# 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 2017** | 30 September 2016 |

**Results for announcement to the market**

| Extracts of the Incitec Pivot Limited results for the financial year ended 30 September 2017 | | | | **$A mill** |
|---|---|---|---|---|
| Revenues from ordinary activities | up | $A mill 119.7 (3.6%) | to | 3,473.4 |
| Net profit for the financial year attributable to members of Incitec Pivot Limited | up | $A mill 190.6 (148.8%) | to | 318.7 |
| Profit after tax excluding individually material items attributable to members of Incitec Pivot Limited | up | $A mill 23.5 (8.0%) | to | 318.7 |

| **Dividends** | **Amount per security cents** | **Franked amount per security cents** |
|---|---|---|
| **Current period** | | |
| Interim dividend | 4.50 | nil |
| Final dividend | 4.90 | nil |
| **Previous corresponding period** | | |
| Interim dividend | 4.10 | 4.10 |
| Final dividend | 4.60 | nil |

| | |
|---|---|
| Record date for determining entitlements to the final dividend: | 24 November 2017 |
| Payment date of final dividend: | 19 December 2017 |

The Dividend Reinvestment Plan (**DRP**) has been suspended until further notice. The DRP will not be available for the 2017 final dividend. In accordance with the DRP Rules, as the DRP has been suspended for two consecutive dividend payment dates, any residual positive balances will be paid to participants at a future date determined by the Company.

| | **Current period** | **Previous corresponding period** |
|---|---|---|
| **Net tangible asset backing per ordinary security** | $0.97 | $0.83 |

The information should be read in conjunction with the consolidated financial report, which is set out on pages 45 to 81.

For the profit commentary and any other significant information needed by an investor to make an informed assessment of Incitec Pivot's results please refer to the accompanying Incitec Pivot Limited Profit Report.

**Conduit foreign income component:**

| *Current period* | | *Previous corresponding period* | |
|---|---|---|---|
| Interim dividend | | Interim dividend | |
| Ordinary | 4.50 cents | Ordinary | nil |
| Final dividend | | Final dividend | |
| Ordinary | 4.90 cents | Ordinary | 4.60 cents |

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**Annual General Meeting**

The Annual General Meeting will be held as follows:

| | |
|---|---|
| Location | The Melbourne Exhibition Centre<br>The Clarendon Auditorium<br>Level 2, 2 Clarendon Street<br>South Wharf VIC 3006 |
| Date | 21 December 2017 |
| Time | 2.00 pm |
| Approximate date the annual report will be available | 24 November 2017 |

**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:


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# Directors' Report

The directors of Incitec Pivot Limited (the **Company** or **IPL**) present the directors' report, together with the financial report, of the Company and its controlled entities (collectively referred to in this report as the **Group**) for the year ended 30 September 2017 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 |
|---|---|
| **Paul Brasher** BEc(Hons), FCA<br><br>Non-executive Chairman<br><br>Chairman of the Nominations Committee | Mr Brasher was appointed as a director on 29 September 2010 and became Chairman on 30 June 2012. He is a non-executive director of Amcor Limited, Deputy Chairman of the Essendon Football Club and a board member of Teach For Australia. He is also a former director of Perpetual Limited. From 1982 to 2009, Mr Brasher was a partner of PricewaterhouseCoopers (and its predecessor firm, Price Waterhouse), including five years as the Chairman of the Global Board of PricewaterhouseCoopers.<br><br>Mr Brasher brings to the Board his local and global experience as a senior executive and director, particularly in the areas of strategy, finance, audit and risk management and public company governance, as well as his experience as a non-executive director of Australian companies with significant overseas operations.<br><br>Directorships of listed entities within the past three years:<br>• Director, Amcor Limited (since January 2014)<br>• Director, Perpetual Limited (November 2009 – August 2015) |
| **Joseph Breunig** BS(Chemical Engineering), MBA<br><br>Non-executive director<br><br>Member of the Health, Safety, Environment and Community Committee | Mr Breunig was appointed as a director on 5 June 2017. Mr Breunig is a U.S. resident and is currently a non-executive director of Mineral Technologies Inc. Mr Breunig was previously Executive Vice President, Chemicals at Axiall Corporation (formerly Georgia Gulf Corporation) and, prior to that, spent 24 years at BASF Corporation where he held a number of senior executive positions including Executive Vice President and Chief Operating Officer, BASF Corporation, and President, Market and Business Development, North America, BASF SE.<br><br>Directorships of listed entities within the past three years:<br>• Director, Mineral Technologies Inc. (since November 2014) |
| **Kathryn Fagg** FTSE, BE(Hons), MCom(Hons), Hon.DBus(UNSW), Hon.DChemEng(UQ)<br><br>Non-executive director<br><br>Chairman of the Remuneration Committee<br><br>Member of the Health, Safety, Environment and Community Committee | Ms Fagg was appointed as a director on 15 April 2014. Ms Fagg is a non-executive member of the Reserve Bank of Australia, and is also a non-executive director of Djerriwarrh Investments Limited and Boral Limited. She is Chair of the Melbourne Recital Centre, Chair of Breast Cancer Network Australia and a board member of the Australian Centre for Innovation. Ms Fagg is also President of Chief Executive Women. Ms Fagg was previously President of Corporate Development at Linfox Logistics Group and, prior to that, she held executive roles with BlueScope Steel and Australia and New Zealand Banking Group. Ms Fagg was also a consultant with McKinsey and Co. after commencing her career as a chemical engineer.<br><br>Ms Fagg brings to the Board extensive executive experience across a range of industries in Australia and Asia, including logistics, manufacturing, resources, banking, professional services and strategy consulting, as well as her experience in managing international subsidiaries for global businesses.<br><br>Directorships of listed entities within the past three years:<br>• Director, Boral Limited (since September 2014)<br>• Director, Djerriwarrh Investments Limited (since May 2014) |
| **Gregory Hayes** MAppFin, GradDipACC, BA, ACA<br><br>Non-executive director<br><br>Chairman of the Audit and Risk Management Committee | Mr Hayes was appointed as a director on 1 October 2014. Mr Hayes is also a director of The Precision Group and Aurrum Holdings Pty Ltd. His prior roles include: non-executive director of The Star Entertainment Group Limited, Chief Financial Officer and Executive Director of Brambles Limited, Chief Executive Officer & Group Managing Director of Tenix Pty Ltd, Chief Financial Officer and later interim CEO of the Australian Gaslight Company (AGL), CFO Australia and New Zealand of Westfield Holdings and Executive General Manager, Finance of Southcorp Limited.<br><br>Mr Hayes is an experienced executive having worked across a range of industries including energy, infrastructure and logistics. He brings to the Board skills and experience in the areas of strategy, finance, mergers and acquisitions and strategic risk management, in particular in listed companies with global operations.<br><br>Directorships of listed entities within the past three years:<br>• Director, The Star Entertainment Group Limited (April 2015 – October 2017) |

| Name, qualifications and special responsibilities | Experience |
|---|---|
| **Brian Kruger** BEc<br><br>Non-executive director<br>Member of the Audit and Risk Management Committee<br>Member of the Remuneration Committee | Mr Kruger was appointed as a director on 5 June 2017. Mr Kruger is the former Managing Director & CEO of Toll Holdings Limited, having joined Toll in 2009 as Chief Financial Officer, before being appointed Managing Director in 2012. Prior to joining Toll, Mr Kruger had a career spanning 25 years in the resources and industrial sectors in Australia and the U.S., initially with BHP and subsequently with BlueScope Steel which he joined on its demerger from BHP. During his time at BlueScope, he held a number of senior corporate finance and management roles, including President, North America & Corporate Strategy & Innovation, President, Australian Manufacturing Markets and was the company's inaugural Chief Financial Officer. Mr Kruger is also Chairman of Racing Victoria Limited.<br><br>Directorships of listed entities within the past three years:<br>• Managing Director, Toll Holdings Limited (January 2012 to December 2016) |
| **Rebecca McGrath** BTP(Hons), MASc, FAICD<br><br>Non-executive director<br>Chairman of the Health, Safety, Environment and Community Committee<br>Member of the Audit and Risk Management Committee<br>Member of the Nominations Committee | Ms McGrath was appointed as a director on 15 September 2011. Ms McGrath is currently Chairman of Oz Minerals Ltd and Investa Office Management Holdings Pty Limited. She is a non-executive director of Goodman Group and is independent Chairman of Scania Australia Pty Ltd.<br><br>During her 23 year career with BP plc, Ms McGrath held a number of senior roles including as Chief Financial Officer and Executive Board member for BP Australia and New Zealand.<br><br>Ms McGrath brings to the Board over 20 years' experience in the international oil industry, senior executive experience in operations and finance, an operational and strategic understanding of occupational health and safety both as an executive and as a director and experience gained through significant exposure to manufacturing and supply chain management.<br><br>Directorships of listed entities within the past three years:<br>• Director, Goodman Group (since April 2012)<br>• Director, Oz Minerals Limited (since November 2010) and Chairman (since May 2017)<br>• Director, CSR Limited (February 2012 to October 2016) |
| **Graham Smorgon AM** B.Juris, LLB<br><br>Non-executive director<br>Member of the Nominations Committee<br>Member of the Remuneration Committee | Mr Smorgon was appointed as a director on 19 December 2008. Mr Smorgon is Chairman of Smorgon Consolidated Investments and the GBM Group, and a Trustee of the Victorian Arts Centre Trust. His former roles include non-executive director of Arrium Limited, Chairman of the Print Mint Group, director of Fed Square Pty Ltd, Chairman of Smorgon Steel Group Ltd, Deputy Chairman of Melbourne Health, Director of The Walter and Eliza Hall Institute of Medical Research, Chairman of Creative Brands, Chairman of GBM Logic, and partner of law firm Barker Harty & Co, where he practised as a commercial lawyer for 10 years.<br><br>Mr Smorgon has extensive experience as both an executive and public company director in industries relevant to IPL including in resources and manufacturing. He brings to the Board skills in the areas of commercial law, public company governance and risk management.<br><br>Directorships of listed entities within the past three years:<br>• Director, Arrium Limited (September 2007 to November 2015) |
| **James Fazzino** BEc(Hons), Adjunct Professor, La Trobe Business School<br><br>Managing Director & CEO<br>Member of the Health, Safety, Environment and Community Committee | Mr Fazzino was appointed Managing Director & CEO on 29 July 2009 and will cease as Managing Director & CEO on 14 November 2017.<br><br>Mr Fazzino was first appointed as a director on 18 July 2005, following his appointment as Chief Financial Officer in May 2003. Before joining IPL, he had many years of experience with Orica Limited in several business financial roles, including Investor Relations Manager, Chief Financial Officer for the Orica Chemicals group and Project Leader of Orica's group restructure in 2001. Mr Fazzino is also Chairman of the Advisory Board for La Trobe University's Business School and an Adjunct Professor of La Trobe Business School. In September 2017, Mr Fazzino was appointed as Chairman of Manufacturing Australia. |

## Company Secretary

Ms Daniella Pereira holds the office of Company Secretary.

Ms Pereira joined the Company in 2004, and was appointed Company Secretary on 31 October 2013. Prior to joining the Company, Ms Pereira practised as a lawyer with Blake Dawson (now Ashurst). Ms Pereira holds a Bachelor of Laws (with Honours) and a Bachelor of Arts.

## 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) (**Act**), as at the date of this report is as follows:

| Director | Fully paid ordinary shares Incitec Pivot Limited |
|---|---|
| P V Brasher(1) | 60,600 |
| J Breunig | 0 |
| K Fagg(1) | 10,000 |
| G Hayes(2) | 10,000 |
| B Kruger(2) | 14,620 |
| R J McGrath(2) | 18,758 |
| G Smorgon AM(2) | 13,100 |
| J E Fazzino(1) | 1,914,562 |

(1) Held both directly and indirectly.
(2) Held indirectly.

Further details of directors' interests in share capital are set out on page 42 of the Remuneration Report.

## Principal activities

The principal activities of the Group during the course of the financial year were the manufacture and distribution of industrial explosives, industrial chemicals and fertilisers, 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 6 for the operating and financial review of the Group during the financial year and the results of these operations.

## Dividends

Dividends since the last annual report:

| Type | Cents per share | Total amount $mill | Franked/ Unfranked | Date of payment |
|---|---|---|---|---|
| *Paid during the year* | | | | |
| 2016 final dividend | 4.6 | 77.6 | unfranked | 13 December 2016 |
| 2017 interim dividend | 4.5 | 75.9 | unfranked | 3 July 2017 |
| *To be paid after end of year* | | | | |
| 2017 final dividend | 4.9 | 82.7 | unfranked | 19 December 2017 |

| Dealt with in the financial report as: | Note | $mill |
|---|---|---|
| Dividends | 6 | 153.5 |
| Subsequent event | 23 | 82.7 |

## 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:

| | Board | | Audit and Risk Management | | Remuneration | | Nominations | | Health, Safety, Environment and Community | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Director – Current(1,2)** | **Held** | **Attended** | **Held** | **Attended** | **Held** | **Attended** | **Held** | **Attended** | **Held** | **Attended** |
| P V Brasher(3) | **11** | 11 | **3** | 3 | **1** | 1 | **3** | 3 | | |
| J Breunig(4) | **4** | 3 | | | | | | | **1** | 1 |
| K Fagg | **11** | 11 | | | **4** | 4 | | | **4** | 4 |
| G Hayes | **11** | 11 | **6** | 6 | | | | | | |
| B Kruger(5) | **4** | 4 | **1** | 1 | **2** | 2 | | | | |
| R J McGrath(6) | **11** | 10 | **6** | 6 | | | **3** | 3 | **4** | 4 |
| G Smorgon AM(7) | **11** | 9 | | | **4** | 4 | **3** | 3 | **3** | 3 |
| J E Fazzino(8) | **11** | 10 | | | | | | | **4** | 4 |
| **Director – Former** | | | | | | | | | | |
| J Marlay(9) | **2** | 2 | **2** | 2 | **1** | 1 | | | | |

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.
(3) Mr Brasher was appointed as a member of the Remuneration Committee and the Audit and Risk Management Committee on 16 December 2016 and retired as a member of both the Remuneration Committee and the Audit and Risk Management Committee with effect from 1 July 2017.
(4) Mr Breunig was appointed as a director on 5 June 2017 and as a member of the Health, Safety, Environment and Community Committee with effect from 1 July 2017. Mr Breunig was an apology for one meeting due to a long-standing commitment which had arisen prior to his appointment as a director of the Company.
(5) Mr Kruger was appointed as a director on 5 June 2017 and as a member of the Remuneration Committee and the Audit and Risk Management Committee with effect from 1 July 2017.
(6) Ms McGrath was an apology for an extraordinary meeting which was convened at short notice.
(7) Mr Smorgon retired as a member of the Health, Safety, Environment and Community Committee with effect from 1 July 2017. Mr Smorgon was an apology for two meetings due to illness, noting that one of the meetings was an extraordinary meeting convened at short notice.
(8) Mr Fazzino was not in attendance for an extraordinary meeting which related to his cessation of employment and transition arrangements.
(9) Mr Marlay retired as a director on 16 December 2016.

## Unissued shares under IPL's long term incentive performance rights plans

The table below describes the unissued ordinary shares or interests under IPL's long term incentive performance rights plans as at the date of this report. Each performance right entitles the participant to acquire ordinary shares in Incitec Pivot Limited, on a one right to one share basis, for no consideration upon vesting. Vesting of the performance rights is subject to the satisfaction of certain conditions. Prior to vesting, holders of these rights are not entitled to participate in any share issue or interest issue of the Company. Performance rights expire on vesting or lapsing of the rights. Refer to the Remuneration Report commencing on page 23 for further details in relation to the performance rights.

| Date performance rights granted | Number of ordinary shares under performance rights |
|---|---|
| 30 December 2014 | 1,785,446 |
| 5 February 2015 | 93,744 |
| 21 January 2016 | 1,304,810 |
| 25 August 2016 | 150,941 |
| 25 January 2017 | 1,905,712 |
| 19 April 2017 | 228,832 |
| **Total unissued ordinary shares under performance rights** | 5,469,485 |

## Shares issued on exercise of performance rights

No ordinary shares in Incitec Pivot Limited were issued by the Company during the 2017 financial year as no performance rights vested under the Company's 2013/16 Long Term Incentive Plan. As at the date of this report, no shares or interests have been issued as a result of an exercise of performance rights since the end of the 2017 financial year.

## Changes in the state of affairs

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

## Events subsequent to reporting date

In November 2017, the directors determined to pay a final dividend for the Company of 4.9 cents per share on 19 December 2017. The dividend is unfranked (refer to note 6 to the financial statements).

On 14 November 2017, the Company announced an on-market share buyback of up to $300.0m to be conducted over the next twelve months.

As announced to the ASX on 9 August 2017, Mr James Fazzino will cease as the Managing Director & CEO and will cease employment with the Company on 14 November 2017, and Ms Jeanne Johns will commence as the Managing Director & CEO on 15 November 2017.

On 14 November 2017, the Company announced that Mr Greg Hayes will retire from the Board with effect from the end of the 2017 Annual General Meeting to be held on 21 December 2017.

Other than the matters reported on above, the directors have not become aware of any other significant matter or circumstance that has arisen since the end of the financial year, that has affected or may affect the operations of the Group, the 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

The Operating and Financial Review beginning at page 6 of this report contains information on the Company's business strategies and prospects for future financial years, and refers to likely developments in the Company's operations and the expected results of these operations in future financial years. Information on likely developments in the Company's operations for future financial years and the expected results of those operations together with details that could give rise to material detriment to the Company (for example, information that is commercially sensitive, confidential or could give a third party a commercial advantage) have not been included in this report where the directors believe it would likely result in unreasonable prejudice to the Company.

## 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, Chile, Canada, Indonesia, Papua New Guinea and Turkey. The Group is committed to complying with environmental legislation, regulations, standards and licences relevant to its operations.

The environmental laws and regulations generally address certain aspects and potential 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 holds 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, including determination of areas of focus and assessment of projects to be undertaken, is based not only on the actual impact of incidents, but also upon the potential consequence, consistent with IPL's risk based focus.

During the year, the Group has continued to focus on licence compliance and identification and mitigation of environmental risks. Remediation works have also either been completed successfully or progress accomplished at a number of sites in the U.S.

For the 2017 financial year, the Group received fines in aggregate of $23,319 for incidents relating to its fertiliser operations in Australia. On 31 May 2017, the Land and Environment Court of New South Wales ordered a subsidiary of the Company to pay a fine of $460,000 and costs of $72,750 to the Environment Protection Authority in connection with an incident at the Group's Warkworth manufacturing facility in New South Wales involving an inadvertent release of waste water during remediation works on site in 2015. The Company is appealing the fine in the New South Wales Court of Criminal Appeal, and the appeal is listed for hearing in late November 2017.

# Directors' Report

## 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 officers. The Deeds address the matters set out in the Constitution. 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 was appointed as the Company's external auditor at the 2011 Annual General Meeting and continues in office in accordance with section 327B(2) of the Act. Since Deloitte Touche Tohmatsu's appointment, Mr Tom Imbesi has been appointed as the Company's lead audit partner. Under the Act, the Board may grant approval for a lead audit partner to continue to play a significant role in the audit of a company beyond 5 successive financial years.

In accordance with the requirements of the Act, and on recommendation of the Audit and Risk Management Committee, the Board, in June 2016, approved Mr Tom Imbesi to continue as lead audit partner for an additional two successive financial years, being the financial years ending 30 September 2017 and 30 September 2018.

Further details in relation to the extension of Mr Imbesi's term can be found in IPL's 2016 Corporate Governance Statement.

## Non-audit services

Deloitte Touche Tohmatsu has provided non-audit services to the amount of $356,200 during the year ended 30 September 2017 (refer to note 22 to the financial statements).

As set out in note 22 to the financial statements, 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 Act 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 43.

## Rounding

The Company is of a kind referred to in ASIC Legislative Instrument, ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission dated 24 March 2016 and, in accordance with that Legislative Instrument, 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.

## Corporate Governance Statement

The Company complies with the Australian Securities Exchange Corporate Governance Principles and Recommendations 3rd Edition (**ASX Principles**). IPL's Corporate Governance Statement, which summarises the Company's corporate governance practices and incorporates the disclosures required by the ASX Principles, can be viewed at www.incitecpivot.com.au/Corporate_Governance.

# Operating and Financial Review

## Group Overview

IPL is a global diversified industrial chemicals company that manufactures and distributes industrial explosives, industrial chemicals and fertilisers. It has operations primarily in Australia, where it operates under the globally recognised Dyno Nobel and Incitec Pivot Fertilisers brands, and in North America where it also operates under the Dyno Nobel brand.

IPL is managed through an upstream/downstream model that leverages a common nitrogen manufacturing core. Engineering synergies are achieved through the upstream Global Manufacturing organisation, whereas market-facing activity is conducted through its downstream organisations.

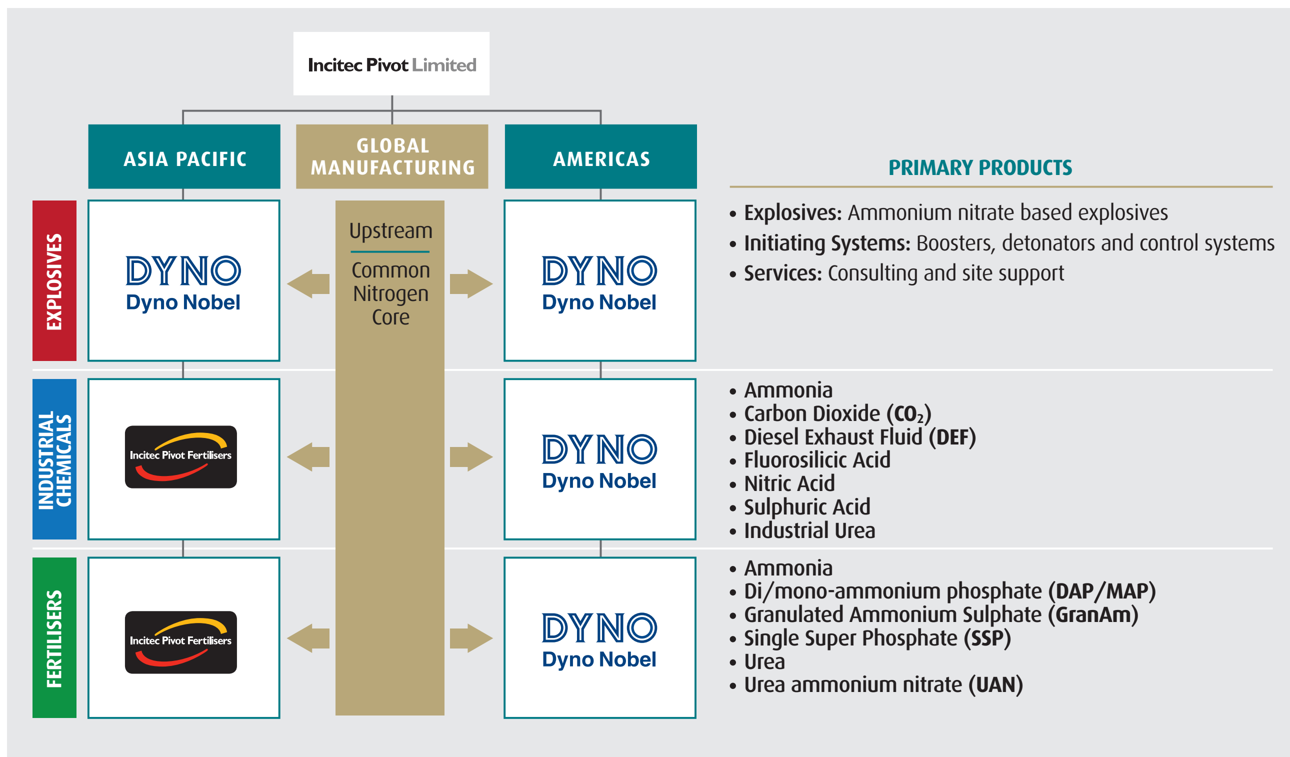
IPL operates two downstream businesses, comprising:

- Asia Pacific; and
- Americas.

Both businesses serve three sectors, consisting of:

- Explosives;
- Industrial Chemicals; and
- Fertilisers.

IPL's businesses and sectors, as well as its primary products, are set out in the exhibit below.



The businesses and respective sectors can be reconciled to IPL's reportable segments as set out in the following exhibit, which is adjusted for Individually Material Items (**IMIs**) and excludes corporate elimination:

**Incitec Pivot Limited**

| | REPORTED SEGMENT | Revenue 2017 | Revenue 2016 | EBIT ex IMIs 2017 | EBIT ex IMIs 2016 | PRESENTATION | Revenue 2017 | Revenue 2016 | EBIT ex IMIs 2017 | EBIT ex IMIs 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| ASIA PACIFIC | **DNAP**[1] | 933.2 | 920.8 | 189.0 | 186.1 | **Explosives** | 933.2 | 920.8 | 189.0 | 186.1 |
| | **Fertilisers**<br>• Incitec Pivot Fertilisers (IPF)<br>• Southern Cross International (SCI)<br>• Elimination | 1,349.8 | 1,341.9 | 103.9 | 104.2 | **Fertilisers**<br>• IPF<br>• SCI, excluding Industrials & Trading (I&T) component<br>• Elimination | 1,280.0 | 1,261.8 | 78.2 | 75.3 |
| | | | | | | **Industrial Chemicals**<br>• I&T component of SCI | 69.8 | 80.1 | 25.7 | 28.9 |
| | **Elimination** | (19.2) | (14.9) | | | **Elimination** | (19.2) | (14.9) | | |
| | **Total** | 2,263.8 | 2,247.8 | 292.9 | 290.3 | | 2,263.8 | 2,247.8 | 292.9 | 290.3 |
| AMERICAS | **DNA**[2]<br>• Explosives<br>• Agriculture & Industrial Chemicals (Ag&IC) | 1,251.4 | 1,150.6 | 228.4 | 159.6 | **Explosives**<br>• Explosives | 965.1 | 958.3 | 155.4 | 129.2 |
| | | | | | | **Fertilisers**<br>• Agriculture component of Ag&IC | 99.1 | 132.2 | 2.2 | 6.6 |
| | | | | | | **Industrial Chemicals**<br>• Industrial Chemicals component of Ag&IC | 187.2 | 60.1 | 70.8 | 23.8 |
| | **Total** | 1,251.4 | 1,150.6 | 228.4 | 159.6 | | 1,251.4 | 1,150.6 | 228.4 | 159.6 |

(1) Dyno Nobel Asia Pacific (2) Dyno Nobel Americas

**Zero Harm**

IPL prioritises its "Zero Harm for Everyone, Everywhere" Company value above all others. It does so through a fully integrated Health, Safety and Environment (**HSE**) system that provides the foundation for effective identification and management of HSE risks. Central to IPL's HSE system are the '4Ps':

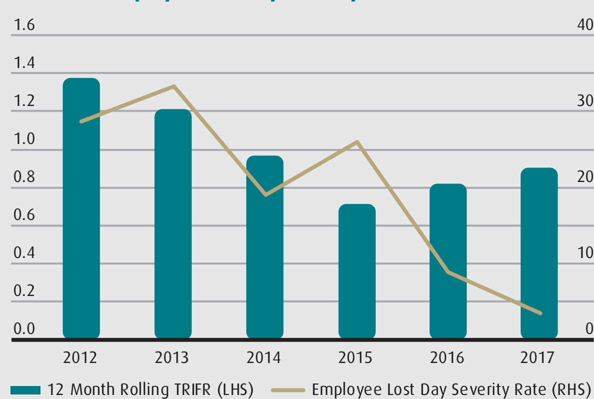
- Passionate Leadership;
- People;
- Procedures; and
- Plant.

In 2012, IPL adopted a long-term Group HSE goal of achieving world class safety performance. Among other measures, this included reducing Total Recordable Injury Frequency Rate (**TRIFR**)[1] to less than 1.0. In the 2017 financial year, IPL achieved a TRIFR of 0.90[2] representing a 35 percent decline since 2012.

Three major manufacturing sites were free of recordable injuries in 2017 as follows:

- Cheyenne, Wyoming (ammonium nitrate plant)
- Graham, Kentucky (initiating systems plant)
- Helidon, Queensland (initiating systems plant)

As demonstrated in the following chart, Employee Lost Day Severity Rate[3] also declined significantly. Since 2012, this measure has fallen 89 percent.




The 2017 result is an important milestone toward achieving IPL's vision of "Zero Harm for Everyone, Everywhere". Notwithstanding progress to date, IPL will continue to focus on further improvement of its safety performance.

IPL's HSE system works in tandem with the Business Excellence (**BEx**) continuous and focused improvement system described on the following page.

(1) TRIFR calculated as the number of recordable injuries per 200,000 hours worked; includes contractors.
(2) Subject to finalisation of the classification of any pending incidents.
(3) Employee Lost Day Severity Rate calculated as the number of employee lost workdays per 200,000 hours worked represented in days; does not include contractors.

### Strategy

IPL's strategy is to leverage its core nitrogen and high explosive manufacturing competencies by aligning to major market dislocations. It does so through an upstream/downstream model that leverages a common nitrogen manufacturing core.

Underpinning IPL's strategy is its commitment to Zero Harm, which reflects the primacy of safety within the organisation.

The immediate focus for IPL is to optimise existing manufacturing assets, improve productivity and execute strategies to maximise returns. BEx, IPL's globally integrated continuous and focused improvement system, aims to drive sustainable and ongoing business efficiency and productivity through an empowered and engaged workforce.

*Waggaman, Louisiana Ammonia Plant*

In April 2013, IPL announced an investment of US$850m to build an 800,000 metric tonne per annum ammonia plant in Waggaman, Louisiana (**Waggaman**). Construction of the plant was completed in September 2016 and IPL assumed management of the plant on 19 October 2016. Earnings from the plant were recognised in IPL's result from 1 November 2016.

The plant delivered 74 percent of its 800,000 metric tonne per annum nameplate capacity in 2017 when measured from 1 November 2016. It is expected to operate at nameplate in 2018.

*BEx*

BEx is IPL's continuous and focused improvement system. Based on the Toyota Production System and launched in 2012, BEx is deployed throughout IPL's global organisation and is integral to the way in which IPL operates.

Through BEx, IPL has built a culture that fosters productivity improvements and sustainability initiatives, while also prioritising Zero Harm.

A bottom-up business system, BEx reflects IPL's corporate values and has lean principles at its core.

In 2016, IPL announced its strategic response to the challenges facing the markets in which it operated. This response included the acceleration of BEx through an Organisation Focused Improvement (**OFI**) program that was designed to deliver $80m of sustainable operating efficiencies and $20m of sustainable capital expenditure savings by 2017.

Net productivity benefits from the OFI program in 2017 were $176m. Together with $16m in 2016, the OFI program delivered $192m of net productivity benefits overall.

Total cash benefit from the OFI program, which concluded on 30 September 2017, was $214m.

## Group Financial Performance

IPL delivered Net Profit After Tax (**NPAT**) excluding minority interests of $318.7m in 2017, an increase of $190.6m when compared to 2016 NPAT.

### Group Performance

Group EBIT increased 17 percent, or $73.1m, to $501.2m, as compared to 2016, excluding 2016 Individually Material Items (**ex IMIs**) of $167.1m.

| | Year Ended 30 September | | |
|---|---|---|---|
| **IPL GROUP** | **2017 A$m** | **2016 A$m** | **Change %** |
| Revenue | 3,473.4 | 3,353.7 | 3.6 |
| EBITDA ex IMIs[1] | 774.5 | 672.6 | 15.2 |
| **EBIT ex IMIs[2]** | **501.2** | **428.1** | **17.1** |
| **NPAT ex IMIs[3]** | **318.7** | **295.2** | **8.0** |
| IMIs after tax | – | (167.1) | – |
| **NPAT** | **318.7** | **128.1** | **148.8** |
| **Business EBIT ex IMIs** | | | |
| Americas | 228.4 | 159.6 | 43.1 |
| Asia Pacific | 292.9 | 290.3 | 0.9 |
| Elimination and Corporate | (20.1) | (21.8) | 7.8 |
| **Group EBIT ex IMIs** | **501.2** | **428.1** | **17.1** |
| **Sector EBIT ex IMIs** | | | |
| Explosives | 344.4 | 315.3 | 9.2 |
| Industrial Chemicals | 96.5 | 52.7 | 83.1 |
| Fertilisers | 80.4 | 81.9 | (1.8) |
| Elimination and Corporate | (20.1) | (21.8) | 7.8 |
| **Group EBIT ex IMIs** | **501.2** | **428.1** | **17.1** |
| *EBIT margin ex IMIs* | *14.4%* | *12.8%* | |

(1) EBITDA ex IMIs = Earnings Before Interest, Tax, Depreciation and Amortisation, excluding IMIs.
(2) EBIT ex IMIs = Earnings Before Interest and Tax, excluding IMIs.
(3) NPAT ex IMIs = Net Profit After Tax attributable to shareholders excluding IMIs.

US$ EBIT from the Americas business increased 46 percent to US$173.1m largely due to BEx initiatives, continued Quarry & Construction growth and initial Waggaman operational earnings and delay damages. These advances were partially offset by reduced Fertiliser earnings resulting from a further decline in global nitrogen prices.

EBIT from the Asia Pacific business increased 1 percent to $292.9m. Contributing factors included resilient Explosives demand and a strong Fertilisers result in the face of persisting headwinds.

A detailed analysis of the performance of each business and respective outlook is provided on the following pages.

### Group Cash Flow and Financial Position

Operating cash flow increased $72.4m as compared to 2016. This increase is largely attributable to a 15 percent increase in EBITDA and a decline in net income tax paid, but somewhat offset by increased net interest paid.

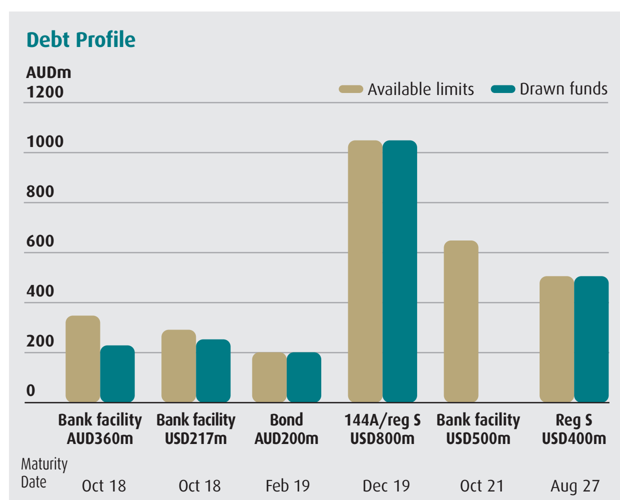
IPL's Balance Sheet remains sound, reflecting the Group's ongoing commitment to financial discipline and effective cash management. As at 30 September 2017, IPL had net debt of $1,291.9m[1]. Net debt/LTM[2] EBITDA of 1.7x remained within IPL's target range of less than 2.5x.

(1) Net debt 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.
(2) LTM: Last Twelve Months.

| IPL GROUP | Year Ended 30 September 2017 A$m | 2016 A$m | Change A$m |
|---|---|---|---|
| **Balance Sheet** | | | |
| **Assets** | | | |
| TWC – Fertilisers | (170.2) | (169.6) | (0.6) |
| TWC – Explosives | 119.7 | 120.4 | (0.7) |
| Group TWC | (50.5) | (49.2) | (1.3) |
| Net PP&E | 3,854.8 | 3,892.7 | (37.9) |
| Intangible assets | 3,121.0 | 3,182.5 | (61.5) |
| **Total Assets** | **6,925.3** | **7,026.0** | **(100.7)** |
| **Liabilities** | | | |
| Environmental & restructure provisions | (115.5) | (129.9) | 14.4 |
| Tax liabilities | (499.3) | (435.2) | (64.1) |
| Net other liabilities | (259.5) | (490.8) | 231.3 |
| Net debt | (1,291.9) | (1,393.8) | 101.9 |
| **Total Liabilities** | **(2,166.2)** | **(2,449.7)** | **283.5** |
| **Net Assets** | **4,759.1** | **4,576.3** | **182.8** |
| **Equity** | **4,759.1** | **4,576.3** | **182.8** |
| **Key Performance Indicators** | | | |
| Net tangible assets/share | 0.97 | 0.83 | 0.14 |
| Group – Average TWC as % Rev(1) | 4.7% | 5.0% | |
| **Credit Metrics** | | | |
| Net debt | (1,291.9) | (1,393.8) | 101.9 |
| Interest cover(2) | 7.9x | 7.9x | |
| Net debt/LTM EBITDA ex IMIs | 1.7x | 2.1x | |

(1) Average TWC as % Revenue = 13 month average trade working capital/ annual revenue.
(2) Interest cover = 12 month rolling EBITDA ex IMIs/net interest expense.

The tenor and diversity of IPL's debt is set out in the following exhibit:




Net Property, Plant & Equipment decreased by $37.9m to $3,854.8m. Significant movements included depreciation of ($249.6m), impact of foreign currency translation of non-A$ denominated assets of ($48.5m) and asset disposals of ($23.4m). This was partially offset by capital expenditure on Waggaman of $33.6m (including capitalised interest), minor growth spend of $34.7m and sustenance capital expenditure of $215.5m (including plant turnarounds).

Intangible assets decreased by $61.5m mainly as a result of the impact of foreign currency translation of non-A$ denominated assets and amortisation of intangibles.

Tax liabilities increased by $64.1m to $499.3m largely due to timing differences between tax and accounting depreciation rates related to property, plant and equipment and intangibles, partially offset by the impact of the higher A$ on foreign currency denominated tax liabilities.

Net other liabilities decreased by $231.3m over the period to $259.5m mainly due to favourable market value movements of derivative hedging instruments (offsetting foreign exchange movements in US$ net assets), and movements in retirement benefit obligations.

Net debt of $1,291.9m was down $101.9m relative to 2016 due in part to increased cash flow from Waggaman. The fair value of balance sheet hedges as at 30 September 2017 was $304.3m.

### Capital Allocation

IPL's capital allocation process is centralised and overseen by the Group's Corporate Finance and Strategy & Business Development functions. Capital is invested on a prioritised basis and all submissions are assessed against IPL's risk, HSE, financial, strategic and corporate governance criteria. Capital is broadly categorised into major growth capital, minor growth capital and sustenance capital.

| IPL GROUP | Year Ended 30 September 2017 A$m | 2016 A$m | Change % |
|---|---|---|---|
| **Capital Expenditure (Cash Flow)** | | | |
| Waggaman | (83.1) | (215.2) | 61.4 |
| **Major growth capital** | **(83.1)** | **(215.2)** | **61.4** |
| Asia Pacific | (35.7) | (10.7) | (233.6) |
| Americas | (16.3) | (19.1) | 14.7 |
| **Minor growth capital** | **(52.0)** | **(29.8)** | **(74.5)** |
| Asia Pacific | (113.1) | (126.9) | 10.9 |
| Americas | (71.5) | (63.6) | (12.4) |
| **Sustenance** | **(184.6)** | **(190.5)** | **3.1** |
| **Total** | **(319.7)** | **(435.5)** | **26.6** |

Major growth capital expenditure of $83.1m relates to the construction of Waggaman (including payments against balances outstanding from 2016 of $49.5m). Total project spend in relation to Waggaman as at 30 September 2017 was US$814.7m (excluding capitalised interest of US$86.1m), 4 percent below initial project budget.

Minor growth capital expenditure was $52.0m and sustenance capital expenditure was $184.6m primarily relating to turnaround activity at the Moranbah, Mt Isa (part of the Phosphate Hill complex) and Cheyenne, Wyoming plants.

### Shareholder Returns and Dividends

Earnings per share (EPS) increased 1.4 cents per share to 18.9 cents per share as compared to 2016 ex IMIs.

In November 2017, the Directors of IPL determined to pay an unfranked final dividend of 4.9 cents per share payable in December 2017, bringing total dividends paid with respect to the 2017 financial year to 9.4 cents per share. This represents a payout ratio of approximately 50 percent for the 2017 financial year.

## Group Outlook and Sensitivities

IPL does not provide profit guidance primarily due to the variability of commodity prices and foreign exchange movements. Instead, IPL provides an outlook for business performance expectations and sensitivities to key earnings drivers based on management's view at the time of this Report.

### Explosives

In Americas, continued growth in the Quarry & Construction sector is expected to benefit earnings in 2018.

In Asia Pacific, recent Coal, Base & Precious Metals and International activity has been encouraging, with the long-term production outlook improving, particularly in Queensland's Bowen Basin.

### Industrial Chemicals

Operational earnings are expected to grow as Waggaman continues to increase production levels. These earnings are subject to movements in global ammonia and natural gas prices.

### Fertilisers

Earnings will continue to be dependent on global fertiliser prices and the A$/US$ exchange rate.

A major turnaround of Phosphate Hill is scheduled to commence in mid-March 2018, with an expected duration of six weeks.

The QGC gas contract will benefit Phosphate Hill for the full 12 months of 2018 (nine months in 2017). The PWC contract remains on track to deliver gas from the Northern Territory from 2019.

The current gas supply arrangement for Gibson Island will cease on 30 September 2018 and if economically viable gas cannot be secured for the period commencing 1 October 2018, it is likely the facility will cease manufacturing operations.

### Group

Outlook for certain corporate items as they relate to 2018 are set out below:

- **Corporate:** Corporate costs are expected to be approximately $22m.
- **Buyback:** In November 2017, IPL announced an on-market share buyback of up to $300m to be conducted over the next 12 months.
- **Borrowing Costs:** Net borrowing expense is expected to be approximately $130m, which includes the expected impact of increased interest rates in the global economy.
- **Hedging:** 60 percent of estimated first half 2018 US$ linked fertiliser sales are hedged at a rate of $0.80 with full participation in downward rate movements.
- **Turnarounds:** A major turnaround of Phosphate Hill is scheduled to commence in mid-March 2018, with an expected duration of six weeks. The Cheyenne, Wyoming plant turnaround, which commenced in September 2017, was completed in October 2017.
- **BEx:** Targeting at least $25m of sustainable net productivity benefits.

### Sensitivities

The following table provides sensitivities to key earnings drivers as they relate to the 2017 financial year. As demonstrated, IPL's earnings are influenced by movements in global commodity prices and foreign exchange rates. Investors should be cognisant of these factors.

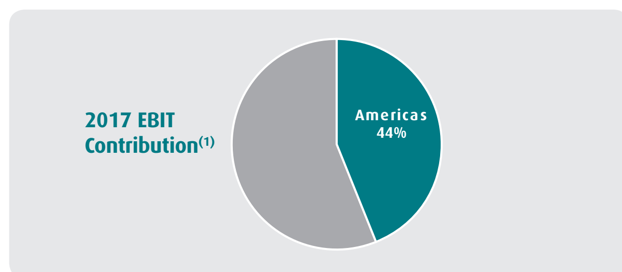
**2017 Sensitivities**

| Commodity | Proxy Index | EBIT Sensitivities |
|---|---|---|
| **Americas** | | |
| Ammonia[1] | CFR Tampa | +/- US$10/mt = +/- US$5.4m |
| Natural Gas[2] | Henry Hub | +/- US$0.10/mmbtu = -/+ US$2.5m |
| UAN[3] | FOB NOLA | +/- US$10/mt = +/- US$2.1m |
| Urea[4] | FOB NOLA | +/- US$10/mt = +/- US$1.3m |
| FX EBIT Translation[5] | | +/- A$/US$0.01 = -/+ A$2.9m |
| **Asia Pacific** | | |
| DAP[6] | FOB Tampa | +/- US$10/mt = +/- US$12.3m |
| Urea[7] | FOB Middle East | +/- US$10/mt = +/- US$5.3m |
| FX transactional[6,7] | | +/- A$/US$0.01 = -/+ A$6.9m |

(1) Based on actual 2017 Waggaman manufactured and sold ammonia of 540.2k metric tonnes.
(2) Based on actual 2017 Waggaman and St Helens natural gas consumption of 25,228.5mmbtu.
(3) Based on actual 2017 St Helens and Cheyenne manufactured and sold UAN of 213.2k metric tonnes.
(4) Based on actual 2017 St Helens and Cheyenne manufactured and sold urea of 127.9k metric tonnes.
(5) Based on actual 2017 Americas EBIT of US$173.1m and an average 2017 exchange rate of A$/US$ 0.762.
(6) Based on actual 2017 Phosphate Hill manufactured and sold DAP of 938.0k metric tonnes, 2017 average exchange rate of A$/US$ 0.762, and average 2017 realised DAP price of US$331.8/metric tonne.
(7) Based on actual 2017 Gibson Island manufactured and sold urea equivalents of 403.0k metric tonnes, 2017 average exchange rate of A$/US$ 0.762, and 2017 average realised urea price of US$214.1/metric tonne.

# Directors' Report

## Americas




(1) Excludes elimination

The Americas business comprises three downstream sectors, consisting of:

- Explosives;
- Industrial Chemicals; and
- Fertilisers.

Downstream operations market and sell the output of fully integrated upstream Global Manufacturing assets and third party sourced products.

EBIT from the Americas business increased 46 percent to US$173.1m largely due to BEx initiatives, continued Quarry & Construction growth and initial Waggaman operational earnings and delay damages. These advances were partially offset by reduced Fertiliser earnings resulting from a further decline in global nitrogen prices.

| AMERICAS | Year Ended 30 September | | |
|---|---|---|---|
| | 2017 | 2016 | Change % |
| *US$m* | | | |
| Explosives | 735.8 | 705.3 | 4.3 |
| Industrial Chemicals | 142.7 | 44.2 | 222.9 |
| Fertilisers | 75.6 | 97.3 | (22.3) |
| **Revenue** | **954.1** | **846.8** | **12.7** |
| Explosives | 117.8 | 95.7 | 23.1 |
| Industrial Chemicals | 53.7 | 17.6 | 205.1 |
| Fertilisers | 1.6 | 4.9 | (67.3) |
| **EBIT** | **173.1** | **118.2** | **46.4** |
| EBIT margin | *18.1%* | *14.0%* | |
| *A$m* | | | |
| **Revenue** | **1,251.4** | **1,150.6** | **8.8** |
| **EBIT** | **228.4** | **159.6** | **43.1** |
| *EBIT margin* | *18.3%* | *13.9%* | |

### Explosives

Through Dyno Nobel, IPL provides ammonium nitrate based explosives, initiating systems and services to the Quarry & Construction, Base & Precious Metals and Coal sectors in North America. Ammonium nitrate is often sold in conjunction with higher margin proprietary initiating systems and services.

Dyno Nobel is the second largest industrial explosives distributor in North America by volume. It provides ammonium nitrate, initiating systems and services to the Quarry & Construction sector in the southern US, northeast US and Canada, to the Coal sector in the Powder River Basin, Illinois Basin and Appalachia, and to the Base & Precious Metals sector in the US midwest, US west and Canada.

Earnings from the Explosives sector increased US$22.1m as compared to 2016, primarily due to continued growth in the Quarry & Construction sector, increased Coal and Base & Precious Metals volume and BEx initiatives.

| EXPLOSIVES | Year Ended 30 September | | |
|---|---|---|---|
| | 2017 | 2016 | Change % |
| *Thousand metric tonnes* | | | |
| Quarry & Construction | 193.8 | 179.6 | 7.9 |
| Base & Precious Metals | 202.8 | 182.3 | 11.2 |
| Coal | 316.5 | 279.4 | 13.3 |
| **Products sold** | **713.1** | **641.3** | **11.2** |
| *US$m* | | | |
| Quarry & Construction | 260.0 | 249.4 | 4.3 |
| Base & Precious Metals | 171.3 | 152.8 | 12.1 |
| Coal | 158.0 | 145.9 | 8.3 |
| Other(1) | 146.5 | 157.2 | (6.8) |
| **Revenue** | **735.8** | **705.3** | **4.3** |
| **EBIT** | **117.8** | **95.7** | **23.1** |
| *EBIT margin* | *16.0%* | *13.6%* | |

(1) Other includes IPL Asia Pacific and 3rd Party Initiating Systems revenue. Also includes Dyno Nobel Transportation (DNTI) and Tradestar revenue.

### Manufacturing

In North America, Dyno Nobel manufactures ammonium nitrate at its Cheyenne, Wyoming and Louisiana, Missouri plants. The Cheyenne, Wyoming plant is adjacent to the Powder River Basin, North America's most competitive thermal coal mining region. The Louisiana, Missouri plant has a competitive logistic footprint from which to support mining in both Appalachia and the Illinois Basin.

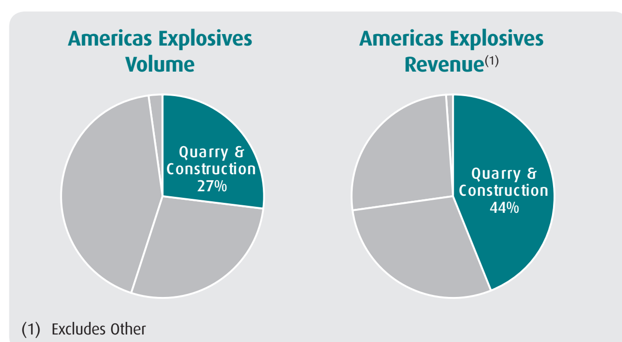
Ammonium nitrate production from the Cheyenne, Wyoming and Louisiana, Missouri plants increased 24 percent in aggregate during the period as compared to 2016 with both plants fully utilised in the second half. The period included the scheduled major turnaround of the Cheyenne, Wyoming plant which was completed in October 2017.

Initiating systems are manufactured at Dyno Nobel's facilities in Connecticut, Kentucky, Illinois, Missouri, Chile and Mexico, and are also sourced from DetNet South Africa (Pty) Ltd (**DetNet**), an IPL electronics joint venture.

### Quarry & Construction

44 percent of Americas Explosives revenue was generated from the Quarry & Construction sector in 2017. Dyno Nobel has a leading position in this end market, which benefits from a favourable mix of high grade explosives, proprietary initiating systems and services.

Sector volume grew 8 percent as compared to 2016 with revenue up 4 percent. Volume growth was strong across the US, with the largest volume growth coming through Dyno Nobel joint venture operations. Reported revenue does not reflect the value added products and services provided by the joint ventures, which are equity accounted.

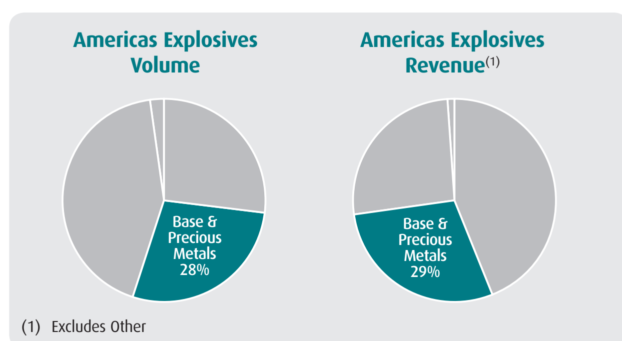


(1) Excludes Other

### Base & Precious Metals

29 percent of Americas Explosives revenue was generated from the Base & Precious Metals sector in the year, the majority of which was from iron ore and copper mines in the US.

Sector revenue increased 12 percent during the period with volumes up 11 percent. The growth can be attributed to the impact of favourable market fundamentals for iron ore and copper.

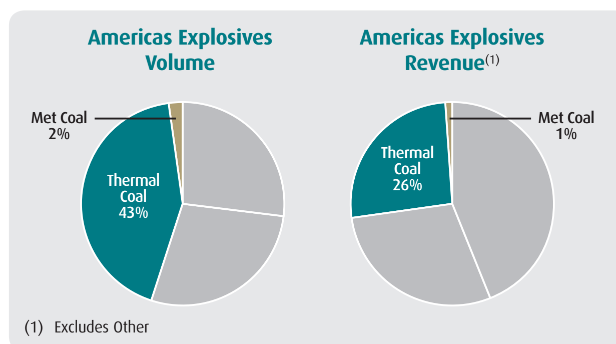


(1) Excludes Other

### Coal

27 percent of Americas Explosives revenue was generated by the Coal sector in 2017, the vast majority of which was from product supplied to thermal coal mines in the Powder River Basin.

Coal revenue increased 8 percent during the period as compared to 2016, with volumes up 13 percent. As above, this can be partially attributed to improved conditions and the impact of a contract awarded in the first half which was disclosed in May 2017.



(1) Excludes Other

### Outlook

Continued growth in the Quarry & Construction sector is expected to benefit Americas earnings in 2018.

## Industrial Chemicals

The Americas business manufactures and distributes industrial chemicals under the Dyno Nobel brand in the US. These products include ammonia, ammonium nitrate solution, $CO_2$, DEF and nitric acid, and are produced at the Louisiana, Missouri; Cheyenne, Wyoming and St Helens, Oregon plants.

Industrial Chemicals earnings increased US$36.1m as compared to 2016, which included initial operational earnings from Waggaman of US$15.4m and delay damages of US$35.1m as disclosed on 18 January 2017.

| INDUSTRIAL CHEMICALS | | Year Ended 30 September | |
|---|---|---|---|
| | Plant | 2017 | 2016 |
| *Thousand metric tonnes* | | | |
| Ammonia | Waggaman | 540.2 | 42.0 |
| **Manufactured product** | | **540.2** | **42.0** |
| *US$m* | | | |
| Waggaman Internal Revenue(1) | | 79.1 | – |
| Waggaman External Revenue(2) | | 91.5 | – |
| Other | | 51.2 | 44.2 |
| **Revenue** | | **142.7** | **44.2** |
| Waggaman Operational Earnings | | 15.4 | – |
| Waggaman Delay Damages | | 35.1 | 15.6 |
| Other | | 3.2 | 2.0 |
| **EBIT** | | **53.7** | **17.6** |
| *EBIT margin* | | *37.6%* | *39.8%* |
| **EBITDA** | | **75.3** | **8.0** |
| *EBITDA margin* | | *52.8%* | *18.1%* |

(1) Internal revenue comprised of revenue generated from Dyno Nobel entities, which is eliminated in reporting.

(2) External revenue comprised of revenue from third parties.

### Manufacturing

As noted above, Waggaman delivered 74 percent of its 800,000 metric tonne per annum nameplate capacity in 2017 when measured from 1 November 2016. It is expected to operate at nameplate in 2018.

### Outlook

Industrial Chemicals operational earnings are expected to grow as Waggaman continues to increase production levels. These earnings are subject to movements in ammonia and natural gas prices.

### Fertilisers

Dyno Nobel manufactures and distributes nitrogen-based fertilisers in the United States at two locations:

- St Helens, Oregon; and
- Cheyenne, Wyoming.

Fertilisers earnings declined US$3.3m as compared to 2016. This was largely due to lower global prices as well as the impact of the scheduled Cheyenne, Wyoming plant turnaround, but partially offset by BEx initiatives.

| FERTILISERS | Plant | Year Ended 30 September 2017 | 2016 | Change % |
|---|---|---|---|---|
| *Thousand metric tonnes* | | | | |
| UAN | Cheyenne | 154.7 | 198.3 | (22.0) |
| | St Helens | 58.5 | 50.7 | 15.4 |
| Urea | Cheyenne | 24.4 | 25.8 | (5.4) |
| | St Helens | 103.5 | 82.2 | 25.9 |
| **Manufactured product** | | **341.1** | **357.0** | **(4.5)** |
| UAN and Urea | | 351.1 | 348.0 | 0.9 |
| **Product sold** | | **351.1** | **348.0** | **0.9** |
| *US$m* | | | | |
| **Revenue** | | **75.6** | **97.3** | **(22.3)** |
| **EBIT** | | **1.6** | **4.9** | **(67.3)** |
| *EBIT margin* | | *2.1%* | *5.0%* | |

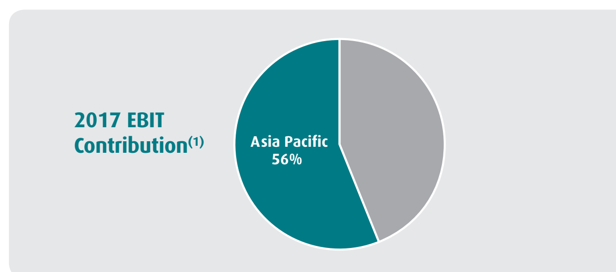
### Manufacturing

In aggregate, the St Helens, Oregon and Cheyenne, Wyoming plants produced 341.1k metric tonnes of UAN and urea in 2017, a 5 percent decrease period on period. As noted above, this included the impact of a major turnaround at the Cheyenne, Wyoming plant, which was completed in October 2017.

### Outlook

Americas Fertilisers earnings will remain subject to movements in commodity prices, in particular urea and UAN.

## Asia Pacific




(1) Excludes elimination

The Asia Pacific business comprises three downstream sectors, consisting of:

- Explosives;
- Industrial Chemicals; and
- Fertilisers.

Downstream operations market and sell the output of fully integrated upstream Global Manufacturing assets and third party sourced products.

EBIT from the Asia Pacific business increased 1 percent to $292.9m. Contributing factors included resilient Explosives demand and a strong Fertilisers result in the face of persisting headwinds.

| ASIA PACIFIC | Year Ended 30 September 2017 A$m | 2016 A$m | Change % |
|---|---|---|---|
| Explosives | 933.2 | 920.8 | 1.3 |
| Industrial Chemicals | 69.8 | 80.1 | (12.9) |
| Fertilisers | 1,280.0 | 1,261.8 | 1.4 |
| Asia Pacific Elimination | (19.2) | (14.9) | 28.9 |
| **Revenue** | **2,263.8** | **2,247.8** | **0.7** |
| Explosives | 189.0 | 186.1 | 1.6 |
| Industrial Chemicals | 25.7 | 28.9 | (11.1) |
| Fertilisers | 78.2 | 75.3 | 3.9 |
| **EBIT** | **292.9** | **290.3** | **0.9** |
| *EBIT margin* | *12.9%* | *12.9%* | |

### Explosives

Through Dyno Nobel, IPL provides ammonium nitrate based industrial explosives, initiating systems and services to the Coal and Base & Precious Metals sectors in Australia, and internationally to a number of countries including Indonesia, Malaysia, Papua New Guinea and Turkey through its subsidiaries and joint ventures. Ammonium nitrate is often sold in conjunction with proprietary initiating systems and services.

Dyno Nobel is the second largest industrial explosives distributor in Australia by volume, which in turn is the world's third largest industrial explosives market. In Australia, Dyno Nobel primarily supplies its products to metallurgical coal mines in the east and to iron ore mines in the west.

Explosives earnings increased by $2.9m as compared to 2016, driven by resilient customer demand but partially offset by the impact of the scheduled Moranbah turnaround. The result was underpinned by sustained Bowen Basin metallurgical coal demand, privileged position of the Moranbah plant and growth in the Western Australia Base & Precious Metals sector.

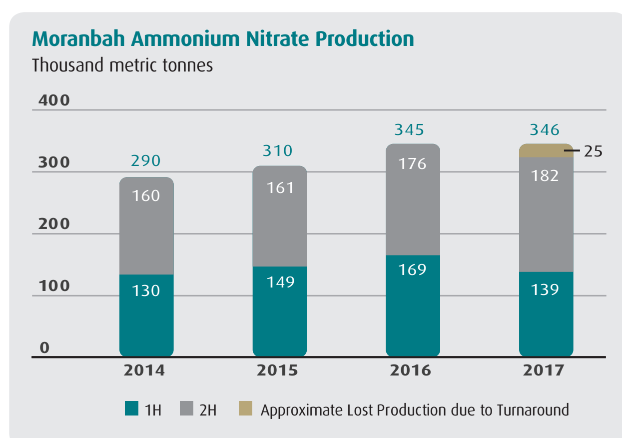
| EXPLOSIVES | | Year Ended 30 September | | |
|---|---|---|---|---|
| | Plant | 2017 | 2016 | Change % |
| *Thousand metric tonnes* | | | | |
| Ammonium nitrate | Moranbah | 321.2 | 344.7 | (6.8) |
| **Manufactured product (ex JVs)** | | **321.2** | **344.7** | **(6.8)** |
| Coal | | 378.0 | 375.4 | 0.7 |
| Base & Precious Metals | | 243.8 | 222.1 | 9.8 |
| International | | 113.1 | 93.6 | 20.8 |
| **Product sold** | | **734.9** | **691.1** | **6.3** |
| *A$m* | | | | |
| Coal | | 442.6 | 460.4 | (3.9) |
| Base & Precious Metals | | 352.3 | 333.4 | 5.7 |
| International | | 138.3 | 127.0 | 8.9 |
| **Revenue** | | **933.2** | **920.8** | **1.3** |
| **EBIT** | | **189.0** | **186.1** | **1.6** |
| *EBIT margin* | | *20.3%* | *20.2%* | |

## Manufacturing

In Australia, Dyno Nobel manufactures ammonium nitrate at its Moranbah ammonium nitrate plant, which is located in the Bowen Basin, the world's premier metallurgical coal region. It also sources third party ammonium nitrate from time to time.

Moranbah was commissioned in 2012 and produced a record 345k metric tonnes of ammonium nitrate in 2016. As set out below, the plant continued to produce at record levels in 2017, manufacturing 321k metric tonnes of ammonium nitrate notwithstanding a scheduled four-yearly major turnaround.

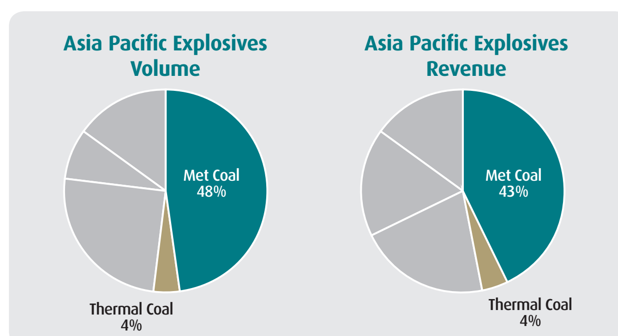
Initiating systems are manufactured in Australia at Dyno Nobel's Helidon, Queensland facility and are also sourced from IPL facilities in the Americas and from DetNet.




## Coal

47 percent of Asia Pacific Explosives revenue was generated from the Coal sector in 2017, the majority of which was from supply to metallurgical coal mines in the Bowen Basin. In aggregate, 52 percent of Asia Pacific ammonium nitrate volume was supplied to the sector.

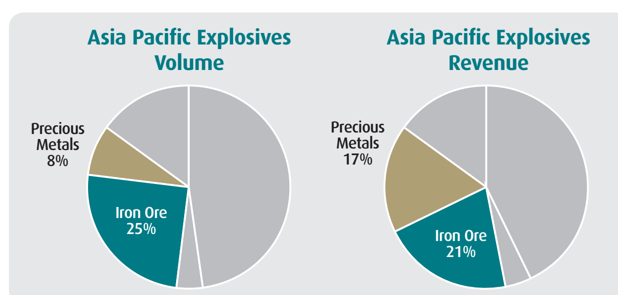
Revenue from the Coal sector declined 4 percent as compared to 2016, largely driven by the impact of the Moranbah turnaround and Cyclone Debbie. This result highlighted the resilience of the Bowen Basin as the world's premier metallurgical coal mining region, with Coal exports up over the course of the year.




## Base & Precious Metals

38 percent of Asia Pacific Explosives revenue was generated from the Base & Precious Metals sector in 2017. In aggregate, 33 percent of Asia Pacific ammonium nitrate volume was supplied to the sector, which comprises iron ore mines in Western Australia and hard rock and underground mines throughout Australia.

Revenue from the sector increased by 6 percent during the period, largely driven by a recovery in commodity prices, particularly iron ore, and increased volume output from miners in Western Australia.




## International

15 percent of Asia Pacific Explosives revenue was generated internationally including in Indonesia, Malaysia, Papua New Guinea and Turkey.

International revenue increased 9 percent as compared to 2016, largely driven by activity in Indonesia as well as in Turkey and Papua New Guinea.

## Outlook

Recent Coal, Base & Precious Metals and International activity has been encouraging, with the long-term production outlook improving, particularly in the Bowen Basin.

# Directors' Report

## Industrial Chemicals

The Asia Pacific business manufactures and distributes industrial chemicals under the IPF brand in eastern Australia. Products include ammonia, $CO_2$, DEF, specialty chemicals and industrial urea. These products are primarily manufactured at the Gibson Island plant.

Industrial Chemicals earnings declined by $3.2m as compared to 2016 primarily driven by falling nitrogen commodity prices.

| INDUSTRIAL CHEMICALS | Plant | Year Ended 30 September 2017 | 2016 | Change % |
|---|---|---|---|---|
| *Thousand metric tonnes* | | | | |
| Ammonia | Gibson Island | 18.6 | 24.0 | (22.5) |
| Urea | Gibson Island | 42.9 | 41.7 | 2.9 |
| DEF | Gibson Island | 13.0 | 9.3 | 39.8 |
| Specialty Chemicals | Portland & Geelong | 3.1 | 2.9 | 6.9 |
| **Manufactured product** | | **77.6** | **77.9** | **(0.4)** |
| **Product sold** | | **245.7** | **248.0** | **(0.9)** |
| *A$m* | | | | |
| **Revenue** | | **69.8** | **80.1** | **(12.9)** |
| **EBIT** | | **25.7** | **28.9** | **(11.1)** |
| *EBIT margin* | | *36.8%* | *36.1%* | |

### Outlook

Industrial Chemicals volumes in 2018 are expected to be broadly consistent with those of 2017, with earnings subject to movements in commodity prices.

## Fertilisers

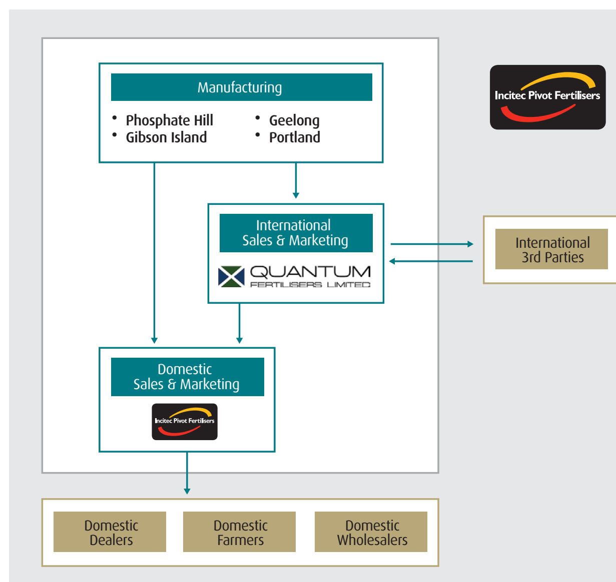
IPF is Australia's largest domestic manufacturer and supplier of fertilisers by volume.

Internationally, IPF sells to major offshore agricultural markets in Asia Pacific, the Indian subcontinent and Brazil. It also procures fertilisers from overseas manufacturers to meet domestic seasonal peaks. Much of this activity is conducted through Quantum Fertilisers Limited, a Hong Kong based subsidiary.

IPF manufactures the following fertilisers at four locations:

- Phosphate Hill: DAP and MAP;
- Gibson Island: Ammonia (Big N), GranAm and Urea; and
- Geelong and Portland: SSP.

IPF's business model is illustrated in the following exhibit:



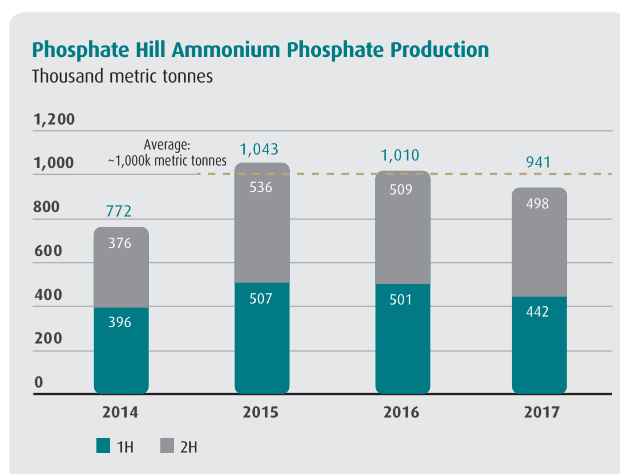

Fertilisers earning increased $2.9m or 4% as compared to 2016. This result was largely driven by increased distribution volume and BEx initiatives.

| FERTILISERS | Plant | Year Ended 30 September 2017 | 2016 | Change % |
|---|---|---|---|---|
| *Thousand metric tonnes* | | | | |
| DAP/MAP | Phosphate Hill | 940.5 | 1,009.6 | (6.8) |
| Urea/GranAm, Ammonia | Gibson Island | 500.8 | 436.5 | 14.7 |
| SSP | Portland & Geelong | 347.4 | 385.7 | (9.9) |
| **Manufactured product** | | **1,788.7** | **1,831.8** | **(2.4)** |
| **Product sold** | | **2,836.6** | **2,561.3** | **10.7** |
| *A$m* | | | | |
| Domestic Sales & Marketing | | 1,274.8 | 1,164.2 | 9.5 |
| International Sales & Marketing | | 219.0 | 293.6 | (25.4) |
| Fertilisers Elimination | | (213.8) | (196.0) | (9.1) |
| **Revenue** | | **1,280.0** | **1,261.8** | **1.4** |
| **EBIT** | | **78.2** | **75.3** | **3.9** |
| *EBIT margin* | | *6.1%* | *6.0%* | |

### Manufacturing

Phosphate Hill produced 940.5k metric tonnes of ammonium phosphates in 2017. The period included the impact of maintenance that was accelerated to coincide with depressed DAP prices. Since 2015, the plant has produced an average of approximately 1,000k metric tonnes annually.

Delivery of gas to Phosphate Hill under the QGC contract secured in 2016 commenced on 1 January 2017, reducing realised gas costs to the plant for nine months of 2017. The QGC contract will benefit Phosphate Hill for the full 12 months of 2018.




### Domestic Sales & Marketing

Revenue from Domestic Sales & Marketing increased 10 percent as compared to 2016, primarily driven by increased distribution volume which was up 21 percent. This tailwind was partially offset by a further decline in realised DAP and urea prices which remain below long-term trend.

The Pinkenba Primary Distribution Centre was sold during the year which generated $13.2m of earnings.

### International Sales & Marketing

Revenue from International Sales & Marketing decreased 25 percent largely due to a decline in DAP and urea prices.

### Outlook

Fertilisers earnings will continue to be dependent on global fertiliser prices and the A$/US$ exchange rate.

A major turnaround of Phosphate Hill is scheduled to commence in mid-March 2018, with an expected duration of six weeks.

As noted above, the QGC gas contract will benefit Phosphate Hill for the full 12 months of 2018 (nine months in 2017). The PWC contract remains on track to deliver gas from the Northern Territory from 2019.

The current gas supply arrangement for Gibson Island will cease on 30 September 2018 and if economically viable gas cannot be secured for the period commencing 1 October 2018, it is likely the facility will cease manufacturing operations.

## Principal Risks

Set out below are the principal risks and uncertainties associated with IPL's business and operations. These risks, which may occur individually or concurrently, could significantly affect the Group's business and operations. There may be additional risks unknown to IPL and other risks, currently believed to be immaterial, which could become material. In addition, any loss from such risks may not be recoverable in whole or in part under IPL's insurance policies. The treatment strategies do not remove the risks; while in some cases they may either partially or fully mitigate the exposure, residual risk remains.

The Group's process for managing risk is set out in the Corporate Governance Statement (Principle 7: Recognise and manage risk).

| Risk | Description and potential consequences | Treatment strategies employed by IPL |
|---|---|---|
| **General economic and business conditions** | | |
| **Changing global economic and business climate** | The current global economic and business climate and any sustained downturn in the North American, South American, Asian, European or Australian economies may adversely impact IPL's overall performance. This may affect demand for industrial explosives, industrial chemicals and fertilisers and related products and services, and profitability in respect of them. | • Diversification across explosives and fertilisers markets in numerous geographical locations helps spread exposures.<br>• BEx provides long term sustainable competitiveness and business fluidity, through its focus on continuous improvement in productivity and efficiency.<br>• Continuous review of country specific risks enables proactive management of potential exposures. |
| **Commodity price risks** | Pricing for fertilisers, ammonia, ammonium nitrate and certain other industrial chemicals are linked to internationally traded commodities (for example, ammonia, ammonium phosphates and urea); price fluctuations in these products could adversely affect IPL's business. The pricing of internationally traded commodities is based on international benchmarks and is affected by global supply and demand forces.<br>Weaker hard and soft commodity prices (particularly coal, iron ore, gold, corn, wheat, cotton and sugar) could have an adverse impact on the Group's customers and has the potential to impact the customers' demand, impacting volume and market prices. | • The Group seeks to maintain low cost positions in its chosen markets, which helps its businesses to compete in changing and competitive environments.<br>• Sales and Operations Planning (**S&OP**) process helps inventory management to reduce price risk of stock on hand.<br>• IPL employs a "value at risk" framework with respect to its Australian fertiliser operations. This allows the business to better manage its short and medium term exposures to commodity price fluctuations, while taking into account its commercial obligations and the associated price risks.<br>• To ensure volume and price commitments are upheld, the Group works with its customers and enforces customer supply contracts.<br>• Where commodity price exposures cannot be eliminated through contracted and/or other commercial arrangements, the Group may enter into derivative contracts, where available on a needs basis, to mitigate this risk. However, in some instances price risk exposure cannot be economically mitigated by either contractual arrangements or derivative contracts. |
| **External financial risk** | The appreciation or depreciation of the A$ against the US$ may materially affect IPL's financial performance.<br>A large proportion of IPL's sales are denominated either directly or indirectly in foreign currencies, primarily the US$.<br>In addition, IPL also borrows funds in US$, and the A$ equivalent of these borrowings and the interest payable on them will fluctuate with the exchange rate.<br>Other financial risks that can impact IPL's earnings include the cost and availability of funds to meet its business needs, compliance with terms of financing arrangements and movements in interest rates. | • IPL's capital management strategy is aimed at maintaining an investment grade credit profile to allow it to optimise the weighted average cost of capital over the long term while maintaining an appropriate mix of US$/A$ debt, provide funding flexibility by accessing different debt markets and reduce refinancing risk by ensuring a spread of debt maturities. A detailed discussion of financial risks is included in Note 16 (Financial Risk Management).<br>• Group Treasury undertakes financial risk management in accordance with policies approved by the Board. Hedging strategies are adopted to manage, to the extent possible and appropriate, currency and interest rate risks. |

| Risk | Description and potential consequences | Treatment strategies employed by IPL |
|---|---|---|
| **Industry structure and competition risks** | IPL operates in highly competitive markets with varying competitor dynamics and industry structures.<br><br>The actions of established or potential competitors could have a negative impact on sales and market share and hence the Group's financial performance.<br><br>The balance between supply and demand of the products that IPL manufactures and sells can greatly influence prices and plant utilisation. The structural shift in the North American power sector, which has seen a movement away from coal-fired energy production and towards natural gas, has placed increased pressure on existing customers (therefore giving rise to increased cost pressure on inputs to their supply) and has also resulted in reduced demand for their outputs.<br><br>Reduced demand for steel inputs (in particular iron ore and metallurgical coal) can lead to a decrease in demand for explosives in these industries.<br><br>IPL's fertiliser operations compete against manufacturers with lower input costs and potentially having regulatory and economic advantages. A competitive market may also lead to the loss of customers which may negatively impact earnings. | • IPL seeks to maintain competitive cost positions in its chosen markets, whilst maintaining quality product and service offerings. This focus on cost and quality positions its business units to compete over the medium to longer term in changing and competitive environments.<br>• Where practical, IPL prefers to engage in long term customer and supply contractual relationships.<br>• Pricing and risk management processes exist in all businesses. |
| **Customer risks** | IPL has strong relationships with key customers for the supply of products and services. These relationships are fundamental to the Group's financial performance, on which the loss of key customer(s) may have a negative impact. This is particularly relevant to the Explosives sectors, where supply contracts tend to be longer term and significant high value customers are represented.<br><br>Customer(s)' inability to pay their accounts when they fall due, or inability to continue purchasing from the Group due to financial distress, may expose the Group to customer credit risks. | • Where practical, for customers in the Explosives sector, IPL prefers to engage in long term customer contractual relationships.<br>• The Group attempts to diversify its customer base to reduce the potential impact of the loss of any single customer.<br>• Sales and customer plans are developed in line with IPL's strategy.<br>• The Group manages customer credit risks by establishing credit limits by customer, as well as monitoring and actively managing overdue amounts within policy guidelines. Additionally, the Group endeavours to negotiate contractual terms that provide protection to address customer non-payment or financial distress.<br>• From time to time, the Group purchases trade credit insurance to minimise credit risk. |
| **Product quality and/or specification risk** | IPL manufactures or produces product to specific customer and industry specifications and statutory parameters. The Group is exposed to financial and reputational risk if these standards, requirements and limits are not met. | • IPL operates and manufactures products using detailed quality management systems. Quality assurance plans are in place for manufactured products intermediaries, procured products and raw materials.<br>• Certificates of Analysis are provided for bulk shipments of fertiliser into export markets. |
| **Oversupply of ammonium nitrate in Asia Pacific and Americas** | New ammonium nitrate capacity has recently been or is soon to be introduced in both the Asia Pacific and Americas geographic regions. In both instances, the markets are predominantly domestically supplied, and the new capacity may create a supply/demand imbalance. | • Where practical, for customers in the Explosives sector, IPL prefers to engage in long term customer contractual relationships.<br>• IPL seeks to maintain competitive cost positions in its chosen markets, whilst maintaining quality product and service offerings. |

| Risk | Description and potential consequences | Treatment strategies employed by IPL |
|---|---|---|
| **Operational risks** | | |
| **Production, transportation and storage risks** | IPL's operations are inherently dangerous. IPL operates 15 key manufacturing and assembly sites and is exposed to operational risks associated with the manufacture, transportation and storage of fertilisers, ammonium nitrate, initiating systems, industrial chemicals and industrial explosives products.<br><br>IPL's manufacturing systems are vulnerable to equipment breakdowns, energy or water disruptions, natural disasters and acts of God, unforeseen human error, sabotage, terrorist attacks and other unforeseen events which may disrupt IPL's operations and materially affect its financial performance.<br><br>Timely and economic supply of key raw materials represents a potential risk to the Group's ability to supply.<br><br>There is a risk that if production is not sold and effectively moved from site, plant uptime and earnings could be negatively impacted should storage at site become full. | • HSE management system is in place with clear principles and policies communicated to employees.<br>• HSE risk management strategies are employed at all times and across all sites. Incidents are reported and investigated, and learnings are shared throughout the Group.<br>• Appropriate workers' compensation programs are in place globally to assist employees who have been injured while at work, including external insurance coverage.<br>• Management undertakes risk identification and mitigation strategies across all sites.<br>• IPL undertakes business continuity planning and disaster preparedness across all sites.<br>• Global industrial special risk insurance is obtained from a variety of highly rated insurance companies to ensure the appropriate coverage is in place. The policies insure the business, subject to policy and retention limits, from damage to its plants and property and the associated costs arising from business interruptions.<br>• Where possible, flexible supply chain and alternative sourcing solutions are maintained as a contingency.<br>• The S&OP process and inventory management practices provide flexibility to deal with short term disruptions.<br>• The Group has strict processes around the stewardship, movement and safe handling of dangerous goods and other chemicals.<br>• Plants have storage capacity, as well as logistics capability that allows for offtake to be distributed. For example, at the Waggaman Louisiana plant offtake may be distributed via rail, truck, barge and pipeline. |
| **Natural gas supply and price risk** | Natural gas is one of the major inputs required for the production of ammonia and therefore is a critical feedstock for IPL's nitrogen manufacturing operations. Availability and quality of natural gas are both key factors when sourcing supply. Potential disruption of supply also poses a risk.<br><br>The Group has various natural gas contracts and supply arrangements for its plants. In respect of the Australian fertiliser operations, there is a risk that a reliable, committed source of natural gas at economically viable prices may not be available following the expiry of current contractual arrangements. In particular, the current gas supply arrangement for Gibson Island will cease on 30 September 2018 and if economically viable gas cannot be secured for the period commencing 1 October 2018, it is likely the facility will cease manufacturing operations.<br><br>The cost of natural gas impacts the variable cost of production of ammonia and can influence the plants' overall competitive position. | • The Group has medium term gas contracts in place for its Australian manufacturing sites, with the exception of Gibson Island in respect of which contracted gas supply is in place through to September 2018. The contracts have various tenures and pricing mechanisms. As part of normal operations, IPL explores new gas supply arrangements where appropriate.<br>• The US natural gas market is a liquid market, with offtake facilitated by an extensive pipeline infrastructure and pricing commonly referenced to a quoted market price. The Americas business has short term gas supply arrangements in place for its gas needs with market referenced pricing mechanisms.<br>• Gas supply has been substantially contracted for the Waggaman, Louisiana ammonia plant through to 2021, with pricing determined by reference to the price for gas traded through the Henry Hub.<br>• In respect of the Americas business (including the Waggaman, Louisiana ammonia plant), there is an ability to hedge gas prices and the Group reviews its approach to gas hedging in the US on a regular basis. |

| Risk | Description and potential consequences | Treatment strategies employed by IPL |
|---|---|---|
| **Sulphuric acid cost and supply into Phosphate Hill** | Sulphuric acid is a major raw material required for the production of ammonium phosphates. Approximately 40 percent of Phosphate Hill's sulphuric acid needs come from processing metallurgical gas sourced from Glencore's Mt Isa Mines copper smelting facility. Glencore has confirmed that Mt Isa Mines has the necessary environmental authority to operate to 2022. Alternative sources of sulphuric acid are likely to negatively impact the cost of producing ammonium phosphates at the Phosphate Hill facility.<br><br>The quantum of the impact will depend on the future availability and price of sulphur and/or sulphuric acid and the prevailing A$/US$ rate.<br><br>Sulphuric acid supply into Phosphate Hill may be negatively impacted from a volume and/or price perspective, should the Mt Isa Mines copper smelter close. | • The Group has several sources of sulphuric acid for supply for Phosphate Hill. Along with sulphuric acid produced from metallurgical gas capture, Mt Isa produces sulphuric acid from burning imported elemental sulphur. Phosphate Hill's operations are also supplemented with sulphuric acid purchased directly from a domestic smelter to meet total sulphuric acid requirements for the production of ammonium phosphates. In addition, Phosphate Hill uses phosphoric acid reclaimed from its gypsum stacks in place of sulphuric acid. It is unlikely that the majority of the lost sulphuric acid sourced from Glencore could be replaced but the cost impact is yet to be determined.<br>• The Mt Isa site is a leased site, with a lease contract in place with Mt Isa Mines to 2028. Accordingly, IPL would be able to continue to produce sulphuric acid at Mt Isa (albeit at a higher cost) by burning elemental sulphur until 2028, should the copper smelter operation cease before that time. |
| **Phosphate rock** | Phosphate rock, used in the manufacture of both ammonium phosphates and single superphosphate fertilisers, is a naturally occurring mineral rock.<br><br>Phosphate rock is an internationally traded commodity, with pricing based on international benchmarks, and is affected by global supply and demand forces. Its cost for single superphosphate manufacturing purposes is also impacted by fluctuations in foreign currency exchange rates, particularly the A$/US$ rate. Fluctuations in either of these variables can impact the cost of IPL's single superphosphate manufacturing operations, as these operations rely on rock imported from limited foreign supply sources. | • At its own facility in Phosphate Hill, IPL mines phosphate rock which is used for the production of ammonium phosphates at that facility.<br>• Phosphate rock is used in the production of single superphosphate at IPL's Geelong and Portland operations. IPL seeks to diversify the sources of supply of rock (subject to certain requirements regarding the composition of the rock, including cadmium and odour considerations) required for these operations by sourcing it from a number of international suppliers (albeit that the sources of supply are limited). |
| **Labour** | A shortage of skilled labour or loss of key personnel could disrupt IPL's business operations or adversely affect IPL's business and financial performance. IPL's manufacturing plants require skilled operators drawn from a range of disciplines, trades and vocations.<br><br>IPL has operations in regional and remote locations where it can be difficult to attract and retain critical and diverse talent. | • IPL's scale provides some, albeit limited, ability to relocate staff to cover shortages or losses of critical staff.<br>• The Group has policies and procedures, including flexible working arrangements and competitive compensation structures, designed to help attract and retain workforce.<br>• Management identifies critical roles and attempts to implement policies to help ensure that appropriate succession and retention plans are in place for those roles. |

| Risk | Description and potential consequences | Treatment strategies employed by IPL |
|---|---|---|
| **Weather & climate change** | Seasonal conditions (particularly rainfall), are a key factor for determining demand and sales of explosives and fertilisers. Any prolonged adverse weather conditions, including the potential impacts of climate change, could impact the future profitability and prospects of IPL.<br><br>Some plants are located in areas that are susceptible to extreme weather events, such as hurricanes, tropical storms and tornadoes. An increase in the severity and/or frequency of these extreme weather events as a result of climate change may cause additional disruption to plants and may interrupt IPL's supply chain, which includes transportation of raw materials and finished product via road, rail and water.<br><br>IPL has manufacturing facilities across various geographical locations that may be impacted by regulatory changes aimed at reducing the impact of, or otherwise addressing, climate change. Any changed regulations could result in an increase to the cost base or operating cost of these plants, and it may not be possible to alter sales prices to offset these cost increases. This includes, but is not restricted to, any regulations relating to reducing carbon emissions. Alternatively, any such regulatory changes may potentially impact the ability of these plants to continue operating as currently operated.<br><br>IPL provides products and services to end markets, individual customers and suppliers that may be impacted by changes to weather patterns resulting from climate change. Changes to temperature, the amount of rainfall or the number and/or intensity of storms and other weather events may impact IPL's end markets, primarily mining and agriculture. | • The S&OP process incorporates forecasting which enables scenario planning and some supply flexibility. Forecasts are based on typical weather conditions and are reviewed on an ongoing basis as the seasons progress to help align supply to changing demand.<br>• Safety and evacuation plans are in place for all personnel and sites.<br>• The Group endeavours to include force majeure clauses in agreements where relevant.<br>• Insurance policies are in place across the Group.<br>• Risk management processes exist in all businesses. Emerging risks, such as climate change, and appropriate treatment strategies are monitored on an ongoing basis and reported on to the Board through the established risk management process.<br>• IPL's Australian fertilisers business operates in all Australian States other than Western Australia. In addition to geographical diversity, there is also diversity across crops – IPL supplies fertilisers for a wide range of agricultural applications – and customers serviced.<br>• The explosives business is primarily aligned to customers with tier 1 assets, being those with the most efficient operations and best resources. Also, there is diversity with regard to the customer base (with products and services supplied for iron ore, base and precious metals, quarry and construction and coal customers) and geographic spread of the operations.<br>• Research and development activity is ongoing, reducing the carbon footprint of products (eg slow release fertilisers and low fume explosives products).<br>• IPL has increased its focus in recent years on ensuring that customers in both the explosives and fertilisers businesses use no more product than is necessary, through activity such as use of soil sampling data and differential energy explosives products.<br>• New plants, most particularly the Waggaman Louisiana plant, and upgrades of existing plants, adopt technology designed for carbon efficiency. For example NOx abatement activity has been undertaken in the US. |

| Risk | Description and potential consequences | Treatment strategies employed by IPL |
|---|---|---|
| **Compliance, regulatory and legal risk** | | |
| **Compliance, regulatory and legal risk** | Changes in federal or state government legislation, regulations or policies in any of the countries in which IPL operates or in which it has dealings may adversely impact its business, financial condition and operations, or the business, financial condition and operations of IPL's customers and suppliers. This includes changes in domestic or international laws relating to sanctions, import and export quotas, and geopolitical risks relating to countries with which IPL, or its customers and suppliers, engages to buy or sell products and materials. In addition, changes in tax legislation or compliance requirements in the jurisdictions in which IPL, or its customers and suppliers, 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, including potential impact on licenses to operate.<br><br>IPL's business, and that of its customers and suppliers, is subject to environmental laws and regulations that require specific operating licences and impose various requirements and standards. Changes in these laws and regulations (for example, increased regulation of coal fired energy generation in the US and the imposition of carbon trading schemes), failure to abide by the laws and/or licensing conditions, or changes to licence conditions, may have a detrimental effect on IPL's operations and financial performance, including the need to undertake environmental remediation, financial penalties or ceasing to operate.<br><br>IPL is exposed to potential legal and other claims or disputes in the course of its business, including contractual disputes, and property damage and personal injury claims in connection with its operations. | • 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.<br>• Each business unit has responsibility for identification and management of risks specific to the business. This is managed through an annual risk workshop, risk register and internal audits aligned to the material business risks.<br>• Corporate functions are in place to provide sufficient support and guidance to ensure regulatory risks are identified and addressed within the business well in advance.<br>• Country regulatory risk is regularly reviewed through the Group's risk management framework.<br>• Where possible, IPL appoints local business leaders and management teams who bring a strong understanding of the local operating environment and strong customer relationships.<br>• Comprehensive HSE management system is in place with clear principles and policies communicated to employees.<br>• HSE risk management strategies are employed at all times and across all sites. Incidents are reported and investigated and learnings are shared throughout the Group.<br>• The Group has strict processes regarding the stewardship, movement and safe handling of dangerous goods and other chemicals.<br>• IPL engages with governments and other key stakeholders to ensure potential adverse impacts of proposed fiscal, tax, infrastructure access and regulatory changes are understood and, where possible, mitigated. |
| **Loss or exposure of sensitive data and cyber security** | Sensitive data, relating to IPL, its employees, associates, customers or suppliers, may be lost or exposed, resulting in a negative impact on the Group's reputation.<br><br>IPL may be the target of cyber attacks which could result in commercial, financial and/or reputational impacts, including loss of data, financial losses, business or customer service interruption, an impact to IPL's products or a loss of production. | • Policies, procedures and practices are in place regarding the use of company information, personal storage devices and IT security.<br>• A data breach response plan has been established to respond to, and mitigate the effects of, any instances of sensitive data breaches should they occur.<br>• External testing is performed to assess the security of the Group's IT systems.<br>• Threat analysis and intelligence analytics are used to monitor the security of IPL's systems, including network perimeter blocking and monitoring. |

## Introduction from the Chairman of the Remuneration Committee

Dear Shareholders,

On behalf of the Remuneration Committee and the Board, I am pleased to present the Remuneration Report for 2017 which sets out the remuneration information for the Managing Director & Chief Executive Officer, the Executive Team and the non-executive directors.

### 2017 remuneration outcomes

The Company has delivered a strong result in 2017 with EBIT up 17% despite a significant impact from lower global fertiliser prices and a higher Australian dollar. The Company's solid financial performance reflects the action taken in 2016 to address the structural and cyclical changes in IPL's end markets and, specifically, the decline of global fertiliser prices, through the implementation of the BEx OFI program which, at the end of the financial year, had delivered $176 million in net benefits, substantially exceeding the $100 million stretch target that was set for the BEx OFI in 2016.

As a result, the Executives have been awarded short term incentive payments, details of which are set out in the report.

In relation to the long term incentive plan, the performance period for which ended on 30 September 2017, the performance conditions were relative total shareholder returns (weighted at 70%) and the delivery of two strategic initiatives, being the Louisiana Ammonia Project and Business Excellence (weighted at 30%). The successful delivery of these two strategic priorities is reflected in the Company's shareholder returns performance, with the Company delivering total shareholder returns of 36% over the period. Accordingly, the Board is pleased to report that the performance rights under the long term incentive plan for the three year performance period ended 30 September 2017 will partially vest.

### 2018 remuneration approach

In relation to the Executives' remuneration arrangements, the Board has determined to increase the Executives' fixed annual remuneration by 2% with effect from 1 October 2017, noting that the Executives' fixed remuneration was last increased in October 2014.

In relation to the "at risk" or performance related component of executive remuneration for the 2018 year, the incentive opportunities available to the Executives (other than for the new Managing Director & Chief Executive Officer) for both short term incentives and long term incentives will remain unchanged. However, the Board has made changes to the structure of the "at risk" remuneration applicable to the Executives for the 2018 financial year as follows:

- STI – following completion of the BEx OFI program, the short term incentive structure will revert to a structure similar to previous programs with the majority of the short term incentive opportunity allocated to financial measures reflecting the importance of achieving financial outcomes, and the balance allocated to safety measures and strategic outcomes/business priorities.
- LTI – the weightings of the long term incentive measures have been adjusted to place a greater emphasis on relative total shareholder returns and growth in return on equity.

As was the case for the 2017 financial year, the Board has determined that there will be no increase to non-executive director fees, noting that fees were last increased in October 2014.

### CEO transition arrangements

In February 2017, the Company announced that Mr Fazzino would be stepping down from the role of Managing Director & Chief Executive Officer. Mr Fazzino will cease as Managing Director & Chief Executive Officer on 14 November 2017. Details of Mr Fazzino's remuneration arrangements during the 2017 financial year and the arrangements in relation to his cessation of employment are set out in section 5.1 of the Remuneration Report.

Ms Jeanne Johns, whose appointment was announced on 9 August 2017, will commence as Managing Director & Chief Executive Officer on 15 November 2017. In determining the appropriate remuneration settings for Ms Johns, consideration was given to benchmark data and market trends. Ms Johns' remuneration will comprise fixed annual remuneration of $1.6 million and "at risk" remuneration in the form of short and long term incentives. While Ms Johns' total maximum opportunity is comparable with the outgoing Chief Executive Officer's, a greater proportion of her remuneration will be "at risk". The "at risk" components will continue to be subject to demanding performance criteria which have been consistently applied by the Company. In addition, half of the STI component will be deferred into equity to be released over a two-year period. Details of Ms Johns' remuneration and other contractual arrangements are outlined in the ASX announcement dated 9 August 2017 and a summary is included in section 5.1 of the Remuneration Report.

The Board invites you to consider the 2017 Remuneration Report. We welcome feedback on the Company's remuneration approach in supporting IPL's business strategy.

**Kathryn Fagg**
Chairman, Remuneration Committee

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## 1. Introduction

The directors of IPL present the Remuneration Report prepared in accordance with the Corporations Act 2001 (Cth) for the Group for the year ended 30 September 2017. This Remuneration Report is audited.

This Remuneration Report sets out remuneration information for Key Management Personnel (**KMP**) who had authority and responsibility for planning, directing and controlling the activities of the Group during the 2017 financial year, being each of the non-executive directors and the Executives. The use of the term "**Executives**" in this report is a reference to the Managing Director & Chief Executive Officer (**MD&CEO**) and each of his direct reports (current and former) during the 2017 financial year. Refer to Table 1 below for all individuals comprising IPL's KMP for the 2017 financial year.

**Table 1: Individuals forming IPL's KMP for the reporting period**

| Non-executive Directors | |
|---|---|
| **Current** | |
| Mr Paul Brasher | Chairman and Independent, Non-executive Director |
| Ms Kathryn Fagg | Independent, Non-executive Director |
| Mr Greg Hayes | Independent, Non-executive Director |
| Ms Rebecca McGrath | Independent, Non-executive Director |
| Mr Graham Smorgon AM | Independent, Non-executive Director |
| Mr Joseph Breunig(1) | Independent, Non-executive Director |
| Mr Brian Kruger(1) | Independent, Non-executive Director |
| **Former** | |
| Mr John Marlay(2) | Independent, Non-executive Director |

| Executives | |
|---|---|
| **Current** | |
| Mr James Fazzino(3) | Managing Director & Chief Executive Officer |
| Mr Frank Micallef | Chief Financial Officer |
| Mr Simon Atkinson | President, Dyno Nobel Asia Pacific & Incitec Pivot Fertilisers |
| Ms Leah Balter | President, Strategy & Business Development |
| Mr Alan Grace | President, Global Manufacturing |
| Ms Elizabeth Hunter | Chief Human Resources Officer & Shared Services |
| Mr Nicholas Stratford(4) | President, Dyno Nobel Americas |

(1) On 5 June 2017, Mr Breunig and Mr Kruger were appointed to the Board as non-executive directors.
(2) On 16 December 2016, Mr Marlay retired from the Board as a non-executive director.
(3) As announced to the ASX on 9 August 2017, Mr Fazzino will cease as Managing Director & Chief Executive Officer on 14 November 2017. In October 2017, Ms Jeanne Johns commenced as CEO Designate, and she will commence as Managing Director & Chief Executive Officer on 15 November 2017.
(4) On 6 February 2017, Mr Stratford was appointed President, Dyno Nobel Americas and became a Key Management Person.

## 2. Executive Remuneration & Governance

### 2.1 Executive Remuneration Strategy

IPL is a global diversified industrial chemicals company. The Company recognises that to generate competitive returns for its shareholders, it requires talented people who are capable, committed and motivated. IPL's remuneration strategy is designed to support the objectives of the business and enable the Group to attract, retain and reward Executives of the necessary skill and calibre.

The key principles of the Company's remuneration strategy are to:

- reward strategic outcomes at both the Group and business unit level that create top quartile long term shareholder value;
- encourage integrity and disciplined risk management in business practice;
- drive strong alignment with shareholder interests through delivering part of the reward in the form of equity;
- structure the majority of executive remuneration to be "at risk" and linked to demanding financial and non-financial performance objectives;
- reward Executives for high performance within their role and responsibilities, and ensure rewards are competitive within the industry and market for their role in respect of pay level and structure; and
- ensure the remuneration framework is simple, transparent and easily implemented.

### 2.2 Executive Remuneration Governance

The remuneration of the Executives is set by the Board, having regard to recommendations from the Remuneration Committee. Remuneration arrangements for Executives are reviewed annually in accordance with IPL's remuneration strategy.

Where appropriate, the Remuneration Committee or the Board engages external advisors to provide input to the process of reviewing Executive and non-executive director remuneration. For, and in respect of, the 2017 financial year, the Remuneration Committee received market and benchmarking data and strategic advice from 3 degrees consulting. 3 degrees consulting was acquired by KPMG in early 2017. The information provided by 3 degrees consulting for, and in respect of, the 2017 financial year did not constitute a remuneration recommendation for the purposes of the Corporations Act 2001 (Cth).

Further information in relation to the Board and the Remuneration Committee can be found in the IPL's Corporate Governance Statement available on IPL's website.

### 2.3 Overview of Remuneration changes for the 2018 financial year

During the 2017 financial year, the Board reviewed the following aspects of the Company's remuneration arrangements.

#### Fixed Annual Remuneration

The Fixed Annual Remuneration (**FAR**) of Executives (other than the Managing Director & Chief Executive Officer) was reviewed and increased by 2% effective from 1 October 2017. Other than for new appointments, the Executives' FAR was last increased in October 2014 with fixed remuneration frozen for 2016 and 2017. The increase is designed to maintain the competitive market positioning of Executives in the context of inflation and forecast market movements in the order of 2%.

#### Variable Remuneration

The changes to the short term incentive (**STI**) and long term incentive (**LTI**) arrangements set out below are consistent with the Board's historical approach of aligning the Executives' "at risk" remuneration with the Company's strategic intent of delivering top quartile performance through the cycle as measured against S&P/ASX 100 companies. While IPL operates in inherently cyclical commodity markets, the Board considers that the targets for "at risk" remuneration in particular should consistently reflect outcomes that represent top quartile performance of the S&P/ASX 100 regardless of the prevailing economic environment in which the Company is operating (that is, through the fertiliser and commodity price cycle).

#### Short Term Incentive

With the completion of the BEx OFI program, the STI design for the Executives has been realigned as follows, with a primary focus on achievement of financial outcomes, balanced by a continuing focus on safety and strategic outcomes/business priorities:

- 10% of the STI opportunity continues to be focused on safety, with the measures to comprise a balanced scorecard across the dimensions of behavioural safety and process safety management similar to the measures applied in 2017.
- 80% – 90% of the STI opportunity is allocated to Group and Business Segment financial performance depending on the Executive's role (other than the role of President, Strategy & Business Development for whom this condition will comprise 50% of her STI opportunity).
- 10% of the STI opportunity is focused on strategic outcomes/business priorities (other than the role of President, Strategy & Business Development for whom this condition will comprise 40% of her STI opportunity and noting that this condition will not apply to the Chief Financial Officer).

For the incoming Managing Director & Chief Executive Officer, Ms Jeanne Johns, her STI will be similar in structure, with 10% of the STI opportunity allocated to safety, 80% allocated to Group financial performance, and the remaining 10% allocated to specific objectives in relation to strategy, organisation development and other business priorities. 50% of any STI award earned will be deferred into equity to be released over a two-year period. Further details are set out in section 5.1.

**Long Term Incentive**

With the completion of the Louisiana Ammonia Project in October 2016, for the performance period commencing 1 October 2017 and ending 30 September 2020 (**LTI 2017/20**), the Board has realigned the performance conditions as follows:

- The TSR Condition, which is based on the Company's TSR performance relative to the S&P/ASX100 comparator group, has been maintained, with the weighting increased from 40% of the maximum LTI opportunity to 50% of the maximum LTI opportunity.
- The ROE Growth Condition introduced in 2016 also continues, with the weighting increased from 30% to 35%. The targets in this performance condition have been set to maximise the operational efficiency of the Group's assets through the cycle.
- The Strategic Initiative Condition has also been continued and, as was the case in the 2016/19 plan, BEx will be the sole component. With the completion of the BEx OFI program, this condition will be weighted at 15% rather than 30% of the maximum LTI opportunity and the performance goals will comprise specific objectives relating to ongoing improvement in business system maturity, delivery of productivity benefits and manufacturing production.

# 3. 2017 Executive Remuneration Framework

## 3.1 Overview

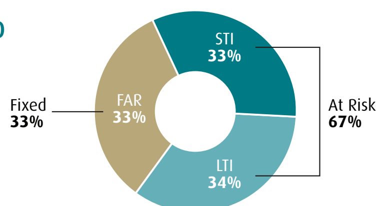
In alignment with its remuneration strategy, the Board's policy on Executive remuneration is that it comprises both a fixed component (FAR) and an "at risk" or performance-related component (STI and LTI) where:

(i) the majority of executive remuneration is "at risk"; and

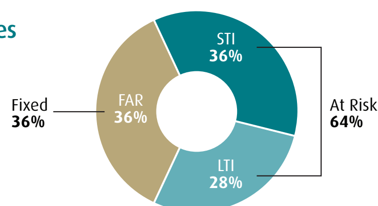
(ii) the level of FAR for Executives will be benchmarked against that paid for similar positions at the median of companies in a comparator group with a range of market capitalisations (50% – 200% of that of the Group).

The tables below set out the relative proportion of the Executives' total remuneration package for the 2017 financial year:

MD & CEO




Other Executives




In calculating the "at risk" compensation as a proportion of total remuneration for the 2017 financial year for each Executive, the maximum entitlement that could potentially be awarded under the STI and LTI was taken into account.

## 3.2 Fixed annual remuneration

Executives receive their fixed remuneration in a variety of forms, including cash, superannuation, and any applicable fringe benefits. The Executives' FAR 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 with reference to, among other things, Company performance and market data provided by an appropriately qualified and independent external consultant.

For the 2017 financial year, the Board determined that the Executives' FAR would not be increased. Refer to Table 7 for details of the Executives' FAR for the 2017 financial year. For the 2018 financial year, the Board has determined that FAR will be increased by 2%.

## 3.3 Short term incentive

The STI is an annual "at risk" incentive which is dependent on the achievement of particular performance measures. The following table summarises the STI plan that applied in the 2017 financial year (**2017 STI**):

**What was the performance period?**

The performance period for the 2017 STI was the financial year from 1 October 2016 to 30 September 2017.

**Who was eligible for the STI?**

Participation was at the Board's discretion. The MD&CEO and all other Executives participated in the 2017 STI.

**What was the target and maximum STI opportunity?**

Target STI opportunity was 50% of FAR for all Executives. Maximum STI opportunity (for stretch outcomes) was 100% of FAR for all Executives.

**What were the Performance Conditions and Measures?**

Performance conditions under the STI are determined by the Board for each financial year. The performance conditions for the 2017 STI are set out below:

| Performance Conditions | Measures to assess satisfaction of Performance Condition | Rationale for the Performance Conditions |
|---|---|---|
| **Group Financial Performance** | Growth in Earnings per Share (**EPS**). | To align with the Company's strategic intent of achieving top quartile performance as measured against S&P/ASX 100 companies. |
| **Business Unit Financial Performance** | Business Unit Earnings Before Interest and Tax (**EBIT**). | To ensure robust alignment of performance in a particular business unit with reward for the Executive managing that business unit. |
| **Zero Harm** | Safety performance balanced scorecard across the dimensions of behavioural safety and process safety management comprising input and output measures.(1) | To align with the Company's commitment to "Zero Harm for Everyone, Everywhere". In 2017, the Company adopted its second five-year Global HSE Strategy to continue to drive improvement in the Group's health, safety and environmental performance. |
| **Strategic outcomes** | Delivery of $100 million in cash benefits through the Group-wide BEx OFI program. | To recognise the financial importance of the BEx OFI program in aligning the Company's cost base with the structural and cyclical shifts in the Company's end markets. The performance condition was structured as a Group-wide performance condition applicable to all Executives. |

(1) In assessing the safety balanced scorecard, the Board may, in its discretion, have regard to the results achieved against the measures comprising the scorecard without applying a specific weighting to any particular measure.

Where any Individually Material Item (IMI) is separately recognised in the financial report, the Board will have discretion to include or exclude the IMI for the purpose of determining any STI award, taking into account the nature of the IMI and having regard to whether, in the circumstances, it would be appropriate for the IMI to be attributable to the Executives.

Satisfaction of the above measures was based on a review by the Board of the audited financial report and performance of the Group for the financial year, following the annual performance review process for the Executives.

**Are there minimum performance levels which must be achieved before awards can be made under the STI?**

To ensure STI awards are aligned with business performance outcomes, the Board has determined that a minimum level of financial performance, known as the "**STI Gate**", must be met before any awards can be made. If financial performance does not meet the STI Gate, no awards are made under the STI, save that the STI Gate does not apply to any awards payable in relation to the Zero Harm performance condition, reflecting the primacy of safety.

For the 2017 financial year, the STI Financial Gates were:

- for Group roles (marked * in Table 2 below), Group financial performance was required to meet the EPS growth threshold which was determined by the Board by reference to the prior year EPS performance; and
- for Business Unit roles (marked ** in Table 2 below), Group financial performance was required to meet 80% of the prior year NPAT and Business Unit EBIT was required to meet the relevant Business Unit EBIT threshold.

In addition, with regard to the BEx OFI performance measure which required delivery of $100 million in cash benefits, the Board retained discretion to determine the appropriate STI award (if any) for this measure having regard to the Company's overall financial performance.

In relation to the Zero Harm performance condition, the Board retains a discretion to forfeit all or part of the award payable for this performance condition in the event of a fatality or life threating incident having regard to the circumstances of the incident.

**What were the weightings for the STI performance measures?**

The STI performance measures' weightings for the Executives for the 2017 STI were:

**Table 2**

| | Financial | | Non-financial/ Business/Strategic | | Maximum STI opportunity |
|---|---|---|---|---|---|
| | Growth in EPS | Business Unit EBIT | Safety | BEx OFI Program | |
| **Executives – Current** | | | | | |
| **J Fazzino***<br>Managing Director & CEO | 60% | | 10% | 30% | 100% |
| **F Micallef***<br>Chief Financial Officer | 60% | | 10% | 30% | 100% |
| **S Atkinson****<br>President, Dyno Nobel Asia Pacific & Incitec Pivot Fertilisers | | 60% | 10% | 30% | 100% |
| **L Balter***<br>President, Strategy & Business Development | 60% | | 10% | 30% | 100% |
| **A Grace****<br>President, Global Manufacturing | | 60% | 10% | 30% | 100% |
| **E Hunter***<br>Chief Human Resources Officer & Shared Services | 60% | | 10% | 30% | 100% |
| **N Stratford****<br>President, Dyno Nobel Americas | | 60% | 10% | 30% | 100% |

*Group role **Business Unit role

**Was there a mechanism for clawback and deferral?**

The 2017 STI included a clawback provision, which requires the repayment of all or part of any STI awarded within three years after a payment is made, in the event of a material misstatement which results in a restatement of the audited financial report.

## 3.4 Long term incentive

The LTI is the long term incentive component of remuneration for Executives. The LTI is provided in the form of performance rights.

**What LTI plans were applicable for the 2017 financial year?**

The LTI Plans applicable to the 2017 financial year were the:

- Long Term Incentive Performance Rights Plan for 2014/17 (**LTI 2014/17**);
- Long Term Incentive Performance Rights Plan for 2015/18 (**LTI 2015/18**); and
- Long Term Incentive Performance Rights Plan for 2016/19 (**LTI 2016/19**),

(together, the **LTI Plans**).

Under the LTI Plans, participants are entitled to acquire ordinary shares in the Company, on a one right to one share basis, for no consideration at a later date. The performance rights are issued by Incitec Pivot Limited and the entitlement of the participants to acquire ordinary shares is subject to the satisfaction of certain conditions. As no shares are provided to participants until exercise, performance rights have no dividend entitlement. Performance rights expire on vesting or lapsing of the rights.

**What is the purpose of the LTIs?**

The LTI is designed to link reward with the key performance drivers which underpin sustainable growth in shareholder value. As rights under the LTI Plans result in share ownership on the achievement of demanding targets, the LTI ties remuneration to Company performance, as experienced by shareholders. The arrangements also support the Company's strategy for retention and motivation of the Executives.

**What is the process for determining eligibility?**

The decision to grant performance rights under the LTI Plans 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 Executive's FAR.

**What is the maximum LTI opportunity under the LTI Plans?**

The maximum LTI opportunities under each LTI Plan are:

- for the MD&CEO, 100% of FAR; and
- for all other Executives, 80% of FAR.

**How was the number of performance rights calculated under the LTI Plans?**

For the LTI 2014/17, LTI 2015/18 and LTI 2016/19, the number of performance rights issued to a participant was based on the market value of the Company's shares and was determined by dividing the dollar value of the relevant participant's LTI opportunity by the Company's volume weighted average share price over the 20 business days up to but not including the first date of the relevant performance period.

**What are the performance conditions, performance period and status of the LTI Plans?**

| LTI Plan | Performance Conditions | Weighting of Performance Condition | Performance Period | Status |
|---|---|---|---|---|
| **LTI 2014/17** | • TSR Condition<br>• Strategic Initiatives Condition | 70%<br>30% | 1 October 2014 to 30 September 2017 | Performance period completed. Following testing in November, the Board determined that 68.8% of the performance rights will vest in the 2018 financial year. Refer to section 4.3 for further details. |
| **LTI 2015/18** | • TSR Condition<br>• Strategic Initiatives Condition | 70%<br>30% | 1 October 2015 to 30 September 2018 | Testing to occur after completion of performance period. |
| **LTI 2016/19** | • TSR Condition<br>• Strategic Initiatives Condition<br>• ROE Growth Condition | 40%<br>30%<br>30% | 1 October 2016 to 30 September 2019 | Testing to occur after completion of performance period. |

The performance conditions are determined by the Board annually. Refer to section 3.5 for a discussion of the performance conditions.

| | |
|---|---|
| **When are the performance conditions measured?** | After the expiry of the relevant performance period, the Board determines whether the performance conditions of the relevant LTI Plans are satisfied. The performance conditions are tested once, at the end of the relevant performance period. If the performance conditions are satisfied and the rights vest, the participant is entitled to receive ordinary shares in the Company. The participant does not pay for those shares.<br>To the extent the performance conditions are not satisfied during the performance period, the performance rights will lapse. |
| **What happens if a participant leaves the Group?** | Generally, the performance rights granted under the LTI Plans will lapse on a cessation of employment except where the participant has died, becomes 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. |
| **In what other circumstances may the performance rights vest (which may be before or after the expiry of the performance period) under the LTI Plans?** | The Board may provide a notice to the participants specifying that the performance rights will vest at a time stipulated in the notice on the occurrence of one of the following events in relation to the Company:<br>• a takeover bid;<br>• a change of control;<br>• the Court ordering a meeting be held in connection with a scheme for the reconstruction of the Company or its amalgamation with any other companies; or<br>• a voluntary or compulsory winding-up. |

## 3.5 LTI performance conditions

For the LTI 2014/17 and LTI 2015/18, the performance conditions are measured by reference to relative Total Shareholder Returns of IPL, measuring TSR against companies in the S&P/ASX 100 (**TSR Condition**) and the Company's Strategic Initiatives (**Strategic Initiatives Condition**). For the LTI 2016/19, the performance conditions are measured by reference to the TSR Condition, a Strategic Initiative Condition and growth in Return on Equity (**ROE Growth Condition**). Details of the performance conditions for each of the LTI 2014/17, LTI 2015/18 and LTI 2016/19 are set out below.

### TSR Condition

The TSR Condition (applicable to each of the LTI 2014/17, LTI 2015/18 and LTI 2016/19) 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. This condition provides shareholder alignment as it takes into account the Company's share price movement as well as dividends paid, relative to other organisations comparable to the Company. The S&P/ASX 100 has been chosen as the comparator group because, having regard to the business segments in which the Group operates and, specifically, the absence of a sufficient number of direct comparator companies, the Board considers the S&P/ASX 100 to represent the most appropriate, and objective, comparator group. It also represents the group of companies against which the Company competes for shareholder capital.

The table below sets out the TSR Condition, and the percentage of the performance rights that will vest based on satisfaction of this condition.

| Relative TSR ranking of IPL | % of performance rights subject to the TSR Condition that will vest |
|---|---|
| Less than 50th percentile | Nil |
| At or greater than 50th percentile but less than 75th percentile | Pro rata from 50% on a straight line basis |
| At 75th percentile or greater | 100% |

### Strategic Initiatives Condition

The Strategic Initiatives Condition relates to the delivery of significant aspects of the Board approved strategy. The Strategic Initiatives Condition applies to the LTI 2014/17, the LTI 2015/18 and the LTI 2016/19. For the LTI 2014/17 and the LTI 2015/18, the Strategic Initiatives Condition comprises two equal components: (i) the Louisiana Ammonia Project; and (ii) the Business Excellence System. For the LTI 2016/19, the Strategic Initiatives Condition relates solely to the Business Excellence System.

The table below summarises the Strategic Initiatives Condition components for the LTI 2014/17, the LTI 2015/18 and the LTI 2016/19:

| Strategic Initiatives Condition component | Rationale | Scorecard | |
|---|---|---|---|
| | | Measurement criteria | Performance goals |
| **Louisiana Ammonia Project**<br><br>**(Applies to 15% of the performance rights in a grant for the LTI 2014/17 and the LTI 2015/18)** | The Louisiana ammonia project at Waggaman, Louisiana, construction of which completed on 19 October 2016, underpins the future growth of the Dyno Nobel Americas business and will create long term shareholder value. | Performance in relation to this component of the Strategic Initiatives Condition will be measured against a Project Scorecard comprising performance goals based on the Project business case, as approved by the Board in April 2013, related to the following key performance indicators:<br>• safety,<br>• capital cost,<br>• plant efficiency,<br>• output and EBITDA. | **Safety:** Total Recordable Injury Frequency Rate (TRIFR) for the Louisiana Ammonia Project to be less than or equal to the IPL Group TRIFR.<br><br>**Capital cost** (only applicable to the 2014/17 LTI): as per Project business case (US$850 million).<br><br>**Plant efficiency:** as per Project business case (32GJ of gas per metric tonne of ammonia).<br><br>**Output and EBITDA:** Output and EBITDA measures (consistent with the project business case for Year 1 (in the case of the LTI 2014/17) and Year 2 (in the case of the LTI 2015/18). |
| **Business Excellence (BEx) System**<br><br>**(Applies to 15% of the performance rights in a grant for the LTI 2014/17 and the LTI 2015/18 and 30% of the performance rights in a grant for the LTI 2016/19 )** | BEx is the Company's business and continuous improvement system, through which the Company seeks to enhance productivity on a sustainable basis utilising "lean" business methods. The LTI performance goals in relation to BEx are focussed on incentivising the delivery of sustainable productivity improvements, rather than one-off benefits. | Performance in relation to this component of the Strategic Initiatives Condition will be assessed against a Scorecard comprising performance goals related to:<br>• Business system maturity (practices)<br>• Cumulative productivity benefits (performance)<br>• Manufacturing plant uptime (performance) | **Business system maturity:** An absolute improvement in Business Excellence system maturity over the performance period.<br><br>**Cumulative productivity benefits:** Delivery of cumulative savings over the performance period against targets approved by the Board.<br><br>**Manufacturing plant uptime:** Plant uptime measured across specified manufacturing plants, with target performance at the end of the performance period to be at 75th percentile (which reflects world class performance for ammonia and ammonium phosphate plants globally) adjusted for plant age. |

Details of the Scorecards and specific performance goals for each component of the Strategic Initiatives Condition were notified to Executives on commencement of each applicable LTI plan. These performance goals involve commercial-in-confidence quantitative targets and, as such, details of the performance goals are disclosed only at the end of the performance period. For the LTI 2014/17, these details are set out in section 4.3. For the LTI 2015/18 and the LTI 2016/19, the relevant details will be set out in the 2018 Remuneration Report and the 2019 Remuneration Report respectively.

The Board will determine the outcome for the relevant component of the Strategic Initiatives Condition under each LTI plan having regard to the results achieved against the performance goals across the entirety of the Scorecard for that component. If the Board determines that all of the performance goals in respect of a component of the Strategic Initiatives Condition have been achieved, all of the performance rights subject to that component will vest.

If not all performance goals in respect of a component of the Strategic Initiatives Condition are met over the performance period, the extent to which that component of the Strategic Initiatives Condition has been satisfied (if at all) will be determined by the Board. In doing so, the Board will have regard to the results achieved against the performance goals across all of the components of the relevant Scorecard, without applying a specific weighting to any particular performance goal.

### ROE Growth Condition

The ROE Growth Condition was introduced for the first time in 2016 and applies to the LTI 2016/19. The ROE Growth Condition measures the compound annual growth in Return on Equity (ROE) over the performance period. ROE was chosen as it is a widely recognised and reported metric, is a key determinant of efficient use of the capital entrusted to management by shareholders, reflects all of the levers to create shareholder value and is a transparent metric which can be calculated directly from the Company's financial report.

The table below sets out the ROE Growth Condition, and the percentage of performance rights that will vest based on satisfaction of this condition:

| ROE Compound Annual Growth Rate | % of performance rights subject to the ROE Growth Condition that will vest |
|---|---|
| Less than 7% | Nil |
| At or above 7% but less than 11% | Pro rata from 50% on a straight line basis |
| 11% or greater | 100% |

## 4. Remuneration outcomes in 2017 financial year and link to 2017 financial year performance

### 4.1 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, the Board, through its Remuneration Committee, has regard to financial and non-financial indices, including the indices shown in the below table in respect of the current financial year and the preceding four financial years.

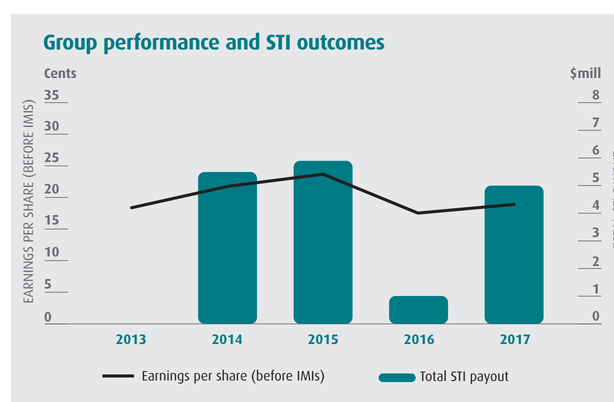
**Table 3 – Indices relevant to the Board's assessment of the Group's performance and the benefit to shareholders**

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Net Profit After Tax excluding non-controlling interests (NPAT) (before IMIs) ($m) | 293.5 | 356.3 | 398.6 | 295.2 | 318.7 |
| Earnings Per Share (EPS) (before IMIs) (cents) | 18.0 | 21.7 | 23.8 | 17.5 | 18.9 |
| Dividends – paid in the financial year – per share (DPS (paid)) (cents) | 12.5 | 9.3 | 11.7 | 11.5 | 9.1 |
| Dividends – declared in respect of the financial year – per share (DPS (declared)) (cents) | 9.2 | 10.8 | 11.8 | 8.7 | 9.4 |
| Share price ($) (Year End) | 2.69 | 2.71 | 3.90 | 2.82 | 3.60 |
| Total Shareholder Return (TSR) (%)[1] | (16) | (7) | 43 | 14 | 36 |

(1) TSR is calculated in accordance with the rules of the LTI 2010/13, LTI 2011/14, LTI 2012/15, LTI 2013/16 and LTI 2014/17 as applicable 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.

#### Relationship between the Group's performance and STI outcomes

This graph illustrates the relationship between the Group's performance and STI awards in respect of the current and preceding four years. In 2013, EPS (before IMIs) decreased 27% and no STI awards were made. In 2014, EPS (before IMIs) grew 21% to 21.7 cps resulting in partial awards being made to Executives under the 2014 STI. Similarly, in the 2015 financial year, EPS (before IMIs) increased by 9.7% to 23.8 cps and, as a result, certain Executives earned awards in full in respect of this measure. For the 2016 financial year, with EPS (before IMIs) declining by 26.5% to 17.5 cps, no awards were made under the 2016 STI, save in relation to the successful completion of the Louisiana Ammonia Project as well as the Group's safety performance. For the 2017 financial year, EPS (before IMIs) has increased 8% to 18.9 cps resulting in certain Executives earning partial STI awards in respect of this measure.

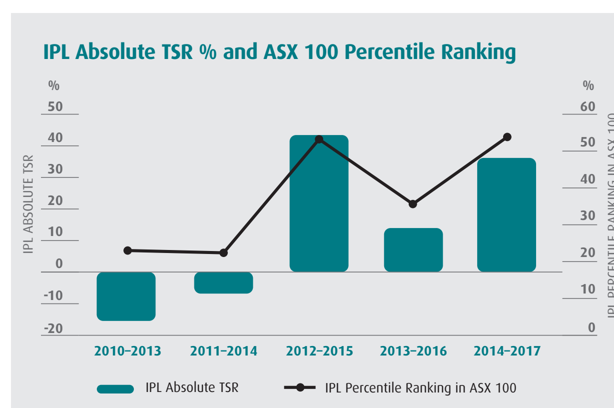



#### Relationship between the Group's performance and LTI outcomes

This graph illustrates the relationship between IPL's Absolute Total Shareholder Return (TSR) and its percentile ranking relative to its S&P/ASX 100 peer group.

IPL outranked the 50th percentile TSR for the ASX 100 peer group for the 2012-2015 performance period with a 53rd percentile ranking (Absolute TSR achieved 43%) and for the 2014-2017 performance period with a 53rd percentile ranking (Absolute TSR achieved 36%). As a consequence, the LTI 2012/15 partially vested and the LTI 2014/17 will also partially vest as outlined in section 4.3 of this report.

The performance rights in the LTI 2010/13, LTI 2011/14 and the LTI 2013/16 did not meet the performance conditions set out in those plans (including a TSR condition) and lapsed. TSR has been positive for three out of the five periods reported.




Note:
(1) The absolute TSR for IPL and for the ASX100 has been calculated using the methodology noted in footnote (1) Table 3.

## 4.2 2017 STI Outcomes

| Performance Condition | Outcome |
|---|---|
| Group Financial Performance | With EPS increasing 8% from 17.5 cents per share to 18.9 cents per share, Executives in Group roles were awarded 65% of the STI opportunity for this measure. (Refer to Table 2 for Group roles). |
| Business Unit Financial Performance | As the EBIT outcomes for the Dyno Nobel Americas business exceeded stretch performance, Mr Stratford and Mr Grace were awarded 100% of their respective STI opportunity for this measure.<br>In relation to the Asia Pacific business, as the EBIT results for the Incitec Pivot Fertilisers and Dyno Nobel Asia Pacific segments slightly exceeded threshold performance, Mr Atkinson and Mr Grace were each granted a partial award in respect of this measure (being 39% of their respective STI opportunity). |
| Zero Harm | The balanced scorecard applied across the dimensions of behavioural safety and process safety management was achieved in full. The TRIFR as at the end of the 2017 financial year was 0.90, which was below the target of 1.0. In addition, the Company also achieved a significant improvement in other key safety metrics, including:<br>• a 62% reduction in the Employee Lost Day Severity Rate; and<br>• a 6% reduction in the LTIFR.<br>Accordingly, Executives were awarded 100% of the STI opportunity for this measure. |
| Strategic Outcomes – BEx OFI | The BEx OFI Program substantially exceeded the stretch targets set in 2016 with the Company delivering net savings of $176 million as at 30 September 2017. Accordingly, Executives were awarded 100% of the STI opportunity for this measure. |

These outcomes are reflected in the STI payments awarded as set out in Table 4 below:

### Table 4 – Short term incentives awarded for the year ended 30 September 2017

Details of the vesting profile of the STI payments awarded for the year ended 30 September 2017 as remuneration to each Executive are set out below:

| | Short term incentive for the year ended 30 September 2017 | | |
|---|---|---|---|
| | Included in remuneration $000 | % earned | % forfeited |
| **Executives – Current** | | | |
| J Fazzino | 1,763 | 79 | 21 |
| F Micallef | 726 | 79 | 21 |
| S Atkinson | 394 | 52 | 48 |
| L Balter | 605 | 79 | 21 |
| A Grace | 579 | 76 | 24 |
| E Hunter | 459 | 79 | 21 |
| N Stratford | 494 | 100 | – |

## 4.3 LTI 2014/17 Outcomes

The performance period for the LTI 2014/17 ended on 30 September 2017. Following testing against the performance conditions, in November the Board determined that 68.8% of the performance rights granted under the plan will vest. Details in relation to each of the performance conditions are set out below.

**TSR Condition**

In relation to the TSR Condition, the Company's relative TSR performance over the performance period exceeded the performance of the median of the companies in the S&P/ASX100, with the Company achieving a percentile ranking of 52.69 against the comparator group. Accordingly, 55.4% of the performance rights granted subject to the TSR Condition will vest in the 2018 financial year (being 38.8% of the total performance rights granted under the plan).

**Strategic Initiatives Condition**

In relation to the Strategic Initiatives Condition for which there were two components – the Louisiana Ammonia Project and Business Excellence – the Board assessed each component against a balanced scorecard and determined the outcome having regard to the results achieved for the performance goals across the entirety of the scorecard. The Board has determined that 100% of the performance rights granted subject to this condition will vest in the 2018 financial year (being 30% of the total performance rights granted under the plan). Commentary on the performance against the scorecard is set out in the following table.

| Strategic Initiatives Condition component | Commentary on Performance Against Scorecard | Actual Vesting (%) |
|---|---|---|
| Louisiana Ammonia Project | The performance period for the Project covered plant construction, commissioning and year one of operation. As the construction and commissioning stages comprised the majority of the performance period, greater weighting was given to these measures.<br>The performance goals in relation to safety, capital cost, efficiency and output were all achieved, with significant outperformance in relation to safety and capital cost:<br>• **Safety:** 5.23 million hours were worked during the construction of the plant without a lost time injury. This safety performance has set a new benchmark for construction projects in North America. The TRIFR for the Project was significantly below the IPL Group TRIFR for the performance period.<br>• **Capital cost:** the Project was completed at a cost of US$820 million, approximately 4% below the budget of US$850 million set at Project sanction in April 2013.<br>• **Efficiency:** the plant efficiency of 32GJ of gas per metric tonne of ammonia was met at performance testing and during operation.<br>• **Output and EBITDA:** While the EBITDA was not met as a result of the cyclical downturn in ammonia prices, the output measure was deemed to be satisfied based on actual production as well as compensation received as liquidated damages from the contractor in relation to the timing of handover of the plant. The long term Project metrics remain compelling, with the plant demonstrating capacity to operate at or above nameplate of 800,000 metric tonnes per annum.<br>In assessing the scorecard, the Board also had regard to external benchmarks. When measured against similar nitrogen projects sanctioned or completed within the period of the Project's construction, the Louisiana Ammonia Project outperformed in the areas of safety, capital cost, completion to schedule and time taken to achieve nameplate capacity. As noted above, the plant has demonstrated capacity to operate above nameplate, producing 108% of nameplate capacity in September 2017, which represents world class performance for the first year of production. An independent global consultancy benchmarked the Project in the top 2% by reference to schedule and cost for projects in the oil and gas, mining and chemical industries worldwide. When considered against project benchmarks, the Board has assessed this as the standout nitrogen project completed in North America during the current nitrogen "boom".<br>**Overall assessment:** As the Project was completed safely, on time, below budget and with a demonstrated capacity to operate at or above nameplate of 800,000 metrics tonnes per annum, the Board determined that the performance goals were delivered against the balanced scorecard. | 100 |
| Business Excellence (BEx) System | The performance goals for the BEx scorecard comprised non-financial (input) and financial (output) measures.<br>In relation to the input measures, being business system maturity and manufacturing plant uptime, the performance goals were met with the majority of the selected plants achieving an uptime near or above the 90th percentile. Similarly, in relation to business system maturity, which is measured on a scale of 1 to 5, an absolute improvement of 1.01 in the maturity score was achieved at the end of the performance period, exceeding the target. The final maturity score was verified by an independent third party.<br>The outcomes in relation to these input measures are reflected in the output measure, with the Company delivering $288 million in cumulative productivity benefits at the end of the performance period, significantly exceeding the $75 million target set at the commencement of the performance period.<br>**Overall assessment:** Having regard to the outcomes in relation to the input and output measures, the Board determined that the performance goals were delivered against the balanced scorecard. | 100 |

Overall, 68.8% of the Performance Rights allocated under the LTI 2014/17 will vest (with the remaining 31.2% to lapse).

The number of rights vested and lapsed will be reported in the 2018 Remuneration Report.

## 4.4 LTI: Performance related remuneration

### Table 5 – Details of long term incentives granted and vested in the year ended 30 September 2017 and the vesting profile of long term incentives granted as remuneration

The movement during the reporting period, by value, of rights for the purposes of remuneration held by each Executive and the vesting profile of long term incentives granted as remuneration are detailed below. Details of performance rights vested and forfeited set out in the table below relate to the performance rights granted under the LTI 2013/16 (performance period: 1 October 2013 to 30 September 2016) which, following testing in November 2016, did not result in any rights vesting. In relation to the LTI 2014/17 (performance period: 1 October 2014 to 30 September 2017), following testing in November 2017, the Board determined that 68.8% of the performance rights will vest. This will be reported in the 2018 Remuneration Report.

| Key Management Personnel | LTI plan | Grant date | Granted during 2017 as remuneration(A) $000 | Exercised in year $000 | Vested in year % | Forfeited in year % | Financial year in which grant may vest | Maximum value of outstanding rights(B) $000 |
|---|---|---|---|---|---|---|---|---|
| **Executives – Current** | | | | | | | | |
| J Fazzino | 2013/16 | 6 January 2014 | – | – | – | 100 | 2016 | – |
| | 2014/17 | 30 December 2014 | – | – | – | – | 2017 | 1,746 |
| | 2015/18 | 21 January 2016 | – | – | – | – | 2018 | 1,025 |
| | 2016/19 | 25 January 2017 | 2,598 | – | – | – | 2019 | 2,598 |
| F Micallef | 2013/16 | 6 January 2014 | – | – | – | 100 | 2016 | – |
| | 2014/17 | 30 December 2014 | – | – | – | – | 2017 | 575 |
| | 2015/18 | 21 January 2016 | – | – | – | – | 2018 | 337 |
| | 2016/19 | 25 January 2017 | 855 | – | – | – | 2019 | 855 |
| S Atkinson | 2013/16 | 6 January 2014 | – | – | – | 100 | 2016 | – |
| | 2014/17 | 30 December 2014 | – | – | – | – | 2017 | 479 |
| | 2015/18 | 21 January 2016 | – | – | – | – | 2018 | 281 |
| | 2016/19 | 25 January 2017 | 713 | – | – | – | 2019 | 713 |
| L Balter | 2015/18 | 25 August 2016 | – | – | – | – | 2018 | 275 |
| | 2016/19 | 25 January 2017 | 713 | – | – | – | 2019 | 713 |
| A Grace | 2013/16 | 6 January 2014 | – | – | – | 100 | 2016 | – |
| | 2014/17 | 30 December 2014 | – | – | – | – | 2017 | 479 |
| | 2015/18 | 21 January 2016 | – | – | – | – | 2018 | 281 |
| | 2016/19 | 25 January 2017 | 713 | – | – | – | 2019 | 713 |
| E Hunter | 2013/16 | 6 January 2014 | – | – | – | 100 | 2016 | – |
| | 2014/17 | 30 December 2014 | – | – | – | – | 2017 | 364 |
| | 2015/18 | 21 January 2016 | – | – | – | – | 2018 | 213 |
| | 2016/19 | 25 January 2017 | 541 | – | – | – | 2019 | 541 |
| N Stratford | 2016/19 | 19 April 2017 | 736 | – | – | – | 2019 | 736 |

(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 to the right. This amount is allocated to the remuneration of the applicable Executive over the vesting period (that is, in the 2017, 2018 and 2019 financial years).

(B) The maximum value of outstanding rights is based on the fair value of the performance rights at the grant date. This may be different to the value of the rights in the event that they vest. The minimum value of rights yet to vest is $nil, as the performance criteria may not be met.

| | Grant date | Fair value per share treated as rights at grant date |
|---|---|---|
| **LTI 2013/16 - TSR** | 6/01/2014 | $1.40 |
| **LTI 2013/16 - EPS** | 6/01/2014 | $2.39 |
| **LTI 2014/17 - TSR** | 30/12/2014 | $1.99 |
| **LTI 2014/17 - Strategic Initiative** | 30/12/2014 | $2.88 |
| **LTI 2015/18 - TSR** | 21/01/2016 | $1.29 |
| **LTI 2015/18 - Strategic Initiative** | 21/01/2016 | $3.06 |
| **LTI 2016/19 - TSR** | 25/01/2017 | $2.87 |
| **LTI 2016/19 - Strategic Initiative** | 25/01/2017 | $3.45 |
| **LTI 2016/19 - ROE Growth** | 25/01/2017 | $3.45 |

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

No terms of equity-settled share-based payment transactions (including rights) granted to a KMP have been altered or modified by the issuing entity during the reporting period.

### Table 6 – 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 KMP, including their related parties, is as follows:

| | Number of Rights | | | | |
|---|---|---|---|---|---|
| Key Management Personnel | Opening balance | Granted as compensation(A) | Vested(B) | Forfeited(C) | Closing balance |
| **Executives – Current** | | | | | |
| J Fazzino(1) | 2,140,602 | 807,335 | – | (804,218) | 2,143,719 |
| F Micallef | 704,725 | 265,789 | – | (264,763) | 705,751 |
| S Atkinson | 549,356 | 221,491 | – | (182,721) | 588,126 |
| L Balter(2) | 150,941 | 221,491 | – | – | 372,432 |
| A Grace | 587,271 | 221,491 | – | (220,636) | 588,126 |
| E Hunter | 435,903 | 168,115 | – | (157,621) | 446,397 |
| N Stratford(2) | – | 228,832 | – | – | 228,832 |

(A) For the 2017 financial year, this represents the rights granted to Executives during the reporting period under the LTI 2016/19.
(B) For the 2017 financial year, this represents the number of rights that vested during the reporting period.
(C) For the 2017 financial year, this represents rights that were forfeited by Executives during the reporting period under the LTI 2013/16.
(1) This represents the closing balance as at 30 September 2017. Section 5.1 sets out details of rights to be vested, retained and forfeited by Mr Fazzino after the reporting period.
(2) Ms Balter and Mr Stratford were not participants in the LTI 2013/16.

## 4.5 Further details of Executive remuneration

### Table 7 – Executive remuneration

Details of the remuneration for each Executive for the year ended 30 September 2017 are set out below (noting that for individuals who ceased to be KMP in the 2016 financial year, only comparative information is shown in the table).

| | | Short-term benefits | | | Post-employment benefits | Other long term benefits(C) | Termination benefits | Share-based payments | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Accounting values | | | | |
| | Year | Salary & Fees $000 | Short term incentive & other bonuses(A) $000 | Other short term benefits(B) $000 | Super-annuation benefits $000 | $000 | $000 | Current period expense(D) $000 | Prior periods expense write-back(D) $000 | Total share-based payments $000 | Total $000 | Short term incentive & other bonuses as a proportion of remuneration(E) % |
| **Executives – Current** | | | | | | | | | | | | |
| **J Fazzino** | **2017** | **2,209** | **1,763** | **–** | **20** | **43** | **–** | **1,790** | **–** | **1,790** | **5,825** | **30** |
| Managing Director & CEO | 2016 | 2,209 | 212 | – | 19 | 43 | – | 1,111 | (641) | 470 | 2,953 | 6 |
| **F Micallef** | **2017** | **897** | **726** | **–** | **20** | **9** | **–** | **589** | **–** | **589** | **2,241** | **32** |
| Chief Financial Officer | 2016 | 898 | 87 | – | 19 | 24 | – | 366 | (211) | 155 | 1,183 | 6 |
| **S Atkinson** | **2017** | **744** | **394** | **–** | **20** | **18** | **–** | **491** | **–** | **491** | **1,667** | **24** |
| President, Dyno Nobel Asia Pacific and Incitec Pivot Fertilisers | 2016 | 896 | 73 | – | 19 | 16 | – | 296 | (146) | 150 | 1,154 | 6 |
| **L Balter**(1) | **2017** | **744** | **605** | **–** | **20** | **4** | **–** | **329** | **–** | **329** | **1,702** | **36** |
| President, Strategy & Business Development | 2016 | 124 | – | 300 | 3 | 1 | – | 21 | – | 21 | 449 | – |
| **A Grace** | **2017** | **744** | **579** | **–** | **20** | **20** | **–** | **491** | **–** | **491** | **1,854** | **31** |
| President, Global Manufacturing | 2016 | 745 | 416 | – | 19 | 17 | – | 305 | (176) | 129 | 1,326 | 28 |
| **E Hunter** | **2017** | **560** | **459** | **34** | **20** | **4** | **–** | **373** | **–** | **373** | **1,450** | **32** |
| Chief Human Resources Officer & Shared Services | 2016 | 545 | 55 | 12 | 19 | 7 | – | 229 | (126) | 103 | 741 | 6 |
| **N Stratford**(2) | **2017** | **504** | **494** | **63** | **13** | **32** | **–** | **245** | **–** | **245** | **1,351** | **37** |
| President, Dyno Nobel Americas | | | | | | | | | | | | |
| **Executives – Former** | | | | | | | | | | | | |
| **S Dawson**(3) President, Manufacturing Operations | 2016 | 510 | 50 | 3 | 13 | 15 | 753 | 305 | (176) | 129 | 1,473 | 3 |
| **G Kubera**(4) President, Dyno Nobel Americas | 2016 | 815 | 75 | 48 | – | – | 420 | 211 | – | 211 | 1,569 | 5 |
| **J Whiteside**(5) Chief Operating Officer, Incitec Pivot Fertilisers | 2016 | 134 | – | 63 | 5 | 2 | 964 | 37 | (127) | (90) | 1,078 | – |
| **Total Executives** | **2017** | **6,402** | **5,020** | **97** | **133** | **130** | **–** | **4,308** | **–** | **4,308** | **16,090** | **31** |
| | 2016 | 6,876 | 968 | 426 | 116 | 125 | 2,137 | 2,881 | (1,603) | 1,278 | 11,926 | 7 |

(A) Certain STI payments are awarded in US$. Such STI payments were converted to A$ at the spot rate on 30 September 2017, being 1.2745.

(B) Other short term benefits include annual leave paid, the taxable value of fringe benefits paid attributable to the fringe benefits tax year (2017: 1 April 2016 to 31 March 2017) (2016: 1 April 2015 to 31 March 2016), rent and mortgage interest subsidies, relocation allowances and other allowances. For Mr Stratford, this includes rental subsidies in relation to his role as President, Dyno Nobel Americas. For Ms Hunter, this amount related to relocation allowances paid in the 2017 financial year.

(C) Other long term benefits represent 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 the above Table 7 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.

(E) The short term incentive and other bonuses as a proportion of remuneration is calculated based on the short term incentive expense as a proportion of the total remuneration (excluding the prior period share-based payment expense write-back).

(1) Ms Balter commenced employment with the Company and became a KMP on 1 August 2016 and the disclosures for the 2016 financial year are from that date. Ms Balter's contract included a one-off payment of $300,000 (less applicable taxes) as compensation for incentives foregone arising from cessation of her employment with her previous employer. The payment was made in the 2016 financial year.

(2) Mr Stratford's fixed remuneration payments were converted from US$ to A$ at the average rate for 6 February 2017 to 30 September 2017, being 1.3365.

(3) Mr Dawson ceased to be a member of the Executive Team and a KMP with effect from 7 June 2016.

(4) Mr Kubera ceased employment with the Company on 30 September 2016. The payments accrued to Mr Kubera in the 2016 financial year included a separation payment of US$300,000 in accordance with his employment contract as well as employer contributions to medical and dental benefits in the amount of US$9,336 and accrued annual leave of US$39,123.

(5) Mr Whiteside ceased employment with the Company on 4 November 2015. Termination payments received by Mr Whiteside in the 2016 financial year included a separation payment in the amount of $667,304 and long service leave in the amount of $296,980.

### Table 8 – Actual Pay

The table below provides a summary of actual remuneration paid to the Executives in the 2017 financial year (noting that for individuals who ceased to be KMP in the 2016 financial year, only comparative information is shown in the table). 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 7 of this report.

| | | Salary & Fees | Short Term Incentive & other bonuses[(A)] | Other Short Term benefits[(B)] | Superannuation benefits | Termination benefits | Total |
|---|---|---|---|---|---|---|---|
| | **Year** | **$000** | **$000** | **$000** | **$000** | **$000** | **$000** |
| **Executives – Current** | | | | | | | |
| **J Fazzino**<br>Managing Director & CEO | **2017** | **2,209** | **212** | **–** | **20** | **–** | **2,441** |
| | 2016 | 2,209 | 2,005 | – | 19 | – | 4,233 |
| **F Micallef**<br>Chief Financial Officer | **2017** | **897** | **87** | **–** | **20** | **–** | **1,004** |
| | 2016 | 898 | 825 | – | 19 | – | 1,742 |
| **S Atkinson**<br>President, Dyno Nobel Asia Pacific and Incitec Pivot Fertilisers | **2017** | **744** | **73** | **–** | **20** | **–** | **837** |
| | 2016 | 896 | 76 | – | 19 | – | 991 |
| **L Balter**<br>President, Strategy & Business Development | **2017** | **744** | **–** | **–** | **20** | **–** | **764** |
| | 2016 | 124 | – | 300 | 3 | | 427 |
| **A Grace**<br>President, Global Manufacturing | **2017** | **744** | **416** | **–** | **20** | **–** | **1,180** |
| | 2016 | 745 | 535 | – | 19 | – | 1,299 |
| **E Hunter**<br>Chief Human Resources Officer & Shared Services | **2017** | **560** | **55** | **34** | **20** | **–** | **669** |
| | 2016 | 545 | 522 | 12 | 19 | – | 1,098 |
| **N Stratford**<br>President, Dyno Nobel Americas | **2017** | **504** | **–** | **63** | **13** | **–** | **580** |
| **Executives – Former** | | | | | | | |
| **S Dawson**<br>President, Manufacturing Operations | 2016 | 510 | 535 | 3 | 13 | – | 1,061 |
| **G Kubera**<br>President, Dyno Nobel Americas | 2016 | 815 | 56 | 46 | – | – | 917 |
| **J Whiteside**<br>Chief Operating Officer, Incitec Pivot Fertilisers | 2016 | 134 | 611 | 63 | 5 | 964 | 1,777 |
| **Total Executives** | **2017** | **6,402** | **843** | **97** | **133** | **–** | **7,475** |
| | 2016 | 6,876 | 5,165 | 424 | 116 | 964 | 13,545 |

(A) Represents short term incentives paid during the 2017 financial year in relation to incentives awarded in respect of the 2016 financial year under the 2016 STI.

(B) Other short term benefits include annual leave paid, the taxable value of fringe benefits paid attributable to the fringe benefits tax year (2017: 1 April 2016 to 31 March 2017) (2016: 1 April 2015 to 31 March 2016), rent and mortgage interest subsidies, relocation allowances and other allowances.

## 5. Executives – Summary of terms of employment

### 5.1 CEO Transition

Mr James Fazzino was appointed as Managing Director & Chief Executive Officer on 29 July 2009. In February 2017, the Company announced that Mr Fazzino would be stepping down from the role of Managing Director & Chief Executive Officer. Mr Fazzino will cease as Managing Director & Chief Executive Officer on 14 November 2017. This section provides details of Mr Fazzino's remuneration during the 2017 financial year and his cessation arrangements. Refer to section 5.3 for specific information relating to the terms of Mr Fazzino's service agreement.

As announced to the ASX on 9 August 2017, Ms Jeanne Johns will commence as Managing Director & Chief Executive Officer on 15 November 2017. Details of Ms Johns' remuneration and other contractual arrangements are outlined in the ASX announcement dated 9 August 2017 and a summary is included below.

#### Outgoing CEO remuneration and cessation arrangements

For the 2017 financial year, Mr Fazzino's FAR was $2,228,245.

Mr Fazzino participated in the 2017 STI. For the 2017 financial year, Mr Fazzino's maximum STI opportunity was 100% of his FAR. Mr Fazzino was awarded a STI payment of $1,763,024.

Mr Fazzino also participated in the LTI 2014/17. On determination of performance measured against the performance conditions, in accordance with the LTI 2014/17 plan rules, 532,039 of Mr Fazzino's performance rights will vest in the 2018 financial year. Mr Fazzino also participates in the LTI 2015/18 and the LTI 2016/19, pursuant to which Mr Fazzino was granted 562,688 performance rights (under the LTI 2015/18) and 807,335 performance rights (under the LTI 2016/19). Each grant was approved by shareholders at the relevant Annual General Meeting.

Mr Fazzino will cease employment with the Company on 14 November 2017. In accordance with the terms of his service agreement, Mr Fazzino will receive:

- payment in lieu of notice of $631,818, for the period 15 November 2017 to 24 February 2018 (being the balance of his 12 month notice period); and
- payment of accrued annual leave and accrued long service leave.

Mr Fazzino will also retain a pro rata portion of his unvested LTI grants from previous years, reflecting the portion of the relevant performance period that he will have served as at the date of cessation of his employment. As a result, he will retain the following unvested performance rights:

- 398,400 performance rights granted under the LTI 2015/18; and
- 302,290 performance rights granted under the LTI 2016/19.

Mr Fazzino's retained performance rights will remain subject to their original terms. They will be tested against the relevant performance conditions at the end of the relevant performance periods. There will be no relaxation of the performance hurdles and no acceleration of the testing of those hurdles.

No other payments will be made to Mr Fazzino in respect of his cessation of employment.

#### Incoming CEO service agreement terms

The ASX announcement dated 9 August 2017 sets out material terms of Ms Johns' service agreement. Ms Johns' service agreement is unlimited in term but is capable of termination. This section includes a summary of the terms of Ms Johns' service agreement in respect of her remuneration.

| | |
|---|---|
| **FAR** | $1,600,000 per annum, reviewed annually. This includes superannuation guarantee contributions required to comply with superannuation guarantee legislation, if payable (noting that Ms Johns' salary will be exempt from the Superannuation Guarantee Scheme pursuant to current legislative provisions). |
| **STI** | For the financial year ending 30 September 2018, the maximum opportunity will be 150% of FAR for stretch performance and 100% of FAR for target performance. 50% of any STI earned will be deferred into equity to be released over a two-year period following the making of an STI award, subject to meeting a service condition. |
| **LTI** | For the financial year ending 30 September 2018, the maximum opportunity will comprise performance rights to the value of 150% of FAR, subject to shareholder approval. The amount which vests is dependent on meeting vesting conditions. |

| | |
|---|---|
| **Notice and Termination** | 12 months written notice must be provided by either party to terminate without cause. Ms Johns may be required to serve out the whole or part of the notice period on an active or passive basis or be paid in lieu of notice at the Board's discretion.<br>Ms Johns may terminate the agreement by giving notice within 30 days of an event giving rise to a fundamental change, being a circumstance where either:<br>• Ms Johns ceases to be the most senior executive of the Group; or<br>• there is a substantial diminution in her responsibilities or authority,<br>but excludes any change or diminution arising through termination or notice of termination given under another provision of her service agreement, or arising with Ms Johns' consent.<br>The Company may terminate Ms Johns' employment immediately for cause. |
| **Termination payments** | Treatment of any STI or LTI plan benefits on termination will be determined by the rules of the applicable plans.<br>No payment will be made in respect of termination of employment in excess of the amount lawfully payable under Part 2D.2 of the Corporations Act 2001 without shareholder approval. |

## 5.2 Executives

Remuneration and other terms of employment for the Executives are formalised in service agreements. Most Executives are engaged on similar contractual terms, with minor variations to address differing circumstances. Refer to section 5.3 for specific information relating to the service agreements.

FAR for the Executives comprises salary paid in cash and mandatory employer superannuation contributions. FAR may also come in other forms such as fringe benefits (eg motor vehicles). In relation to the Executives' FAR, no increase from the 2016 financial year was made for the 2017 financial year. For the 2018 financial year, the Board has determined to increase the Executives' FAR by 2% with effect from 1 October 2017.

Details of the Executives' participation in the Company's STI and LTI plans, including the outcomes of each plan, are set out in sections 3 and 4.

## 5.3 Service agreement terms

Each Executive service agreement is unlimited in term; however, each service agreement provides that the Company may terminate the Executive's employment:

- immediately for cause, without payment of any separation payment, save as to accrued fixed annual remuneration, accrued annual leave and accrued 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 accrued long service leave.

The notice period to be provided by the Executive is set out in the table below:

| | Notice period to be provided by the Executive |
|---|---|
| J Fazzino | 6 months |
| F Micallef | 13 weeks |
| S Atkinson | 13 weeks |
| L Balter | 13 weeks |
| A Grace | 8 weeks |
| E Hunter | 13 weeks |
| N Stratford | 13 weeks |

The separation payment included in each Executive's contract is capped at an amount equivalent to a specified number of weeks of FAR for the Executive. Mr Fazzino's separation payment is equal to 52 weeks of FAR as at the date of termination (subject to the provisions relating to termination benefits in Part 2D.2 of the Corporations Act 2001). All other Executives' contracts provide for a separation payment of 26 weeks of FAR, save for Mr Atkinson's and Mr Stratford's contracts. Mr Atkinson's and Mr Stratford's contracts provide for a separation payment equal to 52 weeks of FAR. Additionally, Mr Micallef's and Mr Grace's contracts further provide that IPL may terminate the agreement on notice in the case of incapacity, in which case the Company must pay the separation payment plus accrued fixed annual remuneration, accrued annual leave and accrued long service leave.

## 6. Non-Executive Director Remuneration

IPL's policy is to:

- remunerate non-executive directors by way of fees and payments which may be in the form of cash and superannuation benefits; and
- set the level of non-executive directors' fees and payments to be consistent with the market and to enable IPL Group 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 2017 financial year, there were no increases to non-executive directors' fees. Fees paid to non-executive directors amounted to $1,650,000, which was within the $2,000,000 maximum aggregate fee pool approved by shareholders at the 2008 Annual General Meeting.

For the 2018 financial year, the Board has again determined that there will be no increase to non-executive director fees.

The table below sets out the Board and Committee fees as at 30 September 2017:

| | | |
|---|---|---|
| **Board Fees** | Chairperson | $532,500 |
| | Members | $177,500 |
| **Committee Fees** | **Audit & Risk Management Committee** | |
| | Chairperson | $47,200 |
| | Members | $23,600 |
| | **Remuneration Committee** | |
| | Chairperson | $35,400 |
| | Members | $17,700 |
| | **HSEC Committee** | |
| | Chairperson | $35,400 |
| | Members | $17,700 |
| | **Nominations Committee** | |
| | Chairperson | N/A |
| | Members | $8,250 |

### Table 9 – Non-executive directors' remuneration

Details of the non-executive directors' remuneration for the financial year ended 30 September 2017 are set out in the following table:

| | | Board and Committee Fees | Cash allowances and other short term benefits(A) | Post-employment benefits | Other long term benefits | |
|---|---|---|---|---|---|---|
| | | Fees | | Superannuation benefits | | Total |
| | **Year** | **$000** | **$000** | **$000** | **$000** | **$000** |
| **Non-executive directors – Current** | | | | | | |
| P Brasher, Chairman | **2017** | **513** | **–** | **20** | **–** | **533** |
| | 2016 | 514 | – | 19 | – | 533 |
| K Fagg | **2017** | **207** | **–** | **19** | **–** | **226** |
| | 2016 | 196 | – | 17 | – | 213 |
| G Hayes[1] | **2017** | **206** | **7** | **19** | **–** | **232** |
| | 2016 | 207 | – | 18 | – | 225 |
| R McGrath | **2017** | **225** | **–** | **20** | **–** | **245** |
| | 2016 | 226 | – | 19 | – | 245 |
| G Smorgon AM | **2017** | **198** | **–** | **19** | **–** | **217** |
| | 2016 | 202 | – | 19 | – | 221 |
| J Breunig[2] | **2017** | **64** | **10** | **–** | **–** | **74** |
| B Kruger | **2017** | **65** | **–** | **6** | **–** | **71** |
| **Non-executive directors – Former** | | | | | | |
| J Marlay | **2017** | **46** | **2** | **4** | **–** | **52** |
| | 2016 | 218 | – | 19 | – | 237 |
| **Total non-executive directors** | **2017** | **1,524** | **19** | **107** | **–** | **1,650** |
| | 2016 | 1,563 | – | 111 | – | 1,674 |

(A) Cash allowances and other short term benefits include travel allowances and the taxable value of fringe benefits paid attributable to the fringe benefits tax year.

(1) This relates to travel benefits received by Mr Hayes that were subject to fringe benefits tax.

(2) Mr Breunig resides in the United States and receives a travel allowance of $5,000 per trip to Australia to attend Board and/or Committee meetings.

## 7. Shareholdings in IPL

### Table 10 – 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 KMP, including their related parties, is set out in the table below:

| | Number of Shares[(A)] | | | |
|---|---|---|---|---|
| | Opening balance | Shares acquired | Shares disposed | Closing balance |
| **Non-executive directors**[(1)] | | | | |
| P Brasher | 60,600 | – | – | 60,600 |
| K Fagg | 10,000 | – | – | 10,000 |
| G Hayes | 10,000 | – | – | 10,000 |
| R McGrath | 18,758 | – | – | 18,758 |
| G Smorgon AM | 13,100 | – | – | 13,100 |
| J Breunig | – | – | – | – |
| B Kruger | – | 14,620 | – | 14,620 |
| **Executive directors** | | | | |
| J Fazzino | 1,914,562 | – | – | 1,914,562 |
| **Executive** | | | | |
| F Micallef | 50,744 | 234 | (34,444) | 16,534 |
| S Atkinson | 50,270 | – | – | 50,270 |
| L Balter | – | – | – | – |
| A Grace | 75,800 | – | – | 75,800 |
| E Hunter | – | – | – | – |
| N Stratford | 19,620 | – | – | 19,620 |

(A) Includes fully paid ordinary shares and shares acquired under IPL's incentive plans. Details of these plans are set out in note 17, Share-based payments.
(1) Mr John Marlay ceased to be a non-executive director on 16 December 2016 and, at that time, held 37,926 shares in the Company. Mr Marlay did not transact any ordinary shares during the period in the 2017 financial year during which he was a director.

## 8. Other KMP Disclosures

### Loans to KMP

In the 2017 financial year, there were no loans to KMP or their related parties (2016: nil).

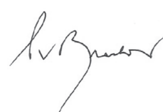
### Other KMP transactions

The following transactions, entered into during the 2017 and 2016 financial years with KMP, 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 $505,742 during the year (2016: $962,735). Mr Fazzino's spouse did not directly provide these services. Mr Fazzino has not engaged PwC at any time for any assignment.

(2) The spouse of Ms Fagg is a partner in the accountancy and tax firm KPMG from which the Group purchased services of $1,063,667 during the year (2016: $494,202). Ms Fagg's spouse did not directly provide these services. Ms Fagg was not involved in any engagement of KPMG.

Signed in accordance with a resolution of the directors:



**Paul V Brasher**
Chairman

Dated at Melbourne this 14th day of November 2017

**Deloitte.**

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

14 November 2017

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 2017, 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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# Financial report

## Introduction

This is the consolidated financial report of Incitec Pivot Limited (the **Company**, **IPL**, or **Incitec Pivot**) a company domiciled in Australia, and its subsidiaries including its interests in joint ventures and associates (collectively referred to as the **Group**) for the financial year ended 30 September 2017.

## Content and structure of the financial report

The notes to the financial statements and the related accounting policies are grouped into the following distinct sections in the 2017 financial report. The accounting policies have been consistently applied to all years presented, unless otherwise stated.

*Financial performance:* Provides detail on the Group's Consolidated Statement of Profit or Loss and Other Comprehensive Income and Consolidated Statement of Financial Position that are most relevant in forming an understanding of the Group's financial performance for the year.

*Shareholder returns:* Provides information on the performance of the Group in generating shareholder returns.

*Capital structure:* Provides information about the Group's capital and funding structures.

*Capital investment:* Provides information on the Group's investment in tangible and intangible assets, and the Group's future capital commitments.

*Risk management:* Provides information about the Group's risk exposures, risk management practices, provisions and contingent liabilities.

*Other:* Provides information on items that require disclosure to comply with Australian Accounting Standards and the requirements under the Corporations Act.

Information is included in the notes to the financial report only to the extent it is considered material and relevant to the understanding of the financial report. A disclosure is considered material and relevant if, for example:

- the dollar amount is significant in size (quantitative factor)
- the item is significant by nature (qualitative factor)
- the Group's result cannot be understood without the specific disclosure (qualitative factor)
- it relates to an aspect of the Group's operations that is important to its future performance.

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 September 2017

| | Notes | 2017 $mill | 2016 $mill |
|---|---|---|---|
| Revenue | (2) | **3,473.4** | 3,353.7 |
| Financial and other income | (2) | **102.3** | 56.2 |
| Share of profit of equity accounted investments | (13) | **39.9** | 35.9 |
| **Operating expenses** | | | |
| Changes in inventories of finished goods and work in progress | | **(28.9)** | 10.4 |
| Raw materials and consumables used and finished goods purchased for resale | | **(1,537.7)** | (1,494.0) |
| Employee expenses | | **(596.3)** | (637.6) |
| Depreciation and amortisation | (2) | **(273.3)** | (244.5) |
| Financial expenses | (2) | **(114.0)** | (59.1) |
| Purchased services | | **(152.4)** | (144.0) |
| Repairs and maintenance | | **(135.2)** | (144.1) |
| Outgoing freight | | **(265.1)** | (231.3) |
| Lease payments – operating leases | | **(61.6)** | (66.5) |
| Asset impairment write-downs and restructuring costs | | **(4.7)** | (241.3) |
| Other expenses | | **(53.9)** | (57.2) |
| **Profit before income tax** | | **392.5** | 136.6 |
| Income tax expense | (3) | **(70.9)** | (7.2) |
| **Profit for the year** | | **321.6** | 129.4 |
| **Other comprehensive income, net of income tax** | | | |
| ***Items that will not be reclassified subsequently to profit or loss*** | | | |
| Actuarial gain/(losses) on defined benefit plans | (19) | **41.7** | (21.9) |
| Gross fair value losses on assets at fair value through other comprehensive income | (16) | **(0.8)** | (0.1) |
| Income tax relating to items that will not be reclassified subsequently to profit or loss | | **(14.9)** | 7.5 |
| | | **26.0** | (14.5) |
| ***Items that may be reclassified subsequently to profit or loss*** | | | |
| Fair value gains on cash flow hedges | (16) | **52.9** | 3.2 |
| Cash flow hedge (gains)/losses transferred to profit or loss | (16) | **(34.8)** | 5.9 |
| Exchange differences on translating foreign operations | | **(103.5)** | (282.5) |
| Net gains on hedge of net investment | (16) | **69.2** | 237.9 |
| Income tax relating to items that may be reclassified subsequently to profit or loss | | **1.5** | 9.7 |
| | | **(14.7)** | (25.8) |
| **Other comprehensive income for the year, net of income tax** | | **11.3** | (40.3) |
| **Total comprehensive income for the year** | | **332.9** | 89.1 |
| **Profit attributable to:** | | | |
| Members of Incitec Pivot Limited | | **318.7** | 128.1 |
| Non-controlling interest | | **2.9** | 1.3 |
| **Profit for the year** | | **321.6** | 129.4 |
| **Total comprehensive income attributable to:** | | | |
| Members of Incitec Pivot Limited | | **330.0** | 87.8 |
| Non-controlling interest | | **2.9** | 1.3 |
| **Total comprehensive income for the year** | | **332.9** | 89.1 |
| **Earnings per share** | | | |
| Basic (cents per share) | (5) | **18.9** | 7.6 |
| Diluted (cents per share) | (5) | **18.8** | 7.6 |

# Consolidated Statement of Financial Position

As at 30 September 2017

| | Notes | 2017 $mill | 2016 $mill |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | (8) | **627.9** | 427.1 |
| Trade and other receivables | (4) | **337.7** | 256.1 |
| Inventories | (4) | **388.6** | 405.7 |
| Other assets | | **76.2** | 39.3 |
| Other financial assets | (16) | **22.6** | 9.2 |
| Current tax assets | | **–** | 4.5 |
| **Total current assets** | | **1,453.0** | 1,141.9 |
| **Non-current assets** | | | |
| Trade and other receivables | (4) | **5.1** | 20.7 |
| Other assets | | **30.7** | 62.8 |
| Other financial assets | (16) | **18.6** | 37.2 |
| Equity accounted investments | (13) | **316.9** | 318.0 |
| Property, plant and equipment | (9) | **3,854.8** | 3,892.7 |
| Intangible assets | (10) | **3,121.0** | 3,182.5 |
| Deferred tax assets | (3) | **21.6** | 23.2 |
| **Total non-current assets** | | **7,368.7** | 7,537.1 |
| **Total assets** | | **8,821.7** | 8,679.0 |
| **Current liabilities** | | | |
| Trade and other payables | (4) | **1,043.7** | 939.5 |
| Interest bearing liabilities | (8) | **12.1** | 11.1 |
| Other financial liabilities | (16) | **19.4** | 5.2 |
| Provisions | (15) | **78.0** | 114.4 |
| Current tax liabilities | | **11.8** | – |
| **Total current liabilities** | | **1,165.0** | 1,070.2 |
| **Non-current liabilities** | | | |
| Trade and other payables | (4) | **14.9** | 7.3 |
| Interest bearing liabilities | (8) | **2,212.0** | 2,278.3 |
| Other financial liabilities | (16) | **28.3** | 96.9 |
| Provisions | (15) | **95.1** | 88.1 |
| Deferred tax liabilities | (3) | **509.1** | 462.9 |
| Retirement benefit obligation | (19) | **38.2** | 99.0 |
| **Total non-current liabilities** | | **2,897.6** | 3,032.5 |
| **Total liabilities** | | **4,062.6** | 4,102.7 |
| **Net assets** | | **4,759.1** | 4,576.3 |
| **Equity** | | | |
| Issued capital | (7) | **3,436.8** | 3,436.8 |
| Reserves | | **(197.9)** | (187.3) |
| Retained earnings | | **1,514.2** | 1,322.5 |
| Non-controlling interest | | **6.0** | 4.3 |
| **Total equity** | | **4,759.1** | 4,576.3 |

# Consolidated Statement of Cash Flows

For the year ended 30 September 2017

| | Notes | **2017 $mill** | 2016 $mill |
|---|---|---|---|
| | | **Inflows/ (Outflows)** | Inflows/ (Outflows) |
| **Cash flows from operating activities** | | | |
| Profit after tax for the year | | **321.6** | 129.4 |
| *Adjusted for non-cash items* | | | |
| Net finance cost | | **108.7** | 50.2 |
| Depreciation and amortisation | (2) | **273.3** | 244.5 |
| Impairment of property, plant and equipment | (9) | **4.7** | 172.3 |
| Share of profit of equity accounted investments | (13) | **(39.9)** | (35.9) |
| Net gain on sale of property, plant and equipment | (2) | **(19.8)** | (0.8) |
| Non-cash share-based payment transactions | (17) | **4.6** | 1.2 |
| Deferred tax expense/(benefit) | (3) | **41.7** | (27.5) |
| Current tax expense | (3) | **29.2** | 34.7 |
| *Changes in assets and liabilities* | | | |
| (Increase)/decrease in receivables and other operating assets | | **(50.3)** | 14.5 |
| Decrease/(increase) in inventories | | **11.0** | (18.7) |
| Increase in payables, provisions and other operating liabilities | | **32.9** | 99.4 |
| | | **717.7** | 663.3 |
| *Adjusted for cash items* | | | |
| Dividends received | (13) | **34.9** | 35.6 |
| Interest received | | **5.3** | 8.9 |
| Interest paid | | **(97.3)** | (50.8) |
| Income tax paid | | **(12.9)** | (81.7) |
| **Net cash flows from operating activities** | | **647.7** | 575.3 |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment and intangibles | | **(319.7)** | (435.5) |
| Proceeds from sale of property, plant and equipment | | **39.8** | 1.2 |
| Payments for acquisition of subsidiaries | | **(2.5)** | – |
| Repayments of loans to equity accounted investees | | **12.5** | 0.4 |
| Payments from settlement of net investment hedge derivatives | | **(18.4)** | (46.5) |
| **Net cash flows from investing activities** | | **(288.3)** | (480.4) |
| **Cash flows from financing activities** | | | |
| Repayments of borrowings | (8) | **(505.1)** | (828.3) |
| Proceeds from borrowings | (8) | **508.0** | 759.6 |
| Realised market value gain on derivatives | | **2.8** | – |
| Dividends paid to members of Incitec Pivot Limited | (6) | **(153.5)** | (194.0) |
| Dividends paid to non-controlling interest holder | | **(1.2)** | – |
| **Net cash flows from financing activities** | | **(149.0)** | (262.7) |
| Net increase/(decrease) in cash and cash equivalents held | | **210.4** | (167.8) |
| Cash and cash equivalents at the beginning of the year | | **427.1** | 606.3 |
| Effect of exchange rate fluctuations on cash and cash equivalents held | | **(9.6)** | (11.4) |
| **Cash and cash equivalents at the end of the year** | (8) | **627.9** | 427.1 |

# Consolidated Statement of Changes in Equity

For the year ended 30 September 2017

| | Notes | 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 | Non-controlling interest $mill | Total equity $mill |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 October 2015 | | 3,430.9 | (39.9) | 27.0 | (132.6) | (11.2) | 1,402.8 | 4,677.0 | 3.0 | 4,680.0 |
| Profit for the year | | – | – | – | – | – | 128.1 | 128.1 | 1.3 | 129.4 |
| Total other comprehensive income for the year | | – | 6.3 | – | (32.1) | (0.1) | (14.4) | (40.3) | – | (40.3) |
| Dividends paid | (6) | – | – | – | – | – | (194.0) | (194.0) | – | (194.0) |
| Shares issued during the year | | 5.9 | – | (5.9) | – | – | – | – | – | – |
| Share-based payment transactions | (17) | – | – | 1.2 | – | – | – | 1.2 | – | 1.2 |
| Balance at 30 September 2016 | | 3,436.8 | (33.6) | 22.3 | (164.7) | (11.3) | 1,322.5 | 4,572.0 | 4.3 | 4,576.3 |
| **Balance at 1 October 2016** | | **3,436.8** | **(33.6)** | **22.3** | **(164.7)** | **(11.3)** | **1,322.5** | **4,572.0** | **4.3** | **4,576.3** |
| Profit for the year | | **–** | **–** | **–** | **–** | **–** | **318.7** | **318.7** | **2.9** | **321.6** |
| Total other comprehensive income for the year | | **–** | **13.5** | **–** | **(28.2)** | **(0.5)** | **26.5** | **11.3** | **–** | **11.3** |
| Dividends paid | (6) | **–** | **–** | **–** | **–** | **–** | **(153.5)** | **(153.5)** | **(1.2)** | **(154.7)** |
| Share-based payment transactions | (17) | **–** | **–** | **4.6** | **–** | **–** | **–** | **4.6** | **–** | **4.6** |
| **Balance at 30 September 2017** | | **3,436.8** | **(20.1)** | **26.9** | **(192.9)** | **(11.8)** | **1,514.2** | **4,753.1** | **6.0** | **4,759.1** |

### Cash flow hedging reserve

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

### Share-based payments reserve

This reserve comprises the fair value of rights recognised as an employee expense under the terms of the LTI 2014/17, LTI 2015/18 and LTI 2016/19.

### Foreign currency translation reserve

Exchange differences arising on translation of foreign controlled operations are taken to the foreign currency translation reserve. The relevant portion of the reserve is recognised in the profit or loss 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

This reserve represents the cumulative net change in the fair value of equity instruments. The annual net change in the fair value of investments in equity securities (including both realised and unrealised gains and losses) is recognised in other comprehensive income.

### Non-controlling 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 2017


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## Basis of preparation and consolidation

The consolidated financial statements of the Group have been prepared under the historical cost convention, except for certain financial instruments which have been measured at fair value.

The financial 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.

The consolidated financial statements were authorised for issue by the directors on 14 November 2017.

***Subsidiaries***

Subsidiaries are entities that are controlled by the Group. The financial results and financial position of the subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

A list of the Group's subsidiaries is included in note 14.

***Joint ventures and associates***

A joint venture is an arrangement where the parties have rights to the net assets of the venture.

Associates are those entities in respect of which the Group has significant influence, but not control, over the financial and operating policies of the entities.

Investments in joint ventures and associates are accounted for using the equity method. They are initially recognised at cost, and subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the investees.

A list of the Group's joint ventures and associates is included in note 14.

## Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (including Australian Interpretations) and the Corporations Act 2001. The consolidated financial statements of the Group comply with International Financial Reporting Standards (**IFRS**) and interpretations. The Company is a for-profit entity.

## Key estimates and judgments

Key accounting 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.

The resulting accounting estimates will, by definition, seldom equal the subsequent related actual result. The estimates and judgments that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year are set out in the notes.

## Rounding of amounts

The Company is of a kind referred to in ASIC Legislative Instrument, *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, issued by the Australian Securities and Investments Commission dated 24 March 2016 and, in accordance with that Legislative Instrument, 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.

## Accounting standards issued

The Group adopted all amendments to Standards and Interpretations issued by the Australian Accounting Standards Board (**AASB**) that are relevant to its operations and effective for the current year. The adoption of these revised Standards and Interpretations did not have a material impact on the Group's results.

The following relevant standards were available for early adoption but have not been applied by the Group:

- AASB 15: *Revenue from Contracts with Customers*
  Details of the expected impact of AASB 15 on the Group, when it is adopted, are included in note 2.
- AASB 16: *Leases*
  Details of the expected impact of AASB 16 on the Group, when it is adopted, are included in note 12.

## 1. Segment report

The Group operates a number of strategic divisions that offer different products and services and operate in different markets. For reporting purposes, these divisions are known as reportable segments. The results of each segment are reviewed monthly by the Group's chief operating decision-maker to assess performance and make decisions about the allocation of resources.

### Description of reportable segments

*Asia Pacific*
Fertilisers is made up of the following reportable segments:

- 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 and is a distributor of its manufactured fertiliser product to wholesalers in Australia (including IPF) and the export market. SCI operates the Industrial Chemicals business and also includes the Group's 65 percent share of the Hong Kong marketing company, Quantum Fertilisers Limited.

Fertilisers Elimination (**Fertilisers Elim**): represents the elimination of sales and profit in stock arising from the sale of SCI manufactured products to IPF at an import parity price.

Dyno Nobel Asia Pacific (**DNAP**): manufactures and sells industrial explosives and related products and services to the mining industry in the Asia Pacific region and Turkey.

Asia Pacific Eliminations (**APAC Elim**): represents elimination of sales and profit in stock arising from IPF and SCI sales to DNAP at an arm's length transfer price.

*Americas*
Dyno Nobel Americas (**DNA**): manufactures and sells industrial explosives and related products and services to the mining, quarrying and construction industries in the Americas (USA, Canada, Mexico and Chile). It also manufactures and sells industrial chemicals to the agriculture and specialist industries.

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

Group Eliminations (**Group Elim**): represents elimination of sales and profit in stock arising from intersegment sales at an arm's length transfer price.

### Reportable segments – financial information

| | | Asia Pacific | | | | | | | Americas | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **30 September 2017** | Notes | IPF **$mill** | SCI **$mill** | Fertilisers Elim **$mill** | Total Fertilisers **$mill** | DNAP **$mill** | APAC Elim **$mill** | Total **$mill** | DNA **$mill** | Group Elim **$mill** | Corporate[i] **$mill** | Consolidated Group **$mill** |
| Revenue from external customers | (2) | **1,010.3** | **553.3** | **(213.8)** | **1,349.8** | **933.2** | **(19.2)** | **2,263.8** | **1,251.4** | **(41.8)** | **–** | **3,473.4** |
| Share of profits of equity accounted investments | (13) | **–** | **–** | **–** | **–** | **16.0** | **–** | **16.0** | **23.9** | **–** | **–** | **39.9** |
| EBITDA[ii] | | **84.9** | **85.0** | **1.2** | **171.1** | **273.3** | **–** | **444.4** | **348.7** | **0.3** | **(18.9)** | **774.5** |
| Depreciation and amortisation | (2) | **(28.1)** | **(39.1)** | **–** | **(67.2)** | **(84.3)** | **–** | **(151.5)** | **(120.3)** | **–** | **(1.5)** | **(273.3)** |
| EBIT[iii] | | **56.8** | **45.9** | **1.2** | **103.9** | **189.0** | **–** | **292.9** | **228.4** | **0.3** | **(20.4)** | **501.2** |
| Net interest expense | | | | | | | | | | | | **(108.7)** |
| Income tax expense | (3) | | | | | | | | | | | **(70.9)** |
| Profit after tax | | | | | | | | | | | | **321.6** |
| Non-controlling interest | | | | | | | | | | | | **(2.9)** |
| Profit attributable to members of IPL | | | | | | | | | | | | **318.7** |
| Segment assets | | **696.8** | **503.5** | **–** | **1,200.3** | **2,870.0** | **–** | **4,070.3** | **4,021.8** | **–** | **708.0** | **8,800.1** |
| Segment liabilities | | **(495.0)** | **(123.7)** | **–** | **(618.7)** | **(250.6)** | **–** | **(869.3)** | **(484.2)** | **–** | **(2,200.0)** | **(3,553.5)** |
| Net segment assets[iv] | | **201.8** | **379.8** | **–** | **581.6** | **2,619.4** | **–** | **3,201.0** | **3,537.6** | **–** | **(1,492.0)** | **5,246.6** |
| Deferred tax balances | (3) | | | | | | | | | | | **(487.5)** |
| Net assets | | | | | | | | | | | | **4,759.1** |

(i) Corporate assets and liabilities include the Group's interest bearing liabilities and derivative assets and liabilities.
(ii) Earnings Before Interest, related income Tax expense, Depreciation and Amortisation.
(iii) Earnings Before Interest, related income Tax expense.
(iv) Net segment assets excluding deferred tax balances.

Note 1

## 1. Segment report (continued)

### Reportable segments – financial information (continued)

| 30 September 2016 | Notes | Asia Pacific IPF $mill | Asia Pacific SCI $mill | Asia Pacific Fertilisers Elim $mill | Asia Pacific Total Fertilisers $mill | Asia Pacific DNAP $mill | Asia Pacific APAC Elim $mill | Asia Pacific Total $mill | Americas DNA $mill | Group Elim $mill | Corporate $mill | Consolidated Group $mill |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue from external customers | (2) | 906.1 | 631.8 | (196.0) | 1,341.9 | 920.8 | (14.9) | 2,247.8 | 1,150.6 | (44.7) | – | 3,353.7 |
| Share of profits of equity accounted investments | (13) | – | – | – | – | 15.5 | – | 15.5 | 20.4 | – | – | 35.9 |
| EBITDA | | 71.2 | 98.3 | 2.1 | 171.6 | 267.6 | – | 439.2 | 253.5 | 1.5 | (21.6) | 672.6 |
| Depreciation and amortisation | (2) | (26.9) | (40.5) | – | (67.4) | (81.5) | – | (148.9) | (93.9) | – | (1.7) | (244.5) |
| EBIT | | 44.3 | 57.8 | 2.1 | 104.2 | 186.1 | – | 290.3 | 159.6 | 1.5 | (23.3) | 428.1 |
| Net interest expense | | | | | | | | | | | | (50.2) |
| Income tax expense | | | | | | | | | | | | (81.4) |
| Profit after tax | | | | | | | | | | | | 296.5 |
| Non-controlling interest | | | | | | | | | | | | (1.3) |
| Individually material items (net of tax) | | | | | | | | | | | | (167.1) |
| Profit attributable to members of IPL | | | | | | | | | | | | 128.1 |
| Segment assets | | 676.4 | 515.7 | – | 1,192.1 | 2,873.8 | – | 4,065.9 | 4,079.7 | – | 510.2 | 8,655.8 |
| Segment liabilities | | (482.5) | (100.2) | – | (582.7) | (249.2) | – | (831.9) | (540.8) | – | (2,267.1) | (3,639.8) |
| Net segment assets | | 193.9 | 415.5 | – | 609.4 | 2,624.6 | – | 3,234.0 | 3,538.9 | – | (1,756.9) | 5,016.0 |
| Deferred tax balances | (3) | | | | | | | | | | | (439.7) |
| Net assets | | | | | | | | | | | | 4,576.3 |

### Geographical information – secondary reporting segments

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

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

| **30 September 2017** | **Australia $mill** | **USA $mill** | **Canada $mill** | **Turkey $mill** | **Other/Elim $mill** | **Consolidated $mill** |
|---|---|---|---|---|---|---|
| Revenue from external customers | **2,155.2** | **1,046.8** | **173.4** | **61.6** | **36.4** | **3,473.4** |
| Non-current assets other than financial assets and deferred tax assets | **3,513.5** | **3,634.9** | **55.5** | **1.4** | **123.2** | **7,328.5** |
| Trade and other receivables | **171.3** | **71.5** | **40.8** | **16.9** | **42.3** | **342.8** |

| 30 September 2016 | Australia $mill | USA $mill | Canada $mill | Turkey $mill | Other/Elim $mill | Consolidated $mill |
|---|---|---|---|---|---|---|
| Revenue from external customers | 2,151.5 | 885.1 | 182.4 | 57.9 | 76.8 | 3,353.7 |
| Non-current assets other than financial assets and deferred tax assets | 3,580.3 | 3,710.2 | 52.8 | 1.4 | 132.0 | 7,476.7 |
| Trade and other receivables | 118.4 | 71.5 | 34.3 | 12.2 | 40.4 | 276.8 |

## 2. Revenue and expenses

| | Notes | 2017 $mill | 2016 $mill |
|---|---|---|---|
| **Revenue** | | | |
| External sales | | **3,473.4** | 3,353.7 |
| Total revenue | | **3,473.4** | 3,353.7 |
| **Financial income** | | | |
| Interest income | | **5.3** | 8.9 |
| **Other income** | | | |
| Income from delay damages | | **47.2** | 20.6 |
| Royalty income and management fees | (13) | **23.2** | 24.3 |
| Net gain on sale of property, plant and equipment | | **19.8** | 0.8 |
| Other income from operations | | **6.8** | 1.6 |
| Total financial and other income | | **102.3** | 56.2 |

**Expenses**

Profit before income tax includes the following specific expenses:

| | Notes | 2017 $mill | 2016 $mill |
|---|---|---|---|
| **Depreciation and amortisation** | | | |
| depreciation | (9) | **249.6** | 218.8 |
| amortisation | (10) | **23.7** | 25.7 |
| Total depreciation and amortisation | | **273.3** | 244.5 |
| **Recoverable amount write-down** | | | |
| property, plant and equipment | (9) | **4.7** | 172.3 |
| Total recoverable amount write-down | | **4.7** | 172.3 |
| **Amounts set aside to provide for:** | | | |
| impairment losses on trade and other receivables | (4) | **5.6** | 3.1 |
| inventory losses and obsolescence | (4) | **1.1** | 9.4 |
| employee entitlements | (15) | **0.6** | 3.6 |
| environmental liabilities | (15) | **0.4** | 2.3 |
| legal and other provisions | (15) | **2.4** | 15.9 |
| restructuring and rationalisation costs | (15) | **0.4** | 43.3 |
| Research and development expense | | **11.9** | 10.2 |
| Defined contribution superannuation expense | | **28.1** | 31.6 |
| Defined benefit superannuation expense | (19) | **4.6** | 4.4 |
| **Financial expenses** | | | |
| Unwinding of discount on provisions | (15) | **4.9** | 5.0 |
| Net interest expense on defined benefit obligation | (19) | **2.9** | 3.3 |
| Interest expenses on financial liabilities | | **106.2** | 50.8 |
| Total financial expenses | | **114.0** | 59.1 |

### Individually material items

There were no items of revenue or expenses that require separate disclosure in order to explain the Group's financial performance at 30 September 2017.

The Group's 2016 profit included the $150.8m (after tax $105.6m) impairment write-down of the Gibson Island manufacturing assets and business restructure costs of $90.5m (after tax $61.5m).

### Key accounting policies

#### *Revenue*

Revenue is measured at the fair value of the consideration received or receivable by the Group. 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:

*Sale of goods:* revenue from the sale of goods is recognised when the risks and rewards of ownership have been transferred to the buyer and where the costs incurred or to be incurred can be measured reliably.

*Take-or-pay revenue:* revenue is recognised in line with the sale of goods policy. In circumstances where goods are not taken by the customer, revenue is recognised when the likelihood of the customer meeting its obligation to 'take goods' becomes remote.

*Services:* revenue is recognised once the service is delivered. The fee for service component is recognised separately from the sale of goods.

*Interest income* is recognised as it accrues.

#### *Issued Accounting Standards not early adopted*

AASB 15 *Revenue from Contracts with Customers* establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The first application date for the Group is the financial year ending 30 September 2019. The Group did not early adopt this Standard when it was issued. However, based on preliminary assessment of the Group's material customer contracts, the impact of this standard on the recognition and reporting of the Group's revenue is not considered material.

#### *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**). The only exception is 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 the asset or as part of the item of expenditure.

#### *Other income*

Other income from operations represents gains that are not revenue. This includes royalty income and management fees from the Group's joint ventures and associates, and income from contractual arrangements that are not considered revenue.

Note 3

## 3. Taxation

### Income tax expense for the year

| | 2017 $mill | 2016 $mill |
|---|---|---|
| **Current tax expense** | | |
| Current year | **26.3** | 33.0 |
| Adjustments in respect of prior years | **2.9** | 1.7 |
| | **29.2** | 34.7 |
| **Deferred tax expense** | | |
| Current year | **41.9** | (27.4) |
| Tax rate change | **–** | (0.5) |
| Adjustments in respect of prior years | **(0.2)** | 0.4 |
| | **41.7** | (27.5) |
| Total income tax expense | **70.9** | 7.2 |

### Income tax reconciliation to prima facie tax payable

| | 2017 $mill | 2016 $mill |
|---|---|---|
| Profit before income tax | **392.5** | 136.6 |
| Tax at the Australian tax rate of 30% (2016: 30%) | **117.8** | 41.0 |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Other foreign deductions | **(30.1)** | (25.9) |
| Joint venture income | **(12.0)** | (10.9) |
| Sundry items | **(7.9)** | 1.8 |
| Difference in overseas tax rates | **0.4** | (0.9) |
| Adjustments in respect of prior years | **2.7** | 2.1 |
| Income tax expense attributable to profit | **70.9** | 7.2 |

### Tax amounts recognised directly in equity

The aggregate current and deferred tax arising in the financial year and not recognised in net profit or loss but directly charged to equity is $13.4m for the year ended 30 September 2017 (2016: credit of $17.2m).

### Net deferred tax assets/(liabilities)

Deferred tax balances comprise temporary differences attributable to the following:

| | 2017 $mill | 2016 $mill |
|---|---|---|
| Employee entitlements provision | **15.4** | 20.0 |
| Retirement benefit obligations | **13.4** | 31.4 |
| Provisions and accruals | **44.4** | 53.5 |
| Tax losses | **68.7** | 8.9 |
| Property, plant and equipment | **(460.2)** | (340.4) |
| Intangible assets | **(134.5)** | (145.0) |
| Joint venture income | **(13.0)** | (14.5) |
| Derivatives | **(40.7)** | (40.4) |
| Other | **19.0** | (13.2) |
| Net deferred tax liabilities | **(487.5)** | (439.7) |
| Presented in the Statement of Financial Position as follows: | | |
| Deferred tax assets | **21.6** | 23.2 |
| Deferred tax liabilities | **(509.1)** | (462.9) |
| Net deferred tax liabilities | **(487.5)** | (439.7) |

### Movements in net deferred tax liabilities

The table below sets out movements in net deferred tax balances for the period ended 30 September:

| | 2017 $mill | 2016 $mill |
|---|---|---|
| Opening balance at 1 October | **(439.7)** | (505.2) |
| (Debited)/credited to the profit or loss | **(41.9)** | 27.4 |
| Charged to equity | **(13.4)** | 17.2 |
| Foreign exchange movements | **7.3** | 20.8 |
| Tax rate change | **–** | 0.5 |
| Adjustments in respect of prior years | **0.2** | (0.4) |
| Closing balance at 30 September | **(487.5)** | (439.7) |

## Key accounting policies

***Income tax expense***

Income tax expense comprises current tax (amounts payable or receivable within 12 months) and deferred tax (amounts payable or receivable after 12 months). Tax expense is recognised in the profit or loss, unless it relates to items that have been recognised in equity (as part of other comprehensive income). In this instance, the related tax expense is also recognised in equity.

***Current tax***

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

***Deferred tax***

Deferred tax is recognised for all taxable temporary differences and is calculated based on the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied 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 only 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 benefits will be realised.

***Offsetting tax balances***

Tax assets and liabilities are offset when the Group has a legal right to offset and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

***Tax consolidation***

For details on the Company's tax consolidated group refer to note 21.

## 3. Taxation (continued)

### Key accounting policies (continued)

*Change in accounting policy*
Recent guidance was published by the International Financial Reporting Interpretation Committee (**IFRIC**) on applicable indefinite life intangibles for the purposes of measuring deferred tax in accordance with AASB 112 Income Taxes.

This latest interpretation requires the recognition of deferred tax liabilities on intangibles assets with indefinite lives if there is no intent to sell the asset. Prior to this interpretation, the Group did not recognise deferred tax liabilities on indefinite life intangibles (Brand Names).

As such, the Group has retrospectively changed its accounting policy which has resulted in the recognition of a deferred tax liability of $20.3m, an increase in goodwill of $12.1m, and a decrease in retained earnings of $8.2m relating to the acquisition of Dyno Nobel. These adjustments impacted the Group's 1 October 2015 balances.

### Key estimates and judgments

*Uncertain tax matters*
The Group is subject to income taxes in Australia and foreign jurisdictions and as a result the calculation of the Group's tax charge involves a degree of estimation and judgment in respect of certain items. In addition, there are transactions and calculations relating to the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for potential tax audit issues based on management's assessment of whether additional taxes may be payable. Where the final tax outcome of these matters is different from the amounts that were initially recorded, these differences impact the current and deferred tax provisions in the period in which such determination is made.

Note 4

## 4. Trade and other assets and liabilities

The Group's total trade and other assets and liabilities consists of inventory, receivables and payables balances, net of provisions for any impairment losses.

| **30 September 2017** | **Trade $mill** | **Other $mill** | **Total $mill** |
|---|---|---|---|
| Inventories | **388.6** | **-** | **388.6** |
| Receivables | **310.7** | **32.1** | **342.8** |
| Payables | **(749.8)** | **(308.8)** | **(1,058.6)** |
| | **(50.5)** | **(276.7)** | **(327.2)** |

| 30 September 2016 | Trade $mill | Other $mill | Total $mill |
|---|---|---|---|
| Inventories | 405.7 | – | 405.7 |
| Receivables | 210.3 | 66.5 | 276.8 |
| Payables | (665.2) | (281.6) | (946.8) |
| | (49.2) | (215.1) | (264.3) |

**Inventory by category:**

| | **2017 $mill** | 2016 $mill |
|---|---|---|
| Raw materials and stores | **88.5** | 76.7 |
| Work-in-progress | **45.7** | 39.8 |
| Finished goods | **262.8** | 299.1 |
| Provisions | **(8.4)** | (9.9) |
| Total inventory balance | **388.6** | 405.7 |

**Provision movement:**

| **30 September 2017** | **Trade receivables $mill** | **Inventories $mill** |
|---|---|---|
| Carrying amount at 1 October 2016 | **(29.8)** | **(9.9)** |
| Provisions made during the year | **(5.6)** | **(1.1)** |
| Provisions written back during the year | **0.4** | **1.7** |
| Amounts written off against provisions | **0.3** | **0.9** |
| Foreign exchange rate movements | **3.1** | **–** |
| Carrying amount at 30 September 2017 | **(31.6)** | **(8.4)** |

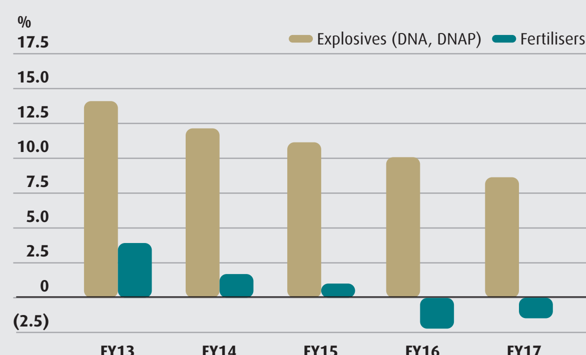
## Receivables ageing and provision for impairment

Included in the following table is an age analysis of the Group's trade receivables, along with impairment provisions against these balances at 30 September:

| **30 September 2017** | **Gross $mill** | **Impairment $mill** | **Net $mill** |
|---|---|---|---|
| Current | **295.2** | **(1.0)** | **294.2** |
| 30–90 days | **13.9** | **(0.8)** | **13.1** |
| Over 90 days | **33.2** | **(29.8)** | **3.4** |
| Total | **342.3** | **(31.6)** | **310.7** |

| 30 September 2016 | Gross $mill | Impairment $mill | Net $mill |
|---|---|---|---|
| Current | 196.4 | (0.7) | 195.7 |
| 30–90 days | 14.7 | (2.3) | 12.4 |
| Over 90 days | 29.0 | (26.8) | 2.2 |
| Total | 240.1 | (29.8) | 210.3 |

The graph below shows the Group's trade working capital (trade assets and liabilities) performance over a five year period.




## Key accounting policies

*Inventories*

Inventories are valued at the lower of cost and net realisable value. The cost of manufactured goods is based on a weighted average costing method. For third party sourced finished goods, cost is net cost into store.

*Trade and other receivables*

Trade and other receivables are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement they are measured at amortised cost less any provisions for expected impairment losses or actual impairment losses. Credit losses and recoveries of items previously written off are recognised in the profit or loss.

Where substantially all risks and rewards relating to a receivable are transferred to a third party, the receivable is derecognised.

*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 at the reporting date.

## Key estimates and judgments

The expected impairment loss calculation for trade receivables considers the impact of past events, and exercises judgment over the impact of current and future economic conditions when considering the recoverability of outstanding trade receivable balances at the reporting date. Subsequent changes in economic and market conditions may result in the provision for impairment losses increasing or decreasing in future periods.

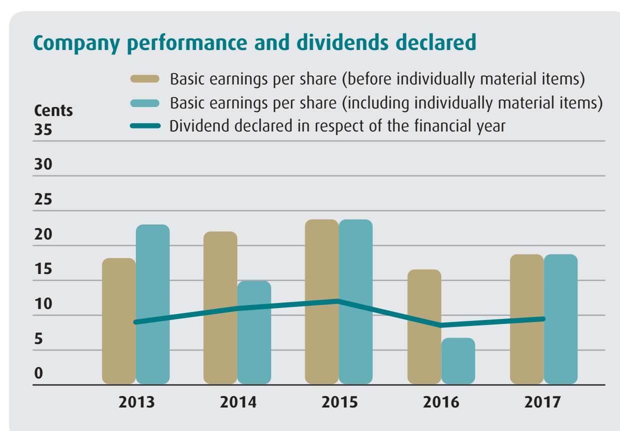
## 5. Earnings per share

| | 2017 Cents per share | 2016 Cents per share |
|---|---|---|
| Basic earnings per share | | |
| including individually material items | **18.9** | 7.6 |
| excluding individually material items | **18.9** | 17.5 |
| Diluted earnings per share | | |
| including individually material items | **18.8** | 7.6 |
| excluding individually material items | **18.8** | 17.4 |
| | **Number** | Number |
| Weighted average number of ordinary shares used in the calculation of basic earnings per share | **1,687,170,521** | 1,686,971,487 |
| Weighted average number of ordinary shares used in the calculation of diluted earnings per share | **1,691,087,236** | 1,691,861,561 |

### Reconciliation of earnings used in the calculation of basic and diluted earnings per share

| | 2017 $mill | 2016 $mill |
|---|---|---|
| Profit attributable to ordinary shareholders | **318.7** | 128.1 |
| Individually material items after income tax | **–** | 167.1 |
| Profit attributable to ordinary shareholders excluding individually material items | **318.7** | 295.2 |

The graph below shows the Group's earnings per share and dividend payout over the last five years.




## 6. Dividends

Dividends paid or declared by the Company in the year ended 30 September were:

| | 2017 $000 | 2016 $000 |
|---|---|---|
| **Ordinary shares** | | |
| Final dividend of 7.4 cents per share, 60 percent franked, paid 14 December 2015 | **–** | 124,851 |
| Interim dividend of 4.1 cents per share, 100 percent franked, paid 1 July 2016 | **–** | 69,175 |
| Final dividend of 4.6 cents per share, unfranked, paid 13 December 2016 | **77,610** | – |
| Interim dividend of 4.5 cents per share, unfranked, paid 3 July 2017 | **75,923** | – |
| Total ordinary share dividends | **153,533** | 194,026 |

Since the end of the financial year, the directors have determined to pay a final dividend of 4.9 cents per share unfranked, to be paid on 19 December 2017. The total dividend payment will be $82.7m.

The financial effect of this dividend has not been recognised in the 2017 Consolidated Financial Statements.

Consistent with recent years, the dividend reflects a payout ratio of approximately 50 percent of net profit after tax.

### Franking credits

Franking credits available to shareholders of the Company were $0.4m (2016: $7.0m). The final dividend for 2017 is unfranked.

### Key accounting policies

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


Note 5

Note 6

## 7. Contributed equity

### Capital management

Capital is defined as the amount subscribed by shareholders to the Company's ordinary shares and amounts advanced by debt providers to any Group entity. The Group's objectives when managing capital are to safeguard its ability to continue as a going concern while providing returns to shareholders and benefits to other stakeholders.

The Group's key strategies for maintenance of an optimal capital structure include:

- Aiming to maintain 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.
- Optimising over the long term, to the extent practicable, the Group's Weighted Average Cost of Capital (**WACC**), while maintaining financial flexibility.

In order to optimise its capital structure, the Group may undertake one or a combination of the following actions:

- change the amount of dividends paid to shareholders;
- return capital or issue new shares to shareholders;
- vary discretionary capital expenditure;
- raise new debt funding or repay existing debt balances; and
- draw down additional debt or sell non-core assets to reduce debt.

*Key financial metrics*

The Group uses a range of financial metrics to monitor the efficiency of its capital structure, including EBITDA interest cover and gearing ratio (net debt/EBITDA before individually material items). Metrics are maintained inside of any debt covenant restrictions. At 30 September the Group's position in relation to these metrics was:

| | Target range | 2017 | 2016 |
|---|---|---|---|
| Gearing ratio (times) | **equal or less than 2.5** | **1.7** | 2.1 |
| Interest cover (times) | **equal or more than 6.0** | **7.9** | 7.9 |

These ratios are impacted by a number of factors, including the level of cash retained from operating cash flows generated by the Group after paying all of its commitments (including dividends or other returns of capital), movements in foreign exchange rates, changes to market interest rates and the fair value of hedges economically hedging the Group's net debt.

*Self-insurance*

The Group also self-insures for certain insurance risks under the Singapore Insurance Act. Under this Act, 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 2017, Coltivi Insurance Pte Limited maintained capital in excess of the minimum requirements prescribed under this Act.

### Issued capital

*Ordinary shares*

Ordinary shares issued are classified as equity and are fully paid, have no par value and carry one vote per share and the right to dividends. Incremental costs directly attributable to the issue of new shares are recognised as a deduction from equity, net of any related income tax benefit.

Issued capital as at 30 September 2017 amounted to $3,436.8m on 1,687,170,521 ordinary shares (2016: 1,687,170,521).

## 8. Net debt

The Group's net debt comprises the net of interest bearing liabilities, cash and cash equivalents, and the fair value of derivative instruments economically hedging the foreign exchange rate and interest rate exposures of the Group's interest bearing liabilities at the reporting date. The Group's net debt at 30 September is analysed as follows:

| | Notes | 2017 $mill | 2016 $mill |
|---|---|---|---|
| Interest bearing liabilities | | **2,224.1** | 2,289.4 |
| Cash and cash equivalents | | **(627.9)** | (427.1) |
| Fair value of derivatives | (16) | **(304.3)** | (468.5) |
| **Net debt** | | **1,291.9** | 1,393.8 |

At 30 September 2017, the Group's gearing ratio was 1.7 times (2016: 2.1 times). Refer note 7 for detail on the key financial metrics related to the Group's capital structure.

### Interest bearing liabilities

The Group's interest bearing liabilities are unsecured and expose it to various market and liquidity risks. Detail on these risks and their mitigation are included in note 16.

The following table details the interest bearing liabilities of the Group at 30 September:

| | 2017 $mill | 2016 $mill |
|---|---|---|
| **Current** | | |
| Other loans | **1.3** | – |
| Loans from joint ventures | **10.8** | 11.1 |
| | **12.1** | 11.1 |
| **Non-current** | | |
| Other loans | **5.4** | – |
| Bank facilities | **472.4** | 1,009.0 |
| Fixed interest rate bonds | **1,734.2** | 1,269.3 |
| | **2,212.0** | 2,278.3 |
| **Total interest bearing liabilities** | **2,224.1** | 2,289.4 |

*Fixed interest rate bonds*

The Group held the following fixed interest rate bonds at 30 September 2017:

- USD800m 10 year bonds on issue in the US 144A/ Regulation S debt capital market. The bonds have a fixed rate semi-annual coupon of 6 percent and mature in December 2019.
- AUD200m 5.5 year bonds on issue in the Australian debt capital market. The bonds have a fixed rate semi-annual coupon of 5.75 percent and mature in February 2019.
- USD400m 10 year bonds on issue in the Regulation S debt capital market. The bonds have a fixed rate semi-annual coupon of 3.95 percent and mature in August 2027.

*Bank facilities*

Bank facilities of AUD360m and USD717m were entered into in August 2015 and are structured into two facilities as follows:

- 3 year facility domiciled in Australia consisting of two tranches: Tranche A has a limit of AUD360m and Tranche B has a limit of USD217m. The facility matures in October 2018; and
- 5 year facility domiciled in the USA with a limit of USD500m. The facility matures in October 2021.

*Tenor of interest bearing liabilities*

The Group's average tenor of its interest bearing liabilities at 30 September 2017 is 3.6 years (2016: 1.6 years).

Note 8

The table below includes detail on the movements in the Group's interest bearing liabilities for the year ended 30 September 2017:

| | | | Cash flow | | Non-cash movements | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Financing activities | | | | | |
| | Notes | 1 October 2016 $mill | Proceeds $mill | Repayments $mill | Foreign exchange movement $mill | Fair value adjustment $mill | Funding costs amortisation $mill | 30 September 2017 $mill |
| **Current** | | | | | | | | |
| Other loans | | – | 1.3 | – | – | – | – | 1.3 |
| Loans from joint ventures | (13) | 11.1 | – | – | (0.3) | – | – | 10.8 |
| **Non-current** | | | | | | | | |
| Other loans | | – | 5.4 | – | – | – | – | 5.4 |
| Bank facilities | | 1,009.0 | – | (505.1) | (33.8) | – | 2.3 | 472.4 |
| Fixed interest rate bonds | | 1,269.3 | 501.3 | – | (23.7) | (14.6) | 1.9 | 1,734.2 |
| Total liabilities from financing activities | | **2,289.4** | **508.0** | **(505.1)** | **(57.8)** | **(14.6)** | **4.2** | **2,224.1** |
| Derivatives held to hedge interest bearing liabilities | (16) | (468.5) | – | – | 153.0 | 11.2 | – | (304.3) |
| Debt after hedging | | **1,820.9** | **508.0** | **(505.1)** | **95.2** | **(3.4)** | **4.2** | **1,919.8** |

## 8. Net debt (continued)

### Interest bearing liabilities (continued)

*Interest rate profile*

The table below summarises the Group's interest rate profile of its interest bearing liabilities, net of hedging, at 30 September:

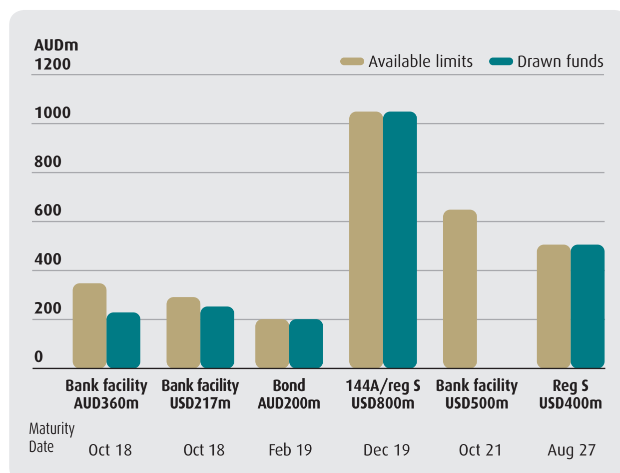
| | 2017 $mill | 2016 $mill |
|---|---|---|
| Fixed interest rate financial instruments | **1,224.4** | 1,511.5 |
| Variable interest rate financial instruments | **999.7** | 777.9 |
| | **2,224.1** | 2,289.4 |

Detail on the Group's interest hedging profile and duration is included in note 16.

*Funding profile*

The graph below details the Group's available funding limits, its maturity dates and drawn funds at 30 September 2017:






The Group has undrawn financing facilities of $798.4m at 30 September 2017.

### Cash and cash equivalents

Cash and cash equivalents at 30 September 2017 were $627.9m (2016: $427.1m) and consisted of cash at bank of $245.8m (2016: $164.2m) and short term investments of $382.1m (2016: $262.9m).

### Key accounting policies

*Interest bearing liabilities*

Interest bearing liabilities are initially recognised at fair value less any directly attributable borrowing costs. Subsequent to initial recognition, interest bearing liabilities are measured at amortised cost using the effective interest method, with any difference between cost and redemption value recognised in the profit or loss over the period of the borrowings.

The Group derecognises interest bearing liabilities when its obligation is discharged, cancelled or expires. Any gains and losses arising on derecognition are recognised in the profit or loss.

Interest bearing liabilities are classified as current liabilities, except for those liabilities where the Group has an unconditional right to defer settlement for at least 12 months after the year end, which are classified as non-current.

*Cash and cash equivalents*

Cash includes cash at bank, cash on hand and short term investments, net of bank overdrafts.

*Borrowing costs*

Borrowing costs include interest on borrowings and the amortisation of premiums relating to borrowings.

Borrowing costs are expensed as incurred, unless they relate to qualifying assets (refer note 9). In this instance, the borrowing costs are capitalised and depreciated over the asset's expected useful life.

## 9. Property, plant and equipment

| | Notes | Freehold land and buildings $mill | Machinery, plant and equipment $mill | Construction in progress $mill | Total $mill |
|---|---|---|---|---|---|
| **At 1 October 2015** | | | | | |
| Cost | | 804.0 | 3,481.4 | 1,080.5 | 5,365.9 |
| Accumulated depreciation | | (221.8) | (1,140.5) | – | (1,362.3) |
| Net book amount | | 582.2 | 2,340.9 | 1,080.5 | 4,003.6 |
| **Year ended 30 September 2016** | | | | | |
| Opening net book amount | | 582.2 | 2,340.9 | 1,080.5 | 4,003.6 |
| Additions | | 3.3 | 15.9 | 414.4 | 433.6 |
| Disposals | | (0.1) | (0.3) | – | (0.4) |
| Depreciation | (2) | (25.3) | (193.5) | – | (218.8) |
| Impairment of assets | (2) | (18.3) | (154.0) | – | (172.3) |
| Reclassification from construction in progress | | 12.7 | 155.1 | (167.8) | – |
| Foreign exchange movement | | (13.4) | (49.2) | (90.4) | (153.0) |
| Closing net book amount | | 541.1 | 2,114.9 | 1,236.7 | 3,892.7 |
| **At 30 September 2016** | | | | | |
| Cost | | 796.1 | 3,489.2 | 1,236.7 | 5,522.0 |
| Accumulated depreciation | | (255.0) | (1,374.3) | – | (1,629.3) |
| Net book amount | | 541.1 | 2,114.9 | 1,236.7 | 3,892.7 |
| **Year ended 30 September 2017** | | | | | |
| Opening net book amount | | **541.1** | **2,114.9** | **1,236.7** | **3,892.7** |
| Additions | | **17.2** | **54.3** | **212.3** | **283.8** |
| Subsidiaries acquired | | **0.7** | **3.8** | **–** | **4.5** |
| Disposals | | **(15.9)** | **(7.5)** | **–** | **(23.4)** |
| Depreciation | (2) | **(28.2)** | **(221.4)** | **–** | **(249.6)** |
| Impairment of assets | (2) | **–** | **(4.7)** | **–** | **(4.7)** |
| Reclassification from construction in progress | | **131.8** | **1,202.9** | **(1,334.7)** | **–** |
| Foreign exchange movement | | **(6.8)** | **(40.1)** | **(1.6)** | **(48.5)** |
| Closing net book amount | | **639.9** | **3,102.2** | **112.7** | **3,854.8** |
| **At 30 September 2017** | | | | | |
| Cost | | **910.5** | **4,608.4** | **112.7** | **5,631.6** |
| Accumulated depreciation | | **(270.6)** | **(1,506.2)** | **–** | **(1,776.8)** |
| Net book amount | | **639.9** | **3,102.2** | **112.7** | **3,854.8** |

### Key accounting policies

Property, plant and equipment is measured at cost, less accumulated depreciation and any impairment losses. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, 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.

Borrowing costs in relation to the funding of qualifying assets are capitalised and included in the cost of the asset. Qualifying assets are assets that take more than 12 months to get ready for their intended use or sale. Where funds are borrowed generally, a weighted average interest rate is used for the capitalisation of interest.

Property, plant and equipment is subject to impairment testing. For details of impairment of assets, refer note 11.

*Depreciation*

Property, plant and equipment, other than freehold land, is depreciated on a straight-line basis. Freehold land is not depreciated. Depreciation rates are calculated to spread the cost of the asset (less any residual value), over its estimated useful life. Residual value is the estimated value of the asset at the end of its useful life.

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

- Buildings and improvements 20 – 50 years
- Machinery, plant and equipment 3 – 50 years

Residual values and useful lives are reviewed and adjusted where relevant when changes in circumstances impact the use of the asset.

## 10. Intangibles

| | Notes | Software $mill | Goodwill $mill | Patents, trademarks & customer contracts $mill | Brand names $mill | Total $mill |
|---|---|---|---|---|---|---|
| **At 1 October 2015** | | | | | | |
| Cost | | 98.0 | 2,895.3 | 294.6 | 308.4 | 3,596.3 |
| Accumulated amortisation | | (80.4) | – | (157.5) | – | (237.9) |
| Net book amount | | 17.6 | 2,895.3 | 137.1 | 308.4 | 3,358.4 |
| **Year ended 30 September 2016** | | | | | | |
| Opening net book amount | | 17.6 | 2,895.3 | 137.1 | 308.4 | 3,358.4 |
| Additions | | 5.4 | – | – | – | 5.4 |
| Amortisation | (2) | (6.4) | – | (19.3) | – | (25.7) |
| Foreign exchange movement | | (0.9) | (125.1) | (8.2) | (21.4) | (155.6) |
| Closing net book amount | | 15.7 | 2,770.2 | 109.6 | 287.0 | 3,182.5 |
| **At 30 September 2016** | | | | | | |
| Cost | | 96.5 | 2,770.2 | 276.6 | 287.0 | 3,430.3 |
| Accumulated amortisation | | (80.8) | – | (167.0) | – | (247.8) |
| Net book amount | | 15.7 | 2,770.2 | 109.6 | 287.0 | 3,182.5 |
| **Year ended 30 September 2017** | | | | | | |
| Opening net book amount | | **15.7** | **2,770.2** | **109.6** | **287.0** | **3,182.5** |
| Additions | | **9.3** | **–** | **–** | **–** | **9.3** |
| Subsidiaries acquired | | **–** | **1.5** | **1.1** | **–** | **2.6** |
| Amortisation | (2) | **(5.9)** | **–** | **(17.8)** | **–** | **(23.7)** |
| Foreign exchange movement | | **(0.7)** | **(40.0)** | **(2.0)** | **(7.0)** | **(49.7)** |
| Closing net book amount | | **18.4** | **2,731.7** | **90.9** | **280.0** | **3,121.0** |
| **At 30 September 2017** | | | | | | |
| Cost | | **102.7** | **2,731.7** | **271.9** | **280.0** | **3,386.3** |
| Accumulated amortisation | | **(84.3)** | **–** | **(181.0)** | **–** | **(265.3)** |
| Net book amount | | **18.4** | **2,731.7** | **90.9** | **280.0** | **3,121.0** |

Note 10

### Allocation of indefinite life intangible assets

The Group's indefinite life intangible assets are allocated to groups of cash generating units (**CGU**s) as follows:

| **30 September 2017** | Goodwill **$mill** | Brand names **$mill** | Total **$mill** |
|---|---|---|---|
| Incitec Pivot Fertilisers (**IPF**) | **183.8** | **–** | **183.8** |
| Southern Cross International (**SCI**) | **2.4** | **–** | **2.4** |
| Dyno Nobel Asia Pacific (**DNAP**) | **1,144.5** | **40.3** | **1,184.8** |
| Dyno Nobel Americas (**DNA**) | **1,401.0** | **239.7** | **1,640.7** |
| | **2,731.7** | **280.0** | **3,011.7** |

| 30 September 2016 | Goodwill $mill | Brand names $mill | Total $mill |
|---|---|---|---|
| Incitec Pivot Fertilisers (**IPF**) | 183.8 | – | 183.8 |
| Southern Cross International (**SCI**) | 2.4 | – | 2.4 |
| Dyno Nobel Asia Pacific (**DNAP**) | 1,144.5 | 40.3 | 1,184.8 |
| Dyno Nobel Americas (**DNA**) | 1,439.5 | 246.7 | 1,686.2 |
| | 2,770.2 | 287.0 | 3,057.2 |

### Key accounting policies

***Goodwill***
Goodwill on acquisition of subsidiaries is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually, or more frequently if events or circumstances indicate that it might be impaired.

***Brand names***
Brand names acquired by the Group have indefinite useful lives and are measured at cost less accumulated impairment. They are tested annually for impairment, or more frequently if events or circumstances indicate that they might be impaired.

***Other intangible assets***
Other intangible assets acquired by the Group have finite lives. They are stated at cost less accumulated amortisation and impairment losses.

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

***Amortisation***
Goodwill and brand names are not amortised.

For intangible assets with finite lives, amortisation is recognised in the profit or loss on a straight-line basis over their estimated useful life. The estimated useful lives of intangible assets in this category are as follows:

- Software 3 – 7 years
- Product trademarks 4 – 10 years
- Patents 13 – 15 years
- Customer contracts 10 – 17 years

Useful lives are reviewed at each reporting date and adjusted where relevant.

## 11. Impairment of goodwill and non-current assets

At 30 September 2017, the Group has identified lower global fertiliser prices; lower nitrogen prices; and the higher AUD:USD exchange rate as indicators of impairment.

### Impairment testing of goodwill

The Group has prepared value-in-use models for the purpose of impairment testing as at 30 September 2017, using five year discounted cash flow models based on Board approved forecasts. Cash flows beyond the five year period are extrapolated using a terminal value growth rate.

The Group's impairment testing at 30 September 2017 resulted in no impairment of any CGU. In addition, no reversal of impairment from prior years was required during the year as the circumstances that resulted in these impairments remain unchanged.

### Key assumptions

The estimation of future cash flows requires management to make significant estimates and judgments on the timing of cash flows, commodity prices and foreign exchange rates.

Details of the key assumptions used in the value-in-use calculations at 30 September are set out below:

| Key assumptions | 1 – 5 years | | Terminal value (after 5 years) | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| DAP[1] | **\$321 to \$410** | \$320 to \$462 | **\$474** | \$490 |
| Urea[2] | **\$230 to \$320** | \$185 to \$305 | **\$322** | \$324 |
| Henry Hub Gas[3] | **\$3.11 to \$3.15** | \$2.90 to \$3.21 | **\$3.22** | \$3.21 |
| Ammonia[4] | **\$250 to \$372** | \$230 to \$405 | **\$422** | \$405 |
| AUD:USD[5] | **\$0.76 to \$0.77** | \$0.72 to \$0.76 | **\$0.76** | \$0.73 |

(1) Di-Ammonium Phosphate price (FOB Tampa – USD per tonne).
(2) Granular Urea price (FOB Middle East – USD per tonne).
(3) Henry Hub natural gas price (USD per mmbtu).
(4) Ammonia price (CFR Tampa – USD per tonne).
(5) AUD:USD exchange rate.

Fertiliser prices, foreign exchange rates and natural gas prices are estimated by reference to external market publications and market analyst estimates, and are updated at each reporting date.

The post-tax discount rate used in the calculations is 9% (2016: 9%) for the IPF and SCI CGUs and 8.5% for the DNA and DNAP CGUs (2016: 8.5%). The rate reflects the underlying cost of capital adjusted for market and asset specific risks.

The terminal value growth rate represents the forecast consumer price index (**CPI**) of 2.5% (2016: 2.5%) for all CGUs.

### Sensitivity analyses

Included in the table below is a sensitivity analysis of the recoverable amounts and, where applicable, the impairment charge considering reasonable change scenarios relating to key assumptions at 30 September 2017:

| | AUD:USD exchange rate | DAP/ Ammonia Price in USD[1] | Growth rate | Natural gas price in USD |
|---|---|---|---|---|
| | **+3c** | **-USD20 per tonne** | **-1.0%** | **n/a** |
| **SCI** | **\$mill** | **\$mill** | **\$mill** | **\$mill** |
| – Value-in-use | (185.8) | (234.5) | (47.8) | – |
| – Impairment charge | (23.8) | (72.4) | – | – |
| | **n/a** | **n/a** | **-1.0%** | **n/a** |
| **DNAP** | **\$mill** | **\$mill** | **\$mill** | **\$mill** |
| – Value-in-use | – | – | (393.2) | – |
| – Impairment charge | – | – | (99.9) | – |
| | **n/a** | **-USD60 per tonne** | **-1.0%** | **+US\$1.2 per gigajoule** |
| **DNA** | **USDmill** | **USDmill** | **USDmill** | **USDmill** |
| – Value-in-use | – | (424.0) | (316.9) | (424.6) |
| – Impairment charge | – | (16.9) | – | (17.4) |

(1) DAP price impacts the value-in-use of the SCI CGU. The Ammonia price impacts the value-in-use of the DNA CGU.

Note 11

Each of the sensitivities above assumes that a specific assumption moves in isolation, while all other assumptions are held constant. 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.

### Impairment of other property, plant and equipment

During the year ended 30 September 2017 property, plant and equipment was impaired by \$4.7m (2016: \$25.9m) as a result of the Group's fixed asset verification procedures and the abandonment of certain assets.

### Key accounting policies

#### *Impairment testing*

The Group performs annual impairment testing as at 30 September for intangible assets with indefinite useful lives. More frequent reviews are performed for indicators of impairment of all the Group's assets, including operating assets. The identification of impairment indicators involves management judgement. Where an indicator of impairment is identified, a formal impairment assessment is performed.

The Group's annual impairment testing determines whether the recoverable amount of a CGU or group of CGUs, to which goodwill and/or indefinite life intangible assets are allocated, exceeds its carrying amount.

A CGU is the smallest identifiable group of assets that generate cash flows largely independent of cashflows of other groups of assets. Goodwill and other indefinite life intangible assets are allocated to CGUs or groups of CGUs which are no larger than one of the Group's reportable segments.

## 11. Impairment of goodwill and non-current assets (continued)

### Key accounting policies (continued)

***Determining the recoverable amount***

Impairment testing involves comparing an asset's recoverable amount to its carrying amount. The recoverable amount of an asset is determined as the higher of its fair value less costs to sell and its value-in-use. "Value-in-use" is a term that means an asset's value based on the expected future cash flows arising from its continued use, discounted to present value. For discounting purposes, a post-tax rate is used that reflects current market assessments of the risks specific to the asset.

A recoverable amount is estimated for each individual asset or, where it is not possible to estimate for individual assets, for the CGU to which the asset belongs. Cash flows are estimated for the asset in its current condition and do not include cash inflows or outflows that improve or enhance the asset's performance or that may arise from future restructuring.

The Group has prepared value-in-use models for the purpose of impairment testing as at 30 September 2017, using five year discounted cash flow models based on Board approved forecasts. Cash flows beyond the five year period are extrapolated using a terminal value growth rate.

Note 11

***Impairment losses***

An impairment loss is recognised whenever the carrying amount of an asset (or its CGU) exceeds its recoverable amount. Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of CGUs are allocated against assets in the following order:

- Firstly, against the carrying amount of any goodwill allocated to the CGU.
- Secondly, against the carrying amount of any remaining assets in the CGU.

An impairment loss recognised in a prior period for an asset other than goodwill (or its CGU) may be reversed only if there has been a change in the estimates used to determine the recoverable amount of the asset (or its CGU) since the last impairment loss was recognised. When this is the case, the carrying amount of the asset is increased to its recoverable amount.

### Key estimates and judgments

The Group is required to make significant estimates and judgments in determining whether the carrying amount of its assets and/or CGUs has any indication of impairment, in particular in relation to:

- key assumptions used in forecasting future cash flows;
- discount rates applied to those cash flows; and
- the expected long term growth in cash flows.

Such estimates and judgments are subject to change as a result of changing economic and operational conditions. Actual cash flows may therefore differ from forecasts and could result in changes in the recognition of impairment charges in future periods.

## 12. Commitments

*Capital expenditure commitments*

Capital expenditure contracted but not provided for or payable at 30 September:

| | 2017 $mill | 2016 $mill |
|---|---|---|
| no later than one year | **25.2** | 13.3 |
| later than one, no later than five years | **–** | 1.6 |
| | **25.2** | 14.9 |

*Lease commitments*

Non-cancellable operating lease commitments comprise a number of operating lease arrangements for the provision of certain equipment. These leases have varying durations and expiry dates. The future minimum rental commitments are as follows at 30 September:

| | 2017 $mill | 2016 $mill |
|---|---|---|
| no later than one year | **44.8** | 47.6 |
| later than one, no later than five years | **85.5** | 90.1 |
| later than five years | **77.8** | 83.4 |
| | **208.1** | 221.1 |

## Key accounting policies

Leases are accounted for as either finance leases or operating leases.

*Finance leases*

Under the terms of a finance lease, the Group assumes most of the risks and benefits associated with ownership of the leased asset.

Assets subject to finance leases are measured at the present value of the minimum lease payments. The leased asset is amortised on a straight-line basis over the period that benefits are expected to flow from its use. A corresponding liability is established for the lease payments. Each lease payment is allocated between finance charges and reduction of the liability.

*Operating leases*

Under the terms of an operating lease, the Group does not assume the risks and benefits associated with ownership of the leased asset. Payments made under operating leases are shown as lease payments in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

*Issued standards not early adopted*

The Group is currently evaluating the implications of AASB 16: *Leases*. Information on the undiscounted amount of the Group's operating lease commitments at 30 September 2017 under AASB 117, the current leases standard, is disclosed above. Under AASB 16, the present value of these commitments would be shown as a liability on the balance sheet together with an asset representing the right-of-use. The ongoing classification in the Consolidated Statement of Profit or Loss of what is currently predominantly presented as 'Lease payments – operating leases' will be presented as amortisation and interest expense. Initial assessment activities have been undertaken on the Group's current leases, however the impact of the standard will depend on the leases in place on transition. Detailed review of lease contracts, financial reporting impacts and system requirements will continue. The first application date for the Group is the financial year ending 30 September 2020.

## 13. Equity accounted investments

The Group has performed an analysis of the statements of financial position and the results of each of its joint ventures and associates (as listed in note 14) at 30 September 2017 and considers them to be individually immaterial to the Group. As a result, no individual disclosures are included for the Group's investments in joint ventures and associates.

Included in the table below is the summarised financial information of the Group's joint ventures and associates at 30 September:

**Carrying amount of joint ventures and associates**

| | Notes | 2017 $mill | 2016 $mill |
|---|---|---|---|
| Carrying amount at 1 October | | **318.0** | 323.6 |
| Share of net profit | | **39.9** | 35.9 |
| Share in joint ventures acquired during the year | (14) | **5.6** | – |
| Share in joint venture transferred to controlled entities | (14) | **(7.2)** | – |
| Dividends received/receivable | | **(34.9)** | (35.6) |
| Foreign exchange movement | | **(4.5)** | (5.9) |
| **Carrying amount at 30 September** | | **316.9** | 318.0 |
| **Carrying amount of investments in:** | | | |
| Joint ventures | | **265.2** | 266.9 |
| Associates | | **51.7** | 51.1 |
| **Carrying amount of investments in joint ventures and associates** | | **316.9** | 318.0 |

**Transactions between subsidiaries of the Group and joint ventures and associates**

| | 2017 $mill | 2016 $mill |
|---|---|---|
| Sales of goods/services | **335.1** | 307.1 |
| Purchase of goods/services | **(26.5)** | (31.3) |
| Management fees/royalties | **23.2** | 24.3 |
| Interest expense | **(0.2)** | (0.2) |
| Dividend income | **34.9** | 35.6 |

Joint ventures and associates transactions represent amounts that do not eliminate on consolidation.

**Outstanding balances arising from transactions with joint ventures and associates**

| | 2017 $mill | 2016 $mill |
|---|---|---|
| Amounts owing to related parties | **1.2** | 0.5 |
| Amounts owing from related parties | **32.4** | 40.8 |
| **Loans with joint ventures and associates** | | |
| Loans to joint ventures and associates | **15.0** | 23.2 |
| Loans from joint ventures and associates | **10.8** | 11.1 |

Outstanding balances arising from transactions with joint ventures and associates are on standard market terms.

## 14. Investments in subsidiaries, joint ventures and associates

The following list includes the Group's principal operating subsidiaries and subsidiaries that are party to the Deed of Cross Guarantee dated 30 September 2008. Other than as noted below, there were no changes in the Group's existing shareholdings in its subsidiaries, joint ventures and associates in the financial year.

### Subsidiaries

| Name of entity | Ownership interest |
|---|---|
| **Company** | |
| Incitec Pivot Limited[1] | |
| **Controlled Entities – operating** | |
| **Incorporated in Australia** | |
| Incitec Fertilizers Pty Limited[1] | 100% |
| TOP Australia Pty Limited[1] | 100% |
| Southern Cross Fertilisers Pty Ltd[1] | 100% |
| Southern Cross International Pty Ltd[1] | 100% |
| Incitec Pivot LTI Plan Company Pty Limited | 100% |
| Incitec Pivot Explosives Holdings Pty Limited[1] | 100% |
| Queensland Operations Pty Limited | 100% |
| Incitec Pivot Investments 1 Pty Ltd[1] | 100% |
| Incitec Pivot Investments 2 Pty Ltd | 100% |
| Incitec Pivot US Holdings Pty Ltd | 100% |
| Incitec Pivot Finance Australia Pty Ltd[1] | 100% |
| Dyno Nobel Pty Limited | 100% |
| Dyno Nobel Europe Pty Ltd | 100% |
| Dyno Nobel Management Pty Limited | 100% |
| Industrial Investments Australia Finance Pty Limited | 100% |
| Dyno Nobel Asia Pacific Pty Limited[1] | 100% |
| Dampier Nitrogen Pty Ltd | 100% |
| DNX Australia Pty Ltd[1] | 100% |
| Dyno Nobel Moranbah Pty Ltd[1] | 100% |
| Dyno Nobel Moura Pty Limited[1] | 100% |
| **Incorporated in USA** | |
| Incitec Pivot US Investments | 100% |
| Incitec Pivot Management LLC | 100% |
| Incitec Pivot Finance LLC | 100% |
| Dyno Nobel Australia LLC | 100% |
| The Dyno Nobel SPS LLC | 100% |
| Dyno Nobel Holdings IV LLC | 100% |
| Dyno Nobel Holdings USA III, Inc. | 100% |
| Dyno Nobel Holdings USA II | 100% |
| Dyno Nobel Holdings USA II, Inc. | 100% |
| Dyno Nobel Holdings USA, Inc. | 100% |
| Dyno Nobel Inc. | 100% |
| Dyno Nobel Transportation Inc. | 100% |
| Simsbury Hopmeadow Street LLC | 100% |
| Dyno Nobel Holdings V LLC | 100% |
| Tradestar Corporation | 100% |
| CMMPM, LLC | 100% |
| CMMPM Holdings L.P. | 100% |
| Dyno Nobel Louisiana Ammonia, LLC | 100% |
| Nobel Labs, LLC[2] | 100% |
| Midland Powder Company[3] | 100% |
| Midland Powder LLC[3] | 100% |
| Mine Equipment & Mill Supply Company[3] | 100% |
| Controlled Explosives Inc.[3] | 100% |

| Name of entity | Ownership interest |
|---|---|
| **Controlled Entities – operating (continued)** | |
| **Incorporated in Canada** | |
| Dyno Nobel Canada Inc. | 100% |
| Dyno Nobel Transportation Canada Inc. | 100% |
| Dyno Nobel Nunavut Inc. | 100% |
| Incitec Pivot Finance Canada Inc. | 100% |
| Polar Explosives 2000 Inc. | 100% |
| Dene Dyno Nobel (Polar) Inc. | 84% |
| Dyno Nobel Waggaman Inc. | 100% |
| **Incorporated in Hong Kong** | |
| Incitec Pivot Holdings (Hong Kong) Limited | 100% |
| TinLinhe Nitrogen Limited | 100% |
| Quantum Fertilisers Limited | 65% |
| **Incorporated in Singapore** | |
| Coltivi Insurance Pte Limited | 100% |
| **Incorporated in Chile** | |
| Dyno Nobel Explosivos Chile Limitada | 100% |
| **Incorporated in Peru** | |
| Dyno Nobel Peru S.A. | 100% |
| **Incorporated in Mexico** | |
| Dyno Nobel Mexico, S.A. de C.V. | 99% |
| **Incorporated in Papua New Guinea** | |
| DNX Papua New Guinea Ltd[4] | 100% |
| **Incorporated in Indonesia** | |
| PT DNX Indonesia | 100% |
| **Incorporated in Turkey** | |
| Nitromak DNX Kimya Sanayii A.S. | 100% |
| **Incorporated in Romania** | |
| SC Romnitro Explosives Srl. | 100% |
| **Incorporated in Albania** | |
| DNX Nitro Industrial Kimike Sh.p.k | 100% |

(1) A party to Deed of Cross Guarantee dated 30 September 2008.
(2) Nobel Labs, LLC was incorporated in the 2017 financial year.
(3) The remaining 50 percent interest in Midland Powder Company, Midland Powder LLC, Mine Equipment & Mill Supply Company and Controlled Explosives Inc. was acquired in the 2017 financial year.
(4) This entity has a 31 December financial year end.

## 14. Investments in subsidiaries, joint ventures and associates (continued)

### Joint ventures and associates

| Name of entity | Ownership interest |
|---|---|
| **Joint ventures** | |
| **Incorporated in USA** | |
| Alpha Dyno Nobel Inc. | 50% |
| Boren Explosives Co., Inc. | 50% |
| Buckley Powder Co.[(1)] | 51% |
| IRECO Midwest Inc. | 50% |
| Wampum Hardware Co. | 50% |
| Western Explosives Systems Company | 50% |
| Warex Corporation[(2)] | 50% |
| Warex LLC[(2)] | 50% |
| Warex Transportation LLC[(2)] | 50% |
| Vedco Holdings, Inc.[(3)] | 50% |
| Virginia Explosives & Drilling Company Inc.[(3)] | 50% |
| Austin Sales LLC[(3)] | 50% |
| Virginia Drilling Company, LLC[(3)] | 50% |
| **Incorporated in Canada** | |
| Newfoundland Hard-Rok Inc. | 50% |
| Dyno Nobel Labrador Inc. | 50% |
| Quantum Explosives Inc. | 50% |
| Dene Dyno Nobel Inc. | 49% |
| Qaaqtuq Dyno Nobel Inc.[(4)] | 49% |
| Dene Dyno Nobel (DWEI) Inc.[(5)] | 49% |
| Dyno Nobel Baffin Island Inc. | 50% |
| **Incorporated in Australia** | |
| Queensland Nitrates Pty Ltd | 50% |
| Queensland Nitrates Management Pty Ltd | 50% |
| **Incorporated in South Africa** | |
| DetNet South Africa (Pty) Ltd | 50% |
| Sasol Dyno Nobel (Pty) Ltd | 50% |
| **Incorporated in Mexico** | |
| DNEX Mexico, S. De R.L. de C.V. | 49% |
| Explosivos De La Region Lagunera, S.A. de C.V. | 49% |
| Explosivos De La Region, Central, S.A. de C.V. | 49% |
| Nitro Explosivos de Ciudad Guzman, S.A. de C.V. | 49% |
| Explosivos Y Servicios Para La Construccion, S.A. de C.V. | 49% |
| **Incorporated in Malaysia** | |
| Tenaga Kimia Ensign-Bickford Sdn Bhd | 50% |

| Name of entity | Ownership interest |
|---|---|
| **Associates** | |
| **Incorporated in USA** | |
| Maine Drilling and Blasting Group | 49% |
| Independent Explosives | 49% |
| **Incorporated in Canada** | |
| Labrador Maskuau Ashini Ltd | 25% |
| Valley Hydraulics Inc. | 25% |
| Innu Namesu Ltd | 25% |

(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) A 25 percent interest in Warex Corporation, Warex LLC and Warex Transportation LLC was acquired in the 2017 financial year.

(3) A 50 percent interest in Vedco Holdings, Inc., Virginia Explosives & Drilling Company Inc., Austin Sales LLC and Virginia Drilling Company, LLC was acquired in the 2017 financial year.

(4) Due to legal requirements in the Canadian Northwest Territories, the Group cannot own more than 49 percent of 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.

(5) Due to legal requirements in the Canadian Northwest Territories, the Group cannot own more than 49 percent of shares in Dene Dyno Nobel (DWEI) Inc. However, under the joint venture agreement, the Group is entitled to 95 percent of the profit of Dene Dyno Nobel (DWEI) Inc.

## 15. Provisions and contingencies

Provisions at 30 September 2017 are analysed as follows:

| 30 September 2017 | Employee entitlements $mill | Restructuring and rationalisation $mill | Environmental $mill | Asset retirement obligations $mill | Legal and other $mill | Total provisions $mill |
|---|---|---|---|---|---|---|
| Carrying amount at 1 October 2016 | 58.3 | 25.1 | 61.4 | 43.4 | 14.3 | 202.5 |
| Provisions made during the year | 0.6 | 0.4 | 0.4 | 17.1 | 2.4 | 20.9 |
| Provisions written back during the year | (3.6) | (2.3) | (2.3) | – | (4.1) | (12.3) |
| Payments made during the year | (4.6) | (17.4) | (12.0) | (0.8) | (6.4) | (41.2) |
| Interest unwind | 1.0 | – | 1.2 | 2.7 | – | 4.9 |
| Foreign exchange movement | – | (0.4) | (0.2) | (0.8) | (0.3) | (1.7) |
| Carrying amount at 30 September 2017 | 51.7 | 5.4 | 48.5 | 61.6 | 5.9 | 173.1 |
| Current | 45.0 | 5.2 | 19.9 | 2.0 | 5.9 | 78.0 |
| Non-current | 6.7 | 0.2 | 28.6 | 59.6 | – | 95.1 |

### Key accounting policies

Provisions are measured at management's estimate of the expenditure required to settle the obligation. This estimate is based on a "present value" calculation, which involves the application of a discount rate to the expected future cash flows associated with settlement. The discount rate takes into account factors such as risks specific to the liability and the time value of money.

*Employee entitlements*

Provisions are made for liabilities to employees for annual leave, long service leave and other employee entitlements. Where the payment to employees is expected to take place in 12 months time or later, a present value calculation is performed. In this instance, the corporate bond rate is used to discount the liability to its present value.

*Restructuring and rationalisation*

Provisions for restructuring or rationalisation are only recognised when a detailed plan has been approved and the restructuring or rationalisation has either commenced or been publicly announced.

*Environmental*

Provisions relating to the remediation of soil, groundwater, untreated waste and other environmental contamination are made when the Group has an obligation to carry out the clean-up operation as a result of a past event. In addition, a provision will only be made where it is possible to reliably estimate the costs involved.

*Asset retirement*

In certain circumstances, the Group has an obligation to dismantle and remove an asset and to restore the site on which it is located. The present value of the estimated costs of this process is recognised as part of the asset that is depreciated and also as a provision.

At each reporting date, the provision is remeasured in line with changes in discount rates and the timing and amount of future estimated cash flows. Any changes in the provision are added to or deducted from the related asset, other than changes associated with the passage of time. This is recognised as a borrowing cost in the profit or loss.

*Legal and other*

There are a number of legal claims and other exposures, including claims for damages arising from products and services supplied by the Group, that arise from the ordinary course of business. A provision is only made where it is probable that a sacrifice of future economic benefits will be required and the costs involved can be reliably estimated.

### Key estimates and judgments

Provisions are based on the Group's estimate of the timing and value of outflows of resources required to settle or satisfy commitments and liabilities known to the Group at the reporting date.

### Contingencies

The following contingent liabilities are considered remote. However the directors consider they should be disclosed:

- Under the terms of the ASIC Legislative Instrument, *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*, issued by the Australian Securities and Investments Commission dated 17 December 2016, which relieved certain wholly-owned subsidiaries from the requirement to prepare audited financial statements, IPL and certain wholly-owned subsidiaries (identified in note 14) have entered into an approved deed for the cross guarantee of liabilities. No additional liabilities subject to the Deed of Cross Guarantee at 30 September 2017 are expected to arise to IPL or the relevant subsidiaries.
- The Group is regularly subject to investigations and audit activities by the revenue authorities of jurisdictions in which the Group operates. The outcome of these investigations and audits depends upon several factors which may result in further tax payments or refunds of tax payments already made by the Group.
- Contingent liabilities arise in the normal course of business and include a number of legal claims, environmental clean-up requirements and bank guarantees.

The Directors are of the opinion that no additional provisions are required in respect of these matters, as it is either not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

## 16. Financial risk management

The Group is exposed to financial risks including liquidity risk, market risk and credit risk. This note explains the Group's financial risk exposures and its objectives, policies and processes for measuring and managing these risks.

The Board of Directors (the **Board**) has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board established the Audit and Risk Management Committee (**ARMC**) which is responsible for, amongst other things, the monitoring of the Group's risk management plans. The ARMC is assisted in its oversight role by the Group's Risk Management function. The Risk Management function performs reviews of the Group's risk management controls and procedures, the results of which are reported to the ARMC. The ARMC reports regularly to the Board on its activities.

The Group's financial risk management framework includes policies to identify, analyse and manage the Group's financial risks. These policies set appropriate financial risk limits and controls, identify permitted derivative instruments and provide guidance on how to monitor and report financial risks and adherence to set limits. Financial risk management policies, procedures and systems are reviewed regularly to ensure they remain appropriate given changes in market conditions and/or the Group's activities.

### Financial risks

**Liquidity risk:** The risk that the Group is not able to refinance its debt obligations or meet other cash outflow obligations when required.

***Source of risk***

Exposure to liquidity risk derives from the Group's operations and from the external interest bearing liabilities that it holds.

***Risk mitigation***

Liquidity risk is managed by ensuring 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 earnings and capital requirements. This includes stress testing of critical assumptions such as input costs, sales prices, production volumes, exchange rates and capital expenditure.

The Group aims to hold a minimum liquidity buffer of at least $500m in undrawn non-current committed funding to meet any unforeseen cash flow requirements. Details on the Group's committed finance facilities, including the maturity dates of these facilities, are included in note 8.

***Outstanding financial instruments***

The Group's exposures to liquidity risk are set out in the tables below:

| **30 September 2017** | Contractual cash flows[(1)] **$mill** | 0 – 12 months **$mill** | 1 – 5 years **$mill** | more than 5 years **$mill** |
|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | |
| Interest bearing liabilities | **2,224.1** | **12.1** | **1,705.3** | **506.7** |
| Interest payments | **368.0** | **85.6** | **181.7** | **100.7** |
| Trade and other payables | **1,058.6** | **1,043.7** | **14.9** | **–** |
| Bank guarantees | **108.8** | **40.0** | **7.3** | **61.5** |
| **Total non-derivative cash outflows** | **3,759.5** | **1,181.4** | **1,909.2** | **668.9** |
| **Derivative financial (assets)/liabilities** | | | | |
| Forward exchange contracts | **(4.2)** | **(5.5)** | **1.3** | **–** |
| Foreign exchange options | **1.2** | **1.2** | **–** | **–** |
| Cross currency interest rate swaps | **11.8** | **11.8** | **–** | **–** |
| Interest rate swaps | **13.4** | **0.1** | **11.4** | **1.9** |
| Commodity swaps | **(12.7)** | **(11.3)** | **(1.4)** | **–** |
| Commodity options | **0.8** | **0.8** | **–** | **–** |
| **Net derivative cash outflows** | **10.3** | **(2.9)** | **11.3** | **1.9** |

| 30 September 2016 | Contractual cash flows[(1)] $mill | 0 – 12 months $mill | 1 – 5 years $mill | more than 5 years $mill |
|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | |
| Interest bearing liabilities | 2,289.4 | 11.1 | 2,278.3 | – |
| Interest payments | 261.6 | 68.6 | 193.0 | – |
| Trade and other payables | 946.8 | 939.5 | 7.3 | – |
| Bank guarantees | 133.4 | 61.5 | 8.9 | 63.0 |
| **Total non-derivative cash outflows** | 3,631.2 | 1,080.7 | 2,487.5 | 63.0 |
| **Derivative financial (assets)/liabilities** | | | | |
| Forward exchange contracts | 4.8 | 2.4 | 2.4 | – |
| Cross currency interest rate swaps | 29.5 | – | 29.5 | – |
| Interest rate swaps | 35.6 | (2.6) | 32.0 | 6.2 |
| Commodity swaps | (17.0) | (6.4) | (10.6) | – |
| Commodity options | 1.7 | 1.0 | 0.7 | – |
| **Net derivative cash outflows** | 54.6 | (5.6) | 54.0 | 6.2 |

(1) Contractual cash flows are not discounted, include interest amounts payable, and are based on foreign exchange rates at year end. Any subsequent movements in foreign exchange rates could impact the actual cash flows on settlement of these assets and liabilities.

## 16. Financial risk management (continued)

### Financial risks (continued)

**Market risk:** The risk that changes in foreign exchange rates, interest rates and commodity prices will affect the Group's earnings, cash flows and the carrying values of its financial instruments.

### Foreign exchange risk

*Source of risk*

The Group is exposed to changes in foreign exchange rates (primarily in USD) on the following transactions and balances:

- Sales and purchases
- Trade receivables and trade payables
- Interest bearing liabilities

The Group is also exposed to foreign exchange movements (primarily in USD) on the translation of the earnings, assets and liabilities of its foreign operations.

*Risk mitigation*

Foreign exchange exposure to sales and purchases is managed by entering into formal hedging arrangements.

The Group hedges both specific transactions and net exposures by entering into foreign exchange rate derivative contracts.

The translation risk of USD denominated interest bearing liabilities and net investments in foreign operations and their earnings is also managed by entering into foreign exchange rate derivative financial instruments.

*Outstanding financial instruments and sensitivity analysis*

The table below summarises the Group's exposure to movements in the AUD:USD exchange rate and the derivative financial instruments that are in place to hedge these exposures at 30 September:

| | **2017 AUD:USD USD mill** | 2016 AUD:USD USD mill |
|---|---|---|
| **Transactional exposures** | | |
| Trade and other receivables | **271.2** | 187.5 |
| Trade and other payables | **(238.3)** | (244.3) |
| Interest bearing liabilities | **(1,573.0)** | (1,573.0) |
| **Gross exposure (before hedging)** | **(1,540.1)** | (1,629.8) |
| **Hedge of transactional exposures** | | |
| *Trade and other receivables* | | |
| Forward exchange contracts | **(270.4)** | (186.0) |
| *Trade and other payables* | | |
| Forward exchange contracts | **228.5** | 244.1 |
| *Interest bearing liabilities* | | |
| Forward exchange contracts | **–** | 273.0 |
| Cross currency interest rate swaps | **1,173.0** | 1,300.0 |
| **Total hedge contract values** | **1,131.1** | 1,631.1 |
| **Net exposure (after hedging)** | **(409.0)** | 1.3 |

| | **2017 AUD:USD USD mill** | 2016 AUD:USD USD mill |
|---|---|---|
| **Hedge of forecast sales and purchases** | | |
| Forward exchange contracts | **(106.2)** | (198.2) |
| **Total hedge contract values** | **(106.2)** | (198.2) |

| | **2017 AUD:USD USD mill** | 2016 AUD:USD USD mill |
|---|---|---|
| **Translational exposures** | | |
| Net investment in foreign operations | **2,380.3** | 2,654.8 |
| **Gross exposure (before hedging)** | **2,380.3** | 2,654.8 |
| **Hedge of translational exposures** | | |
| Cross currency interest rate swaps | **(1,654.5)** | (1,781.5) |
| Forward exchange contracts | **640.0** | (73.0) |
| Foreign exchange options[1] | **50.0** | – |
| **Total hedge contract values** | **(964.5)** | (1,854.5) |
| **Net exposure (after hedging)** | **1,415.8** | 800.3 |

(1) Bought AUD put at AUD:USD 0.74 and sold AUD call at 0.77 maturing within 1 year.

**Foreign exchange rates**

The AUD:USD foreign exchange rates used by the Group to translate its foreign denominated earnings, assets and liabilities are set out below:

| | **2017 AUD:USD** | 2016 AUD:USD |
|---|---|---|
| 30 September foreign exchange rate | **0.7846** | 0.7626 |
| Average foreign exchange rate for the year | **0.7620** | 0.7359 |

***Foreign exchange rate sensitivity on outstanding financial instruments***

The table below shows the impact of a 1 cent movement (net of hedging) in the AUD:USD exchange rate on the Group's profit and equity before tax in relation to foreign denominated assets and liabilities at 30 September:

| | **+ 1c AUD:USD AUD mill 2017** | **- 1c AUD:USD AUD mill 2017** | + 1c AUD:USD AUD mill 2016 | - 1c AUD:USD AUD mill 2016 |
|---|---|---|---|---|
| ***Foreign exchange sensitivity – (net of hedging)*** | | | | |
| Trade and other receivables and payables – (profit or loss) | **0.1** | **(0.1)** | (0.1) | 0.1 |
| Hedge of forecast transactions – (equity) | **1.7** | **(1.7)** | 3.4 | (3.5) |
| Interest bearing liabilities (equity) | **6.4** | **(6.6)** | – | – |
| Investments in foreign operations – (equity) | **(22.7)** | **23.3** | (13.6) | 13.9 |

Note 16

## 16. Financial risk management (continued)

### Financial risks (continued)

### Market risk (continued)

### Foreign exchange risk (continued)

#### *Outstanding financial instruments and sensitivity analysis (continued)*

***Sensitivity to foreign exchange rate movements during the year (unhedged)***

The table below shows the impact of a 1 cent movement in the AUD:USD foreign exchange rates on the Group's profit before tax, in relation to sales and earnings during the year that were denominated in USD.

| | **+ 1c AUD:USD AUD mill 2017** | **- 1c AUD:USD AUD mill 2017** | + 1c AUD:USD AUD mill 2016 | - 1c AUD:USD AUD mill 2016 |
|---|---|---|---|---|
| USD Fertiliser sales from Australian plants | **(6.8)** | **6.9** | (8.0) | 8.2 |
| North American USD earnings | **(2.9)** | **3.0** | (2.7) | 2.8 |

The fertiliser sales sensitivity calculation is based on actual tonnes manufactured by the Australian fertiliser plants and sold during the year, the average AUD:USD exchange rate for the year, and the average USD fertiliser price.

The North American earnings translation sensitivity calculation is based on the earnings before interest and tax from the North American business for the year and the average AUD:USD exchange rate for the year.

### Interest rate risk

***Source of risk***
Exposure to interest rate risk is a result of the effect of changes in interest rates on the Group's outstanding interest bearing liabilities and derivative instruments.

***Risk mitigation***
The exposure to interest rate risk is mitigated by maintaining a mix of fixed and variable interest rate borrowings and by entering into interest rate derivative instruments.

#### *Outstanding financial instruments and sensitivity analysis*

The tables below include the Group's derivative contracts that are exposed to changes in interest rates at 30 September:

| **Interest rate swaps** | **Average pay fixed rate[(1)]** | **Average receive fixed rate[(1)]** | **Duration (years)** | **Net contract amounts USD mill** |
|---|---|---|---|---|
| *2017* | | | | |
| less than 1 year | **2.39%** | **–** | **0.2** | **400** |
| 1 to 5 years | **3.24%** | **–** | **2.9** | **550** |
| 1 to 5 years | **–** | **(3.11%)** | **2.2** | **300** |
| later than 5 years | **2.02%** | **–** | **3.0** | **350** |
| later than 5 years | **–** | **(2.62%)** | **5.0** | **100** |
| *2016* | | | | |
| less than 1 year | 1.45% | – | 0.2 | 400 |
| 1 to 5 years | 3.01% | – | 3.8 | 550 |
| 1 to 5 years | – | (3.17%) | 3.2 | 300 |
| later than 5 years | 2.11% | – | 2.8 | 450 |

| **Interest rate options** | **Net contract amounts USD mill 2017** | **Strike[(1)] 2017** | **Duration (years)** | Net contract amounts USD mill 2016 | Strike[(1)] 2016 | Duration (years) |
|---|---|---|---|---|---|---|
| *Contracts maturing between 1 and 5 years* | | | | | | |
| Sold cap | **350** | **3.75%** | **1.8** | 350 | 3.75% | 0.8 |
| Bought cap | **350** | **2.58%** | **1.8** | 350 | 2.58% | 0.8 |
| Sold floor | **350** | **1.50%** | **1.8** | 350 | 1.50% | 0.8 |
| Bought floor | **350** | **0.01%** | **1.8** | 350 | 0.01% | 0.8 |

(1) LIBOR

| **Interest rate options** | **Net contract amounts USD mill 2017** | **Strike[(1)] 2017** | **Duration (years)** | Net contract amounts USD mill 2016 | Strike[(1)] 2016 | Duration (years) |
|---|---|---|---|---|---|---|
| *Contracts maturing later than 5 years* | | | | | | |
| Sold cap | **350** | **3.75%** | **2.2** | 350 | 3.75% | 3.2 |
| Bought cap | **350** | **2.58%** | **2.2** | 350 | 2.58% | 3.2 |
| Sold floor | **350** | **1.50%** | **2.2** | 350 | 1.50% | 3.2 |
| Bought floor | **350** | **0.01%** | **2.2** | 350 | 0.01% | 3.2 |

(1) LIBOR

***Interest rate sensitivity on outstanding financial instruments***

The following table shows the sensitivity of the Group's profit before tax to a 1 per cent change in interest rates. The sensitivity is calculated based on the Group's interest bearing liabilities and derivative financial instruments that are exposed to interest rate movements and the AUD:USD exchange rate at 30 September:

| **Interest rate sensitivity** | **+ 1% AUD mill 2017** | **- 1% AUD mill 2017** | + 1% AUD mill 2016 | - 1% AUD mill 2016 |
|---|---|---|---|---|
| LIBOR | **(0.2)** | **0.2** | (13.8) | 13.8 |
| BBSW | **(2.1)** | **2.1** | 6.0 | (6.0) |

The sensitivity above is also representative of the Group's interest rate exposures during the year.

Note 16

## 16. Financial risk management (continued)

### Financial risks (continued)

### Market risk (continued)

### Commodity price risk

*Source of risk*

Exposure to changes in commodity prices is by virtue of the products that the Group sells and its manufacturing operations, and can be categorised into six main commodities, namely: Ammonia, Ammonium Nitrate, Ammonium Phosphate, Urea-Ammonium Nitrate (UAN), Urea and Natural Gas.

*Risk mitigation*

Price risk exposure is managed by entering into long term contracts with suppliers and customers where possible. Where commodity price exposures cannot be eliminated through contracted and/or other commercial arrangements, the Group may enter into derivative contracts where available on a needs basis, to mitigate this risk. However, in some instances price risk exposure cannot be economically mitigated by either contractual arrangements or derivative contracts.

#### *Outstanding financial instruments and sensitivity analysis*

The table below includes the Group's derivative contracts that are exposed to changes in natural gas prices at 30 September:

| | **Total volume (MMBTU)(1) 2017** | **Price/Strike USD(2) 2017** | Total volume (MMBTU)(1) 2016 | Price/Strike USD(2) 2016 |
|---|---|---|---|---|
| ***Contracts maturing within 1 year*** | | | | |
| Natural gas options | | | | |
| Bought Call | **1,450,000** | **4.53** | 3,833,000 | 4.36 |
| Sold Put | **1,450,000** | **3.30** | 3,833,000 | 3.07 |
| ***Contracts maturing between 1 and 5 years*** | | | | |
| Natural gas options | | | | |
| Bought Call | – | – | 1,600,000 | 4.52 |
| Sold Put | – | – | 1,600,000 | 3.28 |

(1) Million Metric British Thermal Units
(2) Nymex Henry Hub gas price

*Natural gas price sensitivity on outstanding financial instruments*

The table below shows the sensitivity of the Group's equity before tax to a change of USD1 per MMBTU in the natural gas price. The sensitivity is based on natural gas derivative contracts held by the Group at 30 September:

| **Natural gas price sensitivity** | **+ US$1 per 1 MMBTU AUD mill 2017** | **- US$1 per 1 MMBTU AUD mill 2017** | + US$1 per 1 MMBTU AUD mill 2016 | - US$1 per 1 MMBTU AUD mill 2016 |
|---|---|---|---|---|
| Henry Hub USD | **0.7** | **(1.8)** | 2.3 | (2.3) |

*Sensitivity to natural gas price movements during the year*

The table below shows the sensitivity of the Group's profit before tax to a change of USD1 per MMBTU in the natural gas price. The sensitivity is based on the average natural gas price, the average AUD:USD exchange rate (excluding the impact of hedging) and the current annual natural gas consumption of the Group's manufacturing operations in the Americas that are exposed to changes in natural gas prices:

| **Natural gas price sensitivity** | **+ US$1 per 1 MMBTU AUD mill 2017** | **- US$1 per 1 MMBTU AUD mill 2017** | + US$1 per 1 MMBTU AUD mill 2016 | - US$1 per 1 MMBTU AUD mill 2016 |
|---|---|---|---|---|
| Henry Hub USD | **(33.1)** | **33.1** | (8.3) | 8.3 |

*Sensitivity to fertiliser price movements during the year*

The table below shows the sensitivity of the Group's profit before tax to a USD10 per tonne change in Ammonium Phosphates and Urea prices. The sensitivity is based on actual tonnes manufactured and sold by the Group during the year and the average AUD:USD exchange rate (excluding the impact of hedging) for the year:

| **Fertiliser price sensitivity** | **+ USD10 per tonne AUD mill** | **- USD10 per tonne AUD mill** | **Actual Tonnes ('000s)** |
|---|---|---|---|
| **2017** | | | |
| Granular Urea (FOB Middle East) | **5.3** | **(5.3)** | **403** |
| DAP/MAP (FOB Tampa) | **12.3** | **(12.3)** | **938** |
| UAN (FOB Nola) | **2.8** | **(2.8)** | **213** |
| Urea (FOB NOLA) | **1.7** | **(1.7)** | **128** |
| **2016** | | | |
| Granular Urea (FOB Middle East) | 4.7 | (4.6) | 347 |
| DAP/MAP (FOB Tampa) | 13.7 | (13.7) | 1,010 |
| UAN (FOB Nola) | 3.4 | (3.4) | 249 |
| Urea (FOB NOLA) | 1.5 | (1.5) | 108 |

*Sensitivity to ammonia price movements during the year*

The table below shows the sensitivity of the Group's profit before tax to a USD10 per tonne change in Ammonia prices. The sensitivity is based on actual tonnes manufactured and sold by the Group during the year and the average AUD:USD exchange rate (excluding the impact of hedging) for the year:

| **Ammonia price sensitivity** | **+ USD10 per tonne AUD mill** | **- USD10 per tonne AUD mill** | **Actual Tonnes ('000s)** |
|---|---|---|---|
| Ammonia (FOB Tampa) | 7.1 | (7.1) | 540 |

The Group has a gas supply agreement in Australia with pricing referenced to the USD Brent oil price. As a result, the Group holds Brent oil fixed price swaps to eliminate the exposure to changes in the Brent oil price.

The table below includes the Group's derivatives contracts that are exposed to changes in Brent oil prices at 30 September 2017:

| | **Total volume (barrels) 2017** | **Price USD(1) 2017** | Total volume (barrels) 2016 | Price USD(1) 2016 |
|---|---|---|---|---|
| *Contracts maturing between 1 and 5 years* | | | | |
| Oil swaps fixed payer | **1,335,930** | **48.02** | 2,137,488 | 47.30 |

(1) Oil-Brent (DTD)-Platts Marketwire

Note 16

## 16. Financial risk management (continued)

### Financial risks (continued)

### Market risk (continued)

Included in the table below are details of the Group's derivative instruments at 30 September 2017, classified by hedge accounting type and market risk category:

| 30 September 2017 | Note | Balance at 30 September 2017 Carrying amount of hedging instrument asset[1] | Carrying amount of hedging instrument liability[1] | Fair value hedge adjustment of hedged item | Balance of gains/ (losses) in reserves before tax | During the period Gains/ (losses) recognised in reserves[2] | Reclassification of (gains)/ losses from reserves to profit or loss[2,7] |
|---|---|---|---|---|---|---|---|
| *Cash flow hedges* | | | | | | | |
| Foreign exchange risk on forecast sales & purchases | | | | | | | |
| Forward exchange contracts | | **1.2** | **(4.7)** | – | **(3.6)** | **(1.1)** | – |
| Discontinued hedge[3] | | – | – | – | **(0.8)** | **9.9** | **(31.2)** |
| Commodity price risk on forecast purchases | | | | | | | |
| Commodity swaps | | **13.3** | **(0.5)** | – | **12.9** | **(3.7)** | – |
| Commodity options | | – | **(0.5)** | – | **(1.4)** | **0.5** | – |
| Discontinued hedge[3] | | – | – | – | **(3.0)** | **4.5** | **(5.2)** |
| Interest rate risk on highly probable debt | | | | | | | |
| Interest rate swaps | | **2.6** | **(27.1)** | – | **(23.6)** | **34.9** | – |
| Interest rate options | | **0.7** | **(0.2)** | – | **(0.3)** | **5.8** | – |
| Discontinued hedge[3] | | – | – | – | **(6.4)** | **2.1** | **1.6** |
| **Total cash flow hedges** | | **17.8** | **(33.0)** | – | **(26.2)** | **52.9** | **(34.8)** |
| *Net investment hedges* | | | | | | | |
| Foreign exchange risk on foreign operation | | | | | | | |
| Cross currency interest rate swaps | | – | **(305.1)** | – | **(306.8)** | **60.4** | – |
| Forward exchange contracts | | **8.1** | – | – | **8.2** | **8.2** | – |
| Foreign exchange options | | – | **(1.6)** | – | **(1.2)** | **(1.2)** | – |
| Discontinued hedge[3] | | – | – | – | **(198.7)** | **1.8** | – |
| **Total net investment hedges** | | **8.1** | **(306.7)** | – | **(498.5)** | **69.2** | – |
| *Fair value hedges* | | | | | | | |
| Foreign exchange risk on USD borrowings[4] | | | | | | | |
| Cross currency interest rate swaps | | **292.8** | – | **(190.1)** | – | – | – |
| Interest rate risk on fixed USD and AUD bonds[5] | | | | | | | |
| Interest rate swaps | | **11.5** | – | **(14.2)** | – | – | – |
| Discontinued hedge | | – | – | **1.2** | – | – | – |
| **Total fair value hedges** | (8) | **304.3** | – | **(203.1)** | – | – | – |
| *Held for trading*[6] | | | | | | | |
| Forward exchange contracts | | **1.4** | **(0.8)** | – | – | – | – |
| Interest rate swaps | | **0.1** | – | – | – | – | – |
| **Total held for trading** | | **1.5** | **(0.8)** | – | – | – | – |
| **Offsetting contracts**[1] | | **(292.8)** | **292.8** | – | – | – | – |
| **Equity instruments** | | **2.3** | – | – | **(16.9)** | **(0.8)** | – |
| **Total net** | | **41.2** | **(47.7)** | **(203.1)** | **(541.6)** | **121.3** | **(34.8)** |

(1) Balances are included in other financial assets/liabilities in the Statement of Financial Position. Financial assets and financial liabilities that are subject to enforceable master netting arrangements are offset in the Statement of Financial Position.
(2) Gains or losses recognised in the reserves will be reclassified to the same line item in the profit or loss as the underlying hedged item when the underlying forecast transaction occurs.
(3) Gains or losses on discontinued hedges that were in cash flow hedge or net investment hedge relationships remain in the reserves until the underlying transactions occur or upon disposal of the underlying net investment. The balance of discontinued hedges in net investment hedges includes the market value of USD400m of derivatives that were discontinued during the year. Any changes in the market value of the discontinued hedges are recognised in the profit or loss from discontinuation.
(4) The total fair value of derivatives hedging the Group's interest bearing liabilities is $304.3m. The cross currency interest rate swaps hedging the foreign currency exposure of the Group's USD borrowings have a contract value of USD1,173m, and are economic hedges of an equivalent amount of the Group's USD interest bearing liabilities. Derivatives with a contract value of USD400m and a contract rate of AUD:USD 0.97 were discontinued during the year.
(5) Interest rate swap contracts effectively convert USD400m of the Group's fixed interest rate borrowings to floating interest rates. The fair value hedge adjustment of a hedged item where the hedging instrument is discontinued remains in the carrying amount of the hedged item and is amortised to the profit or loss over the life of the hedged item.
(6) Derivatives which are classified as held for trading are in economic hedge relationships that do not qualify for hedge accounting. These hedges are effective economic hedges or offsetting hedges based on contractual amounts and cash flows over the life of the underlying item.
(7) At 30 September 2017, a gain of $0.3m was transferred from reserves to profit or loss in relation to ineffective hedges.

Note 16

## 16. Financial risk management (continued)

### Financial risks (continued)

### Market risk (continued)

Included in the table below are details of the Group's derivative instruments at 30 September 2016, classified by hedge accounting type and market risk category:

| | | Balance at 30 September 2016 | | | | During the period | |
|---|---|---|---|---|---|---|---|
| 30 September 2016 | Note | Carrying amount of hedging instrument asset[1] | Carrying amount of hedging instrument liability[1] | Fair value hedge adjustment of hedged item | Balance of gains/ (losses) in reserves before tax | Gains/ (losses) recognised in reserves[2] | Reclassification of (gains)/ losses from reserves to profit or loss[2] |
| ***Cash flow hedges*** | | | | | | | |
| Foreign exchange risk on forecast sales & purchases | | | | | | | |
| Forward exchange contracts | | 0.9 | (3.7) | – | (2.5) | (2.5) | 0.2 |
| Discontinued hedge[3] | | – | – | – | 20.5 | 15.5 | (8.7) |
| Commodity price risk on forecast purchases | | | | | | | |
| Commodity swaps | | 16.7 | (0.1) | – | 16.6 | 17.8 | – |
| Commodity options | | – | (1.5) | – | (1.9) | 1.6 | – |
| Discontinued hedge[3] | | – | – | – | (2.3) | (2.1) | 12.5 |
| Interest rate risk on highly probable debt | | | | | | | |
| Interest rate swaps | | 0.1 | (60.1) | – | (58.5) | (16.7) | – |
| Interest rate options | | – | (5.4) | – | (6.1) | (6.2) | – |
| Discontinued hedge[3] | | – | – | – | (10.1) | (4.2) | 1.9 |
| **Total cash flow hedges** | | 17.7 | (70.8) | – | (44.3) | 3.2 | 5.9 |
| ***Net investment hedges*** | | | | | | | |
| Foreign exchange risk on foreign operation | | | | | | | |
| Cross currency interest rate swaps | | – | (401.2) | – | (404.0) | 203.2 | – |
| Forward exchange contracts | | 0.1 | (71.6) | – | (48.3) | 31.1 | – |
| Discontinued hedge[3] | | – | – | – | (115.6) | 3.6 | – |
| **Total net investment hedges** | | 0.1 | (472.8) | – | (567.9) | 237.9 | – |
| ***Fair value hedges*** | | | | | | | |
| Foreign exchange risk on USD borrowings[4] | | | | | | | |
| Cross currency interest rate swaps | | 371.4 | – | (234.0) | – | – | – |
| Forward exchange contracts | | 71.6 | – | (1.9) | – | – | – |
| Interest rate risk on fixed USD and AUD bonds[5] | | | | | | | |
| Interest rate swaps | | 25.5 | – | (29.5) | – | – | – |
| Discontinued hedge | | – | – | 3.3 | – | – | – |
| **Total fair value hedges** | (8) | 468.5 | – | (262.1) | – | – | – |
| ***Held for trading***[6] | | | | | | | |
| Forward exchange contracts | | 0.8 | (0.4) | – | – | – | – |
| Interest rate swaps | | 1.2 | (1.1) | – | – | – | – |
| **Total held for trading** | | 2.0 | (1.5) | – | – | – | – |
| **Offsetting contracts**[1] | | (443.0) | 443.0 | – | – | – | – |
| **Equity instruments** | | 1.1 | – | – | (16.1) | (0.1) | – |
| **Total net** | | 46.4 | (102.1) | (262.1) | (628.3) | 241.0 | 5.9 |

(1) Balances are included in other financial assets/liabilities in the Statement of Financial Position. Financial assets and financial liabilities that are subject to enforceable master netting arrangements are offset in the Statement of Financial Position.
(2) Gains or losses recognised in the reserves will be reclassified to the same line item in the profit or loss as the underlying hedged item when the underlying forecast transaction occurs.
(3) Gains or losses on discontinued hedges that were in cash flow hedge or net investment hedge relationships remain in the reserves until the underlying transactions occur or upon disposal of the underlying net investment. At 30 September 2016, a loss of $10.9m was transferred from reserves to profit or loss in relation to ineffective hedges, as the underlying transaction was no longer expected to occur.
(4) The total fair value of derivatives hedging the Group's interest bearing liabilities is $468.5m. The cross currency interest rate swaps and forward exchange contracts hedging the foreign currency exposure of the Group's USD borrowings have a contract value of USD1,573m, and are economic hedges of USD1,573m of the Group's USD interest bearing liabilities.
(5) Interest rate swap contracts effectively convert USD300m of the Group's fixed interest rate borrowings to floating interest rates. The fair value hedge adjustment of a hedged item where the hedging instrument is discontinued remains in the carrying amount of the hedged item and is amortised to the profit or loss over the life of the hedged item.
(6) Derivatives which are classified as held for trading are in economic hedge relationships that do not qualify for hedge accounting. These hedges are effective economic hedges or offsetting hedges based on contractual amounts and cash flows over the life of the underlying item.

Note 16

## 16. Financial risk management (continued)

### Financial risks (continued)

**Credit risk:** The risk of financial loss to the Group as a result of customers or counterparties to financial assets failing to meet their contractual obligations.

*Source of risk*

The Group is exposed to counterparty credit risk from trade and other receivables and financial instrument contracts that are outstanding at the reporting date.

*Risk mitigation*

The Group minimises the credit risk associated with trade and other receivables balances by undertaking transactions with a large number of customers in various countries.

The creditworthiness of customers is reviewed prior to granting credit, using trade references and credit reference agencies. Credit limits are established and monitored for each customer, and these limits represent the highest level of exposure that a customer can reach. Trade credit insurance is purchased when required.

The Group mitigates credit risk from financial instrument contracts by only entering into transactions with counterparties that have sound credit ratings and, where applicable, with whom the Group has a signed netting agreement. Given their high credit ratings, the Group does not expect any counterparty to fail to meet its obligations.

*Credit risk exposure*

The Group's maximum exposure to credit risk at 30 September is the carrying amount, net of any provision for impairment, of the financial assets as detailed in the table below:

| | **2017 $mill** | 2016 $mill |
|---|---|---|
| Trade and other receivables | **342.8** | 276.8 |
| Cash and cash equivalents | **627.9** | 427.1 |
| Derivative assets | **38.9** | 45.3 |
| | **1,009.6** | 749.2 |

Financial assets and financial liabilities that are subject to enforceable master netting arrangements and are intended to be settled on a net basis are offset in the Statement of Financial Position. At 30 September 2017, the amount netted in other financial assets and other financial liabilities is $292.8m (2016: $443m).

### Fair value

Fair value of the Group's financial assets and liabilities is calculated using a variety of techniques depending on the type of financial instrument as follows:

- The fair value of financial assets and financial liabilities traded in active markets (such as equity securities and fixed interest rate bonds) is the quoted market price at the reporting date.
- The fair value of forward exchange contracts, interest rate swaps, and cross currency interest rate swaps is calculated using discounted cash flows, reflecting the credit risk of various counterparties. Future cash flows are calculated based on the contract rate, observable forward interest rates and foreign exchange rates. Adjustments for the currency basis are made at the end of the reporting period.
- The fair value of option contracts is calculated using the contract rates and observable market rates at the end of the reporting period, reflecting the credit risk of various counterparties. The valuation technique is consistent with the Black-Scholes methodology and utilises Monte Carlo simulations.
- The fair value of commodity swaps and commodity forward contracts is calculated using their quoted market price, where available. If a quoted market price is not available, then fair value is calculated using discounted cash flows. Future cash flows are estimated based on the difference between the contractual price and the current observable market price, reflecting the credit risk of various counterparties. These future cash flows are then discounted to present value.
- The nominal value less expected credit losses of trade receivables and payables are assumed to approximate their fair values due to their short term maturity.

*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).

| **2017** | **Level 1 $mill** | **Level 2 $mill** | **Level 3 $mill** |
|---|---|---|---|
| Listed equity securities | **2.3** | **–** | **–** |
| Derivative financial assets | **–** | **38.9** | **–** |
| Derivative financial liabilities | **–** | **(47.7)** | **–** |

| 2016 | Level 1 $mill | Level 2 $mill | Level 3 $mill |
|---|---|---|---|
| Listed equity securities | 1.1 | – | – |
| Derivative financial assets | – | 45.3 | – |
| Derivative financial liabilities | – | (102.1) | – |

*Fair value of financial assets and liabilities carried at amortised cost*

Cash and cash equivalents, trade and other receivables, interest bearing liabilities, and trade and other payables are carried at amortised cost which equals their fair value.

Interest bearing liabilities have a carrying value of $2,224.1m (2016: $2,289.4m) – refer to note 8. The fair value of the interest bearing financial liabilities at 30 September 2017 was $2,300.7m (2016: $2,367m) and was based on the level 2 valuation methodology.

Note 16

## 16. Financial risk management (continued)

### Key accounting policies

***Foreign currency transactions and balances***

The Group presents its accounts in Australian dollars. Foreign currency transactions are translated into Australian dollars using the exchange rates at the date the transaction occurs.

Monetary assets (such as trade receivables) and liabilities (such as trade creditors) denominated in foreign currencies are translated into Australian dollars using the exchange rate at 30 September. Non-monetary items (for example, plant and machinery) that are measured at historical cost in a foreign currency are not re-translated.

Foreign exchange gains and losses relating to transactions are recognised in the profit or loss with the exception of gains and losses arising from cash flow hedges and net investment hedges that are recognised in other comprehensive income.

***Foreign operations***

The assets and liabilities of the Group's foreign operations are translated at applicable exchange rates at 30 September. Income and expense items are translated at the average exchange rates for the period.

Foreign exchange gains and losses arising on translation are recognised in the foreign currency translation reserve (**FCTR**). If and when the Group disposes of the foreign operation, these gains and losses are transferred from the FCTR to the profit or loss.

***Derivatives and hedging***

The Group uses contracts known as derivative financial instruments to hedge its financial risk exposures.

On entering into a hedging relationship, the Group formally designates and documents details of the hedge, risk management objective and strategy for entering into the arrangement. The Group applies hedge accounting to hedging relationships that are expected to be highly effective in offsetting changes in fair value, i.e. where the cash flows arising from the hedge instrument closely match the cash flows arising from the hedged item.

Hedge accounting is discontinued when:

- The hedging relationship no longer meets the risk management objective.
- The hedging instrument expires or is sold, terminated or exercised.
- The hedge no longer qualifies for hedge accounting.

Derivatives are measured at fair value. The accounting treatment applied to specific types of hedges is set out below.

***Cash flow hedges***

Changes in the fair value of effective cash flow hedges are recognised in equity, in the cash flow hedge reserve. To the extent that the hedge is ineffective, changes in fair value are recognised in the profit or loss.

Fair value gains or losses accumulated in the reserve are taken to profit or loss when the hedged item affects profit or loss. When the hedged item is a non-financial asset, the amount recognised in the reserve is transferred to the carrying amount of the asset when the asset is purchased.

***Net investment hedges***

Hedges of a net investment in a foreign operation are accounted for in a similar way as cash flow hedges. Gains or losses on the effective portion of the hedge are recognised directly in equity (in the FCTR) while any gains or losses relating to the ineffective portion are recognised in the profit or loss.

On disposal of the foreign operation, the cumulative value of gains or losses recognised in the FCTR are transferred to profit or loss.

***Fair value hedges***

The change in the fair value of the hedging instrument and the change in the hedged item are recognised in the profit or loss.

***Hedge ineffectiveness***

The Group aims to transact only highly effective hedge relationships, and in most cases the hedging instruments have a 1:1 hedge ratio with the hedged items. However, at times, some hedge ineffectiveness can arise and is recognised in profit or loss in the period in which it occurs. Key sources of hedge ineffectiveness for the Group are as follows:

- Maturity dates of hedging instruments not matching the maturity dates of the hedged items.
- Credit risk inherent within the hedging instrument not matching the movement in the hedged item.
- Interest rates of the Group's financing facilities not matching the interest rates of the hedging instrument.
- Forecast transactions not occurring.

***Classification of financial instruments***

Financial instruments are classified into the following categories:

- Amortised cost (cash and cash equivalents, interest bearing liabilities and trade and other receivables and payables).
- Fair value through other comprehensive income (listed equity securities).
- Fair value through profit or loss (derivative financial instruments except those that are in a designated hedge relationship).

Note 16

## 17. Share-based payments

### Long Term Incentive Plans (LTIs)

The LTIs are designed to link reward with the key performance drivers that underpin sustainable growth in shareholder value. With regard to the LTI 2014/17, LTI 2015/18 and LTI 2016/19 plans, the performance conditions comprise relative total shareholder return, the delivery of certain strategic initiatives and, in the case of the LTI 2016/19 plan, also includes growth in return on equity.

The arrangements support the Company's strategy for retention and motivation of its executives.

### 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:

| | **2017 $mill** | 2016 $mill |
|---|---|---|
| Accounting value of performance rights issued under the LTI performance plans | **4.6** | 1.2 |

| | **2017 Number** | 2016 Number |
|---|---|---|
| Number of performance rights outstanding under the LTI performance plans | **5,469,485** | 5,983,751 |

Detailed disclosure of the movements in LTIs are disclosed in the Remuneration Report.

### Key accounting policies

The rights to shares granted to employees under the terms of the plans are measured at fair value. The fair value is recognised as an employee expense over the period that employees become unconditionally entitled to the rights. There is a corresponding increase in equity, which is reflected in the share based payments reserve.

The amount recognised as an expense is adjusted to reflect the actual number of rights taken up, once related service and other non-market conditions are met.

## 18. Key management personnel disclosures

### Key management personnel remuneration

| | **2017 $000** | 2016 $000 |
|---|---|---|
| Short-term employee benefits | **13,062** | 9,833 |
| Post-employment benefits | **240** | 227 |
| Other long-term benefits | **130** | 125 |
| Termination benefits | **–** | 2,137 |
| Share-based payments | **4,308** | 1,278 |
| | **17,740** | 13,600 |

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

### Loans to key management personnel

In the year ended 30 September 2017, there were no loans to key management personnel and their related parties (2016: nil).

### 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 $505,742 during the year (2016: $926,735). Mr Fazzino's spouse does not directly provide these services. Mr Fazzino has not engaged PwC at any time for any assignment.

(2) The spouse of Ms Fagg is a partner in the accountancy and tax firm KPMG from which the Group purchased services of $1,063,677 during the year (2016: $494,202). Ms Fagg's spouse does not directly provide these services. Ms Fagg was not involved in any engagement of KPMG made by the Group.

## 19. Retirement benefit obligation

The Group operates a number of defined benefit plans in the Americas and Asia Pacific to provide benefits for employees and their dependants on retirement, disability or death.

The Group also makes contributions to defined contribution schemes.

### Financial position and performance

**Net defined benefit obligation at 30 September**

| | 2017 $mill | 2016 $mill |
|---|---|---|
| Present value of obligations | **289.8** | 387.3 |
| Fair value of plan assets | **(251.6)** | (288.3) |
| **Net defined benefit obligation** | **38.2** | 99.0 |

**Maturity profile of the net defined benefit obligation**

The expected maturity analysis of the undiscounted defined benefit obligation is as follows:

| | 2017 $mill | 2016 $mill |
|---|---|---|
| Within next 10 years | **216.4** | 260.4 |
| Within 10 to 20 years | **141.2** | 181.6 |
| In excess of 20 years | **35.3** | 38.9 |

**Return on plan assets for the year ended 30 September**

| | 2017 $mill | 2016 $mill |
|---|---|---|
| Actual return on plan assets | **29.6** | 24.0 |

**Composition of plan assets at 30 September**

| | 2017 | 2016 |
|---|---|---|
| The percentage invested in each asset class: | | |
| Equities | **45%** | 57% |
| Fixed interest securities | **39%** | 28% |
| Property | **7%** | 7% |
| Other | **9%** | 8% |

### Movements in plan assets/liabilities

**Amounts recognised in Other Comprehensive Income**

| | Notes | 2017 $mill | 2016 $mill |
|---|---|---|---|
| Gains/(losses) arising from changes in actuarial assumptions | | **20.7** | (36.0) |
| Return on plan assets greater than discount rate | | **21.0** | 14.1 |
| Total recognised in other comprehensive income | | **41.7** | (21.9) |
| **Amounts recognised in Profit or Loss** | | | |
| Net interest expense | (2) | **(2.9)** | (3.3) |
| Defined benefit superannuation expense | (2) | **(4.6)** | (4.4) |

### Key assumptions and sensitivities

**Principal actuarial assumptions**

| | 2017 | 2016 |
|---|---|---|
| Discount rate (gross of tax) | **3.3% – 7.2%** | 3.0% – 6.2% |
| Future salary increases | **2.5% – 5.0%** | 3.0% – 5.0% |

**Sensitivity analysis**

The sensitivity analysis is based on a change in a significant actuarial assumption while holding all other assumptions constant. The following table summarises how the defined benefit obligation as at 30 September 2017 would have increased/(decreased) as a result of a change in the respective assumption by 1 percentage point:

| | 1 percent increase | 1 percent decrease |
|---|---|---|
| Discount rate | **(27.8)** | **36.2** |
| Rate of salary increase | **1.0** | **(0.8)** |

### Key accounting policies

All employees of the group are entitled to benefits from the Group's superannuation plan on retirement, disability or death or can direct the group to make contributions to a defined contribution plan of their choice. The Group's superannuation plan has a defined benefit section and a defined contribution section. The defined benefit section provides defined lump sum benefits based on years of service and final average salary. The defined contribution section receives fixed contributions from group companies and the Group's legal or constructive obligation is limited to these contributions.

The liability or asset recognised in the Consolidated Statement of Financial Position in respect of defined benefit superannuation plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the Statement of Changes in Equity and in the Consolidated Statement of Financial Position.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

Contributions to the defined contribution section of the Group's superannuation fund and other independent defined contribution superannuation funds are recognised as an expense as they become payable.

### Key estimates and judgments

The present value of the defined benefit obligation at the reporting date is based on expected future payments arising from membership of the fund. This is calculated annually by independent actuaries considering the expected future wage and salary levels of employees, experience of employee departures and employee periods of service.

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

## 20. Deed of cross guarantee

Entities that are party to a Deed of Cross Guarantee are included in note 14. The Statement of Profit or Loss and Other Comprehensive Income and the Statement of Financial Position for this closed group are shown below:

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

| | 2017 $mill | 2016 $mill |
|---|---|---|
| Profit/(loss) before income tax | **194.2** | (61.6) |
| Income tax (expense)/benefit | **(24.4)** | 47.6 |
| **Profit/(loss) for the year** | **169.8** | (14.0) |
| Retained profits at 1 October | **1,312.2** | 1,526.8 |
| Profit/(loss) for the year | **169.8** | (14.0) |
| Other movements in retained earnings | **4.1** | (6.6) |
| Dividend paid | **(153.5)** | (194.0) |
| **Retained profits at 30 September** | **1,332.6** | 1,312.2 |

### Statement of Financial Position

| | 2017 $mill | 2016 $mill |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | **182.5** | 70.4 |
| Trade and other receivables | **495.5** | 383.2 |
| Inventories | **268.0** | 299.5 |
| Other assets | **56.6** | 14.3 |
| Other financial assets | **22.6** | 9.3 |
| Current tax assets | **–** | 1.9 |
| **Total current assets** | **1,025.2** | 778.6 |
| **Non-current assets** | | |
| Trade and other receivables | **234.6** | 337.9 |
| Other financial assets | **15.3** | 65.9 |
| Investment in controlled entities | **3,491.5** | 3,978.1 |
| Equity accounted investments | **18.9** | 16.2 |
| Property, plant and equipment | **2,011.5** | 2,026.2 |
| Intangible assets | **248.5** | 265.9 |
| Deferred tax assets | **149.8** | 164.2 |
| **Total non-current assets** | **6,170.1** | 6,854.4 |
| **Total assets** | **7,195.3** | 7,633.0 |
| **Current liabilities** | | |
| Trade and other payables | **737.5** | 697.8 |
| Other financial liabilities | **18.8** | 4.7 |
| Provisions | **56.6** | 82.1 |
| Current tax liabilities | **10.6** | – |
| **Total current liabilities** | **823.5** | 784.6 |
| **Non-current liabilities** | | |
| Trade and other payables | **331.6** | 293.2 |
| Interest bearing liabilities | **557.9** | 1,092.0 |
| Other financial liabilities | **28.2** | 95.9 |
| Provisions | **53.1** | 49.5 |
| Deferred tax liabilities | **378.6** | 381.8 |
| Retirement benefit obligation | **8.1** | 16.1 |
| **Total non-current liabilities** | **1,357.5** | 1,928.5 |
| **Total liabilities** | **2,181.0** | 2,713.1 |
| **Net assets** | **5,014.3** | 4,919.9 |
| **Equity** | | |
| Issued capital | **3,436.8** | 3,436.8 |
| Reserves | **244.9** | 170.9 |
| Retained earnings | **1,332.6** | 1,312.2 |
| **Total equity** | **5,014.3** | 4,919.9 |

## 21. Parent entity disclosure

Throughout the financial year ended 30 September 2017 the parent company of the Group was Incitec Pivot Limited.

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

The parent entity is part of a Deed of Cross Guarantee, under which each entity guarantees the debt of the others.

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

| **Results of the parent entity** | 2017 $mill | 2016 $mill |
|---|---|---|
| Profit for the year | **238.7** | 130.8 |
| Other comprehensive income | **14.7** | (8.9) |
| **Total comprehensive income for the period** | **253.4** | 121.9 |

### Statement of Financial Position

| | 2017 $mill | 2016 $mill |
|---|---|---|
| Current assets | **970.6** | 626.5 |
| Total assets | **7,334.9** | 7,154.8 |
| Current liabilities | **920.9** | 762.0 |
| Total liabilities | **3,641.0** | 3,560.8 |
| **Net assets** | **3,693.9** | 3,594.0 |
| Share capital | **3,436.8** | 3,436.8 |
| Reserves | **(26.9)** | (37.7) |
| Retained earnings | **284.0** | 194.9 |
| **Total equity** | **3,693.9** | 3,594.0 |

**Parent entity contingencies and commitments**

Contingent liabilities of Incitec Pivot Limited are disclosed in note 15.

| **Capital expenditure – commitments** | 2017 $mill | 2016 $mill |
|---|---|---|
| Contracted but not yet provided for and payable: | | |
| Within one year | **12.5** | 0.5 |

### Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax consolidated group. As a result it is taxed as a single entity. The head entity of the tax consolidated group is Incitec Pivot Limited.

## 22. Auditor's remuneration

| | 2017 $000 | 2016 $000 |
|---|---|---|
| Fees payable to the Group's auditor for assurance services | | |
| Audit of the Group's annual report[1] | **946.9** | 927.3 |
| Audit of subsidiaries[2] | **596.4** | 610.5 |
| Audit-related assurance services[3] | **171.5** | 167.5 |
| Total current year assurance services | **1,714.8** | 1,705.3 |
| Fees payable to the Group's auditor for other services | | |
| Other services relating to taxation[4] | **209.9** | 143.4 |
| All other services[5] | **146.3** | 40.0 |
| Total other services | **356.2** | 183.4 |
| Total fees paid to Group auditor | **2,071.0** | 1,888.7 |
| – Payable to Australian Group auditor firm | **1,499.7** | 1,339.8 |
| – Payable to International Group auditor associates | **571.3** | 548.9 |

(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 taxation compliance procedures for the Group's subsidiaries.
(5) Comprises non-statutory based assurance procedures.

From time to time, the auditors provide other services to the Group. These services are subject to strict corporate governance procedures which encompass the selection of service providers and the setting of their remuneration. The 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.

## 23. Events subsequent to reporting date

In November 2017, the directors determined to pay a final dividend for the Company of 4.9 cents per share on 19 December 2017. The dividend is unfranked (refer to note 6).

On 14 November 2017, the Company announced an on-market share buyback of up to $300.0m to be conducted over the next twelve months.

As announced to the ASX on 9 August 2017, Mr James Fazzino will cease as the Managing Director & CEO and will cease employment with the Company on 14 November 2017, and Ms Jeanne Johns will commence as the Managing Director & CEO on 15 November 2017.

On 14 November 2017, the Company announced that Mr Greg Hayes will retire from the Board with effect from the end of the 2017 Annual General Meeting to be held on 21 December 2017.

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

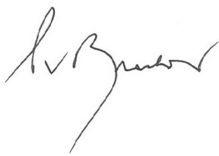
Note 22
Note 23

# Directors' Declaration

on the Consolidated Financial Statements set out on pages 45 to 81

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 consolidated financial statements and notes, set out on pages 45 to 81, and the remuneration disclosures that are contained in the Remuneration Report on pages 23 to 42 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 2017 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 on page 51; 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 14 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 Legislative Instrument, ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.
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 2017.



Paul Brasher
Chairman

*Dated at Melbourne this 14th day of November 2017*

Deloitte.

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

## *Report on the Audit of the Financial Report*

### *Opinion*

We have audited the financial report of Incitec Pivot Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 September 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 September 2017 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### *Basis for Opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

Deloitte.

<table>
<tr><th>Key Audit Matter</th><th>How the scope of our audit responded to the Key Audit Matter</th></tr>
<tr><td>

**Carrying value of goodwill and non-current assets**

*Refer to Note 9 Property, plant and equipment, Note 10 Intangibles and Note 11 Impairment of goodwill and non-current assets*

At 30 September 2017, the Group held goodwill of $2,731.7 million, intangible assets of $389.3 million and property, plant and equipment of $3,854.8 million, allocated to its group of cash generating units (CGUs).

The assessment of the recoverable amount is based on management's view of key variables and market conditions such as future commodity prices, exchange rates and operating performance including the timing and approval of future capital and operating expenditure, and the most appropriate discount rate.

The Southern Cross International (SCI) CGU has been identified as having higher risk of impairment due to sustained pressure on fertiliser prices (primarily Di-Ammonium Phosphate (DAP)), movement in AUD:USD exchange rates, high input costs including the cost of sulphuric acid and supply into Phosphate Hill from Mt Isa Mines. The Group have prepared a value-in-use model to determine the recoverable amount of the SCI CGU.

Accordingly, the assessment of the recoverable amount of these assets is considered to be a key audit matter.

</td><td>

Our procedures included but were not limited to:

- Understanding the process that management had undertaken to assess the recoverable amount
- In conjunction with our valuation specialists:
  - Evaluating the appropriateness of the model used by management to calculate the value in use of the individual CGUs
  - Assessing key inputs to the value in use model including revenue based on forecast commodity prices and production rates, costs including natural gas and sulphuric acid prices, capital expenditure, foreign exchange rates, discount rates and growth rates. We challenged these inputs by:
    - Corroborating the key market based assumptions to external analysts' reports, published industry growth rates and industry reports
    - Corroborating the key non-market based assumptions by comparing forecasts to historical performance to test the accuracy of management's projections
    - Comparing the discount rate with an independently developed rate
- Agreeing relevant amounts in the value in use models to the FY2018 budget
- For CGUs with a higher risk of impairment, including SCI, performing a range of sensitivity analysis including DAP / Ammonia Price in USD, natural gas price in USD, AUD:USD exchange rate, discount and growth rate assumptions
- Assessing the adequacy of the financial statement disclosures

</td></tr>
</table>

| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|---|---|
| **Provisions for uncertain tax positions**<br><br>*Refer to Note 3 Taxation and Note 15 Provisions and contingencies*<br><br>The Group operates across a large number of jurisdictions and is subject to investigations and audit activities by revenue authorities on a range of tax matters during the normal course of business, including transfer pricing, indirect taxes and transaction related tax matters.<br><br>The outcomes of these investigations and audits depend upon several factors and as a result management exercise judgement in the determination of the tax position and the estimates and assumptions in relation to the provision for taxes. Consequently this was considered a key audit matter. | Our procedures included:<br><br>• Understanding the process that management had undertaken to identify and assess uncertain tax positions, including the monitoring and consideration of guidance issued by regulatory authorities<br>• In conjunction with our tax specialists:<br>o Gaining an understanding of the current status of tax assessments and investigations and the process to monitor developments in ongoing disputes<br>o Reviewing external tax advice where available, and<br>o Reviewing recent rulings and correspondence with local tax authorities, to satisfy ourselves that the tax provisions had been appropriately recorded or adjusted to reflect the latest external developments<br>• Assessing the adequacy of the financial statement disclosures |

***Other Information***

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 September 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

***Responsibilities of the directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

***Auditor's Responsibilities for the Audit of the Financial Report***

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte.

**Report on the Remuneration Report**

*Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 23 to 42 of the Director's Report for the year ended 30 September 2017.

In our opinion, the Remuneration Report of the Incitec Pivot Limited, for the year ended 30 September 2017, complies with section 300A of the *Corporations Act 2001*.

*Responsibilities*

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.

DELOITTE TOUCHE TOHMATSU

Tom Imbesi
Partner
Chartered Accountants
Melbourne, 14 November 2017