

ASX Announcement

1 March 2018

Update on outlook and review of operations and provisions

Melbourne: Orica (ASX: ORI) provides the following update ahead of its first half results announcement on 7 May 2018.

First half year performance

While growth in demand for ammonium nitrate has continued in the first half of the year, particularly across the Australia Pacific Asia region, several factors will result in reduced EBIT for the first half.

Plant maintenance

Unplanned maintenance shutdowns at Yarwun and Kooragang Island plants will impact the first half performance by approximately \$17 million. A key focus is on increasing manufacturing reliability and operational discipline and excellence. Some early improvements are expected in the second half of the year.

Operational update

Deliveries and interruptions to mine operations due to the extreme weather in North America, continued challenges in the cyanide market and ongoing underperformance of the Minova business had a total negative impact of around \$15 million.

Burrup Technical Ammonium Nitrate (TAN) plant

The joint venture operating partner, Yara, is addressing issues related to the construction quality of heat exchangers which have shown some premature cracking. Whilst we do not anticipate any interruption to customer supply, there will be a one-off net negative EBIT impact of approximately \$19 million for the full financial year, expected to be weighted towards the first half. This is mainly due to additional freight and sourcing costs, which are partially offset by delayed depreciation and amortisation and improved utilisation at the Yarwun plant. It is expected that the plant will be operational towards the end of this financial year. A full-site outage of the upstream ammonia plant, owned by Yara, is planned over the month of July as part of the routine, multi-year maintenance program.

During the half, Orica secured contracts for supply of ammonium nitrate to BHP and Roy Hill in Western Australia. With these contract wins, we expect the TAN plant to contribute positively to EBIT in FY19 and to be at full utilisation rates early in 2020.

Full year performance

EBIT performance for the 2018 financial year will be skewed to the second half, as flagged at the AGM in December 2017.

Significantly stronger second half performance in FY18 is expected. This will be supported by continued volume growth, particularly in Australia; improved operational performance in

Latin America and EMEA; contribution from the recently acquired GroundProbe business; and business initiative benefits. It is expected it will have an incremental positive EBIT impact of approximately \$60 million in the second half. In addition, the one-off plant maintenance (\$17 million) and operational (\$15 million) impacts experienced in the first half are not expected to recur in the second half.

The business improvement program has continued to deliver significant benefits and remains on track to offset the financial headwinds identified in the 2017 full year results. Further streamlining of the business across each of the operating regions has commenced which will result in further reductions to overall headcount. It is expected that this will deliver an incremental \$30 million per annum to be realised from FY19.

We remain on track to deliver full year sales volumes at the upper end of stated guidance. The remaining assumptions provided in the 2017 full year results continue to apply.

Non-cash adjustments

Impact of US taxation reform

Orica has substantial operations in the United States which are an important part of our global supply chain. As a result of the lower US federal corporate tax rate, Orica expects to make a one-off restatement to the value of its United States deferred tax assets, representing tax losses and deferred interest of approximately \$55 million. This adjustment will be recognised in Orica's half year 2018 accounts and will have no cash impact.

The ongoing impact of the proposed federal tax rate reduction is expected to be neutral given net operating loss carryovers, goodwill amortisation and interest deductions arising from past acquisitions.

Potential impairment and increased provisions

As flagged in the 2017 full year results, while the Minova business had stabilised, the pace of recovery was slower than expected and the business is under review. While a new management team has been put in place, the business continues to underperform. It is expected that Minova will be subject to a non-cash impairment in the first half.

In addition, a review of our current environmental commitments is expected to result in an increase in provisions.

The aggregate of the impairment and provision increases is expected to be around \$300 million.

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