Orica Limited
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ASX Announcement

9 May 2016

Orica 2016 half year results: Resilience in challenging times

Melbourne: Orica (ASX: ORI) today reported statutory net profit after tax (NPAT) for the six months ended 31 March 2016 of $149 million (prior corresponding period: $222 million), after the $41 million expense relating to the settlement of the Australian Taxation Office Part IVA dispute announced on 8 December 2015. Before this one off item, NPAT[1] for the period was $190 million, or 10% lower than the pcp. In a period marked by substantial market volatility, earnings before interest and tax from continuing operations was $317 million, a 4% decline on the pcp ($330 million).

Key components of the result[2] included:

- Continued strong safety performance – no fatal accidents and Orica remains a top quartile safety performer on the ASX[3];
- Ammonium nitrate volumes of 1.71 million tonnes (pcp: 1.86 million tonnes), down 8%;
- EBITDA down 5% to $450 million (pcp: $472 million);
- Earnings per share of 51.2 cents before individual material items (pcp: 56.9 cents);
- Business improvement initiatives delivered net benefits of $52 million;
- Net operating and investing cash flows of $27 million[4];
- Gearing at 43.1%, within the target range of 35% to 45%;
- Interim ordinary dividend of 20.5 cents per share. New payout ratio dividend policy introduced.

Orica Managing Director and CEO Alberto Calderon said: "In the face of challenging market conditions across the whole sector, we have taken decisive actions to ensure Orica's resilience. While conditions deteriorated markedly throughout January and February 2016, with substantial commodity price volatility impacting mining industry volumes and flowing through to Orica's volumes for those months, we delivered a credible result, with the decrease in EBIT for the period contained to 4%.

"Our continued focus on initiatives to fundamentally improve Orica's customer focus, business rigour and financial management delivered tangible results. Market impacts were partly offset by our business improvement initiatives, which delivered $52 million in additional net benefits for the half. We reduced forecast growth and sustaining capital expenditure by 35%[5], further strengthened our forward contract profile, and continued to embed our new operating model for greater accountability and performance across the business.

"Our Minova ground support division remains cash flow positive, with a dedicated sales force now in place to focus on re-invigorating the brand and opening new markets," he said.

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[1] From continuing operations
[2] From continuing operations
[3] Safety Spotlight: ASX 100 Companies & More – Citi Research July 2015
[4] Excluding net proceeds from the sale of the Chemicals business
[5] Excluding capital previously committed for Burrup

Operations

The decline in EBIT across the regions was driven predominantly by lower volumes and pricing across explosives and the Minova ground support division. As expected, pricing changes impacted results, with the majority of these negotiated in the 2015 financial year.

“Across all our operations we remain focused on building and sustaining deep customer relationships. To that end, it is pleasing that across every region we achieved net contract wins in the half. In addition, more than 80% of our revenue continues to come from ‘down the hole’ and value add services – this shows that we continue to have a value proposition for our customers that is more than just basic product provision,” Mr Calderon said.

Positive business improvement benefits were also delivered in every region.

Capital Management

Capital discipline

“As part of our commitment to enhanced capital discipline, we have introduced a new and rigorous approach to capital decisions. The new approach will promote and maintain safe and reliable operations first and foremost, while aiming to maintain a strong balance sheet, an investment grade credit rating, sustainable returns to shareholders, while maximising shareholder value,” Mr Calderon said.

Since the introduction of the new discipline, all projects across the company have now been identified, categorised and ranked, with an objective of achieving at least 20% Return on Net Assets for new growth capital projects.

Dividend

Orica’s capital management assessment framework is underpinned by the following key principles:

1. Maintaining an investment grade credit rating;
2. Preserving flexibility for potential investments and to respond to changes in the operating environment; and
3. Maximising returns to shareholders.

Reflecting the cyclical nature of the sector, a prudent approach to delivering sustainable returns and consistent with these capital management disciplines, the Board has decided to replace the progressive dividend policy with a payout ratio policy. The new policy will enable greater flexibility and ensure that shareholder returns reflect the Company’s position and market conditions throughout the cycle.

Against these principles, and in light of the Company’s financial performance, balance sheet and outlook, the Board will determine an appropriate dividend at the end of each half year reporting period. The Board expects the total payout ratio to be in the range of 40 to 70 percent of underlying earnings. It is also expected that the total dividend paid each year will be weighted towards the final dividend.

The Board has declared an interim ordinary dividend of 20.5 cents per share, franked at 49%. The dividend record date is 1 June 2016 and is payable to shareholders on 1 July 2016.

Business Improvement Initiatives

The Company has continued to deliver a range of initiatives to enhance Orica's competitiveness throughout the cycle.

"Over the past year we have introduced great rigour and discipline in decision making, an operating model that enables greater accountability and customer focus, and a number of initiatives to improve our efficiencies and improve our competitiveness at every point of the cycle. While these initiatives continue to be embedded across the business, the results are visible, with sustainable net benefits delivered above forecast," Mr Calderon said.

Over the past 12 months, initiatives delivered or underway include:

- new operating model in place, delivering clear regional and functional accountabilities and responsibilities, with transparent measurement and reporting;
- a focus on customer relationship management, resulting in net contract wins in the half;
- introduction of new capital management framework and processes; and
- a major project to pursue efficiencies across the global manufacturing network, to enhance security of supply, efficiency improvement and cost savings, and ensuring a customer-centric approach to investments in technology and new products and services.

Outlook

Mr Calderon said: "Market conditions deteriorated more than we anticipated during the half, marked by increased volatility. It is expected that the market will remain challenged for the foreseeable future. Regardless, our continued focus will be on business improvement initiatives, capital discipline and customer relationships."

Key assumptions for FY16 are:

- Global explosives volumes in the range of 3.45 million tonnes, +/- 0.1 million tonnes.
- Approximately $85 million negative impact is expected from price resets and contract renewals.
- Cyanide volumes expected to be up 5% to 10% compared to FY15.
- Minova focused on improving performance under the new structure, and is expected to remain cashflow positive.
- Incremental net business improvement initiative benefits of $70 million to $80 million.
- Depreciation and amortisation to be approximately $285 million.
- Effective tax rate (excluding individually material items) to be slightly lower than FY15.
- Continued focus on capital discipline will see capital expenditure for FY16 of approximately $320 million.

"In a period of sustained difficult market conditions, we will continue to focus on controlling all the elements that we can, supported by rigorous financial and operational processes. Today's results reinforce Orica's relative resilience, underpinned by an enhanced customer focus, and market leading, value added products and services. All these factors leave us well positioned to capture opportunities when commodity volumes begin to recover in the medium term, as predicted by market forecasters[6],"

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[6] Wood Mackenzie: Global Copper Long-Term Outlook Q1 2016; Global Iron Ore Long-Term Outlook Q1 2016; Global Thermal Coal Long-Term Outlook H1 & H2 2015; CRU: Copper Market Outlook January 2016; Iron Ore Market Outlook January 2016; IEA: Coal Medium-Term Market Report 2015

Orica Limited

Results for the Half-Year Ended 31 March 2016

- **Statutory net profit after tax (NPAT)(1) for the half year ended 31 March 2016 was $149.0 million after the $41.0 million expense relating to the settlement of the Australian Taxation Office Part IVA dispute. This compares to a profit of $222.1 million in the previous corresponding period (pcp).**
- **On a continuing operations basis, NPAT before individually material items(2) was $190.0 million (pcp: $211.0 million).**

Summary

- Ammonium nitrate (AN) and emulsion product volumes down 8% at 1.71 million tonnes (pcp: 1.86 million)
- EBITDA(3) from continuing operations down 5% to $450 million (pcp: $472 million)
- EBIT(4) from continuing operations of $317 million (pcp: $330 million)
- Earnings per share from continuing operations before individually material items is 51.2 cents (pcp: 56.9 cents)
- Business improvement delivers benefits of $57 million with one-off costs of $5 million
- Net operating and investing cash flows(5) were $27 million
- Net debt(6) of $2,054 million
- Gearing(7) at 43.1%
- Interest cover from continuing operations (including capitalised interest) is 7.0 times(8)
- Interim ordinary dividend of 20.5 cents per share.

Group Results

Half Year ended 31 March	2016 A$M	2015 A$M	Change %
Continuing Operations			
Sales revenue	2,553.4	2,809.4	(9%)
EBITDA	450.1	472.1	(5%)
EBIT	**316.5**	**330.0**	**(4%)**
Net interest expense	(45.5)	(48.1)	5%
Tax expense	(73.3)	(64.0)	(15%)
Non-controlling interests	(7.7)	(6.9)	(12%)
NPAT before individually material items	**190.0**	**211.0**	**(10%)**
Individually material items after tax	(41.0)	-	
NPAT and individually material items (continuing operations)	**149.0**	**211.0**	**(29%)**
NPAT (discontinued operations)	-	11.1	
NPAT and individually material items (statutory)	**149.0**	**222.1**	**(33%)**

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

Commentary on Group Results (Continuing Operations)

Earnings before Interest and Tax (EBIT)

The following table describes the impact of the principal factors that affected EBIT for the 2016 half year compared with the 2015 half year.

	A$M	A$M
EBIT for the half year ended 31 March 2015		**330.0**
Foreign exchange (i)	10.2	
One-off items in 2015:		
Gross business improvement costs	64.0	
Non repeatable business improvement benefits	(15.8)	
Asset sales	(12.0)	46.4
Adjusted EBIT for the half year ended 31 March 2015		**376.4**
Explosives – net volume, regional/product & customer mix		(49.8)
Explosives – net price impact		(42.7)
Mining Chemicals – net volume and price impact		(2.6)
Minova – net volume and price impact		(24.1)
Gross business improvement benefits:		
Supply efficiency program	21.5	
Operations and Support cost program	35.9	57.4
Depreciation and amortisation		11.5
Net inflation & other		(17.2)
Adjusted EBIT for the half year ended 31 March 2016		**308.9**
Gross business improvement costs		(5.4)
One-off items in 2016:		
Asset sales		13.0
EBIT for the half year ended 31 March 2016		**316.5**

(i) Retranslation of 2015 earnings at 2016 exchange rates.

Net interest expense

Net interest expense of $46 million was lower than the pcp ($48 million) due to lower financing costs and lower average net debt levels compared to the pcp.

Half Year ended 31 March	2016 A$M	2015 A$M	Change %
Statutory net interest expense	45.5	48.1	(5%)
Adjusted for:			
Capitalised interest	16.6	17.2	(3%)
Adjusted net interest expense	**62.1**	**65.3**	**(5%)**

Tax expense

An effective tax rate from continuing operations of 27.0% (pcp: 22.7%) was higher due to a reduction in other foreign tax deductions as well as higher non-deductible interest.

Individually Material Items

Loss after income tax includes the following individually material items:

	Gross A$M	Tax A$M	Net A$M
Settlement of Australian Tax Action	-	(41.0)	(41.0)
Individually material items attributable to shareholders of Orica	**-**	**(41.0)**	**(41.0)**

Business Summary

A summary of the performance of the Businesses for the March 2016 and March 2015 half years is presented below.

Half Year ended 31 March 2016 A$M	AN Tonnes (i) ('000)	Sales Revenue (ii)	EBITDA	EBIT	Capital Expenditure
Australia, Pacific and Indonesia	566	766.0	207.9	145.2	59.4
North America	572	693.4	122.8	101.7	20.5
Latin America	304	470.5	48.1	36.1	10.7
Europe, Africa and Asia	268	559.4	68.3	49.9	21.8
Minova	-	210.7	6.1	(2.2)	1.9
Global Support	-	497.8	(3.1)	(14.2)	22.6
Eliminations	-	(644.4)	-	-	-
Orica Group	**1,710**	**2,553.4**	**450.1**	**316.5**	**136.9**

Half Year ended 31 March 2015 A$M	AN Tonnes (i) ('000)	Sales Revenue (ii)	EBITDA	EBIT	Capital Expenditure
Australia, Pacific and Indonesia	622	864.0	256.0	189.9	77.0
North America	604	721.6	105.5	86.3	18.9
Latin America	359	540.6	51.4	39.4	14.8
Europe, Africa and Asia	271	539.6	76.3	57.4	33.7
Minova	-	294.6	10.7	(6.8)	1.4
Global Support	-	492.9	(27.8)	(36.2)	37.1
Eliminations	-	(643.9)	-	-	
Orica Group	**1,856**	**2,809.4**	**472.1**	**330.0**	**182.9**

(i) Includes AN prill and solution and Emulsion products include bulk emulsion and packaged emulsion.
(ii) Includes external and inter-segment sales.

Review of Operations

Australia, Pacific & Indonesia

Half Year ended 31 March	2016	2015	Change %
Total AN & Emulsion Volumes (‘000 tonnes)	566	622	(9%)
Emulsion as a % of total volumes	*59%*	*63%*	*(4%)*
Total sales revenue ($ million)	766.0	864.0	(11%)
EBITDA ($ million)	207.9	256.0	(19%)
EBIT ($ million)	145.2	189.9	(24%)

Sales revenue

Sales revenue decreased by 11% versus the pcp reflective of lower demand from coal and base metal customers as well as pricing impacts.

The composition of sales revenue by mining commodity remained stable with the pcp with thermal and coking coal continuing to comprise 50% of sales revenue. Gold, which represents 18%, was slightly down on the pcp due to lower cyanide and explosives volumes. Iron ore was stable at 12%.

Volumes

Explosives volumes were down 9% (56kt) with lower demand impacting Eastern Australian surface coal down 6% and the West (excluding Pilbara region) down 23%. Volumes to PNG were down 64%, due to unfavourable weather conditions. Volumes to third party suppliers were down 15%, however this was offset by improved volumes of 13% in Indonesia. Emulsion products were 4% lower than the pcp with lower demand from Eastern Australia surface coal customers due to a combination of customer mix and weather conditions. In contrast to the reduction in AN volumes, sales of Initiating Systems, particularly EBS products were higher than the pcp notably from surface coal customers in Australia.

At the EBIT level, the volume and customer mix impact was unfavourable. The majority of this was attributable to external market impacts, from mine planning reconfigurations, mine closures and operations being placed on care and maintenance. New contract wins in the period contributed $10 million to EBIT.

Manufacturing performance was favourable to the pcp due to a combination of factors including, curtailed production at Yarwun in response to lower market demand, lower ammonia input costs at Indonesia, as well as higher cyanide production at Yarwun and AN production at Bontang and Kooragang Island.

Onsite services

Revenue from services decreased 11% in the period, impacted by lower volume, contract losses and a decrease in service levels requested by customers due to cost pressures.

Advanced products and services

Revenue from advanced products and services as a percentage of total explosives revenue declined to 21% from 25% in the pcp.

Pricing

Pricing for explosives was lower reflecting market conditions and contracts renegotiated for tenure extensions. These arrangements ensure volume and pricing certainty in future years. Approximately 70% of the current period pricing impact was negotiated during the 2015 year.

Costs

Underlying costs are down versus the pcp due to a combination of savings from business improvement initiatives, lower manufacturing site costs, particularly Yarwun with curtailed production, as well as lower onsite costs, in line with reduced demand.

North America

Half Year ended 31 March	2016	2015	Change %
Total AN & Emulsion Volumes ('000 tonnes)	572	604	(5%)
Emulsion as a % of total volumes	*37%*	*29%*	*8%*
Total sales revenue ($ million)	693.4	721.6	(4%)
EBITDA ($ million)	122.8	105.5	16%
EBIT ($ million)	101.7	86.3	18%

Sales revenue

Sales revenue decreased by 4% versus the pcp reflective of lower demand, particularly from coal customers, as well as some pricing impacts, offset by favourable foreign exchange translation.

By mining commodity, sales to gold customers and Q&C markets continue to represent the largest proportion at 27% and 19% respectively due to firm commodity prices and ongoing projects. Sales to coal customers reduced in the current period to comprise 17% of revenue. This was due to lower demand from thermal coal customers which have been impacted by energy substitution to lower cost natural gas combined with a mild winter. Iron ore sales have increased due to higher sales in Canada as well as contract wins.

Volumes

Explosives volumes were down 5% (32kt) as a result of lower volumes into US coal markets (down 18%), partially offset by higher volumes into Canadian metals markets (6%). The reduction in US coal market volumes was largely through indirect channels as a result of reduced customer production, and a number of mine closures. Q&C volumes were slightly down in Canada and Mexico while showing some growth in the US.

At the EBIT level, the volume and customer mix impact was unfavourable, largely attributable to lower volumes through indirect market channels to thermal coal customers, particularly in the Appalachian region. Volumes into direct markets in the US and Mexico were also lower as a result of mine closures and operations being placed on care and maintenance. Partially offsetting these impacts were higher volumes and favourable emulsion product mix to Canadian metal customers. There was minimal net EBIT impact from contract win/losses year on year.

Manufacturing performance was broadly in line with the pcp due to the rationalisation of conventional detonator facilities and higher production of electronic detonators.

Onsite services

Revenue from services increased 13% in the period, with increased service levels to Q&C customers in the US as well as metals customers in Canada.

Advanced products and services

Revenue from advanced products and services as a percentage of total explosives revenue increased to 28% from 25% in the pcp.

Pricing

Pricing for explosives was lower reflecting market conditions and contracts renegotiated for tenure extensions. Approximately 75% of the pricing impact was negotiated during the 2015 year.

Costs

Underlying costs are down versus the pcp due to the non-repeat of business improvement costs from 2015 as well as the flow through of savings delivered in year, particularly through supply chain efficiencies.

Foreign Exchange

Foreign exchange movements contributed favourably to EBIT by $10 million.

Latin America

Half Year ended 31 March	2016	2015	Change %
Total AN & Emulsion Volumes ('000 tonnes)	304	359	(15%)
Emulsion as a % of total volumes	*61%*	*62%*	*(1%)*
Total sales revenue ($ million)	470.5	540.6	(13%)
EBITDA ($ million)	48.1	51.4	(6%)
EBIT ($ million)	36.1	39.4	(8%)

Sales revenue

Sales revenue decreased by 13% versus the pcp reflective of lower demand, some customer pricing impacts, lower commodity indices, offset by favourable foreign exchange translation.

The composition of sales revenue by mining commodity remained relatively stable with major changes in line with key commodity pricing. Sales to gold customers, which now represents 25% of revenue, increased slightly from the pcp on the back of firm gold prices. Sales to copper customers were slightly down versus the pcp, however still represent the most significant portion of revenue at 45%.

Volumes

Explosives volumes were down 15% (55kt) with lower volumes in Chile and Colombia as a result of lower market demand. Chile volumes were also negatively impacted by a contract loss from the second half of 2015. Partially offsetting these impacts were improved volumes to copper and gold customers in Peru as well as customer wins in Brazil. From an AN product mix perspective, the volume reduction was stable across the product range with emulsion products holding at ~60% of total AN. Sales of Initiating Systems, particularly EBS products were higher than the pcp notably in Peru, Argentina and the ramp up of a new contract in Colombia.

At the EBIT level, the impact of volume and customer mix was unfavourable. Approximately 75% of this was attributable to external market impacts, from mine planning reconfigurations, mine closures and operations being placed on care and maintenance. The net impact from contract win/losses was unfavourable compared to the pcp.

Advanced products and services

Revenue from advanced products and services as a percentage of total explosives revenue declined to 27% from 28% in the pcp.

Pricing

Pricing across explosives and cyanide was down due to the flow through of contract renegotiations completed in the second half of 2015.

Costs

Underlying costs were flat with the pcp with savings from business improvement initiatives and reduced operational costs reflective of sales volumes, offset by inflationary impacts particularly in Argentina and Venezuela.

Foreign Exchange

Foreign exchange movements contributed favourably to EBIT by $5 million.

Europe, Africa and Asia (EAA)

Half Year ended 31 March	2016	2015	Change %
Total AN & Emulsion Volumes (‘000 tonnes)	268	271	(1%)
% Emulsion products	*91%*	*93%*	*(2%)*
Total sales revenue ($ million)	559.4	539.6	4%
EBITDA ($ million)	68.3	76.3	(10%)
EBIT ($ million)	49.9	57.4	(13%)

Sales revenue

Sales revenue increased 4% versus the pcp due to a combination of higher demand in Africa from new business as well as higher Electronic Blasting Systems (EBS) sales across all three sub-regions, in particular increased penetration into the Tunnels market in South East Asia. Europe’s revenue was flat with the pcp with improved sales in Turkey and the CIS offset by lower demand in the Nordics and UK as a result of mine closures.

By mining commodity, the composition of revenue across the region is weighted towards Q&C markets (33%) in Europe and Asia, gold (21%) in Africa and Asia, copper (14%) in Africa and Europe and other commodities (19%) including zinc and nickel in Europe and Asia.

Volumes

Explosives volumes were broadly in line with the pcp. Higher volumes in Africa into new accounts, largely offset lower volumes in Asia, impacted by a low margin contract loss in India. Volumes in Europe were flat, with lower sales from mine closures in the Nordics and UK, offset by improved demand in CIS and Turkey.

EBS volumes were up 78% versus the pcp, driven by increased penetration into the Tunnels markets in South East Asia and improved introduction into new customers in Africa.

Cyanide volumes across the region were down 14% mainly in Africa with some growth in demand from customers in Asia.

At the EBIT level, the impact of volume and customer mix was favourable due to the successful penetration of Orica’s Tunnels offering into South East Asia via higher margin EBS units, and favourable AN customer mix with higher margin new customers in Africa, offsetting lower margin customers in India.

Advanced products and services

Revenue from advanced products and services as a percentage of total explosives revenue increased to 22% from 17% in the pcp.

Pricing

Pricing across the region was generally flat.

Costs and other income

Underlying costs were slightly unfavourable with the pcp with savings from business improvement initiatives, particularly in Europe and Asia, offset by one-off costs associated with a customer closure in Norway and inflationary impacts across the region.

Other income was unfavourable versus the pcp due to the impact of foreign exchange losses from the revaluation of trade working capital across the region.

Foreign Exchange

Foreign exchange movements contributed favourably to EBIT by $2 million (excluding the revaluation of trade working capital).

Minova

Half Year ended 31 March	2016	2015	Change %
Steel products ('000 tonnes)	58	92	(37%)
Resins & Powders ('000 tonnes)	59	82	(28%)
Total sales revenue ($ million)	210.7	294.6	(28%)
EBITDA ($ million)	6.1	10.7	(43%)
EBIT ($ million)	(2.2)	(6.8)	68%

Sale revenue

Sales revenue was down 28% versus the pcp. This was due to weak volumes, particularly into global coal markets, and lower pricing in North America. Pricing in other regions was flat to slightly down.

Volumes

Continued weakness in demand and challenging market conditions across Minova markets resulted in lower volumes versus the pcp for both steel and resin & powders down 37% and 28% respectively.

Demand from coal customers was down across North America, Europe and Australia due to a combination of mine closures and slow-down of operations, reflective of global commodity demand. Volumes in Africa were down with low commodity prices impacting platinum and base metal mine operations. Lower activity and delays in civil and tunnelling projects also impacted on Europe volumes.

Costs, depreciation and amortisation

Business improvement initiatives have had a positive impact on costs. Depreciation and amortisation expense has benefited in 2016 as a result of the 2015 impairment.

Foreign Exchange

Across the geographical spread of the business operations, foreign exchange movements contributed unfavourably to EBIT by $1 million.

Global support

Half Year ended 31 March	2016 A$M	2015 A$M	Change %
EBIT	(14.2)	(36.2)	61%
Adjusted for:			
Asset sales	9.7	12.0	(19%)
Adjusted EBIT	**(23.9)**	**(48.2)**	**50%**

EBIT

After adjusting for asset sales, global support of $24 million was lower than the pcp due to the non-repeat of business improvement costs in 2015 as well as flow on savings from business improvement initiatives in 2016.

Asset sales in the period and pcp related to the divestment of land sites at Botany (NSW).

Foreign Exchange

Foreign exchange movements contributed unfavourably to EBIT by $4 million.

Group Balance Sheet

A$M	31 March 2016	30 September 2015	Movement A$M
Inventories	602.2	598.7	3.5
Trade Debtors	632.1	751.4	(119.3)
Trade Creditors	(667.9)	(843.1)	175.2
Total Trade Working Capital	566.4	507.0	59.4
Net Property, Plant & Equipment	2,780.8	2,917.9	(137.1)
Intangible assets	1,557.7	1,633.2	(75.5)
Net other liabilities	(138.1)	(44.8)	(93.3)
Net debt	(2,053.9)	(2,026.1)	(27.8)
Net Assets	**2,712.9**	**2,987.2**	**(274.3)**
Orica shareholders' equity	2,704.6	2,984.6	(280.0)
Non-controlling interests	8.3	2.6	5.7
Total Equity	**2,712.9**	**2,987.2**	**(274.3)**

Commentary on Balance Sheet

Trade working capital (TWC) increased by $59 million comprising an underlying increase of $122 million partly offset by a foreign exchange translation impact of $63 million. The underlying increase was largely due to a reduction in creditors of $137 million.

Net Property, Plant & Equipment (PP&E) decreased by $137 million due to foreign exchange translation of $124 million, depreciation of $119 million and asset disposals of $19 million. The additions of $125 million include $32 million on the Burrup ammonium nitrate plant, $40 million on manufacturing facilities and $12 million of capitalisation of interest.

Intangible Assets decreased by $76 million due to the impact of foreign exchange translation of $95 million, plus amortisation of $15 million, partly offset by additions including capitalisation of interest, of $34 million. Spend in the period was largely on the global information technology platform and research and development projects.

Net Other Liabilities increased by $93 million largely due to the impact of foreign exchange translation of $85 million. Other major movements included an increase in tax provision for the settlement of the Australian Taxation Office Part IVA dispute and an increase in the superannuation fund provision. Spend on environmental sites in Australia and North America, as well as Chemicals separation costs, partially offset these increases.

Net Debt increased by $28 million.

Debt Management

Gross debt of $2,296 million comprises $1,785 million of US Private Placements and $511 million of committed and other bank facilities. The average duration of drawn debt is 5.4 years (5.8 years pcp).

Undrawn committed bank facilities of $1,411 million, with total debt facilities totalling $3,642 million provide for a strong liquidity position. Gearing increased to 43.1% from 40.4% at September 2015 due to the impact of foreign exchange translation on net assets.

Group Cash Flow

Half year ended 31 March	2016 A$M	2015 A$M	Variance A$M
EBIT	316.5	338.3	(21.8)
Add: Depreciation & Amortisation	133.6	155.1	(21.5)
EBITDA	450.1	493.4	(43.3)
Movement in Working Capital			
Trade Working Capital (i)	(58.7)	(136.9)	78.2
Non trade Working Capital (ii)	(43.1)	(6.0)	(37.1)
Net interest paid	(64.3)	(68.2)	3.9
Net income tax paid	(62.7)	(88.4)	25.7
Non cash items and foreign exchange	(88.8)	85.2	(174.0)
Net operating cash flows	**132.5**	**279.1**	**(146.6)**
Capital Expenditure			
Sustaining capital (iii)	(60.0)	(85.8)	25.8
Growth capital (iv)	(76.9)	(105.4)	28.5
Total Capital Expenditure (v)	(136.9)	(191.2)	54.3
Acquisitions	(3.4)	(0.5)	(2.9)
Proceeds from surplus assets	34.3	20.7	13.6
Proceeds from sale of investment and businesses	-	1.5	(1.5)
Net investing cash flows before sale of Chemicals	**(106.0)**	**(169.5)**	**63.5**
Proceeds from sale of Chemicals business	-	700.4	(700.4)
Disposal costs from sale of Chemicals business	(16.8)	(20.5)	3.7
Net investing cash flows after sale of Chemicals	**(122.8)**	**510.4**	**(633.2)**
Net operating and investing cash flows before net proceeds from sale of Chemicals business	**26.5**	**109.6**	**(83.1)**
Movement in borrowings	113.5	(304.1)	417.6
Net proceeds from share issues (inclusive of non-controlling interests)	0.8	1.1	(0.3)
Share buy back	-	(8.4)	8.4
Dividends – Orica Limited			
Dividend paid in cash	(156.3)	(156.2)	(0.1)
Dividend reinvestment plan			
Satisfied by open market purchase of shares	-	(51.9)	51.9
Dividends paid – non controlling interest shareholders	(5.2)	(4.5)	(0.7)
Net financing cash flows	**(47.2)**	**(524.0)**	**476.8**
Net cash flows	**(37.5)**	**265.5**	**(303.0)**

(i) Opening trade working capital (TWC) less closing TWC (excluding TWC acquired and disposed of during the year).
(ii) Non trade working capital: primarily includes other receivables, other assets, other payables and provisions. Movement: opening non trade working capital (NTWC) less closing NTWC (excluding NTWC acquired and disposed of during the year).
(iii) Capital expenditure other than growth expenditure.
(iv) Capital expenditure that results in earnings growth through either cost savings or increased revenue.
(v) Total growth and sustaining expenditure reconcile to total payments for property plant and equipment and intangibles as disclosed in the Statement of Cash Flows within the Appendix 4D – Orica Half Year Report.

Commentary on Cash Flow movements

Net operating cash flows were down by $147 million due largely to reductions in EBIT, increases in working capital and foreign exchange adjustments. Capital expenditure was down by $54 million.

Enhanced Tax Transparency Reporting

Australian Tax Transparency – Tax Return Data for 2015

In 2013, Australia passed legislation requiring the Australian Tax Office to publish specific Income Tax Return data of corporate tax entities that report a total income of $100 million or more. Information relating to Orica's Australian operations is provided in the table below.

	2015 A$M	2014 A$M
Total income (i)	2,802	2,884
Taxable income (ii)	270	227
Statutory tax rate (iii)	30%	30%
Tax liability	81	68
Offset reductions (iv)	(24)	(25)
Tax payable	**57**	**43**

(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 $24 million (2014 $25 million) relating to franking credits, foreign income tax and research and development.

Dividend

Orica's capital management assessment framework is underpinned by the following key principles:

- Maintaining an investment grade credit rating;
- Preserving flexibility for potential investments and to respond to changes in the operating environment; and
- Maximising returns to shareholders.

Reflecting the cyclical nature of the sector, a prudent approach to delivering sustainable returns and consistent with these capital management disciplines, the Board has decided to replace the progressive dividend policy with a payout ratio policy. The new policy will enable greater flexibility and ensure that shareholder returns reflect the Company's position and market conditions throughout the cycle.

Against these principles, and in light of the Company's financial performance, balance sheet and outlook, the Board will determine an appropriate dividend at the end of each half year reporting period. The Board expects the total payout ratio to be in the range of 40 to 70 percent of underlying earnings. It is also expected that the total dividend paid each year will be weighted towards the final dividend.

The Board has declared an interim ordinary dividend of 20.5 cps. The dividend is 49% franked at 10 cps.

The dividend is payable to shareholders on 1 July 2016 and shareholders registered as at the close of business on 1 June 2016 will be eligible for the interim dividend. It is anticipated that dividends in the near future are unlikely to be franked at a rate of more than 50%.

2016 Outlook

Market conditions deteriorated more than we anticipated during the half, marked by increased volatility. It is expected that the market will remain challenged for the foreseeable future. Regardless, our continued focus will be on business improvement initiatives, capital discipline and customer relationships.

Key assumptions for FY16 are:

- Global explosives volumes in the range of 3.45 million tonnes, +/- 0.1 million tonnes.
- Approximately $85 million negative impact is expected from price resets and contract renewals.
- Cyanide volumes expected to be up 5% to 10% compared to FY15.
- Minova focused on improving performance under the new structure, and is expected to remain cashflow positive.
- Incremental net business improvement initiative benefits of $70 million to $80 million.
- Depreciation and amortisation to be approximately $285 million.
- Effective tax rate (excluding individually material items) to be slightly lower than FY15.
- Continued focus on capital discipline will see FY16 capital expenditure of approximately $320 million.

Footnotes

The following footnotes apply to this profit announcement:

(1) Equivalent to net profit for the period after income tax expense and individually material items attributable to shareholders of Orica Limited disclosed in Appendix 4D – Orica Half Year Report.

(2) Equivalent to net profit for the period after income tax expense before individually material items attributable to shareholders of Orica Limited disclosed in note 8 within Appendix 4D – Orica Half Year Report.

(3) EBIT from continuing operations before individually material items plus Depreciation and Amortisation from continuing operations.

(4) EBIT (equivalent to Profit from operations in Note 8 within Appendix 4D – Orica Half Year Report) from continuing operations before individually material items.

(5) Equivalent to net cash flow from operating and investing activities excluding net proceeds from the sale of Chemicals business.

(6) Total interest bearing liabilities less cash and cash equivalents.

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

(8) EBIT / Net interest expense.

Forward-looking statements

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 2016 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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