

**Appendix 4E**  
**Preliminary final report**  
**ORICA LIMITED**

ABN 24 004 145 868

**1. Details of the reporting period and the previous corresponding period**

Reporting Period	Year Ended	30 September 2017
Previous Corresponding Period	Year Ended	30 September 2016

**2. Results for announcement to the market**

<b>Consolidated:</b>				<b>\$m</b>
2.1 Consolidated revenue from operations	down	(1.0)%	to	5,039.2
2.2 Profit after tax attributable to shareholders	up	12.7%	to	386.2
2.3 Net profit for the period attributable to shareholders before individually material items	down	(0.7)%	to	386.2

Dividends	Amount per security	Franked amount per security at 30% tax
<i>Current period</i>		
2.4 Final dividend - Ordinary Cents	28.0	0.0
2.4 Interim dividend - Ordinary Cents	23.5	3.0
<i>Previous corresponding period</i>		
2.4 Final dividend - Ordinary Cents	29.0	8.0
2.4 Interim dividend - Ordinary Cents	20.5	10.0
2.5 Record date for determining entitlements to the dividend:		
Ordinary Shares	15-Nov-17	
Payment date of dividend:		
Ordinary Shares	8-Dec-17	

2.6 Brief explanation of figures 2.1 to 2.4:

i) It is anticipated that dividends in the near future will be franked at a rate of no more than 35%.

ii) Conduit foreign income (CFI) component:

<i>Current period</i>		<i>Previous corresponding period</i>	
Interim dividend:		Interim dividend:	
Ordinary	20.5 cents	Ordinary	10.5 cents
Final dividend:		Final dividend:	
Ordinary	28 cents	Ordinary	21 cents

iii) For the profit commentary and any other significant information needed by an investor to make an informed assessment of Orica's results please refer to the accompanying Orica Limited Results for the Full Year Ended 30 September 2017.

3. **Income Statement - refer attached**
4. **Balance Sheet - refer attached**
5. **Statement of Cash Flows - refer attached**
6. **Reserves and retained earnings - refer attached, Statement of Changes in Equity**
7. **Details of individual dividends and payment dates - refer attached, Note 4 Contributed Equity and Reserves**
8. **Details of dividend reinvestment plan**

The Company's Dividend Reinvestment Plan (DRP) continues to be available to eligible shareholders. For the final dividend, shares will be allocated based on the arithmetic average of the daily volume weighted average market price of all shares sold through a normal trade on the ASX for a period of 7 trading days from 20 November to 28 November inclusive. The last date for receipt of election notices for participation in the final dividend under the DRP is Thursday 16 November 2017. Shares issued and/or purchased on market pursuant to the DRP will rank equal to all other ordinary shares. No discount applies to the DRP.

9. **Net tangible assets**

	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	Cents 367.4	Cents 326.4

10. **Control lost over entities - refer attached, Note 16 Businesses disposed**
11. **Details of associates and joint venture entities - refer attached, Note 14 Investments accounted for using the equity method and joint operations**
12. **Significant information - refer press release attached**
13. **For foreign entities, which set of accounting standards is used in compiling the report - not applicable**
14. **Commentary on results for the period - refer press release attached**
15. **This report is based on a financial report which has been audited**

# Review of Operations

## Orica delivers sound 2017 financial result in difficult conditions

**Statutory net profit after tax (NPAT) attributable to the shareholders of Orica for the year ended 30 September 2017 was \$386 million**

### Summary

- Tragically, Orica had two fatalities during the year in Peru and Sweden
- EBIT before individually material items<sup>(1)</sup> of \$635 million, down 1% on the prior corresponding period (pcp)
- NPAT before individually material items<sup>(2)</sup> of \$386 million, down 1% on the pcp
- Ammonium nitrate volumes up 3% on the pcp at 3.65 million tonnes
- Net operating and investing cash flows<sup>(3)</sup> of \$215 million, led by increased investment in plant turnarounds
- Capital expenditure of \$306 million<sup>(4)</sup>, up 16% on the pcp
- Net debt<sup>(5)</sup> of \$1.4 billion and gearing<sup>(6)</sup> at 33%
- Final dividend of 28 cents per share, bringing the full year dividend to 51.5 cents per share

### Group Results

Year ended 30 September	2017 A\$M	2016 A\$M	Change %
Sales revenue	5,039.2	5,091.9	(1%)
EBITDA <sup>(7)</sup>	896.3	908.1	(1%)
<b>EBIT<sup>(1)</sup></b>	<b>635.1</b>	<b>642.2</b>	<b>(1%)</b>
Net interest expense	(71.7)	(84.3)	(15%)
Tax expense	(164.0)	(156.7)	5%
Non-controlling interests	(13.2)	(12.1)	9%
<b>NPAT before individually material items<sup>(2)</sup></b>	<b>386.2</b>	<b>389.1</b>	<b>(1%)</b>
Individually material items after tax	-	(46.3)	(100%)
<b>NPAT after individually material items (statutory)</b>	<b>386.2</b>	<b>342.8</b>	<b>13%</b>

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

# Review of Operations

## Business Summary

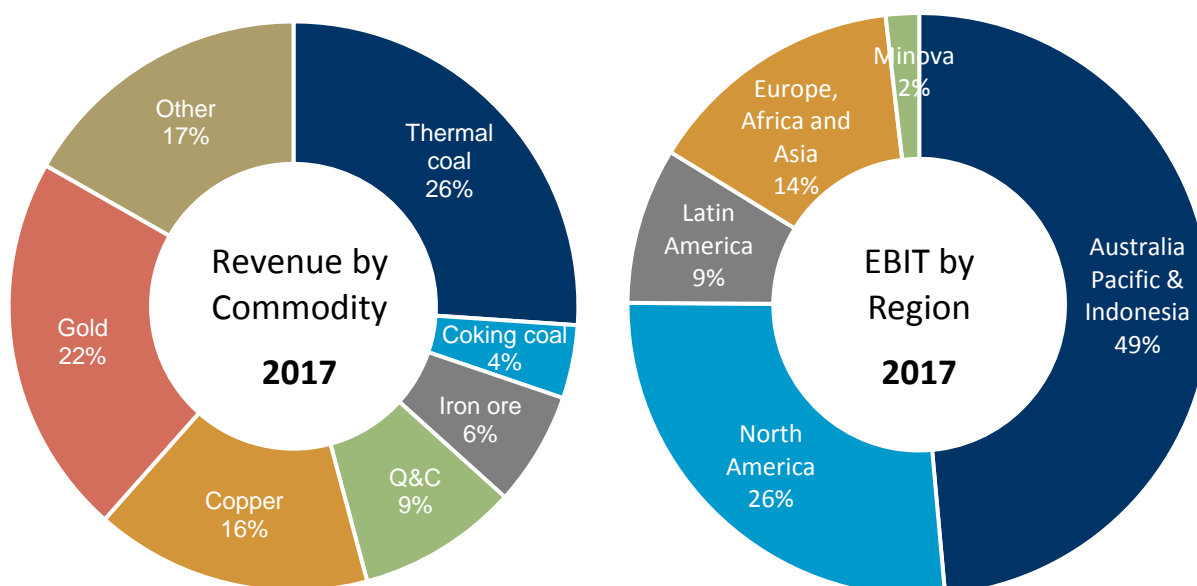
A summary of the performance of the segments for the 2017 and 2016 financial years is presented below:

Year ended 30 September 2017 A\$M	AN Tonnes (i) (‘000)	Sales Revenue (ii)	EBITDA	EBIT	Capital Expenditure
Australia, Pacific and Indonesia	1,322	1,565.2	461.1	343.5	143.6
North America	1,121	1,362.8	223.8	187.5	48.0
Latin America	637	915.9	86.7	61.3	20.7
Europe, Africa and Asia	570	1,026.3	132.9	101.7	30.1
Minova	-	455.6	22.2	13.1	9.0
Global Support	-	990.6	(30.4)	(72.0)	54.6
Eliminations	-	(1,277.2)	-	-	-
<b>Orica Group</b>	<b>3,650</b>	<b>5,039.2</b>	<b>896.3</b>	<b>635.1</b>	<b>306.0</b>

Year ended 30 September 2016 A\$M	AN Tonnes (i) (‘000)	Sales Revenue (ii)	EBITDA	EBIT	Capital Expenditure
Australia, Pacific and Indonesia	1,204	1,544.7	440.5	315.1	113.0
North America	1,166	1,360.0	237.9	196.5	44.4
Latin America	615	920.0	94.3	69.2	20.2
Europe, Africa and Asia	556	1,141.3	151.7	116.5	36.5
Minova	-	406.5	15.2	0.1	5.6
Global Support	-	882.0	(31.5)	(55.2)	43.2
Eliminations	-	(1,162.6)	-	-	-
<b>Orica Group</b>	<b>3,541</b>	<b>5,091.9</b>	<b>908.1</b>	<b>642.2</b>	<b>262.9</b>

(i) Includes AN (ammonium nitrate) prill and solution as well as emulsion products including bulk emulsion and packaged emulsion

(ii) Includes external and inter-segment sales



Note: The above charts exclude Global Support and Eliminations

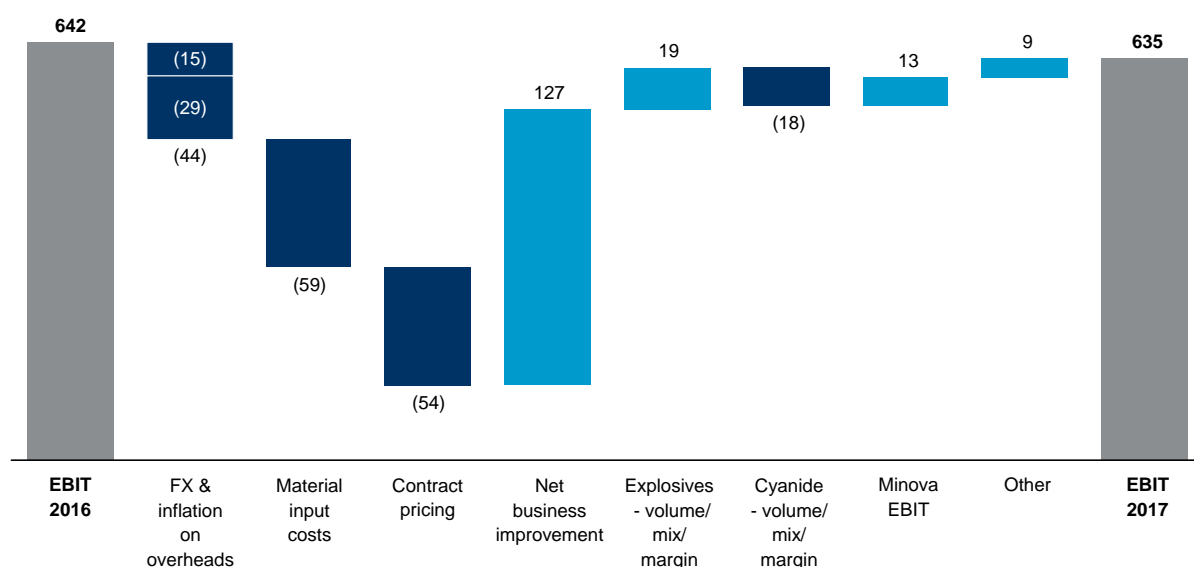
## Review of Operations

Safety is the most critical priority for Orica. Tragically, there were two fatalities during the year. In February, an accident on a customer mine site in Peru resulted in the death of an employee. In May, another fatal accident occurred at the Gyttorp production facility in Sweden, resulting in the death of an employee. Full investigations were undertaken and a major hazards initiative program has been implemented focusing on identifying the few major hazards that could lead to serious harm. Our policies, standards and procedures define actions to achieve this aspiration by: always being mindful of risk; ensuring our people are capable and empowered; and focusing on always improving. Orica's leadership team will continue to prioritise safety always.

Ammonium nitrate (AN) volumes for 2017 were 3.65 million tonnes, up 3% on the pcp. Sales into coal markets across Australia and North America improved due to normalisation of mining practices and market growth. Demand from the gold sector remained stable and in line with commodity pricing. Activity in the Quarry and Construction (Q&C) market, particularly in North America, was up due to increased activity on infrastructure projects.

Despite the higher AN sales volumes, sales revenue at \$5 billion was down 1% on the pcp. This was due to a combination of lower input commodity indices impacting rise and fall arrangements, customer price negotiations and the appreciation of the Australian Dollar (AUD) against most major currencies. EBIT was \$635 million, down 1% on the pcp.

Known headwinds as a result of contractual increases in raw material costs, in particular gas and ammonia, as well as the impact of pricing across explosives and cyanide products, have been offset by business improvement initiatives. Whilst foreign exchange has had an adverse impact on the translation of foreign denominated earnings into AUD the benefit of increased volumes from the Australia Pacific & Indonesia segment has contributed to EBIT.



Key items in the above chart:

### *FX & inflation on overheads*

Inflation on fixed cost overheads had an adverse effect of \$29 million. The AUD exchange rate appreciated against most major currencies, adversely impacting earnings by \$15 million in 2017.

### *Material input costs*

Contracted increases in gas and ammonia prices reduced margins by \$59 million from the pcp.

# Review of Operations

## *Contract pricing*

The negative contract pricing impact of \$54 million was slightly below expectations and aligned with current market conditions. Oversupply in domestic and global ammonium nitrate and cyanide markets has kept prices subdued compared to historical levels, however prices have stabilised over the past six months. The key contributor of pricing impacts during the year was the continued renewal and alignment of existing contracts to current market prices. Orica remains focused on maintaining a balanced outlook between retaining market share and securing plant loading.

## *Net business improvement*

The business improvement program is focused on embedding new ways of working that fundamentally make Orica a better business by buying better, producing more efficiently, and selling more effectively. This is starting to deliver real and material results, with initiatives across every part of Orica that generate revenue, reduce costs, and make us a more effective and efficient organisation. The net EBIT contribution from business initiatives in 2017 was \$127 million, with sustainable benefits from:

- 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
- Manufacturing plant optimisation
- Overhead cost base efficiency

## *Explosives – volume/mix/margin*

Volume, mix and margin drove \$19 million of incremental EBIT, largely from higher sales volume, in Australia Pacific & Indonesia. Continued diversification and market placement of premium products across all regions, including bulk emulsion and Electronic Blasting Systems (EBS), ensured a favourable product mix shift during the year. Margin was unfavourably impacted by the extended turnarounds at the Kooragang Island ammonia and Carseland AN plants which drove unfavourable sourcing costs of replacement product, as well as the incident at Gyttorp.

## *Cyanide – volume/mix/margin*

Cost increases in key manufacturing inputs, particularly gas, have decreased cyanide margins. In addition, a planned turnaround of the Yarwun plant in March resulted in lower production volumes.

## *Minova*

Minova achieved improved earnings, largely due to a profit from the divestment of a business in China, improved market conditions, particularly in Australia Pacific and US coal and construction markets and procurement savings from supply chain initiatives.

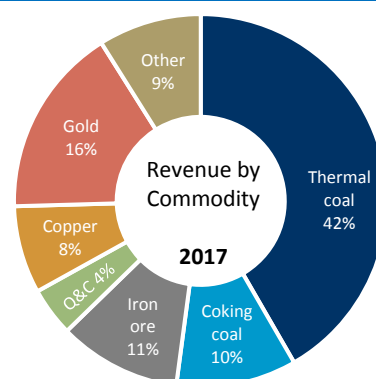
## *Other*

Other includes the non-repeat of one off costs in 2016.

# Review of Operations

## Australia Pacific & Indonesia

Year ended 30 September	2017	2016	Change %
Total AN & Emulsion Volumes	1,322	1,204	10%
Emulsion as a % of total volumes	59%	58%	1pt
Total sales revenue	1,565.2	1,544.7	1%
EBITDA	461.1	440.5	5%
EBIT	343.5	315.1	9%



### Commodity exposure

Thermal and coking coal represents the largest commodity exposure at 52%, reflecting Orica's extensive customer footprint and positioning across Eastern Australia and Indonesia. Sales into this segment were up, as production has increased on the back of increasing demand and industry sentiment. Sales into gold markets remained steady as average gold prices have been relatively stable on the pcip. Demand from iron ore customers in the Pilbara has grown as production has increased on the back of stronger Chinese steel demand and production.

### Volumes

Explosives volumes were up 10% (118kt), underpinned by stronger demand in both Australia and Indonesia. Australia benefited from strong demand from coal and iron ore miners, while Indonesian sales volumes increased across a range of commodities. Indonesia has benefited from contract wins since the second half of 2016, albeit at lower margins. Coal customers increased production in line with their existing capacity as metallurgical coal prices rose on the back of Chinese supply side reforms and environmental policies. Pilbara iron ore volumes were up as favourable demand and pricing movements led to increased activity and mining at higher strip ratios.

Sales of initiating systems, both EBS and conventional detonators, increased broadly in line with AN demand improvement across the region. Cyanide volumes were slightly ahead of the pcip.

### EBIT performance drivers

Whilst the Australia Pacific & Indonesia business has been impacted by known headwinds including increased raw material costs and further price resets and contract renewals in 2017, these have been more than offset by improved volumes from mine plan normalisation, and business improvement initiatives resulting in a 9% increase in EBIT on the pcip.

**Volume, mix and margin** was overall favourable, driven largely by an increase in volumes and contract wins, business improvement initiatives reducing manufacturing and supply chain costs, and optimisation across the operational and support workforce.

Contribution from explosives products was up, driven by higher AN sales volumes across key markets. Manufacturing costs at Kooragang Island were unfavourable versus the pcip due to higher gas costs and lower plant utilisation. Utilisation was down due to an extended plant turnaround, following unforeseen asbestos removal. This was partly offset by lower third-party ammonia input costs at Bontang and Yarwun.

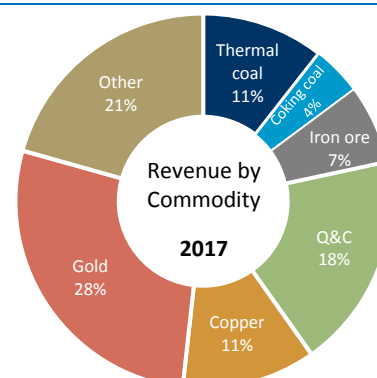
Contribution from cyanide was unfavourable versus the pcip, primarily due to pricing pressure from increased competition, higher domestic gas prices impacting manufacturing costs and lower plant utilisation as a result of the scheduled plant turnaround.

**Price resets and contract renewals** had a negative impact, however this was in line with expectations. The oversupply in domestic and global ammonium nitrate and cyanide markets continues to place pressure on pricing.

# Review of Operations

## North America

Year ended 30 September	2017	2016	Change %
Total AN & Emulsion Volumes	1,121	1,166	(4%)
Emulsion as a % of total volumes	45%	39%	6pts
Total sales revenue	1,362.8	1,360.0	0%
EBITDA	223.8	237.9	(6%)
EBIT	187.5	196.5	(5%)



### Commodity exposure

Sales to the largest markets, Gold and Q&C, remained strong due to firm gold prices and continued strong activity in infrastructure projects, particularly in the US. Sales into 'Other' markets were up on the pcg due to a new AN bulk contract supplied from Carseland. The decrease in thermal coal reflects changes in joint venture partner sourcing arrangements.

### Volumes

Overall explosives volumes were down on the pcg, driven by a decline in the US, as a joint venture partner sourced bulk AN directly from the manufacturer. US volumes were further impacted by indirect channels as a result of a contract loss during the year, however ongoing infrastructure activity in the US drove higher volumes into the Q&C market. Volumes in both Canada and Mexico were up against the pcg, underpinned by key contract wins and higher output at customer operations.

Product mix was favourable across the AN portfolio, given higher sales of premium emulsion products into Q&C and Canadian markets.

### EBIT performance drivers

The impact of contractual headwinds from increases in the cost base and price impact of contract renewals were largely offset by business improvement initiatives and enhanced placement of advanced products and services offerings. The 5% decline in EBIT from the pcg was led by the unfavourable impact of foreign exchange from the weaker USD, and the extended Carseland plant turnaround.

**Volume, mix and margin** was impacted in the second half by the extended turnaround of the Carseland plant, which was prolonged by the delay in external supply of utility services. This delay was caused by the extended closure of the neighbouring third-party supplier's plant. A supply shortage of non-electric detonators, resulting from lower component production in Latin America further impacted margin in the second half, driving higher product substitution costs. Furthermore, committed contractual increases in third party AN product costs in the US also adversely impacted the cost base. This was partly mitigated by business improvement initiatives across procurement activities, efficiencies in logistics and a shift into more advanced products and services.

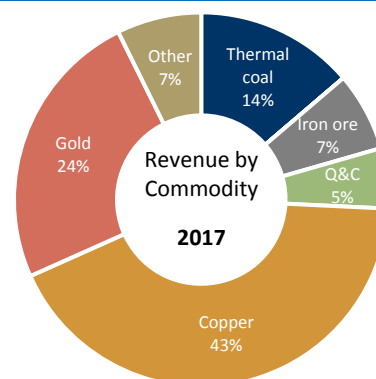
**Price resets and contract renewals** had the expected negative impact during the year, from both contract renegotiations finalised in the 2016 financial year with gold and copper customers in Canada, and new contract negotiations in 2017.



# Review of Operations

## Latin America

Year ended 30 September	2017	2016	Change %
Total AN & Emulsion Volumes	637	615	4%
Emulsion as a % of total volumes	68%	64%	4pts
Total sales revenue	915.9	920.0	0%
EBITDA	86.7	94.3	(8%)
EBIT	61.3	69.2	(11%)



### Commodity exposure

Copper and gold remain the key commodities for the region with stable copper and gold prices supporting activity in these markets. Sales to the thermal coal market were also up with the expansion of customer operations in Colombia, however this was offset by lower activity in the Q&C sector given market contraction across the region, particularly in Brazil. The economic and political instability across parts of the rest of the region led to lower GDP growth in those areas.

### Volumes

Overall, explosives volumes were higher than the pcp, with varying results across the region. Operations in Colombia were up on the pcp, benefiting from the expansion of thermal coal customer operations following new capital investment. Volumes in Peru were down despite increased demand from existing customers, as a result of contract losses in 2016. Restricted activity in Venezuela stemming from recent economic challenges also negatively impacted volumes. Across the AN product portfolio there was a positive shift into emulsion products, boosted by successful value led customer propositions, specifically in Chile and Peru.

Cyanide volumes were ahead of the pcp with higher operational demand in Peru from existing customers, as well as market share gains from new contracts.

### EBIT performance drivers

Whilst volumes increased on the pcp, the impact of unfavourable product sourcing and plant costs, and pricing pressure on explosives contracts resulted in a decline in EBIT.

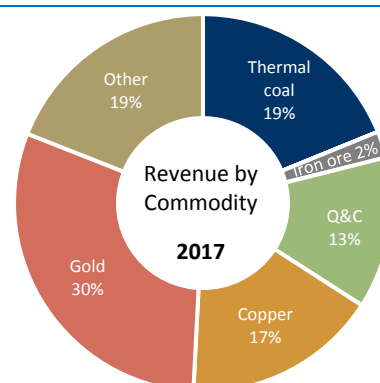
**Volume, mix and margin** was favourable to the pcp as a result of increased product volumes and a technology-led upsell strategy of products and services. Business improvement initiatives across procurement activities and logistics also contributed to a favourable outcome. This benefit was offset by unfavourable product sourcing and plant costs following the closure of the Antofagasta packaged explosives plant in Chile in September 2016. As a result of the explosion at this plant, a full review of safety was performed at all plants in the region, leading to a decision to temporarily reduce the output from other plants to further improve safety standards. This has placed increased pressure on sourcing costs across North and Latin America as the region temporarily sourced alternative products.

**Price resets and contract renewals** had a significant negative impact, despite a high contract retention rate, due to continued pricing pressure across the region given the oversupply of AN. Going forward, pricing is expected to remain challenging as supply in the region outweighs demand.

# Review of Operations

## Europe, Africa and Asia

Year ended 30 September	2017	2016	Change %
Total AN & Emulsion Volumes	570	556	3%
Emulsion as a % of total volumes	90%	88%	2pts
Total sales revenue	1,026.3	1,141.3	(10%)
EBITDA	132.9	151.7	(12%)
EBIT	101.7	116.5	(13%)



### Commodity exposure

Sales into gold markets across Europe and Africa were ahead of the pcg, buoyed by stable gold prices. Sales into the Q&C markets were down due to lower demand from central Europe, the Middle East and Asia, impacted by divestment activities in 2016 as well as project delays and lower tunnelling activity respectively. Sales into coal markets increased due to a ramp up in production in Mozambique, and growth in Kazakhstan.

### Volumes

Explosives volumes were up by 3% despite the divestment of central European businesses in September 2016. Europe's operations benefited from the continued recovery in regional markets and from growth in existing customer operations, particularly in the Commonwealth of Independent States (CIS), Norway and Estonia. Despite the loss of a full service contract in the second half of 2016, robust demand in Southern Africa partially mitigated this impact. Following the completion of major projects in South East Asia, activity in tunnelling markets was lower this year, while a slow-down in customer mining activity impacted volumes in the Philippines. The lower tunnelling activity also impacted on EBS sales with volumes down on the pcg.

Cyanide volumes were down on the pcg primarily driven by the loss of a contract in Africa.

### EBIT performance drivers

Lower plant utilisation and higher product sourcing costs following a fatal explosion at Gyttrorp in Sweden, together with weaker cyanide volume and margin, lower activity in tunnelling markets and divestments in 2016 have adversely impacted EBIT. This has been partially recovered through higher volumes than the pcg and business improvement initiatives. Overall EBIT is down 13% versus the pcg.

**Volume, mix and margin** was positively impacted by growth in AN and emulsion volumes in Southern Africa and Europe as a result of strengthening demand and increased market share respectively. Additionally, business improvement initiatives, including product rationalisation and supplier renegotiations have helped reduce the operational cost base. This was, however offset by the unplanned outage in Gyttrorp following the tragic plant explosion in May 2017. As a result of this explosion a full review of safety was performed which resulted in lower plant utilisation and temporary higher alternate product sourcing costs. Additionally, the divestment of central European and Thai businesses in late 2016, lower cyanide volumes and margins, and the loss of a full service contract in Africa in 2016 had a negative impact against the pcg.

**Price resets and contract renewals** had a negative impact, largely in Africa as competitors sought to maintain and improve plant utilisation through lower pricing. Despite this, prices were maintained or improved across Europe and Asia. Pressure on cyanide pricing as a result of global oversupply has seen realised prices decreasing, thereby impacting cyanide margins.

# Review of Operations

## Minova

Year ended 30 September	2017	2016	Change %
Steel products ('000 tonnes)	129	111	17%
Resins & Powders ('000 tonnes)	127	113	12%
Total sales revenue	455.6	406.5	12%
EBITDA	22.2	15.2	46%
EBIT	13.1	0.1	>100%

### **Sector & Industry exposure**

Minova is a provider of chemical and mechanical earth control products, adhesives and ground support solutions for the underground mining, construction, tunnelling and civil engineering industries.

Sales into the Australian coal market have strengthened over the pcp, on the back of regained market share. Conditions in the North American and European coal markets have remained difficult. This has been partially offset by diversification into non-mining markets and expansion into offshore markets, particularly India, aided by growth in the civil market.

Overall revenue has grown over 12% compared to the pcp, as Minova wins new contracts and continues to rebuild the brand equity and customer confidence.

### **Volumes**

Sales volumes were up over the pcp due to increased market share in the hard rock and coal businesses in Australia and in the construction and coal businesses in the Americas. Demand in Europe is lower as a result of rationalisation of the coal industry in Poland, the UK and Germany.

### **Performance summary**

EBIT performance has improved from the pcp, benefiting from the divestment of a business in China in the first half of 2017 of \$8 million and lower depreciation expense. Australia operations continued to benefit from higher demand and recovery of market share for stabilisation and ventilation services with coal customers. Non-coal markets in Canada and Latin America have grown, while challenging conditions persist in the core US coal market which are constraining margins. Improving pricing and reducing input price exposure are key focus areas of this business segment. The European coal market has also negatively impacted results, despite stabilising results in non-mining markets across the region.

Diversification into non-coal markets and improving margins is critical to Minova's long-term success and will remain key priorities going forward. The business has increased its cost base particularly to enhance commercial and technical capability, to underpin targeted market growth and the re-establishment of wider market presence. The business turnaround continues to progress, but at a slower pace than expected.

# Review of Operations

## Global support

Year ended 30 September	2017	2016	Change %
EBIT	(72.0)	(55.2)	30%
Adjusted for:			
Net gain on asset sales	7.5	12.9	(42%)
Environmental provision	-	(15.0)	(100%)
<b>Adjusted EBIT</b>	<b>(79.5)</b>	<b>(53.1)</b>	<b>50%</b>

### EBIT

After adjusting for asset sales and environmental provisions, Global Support EBIT was unfavourable to the pcp largely due to costs associated with business improvement initiatives that are being implemented globally throughout Orica.

Asset sales in the year included the divestment of land at Bacong (Philippines).

## Net interest expense

Adjusted net interest expense of \$102 million was lower than the pcp, aided by lower average net debt levels.

Year ended 30 September	2017	2016	Change %
Statutory net interest expense	71.7	84.3	(15%)
Adjusted for:			
Capitalised interest	30.8	35.1	(12%)
Unwinding of discount on provisions	(1.0)	(3.3)	(70%)
<b>Adjusted net interest expense</b>	<b>101.5</b>	<b>116.1</b>	<b>(13%)</b>

## Tax expense

An effective tax rate of 29.1% (pcp: 28.1%) was higher due to an increase in taxable gains on the disposal of assets and an increase in non-creditable withholding taxes, particularly on foreign dividends. This was partially offset by Orica's ability to utilise previously unbooked tax losses as well as lower derecognition of booked tax losses compared to the pcp.

# Review of Operations

## Group Cash Flow

Year ended 30 September	2017	2016	Variance A\$M
Net Operating cash flows	466.4	777.9	(311.5)
Net Investing cash flows (excluding Chemicals sale)	(251.2)	(145.1)	(106.1)
<b>Net Operating and Investing Cash Flows<sup>(3)</sup></b>	<b>215.2</b>	<b>632.8</b>	<b>(417.6)</b>
Dividends – Orica Limited	(157.9)	(213.4)	55.5
Dividends – non-controlling interest shareholders	(7.1)	(12.3)	5.2
<b>Adjusted net cash flows</b>	<b>50.2</b>	<b>407.1</b>	<b>(356.9)</b>
Cash flows from Chemicals sale	(3.6)	(30.8)	27.2
Movement in borrowings and other net financing cash flows <sup>(8)</sup>	162.7	(275.3)	438.0
<b>Net cash flows<sup>(9)</sup></b>	<b>209.3</b>	<b>101.0</b>	<b>108.3</b>

### Performance highlights

The Group delivered net operating and investing cash flows of \$215 million. This reflects the continued focus on working capital and strict adherence to Orica's Capital and Investment Management Framework. Group cash conversion at 66% has been impacted by higher sustaining capital spend as the result of scheduled plant turnarounds in Australia and Canada.

### Net Operating cash flows

Net cash generated from operating activities was underpinned by earnings across the year, offset by an investment in working capital. The operating cash flows in the pcpc benefited from a significant reduction in working capital across the group.

### Net Investing cash flows

Net investing cash outflows comprised capital expenditure offset by cash inflows from divestments. These included the final proceeds from divestments undertaken in 2016 including land at Botany (NSW) and businesses in central Europe. Further cash inflows related to proceeds from sales of a business in China, land at Bacong (Philippines) and Orica's share in a business in the US.

Capital expenditure on the Burrup plant was \$28 million, with the final cash outflow in September 2017. Scheduled plant turnarounds were completed at Kooragang Island, Carseland and Yarwun Cyanide, with an aggregate capital expenditure of \$59 million. Other key capital expenditure included works on the global Mobile Manufacturing Unit (MMU) fleet, spend on the new SAP system and the roll-out of the new Bulkmaster 7 model in Australia.

# Review of Operations

## Debt Management and Liquidity

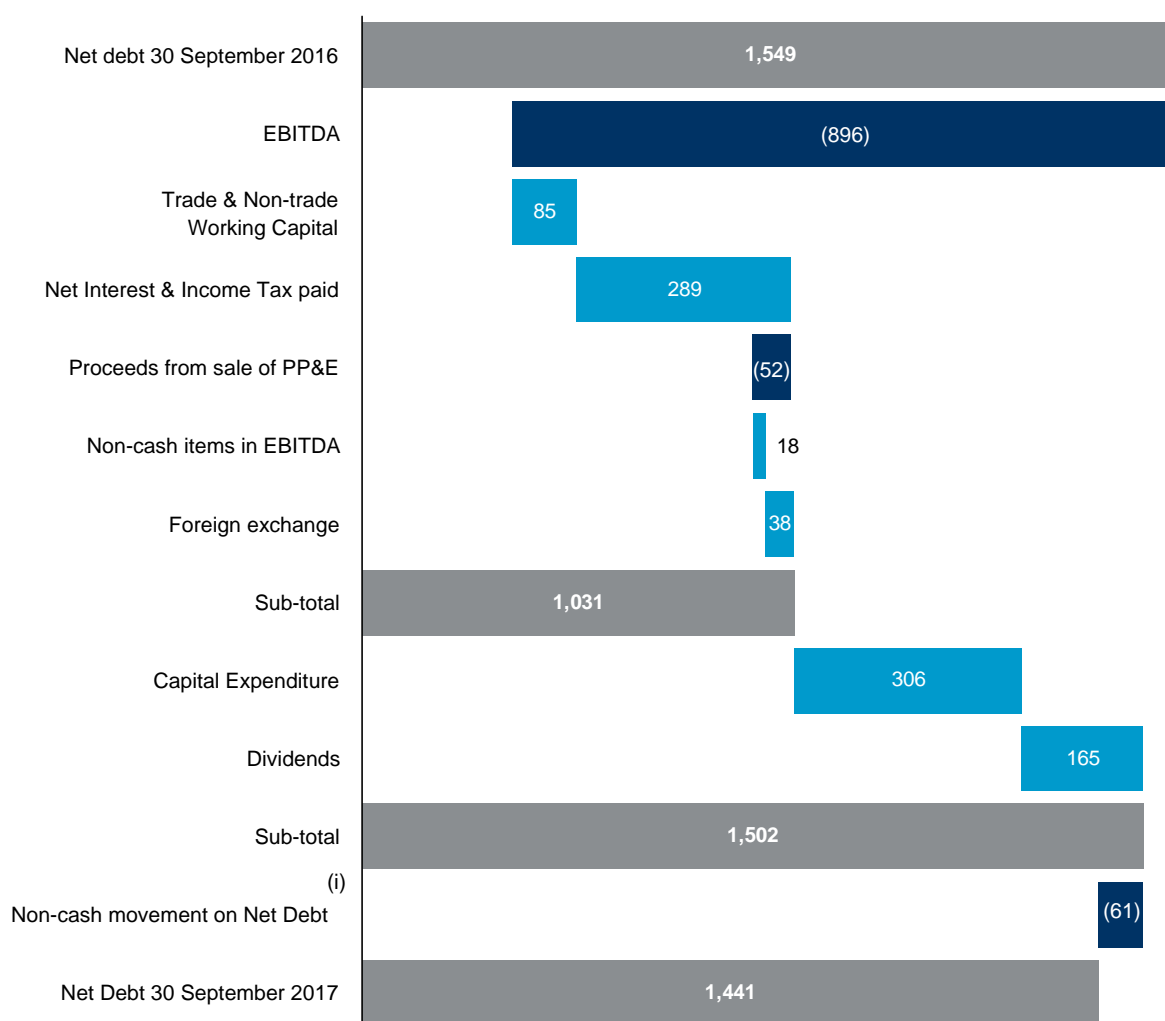
	2017	2016	Variance A\$M
Interest bearing liabilities	1,957.8	1,877.4	80.4
Less: Cash and cash equivalents	516.9	328.0	188.9
Net Debt <sup>(5)</sup>	1,440.9	1,549.4	(108.5)
Gearing % <sup>(6)</sup>	32.7%	35.8%	(3.1pts)

Interest bearing liabilities of \$1,958 million comprises \$1,828 million of US Private Placements and \$130 million of committed and other bank facilities. The average duration of drawn debt is 6.1 years (2016: 5.4 years).

Undrawn committed bank facilities of \$1,579 million, with total committed debt facilities of \$3,530 million providing for a strong liquidity position.

Gearing is at 32.7% and since September 2016, has reduced by 3.1 percentage points.

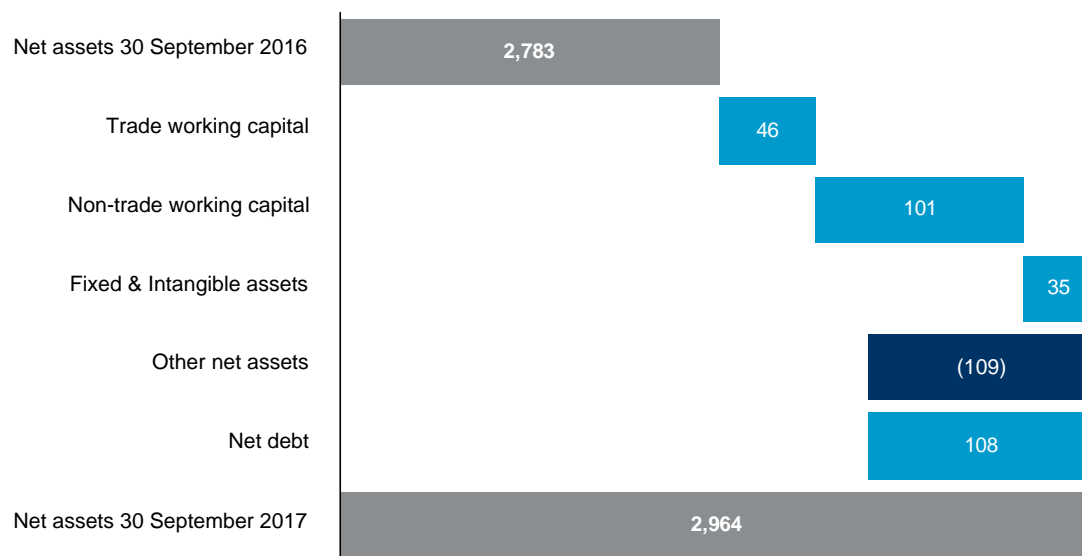
The chart below illustrates the movement in net debt for September 2017.



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

# Review of Operations

## Group Balance Sheet



### Performance highlights

**Trade working capital<sup>(10)</sup>** has increased by \$46 million from September 2016, with debtors driving most of the increase. The Group remains focused on delivering sustainable improvement in working capital management initiatives.

**Non-trade working capital<sup>(11)</sup>** increased by \$101 million, driven by the non-cash actuarial gain of \$33 million on the Group's defined benefit pension plans, together with a \$19 million reduction in environmental and decommissioning provisions. FY17 non-current assets include a receivable of \$38 million for prepayments to the Australian Tax Office.

The increase in **fixed & intangible assets** of \$35 million was largely due to net additions of \$317 million outweighing the depreciation and amortisation expense of \$261 million and a foreign exchange translation of \$21 million.

**Other net assets** decreased by \$109 million, largely from the impact of taxation and derivative financial instruments.

# Review of Operations

## Dividend

The Board has declared an unfranked final ordinary dividend of 28 cents per share. The dividend represents a payout ratio<sup>(12)</sup> of 55% and brings the full year payout ratio to 50%.

The dividend is payable to shareholders on 8 December 2017 and shareholders registered as at the close of business on 15 November 2017 will be eligible for the final dividend. It is anticipated that dividends in the near future will be franked at a rate of no more than 35%.

## Burrup

Mechanical commissioning of the plant has been completed with the plant meeting all environmental requirements at nameplate capacity and design efficiency. All the necessary Commonwealth approvals to commence production have now been received, with final State government approval expected in the first half of FY18. Operational plans remain unchanged, with a focus on campaign production in line with market demand.

The Burrup plant is a 30-year asset, strategically located in the Pilbara region in Western Australia, a market with a strong growth profile.

## Risk Management

Orica's risk management framework is consistent with AS/NZS ISO31000:2009 Risk Management – Principles and Guidelines, and facilitates the ongoing assessment, monitoring and reporting of risks, which otherwise could impede progress in delivering our strategic priorities. Our risk management framework supports us in achieving risk management integrated into our operations and culture so that we continue on our path to sustainable change.

Understanding and managing our risks is everyone's responsibility. Group Risk is responsible for designing the risk management framework, supporting its implementation in the business, and coordinating and aligning risk management activities across the Group. The effectiveness of Orica's risk management framework is self-assessed and evaluated externally by independent parties, and is overseen by the Board Audit and Risk Committee.

During 2017 we continued to review and improve the design and implementation of our risk management framework. Key achievements include: implementation of the Risk Management Standard to provide a common risk management process and language across the Orica Group, further embedding of risk management in strategy and 5 year business planning activities, and integration of risk management into strategic growth projects and Group-wide transformational programs. We updated our assessment and reporting of material risks, resulting in material strategic risks being reported to the Board and material operational risks being reported to the Board Audit & Risk Committee. These risks are monitored for changes in their exposure and are reported during the course of the year, along with their controls and plans to manage them. A summary of material risks that can adversely impact the achievement of Orica's future business performance is provided in the following pages.

During 2017 an external review of our risk management framework was completed and the results reported to the Board Audit & Risk Committee. The results of that review, as well as a self-assessment of our risk management practices, have been utilised to identify and implement improvements to our framework. Priorities for 2018 include: leaders driving risk conversations and exhibiting behaviours that re-inforce the importance of risk management, broadening and building risk management capability in the 'front-line' business through the delivery of training programs, and enhanced integration and coordination between risk management and other business activities including strategy and business planning, opportunity assessments in new markets, and health and safety risk management activities.

The Board Audit & Risk Committee has conducted its annual review of our risk management framework and satisfied itself that it continues to be sound.



# Review of Operations



## Material Business risks that could adversely affect the achievement of future business performance

Through our risk assessment process, we have identified the following material business risks that may affect the future financial performance of Orica. They are not listed in any order of significance.

### *i. Macro-economic*

Global economic growth outlook is uncertain and may result in lower demand for commodities and subsequent reduced sales volumes. Our key inputs, particularly gas, are also linked to international traded commodities and are subject to the movements of the market that have the potential to increase our cost of production. Over supply of ammonium nitrate through increased capacity may also create a supply/demand imbalance which will result in margin erosion, lost customers and downward price pressure. Adverse foreign exchange rates can impact the cost of inputs and products and impact sales denominated directly or indirectly in foreign currencies.

To manage these risks, operationally we have put in place measures to renegotiate supply contracts to provide certainty in pricing and volumes.

### *ii. Markets*

A number of external factors may impact and change the markets in which we operate or in which we are seeking growth opportunities. Changing customer and competitive behaviours which can result in margin pressures, loss in customers and downward price pressures however may also result in demand for new products and applications. We are also exposed to changes in regulation and policy which can negatively impact our license to operate, impose additional regulatory requirements and cause significant business interruption e.g. increased trade protection measures. National and global efforts to transition towards a low carbon future may increase operational and compliance costs in the short term but result in a more fundamental change in the energy mix and drive innovation and technology adoption.

We monitor and analyse external factors including global growth and industrialisation, political changes and industry and technology trends to assist with the management of existing operations and pursuit of new opportunities.

### *iii. Manufacturing and Supply*

Having a supply chain which enables us to source and deliver quality products and services in a safe and timely manner is key to delivering on our customer promise. Material risks which are inherent in our supply chain include a supply chain interruption and the production of poor quality products.

## Review of Operations

An interruption to our supply chain may be driven by external events such as adverse weather conditions or natural disasters; if our key suppliers are unavailable to supply for a sustained period (e.g., trade restrictions), or we experience a major disruption in a key manufacturing site (e.g., accident leading to immediate shutdown, industrial action). To manage this risk we select, assess and monitor suppliers and business partners who meet our standards and have business continuity plans in place should an interruption occur.

To manage the risk of poor product quality, we conduct trials and testing of new products, processes and suppliers, define contractual quality requirements, monitor ongoing performance of our suppliers, conduct quality assurance audits, and have quality control procedures in place for raw materials and finished goods. We continue to focus on our customer feedback mechanism as a way of measuring product quality; and are further developing and implementing key quality requirements and processes at our manufacturing sites to support continuous improvement.

### ***iv. Safety, Health, Environment and Security***

Orica operates within hazardous environments, particularly in the areas of manufacturing, storage and transportation of raw materials, products and wastes. Material safety, health, environment and security ('SHES') risks include: an explosion during the storage and transportation of explosives, a fire or explosion at a manufacturing site or storage location, loss of containment of toxic materials, and risk of raw materials or finished goods being used for illegal purposes. These risks can cause personal injury and/or loss of life, damage to property and contamination of the environment. They may also result in the suspension of operations and the imposition of civil or criminal penalties, including fines, expenses for remediation and claims brought by governmental entities or third parties.

Core to managing our material SHES risks is our SHES Management System which is underpinned by the Orica Charter and the SHE Policy. These are supported by the Group SHES Standards and Procedures which mandate the required controls, systems and processes that must be in place to prevent and mitigate these risks. These include plant and equipment design specifications, maintenance programs, operator procedures, requirements for the transportation and storage of explosives, physical controls to safeguard our sites, assets and infrastructure, and emergency response and crisis management plans.

We also manage these risks through our focus on safety culture which is based on visible and engaged senior leadership and encouraging employees and contractors to speak up when they see risks and hazards. Safety culture and behaviours are re-enforced through training our employees and third parties in the operation and safe-handling of inventory and materials, and on the importance of identifying and managing major hazards and key controls. In 2016 we launched the Major Hazard Initiative to increase awareness of major safety hazards and to verify controls are effective. This initiative will transition to a sustainable process in FY18 via our SHES Management System.

Another aspect of security is our ability to protect our network, systems and data from cyber-attacks which can result in critical services outages, loss of production and business services, damage to reputation, regulatory action and financial loss. To manage this risk we have an IT security strategy supported by a multi-year security program aimed at delivering improved controls and improving our service continuity and disaster recovery capabilities.

### ***v. Regulatory Compliance***

As a global company with diverse operations, it is essential that we understand and comply with our regulatory requirements so that we maintain our license to operate. Core to this is our ability to comply with regulatory requirements in the areas of occupational health and safety, product security; competition; anti-bribery; corruption; sanctions; and taxation.

As a 'manufacturer of 'dual use' products such as explosives and initiating systems, Orica has specific and heightened responsibilities to ensure we partner with and sell to organisations that will use our products for their intended purpose and act in an ethical manner. We work closely with industry, regulators and security agencies to ensure these responsibilities are met, to participate in industry investigations and to safeguard our global licence to operate.

# Review of Operations

We have a program designed to manage the risk of non-compliance with competition, anti-bribery and corruption requirements including: screening, monitoring and reporting of customers, business partners, suppliers, and countries against related obligations and sanctions; delivery of anti-corruption training, and processes to monitor and report requests for bribery or duress payments; and the requirement for legal review of agreements with competitors, suppliers and customers.

Mis-alignment with tax regulators on the treatment of transactions can have a material financial impact. To manage this risk we proactively engage with taxation authorities and legal representatives in various jurisdictions to enhance our understanding of our obligations. We have a tax strategy, policy and requirements in place which guide and govern our compliance with our regulatory requirements.

For additional detail on a safe workplace, product stewardship and security, license to operate, climate change, ethical business practices and human capability please refer to our sustainability report.

## Tax Transparency Reporting

Orica believes that enhanced tax transparency is a critical element of ethical business behaviour.

### Tax Policy - Orica's approach to tax

Orica's tax policy and approach to tax is published on [orica.com](http://orica.com). Some important aspects of that policy are set out in this report.

As an Australian mining services company with global operations, Orica generates a substantial amount and variety of taxes across its jurisdictions including income taxes, stamp duties, employment taxes and other taxes. Orica also collects and remits a number of taxes on trust including employment taxes and indirect taxes such as GST/VAT.

The taxes Orica pays and collects form a significant part of the economic contribution to the countries of operation.

### Tax strategy and governance

Orica's tax strategy is reviewed by the Board of Directors annually. The tax strategy is aligned with the overall corporate strategy and supplements the Risk Management Policy.

The Chief Financial Officer has oversight responsibility over the tax risk management framework. Operational and governance responsibility for the execution of the Group's tax strategy rests with the Vice President Taxation, supported by a team of tax professionals. External tax expertise is used where required.

The Vice President Taxation reports on tax matters bi-annually to the Board Audit and Risk Committee.

Orica's approach to tax is applicable across the Orica Group and is reviewed and updated annually.

### Compliance

Orica is committed to complying with all relevant revenue laws in a responsible manner, with all taxes properly due, accounted for and paid. A tax standard and relevant procedures are in place to ensure tax compliance obligations are managed.

There is an in house global tax team that manages Orica's tax affairs which is supplemented with external compliance support where required.

### Structure

Orica does not support the use of artificial structures that are established just to avoid paying tax and have no commercial purpose. Orica will not enter into any tax avoidance activities.

### Relationships with tax authorities

Orica aims for open, transparent and respectful relationships with the Australian Taxation Office and other tax authorities globally. Orica seeks advance rulings from taxation authorities on transactions where appropriate.

# Review of Operations

## Use of tax havens

Tax havens are not used for tax planning purposes. Orica has operations in countries that are 'low tax' jurisdictions. There is genuine operational substance in these locations, or the entities are dormant.

Orica's overseas companies are subject to Australia's international tax rules (Controlled Foreign Corporation rules).

## Transparency

Orica supports the ongoing global development of improved tax transparency to increase understanding of tax systems and build public trust.

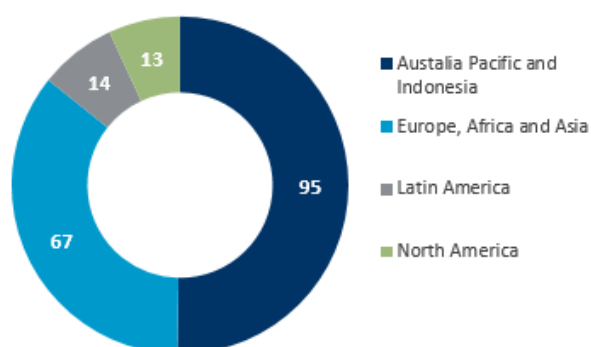
On 3 May 2016, the Treasurer of Australia released a Corporate Tax Transparency Code. The Code was developed by the Board of Taxation in Australia and Orica has signed the Corporate Tax Transparency Code Register and is committed to applying the principles and the details of the Code.

## Tax contribution summary

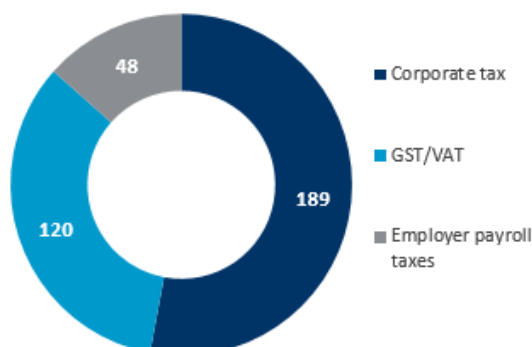
In 2017, Orica paid \$189 million (2016 \$139 million) globally in corporate income taxes and \$48 million (2016 \$49 million) globally in payroll taxes. Orica collected and remitted \$120 million (2016 \$101 million) globally in GST / VAT.

The charts show 2017 corporate income tax paid in each region (including withholding tax and trade taxes), and an analysis of total tax paid by type.

Global Corporate Tax and WHT on Income by Region FY17 - \$189M



Global Tax Paid by Type FY17 - \$357M



In Australia, Orica paid \$91 million (2016 \$51 million) in corporate income taxes, \$17 million (2016 \$17 million) in payroll tax and \$2 million (2016 \$3 million) in fringe benefits tax. Orica collected and remitted \$48 million (2016 \$45 million) in GST and \$92 million (2016 \$97 million) in 'pay as you go' withholding taxes.

# Review of Operations

## A reconciliation of accounting profit to income tax payable

	Consolidated 2017 A\$M	Consolidated 2016 A\$M
<b>Before individually material items:</b>		
Accounting profit/(loss) before tax	563.4	557.9
Prima facie income tax expense/(benefit) calculated at 30% on accounting profit	169.0	167.4
Material non-temporary differences		
variation in tax rates of foreign controlled entities	(38.6)	(35.1)
tax under provided in prior years	8.0	4.1
de-recognition of booked tax losses	4.0	21.2
taxable/(non taxable) gains on disposal of assets	12.3	(3.9)
other foreign deductions	(23.0)	(24.8)
non creditable withholding taxes	13.8	9.9
non allowable interest deductions	14.9	13.1
tax on foreign currency translation reserve transferred to income statement	-	(7.0)
non allowable/(non taxable) share based payments	3.0	(1.4)
(utilisation of unbooked prior year tax losses)/current year tax losses not booked	(6.4)	8.0
sundry items	7.0	5.2
Income tax expense/(benefit) before individually material items	164.0	156.7
<b>Individually material items:</b>		
Individually material items before tax	-	(4.6)
Prima facie income tax expense/(benefit) calculated at 30% on individually material items	-	(1.4)
Material non-temporary differences		
variation in tax rates of foreign controlled entities	-	(0.2)
settlement of Australian tax action	-	41.0
impact of Chile plant incident	-	6.4
non taxable profit on sale of shareholding in Thai Nitrate Company Ltd	-	(4.1)
Income tax expense/(benefit) on individually material items	-	41.7
Income tax expense/(benefit)	164.0	198.4
Material temporary differences		
deferred tax	(26.9)	(55.0)
Tax payments more/(less) than tax charges	14.2	(4.9)
Tax payments on matters in dispute with tax authorities	37.8	-
Income tax paid per the statement of cash flows	189.1	138.5

# Review of Operations

## Effective tax rate for Australian and global operations

	Notes	Consolidated 2017	Consolidated 2016
Before individually material items			
Australia	1	34.5%	44.3%
Global operations (including Australia)		29.1%	28.1%

1. The tax rate is the percentage of income tax expense to accounting profit/loss before tax (before individually material items) adjusted to exclude exempt dividend income.

## International related party dealings

Orica prices its international related party dealings to reflect the substance in its operations in accordance with the 'arm's length principle' as defined in the Organisation for Economic Co-operation and Development (OECD) guidelines and in accordance with the laws in both Australia and the countries in which it operates.

Orica has transfer pricing procedures which govern the pricing of all international related party dealings. These procedures require all international related party dealings to be priced in accordance with the arm's length standard. Orica maintains contemporaneous records to support the pricing of its international related party dealings and benchmarks and documents the outcome of its material dealings on an annual basis.

The material international related party dealings impacting Orica's Australian taxable income may be summarised as follows:

- The purchase of raw materials and finished products from related parties in Singapore and Indonesia. The products purchased are ammonia, caustic soda, bulk explosives and initiating systems;
- The sale of raw materials and finished products to related parties in Peru, Singapore, Chile, Papua New Guinea and New Zealand. The products sold include bulk explosives, packaged explosives, and initiating systems;
- The provision and receipt of services from entities resident in Singapore, Chile, Germany, the Philippines, the United States and South Africa. The nature of the services include general management, information technology, sales and marketing and logistics;
- The use of intellectual property held by a related party in Singapore. The nature of the intellectual property includes technical knowhow related to the manufacture of Orica's products and the Orica name and trademarks; and
- The provision of contract research and development activities for a related party in Singapore.

Orica has a treasury function based in Melbourne which provides loans and accepts deposits from in excess of 40 group companies at market interest rates. The material transactions are with related parties in Germany, Indonesia, Russia and New Zealand. It also has a subsidiary in Singapore which acts as the Group's captive insurer.

## Australian Tax Return Data for 2016

	Notes	2016 A\$M	2015 A\$M
Total income	1	2,629	2,802
Taxable income	2	95	270
@ Tax Rate	3	30%	30%
Tax liability		29	81
Offset reductions	4	(23)	(24)
Tax payable		6	57

1. Total Australian income (includes sales, dividends, interest income etc.) before all expenses (for example, Interest, employee costs, depreciation etc.).
2. Taxable income after allowing for all deductible expenses and tax exempt income.
3. Australian Statutory tax rate.
4. Offset reductions of \$23 million (2015 \$24 million) relating to franking credits, foreign income tax and research and development.

# Review of Operations

## 2018 Outlook

There will be a continued focus on business improvement initiatives that improve profitability and shareholder value.

Key assumptions for FY18 are:

- Global AN product volumes in the range of 3.65 million tonnes  $\pm$  5%.
- FY17 headwinds to extend into FY18:
  - ~\$50 - \$55 million impact from contract rollovers and FY17 price resets flow on; and
  - ~\$10 million flow on impact from FY17 increased input costs from previously negotiated contracts
- Increased investment in Technology R&D and IT of ~\$40 million
- FY17 business improvement initiative benefits and expected FY18 new business improvement initiatives to offset above headwinds and support increased investment for the future
- Capital expenditure will be at the upper end of stated range of ~\$300 - \$320 million.
- Increased depreciation and amortisation post Burrup commissioning.
- Effective tax rate (excluding individually material items) to be marginally higher than FY17.
- Following completion of the Burrup plant, interest will no longer be capitalised, resulting in an increased interest expense.

### Footnotes

The following footnotes apply to this results announcement:

- (1) Equivalent to profit/(loss) before financing costs and income tax in Note 1(b) within Appendix 4E – Preliminary Final Report
- (2) Equivalent to profit after income tax expense before individually material items attributable to shareholders of Orica Limited disclosed in Note 1(b) within Appendix 4E – Preliminary Final 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 4E – Preliminary Final Report), excluding Chemicals sale
- (4) Comprises total payments for property, plant and equipment and intangibles as disclosed in the Statement of Cash Flows within Appendix 4E – Preliminary Final Report
- (5) Total interest-bearing liabilities less cash and cash equivalents as disclosed in note 3 within Appendix 4E – Preliminary Final Report
- (6) Net debt / (net debt + total equity)
- (7) EBIT before individually material items plus Depreciation and Amortisation expense
- (8) Equivalent to net cash used in financing activities (as disclosed in the Statement of Cash Flows within Appendix 4E – Preliminary Final Report) excluding Dividends paid to Orica ordinary shareholders and non-controlling interests
- (9) Equivalent to net increase in cash held disclosed in the Statement of Cash Flows within Appendix 4E – Preliminary Final Report
- (10) Comprises inventories, trade receivables and trade payables disclosed in the Balance Sheet within Appendix 4E – Preliminary Final Report
- (11) Comprises other receivables, other assets, other payables and provisions
- (12) Dividend amount / NPAT before individually material 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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Before making an investment decision, you should consider, with or without the assistance of a financial adviser, whether an investment is appropriate in light of your particular investment needs, objectives and financial circumstances.

Past performance is no guarantee of future performance.



# Review of Operations

## **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 2017 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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# Directors' Report

The Directors of Orica Limited ('the Company' or 'Orica') present the Annual Report of the Company and its controlled entities (collectively 'the Group') for the year ended 30 September 2017 and the auditor's report thereon.

## Directors

The Directors of the Company during the financial year and up to the date of this report are:

M W Broomhead, Chairman  
A Calderon, Managing Director and Chief Executive Officer (CEO)  
M N Brenner  
I D Cockerill  
Lim Chee Onn  
K A Moses  
G T Tilbrook

K Gray is Company Secretary of Orica.

Particulars of Directors' and Company Secretary qualifications, experience and special responsibilities are detailed in the Annual Report.

## Directors' meetings

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the directors of the Company during the financial year are listed below:

Director	Scheduled Board Meetings <sup>(1)</sup>		Audit and Risk Committee <sup>(1)</sup>		Human Resources & Compensation Committee <sup>(1)</sup>		Nominations Committee <sup>(1)</sup>		Safety, Health, Environment & Community Committee <sup>(1)</sup>	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
M W Broomhead <sup>(2)</sup>	10	10	-	-	-	-	6	6	-	-
M N Brenner	10	10	5	5	6	6	6	6	-	-
A Calderon <sup>(3)</sup>	10	10	-	-	-	-	-	-	-	-
I D Cockerill	10	10	-	-	6	6	6	6	5	5
Lim C O	10	10	1	1	6	6	6	6	6	6
K A Moses	10	10	4	4	-	-	6	5	2	2
G T Tilbrook	10	10	5	5	-	-	6	6	5	5

<sup>(1)</sup> Shows the number of meetings held and attended by each director during the period the director was a member of the Board or Committee.

<sup>(2)</sup> The Chairman of the Orica Board attends all Board Committee meetings as an 'ex officio' member of that Committee.

<sup>(3)</sup> The Managing Director and CEO attends Committee meetings on an 'as needs' basis.

## Directors' interests in share capital

The relevant interest of each director in the share capital of the Company as at 30 September 2017 and as at the date of this report is disclosed in the Remuneration Report.

## Principal activities

The principal activities of the Group in the course of the financial year were the manufacture and distribution of commercial blasting systems including technical services and solutions, mining and tunnelling support systems to the mining and infrastructure markets, and various chemical products and services.

# Directors' Report

## Likely developments

Likely developments in the operations of the Group and the expected results of those operations are covered generally in the review of operations and financial performance of the Group in the Annual Report.

## Review and results of operations

A review of the operations of the Group during the financial year and of the results of those operations is contained in the Annual Report.

## Dividends

Dividends paid or declared since the end of the previous financial year were:	\$m
Final dividend at the rate of 29.0 cents per share on ordinary shares, franked to 27.6% (8.0 cents) at the 30% corporate tax rate, paid 9 December 2016.	108.7
Interim dividend declared at the rate of 23.5 cents per share on ordinary shares, franked to 12.8% (3.0 cents) at the 30% corporate tax rate, paid 3 July 2017.	88.4
Total dividends paid	197.1

Since the end of the financial year, the Directors have declared a final dividend to be paid at the rate of 28.0 cents per share on ordinary shares. This dividend will be unfranked.

## Changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the year ended 30 September 2017.

## Events subsequent to balance date

### Dividends

On 3 November 2017, the Directors declared a final dividend of 28.0 cents per ordinary share payable on 8 December 2017. The financial effect of this dividend is not included in the Annual Report for the year ended 30 September 2017 and will be recognised in the 2018 Annual Report.

The Directors have not become aware of any other significant matter or circumstance that has arisen since 30 September 2017, 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.

## Environmental regulations

Orica seeks to be compliant with applicable environmental laws and regulatory permissions relevant to its operations. Where instances of non-compliance occur, Orica's procedures require that relevant governmental authorities are notified in accordance with statutory requirements and internal investigations are conducted to determine the cause of the non-compliance to ensure the risk of recurrence is minimised.

The Company has committed major investments, both in terms of capital and resources, to improve its environmental performance at key sites in addition to its general maintenance program. The Company is working closely and co-operatively with regulators and government agencies in relation to these initiatives, as well as enhancing community engagement and consultation.

### Environmental prosecutions

Orica Australia Pty Ltd is the subject of legal proceedings issued by the Queensland Department of Environment and Heritage Protection in relation to an incident that occurred in September 2016 at its Fisherman's Landing Ammonia Terminal. Orica is yet to enter a plea in relation to these proceedings.

More specific details about Orica's sustainability initiatives and performance, including safety, health and environment, can be found on the Orica website – [www.orica.com/sustainability](http://www.orica.com/sustainability).

## Indemnification of officers

The Company's Constitution requires the Company to indemnify any person who is, or has been, an officer of the Company, including the Directors, the secretaries and other Executive officers, against liabilities incurred whilst acting in good faith as such officers to the extent permitted by law.

In accordance with the Company's Constitution, the Company has entered into a Deed of Access, Indemnity and Insurance with each of the Company's directors and, in certain instances, specific indemnities have been provided. No director or officer of the Company has received benefits under an indemnity from the Company during or since the end of the year.

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

# Directors' Report

## Non-audit services

During the year, KPMG, the Company's auditor, performed certain other services in addition to its audit responsibilities.

The Board is satisfied that the provision of non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Board Audit and Risk Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in *APES 110 Code of Ethics* for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

A copy of the lead auditor's independence declaration as required under Section 307C of the *Corporations Act* is contained on page 26 of the Annual Report and forms part of this Directors' Report.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are disclosed in note 23 to the Annual Report.

# Directors' Report

## Cover Letter (unaudited) to the Remuneration Report

Dear Shareholder,

The Directors of Orica Limited present the Remuneration Report for the year ended 30 September 2017.

### 2017 Performance and remuneration

Key remuneration outcomes for the year are summarised below:

<b>STI OUTCOMES</b>	STI outcomes for Executives Key Management Personnel (KMP) ranged between 48.5% and 72.7% of the maximum opportunity. In determining these outcomes, the Board balanced achievements in Net Profit after Tax, Cash generation outcomes and delivery of substantial benefits through business improvement initiatives, with disappointing safety performance. The Board has also taken into consideration the impact of the two tragic fatalities in Peru and Sweden in determining outcomes under Orica's STI plan and made downward adjustments to STI outcomes for all Executives.
<b>LTI OUTCOMES</b>	No benefit has been derived from the Long-Term Equity Incentive Plan (LTEIP) awards tested this year. The performance condition for loan forgiveness was not met and the value of Orica shares was less than the outstanding loan balance at the end of the performance period. Accordingly, all shares were surrendered and forfeited to Orica in full settlement of the loan balance and no value was derived by Executives from this part of their remuneration package. The FY2014 award under the Long-Term Incentive Rights Plan (LTIRP), a legacy award held by some Executives, was also tested this year. The performance condition for LTIRP vesting was also not met and the awards lapsed.
<b>FIXED REMUNERATION OUTCOMES</b>	Executives' fixed pay was maintained at the same level for the third successive year for Executives in the same role. As a result of a review of fixed remuneration by the Human Resources and Compensation Committee during FY2017, from 1 January 2018 fixed remuneration increases linked to the forecast inflation rate in the Executive's country, will be made for Executives continuing in the same role (excluding the Managing Director & CEO).
<b>NED FEE OUTCOMES</b>	Non-Executive Directors' fees were frozen for the seventh successive year.

### Changes to the Executive Remuneration Framework for 2018

As indicated to shareholders at the 2016 Annual General Meeting, the Board has undertaken a detailed review of the Executive Remuneration Framework. We engaged in a process of extensive stakeholder consultation to understand the expectations around the framework, both from an internal and external perspective, and are very grateful for the interest and level of feedback received during the process.

Specifically, the review was intended to align key remuneration drivers with the ongoing turnaround of Orica under challenging market conditions. Our new management team has already implemented substantial changes that have successfully delivered approximately \$127 million of net benefits. The next phase of the transformation is focused on 3 key imperatives:

- Optimising operating efficiency;
- Optimising capital efficiency; and
- Embedding those efficiencies to ensure sustainable value creation and long-term returns.

Given these objectives, we have adjusted the metrics for the STI and LTI to reflect the primacy of these imperatives during the transformation period.

Additionally, we received feedback that while the Remuneration Framework was sound, it could be improved in 3 key areas:

- Financial versus non-financial metrics: increased emphasis on financial metrics;
- Management shareholding: increased quantum and length of holding of shares held by management; and
- Transparency: simplified metrics to underpin key business objectives.

We have reflected each of these elements in our revised remuneration structure, with a particular emphasis on increased equity accumulation and significantly longer holding locks for both STI and LTI equity. These are designed to promote an owner's mindset, encourage longer term decision making and align remuneration outcomes to produce sustainable value creation.

We refer you to Section 5 of the Remuneration Report for a detailed explanation of the changes.

Your Directors believe that these changes will provide a competitive remuneration structure that strengthens the alignment of Executives with the long-term success of Orica and its shareholders.

We therefore commend this report to you.

**Maxine Brenner**  
Chairman, Human Resources and Compensation Committee

# Directors' Report - Remuneration Report 2017 (audited)

For the year ended 30 September

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## Executive Remuneration

### Section 1: Introduction and FY2017 outcomes

This section summarises Orica's overall approach to executive remuneration and provides a summary of FY2017 outcomes.

#### Objectives

The objectives of Orica's Executive Remuneration Framework are to:

- attract, motivate and retain high calibre executive talent;
- align management interests with those of shareholders;
- incentivise superior performance against measures that are linked to shareholder value creation; and
- be clear and transparent.

#### Current framework

Orica's Executive Remuneration Framework consists of 3 elements, namely Fixed Annual Remuneration (FAR), Short-Term Incentives (STI) and Long-Term Incentives (LTI). Within this framework:

- FAR is benchmarked to the median of an external market group to attract quality people who can deliver value for shareholders;
- STIs are designed to reward Executives for the achievement of strategic and operational measures; and
- LTIs are designed to align executive remuneration with returns to shareholders over the longer term.

The manner in which FAR, STI and LTI operate together is described in greater detail in Sections 3 and 4.

Orica has undertaken a comprehensive review of its incentive structures during FY2017, and changes will be implemented in FY2018. Further information on this review and the outcomes can be found in Section 5.

#### (a) Financial outcomes for FY2017

Executive remuneration outcomes for FY2017 included no change in fixed remuneration, average STI outcomes of between 48.5% - 72.7% of maximum opportunity and no LTI payout.

The table below provides a summary of the actual remuneration received for the performance year either as cash, other benefits or, in the case of prior equity awards, the value which vested. Unlike the statutory table in Section 6.1, which represents remuneration outcomes prepared in accordance with Australian Accounting Standards, this table shows the actual remuneration value received/receivable by current/continuing Executive Key Management Personnel.

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## (b) Actual remuneration in FY2017

Name	Annual remuneration paid in FY2017 <sup>(1)</sup> \$000	STI to be paid in cash <sup>(2)</sup> \$000	Total cash payment \$000	Prior year equity awards vested during year <sup>(3)</sup> \$000	Other <sup>(4)</sup> \$000	Total remuneration received \$000
<b>Executives (KMP)</b>						
Alberto Calderon	1,800.0	949.8	2,749.8	480.5	3.2	3,233.5
Thomas Schutte	950.0	601.6	1,551.6	-	30.6	1,582.2
James Bonnor	841.9	399.9	1,241.8	76.8	67.2	1,385.8
Darryl Cuzzubbo	800.0	465.2	1,265.2	-	2.3	1,267.5
Tony Edmondstone	840.0	325.7	1,165.7	173.2	-	1,338.9
Angus Melbourne	879.4	455.2	1,334.6	293.5	223.4	1,851.5
Sebastian Pinto	586.0	257.4	843.4	-	36.0	879.4
<b>Total</b>	<b>6,697.3</b>	<b>3,454.8</b>	<b>10,152.1</b>	<b>1,024.0</b>	<b>362.7</b>	<b>11,538.8</b>

<sup>(1)</sup> Annual remuneration paid includes actual base pay received and superannuation (or equivalent pension) contributions.

<sup>(2)</sup> In FY2017 STI will be delivered both in cash and deferred equity that will vest 12 months after the grant date. Details of the STI deferral are included in Section 3.5.

<sup>(3)</sup> This contains deferred STIs from FY2016 that have vested and, in the case of Angus Melbourne, one third of the sign on grants made on commencement of employment which vested in FY2017. No LTI vested in FY2017.

<sup>(4)</sup> Includes cash value of relocation assistance and other benefits provided (where applicable). Movements in annual leave and long-service leave balances have not been shown.

## Section 2: Key Management Personnel

This section outlines the Executives of the Company and Non-Executive Directors whose remuneration details are outlined in this Remuneration Report.

### (a) Names and positions of Executive Key Management Personnel

The table below lists the Executives of the Company whose remuneration details are outlined in this Remuneration Report. These Executives, together with the Directors, are defined as Key Management Personnel (KMP) under Australian Accounting Standards. In this report, Executive KMP refers to the KMP other than the Non-Executive Directors. Non-Executive Directors have oversight of the strategic direction of the Company but have no direct involvement in the day-to-day management of the business.

Name	Role in financial year 2017	Commencement date in role	Country of Residence
<b>Executive Director</b>			
Alberto Calderon	Managing Director and CEO	19 May 2015	Australia
<b>Executive KMP</b>			
Thomas Schutte	Chief Financial Officer	1 September 2015	Australia
James Bonnor	Group Executive and President, North America	1 October 2015	United States
Darryl Cuzzubbo	Group Executive and President, Australia Pacific & Indonesia	1 October 2016	Australia
Tony Edmondstone	Group Executive and President, Europe, Africa & Asia	1 October 2015	Australia
Angus Melbourne	Chief Commercial Officer	1 October 2016	Singapore
Sebastian Pinto	Group Executive and President, Latin America	1 October 2015	Chile
<b>Former Executive KMP</b>		<b>Date ceased to hold role</b>	
Richard Hoggard <sup>(1)</sup>	Group Executive, Manufacturing & Supply	1 December 2016	Singapore

<sup>(1)</sup> Richard Hoggard was appointed as Group Executive, Safety, Health, Environment & Supply effective 2 December 2016 and ceased to be a KMP from this date.

Particulars of Executives' qualifications, experience and responsibilities are detailed in the Annual Report.

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For the year ended 30 September

## (b) Changes in Key Management Personnel effective 1 October 2017

The following changes were made to Orica's Executive structure effective 1 October 2017:

- Vincent Nicoletti was appointed as Chief Financial Officer;
- Thomas Schutte was appointed as Group Executive and President EMEA (Europe, Middle East and Africa); and
- Carlos Duarte was appointed as Group Executive, Manufacturing and Supply.

Tony Edmondstone, Group Executive and President EAA, will leave Orica in early 2018 and ceased to be a reportable KMP from 1 October 2017 – refer Section 4.4.

## (c) Names and positions of Non-Executive Directors Key Management Personnel

The Non-Executive Directors who held office during FY2017 are set out below:

Name	Role in financial year 2017	Commencement date in role	Country of Residence
<b>Directors</b>			
Malcolm Broomhead	Non-Executive Director, Chairman	1 December 2015	Australia
Maxine Brenner	Non-Executive Director	8 April 2013	Australia
Ian Cockerill	Non-Executive Director	12 July 2010	South Africa
Karen Moses	Non-Executive Director	1 July 2016	Australia
Lim Chee Onn	Non-Executive Director	12 July 2010	Singapore
Gene Tilbrook	Non-Executive Director	14 August 2013	Australia

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## Section 3: Remuneration Framework

Orica's executive remuneration strategy is to attract, motivate, reward and retain Executives through a remuneration approach that drives performance, is competitive, globally relevant, aligns with shareholder interests and has a high perceived value.

This section outlines the elements of the Executive remuneration framework in FY2017, Orica's principles in relation to fixed and total remuneration positioning, total remuneration opportunity and the mix and key terms of Orica's incentive plans.

### 3.1 Remuneration framework

Orica's Executive Remuneration Framework provides a combination of fixed remuneration and incentives intended to drive performance against both short and long-term Company objectives. The table below provides an overview of this framework and the specific performance linkages. Key terms of the short and long-term incentive plans are outlined in Section 3.5.

	Executive remuneration component	Payment vehicle	Performance measure	Specific targets/performance link	Key FY2017 outcomes	Further discussion in report
<b>Fixed</b>	Fixed Annual Remuneration (FAR)	Cash, superannuation & other benefits			No increase to FAR for Executive KMP in FY2017.	<b>Section 3.2</b>
<b>At-risk remuneration</b>	Short-Term Incentive Plan (STI Plan)	<p>Annual cash payment following release of end of year results.</p> <p>Business and Personal performance objectives operate independently and the weighted result for each of the Business and Personal performance objectives are multiplied together to determine the final STI amount.</p> <p>Mandatory deferral of a proportion of STI paid into deferred shares. Deferred shares are subject to a continued employment condition for a 12 month period following award.</p>	<p><b>Business Objective 1</b> Safety, Health &amp; Environment (SHE)</p> <p><b>Business Objective 2</b> Earnings measures</p> <p><b>Business Objective 3</b> Margin measures</p> <p><b>Business Objective 4</b> Board discretionary component</p> <p><b>Personal Performance</b> 3 personal objectives and Board discretionary component</p>	<p>- All Worker Recordable Case Rate (AWRCR) - Safety Health and Environment Assessments - Overdue Actions</p> <p>- Earnings Before Interest &amp; Tax (EBIT)<sup>(1)</sup> - Net Profit After Tax (NPAT)<sup>(1)</sup></p> <p>- Gross Margin - Cash Conversion</p> <p>Regional, functional and/or financial objectives specific to KMP area of influence</p>	<p>Executive KMP STI outcomes were between target and maximum.</p> <p>Consistent with the previous year, the overall Business performance was reduced by the following to reflect the fatalities during the year</p> <ul style="list-style-type: none"> <li>CEO and Group Executive SHES: by 20%</li> <li>Group Executive and President LATAM: by 15%</li> <li>Chief Commercial Officer: by 15%</li> <li>other Executives: by 10%</li> </ul>	<b>Sections 3.5 and 4.2</b>
	<p><b>Current plan</b></p> <p>Long-Term Incentive Plan (LTIP)</p> <p><b>Historical plans</b> Long-Term Equity Incentive Plan (LTEIP) and Long-Term Incentive Rights Plan (LTIRP). Both plans expired in FY2017.</p>	<p><b>Current plan</b></p> <p>Grant of rights over Orica shares measured over a 3 year performance period</p>	<p><b>Current plan</b></p> <p>Return on Capital (ROC) on 50% of rights granted</p> <p>Relative Total Shareholder Return (RTSR) on 50% of rights granted</p>	<p><b>Current plan</b></p> <p>Average ROC of between 18.25% (threshold) and 22% maximum</p> <p>RTSR percentile ranking must be above median (50% vest) to 75th percentile and above (100% vest)</p> <p>Measures align Executives to shareholder outcomes</p>	<p>During FY2017 the FY2014 award under the LTEIP was eligible for testing. No loan forgiveness was available and no capital gains were made. Shares awarded were forfeited back to Orica.</p> <p>The FY2014 LTIRP award was also tested and forfeited.</p>	<b>Sections 3.5 and 4.3</b>

<sup>(1)</sup> Before individually material items



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## 3.2 Remuneration positioning

Executive FAR is generally set with reference to the market median for Australian listed companies of a comparable market capitalisation to Orica (between 50% to 200% of Orica's 12 month average market capitalisation). In addition, and particularly for roles located outside of Australia, additional sector or local industry specific data is taken into consideration in benchmarking Executive remuneration (where appropriate).

## 3.3 Remuneration opportunity

Set out below is the current fixed annual remuneration, target short-term and long-term incentive grant opportunity for each of the Executive KMP in respect of financial year 2017.

	FAR <sup>(1)</sup>	Target STI (% FAR)	FY2017 LTI Rights opportunity <sup>(2)</sup> (% FAR)
<b>Executive Director</b>			
A Calderon	1,800,000	100%	180%
<b>Current Executive KMP</b>			
T H Schutte	950,000	70%	100%
J K Bonnor <sup>(3)</sup>	841,892	60%	100%
D Cuzzubbo	800,000	60%	100%
T J Edmondstone	840,000	60%	100%
A J Melbourne <sup>(3)</sup>	875,267	60%	100%
S F Pinto <sup>(3)</sup>	586,000	60%	100%
<b>Former Executive KMP</b>			
R Hoggard	908,207	60%	100%

<sup>(1)</sup> FAR includes base pay and superannuation. FAR is reviewed annually by the Board following the end of each financial year and adjustments are, in general, effective from 1 January of the following year. The amounts set out in the table above are the Executives KMPs' fixed annual remuneration as at 30 September 2017.

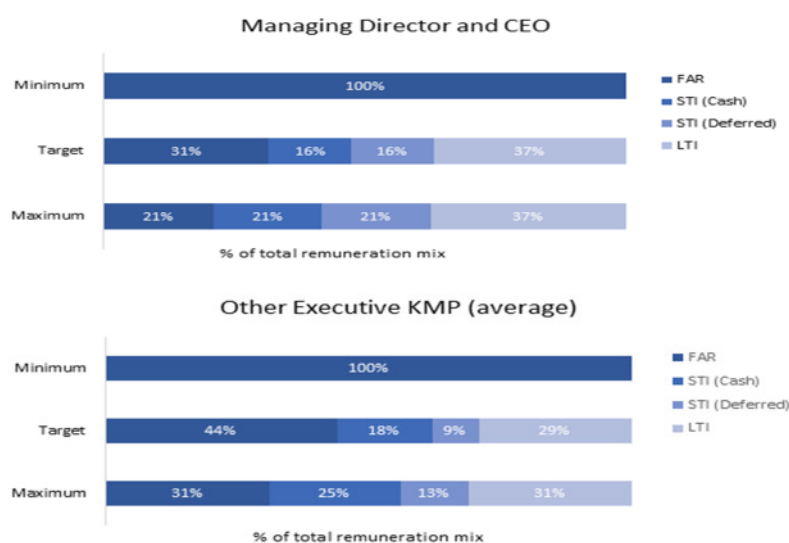
<sup>(2)</sup> The number of performance rights allocated is determined based upon the 5-day volume weighted average price (VWAP) of Orica shares at the time of award. Performance rights were allocated to Executive KMP under the FY2017 LTIP offer in December 2016.

<sup>(3)</sup> For overseas based Executive KMP, salary reported is based on the salary figure in overseas currency converted at the average foreign exchange rate for the year.

## 3.4 Remuneration mix

The Board considers that a significant proportion of Executive remuneration should be 'at risk' to provide alignment with the interests of shareholders and to drive performance against the Company's short and long-term business objectives.

The graphs below show the minimum, target and maximum remuneration mix for financial year 2017, based on the earnings of the MD & CEO and other Executive KMP<sup>(1)(2)</sup>.



<sup>(1)</sup> Target remuneration mix assumes STI at target and a fair value calculation (as per AASB 2 *Share-based Payment*) of the long-term incentive (LTI) award at grant using an external valuation from PricewaterhouseCoopers.

<sup>(2)</sup> Maximum remuneration mix assumes STI at maximum (two times target for the CEO) and LTI at grant value with no adjustment for fair value.

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## 3.5 Summary of terms and conditions of at risk components

The key details of the Orica STI and LTI, are summarised below.

	Short-Term Incentive	Long-Term Incentive														
Description	<p>Annual incentive plan delivered in cash and deferred shares (following a 12 month deferral period).</p> <p>For the MD &amp; CEO, 50% of any STI award is delivered in cash and 50% in deferred shares.</p> <p>For other Executives, two thirds of any STI award is delivered in cash and one third is delivered in deferred shares.</p>	<p>Award of performance rights subject to a 3 year performance period.</p>														
Performance Conditions	<p>Business performance measures representing financial and non-financial conditions. Personal performance measures representing objectives specific to each Executive's area of influence.</p> <p>Business and Personal objectives operate independently and the weighted result for each is then multiplied together to get the final result (see diagram below).</p> <div><div>Business Performance 0 - 1.25 (Target 1)</div><div>×</div><div>Personal Performance 0 - 1.6 (Target 1)</div><div>×</div><div>STI Target %</div><div>×</div><div>FAR</div></div> <p>Details and weightings of the FY2017 performance conditions are outlined in Section 4.2.</p>	<p>For Executives there are two performance conditions:</p> <ul style="list-style-type: none"><li>50% of Rights granted are subject to a Return on Capital (ROC)<sup>(1)(3)</sup> performance condition; and</li><li>50% are subject to Relative Total Shareholder Return (RTSR) performance<sup>(2)</sup>.</li></ul> <p>ROC was selected as it supports Orica's continued focus on capital allocation. RTSR was selected to align Executive reward under LTIP with returns delivered to shareholders. The ASX 100 was chosen as the RTSR comparator group because, in the absence of a sufficient number of direct competitor companies, the ASX 100 represents the group of companies that Orica competes with for shareholder capital and executive talent.</p>														
Performance period	Performance is measured over the financial year preceding the STI payment date.	Performance is measured over 3 financial years.														
Amount that can be earned	<p>Each objective has a minimum threshold below which no incentive is paid for that measure, and a maximum limit that caps payment (with straight line vesting applied between threshold and maximum).</p> <table><thead><tr><th>Level of performance</th><th>Percentage of FAR received</th></tr></thead><tbody><tr><td>Below threshold</td><td>0%</td></tr><tr><td>Between threshold and target</td><td>Up to 60% (70% for CFO &amp; 100% for MD &amp; CEO)</td></tr><tr><td>Target</td><td>60% (70% for CFO &amp; 100% for MD &amp; CEO)</td></tr><tr><td>Above target</td><td>Up to 120% (140% for CFO &amp; 200% for MD &amp; CEO)</td></tr></tbody></table> <p>The number of deferred shares is based on the 5 day VWAP at the grant date after the annual results are announced.</p>	Level of performance	Percentage of FAR received	Below threshold	0%	Between threshold and target	Up to 60% (70% for CFO & 100% for MD & CEO)	Target	60% (70% for CFO & 100% for MD & CEO)	Above target	Up to 120% (140% for CFO & 200% for MD & CEO)	<p>The number of Rights issued provides Executives, excluding the MD &amp; CEO, a grant opportunity in face value terms of 100% of FAR (estimated 77% fair value equivalent). For reasons of transparency to shareholders and simpler communication to Executives, Orica uses a face value allocation methodology.</p> <p>For the MD &amp; CEO, the number of Rights issued for FY2017 (as previously approved by shareholders) was a grant opportunity in face value terms of 180% of FAR.</p> <p>Using face value, the actual number of Rights issued to each Executive was determined by dividing their respective LTI potential remuneration (expressed as a percentage of FAR) by the 5 day volume weighted average price (VWAP) of Orica shares at the time of award.</p>				
Level of performance	Percentage of FAR received															
Below threshold	0%															
Between threshold and target	Up to 60% (70% for CFO & 100% for MD & CEO)															
Target	60% (70% for CFO & 100% for MD & CEO)															
Above target	Up to 120% (140% for CFO & 200% for MD & CEO)															
Vesting	<p><b>STI – Cash Component</b></p> <p>STI outcomes are determined by the Board at the end of the financial year.</p> <p>Financial measures comprising EBIT, NPAT, Gross Margin and Cash Conversion and safety measures comprising AWRCR, Process Safety, Risk assessment and audits are calculated based on the achievement against targets set at the commencement of the financial year.</p> <p>The Board confirms final awards based on overall Group and Personal performance. In accordance with the plan rules, the Board retains an overriding discretion in relation to payments (if any) under the STI Plan, regardless of whether any or all of the STI performance objectives have been satisfied.</p> <p><b>STI – Deferred shares</b></p> <p>Use of deferral is designed to further align Executive remuneration to shareholders' interests by delivering an increased proportion of remuneration in Orica equity and providing the ability for entitlements to be forfeited for misconduct as required.</p>	<p>The number of Rights that vest is determined by performance outcomes compared with pre-determined Company performance measures.</p> <p><b>Performance condition - ROC (3 year average 1/10/2016 - 30/09/2019)</b></p> <table><thead><tr><th>Level of performance</th><th>% of rights vesting</th></tr></thead><tbody><tr><td>Below 18.25%</td><td>0%</td></tr><tr><td>At 18.25%</td><td>30%</td></tr><tr><td>Between 18.25% &amp; 19.25%</td><td>Straight line vesting between 30% to 60%</td></tr><tr><td>At 19.25%</td><td>60%</td></tr><tr><td>Between 19.25% &amp; 22%</td><td>Straight line vesting between 60% to 100%</td></tr><tr><td>22% and above</td><td>100%</td></tr></tbody></table>	Level of performance	% of rights vesting	Below 18.25%	0%	At 18.25%	30%	Between 18.25% & 19.25%	Straight line vesting between 30% to 60%	At 19.25%	60%	Between 19.25% & 22%	Straight line vesting between 60% to 100%	22% and above	100%
Level of performance	% of rights vesting															
Below 18.25%	0%															
At 18.25%	30%															
Between 18.25% & 19.25%	Straight line vesting between 30% to 60%															
At 19.25%	60%															
Between 19.25% & 22%	Straight line vesting between 60% to 100%															
22% and above	100%															

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	Executives generally will forfeit all deferred shares if they cease employment with Orica by reason of termination for cause or resignation during the 12 month deferral period, which commences on the grant date.	<p><b>Performance condition - RTSR (percentile ranking against ASX 100)</b></p> <table><tr><th>Level of performance</th><th>% of rights vesting</th></tr><tr><td>Below 50th percentile</td><td>0%</td></tr><tr><td>At 50th percentile</td><td>50%</td></tr><tr><td>Between 50th and 75th percentile</td><td>Straight line vesting</td></tr><tr><td></td><td>50% to 100%</td></tr><tr><td>75th percentile and above</td><td>100%</td></tr></table> <p>Each performance measure has a minimum level of performance, below which no vesting will occur. If the minimum performance level is not achieved, the Rights subject to this performance measure will be forfeited. The performance condition is only tested once at the end of the performance period. Any Rights that do not vest following testing of the performance conditions at the end of the performance period will lapse.</p>	Level of performance	% of rights vesting	Below 50th percentile	0%	At 50th percentile	50%	Between 50th and 75th percentile	Straight line vesting		50% to 100%	75th percentile and above	100%
Level of performance	% of rights vesting													
Below 50th percentile	0%													
At 50th percentile	50%													
Between 50th and 75th percentile	Straight line vesting													
	50% to 100%													
75th percentile and above	100%													
<b>Access to dividends</b>	Executives receive dividends on unvested deferred Orica shares during the 12 month deferral period.	Executives do not receive dividends on Orica LTI rights during the 3 year vesting period.												
<b>Forfeiture of award</b>	An Executive will not be eligible for a payment if their employment is terminated due to misconduct or poor performance, nor in general if they resign before the end of the STI performance period. In limited circumstances approved by the Board, a participant may be awarded a pro-rata STI payment if they cease employment as a good leaver.	If an Executive ceases employment with Orica due to resignation or dismissal for misconduct before the vesting date of the Rights, the Rights are forfeited and the Executive receives no benefit. In the case where an Executive ceases employment with Orica for any other reason such as retirement, redundancy, mutually agreed separation, ill-health etc., the cessation of employment provisions of the LTIP rules enable the Board to determine the treatment of unvested Rights.												
<b>Change of control</b>	Board discretion to pay some or all of the STI that may have been payable for that financial year. Unvested deferred shares would vest on change of control.	Board discretion to determine treatment of unvested rights. If it does not exercise its discretion, a pro-rata number of rights will vest only to the extent any performance conditions have been met on change of control.												
<b>Source of shares</b>	It is the Board's preference to buy shares on market or to utilise shares already held in trust so that the value of existing Orica shares is not affected.													

<sup>(1)</sup> ROC = EBITDA per year/Enterprise Value.

EBITDA = Earnings from Continuing Operations Before Individually Material Items, Depreciation, Amortisation, net borrowing costs and Tax.

Enterprise Value = Total Shareholders' Equity + Net Debt (at end of each year during the performance period), refer to note 3 of the Annual Report.

ROC is measured at the end of each financial year and averaged over 3 years following the end of the last financial year of the performance period<sup>(3)</sup>.

<sup>(2)</sup> RTSR is calculated by measuring a combination of share price appreciation and dividends re-invested to show the total return to shareholders over the 3 year performance period. Orica's RTSR is then ranked on a relative basis with the RTSR performance against all companies in the ASX 100 (with no exclusions). The comparator group is determined by the constituents of the ASX 100 at the start of the performance period.

Orica receives an independent report from Ernst & Young that sets out Orica's TSR growth and that of each company in the RTSR comparator group.

<sup>(3)</sup> The Board reviewed the unvested long-term incentive grant made in 2015 under the LTIP, to ensure that Executives did not gain an advantage as a result of the asset impairment in FY2015. The Board determined for the purposes of calculating ROC in relation to the 2015 LTIP grant, it is to be calculated on the basis of the unimpaired Enterprise Value i.e. the impairment (\$1.692 billion) will be added back to Enterprise Value at the end of each of the 3 performance years (2015 - 2017). For the FY2016 and FY2017 grant (to be tested in 2018 and 2019) ROC will be calculated against the Enterprise Value as reported.

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## Section 4: Performance and outcomes

Orica's remuneration outcomes are aligned to business results and shareholder returns. This section demonstrates how remuneration outcomes are aligned to Orica's results for the year.

### 4.1 Overview of business performance

The table below summarises key indicators of the performance of the Company, relevant shareholder returns over the past five financial years and the impact this has had on STI and LTI vesting outcomes, which shows that incentive awards vary with Orica's performance.

Financial year ended 30 September	2013	2014	2015	2016	2017
Profit/(loss) from Operations (\$m)	968.1	929.7	(1,195.0)	637.6	635.1
Individually material items – net expense (\$m) <sup>(1)</sup>	-	-	1,884.4	4.6	-
EBIT (\$m) <sup>(2)</sup>	968.1	929.7	689.4	642.2	635.1
Dividends per ordinary share (cents)	94.0	96.0	96.0	49.5	51.5
Closing share price (\$ as at 30 September) <sup>(3)</sup>	20.06	18.90	15.04	15.20	19.77
3 month average share price (1 July to 30 September) each year	19.59	20.56	17.29	14.12	20.12
EPS growth (%) <sup>(2)</sup>	(8.4)	0.5	(30.0)	(8.8)	(1.7)
NPAT (\$m) <sup>(2)</sup>	592.5	602.5	424.2	389.1	386.2
External Sales (\$m)	6,885.2	6,796.3	6,123.2	5,091.9	5,039.2
Cumulative TSR (%) <sup>(4)</sup>	(17.8)	(9.9)	(20.3)	(31.5)	0.3
Average STI received as % of maximum opportunity for Executives (%)	27	49	32	39	60

<sup>(1)</sup> This figure is before interest, tax and non-controlling interest.

<sup>(2)</sup> Before individually material items.











<sup>(3)</sup> The opening share price for financial year 2013 was \$19.80.

<sup>(4)</sup> Cumulative TSR has been calculated using the same start date for each period measured (1 October 2012). In calculating the cumulative TSR, 3 month average share prices (1 July to 30 September for each year) have been used.

### 4.2 Short-Term Incentive overview

#### (a) Summary of FY2017 STI performance conditions and performance level achieved

For FY2017, Business and Personal performance, target weighting of each component and performance level achieved are summarised below:

Measure	Performance Objective	Weighting (at target)	Performance level achieved <sup>(1)</sup>
<b>Business Performance</b>			
<b>SAFETY</b>	All Worker Recordable Case Rate (AWRCR) <sup>(2)</sup>	8.33%	
	Completion of scheduled Safety, Health & Environment (SHE) Assessments against specified SHE Management System <sup>(3)</sup>	8.33%	
	Overdue actions arising from corporate safety audits and assessments, major hazard assessment actions and severity 3+ incident actions	8.33%	
<b>EARNINGS</b>	Earnings Before Interest and Taxation (EBIT) <sup>(4)</sup>	12.50%	
	Net Profit After Tax (NPAT) <sup>(5)</sup>	12.50%	
<b>MARGIN</b>	Gross Margin percentage	12.50%	
	Cash Conversion percentage	12.50%	
<b>DISCRETION</b>	Payable at the Board's discretion	25%	
<b>Average STI Personal Performance</b>			
	Individual measures based on initiatives and key project deliverables linked to sustainable improvement in company performance, including Board discretionary component	-	
<b>Total STI</b>	Overall STI outcome <sup>(6)</sup>	-	

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For the year ended 30 September

<sup>(2)</sup> AWRCR measures number of employee and contractor recordable cases (injuries and illnesses) per 200,000 hours worked by employee/contractor.

<sup>(3)</sup> SHE Assessments measures percentage completion of scheduled regional and site level self-assessments. For FY2017 H1, this was on the major hazards and control verification assessment. For FY2017 H2, this focussed on activities identified from the control verification assessment.

<sup>(4)</sup> For STI purposes EBIT is defined as earnings from Continuing Operations before interest, tax and individually material items.

<sup>(5)</sup> NPAT is defined as Net Profit After Tax from Continuing Operations before individually material items attributable to shareholders of Orica Limited.

<sup>(6)</sup> Represents average STI outcomes for reportable Executives (compared to maximum STI opportunities).

In analysing FY2017 outcomes, performance against each component is outlined below:

During the 2017 financial year, the company continued to deliver substantial benefits through business improvement initiatives, offsetting previously flagged headwinds and some additional costs related to the fatalities during the year. Overall EBIT and Gross Margin performance were slightly below the targets set. Management achieved Net Profit after Tax (NPAT) at maximum reflecting reduced Net Debt and related interest expense. Cash Conversion was also achieved at maximum.

Safety targets were set with input from the Board Safety, Health and Environment Committee and reflect Orica's commitment to continuously improving safety performance. Overall Safety performance against scorecard measures was between target and maximum reflecting completion of assessments and resolution of critical overdue actions related to Major Hazards being achieved at maximum and just below maximum respectively, and recordable case rate (AWRCR) outcomes being achieved between threshold and target. Reducing risk from major hazards and lowering lost time due to injury will remain key focus areas in FY2018.

In determining overall business performance outcomes, the Board considered the impact of fatalities at a customer site located in Peru and our manufacturing site in Gyttop, Sweden. Following management's recommendation, the Board determined to zero out the recordable case rate (AWRCR) outcome and in addition, to reduce the award under the Board discretion element with the overall effect of reducing business performance outcomes by 20% overall for the CEO and Group Executive, SHES; 15% for the Executives in whose area of accountability the fatalities occurred (Group Executive and President, LATAM and Chief Commercial Officer); and by 10% for other Executives. These adjustments were consistent with those made last year, reflect the applicable level of management control by the CEO and other Executives over the causal factors of the fatalities, and our continued commitment to the safety of our people.

Personal objectives for each Executive were determined and approved by the Board at the commencement of the financial year. In financial year 2017, these objectives related to strategic priorities of each Executive, including initiatives linked to improving earnings and trade working capital, customer retention, business growth strategies and enhancing Orica's development and use of technology. Achievement against these Personal objectives was generally between Target and Maximum.

Taken together, Business and Personal outcomes resulted in Executive KMP receiving awards of between 48.5% and 72.7% of maximum (averaging 60.2% of maximum) and forfeiting between 51.5% and 27.3% of their maximum opportunity (average 39.8%).

## (b) Short-Term Incentive outcome – FY2017

Details of the FY2017 outcomes for Executive KMP are set out in the table below.

For the year ended 30 September 2017	Maximum STI opportunity <sup>(1)</sup> \$000	Actual STI paid in cash \$000	Actual STI paid in deferred equity <sup>(2)</sup> \$000	Actual STI payment as % of maximum	% of maximum STI forfeited
<b>Current Executive KMP</b>					
A Calderon	3,600.0	949.8	949.8	52.8	47.2
T H Schutte	1,330.0	601.6	300.7	67.8	32.2
J K Bonnor	952.1	399.9	199.9	63.0	37.0
D Cuzzubbo	960.0	465.2	232.6	72.7	27.3
T J Edmondstone	1,008.0	325.7	162.8	48.5	51.5
A J Melbourne	1,041.1	455.2	227.6	65.6	34.4
S F Pinto	648.8	257.4	128.7	59.5	40.5
<b>Former Executive KMP</b>					
R Hoggard <sup>(3)</sup>	1,072.27	369.5	184.7	51.7	48.3

<sup>(1)</sup> For Australian based Executives KMP, maximum STI opportunity is calculated on FAR inclusive of superannuation. For overseas based Executives, KMP maximum STI opportunity does not include the equivalent pension contributions.

<sup>(2)</sup> Under AASB 2 *Share-based Payment*, STI paid to Executives as deferred equity is accounted for as a share based payment and expensed over two years. Accordingly, 50% of the value of the deferred equity arising from the 2017 STI outcome has been included in each Executive KMP's share based payments expense in 2017 and the remainder will be included in 2018.

<sup>(3)</sup> The table reflects 100% of the FY2017 remuneration of R Hoggard - however he was a reportable KMP for two months of the year.

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## 4.3 Long-Term Incentive overview

The table below summarises the Long-Term Incentive Plan awards tested in the current financial year together with awards that remain unvested.

Plan	Grant	Performance period	Performance measures applicable to award	Outcome
LTEIP	FY2014	FY2014 – FY2016	Availability of loan forgiveness is subject to: • Compound EPS growth condition (10% loan forgiveness at target) • Relative TSR ranking against ASX 100 (10% loan forgiveness at target)	Forfeited
LTIRP	FY2014	FY2014 – FY2016	Compound EPS growth condition (100%)	Forfeited
LTIP	FY2015	FY2015 - FY2017	Vesting of Rights is subject to: • Average ROC (50%) • Relative TSR ranking against ASX 100 (50%)	Not yet tested
LTIP	FY2016	FY2016 – FY2018	As above	Not yet tested
LTIP	FY2017	FY2017 – FY2019	As above	Not yet tested

LTEIP was the previous loan based equity incentive plan. The FY2014 LTEIP award was tested in November 2016. The availability of loan forgiveness under the FY2014 LTEIP award was subject to two performance hurdles, namely Earnings per Share (EPS) growth and Relative Total Shareholder Return (RTSR) against a comparator group of the ASX 100 (determined at the time the LTEIP award was granted). As the compound EPS growth over the plan period was below the threshold performance level, and Relative Total Shareholder Return was below median against the comparator group, no loan forgiveness was applied. Executives achieved no capital gains on their shares and forfeited their FY2014 LTEIP shares in full settlement of the outstanding loan balances.

There were no loans to Executives other than for the LTEIP plan and over the past five years, the LTEIP has provided no loan forgiveness benefit and has provided modest capital appreciation to LTEIP participants in two of the past five years. This aligns vesting outcome to Executives with performance outcomes for shareholders over that period. Further information on LTEIP can be found in note 19 to the Annual Report.

There were no balances outstanding at 30 September 2017 and the following table shows movements of the non-recourse loans during 2017:

For the year ended 30 September 2017	Opening balance \$	Repayments during FY2017 <sup>(1)</sup> \$	Closing balance \$	Interest free value \$	Highest indebtedness \$
<b>Current Executive KMP</b>					
J K Bonnor	835,825	835,825	-	4,742	835,825
T J Edmondstone	876,950	876,950	-	4,975	876,950
<b>Former Executive KMP</b>					
R Hoggard	1,109,873	1,109,873	-	6,296	1,109,873
<b>Total Executive KMP</b>	<b>2,822,648</b>	<b>2,822,648</b>	<b>-</b>	<b>16,013</b>	<b>2,822,648</b>

<sup>(1)</sup>Constitutes repayments following forfeiture of LTEIP options.

The FY2014 award under LTIRP (a legacy award held by some Executives) was also tested this year. The EPS performance condition for LTIRP vesting was not met and all of the awards lapsed.

## 4.4 Arrangements for departing Executive KMP

### Group Executive & President, Europe, Africa and Asia

Tony Edmondstone, Group Executive and President EAA, will leave Orica in early 2018. In addition to his statutory entitlements to accrued annual leave and long service leave entitlements at separation date, under the terms of his service agreement, he is entitled to a severance payment of \$839,902 upon cessation of his employment equivalent to one times his average fixed remuneration over the past 3 years. Tony Edmondstone's FY2017 STI payment has been tested in the same manner and payable at the same time as for other Executives.

The Board determined that, notwithstanding his cessation of employment, in accordance with the termination provisions of the relevant LTIP plan rules applicable to all participants, Tony Edmondstone would continue to participate in the LTIP offers that remain 'on foot'. Tony Edmondstone will not be eligible to receive a FY2018 STI payment or participate in the FY2018 LTI grant.



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For the year ended 30 September

## Section 5: Remuneration changes for FY2018

This section outlines the changes to Executive short-term and long-term incentive remuneration effective FY2018.

### Changes to the Executive Remuneration Framework for 2018

As indicated to shareholders at the 2016 Annual General Meeting, Orica has undertaken a detailed review in conjunction with management and external stakeholders of the Executive Remuneration Framework to more closely align Executive remuneration to the Company's strategic objectives and shareholders' interests.

The Board's priorities are to ensure that our remuneration structures drive strong alignment with shareholder returns, are fit for purpose and aligned to Orica's business strategy, are simple and transparent, and are globally competitive enabling Orica to attract and retain the best talent in the markets in which we operate.

This review was conducted in the context of the ongoing turnaround of the Company in challenging market conditions, in which the new management team has implemented a substantial transformation program and successfully delivered significant net benefits in the first phase.

The next phase of turnaround has commenced, which focuses on delivering sustainable business initiative improvements over the next 3 years through over 1,900 initiatives globally in order to enhance operating and capital efficiency, and embed those efficiencies for long-term improvement in capital returns.

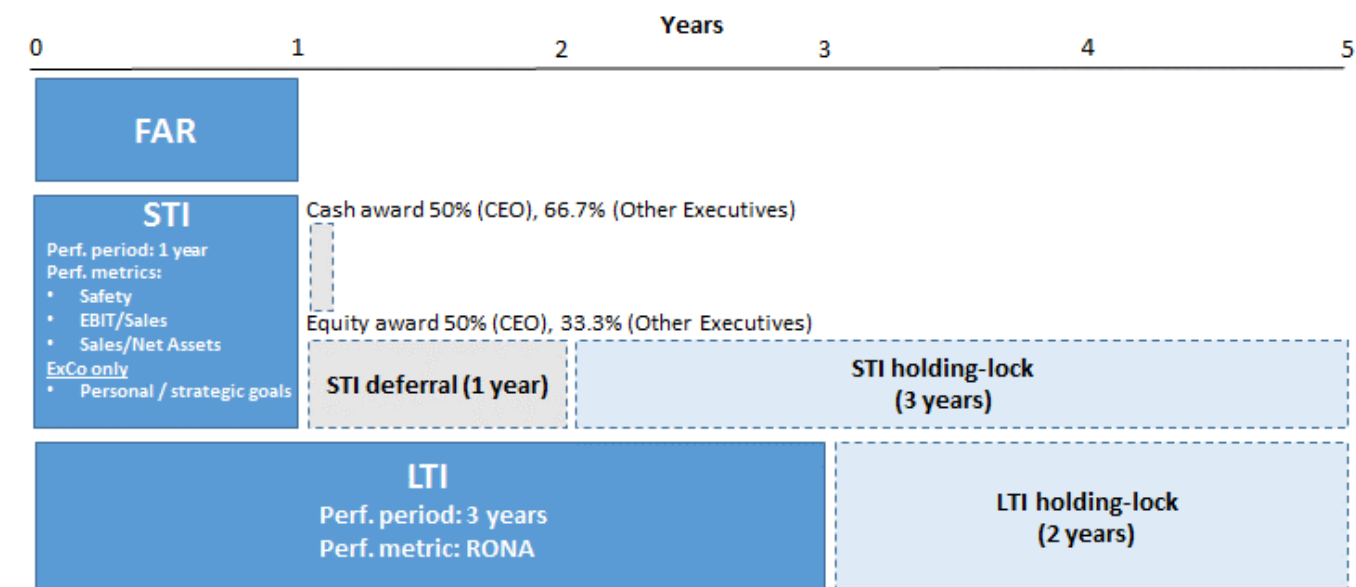
Alongside delivery of these improvements, Orica is continuing to focus on culture and engagement of employees to ensure that Orica can operate across its diverse business footprint safely and with integrity and respect for all stakeholders.

Further, the review found that while on the whole, the current Framework has demonstrated alignment between performance and incentive outcomes and retaining a STI scheme is valuable during Transformation, the Framework could be improved in 3 key areas:

- Performance – moving to a much higher weighting for financial and business improvement outcomes.
- Transparency – simpler metrics that directly support and drive performance against transformation objectives.
- Management shareholding – building in greater shareholdings, held over a longer period, driving an owner's mindset and long-term decision-making.

### Overview of key changes

The revised Executive Remuneration Framework for FY2018 is shown below. Further information on the key features of the revised Framework are summarised in the table overleaf. Detailed disclosure relating to the FY2018 Executive Remuneration Framework will be provided in Orica's 2018 Annual Report.



Component	Key features for FY2018	Rationale
<b>STI</b>		
<b>Scorecard</b>	<ul style="list-style-type: none"> <li>A single STI scorecard (i.e. the personal scorecard multiplier no longer applies).</li> </ul>	<ul style="list-style-type: none"> <li>The personal scorecard multiplier has been removed to increase the overall simplicity of the plan design, and the overweighting of personal over financial metrics.</li> </ul>
<b>Performance measures</b>	<ul style="list-style-type: none"> <li>Short-term metrics driving 3 key initiatives: safety, operational efficiency and capital efficiency.</li> </ul>	<ul style="list-style-type: none"> <li>The new STI metrics are aligned to Orica's strategic objectives:                             <ul style="list-style-type: none"> <li>Safety: Maintain focus on improving safety performance. Broadly these remain unchanged from FY2017 albeit focus has been extended to completion</li> </ul> </li> </ul>

# Directors' Report - Remuneration Report 2017 (audited)

For the year ended 30 September

	<ul style="list-style-type: none"> <li>Increased weighting towards financial metrics (performance measures and weightings at target performance are as follows):</li> </ul> <table border="1"> <thead> <tr> <th>Metric</th><th>CEO</th><th>Other Executives</th></tr> </thead> <tbody> <tr> <td>Safety<sup>(1)</sup></td><td>25%</td><td>17.5%</td></tr> <tr> <td>EBIT/Sales<sup>(1)</sup></td><td>45%</td><td>31.5%</td></tr> <tr> <td>Sales/Net Operating Assets (NOA)<sup>(1)</sup></td><td>30%</td><td>21%</td></tr> <tr> <td>Strategic Initiatives</td><td>N/A</td><td>30%</td></tr> <tr> <td>Total</td><td>100%</td><td>100%</td></tr> </tbody> </table> <p><sup>(1)</sup> The targets applicable to safety and financial measures are based on the Executive's role. Regional Executives will have 50% linked to Group and 50% to Regional performance. The Group Executive Manufacturing &amp; Supply (M&amp;S) will have 50% of safety performance linked to M&amp;S performance and 50% linked to Group performance. The Sales/NOA measure for the Group Executive, Manufacturing &amp; Supply and Chief Commercial Officer will be replaced with an alternative financial measure more closely aligned to growth and cost. The CEO and Group Executives will be assessed on Group performance only.</p> <ul style="list-style-type: none"> <li>Strategic initiatives for other Executives will include measures relating to ongoing transformation, systems and process improvements and strengthening Orica's culture.</li> </ul>	Metric	CEO	Other Executives	Safety <sup>(1)</sup>	25%	17.5%	EBIT/Sales <sup>(1)</sup>	45%	31.5%	Sales/Net Operating Assets (NOA) <sup>(1)</sup>	30%	21%	Strategic Initiatives	N/A	30%	Total	100%	100%	<ul style="list-style-type: none"> <li>of Key Control Verifications resulting from Orica's Major Hazards Program.</li> <li>Operating Efficiency (EBIT/Sales): Sustainably increase productivity and devolve responsibility to regional businesses.</li> <li>Capital efficiency (Sales/Net Operating Assets): Enhance returns on invested capital, deliver enabling technology, develop adjacency growth and optimise capital allocation.</li> <li>EBIT will apply given its transparency to shareholders. Net Operating Assets (NOA) will be determined based on rolling 12 month average assets.</li> <li>While not specifically included as an STI metric for the CEO, the Board will continue to measure progress against rigorous externally validated employee engagement and organisation health baselines and against plans to improve engagement and strengthen business conduct and compliance frameworks. Building and strengthening Orica's culture, diversity and business conduct framework is a specific focus area for the Human Resources &amp; Compensation Committee.</li> </ul>
Metric	CEO	Other Executives																		
Safety <sup>(1)</sup>	25%	17.5%																		
EBIT/Sales <sup>(1)</sup>	45%	31.5%																		
Sales/Net Operating Assets (NOA) <sup>(1)</sup>	30%	21%																		
Strategic Initiatives	N/A	30%																		
Total	100%	100%																		
<b>Board discretion</b>	<ul style="list-style-type: none"> <li>Board discretion has been removed as a specific scorecard measure.</li> </ul>	<ul style="list-style-type: none"> <li>The Board still has overriding discretion to adjust part or all of the remuneration outcomes and, consistent with 2016 and 2017, will consider adjustment of STI outcomes in the case of fatalities.</li> </ul>																		
<b>Term and deferral percentage</b>	<ul style="list-style-type: none"> <li>In addition to the 1 year deferral period, a 3 year holding lock on STI deferred equity post vesting will apply.</li> <li>This effectively results in a 5 year incentive arrangement (1 year performance period + 1 year deferral + 3 year holding lock).</li> <li>STI deferral percentage remains unaltered from FY2017 (50% for the CEO and 33.33% for other Executives).</li> </ul>	<ul style="list-style-type: none"> <li>The new holding locks support <ul style="list-style-type: none"> <li>longer term decision making and further alignment to shareholders interests, and</li> <li>increased management shareholding – both in terms of quantum and duration.</li> </ul> </li> </ul>																		
<b>STI opportunity</b>	<ul style="list-style-type: none"> <li>No change is being made to the current STI opportunity for the CEO or Executives.</li> </ul>																			
<b>LTI</b>																				
<b>Performance measure</b>	<ul style="list-style-type: none"> <li>Return on Net Assets (RONA) for the Orica Group will apply as a single LTI measure.</li> </ul> <p>RONA will be calculated as annual EBIT/rolling 12 month Net Operating Assets (calculated on an average basis over 3 financial years).</p>	<ul style="list-style-type: none"> <li>For the transformation period, the long-term incentive metric will be RONA, which is most closely aligned to the objectives of sustainable productivity improvement and efficient capital allocation, to enable long-term shareholder value creation.</li> <li>The combination of the RONA metric together with increased holding locks driving long-term shareholding will ensure that management and shareholders' interests are aligned in growing Orica for the long term.</li> <li>The Relative Total Shareholder Return (RTSR) metric has been replaced with extended holding locks to increase alignment. RTSR was not valued due to the cyclicality of the industry, the difficulty of creating an appropriate comparator group and the lack of direct management control over this metric.</li> </ul>																		



# Directors' Report - Remuneration Report 2017 (audited)

For the year ended 30 September

<b>Targets and vesting schedule</b>	<p>The vesting schedule for the RONA performance condition is:</p> <table><tr><th>RONA Performance</th><th>% of Rights vesting</th></tr><tr><td>Below 13.6%</td><td>No vesting</td></tr><tr><td>At 13.6%</td><td>30% of rights vest</td></tr><tr><td>Between 13.6% and 14.0%</td><td>Straight line vesting between 30% and 60% of rights vest</td></tr><tr><td>At 14.0%</td><td>60% of rights vest</td></tr><tr><td>Between 14.0% and 14.7%</td><td>Straight line vesting between 60% and 100% of rights vest</td></tr><tr><td>At or above 14.7%</td><td>100% of rights vest</td></tr></table>	RONA Performance	% of Rights vesting	Below 13.6%	No vesting	At 13.6%	30% of rights vest	Between 13.6% and 14.0%	Straight line vesting between 30% and 60% of rights vest	At 14.0%	60% of rights vest	Between 14.0% and 14.7%	Straight line vesting between 60% and 100% of rights vest	At or above 14.7%	100% of rights vest	<ul style="list-style-type: none"><li>RONA targets reflect the Board's expectations for returns through the current industry/market cycle, Orica's Corporate Plan and Transformation Program.</li><li>RONA targets are set to provide genuine opportunity for outperformance to be rewarded.</li><li>For the FY2018-20 LTI grant, the RONA required for maximum (stretch) vesting is set to reflect recovery to RONA levels that generate long-term value for shareholders (i.e., recovery to 19% RONA within 5 years). Management must deliver average RONA aligned to FY2017 outcomes to achieve threshold vesting. To achieve target or above-target vesting for this grant, management must deliver EBIT growth that is significantly above the Board's view of underlying explosives market growth and is in the 2nd quartile of EBIT growth rates achieved by ASX100 Industrials and Materials companies over the preceding 3-5 years.</li></ul>																										
RONA Performance	% of Rights vesting																																									
Below 13.6%	No vesting																																									
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<b>Term</b>	<ul style="list-style-type: none"><li>In addition to the 3 year LTI performance period retained, a 2 year holding lock will apply to LTI shares post vesting</li><li>This effectively results in a 5 year incentive arrangement (3 year performance period + 2 year holding lock)</li></ul>	<ul style="list-style-type: none"><li>The new holding locks provide further alignment to shareholders and support long-term decision making given share price exposure.</li></ul>																																								
<b>Opportunity (LTI grant value as % FAR)</b>	<ul style="list-style-type: none"><li>CEO: 215% FAR (increased from 180% FAR)</li><li>Other Executives: 120% (increased from 100% FAR)</li></ul>	<ul style="list-style-type: none"><li>An adjustment will be made to the LTI opportunity for the CEO and Executives to maintain the current value of total remuneration taking into account incremental holding locks but discounting for dividends and other benefits of deferral. On an adjusted basis there is no change to remuneration.</li></ul>																																								
<b>Remuneration Mix</b>	<p>The graphs below show the revised minimum, target and maximum remuneration mix for financial year 2018, based on the earnings of the MD &amp; CEO and other Executive KMP<sup>(1)(2)</sup>.</p> <div><p style="text-align: center;"><b>Managing Director and CEO</b></p><table><thead><tr><th>Level</th><th>FAR</th><th>STI (Cash)</th><th>STI (Deferred)</th><th>LTI</th></tr></thead><tbody><tr><td>Minimum</td><td>100%</td><td></td><td></td><td></td></tr><tr><td>Target</td><td>29%</td><td>15%</td><td>15%</td><td>41%</td></tr><tr><td>Maximum</td><td>19%</td><td>19%</td><td>19%</td><td>43%</td></tr></tbody></table></div> <div><p style="text-align: center;"><b>Other Executive KMP (average)</b></p><table><thead><tr><th>Level</th><th>FAR</th><th>STI (Cash)</th><th>STI (Deferred)</th><th>LTI</th></tr></thead><tbody><tr><td>Minimum</td><td>100%</td><td></td><td></td><td></td></tr><tr><td>Target</td><td>42%</td><td>17%</td><td>9%</td><td>32%</td></tr><tr><td>Maximum</td><td>29%</td><td>24%</td><td>12%</td><td>35%</td></tr></tbody></table></div>		Level	FAR	STI (Cash)	STI (Deferred)	LTI	Minimum	100%				Target	29%	15%	15%	41%	Maximum	19%	19%	19%	43%	Level	FAR	STI (Cash)	STI (Deferred)	LTI	Minimum	100%				Target	42%	17%	9%	32%	Maximum	29%	24%	12%	35%
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<sup>(1)</sup> Target remuneration mix assumes STI at target and a fair value calculation (as per AASB 2 *Share-based Payment*) of the long-term incentive (LTI) award at grant based on the FY2017 external valuation from PricewaterhouseCoopers.

<sup>(2)</sup> Maximum remuneration mix assumes STI at maximum (two times target for the CEO) and LTI at grant value with no adjustment for fair value.

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For the year ended 30 September

## Summary of other changes:

The table below summarises other changes to the FY2018 Executive Remuneration Framework compared to the current FY2017 Framework:

Feature	Short-Term Incentive		Long-Term Incentive	
	Current	Proposed	Current	Proposed
Treatment of equity on cessation of employment (e.g., resignation, dismissal for misconduct)	Unvested deferred shares forfeited	Unvested deferred shares forfeited  Vested shares remain under holding locks until the end of further 3 year period	Unvested LTI forfeited	Unvested LTI forfeited  Vested LTI shares remain under holding locks until the end of further 2 year period
Termination of equity on cessation of employment (e.g., retirement, redundancy, mutually agreed separation, ill-health etc.)	Unvested deferred shares remain 'on foot' until the end of the deferral period	Unvested deferred shares remain 'on foot' until the end of the deferral period  Vested shares remain under holding locks until the end of further 3 year period	Pro-rata unvested LTI remains 'on-foot' until end of 3 year performance period	Pro-rata unvested LTI remains 'on-foot' until end of 3 year performance period  Vested LTI shares remain under holding locks until the end of further 2 year period
Malus	Applies to unvested Cash and deferred shares (during the deferral period)	Applies to unvested Cash and deferred shares (during the deferral period) but does not apply to vested shares subject to the holding locks	Applies to unvested LTI	Applies to unvested LTI but does not apply to vested shares subject to the holding locks
Minimum shareholding requirement	Shareholding equal to 100% FAR to be accumulated over six years from the end of calendar year 2016 or six years from the end of the calendar year in which an executive joins Orica. Whilst the minimum shareholding requirement has not been adjusted, target STI and LTI outcomes under the proposed framework would likely provide an equity holding in excess of 600% FAR for the CEO and over 300% for Executives over a 5 year period.			

## Section 6: Remuneration tables and data

This section outlines Executive KMP remuneration (in accordance with the Australian Accounting Standards).

### 6.1 Executive KMP remuneration

Details of the nature and amount of each element of remuneration of Executive KMP are set out in the table below:

Remuneration outcomes presented in these tables are calculated with reference to the Corporation Act 2001 and relevant Australian Accounting Standards rather than the basis of take-home pay. Examples of what this means from a presentation of total package perspective are as follows:

- Part of STI awards are paid in deferred shares. These are recognised as an expense typically over two years, including the year of award. This year's outcome includes expenses relating to this year's and last year's deferred shares.
- LTI awards are recognised over a performance period of 3 years, the value detailed relates to their assessed value when originally granted to the Executive KMP. Note the assessed value at grant can be significantly different to the value realised upon vesting if the share price moves materially.
- In some circumstances (LTEIP, LTIRP and LTIP plans) amounts that have previously been recorded as remuneration are reversed due to non-vesting of shares or rights where non-market based performance hurdles are not met.

# Directors' Report - Remuneration Report 2017 (audited)

For the year ended 30 September

	<u>Short-term employee benefits</u>			<u>Post-employment benefits</u>					
	Base (Fixed) Pay \$000	Cash STI Payment <sup>(1)</sup> \$000	Other Benefits <sup>(2)</sup> \$000	Other Long-Term Benefits <sup>(3)</sup> \$000	Super- annuation Benefits \$000	Termi- nation Benefits \$000	Total excluding SBP* Expense \$000	SBP Expense <sup>(4) (7)</sup> \$000	Total \$000
<b>Current Executive Directors</b>									
<b>A Calderon</b>									
2017	1,780.3	949.8	10.0	-	19.7	-	2,759.8	1,892.2	4,652.0
2016	1,780.6	710.0	11.9	-	19.4	-	2,521.9	890.7	3,412.6
<b>Current Executive KMP</b>									
<b>T H Schutte</b>									
2017	950.0	601.6	67.1	-	-	-	1,618.7	589.2	2,207.9
2016	950.0	440.7	22.2	-	-	-	1,412.9	212.0	1,624.9
<b>J K Bonnor<sup>(5)</sup></b>									
2017	822.2	399.9	82.6	13.9	19.7	-	1,338.3	502.8	1,841.1
2016	850.9	235.6	78.4	9.4	19.4	-	1,193.7	171.7	1,365.4
<b>D Cuzzubbo</b>									
2017	780.3	465.2	39.2	-	19.7	-	1,304.4	322.1	1,626.5
<b>T J Edmondstone<sup>(6)</sup></b>									
2017	820.3	325.7	48.4	14.0	19.7	839.9	2,068.0	521.1	2,589.1
2016	827.0	263.1	550.4	38.4	13.0	-	1,691.9	279.7	1,971.6
<b>A J Melbourne<sup>(5)</sup></b>									
2017	874.5	455.2	277.5	-	4.9	-	1,612.1	712.3	2,324.4
2016	637.4	230.5	199.5	-	14.6	-	1,082.0	488.5	1,570.5
<b>S F Pinto<sup>(5)</sup></b>									
2017	538.9	257.4	0.1	-	47.1	-	843.5	327.6	1,171.1
2016	523.9	193.1	57.9	-	45.8	-	820.7	(36.4)	784.3
<b>Total Current Executive KMP</b>									
2017	4,786.2	2,505.0	514.9	27.9	111.1	839.9	8,785.0	2,975.1	11,760.1
2016	3,789.2	1,363.0	908.4	47.8	92.8	-	6,201.2	1,115.5	7,316.7
<b>Former Executive KMP</b>									
<b>R Hoggard<sup>(5)(8)</sup></b>									
2017	156.3	61.6	17.5	-	-	-	235.4	64.7	300.1
2016	949.7	157.2	(2.4)	-	-	-	1,104.5	289.7	1,394.2
<b>Total Executive KMP</b>									
2017	4,942.5	2,566.6	532.4	27.9	111.1	839.9	9,020.4	3,039.8	12,060.2
2016	4,738.9	1,520.2	906.0	47.8	92.8	-	7,305.7	1,405.2	8,710.9
<b>Total</b>									
2017	6,722.8	3,516.4	542.4	27.9	130.8	839.9	11,780.2	4,932.0	16,712.2
2016	6,519.5	2,230.2	917.9	47.8	112.2	-	9,827.6	2,295.9	12,123.5

\* Share Based Payments (SBP).

(1) Cash STI Payment includes payments relating to FY2017 performance accrued but not paid until FY2018.

(2) These benefits include relocation costs, car parking, medical and insurance costs and movements in annual leave accrual (inclusive of any applicable fringe benefits tax). For overseas based Executives KMP other benefits include reimbursement of accommodation and health insurance.

(3) This benefit includes the movement in long service leave accrual.

(4) Refer to Section 3.5. This includes the value calculated under AASB 2 *Share-based Payment* to Executives which vest over 3 years. Value only accrues to the Executive KMP when performance conditions have been met. The Share Based Payments expense represents the amount required under AASB 2 to be expensed during the year in respect of current and past long-term incentive allocations to Executive KMP. These amounts are therefore not amounts actually received by Executive KMP during the year nor may they be payable to the Executive KMP at any other time if performance hurdles are not met. The mechanism which determines whether or not long-term incentives vest in the future is described in Section 3.5.

(5) For overseas based Executive KMP, salary reported is based on the salary figure in overseas currency converted at the average foreign exchange rate for the year.

(6) For further details on TJ Edmondstone's severance payment refer to Section 4.4.

(7) Under AASB 2, STI paid to Executives as deferred equity is accounted for as a share based payment and expensed over two years. Accordingly, 50% of the value of the deferred equity has been included in the Executives share based payments expense in FY2017 and the remainder will be included in FY2018.

(8) FY2017 remuneration disclosure is pro-rated for the period R Hoggard was a reportable KMP.

# Directors' Report - Remuneration Report 2017 (audited)

For the year ended 30 September

## 6.2 Summary of awards held under Orica's LTI and STI deferred share arrangements

Details of LTIP and LTIRP rights, sign-on rights, shares acquired under LTEIP and deferred shares awarded under the STI plan are set out in the table below:

For the year ended 30 September 2017	Grant date	Granted during FY2017	Vested	Lapsed	Balance at year end <sup>(2)</sup>	Value of instruments at grant date \$	Value of equity instruments included in compensation for the year \$
<b>Current Executive Directors</b>							
<b>A Calderon</b>							
LTIP rights	30 Dec 16	192,742	-	-	192,742	2,639,602	580,257
LTIP rights	22 Feb 16	-	-	-	220,000	1,977,800	482,014
Deferred shares <sup>(1)</sup>	1 Dec 16	42,237	-	-	42,237	710,010	355,005
Deferred shares	1 Dec 15	-	28,298	-	-	452,213	-
<b>Current Executive KMP</b>							
<b>T H Schutte</b>							
LTIP rights	30 Dec 16	56,513	-	-	56,513	773,946	170,134
LTIP rights	22 Feb 16	-	-	-	72,353	650,453	158,524
Deferred shares <sup>(1)</sup>	1 Dec 16	13,106	-	-	13,106	220,318	110,159
<b>J K Bonnor</b>							
LTIP rights	30 Dec 16	47,864	-	-	47,864	655,497	144,096
LTIP rights	22 Feb 16	-	-	-	65,137	585,582	142,714
LTIP rights	23 Feb 15	-	-	-	23,940	309,425	35,596
Deferred shares <sup>(1)</sup>	1 Dec 16	7,008	-	-	7,008	117,811	58,906
Deferred shares	1 Dec 15	-	4,525	-	-	72,322	-
LTEIP shares	21 Feb 14	-	-	36,096	-	292,378	21,562
<b>D Cuzzubbo</b>							
LTIP rights	30 Dec 16	47,590	-	-	47,590	651,745	143,271
LTIP rights	22 Feb 16	-	-	-	28,560	256,754	62,574
<b>T J Edmondstone</b>							
LTIP rights	30 Dec 16	49,970	-	-	49,970	684,339	150,437
LTIP rights	22 Feb 16	-	-	-	63,975	575,135	140,168
LTIP rights	23 Feb 15	-	-	-	40,840	528,061	60,724
Deferred shares <sup>(1)</sup>	1 Dec 16	7,824	-	-	7,824	131,538	65,769
Deferred shares	1 Dec 15	-	10,198	-	-	155,803	-
LTEIP shares	21 Feb 14	-	-	37,872	-	306,763	22,623
<b>A J Melbourne</b>							
LTIP rights	30 Dec 16	52,760	-	-	52,760	722,548	158,836
LTIP rights	22 Feb 16	-	-	-	68,545	616,220	150,180
Deferred shares <sup>(1)</sup>	1 Dec 16	6,854	-	-	6,854	115,220	57,610
Sign-on Rights	12 Jan 16	-	17,758	-	35,515	670,352	231,845
<b>S F Pinto</b>							
LTIP rights	30 Dec 16	32,416	-	-	32,416	443,937	97,589
LTIP rights	22 Feb 16	-	-	-	40,488	363,987	88,708
LTIP rights	23 Feb 15	-	-	-	19,291	249,336	28,684
Deferred shares <sup>(1)</sup>	1 Dec 16	5,741	-	-	5,741	96,509	48,254
<b>Former Executive KMP</b>							
<b>R Hoggard<sup>(3)</sup></b>							
LTIP rights	22 Feb 16	-	-	-	72,698	653,555	26,547
LTIP rights	23 Feb 15	-	-	-	46,186	597,119	11,446
Deferred shares <sup>(1)</sup>	1 Dec 16	4,673	-	-	4,673	78,566	6,547
Deferred shares	1 Dec 15	-	11,534	-	-	171,655	-
LTEIP shares	21 Feb 14	-	-	47,931	-	388,241	4,772

<sup>(1)</sup> Deferred shares awarded on 1 December 2016 in respect of the FY2016 STI award.

<sup>(2)</sup> No awards were exercised during FY2017.

<sup>(3)</sup> SBP disclosure is pro-rated for the period R Hoggard was a KMP.

The number of Rights issued under the LTIP issued to Executive KMP and senior management and accounting values is detailed below:

Grant date	Vesting date	Number of rights issued	Number of rights held at 30 September 2017	Number of rights held at 30 September 2016	Number of participants at 30 September 2017	Number of participants at 30 September 2016	Fair value of rights at grant \$
10 July 17 <sup>(1)</sup>	30 Nov 19	98,410	96,649	-	48	-	1,742,349
30 Dec 16	30 Nov 19	1,712,055	1,659,139	-	284	-	23,446,593
22 Feb 16	30 Nov 18	2,163,913	1,928,189	2,079,875	187	215	19,453,578
4 July 16 <sup>(1)</sup>	30 Nov 18	150,793	146,681	150,793	13	14	1,090,987
23 Feb 15	30 Nov 17	1,505,466	1,036,602	1,093,434	190	200	19,465,675

# Directors' Report - Remuneration Report 2017 (audited)

For the year ended 30 September

The assumptions underlying the rights valuations are:

Grant date	Price of Orica Shares at grant date \$	Expected volatility in share price %	Dividends expected on shares %	Risk free interest rate %	Fair value per right ROC <sup>(2)</sup> \$	Fair value per right RTSR <sup>(2)</sup> \$
10 July 17 <sup>(1)</sup> <sup>(3)</sup>	20.68	25	3.00	1.73	19.35	16.06
30 Dec 16	17.68	30	3.75	1.96	15.87	11.52
22 Feb 16	13.84	30	5.50	1.80	12.04	5.94
4 July 16 <sup>(1)</sup>	12.39	30	4.50	1.62	11.23	3.24
23 Feb 15	19.85	25	4.00	1.88	17.92	7.93

<sup>(1)</sup> A supplementary LTI offer was made in July 2016 and July 2017 to selected senior management other than Executives who joined Orica after the grant date of the main offer in February 2016 and December 2016. The terms and conditions of this supplementary offer are the same as the main offer.

<sup>(2)</sup> For Executives 50% of Rights granted are subject to a Return on Capital (ROC) performance condition and 50% are subject to Relative Total Shareholder Return (RTSR) performance.

<sup>(3)</sup> For senior management 25% of Rights granted are subject to a Return on Capital (ROC) performance condition and 25% are subject to Relative Total Shareholder Return (RTSR) performance and 50% are subject to service condition. The ROC and service condition rights had a fair value per right of \$19.35 and TSR right of \$16.06.

## Non-Executive Director Remuneration

### Section 7: Remuneration Policy, structure and outcomes

This section outlines Non-Executive Directors' remuneration.

#### 7.1 Overview of Non-Executive Directors' remuneration and arrangements

Fees for Non-Executive Directors (Directors) are set by reference to a number of relevant considerations:

- the individual's responsibilities and time commitment attaching to the role of Director and Committee membership,
- the Company's existing remuneration policies and survey data sourced from external specialists, and
- fees paid by comparable companies and the level of remuneration required to attract and retain directors of the appropriate calibre.

Directors do not receive any form of performance based pay to preserve their independence.

The current aggregate fee pool for Directors of \$2,500,000 was approved by shareholders at the Company's 2010 Annual General Meeting. The Company pays both superannuation and committee fees to the Directors out of the maximum aggregate fee pool. Committee fees are not paid to the Chairman of the Board.

#### 7.2 Non-Executive Director fees and other benefits

The table below sets out the elements of Directors' fees and other benefits:

Fees/benefits	Description	2017 \$	Included in shareholder approved cap
Board fees	<b>Main Board</b>		
	<i>Chairman</i> - Malcolm Broomhead	510,000	Yes
	<i>Members</i> - all Non-Executive Directors	170,000	
Committee fees	<b>Board Audit and Risk Committee (BARC)</b>		
	<i>Chairman</i> - Gene Tilbrook	45,000	
	<i>Members</i> - Maxine Brenner, Lim Chee Onn (1 October 2016 - 31 January 2017), Karen Moses (appointed 1 February 2017)	22,500	
	<b>Human Resources and Compensation Committee (HR&amp;C)</b>		
	<i>Chairman</i> - Maxine Brenner	45,000	Yes
	<i>Members</i> - Ian Cockerill, Lim Chee Onn	22,500	
	<b>Safety, Health, Environment &amp; Community Committee (SH&amp;E)</b>		
	<i>Chairman</i> - Ian Cockerill	45,000	
	<i>Members</i> - Lim Chee Onn, Gene Tilbrook, Karen Moses (appointed 1 June 2017)	22,500	
Superannuation	Superannuation contributions are made on behalf of the Directors at a rate of 9.5% being the current superannuation guarantee contribution rate. The Company makes contributions up to the Maximum Contributions Base to avoid imposition of the superannuation guarantee charge.		Yes
Other fees/benefits	Directors receive a travel allowance based on the hours travelled to a Board meeting. If travel to attend a meeting takes between 3 and 12 hours, the allowance paid is \$2,500 per meeting. If travel time exceeds 12 hours, the allowance paid is \$5,000 per meeting. Directors are also entitled to be paid additional fees for extra services or special exertions.		No

# Directors' Report - Remuneration Report 2017 (audited)

For the year ended 30 September

## 7.3 Non-Executive Director remuneration

Details of Non-Executive Directors' remuneration are set out in the following table:

	<u>Short-term employee benefits</u>			<u>Post-employment benefits</u>	
	Directors fees \$000	Committee fees \$000	Other benefits <sup>(1)</sup> \$000	Superannuation \$000	Total \$000
<b>Current Directors</b>					
<b>M W Broomhead, Chairman</b>					
2017	510.0	-	0.3	19.7	530.0
2016	396.7	-	-	15.9	412.6
<b>M N Brenner</b>					
2017	170.0	67.5	-	19.7	257.2
2016	170.0	63.8	-	19.4	253.2
<b>I D Cockerill<sup>(2)</sup></b>					
2017	170.0	67.5	34.9	19.7	292.1
2016	170.0	67.5	41.5	19.4	298.4
<b>K A Moses</b>					
2017	170.0	22.5	-	18.2	210.7
2016	42.5	-	-	4.0	46.5
<b>Lim Chee Onn</b>					
2017	170.0	52.5	10.0	19.7	252.2
2016	170.0	60.0	20.0	19.4	269.4
<b>G T Tilbrook</b>					
2017	170.0	67.5	17.5	19.7	274.7
2016	170.0	67.5	12.5	19.4	269.4
<b>Former Directors</b>					
<b>R R Caplan, Chairman</b>					
2016	127.5	-	-	4.8	132.3
<b>M Parkinson</b>					
2016	42.5	11.3	-	5.1	58.9
<b>N L Scheinkestel</b>					
2016	28.3	11.3	-	3.8	43.4
<b>Total Non-Executive Directors</b>					
2017	1,360.0	277.5	62.7	116.7	1,816.9
2016	1,317.5	281.4	74.0	111.2	1,784.1

<sup>(1)</sup> These benefits include travel allowances and car parking benefits.

<sup>(2)</sup> Other benefits for I D Cockerill include spousal travel (inclusive of any fringe benefits tax).

## Other remuneration information

### Section 8: Remuneration governance and other remuneration arrangements

Effective governance is central to Orica's remuneration strategy and approach. This section outlines the key elements of Orica's remuneration governance, Executive and Director share ownership, Malus and securities dealing policies and Executive service agreements.

#### 8.1 Responsibility for setting remuneration

The Human Resources and Compensation Committee (the Committee) is delegated responsibility by the Board for reviewing and making recommendations on remuneration policies for the Company, including, in particular, the policies governing the remuneration of Executives.

Activities of the Committee are governed by its Terms of Reference, which are available on the Company's website at [www.orica.com](http://www.orica.com). Amongst other responsibilities, the Committee assists the Board in its oversight of:

- remuneration policy for Executives;
- level and structure of remuneration for Senior Executives, including short-term and long-term incentive plans;
- the company's compliance with applicable legal and regulatory requirements in respect of remuneration matters; and
- approval of the allocation of shares and awards under the Long-Term Incentive Plan and General Employee Exempt Share Plan.

# Directors' Report - Remuneration Report 2017 (audited)

For the year ended 30 September

## 8.2 Use of remuneration advisors during the year

No remuneration recommendations were received from Remuneration Consultants as defined under the *Corporations Act 2001*.

## 8.3 Executive and Director share ownership

The Board considers it an important foundation of the Orica Executive Framework that Executives and Directors hold a significant number of Orica shares to encourage Executives and Directors to behave like long-term investment owners.

### (a) Executives

An Executive Minimum Shareholding Guideline was introduced from 1 January 2015 which requires Executives to build their shareholding so that they have a significant exposure to Orica's share price performance. Executives must accumulate a minimum vested shareholding in Orica equivalent to 50% fixed remuneration (and 100% fixed remuneration for the MD & CEO ) over six years from the end of calendar year 2016 for existing Executives or from commencement of employment for new appointments. It is anticipated that with the new Executive Remuneration Framework, at target vesting, the CEO will have at least 600% of FAR in shareholding with Executives at over 300% of FAR over a period of 5 years.

### (b) Non-Executive Directors

To create alignment between Directors and shareholders, Directors are required to hold (or have a benefit in) shares in the Company equivalent in value to at least one year's base fees. Such holdings must be acquired over a reasonable time using personal funds and includes shares held in superannuation accounts or other entities controlled by the Director.

The table below sets out the number of shares held directly and indirectly by Directors and Executive KMP:

	Balance at 1 October 2016	Acquired <sup>(1)</sup>	Disposed	Balance at 30 September 2017	Number of shares & rights not vested
<b>Executive KMP</b>					
A Calderon	11,920	28,298	13,866	26,352	454,979
T H Schutte	-	-	-	-	141,972
J K Bonnor	-	4,525	-	4,525	143,949
D Cuzzubbo	-	-	-	-	76,150
T J Edmondstone	-	10,198	10,198	-	162,609
A J Melbourne	-	17,758	-	17,758	163,675
S F Pinto	-	-	-	-	97,936
<b>Former Executive KMP</b>					
R Hoggard	1,248	11,556	-	12,804	178,302
<b>Non-Executive Directors</b>					
M W Broomhead	30,300	-	-	30,300	-
M N Brenner	6,039	-	-	6,039	-
I D Cockerill	16,138	459	-	16,597	-
K A Moses	8,000	-	-	8,000	-
Lim Chee Onn	11,000	-	-	11,000	-
G T Tilbrook	9,000	-	-	9,000	-
<b>Total</b>	<b>93,645</b>	<b>72,794</b>	<b>24,064</b>	<b>142,375</b>	<b>1,419,572</b>

<sup>(1)</sup> Shares acquired, including through the Dividend Reinvestment Plan (DRP).



# Directors' Report - Remuneration Report 2017 (audited)

For the year ended 30 September

## 8.4 Share trading policy and Malus

### Malus

A Malus Standard was introduced in FY2015 which allows the Board to require any Executive to forfeit in full or in part any unvested LTIP or deferred STI award as a result of:

- a) a material misstatement in financial results;
- b) behaviour that brings Orica into disrepute or has the potential to do so;
- c) serious misconduct; or
- d) any other circumstance, which the Board has determined in good faith.

In considering whether any adjustment is necessary in respect of any or all participants, the Board may take into account the individual's level of responsibility, accountability or influence over the action or inaction, the quantum of the actual loss or damage, any impact on Orica's financial soundness, the extent to which any internal policies, external regulations and/or risk management requirements were breached and any other relevant matters.

### Securities dealing

All executives are required to comply with Orica's Securities' Dealing Policy at all times and in respect of all Orica shares held, including any defined employee share plans. Trading is subject to pre-clearance and is not permitted during designated blackout periods unless there are exceptional circumstances. In addition, Executives are prohibited from using any Orica shares as collateral in any margin loan or derivative arrangement.

## 8.5 Service agreements

Remuneration and other terms of employment for Executives are formalised in service agreements. The terms and conditions of employment of each Executive reflect market conditions at the time of their contract negotiation on appointment or subsequently. The material terms of the employment contracts for the current Executives are summarised in the table below and subject to applicable law.

Contractual Term	Executives affected	Conditions
Duration of contract	All Executive	Permanent full-time employment contract until notice given by either party.
Notice period to be provided by Executive	All Executive	6 months.
Notice period to be provided by Orica	MD & CEO  Other Executives	6 months. Orica may elect to make payment in lieu of notice. In the event of Orica terminating the service agreement, the MD & CEO will be entitled to receive a termination payment of 6 months' salary in addition to the notice period. Should the MD & CEO's service agreement be terminated by mutual agreement, 6 month's salary is payable (in which case no notice is required to be given).  13 weeks (26 weeks for Tom Schutte). Should the Company wish to terminate any of the other Executives for convenience, the Company must provide the Executive a payment equal to 6 months of their average fixed annual remuneration over the preceding 3 years, unless otherwise specified in their employment contract. For a limited number of Executives, a payment equal to 12 months is required.
Post-employment restraints	All Executives	Each Executive has also agreed to restraints and non-solicitation undertakings as part of their service agreements, which will apply upon cessation of their employment to protect the legitimate business interests of Orica.

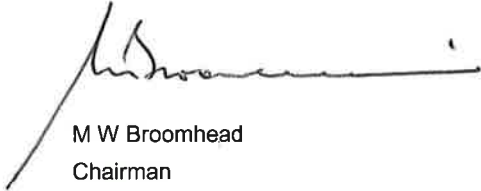


# Directors' Report

## Rounding

The amounts shown in this report and in the financial statements have been rounded off, except where otherwise stated, to the nearest tenth of a million dollars, the Company being in a class specified in the *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* dated 24 March 2016.

This Directors' Report is signed on behalf of the Board in accordance with a resolution of the Directors of Orica Limited.



M W Broomhead  
Chairman



A Calderon  
Managing Director and Chief Executive Officer

Dated at Melbourne 3 November 2017.



# Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Orica Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Orica Limited for the financial year ended 30 September 2017 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Alison Kitchen

Partner

Melbourne, Australia

3 November 2017

# Income Statement

For the year ended 30 September

		<b>Consolidated</b>	
		<b>2017</b>	<b>2016</b>
	<b>Notes</b>	<b>\$m</b>	<b>\$m</b>
<b>Sales revenue</b>	(1)	<b>5,039.2</b>	5,091.9
<b>Other income</b>	(1)	<b>51.8</b>	64.1
<b>Expenses</b>			
Raw materials and inventories		<b>(2,229.1)</b>	(2,272.2)
Employee benefits expense		<b>(1,051.1)</b>	(1,092.5)
Depreciation and amortisation expense	(1)	<b>(261.2)</b>	(265.9)
Purchased services		<b>(348.0)</b>	(327.9)
Repairs and maintenance		<b>(160.9)</b>	(157.6)
Impairment of property, plant & equipment	(7)	<b>(0.1)</b>	(21.3)
Outgoing freight		<b>(272.8)</b>	(274.8)
Lease payments - operating leases		<b>(46.1)</b>	(41.1)
Other expenses		<b>(123.2)</b>	(104.3)
Share of net profit of associates accounted for using the equity method	(14)	<b>36.6</b>	39.2
<b>Total</b>		<b>(4,455.9)</b>	(4,518.4)
<b>Profit from operations</b>		<b>635.1</b>	637.6
<b>Net financing costs</b>			
Financial income		<b>28.2</b>	29.6
Financial expenses		<b>(99.9)</b>	(113.9)
<b>Net financing costs</b>		<b>(71.7)</b>	(84.3)
<b>Profit before income tax expense</b>		<b>563.4</b>	553.3
Income tax expense	(11)	<b>(164.0)</b>	(198.4)
<b>Net profit for the year</b>		<b>399.4</b>	354.9
<b>Net profit for the year attributable to:</b>			
Shareholders of Orica Limited		<b>386.2</b>	342.8
Non-controlling interests		<b>13.2</b>	12.1
<b>Net profit for the year</b>		<b>399.4</b>	354.9
		<b>cents</b>	<b>cents</b>
<b>Earnings per share</b>			
Earnings per share attributable to ordinary shareholders of Orica Limited:			
Basic earnings per share	(2)	<b>102.7</b>	92.0
Diluted earnings per share	(2)	<b>102.0</b>	92.0

The Income Statement is to be read in conjunction with the accompanying notes to the financial statements.

# Statement of Comprehensive Income

For the year ended 30 September

		Consolidated	
	Notes	2017 \$m	2016 \$m
<b>Net profit for the year</b>		<b>399.4</b>	354.9
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to Income Statement:</b>			
<i>Exchange differences on translation of foreign operations</i>			
Exchange gain/(loss) on translation of foreign operations	(11c)	<b>12.1</b>	(111.6)
Net loss on hedge of net investments in foreign subsidiaries	(11c)	<b>(118.0)</b>	(162.7)
<b>Net exchange differences on translation of foreign operations</b>		<b>(105.9)</b>	(274.3)
<i>Sundry items:</i>			
Net cash flow hedges	(11c)	<b>13.8</b>	2.8
<b>Items that will not be reclassified subsequently to Income Statement:</b>			
Net actuarial gain/(loss)	(11c)	<b>23.4</b>	(59.2)
<b>Other comprehensive loss for the period</b>		<b>(68.7)</b>	(330.7)
<b>Total comprehensive income for the period</b>		<b>330.7</b>	24.2
<b>Attributable to:</b>			
Shareholders of Orica Limited		<b>322.1</b>	14.8
Non-controlling interests		<b>8.6</b>	9.4
<b>Total comprehensive income for the period</b>		<b>330.7</b>	24.2

The Statement of Comprehensive Income is to be read in conjunction with the accompanying notes to the financial statements.

# Balance Sheet

As at 30 September

	Notes	Consolidated 2017 \$m	2016 \$m
<b>Current assets</b>			
Cash and cash equivalents	(3b)	516.9	328.0
Trade receivables	(5)	607.3	565.4
Other receivables		58.4	122.3
Inventories	(5)	538.4	517.8
Other assets		63.8	44.4
<b>Total current assets</b>		<b>1,784.8</b>	<b>1,577.9</b>
<b>Non-current assets</b>			
Other receivables		97.6	28.9
Investments accounted for using the equity method	(14)	184.6	188.1
Property, plant and equipment	(7)	2,741.5	2,725.3
Intangible assets	(8)	1,577.1	1,558.8
Deferred tax assets	(11d)	323.1	408.3
Other assets		76.5	108.5
<b>Total non-current assets</b>		<b>5,000.4</b>	<b>5,017.9</b>
<b>Total assets</b>		<b>6,785.2</b>	<b>6,595.8</b>
<b>Current liabilities</b>			
Trade payables	(5)	795.5	778.8
Other payables		264.3	282.4
Interest bearing liabilities	(3a)	24.3	321.7
Provisions	(6)	187.9	166.1
Other liabilities		25.3	41.8
<b>Total current liabilities</b>		<b>1,297.3</b>	<b>1,590.8</b>
<b>Non-current liabilities</b>			
Other payables		3.9	7.2
Interest bearing liabilities	(3a)	1,933.5	1,555.7
Provisions	(6)	397.3	484.2
Deferred tax liabilities	(11d)	88.5	70.2
Other liabilities		101.2	104.5
<b>Total non-current liabilities</b>		<b>2,524.4</b>	<b>2,221.8</b>
<b>Total liabilities</b>		<b>3,821.7</b>	<b>3,812.6</b>
<b>Net assets</b>		<b>2,963.5</b>	<b>2,783.2</b>
<b>Equity</b>			
Ordinary shares	(4a)	2,068.5	2,025.3
Reserves		(565.8)	(489.9)
Retained earnings		1,459.6	1,247.1
<b>Total equity attributable to ordinary shareholders of Orica Limited</b>		<b>2,962.3</b>	<b>2,782.5</b>
Non-controlling interests	(13)	1.2	0.7
<b>Total equity</b>		<b>2,963.5</b>	<b>2,783.2</b>

The Balance Sheet is to be read in conjunction with the accompanying notes to the financial statements.

# Statement of Changes in Equity

For the year ended 30 September

	Ordinary shares \$m	Retained earnings \$m	Foreign currency translation reserve \$m	Cash flow hedge reserve \$m	Other reserves \$m	Total \$m	Non- controlling interests \$m	Total equity \$m
<b>2016</b>								
Balance at 1 October 2015	1,954.4	1,247.0	(69.7)	(65.7)	(81.4)	2,984.6	2.6	2,987.2
Profit for the year	-	342.8	-	-	-	342.8	12.1	354.9
Other comprehensive income	-	(59.2)	(271.6)	2.8	-	(328.0)	(2.7)	(330.7)
<b>Total comprehensive income for the year</b>	-	283.6	(271.6)	2.8	-	14.8	9.4	24.2
<b>Transactions with owners, recorded directly in equity</b>								
Total changes in contributed equity	70.9	-	-	-	-	70.9	-	70.9
Share-based payments expense	-	-	-	-	(4.3)	(4.3)	-	(4.3)
Dividends/distributions	-	(283.5)	-	-	-	(283.5)	-	(283.5)
Dividends declared/paid to non-controlling interests	-	-	-	-	-	-	(11.3)	(11.3)
<b>Balance at the end of the year</b>	<b>2,025.3</b>	<b>1,247.1</b>	<b>(341.3)</b>	<b>(62.9)</b>	<b>(85.7)</b>	<b>2,782.5</b>	<b>0.7</b>	<b>2,783.2</b>
<b>2017</b>								
Balance at 1 October 2016	2,025.3	1,247.1	(341.3)	(62.9)	(85.7)	2,782.5	0.7	2,783.2
Profit for the year	-	386.2	-	-	-	386.2	13.2	399.4
Other comprehensive income	-	23.4	(101.3)	13.8	-	(64.1)	(4.6)	(68.7)
<b>Total comprehensive income for the year</b>	-	409.6	(101.3)	13.8	-	322.1	8.6	330.7
<b>Transactions with owners, recorded directly in equity</b>								
Total changes in contributed equity	43.2	-	-	-	-	43.2	-	43.2
Share-based payments expense	-	-	-	-	11.6	11.6	-	11.6
Divestment of non-controlling interests	-	-	-	-	-	-	(0.3)	(0.3)
Dividends/distributions	-	(197.1)	-	-	-	(197.1)	-	(197.1)
Dividends declared/paid to non-controlling interests	-	-	-	-	-	-	(7.8)	(7.8)
<b>Balance at the end of the year</b>	<b>2,068.5</b>	<b>1,459.6</b>	<b>(442.6)</b>	<b>(49.1)</b>	<b>(74.1)</b>	<b>2,962.3</b>	<b>1.2</b>	<b>2,963.5</b>

The Statement of Changes in Equity is to be read in conjunction with the accompanying notes to the financial statements.

# Statement of Cash Flows

For the year ended 30 September

		<b>Consolidated</b>	
		<b>2017</b>	<b>2016</b>
	<b>Notes</b>	<b>\$m</b>	<b>\$m</b>
		<b>Inflows/ (Outflows)</b>	<b>Inflow s/ (Outflow s)</b>
<b>Cash flows from operating activities</b>			
Receipts from customers		5,512.8	5,796.7
Payments to suppliers and employees		(4,823.6)	(4,820.5)
Interest received		28.2	30.0
Borrowing costs		(127.6)	(147.3)
Dividends received		34.5	38.4
Other operating revenue received		31.2	19.1
Net income taxes paid		(189.1)	(138.5)
<b>Net cash flows from operating activities</b>	(3b)	<b>466.4</b>	<b>777.9</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(248.0)	(211.3)
Payments for intangibles		(57.9)	(51.6)
Payments for purchase of businesses/controlled entities and investments		(0.5)	(3.8)
Proceeds from sale of property, plant and equipment		37.3	87.4
Net proceeds from sale of businesses/controlled entities		13.1	17.5
Proceeds from sale of investments		4.8	16.7
Disposal costs from sale of businesses/controlled entities		(3.6)	(30.8)
<b>Net cash flows used in investing activities</b>		<b>(254.8)</b>	<b>(175.9)</b>
<b>Cash flows from financing activities</b>			
Proceeds from long-term borrowings		1,638.4	3,551.4
Repayment of long-term borrowings		(1,165.3)	(3,686.0)
Net movement in short term financing		(309.5)	(139.9)
Dividends paid - Orica ordinary shares		(157.9)	(213.4)
Dividends paid - non-controlling interests		(7.1)	(12.3)
Payments for finance leases		(1.5)	(1.6)
Proceeds from issue of ordinary shares		0.6	0.8
<b>Net cash used in financing activities</b>		<b>(2.3)</b>	<b>(501.0)</b>
<b>Net increase in cash held</b>		<b>209.3</b>	<b>101.0</b>
Cash at the beginning of the year		316.2	260.8
Effects of exchange rate changes on cash		(8.6)	(45.6)
<b>Cash at the end of the year</b>	(3b)	<b>516.9</b>	<b>316.2</b>

The Statement of Cash Flow s is to be read in conjunction w ith the accompanying notes to the financial statements.

# Notes to the Financial Statements

For the year ended 30 September

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## About this report

This is the Annual Report of Orica Limited ('the Company' or 'Orica') and of its controlled entities (collectively 'the Group') for the year ended 30 September 2017.

It is a general purpose Financial Report which has been prepared by a for-profit entity in accordance with the requirements of applicable Australian Accounting Standards and the *Corporations Act 2001* and complies with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board.

It has been prepared on a historical cost basis, except for derivative financial instruments, superannuation commitments and investments in financial assets which have been measured at fair value. It is presented in Australian dollars which is Orica's functional and presentation currency.

The amounts shown have been rounded off, except where otherwise stated, to the nearest tenth of a million dollars, in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016*.

Orica's Directors have included information in this report that they deem to be material and relevant to the understanding of the financial statements.

Disclosure may be considered material and relevant if the dollar amount is significant due to size or nature, or the information is important to understand the:

- Group's current year results;
- impact of significant changes in Orica's business; or
- aspects of the Group's operations that is important to future performance.

Disclosure of information that is not material may undermine the usefulness of the Financial Report by obscuring important information.

In order to develop this Financial Report, management is required to make a number of judgements and apply estimates of the future as part of the application process of the Group's accounting policies. Judgements and estimates, which are material to this report, are highlighted in the following notes:

Note 5	<i>Working capital</i>
Note 6	<i>Provisions</i>
Note 7	<i>Property, plant and equipment</i>
Note 8	<i>Intangible assets</i>
Note 9	<i>Impairment testing of assets</i>
Note 11	<i>Taxation</i>
Note 20	<i>Superannuation commitments</i>
Note 22	<i>Contingent liabilities</i>



# Notes to the Financial Statements – Financial Performance

For the year ended 30 September

## Section A. Financial performance

A key element of the Group's current strategy is "to create sustainable shareholder value". This section highlights the results and performance of the Group for the year ended 30 September 2017.

### 1. Segment report

#### (a) Identification and description of segments

Orica's reportable segments are based on the internal management structure as reported to the Group's Chief Operating Decision Maker (the Group's Managing Director and CEO).

The reporting segments are as follows:

Reportable segments	Products/services
<ul style="list-style-type: none"><li>• Australia/Pacific and Indonesia</li><li>• North America</li><li>• Latin America</li><li>• Europe, Africa and Asia</li></ul>	Manufacture and supply of commercial explosives and blasting systems including technical services and solutions to the mining and infrastructure markets, and supply of mining chemicals including sodium cyanide for gold extraction.
<ul style="list-style-type: none"><li>• Minova</li></ul>	Minova is a provider of chemical and mechanical earth control products, adhesives and ground support solutions for the underground mining, construction, tunnelling and civil engineering industries.
<ul style="list-style-type: none"><li>• Global Support</li></ul>	Corporate and support costs which cannot otherwise be allocated to other segments on a reasonable basis, operation of the Botany Groundwater Treatment Plant and non-operating assets.

# Notes to the Financial Statements – Financial performance

For the year ended 30 September

## 1. Segment report (continued)

### (b) Reportable segments

2017

\$m

	Australia/Pacific and Indonesia	North America	Latin America	Europe, Africa and Asia	Minova	Global Support	Eliminations	Consolidated
<b>Revenue</b>								
External sales	1,518.7	1,199.1	874.9	980.6	452.1	13.8	-	5,039.2
Inter-segment sales	46.5	163.7	41.0	45.7	3.5	976.8	(1,277.2)	-
Total sales revenue	1,565.2	1,362.8	915.9	1,026.3	455.6	990.6	(1,277.2)	5,039.2
<b>Other income (refer to note 1c)<sup>(1)</sup></b>	(2.0)	2.8	8.8	16.5	12.9	12.8	-	51.8
Total revenue and other income	1,563.2	1,365.6	924.7	1,042.8	468.5	1,003.4	(1,277.2)	5,091.0
<b>Results before individually material items</b>								
Profit/(loss) before financing costs and income tax	343.5	187.5	61.3	101.7	13.1	(72.0)	-	635.1
Financial income								28.2
Financial expenses								(99.9)
<b>Profit before income tax expense</b>								563.4
Income tax expense								(164.0)
<b>Profit after income tax expense</b>								399.4
Profit attributable to non-controlling interests								(13.2)
<b>Profit after income tax expense before individually material items attributable to shareholders of Orica Limited</b>								386.2
<b>Individually material items (refer to note 1d)</b>								
Gross individually material items	-	-	-	-	-	-	-	-
Tax on individually material items	-	-	-	-	-	-	-	-
Net individually material items attributable to non-controlling interests								-
<b>Individually material items attributable to shareholders of Orica Limited</b>								-
<b>Net profit for the period attributable to shareholders of Orica Limited</b>								386.2
Segment assets	2,739.9	882.2	564.4	816.6	386.1	1,396.0	-	6,785.2
Segment liabilities	358.8	223.2	177.5	277.1	81.7	2,703.4	-	3,821.7
Investments accounted for using the equity method	3.2	173.6	5.0	1.4	-	1.4	-	184.6
Acquisitions of PPE and intangibles	161.7	48.0	20.5	29.8	9.0	63.5	-	332.5
Impairment of PPE	-	-	-	0.1	-	-	-	0.1
Impairment of inventories	1.1	0.8	1.9	0.1	0.4	3.2	-	7.5
Impairment of trade receivables	-	-	2.0	5.7	0.2	0.3	-	8.2
Depreciation and amortisation	117.6	36.3	25.4	31.2	9.1	41.6	-	261.2
Non-cash expenses: share based payments	1.1	1.2	0.5	1.3	0.9	6.6	-	11.6
Share of net profit of associates accounted for using the equity method	2.7	31.8	2.7	(0.6)	-	-	-	36.6

<sup>(1)</sup> Includes foreign currency gains/(losses) in various reportable segments.

# Notes to the Financial Statements – Financial performance

For the year ended 30 September

## 1. Segment report (continued)

(b) Reportable segments	Australia/Pacific and Indonesia	North America	Latin America	Europe, Africa and Asia	Minova	Global Support	Eliminations	Consolidated
2016								
\$m								
<b>Revenue</b>								
External sales	1,487.6	1,198.6	878.5	1,098.7	399.5	29.0	-	5,091.9
Inter-segment sales	57.1	161.4	41.5	42.6	7.0	853.0	(1,162.6)	-
Total sales revenue	1,544.7	1,360.0	920.0	1,141.3	406.5	882.0	(1,162.6)	5,091.9
<b>Other income (refer to note 1c)<sup>(1)</sup></b>	(0.9)	9.1	19.6	(7.5)	4.9	22.2	-	47.4
Total revenue and other income	1,543.8	1,369.1	939.6	1,133.8	411.4	904.2	(1,162.6)	5,139.3
<b>Results before individually material items</b>								
Profit/(loss) before financing costs and income tax	315.1	196.5	69.2	116.5	0.1	(55.2)	-	642.2
Financial income								29.6
Financial expenses								(113.9)
<b>Profit before income tax expense</b>								557.9
Income tax expense								(156.7)
<b>Profit after income tax expense</b>								401.2
Profit attributable to non-controlling interests								(12.1)
<b>Profit after income tax expense before individually material items attributable to shareholders of Orica Limited</b>								389.1
<b>Individually material items (refer to note 1d)</b>								
Gross individually material items	-	-	(21.3)	16.7	-	-	-	(4.6)
Tax on individually material items	-	-	-	(0.7)	-	(41.0)	-	(41.7)
Net individually material items attributable to non-controlling interests								-
<b>Individually material items attributable to shareholders of Orica Limited</b>								(46.3)
<b>Net profit for the period attributable to shareholders of Orica Limited</b>								342.8
<b>Segment assets</b>	2,676.4	858.0	533.8	837.7	372.3	1,317.6	-	6,595.8
<b>Segment liabilities</b>	406.4	197.0	156.0	269.4	84.6	2,699.2	-	3,812.6
Investments accounted for using the equity method	4.2	176.0	4.8	2.2	-	0.9	-	188.1
Acquisitions of PPE and intangibles	146.9	44.4	19.4	27.3	4.7	42.9	-	285.6
Impairment of PPE	1.3	-	18.6	1.4	-	-	-	21.3
Impairment of inventories	0.4	1.6	1.8	3.8	5.1	3.0	-	15.7
Impairment of trade receivables	1.3	0.3	13.9	10.6	5.2	2.3	-	33.6
Depreciation and amortisation	125.4	41.4	25.1	35.2	15.1	23.7	-	265.9
Non-cash expenses: share based payments	(1.4)	(1.1)	(0.3)	-	(0.3)	(1.2)	-	(4.3)
Share of net profit of associates accounted for using the equity method	2.1	28.7	2.4	6.0	-	-	-	39.2

<sup>(1)</sup> Includes foreign currency gains/losses in various reportable segments and excludes profit on sale of shares in Thai Nitrates Company Ltd disclosed in individually material items.

# Notes to the Financial Statements – Financial performance

For the year ended 30 September

## 1. Segment report (continued)

	Consolidated	
	2017	2016
	\$m	\$m
<b>(c) Other income</b>		
Other income	31.2	19.1
Net foreign currency (losses)/gains	(7.3)	16.1
Profit from sale of investments/businesses	14.5	20.0
Net profit on sale of property, plant and equipment	13.4	8.9
<b>Total other income</b>	<b>51.8</b>	<b>64.1</b>

	2017			2016		
	Gross \$m	Tax \$m	Net \$m	Gross \$m	Tax \$m	Net \$m
<b>(d) Individually material items</b>						
<b>Profit after income tax includes the following individually material items of expense:</b>						
Settlement of Australian Tax Action	-	-	-	-	(41.0)	(41.0)
Profit on sale of shareholding in Thai Nitrate Company Ltd	-	-	-	16.7	(0.7)	16.0
Impact of Chile plant incident	-	-	-	(21.3)	-	(21.3)
Individually material items	-	-	-	(4.6)	(41.7)	(46.3)
<b>Individually material items attributable to shareholders of Orica</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4.6)</b>	<b>(41.7)</b>	<b>(46.3)</b>

## (e) Geographical segments

The presentation of geographical revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

	Revenue		Non-current assets <sup>(1)</sup>	
	2017	2016	2017	2016
	\$m	\$m	\$m	\$m
Australia	1,351.6	1,307.0	2,400.9	2,279.4
United States of America	714.7	712.2	396.9	410.2
Other <sup>(2)</sup>	2,972.9	3,072.7	1,815.3	1,828.4
<b>Consolidated</b>	<b>5,039.2</b>	<b>5,091.9</b>	<b>4,613.1</b>	<b>4,518.0</b>

<sup>(1)</sup> Excluding: financial derivatives (included within other assets and other liabilities), deferred tax assets and post-employment benefit assets.

<sup>(2)</sup> Other than Australia and United States of America, sales to other countries are individually less than 10% of the Group's total revenues.

## Recognition and measurement

### Sales revenue

External sales are measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. External sales are recognised when the significant risks and rewards of ownership are transferred to the purchaser, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

# Notes to the Financial Statements – Financial performance

For the year ended 30 September

## 1. Segment report (continued)

### Other income

Profits and losses from sale of businesses, controlled entities and other non-current assets are recognised when there is a signed contract of sale. Dividends are recognised in the Income Statement when the right to receive them is established.

Other income includes profit on sale of property, plant and equipment, profit from the sale of businesses and controlled entities, foreign currency gains/(losses) and royalties.

## 2. Earnings per share (EPS)

	Consolidated	
	2017 \$m	2016 \$m
<b>(i) As reported in the income statement</b>		
<b>Earnings used in the calculation of basic EPS attributable to ordinary shareholders of Orica Limited</b>		
Net profit for the period from continuing operations	399.4	354.9
Net profit for the period attributable to non-controlling interests	(13.2)	(12.1)
Total	386.2	342.8
<b>Number of shares</b>		
<b>Weighted average number of shares used in the calculation:</b>		
<b>Basic earnings per share</b>	376,153,022	372,408,452
<b>Effect of executive share options and dilutive rights</b>	2,511,185	373,273
<b>Number for diluted earnings per share</b>	378,664,207	372,781,725
The weighted average number of non-dilutive options and rights that have not been included in the calculation of diluted earnings per share.	1,584,498	3,554,358
	<b>Cents per share</b>	<b>Cents per share</b>
<b>Total attributable to ordinary shareholders of Orica Limited</b>		
Basic earnings per share	102.7	92.0
Diluted earnings per share	102.0	92.0
<b>(ii) Adjusted for individually material items</b>		
<b>Earnings used in the calculation of basic EPS adjusted for individually material items attributable to ordinary shareholders of Orica Limited</b>		
Net profit for the period	399.4	354.9
Net profit for the period attributable to non-controlling interests	(13.2)	(12.1)
Adjusted for individually material items (refer to note 1(d))	-	46.3
Total adjusted	386.2	389.1
	<b>Cents per share</b>	<b>Cents per share</b>
<b>Total attributable to ordinary shareholders of Orica Limited before individually material items</b>		
Basic earnings per share	102.7	104.5
Diluted earnings per share	102.0	104.4

# Notes to the Financial Statements – Capital management

For the year ended 30 September

## Section B. Capital management

Orica's objectives when managing capital (net debt and total equity) are to safeguard the Group's ability to continue as a going concern and to ensure that the capital structure enhances, protects and balances financial flexibility against minimising the cost of capital. This section outlines the principal capital management initiatives that have been undertaken, current year drivers of the Group's cash flows, as well as the key operating assets used and liabilities incurred to support financial performance.

### 3. Net debt

In order to maintain an appropriate capital structure, the Group may adjust the amount of dividends paid to shareholders, utilise a dividend reinvestment plan, return capital to shareholders such as a share buy-back or issue new equity, in addition to incurring an appropriate level of borrowings. Currently, Orica maintains a dividend payout ratio policy and 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.

Orica monitors debt capacity against a number of key credit metrics, principally including the gearing ratio (net debt divided by debt plus equity) and the interest cover ratio (EBIT excluding individually material items, divided by net financing costs adjusted for capitalised borrowing costs). These ratios together with performance measure criteria determined by Standard & Poor's are targeted in support of the maintenance of an investment grade credit rating, which facilitates access to borrowings from a range of sources.

The Group's current target level for gearing is 35% to 45% and interest cover is 5 times or greater. Ratios may move outside of these target ranges for relatively short periods of time after major acquisitions or other significant transactions.

In addition, the gearing and interest cover ratios are monitored to ensure an adequate buffer against covenant levels applicable to the various financing facilities.

The gearing ratio is calculated as follows:

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$m</b>	<b>\$m</b>
Interest bearing liabilities (refer to note 3a)	1,957.8	1,877.4
less cash and cash equivalents (refer to note 3b)	(516.9)	(328.0)
Net debt	1,440.9	1,549.4
Total equity	2,963.5	2,783.2
Net debt and total equity	4,404.4	4,332.6
Gearing ratio (%)	32.7%	35.8%
The interest ratio is calculated as follows:		
EBIT (excluding individually material items)	635.1	642.2
Net financing costs	71.7	84.3
Capitalised borrowing costs	30.8	35.1
	102.5	119.4
<b>Interest cover ratio (times)</b>	<b>6.2</b>	<b>5.4</b>

	<b>Consolidated</b>		<b>Consolidated</b>		<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
	<b>Current</b>		<b>Non-current</b>		<b>Total</b>	
<b>(a) Interest bearing liabilities</b>						
Unsecured						
Private Placement <sup>(1)</sup>	-	292.0	1,827.5	1,498.6	1,827.5	1,790.6
Export finance facility <sup>(1)</sup>	11.9	15.4	29.7	45.9	41.6	61.3
Bank loans <sup>(1)</sup>	-	-	71.5	-	71.5	-
Other loans	11.2	12.7	3.6	9.0	14.8	21.7
Lease liabilities <sup>(2)</sup>	1.2	1.6	1.2	2.2	2.4	3.8
	24.3	321.7	1,933.5	1,555.7	1,957.8	1,877.4

<sup>(1)</sup> Orica Limited provides guarantees on these facilities refer to note 17 for further details.

<sup>(2)</sup> \$2.5m (2016 \$5.9m) of property, plant and equipment is pledged as security for finance leases. In the event of default by Orica, the rights to the leased assets transfer to the lessor.

During the current and prior year, there were no defaults or breaches of covenants on any loans.

# Notes to the Financial Statements – Capital management

For the year ended 30 September

## 3. Net debt (continued)

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$m</b>	<b>\$m</b>
<b>(b) Notes to the statement of cash flows</b>		
<b>Reconciliation of cash</b>		
Cash at the end of the year comprises:		
Cash	<b>516.9</b>	328.0
Bank overdraft	<b>-</b>	(11.8)
	<b>516.9</b>	316.2
<b>Reconciliation of profit after income tax to net cash flows from operating activities</b>		
Profit after income tax expense	<b>399.4</b>	354.9
<b>Adjusted for the following items:</b>		
Depreciation and amortisation	<b>261.2</b>	265.9
Net profit on sale of property, plant and equipment	<b>(13.4)</b>	(8.9)
Impairment of property, plant and equipment	<b>0.1</b>	21.3
Net (profit) on sale of businesses and controlled entities	<b>(10.9)</b>	(3.3)
Net (profit) on sale of investments	<b>(3.6)</b>	(16.7)
Share based payments expense	<b>11.6</b>	(4.3)
Share of associates' net (profit) after adding back dividends received	<b>(2.1)</b>	(0.8)
Unwinding of discount on provisions	<b>1.0</b>	3.3
Other	<b>2.3</b>	(1.5)
Changes in working capital and provisions excluding the effects of acquisitions and disposals of businesses/controlled entities		
(increase)/decrease in trade and other receivables	<b>(72.6)</b>	281.1
(increase)/decrease in inventories	<b>(20.3)</b>	76.2
decrease in net deferred taxes	<b>6.6</b>	48.5
(decrease) in payables and provisions	<b>(69.9)</b>	(237.1)
(decrease) in income taxes payable	<b>(23.0)</b>	(0.7)
<b>Net cash flows from operating activities</b>	<b>466.4</b>	777.9

## Recognition and Measurement

### Cash and cash equivalents

Cash includes cash at bank, cash on hand and deposits at call which are readily convertible to cash on hand and which are used in the cash management function and are disclosed for the purposes of the Statement of Cash Flows net of bank overdrafts. The Directors consider the net carrying amount of cash and cash equivalents to approximate their fair value due to their short term to maturity. Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the relevant taxation authorities are classified as operating cash flows.

### Interest-bearing liabilities

Interest-bearing liabilities are initially recognised at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the Income Statement over the period of the liabilities on an effective interest basis, unless they are liabilities designated in a fair value relationship in which case they continue to be measured at fair value (refer to note 10a).

Amortised cost is calculated by taking into account any issue costs and any discount or premium on issuance. Gains and losses are recognised in the Income Statement in the event that the liabilities are derecognised.

### Borrowing costs

Borrowing costs include interest, unwinding of the effect of discounting on provisions, amortisation of discounts or premiums relating to borrowings and amortisation of ancillary costs incurred in connection with the arrangement of borrowings, including lease finance charges. Borrowing costs are expensed as incurred unless they relate to qualifying assets. Where funds are borrowed specifically for the production of a qualifying asset, the interest on those funds is capitalised, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average interest rate.

# Notes to the Financial Statements – Capital management

For the year ended 30 September

## 4. Contributed Equity and Reserves

### (a) Contributed Equity

Movements in issued and fully paid shares of Orica since 1 October 2015 were as follows:

Details	Date	Number of shares	Issue price \$	\$m
<b>Ordinary shares</b>				
Opening balance of shares issued	1-Oct-15	370,113,526		1,954.4
Shares issued under the Orica dividend reinvestment plan	18-Dec-15	3,318,655	15.27	50.7
Shares issued under the Orica dividend reinvestment plan	1-Jul-16	1,497,325	12.99	19.4
Shares issued under the Orica GEESP plan		-		0.8
Balance at the end of year	<b>30-Sep-16</b>	<b>374,929,506</b>		<b>2,025.3</b>
Shares issued under the Orica dividend reinvestment plan	<b>9-Dec-16</b>	<b>1,246,245</b>	<b>17.37</b>	<b>21.6</b>
Shares issued under the Orica dividend reinvestment plan	<b>3-Jul-17</b>	<b>863,276</b>	<b>20.36</b>	<b>17.6</b>
Deferred shares issued to settle Short-Term Incentive		-		<b>3.4</b>
Shares issued under the Orica GEESP plan		-		<b>0.6</b>
Balance at the end of the year	<b>30-Sep-17</b>	<b>377,039,027</b>		<b>2,068.5</b>

### (b) Reserves

#### Recognition and Measurement

*Foreign currency translation reserve:* The foreign currency translation reserve records the foreign currency differences arising from the translation of foreign operations, the translation of transactions that hedge net investments in a foreign operation or the translation of foreign currency monetary items forming part of the net investment in a foreign operation.

*Cash flow hedge reserve:* The amount in the cash flow hedge reserve represents the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

*Other reserves:* Other reserves represents share based payments reserves and equity reserves arising from the purchase of non-controlling interests.

### (c) Dividends

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$m</b>	<b>\$m</b>
Dividends paid or declared in respect of the year ended 30 September were:		
<b>Ordinary shares</b>		
interim dividend of 20.5 cents per share, 48.8% franked at 30%, paid 1 July 2016		76.5
interim dividend of 23.5 cents per share, 12.8% franked at 30%, paid 3 July 2017	<b>88.4</b>	
final dividend of 56 cents per share, 35.7% franked at 30.0%, paid 18 December 2015		207.0
final dividend of 29 cents per share, 27.6% franked at 30.0%, paid 9 December 2016	<b>108.7</b>	
Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan (DRP) during the year were as follows:		
paid in cash	<b>157.9</b>	213.4
DRP - satisfied by issue of shares	<b>39.2</b>	70.1



# Notes to the Financial Statements – Capital management

For the year ended 30 September

## 4. Contributed Equity and Reserves (continued)

Since the end of the financial year, the Directors declared the following dividend:

Final dividend on ordinary shares of 28.0 cents per share, unfranked, payable 8 December 2017. Total franking credits related to this dividend are nil (2016 \$12.9 million).

The financial effect of the final dividend on ordinary shares has not been brought to account in the financial statements for the year ended 30 September 2017 - however will be recognised in the 2018 financial statements.

### **Franking credits**

Franking credits available at the 30% corporate tax rate after allowing for tax payable in respect of the current year's profit and the payment of the final dividend for 2017 are \$91.5 million (2016 \$22.2 million).

# Notes to the Financial Statements – Operating assets and liabilities

For the year ended 30 September

## Section C. Operating assets and liabilities

This section highlights current year drivers of the Group's operating and investing cash flows, as well as the key operating assets used and liabilities incurred to support delivering financial performance.

### 5. Working Capital

#### (a) Trade Working Capital (TWC)

Trade working capital includes receivables and payables that arise from normal trading conditions. The Group continuously looks to improve working capital efficiency in order to maximise operating cash flow.

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$m</b>	<b>\$m</b>
Inventories (i)	<b>538.4</b>	517.8
Trade receivables (ii)	<b>607.3</b>	565.4
Trade payables (iii)	<b>(795.5)</b>	(778.8)
<b>Trade working capital</b>	<b>350.2</b>	304.4

#### (i) Inventories

##### *Recognition and Measurement*

Inventories are valued at the lower of cost and net realisable value. Inventories have been shown net of provision for impairment of \$21.6 million (2016 \$33.9 million). Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and selling expenses. Cost is based on a first-in first-out or weighted average basis. For manufactured goods, cost includes direct material and fixed overheads based on normal operating capacity. For purchased goods, cost is net cost into store.

#### (ii) Trade receivables

The ageing of trade receivables and allowance for impairment is detailed below :

	<b>Consolidated</b>		<b>Consolidated</b>	
	<b>2017</b>	<b>2017</b>	<b>2016</b>	<b>2016</b>
	<b>Gross</b>	<b>Allowance</b>	<b>Gross</b>	<b>Allowance</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Not past due	<b>565.9</b>	-	534.6	-
Past due 0 - 120 days	<b>38.1</b>	<b>(0.2)</b>	34.7	(3.9)
Past 120 days	<b>53.2</b>	<b>(49.7)</b>	53.8	(53.8)
	<b>657.2</b>	<b>(49.9)</b>	623.1	(57.7)

##### *Recognition and Measurement*

The collectability of trade receivables is assessed continuously and at balance date specific allowances are made for any doubtful trade receivables based on a review of all outstanding amounts at year end. The net carrying amount of trade and other receivables approximates their fair values. Payment terms are generally 30 days from end of month of invoice date. A risk assessment process is used for all accounts, with a stop credit process in place for most long overdue accounts.

#### (iii) Trade payables

##### *Recognition and Measurement*

Trade payables, including accruals for costs not yet billed, are recognised when the Group becomes obliged to make future payments as a result of the purchase of goods or as services are provided. Trade payables are normally settled within 60 days from invoice date or within the agreed payment terms with the supplier. Trade payables are non-interest bearing and include liabilities in respect of trade financing within the normal operating cycle of the business. The carrying amount of trade payables approximates their fair values due to their short term nature.

# Notes to the Financial Statements – Operating assets and liabilities

For the year ended 30 September

## 5. Working Capital (continued)

### (b) Non-Trade Working Capital (NTWC)

Non-Trade Working Capital includes all other receivables and payables not related to purchase of goods and is recognised net of provisions for impairment of \$13.4 million (2016 \$12.9 million).

In the current year, other non-current assets include a receivable of \$37.8 million for amounts paid to the Australian Tax Office (ATO) in FY2017. This amount represents 50% of the primary tax payable as per amended assessments which have been issued by the ATO in relation to the Australian tax audits as disclosed in note 11 Contingent tax liabilities.

### Recognition and Measurement

Other receivables are carried at amounts due. Payment terms vary. A risk assessment process is used for all accounts, with a stop credit and follow up process in place for most long overdue accounts. Interest may be charged where the terms of repayment exceed agreed terms.

The collectability of other receivables is assessed at balance date and specific allowances are made for any doubtful receivables based on a review of all outstanding amounts at year end. There are no individually significant receivables that have had renegotiated terms that would otherwise, without that renegotiation, have been past due or impaired.

### Critical accounting judgements and estimates

In the course of normal trading activities, management uses its judgement in establishing the carrying value of various elements of working capital – principally inventory and accounts receivable. Provisions are established for obsolete or slow moving inventories and bad or doubtful receivables. Actual expenses in future periods may be different from the provisions established and any such differences would impact future earnings of the Group.

## 6. Provisions

	Consolidated	
	2017	2016
	\$m	\$m
<b>Current</b>		
Employee entitlements <sup>(1)</sup>	92.3	60.1
Environmental and decommissioning <sup>(2)</sup>	69.4	61.1
Other	26.2	44.9
	<b>187.9</b>	<b>166.1</b>
<b>Non-current</b>		
Employee entitlements <sup>(1)</sup>	15.2	43.1
Retirement benefit obligations (see note 20c)	218.1	253.0
Environmental and decommissioning <sup>(2)</sup>	146.1	173.0
Other	17.9	15.1
	<b>397.3</b>	<b>484.2</b>

<sup>(1)</sup> \$49.2m (2016 \$44.5m) was expensed to the profit and loss in relation to employee entitlements during the year.

<sup>(2)</sup> Payments of \$33.8m (2016 \$32.4m) were made during the year in relation to environmental and decommissioning provisions.

# Notes to the Financial Statements – Operating assets and liabilities

For the year ended 30 September

## 6. Provisions (continued)

### *Recognition and Measurement*

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that a future sacrifice of economic benefits will be required to settle the obligation and a reliable estimate of the liability can be assessed. The amount of the provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

#### *Employee entitlements*

A liability for employee entitlements is recognised for the amount expected to be paid where the Group has a present legal or constructive obligation to pay this amounts as a result of past service provided by the employee and that obligation can be reliably measured. Liabilities for employee entitlements which are not expected to be settled within twelve months of balance date, are accrued at the present value of future amounts expected to be paid.

A liability is recognised for bonus plans on the achievement of predetermined bonus targets.

#### *Environmental*

Estimated costs for the remediation of soil, groundwater and untreated waste are recognised when there is a legal or constructive obligation to remediate and the associated costs can be reliably estimated. The timing of recognition of the provision generally coincides with the commitment to a regulatory or formal remediation plan.

Where the cost relates to land held for resale then, to the extent that the expected realisation exceeds both the book value of the land and the estimated cost of remediation, the cost is capitalised as part of the holding value of that land, otherwise it is expensed.

The amount of provision reflects the best estimate of the expenditure required to settle the obligation having regard to a range of potential scenarios, input from subject matter experts on appropriate remediation techniques and relevant technological advances.

#### *Decommissioning*

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 dismantling and removing the asset and restoring the site on which it is located are recognised as an asset within property, plant and equipment and depreciated on a straight line basis over its estimated useful life. A corresponding provision is raised where a legal or constructive obligation exists.

At each reporting date, the liability is remeasured in line with changes in discount rates, timing and estimated cash flows. Any changes in the liability are added or deducted from the related asset, other than the unwinding of the discount which is recognised as a finance cost.

### *Contingent environmental liabilities*

Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the Group. A contingent liability may also be a present obligation that is not recognised as it is not probable that an outflow of resources will be required or the amount of the obligation cannot be reliably measured.

#### **Environmental contingent liabilities**

In respect of historical and current operations, certain sites owned or used by the Group may require future remediation actions.

For sites where the remediation actions are identified, agreed with regulatory authorities and reliable estimates are possible, provisions for estimated regulatory and remediation costs have been recognised.

Sites with significant uncertainties relating to the following are disclosed as contingent liabilities:

- Sites where contamination is known or likely to exist however, the impact cannot be reliably measured due to uncertainties related to the extent of Orica's remediation obligations or the remediation techniques that may be utilised; or
- Sites where known contamination exists but does not pose a current threat to human health or the environment, therefore no regulatory or formal remediation action is probable.

Any costs associated with these matters are expensed as incurred, and disclosure of the significant uncertainties are included in the financial statements.

# Notes to the Financial Statements – Operating assets and liabilities

For the year ended 30 September

## Botany Groundwater remediation

Orica's historical operations at the Botany Industrial Park (NSW) resulted in the contamination of the soil and groundwater; however, due to the complex nature of the chemicals involved and its distribution (e.g. Dense Non-Aqueous Phase Liquid (DNAPL)), the lack of known practical remediation approaches, and the unknown scale of the contamination, a practical solution to completely remediate the contamination has not been found. Orica is working in close cooperation with the New South Wales (NSW) Environmental Protection Authority (EPA) to address the contamination.

Specifically related to the remediation of DNAPL source contamination a reliable estimate of the costs to complete remediation is not possible given the lack of proven remediation techniques that can be effectively deployed at the site and uncertainty of the scale of the DNAPL contamination. During the year Management consulted with both internal and external remediation experts through a triennial strategy workshop to review developments in applicable technology, the level of assessed contamination and whether alternate remediation approaches could be implemented.

Separate to the remediation of the source contamination, Orica has an obligation to contain and mitigate the effects of the contamination on the groundwater at the site. Orica and the NSW EPA entered a Voluntary Management Proposal (VMP) to contain the contamination while an effective remediation approach to the DNAPL source contamination is identified. Under the five-year VMP, Orica has agreed to operate a Groundwater Treatment Plant (GTP) as an intermediate containment measure.

The GTP commenced operations in 2006 and since then the contaminant concentration in the groundwater entering the plant has shown a decrease of more than 80%. This reduction is largely attributable to dissolved contamination and is not considered a predictor of future performance. Work relating to obtaining a better understanding of the dissolution rates of the DNAPL source contamination, the impact of the treatment process and natural degradation processes, is continuing.

The VMP includes requirements for ongoing assessment of progress of the remediation, as well as technologies that could be applied additionally or as alternatives to the GTP. The technology review process includes the triennial workshop referred to above. This consultation process, in particular with regulators and technical experts, is important because it provides information around the limitations of current technology and other uncertainties regarding the scale of the remediation of the source contamination which impacts Orica's ability to reliably estimate the timeframe and costs for the operation of the GTP as an intermediate step.

A sensitivity analysis was performed to determine the range of potential outcomes based on various factors, including consideration of multiple timeframes for operation of the GTP. Management assessed those outcomes to identify the most reliable measurement of the provision recognised in respect of the mitigation and containment of the effects of contaminated groundwater. Management's judgements and estimates are set out as follows:

- Assumed a five-year rolling tenure based on the VMP timeframe agreed with the EPA. Management also considered shorter and longer time frames in making the determination, and concluded that a five-year rolling basis is an appropriate term, given the inherent uncertainty in any assumptions beyond that agreed period;
- Costs of the GTP are approximately \$12 million per year based on the current scope of operations;
- A nominal risk-free discount rate of 2.1% (2016 – 3.5%) and an average inflation of 2.7% (2016 – 2.1%) in the calculation of the provision; and
- The net result of Management's assessment is a provision of \$63.3 million, being Management's current best estimate of Orica's obligation to contain and mitigate the effects of the contamination of the groundwater at the site through the operation of the GTP.

Orica will continue to assess the assumptions used to estimate the economic outflows and will maintain engagement with experts in an effort to find solutions to remediate the source contamination, and reduce or cease operation of the GTP.

## Botany hexachlorobenzene (HCB) waste

In respect of the Botany (HCB) waste, currently stored in containers at the Botany site, Orica has successfully completed a pilot trial to export the waste to Finland for permanent destruction through incineration processes with lower-level contaminated waste being destroyed locally. Consequently, the provision as at 30 September 2017 includes Orica's best estimate of the costs to export the majority of the HCB waste to Finland and any local Australian destruction requirements.

## Other sites

For other sites where Orica has recognised a provision for environmental remediation, estimate and judgement is required in determining the future expenditure required to settle the obligation due to uncertainties in the assumptions regarding the status of laws, regulations and the information available at certain locations. Changes in these assumptions may impact future reported results. Subject to those factors, but taking into consideration experience gained to date regarding environmental matters of a similar nature, Orica believes the provision balances to be appropriate based on currently available information. However, considering the uncertainties noted above additional costs may be incurred in future periods which are greater than the amounts provided.

# Notes to the Financial Statements – Operating assets and liabilities

For the year ended 30 September

## 6. Provisions (continued)

The total environmental and decommissioning provision comprises:

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$m</b>	<b>\$m</b>
Botany Groundwater remediation	63.3	64.1
Botany (HCB) waste	41.4	35.4
Burrup decommissioning	17.7	20.1
Deer Park remediation	27.9	39.6
Yarraville remediation	30.3	31.0
Other provisions	34.9	43.9
<b>Total</b>	<b>215.5</b>	<b>234.1</b>

## 7. Property, plant and equipment

<b>Consolidated</b>	<b>Land, buildings and improvements \$m</b>	<b>Machinery, plant and equipment \$m</b>	<b>Total \$m</b>
<b>2016</b>			
Cost	822.7	4,292.9	5,115.6
Accumulated depreciation	(297.9)	(2,092.4)	(2,390.3)
<b>Total carrying value</b>	<b>524.8</b>	<b>2,200.5</b>	<b>2,725.3</b>
<b>Movement</b>			
Carrying amount at the beginning of the year	521.1	2,396.8	2,917.9
Additions	46.1	185.0	231.1
Disposals	(13.9)	(38.1)	(52.0)
Depreciation expense	(26.4)	(207.6)	(234.0)
Impairment expense (see note 9)	-	(21.3)	(21.3)
Foreign currency exchange differences	(2.1)	(114.3)	(116.4)
<b>Carrying amount at the end of the year</b>	<b>524.8</b>	<b>2,200.5</b>	<b>2,725.3</b>
<b>2017</b>			
Cost	851.8	4,368.8	5,220.6
Accumulated depreciation	(293.3)	(2,185.8)	(2,479.1)
<b>Total carrying value</b>	<b>558.5</b>	<b>2,183.0</b>	<b>2,741.5</b>
<b>Movement</b>			
Carrying amount at the beginning of the year	524.8	2,200.5	2,725.3
Additions	41.5	223.3	264.8
Disposals	(0.2)	(7.6)	(7.8)
Disposals through disposal of entities	-	(7.4)	(7.4)
Depreciation expense	(25.6)	(192.3)	(217.9)
Impairment expense	-	(0.1)	(0.1)
Foreign currency exchange differences	18.0	(33.4)	(15.4)
<b>Carrying amount at the end of the year</b>	<b>558.5</b>	<b>2,183.0</b>	<b>2,741.5</b>

Included in the above are significant assets under construction (Burrup plant) of \$553.3 million (2016 \$529.9 million). Orica expects the plant to be fully commissioned in financial year 2018, with production progressively ramped up over the following 12 - 18 months to around 70% of the full capacity.

# Notes to the Financial Statements – Operating assets and liabilities

For the year ended 30 September

## *Recognition and Measurement*

Property, plant and equipment is stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item and includes capitalised interest (refer note 3). Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, 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.

## *Critical accounting judgements and estimates*

Management reviews the appropriateness of useful lives of assets at least annually and any changes to useful lives may affect prospective depreciation rates and asset carrying values.

Depreciation is recorded on a straight line basis using the following useful lives:

Land	indefinite
Buildings and improvements	25 to 40 years
Machinery, plant and equipment	3 to 40 years

# Notes to the Financial Statements – Operating assets and liabilities

For the year ended 30 September

## 8. Intangible assets

<b>Consolidated</b>	<b>Goodwill \$m</b>	<b>Patents trademarks and rights \$m</b>	<b>Customer contracts and relationships \$m</b>	<b>Software \$m</b>	<b>Other \$m</b>	<b>Total \$m</b>
<b>2016</b>						
Cost	2,297.7	265.7	67.4	253.4	57.9	2,942.1
Accumulated impairment losses of goodwill	(1,203.6)	-	-	-	-	(1,203.6)
Accumulated amortisation	-	(43.2)	(67.4)	(52.1)	(17.0)	(179.7)
Net carrying amount	1,094.1	222.5	-	201.3	40.9	1,558.8
<b>Movement</b>						
Carrying amount at the beginning of the year	1,159.2	237.4	2.2	204.3	30.1	1,633.2
Additions	-	8.6	-	30.6	15.3	54.5
Amortisation expense	-	(7.6)	(2.2)	(20.1)	(2.0)	(31.9)
Foreign currency exchange differences	(65.1)	(15.9)	-	(13.5)	(2.5)	(97.0)
Carrying amount at the end of the year	1,094.1	222.5	-	201.3	40.9	1,558.8
<b>2017</b>						
Cost	2,281.0	289.0	67.4	348.6	61.8	3,047.8
Accumulated impairment losses of goodwill	(1,187.7)	-	-	-	-	(1,187.7)
Accumulated amortisation	-	(68.7)	(67.4)	(124.3)	(22.6)	(283.0)
Net carrying amount	1,093.3	220.3	-	224.3	39.2	1,577.1
<b>Movement</b>						
Carrying amount at the beginning of the year	1,094.1	222.5	-	201.3	40.9	1,558.8
Additions	-	6.9	-	54.4	6.4	67.7
Disposals through disposal of entities	-	(0.7)	-	-	-	(0.7)
Amortisation expense	-	(2.3)	-	(31.6)	(9.4)	(43.3)
Foreign currency exchange differences	(0.8)	(6.1)	-	0.2	1.3	(5.4)
Carrying amount at the end of the year	1,093.3	220.3	-	224.3	39.2	1,577.1

### Recognition and Measurement

#### Identifiable intangibles

Identifiable intangible assets with a finite life (customer contracts and relationships, patents, software, capitalised development costs, trademarks and rights) are amortised on a straight-line basis over their expected useful life to the Group, being up to thirty years. Identifiable intangible assets with an indefinite life are not amortised but the recoverable amount of these assets is tested for impairment at least annually.

#### Unidentifiable intangibles - Goodwill

Where the fair value of the consideration paid for a business acquisition exceeds the fair value of the identifiable assets, liabilities and contingent liabilities acquired, the difference is treated as goodwill. Goodwill is not amortised but the recoverable amount is tested for impairment at least annually.

#### Subsequent expenditure

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

### Critical accounting judgements and estimates

Management reviews the appropriateness of useful lives of assets at least annually and any changes to useful lives may affect prospective amortisation rates and asset carrying values.



# Notes to the Financial Statements – Operating assets and liabilities

For the year ended 30 September

## 9. Impairment testing of assets

### Recognition and Measurement

#### Methodology

Formal impairment tests are carried out annually for goodwill. In addition, formal impairment tests for all assets are performed when there is an indication of impairment. The Group conducts an internal review of asset values at each reporting period, which is used as a source of information to assess for any indications of impairment. External factors, such as changes in expected future prices, costs and other market factors, are also monitored to assess for indications of impairment. If any such indication exists, an estimate of the asset's recoverable amount is calculated.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement to reduce the carrying amount in the balance sheet to its recoverable amount. The recoverable amount is determined using the higher of value in use or fair value less costs to dispose. Value in use is the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Group's continued use and does not consider future development. The value in use calculations use cash flow projections which do not exceed 5 years based on actual operating results and the operating budgets approved by the Board of Directors. Fair value less costs to dispose is the value that would be received in exchange for an asset in an orderly transaction.

In testing for indications of impairment and performing impairment calculations, assets are considered as collective groups and referred to as cash-generating units (CGU). Cash-generating units are the smallest identifiable group of assets, liabilities and associated goodwill that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets with each CGU being no larger than a segment. CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The test of goodwill and its impairment is undertaken at the segment level.

#### Key Assumptions

	Pre tax discount rates	Terminal Growth Rates	Goodwill	Pre tax discount rates	Terminal Growth Rates	Goodwill
	2017	2017	2017	2016	2016	2016
	%	%	\$m	%	%	\$m
Australia/Pacific and Indonesia	13.4 - 16.0	0.0 - 3.4	377.2	13.8 - 15.5	0.0 - 5.5	379.1
North America	10.9 - 16.0	1.7 - 2.7	142.4	12.7 - 15.5	3.2 - 5.5	142.3
Latin America	8.9 - 16.0	0.0 - 6.0	137.7	11.7 - 13.8	0.0 - 6.4	137.1
Europe, Africa and Asia	8.2 - 19.7	0.0 - 14.9	245.2	8.2 - 20.2	(0.8) - 7.7	243.4
Minova	8.0 - 24.4	1.1 - 8.2	190.8	8.3 - 18.9	0.0 - 6.0	192.2
Global Support	13.8 - 13.8	2.7 - 2.7	-	13.8 - 13.8	3.2 - 3.2	-
Total			1,093.3			1,094.1

# Notes to the Financial Statements – Operating assets and liabilities

For the year ended 30 September

## 9. Impairment testing of assets (continued)

### *Critical accounting judgements and estimates*

#### **Minova**

The carrying value of the Minova segment includes goodwill of \$191 million. Based on the latest projected cash flows of the operation, the carrying value equals its value in use. The value in use calculations are sensitive to earnings forecasts, changes in discount rates and terminal growth rates.

The carrying value of Minova is reliant on achieving significant growth in earnings. Continuing the diversification that has already commenced in 2017 into non-coal markets and improving margins are critical to Minova's forecast long term earnings and underpins the future cash flow forecasts used to determine the recoverable amount.

In 2017 Minova increased its cost base particularly in commercial and technical capabilities, to support targeted market growth and the re-establishment of a wider market presence. The business turnaround continues to progress. The business is forecasting for EBIT to return to approximately fifty percent of 2012 levels by the end of year five in the cash flow model.

Any variation in the key assumptions of the Minova cash flows would result in a change in the assessed value in use. If the impact of the change had a negative impact, it could, in the absence of other factors require an impairment to goodwill.

Key assumptions underlying the value in use are as follows:

- Growth in EBIT from \$13.1 million in 2017 to \$53 million in 2022
- A weighted average terminal growth in line with local country economic forecasts of 2.5%
- A weighted average pre-tax discount rate of 14.9%

# Notes to the Financial Statements – Managing financial risks

For the year ended 30 September

## Section D. Managing Financial Risks

Orica's Review of Operations and Financial Performance highlights funding and other treasury matters as material business risks that could adversely affect the achievement of future business performance.

This section discusses the principal market and financial risks the Group is exposed to and the risk management program, which seeks to mitigate these risks and reduce the volatility of Orica's financial performance.

## 10. Financial risk management

### *Financial risk factors*

The Group's overall risk management program seeks to mitigate risks and reduce the volatility of Orica's financial performance. Financial risk management is carried out centrally by the Group's Treasury department under policies approved by the Board.

The Group's principal financial risks are associated with:

- interest rate (note 10a)
- foreign exchange (note 10b)
- credit risk (note 10c)
- liquidity (note 10d) and
- commodity risk (note 10e)

### **(a) Interest rate management**

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates.

The Group is primarily exposed to interest rate risk on outstanding interest-bearing liabilities. Non-derivative interest-bearing assets are predominantly short-term liquid assets. Interest bearing liabilities issued at fixed rates expose the Group to fair value interest rate risk while borrowings issued at a variable rate give rise to cash flow interest rate risk.

Interest rate risk on long-term interest-bearing liabilities is managed by adjusting the ratio of fixed interest debt to variable interest debt. This is managed within policies determined by the Board via the use of interest rate swaps and cross currency interest rate swaps. Under the policy, up to 90% of debt with a maturity of less than one year can be fixed. This reduces on a sliding scale to year five where a maximum 50% of debt with a maturity of between five and ten years can be fixed. Beyond this, a maximum 25% of the debt with a maturity of between ten and twenty years can be fixed. The Group operated within this range during both the current year and the prior year. As at September, the fixed rate borrowings after the impact of interest rate swaps and cross currency swaps were \$1,113 million (2016 \$940 million) and the borrowings designated in a fair value relationship were \$714 million (2016 \$558 million).

### **Interest rate sensitivity**

Orica has exposure to interest rate movements in the underlying currencies it deals in. A 10% movement in interest rates without management intervention would have a \$1.7 million (2016 \$2.7 million) impact on profit before tax and a \$1.1 million (2016 \$1.9 million) impact on shareholders' equity.

### **(b) Foreign exchange risk management**

#### **i) Foreign exchange risk - transactional**

Foreign exchange risk refers to the risk that the value of a financial commitment, recognised asset or liability or cash flow will fluctuate due to changes in foreign currency rates.

The Group is exposed to foreign exchange risk primarily due to significant sales and/or purchases denominated, either directly or indirectly, in currencies other than the functional currencies of the Group's subsidiaries.

As at reporting date, cross currency interest rate swaps entered into to hedge debt principal had a fair value gain of \$5.0 million (2016 \$53.3 million gain).

### *Foreign currency transactions*

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are translated to the functional currency of the entity at the foreign exchange rate ruling at that date.

Foreign exchange differences arising on translation are recognised in the Income Statement. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency of the entity at foreign exchange rates ruling at the dates the fair value was determined.

# Notes to the Financial Statements – Managing financial risks

For the year ended 30 September

## 10. Financial risk management (continued)

In regard to foreign currency risk relating to sales and purchases, the Group hedges up to 100% of committed exposures. Anticipated exposures are hedged by applying a declining percentage of cover the further the time to the transaction date. Only exposures that can be forecast to a high probability are hedged. Transactions can be hedged for up to five years. The derivative instruments used for hedging purchase and sale exposures are bought vanilla option contracts and forward exchange contracts. Forward exchange contracts may be used only under Board policy for committed exposures and anticipated exposures expected to occur within 12 months. Bought vanilla option contracts may be used for all exposures. These contracts are designated as cash flow hedges and are recognised at their fair value.

### Exchange rate sensitivity

The table below shows the Group's exposure to foreign currency risk (Australian dollar equivalent) and the effect on profit and equity had exchange rates been 10% higher or lower than the year end rate with all other variables held constant. The 10% higher sensitivity represents the Australian Dollar strengthening against the other currencies.

The analysis takes into account all underlying exposures and related hedges but not the impact of any management actions that might take place if these events occurred. The net exposure includes both external and internal balances (eliminated on consolidation).

	USD \$m	CAD \$m	NZD \$m	NOK \$m	SEK \$m	EUR \$m	GBP \$m
<b>2017</b>							
Cash <sup>(1)</sup>	1,844.5	3.5	0.6	9.2	126.2	800.8	337.7
Trade and other receivables	154.7	22.8	0.2	1.1	1.7	22.8	29.6
Trade and other payables	(162.5)	(32.1)	-	(1.1)	(7.2)	(52.4)	(0.6)
Interest bearing liabilities <sup>(1)</sup>	(2,548.1)	(198.8)	(19.3)	(18.6)	(41.0)	(891.1)	(151.5)
Net derivatives	1,270.6	42.7	2.4	(63.0)	15.7	51.1	48.0
Net exposure	559.2	(161.9)	(16.1)	(72.4)	95.4	(68.8)	263.2
Effect on profit/(loss) before tax							
If exchange rates were 10% lower	12.0	(0.1)	(0.1)	(0.2)	(0.6)	(2.4)	3.3
If exchange rates were 10% higher	(9.9)	0.0	0.1	0.2	0.5	1.9	(2.7)
Increase/(decrease) in equity							
If exchange rates were 10% lower	79.0	(12.6)	(1.2)	(5.7)	7.4	(5.3)	20.5
If exchange rates were 10% higher	(77.6)	10.3	1.0	4.6	(6.1)	4.4	(16.8)
<b>2016</b>							
Cash <sup>(1)</sup>	2,557.5	544.8	4.2	-	176.1	956.7	336.1
Trade and other receivables	125.6	26.0	0.2	0.4	2.1	19.1	20.4
Trade and other payables	(190.3)	(27.8)	(0.2)	(0.3)	(9.2)	(38.2)	(1.1)
Interest bearing liabilities <sup>(1)</sup>	(2,393.0)	(187.1)	(29.3)	(17.4)	(44.6)	(812.9)	(150.6)
Net derivatives	456.1	44.2	3.6	(76.9)	11.9	46.8	44.7
Net exposure	555.9	400.1	(21.5)	(94.2)	136.3	171.5	249.5
Effect on profit/(loss) before tax							
If exchange rates were 10% lower	5.6	(0.7)	-	(0.2)	(2.2)	(2.3)	2.2
If exchange rates were 10% higher	(5.1)	0.5	(0.1)	0.2	1.8	1.8	(1.8)
Increase/(decrease) in equity							
If exchange rates were 10% lower	46.1	31.9	(1.6)	(7.4)	10.3	13.5	19.6
If exchange rates were 10% higher	(38.0)	(26.1)	1.3	6.0	(8.4)	(11.1)	(16.0)

<sup>(1)</sup> Includes internal deposits and interest bearing liabilities used for Group cash management purposes.

### ii) Foreign currency risk - translational

Foreign currency earnings translation risk arises primarily as a result of earnings generated by foreign operations with functional currencies of USD, CAD, PHP, BRL, MXN, NOK and CLP being translated into AUD. Derivative contracts to hedge earnings exposures do not qualify for hedge accounting under Australian Accounting Standards. However, Board approved policy allows hedging of this exposure in order to reduce the volatility of full year earnings resulting from changes in exchange rates.

# Notes to the Financial Statements – Managing financial risks

For the year ended 30 September

## 10. Financial risk management (continued)

### *Financial statements of foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates applying at the balance sheet date.

The revenues and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Australian dollars at rates approximating the foreign exchange rates applying at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

### *Net investment in foreign operations*

Exchange differences arising from the translation of the net investment in foreign operations, and of related hedges are taken to the translation reserve. They are released into the Income Statement upon disposal.

Hedging of exposures is undertaken primarily through originating debt in the currency of the foreign operation or by raising debt in a different currency and effectively swapping the debt to the currency of the foreign operation. The remaining translation exposure is managed, where considered appropriate, through forward foreign exchange derivative instruments or cross currency swaps. Gains and losses resulting from these hedging activities are recorded in the foreign currency translation reserve within the equity section of the Balance Sheet and offset against the foreign exchange impact resulting from the translation of the net assets of foreign operations. 32.5% of the Group's investment in foreign operations was hedged in this manner as at 30 September 2017 (2016 47.0%).

As at reporting date, derivative instruments designated as hedging net investment exposures had a fair value of \$2.9 million liability (2016 \$3.7 million liability).

### **(c) Credit risk management**

Credit risk represents the loss that would be recognised if counterparties failed to meet their obligations under a contract or arrangement. The Group is exposed to credit risk from trade and other receivables and financial instrument contracts that are outstanding at year end.

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.

Orica's maximum exposure to trade and other receivables at 30 September 2017 is \$765.0 million (2016 \$716.6 million).

In regard to credit risk arising from derivatives and cash, this is the credit exposure to financial institutions that are counterparties to derivative contracts and cash deposits, with a positive fair value from Orica's perspective.

As at 30 September 2017, the sum of all derivative contracts with a positive fair value was \$70.8 million (2016 \$90.4 million). The Group does not hold any credit derivatives to offset its credit exposures.

### **(d) Liquidity risk management**

Liquidity risk arises from the possibility that there will be insufficient funds available to make payment as and when required.

The Group manages this risk via:

- maintaining an adequate level of undrawn committed facilities in various currencies that can be drawn upon at short notice;
- using instruments that are readily tradeable in the financial markets;
- monitoring duration of long-term debt;
- spreading, to the extent practicable, the maturity dates of long-term debt facilities; and
- comprehensively analysing all forecast inflows and outflows that relate to financial assets and liabilities.

Facilities available and the amounts drawn and undrawn are as follows:

	2017 \$m	2016 \$m
<b>Unsecured bank overdraft facilities</b>		
Unsecured bank overdraft facilities available	88.2	122.0
Amount of facilities undrawn	88.1	110.3
<b>Committed standby and loan facilities</b>		
Committed standby and loan facilities available	3,529.8	3,618.0
Amount of facilities unused	1,578.6	1,767.0

The bank overdrafts are payable on demand and are subject to an annual review. The repayment dates of the committed standby and loan facilities range from 28 April 2018 to 25 October 2030 (2016 28 April 2017 to 25 October 2030).

# Notes to the Financial Statements – Managing financial risks

For the year ended 30 September

## 10. Financial risk management (continued)

The contractual maturity of the Group's fixed and floating rate financial instruments and derivatives are shown in the table below. The amounts shown represent the future undiscounted principal and interest cash flows:

Consolidated	2017				2016			
	1 year or less \$m	1 to 2 years \$m	2 to 5 years \$m	Over 5 years \$m	1 year or less \$m	1 to 2 years \$m	2 to 5 years \$m	Over 5 years \$m
Non-derivative financial assets								
Cash	516.9	-	-	-	328.0	-	-	-
Trade and other receivables	665.7	97.6	-	-	687.7	28.9	-	-
Derivative financial assets	1,415.6	354.6	539.4	488.4	1,446.5	54.9	536.6	20.8
Financial assets	2,598.2	452.2	539.4	488.4	2,462.2	83.8	536.6	20.8
Non-derivative financial liabilities								
Trade and other payables	1,059.8	3.9	-	-	1,061.2	7.2	-	-
Bank overdrafts	-	-	-	-	11.8	-	-	-
Bank loans	74.4	-	-	-	-	-	-	-
Export finance facility	16.2	15.9	15.2	-	17.0	16.7	32.0	-
Private Placement	86.7	210.3	634.8	1,462.8	370.9	70.9	752.7	1,053.9
Other loans	10.9	2.7	-	-	0.6	3.3	10.6	-
Lease liabilities	1.2	1.1	0.1	-	1.6	1.1	1.1	-
Derivative financial liabilities	1,438.2	393.4	529.1	516.2	1,473.3	80.1	519.5	11.7
Financial liabilities	2,687.4	627.3	1,179.2	1,979.0	2,936.4	179.3	1,315.9	1,065.6
Net outflow	(89.2)	(175.1)	(639.8)	(1,490.6)	(474.2)	(95.5)	(779.3)	(1,044.8)

### (e) Commodity risk management

Commodity risk refers to the risk that Orica's profit/loss or equity will fluctuate due to the changes in commodity prices. At reporting date Orica has derivative contracts which are exposed to fluctuations in the price of Brent Crude Oil entered into to fix the price of future gas supply contracts.

The table below includes Orica's derivative contracts that are exposed to changes in Brent Crude Oil at 30 September and the impact of a 10 per cent change in observable prices (holding all other things constant) on profit/loss or equity based solely on Orica's price exposures existing at the reporting date but does not take into account any mitigating actions that management might undertake if the price change occurred.

	2017		2016	
	Effect on profit/(loss) before tax \$m	Increase/ (decrease) in equity \$m	Effect on profit/(loss) before tax \$m	Increase/ (decrease) in equity \$m
10% decrease in observable prices	-	(6.3)	-	(9.2)
10% Increase in observable prices	-	6.3	-	9.2

### Recognition and Measurement

#### Valuation of financial assets and liabilities (included within other on Balance Sheet)

Derivatives are carried at fair value and categorised as Level 2 under AASB 7 Financial Instruments: Disclosures. The inputs are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices). There has been no movement between levels since prior year.

Valuation techniques include, where applicable, reference to prices quoted in active markets, discounted cash flow analysis, fair value of recent arm's length transactions involving the same instruments or other instruments that are substantially the same, and option pricing models. Changes in default probabilities are included in the valuation of derivatives using credit and debit valuation adjustments.

The fair values of forward exchange contracts are calculated by reference to forward exchange market rates for contracts within similar maturity profiles at the time of valuation.

The fair values of cross currency interest rate swaps and interest rate swaps and other financial liabilities measured at fair value are determined using valuation techniques which utilise data from observable markets. Assumptions are based on market conditions existing at each balance date. The fair value is calculated as the present value of the estimated future cash flows using an appropriate market based yield curve, which is independently derived and representative of Orica's cost of borrowings.

# Notes to the Financial Statements – Managing financial risks

For the year ended 30 September

## 10. Financial risk management (continued)

### *Offsetting financial assets and liabilities*

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet where Orica currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Orica also entered into master netting arrangements that do not meet the criteria for offsetting but allow for the related amounts to be set-off in certain circumstances, such as the event of default.

### *Hedge accounting*

The Group uses financial instruments to hedge its exposure to certain market risks arising from operational, financing and investing activities. The Group holds financial instruments that qualify for hedge accounting under one of the three arrangements:

	Fair value hedges	Cash flow hedges	Net investment hedges
<b>What the financial instrument is designated to hedge?</b>	To mitigate the risk of changes in the fair value of its foreign currency borrowings from foreign currency and interest rate fluctuations.	As a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction.	As a hedge of risk of changes in foreign currency when net assets of a foreign operation are translated from their functional currency to Australian dollars.
<b>Where are gains or losses on fair value movements of the financial instrument recorded?</b>	Recognised in the Income Statement, together with gains or losses in relation to the hedged item.	The effective portion is recognised in other comprehensive income. The ineffective portion is recognised immediately in the Income Statement.	The effective portion is recognised in the foreign currency translation reserve in equity. The ineffective portion is recognised immediately in the Income Statement.
<b>Discontinuation of hedge accounting</b>	The cumulative gain or loss that has been recorded to the carrying value of the hedged item is amortised to the Income Statement using the effective interest method.	When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity.	

For a cash flow hedge arrangement that has a forecasted transaction that is being hedged, when the transaction occurs, the cumulative gain or loss is removed from equity and:

- included in the initial cost or other carrying amount of the non-financial asset or liability when the forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability;
- reclassified into the Income Statement in the same period or periods during which the asset acquired or liability assumed affects the Income Statement, where a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability;
- recognised in the Income Statement in the same period or periods during which the hedged forecast transaction affects the Income Statement, when the transaction is not covered by the above two statements.

### *Derivatives not in a designated hedge arrangement*

Financial instruments that do not qualify for hedge accounting but remain economically effective, are accounted for as trading instruments. These instruments are classified as current and are stated at fair value, with any resultant gain or loss recognised in the Income Statement. The Group policy is to not hold or issue financial instruments for trading purposes.



# Notes to the Financial Statements – Taxation

For the year ended 30 September

## Section E. Taxation

This section outlines the taxes paid by Orica and the impact tax has on the financial statements.

Orica has operations in more than 50 countries, with customers in more than 100 countries. In 2017, Orica paid \$237.5 million (2016 \$187.4 million) globally in corporate taxes and payroll taxes. Orica collected and remitted \$119.7 million (2016 \$100.8 million) globally in GST / VAT.

As Orica operates in a number of countries around the world, it is subject to local tax rules in each of those countries. Orica's tax rate is sensitive to the geographic mix of profits earned in different countries with different tax rates, as tax will be due in the country where the profits are earned. Many of the jurisdictions Orica has operations in have headline tax rates lower than 30%.

## 11. Taxation

### (a) Income tax expense/(benefit) recognised in the income statement

	Consolidated	
	2017	2016
	\$m	\$m
Current tax expense		
Current year	129.1	139.3
Deferred tax	26.9	55.0
Under provided in prior years	8.0	4.1
<b>Total income tax expense in income statement</b>	<b>164.0</b>	<b>198.4</b>

### (b) Reconciliation of income tax expense to prima facie tax payable

#### Income tax expense/(benefit) attributable to profit before individually material items

Profit from operations before individually material items	563.4	557.9
Prima facie income tax expense calculated at 30% on profit	169.0	167.4
Tax effect of items which (decrease)/increase tax expense:		
variation in tax rates of foreign controlled entities	(38.6)	(35.1)
tax under provided in prior years	8.0	4.1
de-recognition of booked tax losses	4.0	21.2
taxable/(non taxable) gains on disposal of assets	12.3	(3.9)
other foreign deductions	(23.0)	(24.8)
non creditable withholding taxes	13.8	9.9
non allowable interest deductions	14.9	13.1
tax on foreign currency translation reserve transferred to income statement	-	(7.0)
non allowable/(non taxable) share based payments	3.0	(1.4)
(utilisation of unbooked prior year tax losses)/current year tax losses not booked	(6.4)	8.0
sundry items	7.0	5.2
<b>Income tax expense attributable to profit before individually material items</b>	<b>164.0</b>	<b>156.7</b>

#### Income tax expense attributable to individually material items

Profit/(loss) from individually material items	-	(4.6)
Prima facie income tax expense calculated at 30% on individually material items	-	(1.4)
Tax effect of items which (decrease)/increase tax expense:		
variation in tax rates of foreign controlled entities	-	(0.2)
settlement of Australian Tax Action	-	41.0
impact of Chile plant incident	-	6.4
non taxable profit on sale of shareholding in Thai Nitrate Company Ltd	-	(4.1)
<b>Income tax expense attributable to profit/(loss) on individually material items</b>	<b>-</b>	<b>41.7</b>

<b>Income tax expense reported in the income statement</b>	<b>164.0</b>	<b>198.4</b>
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# Notes to the Financial Statements – Taxation

For the year ended 30 September

## 11. Taxation (continued)

### (c) Income tax recognised in comprehensive income:

	Consolidated					
	2017	2017	2016	2016	2016	2016
	\$m	\$m	\$m	\$m	\$m	\$m
	Before tax	Tax (expense) benefit	Net of tax	Before tax	Tax (expense) benefit	Net of tax
Net gain/(loss) on hedge of net investments in foreign subsidiaries	(66.1)	(51.9)	(118.0)	(165.8)	3.1	(162.7)
Cash flow hedges						
- Effective portion of changes in fair value	(6.8)	2.0	(4.8)	4.7	(1.4)	3.3
- Transferred to Income Statement	26.6	(8.0)	18.6	(0.7)	0.2	(0.5)
Exchange (losses)/gains on translation of foreign operations	12.1	-	12.1	(111.6)	-	(111.6)
Actuarial benefits/(losses) on defined benefit plans	33.4	(10.0)	23.4	(81.1)	21.9	(59.2)
	(0.8)	(67.9)	(68.7)	(354.5)	23.8	(330.7)

### (d) Recognised deferred tax assets and liabilities

Consolidated	Balance Sheet		Income Statement	
	2017	2016	2017	2016
	\$m	\$m	\$m	\$m
<b>Deferred tax assets</b>				
Trade and other receivables	15.5	15.2	(0.3)	(14.1)
Inventories	14.4	16.7	2.3	(0.4)
Property, plant and equipment	54.2	59.0	4.8	24.9
Intangible assets	1.3	-	(1.3)	27.7
Trade and other payables	42.9	40.0	(2.9)	21.1
Interest bearing liabilities	89.1	156.3	(28.6)	25.3
Provision for employee entitlements	25.7	25.5	(0.2)	1.4
Provision for retirement benefit obligations	43.8	52.1	(1.7)	5.9
Provisions for environmental and decommissioning	55.5	65.4	9.9	-
Tax losses	164.4	167.6	3.2	(1.3)
Other items	2.4	7.5	5.2	(1.3)
<b>Deferred tax assets</b>	<b>509.2</b>	<b>605.3</b>		
Less set-off against deferred tax liabilities	(186.1)	(197.0)		
<b>Net deferred tax assets</b>	<b>323.1</b>	<b>408.3</b>		
<b>Deferred tax liabilities</b>				
Inventories	7.3	7.1	0.2	-
Property, plant and equipment	213.0	183.4	29.6	(7.4)
Intangible assets	16.5	17.1	(0.6)	(3.3)
Interest bearing liabilities	-	29.1	-	(5.0)
Undistributed profits of foreign subsidiaries	18.6	19.0	(0.4)	0.5
Other items	19.2	11.5	7.7	(19.0)
<b>Deferred tax liabilities</b>	<b>274.6</b>	<b>267.2</b>		
Less set-off against deferred tax assets	(186.1)	(197.0)		
<b>Net deferred tax liabilities</b>	<b>88.5</b>	<b>70.2</b>		
<b>Deferred tax expense</b>			<b>26.9</b>	<b>55.0</b>

# Notes to the Financial Statements – Taxation

For the year ended 30 September

## 11. Taxation (continued)

### (e) Unrecognised deferred tax assets

	Consolidated	
	2017	2016
	\$m	\$m
Tax losses not booked	64.2	57.0
Capital losses not booked	87.5	88.0
Temporary differences not booked	204.9	219.7

Tax losses not booked expire between 2018 and 2022.

### Recognition and Measurement

Income tax on the profit or loss for the year comprises current and deferred tax and is recognised in the Income Statement.

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

Under AASB 112 *Income Taxes*, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the balance sheet and their associated tax bases. Current and deferred taxes attributable to amounts recognised directly in equity are also recognised in equity.

The amount of deferred tax provided will be based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantively enacted at reporting date.

A deferred tax asset will be recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets will be reduced to the extent it is no longer probable that the related tax benefit will be realised.

### Tax consolidation

Orica Limited is the parent entity in the tax consolidated group comprising all wholly-owned Australian entities.

Due to the existence of a tax sharing agreement between the entities in the tax consolidated group, the parent entity recognises the tax effects of its own transactions and the current tax liabilities and the deferred tax assets arising from unused tax losses and unused tax credits assumed from the subsidiary entities.

### Contingent tax liabilities

In the normal course of business, contingent liabilities may arise from tax investigations or legal proceedings. Where management are of the view that potential liabilities have a low probability of crystallising or it is not possible to quantify them reliably, they are not provided for and are disclosed as contingent liabilities.

#### (i) Investigations and audits

Consistent with other companies of the size and diversity of Orica, the Group is the subject of ongoing information requests, investigations and audit activities by tax and regulatory authorities in jurisdictions in which Orica operates. Orica co-operates fully with the tax and regulatory authorities. It is possible that Orica may incur fines and/or other penalties as a consequence of these investigations and audits.

#### (ii) German Tax Action

As a result of an income tax audit covering the 2005 to 2015 years, the German Central Tax Office has challenged Orica's tax returns under laws which were announced in 2012 and introduced in 2013 in relation to a financing arrangement by Orica of its German group from 2005 onwards. The amount of the possible reassessment for the 2005 to 2015 years is approximately \$94 million. Assessments for the period 2005 to 2008 have been received. Orica believes that the laws do not apply to these arrangements and in addition should not be applied retrospectively.

#### (iii) Brazilian Tax Action

The Brazilian Taxation Authority (BTA) is claiming unpaid taxes, interest and penalties of approximately \$42 million for the 1997 financial year relating to an alleged understatement of income based on an audit of production records. Orica believes the auditor has misread those production records. ICI Plc, the vendor of the business to Orica, has been notified to preserve Orica's rights under the tax indemnity obtained upon acquisition of the business which provides indemnity for amounts exceeding certain limits. The BTA has been granted a bank guarantee of up to approximately \$42 million.

# Notes to the Financial Statements – Taxation

For the year ended 30 September

## 11. Taxation (continued)

### **(iv) Australian Tax Audit**

As a result of an income tax audit covering the 2010 to 2011 years, the Australian Taxation Office (ATO) has challenged Orica's tax returns in relation to thin capitalisation valuations of land and buildings and intellectual property resulting in a denial of interest deductions. Assessments for 2010 to 2015 amounting to approximately \$48 million have been received from the ATO. Interest and penalties for this period have been assessed by the ATO at approximately \$23 million. Orica believes that the valuations are in accordance with the tax law and has lodged objections against the assessments.

As part of the income tax audit for 2010 and 2011, the ATO has challenged the residence of a German subsidiary of Orica. The ATO considers that the subsidiary should be a resident of Australia. Assessments for 2010 and 2011 amounting to approximately \$28 million have been received from the ATO. Interest and penalties for this period have been assessed by the ATO at \$15.3 million. The amount of possible reassessment for the years 2013 to 2015, including interest, is approximately \$14 million. The 2012 year is not open for amendment. Orica believes the subsidiary is a German resident and only German tax, not Australian tax, is payable on the relevant income.

### **(v) Indian Tax Action**

The Indian Taxation Authority (ITA) is claiming unpaid taxes of approximately \$14.6 million for the 2008 and 2009 years. The ITA disregarded the sales mix during the relevant years assuming the products sold were in proportion to the amounts held in closing stock. Orica disputed the tax assessments and the Commissioner of Appeals decided in favour of Orica in 2013. The ITA lodged a generic appeal in 2014. The matter is pending a hearing before the Indian Income Tax Appeals Tribunal scheduled for later in 2017.

### **Critical accounting judgements and estimates**

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provision in the period in which such determination is made.

In addition, deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable profits are available to utilise those temporary differences and losses, and the tax losses continue to be available having regard to the nature and timing of their origination and compliance with the relevant tax legislation associated with their recoupment.

Assumptions are also made about the application of income tax legislation. These assumptions are subject to risk and uncertainty and there is a possibility that changes in circumstances or differences in opinions will alter outcomes which may impact the amount of deferred tax assets and deferred tax liabilities recorded on the balance sheet and the amount of tax losses and timing differences not yet recognised. In these circumstances, the carrying amount of deferred tax assets and liabilities may change, resulting in an impact on the earnings of the Group.

# Notes to the Financial Statements – Global footprint

For the year ended 30 September

## Section F. Global footprint

Orica has a diverse spread of global operations, which includes controlled entities incorporated in over 50 countries, as well as entering strategic partnering arrangements with certain third parties. This section highlights the Group structure including Orica's controlled entities, as well as those where Orica holds less than 100% interest.

### 12. Investments in controlled entities

#### Recognition and Measurement

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the Group, being the Company (the parent entity) and its subsidiaries as defined in AASB 10 *Consolidated Financial Statements*.

Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition.

Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceed the cost of acquisition, the excess is credited to the Income Statement in the period of acquisition.

The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control until such time as the Company ceases to control such entity. In preparing the consolidated financial statements, all intercompany balances, transactions and unrealised profits arising within the Group are eliminated in full.

Refer to note 25 for the list of investments in controlled entities.

### 13. Non-controlling interests in controlled entities

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$m</b>	<b>\$m</b>
Non-controlling interests in shareholders' equity at balance date is as follows:		
Contributed equity	66.6	66.6
Reserves	(12.3)	(7.8)
Retained earnings	(53.1)	(58.1)
	1.2	0.7
The following table summarises the information relating to non-controlling interests on a 100% basis. The amounts disclosed are before inter-company eliminations.		
Current assets	495.2	453.4
Current liabilities	268.0	223.8
<b>Current net assets</b>	<b>227.2</b>	<b>229.6</b>
Non-current assets	393.6	403.6
Non-current liabilities	621.1	635.7
<b>Non-current net (liabilities)/assets</b>	<b>(227.5)</b>	<b>(232.1)</b>
<b>Net assets/(liabilities)</b>	<b>(0.3)</b>	<b>(2.5)</b>
Carrying amount of non-controlling interests	1.2	0.7
Sales Revenue	843.0	840.9
Net profit for the year	54.2	69.9
Other comprehensive income	(10.2)	(33.2)
<b>Total comprehensive income</b>	<b>44.0</b>	<b>36.7</b>
Profit allocated to non-controlling interests	13.2	12.1
Other comprehensive income related to non-controlling interests	(4.6)	(2.7)
Total	8.6	9.4
Dividends paid - non-controlling interests	(7.1)	(12.3)
Cash flows from operating activities	13.2	1.7
Cash flows used in investments activities	(8.5)	(5.2)
Cash flows used in financing activities	(1.7)	(13.1)
<b>Net increase in cash and cash equivalents</b>	<b>3.0</b>	<b>(16.6)</b>

# Notes to the Financial Statements – Global footprint

For the year ended 30 September

## 14. Investments accounted for using the equity method and joint operations

### (a) Investments accounted for using the equity method

The table below shows material investments (based on carrying values). All other investments are included in "Other".

Name	Principal activity	Balance date	Ownership		Consolidated Carrying amount	
			2017 %	2016 %	2017 \$m	2016 \$m
Nelson Brothers, LLC <sup>(1)</sup>	Manufacture and sale of explosives	30 Sep	50.0	50.0	37.0	35.1
Nelson Brothers Mining Services LLC <sup>(1)</sup>	Sale of explosives	30 Sep	50.0	50.0	32.1	34.2
Southwest Energy LLC <sup>(1)</sup>	Sale of explosives	30 Sep	50.0	50.0	103.9	105.2
Other	Various				11.6	13.6
					184.6	188.1

<sup>(1)</sup> Entities are incorporated in USA.

### Summary of profit and loss of associates:

	2017 \$m	2016 \$m
The aggregate net profit after tax of associates on a 100% basis are:	73.8	78.9
Orica's share of net profit after tax of associates is:	36.6	39.2

### (b) Joint operations

The Group owns a 45% interest of Yara Pilbara Nitrates Pty Ltd, the remaining shares are held by subsidiaries in the Yara International ASA group. The entity owns and will operate a 330,000 tonnes per annum industrial grade ammonium nitrate plant on the Burrup Peninsula (Western Australia, Australia).

Orica expect the plant to be fully commissioned in financial year 2018, with production progressively ramped up over the following 12 - 18 months to around 70% of the full capacity.

Yara Pilbara Nitrates will operate as a toll manufacturer, receiving a tolling fee from entities within the Group and the Yara group. The Orica and Yara group have rights to all of the economic benefits of the assets. The dependence of the manufacturing entity upon Orica and Yara for the generation of cash flows indicates that the parties have an obligation for the liabilities of the manufacturing arrangement and accordingly it is accounted for as a joint operation.

### (c) Transactions with associates

Transactions during the year with associates were:

	2017 \$000	2016 \$000
Sales of goods to associates	301,659	354,522
Purchases of goods from associates	75,796	61,714
Dividend income received from associates	34,518	38,361
Income received from leasing	-	1
Interest income received from associates	-	4

### (d) Transactions with related parties

All transactions with other related parties are made on normal commercial terms and conditions and in the ordinary course of business.

# Notes to the Financial Statements – Global footprint

For the year ended 30 September

## 14. Investments accounted for using the equity method and joint operations (continued)

### Recognition and Measurement

#### Associate entities

Where Orica holds an interest in the equity of an entity, generally of between 20 per cent and 50 per cent, and is able to significantly influence the decisions of the entity, that entity is an associated entity. Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting.

#### Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligation for the liabilities relating to the arrangement. Orica recognises its share of any jointly held or incurred assets, liabilities, revenue and expenses in the consolidated financial statements under applicable headings.

## 15. Businesses and non-controlling interests acquired

### Acquisition of businesses and controlled entities

The Group has not acquired any businesses or entities in either 2017 or 2016.

## 16. Businesses disposed

### Disposal of businesses and controlled entities

The following businesses and controlled entities were disposed of:

#### 2017:

On 7 October 2016 Orica disposed of Minova (Tianjin) Co., Ltd (China).

#### 2016:

On 30 September 2016 Orica disposed of explosives businesses in Germany, Poland, Czech Republic and Slovakia.

	Consolidated	
	2017	2016
	\$m	\$m
Consideration		
sale price	13.1	26.0
Cash disposed	-	(8.5)
Net consideration	13.1	17.5
Less further disposal costs including purchase price adjustments	-	(10.6)
Net consideration <sup>(1)</sup>	13.1	6.9
Carrying value of net assets of businesses/controlled entities disposed		
trade and other receivables	-	9.9
inventories	0.1	5.0
property, plant and equipment	7.4	-
intangibles	0.7	-
other assets	-	0.2
investment	-	0.9
payables and interest bearing liabilities	-	(10.3)
provision for employee entitlements	-	(0.7)
provision for retirement benefit obligations/curtailments	-	(2.0)
provision for income tax	-	(0.5)
foreign currency translation reserve	(6.0)	1.1
	2.2	3.6
Profit on sale of business/controlled entities	10.9	3.3

<sup>(1)</sup> Includes \$3 million for the final settlement of the disposal of explosives businesses in Germany, Poland, Czech Republic and Slovakia which was sold on 30 September 2016.

# Notes to the Financial Statements – Global footprint

For the year ended 30 September

## 17. Parent Company disclosure - Orica Limited

	Company	
	2017	2016
	\$m	\$m
Total current assets	988.3	1,488.2
Total assets	2,554.3	3,554.3
Total current liabilities	158.5	167.9
Total liabilities	165.4	1,117.9
<b>Equity</b>		
Ordinary shares	2,068.5	2,025.3
Retained earnings	320.3	411.1
<b>Total equity attributable to ordinary shareholders of Orica Limited</b>	<b>2,388.8</b>	<b>2,436.4</b>
<b>Net profit for the year and total comprehensive income</b>	<b>106.3</b>	<b>425.1</b>

The Company did not have any contractual commitments for the acquisition of property, plant or equipment in the current or previous years.

### Contingent liabilities and contingent assets

Under the terms of a Deed of Cross Guarantee entered into under *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*, each company which is a party to the Deed has covenanted with the Trustee of the Deed to guarantee the payment of any debts of the other companies which are party to the Deed which might arise on the winding up of those companies. A consolidated balance sheet and income statement for this closed group is shown in note 18.

Orica Limited has provided guarantees to Export Finance and Insurance Corporation and banks for loans relating to the Bontang Ammonium Nitrate plant.

Orica Limited guaranteed senior notes issued in the US Private Placement market in 2003, 2010, 2013 and 2017. The notes have maturities between calendar years 2018 and 2030 (2016: between calendar years 2017 and 2030) (see notes 3 and 10). Orica Limited has also provided guarantees for senior committed bank facilities.

# Notes to the Financial Statements – Global footprint

For the year ended 30 September

## 18. Deed of Cross Guarantee

The parent entity, Orica Limited, and certain subsidiaries (Initiating Explosives Systems Pty Ltd, Orica Australia Pty Ltd and Orica Investments Pty Ltd) are subject to a Deed of Cross Guarantee (Deed) under which each company guarantees the debts of the others.

By entering into the Deed, the wholly owned subsidiaries have been relieved from the requirement to prepare a financial report and Directors' report under *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*.

A consolidated income statement and consolidated balance sheet is shown below:

	2017 \$m	2016 \$m
<b>Summarised balance sheet</b>		
<b>Current assets</b>		
Trade and other receivables	188.3	179.0
Inventories	143.0	133.2
Other assets <sup>(1)</sup>	96.3	9.1
<b>Total current assets</b>	<b>427.6</b>	<b>321.3</b>
<b>Non-current assets</b>		
Trade and other receivables	18.0	5.3
Investments accounted for using the equity method	2.8	2.3
Other financial assets	5,821.6	6,874.2
Property, plant and equipment	746.3	774.0
Intangible assets	271.2	248.2
Deferred tax assets	202.9	197.9
<b>Total non-current assets</b>	<b>7,062.8</b>	<b>8,101.9</b>
<b>Total assets</b>	<b>7,490.4</b>	<b>8,423.2</b>
<b>Current liabilities</b>		
Trade and other payables	475.5	429.4
Interest bearing liabilities	0.9	154.1
Provisions	135.4	113.2
<b>Total current liabilities</b>	<b>611.8</b>	<b>696.7</b>
<b>Non-current liabilities</b>		
Trade and other payables	0.4	0.7
Interest bearing liabilities	3,454.3	4,421.6
Deferred tax liabilities	158.5	140.1
Provisions	170.1	241.7
<b>Total non-current liabilities</b>	<b>3,783.3</b>	<b>4,804.1</b>
<b>Total liabilities</b>	<b>4,395.1</b>	<b>5,500.8</b>
<b>Net assets</b>	<b>3,095.3</b>	<b>2,922.4</b>
<b>Equity</b>		
Ordinary shares	2,068.5	2,025.3
Reserves	575.6	412.9
Retained profits	451.2	484.2
<b>Total equity</b>	<b>3,095.3</b>	<b>2,922.4</b>
<b>Summarised income statement and retained profits</b>		
Profit before income tax expense	175.1	694.0
Income tax expense	(27.1)	(76.3)
<b>Profit from operations</b>	<b>148.0</b>	<b>617.7</b>
Retained profits at the beginning of the year	484.2	177.5
Actuarial losses/(gains) recognised directly in equity	16.1	(27.5)
Ordinary dividends – interim	(88.4)	(76.5)
Ordinary dividends – final	(108.7)	(207.0)
<b>Retained profits at the end of the year</b>	<b>451.2</b>	<b>484.2</b>

<sup>(1)</sup> Other assets include net tax receivables with Group entities outside the Deed of Cross Guarantee.



# Notes to the Financial Statements – Reward and recognition

For the year ended 30 September

## Section G. Reward and recognition

Orica operates in more than 50 countries and has more than 11,500 employees. This section provides insights into the reward and recognition of employees, in addition to the employee benefits expense and employee provisions disclosed in the Income Statement and note 6 respectively.

This section should be read in conjunction with the Remuneration Report, contained within the Directors' Report, which provides specific details on the setting of remuneration for Key Management Personnel.

## 19. Employee share plans and Remuneration

The following plans have options or rights ("instruments") over Orica shares outstanding at 30 September 2016 or 30 September 2017:

- The Long-Term Incentive Plan (LTIP) (refer to Remuneration Report Section 3.5 and 6.2).
- Long-Term Equity Incentive Plan shares which are treated as options for accounting purposes. As at September 2017 there are no options outstanding. The 522,534 options outstanding as at September 2016 have lapsed during the year.
- Long-Term Incentive Rights Plan. As at September 2017 there are no rights outstanding. The 457,057 rights outstanding as at September 2016 have lapsed during the year.
- Sign-on Rights and Share Plans.

Orica engaged PwC to value issued instruments. The valuations prepared by PwC use methodologies consistent with assumptions that apply under the Black Scholes option pricing model and reflect the value (as at grant date) of instruments held at 30 September. The inputs underlying the instrument valuations are: (a) the exercise price of the instrument, (b) the life of the instrument, (c) the current price of the underlying securities, (d) the expected volatility of the share price, (e) the dividends expected on the shares, and (f) the risk-free interest rate for the life of the instrument.

### (a) (i) Sign-on Rights

For a select group of senior managers who join Orica post allocation of a LTIP grant (and who generally have forgone at-risk remuneration from their previous employer) rights may be allocated at the discretion of the Orica Board. Allocations are made on the following basis:

- Employees are granted a number of rights, which vest upon the satisfaction of a time based hurdle, generally aligned to their anniversary of joining Orica.
- The number of rights granted to each employee is based on either a specified percentage of their fixed remuneration, or a straight dollar value. The value is determined on an individual basis, but generally aligned to either their future LTIP grant percentage or the foregone at-risk remuneration from their previous employer.
- Each right is an entitlement to be allocated one ordinary share in Orica.
- Rights are unlisted and do not carry any dividend or voting rights.
- Shares allocated upon vesting of rights may be either newly issued shares or existing shares acquired on market.
- Holders of rights that leave the Group prior to the end of the performance period will, in general, forfeit their rights. The Board has discretion to allow a number of rights remain 'on foot' to be tested and vest if the holder leaves due to death, disability or other Board approved reason.

Sign-on Rights allocations, values and related information is shown in the following table:

Grant dates	Vesting date	Number of rights issued	Number of rights held at 30 September 2017	Number of rights held at 30 September 2016	Number of participants at 30 September 2017	Number of participants at 30 September 2016	Value of rights at grant date <sup>(1)</sup> \$
12 Jan 16– 11 Aug 17	30 Jun 16– 2 Dec 19	76,261	70,934	66,909	4	3	1,035,257

<sup>(1)</sup> The inputs underlying the rights valuations are:

Grant dates	Price of Orica Shares at grant date \$	Expected volatility in share price %	Dividends expected on shares %	Risk free interest rate %	Fair value per right \$
12 Jan 16–11 Aug 17	13.88-18.71	25-30	3.0-5.5	1.49-1.60	11.92-20.01

# Notes to the Financial Statements – Reward and recognition

For the year ended 30 September

## 19. Employee share plans and Remuneration (continued)

### (a) (ii) Sign-on shares

At the discretion of the Board, a grant of restricted shares was made to two senior managers on joining Orica to compensate them for having forgone at risk remuneration from their previous employer. The restricted share allocation was made on the following basis:

- The employees were granted a number of shares, which vest upon satisfaction of a time based hurdle aligned to the date at which awards from their previous employers would have been released.
- The number of shares was determined based on the value of at risk remuneration foregone from their previous employers.
- Each share carries access to dividend and voting rights during the restricted period.
- If the employees leave the Group prior to the end of restricted period they will, in general, forfeit their shares. The Board has discretion to allow the shares to vest if the holder leaves due to death, disability or other Board approved reason prior to the vesting date.

Sign-on share allocation, value and related information is shown in the following table:

Grant dates	Vesting date	Number of shares issued	Number of shares held at 30 September 2017	Number of shares held at 30 September 2016	Number of participants at 30 September 2017	Number of participants at 30 September 2016	Value of shares at grant date <sup>(1)</sup> \$
7 Jan 16– 24 May 16	30 Aug 16– 1 Jun 17	21,706	-	5,567	-	1	299,018

<sup>(1)</sup> The assumptions underlying the rights valuations are:

Grant dates	Price of Orica Shares at grant date \$	Expected volatility in share price %	Dividends expected on shares %	Risk free interest rate %	Fair value per right \$
7 Jan 16– 24 May 16	13.61-14.04	30	0-4.5	1.67-1.98	13.01-14.04

### (b) Key Management Personnel compensation summary

As deemed under AASB 124 *Related Parties Disclosures*, Key Management Personnel (KMP) include each of the Directors, both executive and non-executive, and those members of the Executive Committee who have authority and responsibility for planning, directing and controlling the activities of Orica.

A summary of the Key Management Personnel compensation is set out in the following table:

	Consolidated	
	2017 \$000	2016 \$000
Short term employee benefits	12,481.8	11,897.9
Other long term benefits	27.9	47.8
Post employment benefits	247.5	228.2
Share-based payments	4,932.0	2,530.8
Termination benefits	839.9	950.0
	18,529.1	15,654.7

Information regarding individual Directors and Executives compensation and some equity instrument disclosures as permitted by Corporation Regulations 2M.3.03 are provided in the Remuneration Report.

# Notes to the Financial Statements – Reward and recognition

For the year ended 30 September

## 20. Superannuation commitments

### *Recognition and Measurement*

Contributions to defined contribution superannuation funds are recognised in the Income Statement in the year in which the expense is incurred. For each defined benefit scheme, the cost of providing pensions is expensed in the Income Statement so as to recognise current and past service costs, interest cost on net liabilities, and the effect of any curtailments or settlements. Actuarial gains and losses for post-retirement plans are recognised in other comprehensive income. The Group's net liabilities in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds or in countries where there is no deep market in such bonds, the market yields on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed annually by a qualified actuary using the projected unit credit method.

### **(a) Superannuation plans**

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

#### Company sponsored plans

- The principal benefits are pensions or lump sum payments for members on resignation, retirement, disability or death. The benefits are provided on either a defined benefit or defined contribution basis.
- Employee contribution rates are either fixed by the rules of the plans or selected by members from time to time from a specified range of rates. The employer entities contribute the balance of the cost required to fund the defined benefits or, in the case of defined contribution plans, the amounts required by the rules of the plan.
- The contributions made by the employer entities to defined contribution plans are in accordance with the requirements of the governing rules of such plans or are required under law.

#### Government plans

- Some controlled entities participate in government plans on behalf of certain employees, which provide pension benefits. There exists a legally enforceable obligation on employer entities to contribute as required by legislation.

#### Industry plans

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

### **(b) Defined contribution pension plans**

The Group contributes to several defined contribution pension plans on behalf of its employees. The amount recognised as an expense for the financial year ended 30 September 2017 was \$38.0 million (2016 \$35.1 million).

### **(c) Defined benefit pension plans**

The Group participates in several Australian and overseas defined benefit post-employment plans that provide benefits to employees upon retirement. Plan funding is carried out in accordance with the requirements of trust deeds and the advice of actuaries. The information within these financial statements has been prepared by the local plan external actuaries. Orica were assisted by Willis Towers Watson to consolidate those results globally. During the year, the Group made employer contributions of \$23.8 million (2016 \$28.2 million) to defined benefit plans. The Group's external actuaries have forecast total employer contributions and benefit payments to defined benefit plans of \$27.8 million for 2018.

# Notes to the Financial Statements – Reward and recognition

For the year ended 30 September

## 20. Superannuation commitments (continued)

### (c) (i) Balance sheet amounts

The amounts recognised in the balance sheet are determined as follows:

	2017 \$m	2016 \$m
Present value of the funded defined benefit obligations	606.3	653.3
Present value of unfunded defined benefit obligations	113.6	112.5
Fair value of defined benefit plan assets	(501.9)	(512.9)
Deficit	218.0	252.9
Restriction on assets recognised	0.1	0.1
Net liability in the balance sheet	218.1	253.0
Amounts in balance sheet:		
Liabilities	218.4	253.6
Assets	(0.3)	(0.6)
Net liability recognised in balance sheet at end of year	218.1	253.0

### (c) (ii) Amounts recognised in the income statement

The amounts recognised in the income statement are as follows:

	2017 \$m	2016 \$m
Current service cost	15.3	15.4
Interest cost on net defined benefit liabilities	6.4	6.2
Curtailment or settlement (gains)	(1.9)	-
Total included in employee benefits expense	19.8	21.6

### (c) (iii) Amounts included in the statement of comprehensive income

	2017 \$m	2016 \$m
Actuarial gains/(losses) on defined benefit obligations:		
Due to changes in demographic assumptions	1.0	(10.6)
Due to changes in financial assumptions	35.2	(83.7)
Due to experience adjustments	(7.8)	(3.9)
Total	28.4	(98.2)
Change in irrecoverable surplus other than interest	0.1	1.4
Return on plan assets greater than discount rate	4.9	15.7
Total gains/(losses) recognised via the Statement of Comprehensive Income	33.4	(81.1)
Tax (expense)/benefit on total (losses)/gains recognised via the Statement of Comprehensive Income	(10.0)	21.9
Total gains/(losses) after tax recognised via the Statement of Comprehensive Income	23.4	(59.2)

### (c) (iv) Reconciliations

	2017 \$m	2016 \$m
Reconciliation of present value of the defined benefit obligations:		
Balance at the beginning of the year	765.8	747.7
Current service cost	15.3	15.4
Interest cost	22.6	28.3
Actuarial (gains)/losses	(28.4)	98.2
Contributions by plan participants	1.4	1.9
Benefits paid	(54.3)	(61.0)
Settlements/curtailments	(7.1)	(23.0)
Exchange differences on foreign funds	4.6	(41.7)
Balance at the end of the year	719.9	765.8

# Notes to the Financial Statements – Reward and recognition

For the year ended 30 September

## 20. Superannuation commitments (continued)

	2017 \$m	2016 \$m
Reconciliation of the fair value of the plan assets:		
Balance at the beginning of the year	512.9	556.0
Interest income on plan assets	16.2	22.1
Actuarial gains	4.9	15.7
Contributions by plan participants	1.4	1.9
Contributions by employer	23.8	28.2
Benefits paid	(54.3)	(61.0)
Settlements/curtailments	(5.3)	(20.8)
Other	(0.1)	(2.0)
Exchange differences on foreign funds	2.4	(27.2)
Balance at the end of the year	501.9	512.9

The fair value of plan assets does not include any amounts relating to the Group's own financial instruments, property occupied by, or other assets used by, the Group.

	2017 \$m	2016 \$m
Comprising:		
Quoted in active markets:		
Equities	195.4	200.9
Debt securities	216.7	217.5
Property	9.9	10.4
Other quoted securities	30.8	32.0
Other:		
Property	22.1	22.8
Insurance contracts	4.7	5.8
Cash and cash equivalents	22.3	23.5
	501.9	512.9

The principal assumptions applied in determining the present value of defined benefit obligations and their bases were as follows:

- Rates of increase in pensionable remuneration, pensions in payment and healthcare costs: historical experience and management's long-term future expectations;
- Discount rates: prevailing long-term high quality bond yields, chosen to match the currency and duration of the relevant obligation; and
- Mortality rates: the local actuaries' designated mortality rates for the individual plans concerned.

The weighted averages for those assumptions and related sensitivity information are presented below. Sensitivity information indicates by how much the defined benefit obligations would increase or decrease if a given assumption were to increase or decrease with no change in other assumptions.

	Weighted average of assumptions used		Change in assumptions	
	2017	2016	+1% \$m	-1% \$m
Rate of increase in pensionable remuneration	3.27%	3.15%	21	(18)
Rate of increase in pensions in payment	2.56%	2.30%	22	(18)
Discount rate for pension plans	3.67%	3.11%	(83)	103

The expected age at death for persons aged 65 is 87 years for men and 90 years for women at 30 September 2017. A change of 1 year in the expected age of death would result in an \$17 million movement in the defined benefit obligation at 30 September 2017.

# Notes to the Financial Statements – Reward and recognition

For the year ended 30 September

## 20. Superannuation commitments (continued)

### *Critical accounting judgements and estimates*

The expected costs of providing post-retirement benefits under defined benefit arrangements relating to employee service during the period are charged to the Income Statement. Actuarial gains and losses from post retirement plans, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, are recognised immediately in the Statement of Comprehensive Income. In all cases, the superannuation costs are assessed in accordance with the advice of independent qualified actuaries but require the exercise of judgement in relation to assumptions for future salary and superannuation increases, long term price inflation and bond rates. While Management believes the assumptions used are appropriate, a change in the assumptions used may impact the earnings and equity of the Group.

# Notes to the Financial Statements – Other

For the year ended 30 September

## Section H. Other

This section includes additional financial information that is required by Australian Accounting Standards and management considers to be relevant information for shareholders.

### 21. Commitments

#### Capital expenditure commitments

Capital expenditure on property, plant and equipment and business acquisitions contracted but not provided for and payable no later than one year was \$28.4 million (2016 \$47.6 million) and later than one but less than five years was \$0.9 million (2016 \$0.2 million).

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$m</b>	<b>\$m</b>
<b>Lease commitments</b>		
Lease expenditure contracted for at balance date but not recognised in the financial statements and payable:		
no later than one year	<b>57.4</b>	50.3
later than one, no later than five years	<b>81.8</b>	95.4
later than five years	<b>13.9</b>	33.4
	<b>153.1</b>	179.1
Representing:		
cancellable operating leases	<b>41.5</b>	49.3
non-cancellable operating leases	<b>111.6</b>	129.8
	<b>153.1</b>	179.1
Non-cancellable operating lease commitments payable:		
no later than one year	<b>37.6</b>	28.4
later than one, no later than five years	<b>62.3</b>	70.5
later than five years	<b>11.7</b>	30.9
	<b>111.6</b>	129.8

### 22. Contingent liabilities

Contingent liabilities relating to environmental uncertainties are disclosed in note 6 and those relating to taxation in note 11. All others are disclosed below.

#### (a) Guarantees, indemnities and warranties

- The Group has entered into various long term supply contracts. For some contracts, minimum charges are payable regardless of the level of operations, but the levels of operations are expected to remain above those that would trigger minimum payments.
- There are a number of legal claims and exposures which arise from the ordinary course of business. There is significant uncertainty as to whether a future liability will arise in respect of these items. The amount of liability, if any, which may arise cannot be reliably measured at this time.
- There are guarantees relating to certain leases of property, plant and equipment and other agreements arising in the ordinary course of business.
- Contracts of sale covering companies and assets which were divested during the current and prior years include commercial warranties and indemnities to the purchasers.

#### (b) Other

In 2013, the Polish Competition Authority brought down an adverse finding against 3 firms, including Minova Poland, in relation to the supply of ground support products to Polish coal mines during 2005 to 2010, fining Minova Poland \$4.7million. Orica appealed the adverse finding and the fine. In June 2017 the Competition court dismissed the decision, however the Competition Authority appealed the decision to a civil appeals Court.

# Notes to the Financial Statements – Other

For the year ended 30 September

## 22. Contingent liabilities (continued)

### *Critical accounting judgements and estimates*

In the normal course of business, contingent liabilities may arise from product-specific and general legal proceedings, from guarantees or from environmental liabilities connected with current or former sites. Where Management are of the view that potential liabilities have a low probability of crystallising or it is not possible to quantify them reliably, they are not provided for and disclosed as contingent liabilities.

#### **Legal proceedings**

The outcome of currently pending and future legal, judicial, regulatory, administrative and other proceedings of a litigious nature ("Proceedings") cannot be predicted with certainty. Thus, an adverse decision in Proceedings could result in additional costs that are not covered, either wholly or partially, under insurance policies and that could significantly impact the business and results of operations of the Group. Proceedings can raise difficult and complex legal issues and are subject to many uncertainties and complexities including, but not limited to, the facts and circumstances of each particular case, issues regarding the jurisdiction in which each Proceeding is brought and differences in applicable law. Upon resolution of any pending Proceedings, the Group may be forced to incur charges in excess of the presently established provisions and related insurance coverage. It is possible that the financial position, results of operations or cash flows of the Group could be materially affected by an unfavourable outcome of those Proceedings. Proceedings are evaluated on a case-by-case basis considering the available information, including that from legal counsel, to assess potential outcomes. Where it is considered probable that a future obligation will result in an outflow of resources, a provision is recorded in the amount of the present value of the expected cash outflows if these are deemed to be reliably measurable.

#### **Warranties and Indemnities**

In the course of acquisitions and disposals of businesses and assets, Orica routinely negotiates warranties and indemnities across a range of commercial issues and risks, including environmental risks associated with real property. Management uses the information available and exercises judgement in the overall context of these transactions, in determining the scope and extent of these warranties and indemnities. In assessing Orica's financial position, Management relies on warranties and indemnities received, and considers potential exposures on warranties and indemnities provided. It is possible that the financial position, results of operations and cash flows of the Group could be materially affected if circumstances arise where warranties and indemnities received are not honoured, or for those provided, circumstances change adversely.

## 23. Auditors' remuneration

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$000</b>	<b>\$000</b>
Total remuneration received, or due and receivable, by the auditors for:		
Audit services		
Auditors of the Company – KPMG Australia		
– Audit and review of financial reports	<b>3,521</b>	3,772
– Other regulatory audit services	<b>-</b>	-
Auditors of the Company – overseas KPMG firms		
– Audit and review of financial reports <sup>(1)</sup>	<b>1,809</b>	2,151
	<b>5,330</b>	5,923
Other services		
Auditors of the Company – KPMG Australia		
– other assurance services	<b>25</b>	42
	<b>25</b>	42
	<b>5,355</b>	5,965

From time to time, KPMG, the auditors of Orica, provide other services to the Group, which are subject to strict corporate governance procedures adopted by the Company which encompass the selection of service providers and the setting of their remuneration.

<sup>(1)</sup> Fees paid or payable for overseas subsidiaries' local statutory requirements.



## Notes to the Financial Statements – Other

For the year ended 30 September

### 24. Events subsequent to balance date

#### Dividends

On 3 November 2017, the Directors declared a final dividend of 28.0 cents per ordinary share payable on 8 December 2017. The financial effect of this dividend is not included in the financial statements for the year ended 30 September 2017 and will be recognised in the 2018 financial statements.

The Directors have not become aware of any other significant matter or circumstance that has arisen since 30 September 2017, 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 these financial statements.

# Notes to the Financial Statements – Other

For the year ended 30 September

## 25. Investments in controlled entities

The consolidated financial statements incorporate the assets, liabilities and results of the following controlled entities held during 2016 and 2017 (non controlling direct interests shareholding disclosed if not 100% owned):

Name of Entity	Place of incorporation if other than Australia	Name of Entity	Place of incorporation if other than Australia
<b>Company</b>			
Orica Limited			
<b>Controlled Entities</b>			
ACF and Shirleys Pty Ltd (c)		Minova Holding Inc	USA
Alaska Pacific Powder Company	USA	Minova International Limited	UK
Altona Properties Pty Ltd (c) - 37.4%		Minova Ksante Sp. z o.o.	Poland
Aminova International Limited	Hong Kong	Minova MAI GmbH	Austria
Ammonium Nitrate Development and Production Limited - 0.1%	Thailand	Minova Mexico S.A. de C.V.	Mexico
Anbao Insurance Pte Ltd		Minova MineTek Private Limited	India
Arboleda S.A	Singapore	Minova Mining Services SA	Chile
ASA Organizacion Industrial S.A. de C.V.	Panama	Minova Nordic AB	Sweden
Australian Fertilizers Pty Ltd (c)	Mexico	Minova Ukraina OOO - 10%	Ukraine
Barbara Limited	UK	Minova (Tianjin) Co., Ltd. (d)	China
Beijing Ruichy Minova Synthetic Material Company Limited	China	Minova Weldgrip Limited	UK
BST Manufacturing, Inc.		Minova USA Inc	USA
Chemnet Pty Limited (a)	USA	Mintun 1 Limited	UK
CJSC (ZAO) Carbo-Zakk - 6.3%		Mintun 2 Limited	UK
Controladora DNS de RL de CV	Russia	Mintun 3 Limited	UK
Cyantific Instruments Pty Ltd (a)	Mexico	Mintun 4 Limited	UK
Dansel Business Corporation		MMTT Limited	UK
Dyno Nobel Nitrogen AB (b)	Panama	Nitedals Krudtvaerk AS (e)	Norway
Dyno Nobel VH Company LLC - 49%	Sweden	Nitro Asia Company Inc. - 41.6%	Philippines
Eastern Nitrogen Pty Ltd (c)	USA	Nitro Consult AB	Sweden
Emirates Explosives LLC - 35%		Nitro Consult AS	Norway
Orica Hydraulics Inc. (a)	United Arab Emirates	Nitroamonia de Mexico S.A de C.V.	Mexico
Explosivos de Mexico S.A. de C.V. - 1.3%	USA	Nobel Industrier AS	Norway
Explosivos Mexicanos S.A. de C.V.	Mexico	Nordenfjeldske Spraengstof AS (e)	Norway
Fortune Properties (Alrode) (Pty) Limited	South Africa	Northwest Energetic Services LLC - 48.7%	USA
GeoNitro Limited - 40%	Georgia	Nutnim 1 Limited	UK
Hallowell Manufacturing LLC		Nutnim 2 Limited	UK
Hunan Orica Nanling Civil Explosives Co., Ltd - 49%	USA	OOO Minova	Russia
Indian Explosives Private Limited	China	OOO Minova TPS - 6.3% (a)	Russia
Initiating Explosives Systems Pty Ltd		Orica-CCM Energy Systems Sdn Bhd - 45%	Malaysia
Jiangsu Orica Banqiao Mining Machinery Company Limited - 50.5%	India	Orica-GM Holdings Limited - 49%	UK
JV Minova Kazakhstan Limited Liability Partnership - 20%	China	Orica Africa (Pty) Ltd	South Africa
LLC Orica Logistics		Orica Argentina S.A.I.C.	Argentina
Mining Quarry Services SPRL (e)	Kazakhstan	Orica Australia Pty Ltd	
Minova Africa (Pty) Ltd - 25%		Orica Australia Securities Pty Ltd (a)	
(formerly Orica Mining Services South Africa (Pty) Ltd)		Orica BKM SASU	Democratic Republic of Congo
Minova Africa Holdings (Pty) Limited (formerly Orica South Africa Holdings (Pty) Limited)			
Minova AG	Russia	Orica Belgium S.A.	Belgium
Minova Arnall Sp. z o.o.	Belgium	Orica Blast & Quarry Surveys Limited - 25%	UK
Minova Asia Pacific Ltd	South Africa	Orica Bolivia S.A.	Bolivia
Minova Australia Pty Ltd		Orica Brasil Ltda	Brazil
Minova Bohemia s.r.o.	South Africa	Orica Caledonie SAS	New Caledonia
		Orica Canada Inc	Canada
	Switzerland	Orica Canada Investments ULC	Canada
	Poland	Orica Caribe, S.A.	Panama
	Taiwan	Orica Centroamerica S.A.	Costa Rica
		Orica Chile Distribution S.A.	Chile
	Czech Republic	Orica Chile S.A.	Chile
	Germany	Orica CIS CJSC	Russia
	China	Orica Colombia S.A.S.	Colombia
		Orica Denmark A/S	Denmark
		Orica Dominicana S.A.	Dominican Republic
	Spain		Democratic Republic of Congo
	Poland	Orica DRC SARL	
	Germany		

# Notes to the Financial Statements – Other

For the year ended 30 September

## 25. Investments in controlled entities (continued)

Name of Entity	Place of incorporation if other than Australia	Name of Entity	Place of incorporation if other than Australia
Orica Eesti OU - 35%	Estonia	Orica Panama S.A. - 40%	Panama
Orica Europe FT Pty Ltd (c)		Orica Philippines Inc - 5.5%	Philippines
Orica Europe Investments Pty Ltd (c)		Orica Portugal, S.G.P.S., S.A.	Portugal
Orica Europe Management GmbH	Germany	Orica Qatar LLC - 40% (b)	Qatar
Orica Europe Pty Ltd & Co KG	Germany	Orica Securities (UK) Limited	UK
Orica Explosives Holdings Pty Ltd		Orica Servicos de Mineracao Ltda (e)	Brazil
Orica Explosives Holdings No 2 Pty Ltd		Orica Share Plan Pty Limited (c)	
Orica Explosives Holdings No 3 Pty Ltd (c)		Orica Senegal SARL	Senegal
Orica Explosives Research Pty Ltd (c)		Orica Singapore Pte Ltd	Singapore
Orica Explosives Technology Pty Ltd		Orica St. Petersburg LLC	Russia
Orica Explosivos Industriales, S.A.	Spain	Orica Sweden AB	Sweden
Orica Export Inc. (e)	USA	Orica Sweden Holdings AB	Sweden
Orica Finance Limited		Orica Tanzania Limited	Tanzania
Orica Finance Trust		Orica UK Limited	UK
Orica Finland OY	Finland	Orica US Finance LLC	USA
Orica GEESP Pty Ltd (c)		Orica US Holdings General Partnership	USA
Orica Ghana Limited	Ghana	Orica USA Inc.	USA
Orica Grace US Holdings Inc.	USA	Orica U.S. Services Inc.	USA
Orica Holdings Pty Ltd (c)		Orica Venezuela C.A.	Venezuela
Orica Ibérica, S.A.	Portugal	Orica (Weihai) Explosives Co Ltd - 20%	China
Orica IC Assets Holdings Limited Partnership		Orica Zambia Limited	Zambia
Orica IC Assets Pty Ltd		Oricare Canada Inc.	Canada
Orica IC Investments Pty Ltd (c)		Oricorp Comercial S.A. de C.V.	Mexico
Orica International IP Holdings Inc.	USA	Oricorp Mexico S.A. de C.V.	Mexico
Orica International Pte Ltd	Singapore	Penlon Proprietary Limited (c)	
Orica Investments (Indonesia) Pty Limited (c)		Project Grace	UK
Orica Investments (NZ) Limited	NZ	Project Grace Holdings	UK
Orica Investments (Thailand) Pty Limited (c)		Project Grace Incorporated	USA
Orica Investments Pty Ltd		PT Kalimantan Mining Services	Indonesia
Orica Japan Co. Ltd	Japan	PT Kaltim Nitrate Indonesia - 10%	Indonesia
Orica Kazakhstan Joint Stock Company	Kazakhstan	PT Orica Mining Services	Indonesia
Orica Logistics Canada Inc.	Canada	Retec Pty Ltd (c)	
Orica Mauritania SARL	Mauritania	Rui Jade International Limited	Hong Kong
Orica Med Bulgaria AD - 40%	Bulgaria	Sarkem Pty Ltd (c)	
Orica Mining Services (Namibia) (Proprietary) Limited	Namibia	Sprengstoff-Verwertungs GmbH	Germany
Orica Mining Services (Hong Kong) Ltd	Hong Kong	Taian Ruichy Minova Ground Control Technology Co., Ltd (a)	China
Orica Mining Services Peru S.A. - 1%	Peru	Transmate S.A. - 29.8%	Belgium
Orica Mining Services Portugal S.A.	Portugal	White Lightning Holdings, Inc	Philippines
Orica Mining Services (Thailand) Limited	Thailand		
Orica Mongolia LLC - 51%	Mongolia		
Orica Mountain West Inc.	USA		
Orica Mozambique Limitada	Mozambique		
Orica Netherlands Finance B.V. (b)	Netherlands		
Orica New Zealand Finance Limited	NZ		
Orica New Zealand Limited	NZ		
Orica New Zealand Securities Limited	NZ		
Orica New Zealand Superfunds Securities Limited	NZ		
Orica Nitrates Philippines Inc - 4%	Philippines		
Orica Nitratos Peru S.A.	Peru		
Orica Nitro Patlayici Maddeler Sanayi ve Ticaret Anonim Sirketi - 49%	Turkey		
Orica Nitrogen LLC	USA		
Orica Nominees Pty Ltd (c)			
Orica Norway AS	Norway		
Orica Norway Holdings AS (e)	Norway		

(a) Liquidated in 2017.

(b) In liquidation.

(c) Small proprietary company - no separate statutory accounts are prepared.

(d) Divested in 2017.

# Notes to the Financial Statements – Other

For the year ended 30 September

## 26. New accounting policies and accounting standards

### (i) Changes in accounting policies

Except as described below, the accounting policies applied by the Group in the financial statements are the same as those applied by the Group in its consolidated financial report for the year ended 30 September 2016.

The Group assessed and applied a number of new and revised accounting standards issued by the Australian Accounting Standards Board (AASB). The adoption of these standards has not resulted in any material changes to the Group's financial statements and primarily impact disclosures.

### (ii) New accounting standards and interpretations issued but not yet adopted

The following new accounting standards and interpretations have been issued or amended but are not yet effective. These standards are available for early adoption but have not been applied by the Group in this financial statements.

The Group's assessment of the impact of these new standards is set out below.

- AASB 9 (2014) Financial Instruments, AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) and AASB 2014-8 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) – Application of AASB 9 (December 2009) and AASB 9 (December 2010)

AASB 9 *Financial Instruments* addresses the classification, measurement and recognition of financial assets and liabilities, sets out new rules for hedge accounting and introduces a new impairment model. This standard is applicable for annual reporting periods beginning on or after 1 January 2018. It will first apply in the Group's Annual Report for the year ended 30 September 2019.

Whilst the impact of the adoption of this standard is still being assessed, it is not expected to have a material impact on the Group.

- AASB 15 Revenue from Contracts with Customers and AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15

AASB 15 modifies the way which revenue is recognised and provides for an increase in the disclosure requirements for the Group. The key principle is that an entity recognises revenue representing the transfer of goods or services to a customer in an amount that reflects the price that the entity expects to be entitled in exchange for those goods or services. The result is that revenue is recognised when control of goods or services is transferred rather than on the transfer of risks and rewards. This standard is applicable for annual reporting periods beginning on or after 1 January 2018. It will first apply in the Group's Annual Report for the year ended 30 September 2019.

Whilst the impact of the adoption of this standard is still being assessed, it is not expected to have a material impact on the Group.

- AASB 16 Leases

AASB 16 *Leases* replaces the current leasing standard AASB 117 and contains significant changes to the recognition, measurement and disclosure of leases. Under the new standard, the present value of all the Group's leases, excluding low value leases and short-term leases, will be shown as right of use assets and as lease liabilities on the balance sheet.

This standard will have an impact on the Group's earnings and shareholders' funds at transition and in future years. It must be implemented retrospectively, either with the restatement of comparative information or with the cumulative impact of application recognised as at 1 October 2019 under the modified retrospective approach.

AASB 16 contains several practical expedients. Under the modified retrospective approach, on a lease-by-lease basis, the right of use of an asset may be deemed to be equivalent to the liability at transition or calculated retrospectively as at inception of the lease.

The financial impact of adopting AASB 16 has not yet been determined, however the following impacts are expected on implementation date:

- Total assets and total liabilities will increase, due to the recognition of a "Right of Use Asset" and a "Lease Liability" grossing up the assets and liabilities in the Group's Balance Sheet;
- Interest expense will increase due to effective interest rate implicit in the lease, where the interest expense component is higher on early years on the lease;
- Depreciation charge will increase as the right of use assets is recognised and depreciated over the term of the lease;
- Lease rental expense will decrease due to the recognition of interest and depreciation noted above; and
- Operating cash flow will be higher as repayment of the principal portion of all lease liabilities will be classified as financing activities.

To date, work has focused on the identification of the provisions of the standard which will most impact the Group. In 2018, work on these issues and their resolution will continue and work on the financial reporting impacts will commence as well as assessment of likely changes to systems. This standard is applicable for annual reporting periods beginning on or after 1 January 2019. It will first apply in the Group's Annual Report for the year ended 30 September 2020.

## Directors' Declaration

We, Malcolm William Broomhead and Alberto Calderon, being Directors of Orica Limited, do hereby state in accordance with a resolution of the Directors that in the opinion of the Directors,

(a) the consolidated financial statements and notes, set out on pages 27 to 76, and the Remuneration report in the Directors' Report, set out on pages 5 to 24, are in accordance with the *Corporations Act 2001*, including:

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

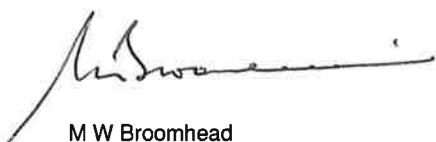
(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

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

There are reasonable grounds to believe that the Company and the controlled entities identified in note 18 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*.

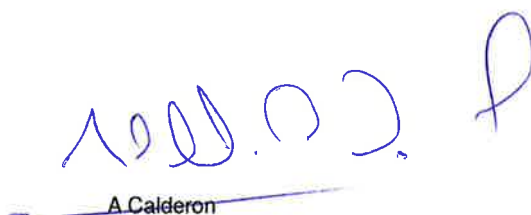
The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Managing Director and Chief Financial Officer for the financial year ended 30 September 2017.

The Directors draw attention to "About this report" on page 32 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.



M W Broomhead

Chairman



A Calderon

Managing Director and Chief Executive Officer

Dated at Melbourne 3 November 2017.



# Independent Auditor's Report

To the shareholders of Orica Limited

## Report on the audit of the Financial Report

### Opinion

We have audited the **Financial Report** of Orica Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- 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 ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises the:

- Consolidated balance sheet as at 30 September 2017
- Consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 *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 fulfilled our other ethical responsibilities in accordance with the Code.

### Key Audit Matters

The **Key Audit Matters** we identified are:

- Carrying value of goodwill associated with the Minova segment
- Accounting for environmental and decommissioning provisions
- Accounting for uncertain tax positions

**Key Audit Matters** are those matters that, in our professional judgment, 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.

## Carrying value of goodwill associated with the Minova Segment (\$191m)

Refer to Note 9 to the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>A key audit matter was the Group's annual testing of goodwill attributable to the Minova Segment (Minova). Given the size of the balance and recent performance of Minova we exercised significant judgment in evaluating the audit evidence available.</p> <p>Minova's performance in recent periods was impacted by a number of external factors. These factors include weaker volumes in global coal markets relative to historical trends, lower pricing in the USA and cost reduction mandates across the resource sector. The Group considered these external factors could indicate possible impairment of the goodwill.</p> <p>We focused on the significant forward-looking assumptions the Group applied in their value in use models including:</p> <ul style="list-style-type: none"> <li>• Forecast operating cash flows – Minova has experienced declining cash flows in recent years due to competitive market conditions and weaker volumes in coal markets and have not met prior forecasts, raising our concern for reliability of current forecasts. These conditions, coupled with the Group's models being highly sensitive to changes in forecast operating cash flows, increase the possibility that goodwill may be impaired plus the risk of inaccurate forecasts or wider range of outcomes to consider.</li> <li>• Forecast terminal growth rates – in addition to the uncertainties described above, the Group's models are sensitive to changes in terminal growth rates. This drives additional audit effort specific to the feasibility of the terminal growth rates and consistency with the Group's strategy.</li> <li>• Discount rates – the determination of a discount rate applicable to underlying cash flows is a subjective exercise, and is influenced by the countries and environments that the cash flows are generated in. The Group's modelling is sensitive to changes in the discount rate.</li> </ul>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• We tested key controls in the Group's valuation process including Board authorisation of cash flow forecasts and review and approval of the impairment assessment, by examining information presented to the Board.</li> <li>• We compared the forecast cash flows contained in the value in use model to Board approved forecasts.</li> <li>• We assessed the accuracy of previous Group forecasts for Minova's cash flows to inform our evaluation of forecasts incorporated in the models. We noted previous trends, in particular where weakening demand and continuing lower prices in North America occurred and how this impacted the business, for use in further testing. We applied increased scepticism to forecasts in areas where previous forecasts were not achieved.</li> <li>• We challenged the Group's significant forecast cash flow assumptions in light of competitive market conditions and weaker volumes in coal markets relative to historical trends to assess Minova's capacity to achieve future cash flows. We used our knowledge of the Group, their past performance, business and customers and our industry experience to evaluate the feasibility of these plans.</li> <li>• We assessed the scope, expertise and independence of the external specialists engaged by the Group to assist the Group to determine the discount rates applicable to the operations which comprise Minova.</li> <li>• Working with our valuation specialists we also independently developed a discount rate range for key operations which form part of Minova, using publically available market data for comparable entities, adjusted for risk factors including country risk. We compared the discount rates applied by the Group for key operations to our acceptable range.</li> <li>• We considered the sensitivity of the models by varying key assumptions, such as forecast growth rates, terminal growth rates and discount rates, within a reasonably possible range, to identify those assumptions at higher risk of bias or inconsistency in application and to focus our further procedures.</li> <li>• We compared forecast terminal growth rates for the key operations which form part of Minova to published studies of industry and economic trends and expectations, and considered differences for the Group's operations.</li> <li>• We assessed the value in use methodology applied by the Group to accepted market practices and our industry experience.</li> <li>• We assessed the disclosures in the financial report using our understanding of the issue obtained from our testing and against the requirements of the accounting standards.</li> </ul>



## Environmental and decommissioning provisions (\$215m) and contingent liability disclosures

Refer to Note 6 to the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>The estimation of environmental remediation and decommissioning provisions is considered a key audit matter. This is due to the inherent complexity associated with the Group estimating remediation costs, particularly for disturbance of ground beneath established structures and long term legacy matters, and for us in gathering persuasive audit evidence thereon.</p> <p>This complexity in estimating these provisions is influenced by:</p> <ul style="list-style-type: none"> <li>• The inherent challenges experienced by the Group in precisely determining the size and location of disturbance beneath established structures.</li> <li>• Current and potential future environmental and regulatory requirements and the impact on completeness of remediation activities within the provision estimate, including the activities which will be acceptable to the regulator.</li> <li>• The expected environmental remediation strategy and availability of any known techniques to remediate source contamination, in particular for treatment of Dense Non-Aqueous Phase Liquid source areas at Botany, New South Wales.</li> <li>• Historical experience, and its use as a reasonable predictor when evaluating forecast costs.</li> <li>• The expected timing of the expenditure given the long term nature of these exposures.</li> </ul>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• Testing controls relating to the completeness of the Group's identification of areas which contain disturbance and the related recognition and measurement of provisions, including the Group's review and authorisation of cost estimates.</li> <li>• Testing the accuracy of historical remediation provisions by comparing to actual expenditure. We used this knowledge to challenge the Group's current cost estimates and to inform our further procedures.</li> <li>• We conducted site visits and made enquiries of various personnel regarding the Group's strategy for remediating certain source contamination where significant challenges currently exist to define an acceptable method of remediation.</li> <li>• We read correspondence with regulatory authorities to understand their views about acceptable remediation techniques and compared this with the assumptions made in the Group's models.</li> <li>• We challenged the Group where provisions were unable to be made for source contamination about the existence of information which would enable a reliable estimate of the provision to be made. We compared this to our understanding of the matter and the criteria in the accounting standards for recording a provision.</li> <li>• We obtained the Group's quotations for remediation work, as well as internal and external underlying documentation for the Group's determination of future required activities, their timing and associated cost estimates. We compared them to the nature and quantum of costs contained in the provision balance.</li> <li>• We assessed the Group's disclosures using our knowledge of the business and the requirements of the Accounting Standards. In particular, we focused on the disclosure of uncertainties associated with the provision or exposure.</li> </ul>



## Uncertain tax positions and contingent liability disclosure

Refer to Note 11 to the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>The Group operates in a global tax environment and its corporate structure reflects the nature of global operations which is driven by acquisitions, transactions and the execution of the Group's global strategy. This includes external sales in over one hundred countries.</p> <p>A number of the Group's tax positions are presently subject to challenge by tax authorities. The ultimate outcome of these matters is inherently uncertain.</p> <p>Accounting for uncertain tax positions is a key audit matter due to:</p> <ul style="list-style-type: none"> <li>• The Group undertaking transactions in a number of tax jurisdictions which require the Group to make significant judgments about the interpretation of tax legislation and the application of accounting requirements, in particular in Australia and Germany.</li> <li>• The changing tax environment where there have been significant developments to improve transparency of tax arrangements.</li> </ul> <p>We used significant judgment, including involvement of our tax specialists, to assess the Group's position with reference to tax legislation and in particular the likely outcome of the Group's defense of its positions through legal appeal processes.</p>	<p>Working with our tax specialists our procedures included:</p> <ul style="list-style-type: none"> <li>• We tested the Group's controls for identification and assessment of uncertain tax positions. Our testing included challenging senior management and the Group's taxation department, and inspecting correspondence with tax authorities and the Group's external tax advisors for evidence of significant uncertain tax positions not identified by the controls.</li> <li>• We considered the Group's methodologies, assumptions and estimates for significant tax positions and the likelihood of future tax outflows. Our evaluation was based on application of our knowledge of the industry, tax legislation and current regulatory focus areas, and recent rulings relevant to the uncertain tax positions.</li> <li>• We read correspondence with relevant tax authorities and considered both external tax and legal advice provided to the Group to check for any information which was contradictory to the Group's conclusions.</li> <li>• We compared the Group's accounting policy for recognition of tax provisions against the requirements of the accounting standards.</li> <li>• We compared the positions adopted by the Group to our knowledge of latest interpretations by tax regulators and court rulings to test the positions adopted for compliance with Accounting Standards.</li> <li>• We made independent enquiries of the Group's external legal advisors. We compared their responses to the assessment made by the Group.</li> <li>• We assessed the Group's disclosures in respect of uncertain tax positions against the requirements of the accounting standards and our understanding of the matters.</li> </ul>

## Other Information

Other Information is financial and non-financial information in Orica's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the About Us statement, Chairman's Message, Managing Director's Message, Review of Operations, Board Members biographies, Executive Committee biographies, Directors' Report and Five Year Financial Statistics. The Global Presence statement, Sustainability Overview, Shareholder Information and Corporate Directory are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

## Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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.

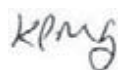
A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_files/ar2.pdf](http://www.auasb.gov.au/auditors_files/ar2.pdf). This description forms part of our Auditor's Report.

## Report on the Remuneration Report

### Opinion

#### Opinion

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



KPMG

#### Directors' 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 responsibilities

We have audited the Remuneration Report included in pages 5 to 24 of the Directors' report for the year ended 30 September 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.



Alison Kitchen  
Partner  
Melbourne  
3 November 2017

**For the year ended 30 September**

<b>Orica consolidated</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Profit &amp; Loss</b>					
Sales	<b>5,039.2</b>	5,091.9	6,123.2	6,796.3	6,885.2
Earnings before depreciation, amortisation, net borrowing costs and tax	<b>896.3</b>	908.1	995.1	1,230.5	1,252.5
Depreciation and amortisation (excluding goodwill)	<b>(261.2)</b>	(265.9)	(305.7)	(300.8)	(284.4)
Earnings before net borrowing costs and tax (EBIT)	<b>635.1</b>	642.2	689.4	929.7	968.1
Net borrowing costs	<b>(71.7)</b>	(84.3)	(82.1)	(115.8)	(150.2)
Individually material items before tax	<b>-</b>	(4.6)	(1,884.4)	-	-
Taxation expense	<b>(164.0)</b>	(198.4)	(119.3)	(187.9)	(208.0)
Non-controlling interests	<b>(13.2)</b>	(12.1)	(129.0)	(23.5)	(17.4)
Profit/(loss) after tax and individually material items	<b>386.2</b>	342.8	(1,525.4)	602.5	592.5
Individually material items after tax attributable to members of Orica Limited	<b>-</b>	(46.3)	(1,691.6)	-	-
Profit after tax before individually material items net of tax	<b>386.2</b>	389.1	424.2	602.5	592.5
Dividends/distributions	<b>197.1</b>	283.5	356.1	349.3	339.0
<b>Financial Position</b>					
Current assets	<b>1,784.8</b>	1,577.9	1,895.1	2,137.3	2,149.8
Property, plant and equipment	<b>2,741.5</b>	2,725.3	2,917.9	3,794.9	3,583.2
Investments	<b>184.6</b>	188.1	203.5	208.0	197.7
Intangibles	<b>1,577.1</b>	1,558.8	1,633.2	2,388.5	2,340.0
Other non-current assets	<b>497.2</b>	545.7	671.6	310.5	342.8
<b>Total assets</b>	<b>6,785.2</b>	6,595.8	7,321.3	8,839.2	8,613.5
Current borrowings and payables	<b>1,084.1</b>	1,382.9	1,285.2	1,775.8	1,703.4
Current provisions	<b>213.2</b>	207.9	244.1	181.5	251.6
Non current borrowings and payables	<b>1,937.4</b>	1,562.9	2,150.7	1,997.0	2,180.7
Non current provisions	<b>587.0</b>	658.9	654.1	485.8	467.9
<b>Total liabilities</b>	<b>3,821.7</b>	3,812.6	4,334.1	4,440.1	4,603.6
<b>Net assets</b>	<b>2,963.5</b>	<b>2,783.2</b>	<b>2,987.2</b>	<b>4,399.1</b>	<b>4,009.9</b>
Equity attributable to ordinary shareholders of Orica Limited	<b>2,962.3</b>	2,782.5	2,984.6	4,263.0	3,871.0
<b>Equity attributable to non-controlling interests</b>	<b>1.2</b>	<b>0.7</b>	<b>2.6</b>	<b>136.1</b>	<b>138.9</b>
<b>Total shareholders' equity</b>	<b>2,963.5</b>	<b>2,783.2</b>	<b>2,987.2</b>	<b>4,399.1</b>	<b>4,009.9</b>

## For the year ended 30 September

Orica consolidated	2017	2016	2015	2014	2013
Number of ordinary shares on issue at year end (millions)	377.0	374.9	370.1	372.7	368.2
Weighted average number of ordinary shares on issue (millions)	376.2	372.4	370.3	368.1	363.7
Basic earnings per ordinary share					
- before individually material items (cents)	102.7	104.5	114.6	163.7	162.9
- including individually material items (cents)	102.7	92.0	(342.3)	163.7	162.9
Dividends per ordinary share (cents)	51.5	49.5	96.0	96.0	94.0
Dividend franking (percent)	5.8	36.4	35.4	37.5	74.5
Dividend yield - based on year end share price (percent)	2.6	3.3	6.4	5.1	4.7
Closing share price range – High	\$21.03	\$16.92	\$22.56	\$24.78	\$27.31
Low	\$15.57	\$12.26	\$14.86	\$18.51	\$17.61
Year end	\$19.77	\$15.20	\$15.04	\$18.90	\$20.06
Stockmarket capitalisation at year end (\$m)	7,454.1	5,698.9	5,566.3	7,044.0	7,386.1
Net tangible assets per share (\$)	3.67	3.26	3.65	5.03	4.16
<b>Ratios</b>					
Profit margin - earnings before net borrowing costs and tax/sales (percent)	12.6	12.6	11.3	13.7	14.1
Net debt (millions)	1,440.9	1,549.4	2,026.1	2,236.7	2,334.2
Gearing (net debt/net debt plus equity) (percent)	32.7	35.8	40.4	33.7	36.8
Interest cover (EBIT/net borrowing costs excluding capitalised interest) (times)	6.2	5.4	5.8	6.5	6.0
Net capital expenditure on plant and equipment (Cash Flow) (\$m)	(210.7)	(123.9)	(292.5)	(392.7)	(596.1)
Net cash flow from (acquisition)/sale of businesses/controlled entities (\$m)	9.5	(13.3)	658.7	0.4	(2.2)
Return on average shareholders' funds					
- before individually material items (percent)	13.4	13.5	11.7	14.8	16.9
- including individually material items (percent)	13.4	11.9	(42.1)	14.8	16.9