ASX Announcement

7 May 2018

Lower first half in line with guidance; strong demand underpins outlook for improved second half

Melbourne: Orica (ASX: ORI) today announced a first half statutory net loss after tax of $229 million. Excluding individually significant items, net profit after tax for the first half was $124 million, down 37 per cent on the prior corresponding period (pcp). As previously advised on 1 March 2018, earnings were impacted by operational issues, with earnings before interest and tax (EBIT) of $252 million for the half, down 20 per cent on the pcp.

Orica CEO, Alberto Calderon, said, "The trend of underlying growth in demand continued during the half, with solid growth particularly evident in Australia and Indonesia. The stabilisation in prices seen in the second half of last year has also continued. Nevertheless, we are disappointed that the underlying financial performance in the first half was impacted by operational issues and we are working hard to increase manufacturing reliability, operational discipline and excellence. We are on track to deliver full year sales volumes at the upper end of guidance, and improved operational performance across all regions will support a stronger performance in the second half of the financial year".

Key features of the HY18 result include:

- Improved volumes and firmer pricing drove a four per cent increase in sales revenue
- EBIT decline of 20 per cent to $252 million includes the impact of operational issues previously advised
- Individually significant items of $353 million
- Business improvement initiatives delivered net benefits of $35 million
- Integration of GroundProbe is well advanced
- Interim ordinary dividend of 20 cents per share, unfranked, represents payout ratio of 61 per cent.

Operations

Continued growth in demand and more stable pricing drove revenue growth of four per cent, with particularly strong demand in Australia and Indonesia. EBIT declined 20 per cent to $252 million, which included the impact of unplanned maintenance, continued challenges in the cyanide market and ongoing underperformance of the Minova business. We have made changes to our manufacturing team and while improvement in reliability will be gradual, we expect better performance in the next half and beyond. We have also appointed new management in the Minova business and the improved trading performance achieved in March is expected to continue.

In Australia Pacific and Asia, Orica's largest region, volumes and revenues increased by ten and eight per cent respectively. EBIT declined by three per cent largely due to unplanned maintenance at Yarwun and Kooragang Island, and operational issues at the Burrup Technical Ammonium Nitrate Plant which resulted in additional sourcing and freight costs to ensure customer supply requirements were met. Our joint venture operating partner, Yara, is progressing repairs at the Burrup plant.

Volumes in North America were down three per cent but revenues increased by four per cent due to higher margin sales following the change in joint venture partner sourcing arrangements which came into effect in January 2017. Volumes were also impacted by extreme weather in the southern region.

EBIT declined by ten per cent due to the anticipated impact of increased third party AN sourcing costs, effective from January 2017.

Volumes and sales revenue in Latin America were steady, but EBIT declined 36 per cent. This was due to continued pressure in an oversupplied market and inflationary impacts on overhead costs. The profit from an asset sale in the pcp further contributed to the decline. While the region remains challenging in the short term, we believe the medium to long term fundamentals are strong.

Volumes in Europe, Middle East and Africa (EMEA) remained in line with the pcp (up one per cent) while sales revenue declined three per cent. EBIT for the region declined 56 per cent, largely due to one-off costs associated with restructuring, operational issues at Gyttorp following the explosion last year, and increased write-offs of bad debts. These one-off costs will not be repeated in the second half and EBIT is expected to return to levels similar to that of the second half of 2017, supported by strong volume growth from recent new contract wins and further manufacturing and operational initiatives.

Sales revenue in Minova increased 13 per cent as progress was made in penetrating new market sectors in EMEA. Despite this, EBIT declined by $13 million, partly due to profit on the sale of a business asset of $8 million in the pcp. As a result of the slower than expected pace of recovery, a non-cash impairment of $204 million was made, including the write-down of all of the goodwill in Minova. A new management team commenced during the half and initiatives to improve margins, production efficiency and reduce overhead costs resulted in a positive trading result in March.

A new reporting segment, Auxiliaries, has been created for Nitro Consult and GroundProbe. GroundProbe was acquired in January 2018 and is a global market leader in the provision of critical monitoring and measurement technologies for the mining sector. EBIT for this segment was a loss of $1 million, which includes acquisition costs. The business is expected to deliver a positive contribution to the full year result.

Individually significant items

Individually significant items of $353 million post-tax included the following:

- A $204 million pre-tax impairment charge write-off to Minova goodwill
- A pre-tax increase of $115 million for the environmental provision for remediation at the Botany site. Detailed disclosure of remediation requirements for Botany has been made in Orica's half year financial report. The increase to the provision reflects a change in management's best estimate of the required duration of the Groundwater Treatment Plant
- $55 million adjustment to the value of US deferred tax assets resulting from a change in the US federal corporate tax rate
- Pre-tax impairments of $21 million to IT and other assets.

Capital Management

<u>Capital Expenditure</u>

Capital expenditure of $128 million included investment in the new SAP system and the global Mobile Manufacturing Unit fleet, alongside maintenance shutdowns at the Kooragang Island and Yarwun plants in Australia. Capital expenditure for the full year is expected to be toward the top end of the range of $300 million to $320 million.

Dividend

Orica's policy is to target a total annual dividend payout in the range of 40 per cent to 70 per cent of underlying earnings before individually significant items. It is expected that the total dividend paid each year will be weighted towards the final dividend.

The Board has declared an interim ordinary dividend of 20 cents per share, unfranked. This represents a payout ratio of 61 per cent. The dividend is payable to shareholders on 2 July 2018 and shareholders registered as at the close of business on 1 June 2018 will be eligible for the interim dividend.

Outlook

The outlook for the second half of FY18 remains unchanged from the update released on 1 March 2018.

Mr Calderon said, "The increase in run-rate required to achieve the second half uplift in performance has already begun. The second quarter results indicate we are on track to deliver a substantial uplift in the third and final quarters of the year, and we expect this momentum to continue into the next financial year. We remain positive that the majority of headwinds are behind us and we can capitalise on the improved outlook for volume demand and firmer pricing".

Second half global AN volumes are expected to increase by around 10 per cent from the first half, and full year global AN volumes are expected to be at the upper end of the previously stated range of 3.65mt +/- 5 per cent. Significantly stronger EBIT is expected in the second half from:

- Continued volume growth, particularly in Australia
- Improved performance across all regions/businesses
- Positive contribution from the recently acquired GroundProbe business
- Improving manufacturing reliability.

The second half result will benefit from deferred contract renegotiations offset by lower forecast business initiatives.

We expect the stronger run-rate from the second half of the 2018 financial year to continue into the 2019 financial year, with:

- AN volume growth supported by positive commodity growth and mine plan outlook
- Firmer AN pricing
- Improved manufacturing reliability at Orica plants, however Burrup performance remains uncertain until a permanent fix is completed
- Full year contribution from GroundProbe.

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Orica Limited

Results for the half year ended 31 March 2018

Lower first half in line with guidance; strong demand underpins outlook for improved second half

Statutory net profit after tax (NPAT) attributable to the shareholders of Orica for the half year ended 31 March 2018 was a loss of $229 million

Summary

- Ammonium nitrate (AN) volumes up 3% on the prior corresponding period (pcp) at 1.83 million tonnes
- Sales revenue increased by 4% from higher volumes and firmer prices
- EBIT before individually significant items(1) of $252 million includes the impact of operational issues announced on 1 March 2018
- NPAT before individually significant items(2) of $124 million, down 37% on the pcp
- Individually significant items of $353 million include $204 million for the non-cash impairment of Minova
- Net operating and investing cash outflows(3) of $360 million include the acquisition of GroundProbe(4)
- Capital expenditure of $128 million(5), up 12% on the pcp
- Net debt(6) of $1.9 billion and gearing(7) at 41%
- Interim dividend of 20.0 cents per share, unfranked, represents payout ratio of 61 per cent of underlying earnings before individually significant items

Group Results

Half Year ended 31 March	2018 A$M	2017 A$M	Change %
Sales revenue	2,532.0	2,437.4	*4%*
EBITDA(8)	378.9	445.5	*(15%)*
EBIT(1)	**251.5**	**314.2**	*(20%)*
Net interest expense	(54.1)	(33.0)	*(64%)*
Tax expense	(60.6)	(80.0)	*24%*
Non-controlling interests	(13.2)	(6.0)	*(120%)*
NPAT before individually significant items(2)	**123.6**	**195.2**	***(37%)***
Individually significant items after tax	(352.9)	-	*(100%)*
NPAT after individually significant items (statutory)	**(229.3)**	**195.2**	***(217%)***

Note: numbers in this report are subject to rounding and stated in Australian dollars unless otherwise noted

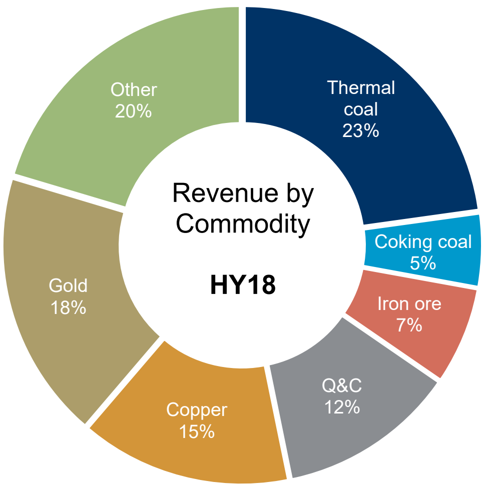
Business Summary

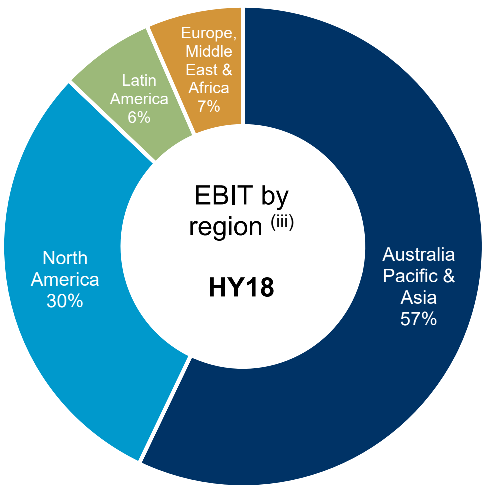
A summary of the performance of the segments for the March 2018 and March 2017 half years is presented below:

Half Year ended 31 March 2018 A$M	AN Tonnes (i) ('000)	Sales Revenue (ii)	EBITDA	EBIT	Capital Expenditure
Australia Pacific and Asia (APA)	742	895.6	226.6	166.7	40.6
North America	560	688.9	107.5	87.7	12.4
Latin America	301	436.6	30.8	18.6	12.3
Europe, Middle East & Africa (EMEA)	227	391.4	30.8	19.1	14.9
Minova	-	238.8	(0.5)	(4.3)	4.9
Auxiliaries	-	25.9	0.2	(1.2)	1.5
Global Support	-	521.5	(16.5)	(35.1)	41.7
Eliminations	-	(666.7)	-	-	-
Orica Group	**1,830**	**2,532.0**	**378.9**	**251.5**	**128.3**

Half Year ended 31 March 2017 A$M	AN Tonnes (i) ('000)	Sales Revenue (ii)	EBITDA	EBIT	Capital Expenditure
Australia Pacific & Asia	676	832.9	234.1	171.0	59.9
North America	575	662.4	115.1	97.0	9.5
Latin America	304	435.4	41.7	28.9	5.0
Europe, Middle East & Africa	224	402.1	55.9	43.7	9.7
Minova	-	211.8	13.2	8.3	2.9
Auxiliaries	-	9.2	1.5	1.3	0.5
Global Support	-	469.8	(16.0)	(36.0)	26.7
Eliminations	-	(586.2)	-	-	-
Orica Group	**1,779**	**2,437.4**	**445.5**	**314.2**	**114.2**

(i) Includes ammonium nitrate prill and solution as well as bulk and packaged emulsion
(ii) Includes external and inter-segment sales





Note: The above charts exclude Global Support and Eliminations
(iii) Minova and Auxiliaries are excluded due to negative EBIT result

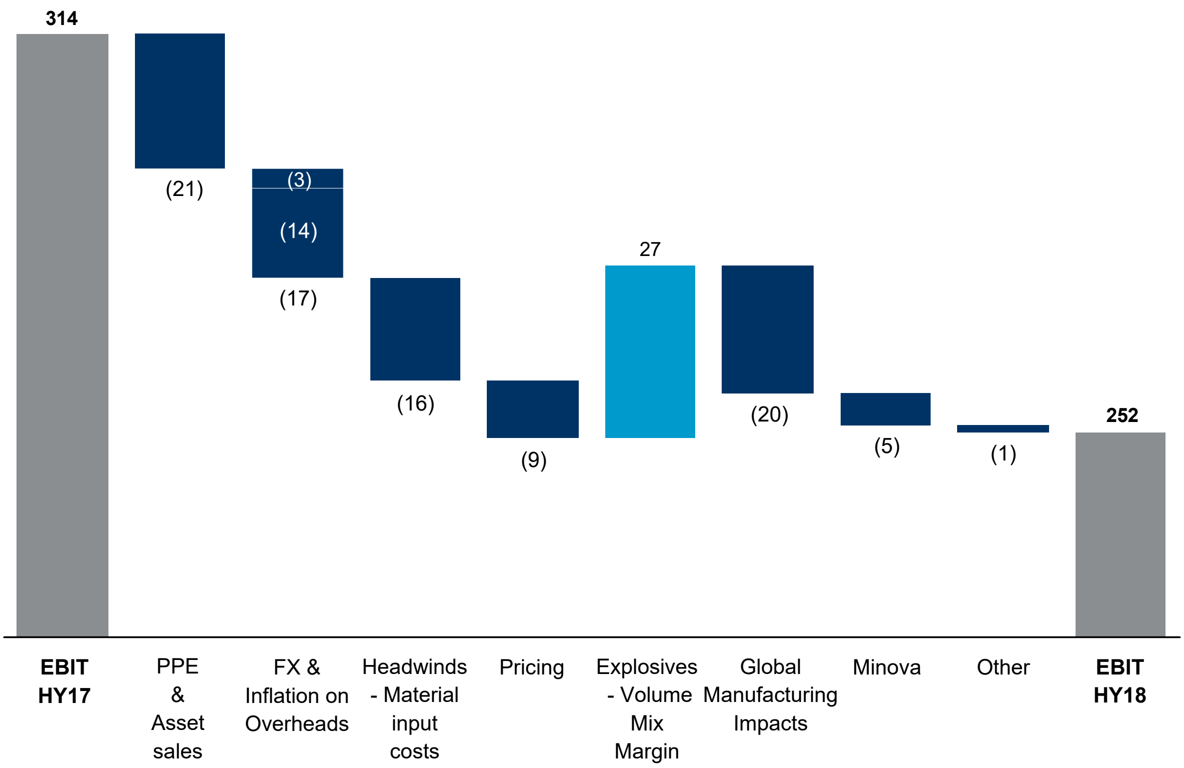
Review of Operations

Safety is our priority, always. During the half our focus on safety remained centred around fatality prevention. Mandatory business standards and group procedures that apply to all sites were finalised and structured reviews to monitor compliance were commenced. Work on the Major Hazards Initiative, which is aimed at increasing awareness and improving controls around major hazards, continued to be a major focus with the program transitioning from being a project initiative to becoming embedded as an integrated part of everyday business practice across the organisation. We also rigorously review actual events to identify improvement actions and ensure they are tracked for quality and implementation.

The total recordable injury frequency rate for the half increased to 2.3 cases per million hours worked, compared to 1.9 cases per million hours worked for the 2017 financial year. The increase in frequency rate was accompanied by a reduction in injury severity in some areas.

AN volumes were up 3% on the pcp, reflecting strong demand from both new and existing customers, particularly in Australia and Indonesia. Sales revenue increased by 4% on the pcp to $2.5 billion from higher volumes and firmer AN pricing.

EBIT of $252 million was down 20% on the pcp, reflecting the unfavourable impact of unplanned maintenance shutdowns at Yarwun and Kooragang Island, and operational issues at the Burrup plant, which resulted in higher short term third party product costs. Previously disclosed financial headwinds, price resets, and one-off benefits from asset sales in the pcp also impacted this result.



Key items in the above chart:

PPE & Asset sales
EBIT was impacted by the non-repeat of several one-off benefits in the pcp, including the divestment of land in the Philippines ($8 million) and the profit on the sale of Minova (Tianjin) Co., Ltd ($8 million).

FX & inflation on overheads
Inflation on fixed cost overheads had an adverse effect of $14 million. The Australian Dollar appreciated against most major currencies, adversely impacting earnings by $3 million.

Material input costs
Contracted increases in gas and ammonia prices, effective from the second quarter of the pcp, reduced margins by $16 million.

Contract pricing
Contract renewals have continued to align pricing with prevailing market prices. The impact of price resets and renewals in the half was lower than previously expected due to the deferral of some contract renegotiations to the 2019 financial year. We remain focused on maintaining a balanced outlook between retaining market share and securing plant loading.

Explosives – volume/mix/margin
New business and improved demand from existing customers, particularly in Australia and Indonesia, drove an increase in AN volumes of 3% and contributed positively to EBIT. A higher proportion of emulsion product sales also contributed positively to EBIT.

Total detonator sales volumes declined 3% on the pcp, but sales of Electronic Blasting Systems (EBS) increased across most regions, with a combined increase of 22% in EBS volumes compared to the pcp.

Margin has been impacted by the increased sourcing costs due to operational issues at Burrup.

Global Manufacturing
The Global Manufacturing result in APA was reduced by unplanned maintenance shutdowns at Yarwun and Kooragang Island manufacturing plants, which led to unrecovered labour and operational costs as well as higher short term third party product purchases. The lower production volumes also impacted on cyanide sales volumes which were down compared to the pcp. Operations at Gyttorp were also down as the site recovers from the explosion in May 2017.

Minova
After adjusting for the one-off asset disposal in the pcp, Minova EBIT declined $5 million despite increases in volume and revenue, due to unfavourable mix and cost pressures.

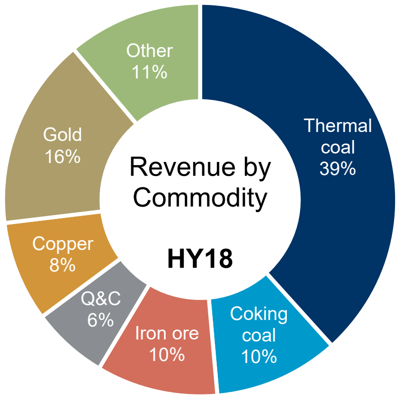
Business improvement
In the six months to 31 March 2018, Orica delivered $35 million in net benefits from business improvement initiatives. These initiatives centred around buying better, producing more efficiently, and selling more effectively, focusing on:

- Supply Chain, including third party product cost savings, network optimisation, transport & shipping efficiency
- Product differentiation & service offering, including placement of advanced explosive and detonator products
- Overhead cost efficiency

The implementation of such initiatives is embedded in everyday processes.

Australia Pacific & Asia

Half Year ended 31 March	2018	2017	Change %
Total AN & Emulsion Volumes	742	676	*10%*
Emulsion as a % of total volumes	62%	63%	*(1pts)*
Total sales revenue	895.6	832.9	*8%*
EBITDA	226.6	234.1	*(3%)*
EBIT	166.7	171.0	*(3%)*



Commodity exposure

Thermal coal represents the largest commodity exposure in the APA region, with flat demand. Demand grew in the Pilbara region as a result of a new contract and increased commodity prices and strip ratios. Gold production has been boosted by exploration in recent years.

EBIT performance drivers

Volumes and mix

Explosives volumes were up 10% (66kt), underpinned by stronger demand in both Australia and Indonesia, with growth from both new and existing customers. Pilbara iron ore volumes were favourable with increased demand and contracted volumes. Indonesia benefitted from higher volumes from new contracts, existing customers, and sales to competitors, albeit at lower margins.

Sales of EBS detonators were higher than the pcp from increased demand across multiple regions. Cyanide volumes were slightly behind the pcp, impacted by the maintenance shutdown at the Yarwun cyanide plant.

Margin and price

The negative impact of price renewals was lower than expected for the half due to some contract renegotiations being deferred to the 2019 financial year. AN prices have firmed on the pcp.

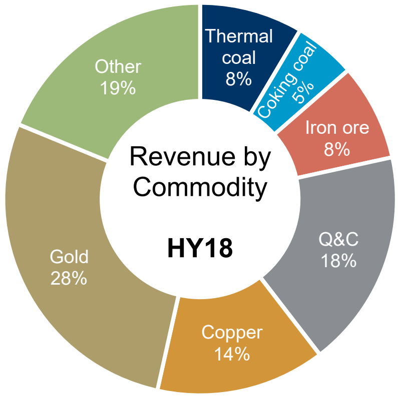
The benefit of increased volumes was offset by several one-off factors, including unplanned maintenance shutdowns at the Yarwun and Kooragang Island manufacturing plants, which resulted in unrecovered labour and operational costs as well as higher short term third party product purchases. Kooragang Island's gas costs were up $8 million and in line with expectations due to the roll through of a contracted price increase which came into effect in January 2017.

Burrup TAN plant

At the Burrup plant, our joint venture operating partner, Yara, has been addressing quality issues with the heat exchangers. This resulted in additional freight and sourcing costs being incurred as alternate AN products were sourced from various locations across the region to meet supply commitments. These costs were partially offset by delayed Burrup plant depreciation and amortisation and improved utilisation at Yarwun. Interim repairs to the Burrup plant are well progressed and the plant is expected to be operational by the end of this financial year. The repaired heat exchangers will be replaced in the second half of the 2019 financial year. A major turnaround of the upstream ammonia plant owned by Yara, as part of the plant's overall maintenance program, has also been scheduled for July this year. Depreciation and amortisation will commence when the plant is available for use.

North America

Half Year ended 31 March	2018	2017	Change %
Total AN & Emulsion Volumes	560	575	*(3%)*
Emulsion as a % of total volumes	46%	41%	*5pts*
Total sales revenue	688.9	662.4	*4%*
EBITDA	107.5	115.1	*(7%)*
EBIT	87.7	97.0	*(10%)*



Commodity exposure

Demand from the gold market in North America remained steady, while activity in the Q&C market was impacted by extreme weather conditions and tightening in the skilled labour market. Demand from the copper market continued to strengthen, while the decline in demand from the thermal coal market reflects changes in joint venture partner sourcing arrangements.

EBIT performance drivers

Volume and mix

Overall explosives volumes were down on the pcp, driven by a decline in the USA where a joint venture partner sourced bulk AN directly from the manufacturer from the second quarter of the pcp. Excluding the impact of joint venture partner sourcing, AN volumes were strong, increasing 9% on the pcp. New contract wins and increased demand through indirect channels in Canada and Mexico offset a volume decline in the USA, which resulted from extreme weather conditions.

Product mix improved, with higher sales of bulk emulsion products, particularly in Canada, and a reduction in AN volumes following the change in the USA joint venture partner's sourcing arrangements. Sales of more advanced initiating system products also increased.

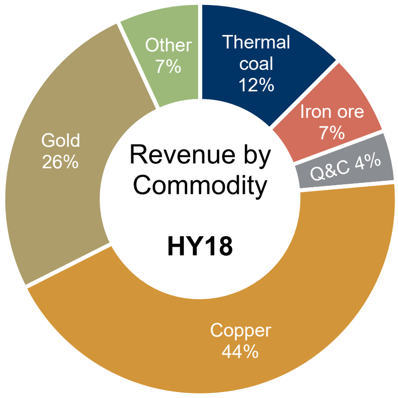
Margin and price

A known contractual increase in third party AN sourcing costs in the USA adversely impacted the cost base, relative to the pcp, by $8 million.

Income from associates declined on the pcp as our joint venture partners were impacted by unfavourable weather conditions in the USA.

Latin America

Half Year ended 31 March	2018	2017	Change %
Total AN & Emulsion Volumes	301	304	*(1%)*
Emulsion as a % of total volumes	71%	69%	*2pts*
Total sales revenue	436.6	435.4	*0%*
EBITDA	30.8	41.7	*(26%)*
EBIT	18.6	28.9	*(36%)*



Commodity exposure

Copper remained the most significant commodity for the region and increased prices supported activity in the sector. The gold market continued to be strong, with increased demand from both new and existing customers in the sector. In contrast, the Q&C market saw continued contraction in Brazil. Overall, the economic conditions across the region have improved with lifts in GDP growth as several countries emerge from recession.

EBIT performance drivers

Volume and mix

Despite the generally improving conditions, explosives volumes were 1% lower than the pcp as market supply continued to outweigh demand. Results varied across the region. Chile and Brazil saw volumes increase alongside stronger production at customer mine sites. In contrast, volumes in Colombia were lower than the pcp due to unfavourable timing and lower consumption from customers. Volumes in Peru declined as customer activity centred around higher grading, requiring less explosives. Explosives volumes in Argentina were negatively impacted by a customer mine closure, and ongoing instability in Venezuela resulted in a complete halt in trading activity. Within the AN portfolio, there was a continued positive shift into emulsion products, particularly in Chile, Colombia and Brazil.

Initiating system volumes declined 1% on the pcp, as a customer in Colombia commenced the half with a high level of EBS inventory, thus lowering their demand during the half. Conventional detonator volumes also decreased slightly on the pcp, stemming from sourcing challenges in Chile.

While gold commodity fundamentals remained stable, cyanide volumes were down 3% on the pcp due to the wind-down of a customer mine in Peru as it moves towards closure in the next two to three years.

Margin and price

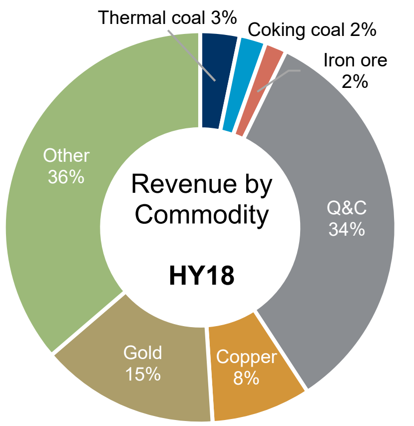
Continued high inflation across the region drove an increase in overhead costs on the pcp.

The impact of price resets has flowed through from contract negotiations completed in the 2017 financial year, driving a margin impact which was in line with expectations. Continued competitor pricing pressure is expected to persist while the AN market continues to be oversupplied.

Other income in the pcp included a $3 million profit on sale of an asset in Chile.

Europe, Middle East & Africa

Half Year ended 31 March	2018	2017	Change %
Total AN & Emulsion Volumes	227	224	*1%*
Emulsion as a % of total volumes	92%	88%	*4pts*
Total sales revenue	391.4	402.1	*(3%)*
EBITDA	30.8	55.9	*(45%)*
EBIT	19.1	43.7	*(56%)*



Commodity exposure

The region is diversified across geographies, markets and customers. Sales into the Q&C markets were slightly ahead of the pcp with increased demand in the Nordics from infrastructure activity. Other revenue includes phosphate, oil shale and nickel sectors.

EBIT performance drivers

Volumes and mix

Explosives volumes were 1% ahead of the pcp. Europe saw higher demand for AN across customers in the CIS and UK as well as into Q&C markets. This was partially offset by lower volumes in Southern Africa and the Middle East. Mine planning and poor drill availability impacted AN volumes in Southern Africa, while the Middle East remains challenged by the continued impact of the embargo between the Arab states and Qatar.

Increased market penetration of EBS detonators was achieved in West Africa (gold miners) and the Nordics (Q&C). This was partially offset by lower sales of conventional detonators and lower mining activity in East Africa.

Cyanide volumes were behind the pcp, resulting from a contract loss in Africa and customer closure in Egypt, both of which occurred in May 2017.

Margin and price

The impact of price resets and contract renewals were minimal with prices maintained versus the pcp.

Manufacturing performance was down on the pcp, notably at Gyttorp as the site recovers from the explosion in May 2017.

One-time items associated with the restructure of the region were also included in the half, along with an increase in bad debt write-offs.

Minova

Half Year ended 31 March	2018	2017	Change %
Steel products ('000 tonnes)	72.8	63.0	*16%*
Resins & Powders ('000 tonnes)	61.9	62.2	*(0%)*
Total sales revenue	238.8	211.8	*13%*
EBITDA	(0.5)	13.2	*(104%)*
EBIT	(4.3)	8.3	*(152%)*

EBIT performance drivers

Revenue increased 13% compared to the pcp, as progress was made in penetrating new market sectors in EMEA and steel product sales in the Americas and Australia increased. The EBIT result in the pcp included the $8 million profit from the divestment of a business in China.

Margins have been impacted by a change in product mix (proportionately higher sales of steel products with coal customers), lower demand for injection chemical sales and increased raw material costs. Resin production issues in South Africa and higher than expected costs associated with a new contract in Australia also impacted the result, while restructuring in Germany associated with moving production facilities to Poland drove a further cost increase.

An impairment charge of $204 million has been recognised at 31 March 2018.

During the half a new management team was appointed. Initiatives to improve margins, production efficiency and reduce overheads resulted in a positive trading result in March, with a monthly run rate of $1 million expected to continue. Progress has been made in expanding Minova's presence in the infrastructure market in EMEA and a significant new product has been developed in the Americas for the oil and gas sector which will be launched in the last quarter of the 2018 financial year.

Auxiliaries

Half Year ended 31 March	2018	2017	Change %
EBIT	(1.2)	1.3	*(192%)*

Auxiliaries represent a newly created segment, comprising Nitro Consult AB (Nitro Consult) and the newly acquired GroundProbe business. Nitro Consult and GroundProbe are highly complementary, driving a strong value proposition to customers.

The acquisition of GroundProbe was completed in January 2018. GroundProbe is a global market leader in the provision of critical monitoring and measurement technologies for the mining sector. Its radar and laser-based monitoring systems, combined with advanced processing and analytic software, provide mining customers with geotechnical slope stability monitoring for improved mine productivity and safety.

GroundProbe's operations are complementary to the Group's core business, operating in an adjacent part of the mining value chain with a similar customer profile. GroundProbe's business is aligned with the Group's digital strategy, with wall stability a key data input for the Blast IQ™ System.

The first half loss of $1 million from Auxiliaries includes acquisition costs of $6 million, which will not repeat in the second half. The business is expected to deliver a positive contribution in the 2018 financial year results.

Global Support

Half Year ended 31 March	2018	2017	Change %
EBIT	(35.1)	(36.0)	*3%*

Global Support EBIT was 3% favourable to the pcp. Costs associated with the ongoing business improvement activities were lower than the pcp as the program is in a mature state, however these savings were mostly offset by higher investment in 2018 in Technology R&D and IT activities and the non-repeat of land sales in the pcp.

Net interest expense

Statutory net interest expense of $54 million was higher than the pcp primarily from the capitalisation of interest in the pcp associated with the Burrup plant while under construction. After adjusting for capitalised interest, net interest expense of $56 million increased from the pcp as a result of higher net debt levels impacted by the acquisitions in the period.

Half Year ended 31 March	2018	2017	Change %
Statutory net interest expense	54.1	33.0	*(64%)*
Adjusted for:			
Capitalised interest	1.7	19.2	*(91%)*
Unwinding of discount on provisions	(0.3)	(0.5)	*40%*
Adjusted net interest expense	**55.5**	**51.7**	***(7%)***

Tax expense

An effective tax rate of 30.7% (pcp: 28.4%) was higher due to a reduction in foreign deductions and non-taxable gains on disposal of assets. This was partially offset by lower non-creditable withholding taxes, particularly on foreign dividends.

Group Cash Flow

Half Year ended 31 March	2018	2017	Variance A$M
Net Operating cash flows	28.5	154.5	(126.0)
Net Investing cash flows	(388.0)	(70.4)	(317.6)
Net Operating and Investing cash flows[3]	**(359.5)**	**84.1**	**(443.6)**
Dividends – Orica Limited	(86.1)	(87.1)	1.0
Dividends – non-controlling interest shareholders	(7.2)	(2.9)	(4.3)
Adjusted net cash flows	**(452.8)**	**(5.9)**	**(446.9)**
Movement in borrowings and other net financing cash flows[9]	252.7	53.0	199.7
Net cash flows[10]	**(200.1)**	**47.1**	**(247.2)**

Performance highlights

The Group delivered net operating and investing cash outflows of $360 million. Group cash conversion at 37% was impacted by the EBITDA result and increased trade working capital. Further impacting cash conversion was higher sustaining capital spend, including on the new SAP system and maintenance shutdowns in Australia.

Net Operating cash flows

The reduction in net cash generated from operating activities reflected the reduced earnings for the half and an increase in working capital.

Net Investing cash flows

Net investing cash outflows comprised acquisitions and capital expenditure. Total cash paid for the purchase of business/controlled entities was $248 million, comprising $208 million for the acquisition of GroundProbe and $40 million for a 5% increase in our Burrup joint venture interest.

Capital expenditure of $128 million included spend on the new SAP system as the project to build and rollout progresses, as well as ongoing investment in the global Mobile Manufacturing Unit (MMU™) fleet. Other key capital expenditure includes maintenance shutdowns at the Kooragang Island and Yarwun plants in Australia.

Debt Management and Liquidity

	31 Mar 2018	30 Sep 2017	Variance A$M
Interest bearing liabilities	2,233.5	1,957.8	275.7
Less: Cash and cash equivalents	327.7	516.9	(189.2)
Net Debt[6]	1,905.8	1,440.9	464.9
Gearing %[7]	40.7%	32.7%	8.0pts

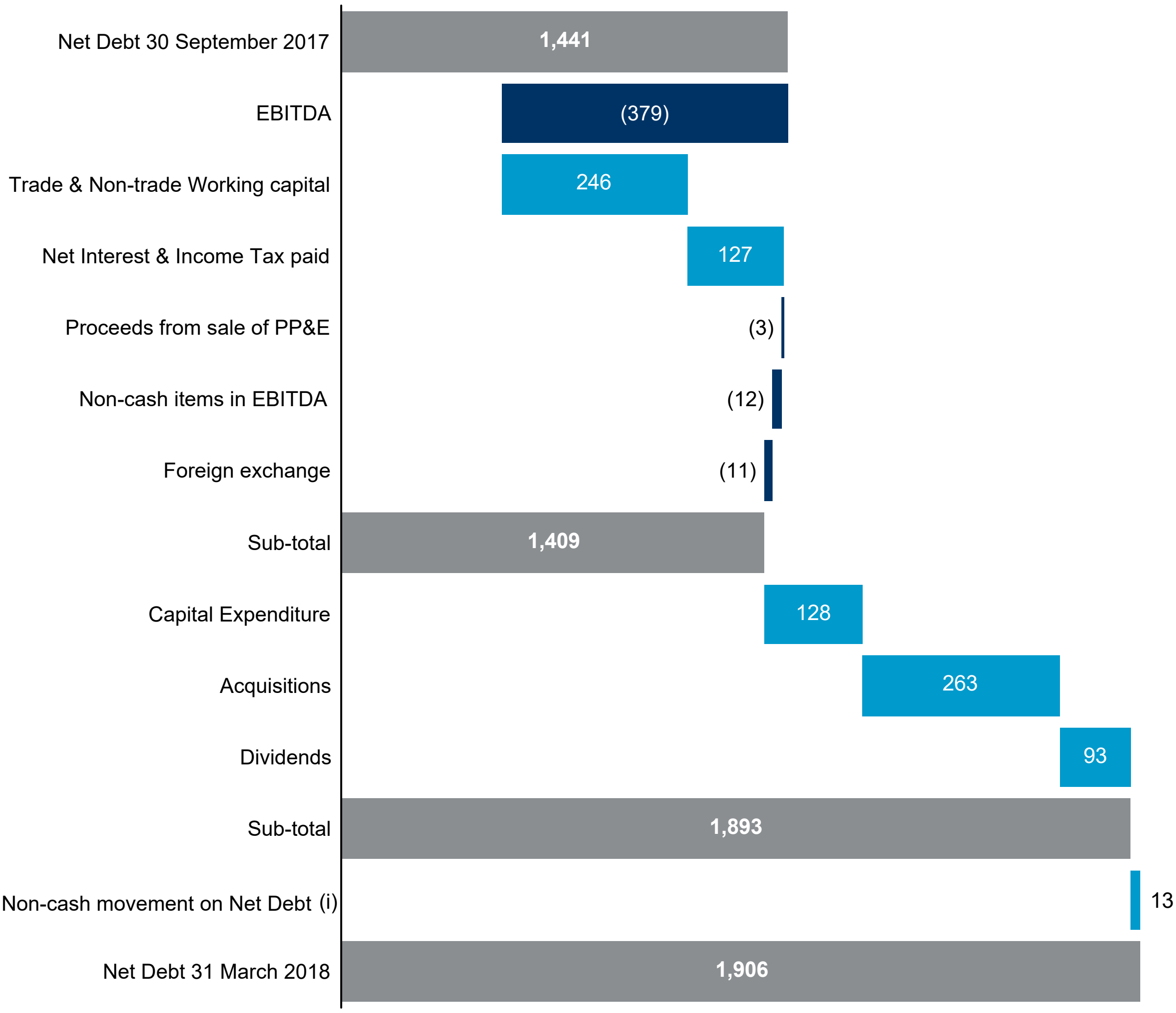
Interest bearing liabilities of $2,234 million comprise $1,846 million of US Private Placements and $388 million of committed and other bank facilities. The average duration of drawn debt is 5.2 years (2017: 6.1 years).

Undrawn committed bank facilities are $1,256 million, with total committed debt facilities of $3,482 million providing for a strong liquidity position.

Gearing is at 40.7% and since September 2017, has increased by 8.0 percentage points, largely due to acquisitions, the impairment of Minova and the increase in the environmental provision in the period.

The chart below illustrates the movement in net debt from September 2017.

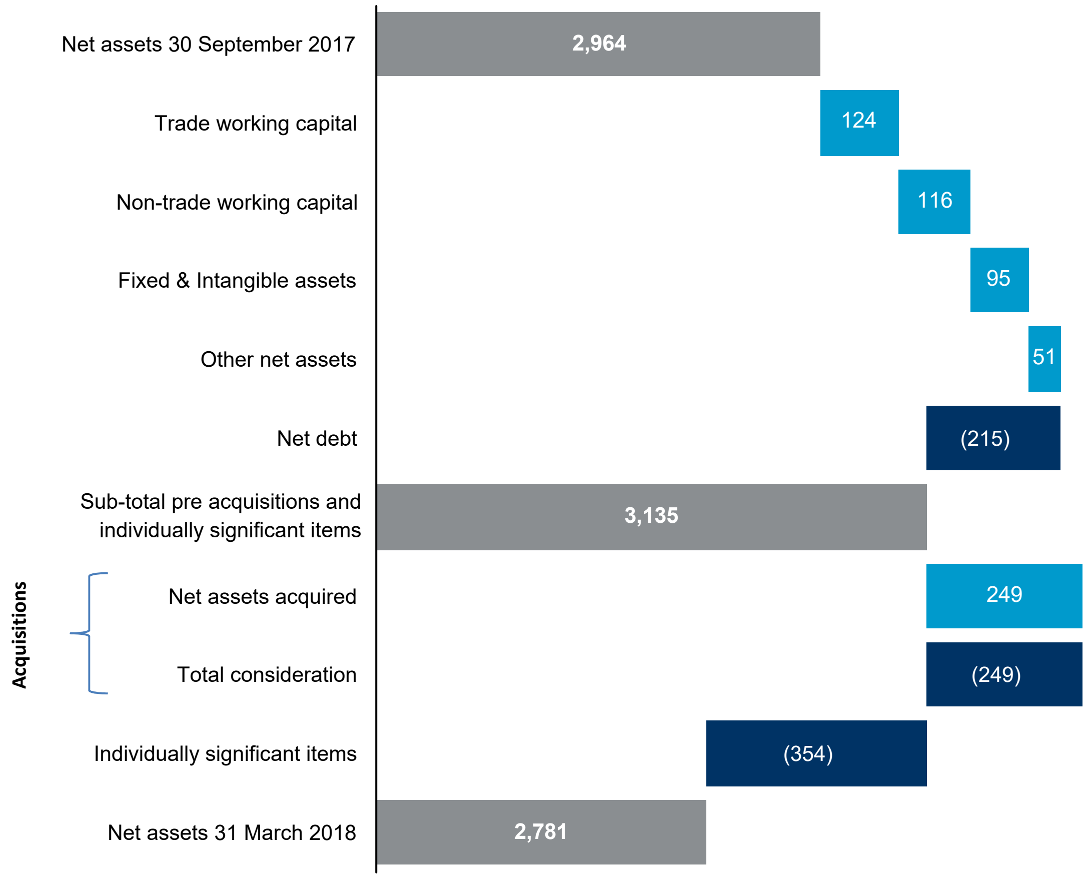
Movement in Net Debt (A$m)



(i) Non-cash movements on Net Debt comprise foreign exchange translation

Group Balance Sheet

Movement in Net Assets (A$m)



Performance highlights

Trade working capital[11] has increased by $124 million from September 2017, with inventory driving most of the increase. Inventory levels increased across the group to support expected sales volume levels in the second half of the year. Australia has also increased inventory levels to support operations in the Pilbara while Burrup is not operational, and in light of the impact in the first half of 2018 from the unplanned maintenance outages across east coast manufacturing operations. The Group will continue to focus on delivering sustainable improvement in working capital management initiatives.

Non-trade working capital[12] increased by $116 million, which was partly driven by an increase in other receivables, impacted by the timing of settlement of some GST/VAT refunds and withholding tax claims. Decreases in external service accruals and employee accruals including Defined Benefit Obligations further contributed to the higher non-trade working capital balance.

Fixed & Intangible assets increased by $95 million on the pcp, as net additions outweighed the depreciation and amortisation expense, together with foreign exchange translation impacts.

Dividend

The Board has declared an unfranked interim dividend of 20.0 cents per share. The dividend represents a payout ratio[13] of 61%.

The dividend is payable to shareholders on 2 July 2018 and shareholders registered as at the close of business on 1 June 2018 will be eligible for the interim dividend. It is anticipated that final dividend will be unfranked and that dividends in the near future will be franked at a rate of no more than 20%.

Enhanced Tax Transparency Reporting

Australian Tax Transparency – Tax Return Data for 2017

Information relating to Orica's Australian operations is provided in the table below.

	2017 A$M	2016 A$M
Total income (i)	1,999	2,629
Taxable income (ii)	108	95
Statutory tax rate (iii)	30%	30%
Tax liability	32	29
Offset reductions (iv)	(26)	(23)
Tax payable	**6**	**6**

(i) Total Australian income (includes sales, dividends, interest income etc.) before all expenses (for example, interest, employee costs, depreciation)
(ii) Taxable income after allowing for all deductible expenses and tax exempt income
(iii) Australian Statutory tax rate
(iv) Includes offset reductions of $26 million (2016: $23 million) relating to franking credits, foreign income tax and research and development.

Individually significant items

	Gross	Tax	Net
Impairment of Minova business	(204.2)	0.6	(203.6)
Botany environmental provision expense	(114.7)	34.4	(80.3)
Write down of US deferred tax assets	-	(55.0)	(55.0)
Impairment of other assets	(21.2)	6.4	(14.8)
Individually significant items	**(340.1)**	**(13.6)**	**(353.7)**
Non-controlling interests in individually significant items	0.8	-	0.8
Individually significant items attributable to shareholders of Orica	**(339.3)**	**(13.6)**	**(352.9)**

Impairment Assessment – Minova

Management's assessment of the performance of Minova identified indicators of impairment and required an estimate of the recoverable value to be calculated. The six months of operating results were lower than expected as compared to the short to medium term outlook. The assessment indicated that the carrying value of Minova exceeded its recoverable value by approximately $204 million. This shortfall resulted in the carrying value of the goodwill being unsupported and therefore impaired.

The impairment charge recognised at 31 March 2018 resulted in the write-down in the carrying value of Minova to $114 million.

Botany environmental provision expense

The environmental provision has been increased by $115 million from 30 September 2017 to $178 million. This resulted from a detailed review of the costs and operational duration of the Groundwater Treatment Plant which is an intermediate containment measure for contamination at the Botany Industrial Park. The findings from the review indicated that the cessation of the containment measures is possible within an 18-year timeframe. As such, the provision has been increased to reflect the change in the current estimates.

Write down of US deferred tax assets

The changes to the US tax legislation, which were signed into law in December 2017, reduced the federal corporate tax rate from 35% to 21%. This change resulted in the write down of the net deferred tax asset of $55 million (encompassing the deferred tax asset write down and the impact on the deferred tax liability).

Impairment Assessment – Other Assets

The impairment review undertaken at 31 March 2018, and the transition to a new SAP operating system, identified $21 million of IT and other assets which are no longer being utilised by the business and have been impaired.

Further information on these items is included in note 12 within Appendix 4D – Half Year Report.

Outlook

Second Half Outlook

The second half outlook for the 2018 financial year remains unchanged from the update released on 1 March 2018. Second half global AN volumes are expected to increase by around 10% from the first half, making full year global AN volumes at the upper end of the stated range (3.65mt +/- 5%). Significantly stronger second half EBIT is expected from:

- Continued volume growth, particularly in Australia
- Improved performance across all regions/businesses
- Positive contribution from the recently acquired GroundProbe business
- Improving manufacturing reliability

The second half result will benefit from deferred contract renegotiations offset by lower forecast business initiatives.

2019 Financial Year Outlook

We expect the stronger run rate from the second half of the 2018 financial year to continue into the 2019 financial year, with:

- AN volume growth supported by positive commodity growth and mine plan outlook
- Firmer AN pricing
- Improved manufacturing reliability at Orica plants, however Burrup performance remains uncertain until a permanent fix is completed
- Full year contribution from GroundProbe

Footnotes

The following footnotes apply to this results announcement:

(1) Equivalent to profit/(loss) before financing costs and income tax in Note 2(b) within Appendix 4D – Half Year Report

(2) Equivalent to profit after income tax expense before individually significant items attributable to shareholders of Orica Limited disclosed in Note 2(b) within Appendix 4D – Half Year Report

(3) Equivalent to net cash flows from operating activities and net cash flows used in investing activities as disclosed in the Statement of Cash Flows within Appendix 4D – Half Year Report

(4) GP Holdco Pty Ltd and its Companies

(5) Comprises total payments for property, plant and equipment and intangibles as disclosed in the Statement of Cash Flows within Appendix 4D – Half Year Report

(6) Total interest-bearing liabilities less cash and cash equivalents as disclosed in note 10 within Appendix 4D – Half Year Report

(7) Net debt / (net debt + total equity)

(8) EBIT before individually significant items plus Depreciation and Amortisation expense

(9) Equivalent to net cash used in financing activities (as disclosed in the Statement of Cash Flows within Appendix 4D – Half Year Report) excluding Dividends paid to Orica ordinary shareholders and non-controlling interests

(10) Equivalent to net (decrease)/increase in cash held disclosed in the Statement of Cash Flows within Appendix 4D – Half Year Report

(11) Comprises inventories, trade receivables and trade payables disclosed in the Balance Sheet within Appendix 4D – Half Year Report

(12) Comprises other receivables, other assets, other payables and provisions

(13) Dividend amount / NPAT before individually significant items

Forward-looking statements

This announcement has been prepared by Orica Limited. The information contained is for informational purposes only. The information contained in this presentation is not investment or financial product advice and is not intended to be used as the basis for making an investment decision. This announcement has been prepared without taking into account the investment objectives, financial situation or particular needs of any particular person.

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Past performance is no guarantee of future performance.

Non-International Financial Reporting Standards (Non-IFRS) information

This report makes reference to certain non-IFRS financial information. This information is used by management to measure the operating performance of the business and has been presented as this may be useful for investors. This information has not been reviewed by the Group's auditor. The 2018 Half Year Results presentation includes non-IFRS reconciliations. Forecast information has been estimated on the same measurement basis as actual results.

For further information

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