# Half Year Report to Shareholders

31 March 2007

# Half Year Result Confirms Progress

## Longer term, we will continue to focus on business efficiency and profitable growth through acquisition, organic growth and strategic capital investment.

Dear Shareholder

In the 2007 half year your company continued to deliver strong underlying earnings growth and superior shareholder returns.

For the six months to 31 March 2007, Orica declared a Net Profit after Tax and Significant Items of $210 million, up 71% over the previous year. Excluding Significant Items, Net Profit after Tax was $203 million, an increase of 39% over the first half of 2006.

The interim dividend has been increased by 38% to 36 cents per share, franked at 14 cents per share.

Sales revenue increased by 4% to $2.7 billion.

Orica Mining Services delivered particularly strong earnings growth with a record result that reflected strong trading conditions in the global mining and resources market. We expect this trend to continue as customers in the resource sector aim to increase their volume of output, both from existing and new mines. Benefits from the uprated Yarwun ammonium nitrate plant flowed through in the period.

Our Consumer Products business had an excellent six months, primarily as a result of increased market share and a slowly improving Australian paint market. We are beginning to see the returns from our increased investment in marketing in the past 12 months.

Earnings in our Chemical Services business were slightly ahead of 2006 as we realise the benefit from strong growth in mining chemicals. This improvement was offset by a lower contribution from Watercare which has been impacted by the drought enforced water restrictions and increases in some variable costs. During the 2007 half year we finalised the sale of the Adhesives and Resins businesses in Australia and New Zealand, demonstrating Orica's continued focus on effective management of its capital base.

The performance of our Chemnet business continues to improve as the benefits from last year's restructuring program are being progressively delivered. This business still faces trading difficulties in Australia and New Zealand and is subject to lower volumes due to a downturn in manufacturing markets.

The integration of Dyno continues to progress well and projected $90 million of synergies are being delivered faster than expected. We now expect the $90 million to be delivered in 2008, a year ahead of original expectations.

Last October Orica announced it had signed an agreement to acquire leading mining services company Minova. The acquisition was completed effective 1 January 2007. This UK based company is the clear global leader in providing specialist chemical products for underground mining and civil engineering activities. This acquisition is consistent with our strategy to grow Orica into a truly global company, delivering superior shareholder returns. An outstanding business in an attractive and growing market segment, Minova provides Orica with lateral growth. It also provides Orica with product, geographic, customer and market sector diversification.

In addition to the strength of our core earnings and realising the benefits from our acquired businesses, Orica continues to maintain a rigorous approach to productivity and capital management. Orica's cash flow performance continued to improve in the first half of 2007 however there is still room for improvement in this area and our employees remain focussed on this as one of our priorities.

I thank Orica employees for their contribution to Orica's success. They continue to show their commitment to helping our customers succeed by 'Delivering the Promise'.

Their promise to take care of themselves and each other is evident in the first half of 2007 when Orica recorded its best ever safety performance. Whilst we maintain vigilance in this area, it is rewarding to see these results.

Our commitment to value people and the environment and be respectful of the communities within which we operate is also being fulfilled in a number of ways. Of note is our important work in cleaning up our environmental legacies. In May, we received the first level of approval from the Australian Government for our program to rid our Botany site of its store of Hexachlorobenzene (HCB). The Government concluded that Australia does not have the capacity, either now or in the future, to dispose of this material domestically. Throughout the Australian Government's review process, Orica has been actively working with the relevant German authorities and was surprised to hear in early June that the German authorities have not granted Orica the required import licence.

The Company's options responding to this decision are being assessed and in any event we will continue to pursue resolution of the HCB issue as soon as possible.

Our groundwater treatment facility at Botany began treating contaminated groundwater and in December 2006 New South Wales Premier Morris Iemma officially opened Orica's water recycling project at the Botany Groundwater Treatment Plant. Orica's Botany chlorine plant and its neighbour Qenos have commenced trialling the use of recycled water from the plant.

Going forward we will continue to focus on caring for safety, health and the environment, whilst fully realising the benefits from our acquisitions.

In March 2007, the Board received a bid from a private equity consortium to acquire the Company for $32.00 per ordinary share. After due consultation with our advisers, the bid was rejected primarily on the grounds that in the Board's view it significantly undervalued the Company and its growth prospects.

In respect to the outlook for growth in 2007, subject to global economic conditions, we look forward to higher earnings as we realise a full year contribution from the Dyno businesses and from the newly commissioned ammonium nitrate expansion at Yarwun in north Queensland. Shareholders will also see nine months' earning contribution from the Minova acquisition. We anticipate long term growth in our chemical services business resulting from our investment in an up-rate in sodium cyanide production at Yarwun.

In the longer term we will continue to seek geographic, acquisitive and organic growth opportunities across all of our businesses. To ensure continued superior returns to our shareholders, we will maintain our adherence to strict financial criteria and will only invest in those businesses that have earned the right to grow.

**Don Mercer**
Chairman

# Business Performance

Orica's net profit after tax (NPAT) and significant items for the six months ended 31 March 2007 of $210M was up 71%(1) compared with the previous corresponding period (pcp).

NPAT before significant items was up 39% on the pcp, to $203M(2).

## Financial Highlights

- Sales revenue up 4% to $2,702M. Underlying sales growth excluding the impact of Minova and Incitec Pivot was up 17%.
- EBIT up 25% to $346M(2).
- Earnings per share(2) up 21% to 60.1 cents.
- Return on shareholders' funds(1) of 15.6% was slightly ahead of pcp.
- Gearing(3) at 31.7%, down from 35.2% in pcp.
- Net interest expense $55M was in line with pcp. Interest cover has improved to 6.3 times (5.0 times in pcp).
- Interim dividend is 36 cents per share (cps) up 38% on the pcp - franked at 14 cps (39% franked.)

## Business Highlights

- Record result in Mining Services with EBIT up 62% to $245M, reflecting strong conditions in all regions and the continued successful integration of the Dyno Nobel businesses.
- Strong underlying performance in Consumer Products on the back of improving market conditions and increased market share flowing from investment in brands.
- A positive start by Minova which continues to trade strongly in buoyant markets.
- Chemical Services result was ahead of last year with the benefit of ongoing market growth in Mining Chemicals.
- The benefits of the restructure in Chemnet are being realised.

## Mergers, Acquisitions, Development

- Purchase of Minova for $870M including transaction costs of $13M.
- Completion of the sale of the Adhesives and Resins businesses for an after-tax profit of $19M.
- Further progress was made on the development of an ammonium nitrate (AN) manufacturing facility in Bontang, Indonesia.
- Mining Services continues to develop its business through organic growth, a number of small bolt-on acquisitions and increasing Orica's share in joint ventures.
- The Watercare business in Chemical Services continues to work on the commercial development of new technologies, including Miex® and bioremediation. In addition, it continues to extend the range of products it is offering to the watercare market by way of organic growth and small bolt-on acquisitions.
- The uprate of the Yarwun Sodium Cyanide facility of the Mining Chemicals business in Chemical Services is well progressed and is expected to be commissioned before the financial year end. As a result of escalating construction costs in North Queensland, Australia, the final cost of this project could be up to $50M (a 25% increase on the previous estimate). Continued strength in the sodium cyanide market means that the project continues to meet required investment hurdles.

## Strategy

Orica's strategy for sustainable profit growth and strong returns on investment is driven by:

- securing market leadership positions in selected 'niche' markets, which build on our strengths and enable us to better serve customers, develop and retain technological advantage and achieve benefits of scale;
- growing only businesses that have "earned the right to grow"; and
- growing "close to the core".

Strict financial criteria, including our 15% Internal Rate of Return, continue to provide the financial discipline required for assessing growth opportunities.

Orica sees growth coming from four areas: Industry and Organic Growth; Productivity Improvements; Expansion Capital expenditure; and Mergers and Acquisitions.

Orica's businesses have strong operating cash flows which help fund future growth.

This strategy is a relatively low risk approach that has the potential to produce superior returns for our shareholders in the longer term.

(1) Based on comparison of actual reported earnings and has not been adjusted for the impact of discontinued businesses.
(2) Before significant items.
(3) Net debt/net debt + book equity.

## Revenue Summary

Six Months Ended March

| A$M | 2007 | 2006 | Change F/(U)* |
|---|---|---|---|
| Mining Services | 1,506.5 | 1,134.2 | 33% |
| Fertilisers | – | 395.5 | – |
| Consumer Products | 424.4 | 401.8 | 6% |
| Chemical Services | 229.7 | 231.3 | (1%) |
| Chemnet | 469.5 | 504.9 | (7%) |
| Minova | 115.5 | – | – |
| Eliminations | (43.9) | (69.1) | 36% |
| **Total sales revenue** | **2,701.7** | **2,598.6** | **4%** |
| Other income | 40.8 | 29.6 | 38% |
| **Total** | **2,742.5** | **2,628.2** | **4%** |

## Earnings Summary

Six Months Ended March

| A$M | 2007 | 2006 | Change F/(U)* |
|---|---|---|---|
| EBIT | | | |
| Mining Services | 245.2 | 150.9 | 62% |
| Fertilisers | – | 41.9 | – |
| Consumer Products(1) | 43.2 | 47.7 | (9%) |
| Chemical Services | 32.0 | 31.5 | 2% |
| Chemnet | 32.3 | 28.7 | 13% |
| Minova(2) | 17.4 | – | – |
| Corporate Centre | (18.5) | (17.7) | (5%) |
| Other Support Costs | (6.0) | (6.8) | 12% |
| **Total EBIT** | **345.6** | **276.2** | **25%** |
| Net interest | (54.6) | (55.6) | 2% |
| Tax expense | (76.9) | (61.4) | (25%) |
| Outside equity interests | (11.0) | (13.4) | 18% |
| **NPAT and minority interests** | **203.1** | **145.8** | **39%** |
| Significant items after tax | 7.3 | (22.8) | |
| **NPAT and significant items** | **210.4** | **123.0** | **71%** |

## Financial Performance

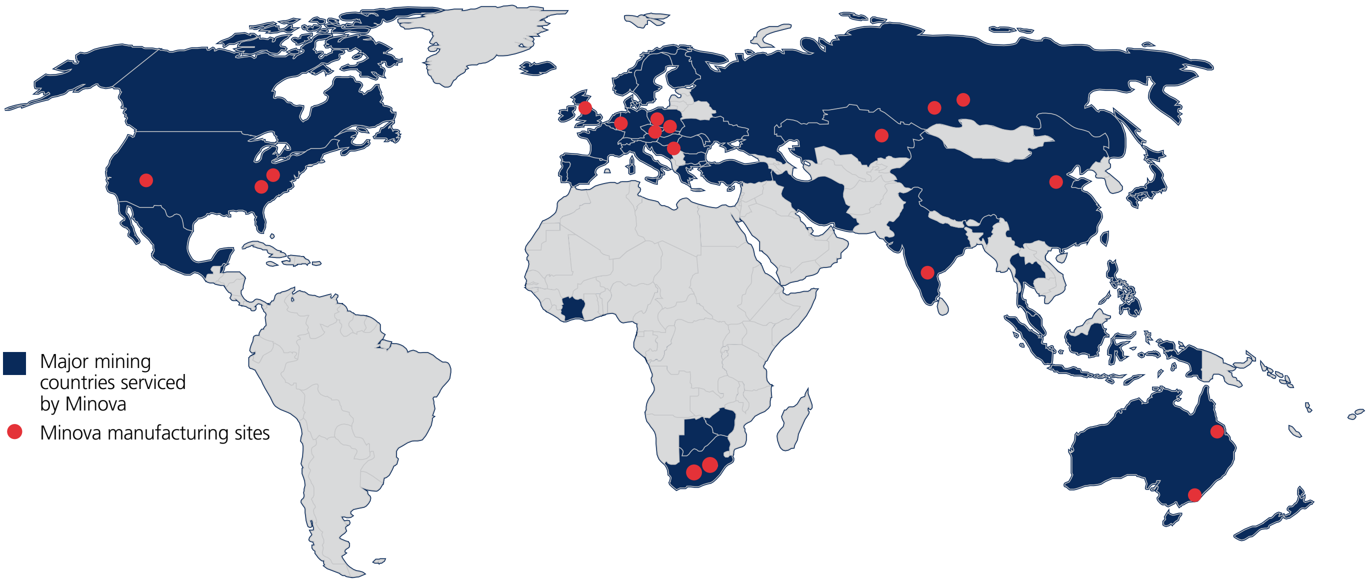
Six Months Ended March

| | 2007 | 2006 | Change F/(U)* |
|---|---|---|---|
| Sales Revenue ($m) | 2,701.7 | 2,598.6 | 4% |
| NPAT and minority interests(3) | 203.1 | 145.8 | 39% |
| Earnings per share (cents)(3) | 60.1 | 49.5 | 21% |
| Return on shareholders' funds(3) | 15.6% | 15.5% | |
| NPAT and minority interests(3) | 210.4 | 123.0 | 71% |
| Interim ordinary dividend per share | 36.0 | 26.0 | 38% |
| Payout Ratio | 59.9% | 52.5% | |
| Gearing | 31.7% | 35.2% | |
| Interest cover (times) | 6.3 | 5.0 | |

(1) Inclusive of $10M Yates restructuring provision in 2007
(2) Inclusive of $7M AIFRS acquisition accounting entries in 2007
(3) Before significant items ($7.3M after tax)
* F – Favourable, (U) – Unfavourable
Note: numbers in this report are subject to rounding.

# Minova Acquisition

## Orica has further reinforced its position as a truly international company through the purchase of the Minova business effective 1 January 2007.




**Minova is the global market leader in mining strata control chemicals. It supplies both proprietary and custom engineered applications for underground mines and tunnel construction, including internal and external reinforcement. In addition Minova supplies a range of ventilation control products. Importantly the applications contribute to a safer and more productive mining industry.**

Part of Orica's attraction to Minova is that it operates in a high growth, niche market segment. The major end market is underground coal mining with other markets served including tunnelling and infrastructure construction.

Minova is a global business operating in all of the world's major mining regions with the exception of South America. It has over 1,200 employees, operates 17 manufacturing facilities in 11 countries and sells into more than 50 countries.

The acquisition of Minova was strategically and financially compelling for Orica, further enhancing our position as one of the largest global mining services providers. It is an adjacent and very complementary business in terms of customers, technology and geographic reach and has strong links to both the Orica Mining Services and Orica Mining Chemicals businesses.

Minova's culture bears many similarities to Orica's with a strong focus on creative customer solutions, financial discipline, the importance of safety and the environment and on organic growth and merger and acquisition expansion.

Minova will continue to operate as a stand alone business for a period of up to two years although commercial customer synergies are already being explored and corporate functions are already being integrated.

www.minovainternational.com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## Shareholder Calendar

(dates subject to change)

| | |
|---|---|
| Full year results and 2007 final dividend announced | **12 November 2007** |
| Books close for step-up preference distribution | **15 November 2007** |
| Books close for 2007 final ordinary dividend | **23 November 2007** |
| Step-up preference distribution paid | **30 November 2007** |
| 2007 final ordinary dividend paid | **14 December 2007** |
| 2007 Annual General Meeting | **21 December 2007** |
| Books close for 2007 final preference dividend | **11 January 2008** |
| 2007 final preference dividend paid | **31 January 2008** |

## Shareholder and analyst enquiries

Many shareholder and analyst inquiries may be answered by visiting our website at www.orica.com

The website contains extensive information on the company, the latest statements released to the ASX, annual and half year reports and investor and shareholder information.

Shareholders may also access information relating to their holdings via a link to the Share Registrar, Link Market Services, at www.linkmarketservices.com.au/orica

All you will need is your SRN or HIN and your surname/company name and postcode.

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