LEAD AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

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 2018 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

KPMG

Penny Stragalinos
Partner

Melbourne
1 November 2018

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INCOME STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER

	Notes	Consolidated 2018 $m	Consolidated 2017 $m
Sales revenue	(1)	**5,373.8**	5,039.2
Other income	(1)	**37.5**	51.8
Expenses			
Raw materials and inventories		**(2,453.9)**	(2,229.1)
Employee benefits expense		**(1,184.7)**	(1,051.1)
Depreciation and amortisation expense	(1)	**(266.9)**	(261.2)
Purchased services		**(323.6)**	(348.0)
Repairs and maintenance		**(155.9)**	(160.9)
Impairment expense	(9)	**(225.4)**	(0.1)
Botany environmental provision expense	(6)	**(114.7)**	–
Outgoing freight		**(280.9)**	(272.8)
Lease payments – operating leases		**(69.6)**	(46.1)
Other expenses		**(117.6)**	(123.2)
Share of net profit of associates accounted for using the equity method	(14)	**24.7**	36.6
Total		**(5,168.5)**	(4,455.9)
Profit from operations		**242.8**	635.1
Net financing costs			
Financial income		**56.0**	28.2
Financial expenses		**(177.3)**	(99.9)
Net financing costs		**(121.3)**	(71.7)
Profit before income tax expense		**121.5**	563.4
Income tax expense	(11)	**(156.0)**	(164.0)
Net (loss)/profit for the year		**(34.5)**	399.4
Net (loss)/profit for the year attributable to:			
Shareholders of Orica Limited		**(48.1)**	386.2
Non-controlling interests		**13.6**	13.2
Net (loss)/profit for the year		**(34.5)**	399.4
		cents	**cents**
Earnings per share			
Earnings per share attributable to ordinary shareholders of Orica Limited:			
Basic earnings per share	(2)	**(12.7)**	102.7
Diluted earnings per share	(2)	**(12.7)**	102.0

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

	Notes	Consolidated 2018 $m	Consolidated 2017 $m
Net (loss)/profit for the year		**(34.5)**	399.4
Other comprehensive income			
Items that may be reclassified subsequently to Income Statement:			
Exchange differences on translation of foreign operations			
Exchange gain on translation of foreign operations	(11c)	**208.2**	12.1
Net gain/(loss) on hedge of net investments in foreign subsidiaries, net of tax	(11c)	**(57.1)**	(118.0)
Net exchange differences on translation of foreign operations		**151.1**	(105.9)
Sundry items:			
Net cash flow hedges	(11c)	**24.3**	13.8
Items that will not be reclassified subsequently to Income Statement:			
Net actuarial gain, net of tax	(11c)	**2.0**	23.4
Other comprehensive income/(loss) for the period		**177.4**	(68.7)
Total comprehensive income for the period		**142.9**	330.7
Attributable to:			
Shareholders of Orica Limited		**139.9**	322.1
Non-controlling interests		**3.0**	8.6
Total comprehensive income for the period		**142.9**	330.7

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 2018 $m	2017 $m
Current assets			
Cash and cash equivalents	(3b)	**514.6**	516.9
Trade receivables	(5)	**654.7**	607.3
Other receivables		**93.4**	58.4
Inventories	(5)	**626.5**	538.4
Other assets		**71.1**	63.8
Total current assets		**1,960.3**	1,784.8
Non-current assets			
Other receivables		**82.7**	97.6
Investments accounted for using the equity method	(14)	**213.3**	184.6
Property, plant and equipment	(7)	**2,866.2**	2,741.5
Intangible assets	(8)	**1,697.9**	1,577.1
Deferred tax assets	(11d)	**268.7**	323.1
Other assets		**75.3**	76.5
Total non-current assets		**5,204.1**	5,000.4
Total assets		**7,164.4**	6,785.2
Current liabilities			
Trade payables	(5)	**862.2**	795.5
Other payables		**336.7**	264.3
Interest bearing liabilities	(3a)	**158.3**	24.3
Provisions	(6)	**193.2**	187.9
Other liabilities		**61.0**	25.3
Total current liabilities		**1,611.4**	1,297.3
Non-current liabilities			
Other payables		**6.1**	3.9
Interest bearing liabilities	(3a)	**2,004.6**	1,933.5
Provisions	(6)	**485.8**	397.3
Deferred tax liabilities	(11d)	**74.7**	88.5
Other liabilities		**13.8**	101.2
Total non-current liabilities		**2,585.0**	2,524.4
Total liabilities		**4,196.4**	3,821.7
Net assets		**2,968.0**	2,963.5
Equity			
Ordinary shares	(4a)	**2,110.1**	2,068.5
Reserves		**(439.2)**	(565.8)
Retained earnings		**1,232.3**	1,459.6
Total equity attributable to ordinary shareholders of Orica Limited		**2,903.2**	2,962.3
Non-controlling interests	(13)	**64.8**	1.2
Total equity		**2,968.0**	2,963.5

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
2017								
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 loss	–	23.4	(101.3)	13.8	–	(64.1)	(4.6)	(68.7)
Total comprehensive income for the year	–	409.6	(101.3)	13.8	–	322.1	8.6	330.7
Transactions with owners, recorded directly in equity								
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)
Balance at the end of the year	2,068.5	1,459.6	(442.6)	(49.1)	(74.1)	2,962.3	1.2	2,963.5
2018								
Balance at 1 October 2017	**2,068.5**	**1,459.6**	**(442.6)**	**(49.1)**	**(74.1)**	**2,962.3**	**1.2**	**2,963.5**
Profit/(loss) for the year	**–**	**(48.1)**	**–**	**–**	**–**	**(48.1)**	**13.6**	**(34.5)**
Other comprehensive income	**–**	**2.0**	**161.7**	**24.3**	**–**	**188.0**	**(10.6)**	**177.4**
Total comprehensive income for the year	**–**	**(46.1)**	**161.7**	**24.3**	**–**	**139.9**	**3.0**	**142.9**
Transactions with owners, recorded directly in equity								
Total changes in contributed equity	**41.6**	**–**	**–**	**–**	**–**	**41.6**	**–**	**41.6**
Share-based payments expense	**–**	**–**	**–**	**–**	**14.8**	**14.8**	**–**	**14.8**
Acquisition of non-controlling interests	**–**	**–**	**–**	**–**	**(74.2)**	**(74.2)**	**74.2**	**–**
Dividends/distributions	**–**	**(181.2)**	**–**	**–**	**–**	**(181.2)**	**–**	**(181.2)**
Dividends declared/paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**(13.6)**	**(13.6)**
Balance at the end of the year	**2,110.1**	**1,232.3**	**(280.9)**	**(24.8)**	**(133.5)**	**2,903.2**	**64.8**	**2,968.0**

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

	Notes	Consolidated 2018 $m Inflows/ (Outflows)	Consolidated 2017 $m Inflows/ (Outflows)
Cash flows from operating activities			
Receipts from customers		**5,914.2**	5,512.8
Payments to suppliers and employees		**(5,168.1)**	(4,823.6)
Interest received		**56.9**	28.2
Borrowing costs		**(171.9)**	(127.6)
Dividends received		**24.9**	34.5
Other operating income received		**28.0**	31.2
Net income taxes paid		**(69.3)**	(189.1)
Net cash flows from operating activities	(3b)	**614.7**	466.4
Cash flows from investing activities			
Payments for property, plant and equipment		**(189.2)**	(248.0)
Payments for intangibles		**(132.9)**	(57.9)
Payments for investments		**(13.3)**	(0.5)
Proceeds from sale of, and other advances in relation to, property, plant and equipment		**36.2**	37.3
Payments for purchase of businesses/controlled entities	(15)	**(250.2)**	–
Proceeds from sale of investments/businesses disposed		**–**	17.9
Disposal costs from sale of businesses/controlled entities		**(2.6)**	(3.6)
Net cash flows used in investing activities		**(552.0)**	(254.8)
Cash flows from financing activities			
Proceeds from long-term borrowings		**1,981.2**	1,638.4
Repayment of long-term borrowings		**(1,881.1)**	(1,165.3)
Net movement in short term financing		**(23.5)**	(309.5)
Dividends paid – Orica ordinary shares		**(143.2)**	(157.9)
Dividends paid – non-controlling interests		**(13.5)**	(7.1)
Payments for finance leases		**(1.3)**	(1.5)
Proceeds from issue of ordinary shares		**0.6**	0.6
Net cash used in financing activities		**(80.8)**	(2.3)
Net (decrease)/increase in cash held		**(18.1)**	209.3
Cash at the beginning of the year		**516.9**	316.2
Effects of exchange rate changes on cash		**12.6**	(8.6)
Cash at the end of the year	(3b)	**511.4**	516.9

The Statement of Cash Flows is to be read in conjunction with 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 2018.

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 consolidated 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 are 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	*Working capital*
Note 6	*Provisions*
Note 7	*Property, plant and equipment*
Note 8	*Intangible assets*
Note 9	*Impairment testing of assets*
Note 11	*Taxation*
Note 15	*Businesses and non-controlling interests acquired*
Note 20	*Superannuation commitments*
Note 22	*Contingent liabilities*

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 2018.

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
▪ Australia Pacific & Asia ▪ North America ▪ Latin America ▪ Europe, Middle East & Africa	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.
▪ Minova	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.
▪ Auxiliaries	Manufacture and supply of advanced hardware and software solutions to the mining industry and specialist consultation for blasting and rock engineering, vibration control and surveys.
▪ Global Support	Corporate and support costs which cannot otherwise be allocated to other segments on a reasonable basis, operation of legacy environmental sites and non-operating assets.

Prior period comparative segment information has been restated for Australia Pacific & Asia, Europe, Middle East & Africa and Auxiliaries.

1. Segment report (continued)

(b) Reportable segments

2018 $m	Australia Pacific & Asia	North America	Latin America	Europe, Middle East & Africa	Minova	Auxiliaries	Global Support	Elimina-tions	Consoli-dated
Revenue									
External sales	1,908.5	1,255.8	834.1	788.7	514.3	66.3	6.1	–	5,373.8
Inter-segment sales	35.7	174.5	65.7	18.5	4.7	0.4	1,035.5	(1,335.0)	–
Total sales revenue	1,944.2	1,430.3	899.8	807.2	519.0	66.7	1,041.6	(1,335.0)	5,373.8
Other income (refer to note 1c)[(1)]	0.6	3.7	1.0	6.9	2.2	(0.5)	23.6	–	37.5
Total revenue and other income	1,944.8	1,434.0	900.8	814.1	521.2	66.2	1,065.2	(1,335.0)	5,411.3
Results before individually significant items									
Profit/(loss) before financing costs and income tax	381.9	185.6	43.2	54.8	(2.3)	4.8	(49.9)	–	618.1
Financial income									56.0
Financial expenses									(177.3)
Profit before income tax expense									496.8
Income tax expense									(158.0)
Profit after income tax expense									338.8
Less: Profit attributable to non-controlling interests									(14.6)
Profit after income tax expense before individually significant items attributable to shareholders of Orica Limited									324.2
Individually significant items (refer to note 1d)									
Gross individually significant items	(118.0)	(3.6)	(14.6)	(1.8)	(213.0)	–	(24.3)	–	(375.3)
Tax on individually significant items	35.3	(46.9)	3.9	(0.7)	3.1	–	7.3	–	2.0
Net individually significant items attributable to non-controlling interests									1.0
Individually significant items attributable to shareholders of Orica Limited									(372.3)
(Loss) for the period attributable to shareholders of Orica Limited									(48.1)
Segment assets	3,081.6	973.9	524.6	914.6	216.0	230.8	1,222.9	–	7,164.4
Segment liabilities	495.1	225.4	173.5	217.5	55.5	32.7	2,996.7	–	4,196.4
Investments accounted for using the equity method	6.4	187.3	8.0	1.0	–	–	10.6	–	213.3
Acquisitions of PPE and intangibles	101.9	38.3	21.7	35.1	8.6	5.7	135.5	–	346.8
Impairment of PPE	–	–	–	–	–	–	6.7	–	6.7
Impairment of intangibles	–	–	–	–	197.0	–	14.5	–	211.5
Impairment of inventories	0.1	0.5	2.9	0.3	3.6	–	5.4	–	12.8
Impairment of trade receivables	0.3	–	0.2	5.2	0.7	0.1	–	–	6.5
Depreciation and amortisation	123.6	41.2	23.9	24.0	8.5	5.7	40.0	–	266.9
Non-cash expenses: share based payments	2.8	2.4	1.8	2.7	1.9	–	3.2	–	14.8
Share of net profit of associates accounted for using the equity method	(0.7)	23.2	2.7	(0.4)	–	–	–	–	24.8

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

1. Segment report (continued)

(b) Reportable segments

2017 $m	Australia Pacific & Asia	North America	Latin America	Europe, Middle East & Africa	Minova	Auxiliaries	Global Support	Elimina-tions	Consoli-dated
Revenue									
External sales	1,685.5	1,199.1	874.9	793.5	452.1	20.3	13.8	–	5,039.2
Inter-segment sales	40.4	163.7	41.0	18.7	3.5	–	976.8	(1,244.1)	–
Total sales revenue	1,725.9	1,362.8	915.9	812.2	455.6	20.3	990.6	(1,244.1)	5,039.2
Other income (refer to note 1c)(1)	6.1	2.8	8.8	8.4	12.9	–	12.8	–	51.8
Total revenue and other income	1,732.0	1,365.6	924.7	820.6	468.5	20.3	1,003.4	(1,244.1)	5,091.0
Results before individually significant items									
Profit/(loss) before financing costs and income tax	367.6	187.5	61.3	74.5	13.1	3.1	(72.0)	–	635.1
Financial income									28.2
Financial expenses									(99.9)
Profit before income tax expense									563.4
Income tax expense									(164.0)
Profit after income tax expense									399.4
Less: Profit attributable to non-controlling interests									(13.2)
Profit after income tax expense before individually significant items attributable to shareholders of Orica Limited									386.2
Individually significant items (refer to note 1d)									
Gross individually significant items	–	–	–	–	–	–	–	–	–
Tax on individually significant items	–	–	–	–	–	–	–	–	–
Net individually significant items attributable to non-controlling interests									–
Individually significant items attributable to shareholders of Orica Limited									–
Net profit for the period attributable to shareholders of Orica Limited									386.2
Segment assets	2,886.5	882.2	564.4	660.4	386.1	9.7	1,396.0	–	6,785.2
Segment liabilities	409.9	223.2	177.5	205.6	81.7	20.4	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	166.2	48.0	20.5	22.9	9.0	2.4	63.5	–	332.5
Impairment of PPE	–	–	–	0.1	–	–	–	–	0.1
Impairment of inventories	1.5	0.8	1.9	(0.3)	0.4	–	3.2	–	7.5
Impairment of trade receivables	0.3	–	2.0	5.2	0.2	0.2	0.3	–	8.2
Depreciation and amortisation	124.6	36.3	25.4	23.7	9.1	0.5	41.6	–	261.2
Non-cash expenses: share based payments	1.3	1.2	0.5	1.1	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

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

1. Segment report (continued)

	Consolidated	
	2018 $m	2017 $m
(c) Other income		
Other income	**28.0**	31.2
Net foreign currency losses	**(7.7)**	(7.3)
Profit from sale of investments/businesses	**–**	14.5
Net profit on sale of property, plant and equipment	**17.2**	13.4
Total other income	**37.5**	51.8

	2018			2017		
	Gross $m	Tax $m	Net $m	Gross $m	Tax $m	Net $m
(d) Individually significant items						
Profit after income tax includes the following individually significant items of expense:						
Impairment of Minova business[1]	**(204.2)**	**0.6**	**(203.6)**	–	–	–
Botany environmental provision expense[2]	**(114.7)**	**34.4**	**(80.3)**	–	–	–
Write down of US deferred tax assets[3]	**–**	**(47.9)**	**(47.9)**	–	–	–
Impairment of other assets[1]	**(21.2)**	**6.4**	**(14.8)**	–	–	–
Restructuring[4]	**(35.2)**	**8.5**	**(26.7)**	–	–	–
Individually significant items	**(375.3)**	**2.0**	**(373.3)**	–	–	–
Non-controlling interests in individually significant items	**1.0**	**–**	**1.0**	–	–	–
Individually significant items attributable to shareholders of Orica	**(374.3)**	**2.0**	**(372.3)**	–	–	–

(1) Refer to note 9

(2) Refer to note 6

(3) Refer to note 11

(4) As part of a global restructuring program redundancy costs were recognised across all segments, with the exception of Auxiliaries.

(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[1]	
	2018 $m	2017 $m	2018 $m	2017 $m
Australia	**1,486.3**	1,351.6	**2,690.0**	2,400.9
United States of America	**768.0**	714.7	**321.3**	396.9
Other[2]	**3,119.5**	2,972.9	**1,862.2**	1,815.3
Consolidated	**5,373.8**	5,039.2	**4,873.5**	4,613.1

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

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

1. Segment report (continued)

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.

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 and no continuing management involvement. 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	
	2018 $m	**2017 $m**
(i) As reported in the Income Statement		
Earnings used in the calculation of basic EPS attributable to ordinary shareholders of Orica Limited		
Net (loss)/profit for the period from continuing operations	**(34.5)**	399.4
Less: Net profit for the period attributable to non-controlling interests	**13.6**	13.2
Total	**(48.1)**	386.2

	Number of shares	
Weighted average number of shares used in the calculation:		
Number for basic earnings per share	**378,215,134**	376,153,022
Effect of dilutive share options and rights	**2,672,778**	2,511,185
Number for diluted earnings per share	**380,887,912**	378,664,207
The weighted average number of non-dilutive options and rights that have not been included in the calculation of diluted earnings per share	**2,402,554**	1,584,498

	Cents per share	Cents per share
Total attributable to ordinary shareholders of Orica Limited		
Basic earnings per share	**(12.7)**	102.7
Diluted earnings per share	**(12.7)**	102.0

	Consolidated	
	2018 $m	**2017 $m**
(ii) Adjusted for individually significant items		
Earnings used in the calculation of basic EPS adjusted for individually significant items attributable to ordinary shareholders of Orica Limited		
Net (loss)/profit for the period	**(34.5)**	399.4
Less: Net profit for the period attributable to non-controlling interests	**13.6**	13.2
Adjusted for individually significant items (refer to note 1(d))	**372.3**	–
Total adjusted	**324.2**	386.2

	Cents per share	Cents per share
Total attributable to ordinary shareholders of Orica Limited before individually significant items		
Basic earnings per share	**85.7**	102.7
Diluted earnings per share	**85.1**	102.0

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 the gearing ratio (net debt divided by debt plus equity) and the interest cover ratio (EBIT excluding individually significant 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:

	Consolidated	
	2018 $m	**2017 $m**
Interest bearing liabilities (refer to note 3a)	**2,162.9**	1,957.8
less cash and cash equivalents (refer to note 3b)	**(514.6)**	(516.9)
Net debt	**1,648.3**	1,440.9
Total equity	**2,968.0**	2,963.5
Net debt and total equity	**4,616.3**	4,404.4
Gearing ratio (%)	**35.7%**	32.7%
The interest ratio is calculated as follows:		
EBIT (excluding individually significant items) (refer to note 1b)	**618.1**	635.1
Net financing costs excluding unwinding of discount on provisions	**113.4**	70.7
Unwinding of discount on provisions	**7.9**	1.0
Capitalised borrowing costs	**4.8**	30.8
Gross financing costs	**126.1**	102.5
Interest cover ratio (times)	**4.9**	6.2

3. Net debt (continued)

(a) Interest bearing liabilities

Current	Opening Balance $m	Non-cash movements $m	Net cash movements $m	Closing Balance $m
Unsecured				
Private Placement [1]	–	138.8	(0.6)	138.2
Export finance facility [1]	11.9	16.8	(13.8)	14.9
Other loans	11.2	–	(7.1)	4.1
Lease liabilities [2]	1.2	1.2	(1.3)	1.1
	24.3	156.8	(22.8)	158.3
Non-current				
Unsecured				
Private Placement [1]	1,827.5	(19.7)	0.7	1,808.5
Export finance facility [1]	29.7	(14.0)	0.5	16.2
Bank loans [1]	71.5	4.6	100.1	176.2
Other loans	3.6	–	–	3.6
Lease liabilities [2]	1.2	(1.1)	–	0.1
	1,933.5	(30.2)	101.3	2,004.6
Total	1,957.8	126.6	78.5	2,162.9

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

(2) $2.2 million (2017 $2.5 million) 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.

3. Net debt (continued)

		Consolidated	
		2018 $m	2017 $m
(b) Notes to the statement of cash flows			
Reconciliation of cash			
Cash at the end of the year comprises:			
Cash and cash equivalents		**514.6**	516.9
Bank overdraft		**(3.2)**	–
		511.4	516.9
Reconciliation of (loss)/profit after income tax to net cash flows from operating activities			
(Loss)/profit after income tax expense		**(34.5)**	399.4
Adjusted for the following items:			
Depreciation and amortisation	(1b)	**266.9**	261.2
Net (profit) on sale of property, plant and equipment		**(17.2)**	(13.4)
Impairment of intangibles	(8)	**211.5**	–
Impairment of property, plant and equipment	(7)	**6.7**	0.1
Net (profit) on sale of businesses and controlled entities		**–**	(10.9)
Net (profit) on sale of investments		**–**	(3.6)
Share based payments expense		**14.8**	11.6
Share of associates' net loss/(profit) after adding back dividends received		**0.2**	(2.1)
Unwinding of discount on provisions		**7.9**	1.0
Other		**3.1**	2.3
Changes in working capital and provisions excluding the effects of acquisitions and disposals of businesses/controlled entities			
(increase) in trade and other receivables		**(29.3)**	(72.6)
(increase) in inventories		**(88.1)**	(20.3)
decrease in net deferred taxes		**48.3**	6.6
increase/(decrease) in payables and provisions		**202.2**	(69.9)
increase/(decrease) in income taxes payable		**22.2**	(23.0)
Net cash flows from operating activities		**614.7**	466.4

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.

4. Contributed equity and reserves

(a) Contributed Equity

Movements in issued and fully paid shares of Orica since 1 October 2016 were as follows:

Details	Date	Number of shares	Issue price $	$m
Ordinary shares				
Opening balance of shares issued	1-Oct-16	374,929,506		2,025.3
Shares issued under the Orica dividend reinvestment plan	9-Dec-16	1,246,245	17.37	21.6
Shares issued under the Orica dividend reinvestment plan	3-Jul-17	863,276	20.36	17.6
Deferred shares issued to settle Short-Term Incentive		–		3.4
Shares issued under the Orica GEESP plan		–		0.6
Balance at the end of year	**30-Sep-17**	**377,039,027**		**2,068.5**
Shares issued under the Orica dividend reinvestment plan	**7-Dec-17**	**1,117,317**	**17.42**	**19.5**
Shares issued under the Orica dividend reinvestment plan	**2-Jul-18**	**1,058,445**	**17.52**	**18.5**
Deferred shares issued to settle Short-Term Incentive		**–**		**3.0**
Shares issued under the Orica GEESP plan		**–**		**0.6**
Balance at the end of the year	**30-Sep-18**	**379,214,789**		**2,110.1**

(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

	Consolidated	
	2018 $m	2017 $m
Dividends paid or declared in respect of the year ended 30 September were:		
Ordinary shares		
interim dividend of 23.5 cents per share, 12.8% franked at 30%, paid 3 July 2017		88.4
interim dividend of 20.0 cents per share, unfranked, paid 2 July 2018	**75.6**	
final dividend of 29.0 cents per share, 27.6% franked at 30.0%, paid 9 December 2016		108.7
final dividend of 28.0 cents per share, unfranked, paid 8 December 2017	**105.6**	
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	**143.2**	157.9
DRP – satisfied by issue of shares	**38.0**	39.2

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

Final dividend on ordinary shares of 31.5 cents per share, unfranked, payable 7 December 2018. Total franking credits related to this dividend are nil (2017 $nil).

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 2018 – however will be recognised in the 2019 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 2018 are $16.9 million (2017 $91.5 million).

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

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.

	Consolidated	
	2018 $m	2017 $m
Inventories (i)	**626.5**	538.4
Trade receivables (ii)	**654.7**	607.3
Trade payables (iii)	**(862.2)**	(795.5)
Trade working capital	**419.0**	350.2

(i) Inventories

The classification of inventories is detailed below:

	Consolidated	
	2018 $m	2017 $m
Raw materials	**260.5**	227.1
Work in progress	**48.3**	39.9
Finished goods	**317.7**	271.4
	626.5	538.4

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 $25.0 million (2017 $21.6 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:

	Consolidated		Consolidated	
	2018 Gross $m	2018 Allowance $m	2017 Gross $m	2017 Allowance $m
Not past due	**595.7**	**(0.1)**	565.9	–
Past due 0 – 120 days	**55.7**	**(0.6)**	38.1	(0.2)
Past 120 days	**50.4**	**(46.4)**	53.2	(49.7)
	701.8	**(47.1)**	657.2	(49.9)

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. A risk assessment process is used for all accounts, with a stop credit process in place for most long overdue accounts.

5. Working capital (continued)

(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.

(b) Non-trade working capital

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 $17.6 million (2017 $13.4 million).

In the current year, other non-current assets include a receivable of $23.9 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.

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 sheet 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	
	2018 $m	**2017 $m**
Current		
Employee entitlements[1]	**88.3**	92.3
Environmental and decommissioning[2]	**78.7**	69.4
Other	**26.2**	26.2
	193.2	187.9
Non-current		
Employee entitlements[1]	**18.2**	15.2
Retirement benefit obligations (see note 20c)	**214.9**	218.1
Environmental and decommissioning[2]	**240.6**	146.1
Other	**12.1**	17.9
	485.8	397.3

(1) $41.3 million (2017 $49.2 million) was expensed to the Income Statement in relation to employee entitlements during the year.

(2) Payments of $35.7 million (2017 $33.8 million) were made during the year in relation to environmental and decommissioning provisions.

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.

6. Provisions (continued)

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 amount 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 sheet date, are accrued at the present value of future amounts expected to be paid.

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.

Environmental

Estimated costs for the remediation of soil, groundwater and untreated waste are recognised when the 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.

Individually significant items

Botany Groundwater Remediation

Orica's historical operations at the Botany Industrial Park (NSW) resulted in the contamination of the soil and groundwater. 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 continues to work in close cooperation with the New South Wales (NSW) Environmental Protection Authority (EPA) to address the contamination.

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

In prior periods, Orica's provision assumed a five-year rolling tenure based on the VMP timeframe agreed with the EPA, resulting in a provision of $63.3 million which was Orica's best estimate of the costs to contain and mitigate the effects of contamination at the site through the operation of the GTP.

Prior to the half-year ended 31 March 2018, Orica undertook a review of the costs and operational duration of the GTP and other remediation technology options available, utilising both internal and external environmental experts. That review resulted in a reassessment of the likely duration of GTP operations, based on the contamination depletion rates observed at the three groundwater extraction lines at the Botany site.

The findings from the review indicated that the cessation of groundwater extraction using the GTP is possible within an 18-year timeframe. After this period, Orica anticipates that the contamination levels will be materially below current levels and will be able to be managed through natural attenuation or less intensive technologies.

The technical review considered existing remediation technologies which would augment the existing 'pump and treat' methodology. One of these alternatives will be piloted and implemented, with the expectation that the duration and operating costs of the GTP facility may reduce.

This analysis resulted in a change in Orica's best estimate for the provision. This change in estimate resulted in an increase compared to the year ended 30 September 2017 to the environmental provision by $114.7 million for a carrying value of $175.8 million. Orica has reflected this increase in the provision in the financial report.

6. Provisions (continued)

Orica will continue to assess the assumptions used to estimate the economic outflows and will maintain engagement with experts to seek solutions.

Critical accounting judgements and estimates

Provisions for other sites

For other sites where Orica has recognised a provision for environmental remediation, judgement is required in determining the future expenditure required to settle the obligation due to uncertainties in the assumptions regarding the nature or extent of the contamination, the application of relevant laws or regulations and the information available at certain locations where Orica no longer controls the site. 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.

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.

Botany – remediation of source contamination

During the year, and as part of assessing the approach to mitigating the impact of the groundwater, 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. 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.

The total environmental and decommissioning provision comprises:

	Consolidated	
	2018 $m	**2017 $m**
Botany Groundwater remediation	**175.8**	63.3
Botany (HCB) waste	**35.4**	41.4
Burrup decommissioning	**22.5**	17.7
Deer Park remediation	**26.6**	27.9
Yarraville remediation	**29.1**	30.3
Other provisions	**29.9**	34.9
Total	**319.3**	215.5

7. Property, plant and equipment

Consolidated	Land, buildings and improvements $m	Machinery, plant and equipment $m	Total $m
2017			
Cost	851.8	4,368.8	5,220.6
Accumulated depreciation	(293.3)	(2,185.8)	(2,479.1)
Total carrying value	558.5	2,183.0	2,741.5
Movement			
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 (see note 9)	–	(0.1)	(0.1)
Foreign currency exchange differences	18.0	(33.4)	(15.4)
Carrying amount at the end of the year	558.5	2,183.0	2,741.5
2018			
Cost	**882.3**	**4,703.5**	**5,585.8**
Accumulated impairment losses	**–**	**(6.7)**	**(6.7)**
Accumulated depreciation	**(313.3)**	**(2,399.6)**	**(2,712.9)**
Total carrying value	**569.0**	**2,297.2**	**2,866.2**
Movement			
Carrying amount at the beginning of the year	**558.5**	**2,183.0**	**2,741.5**
Additions	**20.0**	**189.0**	**209.0**
Additions through acquisitions of entities (see note 15)	**–**	**54.6**	**54.6**
Disposals	**(4.7)**	**(7.2)**	**(11.9)**
Depreciation expense	**(23.2)**	**(198.8)**	**(222.0)**
Impairment expense (see note 9)	**–**	**(6.7)**	**(6.7)**
Foreign currency exchange differences	**18.4**	**83.3**	**101.7**
Carrying amount at the end of the year	**569.0**	**2,297.2**	**2,866.2**

Included in the above are significant assets under construction (Burrup plant) of $639.5 million (2017 $553.3 million).

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 to 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

8. Intangible assets

Consolidated	Goodwill $m	Patents, trademarks and rights $m	Customer contracts and relationships $m	Software $m	Other $m	Total $m
2017						
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
Movement						
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 (see note 16)	–	(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
2018						
Cost	**2,526.2**	**365.4**	**67.4**	**502.3**	**77.9**	**3,539.2**
Accumulated impairment losses	**(1,475.9)**	**–**	**–**	**(14.5)**	**–**	**(1,490.4)**
Accumulated amortisation	**–**	**(96.1)**	**(67.4)**	**(166.8)**	**(20.6)**	**(350.9)**
Net carrying amount	**1,050.3**	**269.3**	**–**	**321.0**	**57.3**	**1,697.9**
Movement						
Carrying amount at the beginning of the year	**1,093.3**	**220.3**	**–**	**224.3**	**39.2**	**1,577.1**
Additions	**–**	**–**	**–**	**114.8**	**23.0**	**137.8**
Disposals	**–**	**–**	**–**	**–**	**(0.2)**	**(0.2)**
Additions through acquisition of entities (see note 15)	**116.4**	**37.0**	**–**	**29.4**	**–**	**182.8**
Amortisation expense	**–**	**(4.9)**	**–**	**(29.3)**	**(10.8)**	**(45.0)**
Impairment expense	**(197.0)**	**–**	**–**	**(14.5)**	**–**	**(211.5)**
Foreign currency exchange differences	**37.6**	**16.9**	**–**	**(3.7)**	**6.1**	**56.9**
Carrying amount at the end of the year	**1,050.3**	**269.3**	**–**	**321.0**	**57.3**	**1,697.9**

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.

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). CGUs 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

	Post tax discount rates 2018 %	Terminal growth rates 2018 %	Goodwill 2018 $m	Post tax discount rates 2017 %	Terminal growth rates 2017 %	Goodwill 2017 $m
Australia Pacific & Asia	**8.0 – 12.6**	**0.5 – 8.2**	**408.4**	8.0 – 13.3	0.0 – 8.2	400.3
North America	**8.5 – 9.3**	**1.4**	**148.2**	8.8 – 10.0	1.7 – 2.7	142.4
Latin America	**8.0 – 12.5**	**0.0 – 5.5**	**142.9**	10.0 – 10.5	0.0 – 6.0	137.7
Europe, Middle East & Africa	**7.8 – 15.5**	**1.2 – 9.9**	**234.4**	7.8 – 15.8	0.0 – 14.9	222.1
Minova	**7.8 – 14.4**	**1.2 – 8.2**	**–**	8.0 – 21.0	1.1 – 8.2	190.8
Auxiliaries(1)	**–**	**–**	**116.4**	–	–	–
Global Support	**10.0**	**2.6**	**–**	10.0	2.7	–
Total			**1,050.3**			1,093.3

(1) Auxiliaries includes GroundProbe. As this was purchased in the year, its recoverable amount was determined using fair value less costs to sell.

9. Impairment testing of assets (continued)

Critical accounting judgements and estimates

Minova

At the interim reporting period the performance of the Minova business was reviewed which resulted in a revision to the operation's short to medium term outlook. The performance of the business was below budget and forecasted earnings which identified indicators for impairment and an estimate of the CGU's recoverable value was calculated. It was determined that the carrying value of the Minova CGU exceeded its recoverable amount with reference to the value in use calculations.

The key assumptions used in determining the value in use generated at the interim reporting period were:

- Growth in EBIT to $25 million in 2022
- A weighted average terminal growth rate in line with local country economic forecasts of 2.6%
- A weighted average post tax discount rate of 11.1%.

Considering the shortfall in earnings versus the forecast, the business revised the growth rates used across the projected five-year time horizon to reflect these items in the earnings profile. The calculation performed at the interim reporting period indicated an impairment of $204.2 million which resulted in the write-off of all goodwill in the Minova segment.

The Minova carrying value as at 30 September 2018 is as follows:

	$m
Property, plant and equipment	47.2
Intangible assets	25.4
Working capital	46.2
Total	**118.8**

The recoverable amount of the intangibles would be impacted by any further adverse changes in earnings or projected terminal growth rates. An updated calculation was performed at 30 September 2018 which showed no further impairment was required.

Latin America (LATAM)

The carrying value of the LATAM segment includes goodwill of $143 million. The performance of the business was below budget and forecasted earnings which identified indicators for impairment and an estimate of the CGU's recoverable value was calculated. Based on the latest projected cash flows of the operation, the carrying value approximates 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 LATAM is reliant on achieving growth in earnings. Continuing recent contract wins that have already occurred in 2018 is critical to LATAM's forecast earnings and underpins the future cash flow forecasts used to determine the recoverable amount.

In 2018 LATAM has incurred one off costs relating to the restructuring of the business. This restructuring combined with opportunities for growth leveraging Orica's new technologies will contribute to the turnaround of the business.

Any variation in the key assumptions of the LATAM 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 $43 million in 2018 to $58 million in 2023
- A weighted average terminal growth rate in line with local country economic forecasts of 3.8%
- A weighted average post tax discount rate of 10.9%.

Other Assets

As part of the impairment review and the transition to the new SAP operating system, Orica identified $21.2 million of IT and other assets that were no longer being utilised by the business.

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

(a) Interest rate risk 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 $1,204 million (2017 $1,113 million) and the borrowings designated in a fair value relationship were $743 million (2017 $714 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 $5.1 million (2017 $1.7 million) impact on profit before tax and a $3.6 million (2017 $1.1 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 $56.2 million (2017 $5.0 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.

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).

2018	USD $m	CAD $m	NZD $m	NOK $m	SEK $m	EUR $m	GBP $m
Cash and internal deposits[1]	**2,010.4**	**38.7**	**–**	**–**	**138.8**	**1,015.6**	**361.5**
Trade and other receivables	**154.4**	**19.0**	**0.2**	**0.7**	**1.5**	**29.2**	**41.0**
Trade and other payables	**(184.9)**	**(41.4)**	**–**	**(0.2)**	**(22.0)**	**(49.0)**	**(3.6)**
Interest bearing liabilities[1]	**(2,602.3)**	**(244.2)**	**(23.1)**	**(31.9)**	**(29.1)**	**(1,232.6)**	**(155.2)**
Net derivatives	**1,386.3**	**68.7**	**7.5**	**(54.1)**	**4.6**	**47.6**	**44.8**
Net exposure	**763.9**	**(159.2)**	**(15.4)**	**(85.5)**	**93.8**	**(189.2)**	**288.5**
Effect on profit/(loss) before tax							
If exchange rates were 10% lower	**8.1**	**(3.0)**	**(0.1)**	**(0.1)**	**(2.3)**	**(1.7)**	**4.2**
If exchange rates were 10% higher	**(6.7)**	**2.4**	**0.0**	**0.0**	**1.8**	**1.4**	**(3.4)**
Increase/(decrease) in equity							
If exchange rates were 10% lower	**54.1**	**(12.4)**	**(1.3)**	**(6.7)**	**7.3**	**(14.7)**	**22.5**
If exchange rates were 10% higher	**(44.2)**	**10.1**	**1.0**	**5.4**	**(6.0)**	**12.0**	**(18.4)**

2017	USD $m	CAD $m	NZD $m	NOK $m	SEK $m	EUR $m	GBP $m
Cash and internal deposits[1]	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[1]	(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)

(1) Includes internal deposits and interest bearing liabilities which comprise part of the Group's capital structure.

(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, MXN, PHP, NOK and PEN 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.

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. 34.7% of the Group's investment in foreign operations was hedged in this manner as at 30 September 2018 (2017 32.5%).

As at reporting date, derivative instruments designated as hedging net investment exposures had a fair value of $4.7 million liability (2017 $2.9 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 2018 is $830.8 million (2017 $765.0 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 2018, the sum of all derivative contracts with a positive fair value was $76.8 million (2017 $70.8 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:

	2018 $m	2017 $m
Unsecured bank overdraft facilities		
Unsecured bank overdraft facilities available	**99.1**	88.2
Amount of facilities undrawn	**99.1**	88.1
Committed standby and loan facilities		
Committed standby and loan facilities available	**3,544.9**	3,529.8
Amount of facilities unused	**1,382.6**	1,578.6

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 7 October 2018 to 25 October 2030 (2017 28 April 2018 to 25 October 2030).

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:

	2018				2017			
Consolidated	**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	**514.6**	**–**	**–**	**–**	516.9	–	–	–
Trade and other receivables	**748.1**	**82.7**	**–**	**–**	665.7	97.6	–	–
Derivative financial assets	**1,775.0**	**57.7**	**659.0**	**397.3**	1,415.6	354.6	539.4	488.4
Financial assets	**3,037.7**	**140.4**	**659.0**	**397.3**	2,598.2	452.2	539.4	488.4
Non-derivative financial liabilities								
Trade and other payables	**1,198.9**	**6.1**	**–**	**–**	1,059.8	3.9	–	–
Bank overdrafts	**3.2**	**–**	**–**	**–**	–	–	–	–
Bank loans	**6.3**	**139.4**	**45.0**	**–**	1.7	1.3	76.7	–
Export finance facility	**17.5**	**16.6**	**–**	**–**	16.2	15.9	15.2	–
Private Placement	**228.7**	**85.6**	**1,263.4**	**925.0**	86.7	210.3	634.8	1,462.8
Other loans	**3.6**	**2.9**	**–**	**–**	10.9	2.7	–	–
Lease liabilities	**1.1**	**0.1**	**–**	**–**	1.2	1.1	0.1	–
Derivative financial liabilities	**1,787.6**	**61.6**	**595.3**	**383.7**	1,438.2	393.4	529.1	516.2
Financial liabilities	**3,246.9**	**312.3**	**1,903.7**	**1,308.7**	2,687.4	627.3	1,179.2	1,979.0
Net outflow	**(209.2)**	**(171.9)**	**(1,244.7)**	**(911.4)**	(89.2)	(175.1)	(639.8)	(1,490.6)

(e) Commodity risk management

Commodity risk refers to the risk that Orica's profit/loss or equity will fluctuate due to 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.

	2018		2017	
	Effect on profit/(loss) before tax	**Increase/ (decrease) in equity**	**Effect on profit/(loss) before tax**	**Increase/ (decrease) in equity**
10% decrease in observable prices	**–**	**(5.2)**	–	(6.3)
10% increase in observable prices	**–**	**5.2**	–	6.3

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.

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
What the financial instrument is designated to hedge?	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.
Where are gains or losses on fair value movements of the financial instrument recorded?	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.
Discontinuation of hedge accounting	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.

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 2018, Orica paid $125.6 million (2017 $237.5 million) globally in corporate taxes and payroll taxes. Orica collected and remitted $124.4 million (2017 $119.7 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 recognised in the Income Statement

	Consolidated	
	2018 $m	**2017 $m**
Current tax expense		
Current year	**99.8**	129.1
Deferred tax	**6.3**	26.9
Write down of US deferred tax assets	**47.9**	–
Under provided in prior years	**2.0**	8.0
Total income tax expense in Income Statement	**156.0**	164.0

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

	Consolidated	
	2018 $m	**2017 $m**
Income tax expense attributable to profit before individually significant items		
Profit from operations before individually significant items	**496.8**	563.4
Prima facie income tax expense calculated at 30% on profit	**149.0**	169.0
Tax effect of items which (decrease)/increase tax expense:		
variation in tax rates of foreign controlled entities	**(16.3)**	(38.6)
tax under provided in prior years	**2.0**	8.0
de-recognition of booked tax losses	**3.5**	4.0
taxable/(non taxable) gains on disposal of assets	**(3.2)**	12.3
other foreign deductions	**(3.7)**	(23.0)
non creditable withholding taxes	**11.2**	13.8
non allowable interest deductions	**11.3**	14.9
non allowable share based payments	**4.4**	3.0
utilisation of unbooked prior year tax losses	**(8.0)**	(6.4)
other	**7.8**	7.0
Income tax expense attributable to profit before individually significant items	**158.0**	164.0
Income tax expense attributable to individually significant items		
Profit/(loss) from individually significant items	**(375.3)**	–
Prima facie income tax expense calculated at 30% on individually significant items	**(112.6)**	–
Tax effect of items which (decrease)/increase tax expense:		
variation in tax rates of foreign controlled entities	**2.1**	–
impairment of Minova business	**60.6**	–
write down of US deferred tax assets	**47.9**	–
Income tax expense attributable to profit/(loss) on individually significant items	**(2.0)**	–
Income tax expense reported in the Income Statement	**156.0**	164.0

11. Taxation (continued)

(c) Income tax recognised in Comprehensive Income:

	Consolidated					
	2018 $m	2018 $m	2018 $m	2017 $m	2017 $m	2017 $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	**(81.6)**	**24.5**	**(57.1)**	(66.1)	(51.9)	(118.0)
Cash flow hedges						
– Effective portion of changes in fair value	**12.0**	**(3.6)**	**8.4**	(6.8)	2.0	(4.8)
– Transferred to Income Statement	**22.7**	**(6.8)**	**15.9**	26.6	(8.0)	18.6
Exchange gains on translation of foreign operations	**209.3**	**(1.1)**	**208.2**	12.1	–	12.1
Actuarial benefits on defined benefit plans	**2.3**	**(0.3)**	**2.0**	33.4	(10.0)	23.4
	164.7	**12.7**	**177.4**	(0.8)	(67.9)	(68.7)

(d) Recognised deferred tax assets and liabilities

	Balance Sheet		Income Statement	
Consolidated	2018 $m	2017 $m	2018 $m	2017 $m
Deferred tax assets				
Trade and other receivables	**17.2**	15.5	**(1.8)**	(0.3)
Inventories	**15.2**	14.4	**(1.4)**	2.3
Property, plant and equipment	**40.4**	54.2	**16.6**	4.8
Intangible assets	**1.9**	1.3	**(0.6)**	(1.3)
Trade and other payables	**41.2**	42.9	**1.1**	(2.9)
Interest bearing liabilities	**47.6**	89.1	**47.5**	(28.6)
Provision for employee entitlements	**25.3**	25.7	**0.2**	(0.2)
Provision for retirement benefit obligations	**39.1**	43.8	**1.8**	(1.7)
Provisions for environmental and decommissioning	**88.6**	55.5	**(33.3)**	9.9
Tax losses	**118.8**	164.4	**11.1**	3.2
Other items	**5.1**	2.4	**(3.5)**	5.2
Deferred tax assets	**440.4**	509.2		
Less set-off against deferred tax liabilities	**(171.7)**	(186.1)		
Net deferred tax assets	**268.7**	323.1		
Deferred tax liabilities				
Inventories	**8.3**	7.3	**1.0**	0.2
Property, plant and equipment	**206.8**	213.0	**(12.3)**	29.6
Intangible assets	**13.4**	16.5	**(2.7)**	(0.6)
Undistributed profits of foreign subsidiaries	**–**	18.6	**(18.6)**	(0.4)
Other items	**17.9**	19.2	**1.2**	7.7
Deferred tax liabilities	**246.4**	274.6		
Less set-off against deferred tax assets	**(171.7)**	(186.1)		
Net deferred tax liabilities	**74.7**	88.5		
Deferred tax expense			**6.3**	26.9

11. Taxation (continued)

(e) Unrecognised deferred tax assets

	Consolidated	
	2018 $m	2017 $m
Tax losses not booked	**35.4**	64.2
Capital losses not booked	**87.8**	87.5
Temporary differences not booked	**220.2**	204.9

Tax losses not booked expire between 2019 and 2027.

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.

Individually significant items

Impact of Tax Reform in the United States

The changes to the US tax legislation, which were signed into law in December 2017, reduced the federal corporate tax rate from 35% to 21%. This change resulted in the write down of the net deferred tax asset of $47.9 million (encompassing the deferred tax asset write down and the impact on the deferred tax liability).

11. Taxation (continued)

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.

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) Brazilian Tax Action

The Brazilian Taxation Authority (BTA) is claiming unpaid taxes, interest and penalties of approximately $38 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 $38 million.

(iii) 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 $24 million. Orica believes that the valuations are in accordance with the tax law and has lodged objections against the assessments.

(iv) Ghana and Senegal Tax Audits

As a result of tax audits, Ghana and Senegal tax authorities have issued assessments of approximately $14 million and $10 million respectively. The Ghana assessment covers the period from 2010 to 2016 and the Senegal assessment covers the period from 2014 to 2017. These assessments were unexpected and arrived with very limited supporting documentation and credible argument. Based on advice, Orica believes that the assessments are not in accordance with the tax law and intends to strongly defend both matters.

Section F. Group structure

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

	Consolidated	
	2018 $m	**2017 $m**
Non-controlling interests in shareholders' equity at balance date is as follows:		
Contributed equity	**45.2**	66.6
Reserves	**(27.0)**	(12.3)
Retained earnings	**46.6**	(53.1)
	64.8	1.2
The following table summarises the information relating to non-controlling interests on a 100% basis.		
The amounts disclosed are before intercompany eliminations.		
Current assets	**514.0**	495.2
Current liabilities	**272.2**	268.0
Current net assets	**241.8**	227.2
Non-current assets	**420.7**	393.6
Non-current liabilities	**508.4**	621.1
Non-current net liabilities	**(87.7)**	(227.5)
Net assets/(liabilities)	**154.1**	(0.3)
Carrying amount of non-controlling interests	**64.8**	1.2
Sales Revenue	**843.2**	843.0
Net profit for the year	**75.0**	54.2
Other comprehensive (loss)	**(16.5)**	(10.2)
Total comprehensive loss	**58.5**	44.0
Profit allocated to non-controlling interests	**13.6**	13.2
Other comprehensive income related to non-controlling interests	**(10.6)**	(4.6)
Total	**3.0**	8.6
Dividends paid – non-controlling interests	**(13.5)**	(7.1)
Cash flows from operating activities	**6.9**	13.2
Cash flows used in investments activities	**(4.3)**	(8.5)
Cash flows from/(used) in financing activities	**3.4**	(1.7)
Net increase in cash and cash equivalents	**6.0**	3.0

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".

			Ownership		Consolidated Carrying amount	
Name	**Principal activity**	**Balance date**	**2018 %**	**2017 %**	**2018 $m**	**2017 $m**
DataCloud International Inc.[1] [3]	Software development and technology	31-Dec	**11.4**	–	**9.2**	–
Nelson Brothers, LLC[1]	Manufacture and sale of explosives	30-Sep	**50.0**	50.0	**39.8**	37.0
Nelson Brothers Mining Services LLC[1]	Sale of explosives	30-Sep	**50.0**	50.0	**34.2**	32.1
Orica Mining Services Pilbara Pty Ltd[2]	Sale of explosives	30-Sep	**50.0**	45.0	**6.4**	3.2
Southwest Energy LLC[1]	Sale of explosives	30-Sep	**50.0**	50.0	**112.8**	103.9
Other	Various				**10.9**	8.4
					213.3	184.6

(1) Entities are incorporated in USA.

(2) Entity is incorporated in Australia.

(3) Acquired on 21 December 2017.

Summary of profit and loss of associates:

	2018 $m	2017 $m
The aggregate net profit after tax of associates on a 100% basis are:	**49.6**	73.8
Orica's share of net profit after tax of associates is:	**24.7**	36.6

(b) Joint operations

The Group owns a 50% 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).

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 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:

	2018 $000	2017 $000
Sales of goods to associates	**320,572**	301,659
Purchases of goods from associates	**87,468**	75,796
Dividend income received from associates	**24,875**	34,518

(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.

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 obligations 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

Consolidated – 2018

Acquisition of businesses and controlled entities

Business combinations are accounted for under the acquisition method when control is transferred to the Group, in accordance with AASB 3 *Business Combinations*. 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. The transaction costs are expensed in the Income Statement.

The Group acquired the following businesses and entities (100% unless stated otherwise):

- Yara Pilbara Nitrates Pty Ltd, on 18 December 2017, Orica acquired an additional 5% shareholding
- GP Holdco Pty Ltd and its Companies (GroundProbe Group) on 15 January 2018.

These financial statements include the provisional purchase price allocation of acquired net assets. Accounting standards permit a measurement period of up to one year during which acquisition accounting can be finalised following the acquisition date.

The valuation techniques used for measuring the fair value of material intangibles were the relief-from-royalty method and replacement cost approach. The relief-from-royalty method was used to value GroundProbe's brand and associated trademarks, patented and unpatented Intellectual Property and experience database. This method measures the after tax royalties or licence fees saved by owning the intangible asset. GroundProbe's software has been valued using the replacement cost approach.

This method measures the cost to recreate or replace the software based on the notion that a market participant would not pay more than the cost to create a comparable asset. For other material assets acquired, book value approximates to fair value.

The Group incurred acquisition-related costs of $6.2 million. These amounts have been included in other expenses in the Income Statement for the year ended 30 September 2018.

2018	Yara Pilbara Nitrates Pty Ltd $m	GroundProbe Group $m	Total $m
Consideration			
cash paid	42.6	210.6	253.2
net cash acquired	(1.9)	(2.7)	(4.6)
Outflow of cash	40.7	207.9	248.6
deferred settlement	0.8	–	0.8
Total consideration	41.5	207.9	249.4
Fair value of net assets of businesses/controlled entities acquired			
trade and other receivables	1.5	19.7	21.2
inventories	0.3	7.5	7.8
property, plant and equipment	46.0	8.6	54.6
intangibles	0.1	66.3	66.4
other assets	0.6	3.8	4.4
payables and interest bearing liabilities	(1.5)	(4.5)	(6.0)
provision for employee entitlements	–	(2.3)	(2.3)
provision for decommissioning	(2.1)	–	(2.1)
other provisions	(3.4)	(7.6)	(11.0)
Goodwill on acquisition	–	116.4	116.4

Results contributed by acquired entities since acquisition date:	$m
Revenue for the year	43.8
Profit before tax for the period	2.5

If the acquisitions had occurred on 1 October 2017, the unaudited operating revenue and profit before tax for the Group for the year to 30 September 2018 would have been:	$m
Revenue for the period	5,389.4
Profit before tax for the period	125.1

15. Businesses and non-controlling interests acquired (continued)

The unaudited information at the time of acquisition was compiled by Orica management based on financial information available to Orica during due diligence and assuming no material transactions between Orica and the acquired businesses.

Goodwill on the purchase of the GroundProbe Group is attributable mainly to the skills and technical talent of the acquired businesses' work forces and the synergies expected to be achieved from integrating these businesses. None of the goodwill recognised is expected to be deductible for income tax purposes.

During the year the Group has increased its interest in individually immaterial subsidiaries, paying $1.6 million, refer to note 25 for additional information.

Consolidated – 2017

During financial year 2017 the consolidated entity did not acquire any businesses or entities.

16. Businesses disposed

Disposal of businesses and controlled entities

The following businesses and controlled entities were disposed of:

2018

The Group did not dispose of any businesses or entities in FY2018.

2017

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

	Consolidated	
	2018 $m	2017 $m
Consideration		
sale price	–	13.1
Cash disposed	–	–
Net consideration	–	13.1
Less further disposal costs including purchase price adjustments	–	–
Net consideration[(1)]	–	13.1
Carrying value of net assets of businesses/controlled entities disposed		
inventories	–	0.1
property, plant and equipment	–	7.4
intangibles	–	0.7
foreign currency translation reserve	–	(6.0)
	–	2.2
Profit on sale of business/controlled entities	–	10.9

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

17. Parent Company disclosure – Orica Limited

	Company	
	2018 $m	2017 $m
Total current assets	**999.8**	988.3
Total assets	**2,564.6**	2,554.3
Total current liabilities	**129.1**	158.5
Total liabilities	**284.8**	165.4
Equity		
Ordinary shares	**2,110.1**	2,068.5
Retained earnings	**169.7**	320.3
Total equity attributable to ordinary shareholders of Orica Limited	**2,279.8**	2,388.8
Net profit for the year and total comprehensive income	**30.4**	106.3

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 (2017 between calendar years 2017 and 2030) (see notes 3 and 10). Orica Limited has also provided guarantees for senior committed bank facilities.

18. Deed of Cross Guarantee

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

The parties to the Deed are:

- Initiating Explosives Systems Pty Ltd
- Orica Australia Pty Ltd
- Orica Investments Pty Ltd
- Orica Explosives Holdings Pty Ltd (added in FY2018)
- Orica Explosives Holdings No 2 Pty Ltd (added in FY2018)
- Orica Explosives Technology Pty Ltd (added in FY2018)
- Orica IC Assets Pty Ltd (added in FY2018)

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*.

18. Deed of Cross Guarantee (continued)

A consolidated Income Statement and consolidated Balance Sheet is shown below:

	2018 $m	2017 $m
Summarised Balance Sheet		
Current assets		
Trade and other receivables	**228.5**	188.3
Inventories	**189.8**	143.0
Other assets[(1)]	**60.6**	96.3
Total current assets	**478.9**	427.6
Non-current assets		
Trade and other receivables	**5.1**	18.0
Investments accounted for using the equity method	**16.0**	2.8
Other financial assets	**10,703.2**	5,821.6
Property, plant and equipment	**1,224.8**	746.3
Intangible assets	**400.0**	271.2
Deferred tax assets	**243.0**	202.9
Total non-current assets	**12,592.1**	7,062.8
Total assets	**13,071.0**	7,490.4
Current liabilities		
Trade and other payables	**544.2**	475.5
Interest bearing liabilities	**0.9**	0.9
Provisions	**139.9**	135.4
Total current liabilities	**685.0**	611.8
Non-current liabilities		
Trade and other payables	**0.3**	0.4
Interest bearing liabilities	**5,198.9**	3,454.3
Deferred tax liabilities	**238.6**	158.5
Provisions	**266.0**	170.1
Total non-current liabilities	**5,703.8**	3,783.3
Total liabilities	**6,388.8**	4,395.1
Net assets	**6,682.2**	3,095.3
Equity		
Ordinary shares	**2,110.1**	2,068.5
Reserves	**4,188.2**	575.6
Retained profits	**383.9**	451.2
Total equity	**6,682.2**	3,095.3

Summarised Income Statement and retained profits		
Profit before income tax expense	**249.5**	175.1
Income tax expense	**(27.7)**	(27.1)
Profit from operations	**221.8**	148.0
Retained profits at the beginning of the year	**451.2**	484.2
Retained losses of companies entering the Deed	**(103.2)**	–
Actuarial losses/(gains) recognised directly in equity	**(4.7)**	16.1
Ordinary dividends – interim	**(75.6)**	(88.4)
Ordinary dividends – final	**(105.6)**	(108.7)
Retained profits at the end of the year	**383.9**	451.2

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

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 2017 or 30 September 2018:

- The Long-Term Incentive Plan (LTIP) (refer to Remuneration Report).
- Sign-on Rights.

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) Sign-on Rights

For a select group of senior managers who join Orica post allocation of an 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 2018	Number of rights held at 30 September 2017	Number of participants at 30 September 2018	Number of participants at 30 September 2017	Value of rights at grant date(1) $
12 Jan 16 – 3 Sep 18	30 Jun 16 – 27 Oct 20	131,833	**84,653**	70,934	**6**	4	1,487,769

(1) 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 – 3 Sep 18	13.88-20.91	25-30	3.0-5.5	1.49-2.07	11.92-20.91

19. Employee share plans and remuneration (continued)

(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 KMP compensation is set out in the following table:

	Consolidated	
	2018 $000	**2017 $000**
Short term employee benefits	**12,724.3**	12,481.8
Other long term benefits	**15.9**	27.9
Post employment benefits	**274.6**	247.5
Share based payments	**4,893.3**	4,932.0
Termination benefits	**552.6**	839.9
	18,460.7	18,529.1

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.

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 retirement benefits 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 2018 was $32.6 million (2017 $38.0 million).

20. Superannuation commitments (continued)

(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 $27.5 million (2017 $23.8 million) to defined benefit plans. The Group's external actuaries have forecast total employer contributions and benefit payments to defined benefit plans of $27.1 million for 2019.

(c) (i) Balance Sheet amounts

The amounts recognised in the Balance Sheet are determined as follows:

	2018 $m	2017 $m
Present value of the funded defined benefit obligations	**621.2**	606.3
Present value of unfunded defined benefit obligations	**121.8**	113.6
Fair value of defined benefit plan assets	**(528.2)**	(501.9)
Deficit	**214.8**	218.0
Restriction on assets recognised	**0.1**	0.1
Net liability in the Balance Sheet	**214.9**	218.1
Amounts in Balance Sheet:		
Liabilities	**215.3**	218.4
Assets	**(0.4)**	(0.3)
Net liability recognised in Balance Sheet at end of year	**214.9**	218.1

(c) (ii) Amounts recognised in the Income Statement

The amounts recognised in the Income Statement are as follows:

	2018 $m	2017 $m
Current service cost	**13.8**	15.3
Interest cost on net defined benefit liabilities	**6.1**	6.4
Curtailment or settlement (gains)	**(0.2)**	(1.9)
Total included in employee benefits expense	**19.7**	19.8

(c) (iii) Amounts included in the Statement of Comprehensive Income

	2018 $m	2017 $m
Actuarial gains/(losses) on defined benefit obligations:		
Due to changes in demographic assumptions	**(6.0)**	1.0
Due to changes in financial assumptions	**2.0**	35.2
Due to experience adjustments	**(5.3)**	(7.8)
Total	**(9.3)**	28.4
Change in irrecoverable surplus other than interest	**–**	0.1
Return on plan assets greater than discount rate	**11.6**	4.9
Total gains recognised via the Statement of Comprehensive Income	**2.3**	33.4
Tax expense on total gains recognised via the Statement of Comprehensive Income	**(0.3)**	(10.0)
Total gains after tax recognised via the Statement of Comprehensive Income	**2.0**	23.4

20. Superannuation commitments (continued)

(c) (iv) Reconciliations

	2018 $m	2017 $m
Reconciliation of present value of the defined benefit obligations:		
Balance at the beginning of the year	**719.9**	765.8
Current service cost	**13.8**	15.3
Interest cost	**25.1**	22.6
Actuarial (gains)/losses	**9.3**	(28.4)
Contributions by plan participants	**1.3**	1.4
Benefits paid	**(47.1)**	(54.3)
Settlements/curtailments	**(0.2)**	(7.1)
Exchange differences on foreign funds	**20.9**	4.6
Balance at the end of the year	**743.0**	719.9

	2018 $m	2017 $m
Reconciliation of the fair value of the plan assets:		
Balance at the beginning of the year	**501.9**	512.9
Interest income on plan assets	**19.0**	16.2
Return on plan assets greater than discount rate	**11.6**	4.9
Contributions by plan participants	**1.3**	1.4
Contributions by employer	**27.5**	23.8
Benefits paid	**(47.1)**	(54.3)
Settlements/curtailments	**–**	(5.3)
Other	**(0.1)**	(0.1)
Exchange differences on foreign funds	**14.1**	2.4
Balance at the end of the year	**528.2**	501.9

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.

	2018 $m	2017 $m
Comprising:		
Quoted in active markets:		
Equities	**192.2**	195.4
Debt securities	**211.7**	216.7
Property	**8.3**	9.9
Other quoted securities	**63.3**	30.8
Other:		
Property	**25.2**	22.1
Insurance contracts	**5.2**	4.7
Cash and cash equivalents	**22.3**	22.3
	528.2	501.9

20. Superannuation commitments (continued)

(c) (iv) Reconciliations (continued)

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 p.a.		Change in assumptions	
	2018	2017	+1% p.a. $m	-1% p.a. $m
Rate of increase in pensionable remuneration	**3.23%**	3.27%	24	(19)
Rate of increase in pensions in payment	**2.40%**	2.56%	23	(19)
Discount rate for pension plans	**3.70%**	3.67%	(86)	105

The expected age at death for persons aged 65 is 87 years for men and 90 years for women at 30 September 2018. A change of 1 year in the expected age of death would result in an $18 million movement in the defined benefit obligation at 30 September 2018.

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.

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 $78.4 million (2017 $28.4 million) and later than one but less than five years was nil (2017 $0.9 million).

	Consolidated	
	2018 $m	2017 $m
Lease commitments		
Lease expenditure contracted for at balance date but not recognised in the financial statements and payable:		
no later than one year	**79.1**	57.4
later than one, no later than five years	**112.5**	81.8
later than five years	**40.3**	13.9
	231.9	153.1
Representing:		
cancellable operating leases	**38.0**	41.5
non-cancellable operating leases	**193.9**	111.6
	231.9	153.1
Non-cancellable operating lease commitments payable:		
no later than one year	**62.6**	37.6
later than one, no later than five years	**92.8**	62.3
later than five years	**38.5**	11.7
	193.9	111.6

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 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) Legal, claims and other

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.

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 are 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. Auditor's remuneration

	Consolidated	
	2018 $000	2017 $000
Total remuneration received, or due and receivable, by the auditors for:		
Audit services		
Auditor of the Company – KPMG Australia		
– Audit and review of financial reports	**4,080**	3,521
– Other regulatory audit services	**–**	–
Auditor of the Company – overseas KPMG firms		
– Audit and review of financial reports[(1)]	**1,791**	1,809
	5,871	5,330
Other services		
Auditor of the Company – KPMG Australia		
– other assurance services	**80**	25
	80	25
	5,951	5,355

(1) Fees paid or payable for overseas subsidiaries' local statutory requirements.

From time to time, KPMG, the auditor 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.

24. Events subsequent to balance date

Dividends

On 1 November 2018, the Directors declared a final dividend of 31.5 cents per ordinary share payable on 7 December 2018. The financial effect of this dividend is not included in the financial statements for the year ended 30 September 2018 and will be recognised in the FY2019 financial statements.

The Directors have not become aware of any other significant matter or circumstance that has arisen since 30 September 2018, 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.

25. Investments in controlled entities

The consolidated financial statements incorporate the assets, liabilities and results of the following controlled entities held during 2017 and 2018 (non controlling direct interests shareholding disclosed if not 100% owned):

Name of Entity	Place of incorporation if other than Australia
Company	
Orica Limited	
Controlled Entities	
ACF and Shirleys Pty Ltd[(c)]	
Alaska Pacific Powder Company	USA
Altona Properties Pty Ltd[(c)] – 37.4%	
Aminova International Limited	Hong Kong
Ammonium Nitrate Development and Production Limited – 0.64%	Thailand
Anbao Insurance Pte Ltd	Singapore
Anjie Co Ltd[(e)]	China
Arboleda S.A	Panama
ASA Organizacion Industrial S.A. de C.V.	Mexico
Australian Fertilizers Pty Ltd[(c)]	
Barbara Limited	UK
Beijing Ruichy Minova Synthetic Material Company Limited	China
BST Manufacturing, Inc.	USA
CJSC (ZAO) Carbo-Zakk – 6.25%	Russia
Controladora DNS de RL de CV	Mexico
Dansel Business Corporation	Panama
Dyno Nobel VH Company LLC – 49%	USA
Eastern Nitrogen Pty Ltd[(c)]	
Emirates Explosives LLC – 35%	United Arab Emirates
Explosivos de Mexico S.A. de C.V.	Mexico
Explosivos Mexicanos S.A. de C.V.	Mexico
Fortune Properties (Alrode) (Pty) Limited	South Africa
GeoNitro Limited – 40%	Georgia
GP FinCo Pty Limited[(c)(e)]	
GP HoldCo Pty Limited[(e)]	
GroundProbe Australasia Pty Ltd[(c)(e)]	
GroundProbe Colombia S.A.S.[(e)]	Colombia
GroundProbe do Brasil[(e)]	Brazil
GroundProbe International Pty Ltd[(c)(e)]	
GroundProbe North America LLC[(e)]	USA
GroundProbe Peru S.A.C.[(e)]	Peru
GroundProbe Pty Ltd[(e)]	
GroundProbe South Africa Pty Ltd[(e)]	South Africa
GroundProbe South America SA[(e)]	Chile

Name of Entity	Place of incorporation if other than Australia
GroundProbe Technologies Pty Ltd[(c)(e)]	
GroundProbe (Nanjing) Mining Technology Co. Ltd[(e)]	China
Hallowell Manufacturing LLC	USA
Hunan Orica Nanling Civil Explosives Co., Ltd[(f)]	China
Indian Explosives Private Limited	India
Initiating Explosives Systems Pty Ltd	
Jiangsu Orica Banqiao Mining Machinery Company Limited – 50.5%	China
JSC "Orica CIS"	Russia
Minova Kazakhstan Limited Liability Partnership[(f)]	Kazakhstan
LLC Orica Logistics	Russia
Minova Africa (Pty) Ltd – 25%	South Africa
Minova Africa Holdings (Pty) Limited	South Africa
Minova AG	Switzerland
Minova Arnall Sp. z o.o.	Poland
Minova Asia Pacific Ltd	Taiwan
Minova Australia Pty Ltd	
Minova Bohemia s.r.o.	Czech Republic
Minova CarboTech GmbH	Germany
Minova Codiv S.L.	Spain
Minova Ekochem S.A.	Poland
Minova Holding GmbH	Germany
Minova Holding Inc	USA
Minova International Limited	UK
Minova Ksante Sp. z o.o.	Poland
Minova MAI GmbH	Austria
Minova Mexico S.A. de C.V.	Mexico
Minova MineTek Private Limited	India
Minova Mining Services SA	Chile
Minova Nordic AB	Sweden
Minova Weldgrip Limited	UK
Minova USA Inc	USA
Mintun 1 Limited	UK
Mintun 2 Limited	UK
Mintun 3 Limited	UK
Mintun 4 Limited	UK
Orica Africa Holdings Limited (formerly MMTT Limited)	UK

25. Investments in controlled entities (continued)

Name of Entity	Place of incorporation if other than Australia
Nitro Asia Company Inc. – 40%	Philippines
Nitro Consult AB	Sweden
Nitro Consult AS	Norway
Nitroamonia de Mexico S.A de C.V.	Mexico
Nobel Industrier AS	Norway
Northwest Energetic Services LLC – 48.67%	USA
Nutnim 1 Limited	UK
Nutnim 2 Limited	UK
OOO Minova	Russia
OOO Minova Ukraina – 10%	Ukraine
Orica-CCM Energy Systems Sdn Bhd – 45%	Malaysia
Orica-GM Holdings Limited – 49%	UK
Orica Africa (Pty) Ltd	South Africa
Orica Argentina S.A.I.C.	Argentina
Orica Australia Pty Ltd	
Orica BKM SASU	Democratic Republic of Congo
Orica Belgium S.A.	Belgium
Orica Blast & Quarry Surveys Limited – 25%	UK
Orica Bolivia S.A.	Bolivia
Orica Brasil Ltda	Brazil
Orica Caledonie SAS	New Caledonia
Orica Canada Inc	Canada
Orica Canada Investments ULC	Canada
Orica Caribe, S.A.	Panama
Orica Centroamerica S.A.	Costa Rica
Orica Chile Distribution S.A.	Chile
Orica Chile S.A.	Chile
Orica Colombia S.A.S.	Colombia
Orica Denmark A/S	Denmark
Orica Dominicana S.A.	Dominican Republic
Orica DRC SARL	Democratic Republic of Congo
Orica Eesti OU – 35%	Estonia
Orica Europe FT Pty Ltd(c)	
Orica Europe Investments Pty Ltd(c)	
Orica Europe Management GmbH	Germany
Orica Europe Pty Ltd & Co KG	Germany
Orica Explosives Holdings Pty Ltd	
Orica Explosives Holdings No 2 Pty Ltd	

Name of Entity	Place of incorporation if other than Australia
Orica Explosives Holdings No 3 Pty Ltd(c)	
Orica Explosives Research Pty Ltd(c)	
Orica Explosives Technology Pty Ltd	
Orica Explosivos Industriales, S.A.	Spain
Orica Finance Limited	
Orica Finance Trust	
Orica Finland OY	Finland
Orica GEESP Pty Ltd(c)	
Orica Ghana Limited	Ghana
Orica Grace US Holdings Inc.	USA
Orica Holdings Pty Ltd(c)	
Orica Ibéria, S.A.	Portugal
Orica IC Assets Holdings Limited Partnership	
Orica IC Assets Pty Ltd	
Orica IC Investments Pty Ltd(c)	
Orica International IP Holdings Inc.	USA
Orica International Pte Ltd	Singapore
Orica Investments (Indonesia) Pty Limited(c)	
Orica Investments (NZ) Limited	NZ
Orica Investments (Thailand) Pty Limited(c)	
Orica Investments Pty Ltd	
Orica Japan Co. Ltd	Japan
Orica Kazakhstan Joint Stock Company	Kazakhstan
Orica Logistics Canada Inc.	Canada
Orica Mauritania SARL	Mauritania
Orica Med Bulgaria AD – 40%	Bulgaria
Orica Mining Services (Namibia) (Proprietary) Limited	Namibia
Orica Mining Services (Hong Kong) Ltd	Hong Kong
Orica Mining Services Peru S.A. – 0.94%	Peru
Orica Mining Services Portugal S.A.	Portugal
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.(a)	Netherlands
Orica New Zealand Finance Limited(a)	NZ
Orica New Zealand Limited	NZ
Orica New Zealand Securities Limited(a)	NZ

25. Investments in controlled entities (continued)

Name of Entity	Place of incorporation if other than Australia
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 Panama S.A. – 40%	Panama
Orica Philippines Inc – 5.48%	Philippines
Orica Portugal, S.G.P.S., S.A.	Portugal
Orica Qatar LLC(b)	Qatar
Orica Securities (UK) Limited	UK
Orica South Africa (Pty) Ltd(d)	South Africa
Orica Share Plan Pty Limited(c)	
Orica Senegal SARL	Senegal
Orica Singapore Pte Ltd	Singapore
Orica St. Petersburg LLC	Russia
Orica Sweden AB	Sweden
Orica Sweden Holdings AB	Sweden
Orica Tanzania Limited	Tanzania
Orica UK Limited	UK
Orica US Finance LLC	USA
Orica US Holdings General Partnership	USA
Orica USA Inc.	USA
Orica U.S. Services Inc.	USA
Orica Venezuela C.A.	Venezuela
Orica (Weihai) Explosives Co Ltd – 20%	China
Orica Zambia Limited	Zambia
OriCare Canada Inc.	Canada
Oricorp Comercial S.A. de C.V.	Mexico
Oricorp Mexico S.A. de C.V.	Mexico
Penlon Proprietary Limited(c)	
Project Grace	UK
Project Grace Holdings	UK
Project Grace Incorporated	USA
PT GroundProbe Indonesia(e)	Indonesia
PT Kalimantan Mining Services	Indonesia
PT Kaltim Nitrate Indonesia – 10%	Indonesia
PT Orica Mining Services	Indonesia
Retec Pty Ltd(c)	
Rui Jade International Limited	Hong Kong
Sarkem Pty Ltd(c)	
Sprengstoff-Verwertungs GmbH	Germany
Transmate S.A.(f)	Belgium
White Lightning Holdings, Inc	Philippines

(a) Liquidated in 2018.
(b) In liquidation.
(c) Small proprietary company – no separate statutory accounts are prepared.
(d) Incorporated in 2018.
(e) Acquired in 2018.
(f) Non-controlling interest acquired in 2018.

26. New accounting policies and accounting standards

(i) Changes in accounting policies

Except as described below, the accounting policies applied by the Group in its financial statements are the same as those applied by the Group in its consolidated financial report for the year ended 30 September 2017.

The Group assessed and applied a number of new and revised accounting standards issued by the Australian Accounting Standards Board (AASB) which were required to be applied from 1 October 2017. 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

A number of 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 in these financial statements. The Group's assessment of the impact of these new standards is set out below:

AASB 15 *Revenue from Contracts with Customers* (AASB 15)

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The new standard is based on the principle that revenue is recognised when a customer obtains control of the good or service. It replaces existing revenue recognition guidance, including AASB 118 *Revenue*.

The Group has reviewed contracts in place across a wide range of customers and arrangement types to identify changes in timing or amount of revenue recognised and disclosures under the new standard. The Group generally operates under Master Service Agreements which require the customer to place orders for goods or services on a periodic basis. The performance obligations are identified at the point that the customer places the order. The Group has finalised its assessment of the impact of AASB 15, the following points were noted as part of this assessment.

Supply of products and provision of services

The majority of the Group's revenue is derived from contractual agreements for either:

- the supply of products; or
- the supply of products and the provision of services.

Refer to note 1(a) for details of products sold and services rendered.

Under AASB 15, the Group has assessed that:

- contracts for the supply of products are one performance obligation; and
- contracts for the supply of products and services include one or two separate performance obligations; depending on whether the customer can benefit from the products independently of the services.

Product revenue is currently recognised when the goods are delivered to the contracted point of delivery, which is generally a delivery point on the customer site. Revenue is recognised at this point as this is when the significant risks and rewards of ownership are transferred to the purchaser. Under AASB 15, revenue will also be recognised at the contracted point of delivery and at the contracted price as this is the point at which the customer gains control of the product and the performance obligation is satisfied by Orica.

Service revenue is currently recognised as provided to the customer as this is when the revenue and associated costs can be estimated reliably, and it is probable that the economic benefits associated with the transaction will flow to the Group. Under AASB 15, revenue from the delivery of services will be recognised over time as the customer simultaneously receives and consumes the benefits of the Group's performance.

Where products and services are combined into one single performance obligation revenue will be recognised over time as the customer simultaneously receives and consumes the benefits provided by Orica's performance.

Contracts to provide a designated output

The Group has a number of contracts with customers to provide a designated quantity of output such as rock on ground. Under AASB 15, the Group has assessed that the provision of goods and services in these types of contracts results in the identification of a single performance obligation to deliver an integrated service to the customer. Revenue from this performance obligation will be recognised over time and as provided to the customer as the customer simultaneously receives and consumes the benefits of the Group's performance.

Based on the work performed and the assessments above, the Group conclude that the application of AASB 15 will not have a material impact on the amount of revenue recognised.

The Group will adopt AASB 15 retrospectively to the prior reporting period presented, with the effect of initially applying this standard at the beginning of the comparative period at 1 October 2017.

26. New accounting policies and accounting standards (continued)

AASB 9 *Financial Instruments* (AASB 9)

AASB 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group has finalised its review and assessment of the impact of AASB 9 and describes the key issues considered by the Group below:

Impairment – Financial assets and contract assets

AASB 9 introduces an expected credit loss model for impairment of financial assets whereby losses must be recognised as they are expected and not only when they are incurred.

The Group conducted an assessment of AASB 9's impairment recognition requirements to trade debtors, including both quantitative information from historic credit losses as well as qualitative information on different customer/debtor profiles and segments. Based on this assessment, management has determined that there will be an opening retained earnings adjustment of $14.6 million required on transition at 1 October 2018.

Hedge accounting

AASB 9 requires the Group to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. AASB 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting. Under the new model, it is possible that more risk management strategies, particularly those involving hedging a risk component of a non-financial item, will be likely to qualify for hedge accounting.

The Group currently applies hedge accounting for all three hedge types: cash flow hedges, fair value hedges and hedges of net investments in foreign operations.

The Group's hedges that currently meet the hedge accounting requirements of AASB 139 will continue to qualify for hedge accounting under AASB 9. In that respect, there will be no material impact to the Group's financial statements following the adoption of AASB 9 on 1 October 2018.

AASB 9 allows for prospective application of hedge accounting requirements except for accounting for the time value of options. Orica does not have any active option contracts in place and will therefore adopt the hedge accounting requirements of AASB 9 on a prospective basis.

AASB 16 *Leases* (AASB 16)

AASB 16 replaces existing leases guidance, including AASB 117 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases* – Incentives and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard is effective for the Group for the period commencing 1 October 2019.

AASB 16 introduces a single, on balance sheet lease accounting model for lessees. A lessee recognises a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now change as AASB 16 replaces the straight-line operating lease expense with a depreciation charge for right of use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Group has progressed its implementation project, focusing on a review of contracts, the collection of lease data and assessment of the impact on current systems and processes. The assessment of the impact on the consolidated financial statements is still ongoing. The impact in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 October 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions. At the reporting date, the Group has cancellable and non-cancellable operating lease commitments of $232 million (see note 21).

As a lessee, the Group can either apply the standard using a retrospective approach or a modified retrospective approach with optional practical expedients. The Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

There are no other standards or interpretations that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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 59 to 108, and the Remuneration Report in the Directors' Report, set out on pages 38 to 57, 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 2018 and of its performance for the financial year ended on that date; and

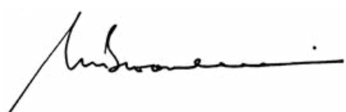
  (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

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

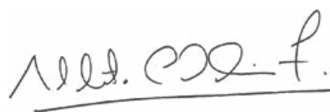
There are reasonable grounds to believe that the Company and the controlled entities identified in note 18 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant 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 2018.

The Directors draw attention to "About this report" on page 64 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 1 November 2018.

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 2018 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:

- Consolidated balance sheet as at 30 September 2018
- 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 Orica Limited (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 and Latin America ("LATAM") segments
- Accounting for environmental and decommissioning provisions
- Accounting for uncertain tax positions

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of 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.

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<table>
<tr><th colspan="2">Carrying value of goodwill associated with the Minova and LATAM Segments ($0m and $142.9m)</th></tr>
<tr><td colspan="2">Refer to Note 9 to the Financial Report</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>A key audit matter was the Group's testing of goodwill attributable to the Minova and LATAM Segments (the Segments). Given the size of the balance and recent performance of the Segments, we exercised significant judgment in evaluating the audit evidence available.
Minova Segment
As described in note 9 to the financial statements, at the interim reporting period the performance of the Minova business was below budget and forecasted earnings which identified indicators of impairment. At 31 March 2018, management revised the short to medium term outlook of the business due to the underperformance.
Accordingly, the Group reassessed the recoverable amount of the Minova segment at 31 March 2018 using a value in use discounted cash flow model. This model identified that the carrying value exceeded the recoverable amount resulting in an impairment charge of $204.2 million.
LATAM Segment
As described in note 9 to the financial statements, the performance of the LATAM business was below budget and forecasted earnings which identified indicators of impairment. This resulted in a restructure of the business, and also caused management to review the outlook in connection with the annual impairment testing.
Significant assumptions
We focused on the significant assumptions the Group applied in their value in use models including:
• Forecast operating cash flows – the Segments experienced declining cash flows in the period due to competitive market conditions and weaker volumes and have not met prior forecasts, raising our concern for the 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.
• Forecast terminal growth rates – in addition to the uncertainties described above, the Group's models are highly sensitive to changes in terminal growth rates. This drives additional audit effort in relation to the feasibility of the terminal growth rates and consistency with the Group's strategy.
• Discount rates – the determination of discount rates applicable to underlying cash flows is a subjective exercise, and they are influenced by the countries in which the Group operates. The Group's models are sensitive to changes in discount rates.</td><td>Our procedures included:
• We considered the appropriateness of the value in use method applied by the Group to perform the annual impairment test of goodwill against the requirements of the accounting standards.
• We tested key controls in the Group's valuation process including Board approval of budgets and review and approval of the impairment assessment, including cash flow forecasts, by examining information presented to the Board.
• We compared the forecast cash flows contained in the value in use models to Board approved budgets.
• We assessed the accuracy of previous Group forecasts for the Segment'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 have 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.
• We challenged the Group's significant forecast cash flow assumptions in light of competitive market conditions and weaker volumes relative to historical trends to assess the Segment's capacity to achieve future cash flows. We used our knowledge of the Segments, their past performance, business and customers and our industry experience to evaluate the feasibility of these plans.
• We assessed the scope, expertise and independence of the external specialists engaged by the Group to assist the Group determine the discount rate applicable to the operations which comprise the Segments.
• Working with our valuation specialists we also independently developed a discount rate range for key operations which form part of the Segments, 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.
• We considered the sensitivity of the models by risk adjusting cash flows, varying key assumptions such as contributions from new products and services, forecast 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.
• We compared forecast terminal growth rates for the key operations which form part of the Segments to external information and considered the implication of any variances.
• We assessed the disclosures in the financial report using our understanding of the matter obtained from our testing and against the requirements of the Accounting Standards.</td></tr>
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<table>
<tr><th colspan="2">Environmental and decommissioning provisions $319.3m and contingent liability disclosures</th></tr>
<tr><td colspan="2">Refer to Note 6 to the Financial Report</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The estimation of environmental remediation and decommissioning provisions is considered a key audit matter. This is due to the inherent complexity associated with estimating remediation costs, particularly for potential contamination of ground beneath established structures and long term legacy matters, and in gathering persuasive audit evidence thereon.

The complexity in estimating the Group's environmental and decommissioning provisions is influenced by:

• The inherent challenges experienced by the Group in precisely determining the size and location of potential contamination beneath established structures.
• 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.
• 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.
• Historical experience, and its use as a reasonable predictor when evaluating forecast costs.
• The expected timing of the expenditure given the long term nature of these exposures.

As described in note 6 to the financial statements, following receipt of additional reports from internal and external environmental experts, the Group updated its analysis of the likely operational plans for the Groundwater Treatment Plant (GTP) at the Botany Industrial Park (NSW) during the current year. The new information resulted in changes in the estimated operational duration and costs associated with the GTP and an increase in the environmental provision of $114.7 million.</td><td>Our procedures included:

• Testing controls relating to the completeness of the Group's identification of areas which contain contamination and the related recognition and measurement of provisions, including the Group's review and authorisation of cost estimates.
• 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.
• We conducted site visits and made enquiries of various personnel regarding the Group's strategy for remediating certain source contamination.
• 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.
• 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.
• We obtained the Group's quotations for remediation work, as well as internal and external supporting 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 cost contained in the provision balance.
• We assessed the environmental provision for the Botany Industrial Park based on the following:
o compared the findings of internal and external environmental experts relating to the operational plans for the GTP with the assumptions adopted in the provision model for consistency;
o assessed the forecast net GTP running costs and capital outlays by comparing to historical trends, supporting quotations and the findings of external experts;
o considered the sensitivity of the provision model by varying key assumptions and inputs to identify those assumptions at higher risk of bias or inconsistency in application and to develop a reasonable range for the provision;
o considered the qualifications and experience of internal and external experts to determine their suitability in conducting the scope of work undertaken; and
o tested the mathematical accuracy of the provision model.
• 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.</td></tr>
</table>

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**
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 to customers in over one hundred countries. 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. Accounting for uncertain tax positions is a key audit matter due to: • The Group undertaking transactions in a number of tax jurisdictions which require the Group to make significant judgements about the interpretation of tax legislation and the application of accounting requirements. • The changing tax environment where there have been significant developments to enhance transparency of tax arrangements. 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 defence of its positions through legal appeal processes.	Working with our tax specialists our procedures included: • 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. • 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. • 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. • We compared the Group's accounting policy for recognition of tax provisions against the requirements of the Accounting Standards. • We compared the positions adopted by the Group to our knowledge of latest interpretations by tax authorities and court rulings to test the positions adopted for compliance with Accounting Standards. • We made independent enquiries of the Group's external legal advisors. We compared their responses to the assessment made by the Group. • 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.

Other Information

Other Information is financial and non-financial information in Orica Limited'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, Innovation statement, Chairman's Message, Managing Director's Message, Review of Operations, Global Presence statement, Sustainability Overview, Board Members biographies, Executive Committee biographies, Directors' Report and Five Year Financial Statements. 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 and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. 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 and Company 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 the 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_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Orica Limited for the year ended 30 September 2018, complies with *Section 300A of the Corporations Act 2001*.

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 the Directors' report for the year ended 30 September 2018.

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

KPMG

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Penny Stragalinos
Partner
Melbourne
1 November 2018