset class by the target allocation of assets to each class. The rates of return used for each class are net of investment tax and investment fees.					
(k) Actual return on plan assets					
Actual return on plan assets	(0.6)	10.4			
(l) Principal actuarial assumptions at the reporting date					
Discount rate (net of tax)	4.2% - 8.0%	4.5% - 8.0%			
Expected rate of return on plan assets	7.0% - 7.8%	6.0% - 8.0%			
Future salary increases	2.0% - 5.0%	2.0% - 5.0%			
Medical cost trend rate	4.0% - 10.0%	4.0% - 8.0%			
Future inflation	2.5% - 4.0%	2.5% - 2.8%			
(m) Expected contributions					
Expected contributions in year ending 30 September 2012					
Expected employer contributions	13.9				
Expected contribution by plan participants	0.4				
(n) Historical information					
	2011	2010	2009	2008	2007
	\$mill	\$mill	\$mill	\$mill	\$mill
Present value of defined benefit obligation	304.4	287.6	288.4	287.7	77.2
Fair value of plan assets	(189.1)	(192.3)	(196.8)	(220.9)	(79.9)
(Surplus) / Deficit in plan	115.3	95.3	91.6	66.8	(2.7)
Experience adjustment - plan liabilities	7.0	(2.2)	3.7	7.9	(4.4)
Experience adjustment - plan assets	6.2	3.0	(2.9)	(10.9)	3.7

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

	Consolidated	
	2011	2010
	\$mill	\$mill
26. Issued capital		
Share Capital		
Ordinary shares authorised and issued - 1,628,730,107 (2010: 1,628,730,107) ⁽¹⁾	3,265.9	3,265.9
	3,265.9	3,265.9

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

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 shareholders' meetings.

Shares issued during financial year

There were no movements in issued and fully paid ordinary shares of the Company during the financial year.

		Company	
	Notes	2011	2010
		\$mill	\$mill
27. Dividends			
Dividends paid or declared in respect of the year ended 30 September were:			
Ordinary Shares			
Final dividend of 2.3 cents per share ⁽¹⁾ , unfranked, paid 18 December 2009		-	37.1
Interim dividend of 1.8 cents per share ⁽²⁾ , unfranked, paid 6 July 2010		-	29.3
Final dividend of 6.0 cents per share ⁽³⁾ , unfranked, paid 17 December 2010		97.7	-
Interim dividend of 3.3 cents per share ⁽³⁾ , unfranked, paid 5 July 2011		53.7	-
Total ordinary share dividends	(23)	151.4	66.4

(1) Dividends were paid under a Dividend Reinvestment Plan which was fully underwritten.

(2) The interim dividend was paid \$18.3m in cash and \$11.0m by a Dividend Reinvestment Plan.

(3) Dividends were paid in cash only during the year.

Subsequent event

Since the end of the financial year, the directors have determined to pay the following dividend:

- Final dividend of 8.2 cents per share, unfranked, to be paid on 16 December 2011. The total dividend payment will be \$133.6m.

Ordinary shares

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

Franking credits

Franking credits available to shareholders of the Group amount to \$13.8m (2010: \$0.2m) at the 30% (2010: 30%) corporate tax rate. The final dividend for 2011 is unfranked. Franking credits that will arise from payment of income tax in the year ending 30 September 2011 have been factored into the franking account balance.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

28. Business combination

Acquisition of Nitromak DNX Kimya Sanayii A.S.

(a) Summary of acquisition

On 31 July 2010, the Group acquired the remaining 50.0% equity in the Turkish joint venture Nitromak DNX Kimya Sanayii A.S. ("Nitromak") for \$97.1m, excluding transaction costs. Nitromak manufactures and sells industrial explosives and related products and services to the mining, quarrying and construction industries. The acquisition accounting for this acquisition was performed on a provisional basis in the prior year.

(b) Purchase consideration

	\$mill
Consideration paid, satisfied in cash	99.3
Less cash acquired	(2.2)
Total consideration transferred	97.1
Fair value of equity interest in Nitromak held before the business combination	74.8
Total consideration	171.9
Acquisition-related costs	0.7

(c) Assets and liabilities acquired

Since 30 September 2010 the following amendments to the initial fair value of assets and liabilities have been recognised due to additional information obtained during the year in relation to the provisional fair values recognised:

	Nitromak Pre-acquisition Carrying Amounts	Initial Fair Value Adjustments	Provisional Fair Value at 31 July 2010	Additional Fair Value adjustments in current year	Final Fair Value*
	\$mill	\$mill	\$mill	\$mill	\$mill
Acquiree's net assets at the acquisition date					
Cash and cash equivalents	2.2	-	2.2	-	2.2
Trade and other receivables	29.3	(1.0)	28.3	(6.3)	22.0
Inventories	9.1	1.2	10.3	(0.3)	10.0
Other investments	0.1	(0.1)	-	-	-
Property, plant and equipment	9.9	(1.7)	8.2	-	8.2
Intangibles					
- Customer contracts	-	1.1	1.1	-	1.1
- Brand name	-	4.0	4.0	-	4.0
- Other	0.2	-	0.2	-	0.2
Trade payables	(12.8)	-	(12.8)	-	(12.8)
Other liabilities	(4.0)	-	(4.0)	(0.4)	(4.4)
Tax liabilities	(1.5)	-	(1.5)	-	(1.5)
Deferred tax liabilities	(0.1)	-	(0.1)	-	(0.1)
Provisions	(1.5)	(0.1)	(1.6)	(0.4)	(2.0)
Interest bearing liabilities	(12.4)	-	(12.4)	-	(12.4)
Net identifiable assets and liabilities	18.5	3.4	21.9	(7.4)	14.5
Less consideration			171.9	-	171.9
Goodwill on acquisition recognised			150.0	7.4	157.4

*Comparative information has been restated to reflect the amendments to provisional asset and liability fair values on acquisition of Nitromak DNX Kimya Sanayii A.S. in the prior financial year.

In 2010 the Group recognised a net \$19.0m gain (\$33.4m gain net of \$14.4m of foreign exchange loss) as a result of measuring at fair value its 50% equity interest in Nitromak held before the business combination. The gain is included in other income in the Group's Consolidated Income Statement (and as an individually material item in Note 6) for the year ended 30 September 2010.

The goodwill recognised on the acquisition is mainly attributable to the skills and technical talent of the acquiree's workforce and the synergies expected to be achieved from integrating the acquiree into the Group's existing business.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

29. Reconciliation of profit after income tax to net cash inflow from operating activities

	Notes	Consolidated 2011 \$mill	2010 \$mill
Reconciliation of cash			
Cash at the end of the financial year as shown in the Consolidated Statement of Cash Flows is reconciled to the related items in the Consolidated Statement of Financial Position as follows:			
Cash and cash equivalents	(10)	379.7	48.7
		379.7	48.7
Reconciliation of profit for the financial year to net cash flows from operating activities			
Profit for the financial year		467.3	412.2
Depreciation and amortisation	(5)	148.2	139.0
Write-down of property, plant and equipment	(5)	7.6	0.7
Share of profit on equity accounted investments	(16)	(24.2)	(30.5)
Net gain on sale of property, plant and equipment	(4)	(18.0)	(4.3)
Non-cash share based payment transactions		8.0	3.9
Unwinding of discount on provisions	(5)	25.2	13.8
Changes in assets and liabilities			
(increase) / decrease in receivables and other operating assets		58.6	(164.1)
(increase) / decrease in inventories		(146.7)	69.1
(increase) / decrease in deferred tax assets		126.1	126.7
increase / (decrease) in deferred tax liabilities		(48.0)	(93.1)
increase / (decrease) in net interest payable		5.5	(17.9)
increase / (decrease) in payables, provisions and other operating liabilities		38.0	25.5
increase / (decrease) in income taxes payable		71.5	47.9
Net cash flows from operating activities		719.1	528.9

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Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

Consolidated
2011 2010
\$mill \$mill

30. Commitments

a) Capital expenditure commitments

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

no later than one year	119.0	331.2
later than one, no later than five years	1.3	0.6
	120.3	331.8

Share of capital expenditure commitments of the jointly controlled entities:

no later than one year	11.0	-
later than one, no later than five years	0.4	-
	11.4	-

b) Lease commitments

Non-cancellable operating lease commitments comprise a number of operating lease arrangements for the provision of certain equipment. These leases have varying durations and expiry dates. The future minimum rental commitments are as follows:

no later than one year	51.6	50.4
later than one, no later than five years	110.8	96.5
later than five years	65.7	56.7
	228.1	203.6

Finance lease commitments comprise a number of finance arrangements for the provision of certain equipment. These leases have varying durations and expiry dates. The future minimum rental commitments are as follows:

no later than one year	-	1.6
later than one, no later than five years	0.1	0.3
Present value of minimum lease payments provided for as a liability	0.1	1.9

c) Other expenditure commitments

Commitments for payments to suppliers under long-term executory contracts existing at reporting date but not recognised as payable include:

no later than one year	116.7	94.1
later than one, no later than five years	116.4	178.9
later than five years	154.1	168.4
	387.2	441.4

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Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

31. Contingent liabilities

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

Contracts, claims, guarantees and warranties

- Under a Deed of Cross Guarantee dated 30 September 2008, entered into in accordance with ASIC Class Order 98/1418 (as amended), each company which is party to the Deed has covenanted with the Trustee (or the Alternative Trustee as applicable) of the Deed to guarantee the payment of any debts of the other companies which are party to the Deed which might arise on the winding up of those companies. The entities which are party to the Deed are disclosed in the commentary to Note 37, Investments in controlled entities.
- Consolidated Statement of Financial Position and Consolidated Income Statement for the closed group are shown in Note 38, Deed of Cross Guarantee.
- The Group 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 level 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 Group.
- 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 Group is not aware of any material exposure under these warranties and indemnities.
- From time to time, the Group is subject to claims for damages arising from products and services supplied by the Group 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 Group has identified a number of sites as requiring environmental clean up and review. Appropriate implementation of clean up requirements is ongoing. In accordance with current accounting policy (see Note 1 (xvii)), provisions have been created for all known environmental liabilities that can be reliably estimated. While the directors believe that, based upon current information, the current provisions are appropriate, there can be no assurance that new information or regulatory requirements with respect to known sites or the identification of new remedial obligations at other sites will not require additional future provisions for environmental remediation and such provisions could be material.

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

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

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 recognised if a present obligation in relation to a taxation liability exists which can be reliably estimated.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

32. Financial risk management

Overview

The Group has exposure to the following financial risks:

- Market risk (foreign exchange, interest rate, commodity and equity price risk)
- Liquidity risk
- Credit risk

This note presents information about the Group's exposure to each of the above risks, as well as the Group's objectives, policies and processes for measuring and managing these risks.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board established the Board Audit and Risk Management Committee (BARMC), which is responsible for, amongst other things, the monitoring of the Group's risk management plans. The BARMC reports regularly to the Board of Directors on its activities.

The Group's financial risk management policies establish a framework for identifying, analysing and managing the financial risks faced by the Group. These policies set appropriate financial risk limits and controls, identify permitted derivative instruments and provide guidance on how financial risks and adherence to limits are to be monitored and reported.

Financial risk management policies and systems are reviewed regularly to ensure they remain appropriate given changes in market conditions and/or the Group's activities.

The BARMC oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The BARMC is assisted in its oversight role by the Group's internal audit function. The internal audit function involves both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the BARMC.

(a) Market risk

Market risk is the risk that changes in foreign exchange rates, interest rates, commodity prices and equity prices will affect the Group's income, cash flows and/or value of its holdings of derivative instruments. The objective of market risk management is to manage market risk exposures within acceptable parameters, while optimising the return on risk. To achieve this objective, an "insurance based" approach is often taken whereby the Group will pay a premium to limit the impact of unfavourable market movements while allowing at least partial participation in favourable movements.

For some market risks, primarily commodity price risks, there is either no specific derivative market available or the derivative market is illiquid and expensive. In some cases, derivative markets exist but contain unacceptable levels of basis risk (the risk that the change in price of a hedge may not match the change in price of the item it hedges). In these circumstances, the Group chooses not to hedge these exposures using derivatives.

Further details of the Group's financial risk management structures are outlined below, including information as to whether hedge accounting has been applied.

i. Foreign exchange risk - transactional

The Group is exposed to foreign exchange movements on sales and purchases denominated, either directly or indirectly, in foreign currency (primarily in United States dollars). Where these exposures are significant, and cannot be eliminated by varying contract terms or other business arrangements, formal hedging strategies are implemented within Board approved policy. The formal hedging strategies involve collating and consolidating exposure levels centrally by Treasury, and hedging specific transactions, after taking into account offsetting exposures, by entering into derivative contracts with highly rated financial institutions. The Group's principal transactional foreign exchange risks can be split into two main categories: contractual exposures and forecast exposures.

Notes to the Consolidated Financial Statements

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32. Financial risk management (continued)

(a) Market risk (continued)

i. Foreign exchange risk – transactional (continued)

Contractual exposures: As the Group both imports and exports fertilisers and raw materials in foreign currency, its profitability is impacted by foreign exchange movements. Timing differences between receipts and payments of foreign currency are managed using foreign exchange swaps. Where there is a net excess or shortfall of foreign currency, forward foreign exchange contracts (FEC's) are taken out to hedge those exposures. The Group applies hedge accounting for these derivatives. The table below shows the outstanding FEC's as at 30 September 2011:

Term	Weighted average strike rate		Forward FX contract	
			AUD mill	AUD mill
	2011	2010	2011	2010
Buy USD / Sell AUD	1.0366	0.9020	213.1	94.9
Buy AUD / Sell USD	1.0170	0.9576	2.2	1.9
Buy EUR / Sell AUD	0.7195	0.6822	5.7	1.6
Buy GBP / Sell AUD	-	0.5988	-	0.2

Forecast exposures: The profitability of Southern Cross International and Incitec Pivot Fertilisers is impacted by foreign exchange movements due to the manufacturing inputs (gas, electricity, labour) being denominated in Australian dollars, whilst the manufactured outputs (phosphate based fertilisers, urea and ammonia) are sold either in United States dollars or in Australian dollars based on an import parity formula impacted by the rate of exchange.

The amount of anticipated future sales is forecast in light of plant capacities, current conditions in both domestic and international agricultural and industrial markets, commitments from customers and historical seasonal impacts. Policies approved by the Board of Directors limit the percentage of forecast sales that can be hedged with the percentage reducing as the time horizon increases.

The Group has entered into a series of FEC's to Sell USD / Buy AUD, to protect a portion of the Group's forecast exposure. The market value of these FEC's is recorded in the Consolidated Statement of Financial Position at year end. Any movement in the market value from contract price to year end price is recorded in the Cash-flow Hedge Reserve in the Consolidated Statement of Financial Position. Favourable outcomes on the hedge will occur when the AUD appreciates. As FEC contracts do not offer participation when the AUD depreciates, options and collar contracts are entered into occasionally to allow some participation.

The table below summarises the outstanding FEC and foreign currency option contracts taken out to hedge sales of the output of Southern Cross International and Incitec Pivot Fertilisers at 30 September:

Term	USD/AUD		Weighted average		Contract	
	exercise price		AUD/USD strike rate		amounts	
	2011	2010	2011	2010	2011	2010
Buy AUD / Sell USD	0.9793	0.8719	-	-	687.2	462.2
Buy USD / Sell CAD	-	1.0367	-	-	-	50.0
Buy EUR / Sell AUD	-	0.7100	-	-	-	0.4
Purchased average rate AUD call/ USD put, not later than one year	-	-	1.0200	-	365.0	-

From time to time, the Group may look to reduce premium costs by transacting collars or selling floors against existing bought positions. Board approved policies prevent the Group from selling naked options. No sold options existed at reporting date.

Notes to the Consolidated Financial Statements

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32. Financial risk management (continued)

(a) Market risk (continued)

i. Foreign exchange risk – transactional (continued)

The following sensitivity is based on the unhedged transactional foreign currency risk exposures in existence at the reporting date and is calculated based on name plate capacity, average achieved Fertiliser selling prices and exchange rates in 2011.

Foreign Exchange Sensitivity – Transactional (unhedged)	USD + 1c	USD - 1c
	AUD mill	AUD mill
	2011	2011
USD Fertiliser sales from Australian plants	(10.1)	10.3

ii. Foreign exchange risk – translational

The Group has foreign operations with non-AUD functional currencies and is, therefore, exposed to translation risk resulting from foreign exchange movements which impact on the AUD equivalent value of the foreign operations.

The Group manages the impact of the translation risk by a combination of borrowing in the same currency as the net foreign assets and by using cross currency swaps to create 'synthetic' foreign currency debt. The cross currency swaps pay and receive floating rates of interest with quarterly or monthly rate resets. The borrowings are generally held within the foreign subsidiaries resulting in a reduction in the overall net assets that are translated. The translation movement of the Group's net assets is recognised within the foreign currency translation reserve. The table below summarises the cross currency swaps outstanding at 30 September:

Term	Receive AUD / Pay USD mill	
	2011	2010
not later than one year	AUD 482.6 / USD 449.5	AUD 488.3 / USD 432.0
later than one year, no later than five years	AUD 114.1 / USD 103.0	AUD 407.7 / USD 375.0

The following sensitivity is based on the unhedged translational foreign currency risk exposures in existence at the reporting date and is calculated based on 2011 USD denominated earnings before interest and tax at the average 2011 translation exchange rate.

Foreign Exchange Sensitivity – Translational (unhedged)	USD + 1c	USD - 1c
	AUD mill	AUD mill
	2011	2011
North American earnings before interest and tax	(1.4)	1.4

iii. Interest rate risk

The Group is exposed to interest rate risk on outstanding interest bearing liabilities and investments. The mix of floating and fixed rate debt is managed within policies determined by the Board of Directors using approved derivative instruments. Interest rate risk is managed by entering into interest rate contracts in order to balance the Group's fixed and variable interest rate mix.

The Group's interest rate risk arises from long term borrowings in Australian and United States dollars. Of the AUD1,568.5m of Interest Bearing Liabilities at the reporting date, AUD834.9m (53%) were exposed to floating interest rates.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

32. Financial risk management (continued)

(a) Market risk (continued)

iii. Interest rate risk (continued)

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date and is calculated based on the variable interest rate borrowings balance at 30 September 2011 and the average variable interest rate during the 2011 year.

Interest Rate Sensitivity	+ 1%	- 1%
	AUD mill	AUD mill
	2011	2011
Current and non-current borrowings with variable interest rates	(8.3)	8.3

iv. Commodity risk

The Group is exposed to changes in commodity prices by virtue of its operations. Where possible, the Group manages some of that risk by negotiating appropriate contractual terms with its suppliers and customers.

Natural gas represents a significant raw material cost for the Group's ammonia and nitrogen based manufacturing. In order to manage the price risk associated with natural gas in Australia, the Group has entered into long term fixed price contracts for the supply of gas. In the United States, the Group aims, where possible, to mitigate some of its exposure to natural gas price risk by entering into contracts with its customers which pass on the risk of natural gas price movements. For longer term contracts that do not include a gas price pass through clause, the Group will typically manage its gas price risk by entering into a fixed price derivative that matches the term of the customer contract (see the table below for a list of contracts outstanding as at 30 September 2011). On occasion the Group has used fixed price derivatives during the year for managing its short term gas price risk for periods shorter than one year.

The table below summarises the fixed price derivatives outstanding as at 30 September 2011:

	Months hedged	Monthly volume (mmbtu)	Fixed rate USD
Contract	3	135,000	6.32
Contract	3	90,000	4.46
Contract	3	30,000	4.36
Contract	15	75,000	5.68
Contract	3	60,000	4.29
Contract	3	30,000	4.03

The Group is exposed to price volatility on the commodities it sells. These exposures can be categorised into three main areas: ammonium nitrate, ammonium phosphate and urea.

The Group aims to manage its price risk exposure to ammonium nitrate by entering into long term contracts with its customers with fixed sales prices that are adjusted for changes to input costs such as natural gas and for movements in CPI.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

32. Financial risk management (continued)

(a) Market risk (continued)

iv. Commodity risk (continued)

The market for ammonium phosphates and urea is generally based on spot prices with minimal ability to contract for longer terms. For these commodities, no deep and liquid derivative market is available. The following table details the Group's profit sensitivity to price movements for these commodities, based on plant name plate capacity.

Fertiliser Price Sensitivity	+ USD10 AUD mill	- USD10 AUD mill	Name plate Tonnes ⁽¹⁾
	2011	2011	
Middle East Granular Urea (MEGU) FOB/t	4.5	(4.5)	405,000
Diammonium Phosphate (DAP) Tampa FOB/t	10.4	(10.4)	950,000

(1) Maximum production capacity of the plant

v. Equity price risk

The Group is exposed to equity price risk on securities held on investments. These securities are not held for trading as it is the Group's objective to hold these in the long term for strategic purposes. Refer to Note 14.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that there are sufficient committed funding facilities available to meet the Group's financial commitments in a timely manner. The Group's forecast liquidity requirements are continually reassessed based on regular forecasting of capital requirements including stress testing of critical assumptions such as input costs, sales prices, production volumes, exchange rates and capital expenditure.

Typically, the Group aims to hold a minimum liquidity buffer of AUD500.0m in undrawn committed funding at all times to meet any unforeseen cashflow requirements including unplanned reduction in revenue, business disruption and unplanned capital expenditure. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The Group maintains the following committed lines of credit:

- An unsecured Bank facility agreement of AUD900.0m for 3 years, maturing April 2014. This is a multi-currency facility drawable in AUD and USD with interest payable at BBSY/LIBOR plus a margin. This facility is revolving in nature whereby repayment can be redrawn at the Group's discretion.
- A USD800.0m 10 year bond completed in the US 144A / Regulation S debt capital market. The bond is denominated in USD, has a fixed rate semi-annual coupon of 6.00% and matures in December 2019.
- A USD500.0m 5 year bond completed in the US 144A / Regulation S debt capital market. The bond is denominated in USD, has a fixed rate semi-annual coupon of 4.00% and matures in December 2015.
- A participation facility of AUD144.3m (amortising) maturing in June 2013. The carrying amount of the facility is secured against certain assets operated by Southern Cross Fertilisers Pty Ltd. The facility is denominated in AUD and has a fixed nominal interest rate of 8.93% for the term of the facility.
- A second participation facility of AUD46.8m (amortising) maturing in September 2014. The carrying amount of the facility is secured against certain assets operated by Southern Cross Fertilisers Pty Ltd. The facility is denominated in AUD and has a fixed nominal interest rate of 9.63% for the term of the facility.

At reporting date, the Group has committed undrawn lines of AUD900.0m and cash of AUD379.7m.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

32. Financial risk management (continued)

(b) Liquidity risk (continued)

Capital risk management

The key objectives of the Group when managing capital are to safeguard its ability to continue as a going concern and maintain optimal returns to shareholders and benefits for other stakeholders. "Capital" is considered to be all sources of funding, whether debt or equity. Management also aims to maintain a capital and funding structure that optimises the cost of capital available to the Group over the long term.

The key objectives include:

- Maintaining an investment grade credit profile and the requisite financial metrics;
- Securing access to diversified sources of debt funding with a spread of maturity dates and sufficient undrawn committed facility capacity; and
- Optimising over the long term, and to the extent practicable, the Weighted Average Cost of Capital (WACC) to reduce the cost of capital to the Group while maintaining financial flexibility.

In order to optimise the capital structure, management may alter the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, vary discretionary capital expenditure, draw down additional debt or sell assets to reduce debt in line with the strategic objectives and operating plans of the Group.

Various financial ratios and internal targets are assessed and reported to the Board on a regular basis by management to monitor and support the key objectives set out above. These ratios and targets include: Gearing ratio, Gross debt to Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) and Interest cover.

Debt covenants relating to the Bank facility (AUD900.0m) have been measured and are within the debt covenant targets for the year ended 30 September 2011.

The Group self-insures for certain insurance risks under the *Australian Reform Act 2011* and the *Singapore Insurance Act*. Under these Acts, authorised general insurer, Coltivi Insurance Pte Limited (the Group's self-insurance company), is required to maintain a minimum amount of capital. For the financial year ended 30 September 2011, Coltivi Insurance Pte Limited maintained capital in excess of the minimum requirements prescribed under these Acts.

(c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The major exposure to credit risk arises from trade receivables, which have been recognised in the Consolidated Statement of Financial Position net of any impairment losses, and from derivative financial instruments.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers currently operate, have an influence on credit risk. Credit risk on sales to overseas customers is usually negated by way of entering into irrevocable letters of credit with financial institutions or by asking customers to pay in advance.

The Group has a credit policy under which each new customer is analysed individually for creditworthiness before the Group enters into any sales transaction on an open credit account with standard payment, delivery terms and conditions of sale. The creditworthiness review includes analysing the financial information provided by the customer, where applicable, and reports from external ratings agencies. Based on this analysis, credit limits are established for each customer, which represent the projected highest level of exposure, at any one point in time, which a customer may reach. These limits are reviewed annually for all customers with a limit greater than AUD0.5m and on an as needed basis if an increase is required. Customers that fail to meet the Group's benchmark creditworthiness, or who are in breach of their credit limits, may transact only on a "Cash Before Delivery" basis.

The Group establishes an allowance for impairment that represents its estimate of probable losses in respect of trade and other receivables.

Financial Instruments

The Group limits its exposure to credit risk created by investing in financial instruments by only investing in liquid securities and only with counterparties that have a credit rating of at least "A". In practice, financial instruments are usually dealt with financial institutions with a stronger rating than "A". Currently all financial instruments held are with financial institutions with a long term rating of "A+" or better.

The credit risk exposure arising from derivative financial instruments is the sum of all contracts with a positive fair value. As at 30 September 2011, the sum of all contracts with a positive fair value was AUD100.8m (2010: AUD110.1m).

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

33. Financial instruments

(a) Foreign exchange risk

The Group's exposure to foreign exchange risk at reporting date was:

Consolidated	2011 Euro mill	2010 Euro mill	2011 USD mill	2010 USD mill
Trade receivables	-	-	5.0	6.9
Trade payables	4.3	-	224.1	76.9
Gross statement of financial position exposure	4.3	-	219.1	70.0
Forward exchange contracts	4.1	-	218.7	76.9
Net exposure	0.2	-	0.4	(6.9)

The following significant exchange rates applied during the year:

	Average rate 2011	Balance date spot rate 2011	Average rate 2010	Balance date spot rate 2010
Euro	0.7357	0.7212	0.6648	0.7129
USD	1.0265	0.9782	0.9009	0.9689

(b) Interest rate risk

At the reporting date the interest rate profile of the Group's interest bearing financial instruments was:

	Consolidated	
	2011 \$mill	2010 \$mill
Variable rate instruments		
- Financial liabilities	834.9	84.2
Fixed rate instruments		
- Financial liabilities	733.6	1,061.6

Cash flow sensitivities for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased / decreased equity and profit and loss by AUD8.3m assuming all the variables were held constant in particular foreign exchange rates.

(c) Credit risk

The maximum exposure to credit risk at the reporting date was:

	Notes	Consolidated	
		2011 \$mill	2010 \$mill
Trade receivables	(11)	431.5	432.3
Other receivables	(11)	36.5	20.5
Cash and cash equivalents	(10)	379.7	48.7
Forward exchange contracts		18.9	20.1
Cross currency swaps		33.6	90.0
Option contracts		5.4	-
Interest rate swaps		42.8	-
		948.4	611.6

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

33. Financial instruments (continued)

(c) Credit risk (continued)

The maximum exposure to credit risk for trade receivables at the reporting date by country was:

	Consolidated	
	2011	2010
	\$mill	\$mill
Australia	172.6	147.3
India	43.8	91.0
Europe	2.3	8.9
USA	102.5	69.0
Canada	46.5	65.3
Asia	32.2	22.3
Turkey	20.0	22.2
Other	11.6	6.3
	431.5	432.3

The maximum exposure to credit risk for trade receivables at the reporting date by type of customers was:

	Consolidated	
	2011	2010
	\$mill	\$mill
Wholesale customer	210.1	221.0
End user customer	221.4	211.3
	431.5	432.3

As at the end of September 2011 and September 2010, the Group had no individual debtor's balance outstanding in excess of 10% of the total of the trade receivable balance.

Impairment losses

The ageing of the Group's trade receivables at the reporting date was:

	Gross	Impairment	Gross	Impairment
	2011	2011	2010	2010
	\$mill	\$mill	\$mill	\$mill
Current	355.2	-	392.4	-
Past due 0 - 30 days	42.0	-	27.0	-
Past due 31 - 120 days	46.5	12.2	24.8	11.9
Total	443.7	12.2	444.2	11.9

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	Notes	Consolidated	
		2011	2010
		\$mill	\$mill
Balance at 1 October		11.9	6.8
Net impairment losses recognised / (released)		9.3	6.7
Write-offs recognised during the year		(8.4)	(1.7)
Foreign exchange movements		(0.6)	0.1
Balance at 30 September	(11)	12.2	11.9

Based on past experience, the Group believes that no impairment allowance is necessary in respect of trade receivables that are not past due.

The allowance accounts in respect of trade receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. At that point the amount considered irrecoverable is written off against the financial asset directly.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

33. Financial instruments (continued)

(d) Liquidity risk – financial liabilities

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting payments.

Consolidated	Carrying amount \$mill	Contractual cash flows ⁽¹⁾ \$mill	6 months or less ⁽¹⁾ \$mill	6 - 12 months ⁽¹⁾ \$mill	1 - 2 years ⁽¹⁾ \$mill	2 - 5 years ⁽¹⁾ \$mill	more than 5 years ⁽¹⁾ \$mill
30 September 2011							
Non-derivative financial liabilities							
Interest bearing liabilities	1,568.5	1,568.5	50.2	45.5	89.1	547.7	836.0
Interest payments	-	583.9	53.4	60.2	97.0	201.5	171.8
Derivative financial liabilities							
Forward exchange contracts	0.6	0.6	0.6	-	-	-	-
Cross currency swaps	2.9	2.9	-	-	(9.0)	11.9	-
Total	1,572.0	2,155.9	104.2	105.7	177.1	761.1	1,007.8
30 September 2010							
Non-derivative financial liabilities							
Interest bearing liabilities	1,145.8	1,145.8	73.3	36.1	115.8	115.9	804.7
Interest payments	-	538.0	51.0	42.7	82.7	170.0	191.6
Derivative financial liabilities							
Forward commodity contracts	1.7	1.7	0.8	0.6	0.3	-	-
Total	1,147.5	1,685.5	125.1	79.4	198.8	285.9	996.3

(1) Contractual cash flows are based on exchange rates prevailing at year end. Any subsequent movement in exchange rates will impact the cash flow required to settle the obligations where those obligations are in a foreign currency.

(e) Liquidity Risk - Cash flow hedges and Net Investment hedges

Cash flow hedges are mainly used to mitigate the Group's exposure to commodity price risk, foreign exchange risk and interest rate risk. Forward commodity contracts are entered into to manage the price risk associated with the purchase of natural gas which is a key raw material input to the production of ammonia and ammonium nitrate. Net investment hedges are used to mitigate the Groups's exposure to foreign exchange risk resulting from controlled entities that have functional currencies that are different to the Group's functional currency.

Forward currency risk associated with sales and purchases denominated in foreign currency is managed by entering into forward contracts, cross currency interest rate swaps and options.

The following table indicates the periods in which the cash-flows associated with derivatives, that are cash flow hedges and net investment hedges, are expected to occur.

Consolidated	Carrying amount \$mill	Expected cash flows \$mill	6 months or less \$mill	6 - 12 months \$mill	1 - 2 years \$mill	2 - 5 years \$mill	more than 5 years \$mill
30 September 2011							
Cash Flow Hedges							
- Assets	8.8	8.8	8.8	-	-	-	-
- Liabilities	0.8	0.8	0.8	-	-	-	-
Net Investment Hedges							
- Assets	32.0	32.0	32.0	-	-	-	-
- Liabilities	2.7	2.7	(0.2)	-	(9.0)	11.9	-
Total	37.3	37.3	40.2	-	9.0	(11.9)	-
30 September 2010							
Cash Flow Hedges							
- Assets	45.2	45.2	45.2	-	-	-	-
- Liabilities	-	-	-	-	-	-	-
Net Investment Hedges							
- Assets	64.9	64.9	(9.2)	45.4	21.0	7.7	-
- Liabilities	1.7	1.7	0.8	0.6	0.3	-	-
Total	108.4	108.4	35.2	44.8	20.7	7.7	-

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

33. Financial instruments (continued)

(f) Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

Consolidated	Carrying amount		Fair value	
	2011 \$mill	2011 \$mill	2010 \$mill	2010 \$mill
Investments - equity instruments	10.1	10.1	30.2	30.2
Trade and other receivables	468.0	468.0	452.8	452.8
Cash and cash equivalents	379.7	379.7	48.7	48.7
Cross currency interest rate swaps	32.5	32.5	90.0	90.0
Option and commodity contracts	5.4	5.4	(1.7)	(1.7)
Forward exchange contracts	(0.6)	(0.6)	20.1	20.1
Interest rate swaps	42.8	42.8	-	-
Trade and other payables	(1,157.0)	(1,157.0)	(1,075.8)	(1,075.8)
Financial liabilities	(1,568.5)	(1,648.7)	(1,145.8)	(1,173.6)
Total	(1,787.6)	(1,867.8)	(1,581.5)	(1,609.3)

Basis for determining fair value

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

i. Investments in equity securities

The fair value of equity instruments is determined based on the quoted bid price at the reporting date.

ii. Derivatives

The fair value of forward exchange contracts is based on their listed market price if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price.

The fair value of commodity contracts is based on their listed market price as quoted on the NYMEX if available and if a listed market price is not available, then fair value is estimated by discounting the difference between the contractual price and current market price.

The fair value of interest rate contracts is calculated as the present value of the estimated future cashflows.

iii. Trade and other receivables & Trade and other payables

The fair value of trade and other receivables, and trade and other payables are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

iv. Financial liabilities designated at Fair value through the Income Statement

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Method of discounting

In calculating the fair values of financial instruments, the present value of all cash flows greater than 1 year are discounted.

Fair Value Hierarchy

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

30 September 2011	Level 1 \$mill	Level 2 \$mill	Level 3 \$mill
Listed equity securities	10.1	-	-
Derivative financial assets	-	83.6	-
	10.1	83.6	-
Derivative financial liabilities	-	3.5	-
	-	3.5	-

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

34. Related party disclosures

Subsidiaries

Interest in subsidiaries is set out in Note 37.

Jointly controlled entities

Interest in jointly controlled entities is set out in Note 16.

Key management personnel

Disclosures relating to key management personnel are set out in Note 35.

Transactions between Subsidiaries of the Group and Jointly controlled entities are as follows:

	Notes	Jointly controlled entities ⁽¹⁾	
		2011 \$mill	2010 \$mill
Sales of goods / services		191.5	219.0
Purchase of goods / services		(44.1)	(4.9)
Management fees / royalties	(4)	20.7	23.8
Interest income	(4)	0.8	2.5
Interest expense	(5)	(0.1)	(0.3)
Dividend income	(16)	8.6	17.1

(1) Jointly controlled entities transactions represent amounts which do not eliminate on consolidation.

Outstanding balances arising from sales / purchases of goods and services with jointly controlled entities are on normal current terms and are as follows:

	Notes	Jointly controlled entities	
		2011 \$mill	2010 \$mill
Amounts owing to related parties	(20)	4.6	1.6
Amounts owing from related parties	(11)	42.0	25.1

Transactions between Jointly controlled entities

There were no transactions during the year between jointly controlled entities and there are no outstanding balances between jointly controlled entities of the IPL Group as at 30 September 2011 (2010: nil).

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

35. Key management personnel disclosures

(a) Key management personnel

	Consolidated	
	2011	2010
	\$000	\$000
Short-term employee benefits	15,275	14,461
Post-employment benefits	272	304
Other long-term benefits	285	244
Termination benefits	-	1,003
Share-based payments	2,919	1,586
	18,751	17,598

Determination of key management personnel and detailed remuneration disclosures are provided in the Remuneration Report.

(b) Loans to key management personnel

In the year ended 30 September 2011, there were no loans to key management personnel and their related parties (2010: nil).

(c) Other key management personnel transactions

The spouse of Mr Fazzino, the Managing Director & Chief Executive Officer, is a partner in the accountancy and tax firm PricewaterhouseCoopers from which the Group purchased services of \$1,368,886 during the year (2010: \$3,338,954). Mr Fazzino's spouse does not directly provide these services.

These transactions were on terms and conditions no more favourable than those available to other customers, suppliers and employees.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

35. Key management personnel disclosures (continued)

(d) Movements in shareholdings of directors and executives

(1) Movements in shares in the Company

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

	Year	Number of Shares (A)			Closing balance
		Opening balance	Shares acquired	Shares disposed (B)	
Non-executive directors - Current					
J C Watson	2011	100,000	-	-	100,000
	2010	100,000	-	-	100,000
A D McCallum	2011	216,501	-	-	216,501
	2010	216,501	-	-	216,501
J Marlay	2011	37,926	-	-	37,926
	2010	37,693	233	-	37,926
A C Larkin	2011	5,000	-	-	5,000
	2010	5,000	-	-	5,000
G Smorgon	2011	-	-	-	-
	2010	-	-	-	-
P Brasher	2011	-	20,600	-	20,600
	2010	-	-	-	-
R J McGrath ⁽¹⁾	2011	400	-	-	400
Executive directors - Current					
J E Fazzino	2011	1,845,420	-	(137,240)	1,708,180
	2010	1,845,420	-	-	1,845,420
Executives - Current					
F Micallef ⁽²⁾	2011	22,520	-	(22,520)	-
	2010	22,520	-	-	22,520
K J Gleeson	2011	89,313	258	(86,680)	2,891
	2010	387,600	373	(298,660)	89,313
B C Walsh	2011	429,380	-	(329,020)	100,360
	2010	429,380	-	-	429,380
J Whiteside	2011	300,920	-	(242,420)	58,500
	2010	300,920	-	-	300,920
G Brinkworth	2011	292	258	-	550
	2010	-	292	-	292
S Dawson ⁽²⁾	2011	23,857	10	-	23,867
	2010	23,429	428	-	23,857
B Wallace ⁽²⁾	2011	57,480	-	(57,480)	-
	2010	57,480	-	-	57,480
J Rintel	2011	117,120	-	(117,120)	-
	2010	117,120	-	-	117,120
S Atkinson ⁽²⁾	2011	22,880	-	(19,500)	3,380
	2010	22,880	-	-	22,880
Executives - Former					
K Lynch ⁽³⁾	2010	53,240	-	(53,240)	-
D Brinker	2010	66,680	-	(66,680)	-
A Grace ⁽⁴⁾	2010	428,420	-	(100,000)	328,420

(A) Includes fully paid ordinary shares, shares acquired under the Employee Share Ownership Plan (ESOP) and shares, treated as options, for the purposes of remuneration which have been disclosed in section C of the Remuneration Report and the movements disclosed in this Note. Details of the ESOP are set out in Note 36, Share based payments.

(B) In the case of directors or executives who ceased their directorship or employment during the years ended 30 September 2011 and 30 September 2010, all shares were treated as disposed as at the relevant date of cessation unless otherwise stated.

(1) The opening balance represents shares held as at the date of becoming a key management person. Movements are from this date.

(2) The opening balance in the prior year represents shares held as at the date of becoming a key management person. Movements are from this date.

(3) On 16 October 2009, Mr Lynch ceased employment with the Company. In respect of the 53,240 shares, treated as options, granted under the LTI performance plan 2007/10, these were forfeited and sold on market, in accordance with the rules of the plan on Mr Lynch ceasing employment.

(4) With Mr Grace's role as Moranbah Project Director, Mr Grace's sole focus was the Project and he ceased to be a member of the Executive Team on 30 September 2010.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

35. Key management personnel disclosures (continued)

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

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

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

	Year	Number of Shares (treated as options) (A)				Closing balance
		Opening balance	Granted as compensation	Exercised (B)	Forfeited (C)	
Executive directors - Current						
J E Fazzino	2011	137,240	-	-	(137,240)	-
	2010	610,120	-	(472,880)	-	137,240
Executives - Current						
F Micallef ⁽¹⁾	2011	22,520	-	-	(22,520)	-
	2010	22,520	-	-	-	22,520
K J Gleeson	2011	86,680	-	-	(86,680)	-
	2010	385,340	-	(298,660)	-	86,680
B C Walsh	2011	96,320	-	-	(96,320)	-
	2010	428,160	-	(331,840)	-	96,320
J D Whiteside	2011	67,420	-	-	(67,420)	-
	2010	299,720	-	(232,300)	-	67,420
G Brinkworth	2011	-	-	-	-	-
	2010	-	-	-	-	-
S Dawson ⁽²⁾	2011	-	-	-	-	-
	2010	-	-	-	-	-
B Wallace ⁽³⁾	2011	33,280	-	-	(33,280)	-
	2010	33,280	-	-	-	33,280
J Rintel ⁽⁴⁾	2011	15,160	-	-	(15,160)	-
	2010	67,420	-	(52,260)	-	15,160
S Atkinson ⁽⁵⁾	2011	19,500	-	-	(19,500)	-
	2010	19,500	-	-	-	19,500
Executives - Former						
K Lynch ⁽⁶⁾	2010	53,240	-	-	(53,240)	-
D Brinker ⁽⁷⁾	2010	66,680	-	-	-	66,680
A Grace ⁽⁸⁾	2010	284,780	-	(217,360)	-	67,420

(A) Further details of these shares which are treated as options for the purposes of remuneration have been disclosed in section C of the Remuneration Report and relate to shares allocated under the LTI plans.

(B) Represents where shares, treated as options, previously granted as remuneration, were exercised (by the making of an award) during the reporting period. Awards (in the form of waivers of loans) were granted during the year ended 30 September 2010 in relation to the LTI performance plan 2006/09.

(C) Represents shares, treated as options, that were forfeited and sold on market, in accordance with the rules of the relevant plan.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

35. Key management personnel disclosures (continued)

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

(2) Movements in shares, treated as options, over equity instruments in the Company (continued)

- (1) Mr Micallef's shares, treated as options, were granted under the LTI performance plan 2007/10 prior to his appointment as Chief Financial Officer on 23 October 2009.
- (2) Mr Dawson became a key management person on 12 November 2009 and he was not a participant in the LTI performance plan 2007/10.
- (3) Mr Wallace's shares, treated as options, were granted under the LTI performance plan 2007/10 prior to him becoming a key management person on 12 November 2009.
- (4) Mr Rintel's shares, treated as options, exercised during the 2010 financial year were granted under the LTI performance plan 2006/09 and the 15,160 shares, treated as options, were granted under the LTI performance plan 2007/10 prior to his appointment as an executive.
- (5) Mr Atkinson's shares, treated as options, were granted under the LTI performance plan 2007/10 prior to him becoming a key management person on 1 January 2010.
- (6) On 16 October 2009, Mr Lynch ceased employment with the Company. In respect of the 53,240 shares, treated as options, granted under the LTI performance plan 2007/10, these were forfeited and sold on market, in accordance with the rules of the plan on Mr Lynch ceasing employment.
- (7) On 30 November 2009, Mr Brinker ceased employment with the Group. In respect of the 66,680 shares, treated as options, granted under the LTI performance plan 2007/10, Mr Brinker continued to hold these shares subject to the existing holding lock over these shares in accordance with his employment arrangements.
- (8) With Mr Grace's role as Moranbah Project Director, Mr Grace's sole focus was the Project and he ceased to be a member of the Executive Team on 30 September 2010.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

35. Key management personnel disclosures (continued)

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

(3) Movements in rights over equity instruments in the Company

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

	Year	Number of Rights (A)				Closing balance
		Opening balance	Granted as compensation (B)	Exercised	Forfeited (C)	
Executive directors						
- Current						
J E Fazzino	2011	822,482	511,364	-	(222,482)	1,111,364
	2010	222,482	600,000	-	-	822,482
Executives						
- Current						
F Micallef ⁽¹⁾	2011	266,838	150,000	-	(46,838)	370,000
	2010	46,838	220,000	-	-	266,838
K J Gleeson	2011	326,806	135,000	-	(128,806)	333,000
	2010	128,806	198,000	-	-	326,806
B C Walsh	2011	356,515	147,273	-	(140,515)	363,273
	2010	140,515	216,000	-	-	356,515
J D Whiteside	2011	267,386	110,455	-	(105,386)	272,455
	2010	105,386	162,000	-	-	267,386
G Brinkworth	2011	238,361	110,455	-	(98,361)	250,455
	2010	98,361	140,000	-	-	238,361
S Dawson ⁽¹⁾	2011	135,071	108,182	-	(55,738)	187,515
	2010	55,738	79,333	-	-	135,071
B Wallace ⁽¹⁾	2011	281,478	111,528	-	(100,984)	292,022
	2010	100,984	180,494	-	-	281,478
J Rintel	2011	221,967	130,948	-	(81,967)	270,948
	2010	81,967	140,000	-	-	221,967
S Atkinson ⁽¹⁾	2011	116,171	94,545	-	(46,838)	163,878
	2010	116,171	-	-	-	116,171
- Former						
K Lynch ⁽²⁾	2010	128,806	-	-	(128,806)	-
D Brinker ⁽³⁾	2010	207,738	-	-	(126,951)	80,787
A Grace ⁽⁴⁾	2010	105,386	162,000	-	-	267,386

- (A) Further details of these rights have been disclosed in section C of the Remuneration Report and relate to rights allocated under the LTI plans.
- (B) Represents rights which were acquired during the year by executive directors and executives while they are directors or executives of the Group pursuant to the LTI plans, details of which are set out in section C of the Remuneration Report.
- (C) Represents rights that were forfeited. Refer to section C of the Remuneration Report for further details. In the case of directors or executives who ceased their directorship or employment during the year, all rights, were forfeited as at the relevant date of cessation, in accordance with the plan rules, unless otherwise stated.
- (1) The opening balance in the prior year represents shares held as at the date of becoming a key management person. Movements are from this date.
- (2) On 16 October 2009, Mr Lynch ceased employment with the Company. In respect of the 128,806 rights, granted under the LTI performance rights plan 2008/11, these were forfeited in accordance with the rules of the plan. Mr Lynch was not a participant in the LTI performance rights plan 2009/12.
- (3) On 30 November 2009, Mr Brinker ceased employment with the Group. In respect of the 207,738 entitlements, granted under the LTI performance cash plan 2008/11, a portion of Mr Brinker's entitlements were forfeited in accordance with Mr Brinker's employment arrangements. Mr Brinker was not a participant in either the LTI performance rights plan 2008/11 or the LTI performance rights plan 2009/12.
- (4) With Mr Grace's role as Moranbah Project Director, Mr Grace's sole focus was the Project and he ceased to be a member of the Executive Team on 30 September 2010.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

36. Share based payments

(a) Long Term Incentive Plans (LTIs)

The LTIs are designed to link reward with the key performance drivers which underpin sustainable growth in shareholder value – which comprises both share price growth and returns to shareholders. The arrangements also support the Company's strategy for retention and motivation of its executives and senior employees.

Long Term Incentive Performance Rights Plans

During the year, the Company established a LTI performance rights plan under the Long Term Incentive Performance Rights Plan rules, being the LTI performance rights plan 2010/13. The performance period for this plan is from 1 October 2010 to 30 September 2013.

The LTI performance rights plan 2010/13 has the following features:

- **Performance rights:** A performance right entitles the participant to be transferred a fully paid ordinary share in the Company for no consideration at a later date subject to the satisfaction of certain conditions. As no share is issued until exercise, performance rights have no dividend entitlement.
- **Allocation:** The decision to grant performance rights and to whom they will be granted is made annually by the Board. Grants of performance rights to participants are based on a percentage of the relevant participant's fixed annual remuneration.
- **Conditions:** The performance rights only vest if certain conditions are met, which are approved by the Board. The conditions focus on the performance of IPL and include a condition relating to duration of employment. The performance condition is 50% based on Incitec Pivot's Total Shareholder Return Ranking (TSR Ranking), being the performance of IPL's TSR over the performance period ranked against the TSR that is achieved by companies in IPL's comparator Group (companies in the S&P/ASX 100 index); and 50% based on the compounding annual growth rate of Incitec Pivot's Earnings Per Share (before individually material items) (EPS Growth) over the performance period from the base year (financial year ended 30 September 2010) to achieve certain absolute benchmarks.

In setting two separate performance hurdles with their own associated performance criteria, the Board considered it had established an aggressive target to promote behaviour to achieve superior performance.

TSR Performance Condition

If, at the end of the relevant performance period Incitec Pivot's TSR Ranking is:

- below the 50th percentile, none of the TSR performance rights will vest;
- between the 50th and 75th percentile, a percentage between 50% and 100% of the TSR performance rights will vest, determined pro rata based on IPL's TSR Ranking; and
- equal to or above the 75th percentile, all of the TSR performance rights will vest.

EPS Performance Condition

If, at the end of the relevant performance period Incitec Pivot's EPS Growth is:

- below 7% per annum, none of the EPS performance rights will vest;
 - equal to or greater than 7% per annum, but less than 15% per annum, a percentage between 50% and 100% of the EPS performance rights will vest, determined pro rata based on IPL's EPS Growth over the performance period and where it falls between 7% and 15% per annum; and
 - 15% per annum or greater, all of the EPS performance rights will vest.
- **Exercise period:** Upon vesting of the performance rights, the participant has a two-year exercise period which commences three years after the grant date. This period may be reduced if the participant ceases to be employed by the Group.
 - **Lapse:** Performance rights will lapse if the performance conditions are not satisfied during the performance period or, in certain circumstances, if a participant ceases to be employed by the Group during the performance period. Performance rights will also lapse (and not be able to be exercised and converted into shares) if they are not exercised within five years from their grant date.

Long Term Incentive Performance Cash Plans

Certain employees and executives based in some jurisdictions, participate in long term incentive performance cash plans which are operated by the Group, through its offshore entities. The LTI performance cash plan 2010/13 is designed to deliver a similar benefit to executives and employees on achievement of sustained performance over the relevant three year performance period, and with similar conditions as the Long Term Incentive Performance Rights Plans. Cash payments to employees upon vesting of the plan will be determined with reference to IPL's share price at the end of the performance period.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

36. Share based payments (continued)

(a) Long Term Incentive Plans (LTIs) (continued)

Long Term Incentive Performance Rights Plans – LTI Plans 2008/11 and 2009/12

The LTI performance rights plan 2008/11 and the LTI performance rights plan 2009/12 have the same features as the LTI Plan 2010/13 except for the following:

- **Conditions:** The performance rights only vest if certain conditions are met, which are approved by the Board. The conditions focus on performance of Incitec Pivot and include a condition relating to duration of employment. The performance condition is based on Incitec Pivot's Absolute Total Shareholder Return (Absolute TSR), being the percentage increase in the Company's share price over the three year period plus the tax value of dividends paid, assuming the dividends are reinvested in the Company's shares.

If, at the end of the relevant performance period Incitec Pivot's Absolute TSR:

- is equal to or less than 10% per annum compounded over the performance period, none of the performance rights will vest;
- is greater than 10% and less than 20% per annum compounded over the performance period, an increasing proportion of the performance rights will vest from zero on a straight line basis; and
- is 20% or more per annum compounded over the performance period, all of the performance rights will vest.

Long Term Incentive Performance Cash Plans - LTI Plans 2008/11 and 2009/12

Certain employees and executives based in some jurisdictions, participate in long term incentive performance cash plans which are operated by the Group, through its offshore entities. The LTI performance cash plan 2008/11 and LTI performance cash plan 2009/12 are designed to deliver a similar benefit to executives and employees on achievement of sustained performance over the relevant three year performance period, and with similar conditions as the Long Term Incentive Performance Rights Plans - LTI Plans 2008/11 and 2009/12, however the plans are settled in cash. Cash payments to employees upon vesting of the plan will be determined with reference to IPL's share price at the end of the performance period.

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Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

36. Share based payments (continued)

(a) Long Term Incentive Plans (LTIs) (continued)

Consolidated - 2011

	Grant date	Expiry date		Balance at the start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at the end of the year	Vested and exercisable at the end of the year
			Fair Value ⁽¹⁾	Number	Number	Number	Number	Number	Number
Performance Rights									
LTI Rights - 2008/11	19 Dec 08	30 Sep 11	\$0.30	2,125,262	-	-	(83,642)	2,041,620	-
LTI Cash - 2008/11	19 Dec 08	30 Sep 11	\$1.60	933,435	-	-	(94,412)	839,023	-
LTI Rights - 2009/12	16 Dec 09	30 Sep 12	\$1.60	5,315,104	-	-	(180,506)	5,134,598	-
LTI Cash - 2009/12	16 Dec 09	30 Sep 12	\$1.60	312,039	-	-	(77,998)	234,041	-
LTI Rights - 2010/13 - TSR	23 Dec 10	30 Sep 13	\$2.77	-	2,338,002	-	(80,953)	2,257,049	-
LTI Rights - 2010/13 - EPS	23 Dec 10	30 Sep 13	\$3.76	-	2,338,002	-	(80,953)	2,257,049	-
LTI Cash - 2010/13 - TSR	23 Dec 10	30 Sep 13	\$2.77	-	85,635	-	(26,458)	59,177	-
LTI Cash - 2010/13 - EPS	23 Dec 10	30 Sep 13	\$3.76	-	85,635	-	(26,458)	59,177	-
Total - Performance rights				8,685,840	4,847,274	-	(651,380)	12,881,734	-
Weighted average fair value				\$1.04	\$3.27	-	\$1.71	\$1.84	-

Consolidated - 2010

	Grant date	Expiry date		Balance at the start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at the end of the year	Vested and exercisable at the end of the year
			Exercise price	Number	Number	Number	Number	Number	Number
Shares treated as options									
LTI 2006/09	01 Dec 06	30 Sep 09	\$1.21	4,176,600	-	(4,176,600)	-	-	-
LTI 2007/10	12 Nov 07	30 Sep 10	\$4.41	1,304,000	-	-	(1,304,000)	-	-
Total - Shares treated as options				5,480,600	-	(4,176,600)	(1,304,000)	-	-
Weighted average exercise price				\$1.97	-	\$1.21	\$4.41	-	-
Performance Rights									
LTI Rights - 2008/11	19 Dec 08	30 Sep 11	\$0.30	2,389,353	-	-	(264,091)	2,125,262	-
LTI Cash - 2008/11	19 Dec 08	30 Sep 11	\$0.13	1,148,260	-	-	(214,825)	933,435	-
LTI Rights - 2009/12	16 Dec 09	30 Sep 12	\$1.60	-	5,388,742	-	(73,638)	5,315,104	-
LTI Cash - 2009/12	16 Dec 09	30 Sep 12	\$1.60	-	312,039	-	-	312,039	-
Total - Performance rights				3,537,613	5,700,781	-	(552,554)	8,685,840	-
Weighted average fair value				\$0.24	\$1.60	-	\$0.41	\$1.12	-

(1) Performance rights have a \$nil exercise price.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

36. Share based payments (continued)

(a) Long Term Incentive Plans (LTIs) (continued)

The weighted average remaining contractual life of shares treated as options and rights outstanding at the end of the period was 1.14 years (2010 – 1.65 years).

Fair value of performance rights granted

LTI performance rights plan – 2010/13

In respect of the LTI performance rights plan 2010/13, the assessed fair values at grant date of the rights granted during the year for both the TSR performance condition and the EPS performance condition are shown in the table below. The fair value at grant date is independently determined using an adjusted form of the Black-Scholes option pricing model that takes into account the exercise price, the life of the performance right, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the performance rights.

The model inputs for these performance rights granted during the year ended 30 September 2011 included:

Performance rights were granted at \$nil per right, have a three year life, and vest after the performance hurdles are met for the period 1 October 2010 to 30 September 2013.

Grant date	23 Dec 2010
Share price (at grant date)	\$3.97
Exercise price	\$nil
Expected price volatility of the Company's shares	35% pa
Vesting date	30 Sept 2013
Expected dividends	2.0% pa
Risk-free interest rate (based on Australian Government bonds) with approximately three years to maturity (as at 23 December 2010)	5.25% pa

LTI performance rights plan 2010/13

Fair value at grant date: LTI Rights - 2010/13 - TSR	\$2.77
Fair value at grant date: LTI Rights - 2010/13 - EPS	\$3.76

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

36. Share based payments (continued)

(b) Employee Share Ownership Plan

The Board established the Incitec Pivot Employee Share Ownership Plan (ESOP) on 28 October 2003. Administration of the plan is held with Link Market Services Limited. The Board determines which employees are eligible to receive invitations to participate in the ESOP. Invitations are generally made annually to eligible employees on the following basis:

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

Grant date	Date shares become unrestricted	Number of participants as at		Number of restricted shares held as at	
		30-Sep-11	30-Sep-10	30-Sep-11	30-Sep-10
11-Jul-08	11-Jul-10	-	458	-	45,800
6-Nov-09	6-Nov-12	387	413	140,520	150,218
9-Sep-10	9-Sep-13	462	497	132,933	143,153
1-Jul-11	1-Jul-14	481	-	122,869	-

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

(c) Expenses arising from share-based payment transactions

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

	Consolidated	
	2011	2010
	\$'000	\$'000
Shares, treated as options, and rights issued under the LTI performance plans	7,742	3,921
Total carrying amount of liabilities for cash settled arrangements	254	296

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

37. Investments in controlled entities

Name of Entity		Ownership Interest	Country of incorporation
Company			
Incitec Pivot Limited	2		Australia
Controlled Entities - operating			
Incitec Fertilizers Limited	2	100%	Australia
TOP Australia Ltd	2	100%	Australia
Southern Cross Fertilisers Pty Ltd	2	100%	Australia
Southern Cross International Pty Ltd	2	100%	Australia
Incitec Pivot LTI Plan Company Pty Limited		100%	Australia
Incitec Pivot Holdings (Hong Kong) Limited		100%	Hong Kong
Incitec Pivot Explosives Holdings Pty Limited	2	100%	Australia
TinLinhe Nitrogen Limited		100%	Hong Kong
Quantum Fertilisers Limited		65%	Hong Kong
Coltivi Insurance Pte Limited		100%	Singapore
Queensland Operations Pty Limited		100%	Australia
Incitec Pivot Investments 1 Pty Ltd		100%	Australia
Incitec Pivot Investments 2 Pty Ltd		100%	Australia
Incitec Pivot US Investments		100%	USA
Incitec Pivot US Holdings Pty Ltd		100%	Australia
Incitec Pivot Management LLC		100%	USA
Incitec Pivot Finance LLC		100%	USA
Incitec Pivot Finance Australia Pty Ltd	2	100%	Australia
Te Moana Insurance Limited	1	100%	New Zealand
Dyno Nobel Pty Limited		100%	Australia
Dyno Nobel Australia LLC		100%	USA
Prime Manufacturing Ltd		75%	New Zealand
The Dyno Nobel SPS LLC		100%	USA
Dyno Nobel Europe Pty Ltd		100%	Australia
Dyno Nobel Management Pty Limited		100%	Australia
Industrial Investments Australia Finance Pty Limited		100%	Australia
Dyno Nobel Holdings IV LLC		100%	USA
Dyno Nobel Holdings USA III, Inc.		100%	USA
Dyno Nobel Holdings USA II		100%	USA
Dyno Nobel Holdings USA II, Inc.		100%	USA
Dyno Nobel Holdings USA, Inc.		100%	USA

1) Refer to footnote description on next page.

2) Refer to footnote description on next page.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

37. Investments in controlled entities (continued)

Name of Entity		Ownership Interest	Country of incorporation
Dyno Nobel Inc.		100%	USA
Dyno Nobel Transportation, Inc.		100%	USA
Independent Explosives Co. of Penna.		100%	USA
IR, Inc.		100%	USA
Simsbury Hopmeadow Street LLC		100%	USA
Tech Real Estate Holdings LLC		100%	USA
Tradestar Corporation		100%	USA
Dyno Nobel Explosivos Chile Limitada		100%	Chile
CMMPM, LLC		100%	USA
CMMPM Holdings, L.P.		100%	USA
Dyno Nobel Peru S.A.		100%	Peru
Dyno Nobel Mexico, S.A. de C.V.		99%	Mexico
Dyno Nobel Canada Inc.		100%	Canada
Dyno Nobel Transportation Canada Inc.		100%	Canada
Dyno Nobel Nunavut Inc.		100%	Canada
Incitec Pivot Finance Canada Inc.		100%	Canada
Polar Explosives 2000 Inc.		100%	Canada
Polar Explosives Ltd		84%	Canada
Dyno Nobel Asia Pacific Pty Limited	2	100%	Australia
Dampier Nitrogen Pty Ltd		100%	Australia
DNX Australia Pty Ltd	2	100%	Australia
DNX Papua New Guinea Ltd		100%	PNG
Dyno Nobel Moranbah Pty Ltd	2	100%	Australia
Dyno Nobel Moura Pty Limited	2	100%	Australia
Plenty River Ammonia Holdings Pty Ltd	1	100%	Australia
PT DNX Indonesia		100%	Indonesia
Nitromak DNX Kimya Sanayii A.S.		100%	Turkey
SC Romnitro Explosives Srl.		100%	Romania
DNX-Nitro Industria Kimike Sh.p.k		100%	Albania

1) In the process of being liquidated.

2) Party to deed of cross guarantee dated 30 September 2008.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

	Closed Group	
	2011	2010
	\$mill	\$mill
38. Deed of Cross Guarantee		
Statement of Financial Position		
Current assets		
Cash and cash equivalents	290.2	12.0
Trade and other receivables	236.0	110.3
Other financial assets	40.8	111.6
Current tax assets	-	15.3
Inventories	351.2	210.6
Assets classified as held for sale	0.3	2.8
Other assets	8.6	7.7
Total current assets	927.1	470.3
Non-current assets		
Trade and other receivables	123.7	567.7
Other financial assets	4,059.3	2,668.0
Investments accounted for using the equity method	138.7	52.2
Property, plant and equipment	1,630.6	611.0
Intangible assets	282.6	188.5
Deferred tax assets	140.4	149.5
Other assets	13.0	0.4
Total non-current assets	6,388.3	4,237.3
Total assets	7,315.4	4,707.6
Current liabilities		
Trade and other payables	574.0	244.4
Interest bearing liabilities	80.8	88.4
Provisions	63.1	45.5
Other financial liabilities	0.6	-
Current tax liabilities	49.4	-
Total current liabilities	767.9	378.3
Non-current liabilities		
Trade and other payables	719.1	94.0
Interest bearing liabilities	637.7	234.2
Other financial liabilities	2.9	-
Retirement benefit obligation	6.9	4.6
Deferred tax liabilities	108.8	30.4
Provisions	43.5	53.8
Total non-current liabilities	1,518.9	417.0
Total liabilities	2,286.8	795.3
Net assets	5,028.6	3,912.3
Equity		
Issued capital	3,265.9	3,265.9
Reserves	870.9	174.5
Retained earnings	891.8	471.9
Total equity	5,028.6	3,912.3
Income Statement		
Profit / (loss) before income tax	574.5	303.3
Income tax benefit / (expense)	(149.6)	(33.6)
Profit for the financial year	424.9	269.7
Retained profits at the beginning of the financial year	471.9	267.9
Other movements in retained earnings	146.4	0.7
Dividend paid	(151.4)	(66.4)
Retained profits at the end of the financial year	891.8	471.9

Entities which are party to a Deed of Cross Guarantee dated 30 September 2008, entered into in accordance with ASIC Class Order 98/1418 (as amended), are disclosed in Note 37, Investments in controlled entities. Statement of Financial Position and Income Statement for this closed group are shown above. During the year the following entities were added to the Deed of Cross Guarantee: Dyno Nobel Asia Pacific Pty Limited, Dyno Nobel Moranbah Pty Ltd, Dyno Nobel Moura Pty Limited and DNX Australia Pty Ltd.

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

39. Parent entity disclosure

As at, and throughout, the financial year ending 30 September 2011 the parent company of the Group was Incitec Pivot Limited.

Parent entity guarantees in respect of debts of its subsidiaries

As at 30 September 2011 the Company's current liabilities exceeded its current assets by \$161.3m. The parent entity is part of a Deed of Cross Guarantee with the effect that the Group guarantees debts in respect of all members within the Group. The Group's forecasted cash flows for the next twelve months indicate that it will be able to meet current liabilities as and when they fall due. In addition the Group has undrawn financing facilities of \$900.0m at 30 September 2011.

Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed, are disclosed in Note 38.

	Company	
	2011	2010
	\$mill	\$mill
Results of the parent entity		
Profit for the period	259.0	78.2
Other comprehensive income	(90.0)	65.6
Total comprehensive Income for the period	169.0	143.8
Financial position of the parent entity at year end		
Current assets	797.8	420.7
Total assets	6,259.2	4,515.1
Current liabilities	974.0	686.5
Total liabilities	2,576.6	1,001.5
Net Assets	3,682.6	3,513.6
Total equity of the parent entity comprises		
Share capital	3,265.9	3,265.9
Cash flow hedging reserve	3.0	34.9
Foreign currency translation reserve	4.7	46.6
Fair value reserve	(4.3)	9.8
Retained earnings	413.3	156.4
Total Equity	3,682.6	3,513.6

Parent entity contingencies

The directors are of the opinion that Incitec Pivot Limited does not have any contingent liabilities that would require disclosure at 30 September 2011.

Parent entity capital commitments for acquisition of property, plant and equipment

	Company	
	2011	2010
	\$mill	\$mill
Plant and equipment		
Contracted but not yet provided for and payable: Within one year	3.1	6.3

Notes to the Consolidated Financial Statements

For the year ended 30 September 2011

40. Events subsequent to reporting date

Dividends

Since the end of the financial year, in November 2011, the directors have determined to pay a final dividend of 8.2 cents per share on 16 December 2011. This dividend is unfranked.

Other

- The Commonwealth parliament has recently passed the 'Clean Energy Future' legislation. The legislation will introduce a carbon pricing scheme and require the Group to purchase and surrender carbon permits in relation to its carbon emissions in Australia. The scheme, anticipated to commence on 1 July 2012, will have a three-year fixed price period and subsequently transition to an emissions trading scheme. It is anticipated that the introduction of a carbon pricing scheme will have implications for the Group's Australian operations, particularly its manufacturing operations. The financial impact for the Group cannot be estimated until the Company can assess the effect of the industry assistance program to be implemented as part of the 'Clean Energy Future' legislation. However, based on the draft regulations regarding the industry assistance program and the Group's forecast future emissions, the impact of the carbon pricing scheme is not, at this stage, anticipated to have a material impact on the future profitability of the Group during the fixed price period of the carbon pricing scheme. As the market price of carbon permits under the subsequent emissions trading scheme cannot be predicted and the details of the industry assistance program (and its duration) are unknown, the financial impact for the Group cannot be estimated.
- The Group announced on 27 October 2011, a feasibility study into the construction of an ammonium nitrate manufacturing plant on the site of its fertiliser facility on Kooragang Island, Newcastle, NSW. Development of the plant would proceed only on meeting the Group's strict financial hurdles and achieving firm customer commitments, regulatory approvals and support from the local and broader communities.

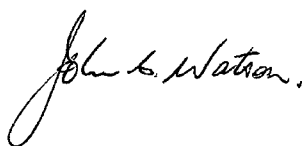
Other than the matters reported on above, the directors have not become aware of any other significant matter or circumstance that has arisen since the end of the financial year, that has affected or may affect the operations of the Group, the result of those operations, or the state of affairs of the Group in subsequent years, which has not been covered in this report.

Directors' Declaration

on the Financial Statements set out on pages 42 to 111

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

1. (a) the financial statements and notes, set out on pages 42 to 111, and the remuneration disclosures that are contained in the Remuneration Report on pages 13 to 30 of the Directors' Report, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company and the Group as at 30 September 2011 and of their performance, for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
 - (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1; and
 - (c) there are reasonable grounds to believe the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the controlled entities identified in Note 37 will be able to meet any obligations or liabilities to which they are or may become subject by virtue of the Deed of Cross Guarantee between the Company and those subsidiaries pursuant to ASIC Class Order 98/1418 (as amended).
 3. The directors have been given the declaration by the Chief Executive Officer and the Chief Financial Officer as required by section 295A of the Corporations Act 2001 for the financial year ended 30 September 2011.



John Watson, AM
Chairman

Dated at Melbourne this 11th day of November 2011

Audit Report

For the year ended 30 September 2011

To be provided by KPMG

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Audit Report

For the year ended 30 September 2011

To be provided by KPMG

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Shareholder Statistics

As at 11 November 2011

Distribution of ordinary shareholder and shareholdings

Size of holding	Number of holders	Percentage	Number of shares	Percentage
1 – 1,000	13,520	21.08%	6,653,491	0.41%
1,001 – 5,000	32,099	50.05%	93,610,717	5.75%
5,001 – 10,000	10,380	16.19%	76,041,078	4.67%
10,001 – 50,000	7,565	11.80%	141,658,922	8.70%
50,001 – 100,000	357	0.56%	24,709,970	1.52%
100,001 and over	207	0.32%	1,286,055,932	78.96%
Total	64,128	100.00%	1,628,730,110	100.00%

Included in the above total are 2,141 shareholders holding less than a marketable parcel of shares.

The holdings of the 20 largest holders of fully paid ordinary shares represent 74.49% of that class of shares.

Twenty largest ordinary fully paid shareholders

	Number of shares	Percentage
HSBC Custody Nominees (Australia) Limited	415,488,175	25.51%
J P Morgan Nominees Australia Limited	258,993,545	15.90%
National Nominees Limited	237,839,730	14.60%
Citicorp Nominees Pty Limited	88,179,875	5.41%
J P Morgan Nominees Australia Limited <CASH INCOME A/C>	47,500,691	2.92%
AMP Life Limited	25,982,537	1.60%
Cogent Nominees Pty Limited	24,421,319	1.50%
Citicorp Nominees Pty Limited <COLONIAL FIRST STATE INV A/C>	21,985,474	1.35%
RBC Dexia Investor Services Australia Nominees Pty Limited <PIPOOLED A/C>	20,053,704	1.23%
Australian Foundation Investment Company Limited	18,934,411	1.16%
Cogent Nominees Pty Limited <SMP ACCOUNTS>	12,163,346	0.75%
UBS Wealth Management Australia Nominees Pty Ltd	8,847,713	0.54%
UBS Nominees Pty Ltd	6,412,500	0.39%
Queensland Investment Corporation	5,234,542	0.32%
HSBC Custody Nominees (Australia) Limited - A/C 2	4,828,292	0.30%
Argo Investments Limited	3,895,530	0.24%
UBS Nominees Pty Ltd	3,521,460	0.22%
INVA Custodian Pty Limited <GSJBW MANAGED A/C>	3,163,785	0.19%
RBC Dexia Investor Services Australia Nominees Pty Limited <PIIC A/C>	2,968,736	0.18%
RBC Dexia Investor Services Australia Nominees Pty Limited <GSAM A/C>	2,859,315	0.18%
Total	1,213,274,680	74.49%

Substantial shareholders

The following parties have declared a relevant interest in the number of voting shares at the date of giving the notice under Part 6C.1 of the Corporations Act.

Name	Votes / Number of Shares
National Australia Bank Limited	82,781,517

On-market buy-back

There is no current on-market buy-back.

Five Year Financial Statistics

Incitec Pivot Limited and its controlled entities

		2011 \$mill	2010 ⁽²⁾ \$mill	2009 \$mill
Sales		3,906.3	2,931.7	3,418.9
Earnings before depreciation, amortisation, net borrowing costs, individually material items and tax		920.3	787.3	743.0
Depreciation and amortisation (excluding individually material items)		(148.2)	(139.0)	(167.3)
Earnings before net borrowing costs, individually material items and tax (EBIT)		772.1	648.3	575.7
Net borrowing costs (excluding individually material items)		(58.2)	(53.0)	(107.6)
Individually material items before tax		(92.5)	(55.4)	(782.7)
Taxation revenue / (expense)		(154.1)	(127.7)	93.2
Operating profit / (loss) after tax and individually material items		467.3	412.2	(221.4)
Operating profit / (loss) after tax and individually material items attributable to minority interest		4.1	1.7	-
Operating profit / (loss) after tax and individually material items attributable to shareholders of Incitec Pivot Limited		463.2	410.5	(221.4)
Individually material items after tax		(66.9)	(32.3)	(569.2)
Operating profit after tax before individually material items (net of tax)		530.1	442.8	347.8
Dividends		151.4	66.4	271.0
Current assets		1,388.0	979.3	1,033.9
Property, plant and equipment		2,283.3	1,844.1	1,663.4
Investments		257.1	256.5	254.0
Intangibles		2,942.3	3,010.0	3,153.0
Other non-current assets		131.2	220.4	485.4
Total assets		7,001.9	6,310.3	6,589.7
Current borrowings and payables		1,064.9	832.8	1,081.8
Current provisions		98.3	82.6	93.4
Non-current borrowings and payables		2,068.2	1,701.0	1,987.4
Non-current provisions		63.8	82.6	87.5
Total liabilities		3,295.2	2,699.0	3,250.1
Net assets		3,706.7	3,611.3	3,339.6
Shareholders' equity		3,701.7	3,609.2	3,339.6
Equity attributable to minority interests		5.0	2.1	-
Total shareholders' equity		3,706.7	3,611.3	3,339.6
Ordinary Shares ⁽¹⁾	thousands	1,628,730	1,628,730	1,612,536
Number of shares on issue at year end ⁽¹⁾	thousands	1,628,730	1,628,730	1,612,536
Weighted average number of shares on issue (investor and ordinary) ⁽¹⁾	thousands	1,628,730	1,623,134	1,541,925
Earnings / (losses) per share ⁽¹⁾				
before individually material items	cents	32.5	27.3	22.6
including individually material items	cents	28.4	25.3	(14.4)
Dividends (declared)	cents	11.5	7.8	4.4
Dividends (paid)	cents	9.3	4.1	21.6
Dividend franking	%	-	-	48
Share price range High		\$4.66	\$3.78	\$5.18
Low		\$2.99	\$2.51	\$1.74
Year end		\$3.27	\$3.59	\$2.83
Stockmarket capitalisation at year end	\$mill	5,325.9	5,847.1	4,563.5
Net tangible assets per share	\$	0.47	0.37	0.12
Profit margin (earnings before net borrowing costs and tax/sales)	%	19.8	22.1	16.8
Net debt	\$mill	1,188.8	1,097.1	1,463.4
Gearing (net debt/net debt plus equity)	%	24.3	23.3	30.5
Interest cover (earnings before net borrowing costs and tax/net borrowing costs)	times	13.3	12.2	5.4
Net capital expenditure on plant and equipment (cash flow)	\$mill	610.4	297.3	340.5
Net capital expenditure on acquisitions/(disposals) (cash flow)	\$mill	(1.5)	103.7	2.0
Return on average shareholders funds				
before individually material items	%	14.5	12.7	10.7
including individually material items	%	12.8	11.9	(6.8)

(1) The number of shares have been restated as a result of the 20:1 share split as approved by shareholders in September 2008.

(2) Comparative information has been restated to reflect changes made in the financial statements.

Five Year Financial Statistics

2008 \$mill	2007 \$mill
2,918.2	1,373.2
1,025.6	348.6
(70.3)	(36.1)
955.3	312.5
(80.6)	(28.8)
(38.2)	3.9
(231.9)	(82.4)
604.6	205.3
-	-
604.6	205.3
(42.9)	2.8
647.5	202.5
219.3	75.6
1,867.0	909.0
1,670.6	502.1
311.2	1.6
3,962.1	193.7
374.5	32.9
8,185.4	1,639.3
3,612.3	325.6
88.6	31.2
1,238.4	682.8
90.8	64.7
5,030.1	1,104.3
3,155.3	535.0
3,155.3	535.0
-	-
3,155.3	535.0
1,217,231	1,008,478
1,217,231	1,008,478
1,069,507	1,008,478
60.5	20.1
56.5	20.4
29.7	15.0
21.8	7.5
100	100
\$9.99	\$4.29
\$4.11	\$1.19
\$5.07	\$4.28
6,171.4	4,313.3
(0.66)	0.34
32.7	22.8
2,030.3	411.7
39.2	43.5
11.9	10.9
217.6	62.9
586.4	257.0
35.1	44.3
32.8	44.9

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Shareholder Information

Annual General Meeting

2.00 pm Tuesday 20 December 2011
The Auditorium,
Level 2, Melbourne Exhibition Centre,
2 Clarendon Street,
Southbank Victoria,
Australia

Securities Exchange Listing

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

Share Registry

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

Locked Bag A14,
Sydney South New South Wales 1235,
Australia

Telephone: 1300 303 780
(for callers within Australia)
International: +61 2 8280 7765

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

Auditor

KPMG
147 Collins Street,
Melbourne Victoria 3000,
Australia

Incitec Pivot Limited

Registered address and head office:
Level 8, 28 Freshwater Place,
Southbank Victoria 3006,
Australia

GPO Box 1322,
Melbourne Victoria 3001,
Australia

Telephone: +61 3 8695 4400
Facsimile: +61 3 8695 4419
www.incitecpivot.com.au

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Incitec Pivot Limited

ABN 42 004 080 264

Level 8, 28 Freshwater Place,
Southbank Victoria 3006,
Australia

Postal Address

Incitec Pivot Limited
GPO Box 1322,
Melbourne Victoria 3001,
Australia

Telephone: +61 3 8695 4400

Facsimile: +61 3 8695 4419

www.incitecpivot.com.au