Incitec Fertilizers Limited

Annual Report 2003

Incitec Fertilizers Limited
ABN 56 103 709 155

Contents

Review of Operations and Financial Performance

Incitec Fertilizers Limited is a wholly owned subsidiary of Incitec Pivot Limited.

Incitec Fertilizers Limited was incorporated on 13 February 2003 via the issue of 2 shares to Incitec Ltd.

On 1 April 2003 Incitec Fertilizers Limited acquired the fertiliser business assets and liabilities from Incitec Ltd in exchange for the issue of 40,796,717 shares.

On 28 May 2003 Incitec Fertilizers Limited issued 11,000 redeemable preference shares at $5,000 per share, redeemable on 27 November 2004 at face value. Holders receive interest at 5.36% per annum. These shares are not convertible into ordinary shares and are listed on the Newcastle stock exchange.

On 1 June 2003 Incitec Fertilizers Limited was acquired by Pivot Limited, which was simultaneously renamed Incitec Pivot Limited.

Incitec Fertilizers Limited reported an after tax profit of $3.4 million for the period ended 30 September 2003. The after tax profit includes the following non recurring significant items:

- Merger implementation costs of $6 million net of tax.
- Loan forgiven to the immediate parent entity of $10 million.

Excluding significant items, Incitec Fertilizers Limited profit before tax was $28.1 million.

Revenue from the sale of goods was $403.3 million.

Earnings before interest, tax and significant items was $30.3 million.

Key Ratios

Profit before significant items and tax / sales:	6.97%
Profit after tax / equity interests:	0.93%

No dividends were declared in respect of the period ended 30 September 2003.

On 1 November 2003, Incitec Fertilizers Limited appointed Incitec Pivot Limited to act as its undisclosed agent, with the objective that Incitec Pivot Limited will manage certain operations of the business for Incitec Fertilizers Limited. In acting as Incitec Fertilizers agent, Incitec Pivot Limited will invoice all customers for goods and services supplied by the business, and collect all book debts of the Business.

Incitec Pivot Limited will also pay all suppliers for goods and services supplied to the Business, and pay all creditors of the Business in accordance with their applicable terms. Incitec Pivot Limited will provide manufacturing, marketing, selling and distribution services to the Business.

Board of Directors

Greg Witcombe, BSc

Managing Director of Incitec Fertilizers Limited. Greg joined Orica Limited in 1977 and held several senior management positions. He was Managing Director of Incitec Ltd between October 1998 and April 2003. He was appointed Managing Director and CEO of Incitec Pivot Limited in April 2003.

James Fazzino, BEc (Hons), CPA

Director and Chief Financial Officer of Incitec Fertilizers Limited. James has had many years experience with Orica Limited in several business finance roles. He was Orica's Investor Relations Manager before being appointed Chief Financial Officer of Incitec Pivot Limited in April 2003.

Anil Sharma, LLB, FCIS, MAICD

Director and Company Secretary of Incitec Fertilizers Limited. Anil worked for a number of years in the telecommunications industry before being appointed Company Secretary and General Counsel of Incitec Pivot Limited in April 2003.

Corporate Governance

Incitec Fertilizers Limited is a wholly owned subsidiary of Incitec Pivot Limited which listed on the Australian Stock Exchange in July 2003. The Company conducts its business in line with the corporate governance policies of Incitec Pivot Limited. Incitec Pivot Limited has a comprehensive corporate governance framework consistent with the ASX Corporate Governance Council's recommendations.

Financial Report

Directors' Report

The directors of Incitec Fertilizers Limited ('the Company' or 'Incitec Fertilizers') present the first financial report of the Company for the period ended 30 September 2003 and the auditor's report thereon.

Directors

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

G J Witcombe, Managing Director (Appointed 13 February 2003)
C B Elkington (Appointed 13 February 2003, Resigned 25 March 2003)
J E Fazzino (Appointed 1 July 2003)
B J Gibson (Appointed 25 March 2003, Resigned 30 June 2003)
J W Hall (Appointed 25 March 2003, Resigned 30 June 2003)
G G Harvey (Appointed 25 March 2003, Resigned 30 June 2003)
A C Larkin (Appointed 25 March 2003, Resigned 30 June 2003)
R R Rose (Appointed 25 March 2003, Resigned 30 June 2003)
D B Trebeck (Appointed 25 March 2003, Resigned 30 June 2003)
A K Sharma (Appointed 1 July 2003)
W F Surman (Appointed 13 February 2003, Resigned 25 March 2003)

The office of company secretary is held by Mr A K Sharma. Particulars of directors' qualifications and responsibilities are detailed on page 2 of the annual report.

Directors' interests in share capital

Incitec Fertilizers Limited is a wholly owned subsidiary of Incitec Pivot Limited. The directors have no interest in the share capital of the Company.

Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the period ended 30 September 2003 are listed below:

Director	Board		Remuneration and Appointments	
	Held (1)	Attended	Held (1)	Attended
G J Witcombe	10	9	-	-
C B Elkington	2	2	-	-
J E Fazzino	5	5	-	-
B J Gibson	3	1	-	-
J W Hall	3	-	-	-
G G Harvey	3	2	2	2
A C Larkin	3	2	2	2
R R Rose	3	2	-	-
D B Trebeck	3	2	2	2
A K Sharma	5	5	-	-
W F Surman	2	1	-	-

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

Principal activities

The principal activities of the Company in the course of the financial period were the manufacture and distribution of fertilisers.

Dividends

Dividends paid or declared by the Company in respect of the period ended 30 September 2003 were:	**$000**
Dividend paid in respect of ordinary shares.	nil
Dividend paid in respect of redeemable preference shares on 27 August 2003 (1).	737

(1) The dividend in respect of the redeemable preference shares is payable quarterly at 5.36% per share unfranked. It is accrued in the financial statements on a monthly basis. These dividends have been charged to the statement of financial performance as borrowing costs because these shares are classified as liabilities.

Directors' Report

Review and results of operations

A review of the operations of the Company during the financial period and of the results of those operations is contained on page 1 of the annual report.

Changes in the state of affairs

Particulars of significant changes in the state of affairs of the Company during the period ended 30 September 2003 are as follows:

- The Company was incorporated on 13 February 2003 following the issue of 2 shares.
- On 1 April 2003 the Company issued an additional 40,796,717 shares to Incitec Ltd in exchange for the business assets and liabilities of the Incitec Fertiliser business.
- Redeemable Preference shares listed on Newcastle Stock Exchange on 28 May 2003.

Events subsequent to balance date

On 1 November 2003, the Company appointed Incitec Pivot Limited (immediate parent entity) to act as its undisclosed agent, with the objective that Incitec Pivot Limited will manage certain operations of the business for the Company. In acting as the Company's agent, Incitec Pivot Limited will invoice all customers for goods and services supplied to the business, and pay all creditors of the business in accordance with their applicable terms. Incitec Pivot Limited will provide manufacturing, marketing, selling and distribution services to the business.

The directors have not become aware of any other significant matter or circumstance that has arisen since 30 September 2003, that has affected or may affect the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent periods, which has not been covered in this report.

Likely developments

Likely developments in the operations of the Company and the expected results of those operations are covered generally in the review of operations on page 1 of the annual report.

Further information as to likely developments in the operations of the Company and the expected results of those operations in subsequent financial years has not been included in this report because, in the opinion of the directors, disclosure would be likely to result in unreasonable prejudice to the Company.

Executive directors and senior executive officers emoluments

It is the broad policy of the Company that its remuneration structure will:

(a) support the Company's philosophy and values;

(b) reinforce both the short and long term objectives of the Company;

(c) provide a common interest between management and shareholders; and

(d) be sufficiently competitive in the markets in which the Company operates to attract, motivate and retain high calibre employees.

For the period commencing 1 June 2003, the Company introduced a short term and long term incentive program for senior management. The incentive programs are designed to encourage executives to focus on the key performance drivers which underpin sustainable growth in shareholder value.

Short Term Incentive Program

The Company has a short term incentive program that provides for incentive payments to senior executive officers based on performance targets (both company financial and individual) for the preceding 12 months.

During the period 1 June 2003 to 30 September 2003 the short term incentive payments for the senior executives were calculated on an annual pro-rata basis for the period, and were determined on the basis of achievement of performance targets set for that period.

For the period commencing on incorporation on 11 February 2003 to 31 May 2003, for the participating senior executives, short term incentive payments were calculated on a pro-rata basis for the 4 month period, and were paid on the basis of achievement of performance targets set for that period.

The calculation of the short term incentive has been split into two periods as described above due to the acquisition of Incitec Fertilizers Limited on 1 June 2003 by Incitec Pivot Limited.

Long Term Incentive Programs

Under the Long Term Incentive Plan the Company may grant awards to senior executive officers subject to the achievement or satisfaction of conditions as to duration of employment or conditions as to performance. Since the adoption of the Long Term Incentive Plan, 29 senior employees have been invited to participate in awards made under the rules of the Long Term Incentive Plan on the following basis:

- in recognition of the achievement of certain performance targets in the period between 1 June 2003 and 30 September 2003, the participating senior employees will be granted awards based on a percentage of base remuneration. These awards, once quantified, will be paid in cash before 31 December 2003;

Directors' Report

- in respect of the period from 1 June 2003 to 30 September 2005, an award was granted to the participating employees, such to be satisfied by the purchase, in aggregate of 80,232 shares of Incitec Pivot Limited, the immediate parent entity on the Australian Stock Exchange. The shares purchased may be forfeited by a participating employee if that employee ceases to be employed with the Company prior to September 2005. In respect of the amount of this award to be applied towards shares, the participating employees were each given an interest free unsecured loan by the immediate parent entity. The loan is repayable on the earlier of the employee ceasing to be employed by the Company, the employee selling his/her shares or three years after the loan is made. The company has discretion to decide the amount of repayment due in satisfaction of the debt. Any dividends will be applied on an after tax basis to reduce the loan balance. The employee cannot deal in these shares until 30 September 2005, and
- that they may be eligible to receive an award under the Long Term Incentive Plan dependent on the achievement of certain performance measures over a rolling three year period.

Particulars of directors qualifications and responsibilities are detailed on page 2 of the annual report. Details of the nature and amount of each element of emoluments of executive directors and the five highest remunerated officers are included in the following table.

	Cash benefits				
Executive directors and five highest remunerated officers	Fixed Annual Remuneration (1)	Termination payments (2)	2003 Incentive payments (3)	Other (4)	Total remuneration expense
	$	$	$	$	$
Executive Directors - Current					
G J Witcombe (5)	394,164	-	475,877	37,423	907,464
J E Fazzino (5)	67,500	-	23,985	-	91,485
A K Sharma (5)	62,499	-	23,692	-	86,191
Executive Directors - Former					
C B Elkington (5)	26,875	-	-	-	26,875
W F Surman (5)	23,125	-	-	-	23,125
Senior Executives - Current					
R Di Trapani (6)	88,200	-	21,651	-	109,851
A Grace (6)	88,433	-	44,309	-	132,742
R Hoggard (6)	135,000	-	57,945	-	192,945
J Warnock (6)	120,000	-	69,740	-	189,740
Senior Executives - Former					
G Davis	122,085	-	32,820	-	154,905
I Wood	81,771	287,989	-	-	369,760

(1) Fixed annual remuneration includes base salary, company superannuation contributions and company car. These emoluments represent remuneration received in respect of services performed for Incitec Fertilizers Limited and the immediate parent entity for relevant executives directors and officers.
(2) Includes payment in lieu of notice, contractual entitlements due to early termination of employment contracts and annual leave entitlements.
(3) 2003 incentive payments include payments relating to 2003 performance which have either been paid or are accrued but not yet paid.
(4) Includes relocation allowances and rental assistance.
(5) Total remuneration expense relates to the period in which these officers were executive directors.
(6) Total remuneration expense relates to the period from 1 April 2003, the date on which Incitec Fertilizers acquired the fertiliser business from Incitec Ltd, or their appointment date.

Remuneration of Managing Director and Chief Executive Officer

The Company has entered into an employment agreement with the Managing Director and Chief Executive Officer, Greg Witcombe. The agreement may be terminated by 3 months notice given by either party. The agreement provides for a fixed annual remuneration of $610,000 and other benefits on terms commensurate with his position, the industry and the size of the Company including termination entitlements of 1.68 times his fixed annual remuneration. The agreement includes provisions relating to confidential information and post termination restraints. The agreement also includes an entitlement to participate in the annual short term incentive program. This is based on 30% of fixed annual remuneration and is subject to achievement of certain performance targets, and for over performance of such targets, can increase to 60% of fixed annual remuneration. In addition the Managing Director and Chief Executive Officer is eligible to participate in the long term incentive program. His participation in the incentive program in respect of the retention award is based on 35% of fixed annual remuneration and in respect of the performance award for performance from 1 June 2003 to 30 September 2005 will be based on 35% of fixed annual remuneration, subject to achievement of certain performance targets, and for over performance of such targets can increase to 70% of fixed annual remuneration.

Directors' Report

Non executive directors emoluments

Non executive directors - Former	Fees	Superannuation contributions	Total
	$	$	$
B J Gibson (1)	-	-	-
J W Hall (1)	-	-	-
G G Harvey	11,001	990	11,991
A C Larkin	21,999	1,980	23,979
R R Rose (1)	-	-	-
D B Trebeck	11,001	990	11,991

(1) Fees of $44,000 per director per annum were paid pro rata to their employer Orica Limited, the ultimate controlling entity.

Employees' options entitlement

The Company has not issued any options.

Corporate Governance

The Company has a comprehensive corporate governance framework; refer to page 2 of the annual report.

Environmental regulations

Manufacturing licences and consents are in place at each Incitec Fertilizers site in consultation with local environmental regulatory authorities. The measurement of compliance with conditions of licences and consents involves numerous tests being conducted regularly. The sites record their compliance and report that there is continued high compliance. Any breaches are reported to the authorities as required.

Indemnification and insurance of officers

The Company's Constitution requires the Company to indemnify any person who is, or has been, an officer of the Company, including the directors, the secretary and other executive officers, against any liability incurred by the person which arises out of the discharge of that person's duties, unless the liability was incurred as a result of dishonesty, negligence or lack of good faith. In such circumstances, the Board has discretion whether or not to provide an indemnity.

The Company has paid a premium in respect of a contract insuring officers of the Company against a liability for costs and expenses incurred by them in defending civil or criminal proceedings involving them as such officers, with some exceptions. The contract of insurance prohibits disclosure of the nature of the liability insured against and the amount of the premium paid.

Rounding

The amounts shown in this report and in the financial statements have been rounded off, except where otherwise stated, to the nearest thousand dollars, the Company being in a class specified in the ASIC Class Order 98/100 dated 10 July 1998.

Signed on behalf of the Board in accordance with a resolution of the directors of Incitec Fertilizers Limited.

J E Fazzino
Chairman
Dated at Melbourne this 12th day of December 2003.

Statement of Financial Performance

For the period ended 30 September 2003

	Notes	Company 2003 $000
Revenue from ordinary activities	(3)	**406,166**
Operating expenses		
Changes in inventories of finished goods		**(62,153)**
Raw materials and consumables used and finished goods purchased for resale		**(232,701)**
Employee expenses (including significant items)		**(29,034)**
Loan forgiven to immediate parent entity	(5)	**(10,000)**
Depreciation and amortisation expense		**(15,378)**
Borrowing costs		**(2,327)**
Purchased services (including significant items)		**(10,042)**
Repairs and maintenance		**(10,737)**
Property, plant & equipment retired/disposed		**(909)**
Outgoing freight		**(13,119)**
Lease payments - operating leases		**(2,597)**
Asset write-downs, clean-up and environmental provisions (significant items)		**(5,685)**
Other expenses from ordinary activities including significant items		**(1,930)**
		(396,612)
Profit from ordinary activities before income tax expense	(4)	**9,554**
Income tax expense attributable to profit from ordinary activities	(7)	**(6,142)**
Profit from ordinary activities after income tax expense		**3,412**
Total changes in equity other than those resulting from transactions with owners as owners	(22)	**3,412**

The Statement of Financial Performance should be read in conjunction with the notes to the financial statements set out on pages 11 to 28.

Statement of Financial Position
As at 30 September 2003

	Notes	Company 2003 $000
Current assets		
Cash assets	(8)	**21,247**
Receivables	(9)	**92,091**
Inventories	(10)	**132,684**
Other assets	(11)	**6,861**
Total current assets		**252,883**
Non-current assets		
Property, plant and equipment	(12)	**205,329**
Intangible assets	(13)	**90,173**
Deferred tax assets	(14)	**6,957**
Other assets	(11)	**13,552**
Total non-current assets		**316,011**
Total assets		**568,894**
Current liabilities		
Payables	(15)	**99,890**
Current tax liabilities	(17)	**6,312**
Provisions	(18)	**14,609**
Total current liabilities		**120,811**
Non-current liabilities		
Interest bearing liabilities	(16)	**55,000**
Deferred tax liabilities	(19)	**17,748**
Provisions	(18)	**6,793**
Total non-current liabilities		**79,541**
Total liabilities		**200,352**
Net assets		**368,542**
Equity		
Contributed equity	(20)	**365,130**
Retained profits	(21)	**3,412**
Total equity	(22)	**368,542**

The Statement of Financial Position should be read in conjunction with the notes to the financial statements set out on pages 11 to 28.

Statement of Cash Flows

For the period ended 30 September 2003

	Notes	Company **2003** **$000** **Inflows/** **(Outflows)**
Cash flows from operating activities		
Receipts from customers		**417,051**
Payments to suppliers and employees		**(422,046)**
Interest paid		**(1,556)**
Borrowing costs		**(2,004)**
Royalties and other trading revenue received		**1,463**
Net income taxes received		**3,113**
Net cash flows from operating activities	(24)	**(3,979)**
Cash flows from investing activities		
Payments for property, plant and equipment		**(7,751)**
Proceeds from sale of property, plant and equipment	(3)	**1,272**
Net cash flows used in investing activities		**(6,479)**
Cash flows from financing activities		
Proceeds from long term borrowings		**55,000**
Net movement in short term financing		**(23,295)**
Net cash flows used in financing activities		**31,705**
Net increase in cash held		**21,247**
Cash at the beginning of the financial period		**-**
Cash at the end of the financial period	(24)	**21,247**

The Statement of Cash Flows should be read in conjunction with the notes to the financial statements set out on pages 11 to 28.

Notes to the Financial Statements
For the period ended 30 September 2003

Notes to the Financial Statements
For the period ended 30 September 2003

1. Significant accounting policies

The significant accounting policies adopted in preparing the financial report of Incitec Fertilizers Limited (‘the Company’) are stated to assist in a general understanding of this financial report. These policies have been consistently applied except as otherwise indicated.

(i) Basis of preparation

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

The financial report has been prepared for the period from 13 February 2003 to 30 September 2003 on the basis of historical cost and except where stated, does not take into account changing money values or fair values of non-current assets.

(ii) Change in accounting policy

There has been no significant changes in accounting policy since the formation of the Company on 13 February 2003.

(iii) Revenue recognition (see note 3)

External sales and other income are recognised when the goods and services are provided. Interest income is recognised as it accrues. Revenues are recognised at fair value of the consideration received net of the amount of GST payable to the taxation authority.

(iv) Borrowing costs (see note 4)

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

(v) Taxation (see note 7)

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

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

Capital gains tax is provided in the statements of financial performance in the year in which an asset is sold.

(vi) Inventories (see note 10)

Inventories are valued at the lower of cost and net realisable value.

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

(vii) Maintenance, repairs and other costs (see note 11)

Expenditure for maintenance, repairs and replacements of a minor nature is expensed as incurred. Major cyclical expenditure is undertaken at the principal manufacturing plants in three to four year cycles. These plants operate continuous production processes twenty-four hours per day, seven days per week. Major cyclical expenditure, incorporating new capital expenditure, enables these plants to extend their estimated useful lives and improve their performance. This expenditure is amortised over the year to which future economic benefits relate, which is generally until the commencement of the next cycle.

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

(viii) Property, plant and equipment and depreciation (see note 12)

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 Company.

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

Buildings and improvements	20 to 40 years
Machinery, plant and equipment	3 to 30 years
Software	3 to 7 years

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

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

Profits and losses on disposal of property, plant and equipment are taken to the statements of financial performance.

(ix) Leased assets

Operating leases are not capitalised and lease rental payments are taken to the statements of financial performance as incurred.

(x) Goodwill (see note 13)

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired. Goodwill is amortised on a straight line basis over the period in which the benefits are expected to arise, not exceeding twenty years. The carrying value is reviewed half-yearly and written down to recoverable amount if considered necessary. The expected net cash flows included in determining recoverable amount of goodwill are discounted to their net present values.

1. Significant accounting policies (continued)

(xi) Provisions (see note 18)

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

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

Environmental liabilities

The cost of monitoring operations and treating operating wastes is taken to the statements of financial performance as an operating cost as incurred.

Estimated costs relating to the remediation of soil, groundwater and untreated waste that have arisen as a result of past events are usually taken to the statements of financial performance in total as soon as the requirement to remediate is identified and a reliable estimate of the liability is identified. However, where the cost relates to land held for resale then, to the extent that the expected realisation exceeds both the book value of the land and the estimated cost of remediation, the cost is capitalised as part of the holding value of that land as it is incurred.

Employee entitlements

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

Contributions for superannuation are taken to the statements of financial performance in the year in which the payment is made (see note 32).

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

Dividends

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

Restructuring and employee termination benefits

A provision for restructuring, including employee termination benefits, related to an acquired entity or operation is recognised at the date of acquisition where:

- the main features of the restructuring were announced, implementation of the restructuring commenced, or contracts were entered by the date of acquisition
- detailed formal plan is developed by the earlier of three months after the date of the acquisition and the completion of this financial report.

The provision only relates to costs associated with the acquired entity, and is included in the determination of the fair value of the net assets acquired. The provision includes liabilities for termination benefits that will be paid to employees of the acquired entity as a result of the restructuring.

Other provisions for restructuring or termination benefits are only recognised when a detailed plan has been approved and the restructuring or termination benefits 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.

(xii) Foreign currency translation

Foreign currency transactions are translated at the exchange rate prevailing at the date of the transaction. Foreign currency receivables and payables outstanding at balance date are translated at the exchange rates current at that date. Exchange gains and losses are taken to the statements of financial performance.

The Company has applied the revised AASB 1012 – Foreign Currency Translation. For hedges of specific purchases or sales, the gains or costs on entering the hedge and the exchange differences up to the date of the purchase or sale are now deferred and recognised as assets or liabilities on the statements of financial position from the inception of the hedge contract, not when the specific purchase or sale occurs.

(xiii) Cash flows (see note 24)

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

(xiv) Derivative financial instruments (see note 29)

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

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

Anticipated transactions

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

The net amount receivable or payable under open swaps, forward rate agreements and futures contracts and the associated deferred gains or losses are not recorded in the statements of financial performance until the hedged transaction matures. The net receivables or payables are then revalued using the foreign currency, interest or commodity rates current at balance date. Refer to note 29.

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

1. Significant accounting policies (continued)

statements of financial performance.

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

(xv) Redeemable Preference Shares

Redeemable Preference Shares which provide for mandatory redemption are included in liabilities as they are, in substance, borrowings. Dividends payable on these are recognised in the statements of financial performance as borrowing costs on an accruals basis.

(xvi) Goods and services tax

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

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

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

2. Segment report

During the period ended 30 September 2003, the Company operated in one business segment, Fertiliser and in one geographic location, Australia.

Notes to the Financial Statements

	Company 2003 $000
3. Revenue from ordinary activities	
External sales	**403,331**
Other revenue from operating activities	
Interest income:	
external parties – banks	**100**
Other income	**1,463**
From outside operating activities	
Sale of property, plant and equipment	**1,272**
Total other revenue	**2,835**
Total revenue	**406,166**

4. Profit from ordinary activities before income tax expense

Profit from ordinary activities before income tax expense is arrived at after crediting:	
Profit on sale of property, plant and equipment	**129**
Net gain on foreign currency transactions	**122**
Profit from ordinary activities before income tax expense is arrived at after charging:	
Cost of goods sold	**294,854**
Borrowing costs paid/payable to:	
entity subject to common control	**184**
immediate parent entity	**476**
redeemable preference shareholders	**1,048**
external parties	**619**
Depreciation on property, plant and equipment :	
buildings and improvements	**1,611**
machinery, plant and equipment	**9,865**
Amortisation:	
goodwill	**1,528**
deferred maintenance expenditure	**2,374**
Amounts set aside to provide for:	
employee entitlements	**1,771**
environmental liabilities	**5,000**
Lease payments – operating leases	**2,597**
Superannuation contributions	**2,890**

		2003	
	Gross $000	**Tax $000**	**Net $000**
5. Individually significant items			
Profit from ordinary activities includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance of the entity:			
Merger implementation costs			
Employee redundancies and allowances	**(2,754)**	**826**	**(1,928)**
Environmental	**(5,000)**	**1,500**	**(3,500)**
Asset write-downs	**(685)**	**206**	**(479)**
Transaction and implementation costs	**(119)**	**35**	**(84)**
Total merger implementation costs (i)	**(8,558)**	**2,567**	**(5,991)**
Other			
Loan forgiven to immediate parent entity (ii)	**(10,000)**	**-**	**(10,000)**
Total other	**(10,000)**	**-**	**(10,000)**
Individually significant items	**(18,558)**	**2,567**	**(15,991)**

(i) Merger implementation costs in 2003 relate to the restructuring and reorganisation activities following the acquisition of the Company by Incitec Pivot Limited.

(ii) On 30 September 2003 the Company forgave a loan to the immediate parent entity Incitec Pivot Limited.

Notes to the Financial Statements

	Company 2003 $
6. Auditors' remuneration	
Total remuneration received, or due and receivable, by the auditors for:	
Auditors of the Company – KPMG (i)	**-**

(i) Audit fees are paid by the immediate parent entity, Incitec Pivot Limited.

7. Income tax expense

The amount of income tax attributable to the financial period differs from the amount prima facie payable on the operating profit. The differences are reconciled as follows:

	Company 2003 $000
Income tax expense attributable to operating profit before significant items	
Prima facie income tax expense calculated at 30% on profit from ordinary activities before significant items	**8,433**
Tax effect of permanent differences which (reduce)/increase tax expense:	
non-allowable depreciation of buildings	**151**
non-allowable goodwill amortisation	**458**
non taxable profit on sale of property, plant and equipment	**(154)**
sundry items	**(179)**
Income tax expense attributable to operating profit before significant items	**8,709**
Income tax expense attributable to significant items	
Prima facie income tax benefit calculated at 30% on loss from significant items	**(5,567)**
Tax effect of permanent differences which increase tax expense:	
loan forgiven to immediate parent entity	**3,000**
Income tax benefit attributable to operating loss from significant items	**(2,567)**
Income tax expense attributable to operating profit	**6,142**
Income tax expense comprises:	
provision for income tax	**6,312**
deferred income tax	**(337)**
future income tax benefit	**167**
	6,142

Recovery of future income tax benefits included in deferred tax assets (see note 14) depends on future taxable earnings and the continuation of existing tax laws and compliance therewith.

8. Cash assets

Cash at bank and on hand	**6,829**
Deposits at call	
immediate parent entity	**14,418**
	21,247

Notes to the Financial Statements

	Notes	Company 2003 $000
9. Receivables		
Current		
Trade debtors		
external		**59,173**
immediate parent entity		**19,435**
entities subject to common control		**3,309**
Less provision for doubtful debts		
external		**(200)**
		81,717
Sundry debtors/loans		
external		**3,065**
immediate parent entity		**6,398**
entity subject to common control		**911**
		10,374
		92,091

Significant terms and conditions
Trade debtors are carried at amounts due.

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

Sundry debtors generally arise from transactions outside the usual operating activities of the Company.

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

Credit risk
Credit risk in debtors is managed in the following ways:

- payment terms are generally 30 days and payment compliance is high.
- a risk assessment process is used for all accounts, with a stop credit process for most long overdue accounts. Interest may be charged where the terms of repayment exceed agreed terms.
- credit insurance cover is obtained where appropriate.

10. Inventories

	Notes	Company 2003 $000
Raw materials and stores at cost		
At cost		**14,899**
Finished goods		
At cost		**118,535**
Less provision for inventory losses and obsolescence		**(750)**
		117,785
		132,684

11. Other assets

	Notes	Company 2003 $000
Current		
Deferred maintenance expenditure	(1vii)	**7,214**
Less accumulated amortisation		**(2,374)**
		4,840
Prepayments		**2,021**
		6,861
Non-current		
Deferred maintenance expenditure	(1vii)	**13,456**
Prepayments		**96**
		13,552

Notes to the Financial Statements

	Company 2003 $000
12. Property, plant and equipment	
Land, buildings and improvements	
At cost	**78,469**
Accumulated depreciation	**(1,611)**
Total net book value	**76,858**
Machinery, plant and equipment	
At cost	**138,336**
Accumulated depreciation	**(9,865)**
Total net book value	**128,471**
Total net book value of property, plant and equipment	**205,329**
(i) Carrying value of freehold land	
(included with land, buildings and improvements)	**40,765**
(ii) Land held for resale	
At cost - current	**8,144**
At cost - non current	**356**
Total (included in value of freehold land)	**8,500**

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

	2003 $000
At directors' valuation	**80,957**

The majority valuations were independently determined on a market value for existing use basis except in relation to properties held as investments or for disposal in which case the valuations were determined on a market value for alternative use. Capital gains tax has not been taken into account in these valuations.

(iv) Capitalised borrowing costs
No interest was capitalised during the financial period.

(v) Reconciliations
Reconciliations of the Company's carrying amounts of property, plant and equipment at the beginning and end of the current financial period are set out below.

	Notes	Land, buildings and improvements $000	Machinery, plant and equipment $000	Total $000
Company 2003				
Carrying amount at the beginning of the financial period		**-**	**-**	**-**
Additions		**524**	**7,227**	**7,751**
Disposals		**(731)**	**(178)**	**(909)**
Additions through acquisition of business (1st April)	(24)	**78,676**	**131,676**	**210,352**
Depreciation expense	(4)	**(1,611)**	**(9,865)**	**(11,476)**
Write off of assets		**-**	**(389)**	**(389)**
Carrying amount at the end of the financial period		**76,858**	**128,471**	**205,329**

	Company 2003 $000
13. Intangible assets	
Goodwill, at cost	**91,701**
Less accumulated amortisation	**(1,528)**
Total net book value of goodwill	**90,173**
14. Deferred tax assets	
Future income tax benefit	**6,957**

Notes to the Financial Statements

	Company 2003 $000
15. Payables	
Current	
Trade creditors	
external	**86,450**
Sundry creditors and accrued charges	
external	**13,362**
immediate parent entity	**78**
	99,890

Significant terms and conditions

Trade creditors, including expenditures not yet billed, are recognised when the Company becomes obliged to make future payments as a result of a purchase of goods or services. Trade creditors are normally settled within 32 days from invoice, 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.

16. Interest bearing liabilities

Non-current	
Unsecured	
redeemable preference shares	**55,000**
	55,000

Redeemable Preference Shares

The Company issued 11,000 redeemable preference shares at $5,000 per share on 28 May 2003, redeemable on 27 November 2004 at face value. Holders receive interest at 5.36% per annum. These shares are listed on the Newcastle Stock Exchange. The guarantor for the shares is Orica Limited (Orica), the ultimate parent entity.

Significant terms and conditions

Interest expense is recognised progressively over the life of the borrowings. Refer to note 29 for additional financial instruments disclosures.

Net fair values

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

17. Current tax liabilities

Provision for income tax	**6,312**

	Notes	Company 2003 $000

18. Provisions

Current		
Employee entitlements		**4,573**
Restructuring and rationalisation		**4,866**
Environmental		**5,170**
		14,609
Non-current		
Employee entitlements		**6,502**
Restructuring and rationalisation		**291**
		6,793
Aggregate employee entitlements		
Current		**4,573**
Non-current		**6,502**
		11,075

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

Assumed rate of increase in wage and salary rates	**4.0%**
Average discount rate	**5.2%**
Settlement term	**10 years**

Employees at period end	**Number**
Full time equivalent	**547**

Reconciliations
Reconciliations of the carrying amounts of provisions at the beginning and end of the current financial period are set out below.

Current Provision - Restructuring and rationalisation		
Carrying amount at the beginning of the financial period		**-**
Additions through acquisition of business	**(24)**	**11,706**
Payments made during the period		**(6,549)**
Transfer to non current restructuring and rationalisation		**(291)**
Carrying amount at the end of the financial period		**4,866**

Current Provision - Environmental		
Carrying amount at the beginning of the financial period		**-**
Additions through acquisition of business	**(24)**	**244**
Provisions made during the period		**5,000**
Payments made during the period		**(74)**
Carrying amount at the end of the financial period		**5,170**

Non Current Provision - Restructuring and rationalisation	
Carrying amount at the beginning of the financial period	**-**
Transfer from current restructuring and rationalisation	**291**
Carrying amount at the end of the financial period	**291**

19. Deferred tax liabilities

Deferred income tax	**17,748**

Notes to the Financial Statements

	Company 2003 $000

20. Contributed equity

Share capital:

Ordinary shares - 40,796,719	**365,130**

Movements in issued and fully paid ordinary shares of the Company were as follows:

Details	Date	Number of shares	Issue price $	$000
Share issue to Incitec Ltd	**13 Feb 03**	**2**	**1.00**	**-**
Share issue to Incitec Ltd	**1 Apr 03**	**40,796,717**	**8.95**	**365,130**
Balance	**30 Sep 03**	**40,796,719**		**365,130**

(i) The Company formed on 13 February 2003 following the issue of 2 shares.
(ii) On 1 April 2003 the Company acquired the business assets and liabilities of the Incitec Fertiliser business from Incitec Ltd in exchange for the issue of 40,796,717 shares.
(iii) The issue price of $8.95 represents the mid point of an independent valuation prepared by Ernst & Young as at 17 March 2003.
(iv) On 1 June 2003, Incitec Ltd disposed of its interest in 100% of the share capital of Incitec Fertilizer Limited to Incitec Pivot Limited. Subsequent to 1 June 2003 Incitec Pivot Limited is the immediate parent entity.

Terms and conditions:

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

21. Retained profits

(a) Retained profits

Retained profits at the beginning of the financial period	**-**
Operating profit after income tax attributable to members of Incitec Fertilizers Limited	**3,412**
Retained profits at the end of the financial period	**3,412**

22. Total equity reconciliation

Total equity at the beginning of the financial period		**-**
Total changes recognised in the statements of financial performance		**3,412**
Transactions with owners as owners		
Contributions of equity	(20)	**365,130**
Total equity at the end of the financial period		**368,542**

23. Dividends

No dividends were paid or declared in respect of ordinary shares for the period ended 30 September 2003.

Redeemable Preference Shares

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

Franking credits

Franking credits available at the 30% corporate tax rate after allowing for tax payable in respect of the current period's profit is $6,311,500.

Notes to the Financial Statements

	Notes	Company 2003 $000

24. Notes to the statements of cash flows

Reconciliation of cash

Cash at the end of the financial period as shown in the statements of cash flows is reconciled to the related items in the statements of financial position as follows:

	Notes	Company 2003 $000
Cash	(8)	**21,247**

	Notes	Company 2003 $000
Reconciliation of profit from ordinary activities after income tax to net cash flows from operating activities		
Profit from ordinary activities after income tax expense		**3,412**
Depreciation and amortisation		**13,004**
Increase in net interest payable		**324**
Write down of property, plant and equipment (significant Items)	(5)	**389**
Loan forgiven to immediate parent entity (significant items)	(5)	**10,000**
Net profit on sale of property, plant and equipment		**(129)**
Changes in assets and liabilities excluding the effects of acquisitions and disposals of businesses		
increase in trade and other receivables		**(25,996)**
decrease in inventories		**61,158**
decrease in payables and provisions		**(71,017)**
increase in income taxes payable		**4,876**
Net cash flows from operating activities		**(3,979)**

	Company 2003 $000
Acquisition of business	
Consideration	
non-cash consideration (shares issued)	**365,130**
Fair value of net assets of businesses acquired	
receivables	**58,256**
inventories	**193,841**
property, plant and equipment	**210,352**
other assets	**29,154**
payables and interest bearing liabilities	**(175,499)**
provision for employee entitlements	**(11,205)**
provision for restructuring and rationalisation	**(11,706)**
provision for environmental	**(244)**
provision for tax	**(19,520)**
	273,429
Goodwill on acquisition	**91,701**

During the financial period, the Company acquired the fertiliser business from Incitec Limited. Restructuring and rationalisation provisions were established in order to merge its operations into the existing fertiliser business.

25. Commitments

	Company 2003 $000
Capital expenditure commitments	
Capital expenditure on property, plant and equipment contracted but not provided for and payable:	
no later than one year	**430**
	430
Lease commitments	
Lease expenditure contracted for at balance date but not recognised in the financial statements and payable:	
no later than one year	**5,376**
later than one, no later than five years	**7,868**
later than five years	**6,371**
	19,615
Representing	
non-cancellable operating leases	**19,615**
	19,615

Notes to the Financial Statements

26. Contingent liabilities and contingent assets

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

Discounted bills of exchange

A discounted bill of exchange facility is in place with a bank and is utilised by a number of customers for the purpose of trade finance. The majority of these discounted bills of exchange are issued for periods less than 120 days.

Total discounted bills of exchange outstanding at period end amounted to $9.9m.

Guarantees and warranties

- The Company has entered into various long term supply contracts. For some contracts minimum charges are payable regardless of the level of operations, but in all cases the levels of operations are expected to remain above those that would trigger minimum payments.
- There are guarantees relating to certain leases of property, plant and equipment and other agreements arising in the ordinary course of business.
- From time to time the Company is subject to claims for damages arising from products and services supplied by the Company in the normal course of business. The Company has received advice of claims relating to alleged failure to supply products and services suitable for particular applications. The claims 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 matters subject to regulatory environmental requirements

The Company has created provisions for all known environmental liabilities. While the directors believe that, based upon current information, the current provisions are appropriate, there can be no assurance that new information or regulatory requirements with respect to known sites or the identification of new remedial obligations at other sites will not require additional future provisions for environmental remediation and such provisions could be material.

Taxation

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

27. Standby arrangements and credit facilities

	Company **2003** **$000**
Committed bank overdraft facilities available	**2,000**
Amount of facilities unused	**2,000**
Committed standby and loan facilities available	**-**
Amount of facilities unused	**-**

The committed bank overdraft facilities are provided by banks and are subject to an annual review. There are no external loan facilities for the Company, however loan facilities are provided by the immediate parent entity, Incitec Pivot Limited, up to $220m.

28. Amounts receivable and payable denominated in foreign currencies

The Company enters into a range of financial instruments to hedge its foreign currency receivables and payables. At period end, the Company was exposed to currency movements on net foreign currency amounts payable of $89.7m. This exposure was predominantly against the US dollar.

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

29. Additional financial instruments disclosures

The Company uses several techniques to reduce the exposure to loss from financial risks. The major types of risks are foreign exchange risk, interest rate risk, liquidity risk and credit risk.

Foreign exchange risk management

Foreign exchange transaction risk management

The Company is exposed to foreign exchange movements on sales and purchases denominated, either directly or indirectly, in foreign currencies. Where these exposures are significant and cannot be eliminated by varying contract terms or other business arrangements, formal hedging strategies are implemented within policy guidelines. The formal hedging strategies involve collating and consolidating exposures centrally, and hedging specific transactions, after taking into account offsetting exposures, by entering into derivative contracts with external parties in the financial markets. The derivative instruments used for hedging purchase and sales exposures are option contracts and forward contracts.

For contracts which specifically hedge anticipated sales and purchases, any unrealised gains and losses on the contracts, together with the costs of the contracts, are carried forward in the statements of financial position and will be recognised in the statements of financial performance at the time the underlying transaction occurs.

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

Term	Weighted average rate	Forward FX Contract
	2003	**2003**
	$	**A$000**
Buy US dollars / sell Australian dollars		
Not later than one period	**.6420**	**52,618**
Buy Euro / sell US dollars	**.5391**	**236**
Not later than one period		

Note: An immaterial amount of forward foreign exchange contracts are held in other currencies.

The profitability of the principal nitrogen manufacturing facility located at Gibson Island is impacted by foreign exchange movements due to the manufactured inputs (gas, electricity, labour) being Australian dollar linked whilst the manufactured outputs (urea and ammonia) are sold on a United States dollar import parity basis. To hedge the output of this plant a series of collar options and vanilla options have been put in place. These contracts are timed to mature in quarterly intervals to match anticipated sales of product manufactured at this facility over the following periods subject to limits approved by the Board of directors. The amount of anticipated future sales is forecast in light of plant capacities, current conditions in domestic agricultural and industrial markets, commitments from customers and historical seasonal impacts. All sales from the start of each quarter are designated as being hedged until all hedge contracts are fully utilised. Favourable or unfavourable hedge outcomes only result if the relevant exchange rate at maturity is higher or lower than the options upper or lower strike rates established at the inception of the hedge.

The table below summarises collar option contracts taken out to hedge the output of the Gibson Island plant.

	Weighted average AUD/USD strike rate		Contract amounts
	2003		**2003**
	$ Bought AUD call options	**$ Sold AUD put options**	**US$000**
Not later than one period	**0.58**	**0.43**	**55,000**

The Company has also bought a series of AUD Call / USD Put vanilla European options. The amount of the exposure hedged progressively reduces in future periods in line with guidelines set out by the Board of Directors. The premiums paid along with any unrealised gains are carried forward in the statement of financial position and will be recognised in the statements of financial performance at the time the underlying transaction occurs. All costs associated with these contracts have been incurred. Favourable outcomes will occur when the exchange rate at maturity is higher than the strike rate established at the inception of the hedge. These contracts allow full participation in favourable outcomes resulting from decreases in the AUD/USD exchange rate, but limit the unfavourable outcomes resulting from AUD/USD exchange rate increases.

Notes to the Financial Statements

29. Additional financial instruments disclosures (continued)

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

Term	Weighted average AUD/USD strike rate	Contract amounts
	2003	**2003**
	$	**A$000**
Later than one year but not later than two years	**0.6781**	**20,000**
Later than two years but not later than years	**0.6781**	**10,000**
Later than three years but not later than four years	**0.6781**	**10,000**
Total		**40,000**

Interest rate risk management

The Company is exposed to interest rate risk on outstanding interest bearing liabilities and investments. The mix of floating and fixed rate debt is managed within guidelines of the treasury steering committee. These contracts were established by Incitec Fertilizers Limited prior to its acquisition.

Interest rate swaps

Interest rate swaps provide the Company with the facility to raise long term borrowings at floating or fixed interest rates and effectively swap the interest obligation into fixed or floating interest rates respectively. The notional amounts of interest rate swaps as summarised below represent the contract or face values of these derivatives. The notional amounts do not represent amounts exchanged by the parties. The amounts to be exchanged are net settled and will be calculated with reference to the notional amounts and the pay and receive interest rates determined under terms of the derivative contracts. Each contract involves quarterly or biannual payment or receipt of the net amount of interest.

The notional principal amounts and periods of expiry of these interest rate swap contracts are as follows:

	2003
	$000
Less than one year	**10,000**
One to five years	**5,000**
Notional principal	**15,000**
Fixed interest rate range p.a.	**5.45% - 6.56%**
Floating interest rate range p.a.	**4.71% - 5.00%**

Interest rate risk

The Company's exposure to interest rate risk and the weighted average effective interest rates on financial assets and liabilities at balance date are:

			Fixed interest rates					
		Floating interest rate	1 year or less	1 to 5 years	5 years or more	Non-Interest bearing	Total	Weighted average effective interest rate (i)
	Notes	$000's	$000's	$000's	$000's	$000's	$000's	% p.a.
30 September 2003								
Cash assets	**(8)**	**14,418**				**6,829**	**21,247**	**4.65**
Trade debtors	**(9)**					**59,173**	**59,173**	
Total financial assets		**14,418**				**66,002**	**80,420**	
Trade creditors	**(15)**					**(86,450)**	**(86,450)**	
Employee entitlements	**(18)**				**(6,502)**	**(4,573)**	**(11,075)**	**4.20**
Interest rate swaps (ii)		**15,000**	**(15,000)**				**-**	**6.46**
Redeemable preference shares	**(16)**			**(55,000)**			**(55,000)**	**5.36**
Total financial liabilities		**15,000**	**(15,000)**	**(55,000)**	**(6,502)**	**(91,023)**	**(152,525)**	
Net financial assets/(liabilities)		**29,418**	**(15,000)**	**(55,000)**	**(6,502)**	**(25,021)**	**(72,105)**	

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

(ii) Notional principal amount.

Notes to the Financial Statements

29. Additional financial instruments disclosures (continued)

Liquidity risk management

Liquidity risk arises from the possibility that a market for derivatives may not exist in some circumstances. To counter this risk, the Company deals only in derivatives in highly liquid markets.

Credit risk management

Credit risk represents the loss that would be recognised if counterparties failed to meet their obligations under the contract or arrangement. The major exposure to credit risk arises from trade receivables which have been recognised in the statements of financial position net of any provision for doubtful debts (see note 9) and from derivative financial instruments.

The credit risk exposure arising from derivative financial instruments is the sum of all contracts with a positive replacement cost. As at 30 September 2003, the sum of all contracts with a positive replacement cost was $16.7m.

Net fair values of financial assets and liabilities

On-balance sheet financial instruments

The directors consider that the carrying amount of recognised financial assets and liabilities approximates their net fair values. Fair values of monetary financial assets and financial liabilities not readily traded in an organised financial market are determined by valuing them at the present value of contractual future cash flows on amounts due from customers, reduced for expected credit losses, or amounts due to suppliers. Cash flows are discounted using standard valuation techniques at the applicable market yield having regard to the timing of the cash flows.

Off-balance sheet financial instruments

The net fair values of the Company's unrecognised financial assets and liabilities at balance date are:

	Net fair value **2003** **$000's**
Interest rate swaps	**(202)**
Foreign exchange option contracts	**14,098**

Net fair values of unrecognised financial instruments are determined according to the estimated amounts which the Company would be expected to pay or receive to terminate the contracts. These values are determined using standard valuation techniques.

30. Employee share plans

The Company is a wholly owned subsidiary of Incitec Pivot Limited and has no employee share plans in place.

31. Related party disclosures

(i) Controlling Entities

The immediate parent entity is Incitec Pivot Limited and the ultimate parent entity is Orica Limited both incorporated in Australia.

(ii) Directors and their Director Related Entities

The Directors of the Company during the period are set out in the directors report.

Other directors' transactions

The directors are or were directors of companies outside the Company during the period. Products and services purchased from or sold to those companies are on standard terms and conditions available to all companies.

Remuneration of directors is disclosed in note 33 and the directors report.

(iii) Transactions with immediate parent entity

Transactions between the immediate parent entity and the Company included::

- During the period from 1 June 2003 to 30 September 2003, the Company sold fertiliser to Incitec Pivot Limited to the value of $25.7m.
- During the period from 1 June 2003 to 30 September 2003, the Company bought fertiliser from Incitec Pivot Limited to the value of $7.3m.
- During the period from 1 June 2003 to 30 September 2003, the Company paid interest expense to Incitec Pivot Limited of $0.5m.
- On 30 September 2003 the Company forgave a $10m loan to Incitec Pivot Limited.

Notes to the Financial Statements

31. Related party disclosures (continued)

(iv) Transactions with other related parties

All transactions with other related parties are made on normal commercial terms and conditions and in the ordinary course of business. During the period the following transactions occurred between the Company and entities under the common control of Orica:

- Purchase of products and services to the value of $12.4m.
- Sale of products and services to the value of $17.1m.
- Under a service level agreement, fees of $4.7m were paid/payable in relation to accounting, information technology, engineering and administrative services.
- Interest expense paid by the Company for money borrowed from Orica Finance Limited was $.2m.

(v) Additional related party disclosures

Additional relevant related party disclosures are shown throughout the notes to the financial statements as follows:

Interest income and expense	note 3, 4
Receivables	note 9
Payables	note 15
Interest bearing liabilities	note 16

32. Superannuation commitments

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

Company sponsored plans

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

Industry/union plans

- Some employees participate in industry/union plans.
- These plans operate on an accumulation basis and provide lump sum benefits for members on resignation, retirement, disability or death.
- There is a legally enforceable obligation to contribute a regular amount for each employee member of these plans.
- There is no other legal liability to contribute to the plans.

Flexible Benefits Super Fund

During the period the Company made employer contributions of $0.8m to the defined benefit fund.

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

	2003				
	Accrued benefits	**Plan assets**	**Net difference accrued benefits to plan assets**	**Vested benefits**	**Net surplus / (deficit) vested benefits to plan assets**
	$m	**$m**	**$m**	**$m**	**$m**
The Flexible Benefits Super Fund	**77.0**	**75.5**	**(1.5)**	**77.0**	**(1.5)**

The Company is an associated employer of The Flexible Benefits Super Fund. The principal sponsor of the fund is the ultimate parent entity, Orica Limited. Only certain employees of Incitec Fertilizers Limited are members of the Flexible Benefits Super Fund. The Flexible Benefits Super Fund has a defined benefit member category and defined contribution member category. The balance date of the fund is 30 June. A full actuarial review at 30 June 2000 was performed by G E Miller FIAA. The 30 June 2003 full actuarial review is in progress.
Asset values are estimated at 30 September 2003 based on audited values as at 30 June 2003, adjusted to reflect estimated investment performance between 1 July 2003 and 30 September 2003. The estimate for accrued benefits and vested benefits has been calculated using membership data as at 30 June 2003, adjusted to reflect estimated investment performance between 1 July 2003 and 30 September 2003.

Notes to the Financial Statements

32. Superannuation commitments (continued)

Differences between accrued benefits to plan assets ‘deficits’ depend on many diverse factors and can vary significantly over time having regard for movements in investment markets, future salary increases and changes in employee patterns. The Company’s current intention is to make contributions to defined benefit funds at a rate recommended by the actuary. It is expected that the contribution rates will be determined after taking into account sound actuarial principles and would be designed to enable all defined benefits to meet retirement expectations and relevant regulatory requirements as and when they fall due.

The Company does not have an obligation to fund immediately any reported deficiency and has met in full its obligations to all funds as at the balance date. The Company expects future contributions will meet any reported deficiency from time to time.

33. Remuneration of directors and executives

	Company **2003**
Directors	
Aggregate of income paid or payable, or otherwise made available, to all directors by the Company or any related party.	**$1,183,201**
The number of directors of the company whose total income from the company or any related party was within the specified bands are as follows:	
$	**No.**
10,000 – 19,999	**2**
20,000 – 29,999	**3**
80,000 – 89,999	**1**
90,000 – 99,999	**1**
900,000 – 909,999	**1**
Executive officers	
Aggregate of income received or due and receivable by executive officers (including executive directors) whose income is more than $100,000. An executive officer is a member of the group executive who is directly accountable and responsible for the strategic direction and operational management of the Company.	**$2,057,407**
The number of executive officers with income of more than $100,000 is shown in the relevant income bands:	
$	**No.**
100,000 – 109,999	**1**
130,000 – 139,999	**1**
150,000 – 159,999	**1**
180,000 – 189,999	**1**
190,000 – 199,999	**1**
360,000 – 369,999	**1**
900,000 – 909,999	**1**

The above emoluments represent remuneration received in respect of services performed for Incitec Fertilizers Limited and the immediate parent entity for relevant executives directors and officers.

34. Events subsequent to balance date

On 1 November 2003, the Company appointed Incitec Pivot Limited (immediate parent entity) to act as its undisclosed agent, with the objective that Incitec Pivot Limited will manage certain operations of the business for the Company. In acting as the Company’s agent, Incitec Pivot Limited will invoice all customers for goods and services supplied to the business, and pay all creditors of the business in accordance with their applicable terms. Incitec Pivot Limited will provide manufacturing, marketing, selling and distribution services to the business.

The directors have not become aware of any other significant matter or circumstance that has arisen since 30 September 2003, that has affected or may affect the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent years, which has not been covered in this report.

Directors’ Declaration on the Financial Report set out on pages 8 to 28

I, J E Fazzino, being a director of Incitec Fertilizers Limited, 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 8 to 28, are in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the financial position of the Company as at 30 September 2003 and of its performance, as represented by the results of its operations and its cash flows, for the period ended on that date; and

   (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

   (b) there are reasonable grounds to believe the Company will be able to pay its debts as and when they become due and payable.

J E Fazzino
Chairman

Dated at Melbourne this 12th day of December 2003.

Audit Report

For the period ended 30 September 2003

Independent audit report to the members of Incitec Fertilizers Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Incitec Fertilizers Limited (the "Company") for the financial period from 13 February 2003 to 30 September 2003.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit opinion

In our opinion, the financial report of Incitec Fertilizers Limited is in accordance with:

(a) the Corporations Act 2001, including:

i. giving a true and fair view of the Company's financial position as at 30 September 2003 and of its performance for the financial period ended on that date; and

ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

KPMG

KPMG

Neil T Faulkner

Partner

Dated at Melbourne this 12th day of December 2003

Shareholders' Statistics

As at 3 November 2003

Distribution of Ordinary Shareholders and Shareholdings

Size of holding	Number of holders		Number of shares	
Total	1	100%	40,796,719	100%

Ordinary fully paid shareholders

	Shares	% of total
Incitec Pivot Limited	40,796,719	100%

On-market buy-back

There is no current on-market buy-back.

Distribution of Redeemable Preference Shareholders and Shareholdings Issued by Incitec Fertilizers Limited

Size of holding			Number of holders		Number of shares	
1	–	1,000	28	96.55%	3,400	30.91%
5,001	–	10,000	1	3.45%	7,600	69.09%
Total			29	100%	11,000	100%

The holdings of the 20 largest holders of redeemable preference shares represent 91% of that class of shares.

Financial Statistics

For the period ended 30 September 2003

		2003 $000
Sales		**403,331**
Earnings before depreciation, amortisation, net borrowing costs and tax		45,718
Depreciation and amortisation (excluding goodwill)		(13,850)
Goodwill amortisation		(1,528)
Earnings before net borrowing costs and tax (EBIT)		**30,340**
Net borrowing costs		(2,228)
Individually significant items before tax		(18,558)
Taxation expense		(6,142)
Operating profit after tax and individually significant items		**3,412**
Individually significant items after tax attributable to members of Incitec Fertilizer		**(15,991)**
Operating profit after tax before individually significant items (net of tax)		**19,403**
Current assets		252,883
Property, plant and equipment		205,329
Intangibles		90,173
Other non-current assets		20,509
Total assets		**568,894**
Current borrowings and payables		99,890
Current provisions		20,921
Non current borrowings and payables		55,000
Non current provisions		24,541
Total liabilities		**200,352**
Net assets		**368,542**
Total shareholders' equity		**368,542**
Profit margin (earnings before net borrowing costs and tax/sales)	**%**	**7.5**
Net debt		**27,355**
Gearing (net debt/net debt plus equity)	**%**	**6.9**
Interest cover (earnings before net borrowing costs and tax/net borrowing costs)	**times**	**13.6**
Net capital expenditure on plant and equipment (Cash Flow)		**6,479**
Net capital expenditure on acquisitions/(disposals) (Cash Flow)		**-**
Return on average shareholders funds		
before individually significant items	**%**	**5.3**
including individually significant items	**%**	**0.9**