

## Appendix 4E Preliminary final report

Name of entity:	<b>Incitec Pivot Limited</b>
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ABN or equivalent company reference:	<b>42 004 080 264</b>
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	Financial year ended (‘current period’)		Financial year ended (‘previous corresponding period’)
1.0	<b>30 September 2004</b>		30 September 2003

**2.0 Results for announcement to the market**

			%		\$A000
2.1	Revenues from ordinary activities	up	63%	to	1,137,898
2.2	Profit from ordinary activities after tax attributable to members				75,039
	Before significant items	up	130%	to	80,870
	After significant items	up	NA	to	75,039
2.3	Net profit for the period attributable to members				75,039
	Before significant items	up	130%	to	80,870
	After significant items	up	NA	to	75,039

		Amount per security	Franked amount per security
2.4	<b>Dividends (distributions)</b>	cents	\$000's
	<b>Current Year</b>		
	Interim dividend	Cents 20.0	11,656
	Interim special dividend	Cents 9.0	5,246
	Final dividend	Cents 70.0	40,797
	Final special dividend	Cents 30.0	17,484
	Previous corresponding period		
	Special dividend	Cents 140.0	24,478

2.5 Record date for determining entitlements to the final dividend:	<b>19 November 2004</b>
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2.6 Brief explanation of any of the figures reported above:  
**Refer to the accompanying Incitec Pivot Limited Profit Report.**

### 3.0 Consolidated Statement of Financial Performance

For the year ended 30 September 2004

	Notes	2004 \$000	2003 \$000
<b>Revenue from ordinary activities</b>	(3.1)	<b>1,137,898</b>	696,567
<b>Operating expenses</b>			
Changes in inventories of finished goods and work in progress		40,060	(61,751)
Raw materials and consumables used and finished goods purchased for resale		(810,573)	(349,830)
Employee expenses (including significant items)	(3.2)	(83,524)	(66,403)
Depreciation and amortisation expense		(45,317)	(24,353)
Borrowing costs		(5,960)	(8,289)
Purchased services (including significant items)	(3.2)	(51,830)	(44,667)
Repairs and maintenance		(26,580)	(13,062)
Property, plant & equipment retired/disposed (excluding significant items)	(3.2)	(673)	(3,043)
Outgoing freight		(31,044)	(23,692)
Lease payments - operating leases		(8,638)	(7,914)
Net assets disposed from sale of business (significant items)	(3.2)	-	(3,867)
Asset write-downs, clean-up and environmental provisions (significant items)	(3.2)	(679)	(37,837)
Other expenses from ordinary activities including significant items		(6,011)	(64,093)
		<b>(1,030,769)</b>	<b>(708,801)</b>
<b>Profit/(loss) from ordinary activities before income tax expense</b>		<b>107,129</b>	<b>(12,234)</b>
Income tax expense attributable to (loss)/profit from ordinary activities		(32,090)	(6,389)
<b>Profit/(loss) from ordinary activities after income tax expense</b>		<b>75,039</b>	<b>(18,623)</b>
<b>Non-owner transactions in equity</b>		-	-
Net increase in general and other reserves		-	1,499
Net decrease in forfeited shares reserve		-	(8)
Net decrease in capital profits reserve		-	(1,491)
Net reduction in equity due to initial adoption of AASB 1028 Employee Benefits		-	(328)
Total revenues, expenses and valuation adjustments relating to members of the parent entity recognised directly in equity		-	(328)
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>		<b>75,039</b>	<b>(18,951)</b>
		<b>cents</b>	<b>cents</b>
<b>Earnings per share</b>			
Basic earnings per share:			
Ordinary shares		129	(60)
Diluted earnings per share:			
Ordinary shares		129	(60)

2004  
\$000

2003  
\$000

### 3.1 Revenue from ordinary activities

External sales	1,107,098	686,307
Sales to entities subject to common control	28,490	-
<b>Other revenue from operating activities</b>		
Royalty income	-	10
Interest income		
common controlled entities	33	-
external parties – banks	521	1,473
Loan forgiveness from controlled entities (significant items)		
Rental income	289	433
Other income	40	1,292
<b>From outside operating activities</b>		
Sale of business	-	4,393
Sale of property, plant and equipment	1,427	2,659
Total other revenue	2,310	10,260
<b>Total revenue</b>	<b>1,137,898</b>	<b>696,567</b>

	2004			2003		
	Gross \$000	Tax \$000	Net \$000	Gross \$000	Tax \$000	Net \$000

### 3.2 Individually significant items

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

#### Consolidated

Merger implementation costs						
Employee redundancies and allowances	(6,255)	1,877	(4,378)	(10,108)	3,032	(7,076)
Environmental	(270)	81	(189)	(7,300)	2,190	(5,110)
Corporate launch	(1,498)	449	(1,049)	-	-	-
Site-clean up and rationalisation	-	-	-	(7,883)	1,231	(6,652)
Asset write-downs	(409)	123	(286)	(22,654)	3,927	(18,727)
Transaction and implementation costs	(895)	269	(626)	(12,666)	2,354	(10,312)
Accounting policy adjustments	-	-	-	(2,881)	864	(2,017)
Total merger implementation costs <sup>(1)</sup>	(9,327)	2,799	(6,528)	(63,492)	13,598	(49,894)

#### Other

Profit from business divested <sup>(2)</sup>	-	-	-	526	(158)	368
Profit from sale of property, plant and equipment	-	-	-	224	(67)	157
Write-down of carrying value of inventory <sup>(3)</sup>	-	-	-	(1,826)	548	(1,278)
Over (under) provision of income tax in previous years <sup>(4)</sup>	-	697	697	-	(3,009)	(3,009)
Total other	-	697	697	(1,076)	(2,686)	(3,762)
<b>Individually significant items</b>	<b>(9,327)</b>	<b>3,496</b>	<b>(5,831)</b>	<b>(64,568)</b>	<b>10,912</b>	<b>(53,656)</b>

(1) Merger implementation costs in 2003 & 2004 relate to the restructuring and reorganisation activities following the acquisition of Incitec Fertilizers Limited. The classification of these costs is consistent with the September 2003 financial statements and the merger information memorandum.

(2) On 20th February 2003 Pivot Nutrition Pty Ltd, a wholly owned subsidiary of the Company, divested the operating assets and business of the Carrick Stockfeed Mill for \$4.4m.

(3) Inventory written down and prior year losses relate to the grain business which ceased operations.

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

**4.0 Consolidated Statement of Financial Position**  
**As at 30 September 2004**

	<b>2004</b>	2003
	<b>\$000</b>	\$000
<b>Current assets</b>		
Cash assets	<b>83,846</b>	21,269
Receivables	<b>123,745</b>	108,988
Inventories	<b>246,292</b>	205,643
Other	<b>7,047</b>	14,699
<b>Total current assets</b>	<b>460,930</b>	350,599
<b>Non-current assets</b>		
Receivables	<b>3,248</b>	1,924
Property, plant and equipment	<b>296,132</b>	296,615
Deferred tax assets	<b>17,108</b>	19,101
Intangible assets	<b>183,809</b>	185,354
Other	<b>10,166</b>	13,553
<b>Total non-current assets</b>	<b>510,463</b>	516,547
<b>Total assets</b>	<b>971,393</b>	867,146
<b>Current liabilities</b>		
Payables	<b>192,854</b>	130,899
Interest bearing liabilities	<b>63,055</b>	40,663
Current tax liabilities	<b>16,277</b>	6,312
Provisions	<b>26,877</b>	37,133
<b>Total current liabilities</b>	<b>299,063</b>	215,007
<b>Non-current liabilities</b>		
Interest bearing liabilities	-	55,000
Deferred tax liabilities	<b>19,049</b>	14,268
Provisions	<b>21,762</b>	9,489
<b>Total non-current liabilities</b>	<b>40,811</b>	78,757
<b>Total liabilities</b>	<b>339,874</b>	293,764
<b>Net assets</b>	<b>631,519</b>	573,382
<b>Equity</b>		
<b>Parent entity interest</b>		
Contributed equity	<b>532,445</b>	532,445
Reserves	<b>35,922</b>	35,922
Retained profits	<b>63,152</b>	5,015
<b>Total equity</b>	<b>631,519</b>	573,382

Refer to the financial report for notes to statement of financial position.

**5.0 Consolidated Statement of Cash Flows**  
**For the year ended 30 September 2004**

	<b>2004</b>	2003
	<b>\$000</b>	\$000
	<b>Inflows/ (Outflows)</b>	Inflows/ (Outflows)
<b>Cash flows from operating activities</b>		
Receipts from customers	<b>1,121,161</b>	812,715
Payments to suppliers and employees	<b>(959,165)</b>	(714,836)
Interest received	<b>388</b>	1,472
Borrowing costs	<b>(6,038)</b>	(7,966)
Rental income	<b>289</b>	433
Royalties	<b>-</b>	10
Other trading revenue received	<b>191</b>	1,291
Net income taxes received/(paid)	<b>(15,351)</b>	3,113
<b>Net cash flows from operating activities</b>	<b>141,475</b>	96,232
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	<b>(30,814)</b>	(15,578)
Proceeds from sale of property, plant and equipment	<b>1,427</b>	2,659
Proceeds from sale of business	<b>-</b>	4,393
<b>Net cash flows used in investing activities</b>	<b>(29,387)</b>	(8,526)
<b>Cash flows from financing activities</b>		
Net movement in short term financing	<b>(31,032)</b>	(81,545)
Payments for expenses relating to listing on Australian Stock Exchange	<b>-</b>	(1,274)
Dividends paid	<b>(16,902)</b>	(24,478)
<b>Net cash flows used in financing activities</b>	<b>(47,934)</b>	(107,297)
<b>Net (decrease)/increase in cash held</b>	<b>64,154</b>	(19,591)
<b>Cash at the beginning of the financial year</b>	<b>19,692</b>	39,283
<b>Cash at the end of the financial year</b>	<b>83,846</b>	19,692

Refer to the financial report for notes to statement of cash flows.

## 6.0 Dividends

	Company	
	2004	2003
	\$000	\$000
<b>Dividends</b>		
Dividends paid or declared in respect of the year ended 30 September were:		
<b>Ordinary Shares</b>		
Special dividend of \$1.40 per share, fully franked at 30%, paid 16th June 2003		24,478
Interim dividend of 20 cents per share, fully franked at 30%, paid on 8th July 2004	11,656	
Interim special dividend of 9 cents per share, fully franked at 30%, paid on 8th July 2004	5,246	
Total ordinary share dividends paid in cash	16,902	24,478
<b>Redeemable Preference Shares</b>		
Quarterly dividend at 5.36% per share unfranked paid in cash on		
27 November	737	
27 February	737	
27 May	737	
27 August	737	737
Total redeemable preference share dividends paid in cash	2,948	737
<b>Total dividends paid in cash</b>	<b>19,850</b>	<b>25,215</b>

### Subsequent Event

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

#### Ordinary shares

Final dividend of 70 cents per share 100% franked at 30% payable on 9 December 2004	40,797	-
Final special dividend of 30 cents per share 100% franked at 30% payable on 9 December 2004	17,484	-

The financial effect of the final ordinary dividend has not been recognised in the year end financial report and will be recognised in subsequent financial reports.

### Redeemable preference shares

Dividends payable in respect of the redeemable preference shares are accrued in the financial statements on a monthly basis, and are paid quarterly at 5.36% per share, unfranked. Dividends on these shares have been charged to the statements of financial performance as borrowing costs because the shares are classified as liabilities.

### Franking credits

Franking credits available to shareholders of the Company at the 30% (2003 at 30%) corporate tax rate after allowing for tax payable in respect of the current year's profit is \$2,273,063 (2003 \$3,241,743). The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

## 7.0 Details of any dividend reinvestment plans in operation and the last date for the receipt of an election notice for participation in any dividend reinvestment plan

There are no dividend reinvestment plans in operation.

## 8.0 Consolidated reserves and retained earnings reconciliation

	<b>2004</b>	2003
	<b>\$000</b>	\$000
<b>Reserves</b>		
Realisation and revaluation of assets	<b>34,423</b>	34,423
General and other	<b>1,499</b>	1,499
	<b>35,922</b>	35,922
<b>Movement in reserves during the financial year</b>		
Realisation and revaluation of assets		
Balance at beginning of year	<b>34,423</b>	34,423
Increase in revaluation reserve	-	-
Balance at end of year	<b>34,423</b>	34,423
General and other		
Balance at beginning of year	<b>1,499</b>	-
Transfer from capital profit reserves	-	1,491
Transfer from forfeited shares reserve	-	8
Balance at end of year	<b>1,499</b>	1,499
Forfeited shares reserve		
Balance at beginning of year	-	8
Transfer to general and other	-	(8)
Balance at end of year	-	-
Capital profits reserve		
Balance at beginning of year	-	1,491
Transfer to general and other	-	(1,491)
Balance at end of year	-	-
<b>Retained profits</b>		
Retained profits at the beginning of the financial year	<b>5,015</b>	48,444
Net decrease in equity due to initial adoption of revised AASB 1028 Employee Benefits	-	(328)
Operating profit/(loss) after income tax attributable to members of Incitec Pivot	<b>75,039</b>	(18,623)
Less dividends paid:		
2004 interim and interim special dividend	<b>(16,902)</b>	-
2003 special dividend	-	(24,478)
<b>Retained profits at the end of the financial year</b>	<b>63,152</b>	5,015

## 9.0 Net tangible assets per security with the comparative figure for the previous corresponding period

	Current period	Previous corresponding period
	Cents	Cents
Net tangible asset backing per ordinary security	768	666

**10.1 Details of entities over which control has been gained during the period**

Name of entity (or group of entities)

None

The date of the gain of control

N/A

**10.2 Loss of control of entities having material effect**

Name of entity (or group of entities)

None

The date of the loss of control

N/A

### 11.0 Details of associates and joint venture

The economic entity has an interest (that is material to it) in the following entities:

Name of entity	Percentage of ownership interest held at end of period or date of disposal		Contribution to net profit (loss)	
	Current period	Previous corresponding period	Current period \$'M	Previous corresponding period \$'M
<b>Equity accounted associates and joint venture entities</b>				
None				
<b>Total</b>			-	-
Other material interests			-	-
<b>Total</b>			-	-

### 12.0 Other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position

Pivot Limited (Pivot) merged with Incitec Fertilizers Limited (Incitec Fertilizers) on 1 June 2003. As a consequence the entity's financial performance and financial position at 30 September 2004 is not directly comparable to the previous corresponding period.

### 13.0 A commentary on the results for the period

Refer to the accompanying Incitec Pivot Limited Profit Report.

### 13.1 The earnings per security

	<b>2004</b>	2003
	Cents	Cents
	per share	per share
<b>Earnings per share (EPS)</b>		
Basic and diluted earnings/(loss) per share		
including significant items	<b>129</b>	(60)
excluding significant items	<b>139</b>	113
	<b>Number</b>	Number
<b>Weighted average number of shares used as the denominator:</b>		
Number for basic and diluted earnings per share <sup>(1)</sup>	<b>58,281,027</b>	31,120,472
Average market price of ordinary shares	<b>\$17.33</b>	\$15.39
	<b>\$000</b>	\$000
<b>Reconciliation of earnings used in the calculation of basic earnings per share including individually significant items</b>		
Profit/(loss) from ordinary activities after income tax expense	<b>75,039</b>	(18,623)
Earnings used in calculation of EPS including individually significant items	<b>75,039</b>	(18,623)
<b>Reconciliation of earnings used in the calculation of basic earnings per share excluding individually significant items</b>		
Profit/(loss) from ordinary activities after income tax expense	<b>75,039</b>	(18,623)
Deduct individually significant items after income tax	<b>(5,831)</b>	(53,656)
Earnings used in calculation of EPS excluding individually significant items	<b>80,870</b>	35,033

(1) The 2003 weighted average number of shares used as the denominator calculated over the 12 months ended 30 September 2003 takes into account the issue of 40,796,719 shares on 1 June 2003. No shares were issued during 2004, thus the weighted average number of shares represents issued shares at year end.

## 13.2 Return to shareholders

	Company/Consolidated	
	<b>2004</b>	2003
	<b>\$000</b>	\$000
<b>Contributed equity</b>		
<b>Share capital</b>		
Ordinary shares - 58,281,027 (2003 - 58,281,027)	<b>532,445</b>	532,445

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

Details	Date	Number of shares	Issue price	\$000
Opening balance	1 Oct 02	14,037,142		52,122
Employee share plan buy-back	17 Oct 02	(222)	\$9.00	(2)
Conversion from ordinary share to investor share	1 Oct 02 to 31 Jan 03	(6,400)	\$9.00	(56)
Shares issued in consideration for purchase of Incitec Fertilizers Limited <sup>(1)</sup>	1 June 03	40,796,719	\$11.47	467,900
Conversion of balance of investor shares to ordinary shares	3 July 03	3,453,788		13,755
Transaction costs arising pursuant to the listing of Incitec Pivot Limited on the Australian Stock Exchange				(1,274)
Closing balance	<b>30 Sep 03</b>	<b>58,281,027</b>		<b>532,445</b>
Closing balance	<b>30 Sep 04</b>	<b>58,281,027</b>		<b>532,445</b>

(1) The issue price of \$11.47 represents the midpoint of an independent valuation prepared by Ernst and Young as at 17<sup>th</sup> March 2003 of the combined Incitec and Pivot fertiliser business.

### Terms and conditions

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

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

Details	Date	Number of shares	Issue price	\$000
Opening balance	1 Oct 02	3,447,388		13,697
Conversion from ordinary share to investor share	1 Oct 02 to 31 Jan 03	6,400	\$9.00	58
Conversion of balance of investor shares to ordinary shares	3 July 03	(3,453,788)		(13,755)
Closing balance	30 Sep 03	-		-
Closing balance	<b>30 Sep 04</b>	-		-

	<b>2004</b>	2003
	<b>\$000</b>	\$000
<b>Total equity reconciliation</b>		
Total equity at the beginning of the financial year	<b>573,382</b>	150,185
Total changes recognised in the statements of financial performance	<b>75,039</b>	(18,951)
Transactions with owners as owners		
Dividends provided for or paid	<b>(16,902)</b>	(24,478)
Contributions of equity	-	467,900
Expenses relating to the listing on the Australian Stock Exchange	-	(1,274)
Total equity at the end of the financial year	<b>631,519</b>	573,382

**13.3 Significant features of operating performance**

Refer to the accompanying Incitec Pivot Limited Profit Report.

**13.4 A discussion of trends in performance**

Refer to the accompanying Incitec Pivot Limited Profit Report.

**13.5 Segment Report**

During the year ended 30th September 2004, the consolidated entity operated in one business segment in which the principle activities were the manufacture and distribution of fertiliser, and in geographic location, Australia.

During the year ended 30th September 2003, the consolidated entity operated in two business segments, Fertiliser and Divested Business, and in one geographic location, Australia

### 13.5 Segment report (continued)

2004	Notes	Fertiliser	Divested	Consolidated
		\$000	Business \$000	\$000
<b>Revenue</b>				
External Sales		1,107,098	-	1,107,098
Sales to entities subject to common control		28,490	-	28,490
Total Sales Revenue		1,135,588	-	1,135,588
Other Revenue		2,310	-	2,310
Total of all segments		1,137,898	-	1,137,898
<b>Total consolidated revenue from ordinary activities</b>				<b>1,137,898</b>
<b>Result</b>				
<b>EBIT - Segment</b>		121,862	-	121,862
Net Interest		(5,406)	-	(5,406)
Profit before tax and significant items		116,456	-	116,456
Significant Items	(3.2)	(9,327)	-	(9,327)
Profit from ordinary activities before tax		107,129	-	107,129
Income tax expense		(32,090)	-	(32,090)
Profit from ordinary activities after tax		75,039	-	75,039
<b>Assets</b>				
Segment Assets		971,393	-	971,393
<b>Liabilities</b>				
Segment Liabilities		339,874	-	339,874
<b>Other Information</b>				
Acquisition of property, plant and equipment		30,814	-	30,814
Depreciation and amortisation of segment assets		45,317	-	45,317
Other non cash expenses - writedowns and provisions		6,170	-	6,170
<b>2003</b>				
		Fertiliser \$000	Divested Business \$000	Consolidated \$000
<b>Revenue</b>				
External Sales		655,503	20,304	675,807
Sales to Incitec Fertilizer Limited Pre Acquisition		10,500	-	10,500
Total Sales Revenue		666,003	20,304	686,307
Other Revenue				10,260
Total of all segments		666,003	20,304	696,567
<b>Total consolidated revenue from ordinary activities</b>				<b>696,567</b>
<b>Result</b>				
<b>EBIT - Segment</b>		59,401	(251)	59,150
Net Interest				(6,816)
Profit before tax and significant items				52,334
Significant items	(3.2)			(64,568)
Loss from ordinary activities before tax				(12,234)
Income tax expense				(6,389)
Loss from ordinary activities after tax				(18,623)
<b>Assets</b>				
Segment Assets		867,047	99	867,146
<b>Liabilities</b>				
Segment Liabilities		293,721	43	293,764
<b>Other Information</b>				
Acquisition of business		467,900	-	467,900
Acquisition of property, plant and equipment		15,578	-	15,578
Depreciation and amortisation of segment assets		24,343	10	24,353
Other non cash expenses - writedowns and provisions		45,197	-	45,197

## 14.0 Impact of adopting AASB equivalents to IASB standards

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

At the date of this report, the project team has analysed most of the AIFRPs and has identified a number of accounting policy changes that will be required. In some cases choices of accounting policies are available, including elective exemptions under AASB 1 - First-time Adoption of Australian Equivalents to International Financial Reporting Standards. These choices are still being analysed to determine the most appropriate accounting policy for Incitec Pivot. Accordingly, there can be no assurances that the consolidated financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with AIFRPs.

The differences between Australian GAAP and AIFRPs identified to date as potentially having a significant effect on the consolidated entity's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and AIFRPs. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

Major changes identified to date that will be required to the Group's existing accounting policies include the following:

### **Impairment of assets**

Under the Australian equivalent to IAS 36 - Impairment of Assets the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in a change in the group's current accounting policy which determines the recoverable amount of an asset on the basis of discounted cash flows. Under the new policy it is likely that impairment of assets will be recognised sooner and that the amount of write-downs will be greater. Reliable estimation of the future financial effects of this change in accounting policy is impracticable because the conditions under which impairment will be assessed are not yet known.

### **Intangible assets**

Under the Australian equivalent to IAS 38 Intangible Assets, internally generated intangible assets (except development phase expenditure in certain circumstances) will not be recognised and intangible assets can only be revalued if there is an active market. Reliable estimation of the future financial effects of this change in accounting policy is impracticable as the details of future internally generated intangible assets are unknown.

### **Changes in accounting policies**

Changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.

### **Classification of financial instruments**

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

- loans and receivables - measured at amortised cost,
- held to maturity - measured at amortised cost,
- held for trading – measured at fair value with fair value changes charged to net profit or loss,
- available for sale – measured at fair value with fair value changes taken to equity and
- non-trading liabilities - measured at amortised cost.

This will result in a change in the current accounting policy that does not classify financial instruments. Current measurement is at amortised cost, with certain derivative financial instruments not recognised on balance sheet. The future financial effect of this change in accounting policy is not yet known as the classification and measurement process has not yet been fully completed.

### **Hedge accounting**

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

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

This may result in a change in the entity's current accounting policy where if hedge transactions are designated as a hedge of the anticipated purchase or sale of goods or services, purchase of qualifying assets, or an anticipated interest transaction, gains and losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Under the new policy hedge accounting may no longer be able to be applied to such contracts and gains

and losses on the contracts may be recognised in the statements of financial performance. Reliable estimation of the future financial effect of this change in accounting policy has not yet been measured.

#### **Income taxes**

Under the Australian equivalent to IAS 12 - Income Taxes, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statements of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity. This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity.

#### **Share based payments**

Under AASB 2 - Share based Payment, the Company will be required to determine the fair value of share based payments issued to employees as remuneration and recognise an expense in the statements of financial performance. This standard applies to all share based payments issued after 7 November 2002 which have not vested as at 1 January 2005. Reliable estimation of the future financial effects of this change in accounting policy is impracticable as the details of future equity based remuneration plans are unknown. The impact on Incitec Pivot will be to decrease net profit and increase shareholder equity.

#### **Employee benefits**

Under AASB 119 - Employee Benefits, employer sponsors are required to recognise the net surplus or deficit in their employer sponsored defined benefit funds as an asset or liability respectively. This will result in a change in Incitec Pivot's current accounting policy which does not currently recognise the net assets/liabilities of the defined benefit superannuation fund. Under the new policy, the Company will be required to recognise either an asset of the defined benefit superannuation fund for the net surplus, or a liability of the defined benefit superannuation fund for the net shortfall based on an actuarial calculation of the position of the fund. The initial adjustment on transition will be through retained earnings and subsequent adjustments will be to net profit or loss for the period. Reliable estimation of the future financial effects of this change in accounting policy is impracticable because the actuarial calculations have not yet been completed as at the date of this report 30 September 2004.

#### **Goodwill**

Under the Australian equivalent to AIFRPs 3 - Business Combinations amortisation of goodwill will be prohibited, and will be replaced by annual impairment testing focusing on the cash flows of the related cash generating unit. This will result in a change in the group's current accounting policy which amortises goodwill over its useful life, but not exceeding 20 years. Under the new policy, amortisation will no longer be charged, but goodwill will be written down to the extent it is impaired. Reliable estimation of the future financial effects of this change in accounting policy is impracticable because the conditions under which impairment will be assessed are not yet known. The impact on Incitec Pivot (subject to impairment testing) will be to increase net profit and to increase net assets.

The above should not be regarded as a complete list of changes in accounting policies that will result from the transition to AIFRPs, as not all standards have been analysed as yet, and some decisions have not yet been made where choices of accounting policies are available. For these reasons it is not yet possible to quantify the impact of the transition to AIFRPs on the Company's financial position and reported results.

## **15. Events subsequent to reporting date**

Since the end of the financial year the directors have declared a final dividend of 70 cents per share and a special dividend of 30 cents per share. Both dividends are 100% franked at the 30% corporate tax rate and are payable on 9 December 2004.

The directors have not become aware of any other significant matter or circumstance that has arisen since 30 September 2004, that has affected or may affect the operations of the consolidated entity, the result of those operations, or the state of affairs of the consolidated entity in subsequent years, which has not been covered in this report

## **Compliance statement**

This report gives a true and fair view of the matters disclosed and has been subject to audit.

Signed:



Kerry Gleeson

Company Secretary

Date: 29 October 2004