

# Appendix 4E

## Preliminary Final Report

**Incitec Pivot Limited**

ABN 42 004 080 264

**Financial Year Ended**  
(current period)

**Previous Financial Year Ended**  
(previous corresponding period)

**30 September 2013**

30 September 2012

### Results for announcement to the market

Extracts of the Incitec Pivot Limited results for the financial year ended 30 September 2013

**\$A mill**

Revenues from ordinary activities	down	2.8%	to	3,403.7
Profit for the financial year	down	A\$138.7 mill	to	372.0
Net profit for the financial year	down	A\$138.7 mill	to	372.0

<b>Dividends</b>	<b>Amount per security cents</b>	<b>Franked amount per security at 30% tax cents</b>
<b>Current period</b>		
Interim dividend	3.40	2.55
Final dividend	5.80	4.35
<b>Previous corresponding period</b>		
Interim dividend	3.30	1.65
Final dividend	9.10	6.83

Record date for determining entitlements to the final dividend: 27 November 2013

Payment date of final dividend: 18 December 2013

	<b>Current period</b>	<b>Previous corresponding period</b>
<b>Net tangible asset backing per ordinary security</b>	\$0.77	\$0.73

The information should be read in conjunction with the consolidated financial report, which is set out on pages 40 to 112. For the profit commentary and any other significant information needed by an investor to make an informed assessment of Incitec Pivot Limited's results please refer to the accompanying Incitec Pivot Limited Profit Report.

Conduit foreign income component:

<i>Current period</i>		<i>Previous corresponding period</i>	
Interim dividend		Interim dividend	
Ordinary	0.85 cents	Ordinary	Nil
Final dividend		Final dividend	
Ordinary	1.45 cents	Ordinary	2.27 cents

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## Annual General Meeting

The Annual General Meeting will be held as follows:

Location	The Melbourne Exhibition Centre The Auditorium Level 2, 2 Clarendon Street Southbank VIC 3006
Date	19 December 2013
Time	2.00 pm
Approximate date the annual report will be available	22 November 2013

## Compliance Statement

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

This report uses the same accounting policies as the financial statements prepared under the Corporations Act 2001 (Cth). This gives a true and fair view of the matters disclosed. The financial report is based on accounts which have been audited.

For further information, please contact:

### Investor Relations

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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 2013 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><b>Paul Brasher</b> BEc(Hons), FCA</p> <p>Non-executive Chairman Chairman of the Nominations Committee</p>	<p>Paul was appointed as a director on 29 September 2010. Paul is a non-executive director of Perpetual Limited and the Deputy Chairman of Essendon Football Club. 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 Victorian Arts Centre Trust and the Committee for Economic Development of Australia.</p>
<p><b>Anthony Larkin</b> FCPA, FAICD</p> <p>Non-executive director Chairman of the Audit and Risk Management Committee Member of the Nominations Committee</p>	<p>Tony was appointed as a director on 1 June 2003. He is also a non-executive director of Oakton Limited and MMG 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><b>John Marlay</b> BSc, FAICD</p> <p>Non-executive director Chairman of the Remuneration Committee Member of the Audit and Risk Management Committee</p>	<p>John was appointed as a director on 20 December 2006. John is Chairman of Cardno Limited and a non-executive director of Boral Limited. He is also Chairman of Flinders Ports Holdings Limited and independent Chairman of Tomago Aluminium Company Pty Ltd, a joint venture between Rio Tinto, Alcan, CSR/AMP and Hydro Aluminum companies, and a Member of the Climate Change Authority. John is a former Chief Executive Officer and Managing Director of Alumina Limited, a former director of Alesco Corporation Limited, Alcoa of Australia Limited and the Business Council of Australia, and the former Chairman of the Australian Aluminium Council. He previously held executive positions with Esso Australia Limited, James Hardie Industries Limited, Pioneer International Group Holdings and Hanson plc.</p>
<p><b>Allan McCallum</b> Dip. Ag Science, FAICD</p> <p>Non-executive director Chairman of the Health, Safety, Environment and Community Committee Member of the Remuneration Committee</p>	<p>Allan was appointed as a director on 15 December 1997. Allan is Chairman of Tassal Group Limited, a director of Medical Developments International Limited and a member of the Rabobank Advisory Board. He is a former Chairman of CRF Group Limited, CRF (Colac Otway) Pty Ltd and Vicgrain Limited and a former director of Graincorp Limited. Allan has extensive experience across agriculture and agribusiness.</p>
<p><b>Rebecca McGrath</b> BTP(Hons), MASc, FAICD</p> <p>Non-executive director Member of the Audit and Risk Management Committee Member of the Health, Safety, Environment and Community Committee Member of the Nominations Committee</p>	<p>Rebecca was appointed as a director on 15 September 2011. Rebecca is a non-executive director of OZ Minerals Limited, CSR Limited and Goodman Group. Rebecca is also a member of the Advisory Council at JP Morgan Australia. Her most recent executive position was Chief Financial Officer &amp; Executive Board member for BP Australia and New Zealand. During her 23 year career with BP plc, Rebecca held a number of senior roles including as Chief Financial Officer and Executive Board member for BP Australia and New Zealand. Rebecca is also a former director of Big Sky Credit Union Limited.</p>

Name, qualifications and special responsibilities	Experience
<p><b>Graham Smorgon AM</b> B.Juris, LLB</p> <p>Non-executive director Member of the Health, Safety, Environment and Community Committee Member of the Nominations Committee Member of the Remuneration Committee</p>	<p>Graham was appointed to the Board on 19 December 2008. Graham is a non-executive director of Arrium Limited, Chairman of Smorgon Consolidated Investments and the GBM Group, and a Trustee of the Victorian Arts Centre Trust. His former roles include Chairman of the Print Mint Group, director of Fed Square Pty Ltd, Chairman of the Arts Centre Foundation, Chairman of Smorgon Steel Group Ltd, President of the Carlton Football Club, Deputy Chairman of Melbourne Health, Director of The Walter and Eliza Hall Institute of Medical Research, Chairman of Creative Brands, Chairman of GBM Logic, Member of the Council of Bialik College, Director of the Playbox Theatre Company and Playbox Malthouse Limited, Trustee of the Royal Melbourne Hospital Neuroscience Foundation, Chairman of the RMIT Marketing Industry Advisory Working Committee, and partner of law firm Barker Harty &amp; Co, where he practised as a commercial lawyer for 10 years. In 2013, Graham was awarded a Membership in the Order of Australia for significant service to business and to the community in the State of Victoria.</p>
<p><b>James Fazzino BEc(Hons)</b></p> <p>Managing Director &amp; CEO Member of the Health, Safety, Environment and Community Committee</p>	<p>James was appointed Managing Director &amp; 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.</p>

## Company Secretary

During the 2012/13 financial year, Mrs Kerry Gleeson held the office of Company Secretary. Kerry is a practising solicitor, having been admitted to practice in England and Wales in 1991, and in Victoria, Australia, in 2001.

Kerry was appointed as Company Secretary on 16 February 2004, having previously practised as a lawyer with Blake Dawson (now Ashurst) in Melbourne and, prior to that, Kerry was a partner of an English law firm. In 2012, Kerry became a Fellow of the Australian Institute of Company Directors.

On 31 October 2013, Mrs Gleeson resigned as Company Secretary. Ms Daniella Pereira was appointed as Company Secretary on 31 October 2013.

## 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
P V Brasher <sup>(1)</sup>	40,600
A C Larkin	5,000
J Marlay <sup>(1)</sup>	37,926
A D McCallum <sup>(1)</sup>	216,501
R J McGrath	7,000
G Smorgon AM	0
J E Fazzino <sup>(1)</sup>	1,708,180

(1) Held both directly and indirectly.

Further details of directors' interests in share capital are set out in Note 34 to the financial statements, key management personnel disclosures.

## 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.

## Operating and financial review

Refer to the operating and financial review on page 5.

## Dividends

Dividends paid since the last annual report were:

Type	Cents per share	Total amount \$mill	Franked/Unfranked	Date of payment
<i>Paid during the year</i>				
2012 final dividend	9.1	148.2	75% franked	14 December 2012
2013 interim dividend	3.4	55.4	75% franked	2 July 2013
<i>Paid after end of year</i>				
2013 final dividend	5.8	94.5	75% franked	18 December 2013
<b>Dealt with in the financial report as:</b>				
			<b>Note</b>	<b>\$mill</b>
Dividends			27	203.6
Subsequent event			27	94.5

## Changes in the state of affairs

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

# 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 - Current <sup>(1) (2)</sup>	Board		Audit and Risk Management		Remuneration		Nominations		Health, Safety, Environment and Community	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
P V Brasher	11	11					3	3		
A C Larkin	11	11	4	4			3	3		
J Marlay	11	11	4	4	4	4				
A D McCallum	11	11			4	4			4	4
R J McGrath	11	11	4	4			3	3	4	4
G Smorgon AM	11	11			4	4	3	3	4	4
J E Fazzino	11	11							4	4

Chairman Member

(1) 'Held' indicates the number of meetings held during the period that the director was a member of the Board or Committee.

(2) 'Attended' indicates the number of meetings attended during the period that the director was a member of the Board or Committee.

## Events subsequent to reporting date

Since the end of the financial year, in November 2013, the directors determined to pay a final dividend for the Company of 5.8 cents per share on 18 December 2013. The dividend is 75% franked (Refer Note 27 to the financial statements).

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 2013 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

Refer to the operating and financial review for information on likely developments and future prospects of the Group.

## Environmental regulation and performance

The operations of the Group are subject to environmental regulation under the jurisdiction of the countries in which those operations are conducted including, Australia, United States of America, Mexico, Canada, Indonesia, Papua New Guinea and Turkey.

The environmental laws and regulations generally address the potential aspects and impacts of the Group's activities in relation to, among other things, air and noise quality, soil, water, biodiversity and wildlife.

The Group operates under a Global Health, Safety and Environment Management System which sets out guidelines on the Group's approach to environmental management, including a requirement for sites to undertake an Environmental Site Assessment.

In certain jurisdictions, the Group will hold licences for some of its operations and activities from the relevant environmental regulator. The Group measures its compliance with such licences and reports statutory non-compliances as required.

Measurement of the Group's environmental performance is based upon the potential consequence (not the actual impact) of incidents which are reported across four levels: Category 1 - minor; Category 2 - moderate; Category 3 - serious/major; and Category 4 - extreme/catastrophic. This is reflected in the table below, noting the loss of containment which gave rise to a potential consequence in Category 4 involved a small release of gas (sulphur trioxide) into the atmosphere for which there was no impact on either the environment or the community. Similarly, in the case of the 39 losses of containment which gave rise to potential consequences in Category 3, these typically involved fertiliser product spillage during loading/unloading or a loss of containment of product due to weather events such as excessive rainfall.

For the 2012/13 financial year, the aggregate amount of fines for environmental incidents reported in the table below was \$5,200.

Category	Environmental Incidents	
	Licence Non-compliance	Site Loss of Containment
Category 2	14	102
Category 3	2	39
Category 4	0	1

Annually, the Company publishes a Sustainability Report which is available on its website at [www.incitecpivot.com.au](http://www.incitecpivot.com.au). The Report provides details of the Group's environmental management, performance and initiatives.

Incitec Pivot's sustainability performance has been recognised nationally and internationally by independent experts through inclusion in:

- the Dow Jones Sustainability Asia Pacific Index in 2012 and 2013; and
- the Dow Jones Sustainability Australia Index in 2012 and 2013.

In addition, for the purpose of Australian regulations which apply to the Company itself, as an Australian listed entity:

- the Company reports its annual Australian greenhouse gas emissions, energy consumption and production under the National Greenhouse and Energy Reporting scheme (NGERS). In addition, Incitec Pivot participates in the Australian Government's Energy Efficiency Opportunities program and has been recognised by the Government as a "Best Practice" participant; and
- the Company also reports its environmental release and discharge data to the National Pollutants Inventory in Australia.

The Company continues to devote considerable resources to remediating legacy sites, namely sites at which operations have ceased, in line with its corporate value "Care for the Community & our Environment".

### 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

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

### Non-audit services

Deloitte Touche Tohmatsu has provided non-audit services to the amount of \$131,400 during the year ended 30 September 2013 (Refer Note 7 to the financial statements).

As set out in Note 7 to the financial statement, the Audit and Risk Management Committee must approve individual non-audit engagements provided by Deloitte Touche Tohmatsu above a value of \$100,000, as well as the aggregate amount exceeding \$250,000 per annum. Further, in accordance with its Charter, during the year the Committee has continued to monitor and review the independence and objectivity of the auditor, having regard to the provision of non-audit services. Based on the advice of the Audit and Risk Management Committee, the directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 and does not compromise the external auditor's independence.

### 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 Deloitte Touche Tohmatsu's independence as auditor.

The lead auditor's independence declaration is set out on page 39.

### 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.



## Operating and financial review

### Group Overview

Incitec Pivot is an industrial chemicals company that supplies fertilisers and industrial explosives products and services to the agriculture and mining industries. It has operations in Australia, North America, Europe, Asia, Latin America and Africa.

Incitec Pivot's corporate ambition is to be the best in the markets in which it operates, delivering Zero Harm and outstanding business performance and above average returns to its shareholders.

To achieve this corporate ambition Incitec Pivot's strategy is to leverage dislocations in the world's two largest economies, being the industrialisation and urbanisation of China and the shale gas revolution in the USA. Incitec Pivot executes its strategy by positioning itself on the input side of the value chain, leveraging core nitrogen and high explosives chemicals manufacturing expertise and servicing customers via aligned downstream businesses.

Incitec Pivot operates through three business units, details of which are set out in this section:

- Fertilisers (Incitec Pivot Fertilisers ("IPF") and Southern Cross International ("SCI"));
- Dyno Nobel Americas ("DNA"); and
- Dyno Nobel Asia Pacific ("DNAP").

### Overview of the 2013 Financial Year

In the 2013 financial year, Incitec Pivot faced difficult trading conditions, given the negative impact of a higher foreign exchange rate between Australian and US dollars and a significant decline in global commodity markets across the fertilisers business. The fertilisers business was impacted by large declines in the global prices of ammonium phosphates and urea. The explosives business faced declining volumes in North America reflecting the carry over impact of high coal inventories from 2012.

In 2013, Incitec Pivot had unplanned plant outages at three plants: during the commissioning phase at the new ammonium nitrate complex at Moranbah, Queensland, and, at the ammonium phosphates plants at Phosphate Hill and Mt Isa, Queensland. As a result, Incitec Pivot conducted a detailed review of its Global Manufacturing Operations, to reinforce Incitec Pivot's commitment to safe, reliable and efficient production. The outcome of this review has seen the Global Manufacturing team restructured to fully leverage the technical expertise across the Group and provide the rigour and focus required to achieve manufacturing excellence at all of its sites. Operational issues associated with these three plants and required repairs are progressing well.

Incitec Pivot has also set the growth platform for the medium term with the commissioning of the Moranbah complex and the announcement of the construction of a new ammonia plant in Louisiana, USA. On 17 April 2013, Incitec Pivot announced that it was investing US\$850m to build an 800,000 metric tonne per annum ammonia plant in Louisiana, USA. The Louisiana ammonia plant investment is strategically attractive as it will backward integrate the US Ammonium Nitrate business to gas and leverage Incitec Pivot's core manufacturing competency. The plant is being constructed by KBR Inc, a leading engineering, construction and services company, under a Lump Sum Turnkey contract, on a

brownfield site from which Incitec Pivot can leverage existing infrastructure. The construction of the Louisiana plant began in August 2013 and is planned to continue through to 2016.

With the medium term growth platform set, the immediate focus for all businesses is now firmly on optimising existing manufacturing assets, improving productivity and executing strategies to maximise returns.

### Group Financial Performance Review

Incitec Pivot reported Net Profit After Tax ("NPAT") of \$372.0m, down \$138.7m from the prior year of \$510.7m. This result was primarily driven by the significantly lower global fertiliser prices achieved during the 2013 financial year and growth in earnings from the Moranbah plant being offset by the impact of the finalisation in 2012 of the Moranbah Unfavourable Contract Liability release. Net Profit After Tax excluding Individually Material Items ("NPAT ex IMIs") decreased by 26 percent, or \$106.3m, to \$298.4m (2012: \$404.7m).

In November 2013, the directors determined to pay a final dividend for the Company of 5.8 cps (2012: 9.1cps), which reflected a pay-out ratio of 50 percent of NPAT ex IMIs. This dividend will be 75 percent franked and will be paid on 18 December 2013. This takes the total dividend in respect of the 2013 financial year to 9.2 cps, a 26 percent decrease from the 2012 financial year. In relation to the 2013 final dividend, Incitec Pivot has announced that it will recommence its dividend reinvestment plan ("DRP"), which was suspended in 2010. A discount of 1.5% will be applied in determining the offer price under the DRP. The 2013 final dividend will not be underwritten.

Sales Revenue decreased by 3 percent, or \$97.2m, to \$3,403.7m (2012: \$3,500.9m), and Earnings Before Interest and Tax excluding Individually Material Items ("EBIT ex IMIs") fell by 22 percent or \$132.9m to \$466.2m (2012: \$599.1m), due to a 37 percent decline in Fertiliser Earnings Before Interest and Tax ("EBIT") and an 18 percent decline in Explosives EBIT.

The decline in the Fertiliser business was primarily due to lower fertiliser prices, reflecting the impact of lower global ammonium phosphate and urea prices, the negative impact of the higher foreign exchange rate between Australian and US dollars on US denominated fertiliser sales and the reduced volumes of ammonium phosphate production due to the net impact of unplanned outages at Phosphate Hill and Mt Isa.

The Explosives business was also impacted by difficult global market conditions for hard commodities. DNAP experienced a decline in EBIT due to the unwind of the Moranbah Unfavourable Contract Liability release in 2012, offset partially by the increase in earnings from the Moranbah plant. DNA experienced a decline in earnings due to the negative impact of lower prices achieved by the Agricultural and Industrial Chemicals business and the downturn in the North American coal sector.

Despite the negative impact of global commodity prices and demand, Incitec Pivot was able to achieve underlying growth by focusing on execution and achieving a recovery in the margins earned by the Fertilisers distribution business and Quantum as a result of the new contract model and other risk management processes having a positive impact and stabilising margins.

Additionally there was an increase in revenue in DNAP reflecting higher sales volumes from Moranbah. The Group's approach to continuous improvement, 'Business Excellence' ("BEx") also achieved benefits of \$39.0m. BEx has now been embedded into the businesses with benefits and implementation costs being recognised in each business unit.

Corporate costs for the Group declined by 56% to \$31.2m in the 2013 financial year (2012: \$71.7m). Significant factors driving the decline are that BEx implementation costs are now being recognised in the businesses whereas in the previous period they were recognised in corporate costs and the expensed feasibility costs in the 2012 financial year associated with the proposed ammonium nitrate plant at Kooragang Island, New South Wales do not repeat in the 2013 financial year.

A detailed analysis of the business segment performance is provided on the following pages.

### Group Financial Position Review

Incitec Pivot's Balance sheet at 30 September 2013 reflects the ongoing financial discipline throughout the business. Trade Working Capital ("TWC") decreased by \$123m to \$37m at year end (2012: \$160m), reflecting both a decrease in receivables across the Group and an increase in Fertiliser payables trading terms. The average thirteen month TWC as a percentage of annual revenues for the Explosives business has decreased again in the current year, reflecting sustained improvement in this metric since the acquisition of Dyno Nobel.

Net property plant and equipment increased by \$295m to \$3,034m (2012: \$2,739m). This increase is a result of capital expenditure and a positive foreign currency translation of US dollar denominated assets, partially offset by depreciation and disposals.

The intangible assets balance increased reflecting the positive translation of US dollar denominated intangible assets and investment in business software, offset by amortisation of intangibles and the impairment of Nitromak goodwill.

Net other liabilities/assets decreased by \$134m to a liability position of \$115m (2012: asset of \$19m), largely due to an unrealised net negative movement in balance sheet hedges. These hedge movements are matched against asset movements elsewhere in the balance sheet.

The composition of the Group's Net Debt<sup>(5)</sup> has changed and the tenor of the Group's debt facilities has increased. In August 2013, Incitec Pivot issued notes worth \$200m under its Australian Medium Term Note program. The notes pay interest semi-annually at a fixed rate of 5.75 percent and mature in February 2019. The Group also renegotiated the Syndicated bank facility in August 2013, with the new facility limit of \$1.45Bn available from September 2013. The new Syndicated bank facility will expire in two tranches, \$850m expiring in October 2016 and the remaining \$600m of the facility expiring in September 2018. The new facility replaced the \$900m syndicated facility as well as the \$250m bilateral facilities, which were cancelled in September 2013.

Combined with the existing US144A bond facilities these new facilities increase the tenor and diversity of the debt book during the construction of the Louisiana project.

At 30 September 2013, Incitec Pivot's net debt was \$1.3Bn (2012: \$1.2Bn), with committed headroom available of \$1.72Bn (2012: \$1.1Bn), representing the \$1.45Bn undrawn Syndicated Facility and cash on hand at 30 September 2013.

Additionally Incitec Pivot continues to maintain sound credit metrics with Net Debt/EBITDA (excluding Individually Material Items ("IMIs"))<sup>(1)</sup> 2.0 times (2012: 1.6 times) and interest cover 6.2 times (2012: 7.9 times).

Finally, the Incitec Pivot result also included IMIs (net of tax) which in 2013 resulted in a net income position of \$73.6m, which comprised:

- Realised gain of \$115.1m after tax following the reversal of a contingent tax liability created on the acquisition Dyno Nobel and recognition of tax assets.
- Nitromak goodwill impairment of \$41.5m due to a subdued outlook for the Turkish economy (consistent with Europe).

### Group Results Summary

	Year Ended 30 September		
	2013	2012	Change
	A\$mill	A\$mill	%
<b>INCITEC PIVOT GROUP FINANCIALS</b>			
Sales Revenue	3,403.7	3,500.9	(3%)
EBITDA ex IMIs <sup>(1)</sup>	649.9	754.9	(14%)
EBIT ex IMIs <sup>(2)</sup>	466.2	599.1	(22%)
NPAT ex IMIs <sup>(3)</sup>	298.4	404.7	(26%)
IMIs	73.6	106.0	
NPAT	372.0	510.7	(27%)
<b>Business Segment EBIT</b>			
Dyno Nobel Asia Pacific	149.4	211.3	(29%)
Dyno Nobel Americas	179.4	190.6	(6%)
Intercompany Elimination	(1.1)	(2.0)	
<b>Explosives</b>	<b>327.7</b>	<b>399.9</b>	<b>(18%)</b>
Southern Cross International	70.3	175.3	(60%)
Incitec Pivot Fertilisers	96.4	92.3	4%
Intercompany Elimination	3.0	3.3	
<b>Fertilisers</b>	<b>169.7</b>	<b>270.9</b>	<b>(37%)</b>
Corporate costs	(31.2)	(71.7)	56%
<b>EBIT</b>	<b>466.2</b>	<b>599.1</b>	<b>(22%)</b>
<b>Shareholder Returns</b>			
EPS ex IMIs <sup>(4)</sup>	18.3	24.8	(26%)
EPS	22.8	31.4	(27%)
Dividend per share	9.2	12.4	(26%)
<b>Financing Key Performance Indicators</b>			
Operating cash flows	614.5	620.8	(1%)
Net Debt <sup>(5)</sup>	(1,277.5)	(1,230.8) <sup>(6)</sup>	(4%)
Interest cover (times) <sup>(7)</sup>	6.2x	7.9x	
Net Debt/EBITDA (times) <sup>(5),(8)</sup>	2.0x	1.6x	

(1) EBITDA ex IMIs = Earnings Before Interest, Tax, Depreciation and Amortisation, excluding Individually Material Items ("IMIs").

(2) EBIT ex IMIs = Earnings Before Interest, Tax, excluding IMIs.

(3) NPAT ex IMIs = Net Profit After Tax attributable to shareholders of IPL, excluding IMIs.

(4) EPS ex IMIs = Earnings Per Share, excluding IMIs.

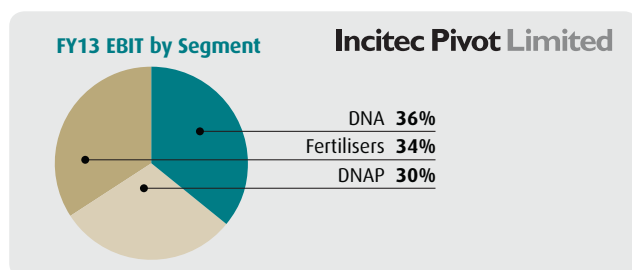
(5) In financial year 2013, the definition of 'Net Debt' was broadened to better represent the Group's exposure to interest bearing liabilities. The revised definition aggregates interest bearing liabilities plus the fair value of derivative instruments in place economically to hedge the Group's interest bearing liabilities, less available cash and cash equivalents.

(6) Net Debt shown for financial year 2012 has been stated per revised definition of 'Net Debt'.

(7) Interest cover = 12 month rolling EBITDA/interest expense before accounting adjustment.

(8) Net Debt/EBITDA is based on Net Debt at point in time/last 12 month historical EBITDA.





## Outlook

At a Group level, with the medium term growth platform set, the priorities for the Company will be the construction of the Louisiana ammonia plant and driving continuous improvement through BEx principles. The Group has hedged approximately 90 percent of its estimated US dollar fertiliser sales exposure in 2014 at a maximum rate of \$0.95, with full participation in favourable moves in the Australian to US dollar exchange rate. The Group actively manages foreign currency and interest rate risk through hedging activities conducted with the use of derivatives and other financial instruments. Due to the significant negative impact that both global fertiliser prices and the strong Australian dollar are having on earnings, Incitec Pivot will restructure its corporate centre, functional areas and business unit administrative activities. The restructure is expected to deliver \$20m of cost savings per annum, of which approximately \$12m will be delivered in 2014. One-off implementation costs will be approximately \$10m.

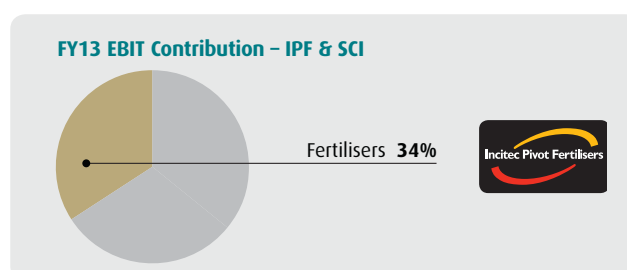
In relation to the businesses, for IPF, the focus will be on optimising manufacturing assets and managing distribution earnings in an environment of uncertain global fertiliser prices and securing competitively priced sources of gas and sulphuric acid. For DNA, the focus will turn to optimising the market value of its products. From the third quarter of 2016 onwards, DNA will also look to successfully integrate the Louisiana ammonia plant into the DNA portfolio. In relation to DNAP, the completion of Moranbah's ramp up will remain the priority given the tougher conditions in the ammonium nitrate market in the Asia Pacific region. More details on the outlook for each of the businesses are set out in the relevant sections below.

The outlook for the Group should be considered with regard to the current global economic business climate and any sustained downturn in the economies in which it operates (North America, South America, China, India, Europe and Australia). Consideration should also be given to the business risks, as outlined in the relevant sections below, and their potential impact on the Group. In addition, any loss from such risks may not be recoverable in whole or in part under Incitec Pivot's insurance policies.

## Fertilisers (Incitec Pivot Fertilisers and Southern Cross International)

### Financial summary

	Year Ended 30 September		
	2013 A\$mill	2012 A\$mill	Change %
<b>IPF</b>			
Revenue	1,095.4	1,159.1	(5%)
EBIT ex IMIs	96.4	92.3	4%
<b>SCI</b>			
Revenue	562.9	731.9	(23%)
EBIT ex IMIs	70.3	175.3	(60%)



## Operations

Incitec Pivot Fertilisers ("IPF") is Australia's largest supplier of fertilisers, dispatching around two million tonnes each year for use in the grain, cotton, pasture, dairy, sugar and horticulture industries. Bulk and packaged fertiliser products are distributed to farmers through a network of more than 200 business partners and agents. IPF supports farmers in eastern Australia, from tropical fruit growers in north Queensland to dairy producers in Tasmania. IPF also manufactures various industrial chemical products used in water treatment, process manufacturing and other industrial applications and sources fertilisers from the Company's Gibson Island plant, Southern Cross International and imports.

Southern Cross International ("SCI") sells manufactured fertiliser and industrial chemicals products to other importers in Australia and actively markets Incitec Pivot's own product in offshore markets such as South East Asia and Latin America, via Quantum Fertilisers, an Incitec Pivot subsidiary.

## Strategy

The Fertilisers strategy is to maximise value by leveraging asset positions and alternative channels to market to maximise returns and reduce volatility in earnings.

## Performance

IPF's EBIT increased by \$4.1m or 4 percent to \$96.4m (2012: \$92.3m). This result was driven by an increase in distribution margins earned by the Fertilisers distribution business as a result of implementation of enhanced risk management processes. The new contract model mitigated margin erosion that would have otherwise occurred with the sustained falls in urea prices in the second half. Additionally, the business achieved an increase in production volumes for urea or urea equivalent products (refer to Market Summary) and the impact of both lower input costs and higher production at the Gibson Island plant, lead to a lower overall cost per tonne of Gibson Island product.

Gibson Island has the most advanced BEx implementation in global manufacturing. This result was achieved despite the negative net impact of fertiliser prices and the unfavourable impact of the higher foreign exchange rate between Australian and US dollars on US dollar denominated urea sales and earnings.

SCI's EBIT decreased by \$105.0m or 60 percent to \$70.3m (2012: \$175.3m). Earnings from the plant in Phosphate Hill, Queensland declined due to:

- Lower average ammonium phosphate fertiliser prices in addition to the impact of higher domestic freight rates (coastal shipping) and softer global freight markets;
- Unfavourable impact of the higher foreign exchange rate between Australian and US dollars on US dollar denominated di-ammonium phosphate sales and earnings; and
- Negative net impact of the unscheduled plant outages at Phosphate Hill and Mt Isa, Queensland which resulted in lost margin due to lower sales volumes and an unfavourable cost absorption.

Quantum earnings increased as a result of a more conservative approach being adopted in volatile markets. This conservative approach has delivered a modest profit as compared to the loss incurred in 2012. The Quantum business enables Incitec Pivot to achieve higher prices on exported ammonium phosphates, reduce price and margin risk, achieve better procurement of key imports and overall reduce Trade Working Capital by providing alternate channels to market.

Earnings from the industrial chemicals business declined as a result of lower commodity prices, the higher foreign exchange rate between Australian and US dollars and lower sales volumes of manufactured ammonia and urea related products sold by the business in the 2013 financial year. Volumes were diverted to higher netback sales in the domestic fertiliser business.

The combination of the two fertiliser businesses, SCI and IPF, under a single management structure in March 2012, continued to deliver benefits throughout the 2013 financial year. Through improved visibility across value chains and better alignment of key functions, IPF was able to access a number of sources of value that were previously not visible, and mitigated price risk associated with its inherent long positions. These opportunities include reduction of risk by determining fertiliser buying decisions based on end-to-end supply chain view, the repositioning of cargoes destined for the domestic market into international, industrial or wholesale markets as market demand altered, procurement of imports with shorter lead times by accessing existing positions within the trading business (Quantum) and maximising earnings by shifting production tonnes into markets with the highest net backs.

### Market Summary

The IPF business sells into the following major markets:

#### Winter Crop

Early season sales made in the first half of the financial year remained steady as farmers delayed any significant pre-purchase of fertilisers due to dry conditions and relatively stable global prices.

By contrast, the second half saw strong demand for both sowing and topdressing, driven by favourable seasonal conditions and attractive soft commodity prices. Overall for the 2013 financial year, IPF's volumes sold into this market were higher than the previous year.

#### Summer Crop

The first four months of the 2013 financial year were negatively impacted by dry conditions in north east Australia, which resulted in lower cotton and sorghum plantings. Sales then recovered through the year to offset this decline as favourable cropping conditions prevailed in the second half.

#### Pasture

Single superphosphate ("SSP") sales volumes were slightly down on the prior year. The decline is driven by the strong foreign exchange rate between Australian and US dollars impacting farm incomes. Additionally, delayed rain at the start of the season and lower milk prices, saw some market contraction for SSP usage in Southern Australia.

### EBIT Sensitivities

The sensitivities shown below have been calculated based on the 2013 achieved di-ammonium phosphate ("DAP") and urea prices, at a realised foreign exchange rate between Australian and US dollars of \$0.9957 (representing the rate achieved in the twelve month period ended 30 September 2013), and nameplate urea and DAP production.

	Sensitivity (per annum)
IPF: Urea – Middle East Granular Urea (FOB) <sup>(1)</sup>	+/-US\$10/t = +/-A\$4.1m
SCI: DAP – Di-Ammonium Phosphate Tampa (FOB) <sup>(2)</sup>	+/-US\$10/t = +/-A\$9.5m
Forex – transactional (DAP & Urea) <sup>(3)</sup>	+/- 1 cent = A\$6.2m

#### Assumptions:

- (1) 405,000t (nameplate Gibson Island production capacity) urea equivalent sales at a 2013 realised price of US\$373/t and the 2013 realised exchange rate of A\$/US\$0.9957.
- (2) 950,000t (nameplate Phosphate Hill production capacity) DAP sales at a 2013 realised price of US\$482/t and the 2013 realised exchange rate of A\$/US\$0.9957.
- (3) DAP & urea volumes and FOB price based on assumptions (1) and (2) (excludes impact of hedging).

### Outlook

Given the potential material impact of movements in fertiliser prices and foreign exchange markets on the Group result, the Fertiliser business does not provide price forecasts.

Looking forward, the focus for the business will be on optimising manufacturing assets. The 2014 financial year is a planned major shut year at the Phosphate Hill plant. As previously reported, the plant is being run conservatively in the months before the May/June 2014 major shut. In order to avoid plant damage, two shuts will occur in the 2014 financial year: a 16 day shut in October/November 2013 primarily focussed on granulation and load out facilities and a 35 day shut in May/June 2014 focussed on the sulphuric acid, phosphoric acid and ammonia plants. Phosphate Hill is expected to produce 830,000t in 2014.

In terms of the distribution business, the new risk management processes, combined with a Value-at-Risk model, will continue to assist Incitec Pivot in managing its distribution earnings in an environment of uncertain global fertiliser prices.

The outlook for the Fertiliser business should be considered with regard to a number of business risks which include but are not limited to:

- Global fertiliser price deterioration.
- The appreciation of the Australian dollar against the US dollar negatively impacting US denominated earnings. This is particularly the case when combined with relatively low global prices for ammonium phosphates and urea fertilisers.
- The competitive markets in which Incitec Pivot operates. Specifically, the Fertilisers business operating in a distribution and manufacturing market competing against manufacturers with lower input costs and potentially regulatory and economic advantages. A competitive market may also lead to the loss of customers and therefore negatively impact earnings.
- The various operational hazards, including from the manufacture, processing and transportation of its fertiliser products and in the provision of related services, which could potentially result in injury or incident to employees, contractors, the public or the environment.
- Risks associated with the manufacture, distribution and storage of fertilisers and industrial chemicals products. These risks include the need for plant reliability, labour, weather and timely and economic supply of adequate raw materials, such as natural gas, ammonia, phosphate rock, sulphur and sulphuric acid. Specifically, the risks associated with the economic supply of sulphuric acid and natural gas are set out in further detail below:

#### *Sulphuric Acid*

Sulphuric acid is a major input required for the production of ammonium phosphates. Incitec Pivot produces sulphuric acid at its Mt Isa operations from a combination of processing metallurgical gas sourced from Xstrata's copper smelting facility and from burning imported elemental sulphur. The Mt Isa acid production is also supplemented with sulphuric acid purchased directly from a domestic smelter to meet total sulphuric acid requirements for the production of ammonium phosphates at Phosphate Hill.

In May 2011, Xstrata publicly announced the planned closure of its copper smelting operation at Mt Isa, Queensland by the end of 2016. After the closure of the copper smelting operation, the Group will no longer receive the free metallurgical gas from Xstrata. Post the closure, the Mt Isa plant will produce sulphuric acid only using elemental sulphur, resulting in the plant producing a reduced volume of sulphuric acid. Alternative sources of sulphuric acid to replace the shortfall arising from the loss of metallurgical gas from Xstrata are likely to negatively impact the cost of producing ammonium phosphates at SCI's Phosphate Hill facility from that date. The quantum of the impact will depend on the future availability and price of sulphur and/or sulphuric acid.

In 2013, Glencore Group Plc completed its takeover of Xstrata. The impact of the takeover on Xstrata's operations at Mt Isa, if any, is unclear. If Glencore Xstrata were to change the previously announced closure date of the smelter to an earlier date, that may negatively impact the results of the SCI business. Conversely an extension beyond 2016 may improve the results. The quantum of the impact of an earlier closure is uncertain and would depend on the Group's ability to successfully develop alternative sources of sulphuric acid before closure of the copper smelter (and cessation of metallurgical gas supply).

The Mt Isa site is a leased site and a lease contract is in place with Xstrata to 2020. Accordingly, Incitec Pivot is able to continue to produce sulphuric acid at Mt Isa using elemental sulphur until 2020, notwithstanding cessation of the copper smelter operation.

Sulphuric acid and sulphur are internationally traded commodities with pricing based on international benchmarks and, as such, 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. Fluctuations in either or both of these variables can impact the profitability of Incitec Pivot's manufacturing operations.

#### *Natural Gas*

Gas is one of the major inputs required for the production of ammonia and therefore is a critical feedstock for a number of Incitec Pivot's manufacturing operations.

The cost of gas impacts the variable cost of production of ammonia and can influence a plant's overall competitive position, particularly for fertiliser products (for example, urea and ammonium phosphates) given they are globally traded commodities. In Australia, there has been upward pressure on gas prices due to an increase in:

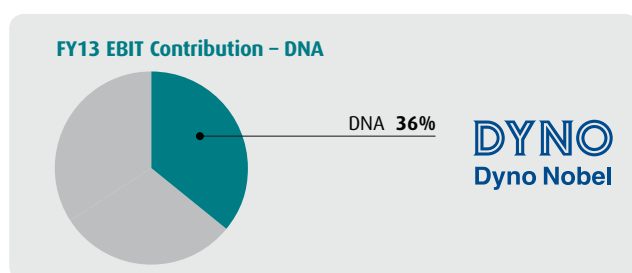
- demand driven by the development of the Liquefied Natural Gas (LNG) export market; and
- costs to develop new sources of gas supply.

The Group has separate gas supply contracts for each of the Phosphate Hill and Gibson Island manufacturing facilities, which expire early in the 2015 financial year and the beginning of the 2018 financial year respectively. There is a risk that a reliable, committed source of gas at commercial prices may not be available to the Group for use at either or both of these sites following the expiry of current contractual arrangements.

## Dyno Nobel Americas

### Financial summary

	Year Ended 30 September		
	2013	2012	Change
	\$mill	\$mill	%
<b>A\$m</b>			
Revenue	1,204.0	1,172.2	3%
EBIT ex IMIs	179.4	190.6	(6%)
<b>US\$m</b>			
Revenue	1,194.0	1,203.3	(1%)
EBIT ex IMIs	178.4	195.7	(9%)



### Operations

Dyno Nobel Americas (“DNA”) is a leading supplier of industrial explosives and blasting services to the mining, quarrying and construction industries. DNA is the market leader in North America – the largest explosives market in the world. DNA also includes earnings from industrial explosives products and services sold to customers in Mexico, Chile and Turkey via Dyno Nobel International (“DNI”). Additionally, DNA supplies nitrogen based products to several agricultural and industrial chemical markets.

### Strategy

DNA’s strategy is to maximise value in the market and produce improved and sustainable earnings by leveraging established infrastructure, brand and channel strategies, as well as to capitalise on industry size to build scale and expertise which can be deployed into other markets.

### Performance

DNA’s EBIT decreased by A\$11.2m or 6 percent to A\$179.4m (2012: A\$190.6m). On a US dollar basis, DNA’s EBIT decreased by US\$17.3m or 9 percent to US\$178.4m (2012: US\$195.7m). The decline in earnings was largely driven by the negative impact of lower urea and urea ammonium nitrate (“UAN”) prices in the Agriculture and Industrial Chemicals business, and the downturn in the coal sector which had the impact of reducing ammonium nitrate sales volumes. A more detailed explanation of sales volumes is provided in the ‘Market Summary’ section below. The result was tempered by efficiencies achieved by the implementation and embedding of BEx into the business as well as higher volumes from the St Helens plant in Oregon, US, in 2013.

### Market Summary

DNA’s explosives business sells product into the following major markets:

#### Coal

The Coal segment accounted for 55 percent of the ammonium nitrate (“AN”) volumes sold by the DNA business. In the 2013 financial year, sales volumes to coal customers were down compared to the prior year, reflecting the carry over impact of high coal inventories from the previous financial year. Increases in gas prices in 2013 have slowed the rate of switching from coal to gas for energy generation in the US. Additionally, coal inventories have reduced in 2013, but still remain above long term averages, which will continue to temper demand in the short term.

#### Quarries & Construction (“Q&C”)

The Q&C market accounted for 16 percent of the AN volumes sold by the DNA business. Sales volumes grew modestly through the second half of the financial year following a flat first half. DNA’s Q&C volumes are driven by public construction (50 percent), and the non-residential construction and residential construction industries (50 percent). While US residential starts are showing positive signs, DNA’s leverage to this recovery is middle to late cycle. DNA remains well positioned for future growth in this market.

#### Metals & Mining

The Metals and Mining market accounted for 29 percent of the AN volumes sold by the DNA business in the 2013 financial year. AN sales volumes increased on the prior year reflecting overall market growth.

#### Agriculture and Industrial Chemicals

DNA also supplies nitrogen based products into selective agricultural and industrial chemical markets. DNA Agriculture and Industrial Chemicals business declined in the 2013 financial year as a result of decreases in average urea and UAN prices, partially offset by increased volumes over the prior corresponding period from the St Helens plant.

#### Dyno Nobel International

DNI earnings were relatively flat on the prior corresponding period. The result was driven by an improvement in earnings from the Chile business however was offset by softening prices in Mexico and lower earnings from the Nitromak business in Turkey. Nitromak goodwill has been impaired by \$41.5m this financial year, to reflect a subdued outlook for the Turkish economy (consistent with Europe).

### EBIT Sensitivities

The table below shows the sensitivities associated with the DNA business:

	Sensitivity (per annum)
DNA: Urea (FOB) <sup>(1)</sup>	+/-US\$10/t = +/-US\$1.8m
DNA: Forex – translation of Explosives earnings <sup>(2)</sup>	+/- 1 cent = A\$1.8m

#### Assumptions:

- (1) 180,000t (nameplate St Helens production capacity – short tonnes) urea equivalent sales at 2013 NOLA Urea average price of \$395/t and the 2013 realised exchange rate of A\$/US\$0.9957 (representing the rate achieved in the twelve month period ended 30 September 2013).
- (2) Based on 2013 US dollar denominated earnings.



## Outlook

The outlook for DNA's markets in the medium to long-term remains relatively positive. DNA's exposure to public and non-residential construction is expected to drive growth in the Q&C business in the medium term, and domestic demand for iron ore is expected to continue to drive the Metals & Mining business as the US economy improves.

As DNA's markets stabilise over the coming years, the focus will turn to optimising the market value of its products. From the third quarter of 2016 onwards, DNA will also look to successfully integrate the ammonia plant in Louisiana into the DNA portfolio.

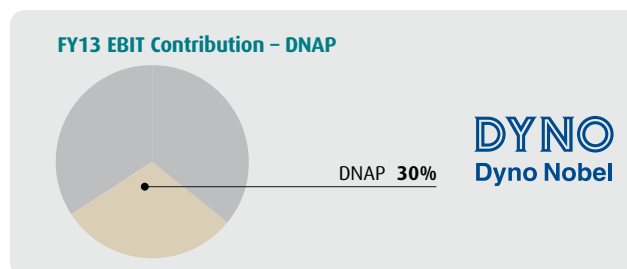
The outlook for the DNA business should be considered with regard to a number of business risks which include but are not limited to:

- Changes in North American demand and supply of hard commodities, such as iron ore, coal and gold.
- Deterioration of AN, urea and UAN product prices which are likely to be affected more directly by changes in the supply and demand dynamics in their respective markets.
- The appreciation of the Australian dollar against the US dollar negatively impacting US dollar denominated earnings.
- Risks associated with the manufacture, distribution and storage of AN and industrial explosives products. These risks include the need for plant reliability, labour, weather and timely and economic supply of adequate raw materials, such as natural gas and ammonia.
- In North America, the rapid expansion of shale gas reserves and collection techniques has seen gas prices decrease from 2008 to 2013. Changes in the domestic supply/demand balance, environmental legislation or introduction of taxes could impact North American gas pricing into the future. This, in turn, would impact Incitec Pivot's cost of ammonia production at its North American facilities.
- The explosives market in the US is facing an over-supply of AN in addition to demand softness driven by weaker coal markets. Longer term, there are additional regulatory risks, depending on the US government at the time, associated with coal-fired energy generation.
- Risks associated with the loss of customers may negatively impact earnings.
- The various operational hazards, including from the manufacture, processing, storage and transportation of its explosives products and in the provision of related services, which could potentially result in injury or incident to employees, contractors, the public or the environment.
- Risks associated with construction of the ammonia plant in Louisiana including unforeseen human error, energy or water disruptions, natural disasters and acts of god, sabotage, terrorist attacks and other events which may disrupt or delay the construction phase. In addition, losses from such events may not be recoverable in whole or in part under the construction contract or Incitec Pivot's insurance policies.

## Dyno Nobel Asia Pacific

### Financial summary

	Year Ended 30 September		
	2013	2012	Change
	A\$mill	A\$mill	%
Revenue	781.5	626.4	25%
EBIT ex IMIs	149.4	211.3	(29%)



### Operations

Dyno Nobel Asia Pacific ("DNAP") is a leading supplier of industrial explosives and blasting services to the mining industry across Australia, Indonesia and Papua New Guinea. In particular, DNAP supplies industrial explosives and blasting services to surface and underground mining in the thermal coal, metallurgical coal, iron ore and other metals sectors. DNAP is the second largest supplier in Australia – the third largest explosives market in the world.

### Strategy

DNAP's strategy is to invest in capability to maximise returns across growing markets directly linked to industrialisation across Asia, with the immediate focus on maximising returns on the newly constructed ammonium nitrate plant in Moranbah, Queensland and positioning for further growth in the Asia Pacific region.

### Performance

DNAP's EBIT decreased by \$61.9m or 29 percent to \$149.4m (2012: \$211.3m). The 2012 result included an \$81.1m positive non-cash impact of the Moranbah Unfavourable Contract Liability release, which has now been fully unwound. Excluding this impact, DNAP's EBIT increased by \$19.2m or 15 percent to \$149.4m (2012: \$130.2m). Significant drivers of the result included an increase in profit from the Moranbah plant, and an increase in earnings from DNAP's joint venture business in Moura, primarily driven by a stronger production performance.

However, the result was partially offset by softness in the Hardrock & Underground market segment and the loss of a customer in the Hunter Valley. Additionally, there was a second half cost impact arising from purchasing AN, an increase in operating costs associated with running the DNAP business (including human resources and safety functions), redundancy costs associated with right sizing the business, as well as costs associated with embedding BEx into the business unit.



There was an unplanned plant outage at the new Moranbah ammonium nitrate facility during the first half of the financial year. The plant experienced issues in the commissioning phase associated with the gas supply, steam balance and integration of the complex as a whole. The Moranbah plant has been operating more consistently since early July 2013. Moranbah has exited the year with an annualised production rate consistent with the 2014 target of 300,000t. A detailed plan was established to address the commissioning issues, with repairs or corrections already undertaken and with the balance to be completed in the first half of 2014.

### **Market Summary**

AN volumes sold were up 34 percent for the financial year.

DNAP sells into the following major markets:

#### *Moranbah Foundation Customers*

Sales of AN to Moranbah foundation customers accounted for 54 percent of the total AN sold by the DNAP business during the financial year. Sales to Moranbah foundation customers increased by 133,000t compared to the prior corresponding period, to 278,000t, of which 210,000t was supplied from the Moranbah plant.

#### *Australian East Coast Coal excluding Moranbah*

Sales of AN to other Australian east coast coal customers accounted for 6 percent of the total AN sold by the DNAP business during the financial year. In 2013, AN volumes sold decreased due to the loss of a customer in the Hunter Valley.

#### *Western Australian*

Sales in Western Australia accounted for 28 percent of the AN volumes sold by the DNAP business during the financial year. Sales volumes increased, reflecting the growth of the business' largest customer in the region, partially offset by lower volumes to smaller customers who were adversely impacted by lower commodity prices.

#### *Hard Rock and Underground*

Hard Rock and Underground sales accounted for 4 percent of the AN volumes sold by the DNAP business in the financial year. After a promising start to the financial year by gaining a new customer, volumes overall fell slightly as a result of slower production in the second half at some customer sites due to lower commodity prices.

#### *Indonesia and PNG*

These markets accounted for 8 percent of the AN volumes sold by the DNAP business for the financial year. In 2013, AN volumes decreased due to Indonesian customers sourcing AN directly.

### **Outlook**

With the changing mining environment in the Asia Pacific region, the AN market is experiencing tougher conditions. Nonetheless, DNAP is relatively well positioned given AN volumes from the Moranbah plant are contracted, and the DNAP business excluding Moranbah earnings is expected to be flat. Moranbah is expected to contribute \$110m EBIT in the 2014 financial year, and contribute \$165m EBIT in the 2015 financial year onwards once ramp up is complete.

The outlook for the DNAP business should be considered with regard to a number of business risks which include but are not limited to:

- Changes in global demand and supply of hard commodities such as, iron ore, coal and gold.
- Deterioration of AN product prices which are likely to be affected more directly by supply and demand dynamics in industrial explosive markets changing.
- Risks associated with the manufacture, distribution and storage of AN and industrial explosives products, specifically at the Moranbah plant in Queensland. These risks include the need for plant reliability, labour, weather and timely and economic supply of adequate raw materials, such as natural gas and ammonia. In particular, ramp up and operating issues at the Moranbah complex as well as interruptions to gas supply have, in the past, resulted in unplanned interruptions and adversely affected Incitec Pivot's financial performance. Any similar issues, including planned and unplanned outages, may have a material impact on Incitec Pivot's financial performance. In addition, loss from such events may not be recoverable in whole or in part under Incitec Pivot's insurance policies.
- Risks associated with the loss of customers may negatively impact earnings.
- The various operational hazards, including from the manufacture, processing, storage and transportation of its explosives products and in the provision of related services, which could potentially result in injury or incident to employees, contractors, the public or the environment.

# Directors' Report

## Remuneration Report

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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 2013. 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 2012/13 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.4) and the people referred to in the table below.

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 Jamie Rintel	President, Strategy & Business Development
Mr Bernard Walsh	President, Global Manufacturing
Mr James Whiteside	Chief Operating Officer, Incitec Pivot Fertilisers
Mr Stephen Dawson	President, Dyno Nobel Asia Pacific
Mr Daniel McAtee	President, Dyno Nobel United States & Canada
Mr Simon Atkinson	President, Dyno Nobel International

## 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 term incentive plans; and
- for the long term incentive, to apply demanding financial performance objectives, and on the achievement of those objectives, to result in share ownership thereby linking remuneration to Company performance as experienced by shareholders.

# 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 2012/13 financial year, there were no increases to non-executive directors' fees. Fees paid to non-executive directors in the year amounted to \$1,630,000, which was within 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. Mr Allan McCallum, who was appointed as a director prior to 1 June 2003, has a contractual right to a retirement benefit. The contract, which was entered into prior to the merger with Incitec Fertilizers Limited in 2003, provides that on Mr McCallum's retirement from the Board, on condition of him serving 10 years on the Board, he is entitled to receive a payment calculated as to approximately 54% of the aggregate remuneration he receives from the Company in the three years immediately preceding his date of retirement, where the percentage represents his years of service from the date of appointment to 31 May 2003, as a proportion of 10 years' service. Mr McCallum will retire as a director at the conclusion of the 2013 Annual General Meeting and, in accordance with his contract, will receive a payment of \$351,887 on his retirement. Refer to Table B.1 for further details.

**Table B.1 – Non-executive directors' remuneration**

Details of the non-executive directors' remuneration for the financial year ended 30 September 2013 are set out in the following table:

**For the year ended 30 September 2013**

	Year	Short-term benefits <sup>(A)</sup>	Post-employment benefits	Other long term benefits <sup>(B)</sup>	Total
		Fees	Superannuation benefits		
		\$000	\$000	\$000	\$000
<b>Non-executive directors – Current</b>					
P V Brasher, Chairman <sup>(1)</sup>	2013	499	17	–	516
	2012	275	17	–	292
A C Larkin	2013	209	17	–	226
	2012	208	18	–	226
J Marlay	2013	212	17	–	229
	2012	195	16	–	211
A D McCallum <sup>(2)</sup>	2013	207	17	11	235
	2012	199	17	11	227
G Smorgon AM	2013	198	17	–	215
	2012	194	17	–	211
R J McGrath	2013	203	17	–	220
	2012	196	16	–	212
<b>Non-executive directors – Former</b>					
J C Watson, Chairman <sup>(3)</sup>	2013	–	–	–	–
	2012	355	32	23	410
<b>Total non-executive directors</b>	<b>2013</b>	<b>1,528</b>	<b>102</b>	<b>11</b>	<b>1,641</b>
	<b>2012</b>	<b>1,622</b>	<b>133</b>	<b>34</b>	<b>1,789</b>

(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 McCallum who was appointed to the Board prior to 1 June 2003, the Company does not pay additional benefits to non-executive directors.

(1) Mr Brasher was appointed Chairman effective 30 June 2012.

(2) Mr McCallum will retire as a director on 19 December 2013 at the conclusion of the 2013 Annual General Meeting. In accordance with the terms of his contract, on his retirement he will receive a payment of \$351,887 which will be paid in the 2013/14 financial year. While Mr McCallum will receive this payment in the 2013/14 financial year, \$11,000 was accrued in the current reporting period.

(3) Mr Watson retired as a director and Chairman on 30 June 2012. Mr Watson, who was appointed as a director prior to 1 June 2003, had a contractual right to a retirement benefit. The contract, which was entered into prior to the merger with Incitec Fertilizers Limited in 2003, provided that on Mr Watson's retirement from the Board, on condition of him serving 10 years on the Board, he was entitled to receive a payment calculated as to approximately 54% of the aggregate remuneration he received from the Company in the three years immediately preceding his date of retirement, where the percentage represents his years of service from the date of appointment to 31 May 2003, as a proportion of 10 years' service. In accordance with the terms of his contract, on his retirement he received a payment of \$788,737. While Mr Watson received this payment in the 2011/12 financial year, with the exception of \$23,000 which was accrued in the 2011/12 financial year, all amounts were accrued and expensed in prior reporting periods.

## 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 for Executives will be benchmarked against that paid for similar positions at the median 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 2012/13 financial year, the Remuneration Committee received market data from Ernst & Young. Ernst & Young were engaged by and reported directly to the Remuneration Committee. The information did not include a "remuneration recommendation" (as defined in the Corporations Act 2001 (Cth)). For the 2012/13 financial year, the Board approved an increase of 3.5% to the FAR of Executives, save that three Executives received higher increases having regard to the scope and complexity of their roles. Refer to Table C.4 for details of the fixed annual remuneration for the Executives for the year ended 30 September 2013.

The relative proportion of the Executives' total remuneration packages for the 2012/13 financial year that was 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 2012/13 year, for each Executive, the maximum entitlement under the Short Term Incentive (STI) or Long Term Incentive (LTI) was taken into account.

### Key features of the components of Executive remuneration

The key features of the three components of Executive remuneration that are relevant to the 2012/13 financial year are set out below.

#### Fixed annual remuneration

The terms of employment for all Executives contain a fixed remuneration component. Executives receive their fixed remuneration in a variety of forms, including cash, superannuation, and fringe benefits, such as motor vehicles. Fixed annual remuneration is not dependent upon Company performance and is set by reference to appropriate benchmark information for each Executive's role, level of knowledge, skill, responsibilities and experience. The level of remuneration is reviewed annually in alignment with the financial year and is reviewed with reference to, among other things, market data provided by an appropriately qualified and independent external consultant.

Refer to Table C.4 for details of the fixed annual remuneration for the Executives for the year ended 30 September 2013.

#### At risk remuneration – Short Term Incentive (STI) Plan

The STI is an annual "at risk" cash incentive which is dependent on the achievement of particular performance measures in the financial year to 30 September 2013. All of the Executives (as well as other selected employees) participate in the STI Plan.

#### What were the STI performance measures for the 2012/13 STI?

##### STI Gate

To ensure STI awards are aligned with business performance, the Group's financial performance must meet the required Earnings Per Share (EPS) growth threshold before any awards are made. This is known as the "STI Gate". The STI Gate is determined by the Board by reference to the prior year's EPS performance.

If financial performance across the Group does not meet the STI Gate, no awards are made under the STI, save that the STI Gate does not apply to the safety measure component of the STI (refer to further details on the safety measure in this section).

The measures for the STI were set by the Board prior to the commencement of the 2012/13 financial year.

##### Financial performance measures

There were two financial performance measures for 2012/13:

- Growth in EPS (before Individually Material Items (IMIs))
- Business Unit Earnings Before Interest and Tax (EBIT) which included a cash conversion measure, such that part of the STI was linked to the percentage of EBIT of the relevant business unit (before depreciation and amortisation) that is converted to operating cash flow.



# Directors' Report

## Remuneration Report

### Non-financial performance measures

In addition, to ensure STI awards drive performance and behaviours consistent with achieving the Group's strategy for 2012/13 and Zero Harm objectives, the non-financial performance measures for 2012/13 comprised:

- Safety: All Worker Total Recordable Injury Frequency Rate (AWTRIFR) of 1.21 (AWTRIFR is calculated based on work-related incidents classified and reported in accordance with the United States Occupational Safety and Health Act and regulations). In the event of a fatality or life threatening incident, the extent of the impact of that fatality/incident on the achievement of the safety measure is assessed by the Board having regard to the circumstances of the incident and may result in all or part of this component of the STI being forfeited.
- Business appropriate strategic and performance measures including:
  - (i) production outcomes from major operations (for example, Moranbah ammonium nitrate production);
  - (ii) Business Excellence (BEx) implementation and execution; and
  - (iii) corporate strategic objectives as to capital investments, projects and funding.

Table C.2 below sets out the STI performance measure weightings for the Executives for the year ended 30 September 2013.

### Why were these measures chosen?

#### STI Gate & Financial Measures

The STI measures (other than safety) are subject to the STI Gate to ensure that Executive reward is aligned with the creation of shareholder value.

EPS growth is considered an appropriate financial measure because it is aligned with the Company's strategic intent of achieving top quartile performance as measured against S&P/ASX 100 companies. In addition, the EBIT of a business segment is also used as a measure for Executives in relevant business segments as it ensures robust alignment of performance in a particular business segment with reward for the Executive managing that business segment. The inclusion of a cash conversion requirement within the EBIT performance measure ensures a focus on driving both profit and cash generation.

#### Non-financial Measures

These measures were chosen to drive performance and behaviours consistent with achieving the Group's strategy, to leverage core nitrogen and high explosives chemicals manufacturing expertise and to service customers via aligned downstream businesses.

For this reason, measures were set with regards to production outcomes from the Group's major operations, such as ammonium nitrate volumes from the Group's plant at Moranbah, Queensland.

Table C.2 – STI performance measure weightings for Executives

For the year ended 30 September 2013	Financial		Non-financial				Maximum STI opportunity
	Growth in EPS (before IMLs)	Business Unit EBIT (including cash conversion requirement)	Safety: AWTRIFR target of 1.21	BEx implementation	Production outcomes from major operations (including Moranbah)	Strategic growth projects	
<b>J E Fazzino</b> Managing Director & CEO	90%		10%				100%
<b>F Micallef</b> Chief Financial Officer	80%		10%	10%			100%
<b>K J Gleeson</b> General Counsel & Company Secretary	80%		10%	10%			100%
<b>J Rintel</b> President – Strategy & Business Development	40%		10%	20%		30%	100%
<b>B C Walsh</b> President – Global Manufacturing			10%	20%	70%		100%
<b>J D Whiteside</b> Chief Operating Officer – Incitec Pivot Fertilisers		80%	10%	10%			100%
<b>S Dawson</b> President – Dyno Nobel Asia Pacific		80%	10%	10%			100%
<b>D McAtee</b> President – Dyno Nobel US & Canada		80%	10%	10%			100%
<b>S Atkinson</b> President – Dyno Nobel International		60%	10%			30%	100%

For 2012/13, in addition to pursuing investments and projects to support future growth, the strategic imperatives lay in driving continuous improvement at manufacturing sites to the next level of BEx maturity and implementation of BEx in the business units.

In addition, the introduction of a safety measure in the 2012/13 STI based on AWTRIFR is aligned with the Company's commitment to "Zero Harm for Everyone, Everywhere". In 2012, the Company adopted its five year Global HSE Strategy to drive continued improvement in the Group's health, safety and environmental performance. On its journey to achieve world class safety performance, to have an AWTRIFR of less than one, the Company sets annual targets on AWTRIFR, seeking year-on-year improvements. For the 2012/13 financial year, the target was 1.21, noting the AWTRIFR for the prior year was 1.40.

*What is the method for determining if the measures are satisfied?*

#### **Financial measures**

Satisfaction of these measures is based on a review by the Board of the audited accounts and the financial performance of the Group for the financial year.

#### **Non-financial performance measures**

Executive performance is reviewed by the Board, in the case of safety, based on a review of the AWTRIFR for the year, as well as safety performance generally and, in relation to the other non-financial performance measures, following the annual performance review process for the Executives.

*Does the STI include mechanisms for claw back and deferral?*

No. While there is no deferral under the Company's STI, the STI measures are subject to the STI Gate which requires the Group's financial performance to meet the required growth threshold before any awards can be made. In addition, the Board continues to monitor legislative and governance developments and, as part of the 2013/14 review of remuneration, the Board intends to adopt a policy on claw back.

*What STI awards were made to Executives with respect to the year ended 30 September 2013?*

None. Financial performance across the Group did not meet the STI Gate and, accordingly, no awards were made to Executives under the 2012/13 STI.

In relation to the safety measure, which is not subject to the STI Gate, while the AWTRIFR for the year ended 30 September 2013 was 1.16, which was lower than the target of 1.21, no awards were made to Executives in respect of this measure due to there being two fatalities during the 2012/13 financial year.

Although the STI Gate was not met, certain of the non-financial performance measures were achieved, for example:

- In relation to BEx, implementation of the next level of BEx maturity across the large manufacturing facilities and in the business units was completed, with benefits of \$39 million delivered, and the foundational elements of BEx in the corporate function and across the value chain commenced;
- In relation to strategic growth, the final investment decision was made by the Board in April 2013 with respect to the Louisiana Ammonia Plant, with a lump sum turn-key contract entered into with a leading EPC contractor and offtake arrangements secured for 100% of production;
- In relation to new markets, licensing and distribution arrangements were established in new market territories.

#### **At risk remuneration – Long Term Incentive (LTI) Plans**

The LTI 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 transferred to participants until exercise, performance rights have no dividend entitlement.

The only LTI Plan to mature in the 2012/13 financial year is the Long Term Incentive Performance Rights Plan for 2010/13 (LTI 2010/13) which matured on 30 September 2013.

There are two other LTI Plans in place:

- Long Term Incentive Performance Rights Plan for 2011/14 (LTI 2011/14); and
- Long Term Incentive Performance Rights Plan for 2012/15 (LTI 2012/15).

However, these plans do not mature until 30 September 2014 and 30 September 2015, respectively.

Executives and other selected managers participate in the LTI 2010/13, the LTI 2011/14 and the LTI 2012/15.

Details of the Executives' participation in these plans are set out in Tables C.6 and C.7.

*What is the purpose of the LTIs?*

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.

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.

*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 2010/13, the LTI 2011/14 and the LTI 2012/15.

*What is the performance period of the LTI Plans?*

The LTI 2010/13, LTI 2011/14 and LTI 2012/15 are performance rights plans each of which has a performance period of three years:

- LTI 2010/13 – 1 October 2010 to 30 September 2013.
- LTI 2011/14 – 1 October 2011 to 30 September 2014.
- LTI 2012/15 – 1 October 2012 to 30 September 2015.

# Directors' Report

## Remuneration Report

### *What are the performance conditions for the LTI Plans?*

The performance rights will only vest if certain performance conditions are met. The Board approves the performance conditions on the commencement of the relevant plans.

For each of the LTI 2010/13, the LTI 2011/14 and the LTI 2012/15, the performance conditions are based on the relative Total Shareholder Returns of the Company and growth in Earnings Per Share (before IMIs).

#### **Total Shareholder Return (TSR) Condition**

The TSR Condition requires growth in the Company's total shareholder returns to be at or above the median of the companies in the comparator group, being the S&P/ASX 100. If, at the end of the performance period, the Company's TSR over the three year performance period is:

- below the 50th percentile of the comparator group of companies ranked by their TSR performance: no performance rights in this tranche will vest;
- between the 50th and 75th percentile of the comparator group of companies ranked by their TSR performance: the portion of performance rights in this tranche that will vest will be increased on a pro rata basis from 50% to 100%; and
- equal to or above the 75th percentile of the comparator group of companies ranked by their TSR performance: all performance rights in this tranche will vest.

#### **Earnings Per Share (EPS) Condition**

For the LTI 2010/13 and the LTI 2011/14 if, at the end of the performance period, the compound annual growth rate on EPS over the performance period, from the base year, is:

- below 7% per annum: no performance rights in this tranche will vest;
- equal to or greater than 7% per annum but less than 15% per annum: the portion of performance rights in this tranche that will vest will be increased on a pro rata basis between 50% and 100%; and
- 15% or greater: all performance rights in this tranche will vest.

For the LTI 2012/15 if, at the end of the performance period, the compound annual growth rate on EPS over the performance period, from the base year, is:

- below 6% per annum: no performance rights in this tranche will vest;
- equal to or greater than 6% per annum but less than 12.5% per annum: the portion of performance rights in this tranche that will vest will be increased on a pro rata basis between 50% and 100%; and
- 12.5% or greater: all performance rights in this tranche will vest.

Each of these performance conditions are equally weighted.

### **Measuring the performance conditions**

After the expiry of the relevant performance period, the Board determines whether the performance conditions are satisfied. The performance conditions are tested once, at the end of the relevant performance period. If the performance conditions are satisfied the participant is entitled to acquire ordinary shares in the Company. The participant does not pay for those shares.

If the performance conditions are not satisfied during the performance period, the performance rights will lapse.

### *What happens if a participant leaves the Group?*

The performance rights will lapse on a cessation of employment 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.

### *What performance rights have vested?*

No performance rights vested under the LTI 2010/13 and so these performance rights have lapsed.

The performance conditions under LTI 2011/14 and LTI 2012/15 will not be tested until after 30 September 2014 and 30 September 2015, respectively.

### *In what circumstances can the performance rights vest before the expiry of the performance period under the LTI Plans?*

On the occurrence of one of the following during the relevant performance period:

- a takeover bid is made to holders of shares in the Company;
- a statement is lodged with ASX to the effect that a person has become entitled to not less than 50% of the shares in the Company;
- the Court orders a meeting to be held in relation to a proposed compromise or arrangement in connection with a scheme for the reconstruction of the Company or its amalgamation with any other companies;
- the Company passes a resolution for a voluntary wind-up; or
- an order is made for the compulsory winding-up the Company,

the Board may give a notice that the performance rights vest at the time specified by the Board in the notice.

### *What are the plan incentive limits in the LTI Plans?*

As the LTI Plans are performance rights plans, with participation determined by reference to the participant's fixed annual remuneration, there are no plan incentive limits.

## 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 Committee, has regard to financial and non-financial indices, including the indices shown in Table C.3 in respect of the current financial year and the preceding four financial years.

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.

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

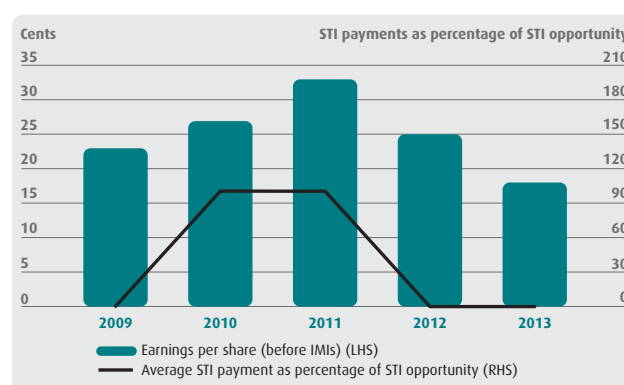
As can be seen from Table C.3 below, in relation to the LTI plans for which the three year performance periods matured in 2010, 2011 and 2012 respectively, and each of which used the Company's Total Shareholder Return as the sole performance measure, the Company's total shareholder return did not meet the minimum hurdle of 10% per annum compounded. Accordingly, no awards were made under those plans.

For the LTI 2010/13, which used relative Total Shareholder Return and EPS growth as its performance measures, as the Company's relative Total Shareholder Return and EPS growth for the three year performance period ending 30 September 2013 did not meet the minimum hurdle, no performance rights vested.

The following graph illustrates the relationship between Company performance and STI awards in respect of the current financial year and the preceding four financial years. Notably, in each of 2010 and 2011, with EPS growing 20.8% and 19% respectively, awards were made to Executives under the relevant STI plans applicable for each of those years. Conversely, in respect of the 2011/12 financial year, EPS (before IMIs) decreased 24% compared to the previous year and no awards were made under that plan.

Similarly, in 2012/13, EPS (before IMIs) decreased by 26.2% to 18.3 cents compared to the previous year. The STI Gate was not met and no awards were made under the 2012/13 STI plan.

### Company performance and STI outcomes



**Table C.3 – Indices relevant to the Board's assessment of the Group's performance and the benefit to shareholders**

	2009	2010	2011	2012	2013
Net Profit After Tax excluding minority interests (before individually material items) (NPAT (before IMIs)) (\$m)	347.8	442.8	530.1	404.7	298.4
Earnings Per Share (before individually material items) (EPS (before IMIs)) (cents)	22.6	27.3	32.5	24.8	18.3
Dividends – paid in the financial year – per share (cents)	21.6	4.1	9.3	11.5	12.5
Dividends – declared in respect of the financial year – per share (DPS (declared)) (cents)	4.4	7.8	11.5	12.4	9.2
Share price (\$) (Year End)	2.83	3.59	3.27	2.98	2.69
Total Shareholder Return (TSR) (%) <sup>(1)</sup>	42	3	(10)	4	(16)

(1) For the financial years ended 30 September 2009, 30 September 2010, 30 September 2011 and 30 September 2012, the TSR was based on a 3 year compound rate per annum. For the financial year ended 30 September 2013, TSR is calculated in accordance with the rules of the LTI 2010/13 over the 3 year performance period, having regard to the volume weighted average price of the shares over the 20 business days up to but not including the first and last day of the performance period.



# 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.4.

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

#### Fixed annual remuneration

For 2012/13, Mr Fazzino's fixed annual remuneration was \$2,112,642, effective 1 October 2012. 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 2012/13, 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 2012/13 financial year.

Given EPS (before IMIs) in the 2012/13 financial year was 18.3 cents, no award was made to Mr Fazzino in respect of the period from 1 October 2012 to 30 September 2013.

#### LTI

Mr Fazzino participated in the LTI 2010/13, the performance period for which ended on 30 September 2013. On determination of performance measured against the performance conditions, in accordance with the LTI 2010/13 plan rules, none of Mr Fazzino's performance rights vested.

In addition, Mr Fazzino currently participates in the following LTI Plans:

- the LTI 2011/14 pursuant to which Mr Fazzino was issued 590,625 performance rights as approved by shareholders in accordance with the ASX Listing Rules at the 2011 Annual General Meeting held on 20 December 2011; and
- the LTI 2012/15 pursuant to which Mr Fazzino was issued 728,497 performance rights as approved by shareholders in accordance with the ASX Listing Rules at the 2012 Annual General Meeting held on 18 December 2012.

The LTI 2011/14 and LTI 2012/15 are each for a three year period and the performance conditions will not be tested until after 30 September 2014 and 30 September 2015 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

For the LTI 2011/14 and the LTI 2012/15, 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.4.

With effect from October 2013:

- Mr Alan Grace was appointed President – Strategic Engineering; and
- Ms Elizabeth Hunter was appointed Chief Human Resources Officer.

As both appointments commenced after the end of the 2012/13 financial year, Mr Grace's and Ms Hunter's remuneration arrangements will be included in the remuneration report for the year ending 30 September 2014. However, their STI and LTI participation is as follows:

- STI: maximum STI opportunity is 100% of fixed annual remuneration
- LTI: maximum LTI opportunity is 80% of fixed annual remuneration.

### 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 (e.g. motor vehicles).

This component of remuneration is subject to annual review. For the 2012/13 financial year, the fixed annual remuneration for the Executives was generally increased by 3.5% with effect from 1 October 2012, save for three Executives who received higher increases having regard to the scope and complexity of their roles.

### STI

Participation is at the Board's discretion. For all Executives, for the 2012/13 financial year, the maximum STI opportunity was 100% of fixed annual remuneration and was determined with reference to performance conditions outlined on page 16.

### LTI

Participation is at the Board's discretion. For the LTI 2010/13, the LTI 2011/14 and the LTI 2012/15, for all Executives, the maximum LTI opportunity was 80% of fixed annual remuneration (save for Mr McAtee who was not a participant in the LTI 2010/13 and whose participation in the LTI 2011/14 was calculated by reference to his fixed annual remuneration prior to him becoming a KMP) and 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 <sup>(1)</sup>	26 weeks
Mr Jamie Rintel	26 weeks
Mr Bernard Walsh <sup>(2)</sup>	61.81 weeks
Mr James Whiteside	45.41 weeks
Mr Stephen Dawson <sup>(3)</sup>	26 weeks
Mr Daniel McAtee <sup>(4)</sup>	26 weeks
Mr Simon Atkinson	52 weeks

(1) On 31 October 2013, Mrs Gleeson resigned as General Counsel & Company Secretary and will cease employment with the Company on 31 December 2013.

(2) On 1 October 2013, Mr Walsh ceased employment with the Company following a restructure of Global Manufacturing Operations.

(3) In addition, Mr Dawson's contract provides where Mr Dawson is terminated for reasons not related to performance or conduct, the Company will also pay Mr Dawson an additional amount of one months' FAR at the time of termination for each completed year of continuous service, up to 12 months' FAR.

(4) Mr McAtee joined the Company on 2 April 2012 and is considered to be a Key Management Person from 4 June 2012. Mr McAtee's STI and LTI participation are as specified above.

### 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

For the LTI 2010/13 and the LTI 2011/14, on cessation of employment, the performance rights 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.4 – Executive remuneration**

Details of the remuneration paid to each Executive is set out below.

	Year	Short-term benefits		Post-employment benefits	Other long term benefits <sup>(C)</sup>	Termination benefits	Share-based payments				Short Term Incentive & other bonuses as proportion of remuneration	Accounting value of current year share-based payments as proportion of remuneration <sup>(E)</sup>	
		Salary & Fees	Short Term Incentive & other bonuses <sup>(A)</sup>	Other short term benefits <sup>(B)</sup>	Super-annuation benefits	Current period expense <sup>(D)</sup>	Prior periods expense write-back <sup>(D)</sup>	Accounting values		Total			
								Total share-based payments	Total				
		\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	%	%	
<b>Executives – Current</b>													
<b>J E Fazzino</b> Managing Director & CEO	<b>2013</b>	<b>2,096</b>	–	–	<b>17</b>	<b>78</b>	–	<b>940</b>	<b>(926)</b>	<b>14</b>	<b>2,205</b>	<b>0</b>	<b>30</b>
	2012	2,041	–	–	16	75	–	1,331	–	1,331	3,463	0	38
<b>F Micallef</b> Chief Financial Officer	<b>2013</b>	<b>853</b>	–	–	<b>17</b>	<b>7</b>	–	<b>301</b>	<b>(282)</b>	<b>19</b>	<b>896</b>	<b>0</b>	<b>26</b>
	2012	840	–	–	16	22	–	430	–	430	1,308	0	33
<b>K J Gleeson</b> General Counsel & Company Secretary	<b>2013</b>	<b>708</b>	–	–	<b>17</b>	<b>21</b>	–	<b>254</b>	<b>(245)</b>	<b>9</b>	<b>755</b>	<b>0</b>	<b>25</b>
	2012	674	–	–	16	17	–	373	–	373	1,080	0	34
<b>J Rintel</b> President – Strategy & Business Development	<b>2013</b>	<b>708</b>	–	–	<b>17</b>	<b>38</b>	–	<b>244</b>	<b>(226)</b>	<b>18</b>	<b>781</b>	<b>0</b>	<b>24</b>
	2012	551	–	–	16	13	–	315	–	315	895	0	35
<b>B C Walsh<sup>(1)</sup></b> President – Global Manufacturing	<b>2013</b>	<b>744</b>	–	–	<b>17</b>	<b>30</b>	<b>904</b>	<b>271</b>	<b>(267)</b>	<b>4</b>	<b>1,699</b>	<b>0</b>	<b>14</b>
	2012	735	–	–	16	29	–	406	–	406	1,186	0	34
<b>J D Whiteside</b> Chief Operating Officer – Incitec Pivot Fertilisers	<b>2013</b>	<b>708</b>	–	–	<b>17</b>	<b>26</b>	–	<b>244</b>	<b>(217)</b>	<b>27</b>	<b>778</b>	<b>0</b>	<b>25</b>
	2012	700	–	–	16	74	–	331	–	331	1,121	0	30
<b>S Dawson</b> President – Dyno Nobel Asia Pacific	<b>2013</b>	<b>708</b>	–	–	<b>17</b>	<b>29</b>	–	<b>243</b>	<b>(214)</b>	<b>29</b>	<b>783</b>	<b>0</b>	<b>24</b>
	2012	700	–	–	16	66	–	285	–	285	1,067	0	27
<b>D McAtee<sup>(2)</sup></b> President – Dyno Nobel US & Canada	<b>2013</b>	<b>603</b>	–	<b>4</b>	–	–	–	<b>122</b>	<b>(2)</b>	<b>120</b>	<b>727</b>	<b>0</b>	<b>17</b>
	2012	187	–	–	–	–	–	3	–	3	190	0	2
<b>S Atkinson</b> President – Dyno Nobel International	<b>2013</b>	<b>583</b>	–	<b>115</b>	<b>17</b>	<b>24</b>	–	<b>196</b>	<b>(171)</b>	<b>25</b>	<b>764</b>	<b>0</b>	<b>21</b>
	2012	472	–	116	16	12	–	224	–	224	840	0	27
<b>Executives – Former</b>													
<b>G Brinkworth<sup>(3)</sup></b> Chief Operating Officer – Incitec Pivot Fertilisers & General Manager – Human Resources	<b>2013</b>	–	–	–	–	–	–	–	–	–	–	<b>0</b>	<b>0</b>
	2012	339	–	–	8	–	271	71	–	71	689	0	10
<b>B Wallace<sup>(4)</sup></b> President – Dyno Nobel Americas	<b>2013</b>	–	–	–	–	–	–	–	–	–	–	<b>0</b>	<b>0</b>
	2012	674	–	–	31	–	1,094	186	–	186	1,985	0	9
<b>Total Executives</b>	<b>2013</b>	<b>7,711</b>	–	<b>119</b>	<b>136</b>	<b>253</b>	<b>904</b>	<b>2,815</b>	<b>(2,550)</b>	<b>265</b>	<b>9,388</b>	<b>0</b>	<b>24</b>
	2012	7,913	–	116	167	308	1,365	3,955	–	3,955	13,824	0	29

(A) No Executives were awarded STI payments under the 2012/13 STI.

(B) Other short term benefits include the taxable value of fringe benefits paid attributable to the fringe benefits tax year (2013: 1 April 2012 to 31 March 2013) (2012: 1 April 2011 to 31 March 2012), rent and mortgage interest subsidies, relocation allowances and other allowances. For Mr Atkinson, this includes rental, health insurance, education support and home leave travel.

(C) Other long term benefits represents long service leave accrued during the reporting period.

(D) In accordance with accounting standards, remuneration includes the amortisation of the fair value of performance rights issued under the LTI Plans that are expected to vest, less any write-back on performance rights lapsed or expected to lapse as a result of actual or expected performance against non-market hurdles ("Option Accounting Value"). The value disclosed in Table C.4 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 2010/13 and LTI 2011/14, the Company wrote-back an amount of \$2.6 million which had previously been incurred as an expense in the financial years ended 30 September 2011 and 30 September 2012 relating to the issues of performance rights to Executives at that time. The accounting standards provide that the write-back must be recorded against the remuneration of the relevant executives and directors, which is reflected in this Remuneration Report.

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 2010/13, the LTI 2011/14, the LTI 2012/15 and LTIs generally.

(E) The accounting value of current year share-based payments as proportion of remuneration is calculated based on the current period expense as a proportion of the total remuneration (excluding the prior periods expense write-back).

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
LTI 2010/13 – TSR	23/12/2010	30/09/2013	\$2.77
LTI 2010/13 – EPS	23/12/2010	30/09/2013	\$3.76
LTI 2011/14 – TSR	02/02/2012	30/09/2014	\$1.72
LTI 2011/14 – EPS	02/02/2012	30/09/2014	\$2.90
LTI 2012/15 – TSR	25/01/2013	30/09/2015	\$1.54
LTI 2012/15 – EPS	25/01/2013	30/09/2015	\$2.86

Once vested, a performance right is deemed to be exercised automatically and no amount is payable on exercise.

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 34 to the financial statements.

- (1) On 1 October 2013, Mr Walsh ceased employment with the Company following a restructure of Global Manufacturing Operations, pursuant to which Global Manufacturing Operations was split into two functions with effect from 1 October 2013. The payments to be received by Mr Walsh in the 2013/14 financial year include a separation payment in the amount of \$904,031.00 and accrued annual leave and long service leave in the amount of \$434,164.00. Mr Walsh was entitled to these payments under his contract of employment dated 17 October 2003. In relation to Mr Walsh's long service leave and annual leave amount, \$30,000.00, was accrued in the 2012/13 financial year. The remaining amount has been accrued and expensed during the term of his employment.
- (2) Mr McAtee became a Key Management Person during the 2011/12 financial year. The disclosures for the 2011/12 financial year are from the date he became a Key Management Person, 4 June 2012. Mr McAtee's fixed annual remuneration is inclusive of 401K pension contributions.
- (3) On 26 March 2012, Mr Brinkworth ceased employment with the Group following a restructure of the domestic fertiliser business, Incitec Pivot Fertilisers, and the international trading business, Southern Cross International. The disclosures for the 2011/12 financial year are from 1 October 2011 to that date. The payments received by Mr Brinkworth on cessation of employment included a separation payment and accrued annual leave. Mr Brinkworth was entitled to these payments under his contract of employment dated 10 November 2008.
- (4) On 6 August 2012, Mr Wallace ceased employment with the Group on a restructure of the North American explosives business. The disclosures for the 2011/12 financial year are from 1 October 2011 to that date. The payments received by Mr Wallace on cessation of employment included a separation payment, accrued annual leave and relocation costs. Mr Wallace was entitled to these payments under his contract of employment dated 1 February 2008. Mr Wallace's benefits were converted from US\$ to A\$ at the average rate for 1 October 2011 to 30 September 2012, being 1.02770.

## Details of performance related remuneration: short term incentives

### Table C.5 – Short term incentives awarded for the year ended 30 September 2013

Details of the vesting profile of the STI payments awarded for the year ended 30 September 2013 as remuneration to each Executive are set out below:

	Short term incentive		
	Included in remuneration \$000	% vested in year	% forfeited in year
<b>Executives – Current</b>			
J E Fazzino	–	0	100
F Micallef	–	0	100
K J Gleeson	–	0	100
J Rintel	–	0	100
B C Walsh	–	0	100
J D Whiteside	–	0	100
S Dawson	–	0	100
D McAtee	–	0	100
S Atkinson	–	0	100
<b>Executives – Former</b>			
G Brinkworth	–	0	100
B Wallace	–	0	100

# Directors' Report

## Remuneration Report

### Details of performance related remuneration: long term incentives

Table C.6 – Details of long term incentives granted and vested in the year ended 30 September 2013 and the vesting profile of long term incentives granted as remuneration

		Grant date	Number granted <sup>(A)</sup>	Number vested <sup>(B)</sup>	% Vested in year	% Forfeited in year <sup>(C)</sup>	Financial year in which grant may vest
<b>Key Management Personnel</b>							
<b>Executives – Current</b>							
J E Fazzino	Performance Rights Plan 2010/13	23 December 2010	511,364	–	0	100	2013
	Performance Rights Plan 2011/14	2 February 2012	590,625	–	–	–	2014
	Performance Rights Plan 2012/15	25 January 2013	728,497	–	–	–	2015
F Micallef	Performance Rights Plan 2010/13	23 December 2010	150,000	–	0	100	2013
	Performance Rights Plan 2011/14	2 February 2012	194,444	–	–	–	2014
	Performance Rights Plan 2012/15	25 January 2013	239,834	–	–	–	2015
K J Gleeson	Performance Rights Plan 2010/13	23 December 2010	135,000	–	0	100	2013
	Performance Rights Plan 2011/14	2 February 2012	155,925	–	–	–	2014
	Performance Rights Plan 2012/15	25 January 2013	199,862	–	–	–	2015
J Rintel	Performance Rights Plan 2010/13	23 December 2010	130,948	–	0	100	2013
	Performance Rights Plan 2011/14	2 February 2012	127,575	–	–	–	2014
	Performance Rights Plan 2012/15	25 January 2013	199,862	–	–	–	2015
B C Walsh <sup>(1)</sup>	Performance Rights Plan 2010/13	23 December 2010	147,273	–	0	100	2013
	Performance Rights Plan 2011/14	2 February 2012	170,100	–	–	–	2014
	Performance Rights Plan 2012/15	25 January 2013	209,807	–	–	–	2015
J D Whiteside	Performance Rights Plan 2010/13	23 December 2010	110,455	–	0	100	2013
	Performance Rights Plan 2011/14	2 February 2012	162,037	–	–	–	2014
	Performance Rights Plan 2012/15	25 January 2013	199,862	–	–	–	2015
S Dawson	Performance Rights Plan 2010/13	23 December 2010	108,182	–	0	100	2013
	Performance Rights Plan 2011/14	2 February 2012	162,037	–	–	–	2014
	Performance Rights Plan 2012/15	25 January 2013	199,862	–	–	–	2015
D McAtee <sup>(2)</sup>	Performance Rights Plan 2010/13	23 December 2010	–	–	0	100	2013
	Performance Rights Plan 2011/14	4 June 2012	12,997	–	–	–	2014
	Performance Rights Plan 2012/15	25 January 2013	160,618	–	–	–	2015
S Atkinson	Performance Rights Plan 2010/13	23 December 2010	94,545	–	0	100	2013
	Performance Rights Plan 2011/14	2 February 2012	109,200	–	–	–	2014
	Performance Rights Plan 2012/15	25 January 2013	165,517	–	–	–	2015
<b>Executives – Former</b>							
G Brinkworth <sup>(3)</sup>	Performance Rights Plan 2010/13	23 December 2010	54,724	–	0	100	2013
	Performance Rights Plan 2011/14	2 February 2012	26,316	–	–	–	2014
B Wallace <sup>(4)</sup>	Performance Rights Plan 2010/13	23 December 2010	68,789	–	0	100	2013
	Performance Rights Plan 2011/14	2 February 2012	47,208	–	–	–	2014

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

(B) For the 2012/13 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 2011/14 and the LTI 2012/15 are not tested until 30 September 2014 and 30 September 2015, respectively.

(1) On 1 October 2013, Mr Walsh ceased employment with the Company following a restructure of the Global Manufacturing Operations. As a result of ceasing employment with the Company on 1 October 2013, and in accordance with his employment arrangements, a portion of Mr Walsh's entitlements under the LTI 2011/14 and the LTI 2012/15 were forfeited. In addition, as the criteria under the LTI 2010/13 were not satisfied, none of Mr Walsh's rights under the LTI 2010/13 vested during the 2012/13 financial year.

(2) Mr McAtee's rights were granted under the LTI 2011/14 based on his fixed annual remuneration prior to him becoming a Key Management Person.

(3) On 26 March 2012, Mr Brinkworth ceased employment with the Group following a restructure of the domestic fertiliser business, Incitec Pivot Fertilisers, and the international trading business, Southern Cross International. As a result of ceasing employment with the Group during the 2011/12 financial year and, in accordance with his employment arrangements, a portion of Mr Brinkworth's entitlements under the LTI 2010/13 and the LTI 2011/14 were forfeited. In addition, as the criteria under the LTI 2010/13 were not satisfied, none of Mr Brinkworth's remaining rights under the LTI 2010/13 vested during the 2012/13 financial year.

(4) On 6 August 2012, Mr Wallace ceased employment with the Group on a restructure of the North American explosives business. As a result of ceasing employment with the Group during the 2011/12 financial year and, in accordance with his employment arrangements, a portion of Mr Wallace's entitlements under the LTI 2010/13 and the LTI 2011/14 were forfeited. In addition, as the criteria under the LTI 2010/13 were not satisfied, none of Mr Wallace's remaining rights under the LTI 2010/13 vested during the 2012/13 financial year.

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 34 and 35 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 rights) granted to a Key Management Person have been altered or modified by the issuing entity during the reporting period or the prior period.

### Table C.7 – Analysis of movements in long term incentives during the year ended 30 September 2013

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

For the year ended 30 September 2013

			Granted during 2012/13 as remuneration <sup>(A)</sup>	Vested in year <sup>(B)</sup>	Forfeited in year <sup>(C)</sup>	Exercised in year <sup>(D)</sup>
			\$000	\$000	\$000	\$000
Key Management Personnel						
Executives – Current						
		Grant date				
J E Fazzino	Performance Rights Plan 2009/12	23 December 2009	-	-	-	-
	Performance Rights Plan 2010/13	23 December 2010	-	-	1,670	-
	Performance Rights Plan 2012/15	25 January 2013	1,603	-	-	-
F Micallef	Performance Rights Plan 2009/12	16 December 2009	-	-	-	-
	Performance Rights Plan 2010/13	23 December 2010	-	-	490	-
	Performance Rights Plan 2012/15	25 January 2013	528	-	-	-
K J Gleeson	Performance Rights Plan 2009/12	16 December 2009	-	-	-	-
	Performance Rights Plan 2010/13	23 December 2010	-	-	441	-
	Performance Rights Plan 2012/15	25 January 2013	440	-	-	-
J Rintel	Performance Rights Plan 2009/12	16 December 2009	-	-	-	-
	Performance Rights Plan 2010/13	23 December 2010	-	-	428	-
	Performance Rights Plan 2012/15	25 January 2013	440	-	-	-
B C Walsh <sup>(1)</sup>	Performance Rights Plan 2009/12	16 December 2009	-	-	-	-
	Performance Rights Plan 2010/13	23 December 2010	-	-	481	-
	Performance Rights Plan 2012/15	25 January 2013	462	-	-	-
J D Whiteside	Performance Rights Plan 2009/12	16 December 2009	-	-	-	-
	Performance Rights Plan 2010/13	23 December 2010	-	-	361	-
	Performance Rights Plan 2012/15	25 January 2013	440	-	-	-
S Dawson	Performance Rights Plan 2009/12	16 December 2009	-	-	-	-
	Performance Rights Plan 2010/13	23 December 2010	-	-	353	-
	Performance Rights Plan 2012/15	25 January 2013	440	-	-	-
D McAtee <sup>(2)</sup>	Performance Rights Plan 2009/12	16 December 2009	-	-	-	-
	Performance Rights Plan 2010/13	23 December 2010	-	-	-	-
	Performance Rights Plan 2012/15	25 January 2013	353	-	-	-
S Atkinson <sup>(3)</sup>	Performance Rights Plan 2009/12	16 December 2009	-	-	-	-
	Performance Rights Plan 2010/13	23 December 2010	-	-	309	-
	Performance Rights Plan 2012/15	25 January 2013	364	-	-	-
Executives – Former						
G Brinkworth <sup>(4)</sup>	Performance Rights Plan 2009/12	16 December 2009	-	-	-	-
	Performance Rights Plan 2010/13	23 December 2010	-	-	179	-
B Wallace <sup>(5)</sup>	Performance Rights Plan 2009/12	16 December 2009	-	-	-	-
	Performance Rights Plan 2010/13	23 December 2010	-	-	225	-

(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 2013 to 2015 for the LTI 2012/15).

(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 2010/13 were not satisfied, no rights vested during the 2012/13 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.4 for further details of the fair value of performance rights at the date of forfeiture.

(D) The value of rights exercised during the year represents where rights, previously granted as compensation, were exercised during the reporting period. No performance rights vested in relation to the Long Term Incentive Performance Rights Plan 2009/12 (LTI 2009/12), accordingly no rights were exercised during the 2012/13 financial year. Details of the LTI 2009/12 are set out in Note 35 (Share based payments).

(1) Mr Walsh ceased employment with the Company on 1 October 2013.

(2) Mr McAtee's employment commenced on 2 April 2012 and he is not a participant in either the LTI 2009/12 or the LTI 2010/13.

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

(4) Mr Brinkworth ceased employment with the Company on 26 March 2012 and, accordingly, he is not a participant in the LTI 2012/15.

(5) Mr Wallace ceased employment with the Company on 6 August 2012 and, accordingly, he is not a participant in the LTI 2012/15.

The minimum value of rights yet to vest is \$nil as the performance criteria may not be met and, in such circumstances, there would be no vesting. The maximum value of 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.

# Directors' Report

## Remuneration Report

**Table C.8 – Actual Pay**

The table below provides a summary of actual remuneration paid to the Executives in the financial year ended 30 September 2013. The accounting values of the Executives' remuneration reported in accordance with the Accounting Standards may not always reflect what the Executives have actually received, particularly due to the valuation of share based payments. The table below seeks to clarify this by setting out the actual remuneration that the Executives have been paid in the financial year. Executive remuneration details prepared in accordance with statutory requirements and the Accounting Standards are presented in Table C.4 of this report.

	Year	Salary & Fees \$000	Short Term Incentive & other bonuses <sup>(A)</sup> \$000	Other Short Term benefits <sup>(B)</sup> \$000	Superannuation benefits \$000	Termination benefits <sup>(C)</sup> \$000	Total \$000
<b>Executives – Current</b>							
<b>J E Fazzino</b>	<b>2013</b>	<b>2,096</b>	–	–	<b>17</b>	–	<b>2,113</b>
Managing Director & CEO	2012	2,041	–	–	16	–	2,057
<b>F Micallef</b>	<b>2013</b>	<b>853</b>	–	–	<b>17</b>	–	<b>870</b>
Chief Financial Officer	2012	840	–	–	16	–	856
<b>K J Gleeson</b>	<b>2013</b>	<b>708</b>	–	–	<b>17</b>	–	<b>725</b>
General Counsel & Company Secretary	2012	674	–	–	16	–	690
<b>J Rintel</b>	<b>2013</b>	<b>708</b>	–	–	<b>17</b>	–	<b>725</b>
President – Strategy & Business Development	2012	551	–	–	16	–	567
<b>B C Walsh<sup>(1)</sup></b>	<b>2013</b>	<b>744</b>	–	–	<b>17</b>	–	<b>761</b>
President – Global Manufacturing	2012	735	–	–	16	–	751
<b>J D Whiteside</b>	<b>2013</b>	<b>708</b>	–	–	<b>17</b>	–	<b>725</b>
Chief Operating Officer – Incitec Pivot Fertilisers	2012	700	–	–	16	–	716
<b>S Dawson</b>	<b>2013</b>	<b>708</b>	–	–	<b>17</b>	–	<b>725</b>
President – Dyno Nobel Asia Pacific	2012	700	–	–	16	–	716
<b>D McAtee</b>	<b>2013</b>	<b>603</b>	–	<b>4</b>	–	–	<b>607</b>
President – Dyno Nobel US & Canada	2012	187	–	–	–	–	187
<b>S Atkinson</b>	<b>2013</b>	<b>583</b>	–	<b>115</b>	<b>17</b>	–	<b>715</b>
President – Dyno Nobel International	2012	472	–	116	16	–	604
<b>Executives – Former</b>							
<b>G Brinkworth</b>	<b>2013</b>	–	–	–	–	–	–
Chief Operating Officer – Incitec Pivot Fertilisers & General Manager – Human Resources	2012	339	–	–	8	271	618
<b>B Wallace</b>	<b>2013</b>	–	–	–	–	–	–
President – Dyno Nobel Americas	2012	674	–	–	31	1,094	1,799
<b>Total Executives</b>	<b>2013</b>	<b>7,711</b>	–	<b>119</b>	<b>136</b>	–	<b>7,966</b>
	2012	7,913	–	116	167	1,365	9,561

(A) No STI payments were made under the 2012/13 STI.

(B) Other short term benefits include the taxable value of fringe benefits paid attributable to the fringe benefits tax year (2013: 1 April 2012 to 31 March 2013) (2012: 1 April 2011 to 31 March 2012), rent and mortgage interest subsidies, relocation allowances and other allowances. For Mr Atkinson, this includes rental, health insurance, education support and home leave travel.

(C) Termination benefits paid during the financial year.

(1) On 1 October 2013, Mr Walsh ceased employment with the Company following a restructure of Global Manufacturing Operations. Pursuant to his contract of employment dated 17 October 2003, Mr Walsh is entitled to a separation payment of \$904,031.00 and payment of \$434,164.00 for accrued annual leave and long service leave. These amounts will be paid to Mr Walsh in the 2013/14 financial year.

# 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). 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 document and the Company's charters, policies and codes, details of which are available on the corporate governance section of the Company's website, [www.incitecpivot.com.au/Corporate\\_Governance](http://www.incitecpivot.com.au/Corporate_Governance).

The Board considers that Incitec Pivot's corporate governance framework and practices have complied with the ASX Recommendations throughout the year ended 30 September 2013.

Summaries or copies of the charters, policies and codes referred to in this statement, together with a checklist cross-referencing the ASX Recommendations to the relevant sections of this statement and elsewhere in this document, are available on the corporate governance section of the Company's website, [www.incitecpivot.com.au/Corporate\\_Governance](http://www.incitecpivot.com.au/Corporate_Governance).

### 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 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/Corporate\\_Governance](http://www.incitecpivot.com.au/Corporate_Governance). 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, approving the appointment of the direct reports to the Managing Director & CEO, monitoring management's performance and reviewing executive succession planning.

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/Corporate\\_Governance](http://www.incitecpivot.com.au/Corporate_Governance).

#### Management performance evaluation

As part of the Board's oversight of executive management, the Board is to monitor and evaluate the performance of the Managing Director & CEO and his direct reports.

All Incitec Pivot executives are subject to annual performance reviews. The annual review involves each executive being evaluated by his or her immediate superior, the Managing Director & CEO. The executive is assessed against agreed performance objectives, including business/financial/operational targets, functional/managerial goals and personal accountabilities.

The performance evaluation of the Managing Director & CEO is conducted by the Chairman. This evaluation involves an assessment of a range of performance standards as determined by the Board, including assessing performance with regard to execution of the strategic objectives and the overall performance of the Company, and also incorporates feedback from the other directors.

Performance evaluations for the 2012/13 financial year were conducted in the final quarter of the 2013 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 seven directors, including six 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.

# Directors' Report

## Corporate Governance Statement

The directors were appointed on the following dates:

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

In terms of the mix of skills and diversity which the Board is looking to achieve, the key objective, as prescribed in the Board's Charter, is 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 Company's business. Further, the Board's oversight of both its own succession plan, as well as those for the Managing Director & CEO and his direct reports, is designed to maintain an appropriate balance of skills, experience, expertise and diversity on the Board as well as in management.

The Board considers that, collectively, the directors have significant commercial, business, operational and financial experience in a diverse range of industries and geographies, and that this breadth is appropriate for the Company and its businesses. As such, the directors bring skills and expertise which, in aggregate, combine to form a Board which is equipped to discharge its responsibilities. The directors' biographies together with details on their term of office and information about their skills, expertise and experience are set out on pages 1 and 2.

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. In this respect, two directors are retiring at the 2013 Annual General Meeting, Mr Allan McCallum and Mr John Marlay.

Mr John Marlay will be standing for re-election at the 2013 Annual General Meeting. Mr McCallum will not be seeking re-election.

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 Committees

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

- the Audit and Risk Management Committee;
- the Nominations Committee;
- the Remuneration 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 the 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.

### Nominations Committee

The Nominations Committee was established on 23 February 2012 and has a Charter approved by the Board. A copy of the Charter for the Nominations Committee is available on the corporate governance section of the Company's website, [www.incitecpivot.com.au/Corporate\\_Governance](http://www.incitecpivot.com.au/Corporate_Governance). Under its Charter, the Committee assists and advises the Board on Board composition, director selection and appointment practices, succession planning for the Board and the executives, performance evaluation processes, induction training and development for directors and strategies to address Board diversity, in each case, to ensure that the Board comprises individuals able to discharge the responsibilities of directors, with the benefit of a range of skills, experience, expertise, perspectives and diversity appropriate for the Company and its businesses and that appropriate succession plans are in place.

As part of the Nomination Committee's role, the Committee is to review and make recommendations to the Board on matters relating to the size and composition of the Board and to assess, from time to time as necessary, or at any time on request of the Board, the appropriate mix of skills, experience, expertise and diversity required on the Board and the extent to which such skills are represented on the Board. As and when necessary, the Nominations Committee will, having regard to the skills and competencies represented on the Board and the competencies required, implement a process to identify suitable candidates, which may include a search being undertaken by an appropriate third party. The Committee will evaluate prospective candidates and make recommendations to the Board for the appointment of new Board members. When the Board considers that a suitable candidate has been found, that person is appointed by the Board and, in accordance with Incitec Pivot's Constitution, must stand for re-election by shareholders at the next annual general meeting.

The Committee comprises four independent non-executive directors, being Paul Brasher (Chairman), Anthony Larkin, Rebecca McGrath and Graham Smorgon AM.

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

The attendance of the members of the Nominations Committee at each meeting held during the financial year ended 30 September 2013 is set out on page 3.



### Remuneration Committee

The Remuneration Committee has a Charter approved by the Board. A copy of the Charter for the Remuneration Committee is available on the corporate governance section of the Company's website, [www.incitecpivot.com.au/Corporate\\_Governance](http://www.incitecpivot.com.au/Corporate_Governance). Under its Charter, the Committee 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, with such policies and practices to be designed to enable Incitec Pivot to attract, retain and motivate its people to create value for shareholders.

The Committee comprises three independent non-executive directors, being John Marlay (Chairman), Allan McCallum and Graham Smorgon AM.

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 Committee at each meeting held during the financial year ended 30 September 2013 is set out on page 3.

### 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/Corporate\\_Governance](http://www.incitecpivot.com.au/Corporate_Governance). 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), Rebecca McGrath, Graham Smorgon AM 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 2013 is set out on page 3.

### Audit and Risk Management Committee

Details of the Audit and Risk Management Committee are set out under the heading "Principle 4: Safeguard integrity in financial reporting" on page 33.

### Board meetings

Details of the Board meetings held during the 2012/13 financial year are set out on page 3.

The Board holds nine 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 Paul Brasher, Anthony Larkin, John Marlay, Allan McCallum, Rebecca McGrath and Graham Smorgon AM 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 seven directors, the Board considers six 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.

### Director performance evaluations

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. Assessment of individual directors' performance and that of the Board is a process determined by the Chairman and the Nominations 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.

# Directors' Report

## Corporate Governance Statement

During 2012/13, the Board engaged an external consultant to undertake a review of the Board's effectiveness and also undertook an internal review of the Board's performance in meeting its responsibilities under its Charter and the division of responsibilities between the Board, its Committees and the delegations to management. The outcomes of these reviews will be included in the 2013/14 objectives for the Board and will be implemented throughout the Company's 2013/14 financial year. In addition, the Chairman also conducted one-on-one interviews with each director. For Mr Marlay, who is retiring by rotation and standing for re-election at the 2013 Annual General Meeting, his performance was reviewed as part of his nomination for re-election.

### Director induction, training and continuous education

The Nominations 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, meeting arrangements and director interaction.

Additionally, the Committee ensures that continuous education measures are in place to enhance director competencies, keep directors up to date with new developments and enhance directors' knowledge and skills. These measures are to include having access to education concerning key developments in the Company and in the industries in which the Company operates.

### 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/Corporate\\_Governance](http://www.incitecpivot.com.au/Corporate_Governance), 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.

#### Anti-bribery and corruption

As part of its commitment to operating to the highest standards of ethical behaviour, Incitec Pivot has an Anti-Bribery and Improper Payments Policy which prohibits the making of unlawful or improper payments to any individual or entity. The policy also outlines the processes for ensuring that appropriate controls are implemented in relation to third parties who are engaged to act on behalf of the Company. The Company has implemented mandatory and regular compliance training for relevant persons to ensure compliance with the Policy. The Anti-Bribery and Improper Payments Policy forms part of, and is supported by, the Fraud and Corruption Control Framework. Anti-bribery and corruption compliance is monitored and reported within Incitec Pivot's key corporate governance structures, including by the Board's Audit and Risk Management Committee.

In addition, the Company has adopted a Sanctions Policy, which outlines the expected standards of conduct relevant to the Group's compliance with Australian and international sanctions laws when engaging in international trade. This includes engagement in appropriate due diligence in relation to third parties, transactions or activities that present a potential risk in relation to sanctions laws compliance. As with the Anti-Bribery and Improper Payments Policy, the Sanctions Policy is supported by compliance training and is monitored and reported within the Company's key governance structures, including by the Board's Audit and Risk Management Committee. Summaries of the Anti-Bribery and Improper Payments Policy and Sanctions Policy are available on the corporate governance section of the Company's website, [www.incitecpivot.com.au/Corporate\\_Governance](http://www.incitecpivot.com.au/Corporate_Governance).

#### 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 are aware of the legal restrictions on trading in securities while a person is in possession of inside information.

Under the policy, all persons to whom the policy applies 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 individuals (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, 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 her 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 the Company's website, [www.incitecpivot.com.au/Corporate\\_Governance](http://www.incitecpivot.com.au/Corporate_Governance). 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 34, Key Management Personnel disclosures.

### Diversity

Incitec Pivot's commitment to diversity is key to its corporate ambition of generating competitive returns for shareholders through its strategy as a leading global chemicals company. With operations spanning the globe, Incitec Pivot recognises that a diverse and inclusive workforce will result in improved

organisational engagement which, in turn, will improve corporate performance.

Diversity at Incitec Pivot is led by the Company's Diversity Council, which during the year ended 30 September 2013 was chaired by the General Counsel and Company Secretary, and includes senior managers from across the business, reporting to the Managing Director & CEO. The Diversity Council's remit is to promote, influence and support the implementation of the Company's Diversity Policy and Strategy. The Board maintains oversight and responsibility for the Diversity Policy and the development and implementation by management of the Diversity Strategy.

In 2012, the Company adopted a Diversity Policy, a copy of which is available on the corporate governance section of the Company's website, [www.incitecpivot.com.au/Corporate\\_Governance](http://www.incitecpivot.com.au/Corporate_Governance). The Diversity Policy outlines the Company's Diversity Vision, which is to be an inclusive and accessible organisation through the development of a culture that embraces diversity.

The Diversity Policy included the following three diversity principles which were established to provide guidance for the Company's Diversity Strategy and its relevant policies, programs and initiatives:

- "Shaping our Future Organisation",
- "Respecting our Differences",
- "Building a Flexible Organisation".

### Report on Progress

In 2013, as was the case in 2012, the Company received confirmation from the Workplace Gender Equality Agency that it was compliant with the Workplace Gender Equality Act 2012 (Cth).

The following table shows the proportion of women employed as at 30 September 2013 and 30 September 2012.

	% of Women	
	30 September 2012	30 September 2013
Board	14.3%	14.3%
Executive	12.5%	12.5%
Management	11.8%	13.3%
Global	13.6%	15.0%

The Diversity Strategy recognises that the Company's businesses are at different stages with regards to diversity and face different challenges in relation to their people strategies and, as such, the Diversity Strategy is continuing to be implemented in a phased approach.

Accordingly, during 2012 and 2013, the focus has been on establishing foundations for Australia, as well as taking steps to embed the diversity principles into the human resource strategy and work force planning strategies, with the development of key policies and practices, for example, incorporation of pay analytics into the performance and pay review cycles, a flexible leave policy and cultural capability programs. Each Australian business and the Global Manufacturing function developed its own diversity plan, recognising the challenges and opportunities within the particular business or function. Dyno Nobel North America completed its diversity diagnostic which is now informing the development of its human resource strategy for 2013/14.



# Directors' Report

## Corporate Governance Statement

The objectives set in 2012 were linked to the three diversity principles and the report on progress against the objectives is made by reference to these principles:

*Shaping our Future Organisation* – the objective is to strengthen the talent pipeline, in particular to increase the number of women, with a focus on recruitment and talent development activities. In 2012/13 the emphasis was placed on the Australian business, with the approach to be expanded into US and Canada in 2013/14.

Overall the percentage of women employed in the Group increased to 15.0% (2012: 13.6%). Within the Australian based employees, the percentage increased to 19.2% (2012: 17.9%). In the Company's Australian manufacturing operations, in the 2012/13 financial year the percentage of women employed increased to 12.7% (2012: 10.7%). The focus on the talent pipeline with regards to the graduate recruitment program led to the 2013 Australian Manufacturing graduate program commencing with 36% women participants, compared to none in the 2012 program. Recruitment for the 2014 program has seen a 52% increase in applications from women.

With regards to the Company's Australian indigenous employment program, an indigenous employment policy was developed and cultural capability programs held across the Australian operations and during 2013, the Company met its commitment to the Australian Employment Covenant, recruiting over 20 indigenous employees in its Australian operations.

*Respecting our Differences* – the objective is to ensure equity in the Company's pay practices, in particular to embed gender pay analytics into remuneration and performance policies and practices, with the 2012/13 focus on Australia. The Company engaged Hay Group to undertake a detailed analysis of the pay practices within Australia, to complement the initial diagnostic undertaken in 2011/12. Consistent with the work undertaken in 2011/12, the analysis indicated that there was gender pay equity across the Australian operations, noting the practice in the Group is to grade jobs using the Hay Grading system and process. The findings were also relevant to inform the Group's diversity objective for 2013/14, to focus on recruitment and talent development activities to increase the number of women in senior management, in positions which attract higher pay. In addition, as part of the annual performance review and pay review processes, gender pay analytics have been included to ensure ongoing monitoring on pay practices.

*Building a Flexible Organisation* – the objective is to increase the number of women returning to work after family leave, with a focus on parental leave and flexible work arrangements and to establish effective tools to "keep in touch" while on leave. In Australia, an online support service, the IPL Family Program, was launched. This program is designed to assist parents with children aged 0–18 years to achieve a work-life balance and is a source of a range of information, including on parenting, child-care and schooling. The IPL Family Program incorporates the "Stay in Touch" Program, which is designed to establish regular contact with expectant parents while at work, as well as while on family leave.

### Diversity in 2013/14

For 2013/14, in accordance with its vision to be an inclusive and accessible organisation embracing diversity and its Diversity Strategy, the Company will seek to continue to increase the proportion of women employed in the Group, with the focus expanded to the operations in North America following, as in

the prior year, the objectives set in 2012. In addition, in Australia, the Group will seek to utilise its recruitment processes to assist in identifying female candidates for available management positions. The Company will also continue to build employees' understanding of the Company's commitment to providing equality of employment opportunities by training in relevant policies and procedures.

The Diversity Council will report to the Board on progress made against these objectives throughout the year, as well as more broadly with regards to the Diversity Strategy.

Further details of the Company's Diversity Policy are available on the Company's website, [www.incitecpivot.com.au](http://www.incitecpivot.com.au).

## 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), John Marlay and Rebecca McGrath, 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 1 and 2.

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 2013 is set out on page 3.

The Chief Risk Officer, 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 Chief Risk Officer and the external auditors without the presence of other members of management.

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.



### Internal control and risk management

- risk management strategies – receive reports from management, the internal audit function and the 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

- structure/resources – review and approve the structure of the internal audit function and resources;
- appointment/replacement – in the event the internal audit function is fully outsourced, 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, noting that while internal audit is managed internally, the Committee evaluates and approves the panel of external consultants to provide internal audit services within the internal audit plan;
- assessment – evaluate the performance of the internal audit function together with the financial incentives for personnel in the internal audit function;
- 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 audit function, 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 audit function;
- communication – review the level of open communication between the internal audit function, the external auditor and the Board and any restrictions placed on the internal audit function by management; 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.

Deloitte Touche Tohmatsu is the Company's external auditor, appointed at the 2011 Annual General Meeting.

The lead audit partner and review partner of the Company's external auditor rotate every five years.

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.

The lead audit partner or appropriate alternates will attend the Annual General Meeting to be held on 19 December 2013. Under the Corporations Act 2001 (Cth), shareholders have the right to submit written questions on certain topics to the auditor, and the auditor may table answers to such questions at the Annual General Meeting.

### Internal audit

The internal audit function is managed by the Chief Risk Officer who oversees the execution of the internal audit plan as approved by the Audit and Risk Management 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;

# Directors' Report

## Corporate Governance Statement

- 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 Managing Director & CEO, the Chief Financial Officer and the Company Secretary as the Continuous Disclosure Officers. Their role includes providing announcements to the ASX and ensuring that 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 the Company's website, [www.incitecpivot.com.au/Corporate\\_Governance](http://www.incitecpivot.com.au/Corporate_Governance).

### 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 ASX.

The Shareholder Communications Policy is available on the corporate governance section of the Company's website, [www.incitecpivot.com.au/Corporate\\_Governance](http://www.incitecpivot.com.au/Corporate_Governance).

### Principle 7: Recognise and manage risk

#### 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).

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;
- annual budgeting and monthly reporting systems to monitor performance;
- delegations of authority;
- policies and procedures for the authorisation of capital expenditure;
- a compliance program supported by approved guidelines and standards addressing health, safety and environment matters, and regulatory compliance matters;
- compliance policies and programs covering anti-bribery, improper payments, sanctions and anti-trust;
- 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;
- business continuity plans; and
- the internal audit function.

A summary of the Group Risk Policy is available on the corporate governance section of Incitec Pivot's website, [www.incitecpivot.com.au/Corporate\\_Governance](http://www.incitecpivot.com.au/Corporate_Governance).

#### 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 Principle 4 on page 34. 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 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, South American, Chinese, Indian, European or Australian economy may adversely impact Incitec Pivot's overall performance. This may influence profitability and demand for fertilisers, industrial chemicals, industrial explosives and related products and services.

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

- fertilisers (e.g. urea) and certain industrial chemicals (e.g. ammonia) are internationally traded commodities with pricing based on international benchmarks and are affected by global supply and demand forces;
- 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, 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.

#### **Natural Gas**

Gas is one of the major inputs required for the production of ammonia and therefore is a critical feedstock for a number of Incitec Pivot's manufacturing operations.

Incitec Pivot uses gas to produce ammonia at a number of its manufacturing facilities globally.

The cost of gas impacts the variable cost of production of ammonia and can influence the plants' overall competitive position, particularly for fertiliser products (e.g. urea, diammonium phosphates) given they are globally traded commodities.

In Australia, there has been upward pressure on gas prices due to an increase in:

- demand driven by the development of the Liquefied Natural Gas (LNG) export market; and
- costs for new sources of gas supply.

For its Australian plants, Incitec Pivot has separate gas supply contracts for each of its facilities at which ammonia is produced, which progressively expire from the beginning of the 2015 financial year through to 2025. Given the current upward pressure on gas prices, as the Company seeks sources of gas for the future, gas prices could be higher, which would impact the cost of operations at that specific facility.

In addition, there is a risk that a reliable, committed source of gas may not be available to the Group for use at some facilities following the expiry of current contractual arrangements.

In North America, the rapid expansion of shale gas reserves and collection techniques has seen gas prices decrease from 2008 to 2013. Changes in the domestic supply/demand balance, environmental legislation or introduction of taxes could impact North American gas pricing into the future. This, in turn, could impact Incitec Pivot's cost of ammonia production at its facilities in North America.

#### **Sulphuric acid & Sulphur**

Sulphuric acid is used in the production of ammonium phosphate, granular sulphate of ammonia and single superphosphate fertilisers. Incitec Pivot produces sulphuric acid at its Mt Isa operations from a combination of processing metallurgical gas sourced from Xstrata's copper smelting facility and from burning imported elemental sulphur. The Mt Isa acid production is also supplemented with sulphuric acid purchased directly from a domestic smelter to meet total sulphuric acid requirements for the production of ammonium phosphates at Phosphate Hill.

In May 2011, Xstrata publicly announced the planned closure of its copper smelting operation at Mt Isa, Queensland by the end of 2016. After the closure of the copper smelting operation, the Group will no longer receive the free metallurgical gas from Xstrata. Post the closure, the Mt Isa plant will produce sulphuric acid only using elemental sulphur, resulting in the plant producing a reduced volume of sulphuric acid. Alternative sources of sulphuric acid to replace the shortfall arising from the loss of metallurgical gas from Xstrata are likely to negatively impact the cost of producing ammonium phosphates at Southern Cross International's (SCI) Phosphate Hill facility from that date. The quantum of the impact will depend on the future availability and price of sulphur and/or sulphuric acid.

In 2013, Glencore Group Plc completed its takeover of Xstrata. The impact of the takeover on Xstrata's operations at Mt Isa, if any, is unclear. If Glencore Xstrata were to change the previously announced closure date of the smelter to an earlier date, that may negatively impact the results of the SCI business. Conversely an extension beyond 2016 may improve the results. The quantum of the impact of an earlier closure is uncertain and would depend on the Group's ability to successfully develop alternative sources of sulphuric acid before closure of the copper smelter (and cessation of metallurgical gas supply).

The Mt Isa site is a leased site and a lease contract is in place with Xstrata to 2020. Accordingly, Incitec Pivot is able to continue to produce sulphuric acid at Mt Isa using elemental sulphur until 2020, notwithstanding cessation of the copper smelter operation.

Sulphuric acid used for the production of single superphosphate at Incitec Pivot's operations at Geelong and Portland is sourced from both domestic and international suppliers.

Sulphuric acid and sulphur are internationally traded commodities with pricing based on international benchmarks and, as such, 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. Fluctuations in either of these variables can impact the cost of Incitec Pivot's manufacturing operations.

#### **Phosphate rock**

Phosphate rock, used in the manufacture of both ammonium phosphates and single superphosphate fertilisers, is a naturally occurring mineral rock.

Incitec Pivot mines phosphate rock at its own facility at Phosphate Hill which is used for the production of ammonium phosphates at this same facility.

Phosphate rock used in the production of single superphosphate at Incitec Pivot's Geelong and Portland operations is sourced from international suppliers.



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## Corporate Governance Statement

Phosphate rock is an internationally traded commodity with pricing based on international benchmarks and is 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. Fluctuations in either of these variables can impact the cost of Incitec Pivot's single superphosphate manufacturing operations.

### **Equipment failure/breakdown**

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 particular, ramp up and operating issues at the Moranbah complex as well as interruptions to gas supply have, in the past, resulted in unplanned interruptions and adversely affected Incitec Pivot's financial performance, and any similar future issues, including planned and unplanned outages, may have a material impact on Incitec Pivot's financial performance.

In addition, loss from such events may not be recoverable in whole or in part under Incitec Pivot's insurance policies.

### **Labour**

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.

### **Weather**

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.

One of Incitec Pivot's key strategic objectives is its continuous improvement system, Business Excellence (BEx), which is designed to drive increased efficiency in the Group's assets and improvements in manufacturing costs. Operational and other difficulties in the implementation of BEx across Incitec Pivot's operations may result in delays to the full realisation of benefits from BEx.

### **Construction risks – Louisiana Ammonia Plant**

In April 2013, Incitec Pivot announced the construction of a world scale ammonia plant in Louisiana, USA. This involves the development of a large scale industrial chemical plant which, during the construction phase, could be vulnerable to unforeseen human error, energy or water disruptions, natural disasters and acts of God, sabotage, terrorist attacks and other events which may disrupt or delay the construction phase. In addition, losses from such events may not be recoverable in whole or in part under the construction contract or Incitec Pivot's insurance policies.

The construction of such a large scale chemical plant requires skilled personnel drawn from a range of disciplines, trades and vocations. A shortage in skilled labour or loss of key personnel could also impact the construction phase of the Louisiana ammonia plant.

### **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 related services, which could potentially result in injury or incident to employees, contractors, the public or the environment.

### **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 Incitec Pivot's business, financial condition and operations. This includes changes in domestic or international laws relating to sanctions, bribery and improper payments. In addition, changes in tax legislation, regulation or compliance requirements in the jurisdictions in which Incitec Pivot operates, or changes in the policy or practices of the relevant tax authorities in such jurisdictions, may result in additional compliance costs and/or increased risk of regulatory action.

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 Chief Risk Officer, 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.

The internal audit function 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. The internal audit function provides written reports to the Committee on the effectiveness of the management of risk and internal controls, and the Chief Risk Officer meets regularly with the Committee without the presence of other members of management.



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 2013.

### **CEO and CFO Declaration and Assurance**

In accordance with the ASX Recommendations, for the financial year ended 30 September 2013, 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 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 30, the Remuneration 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/Corporate\\_Governance](http://www.incitecpivot.com.au/Corporate_Governance). The members of the Committee are three independent non-executive directors, being John Marlay (Chairman), Allan McCallum and Graham Smorgon AM.

The ASX 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 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 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 ASX 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 15. 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 2013 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.4 "Executive remuneration" in the Remuneration Report on page 23.

The attendance of the members of the Remuneration Committee at each meeting held during the financial year to 30 September 2013 is set out on page 3.

Signed on behalf of the Board.



**Paul V Brasher**  
Chairman  
Dated at Melbourne  
this 11th day of November 2013

The Board of Directors  
Incitec Pivot Limited  
Level 8, 28 Freshwater Place  
Southbank Victoria 3006

11 November 2013

Dear Board Members

**Incitec Pivot Limited**

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Incitec Pivot Limited.

As lead audit partner for the audit of the financial statements of Incitec Pivot Limited for the financial year ended 30 September 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Tom Imbesi  
Partner  
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

## **Financial Report**

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# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 September 2013

	Notes	Consolidated	
		2013 \$mill	2012 \$mill
Revenue	(4)	3,403.7	3,500.9
Financial and other income	(4)	59.5	40.4
<b>Operating expenses</b>			
Changes in inventories of finished goods and work in progress		19.5	(97.1)
Raw materials and consumables used and finished goods purchased for resale		(1,610.2)	(1,506.5)
Employee expenses		(584.2)	(543.3)
Depreciation and amortisation expense	(5)	(183.7)	(155.8)
Financial expenses	(5)	(89.3)	(66.6)
Purchased services		(161.2)	(167.4)
Repairs and maintenance		(132.9)	(109.4)
Outgoing freight		(224.2)	(237.8)
Lease payments – operating leases		(62.1)	(65.3)
Share of profit on equity accounted investments	(16)	33.5	27.4
Asset write-downs, clean-up and environmental provisions		(50.9)	(104.2)
Reversal of Moranbah unfavourable contract liability		-	261.6
Other expenses		(61.0)	(65.2)
<b>Profit before income tax</b>		<b>356.5</b>	<b>711.7</b>
Income tax benefit/(expense)	(8)	16.1	(203.7)
<b>Profit for the financial year</b>		<b>372.6</b>	<b>508.0</b>
<b>Other comprehensive income, net of income tax</b>			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Actuarial gains/(losses) on defined benefit plans		31.1	(16.5)
Gross fair value loss on assets at fair value through other comprehensive income		(2.0)	(7.5)
Income tax relating to items that will not be reclassified subsequently		(10.9)	8.3
		<b>18.2</b>	<b>(15.7)</b>
<i>Items that may be reclassified subsequently to profit or loss</i>			
Fair value (loss)/gain on hedging instruments entered into for cash flow hedges		(12.4)	36.7
Cash-flow hedge gains transferred to profit or loss statement		(25.8)	(22.5)
Exchange differences on translating foreign operations		182.0	(40.3)
Net (loss)/gain on hedge of net investment		(160.5)	50.3
Income tax relating to items that may be reclassified subsequently		18.0	(14.9)
		<b>1.3</b>	<b>9.3</b>
<b>Other comprehensive income/(expense) for the period, net of income tax</b>		<b>19.5</b>	<b>(6.4)</b>
<b>Total comprehensive income for the financial year</b>		<b>392.1</b>	<b>501.6</b>
<b>Profit attributable to:</b>			
Members of Incitec Pivot Limited		372.0	510.7
Non-controlling interest		0.6	(2.7)
<b>Profit for the financial year</b>		<b>372.6</b>	<b>508.0</b>
<b>Total comprehensive income attributable to:</b>			
Members of Incitec Pivot Limited		391.5	504.3
Non-controlling interest		0.6	(2.7)
<b>Total comprehensive income for the financial year</b>		<b>392.1</b>	<b>501.6</b>
<b>Earnings per share</b>			
Basic (cents per share)	(9)	22.8	31.4
Diluted (cents per share)	(9)	22.8	31.4

The Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Notes to the Consolidated Financial Statements set out on pages 45 to 112.



# Consolidated Statement of Financial Position

As at 30 September 2013

	Notes	Consolidated 2013 \$mill	2012 \$mill
<b>Current assets</b>			
Cash and cash equivalents	(10)	270.6	154.1
Trade and other receivables	(11)	364.7	372.9
Inventories	(12)	435.6	403.7
Other assets	(13)	61.9	57.4
Other financial assets	(14)	5.6	32.2
Assets classified as held for sale	(15)	0.6	0.2
Current tax assets		36.2	-
<b>Total current assets</b>		<b>1,175.2</b>	<b>1,020.5</b>
<b>Non-current assets</b>			
Trade and other receivables	(11)	8.2	24.2
Other assets	(13)	4.4	17.7
Other financial assets	(14)	117.1	49.5
Investments accounted for using the equity method	(16)	299.1	292.8
Property, plant and equipment	(17)	3,033.5	2,738.5
Intangible assets	(18)	2,961.0	2,845.2
Deferred tax assets	(19)	85.3	25.0
<b>Total non-current assets</b>		<b>6,508.6</b>	<b>5,992.9</b>
<b>Total assets</b>		<b>7,683.8</b>	<b>7,013.4</b>
<b>Current liabilities</b>			
Trade and other payables	(20)	979.3	817.5
Interest bearing liabilities	(21)	33.5	125.7
Other financial liabilities	(22)	39.6	14.8
Provisions	(23)	108.4	122.8
Current tax liabilities		-	11.4
<b>Total current liabilities</b>		<b>1,160.8</b>	<b>1,092.2</b>
<b>Non-current liabilities</b>			
Trade and other payables	(20)	7.0	17.1
Interest bearing liabilities	(21)	1,620.6	1,315.3
Other financial liabilities	(22)	114.3	-
Provisions	(23)	77.5	74.5
Deferred tax liabilities	(24)	413.4	371.3
Retirement benefit obligation	(25)	70.4	111.6
<b>Total non-current liabilities</b>		<b>2,303.2</b>	<b>1,889.8</b>
<b>Total liabilities</b>		<b>3,464.0</b>	<b>2,982.0</b>
<b>Net assets</b>		<b>4,219.8</b>	<b>4,031.4</b>
<b>Equity</b>			
Issued capital	(26)	3,265.9	3,265.9
Reserves		(178.6)	(178.4)
Retained earnings		1,129.6	941.6
Minority interest		2.9	2.3
<b>Total equity</b>		<b>4,219.8</b>	<b>4,031.4</b>

The Consolidated Statement of Financial Position should be read in conjunction with the Notes to the Consolidated Financial Statements set out on pages 45 to 112.

# Consolidated Statement of Cash Flows

For the year ended 30 September 2013

	Notes	Consolidated	
		2013 \$mill	2012 \$mill
		Inflows/ (outflows)	Inflows/ (outflows)
<b>Cash flows from operating activities</b>			
Receipts from customers		3,791.5	3,934.5
Payments to suppliers and employees		(3,069.2)	(3,218.0)
Interest received		18.5	7.4
Financial expenses paid		(89.4)	(41.3)
Other revenue received		30.2	24.5
Income taxes paid		(67.1)	(86.3)
<b>Net cash flows from operating activities</b>	(28)	<b>614.5</b>	<b>620.8</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment and intangibles		(452.2)	(626.6)
Payments for purchase of investments		-	(35.1)
Proceeds from sale of property, plant and equipment		24.0	10.0
Amounts advanced from equity-accounted investees		15.0	21.2
Proceeds from settlement of net investment hedge derivatives		23.8	29.2
<b>Net cash flows from investing activities</b>		<b>(389.4)</b>	<b>(601.3)</b>
<b>Cash flows from financing activities</b>			
Repayments of borrowings		(117.5)	(63.6)
Proceeds from borrowings		200.0	-
Realised market value gains on interest rate swaps		1.7	5.3
Dividends paid	(27)	(203.6)	(187.3)
<b>Net cash flows from financing activities</b>		<b>(119.4)</b>	<b>(245.6)</b>
Net increase/(decrease) in cash and cash equivalents held		105.7	(226.1)
Cash and cash equivalents at the beginning of the financial year		154.1	379.7
Effect of exchange rate fluctuation on cash and cash equivalents held		10.8	0.5
<b>Cash and cash equivalents at the end of the financial year</b>	(10)	<b>270.6</b>	<b>154.1</b>

The Consolidated Statement of Cash Flows should be read in conjunction with the Notes to the Consolidated Financial Statements set out on pages 45 to 112.

# Consolidated Statement of Changes in Equity

For the year ended 30 September 2013

Consolidated	Issued capital \$mill	Cash flow hedging reserve \$mill	Share-based payments reserve \$mill	Foreign currency translation reserve \$mill	Fair value reserve \$mill	Retained earnings \$mill	Total \$mill	Minority interest \$mill	Total equity \$mill
Balance at 1 October 2011	3,265.9	(10.5)	11.9	(189.9)	(4.3)	628.6	3,701.7	5.0	3,706.7
Profit for the financial year	-	-	-	-	-	510.7	510.7	(2.7)	508.0
Total other comprehensive income/ (expense) for the period	-	10.2	-	(0.9)	(5.3)	(10.4)	(6.4)	-	(6.4)
Dividends paid	-	-	-	-	-	(187.3)	(187.3)	-	(187.3)
Share-based payment transactions									
Net option expense	-	-	10.4	-	-	-	10.4	-	10.4
Balance at 30 September 2012	3,265.9	(0.3)	22.3	(190.8)	(9.6)	941.6	4,029.1	2.3	4,031.4
<b>Balance at 1 October 2012</b>	<b>3,265.9</b>	<b>(0.3)</b>	<b>22.3</b>	<b>(190.8)</b>	<b>(9.6)</b>	<b>941.6</b>	<b>4,029.1</b>	<b>2.3</b>	<b>4,031.4</b>
Profit for the financial year	-	-	-	-	-	372.0	372.0	0.6	372.6
Total other comprehensive income/ (expense) for the period	-	(26.4)	-	27.7	(1.4)	19.6	19.5	-	19.5
Dividends paid	-	-	-	-	-	(203.6)	(203.6)	-	(203.6)
Share-based payment transactions									
Net option expense	-	-	(0.1)	-	-	-	(0.1)	-	(0.1)
<b>Balance at 30 September 2013</b>	<b>3,265.9</b>	<b>(26.7)</b>	<b>22.2</b>	<b>(163.1)</b>	<b>(11.0)</b>	<b>1,129.6</b>	<b>4,216.9</b>	<b>2.9</b>	<b>4,219.8</b>

The Consolidated Statement of Changes in Equity should be read in conjunction with the Notes to the Consolidated Financial Statements set out on pages 45 to 112.

## 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 2010/13, 2011/14 and 2012/15 Long Term Incentive Plans. The EPS portion of the Group's LTI plan is written back when the plan hurdles/vesting conditions are unlikely to be met in accordance with *AASB 119 Employee Benefits*.

## 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 Statement of Profit or Loss and Other Comprehensive Income 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 percent 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 2013

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# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 1. Significant accounting policies

Incitec Pivot Limited ('the Company', 'IPL' or 'Incitec Pivot') is a company domiciled in Australia. The consolidated financial statements were authorised for issue by the directors on 11 November 2013.

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 (AASs) (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). For the purpose of preparing the consolidated financial statements, the Company is a for-profit entity.

#### *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 amortised 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 judgment 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 judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 2.

#### *Application of new and revised Accounting Standards*

The principal Australian Accounting Standards and interpretations that became effective since 30 September 2012 are:

- AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASB1, AASB5, AASB7, AASB101, AASB112, AASB120, AASB121, AASB132, AASB133 and AASB134].
- AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets.

The adoption of these standards did not have a significant impact on the Group's results in the current and/or prior year. However, the application of AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income' resulted in changes to the Group's presentation of the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

There are no other new and revised Australian accounting standards and interpretations adopted in these financial statements affecting the reported results or financial position.

#### *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:

- *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 and enhances disclosure requirements for defined benefit plans. The amendments will become mandatory for the Group's 30 September 2014 consolidated financial statements. Based on the Group's current assessment, AASB 119 will have an impact on IPL's financial statements specifically in the following areas:
  - The defined benefit expense will no longer contain the expected return on plan assets, instead this will be replaced by net interest income or expense, calculated using a discount rate (based on government bond rates) applied to the net benefit asset or liability. Had the Group adopted these amendments in the current reporting period there would have been no material impact to total comprehensive income for the current period and the statement of financial position as at 30 September 2013;
  - Presentation of the defined benefit cost will be disaggregated into three components, service cost to be presented in the Statement of Profit or Loss and Other Comprehensive Income, net interest on the net defined benefit asset or liability in the Statement of Profit or Loss and Other Comprehensive Income as part of finance costs and re-measurements to be presented in other comprehensive income; and
  - Additional disclosures about the characteristics and risks arising from the Group's defined benefit plans.

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 1. Significant accounting policies (continued)

### (i) Basis of preparation (continued)

#### *Issued Standards not early adopted (continued)*

AASB 119 also changes the measurement methodology for employee entitlements not expected to be settled in less than 12 months of the Group's balance date. Based on the Group's assessment the change in the measurement methodology for employee entitlements not expected to be settled within 12 months of the Group's balance date at 30 September 2013 will be immaterial to the Group's current year results.

- *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. AASB 10 will become mandatory for the Group's 30 September 2014 consolidated financial statements. Based on the Group's assessments, it is anticipated that the revised definition of control will have no significant impact to IPL's current accounting for investments held. Investments currently accounted for as subsidiaries would continue to meet the revised definition of control and therefore continue to be consolidated in the Group's financial statements. Investments currently accounted for as associates and joint ventures have been assessed against the revised control definition and there would be no changes in the accounting treatment for these investments. Therefore, the Group will continue to equity account for these investments.
- *AASB 11: Joint Arrangements* reduces the 'types' of joint arrangements from three to two and eliminates the option to apply proportionate consolidation. The amendments will become mandatory for the Group's 30 September 2014 consolidated financial statements. Based on the Group's current assessments, the revised definition of joint arrangements will have no impact on IPL's current joint arrangement classifications. The assessment of IPL's jointly controlled entities shows there are no jointly controlled entities that give IPL direct rights over assets or obligations to settle liabilities, such that they should be classified as joint operations. Therefore, all of these jointly controlled entities would be classified as joint ventures and given that IPL's current accounting policy for jointly controlled entities is to use the equity accounting method, these joint ventures will remain equity accounted for under AASB 11. Overall, the Group expect no impact on the measurement of any of IPL's existing joint arrangements.
- *AASB 12: Disclosure of Interests in Other Entities* requires more extensive qualitative disclosures around judgment 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 will become mandatory for the Group's 30 September 2014 consolidated financial statements. Based on the Group's current assessment, it is expected that additional disclosures will be required as a result of AASB 12.
- *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 will become mandatory for the Group's 30 September 2014 consolidated financial statements. Based on the Group's current assessment it is expected that additional disclosures will be required as a result of AASB 13. Had the group early adopted AASB 13 in the current reporting period, there would be no material impact to the current year results or the financial position at 30 September 2013.
- *AASB 127: Separate Financial Statements (2011)* requires that when an entity prepares separate financial statements, investments in subsidiaries, associates and joint ventures are accounted for either at cost, or in accordance with AASB 9 'Financial Instruments'. The amendments will become mandatory for the Group's 30 September 2014 consolidated financial statements. The Group has assessed that there will be no impact to its financial statements as a result of this standard.
- *AASB 128: Investments in Associates and Joint Ventures (2011)* prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amendments will become mandatory for the Group's 30 September 2014 consolidated financial statements. The Group has assessed that there will be no impact to its financial statements as a result of this standard.
- *AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*: Key management personnel disclosures will be included in the remuneration report, but will not be required in the financial statements, only when AASB 2011-4 is adopted for the 30 September 2014 year-end. Early adoption is not permitted.
- *AASB 9 Financial Instruments (December 2010), AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010), AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures*. The revised version of AASB 9 incorporates revised requirements for the classification and measurement of financial liabilities, and carrying over of the existing derecognition requirements from AASB 139 Financial Instruments: Recognition and Measurement. First application date for the Group, if not early adopted, is the financial year ended 30 September 2016. The Group is currently in the process of evaluating the impact of this Standard.

### (ii) Consolidation

#### (a) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Incitec Pivot Limited as at 30 September 2013 and the results of all subsidiaries for the year then ended.

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 1. Significant accounting policies (continued)

### (ii) Consolidation (continued)

#### (a) Subsidiaries (continued)

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* are recognised when the Group acts in the capacity of an agent rather than as the principal in a transaction and therefore 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 Statement of Profit or Loss and Other Comprehensive Income 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 12 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 fair value of shares (treated as options) and rights, granted to employees, at the grant date, 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 re-measured 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 Statement of Profit or Loss and Other Comprehensive Income.

### (vi) Taxation

Income tax expense comprises current and deferred tax and is recognised in the profit or loss component of the Consolidated Statement of Profit or Loss and Other Comprehensive Income 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.

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 1. Significant accounting policies (continued)

### (vi) Taxation (continued)

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.

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. High turnover engineering spares are held in inventory and expensed when used.

### (viii) Trade and other receivables

Trade and other receivables are recognised at their amortised 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 Statement of Profit or Loss and Other Comprehensive Income within other expenses. When a trade receivable for which an impairment allowance has 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 Statement of Profit or Loss and Other Comprehensive Income.

Where substantially all risks and rewards relating to receivables have been transferred to a financial institution, the receivable is de-recognised. 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

Financial assets are recognised and 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.

Investments in equity securities are designated as "fair value through other comprehensive income", with 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 Profit or Loss and Other Comprehensive Income.

Dividend income is recognised as income in the profit and loss component of the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

### (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.



# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 1. Significant accounting policies (continued)

### (x) Assets (or disposal groups) held for sale (continued)

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 de-recognition.

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.

### (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 – 40 years
- Machinery, plant and equipment 3 – 40 years

The assets' residual values and useful lives are reviewed when there are changes in circumstances, 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 Statement of Profit or Loss and Other Comprehensive Income.

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 Statement of Profit or Loss and Other Comprehensive Income 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 Statement of Profit or Loss and Other Comprehensive Income 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 Statement of Profit or Loss and Other Comprehensive Income 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 Statement of Profit or Loss and Other Comprehensive Income 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.

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 1. Significant accounting policies (continued)

### (xiii) Intangible assets (continued)

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 1 – 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, then the difference is recognised directly in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, 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.

### (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 Statement of Profit or Loss and Other Comprehensive Income 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. In the event that the liabilities are derecognised, any resulting gains and losses are recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

### (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 recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income as soon as the need is identified and a reliable estimate of the liability is able to be made.

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.

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 1. Significant accounting policies (continued)

### (xvii) Provisions (continued)

#### (a) Environmental (continued)

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 is 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 re-measured 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 Statement of Profit or Loss and Other Comprehensive Income.

#### (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 considered non-current, 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.

##### Long term incentive plans

Equity-settled share based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value determined at grant date of the equity settled share based payments is expensed

on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. In respect of service and non-market vesting conditions, at the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share based payments reserve. Details regarding the determination of the fair value of the equity-settled share based transactions are set out in Note 35.

For cash-settled share based payments, a liability is recognised for services provided by employees, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is re-measured, with any changes in fair value recognised in profit or loss for the year.

#### (e) Retirement benefit obligation

Contributions to defined contribution superannuation funds are charged to the Consolidated Statement of Profit or Loss and Other Comprehensive Income 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 profit and loss component of the Consolidated Statement of Profit or Loss and Other Comprehensive Income 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.

#### (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 has either commenced or been publicly announced, or firm contracts related to the restructuring or termination benefits have been entered into. Costs related to ongoing activities are not provided for.

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 1. Significant accounting policies (continued)

### (xvii) Provisions (continued)

#### (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 then a liability is recognised as part of accounting for the business combination.

### (xix) Foreign currency transactions

#### (a) 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").

The results and financial position of the Group are expressed in Australian dollars which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the relevant date of the particular transaction. 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 the Consolidated Statement of Profit or Loss and Other Comprehensive Income, 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 re-translated.

#### (c) 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. Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised in the Consolidated Statement of Profit or

Loss and Other Comprehensive Income 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 other than forward sales and purchase physical agreements.

Derivative financial instruments (which include physical contracts to sell or purchase commodities that do not meet the own use exemption) are recognised initially at fair value. Subsequent to initial recognition derivative financial instruments are stated at fair value.

The gain or loss on re-measurement to fair value is recognised immediately in the profit and loss component of the Consolidated Statement of Profit or Loss and Other Comprehensive Income. However, where derivatives qualify for hedge accounting, the gain or loss is transferred to the cash flow hedging reserve, the foreign currency translation reserve or through the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

#### (a) 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 in actuality they have been highly effective throughout the financial reporting periods for which they are designated.

#### (b) Cash flow hedges

Changes in fair value of derivative hedging instruments designated as cash flow hedges are recognised directly in equity to the extent that the particular hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the profit and loss component of the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Amounts accumulated in equity are recycled in the profit and loss component of the Consolidated Statement of Profit or Loss and Other Comprehensive Income 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.



# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 1. Significant accounting policies (continued)

### (xx) Derivative financial instruments (continued)

#### (b) Cash flow hedges (continued)

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 Statement of Profit or Loss and Other Comprehensive Income.

#### (c) 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 to 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 profit and loss component of the Consolidated Statement of Profit or Loss and Other Comprehensive Income. On disposal of the foreign operation, the cumulative value of such gains or losses recognised directly to equity is transferred to the profit and loss component of the Consolidated Statement of Profit or Loss and Other Comprehensive Income based on the amount calculated using the direct method of consolidation.

#### (d) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the profit and loss component of the Consolidated Statement of Profit or Loss and Other Comprehensive Income relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

### (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.

### (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 re-acquires 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 Statement of Profit or Loss and Other Comprehensive Income 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 and the appropriate quoted market price for financial liabilities is the current ask price. 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.

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 1. Significant accounting policies (continued)

### (xxiv) Impairment of assets (continued)

In calculating the 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 profit and loss component of the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

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) Accounting for the carbon pricing mechanism

The Group accounts for carbon emission units (carbon permits) under the Australian carbon pricing mechanism as follows:

- Purchased carbon permits are accounted for as intangible assets in accordance with AASB 138 Intangible Assets. Accordingly the permits are carried at cost unless an active market for the permits exists, in which case these could be carried at fair value. The fair value movements are recorded within an asset revaluation reserve within equity.
- Carbon permits under the Jobs and Competitiveness Program are accounted for as intangible assets acquired by way of a government grant when the permits are received from the government. In accordance with AASB 120 Accounting for Government Grants and Disclosure of Government Assistance, both the permits and the grant are initially recognised at fair value. The grant is initially

recorded as deferred revenue by the entity and will be recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on a systematic basis over the periods in which the entity recognises the emissions expense.

Carbon emission liabilities are recognised when the emissions are generated, and are measured at the present value of carbon permits needed to extinguish the liability.

Carbon expense and deferred income from free carbon permits are recorded as part of the cost of inventory.

Carbon permit assets and carbon emission liabilities are disclosed on a gross basis in the consolidated statement of financial position.

### (xxvii) Rounding of amounts

The Group is of a kind referred to in Class order 98/0100 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.

## 2. Critical accounting estimates and judgments

Estimates and judgments 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 referred to 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, asset retirement obligation and restructuring liabilities;
- the calculation of annual superannuation and pension costs and related assets and liabilities; and
- employee entitlements.

### (i) Impairment of assets

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.

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

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

### (i) Impairment of assets (continued)

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 judgments concerning the identification of impairment indicators, earnings before interest and tax, growth rates, applicable discount rates, useful lives and residual or terminal values.

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, changes in the cost of capital, current replacement costs, changes in the cost of inputs and other factors. 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 judgments 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, restructuring and 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 profit and loss component of the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the period in which such determination is made. Refer Note 1 (xvii) (a) & Note 1 (xvii) (g) to the consolidated financial statements for further details of the accounting policy relating to environmental and restructuring provisions. Also refer to Notes 5 and 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) (e) 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) Employee entitlements

The determination of the provisions required for employee entitlements is dependent on a number of assumptions including expected wage increases, length of employee service and bond rates. Refer to Note 1 (xvii) (d) to the consolidated financial statements for further details of the accounting policy relating to employee entitlements. Also refer to Note 23 for amounts recognised for employee entitlements.

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

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## 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 at least on a monthly basis. The Executive Team does not monitor assets and liabilities at a segment level and these do not form part of the segment report.

### (b) Description of operating segments

#### *Fertilisers*

Incitec Pivot Fertilisers (IPF): manufactures and distributes fertilisers in Eastern Australia. The products that IPF manufactures include Urea, Ammonia and Single Super Phosphate. 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 percent 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 2013

## 3. Segment report (continued)

### (d) Reportable segments

30 September 2013	IPF \$mill	SCI \$mill	Elim \$mill	Total Fertilisers \$mill	DNAP \$mill	DNA \$mill	Elim \$mill	Total Explosives \$mill	Corp/ Group Elim \$mill	Consolidated Group \$mill
Sales to external customers	1,095.4	562.9	(192.9)	1,465.4	781.5	1,204.0	(28.9)	1,956.6	(18.3)	3,403.7
Share of profits in associates and joint ventures accounted for by the equity method	-	-	-	-	18.8	14.7	-	33.5	-	33.5
Earnings before interest, related income tax expense, depreciation and amortisation and individually material items	130.6	97.5	3.0	231.1	187.2	262.0	(1.1)	448.1	(29.3)	649.9
Depreciation and amortisation	(34.2)	(27.2)	-	(61.4)	(37.8)	(82.6)	-	(120.4)	(1.9)	(183.7)
Earnings before interest, related income tax expense and individually material items	96.4	70.3	3.0	169.7	149.4	179.4	(1.1)	327.7	(31.2)	466.2
Net interest expense										(68.2)
Income tax expense										(99.0)
Profit after tax (excluding individually material items)										299.0
Non-controlling interest										(0.6)
Individually material items (net of tax)										73.6
Profit after tax										372.0

30 September 2012	IPF \$mill	SCI \$mill	Elim \$mill	Total Fertilisers \$mill	DNAP \$mill	DNA \$mill	Elim \$mill	Total Explosives \$mill	Corp/ Group Elim \$mill	Consolidated Group \$mill
Sales to external customers	1,159.1	731.9	(160.3)	1,730.7	626.4	1,172.2	(28.4)	1,770.2	-	3,500.9
Share of profits in associates and joint ventures accounted for by the equity method	-	-	-	-	12.7	14.7	-	27.4	-	27.4
Earnings before interest, related income tax expense, depreciation and amortisation and individually material items	124.1	203.6	3.3	331.0	232.6	263.2	(2.0)	493.8	(69.9)	754.9
Depreciation and amortisation	(31.8)	(28.3)	-	(60.1)	(21.3)	(72.6)	-	(93.9)	(1.8)	(155.8)
Earnings before interest, related income tax expense and individually material items	92.3	175.3	3.3	270.9	211.3	190.6	(2.0)	399.9	(71.7)	599.1
Net interest expense										(55.5)
Income tax expense										(141.6)
Profit after tax (excluding individually material items)										402.0
Non-controlling interest										2.7
Individually material items (net of tax)										106.0
Profit after tax										510.7

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 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.

<b>30 September 2013</b>	<b>Australia \$mill</b>	<b>USA \$mill</b>	<b>Canada \$mill</b>	<b>Turkey \$mill</b>	<b>Other/Elim \$mill</b>	<b>Consolidated \$mill</b>
Revenue from external customers	<b>2,189.5</b>	<b>809.5</b>	<b>254.6</b>	<b>80.9</b>	<b>69.2</b>	<b>3,403.7</b>
Non-current assets other than financial instruments and deferred tax assets	<b>3,739.0</b>	<b>2,356.1</b>	<b>64.2</b>	<b>46.1</b>	<b>102.3</b>	<b>6,307.7</b>

<b>30 September 2012</b>	<b>Australia \$mill</b>	<b>USA \$mill</b>	<b>Canada \$mill</b>	<b>Turkey \$mill</b>	<b>Other/Elim \$mill</b>	<b>Consolidated \$mill</b>
Revenue from external customers	2,316.3	803.9	226.9	78.1	75.7	3,500.9
Non-current assets other than financial instruments and deferred tax assets	3,659.0	2,016.5	58.4	88.4	99.7	5,922.0

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

	Notes	Consolidated 2013 \$mill	2012 \$mill
<b>4. Revenue and other income</b>			
<b>Revenue</b>			
External sales		<b>3,403.7</b>	3,500.9
Total revenue		<b>3,403.7</b>	3,500.9
<b>Financial income</b>			
Interest income from external parties		<b>20.4</b>	9.7
Interest income from jointly controlled entities	(33)	<b>0.7</b>	1.4
Total financial income		<b>21.1</b>	11.1
<b>Other income</b>			
Net foreign exchange gains		<b>4.2</b>	-
Royalty income and management fees	(33)	<b>22.7</b>	21.5
Net gain on sale of property, plant and equipment	(28)	<b>2.0</b>	4.8
Settlement and curtailment of defined benefit plans	(25)	<b>5.6</b>	-
Other income		<b>3.9</b>	3.0
Total other income		<b>38.4</b>	29.3
Total financial and other income		<b>59.5</b>	40.4

## 5. Expenses

**Profit before income tax includes the following specific expenses:**

Depreciation and amortisation			
depreciation	(17)	<b>157.7</b>	131.5
amortisation	(18)	<b>26.0</b>	24.3
	(28)	<b>183.7</b>	155.8
Recoverable amount write-down			
property, plant and equipment	(17),(28)	<b>3.0</b>	6.5
intangible assets	(18),(28)	<b>41.5</b>	35.7
		<b>44.5</b>	42.2
Amounts set aside to provide for			
impairment loss on trade and other receivables		<b>6.2</b>	1.5
employee entitlements		<b>7.5</b>	7.7
environmental liabilities	(23)	<b>0.4</b>	61.7
inventory losses and obsolescence		<b>0.8</b>	1.5
other provisions	(23)	<b>1.1</b>	4.1
restructuring	(23)	<b>4.3</b>	1.9
Net foreign exchange losses		-	0.9
Research and development expense		<b>10.5</b>	9.0
Defined contribution superannuation expense		<b>16.3</b>	11.8
Defined benefit superannuation/pension expense	(25)	<b>2.4</b>	5.9
<b>Financial expenses</b>			
Unwinding of discount on provisions and other payables	(28)	<b>6.4</b>	25.3
Interest expenses on financial liabilities		<b>82.7</b>	41.1
Loss/(gain) on interest rate swaps designated as fair value hedges		<b>20.8</b>	(11.0)
(Gain)/loss on adjustment to debt attributable to the hedged risk in a fair value hedge relationship		<b>(20.8)</b>	11.0
Interest expenses on financial liabilities with jointly controlled entities	(33)	<b>0.2</b>	0.2
Total financial expenses		<b>89.3</b>	66.6

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

Notes	2013			Consolidated			
	Gross \$mill	Tax \$mill	Net \$mill	Gross \$mill	Tax \$mill	Net \$mill	
Environmental costs at various sites <sup>(1)</sup>	-	-	-	(58.5)	16.4	(42.1)	
Reversal of Moranbah unfavourable contract liability <sup>(2)</sup>	-	-	-	261.6	(78.5)	183.1	
Impairment of intangible assets <sup>(3),(4)</sup>	<b>(41.5)</b>	-	<b>(41.5)</b>	(35.0)	-	(35.0)	
Tax adjustment <sup>(5)</sup>	-	<b>115.1</b>	<b>115.1</b>	-	-	-	
Total individually material items	(9)	<b>(41.5)</b>	<b>115.1</b>	<b>73.6</b>	168.1	(62.1)	106.0

- (1) Environmental costs associated with ground water remediation and soil treatment at the Cockle Creek (NSW), Wallaroo (SA) and Maitland (USA) sites.
- (2) Reversal of the Moranbah unfavourable contract liability of \$183.1m (net of tax). The commencement of production of ammonium nitrate ("AN") at the Moranbah plant in the last quarter of the 2012 financial year replaced the requirement to import AN to service the foundation customer contracts, therefore removing the obligation to carry the liability for future years.
- (3) Impairment write-down at 30 September 2012 relating to goodwill recognised on the acquisition of Nitromak DNX Kimya Sanayi A.S. (Nitromak).
- (4) A further impairment of Nitromak's goodwill of \$41.5m was recognised in 2013 to reflect lower European forecasts and the impact of additional competition in the Turkish explosives market.
- (5) Relates to the reversal of a contingent tax liability (as the obligation to carry the liability no longer exists) that was recognised on the acquisition of Dyno Nobel Limited, as well as an adjustment to the tax base of Australian plant and equipment as a result of the conclusion of certain reviews under-taken by tax authorities.



# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

	Consolidated	
	2013	2012
	\$000	\$000
<b>7. Auditor's remuneration</b>		
Fees payable to the Group's auditor for assurance services		
Audit of the Group's annual report <sup>(1)</sup>	957.0	914.9
Audit of subsidiaries <sup>(2)</sup>	525.2	546.5
Audit-related assurance services <sup>(3)</sup>	175.0	180.0
Total current year assurance services	<b>1,657.2</b>	1,641.4
Assurance services related to subsidiary audits of prior periods <sup>(4)</sup>	95.5	105.5
Total assurance services	<b>1,752.7</b>	1,746.9
Fees payable to the Group's auditor for other services		
Other services relating to taxation <sup>(5)</sup>	86.4	86.1
Other services relating to debt issuance	45.0	-
All other services <sup>(6)</sup>	-	84.4
Total other services	<b>131.4</b>	170.5
Total fees paid to Group auditor	<b>1,884.1</b>	1,917.4
- Payable to Australian Group auditor firm	<b>1,635.1</b>	1,672.9
- Payable to International Group auditor associates	<b>249.0</b>	244.5

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 engagements provided by the Group's auditor above a value of \$100,000, as well as where the aggregate amount exceeds \$250,000 per annum.

(1) Comprises the fee payable to the Group's auditors for the audit of the Group's financial statements.

(2) Comprises the audits of the Group's subsidiaries.

(3) Mainly comprises review of half year reports.

(4) Comprises audits of standalone financial statements for subsidiaries related to prior years.

(5) Comprises taxation compliance procedures for the Group's subsidiaries.

(6) Comprises non-statutory based assurance procedures.

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

	Notes	Consolidated 2013 \$mill	2012 \$mill
<b>8. Income tax expense</b>			
<b>(a) Income tax expense</b>			
<b>Current tax</b>			
Current year		28.3	40.2
Under/(over) provision in prior years		(1.2)	5.7
		<b>27.1</b>	45.9
<b>Deferred tax</b>			
Origination and reversal of temporary differences		(43.2)	157.8
Total income tax (benefit)/expense		<b>(16.1)</b>	203.7
<b>(b) Reconciliation of income tax expense and pre-tax accounting profit</b>			
<b>Profit before income tax</b>		<b>356.5</b>	711.7
<b>Income tax expense attributable to profit before income tax</b>			
Tax at the Australian tax rate of 30% (2012 at 30%) on profit before income tax		106.9	213.5
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:			
Research and development incentive		-	(2.5)
Participation facility		(8.0)	(14.5)
Impairment of intangible assets		12.4	10.5
Tax adjustment	(6)	(115.1)	-
Sundry items		(11.2)	(12.1)
		<b>(15.0)</b>	194.9
Difference in overseas tax rates		0.1	3.1
Under/(over) provision in prior years		(1.2)	5.7
<b>Income tax (benefit)/expense attributable to profit</b>		<b>(16.1)</b>	203.7
<b>(c) Amounts recognised directly in equity</b>			
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 - (charged)/debited directly to equity		(7.1)	6.6
		<b>(7.1)</b>	6.6

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

	Notes	Consolidated 2013 Cents per share	2012 Cents per share
<b>9. Earnings per share (EPS)</b>			
Basic earnings per share			
including individually material items		<b>22.8</b>	31.4
excluding individually material items		<b>18.3</b>	24.8
Diluted earnings per share <sup>(1)</sup>			
including individually material items		<b>22.8</b>	31.4
excluding individually material items		<b>18.3</b>	24.8
		<b>Number</b>	Number
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share <sup>(2)</sup>	(26)	<b>1,628,730,107</b>	1,628,730,107

(1) The total number of rights on issue (refer Note 35) are not dilutive to IPL's earnings per share.

(2) No shares were issued during the year ended 30 September 2013 (2012: nil), refer Note 26.

	2013 \$mill	Consolidated 2012 \$mill
Profit attributable to ordinary shareholders	<b>372.0</b>	510.7

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

Profit attributable to ordinary shareholders	<b>372.0</b>	510.7
Individually material items after income tax	(6)	(73.6)
Profit attributable to ordinary shareholders excluding individually material items	<b>298.4</b>	404.7

## 10. Cash and cash equivalents

Cash at bank and on hand	<b>71.2</b>	77.4
Deposits at call		
external	<b>199.4</b>	76.7
	(28),(32)	<b>270.6</b>
		154.1

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

	Notes	Consolidated	
		2013 \$mill	2012 \$mill
<b>11. Trade and other receivables</b>			
<b>Current</b>			
Trade debtors			
external		<b>306.0</b>	348.1
jointly controlled entities and associates	(33)	<b>38.0</b>	17.5
Less impairment losses			
external	(32)	<b>(12.7)</b>	(8.5)
	(32)	<b>331.3</b>	357.1
Sundry debtors/loans			
external		<b>28.2</b>	7.6
jointly controlled entities and associates	(33)	<b>5.2</b>	8.2
	(32)	<b>33.4</b>	15.8
	(32)	<b>364.7</b>	372.9
<b>Non-current</b>			
Sundry debtors/loans			
external		<b>0.1</b>	2.7
jointly controlled entities and associates		<b>8.1</b>	21.5
	(32)	<b>8.2</b>	24.2

## 12. Inventories

Raw materials and stores at cost		<b>87.1</b>	74.7
Work in progress at cost		<b>58.6</b>	44.5
Finished goods			
at cost		<b>296.9</b>	292.7
less provision for inventory losses, obsolescence and net realisable value		<b>(7.0)</b>	(8.2)
Finished goods		<b>289.9</b>	284.5
		<b>435.6</b>	403.7

## 13. Other assets

<b>Current</b>			
Prepayments		<b>32.8</b>	28.0
Other		<b>29.1</b>	29.4
		<b>61.9</b>	57.4
<b>Non-current</b>			
Prepayments		<b>0.4</b>	0.4
Other		<b>4.0</b>	17.3
		<b>4.4</b>	17.7



# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

	Notes	Consolidated 2013 \$mill	2012 \$mill
<b>14. Other financial assets</b>			
<b>Current</b>			
Derivatives designated and effective as hedging instruments carried at fair value			
option contracts	(32)	-	9.6
forward exchange contracts	(32)	5.6	7.2
cross currency swaps	(32)	-	15.4
		<b>5.6</b>	<b>32.2</b>
<b>Non-current</b>			
Financial assets carried at fair value through Other Comprehensive Income			
investments – equity instruments	(32)	1.5	3.6
Derivatives designated and effective as hedging instruments carried at fair value			
interest rate swaps	(32)	35.2	45.4
forward exchange contracts	(32)	8.0	-
cross currency swaps	(32)	72.4	0.5
		<b>117.1</b>	<b>49.5</b>

See note 32(h) for further details of interest rate and foreign exchange rate exposures that are hedged by the Group.

## 15. Assets classified as held for sale

Land and buildings held for sale		0.6	0.2
		<b>0.6</b>	<b>0.2</b>

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 2013

## 16. Investments accounted for using the equity method

Name of entity	Principal activity	Ownership interest		Country of incorporation
		September 2013	September 2012	
<b>Jointly controlled entities</b>				
Alpha Dyno Nobel Inc	Delivery of explosives and related products	50%	50%	USA
Boren Explosives Co., Inc.	Delivery of explosives and related products	50%	50%	USA
Buckley Powder Co. <sup>(1)</sup>	Delivery of explosives and related products	51%	51%	USA
IRECO Midwest Inc.	Delivery of explosives and related products	50%	50%	USA
Wampum Hardware Co.	Delivery of explosives and related products	50%	50%	USA
Midland Powder Company	Delivery of explosives and related products	50%	50%	USA
Mine Equipment & Mill Supply Company	Delivery of explosives and related products	50%	50%	USA
Controlled Explosives Inc.	Delivery of explosives and related products	50%	50%	USA
Western Explosives Systems Company	Delivery of explosives and related products	50%	50%	USA
Newfoundland Hard-Rok Inc.	Delivery of explosives and related products	50%	50%	Canada
Dyno Nobel Labrador Inc.	Delivery of explosives and related products	50%	50%	Canada
Quantum Explosives Inc.	Inactive	50%	50%	Canada
Dene Dyno Nobel Inc.	Delivery of explosives and related products	49%	49%	Canada
Qaaqtuq Dyno Nobel Inc. <sup>(2)</sup>	Delivery of explosives and related products	49%	49%	Canada
Denesoline Western Explosives Inc. <sup>(3)</sup>	Delivery of explosives and related products	49%	49%	Canada
Queensland Nitrates Pty Ltd <sup>(4)</sup>	Production of ammonium nitrate	50%	50%	Australia
Queensland Nitrates Management Pty <sup>(4)</sup>	Management services	50%	50%	Australia
DetNet International Limited	Distribution of electronic detonators	50%	50%	Ireland
DetNet South Africa (Pty) Ltd	Development, manufacture and supply of electronic detonators	50%	50%	South Africa
DNEX Mexico, S. De R.L. de C.V.	Mexican investment holding company	49%	49%	Mexico
Explosivos De La Region Lagunera, S.A. de C.V.	Distribution of explosives and related products	49%	49%	Mexico
Explosivos De La Region, Central, S.A. de C.V.	Distribution of explosives and related products	49%	49%	Mexico
Nitro Explosivos de Ciudad Guzman, S.A. de C.V.	Distribution of explosives and related products	49%	49%	Mexico
Explosivos Y Servicios Para La Construccion, S.A. de C.V.	Distribution of explosives and related products	49%	49%	Mexico
Tenaga Kimia Ensign-Bickford Sdn Bhd	Manufacture of explosive accessories	50%	50%	Malaysia
Sasol Dyno Nobel (Pty) Ltd <sup>(4)</sup>	Distribution of detonators	50%	50%	South Africa
<b>Associates</b>				
Labrador Maskuau Ashini Ltd	Delivery of explosives and related products	25%	25%	Canada
Fabchem China Ltd <sup>(5)</sup>	Manufacture of commercial explosives	30%	30%	Singapore
Valley Hydraulics Inc.	Delivery of explosives and related products	25%	25%	Canada
Apex Construction Specialities Inc.	Delivery of explosives and related products	25%	25%	Canada
Innu Namesu Ltd	Delivery of explosives and related products	25%	25%	Canada
Warex Corporation	Delivery of explosives and related products	25%	25%	USA
Warex LLC	Delivery of explosives and related products	25%	25%	USA
Maine Drilling and Blasting Group	Drilling and blasting	49%	49%	USA
Independent Explosives	Delivery of explosives and related products	49%	49%	USA

(1) Due to the contractual and decision making arrangement between the shareholders of the entities, despite the legal ownership exceeding 50 percent, 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 percent of the shares in Qaaqtuq Dyno Nobel Inc. However, under the joint venture agreement, the Group is entitled to 75 percent 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 percent of the shares in Denesoline Western Explosives Inc. However, under the joint venture agreement, the Group is entitled to 95 percent of the profit of Denesoline Western Explosives Inc.

(4) These jointly controlled entities have a 30 June financial year end. For the purpose of applying the equity method of accounting, the unaudited financial information through to 30 September 2013 has been used.

(5) Fabchem China Ltd has a 31 March financial year end. For the purpose of applying the equity method of accounting, the unaudited financial information through to 30 September 2013 has been used.

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

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

Summarised financial information of jointly controlled entities and associates:

	Notes	Consolidated	
		2013 \$mill	2012 \$mill
Current assets		352.8	325.1
Non-current assets		367.1	356.1
<b>Total assets</b>		<b>719.9</b>	<b>681.2</b>
Current liabilities		197.6	150.0
Non-current liabilities		83.4	90.4
<b>Total liabilities</b>		<b>281.0</b>	<b>240.4</b>
<b>Net assets</b>		<b>438.9</b>	<b>440.8</b>
Revenue		912.1	866.9
Net profit after tax		71.9	52.6
<b>Share of jointly controlled entities and associates' profit:</b>			
Share of jointly controlled entities and associates' profit before tax		48.3	39.8
Share of jointly controlled entities and associates' income tax expense		(14.8)	(12.4)
<b>Share of jointly controlled entities and associates' profit</b>	(28)	<b>33.5</b>	<b>27.4</b>
<b>Carrying amount of investments in jointly controlled entities and associates</b>			
Carrying amount at the beginning of the year		292.8	257.1
Share of net profit from jointly controlled entities and associates		33.5	27.4
Share in joint ventures acquired during the year		-	32.7
Share in joint ventures transferred to controlled entities		-	(8.6)
Dividends received/receivable	(33)	(43.0)	(6.8)
Elimination of profit on transactions with jointly controlled entities and associates		0.4	(1.7)
Foreign exchange movement		15.4	(7.3)
<b>Carrying amount at end of the financial year</b>		<b>299.1</b>	<b>292.8</b>

The Group's share of capital commitments, other expenditures and contingent liabilities is disclosed in Notes 29 and 30.

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 17. Property, plant and equipment

Consolidated	Notes	Freehold land and buildings \$mill	Machinery, plant and equipment \$mill	Construction in progress \$mill	Total \$mill
<b>At 1 October 2011</b>					
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
<b>Year ended 30 September 2012</b>					
Opening net book amount		312.3	949.2	1,021.8	2,283.3
Reclassification from fixed assets classified as held for sale		2.0	4.0	-	6.0
Additions		19.1	40.4	566.7	626.2
Disposals		(2.1)	(0.7)	-	(2.8)
Depreciation charge	(5)	(14.5)	(117.0)	-	(131.5)
Impairment of assets	(5)	-	(6.5)	-	(6.5)
Reclassification from construction in progress		26.7	90.2	(116.9)	-
Subsidiaries acquired		0.4	2.0	-	2.4
Foreign exchange movement		(6.4)	(28.1)	(4.1)	(38.6)
Closing net book amount		337.5	933.5	1,467.5	2,738.5
<b>At 30 September 2012</b>					
Cost		498.1	1,569.9	1,467.5	3,535.5
Accumulated depreciation		(160.6)	(636.4)	-	(797.0)
Net book amount		337.5	933.5	1,467.5	2,738.5
<b>Year ended 30 September 2013</b>					
Opening net book amount		337.5	933.5	1,467.5	2,738.5
Reclassification to fixed assets classified as held for sale		(0.4)	-	-	(0.4)
Additions		0.8	34.4	366.2	401.4
Disposals		(0.6)	(21.4)	-	(22.0)
Depreciation charge	(5)	(16.5)	(141.2)	-	(157.7)
Impairment of assets	(5)	-	(3.0)	-	(3.0)
Reclassification from construction in progress		237.8	1,297.0	(1,534.8)	-
Foreign exchange movement		13.7	55.1	7.9	76.7
Closing net book amount		572.3	2,154.4	306.8	3,033.5
<b>At 30 September 2013</b>					
Cost		746.6	2,882.3	306.8	3,935.7
Accumulated depreciation		(174.3)	(727.9)	-	(902.2)
Net book amount		572.3	2,154.4	306.8	3,033.5

### Property, plant and equipment impairment

In line with the Group's policy for the consideration of impairment indicators, decreases in spot and forecast fertiliser prices and expected changes in gas prices have triggered the requirement to consider the carrying value of property, plant and equipment for the Fertilisers business. In particular property, plant and equipment held within the Southern Cross International (SCI) CGU and the Gibson Island CGU (part of the IPF group of CGUs) have been most impacted by the sharp decline in short to medium term fertiliser price assumptions, foreign exchange rates and the potential impact of expected changes in short to medium term gas price assumptions.

In assessing the recoverable amount of the CGUs, the Group employs a value-in-use model as it intends to continue to use the assets for the remainder of their useful lives and a reliable measure of their fair value in a sale scenario is not currently available. In calculating value-in-use, the cash flows include projections of cash inflows and outflows from continuing use of the assets. In assessing value-in-use the estimated cash flows are discounted to their present value using a post-tax discount rate that reflects the current market assessments of the risks specific to the asset. Impairment is based on a large number of factors, such as changes in commercial arrangements, changes in competitive position, expectations of growth, changes in the cost of capital, current replacement costs, changes in the cost of inputs and other factors.



# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 17. Property, plant and equipment (continued)

### Key input assumptions

Fertiliser price and foreign exchange rates used in the value-in-use models are estimated by management by reference to external market publications and market analyst estimates, and updated at each reporting date.

For its Australian Fertilisers manufacturing plants, the Group has separate gas supply contracts for Phosphate Hill and Gibson Island, which expire early in the 2015 financial year and the beginning of the 2018 financial year respectively. There is a risk that a reliable, committed source of gas at commercial prices may not be available to the Group for use at either or both of these sites following the expiry of current contractual arrangements.

The estimated price of Australian east coast natural gas, used at the Phosphate Hill and Gibson Island production facilities, is based on market analyst forecasts. Given the current upward pressure on gas prices, as the Group seeks sources of gas for the future, costs for gas could be higher than forecast which would impact the cost of operations at each of these facilities. The value-in-use model assumes that gas will be sourced in time and at the prices included in the table below.

In May 2011, Xstrata publicly announced the planned closure of its copper smelting operation at Mt Isa, Queensland by the end of 2016, meaning that after the closure the Group will no longer receive free by-product metallurgical gas from Xstrata in order to produce sulphuric acid. Alternative sources of sulphuric acid to replace the short-fall arising from the loss of metallurgical gas from Xstrata, is likely to negatively impact the cost of producing ammonium phosphates at SCI's Phosphate Hill facility from that date. The quantum of the impact will depend on the future availability and price of sulphur and/or sulphuric acid. Estimates of these additional costs have been included in the value-in-use model from 2017 onwards.

In 2013, Glencore Group Plc completed its takeover of Xstrata. The impact of the takeover on Xstrata's operations at Mt Isa, if any, is unclear. A change in Xstrata's previously announced closure date of the smelter to an earlier date may negatively impact the value-in-use, conversely an extension may increase the value-in-use. The quantum of the impact of an earlier closure is uncertain and would depend on the Group's ability to successfully develop alternative sources of sulphuric acid before 2016. The Mt Isa site is a leased site and a lease contract is in place with Xstrata to 2020. The value-in-use model reflects management's assumption that the lease will be able to be extended beyond 2020.

The table below summarises the key assumptions used in the value-in-use calculations at 30 September 2013 to determine the recoverable amounts of the SCI and Gibson Island CGUs.

	2013		2012	
	2014 – 2018	Long term (2019+)	2013 – 2017	Long term (2018+)
DAP (FOB Tampa – USD per tonne)	<b>\$435 increasing to \$464</b>	<b>\$527</b>	\$521 increasing to \$560	\$560
Granular Urea (FOB Middle East – USD per tonne)	<b>\$302 increasing to \$326</b>	<b>\$326</b>	\$362 increasing to \$398	\$398
Australian East Coast Gas Price (AUD per gigajoule), excluding transportation cost <sup>(1)</sup>	<b>\$9.90</b>	<b>\$9.10</b>	\$8.00	\$8.50
AUD:USD Exchange rate	<b>\$0.90 declining to \$0.82</b>	<b>\$0.81</b>	\$1.00	\$1.00
Discount rate <sup>(2)</sup>	<b>9%</b>	<b>9%</b>	9%	9%
Long term growth rate rate <sup>(3)</sup>	<b>n/a</b>	<b>2.5%</b>	n/a	0%

(1) Annual gas consumption at the Phosphate Hill plant is 10.5 petajoules (assuming 950kT name plate capacity of ammonium phosphates production), and the annual gas consumption at the Gibson Island plant is 14.0 petajoules (assuming 405kT name plate capacity of urea equivalent production).

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

(3) The long term growth rate represents the forecast consumer price index (CPI) within the respective markets.

### Impacts

After consideration of the key assumptions, operating projections and other key inputs it was concluded that the recoverable amount of the SCI and Gibson Island CGUs is higher than the carrying amount and as such no impairment has been recognised for these assets.

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 17. Property, plant and equipment (continued)

### Sensitivity analysis

Any variation in the key assumptions used to determine the value-in-use would result in a change of the recoverable amount of each of the CGUs. Negative variances may cause impairment in future periods.

It is estimated that changes in the key assumptions would have the following approximate impact on the recoverable amount:

Sensitivity	Change in variable	Effect on SCI value-in-use AUD mill	Effect on GI value-in-use AUD mill
DAP (FOB Tampa – USD per tonne)	+\$10	86.2	n/a
	-\$10	(86.2)	n/a
Granular Urea (FOB Middle East – USD per tonne)	+\$10	n/a	66.6
	-\$10	n/a	(66.6)
AUD:USD Exchange Rate	+1c	(49.8)	(29.2)
	-1c	51.1	29.2
WACC	+0.50%	(28.0)	(14.3)
	-0.50%	32.5	16.4
Australian East Coast Gas Price (AUD per gigajoule)	+\$1	(52.3)	(105.2)
	-\$1	52.3	105.1

Changes in the assumptions used in the SCI CGU value-in-use model, when considered in isolation, will result in the following impairment impact on the profit or loss.

Sensitivity	Change in variable	2013 SCI CGU effect on profit or loss AUD mill
DAP (FOB Tampa – USD per tonne)	-\$10	(16.9)
AUD:USD Exchange Rate	+2c	(29.3)
WACC	+1.5%	(6.2)
Australian East Coast Gas Price (AUD per gigajoule)	+\$1.5	(9.1)

Changes in the assumptions used in the Gibson Island CGU value-in-use model, when considered in isolation, will result in the following impairment impact on the profit or loss.

Sensitivity	Change in variable	2013 Gibson Island CGU effect on profit or loss AUD mill
Granular Urea (FOB Middle East – USD per tonne)	-\$25	(26.7)
AUD:USD Exchange Rate	+6c	(25.6)
WACC	+2%	(2.8)
Australian East Coast Gas Price (AUD per gigajoule)	+\$1.4	(7.4)

It must be noted that each of the sensitivities above assumes that the specific assumption moves in isolation, while all other assumptions are held constant. In reality, a change in one of the aforementioned assumptions could be accompanied by a change in another assumption, which may increase or decrease the net impact.

### Other property, plant and equipment

During the year ended 30 September 2013 impairment of property, plant and equipment occurred to the value of \$3.0m (2012: \$6.5m) as a result of the Group's fixed asset verification procedures and the abandonment of certain assets.

### Capitalised interest

During the year ended 30 September 2013 interest of \$42.4m (2012: \$65.6m) was capitalised relating to interest bearing liabilities used specifically to fund qualifying assets (expansion projects) as defined under AASB 123 *Borrowing Costs*.

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 18. Intangible assets

Consolidated	Notes	Software \$mill	Goodwill \$mill	Patents, trademarks & customer contracts \$mill	Brand names \$mill	Total \$mill
<b>At 1 October 2011</b>						
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
<b>Year ended 30 September 2012</b>						
Opening net book amount		27.6	2,516.6	162.5	235.6	2,942.3
Acquisition of business		-	-	12.8	-	12.8
Additions		1.8	-	-	-	1.8
Impairment of intangible assets	(5)	-	(35.0)	(0.7)	-	(35.7)
Amortisation charge	(5)	(7.7)	-	(16.6)	-	(24.3)
Foreign exchange movement		(1.0)	(31.8)	(6.8)	(12.1)	(51.7)
Closing net book amount		20.7	2,449.8	151.2	223.5	2,845.2
<b>At 30 September 2012</b>						
Cost		65.3	2,449.8	221.1	223.5	2,959.7
Accumulated amortisation		(44.6)	-	(69.9)	-	(114.5)
Net book amount		20.7	2,449.8	151.2	223.5	2,845.2
<b>Year ended 30 September 2013</b>						
Opening net book amount		<b>20.7</b>	<b>2,449.8</b>	<b>151.2</b>	<b>223.5</b>	<b>2,845.2</b>
Additions		<b>18.3</b>	-	-	-	<b>18.3</b>
Impairment of intangible assets	(5)	-	<b>(41.5)</b>	-	-	<b>(41.5)</b>
Amortisation charge	(5)	<b>(8.6)</b>	-	<b>(17.4)</b>	-	<b>(26.0)</b>
Foreign exchange movement		<b>1.1</b>	<b>129.5</b>	<b>12.2</b>	<b>22.2</b>	<b>165.0</b>
Closing net book amount		<b>31.5</b>	<b>2,537.8</b>	<b>146.0</b>	<b>245.7</b>	<b>2,961.0</b>
<b>At 30 September 2013</b>						
Cost		<b>86.2</b>	<b>2,537.8</b>	<b>239.7</b>	<b>245.7</b>	<b>3,109.4</b>
Accumulated depreciation		<b>(54.7)</b>	-	<b>(93.7)</b>	-	<b>(148.4)</b>
Net book amount		<b>31.5</b>	<b>2,537.8</b>	<b>146.0</b>	<b>245.7</b>	<b>2,961.0</b>

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 18. Intangible assets (continued)

### (a) Allocation of goodwill

The Group's indefinite life intangible assets are allocated to groups of CGUs as follows:

	Goodwill 2013 \$mill	Brand names 2013 \$mill	Total 2013 \$mill	Goodwill 2012 \$mill	Brand names 2012 \$mill	Total 2012 \$mill
Incitec Pivot Fertilisers (IPF)	183.8	–	183.8	183.8	–	183.8
Southern Cross International (SCI)	2.0	–	2.0	1.8	–	1.8
Dyno Nobel Asia Pacific (DNAP)	1,132.4	40.3	1,172.7	1,132.4	40.3	1,172.7
Dyno Nobel Americas (DNA)	1,183.6	202.5	1,386.1	1,053.7	180.2	1,233.9
Nitromak	36.0	2.9	38.9	78.1	3.0	81.1
	<b>2,537.8</b>	<b>245.7</b>	<b>2,783.5</b>	2,449.8	223.5	2,673.3

### (b) Impairment testing

The carrying amount of goodwill and intangible assets with indefinite lives is 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 determined using cash flow projections based on financial forecasts for a period of five years as approved by the Board and a terminal value calculation. As there is no reliable measure of fair value at present a value-in-use methodology was used for all groups of CGUs.

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

Key assumptions used to test for impairment, include:

	Terminal growth rate		Discount rate <sup>(2)</sup>	
	2013 <sup>(1)</sup> %	2012 %	2013 %	2012 %
Incitec Pivot Fertilisers (IPF)	2.5	0.0	9.0	9.0
Southern Cross International (SCI)	2.5	0.0	9.0	9.0
Dyno Nobel Asia Pacific (DNAP)	2.5	2.5	9.0	9.0
Dyno Nobel Americas (DNA)	2.5	2.5	9.0	9.0
Nitromak	6.0	2.5	15.5	15.5

(1) The terminal value growth rate represents the forecast CPI within the respective markets.

(2) The post-tax discount rate used reflects IPL's long term underlying cost of capital adjusted for market risk.

### (d) Intangible asset impairment

As a result of the impairment review, the Group recognised a non-cash impairment charge of \$41.5m in the year ended 30 September 2013 (2012: \$35.0m). The charge related to the write-off of goodwill in relation to the Nitromak CGU and is largely as a result of the impact of lower European economic forecasts and increased competition in the Turkish explosive market on the Nitromak business.

### (e) Sensitivity analysis

Information on the sensitivity analyses of the SCI and Gibson Island CGUs is included in note 17. The Gibson Island CGU forms part of the IPF group of CGUs.

The Nitromak CGU has been impaired to its carrying amount and any further forecasted downturns in the Turkish market may result in a further impairment.

The recoverable amounts of IPL's remaining group of CGUs, being IPF, DNAP and DNA, materially exceed their carrying amounts. The directors believe that any plausible changes in the key assumptions on which the recoverable amount is based would be unlikely to cause the aggregate carrying amount to exceed the aggregate recoverable amount of these groups of CGUs.



# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

	Notes	Consolidated	
		2013 \$mill	2012 \$mill
<b>19. Deferred tax assets</b>			
<b>The balance comprises temporary differences attributable to:</b>			
Impairment of trade and other receivables		1.3	1.3
Employee entitlements provision		18.8	17.9
Retirement benefit obligations		19.8	37.6
Restructuring and rationalisation provision		1.1	2.0
Environmental provision		29.3	34.2
Other provisions		13.5	10.2
Inventories		1.4	1.3
Property, plant and equipment		25.1	34.1
Foreign exchange losses		6.8	4.1
Derivatives financial instruments		37.6	9.9
Unfavourable supplier contracts		3.7	6.3
Tax losses		10.1	29.1
Other		34.5	17.3
Deferred tax assets		203.0	205.3
Set-off of deferred tax liabilities pursuant to set-off provisions	(24)	(117.7)	(180.3)
Net deferred tax assets		85.3	25.0
<b>Movements:</b>			
Opening balance at 1 October		205.3	308.7
Debited to the profit or loss		(23.8)	(109.7)
Charged to equity		(15.5)	8.2
Foreign exchange movement		10.8	(10.2)
Adjustments in respect of prior years		26.2	8.3
Closing balance at 30 September		203.0	205.3

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

	Notes	Consolidated 2013 \$mill	2012 \$mill
<b>20. Trade and other payables</b>			
<b>Current</b>			
Trade creditors			
external		<b>676.9</b>	453.0
bill of exchange		<b>51.0</b>	142.5
jointly controlled entities and associates	(33)	<b>1.7</b>	5.2
		<b>729.6</b>	600.7
Sundry creditors and accrued charges			
external		<b>239.6</b>	207.1
jointly controlled entities and associates	(33)	<b>0.2</b>	0.2
unfavourable sales/supplier contracts		<b>9.9</b>	9.5
		<b>249.7</b>	216.8
	(32)	<b>979.3</b>	817.5
<b>Non-current</b>			
Sundry creditors and accrued charges			
external		<b>4.6</b>	5.6
unfavourable sales/supplier contracts		<b>2.4</b>	11.5
	(32)	<b>7.0</b>	17.1

## Unfavourable contracts

Unfavourable contracts were recognised as part of the acquisition of Southern Cross Fertilisers Pty Ltd in 2006. The liability was 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 as 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.

## 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 2013

	Notes	Consolidated	
		2013 \$mill	2012 \$mill
<b>21. Interest bearing liabilities</b>			
<b>Current</b>			
Secured			
bank loans			
participation facilities		25.1	104.1
Unsecured			
bank loans		0.3	6.7
other loans			
jointly controlled entities and associates <sup>(1)</sup>		8.1	14.9
	(32)	33.5	125.7
<b>Non-current</b>			
Secured			
bank loans			
participation facilities		-	24.0
lease liability		-	0.1
Unsecured			
fixed interest rate bonds		1,620.6	1,291.2
	(32)	1,620.6	1,315.3

(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 August 2013 the Group issued a A\$200.0m 5.5 year Medium Term Note. The bond is denominated in Australian dollars, has a fixed rate semi-annual coupon of 5.75 percent and matures in February 2019. The proceeds of this funding are being used to reduce future reliance on bank funding.
- In December 2012 the Group entered into two bilateral funding arrangements with a total limit of A\$250.0m, maturing in April 2014. The facilities were repaid and cancelled in full in September 2013.
- The A\$900.0m Bank Facility maturing April 2014 was repaid and cancelled in full during September 2013.
- New Bank Facilities totalling A\$1,450.0m were entered into in September 2013. This financing is split into two facilities. Facility A has a limit of A\$850.0m, is for a three year term and matures in October 2016. Facility B has a limit of A\$600.0m, is for a five year term and matures in September 2018. These facilities replaced the A\$250.0m bilateral facilities and the A\$900.0m bank facility. Proceeds from these facilities will be used for general corporate purposes and to provide a prudent level of committed undrawn financing.

## 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 US144A/Regulation S debt capital market:

- US\$800.0m 10 year bond denominated in USD, with a fixed rate semi-annual coupon of 6 percent, maturing in December 2019.
- US\$500.0m 5 year bond denominated in USD, with a fixed rate semi-annual coupon of 4 percent, maturing in December 2015.

The Group has on issue the following Fixed Interest Rate Bonds in the Australian debt capital market:

- AU\$200.0m 5.5 year bond denominated in AUD, with a fixed rate semi-annual coupon of 5.75 percent, maturing in February 2019.

## Bank facility

The bank facility is a A\$1,450.0m three year and five year revolving facility that may be drawn in either AUD or USD with a maturity of October 2016 (for A\$850.0m) and September 2018 (for \$600.0m). At 30 September 2013, the drawn balance was nil.

## Participation facilities

The participation facility matures in September 2014. The carrying amount of the facility is A\$25.1m and 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 percent for the term of the facility. During the year, a participation facility with a carrying value of \$92.5m at September 2012 was repaid in full and cancelled on the scheduled maturity date.

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

	Notes	Consolidated	
		2013 \$mill	2012 \$mill
<b>22. Other financial liabilities</b>			
<b>Current</b>			
Derivatives designated and effective as hedging instruments carried at fair value			
option contracts	(32)	-	9.6
forward exchange contracts	(32)	7.0	5.2
cross currency swaps	(32)	32.6	-
		<b>39.6</b>	<b>14.8</b>
<b>Non-current</b>			
Derivatives designated and effective as hedging instruments carried at fair value			
interest rate swaps	(32)	2.4	-
forward exchange contracts	(32)	8.0	-
cross currency swaps	(32)	103.9	-
		<b>114.3</b>	<b>-</b>

See note 32(h) for further details of interest rate and foreign exchange rate exposures that are hedged by the Group.

## 23. Provisions

<b>Current</b>			
Employee entitlements		50.4	41.9
Restructuring and rationalisation		6.2	10.2
Environmental		46.2	64.9
Asset retirement obligation		1.5	2.0
Other		4.1	3.8
		<b>108.4</b>	<b>122.8</b>
<b>Non-current</b>			
Employee entitlements		4.7	7.4
Restructuring and rationalisation		0.3	1.0
Environmental		47.1	45.8
Asset retirement obligation		25.4	20.3
		<b>77.5</b>	<b>74.5</b>
<b>Aggregate employee entitlements</b>			
Current		50.4	41.9
Non-current		4.7	7.4
		<b>55.1</b>	<b>49.3</b>

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

Assumed rate of increase in wage and salary rates	<b>3.5% + age based scale</b>
Average discount rate (risk free rate)	<b>3.76%</b>
Settlement term	<b>10 years</b>

	2013 Number	2012 Number
Employees at year end		
Full time equivalent	<b>5,286</b>	5,242



# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 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 2013 \$mill
<b>Current provision – dividends</b>		
Carrying amount at the beginning of the financial year		–
Provisions made during the year		203.6
Payments made during the year	(27)	(203.6)
Carrying amount at the end of the financial year		–
<b>Current provision – restructuring and rationalisation</b>		
Carrying amount at the beginning of the financial year		10.2
Provisions made during the year	(5)	4.3
Payments made during the year		(9.5)
Transfers from non-current		0.8
Foreign currency exchange differences		0.4
Carrying amount at the end of the financial year		6.2
<b>Current provision – environmental</b>		
Carrying amount at the beginning of the financial year		64.9
Provisions made during the year	(5)	0.4
Provisions written back during the year		(0.8)
Payments made during the year		(23.0)
Transfers from non-current		3.4
Foreign currency exchange differences		1.3
Carrying amount at the end of the financial year		46.2
<b>Current provision – asset retirement obligations</b>		
Carrying amount at the beginning of the financial year		2.0
Payments made during the year		(0.8)
Transfers to non-current		0.3
Carrying amount at the end of the financial year		1.5
<b>Current provision – other</b>		
Carrying amount at the beginning of the financial year		3.8
Provisions made during the year	(5)	0.8
Payments made during the year		(0.8)
Foreign currency exchange differences		0.3
Carrying amount at the end of the financial year		4.1

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

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 23. Provisions (continued)

### Reconciliations (continued)

	Notes	Consolidated 2013 \$mill
<b>Non-current provision – restructuring and rationalisation</b>		
Carrying amount at the beginning of the financial year		1.0
Transfers to current		(0.8)
Foreign currency exchange differences		0.1
Carrying amount at the end of the financial year		0.3
<b>Non-current provision – environmental</b>		
Carrying amount at the beginning of the financial year		45.8
Transfers to current		(3.4)
Discount unwind		1.8
Foreign currency exchange differences		2.9
Carrying amount at the end of the financial year		47.1
<b>Non-current provision – asset retirement obligations</b>		
Carrying amount at the beginning of the financial year		20.3
Provisions made during the year	(5)	0.3
Transfers to current		(0.3)
Discount unwind		4.6
Foreign currency exchange differences		0.5
Carrying amount at the end of the financial year		25.4

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

## 24. Deferred tax liabilities

### The balance comprises temporary differences attributable to:

	Notes	Consolidated 2013 \$mill	2012 \$mill
Inventories		0.3	0.7
Property, plant and equipment		260.9	265.8
Intangible assets		114.7	101.0
Foreign exchange gains		4.1	22.3
Derivatives		41.1	16.9
Other		110.0	144.9
Deferred tax liabilities		531.1	551.6
Set-off of deferred tax liabilities pursuant to set-off provisions	(19)	(117.7)	(180.3)
Net deferred tax liabilities		413.4	371.3
<b>Movements</b>			
Opening balance at 1 October		551.6	459.3
(Credited)/debited to the profit or loss		(50.6)	48.1
Charged to equity		(22.6)	14.8
Foreign exchange movements		42.9	(21.6)
Adjustments in respect of prior years		9.8	51.0
Closing balance at 30 September		531.1	551.6

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 25. Retirement benefit obligations

### (a) Information on plans

The Group operates a number of defined benefit plans to provide benefits for employees and their dependents 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 ("the 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 Statement of Profit or Loss and Other Comprehensive Income and Consolidated Statement of Financial Position are set out below.

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

	Notes	Consolidated	
		2013 \$mill	2012 \$mill
Present value of defined benefit obligations at beginning of the year		326.6	304.4
Current service cost		7.4	6.7
Defined benefit plan settlement and curtailment		(5.6)	-
Interest cost		11.4	13.1
Actuarial (gains)/losses		(23.7)	33.9
Contributions by plan participants		0.7	1.0
Benefits paid		(27.7)	(18.3)
Foreign exchange differences on foreign plans		28.3	(14.2)
<b>Present value of defined benefit obligations at end of the year</b>		<b>317.4</b>	<b>326.6</b>

### (c) Reconciliation of the fair value of plan assets

Fair value of plan assets at beginning of the year		215.0	189.1
Expected return on plan assets		16.4	13.9
Actuarial gains		12.4	17.4
Employer contributions		15.0	19.7
Contributions by plan participants		0.7	1.0
Benefits paid		(27.7)	(18.3)
Foreign exchange differences on foreign plans		20.2	(7.8)
<b>Fair value of plan assets at end of the year</b>		<b>252.0</b>	<b>215.0</b>

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

Total value of funded defined benefit obligations at end of the year		317.4	326.6
Minimum funding obligation		5.0	-
Fair value of plan assets at end of the year		(252.0)	(215.0)
<b>Net liability recognised in the Consolidated Statement of Financial Position at end of the year</b>		<b>70.4</b>	<b>111.6</b>

### (e) Income/(expense) recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income

Current service cost	(5)	(7.4)	(6.7)
Interest cost	(5)	(11.4)	(13.1)
Expected return on plan assets	(5)	16.4	13.9
Defined benefit plan settlement and curtailment	(4)	5.6	-
<b>Income/(expense) recognised in Consolidated Statement of Profit or Loss and Other Comprehensive Income</b>		<b>3.2</b>	<b>(5.9)</b>

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 25. Retirement benefit obligations (continued)

	Consolidated				
	2013 \$mill	2012 \$mill			
<b>(f) Amounts recognised in Other Comprehensive Income</b>					
Actuarial (gains)/losses (before income tax)	<b>(31.1)</b>	16.5			
<b>(g) Cumulative amount recognised in Other Comprehensive Income</b>					
Cumulative amount of actuarial losses (before income tax)	<b>95.9</b>	131.6			
<b>(h) Plan assets</b>					
Percentage invested in each asset class at the reporting date:					
Equities	<b>56%</b>	58%			
Fixed Interest Securities	<b>29%</b>	28%			
Property	<b>7%</b>	8%			
Other	<b>8%</b>	6%			
<b>(i) Fair value of plan assets</b>					
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					
<b>(j) Expected rate of return on plan assets</b>					
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.					
<b>(k) Actual return on plan assets</b>					
Actual return on plan assets	<b>28.8</b>	32.0			
<b>(l) Principal actuarial assumptions at the reporting date</b>					
Discount rate (net of tax)	<b>2.0% – 6.5%</b>	3.3% – 6.5%			
Expected rate of return on plan assets	<b>6.5% – 7.8%</b>	7.0% – 7.8%			
Future salary increases	<b>2.0% – 5.0%</b>	2.0% – 5.0%			
Medical cost trend rate	<b>4.5% – 9.0%</b>	4.0% – 9.5%			
Future inflation	<b>2.5% – 4.0%</b>	2.5% – 2.8%			
<b>(m) Expected contributions</b>					
Expected contributions in year ending 30 September 2014					
Expected employer contributions	<b>15.6</b>				
Expected contribution by plan participants	<b>0.5</b>				
<b>(n) Historical information</b>					
	2013 \$mill	2012 \$mill	2011 \$mill	2010 \$mill	2009 \$mill
Present value of defined benefit obligation	<b>317.4</b>	326.6	304.4	287.6	288.4
Minimum funding obligation	<b>5.0</b>	–	–	–	–
Fair value of plan assets	<b>(252.0)</b>	(215.0)	(189.1)	(192.3)	(196.8)
Deficit in plan	<b>70.4</b>	111.6	115.3	95.3	91.6
Experience adjustment – plan liabilities	<b>(4.8)</b>	0.3	7.0	(2.2)	3.7
Experience adjustment – plan assets	<b>(6.9)</b>	(11.7)	6.2	3.0	(2.9)

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

	Consolidated	
	2013	2012
	\$mill	\$mill
<b>26. Issued capital</b>		
<b>Share capital</b>		
Ordinary shares authorised and issued – 1,628,730,107 (2012: 1,628,730,107) <sup>(1)</sup>	3,265.9	3,265.9
	<b>3,265.9</b>	<b>3,265.9</b>

(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	2013	2012
		\$mill	\$mill

## 27. Dividends

Dividends paid or declared in respect of the year were:

### Ordinary shares

Final dividend of 8.2 cents per share, unfranked, paid 16 December 2011		-	133.6
Interim dividend of 3.3 cents per share, 50 percent franked at the 30 percent corporate rate, paid 3 July 2012		-	53.7
Final dividend of 9.1 cents per share, 75 percent franked at the 30 percent corporate rate, paid 14 December 2012		148.2	-
Interim dividend of 3.4 cents per share, 75 percent franked at the 30 percent corporate rate, paid 2 July 2013		55.4	-
Total ordinary share dividends	(23)	203.6	187.3

### Subsequent event

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

- Final dividend of 5.8 cents per share, 75 percent franked at the 30 percent corporate tax rate, to be paid on 18 December 2013. The total dividend payment will be \$94.5m.

### 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 Company amount to \$47.2m (2012: \$62.6) at the 30 percent (2012: 30 percent) corporate tax rate. The final dividend for 2013 is 75 percent franked at the 30 percent corporate tax rate. Franking credits that will arise from payment of income tax in the year ending 30 September 2013 have been factored into the franking account balance.



# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

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

	Notes	Consolidated	
		2013 \$mill	2012 \$mill
<b>Reconciliation of cash</b>			
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)	270.6	154.1
		<b>270.6</b>	<b>154.1</b>
<b>Reconciliation of profit for the financial year to net cash flows from operating activities</b>			
Profit for the financial year		372.6	508.0
Depreciation and amortisation	(5)	183.7	155.8
Write-down of property, plant and equipment	(5)	3.0	6.5
Impairment of goodwill and other intangible assets	(5)	41.5	35.7
Share of profit on equity accounted investments	(16)	(33.5)	(27.4)
Net gain on sale of property, plant and equipment	(4)	(2.0)	(4.8)
Non-cash share based payment transactions		(0.4)	10.4
Unwinding of discount on provisions and other payables	(5)	6.4	25.3
Changes in assets and liabilities			
(increase)/decrease in receivables and other operating assets		65.6	94.2
(increase)/decrease in inventories		(12.9)	66.5
(increase)/decrease in deferred tax assets		(49.8)	19.7
increase/(decrease) in deferred tax liabilities		(16.5)	179.2
increase/(decrease) in net interest payable		(1.5)	0.1
increase/(decrease) in payables, provisions and other operating liabilities		81.2	(366.3)
increase/(decrease) in income taxes payable		(22.9)	(82.1)
<b>Net cash flows from operating activities</b>		<b>614.5</b>	<b>620.8</b>

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

	Consolidated	
	2013	2012
	\$mill	\$mill
<b>29. Commitments</b>		
<b>(a) Capital expenditure commitments</b>		
Capital expenditure on property, plant and equipment contracted but not provided for and payable:		
no later than one year	415.9	59.5
later than one, no later than five years	192.0	2.7
later than five years	-	2.3
	<b>607.9</b>	<b>64.5</b>
Share of capital expenditure commitments of the jointly controlled entities:		
no later than one year	0.3	20.7
later than one, no later than five years	-	10.8
	<b>0.3</b>	<b>31.5</b>
<b>(b) Lease commitments</b>		
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	51.7	40.6
later than one, no later than five years	79.2	102.5
later than five years	62.7	54.1
	<b>193.6</b>	<b>197.2</b>
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	-	0.3
later than one, no later than five years	-	0.4
Present value of minimum lease payments provided for as a liability	-	0.7

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

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## 30. 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 36, Investments in controlled entities.
- Consolidated Statement of Financial Position and Consolidated Statement of Profit or Loss and Other Comprehensive Income for the closed group are shown in Note 37, Deed of Cross Guarantee.
- The Group has entered into various long-term supply contracts under which it receives goods and services. 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 on 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

The Group is currently subject to information requests, investigations and audit activities by the Australian Taxation Office and other revenue authorities. The outcomes of these investigations and audits depend upon several factors which may result in further tax payments or refunds of tax payments already made by the Group. Provisions for potential further payments have/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 2013

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## 31. 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. Where the cost of the premiums is considered to be prohibitive, some upside participation may be foregone to reduce the overall cost of the structure.

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 IPL's Treasury function, 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

For the year ended 30 September 2013

## 31. 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 (FECs) are taken out to hedge those exposures. The Group applies hedge accounting for these derivatives. The table below shows the outstanding FECs as at 30 September 2013:

Term	Weighted average strike rate		Forward FX contract	
	2013	2012	AUD mill	AUD mill
Buy USD/Sell AUD	<b>0.9564</b>	1.0066	<b>337.5</b>	253.4
Buy AUD/Sell USD	<b>0.9300</b>	1.0404	<b>0.1</b>	11.5
Buy EUR/Sell AUD	<b>0.6848</b>	0.7875	<b>7.6</b>	6.0
Buy AUD/Sell CAD	-	1.0154	-	0.5
Buy AUD/Sell TRY	-	1.8632	-	1.4

**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, while the manufactured outputs (phosphate based fertilisers, urea and ammonia) are sold either in United States dollars or in Australian dollars in each case based on an import parity formula impacted by the rate of exchange.

Similarly, the profitability of Dyno Nobel Americas is impacted by foreign exchange movements due to the manufacturing inputs (gas, electricity, labour) being denominated in United States dollars, while some of the manufactured outputs (ammonia nitrate and initiating systems) are sold in Canadian dollars.

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 option contracts to Sell USD/Buy AUD, to protect a portion of the Group's forecast manufactured fertiliser exposure. The market value of these options is recorded in the Consolidated Statement of Financial Position at year end. Any movement in the intrinsic value of the option contracts is recorded in the Cash-flow Hedge Reserve in the Consolidated Statement of Financial Position while movement in time value is recorded in the profit or loss. Favorable outcomes on the hedge will occur when the AUD appreciates. For these option contracts, when the AUD depreciates below the option strike price the hedge lapses and the underlying exposure participates in the favourable movement.

The Group has entered into a series of FECs to Sell CAD/Buy USD, to protect a portion of the Group's forecast exposure of sales of product manufactured in the USA and sold in Canada. The market value of these FECs 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 CAD depreciates. As FECs do not offer participation when the CAD appreciates, occasionally, options and collar contracts are entered into 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, Incitec Pivot Fertilisers and Dyno Nobel Americas at 30 September:

Term	AUD/USD exercise price		Weighted average AUD/USD strike rate		Contract amounts	
	2013	2012	2013	2012	AUD mill	AUD mill
Buy USD/Sell AUD	<b>0.9076</b>	-	-	-	<b>41.9</b>	-
Buy AUD/Sell USD	-	1.0366	-	-	-	299.0
Buy USD/Sell CAD	<b>1.0281</b>	0.9832	-	-	<b>104.4</b>	29.3
Bought AUD call/USD put, not later than one year	-	-	<b>1.05</b>	-	<b>190.5</b>	-
Sold AUD call/USD put, not later than one year	-	-	<b>1.10</b>	-	<b>(181.8)</b>	-

From time to time, the Group may look to reduce premium costs by transacting collars, option spreads or by selling floors against existing bought positions. Board approved policies prevent the Group from selling naked options. At 30 September 2013, all outstanding bought options had an outstanding matching sold option (in USD terms). The hedge provides the Group with protection against unfavourable movements in foreign exchange rates between the option rates, while allowing the Group to participate in favourable movements in foreign exchange rates below the strike rate of the bought option.



# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 31. 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 for plants, average achieved Fertiliser selling prices and exchange rates in 2013.

Foreign exchange sensitivity – transactional (unhedged)	USD + 1c AUD mill	USD - 1c AUD mill	USD + 1c AUD mill	USD - 1c AUD mill
	2013	2013	2012	2012
USD Fertiliser sales from Australian plants	(6.1)	6.2	(7.8)	7.9

#### ii. Foreign exchange risk – translational

##### Hedge of earnings from foreign operations

The Group has foreign operations with non-AUD functional currencies and is, therefore, exposed to translation risk resulting from the translation of the earnings from these foreign operations. The Group may, from time to time, use FEC's or option contracts to manage the translation risk of foreign earnings. As at 30 September 2013, there were no derivative contracts outstanding.

The following sensitivity is based on the unhedged translational foreign currency risk exposures in existence at the reporting date and is calculated using the Group's USD denominated earnings before interest and tax for the reporting period, at the average 2013 translation exchange rate.

Foreign exchange sensitivity – translational (unhedged)	USD + 1c AUD mill	USD - 1c AUD mill	USD + 1c AUD mill	USD - 1c AUD mill
	2013	2013	2012	2012
North American earnings before interest and tax	(1.8)	1.8	(1.8)	1.9

##### Hedge of net assets of foreign operations (net investment hedge)

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 FEC's and cross currency swaps to create 'synthetic' foreign currency debt. The FEC's rate includes the net fixed interest rate differential for the period of the contract. The cross currency swaps pay and receive floating rates of interest with quarterly or monthly rate resets throughout the life of the swap. The translation movement of the Group's net assets is recognised within the foreign currency translation reserve.

As at 30 September 2013, none of the Group's foreign currency borrowings were designated as net investment hedges.

The table below summarises the foreign currency forwards and cross currency swaps outstanding at 30 September:

Term	Receive AUD/Pay USD mill	
	2013	2012
not later than one year	-	AUD 114.1/USD 103.0
later than one year, no later than five years	AUD 680.8/USD 682.9	AUD 174.5/USD 181.5
later than five years	AUD 843.4/USD 824.0	-

Term	Receive AUD/Pay CAD mill	
	2013	2012
not later than one year	AUD 103.0/CAD 100.0	-

##### Hedge of foreign currency interest-bearing liabilities (fair value hedge)

The Group has borrowings denominated in USD. Where these borrowings are held by AUD functional currency entities and have not been designated as net investment hedges, any gains or losses resulting from the translation of the principal balance of these borrowings to AUD are recorded in the profit or loss. The Group manages the impact of this translation risk by using FEC's and cross currency swaps to create 'synthetic' USD assets. Any gains or losses resulting from the foreign currency revaluation of these 'synthetic' assets are recorded in the profit or loss.

The table below summarises the cross currency swaps designated as hedges of USD borrowings outstanding at 30 September:

Term	Pay AUD/Receive USD mill	
	2013	2012
not later than one year	-	-
later than one year, no later than five years	AUD 511.5/USD 500.0	-
later than five years	AUD 818.4/USD 800.0	-

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 31. Financial risk management (continued)

### (a) Market risk (continued)

#### 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 derivatives in order to balance the Group's fixed and variable interest rate mix. Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting future cash flows using the interest rate curves at the end of the reporting period.

The Group's interest rate risk arises from long term borrowings in Australian and United States dollars. Of the AUD1,654.1m of Interest Bearing Liabilities at the reporting date, AUD964.6m (58 percent) were exposed to floating interest rates.

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 2013 and the average variable interest rate during the 2013 year.

Interest rate sensitivity	+ 1% LIBOR <sup>(1)</sup>	- 1% LIBOR <sup>(1)</sup>	+ 1% LIBOR <sup>(1)</sup>	- 1% LIBOR <sup>(1)</sup>
	AUD mill	AUD mill	AUD mill	AUD mill
	2013	2013	2012	2012
Current and non-current borrowings with variable interest rates	(10.6)	10.6	(10.4)	10.4

Interest rate sensitivity	+ 1% CDOR <sup>(2)</sup>	- 1% CDOR <sup>(2)</sup>	+ 1% CDOR <sup>(2)</sup>	- 1% CDOR <sup>(2)</sup>
	AUD mill	AUD mill	AUD mill	AUD mill
	2013	2013	2012	2012
Current and non-current borrowings with variable interest rates	(1.0)	1.0	n/a	n/a

Interest rate sensitivity	+ 1% BBSW <sup>(3)</sup>	- 1% BBSW <sup>(3)</sup>	+ 1% BBSW <sup>(3)</sup>	- 1% BBSW <sup>(3)</sup>
	AUD mill	AUD mill	AUD mill	AUD mill
	2013	2013	2012	2012
Current and non-current borrowings with variable interest rates	3.9	(3.9)	2.9	(2.9)

(1) LIBOR – London Interbank Offered Rate.

(2) CDOR – Canadian Dealer Offer Rate.

(3) BBSW – Bank Bills Swap Rate.

#### 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 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 2013). 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 2013:

	Months hedged	Monthly volume (MMBTU <sup>*</sup> )	Fixed rate USD
Contract	3	10,000	\$3.85
Contract	3	10,000	\$3.67
Contract	3	90,000	\$3.54

\* Million Metric British Thermal Units

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 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 2013

## 31. Financial risk management (continued)

### (a) Market risk (continued)

#### iv. Commodity risk (continued)

The following sensitivity analysis is based on the gas commodity risk exposures in existence at the reporting date.

Commodity risk sensitivity	+ US\$1 per 1 MMBTU AUD mill	- US\$1 per 1 MMBTU AUD mill	+ US\$1 per 1 MMBTU AUD mill	- US\$1 per 1 MMBTU AUD mil
	2013	2013	2012	2012
Henry Hub US\$ prices per 1 MMBTU	(5.5)	5.5	(3.5)	3.5

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 <sup>(1)</sup>
	2013	2013	
Granular Urea (FOB Middle East – USD per tonne)	4.1	(4.1)	405,000
DAP (FOB Tampa – USD per tonne)	9.5	(9.5)	950,000

Fertiliser price sensitivity	+ USD10 AUD mill	- USD10 AUD mill	Name plate Tonnes <sup>(1)</sup>
	2012	2012	
Granular Urea (FOB Middle East – USD per tonne)	4.2	(4.2)	405,000
DAP (FOB Tampa – USD per tonne)	9.9	(9.9)	950,000

(1) Maximum production capacity of the plant

The Group is also exposed to fluctuations in fertiliser prices as part of the operations of Quantum Fertilisers Limited, the Group's fertiliser marketing business. Quantum Fertilisers Limited can hold either 'long' or 'short' physical fertiliser positions which is governed by the Group's policy on commodity trading.

The table below summarises the open positions of Quantum Fertilisers Limited outstanding as at 30 September 2013:

Product type	Position type	Position size	Price
Prilled Urea	Long	2,000 tonnes	US\$287.5/t

#### 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.

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

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## 31. Financial risk management (continued)

### (b) Liquidity risk (continued)

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 AUD850.0m for 3 years, maturing October 2016. This is a multi-currency facility drawable in AUD or 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 second unsecured Bank facility agreement of AUD600.0m for 5 years, maturing September 2018. This is a multi-currency facility drawable in AUD or 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 percent 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 percent and matures in December 2015.
- An AUD200.0m 5.5 year Medium Term Note issued in Australia and denominated in AUD. The bond has a fixed rate semi-annual coupon of 5.75 percent and matures in February 2019.
- A participation facility of AUD25.1m (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 percent for the term of the facility.

At reporting date, the Group has committed undrawn lines of AUD1,450.0m and cash of AUD270.6m.

### *Capital risk management*

When managing capital, the key objectives of the Group 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, the amount of dividends paid to shareholders may be changed, capital returned to shareholders or issue new shares, or management may 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.

To monitor and support the key objectives set out above, various financial ratios and internal targets are assessed and reported to the Board, on a regular basis, by management. 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 (AUD1,450.0m) have been measured and are within the debt covenant targets for the year ended 30 September 2013.

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 2013, Coltivi Insurance Pte Limited maintained capital in excess of the minimum requirements prescribed under these Acts.

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

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## 31. Financial risk management (continued)

### (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 relevant 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 fair value. As at 30 September 2013, the sum of all contracts with a fair value was AUD135.1m (2012: AUD76.0m).



# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 32. Financial instruments

### (a) Foreign exchange risk

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

Consolidated	2013 Euro mill	2012 Euro mill	2013 USD mill	2012 USD mill
Trade receivables	7.0	0.3	3.6	18.1
Trade payables	10.8	5.1	277.6	228.7
<b>Gross statement of financial position exposure (excluding hedging)</b>	<b>3.8</b>	<b>4.8</b>	<b>274.0</b>	<b>210.6</b>
Forward exchange contracts (hedge of trade payables)	5.2	4.8	270.2	219.6
<b>Net statement of financial position exposure (including hedging)</b>	<b>(1.4)</b>	<b>-</b>	<b>3.8</b>	<b>(9.0)</b>

The following significant exchange rates applied during the year:

	Average rate 2013	Balance date spot rate 2013	Average rate 2012	Balance date spot rate 2012
Euro	0.7582	0.6883	0.7928	0.8083
USD	0.9957	0.9288	1.0277	1.0436

### (b) Interest rate risk

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

	Notes	Consolidated 2013 \$mill	2012 \$mill
Variable rate instruments			
- Financial liabilities		964.6	787.2
Fixed rate instruments			
- Financial liabilities		689.5	653.8
	(21)	1,654.1	1,441.0

#### *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 AUD7.7m (2012: AUD7.5m) 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:

Trade receivables	(11)	331.3	357.1
Other receivables	(11)	41.6	40.0
Cash and cash equivalents	(10)	270.6	154.1
Forward exchange contracts	(14)	13.6	7.2
Cross currency swaps	(14)	72.4	15.9
Option contracts	(14)	-	9.6
Interest rate swaps	(14)	35.2	45.4
		<b>764.7</b>	<b>629.3</b>

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 32. Financial instruments (continued)

### (c) Credit risk (continued)

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

	Notes	Consolidated	
		2013 \$mill	2012 \$mill
Australia		121.1	145.1
India		15.5	0.5
Europe		0.2	0.2
USA		43.4	56.6
Canada		58.7	47.1
Asia		26.3	67.8
Turkey		37.7	31.9
Other		28.4	7.9
	(11)	331.3	357.1

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

Wholesale customers		123.4	148.1
End user customers		207.9	209.0
	(11)	331.3	357.1

As at the end of September 2013 and September 2012, the Group had no individual debtor's balance outstanding in excess of 10 percent of the total of the trade receivable balance.

### Impairment losses

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

	Gross	Impairment	Gross	Impairment
	2013 \$mill	2013 \$mill	2012 \$mill	2012 \$mill
Current	278.3	-	275.4	-
Past due 0 - 30 days	26.0	-	42.6	-
Past due 31 - 120 days	39.7	12.7	47.6	8.5
Total	344.0	12.7	365.6	8.5

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

	Notes	Consolidated	
		2013 \$mill	2012 \$mill
Balance at 1 October		8.5	12.2
Net impairment losses recognised		(2.1)	(1.8)
Provisions recognised/(written back) during the year		6.2	(1.2)
Foreign exchange movements		0.1	(0.7)
Balance at 30 September	(11)	12.7	8.5

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 2013

## 32. Financial instruments (continued)

### (d) Liquidity risk – Non-derivative financial liabilities

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

Consolidated	Contractual cash flows <sup>(1)</sup> \$mill	6 months or less <sup>(1)</sup> \$mill	6 – 12 months <sup>(1)</sup> \$mill	1 – 2 years <sup>(1)</sup> \$mill	2 – 5 years <sup>(1)</sup> \$mill	more than 5 years <sup>(1)</sup> \$mill
<b>30 September 2013</b>						
<b>Non-derivative financial liabilities</b>						
Interest bearing liabilities	1,654.1	14.0	19.4	–	545.7	1,075.0
Interest payments	500.9	49.7	49.3	95.8	222.8	83.3
Trade and other payables	986.3	937.3	46.6	2.4	–	–
<b>Total</b>	<b>3,141.3</b>	<b>1,001.0</b>	<b>115.3</b>	<b>98.2</b>	<b>768.5</b>	<b>1,158.3</b>
<b>30 September 2012</b>						
<b>Non-derivative financial liabilities</b>						
Interest bearing liabilities	1,441.0	67.5	58.2	24.0	495.5	795.8
Interest payments	463.6	61.5	46.3	74.1	166.7	115.0
Trade and other payables	834.6	768.6	54.2	9.6	2.2	–
<b>Total</b>	<b>2,739.2</b>	<b>897.6</b>	<b>158.7</b>	<b>107.7</b>	<b>664.4</b>	<b>910.8</b>

(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 – Derivative financial instruments

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

Consolidated	Contractual cash flows <sup>(1)</sup> \$mill	6 months or less <sup>(1)</sup> \$mill	6 – 12 months <sup>(1)</sup> \$mill	1 – 2 years <sup>(1)</sup> \$mill	2 – 5 years <sup>(1)</sup> \$mill	more than 5 years <sup>(1)</sup> \$mill
<b>30 September 2013</b>						
<b>Derivative financial assets and liabilities</b>						
<b>Assets</b>						
Forward exchange contracts	(30.9)	1.6	(3.3)	(4.2)	(1.1)	(23.9)
Cross currency swaps	69.8	2.8	(2.8)	–	–	69.8
Interest rate swaps	41.4	7.8	7.7	13.7	11.9	0.3
	<b>80.3</b>	<b>12.2</b>	<b>1.6</b>	<b>9.5</b>	<b>10.8</b>	<b>46.2</b>
<b>Liabilities</b>						
Forward exchange contracts	29.2	(3.3)	3.3	4.2	1.1	23.9
Cross currency swaps	(132.5)	(21.8)	(3.6)	–	(37.3)	(69.8)
Interest rate swaps	(2.7)	(0.3)	(0.3)	(0.2)	(1.3)	(0.6)
	<b>(106.0)</b>	<b>(25.4)</b>	<b>(0.6)</b>	<b>4.0</b>	<b>(37.5)</b>	<b>(46.5)</b>
<b>Total</b>	<b>(25.7)</b>	<b>(13.2)</b>	<b>1.0</b>	<b>13.5</b>	<b>(26.7)</b>	<b>(0.3)</b>

(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.

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 32. Financial instruments (continued)

### (e) Liquidity risk – Derivative financial instruments (continued)

Consolidated	Contractual cash flows <sup>(1)</sup> \$mill	6 months or less <sup>(1)</sup> \$mill	6 – 12 months <sup>(1)</sup> \$mill	1 – 2 years <sup>(1)</sup> \$mill	2 – 5 years <sup>(1)</sup> \$mill	more than 5 years <sup>(1)</sup> \$mill
30 September 2012						
<b>Derivative financial assets and liabilities</b>						
<b>Assets</b>						
Forward exchange contracts	8.0	7.2	0.8	–	–	–
Option contracts	9.6	5.3	4.3	–	–	–
Cross currency swaps	16.0	15.4	–	0.6	–	–
Interest rate swaps	51.7	7.1	6.9	12.8	20.5	4.4
	85.3	35.0	12.0	13.4	20.5	4.4
<b>Liabilities</b>						
Forward exchange contracts	(5.2)	(0.5)	(4.7)	–	–	–
Option contracts	(9.6)	(5.3)	(4.3)	–	–	–
	(14.8)	(5.8)	(9.0)	–	–	–
<b>Total</b>	<b>70.5</b>	<b>29.2</b>	<b>3.0</b>	<b>13.4</b>	<b>20.5</b>	<b>4.4</b>

(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.

### (f) 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 Group's exposure to foreign exchange risk resulting from controlled entities that have functional currencies that are different to the Group's functional currency.

Foreign currency risk associated with sales and purchases denominated in a 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 cashflows associated with derivatives, that are cash flow hedges and net investment hedges, are expected to occur.

Consolidated	Contractual 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
<b>30 September 2013</b>						
Cash flow hedges						
Assets	2.8	2.7	0.1	–	–	–
Liabilities	3.2	3.2	–	–	–	–
Net investment hedges						
Assets	–	–	–	–	–	–
Liabilities	137.1	36.2	–	–	54.9	46.0
<b>Total</b>	<b>(137.5)</b>	<b>(36.7)</b>	<b>0.1</b>	<b>–</b>	<b>(54.9)</b>	<b>(46.0)</b>
30 September 2012						
Cash flow hedges						
Assets	16.3	11.0	5.3	–	–	–
Liabilities	24.8	8.9	5.8	1.2	3.3	5.6
Net investment hedges						
Assets	15.9	15.4	–	0.5	–	–
Liabilities	–	–	–	–	–	–
<b>Total</b>	<b>7.4</b>	<b>17.5</b>	<b>(0.5)</b>	<b>(0.7)</b>	<b>(3.3)</b>	<b>(5.6)</b>

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 32. Financial instruments (continued)

### (g) Fair values

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

Consolidated	Notes	Carrying amount 2013 \$mill	Fair value 2013 \$mill	Carrying amount 2012 \$mill	Fair value 2012 \$mill
Cash and cash equivalents	(10)	270.6	270.6	154.1	154.1
Financial assets carried at fair value through Other Comprehensive Income					
Investments – equity instruments	(14)	1.5	1.5	3.6	3.6
Financial assets/(liabilities) carried at amortised cost through the profit and loss					
Trade and other receivables	(11)	372.9	372.9	397.1	397.1
Trade and other payables	(20)	(986.3)	(986.3)	(834.6)	(834.6)
Financial liabilities	(21)	(1,654.1)	(1,749.3)	(1,441.0)	(1,507.9)
Derivatives designated and effective as hedging instruments carried at fair value					
Cross currency interest rate swaps	(14), (22)	(64.1)	(64.1)	15.9	15.9
Forward exchange contracts	(14), (22)	(1.4)	(1.4)	2.0	2.0
Interest rate swaps	(14), (22)	32.8	32.8	45.4	45.4
<b>Total</b>		<b>(2,028.1)</b>	<b>(2,123.3)</b>	<b>(1,657.5)</b>	<b>(1,724.4)</b>

### 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.

#### *Investments in equity securities*

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

#### *Derivative financial instruments*

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.

#### *Trade and other receivables & trade and other payables*

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

#### *Financial liabilities designated at fair value through the profit or loss*

The fair value is 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.

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 32. Financial instruments (continued)

### (g) Fair values (continued)

#### 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).

	Level 1 \$mill	Level 2 \$mill	Level 3 \$mill
<b>30 September 2013</b>			
Listed equity securities	1.5	-	-
Derivative financial assets	-	121.2	-
<b>Total</b>	<b>1.5</b>	<b>121.2</b>	<b>-</b>
Derivative financial liabilities	-	153.9	-
<b>Total</b>	<b>-</b>	<b>153.9</b>	<b>-</b>
<b>30 September 2012</b>			
Listed equity securities	3.6	-	-
Derivative financial assets	-	78.1	-
<b>Total</b>	<b>3.6</b>	<b>78.1</b>	<b>-</b>
Derivative financial liabilities	-	14.8	-
<b>Total</b>	<b>-</b>	<b>14.8</b>	<b>-</b>

### (h) Derivative financial instruments

	30 September 2013										
	Cross currency swaps		Interest rate swaps		Forward exchange contracts		Options contracts		Total asset \$mill	Total liability \$mill	Total net \$mill
	Asset \$mill	Liability \$mill	Asset \$mill	Liability \$mill	Asset \$mill	Liability \$mill	Asset \$mill	Liability \$mill			
<b>Current</b>											
Cash flow hedge	-	-	-	-	2.8	(3.2)	-	-	2.8	(3.2)	(0.4)
Net investment hedge	-	(34.9)	-	-	-	(1.3)	-	-	-	(36.2)	(36.2)
Held for trading	-	2.3	-	-	2.8	(2.5)	-	-	2.8	(0.2)	2.6
	-	(32.6)	-	-	5.6	(7.0)	-	-	5.6	(39.6)	(34.0)
<b>Non Current</b>											
Fair value hedge	70.9	-	35.2	(0.1)	-	-	-	-	106.1	(0.1)	106.0
Net investment hedge	-	(99.0)	-	-	-	(1.9)	-	-	-	(100.9)	(100.9)
Held for trading	1.5	(4.9)	-	(2.3)	8.0	(6.1)	-	-	9.5	(13.3)	(3.8)
	72.4	(103.9)	35.2	(2.4)	8.0	(8.0)	-	-	115.6	(114.3)	1.3
	72.4	(136.5)	35.2	(2.4)	13.6	(15.0)	-	-	121.2	(153.9)	(32.7)

During the current financial year, the Group changed its strategy to separately manage (as opposed to a net basis) the foreign exchange risk associated with its USD borrowings and its net investments in operations. Cross currency swaps and forward exchange contracts were used to hedge the foreign exchange risk.



# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 32. Financial instruments (continued)

### (h) Derivative financial instruments (continued)

	30 September 2012										
	Cross currency swaps		Interest rate swaps		Forward exchange contracts		Options contracts		Total asset \$mill	Total liability \$mill	Total net \$mill
	Asset \$mill	Liability \$mill	Asset \$mill	Liability \$mill	Asset \$mill	Liability \$mill	Asset \$mill	Liability \$mill			
<b>Current</b>											
Cash flow hedge	-	-	-	-	7.2	(5.1)	9.6	(9.6)	16.8	(14.7)	2.1
Net investment hedge	15.4	-	-	-	-	-	-	-	15.4	-	15.4
Held for trading	-	-	-	-	-	(0.1)	-	-	-	(0.1)	(0.1)
	15.4	-	-	-	7.2	(5.2)	9.6	(9.6)	32.2	(14.8)	17.4
<b>Non Current</b>											
Fair value hedge	-	-	56.0	-	-	-	-	-	56.0	-	56.0
Cash flow hedge	-	-	(10.6)	-	-	-	-	-	(10.6)	-	(10.6)
Net investment hedge	0.5	-	-	-	-	-	-	-	0.5	-	0.5
	0.5	-	45.4	-	-	-	-	-	45.9	-	45.9
	15.9	-	45.4	-	7.2	(5.2)	9.6	(9.6)	78.1	(14.8)	63.3

#### **Fair value hedge**

Cross Currency Swaps and Interest Rate Swaps were transacted to hedge a portion of the Group's Interest-bearing liabilities. The fair value of these derivative instruments is included in the calculation of the Group's Net Debt.

#### **Cash flow hedge**

Gains or losses recognised in the cash flow hedging reserve will be continuously released to the profit or loss until the underlying forecast transaction occurs. However, where the underlying forecast transaction is a purchase of a non financial asset (for example property, plant and equipment) the gain or loss in the cash flow hedging reserve will be transferred and included in the measurement of the initial cost of the asset at the date on which the asset is recognised.

#### **Hedge for trading**

Derivatives which are classified as held for trading are in economic relationships but are not in designated hedge relationships for hedge accounting purposes. Although these held for trading derivatives did not satisfy the requirements for hedge accounting, these are effective economic hedges based on contractual amounts and cash flows over the life of the transaction.

#### **Net investment hedge**

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 to 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 profit and loss component of the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 33. Related party disclosures

### Subsidiaries

Interest in subsidiaries is set out in Note 36.

### Jointly controlled entities and associates

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

### Key management personnel

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

### Transactions between subsidiaries of the Group and jointly controlled entities and associates are as follows:

		Jointly controlled entities <sup>(1)</sup>	
	Notes	2013 \$mill	2012 \$mill
Sales of goods/services		217.1	238.6
Purchase of goods/services		(53.1)	(28.1)
Management fees/royalties	(4)	22.7	21.5
Interest income	(4)	0.7	1.4
Interest expense	(5)	(0.2)	(0.2)
Dividend income	(16)	43.0	6.8

(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:

Amounts owing to related parties	(20)	1.9	5.4
Amounts owing from related parties	(11)	43.2	25.7

### Transactions between jointly controlled entities and associates

There were no transactions during the year between jointly controlled entities and associates and there are no outstanding balances between jointly controlled entities and associates of the IPL Group as at 30 September 2013 (2012: nil).

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 34. Key management personnel disclosures

### (a) Key management personnel

	Consolidated	
	2013	2012
	\$000	\$000
Short-term employee benefits	9,358	9,651
Post-employment benefits	238	300
Other long-term benefits	264	342
Termination benefits	904	1,365
Share-based payments	265	3,955
	<b>11,029</b>	<b>15,613</b>

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 2013, there were no loans to key management personnel and their related parties (2012: nil).

### (c) Other key management personnel transactions

The following transactions, entered into during the year and prior year with key management personnel, were on terms and conditions no more favourable than those available to other customers, suppliers and employees:

- (1) The spouse of Mr Fazzino, the Managing Director & Chief Executive Officer, is a partner in the accountancy and tax firm PricewaterhouseCoopers (PwC) from which the Group purchased services of \$9,934,124 during the year (2012: \$3,860,872). These services include taxation advice provided to the Group in relation to investigations and audit activities undertaken by the Australian Taxation Office during the reporting period. Mr Fazzino's spouse does not directly provide these services. Mr Fazzino has not engaged PwC at any time for any assignments.
- (2) During the year ended 30 September 2013, a related party of Mr Smorgon, a non-executive director, provided printing services to the value of \$3,300 (2012: \$11,245) to the Company. The balance owing by the Company at 30 September 2013 was \$nil (2012: \$nil).

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 34. 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 number 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 <sup>(A)</sup>			Closing balance
		Opening balance	Shares acquired	Shares disposed	
<b>Non-executive directors – current</b>					
P Brasher	2013	20,600	20,000	–	40,600
	2012	20,600	–	–	20,600
A D McCallum	2013	216,501	–	–	216,501
	2012	216,501	–	–	216,501
J Marlay	2013	37,926	–	–	37,926
	2012	37,926	–	–	37,926
A C Larkin	2013	5,000	–	–	5,000
	2012	5,000	–	–	5,000
G Smorgon	2013	–	–	–	–
	2012	–	–	–	–
R J McGrath	2013	7,000	–	–	7,000
	2012	400	6,600	–	7,000
<b>Non-executive directors – former</b>					
J C Watson	2012	100,000	–	–	100,000
<b>Executive directors – current</b>					
J E Fazzino	2013	1,708,180	–	–	1,708,180
	2012	1,708,180	–	–	1,708,180
<b>Executives – current</b>					
F Micallef	2013	–	–	–	–
	2012	–	–	–	–
K J Gleeson	2013	3,241	–	–	3,241
	2012	2,891	350	–	3,241
J Rintel	2013	–	–	–	–
	2012	–	–	–	–
B C Walsh <sup>(2)</sup>	2013	100,360	10,140	(100,000)	10,500
	2012	100,360	–	–	100,360
J D Whiteside	2013	58,500	–	(55,000)	3,500
	2012	58,500	–	–	58,500
S Dawson	2013	23,867	–	–	23,867
	2012	23,867	–	–	23,867
D McAtee <sup>(1)</sup>	2013	–	–	–	–
	2012	–	–	–	–
S Atkinson	2013	3,380	–	–	3,380
	2012	3,380	–	–	3,380
<b>Executives – former</b>					
G Brinkworth	2012	550	–	–	550
B Wallace	2012	–	–	–	–

(A) Includes fully paid ordinary shares and shares acquired under the Employee Share Ownership Plan (ESOP). Details of the ESOP are set out in Note 35, Share based payments.

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

(2) B C Walsh ceased employment with the Company effective 1 October 2013.

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 34. Key management personnel disclosures (continued)

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

#### (2) 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 <sup>(A)</sup>				Closing balance
		Opening balance	Granted as compensation <sup>(B)</sup>	Exercised	Forfeited <sup>(C)</sup>	
<b>Executive directors – current</b>						
J E Fazzino	2013	1,101,989	728,497	–	(511,364)	1,319,122
	2012	1,111,364	590,625	–	(600,000)	1,101,989
<b>Executives – current</b>						
F Micallef	2013	344,444	239,834	–	(150,000)	434,278
	2012	370,000	194,444	–	(220,000)	344,444
K J Gleeson	2013	290,925	199,862	–	(135,000)	355,787
	2012	333,000	155,925	–	(198,000)	290,925
J Rintel	2013	258,523	199,862	–	(130,948)	327,437
	2012	270,948	127,575	–	(140,000)	258,523
B C Walsh	2013	317,373	209,807	–	(147,273)	379,907
	2012	363,273	170,100	–	(216,000)	317,373
J D Whiteside	2013	272,492	199,862	–	(110,455)	361,899
	2012	272,455	162,037	–	(162,000)	272,492
S Dawson	2013	270,219	199,862	–	(108,182)	361,899
	2012	187,515	162,037	–	(79,333)	270,219
D McAtee <sup>(1)</sup>	2013	12,997	160,618	–	–	173,615
	2012	–	12,997	–	–	12,997
S Atkinson	2013	203,745	165,517	–	(94,545)	274,717
	2012	163,878	109,200	–	(69,333)	203,745
<b>Executives – former</b>						
G Brinkworth	2013	197,025	–	–	(170,709)	26,316
	2012	250,455	162,037	–	(215,467)	197,025
B Wallace	2013	287,433	–	–	(240,225)	47,208
	2012	292,022	166,368	–	(170,957)	287,433

(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 the executive director and executives while a director or executive of the Group pursuant to the Long Term Incentive Performance Rights Plan 2012/15 (LTI 2012/15), details of which are set out in section C of the Remuneration Report.

(C) Represents rights that were forfeited under the Long Term Incentive Performance Rights Plan 2010/13 (LTI 2010/13). Refer to section C of the Remuneration Report for further details. In the case of executives who ceased their employment during the 2012 year, all rights held by those executives in the LTI 2009/12 were forfeited as at the relevant date of cessation. In addition, a proportion of their rights under the Long Term Incentive Performance Rights Plan 2010/13 (LTI 2010/13) and LTI 2011/14 were forfeited as at the relevant date of cessation in accordance with the relevant plan rules.

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

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

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## 35. 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 EPS, 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 the Long Term Incentive Performance Rights Plan 2012/15 (LTI 2012/15). The performance period for this plan is 1 October 2012 to 30 September 2015.

The LTI 2012/15 has the same features as the Long Term Incentive Performance Rights Plan 2011/14 (LTI 2011/14) and Long Term Incentive Performance Rights Plan 2010/13 (LTI 2010/13). Details of these plans are summarised as follows:

- **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. A grant of performance rights to the Executive Director is subject to shareholder approval.
- **Conditions:** The performance rights only vest if certain conditions are met, which are approved by the Board on commencement of the Plan. The performance conditions are based on the relative Total Shareholder Returns of the Company and Earnings Per Share (before IMIs):

**Total Shareholder Return (TSR) Condition:** The TSR Condition requires growth in the Company's total shareholder returns to be at or above the median of the companies in the comparator group, being the S&P/ASX 100. If, at the end of the performance period, the Company's TSR over the three year performance period is:

- below the 50th percentile of the comparator group of companies ranked by their TSR performance: no performance rights in this tranche will vest;
- between the 50th and 75th percentile of the comparator group of companies ranked by their TSR performance: the portion of performance rights in this tranche that will vest will be increased on a pro rata basis from 50 percent to 100 percent (assuming 50 percent vest at the 50th percentile); and
- equal to or above the 75th percentile of the comparator group of companies ranked by their TSR performance: all performance rights in this tranche will vest; and

**Earnings Per Share (EPS) Condition:** For the LTI 2010/13 and LTI 2011/14, if, at the end of the performance period, the compound annual growth rate on EPS (before IMIs) over the performance period, from the base year, is:

- below 7 percent per annum: no performance rights in this tranche will vest;
- equal to or greater than 7 percent per annum but less than 15 percent per annum: the portion of performance rights in this tranche that will vest will be increased on a pro rata basis between 50 percent and 100 percent; and
- 15 percent or greater: all performance rights in this tranche will vest.

For the LTI 2012/15, if, at the end of the performance period, the compound annual growth rate on EPS (before IMIs) over the performance period, from the base year, is:

- below 6 percent per annum: no performance rights in this tranche will vest;
- equal to or greater than 6 percent per annum but less than 12.5 percent per annum: the portion of performance rights in this tranche that will vest will be increased on a pro rata basis between 50 percent and 100 percent; and
- 12.5 percent or greater: all performance rights in this tranche will vest.

These two performance conditions are equally weighted, in all Long Term Incentive Performance Rights Plans.

- **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 if a participant serves a notice that he or she wishes the rights to lapse.



# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

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## 35. Share based payments (continued)

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

#### Long Term Incentive Performance Cash Plans

Certain employees and executives based in some jurisdictions (excluding Key Management Personnel), participate in long term incentive performance cash plans which are operated by the Group, through its offshore entities. The Long Term Incentive Performance Cash Plan 2012/15, Long Term Incentive Performance Cash Plan 2011/14 and Long Term Incentive Performance Cash Plan 2010/13 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. However, the plans are settled in cash.

#### Long Term Incentive Performance Rights Plans – LTI 2009/12

The LTI 2009/12 is similar to the LTI 2012/15, LTI 2011/14 and LTI 2010/13 in that each of the plans is a performance rights plan with three year performance periods. Similarly the conditions focus on the performance of the Company and include a condition relating to duration of employment. However, under the LTI 2009/12, the performance condition is based on the Company's Total Shareholder Return (Absolute 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.

If, at the end of the relevant performance period, Absolute TSR:

- is equal to or less than 10 percent per annum compounded over the performance period, none of the performance rights will vest;
- is greater than 10 percent and less than 20 percent 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 percent or more per annum compounded over the performance period, all of the performance rights will vest.

#### Long Term Incentive Performance Cash Plan – LTI Plan 2009/12

Certain employees and executives based in some jurisdictions (excluding Key Management Personnel), participate in a Long Term Incentive Performance Cash Plan which is operated by the Group, through its offshore entities. The Long Term Incentive Performance Cash Plan 2009/12 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 Plan, LTI 2009/12. However, the plan is settled in cash.

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 35. Share based payments (continued)

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

	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	Number					
<b>Consolidated – 2013</b>									
<b>Performance Rights</b>									
LTI Rights – 2010/13 – TSR	23 Dec 10	30 Sep 13	\$2.77	2,132,289	-	-	(2,132,289)	-	-
LTI Rights – 2010/13 – EPS	23 Dec 10	30 Sep 13	\$3.76	2,132,289	-	-	(2,132,289)	-	-
LTI Cash – 2010/13 – TSR	23 Dec 10	30 Sep 13	\$2.77	79,001	-	-	(79,001)	-	-
LTI Cash – 2010/13 – EPS	23 Dec 10	30 Sep 13	\$3.76	79,001	-	-	(79,001)	-	-
LTI Rights – 2011/14 – TSR	02 Feb 12	30 Sep 14	\$1.72	2,626,367	-	-	(164,144)	2,462,223	-
LTI Rights – 2011/14 – EPS	02 Feb 12	30 Sep 14	\$2.90	2,626,367	-	-	(164,144)	2,462,223	-
LTI Cash – 2011/14 – TSR	02 Feb 12	30 Sep 14	\$1.72	107,481	-	-	(18,403)	89,078	-
LTI Cash – 2011/14 – EPS	02 Feb 12	30 Sep 14	\$2.90	107,481	-	-	(18,403)	89,078	-
LTI Rights – 2012/15 – TSR	25 Jan 13	30 Sep 15	\$1.54	-	3,433,518	-	(92,177)	3,341,341	-
LTI Rights – 2012/15 – EPS	25 Jan 13	30 Sep 15	\$2.86	-	3,433,518	-	(92,177)	3,341,341	-
LTI Cash – 2012/15 – TSR	25 Jan 13	30 Sep 15	\$1.54	-	135,232	-	(3,068)	132,164	-
LTI Cash – 2012/15 – EPS	25 Jan 13	30 Sep 15	\$2.86	-	135,232	-	(3,068)	132,164	-
<b>Total – Performance rights</b>				<b>9,890,276</b>	<b>7,137,500</b>	-	<b>(4,978,164)</b>	<b>12,049,612</b>	-
<b>Weighted average fair value</b>				<b>\$2.74</b>	<b>\$2.20</b>	-	<b>\$3.15</b>	<b>\$2.25</b>	-

	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	Number					

### Consolidated – 2012

#### Performance Rights

LTI Rights – 2008/11	19 Dec 08	30 Sep 11	\$0.30	2,041,620	-	-	(2,041,620)	-	-
LTI Cash – 2008/11	19 Dec 08	30 Sep 11	\$1.60	839,023	-	-	(839,023)	-	-
LTI Rights – 2009/12	16 Dec 09	30 Sep 12	\$1.60	5,134,598	-	-	(5,134,598)	-	-
LTI Cash – 2009/12	16 Dec 09	30 Sep 12	\$1.60	234,041	-	-	(234,041)	-	-
LTI Rights – 2010/13 – TSR	23 Dec 10	30 Sep 13	\$2.77	2,257,049	-	-	(124,760)	2,132,289	-
LTI Rights – 2010/13 – EPS	23 Dec 10	30 Sep 13	\$3.76	2,257,049	-	-	(124,760)	2,132,289	-
LTI Cash – 2010/13 – TSR	23 Dec 10	30 Sep 13	\$2.77	59,177	24,364	-	(4,540)	79,001	-
LTI Cash – 2010/13 – EPS	23 Dec 10	30 Sep 13	\$3.76	59,177	24,364	-	(4,540)	79,001	-
LTI Rights – 2011/14 – TSR	02 Feb 12	30 Sep 14	\$1.72	-	2,767,069	-	(140,702)	2,626,367	-
LTI Rights – 2011/14 – EPS	02 Feb 12	30 Sep 14	\$2.90	-	2,767,069	-	(140,702)	2,626,367	-
LTI Cash – 2011/14 – TSR	02 Feb 12	30 Sep 14	\$1.72	-	133,135	-	(25,654)	107,481	-
LTI Cash – 2011/14 – EPS	02 Feb 12	30 Sep 14	\$2.90	-	133,135	-	(25,654)	107,481	-
<b>Total – Performance rights</b>				<b>12,881,734</b>	<b>5,849,136</b>	-	<b>(8,840,594)</b>	<b>9,890,276</b>	-
<b>Weighted average fair value</b>				<b>\$1.17</b>	<b>\$2.32</b>	-	<b>\$1.38</b>	<b>\$2.74</b>	-

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

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## 35. 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 1.58 years (2012 – 1.03 years).

#### Fair value of performance rights granted

##### LTI – 2012/15

In respect of the LTI 2012/15, the assessed fair values at grant date of the rights granted during the year for both the TSR measure and the EPS 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 2013 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 2012 to 30 September 2015.

Grant date	25 January 2013
Share price (at grant date)	\$3.10
Exercise price	\$nil
Expected price volatility of the Company's shares	30% pa
Vesting date	30 September 2015
Expected dividends	3.0% pa
Risk-free interest rate (based on Australian Government bonds) with approximately three years to maturity (as at 25 January 2013)	2.72% pa

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	LTI 2012/15
Fair value at grant date: LTI 2012/15 – TSR	\$1.54
Fair value at grant date: LTI 2012/15 – EPS	\$2.86

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# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 35. 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 13	30 Sep 12	30 Sep 13	30 Sep 12
6 Nov 09	6 Nov 12	-	334	-	131,475
9 Sep 10	9 Sep 13	-	405	-	123,589
1 Jul 11	1 Jul 14	<b>419</b>	431	<b>106,588</b>	115,903
2 Jul 12	2 Jul 15	<b>562</b>	602	<b>195,314</b>	210,783
1 Jul 13	1 Jul 16	<b>510</b>	-	<b>175,523</b>	-

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	
	2013	2012
	\$000	\$000
Shares, treated as options, and rights issued under the LTI performance plans, net of the prior year write-back of the LTI 2010/13 and LTI 2011/14 EPS portion	<b>(446)</b>	10,431
Total carrying amount of liabilities for cash settled arrangements	<b>479</b>	420

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 36. Investments in controlled entities

Name of entity	Ownership interest		Country of incorporation
	September 2013	September 2012	
<b>Company</b>			
Incitec Pivot Limited <sup>(1)</sup>			Australia
<b>Controlled Entities – operating</b>			
Incitec Fertilizers Limited <sup>(1)</sup>	100%	100%	Australia
TOP Australia Ltd <sup>(1)</sup>	100%	100%	Australia
Southern Cross Fertilisers Pty Ltd <sup>(1)</sup>	100%	100%	Australia
Southern Cross International Pty Ltd <sup>(1)</sup>	100%	100%	Australia
Incitec Pivot LTI Plan Company Pty Limited	100%	100%	Australia
Incitec Pivot Holdings (Hong Kong) Limited	100%	100%	Hong Kong
Incitec Pivot Explosives Holdings Pty Limited <sup>(1)</sup>	100%	100%	Australia
TinLinhe Nitrogen Limited	100%	100%	Hong Kong
Quantum Fertilisers Limited	65%	65%	Hong Kong
Coltivi Insurance Pte Limited	100%	100%	Singapore
Queensland Operations Pty Limited	100%	100%	Australia
Incitec Pivot Investments 1 Pty Ltd <sup>(1)</sup>	100%	100%	Australia
Incitec Pivot Investments 2 Pty Ltd	100%	100%	Australia
Incitec Pivot US Investments	100%	100%	USA
Incitec Pivot US Holdings Pty Ltd	100%	100%	Australia
Incitec Pivot Management LLC	100%	100%	USA
Incitec Pivot Finance LLC	100%	100%	USA
Incitec Pivot Finance Australia Pty Ltd <sup>(1)</sup>	100%	100%	Australia
Dyno Nobel Pty Limited	100%	100%	Australia
Dyno Nobel Australia LLC	100%	100%	USA
Prime Manufacturing Ltd	75%	75%	New Zealand
The Dyno Nobel SPS LLC	100%	100%	USA
Dyno Nobel Europe Pty Ltd	100%	100%	Australia
Dyno Nobel Management Pty Limited	100%	100%	Australia
Industrial Investments Australia Finance Pty Limited	100%	100%	Australia
Dyno Nobel Holdings IV LLC	100%	100%	USA
Dyno Nobel Holdings USA III, Inc.	100%	100%	USA
Dyno Nobel Holdings USA II	100%	100%	USA
Dyno Nobel Holdings USA II, Inc.	100%	100%	USA
Dyno Nobel Holdings USA, Inc.	100%	100%	USA

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

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 36. Investments in controlled entities (continued)

Name of entity	Ownership interest		Country of incorporation
	September 2013	September 2012	
<b>Controlled Entities – operating (continued)</b>			
Dyno Nobel Inc.	100%	100%	USA
Dyno Nobel Transportation, Inc.	100%	100%	USA
Independent Explosives Co. of Penna. <sup>(2)</sup>	–	100%	USA
IR, Inc. <sup>(2)</sup>	–	100%	USA
Simsbury Hopmeadow Street LLC	100%	100%	USA
Tech Real Estate Holdings LLC	100%	100%	USA
Tradestar Corporation	100%	100%	USA
Dyno Nobel Explosivos Chile Limitada	100%	100%	Chile
CMMPM, LLC	100%	100%	USA
CMMPM Holdings, L.P.	100%	100%	USA
Dyno Nobel Peru S.A.	100%	100%	Peru
Dyno Nobel Mexico, S.A. de C.V.	99%	99%	Mexico
Dyno Nobel Canada Inc.	100%	100%	Canada
Dyno Nobel Transportation Canada Inc.	100%	100%	Canada
Dyno Nobel Nunavut Inc.	100%	100%	Canada
Incitec Pivot Finance Canada Inc.	100%	100%	Canada
Polar Explosives 2000 Inc.	100%	100%	Canada
Polar Explosives Ltd	84%	84%	Canada
Dyno Nobel Asia Pacific Pty Limited <sup>(1)</sup>	100%	100%	Australia
Dampier Nitrogen Pty Ltd	100%	100%	Australia
DNX Australia Pty Ltd <sup>(1)</sup>	100%	100%	Australia
DNX Papua New Guinea Ltd	100%	100%	PNG
Dyno Nobel Moranbah Pty Ltd <sup>(1)</sup>	100%	100%	Australia
Dyno Nobel Moura Pty Limited <sup>(1)</sup>	100%	100%	Australia
PT DNX Indonesia	100%	100%	Indonesia
Nitromak DNX Kimya Sanayii A.S.	100%	100%	Turkey
SC Romnitro Explosives Srl.	100%	100%	Romania
DNX Nitro Industria Kimike Sh.p.k	100%	100%	Albania
Pepin-IRECO, Inc. <sup>(2)</sup>	–	100%	USA
Dyno Nobel Louisiana Ammonia, LLC	100%	100%	USA

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

(2) These wholly owned entities were merged into Dyno Nobel Inc. during the year and subsequently de-registered.



# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 37. Deed of cross guarantee

	Closed Group	
	2013 \$mill	2012 \$mill
<b>Statement of Financial Position</b>		
<b>Current assets</b>		
Cash and cash equivalents	210.5	83.2
Trade and other receivables	192.8	186.7
Other financial assets	5.6	32.2
Inventories	319.7	308.0
Assets classified as held for sale	0.5	0.1
Current tax asset	12.7	-
Other assets	35.1	20.6
<b>Total current assets</b>	<b>776.9</b>	<b>630.8</b>
<b>Non-current assets</b>		
Trade and other receivables	6.0	7.5
Other financial assets	4,248.3	4,165.6
Investments accounted for using the equity method	99.5	129.0
Property, plant and equipment	2,181.7	2,083.2
Intangible assets	282.0	300.9
Deferred tax assets	96.0	114.2
<b>Total non-current assets</b>	<b>6,913.5</b>	<b>6,800.4</b>
<b>Total assets</b>	<b>7,690.4</b>	<b>7,431.2</b>
<b>Current liabilities</b>		
Trade and other payables	754.4	630.3
Interest bearing liabilities	25.1	104.1
Provisions	88.8	87.1
Other financial liabilities	39.6	14.8
Current tax liabilities	-	24.5
<b>Total current liabilities</b>	<b>907.9</b>	<b>860.8</b>
<b>Non-current liabilities</b>		
Trade and other payables	492.5	452.0
Interest bearing liabilities	747.3	519.9
Other financial liabilities	114.3	-
Retirement benefit obligation	7.3	10.7
Provisions	36.7	49.3
Deferred tax liabilities	184.4	230.6
<b>Total non-current liabilities</b>	<b>1,582.5</b>	<b>1,262.5</b>
<b>Total liabilities</b>	<b>2,490.4</b>	<b>2,123.3</b>
<b>Net assets</b>	<b>5,200.0</b>	<b>5,307.9</b>
<b>Equity</b>		
Issued capital	3,265.9	3,265.9
Reserves	699.8	903.0
Retained earnings	1,234.3	1,139.0
<b>Total equity</b>	<b>5,200.0</b>	<b>5,307.9</b>
<b>Statement of Profit or Loss and Other Comprehensive Income</b>		
Profit before income tax	376.1	625.9
Income tax expense	(78.3)	(159.2)
<b>Profit for the financial year</b>	<b>297.8</b>	<b>466.7</b>
Retained profits at the beginning of the financial year	1,139.0	891.8
Other movements in retained earnings	1.1	(32.2)
Dividend paid	(203.6)	(187.3)
<b>Retained profits at the end of the financial year</b>	<b>1,234.3</b>	<b>1,139.0</b>

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 36, Investments in controlled entities. Statement of Financial Position and Statement of Profit or Loss and Other Comprehensive Income for this closed group are shown above.

# Notes to the Consolidated Financial Statements

For the year ended 30 September 2013

## 38. Parent entity disclosure

As at, and throughout, the financial year ended 30 September 2013 the parent company of the Group was Incitec Pivot Limited.

### Parent entity guarantees in respect of debts of its subsidiaries

As at 30 September 2013 the Company's current liabilities exceeded its current assets by \$622.3m. 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 12 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 \$1,450.0m at 30 September 2013 and a cash balance of \$270.6m.

Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed, are disclosed in Note 37.

	Company	
	2013	2012
	\$mill	\$mill
<b>Results of the parent entity</b>		
Profit for the period	12.5	90.8
Other comprehensive (loss)/income	(177.0)	42.2
Total comprehensive (loss)/income for the period	(164.5)	133.0
<b>Financial position of the parent entity at year end</b>		
Current assets	576.6	484.8
Total assets	6,537.4	6,387.1
Current liabilities	1,198.9	1,034.8
Total liabilities	3,267.8	2,751.1
<b>Net assets</b>	<b>3,269.6</b>	<b>3,636.0</b>
<b>Total equity of the parent entity comprises</b>		
Share capital	3,265.9	3,265.9
Cash flow hedging reserve	(15.8)	11.8
Foreign currency translation reserve	(76.0)	46.4
Fair value reserve	(11.0)	(9.6)
Retained earnings	106.5	321.5
<b>Total equity</b>	<b>3,269.6</b>	<b>3,636.0</b>
<b>Parent entity contingencies</b>		
Contingent liabilities of Incitec Pivot Limited are disclosed in Note 30.		
<b>Plant and equipment</b>		
Contracted but not yet provided for and payable:		
Within one year	2.6	1.5

## 39. Events subsequent to reporting date

### Dividends

Since the end of the financial year, in November 2013, the directors have determined to pay a final dividend of 5.8 cent per share on 18 December 2013. This dividend is 75 percent franked at the 30 percent corporate tax rate.

Other than the matter 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 41 to 112

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I, Paul Brasher, 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 41 to 112, and the remuneration disclosures that are contained in the Remuneration Report on pages 13 to 27 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 2013 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 36 will be able to meet any obligations or liabilities to which they are or may become subject by virtue of the Deed of Cross Guarantee between the Company and those subsidiaries pursuant to ASIC Class Order 98/1418 (as amended).
  3. The directors have been given the declaration by the Chief Executive Officer and the Chief Financial Officer as required by section 295A of the Corporations Act 2001 for the financial year ended 30 September 2013.



Paul Brasher  
Chairman

*Dated at Melbourne this 11th day of November 2013*

## Independent Auditor's Report to the members of Incitec Pivot Limited

### Report on the Financial Report

We have audited the accompanying financial report of Incitec Pivot Limited (“the Company”), which comprises the consolidated statement of financial position as at 30 September 2013, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, Notes 1 to 39 comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the consolidated entity comply with International Financial Reporting Standards.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## *Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Incitec Pivot Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

## *Opinion*

In our opinion:

- (a) the financial report of Incitec Pivot Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 September 2013 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

## **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 13 to 27 of the directors' report for the year ended 30 September 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## *Opinion*

In our opinion the Remuneration Report of Incitec Pivot Limited for the year ended 30 September 2013, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Tom Imbesi  
Partner  
Chartered Accountants  
Melbourne, 11 November 2013