REVIEW OF OPERATIONS

- Earnings down 3% with strong second half mitigating first half weakness
- Statutory net profit after tax (NPAT) attributable to the shareholders of Orica was a loss of $48 million; NPAT before individually significant items[1] was $324 million, down 16% on the prior corresponding period (pcp)
- EBIT before individually significant items[2] was $618 million, down 3% on the pcp
- EBIT[2] in the second half was up 46% on the first half, and up 14% on the second half of the 2017 financial year

SUMMARY

- Ammonium nitrate (AN) volumes up 5% on the pcp at 3.82 million tonnes
- Sales revenue increased by 7% from higher volumes and favourable mix
- Individually significant items of $372 million include non-cash items of $353 million from the first half
- Net operating and investing cash outflows[3] of $63 million include the acquisition of GroundProbe[4]
- Capital expenditure of $322 million[5], up 5% on the pcp
- Net debt[6] of $1.6 billion and gearing[7] at 36%
- Final dividend of 31.5 cents per share, bringing the full year dividend to 51.5 cents per share

GROUP RESULTS

Year ended 30 September	2018 A$m	2017 A$m	Change %
Sales revenue	**5,373.8**	5,039.2	7%
EBITDA[8]	**885.0**	896.3	(1%)
EBIT[2]	**618.1**	**635.1**	**(3%)**
Net interest expense	**(121.3)**	(71.7)	(69%)
Tax expense	**(158.0)**	(164.0)	4%
Non-controlling interests	**(14.6)**	(13.2)	(11%)
NPAT before individually significant items[1]	**324.2**	**386.2**	**(16%)**
Individually significant items after tax	**(372.3)**	–	(100%)
NPAT after individually significant items (statutory)	**(48.1)**	**386.2**	**(112%)**

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

2018 SUMMARY

FY18 REVENUE (A$)

$5,374M

FY18 EBIT (A$)

$618M

FY18 DIVIDEND

51.5C

BUSINESS SUMMARY

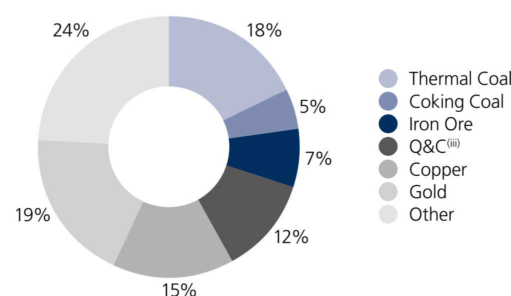
A summary of the performance of the segments for the 2018 and 2017 financial years is presented below:

Year ended 30 September 2018 A$m	AN Tonnes [i] ('000)	Sales Revenue [ii]	EBITDA	EBIT	Capital Expenditure
Australia Pacific & Asia (APA)	1,626	1,944.2	505.5	381.9	109.7
North America	1,112	1,430.3	226.8	185.6	38.6
Europe, Middle East & Africa (EMEA)	462	807.2	78.8	54.8	35.5
Latin America	618	899.8	67.1	43.2	21.7
Minova	–	519.0	6.2	(2.3)	8.5
Auxiliaries	–	66.7	10.5	4.8	5.7
Global Support	–	1,041.6	(9.9)	(49.9)	102.4
Eliminations	–	(1,335.0)	–	–	–
Orica Group	**3,818**	**5,373.8**	**885.0**	**618.1**	**322.1**

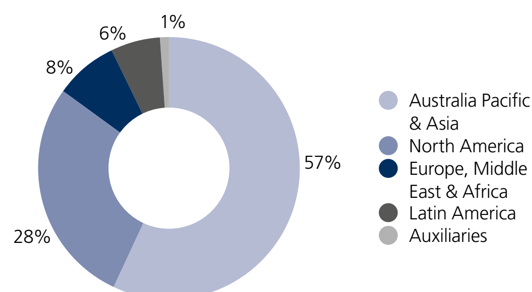
Year ended 30 September 2017 A$m	AN Tonnes [i] ('000)	Sales Revenue [ii]	EBITDA	EBIT	Capital Expenditure
Australia Pacific & Asia	1,424	1,725.9	492.2	367.6	147.7
North America	1,121	1,362.8	223.8	187.5	48.0
Europe, Middle East & Africa	468	812.2	98.2	74.5	23.6
Latin America	637	915.9	86.7	61.3	20.7
Minova	–	455.6	22.2	13.1	9.0
Auxiliaries	–	20.3	3.6	3.1	2.4
Global Support	–	990.6	(30.4)	(72.0)	54.6
Eliminations	–	(1,244.1)	–	–	–
Orica Group	**3,650**	**5,039.2**	**896.3**	**635.1**	**306.0**

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

REVENUE BY COMMODITY 2018



EBIT BY REGION [iv] 2018

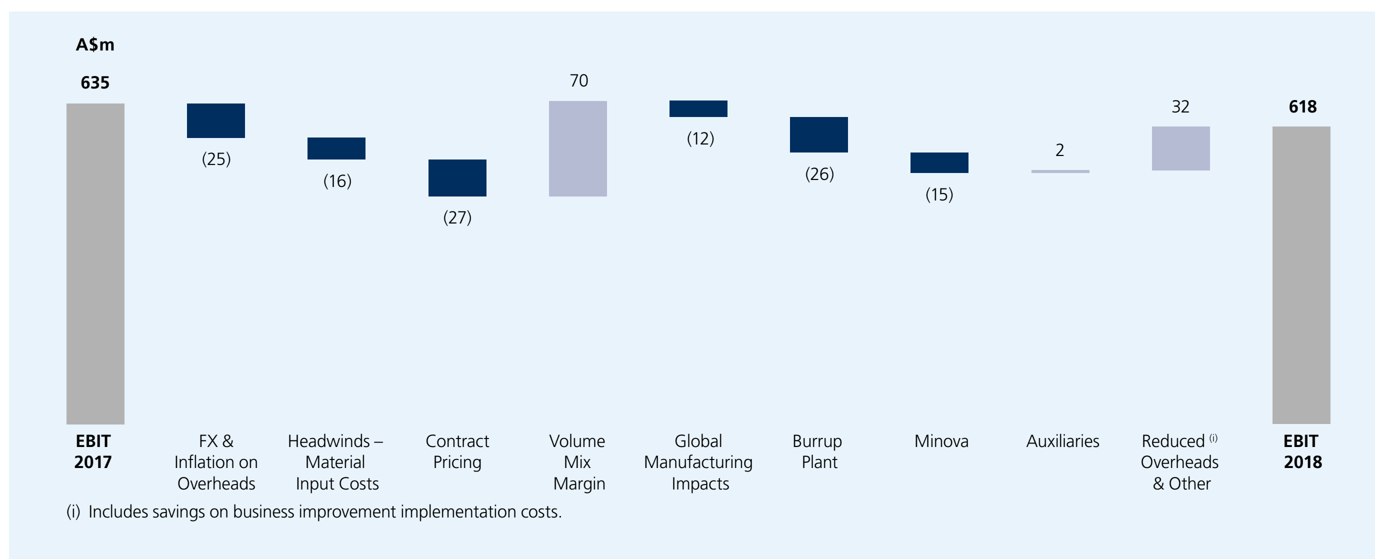


Note: The above charts exclude Global Support and Eliminations.
(iii) Quarry and Construction.
(iv) Minova is excluded due to negative EBIT result.

Safety is our priority and we achieved our most important target of no fatalities in 2018. The work we have done to prioritise major hazard identification and verification aims to eliminate fatalities, serious injury and illness. While our Total Recordable Injury Frequency Rate increased from 2.0 cases per million hours worked to 2.4 cases per million hours worked, the severity of injuries has reduced. More work and continued vigilance is needed but we are confident every part of the organisation maintains this as a high priority and we are on the right path to making Orica a safer place to work.

AN volumes were up 5% on the pcp, reflecting strong demand from both new and existing customers, particularly in Indonesia and Australia. Sales revenue increased by 7% on the pcp to $5.4 billion from higher volumes and favourable mix.

EBIT of $618 million was down 3% on the pcp. The benefit of volume growth was offset by known headwinds and contract pricing. EBIT was further impacted by unplanned maintenance shutdowns at Yarwun and Kooragang Island as well as operational issues at the Burrup plant, resulting in increased sourcing and plant administration costs. This was compounded by a partial loss of a customer contract in Latin America.



Key items in the above chart:

FX & Inflation on Overheads

Inflation on fixed cost overheads had an adverse effect of $26 million. The impact from foreign exchange was marginal at $1 million.

Headwinds – Material Input Costs

Contracted increases in gas and third party AN prices, effective from the second quarter of the pcp, reduced margins by $16 million.

Contract Pricing

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

Volume, Mix & Margin

New business and improved demand from existing customers, particularly in Indonesia and Australia, drove an increase in AN volumes of 5%. A higher proportion of emulsion product sales also contributed positively to EBIT.

Sales of Electronic Blasting Systems (EBS) grew across most regions, with a combined increase of 12% in EBS volumes compared to the pcp. Total initiating system sales volumes were flat on the pcp.

Global Manufacturing Impacts

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

Burrup Plant

Our joint venture operating partner, Yara, has been addressing technical issues over the past 12 months. Orica's engineers are working onsite, together with Yara to resolve these issues. While it was previously anticipated that the plant would be operational by the end of the 2018 financial year, the replacement of some key components is expected to delay production until the first half of the 2020 financial year. All nine new replacement heat exchangers and the absorption tower are currently expected to be installed in the second half of 2019 calendar year. It is anticipated that this installation will take around two months.

Depreciation and amortisation will commence when the plant is available for use, expected to be in the first half of the 2020 financial year. The plant is expected to be essentially loaded from the 2020 financial year.

The negative EBIT impact in 2018 from the Burrup plant represents both the continued increased sourcing costs as well as the commencement of administration overhead costs in anticipation of the plant operating.

Minova

Adjusting for the profit from the divestment of a business in the pcp of $8 million, EBIT declined $7 million despite increases in volume and revenue, due to unfavourable mix and cost pressures.

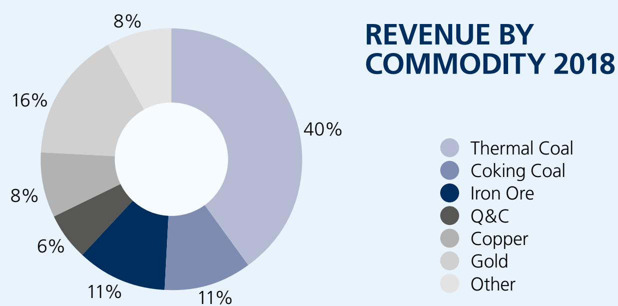
Reduced Overheads & Other

This comprises lower implementation costs and fees on business improvement activities and the early benefit from reduced people costs following the restructuring activity that took place during the year. Following the increased provision on the Botany groundwater treatment plant taken in the first half, all related costs are now offset against the provision.

AUSTRALIA PACIFIC & ASIA

Year ended 30 September	2018	2017	Change
Total AN & emulsion volumes ('000 tonnes)	**1,626**	1,424	14%
Emulsion as a % of total volumes	**62%**	61%	1pt
Total sales revenue (A$m)	**1,944.2**	1,725.9	13%
EBITDA (A$m)	**505.5**	492.2	3%
EBIT (A$m)	**381.9**	367.6	4%

REVENUE BY COMMODITY 2018



COMMODITY EXPOSURE

Thermal coal represents the largest commodity exposure in the APA region. More stringent emissions reduction requirements in North Asia have resulted in an increased demand for higher grade thermal and coking coal exported from Australia. Gold and iron ore conditions remained stable.

EBIT PERFORMANCE DRIVERS

Volume and mix

Explosives volumes were 14% higher than the pcp, underpinned by stronger demand in Indonesia and Australia, from both new contracts and organic growth from existing customers. The already strong growth in the first half improved further in the second half, led by strengthening in the Pilbara and Queensland from mine ramp ups and recent contract wins. Indonesia benefited from higher volumes from new contracts, improved demand from existing customers, and sales to competitors.

Sales of EBS were up 30% on the pcp from increased demand and customer conversion. Cyanide volumes were relatively flat on the pcp, impacted by the maintenance shutdown at the Yarwun cyanide plant in the first half.

Margin and price

The ongoing challenges at the Burrup plant resulted in incremental costs of $26 million, including additional sourcing costs as alternate AN products were sourced from various locations across the region to meet supply commitments, as well as the commencement of administration costs in anticipation of the plant operating.

The negative impact of contract pricing was lower than expected for the year, due to some contract negotiations being deferred to the 2019 financial year.

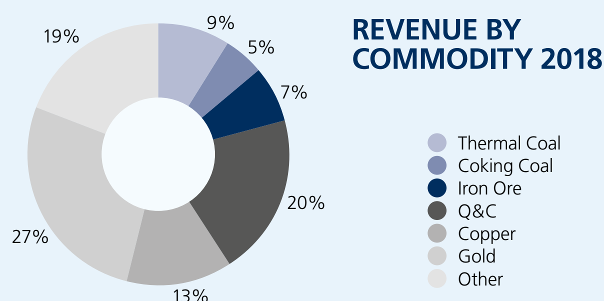
Unplanned maintenance shutdowns at the Yarwun and Kooragang Island manufacturing plants in the first half resulted in unrecovered labour and operational costs as well as higher short term third party sourcing to cover lost production. This adversely impacted the Australian business, offsetting much of the benefit from increased volume and improved mix. In line with expectations, Kooragang Island's gas costs were up $8 million in the first half due to the roll through of a contracted price increase which came into effect in January 2017.

Outlook

EBIT in APA is expected to grow, despite the delayed commencement of the Burrup plant, with market share increasing from recent profitable contract wins. Continued growth in EBS products and a focus on new technology offerings, enabling productivity improvements, will further support growth in the region. Deferred contract renegotiations will take effect in the 2019 financial year.

NORTH AMERICA

Year ended 30 September	2018	2017	Change
Total AN & emulsion volumes ('000 tonnes)	**1,112**	1,121	(1%)
Emulsion as a % of total volumes	**48%**	45%	3pts
Total sales revenue (A$m)	**1,430.3**	1,362.8	5%
EBITDA (A$m)	**226.8**	223.8	1%
EBIT (A$m)	**185.6**	187.5	(1%)



COMMODITY EXPOSURE

The gold sector in North America, the most significant commodity exposure for the region, has remained steady, aided by firm prices and stable customer operations. Activity in the Q&C sector was down in the first half, impacted by extreme weather conditions and tightening in the skilled labour market, however experienced strong growth during the summer period in the second half of the year. Copper remained strong, despite prices softening from recent highs, with longer term demand expected to outweigh supply.

EBIT PERFORMANCE DRIVERS

Volume and mix

Overall explosives volumes were slightly down on the pcp, driven by a decline in the USA where a joint venture partner sourced bulk AN directly from the manufacturer from the second quarter of the pcp. Excluding the impact of joint venture partner sourcing, AN volumes were strong, increasing 5% on the pcp. Explosives volumes in Canada saw positive volume growth, from indirect channels as well as from the re-start of several customers' coal mines in Western Canada. Explosives volumes also increased in Mexico, buoyed by the full year benefit of contracts won in the second half of the pcp.

Higher customer uptake on advanced products led to improved product mix, however increased sales through indirect channels in Canada offset some of this impact.

Initiating system volumes, across both EBS and conventional initiating systems, increased on the back of new business and customer production increases in Canada and Mexico.

Margin and price

Despite the oversupplied market, pricing headwinds were controlled and better than expectations. A known contractual increase in third party AN sourcing costs in the USA adversely impacted the first half cost base, relative to the pcp, by $8 million. This largely offset the net benefit from the non-repeat of alternate sourcing cost headwinds experienced primarily in the second half of the pcp, from the extended turnaround of the Carseland plant and a temporary supply shortage of non-electric detonators from lower component production in Latin America.

The completion of the Carseland plant turnaround in the pcp drove an increase in depreciation expense.

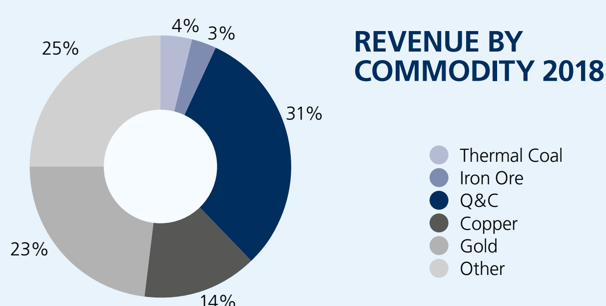
Income from associates declined on the pcp, largely driven by contract losses and unfavourable weather conditions in the USA in the first half which impacted our joint venture partners' margin. Second half performance was stronger, aligned with improving market conditions.

Outlook

Volume and EBIT growth are expected to be steady in the 2019 financial year, despite the oversupply of AN which is driving ongoing competitive pressure on pricing. Increased penetration of new technology offerings will help drive EBIT growth.

EUROPE, MIDDLE EAST & AFRICA

Year ended 30 September	2018	2017	Change
Total AN & emulsion volumes ('000 tonnes)	**462**	468	(1%)
Emulsion as a % of total volumes	**90%**	89%	1pt
Total sales revenue (A$m)	**807.2**	812.2	(1%)
EBITDA (A$m)	**78.8**	98.2	(20%)
EBIT (A$m)	**54.8**	74.5	(26%)



COMMODITY EXPOSURE

The region is well diversified across geographies, commodities and customers. Exposure to gold was impacted by a carry-over of oversupply and aggressive pricing of cyanide by Chinese and Korean suppliers in the pcp.

EBIT PERFORMANCE DRIVERS

Volume and mix

Explosives volumes were 1% below the pcp, with varied growth across the region. Activity in the Commonwealth of Independent States (CIS) was up, underpinned by the ramp up of new contract wins in Russia and Kazakhstan, particularly in the second half. Sales in the Middle East were marginally up on the pcp and remain challenged by the impact of the embargo between the Arab States and Qatar. Sales volumes in Southern Africa were down through a combination of customer mine plan changes, mine closures and poor drill availability. Continued political and economic uncertainty in Turkey unfavourably impacted results with volumes down 15% on the pcp.

Increased market penetration of EBS was achieved in West Africa (gold miners) and the Nordics (Q&C). This was offset by lower sales of conventional initiating systems in Turkey and lower mining activity in East Africa. Overall initiating system volumes were lower but with improved product mix across the portfolio given greater sales of advanced products.

Cyanide volumes were significantly behind the pcp, resulting from a contract loss in the Democratic Republic of Congo and a customer mine closure in Egypt, both occurring in the second half of the pcp.

Margin and price

EBIT was 26% lower than the pcp due to unfavourable results in the first half. Manufacturing performance was down on the pcp, particularly at Gyttorp as the site recovers from the explosion in May 2017, negatively affecting the first half results. One-off items in the first half included the relocation of the regional head office. In addition, the pcp included the benefit of profit on divestment of businesses.

Across the year, EBIT from services was down on the pcp, driven by mine plan changes and operational delays at customer sites in Africa.

Overall, prices held stable on the pcp, however the contribution from Turkey was impacted by significant deterioration in the Turkish lira.

EBIT in the second half strengthened significantly, largely from higher explosives volumes in the CIS and increased initiating system volumes across the region.

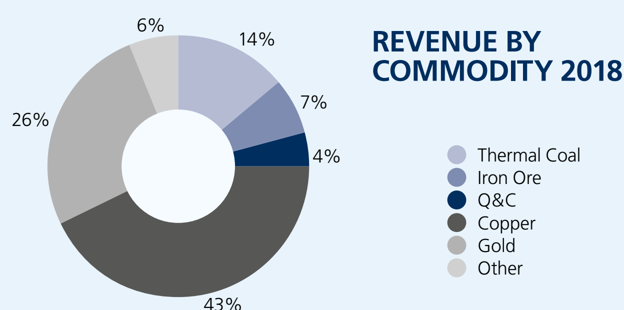
Outlook

Momentum from the second half is expected to continue into the 2019 financial year with EBIT growth to be underpinned by volume growth.

LATIN AMERICA

Year ended 30 September	2018	2017	Change
Total AN & emulsion volumes ('000 tonnes)	**618**	637	(3%)
Emulsion as a % of total volumes	**69%**	68%	1pt
Total sales revenue (A$m)	**899.8**	915.9	(2%)
EBITDA (A$m)	**67.1**	86.7	(23%)
EBIT (A$m)	**43.2**	61.3	(30%)

REVENUE BY COMMODITY 2018



COMMODITY EXPOSURE

Copper remained the most significant commodity for the region, maintaining a strong outlook given an anticipated global deficit. Gold continued to be strong, with new areas of exploration opening, and was the fastest growing commodity exposure for the Latin America region.

EBIT PERFORMANCE DRIVERS

Volume and mix

Explosives volumes were 3% lower than the pcp, predominantly due to lower sales in Colombia from reduced consumption following operational delays at a customer site. In Chile favourable customer mine plan changes drove an increase in AN volumes. This was despite a partial contract loss in the second half which impacted AN and EBS sales, as well as services margin. Ongoing instability in Venezuela led to a complete halt in cash trading activity.

Despite the stability in gold activity and pricing, cyanide volumes decreased by 16% on the pcp, given mine plan changes, and the wind-down of a customer mine in Peru as it moves towards closure in the next two to three years.

Margin and price

The significant fall in EBIT was impacted by one-off costs associated with the partial contract loss in Chile, continued competitive pricing pressure, and the halt in trading activity in Venezuela. A shift in volumes towards lower margin customers also compounded the EBIT reduction.

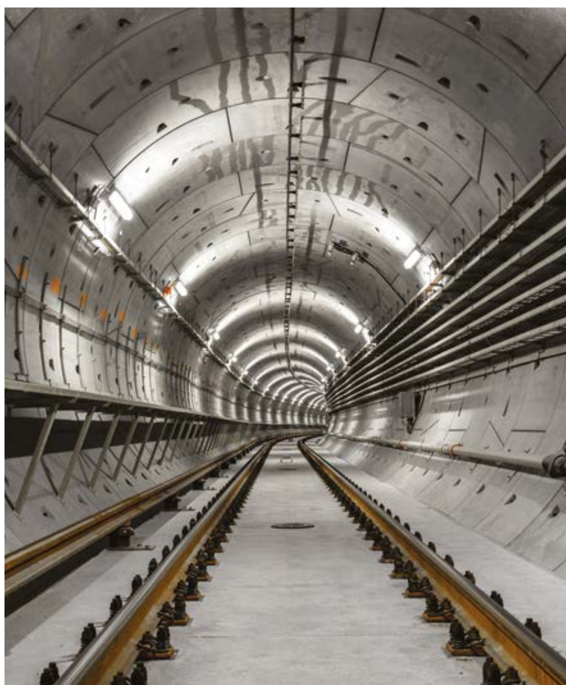
Continued high inflation resulted in increased overhead costs across the region.

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

Outlook

An operational review of the Latin America business is underway following the appointment of a new President with extensive global experience. The outlook for new business wins is positive, albeit in a highly competitive market. Competitor pricing pressure is expected to continue while the AN market remains oversupplied. Cost control and right-sizing the business will continue to be a core focus.

MINOVA



Year ended 30 September	2018	2017	Change
Steel products ('000 tonnes)	**142**	129	10%
Resins & powders ('000 tonnes)	**109**	127	(14%)
Total sales revenue (A$m)	**519.0**	455.6	14%
EBITDA (A$m)	**6.2**	22.2	(72%)
EBIT (A$m)	**(2.3)**	13.1	(118%)

Revenue increased 14% compared to the pcp, aided by higher steel product sales.

The EBIT result in the pcp included the $8 million profit from the divestment of a business in China.

Margins have been impacted by a change in product mix from proportionately higher sales of steel products with coal customers in Australia Pacific and the Americas, raw material costs and lower demand for higher margin injection chemicals.

EBIT in the second half strengthened, largely driven by pricing initiatives which became fully effective in the half and overhead cost reductions.

An impairment charge of $204 million was recognised in the first half of the year.

Looking forward, Minova will continue to drive revenue growth from new sectors and across expanded products and services. The benefits of overhead cost reductions that commenced during the year will continue to materialise. Positive EBIT in the last quarter of the year is expected to carry into the 2019 financial year.

AUXILIARIES

Year ended 30 September	2018 A$m	2017 A$m	Change
EBIT	**4.8**	3.1	55%

Auxiliaries represent a newly created segment, comprising Nitro Consult AB (Nitro Consult) and the GroundProbe business which was acquired in January 2018. Nitro Consult and GroundProbe are highly complementary, driving a strong value proposition to customers.

The full year Auxiliaries EBIT result includes acquisition costs of $6 million. Integration has been successfully completed, and the positive contribution is slightly ahead of expectations.

Since its acquisition, GroundProbe has benefited from Orica's global customer base, and going forward is expected to further leverage these customer relationships to drive growth in conjunction with an extended product offering.

GLOBAL SUPPORT

Year ended 30 September	2018 A$m	2017 A$m	Change
EBIT	**(49.9)**	(72.0)	31%

Global Support EBIT was 31% favourable to the pcp. Costs associated with the ongoing business improvement activities were lower than the pcp as the programme is in a mature state. Following the increased provision on the Botany groundwater treatment plant taken in the first half, all related costs are now offset against the provision.

NET INTEREST EXPENSE

Statutory net interest expense of $121 million was higher than the pcp due to $30 million of interest associated with the Burrup plant being capitalised in the pcp. After adjusting for capitalised interest and the unwind of the discount effect on provisions, net interest expense of $118 million increased from the pcp primarily as a result of higher net debt levels impacted by the acquisitions in the first half.

Year ended 30 September	2018 A$m	2017 A$m	Change
Statutory net interest expense	**121.3**	71.7	69%
Adjusted for:			
Capitalised interest	**4.8**	30.8	(84%)
Unwinding of discount on provisions	**(7.9)**	(1.0)	690%
Adjusted net interest expense	**118.2**	**101.5**	**16%**

TAX EXPENSE

An effective rate of 31.8% (pcp 29.1%) was higher due to reduced profitability in jurisdictions where the tax rate is below 30% and reduced foreign deductions. This was partially offset by an increase in non-taxable gains on the disposal of assets compared to pcp.

GROUP CASH FLOW

Year ended 30 September	2018 A$m	2017 A$m	Variance A$m
Net operating cash flows	**614.7**	466.4	148.3
Net investing cash flows	**(552.0)**	(254.8)	(297.2)
Net operating and investing cash flows[3]	**62.7**	**211.6**	**(148.9)**
Dividends – Orica Limited	**(143.2)**	(157.9)	14.7
Dividends – non-controlling interest shareholders	**(13.5)**	(7.1)	(6.4)
Adjusted net cash flows	**(94.0)**	**46.6**	**(140.6)**
Movement in borrowings and other net financing cash flows[9]	**75.9**	162.7	(86.8)
Net cash flows[10]	**(18.1)**	**209.3**	**(227.4)**

Performance highlights

The Group delivered net operating and investing cash outflows of $63 million. Group cash conversion[11] improved slightly from the pcp at 71%.

Net operating cash flows

Net cash generated from operating activities was underpinned by earnings across the year and lower net income tax payments. Significant improvement was delivered in the second half of the year with performance finishing ahead of the pcp.

Net investing cash flows

Net investing cash outflows comprised acquisitions and capital expenditure. Payments for the purchase of businesses/controlled entities and investments was $264 million, comprising predominantly $208 million for the acquisition of GroundProbe and $46 million for a 5% increase in our Burrup joint venture interest.

Capital expenditure of $322 million included spend on the new SAP system as the project rollout progresses, as well as ongoing investment in the global Mobile Manufacturing Unit (MMU™) fleet. Other key capital expenditure includes maintenance shutdowns at the Kooragang Island and Yarwun plants in Australia.

DEBT MANAGEMENT AND LIQUIDITY

	2018 A$m	2017 A$m	Variance A$m
Interest bearing liabilities	**2,162.9**	1,957.8	205.1
Less: cash and cash equivalents	**514.6**	516.9	(2.3)
Net debt[(6)]	**1,648.3**	1,440.9	207.4
Gearing %[(7)]	**35.7%**	32.7%	3.0pts

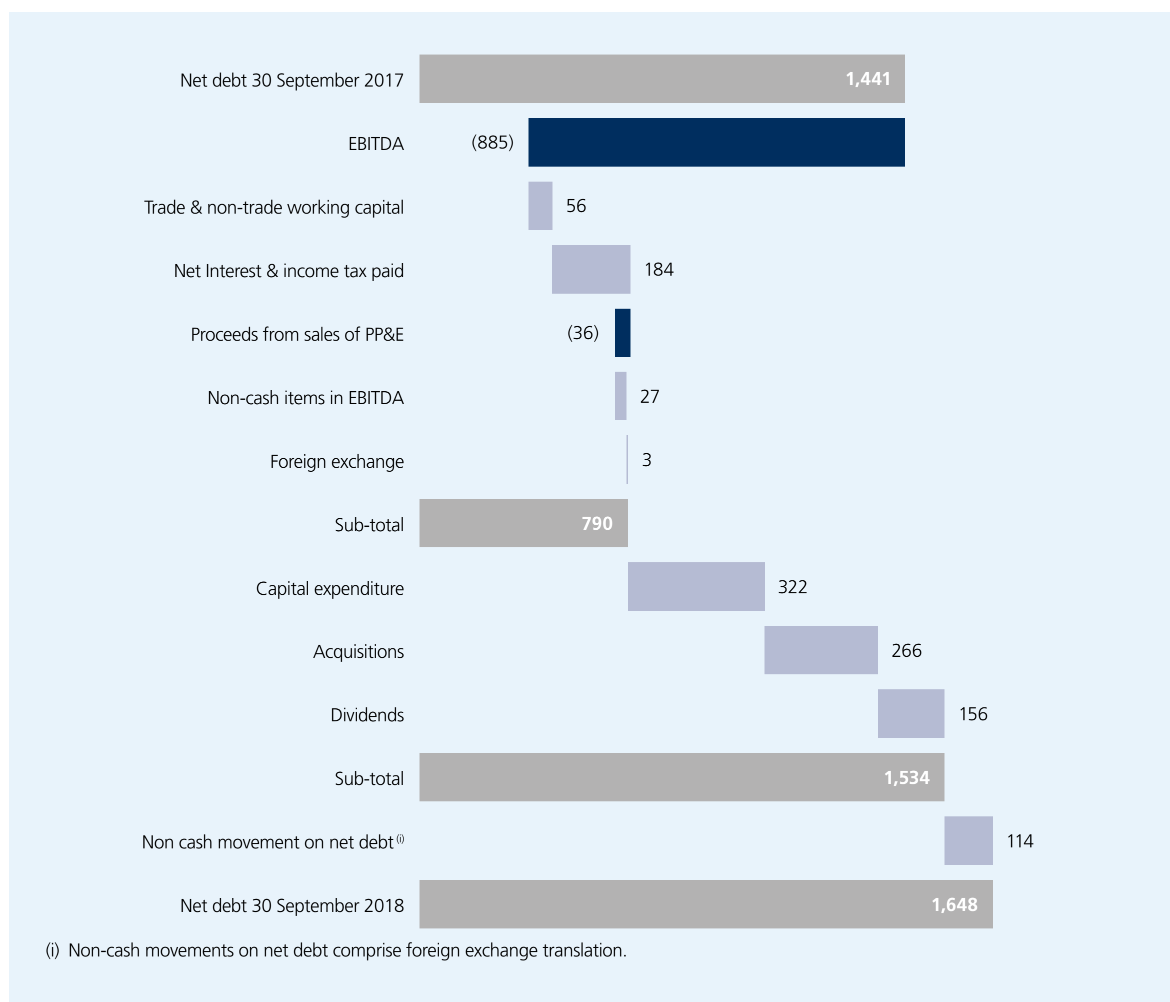
Interest bearing liabilities of $2,163 million comprise $1,947 million of US Private Placement bonds and $216 million of committed and other bank facilities. The average duration of drawn debt is 5.0 years (2017 6.1 years).

Undrawn committed bank facilities are $1,383 million, with total committed debt facilities of $3,545 million providing for a strong liquidity position.

Gearing is at 35.7% and since September 2017, has increased by 3.0 percentage points, largely due to acquisitions, the impairment of Minova and the increase in the environmental provision in the year.

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

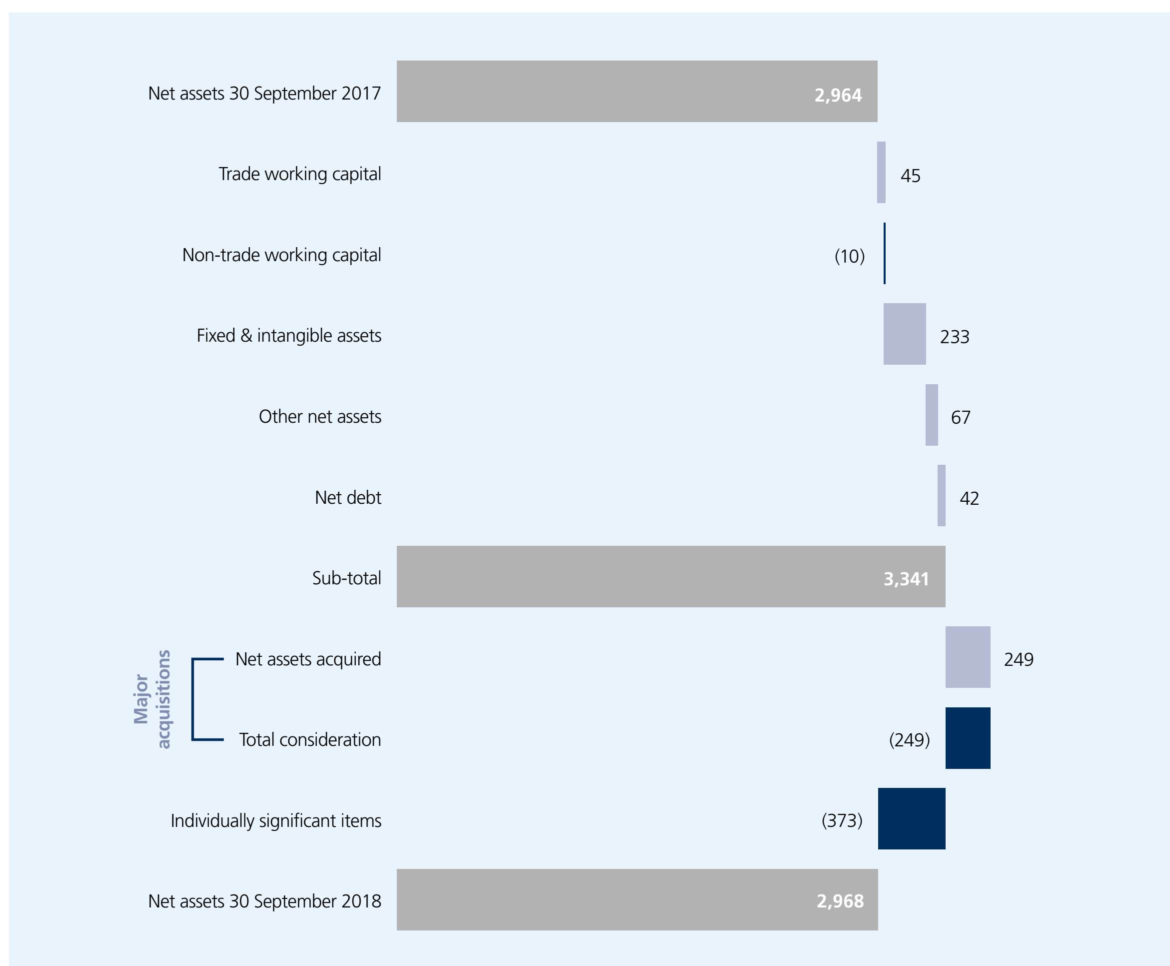
Movement in net debt (A$m)



(i) Non-cash movements on net debt comprise foreign exchange translation.

GROUP BALANCE SHEET

Movement in net assets (A$m)



Performance highlights

Trade working capital [12] overall increased by $45 million, excluding acquired assets, from the pcp. A reduction of $79 million has been achieved in the second half, through a focus on working capital management.

Fixed & intangible assets increased by $233 million on the pcp, excluding acquired assets and significant items, as net additions outweighed the depreciation and amortisation expense, together with foreign exchange translation impacts.

DIVIDEND

The Board has declared an unfranked final ordinary dividend of 31.5 cents per share. The dividend represents a payout ratio[13] of 60% and brings the full year payout ratio to 60%.

The dividend is payable to shareholders on 7 December 2018 and shareholders registered as at the close of business on 13 November 2018 will be eligible for the final dividend. It is anticipated that dividends in the near future will be franked at a rate of no more than 20%.

INDIVIDUALLY SIGNIFICANT ITEMS

	Gross A$m	Tax A$m	Net A$m
Impairment of Minova business	(204.2)	0.6	(203.6)
Botany environmental provision expense	(114.7)	34.4	(80.3)
Write down of US deferred tax assets	–	(47.9)	(47.9)
Impairment of other assets	(21.2)	6.4	(14.8)
Restructuring	(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)**

Impairment of Minova business

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

The impairment charge recognised during the year resulted in the write-down in the carrying value of Minova to $119 million at 30 September 2018.

Botany environmental provision expense

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

Write down of US deferred tax assets

The changes to the US tax legislation, which were signed into law in December 2017, reduced the federal corporate tax rate from 35% to 21%. This change resulted in the write down of the net deferred tax asset of $48 million (encompassing the deferred tax asset write down and the impact on the deferred tax liability).

Impairment of other assets

The impairment review undertaken during the year, and the transition to a new SAP operating system, identified $21 million of IT and other assets which are no longer being utilised by the business and were impaired in the first half of the year.

Restructuring

As part of a global restructuring programme redundancy costs were recognised across all segments except Auxiliaries. This programme was undertaken over the course of the year.

Further information on these items is included in note 1(d) to the financial statements.

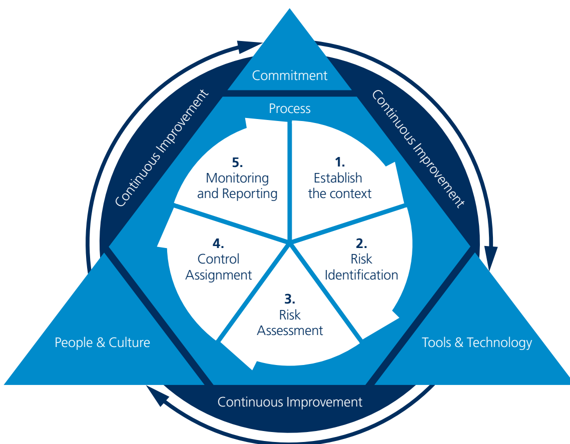
RISK MANAGEMENT

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

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

During 2018 we continued to review and improve the design and implementation of our risk management framework. The process was further embedded with a specific focus on manufacturing and supply chain, mergers and acquisitions, strategic growth projects and Group-wide transformational programs. Material strategic risks are reported to the Board and material operational risks are reported to the Board Audit and Risk Committee. These risks are monitored for changes in their exposure and are reported during the course of the year, along with their controls and plans to manage them. Periodic deep dives are undertaken throughout the year and presented to the respective committee. A summary of material risks that can adversely impact the achievement of Orica's future business performance is provided in the following pages.

During 2018 an external review of our risk management framework was completed, and the results reported to the Board Audit & Risk Committee. The review took into account relevant findings from APRA's CBA inquiry, and the results of the review have been utilised to inform our plans to further improve our framework. Priorities for 2019 include: increasing risk management capability in regions, central functions and in 'front line' business; improving coordination of governance and reporting across risk, audit, safety, health and environment and compliance; increasing the use of data to inform the status of operational risks; and increasing leaders' visibility of control effectiveness and enhancements. The Board Audit & Risk Committee has conducted its annual review of our risk management framework and satisfied itself that it continues to be sound.



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

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

i. Macro-economic

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

Orica operates in many countries, which provides diversified exposure across commodities and industries. The global nature of Orica's operations also allows supply contracts to be coordinated and optimised.

ii. Markets

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

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

iii. Manufacturing and Supply

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

An interruption to our supply chain may be driven by external events such as adverse weather conditions or natural disasters; if we are unavailable to supply for a sustained period (e.g. trade restrictions), or we experience a major disruption in a key manufacturing site (e.g. accident leading to immediate shutdown, industrial action). To manage this risk, we focus on our manufacturing reliability and the resilience within our network. Supply dependencies are considered in product design and customer demand, and a sourcing strategy supports reliable internal and external supply.

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

iv. Workplace Safety

Orica operates within hazardous environments, particularly in the areas of manufacturing, storage and transportation of raw materials, products and wastes. Material safety, health, environment and security ('SHES') risks include: an explosion during the storage and transportation of explosives, a fire or explosion at a manufacturing site or storage location, loss of containment of toxic materials, and risk of raw materials or finished goods being used for illegal purposes. These risks can cause personal injury

and/or loss of life, damage to property and contamination of the environment. They may also result in the suspension of operations and the imposition of civil or criminal penalties, including fines, expenses for remediation and claims brought by governmental entities or third parties.

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

We also manage these risks through our focus on safety culture which is based on visible and engaged senior leadership and encouraging employees and contractors to speak up when they see risks and hazards. Safety culture and behaviours are re-enforced through training our employees and third parties in the operation and safe-handling of inventory and materials, and on the importance of identifying and managing major hazards and key controls. In 2016 we launched the Major Hazard Initiative to increase awareness of major safety hazards and to verify controls are effective. We have maintained this focus and the program has now transitioned into standard work via our SHES Management System.

v. Cyber Security

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

vi. Climate Change

Orica's manufacturing processes include the release of greenhouse gases. The business also faces a period of long-term change as the global economy decarbonises and adopts new technologies and sources of energy. In both regards, the business is taking steps to identify and minimise our risks. Our planning and actions are guided by our Climate Change Policy.

The Orica Board formally considers climate-related risk in the annual risk management and planning processes. This work identifies: material risk; causes and impacts; signposts for monitoring; and, our long-term strategic response. It also analyses the challenges presented by climate change and related regulation under various scenarios over the longer term and informs our planning in anticipation of emerging commodity markets including carbon markets.

Our efforts to reduce emissions will prioritise abatement at major production facilities where we can make the most difference by lowering direct nitrous oxide (N_2O) emissions. We will also continue to assess opportunities to reduce direct and indirect carbon dioxide (CO_2) emissions across all our sites and value chain.

The global transition to a lower carbon future will also impact our customers and commodities, however we believe demand for our core products and services will remain strong while emerging areas of the business continue to grow.

The impact of climate change may also change the physical environment impacting local, national and global socio-economics. We will continue to monitor the leading indicators of change to assess the impacts that may ensue including any risk to our physical assets.

vii. Ethical Business Practices and Good Governance

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

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

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

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

TAX TRANSPARENCY REPORTING

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

Tax Policy – Orica's approach to tax

Orica's tax policy and approach to tax is published on orica.com. Some important aspects of that policy are set out in this report.

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

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

Tax strategy and governance

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

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

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

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

Compliance

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

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

Structure

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

Relationships with tax authorities

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

Use of tax havens

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

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

Transparency

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

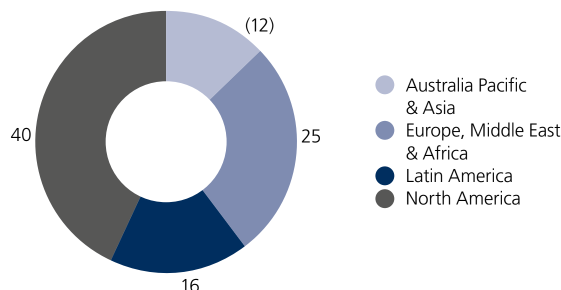
On 3 May 2016, the Treasurer of Australia released a Corporate Tax Transparency Code. The Code was developed by the Board of Taxation in Australia and Orica has signed the Corporate Tax Transparency Code Register and is committed to applying the principles and the details of the Code.

Tax contribution summary

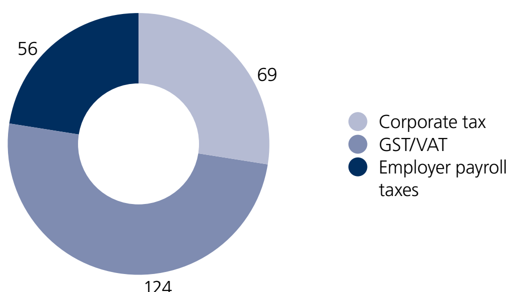
In 2018, Orica paid $69 million (2017 $189 million) globally in corporate income taxes and $56 million (2017 $48 million) globally in payroll taxes. Orica collected and remitted $124 million (2017 $120 million) globally in GST/VAT.

The charts show 2018 corporate income tax paid/(refunded) in each region (including withholding tax and trade taxes), and an analysis of total tax paid by type.

Global corporate tax and WHT on income by region 2018 A$m



Global tax paid by type 2018 A$m



In Australia, Orica received corporate income tax refunds of $42 million relating to tax on prior years and resolution of a tax dispute with the Australian Taxation Office (Orica paid tax in 2017 of $91 million). Orica also paid $19 million (2017 $17 million) in payroll tax and $2 million (2017 $2 million) in fringe benefits tax. Orica collected and remitted $43 million (2017 $48 million) in GST and $105 million (2017 $92 million) in 'pay as you go' withholding taxes.

A RECONCILIATION OF ACCOUNTING PROFIT TO INCOME TAX PAYABLE

	Consolidated 2018 A$m	Consolidated 2017 A$m
Before individually significant items:		
Accounting profit/(loss) before tax	**496.8**	563.4
Prima facie income tax expense/(benefit) calculated at 30% on accounting profit	**149.0**	169.0
Material non-temporary differences		
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)
sundry items	**7.8**	7.0
Income tax expense/(benefit) before individually significant items	**158.0**	164.0
Individually significant items:		
Individually significant items before tax	**(375.3)**	–
Prima facie income tax expense/(benefit) calculated at 30% on individually significant items	**(112.6)**	–
Material non-temporary differences		
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/(benefit) on individually significant items	**(2.0)**	–
Income tax expense/(benefit)	**156.0**	164.0
Material temporary differences		
deferred tax	**(6.3)**	(26.9)
write down of US deferred tax assets	**(47.9)**	–
Tax payments more/(less) than tax charges	**(18.6)**	14.2
Tax payments/(refunds) on matters in dispute with tax authorities	**(13.9)**	37.8
Income tax paid per the statement of cash flows	**69.3**	189.1

EFFECTIVE TAX RATE FOR AUSTRALIAN AND GLOBAL OPERATIONS

	Notes	Consolidated 2018	Consolidated 2017
Before individually significant items			
Australia	1	**39.9%**	34.5%
Global operations (including Australia)		**31.8%**	29.1%

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

International related party dealings

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

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

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

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

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

AUSTRALIAN TAX RETURN DATA

	Notes	2017 A$m	2016 A$m
Total income	1	**1,999**	2,629
Taxable income	2	**108**	95
@ Tax Rate	3	**30%**	30%
Tax liability		**32**	29
Offset reductions	4	**(26)**	(23)
Tax payable		**6**	6

1. Total Australian income (includes sales, dividends, interest income etc.) before all expenses (for example, Interest, employee costs, depreciation etc.).
2. Taxable income after allowing for all deductible expenses and tax exempt income.
3. Australian Statutory tax rate.
4. Offset reductions of $26 million (2016 $23 million) relating to franking credits, foreign income tax credits and research and development.

Additional information in relation to taxation is included in note 11 to the financial statements.

OUTLOOK

Higher revenue and EBIT will be underpinned by increased demand and manufacturing improvements, with earnings skewed to the second half of the year.

Key assumptions for the 2019 financial year are:

Operations

- Global AN product volumes are expected to be ~3% higher than the 2018 financial year from North America, APA and EMEA
- Continued firming of AN pricing across most regions
- Contribution from new advanced products and services contracts in the second half
- EBIT growth expected from all regions/businesses except Latin America

Manufacturing

- Improved average utilisation rates expected in operational manufacturing plants
- ~20% utilisation rate expected at Burrup TAN plant as construction continues in order to get the plant available for use at its nameplate capacity; skewed towards second half. Marginal impact, relative to the 2018 financial year, expected in the 2019 financial year

Other

- ~$25 million negative impact from deferred contract renewals and price reset flow through (as previously disclosed); offset by business streamlining benefits
- Interest expense to be similar to the 2018 financial year

Capital

- Capital expenditure in the 2019 financial year is expected to be ~$350 million due to higher sustenance spend on manufacturing plants, continuous investment in the MMU fleet and SAP implementation ramp up
- Depreciation and amortisation expense to be ~10% higher than the 2018 financial year

Forward-looking statements

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

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Before making an investment decision, you should consider, with or without the assistance of a financial adviser, whether an investment is appropriate in light of your particular investment needs, objectives and financial circumstances.

Past performance is no guarantee of future performance.

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

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

Footnotes

The following footnotes apply to the Review of Operations:

(1) Equivalent to profit after income tax expense before individually significant items attributable to shareholders of Orica Limited disclosed in Note 1(b) to the financial statements.
(2) Equivalent to profit/(loss) before financing costs and income tax and individually significant items in Note 1(b) to the financial statements.
(3) Equivalent to net cash flows from operating activities and net cash flows used in investing activities as disclosed in the Statement of Cash Flows.
(4) GP Holdco Pty Ltd and its Companies.
(5) Comprises total payments for property, plant and equipment and payments for intangibles as disclosed in the Statement of Cash Flows.
(6) Total interest bearing liabilities less cash and cash equivalents as disclosed in note 3 to the financial statements.
(7) Net debt/(net debt + total equity), as disclosed in note 3 to the financial statements.
(8) EBIT before individually significant items plus depreciation and amortisation expense.
(9) Equivalent to net cash used in financing activities (as disclosed in the Statement of Cash Flows) excluding dividends paid to Orica ordinary shareholders and non-controlling interests.
(10) Equivalent to net (decrease)/increase in cash held disclosed in the Statement of Cash Flows.
(11) (EBITDA add/less movement in trade working capital less sustaining capital expenditure excluding SAP project spend)/EBITDA.
(12) Comprises inventories, trade receivables and trade payables disclosed in the Balance Sheet.
(13) Dividend amount/NPAT before individually significant items.