Appendix 4E
Preliminary final report

Name of entity:	ORICA LIMITED
ABN:	24 004 145 868

Year ended ('current period')	Year ended ('previous corresponding period')
30 September 2006	30 September 2005

Results for announcement to the market

$m

Consolidated Revenue from operations	up	4.5%	to	5,359.2
Profit after tax attributable to members	up	158.8%	to	539.1
Net profit for the period attributable to members before individually material items	up	11.9%	to	380.3

Dividends/distributions			Amount per security	Franked amount per security at 30% tax
Final dividend	- Ordinary	Cents	48.00	21.00
	- Preference	Cents	2.50	1.09
Interim dividend	- Ordinary	Cents	26.00	9.00
	- Preference	Cents	2.50	0.87
Previous corresponding period				
Final dividend	- Ordinary	Cents	46.00	15.00
	- Preference	Cents	2.50	0.82
Interim dividend	- Ordinary	Cents	25.00	8.00
	- Preference	Cents	2.50	0.80

Record date for determining entitlements to the dividend/distribution:

Ordinary Shares	24-Nov-06
Cumulative Preference Shares	12-Jan-07

Payment dates of dividends:

Ordinary Shares	15-Dec-06
Cumulative Preference Shares	31-Jan-07

Net tangible assets per security:

	Current period	Previous corresponding period
	Cents	Cents
Net tangible asset backing per ordinary security	319	253

For the profit commentary and any other significant information needed by an investor to make an informed assessment of Orica's results please refer to the accompanying Orica Limited Profit Report.

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Contents:

Consolidated income statement		2
Consolidated balance sheet		3
Statement of recognised income and expense		4
Consolidated statement of cash flows		5
Notes to the consolidated financial statements:		
1.	Accounting policies	6
2.	Segment report	13
3.	Sales revenue and other income from continuing operations	18
4.	Specific profit and loss income and expenses	19
5.	Earnings per share (EPS)	20
6.	Dividends and distributions	21
7.	Contributed equity	22
8.	Statement of reserves and retained earnings	26
9.	Investments accounted for using the equity method	27
10.	Acquisition and disposal of businesses/controlled entities	28
11.	Discontinued operations and businesses disposed	30
12.	Income tax	33
13.	Critical accounting judgements and estimates	34
14.	Contingent liabilities and contingent assets	36
15.	Events subsequent to balance date	38
16	Impact of adopting AASB equivalents to IASB standards	38

Consolidated income statement

For the year ended 30 September:

From continuing operations:	Notes	**2006 $m**	2005 $m
This note should be read in conjunction with note 11, discontinued operations and businesses disposed.			
Sales revenue	(3)	**4,745.6**	4,052.8
Other income	(3)	**57.8**	56.4
Expenses			
Changes in inventories of finished goods and work in progress		**(13.2)**	28.7
Raw materials and consumables used and finished goods purchased for resale		**(2,473.5)**	(2,147.2)
Share based payments		**(9.4)**	(12.2)
Other employee benefits expense		**(780.5)**	(687.7)
Depreciation and amortisation expense		**(137.9)**	(114.3)
Purchased services		**(354.6)**	(300.1)
Repairs and maintenance		**(119.4)**	(98.4)
Impairment of property, plant & equipment		**(18.4)**	(35.0)
Impairment of intangibles		**(16.6)**	(2.8)
Outgoing freight		**(238.9)**	(190.2)
Lease payments - operating leases		**(59.7)**	(55.7)
Other expenses from ordinary activities including individually material items		**(339.9)**	(113.9)
Share of net profits of associates accounted for using the equity method	(9)	**12.4**	6.0
		(4,549.6)	(3,722.8)
Profit/(loss) from operations		**253.8**	386.4
Net financing costs			
Financial income		**64.7**	13.6
Financial expenses		**(151.6)**	(106.6)
Net financing costs		**(86.9)**	(93.0)
Profit/(loss) before income tax expense		**166.9**	293.4
Income tax expense	(12)	**(46.4)**	(81.9)
Profit after tax but before profit and loss of discontinued operation and gain on disposal of discontinued operations		**120.5**	211.5
Profit of discontinued operation and gain on disposal of discontinued operation, net of tax	(11)	**440.9**	10.4
Profit for the period		**561.4**	221.9
Net profit/(loss) for the period attributable to:			
Equity holders of Orica Limited		**539.1**	208.3
Minority interest		**22.3**	13.6
Net profit/(loss) for the period		**561.4**	221.9
		cents	cents
Earnings per share			
Earnings per ordinary share attributable to equity holders of Orica Limited:			
From continuing operations:			
Basic	(5)	**35.6**	74.1
Diluted	(5)	**35.3**	73.1
Basic EPS adjusted for effect of rights issue	(5)	**35.6**	71.8
Total attributable to equity holders of Orica Limited:			
Basic	(5)	**177.8**	76.3
Diluted	(5)	**176.5**	75.2
Basic EPS adjusted for effect of rights issue	(5)	**177.8**	74.0

The consolidated income statement is to be read in conjunction with the accompanying notes.

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 October 2005 and has applied previous AGAAP to the comparative information on the financial instruments within the scope of AASB 132 and AASB 139 as permitted on the first time adoption of AIFRS and has not restated comparative information.

Consolidated balance sheet
as at:

	Notes	**30 September 2006 $m**	31 March 2006 $m	30 September 2005 $m
Current assets				
Cash and cash equivalents		**1,009.1**	167.1	214.7
Trade and other receivables		**810.1**	859.6	671.0
Other financial assets		**16.7**	5.0	12.3
Inventories		**579.1**	943.6	826.3
Non-current assets classified as held for sale	(11)	**30.3**	4.7	-
Other assets		**34.4**	99.2	57.3
Total current assets		**2,479.7**	2,079.2	1,781.6
Non-current assets				
Trade and other receivables		**103.6**	1,067.3	99.7
Investments accounted for using the equity method		**122.2**	50.7	49.1
Other financial assets		**3.7**	-	-
Property, plant and equipment		**1,603.1**	1,774.0	1,593.7
Intangible assets		**1,141.3**	637.3	634.3
Deferred tax assets		**221.5**	271.0	130.3
Other assets		**33.9**	29.3	22.5
Total non-current assets		**3,229.3**	3,829.6	2,529.6
Total assets		**5,709.0**	5,908.8	4,311.2
Current liabilities				
Trade and other payables		**935.4**	1,019.9	909.4
Interest bearing liabilities		**45.6**	287.8	49.5
Current tax liabilities		**56.5**	4.8	21.4
Provisions		**262.6**	170.7	197.3
Total current liabilities		**1,300.1**	1,483.2	1,177.6
Non-current liabilities				
Trade and other payables		**6.9**	1.2	9.9
Interest bearing liabilities		**1,265.6**	1,302.3	1,277.3
Deferred tax liabilities		**41.8**	181.2	31.7
Provisions		**426.4**	322.5	295.2
Total non-current liabilities		**1,740.7**	1,807.2	1,614.1
Total liabilities		**3,040.8**	3,290.4	2,791.7
Net assets		**2,668.2**	2,618.4	1,519.5
Equity				
Parent entity interest				
Contributed equity	(7)	**1,305.3**	1,379.1	329.3
Reserves	(8)	**(46.6)**	36.2	(20.8)
Retained earnings	(8)	**1,357.9**	1,016.3	1,019.4
Total parent entity interest		**2,616.6**	2,431.6	1,327.9
Minority interest in controlled entities		**51.6**	186.8	191.6
Total equity		**2,668.2**	2,618.4	1,519.5

The consolidated balance sheet is to be read in conjunction with the accompanying notes.

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 October 2005 and has applied previous AGAAP to the comparative information on the financial instruments within the scope of AASB 132 and AASB 139 as permitted on the first time adoption of AIFRS and has not restated comparative information.

Statement of recognised income and expense

For the year ended 30 September:

	2006 $m	2005 $m
Net gain on hedge of net investments in foreign subsidiaries	**(13.7)**	(44.2)
Cash flow hedges		
- Effective portion of changes in fair value	**4.8**	-
Exchange differences on translation of foreign operations	**(5.9)**	38.5
Actuarial gains/(losses) on defined benefit plans	**18.7**	5.4
Income tax on items taken directly to or transferred directly from equity	**(6.0)**	(20.2)
Adjustments to reserves and retained earnings on transition to AASB 139	**(26.9)**	-
Net income recognised directly in equity	**(29.0)**	(20.5)
Profit for the period	**561.4**	221.9
Total recognised income and expense for the period	**532.4**	201.4
Attributable to:		
Members of Orica Limited	**510.1**	187.8
Minority interest	**22.3**	13.6
Total recognised income and expense for the period	**532.4**	201.4

The statement of recognised income and expense is to be read in conjunction with the accompanying notes.
The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 October 2005 and has applied previous AGAAP to the comparative information on the financial instruments within the scope of AASB 132 and AASB 139 as permitted on the first time adoption of AIFRS and has not restated comparative information.

Consolidated statement of cash flows

For the year ended 30 September:

	Notes	**2006 $m Inflows/ (Outflows)**	2005 $m Inflows/ (Outflows)
Cash flows from operating activities			
Receipts from customers		**5,519.0**	5,680.5
Payments to suppliers and employees		**(4,973.9)**	(5,049.1)
Interest received		**77.2**	5.7
Borrowing costs		**(167.5)**	(87.7)
Dividends received - associates		**13.8**	8.0
Royalties and other operating revenue received		**46.9**	27.8
Net income taxes paid		**(101.6)**	(209.4)
Net cash flows from operating activities		**413.9**	375.8
Cash flows from investing activities			
Payments for property, plant and equipment		**(385.7)**	(353.9)
Payments for intangibles		**(1.3)**	-
Payments for purchase of investments		**(6.8)**	(6.7)
Payment for minorities' share of controlled entities	(10)	**(6.6)**	-
Payments for purchase of businesses/controlled entities	(10)	**(875.6)**	(59.2)
Proceeds from sale of property, plant and equipment		**56.5**	119.0
Proceeds from sale of investments		**23.9**	-
Proceeds from sale of businesses/controlled entities	(11)	**819.5**	-
Net cash flows used in investing activities		**(376.1)**	(300.8)
Cash flows from financing activities			
Proceeds from long term borrowings		**-**	557.2
Net movement in short term financing		**-**	(336.2)
Proceeds from finance leases		**-**	(0.1)
Proceeds from issue of ordinary shares		**544.0**	27.5
Proceeds from issue of Orica Step-Up Preference Securities	(7)	**490.0**	-
Payments for buy-back of shares		**(84.7)**	(53.7)
Dividends paid - Orica shareholders		**(186.2)**	(178.2)
Dividends paid - minority interest		**(5.9)**	(24.1)
Net cash flows from financing activities		**757.2**	(7.6)
Net increase/(decrease) in cash held		**795.0**	67.4
Cash at the beginning of the financial period		**211.9**	147.3
Effects of exchange rate changes on cash		**1.3**	(2.8)
Cash at the end of the financial period		**1,008.2**	211.9

Reconciliation of cash

Cash at the end of the period as shown in the statement of cash flows is reconciled to the related items in the Balance Sheet as follows:

	2006	2005
Cash	**1,009.1**	214.7
Bank overdraft	**(0.9)**	(2.8)
	1,008.2	211.9

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes.

1. Accounting policies

The significant accounting policies adopted in preparing the financial report of Orica Limited ('the Company' or 'Orica') and of its controlled entities (collectively 'the consolidated entity' or 'the Group') are stated below to assist in a general understanding of this financial report.

(i) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of applicable Australian Accounting Standards, the Corporations Act 2001 and other mandatory professional reporting requirements.

The financial report has been prepared on a historical cost basis, except for derivative financial instruments and investments in financial assets other than controlled entities and associates which have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair value attributable to the risks that are being hedged.

(ii) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

This is the consolidated entity's first annual financial report under Australian Equivalents to International Financial Reporting Standards.

The financial report is presented in Australian dollars which is Orica's functional and presentation currency.

The consolidated entity changed its accounting policies on 1 October 2005 to comply with AIFRS. The transition to AIFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 October 2004 as the date of transition. An explanation of how the transition from superseded policies to AIFRS has affected the consolidated entity's balance sheet, income statement and cash flows is discussed in note 16.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 September 2006, the comparative information presented in these financial statements, and in the preparation of the opening AIFRS balance sheet as at 1 October 2004, the consolidated entity's date of transition, except for the accounting policies in respect of financial instruments. The consolidated entity has not restated comparative information for financial instruments, including derivatives, as permitted under the first-time adoption transitional provisions. The accounting policies for financial instruments applicable to the comparative information are consistent with those adopted and disclosed in the lodged 2005 annual financial report. The impact of changes in these accounting policies on 1 October 2005, the date of transition for financial instruments is disclosed in note 16.

This financial report has been prepared on the basis of AIFRS on issue that are effective, or available for early adoption at Orica's first AIFRS annual reporting date, 30 September 2006.

Orica has elected to early adopt certain Australian Accounting Standards, and interpretations which permit early adoption. The decision to early adopt those standards and interpretations ensures that policy elections described below, including AIFRS transition exemptions, are available. The standards and interpretations that have been early adopted are:

- Revised AASB 119 Employee Benefits
- Revised AASB 101 Presentation of Financial Statements
- AASB 2004-3 Amendments to Australian Accounting Standards amending AASB 1 First-time adoption of Australian Equivalents to International Reporting Standards, AASB 101 Presentation of Financial Instruments, AASB 124 Related Party Disclosures
- AASB 2005-1 Amendments to Australian Accounting Standards amending AASB 139 Financial Instruments: Recognition and Measurement
- AASB 2005-4 Amendments to Australian Accounting Standards amending AASB 139 Financial Instruments: Recognition and Measurement, AASB 132 Financial Instruments: Presentation and Disclosure, AASB 1 First-time adoption of Australian Equivalents to International Reporting Standards, AASB 1023 General Insurance Contracts, AASB 1038 Life Insurance Contracts
- AASB 2005-5 Amendments to Australian Accounting Standards amending AASB 1 First-time adoption of Australian Equivalents to International Reporting Standards, AASB 139 Financial Instruments: Recognition and Measurement
- AASB 2005-6 Amendments to Australian Accounting Standards amending AASB 3 Business Combinations
- AASB 2006-1 Amendments to Australian Accounting Standards amending AASB 121 The Effects of Changes in Foreign Exchange Rates
- UIG 4 Determining whether an Arrangement contains a Lease
- UIG 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- UIG 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
- UIG 7 Applying the Restatement Approach under AASB 129 Financial reporting in Hyperinflationary Economies
- UIG 8 scope of AASB 2
- UIG 9 Reassessment of Embedded Derivatives

The standards and interpretations that have not been early adopted are:

- AASB 7 Financial Instruments: Disclosures – applicable from annual reporting periods beginning on or after 1 January 2007
- AASB 2005-9 Amendments to Australian Accounting Standards amending AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts, AASB 139 Financial Instruments: Recognition and Measurement, AASB 132 Financial Instruments: Presentation and Disclosure - applicable from annual reporting periods beginning on or after 1 January 2006

1.Accounting policies (continued)

- AASB 2005-10 Amendments to Australian Accounting Standards amending AASB 132 Financial Instruments: Presentation and Disclosure, AASB 101 Presentation of Financial Statements, AASB 114 Segment Reporting, AASB117 Leases, AASB 133 Earnings per share, AASB 139 Financial Instruments: Recognition and Measurement, AASB 1 First-time adoption of Australian Equivalents to International Reporting Standards, AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts, AASB 1038 Life Insurance Contracts - applicable from annual reporting periods beginning on or after 1 January 2007.

The consolidated entity expects to adopt AASB 7, AASB 2005-9 and AASB 2005-10 in the 2007 financial report. These standards may have an impact on the financial results of the company and the consolidated entity as they could result in liabilities being recognised for financial guarantee contracts provided by the company or the group that are not currently recognised.

(iii) Consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate 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 interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities and contingent liabilities recognised.

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

(iv) Revenue recognition

External sales and other income are recognised when the risks and rewards of ownership are transferred to the purchaser. Interest income is recognised as it accrues. Proceeds from sale of businesses, controlled entities and other non-current assets are recognised when there is a signed unconditional contract of sale. Dividends are recognised in the Income Statement when declared.

Construction contracts

Contract revenue and expenses are recognised on an individual contract basis using the percentage of completion method when the stage of contract completion can be reliably determined, costs to date can be clearly identified, and total contract revenue and costs to complete can be reliably estimated. Profit recognition does not normally commence until a contract is at least 40% complete. Stage of completion is measured by reference to an assessment of total labour hours and other costs incurred to date as a percentage of estimated total costs for each contract. Revenue is recognised to the extent of costs incurred. An expected loss is recognised immediately as an expense.

(v) Borrowing costs

Borrowing costs include interest, 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. Qualifying assets are assets that take more than twelve months to get ready for their intended use or sale. 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.

(vi) Research and development costs

Research costs are expensed as incurred. Development costs are expensed as incurred except when it is probable that future economic benefits associated with the item will flow to the consolidated entity, in which case they are capitalised.

(vii) Share based payments

Equity settled share based payments granted after 7 November 2002 but not vested before 1 January 2005 are measured at fair value at the date of grant using an option valuation model. This valuation model generates possible future share prices based on similar assumptions that underpin relevant option pricing models and reflects the value (as at grant date) of options granted. The assumptions underlying the options valuations are: (a) the exercise price of the option, (b) the life of the option, (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 option.

The fair value determined at the grant date of the equity settled share based payments is expensed in the Income Statement on a straight-line basis over the relevant vesting period.

Shares issued under employee incentive share plans in conjunction with non-recourse loans are accounted for as options. As a result, the amounts receivable from employees in relation to these loans and share capital issued under these schemes are not recognised and any shares purchased on-market are recognised as a share buy-back and deducted from shareholders equity.

(viii) Taxation

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 sheets and their associated tax bases. Current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

1. Accounting policies (continued)

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

Legislation to allow groups, comprising a parent entity and its Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantially enacted on 21 October 2002. This legislation, which includes both mandatory and elective elements, is applicable to the Company. Orica Limited is the parent entity in the tax consolidated group comprising all wholly-owned Australian entities. The implementation date for the tax-consolidated group was 28 August 2003.

Due to the effect of applying UIG 1052 on tax consolidation accounting and 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. Current tax income/ expense, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation. In accordance with the tax sharing agreement, the subsidiary entities are compensated for the assets and liabilities assumed by the parent entity as intercompany receivables and payables and for amounts which equal the amounts initially recognised by the subsidiary entities. There is no adjustment for tax consolidation contribution by (or distribution to) equity participants.

(ix) Inventories

Inventories are valued at the lower of cost and net realisable value. 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 the first-in, first-out or weighted average method based on the type of inventory. For manufactured goods, cost includes direct material and fixed overheads based on normal operating capacity. For merchanted goods, cost is net cost into store.

(x) Construction work in progress

Where the Group manufactures equipment for sale, the work in progress is carried at cost plus profit recognised to date based on the value of work completed less progress billings and less provision for foreseeable losses allocated between amounts due from customers and amounts due to customers.

(xi) Trade and other receivables

Trade and other receivables are recognised at their cost less any impairment losses.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off. An impairment loss is recognised when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivables.

Derecognition

A number of customers use bank facilities that are guaranteed or partially guaranteed by Orica. Where the entire risks and rewards relating to these facilities have been transferred to the financial institution, the receivable is derecognised. Where this has not occurred, the receivable and the equivalent interest bearing liability have been recognised in the balance sheet.

(xii) Investments accounted for using the equity method

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting. Associates are those entities over which the consolidated entity exercises significant influence, but does not control.

(xiii) Other financial assets

The consolidated entity's interests in financial assets other than controlled entities and associates are stated at market value.

Investment income includes dividends which are recognised in the Income Statement when declared.

(xiv) Non-current assets held for sale and disposal groups

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is reassessed in accordance with applicable accounting standards. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in the Income Statement. The same applies to gains and losses on subsequent remeasurement.

Classification as a disposal group occurs when the operation meets the criteria to be classified as held for sale.

(xv) Property, plant and equipment and depreciation

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. 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 consolidated entity and the cost of the item can be measured reliably. Property, plant and equipment, other than freehold land, is depreciated on a straight-line basis at rates calculated to allocate the cost less the estimated residual value over the estimated useful life of each asset to the consolidated entity.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end.

Estimated useful lives of each class of asset are as follows:

Buildings and improvements	25 to 40 years
Machinery, plant and equipment	3 to 30 years

1.Accounting policies (continued)

Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 October 2004, the date of transition to AIFRS, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Profits and losses on disposal of property, plant and equipment are taken to the Income Statement.

(xvi) Leased assets

Leases under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases are capitalised at the present value of the minimum lease payments and amortised on a straight-line basis over the period during which benefits are expected to flow from the use of the leased assets. A corresponding liability is established and each lease payment is allocated between finance charges and reduction of the liability.

Operating leases are not capitalised and lease rental payments are taken to the Income Statement on a straight line basis.

(xvii) Intangible assets

Identifiable intangibles

Amounts paid for the acquisition of identifiable intangible assets are capitalised at the fair value of consideration paid determined by reference to independent valuations.

Identifiable intangible assets with a finite life (customer contracts, patents, software, brand names, trademarks and licences) are amortised on a straight-line basis over their expected useful life to the consolidated entity, being up to twelve years.

Land rights purchased in China are amortised over the period of tenure (fifty years).

Identifiable intangible assets with an indefinite life (brand names) are not amortised but the recoverable amount of these assets is tested as explained under impairment of assets.

Unidentifiable intangibles

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

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.

(xviii) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Income Statement over the period of the borrowings on an effective interest basis. 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.

(xix) Provisions

A provision is recognised when there is a legal or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the effect of discounting on provisions is recognised as a borrowing cost.

Environmental

Estimated costs relating to the remediation of soil, groundwater and untreated waste that have arisen as a result of past events are usually taken to the Income Statement as soon as the need is identified and a reliable estimate of the liability is able to be assessed.

However, 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.

For sites where there are uncertainties with respect to what Orica's remediation obligations might be or what remediation techniques might be approved and no reliable estimate can presently be made of regulatory and remediation costs, no amounts have been capitalised, expensed or provided for.

Decommissioning

The present value of the estimated costs of dismantling and removing an asset and restoring the site on which it is located are recognised as an asset within property, plant and equipment which is depreciated on a straight line basis over their estimated useful life and 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 borrowing costs in the Income Statement.

Self Insurance

The Group self-insures for certain insurance risks. Outstanding claims are recognised when an incident occurs that may give rise to a claim and are measured at the cost that the entity expects to incur in settling the claims.

Employee entitlements

Provisions are made for liabilities to employees for annual leave, sick leave and other current employee entitlements that represent the amount for which the consolidated entity has a present obligation. These have been calculated at nominal amounts based on the wage and salary rates that the consolidated entity expects to pay as at each reporting date and include related on-costs.

Liabilities for employee entitlements which are not expected to be settled within twelve months of balance date, such as long service leave, are accrued at the present value of future amounts expected to be paid. The present value is determined using interest rates applicable to government guaranteed securities with maturities approximating to the terms of the consolidated entity's obligations.

1. Accounting policies (continued)

A liability is recognised for bonus plans on the achievement of predetermined bonus targets and the benefit calculations are formally documented and determined before signing the financial report.

Superannuation

Contributions to defined contribution superannuation funds are taken to the Income Statement in the year in which the payment is incurred.

For each defined benefit scheme, the cost of providing pensions is charged to the Income Statement so as to recognise current and past service costs, interest cost on defined benefit obligations, and the effect of any curtailments or settlements, net of expected returns on plan assets.

All actuarial gains and losses as at 1 October 2004, the date of transition to AIFRS, were recognised in retained earnings. The consolidated entity has early adopted the revised AASB 119 Employee Benefits and all actuarial gains and losses that arise subsequent to 1 October 2004 will be recognised directly in equity.

The consolidated entity's net obligation 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 government bonds that have maturity dates approximating the terms of the consolidated entity's obligations. The calculation is performed annually by a qualified actuary using the projected unit credit method.

Restructuring and employee termination benefits

Provisions for restructuring or termination benefits are only recognised when a detailed plan has been approved and the restructuring or termination has either commenced or been publicly announced, or firm contracts related to the restructuring or termination benefits have been entered into. Costs related to ongoing activities are not provided for.

Onerous contracts

A provision for onerous contracts is recognised after impairment losses on assets dedicated to the contract have been recognised and when the expected benefits are less than the unavoidable costs of meeting the contractual obligations. A provision is recognised to the extent that the contractual obligations exceed unrecognised assets.

(xx) Trade and other payables

Dividends

A liability for dividends payable (including distributions on Orica Step Up Preference Shares) is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash. A liability for dividends payable on Orica Cumulative non-redeemable Preference Shares is recognised on an accruals basis and included in trade and other payables.

(xxi) Foreign currency

Functional currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

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 Australian dollars 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 in terms of 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 stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

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

Prior to translating the financial statements of foreign operations in hyperinflationary economies, the financial statements, including comparatives, are restated to account for changes in the general purchasing power of the local currency. The restatement is based on relevant price indices at the balance sheet date.

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.

(xxii) Derivative financial instruments

The consolidated entity uses derivative financial instruments to hedge its' exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its' treasury policy, the consolidated entity does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Income Statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

Hedging

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity.

1. Accounting policies (continued)

When the forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated 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.

If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains and losses that were recognised directly in equity are reclassified into the Income Statement in the same period or periods during which the asset acquired or liability assumed affects the Income Statement.

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the Income Statement in the same period or periods during which the hedged forecast transaction affects the Income Statement. The ineffective part of any gain or loss is recognised immediately in the Income Statement.

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 and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, then the cumulative unrealised gain or loss recognised in equity is recognised immediately in the Income Statement.

Hedge of monetary assets and liabilities

When a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, hedge accounting is not applied and any gain or loss on the hedging instrument is recognised in the Income Statement.

Investments in debt and equity securities

Financial instruments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the Income Statement.

Other financial instruments held by the consolidated entity classified as being available-for-sale are stated at fair value, with any resultant gain or loss recognised directly in equity, except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. Where these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the Income Statement.

Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the Income Statement. The fair value of financial instruments classified as held for trading and available for sale is their quoted market price at the balance sheet date.

Financial instruments classified as held for trading or available for sale investments are recognised/derecognised by the consolidated entity on the date it commits to purchase/sell the investments. Securities held to maturity are recognised/ derecognised on the day they are transferred to/by the consolidated entity.

Hedge of net investment in foreign operation

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity. The ineffective portion is recognised immediately in the Income Statement.

Comparative period policy

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 October 2005. The Group has applied previous AGAAP to the comparative information on the financial instruments within the scope of AASB 132 and AASB 139. The accounting policies applied in the comparative period are as follows:

- Derivative financial instruments are used to hedge interest rate and foreign currency exposures. Accordingly, hedge accounting principles are applied, under which gains and losses on derivatives are brought to account on the same basis as the gains and losses on the underlying physical exposures. Derivative financial instruments are not held for speculative purposes.
- The effect of interest received, paid or accrued under interest rate swap and forward rate agreements is included in the calculation of net interest expense. The amount receivable or payable at balance date is included in assets or liabilities respectively.
- Investments in debt and equity securities were held at the lower of cost and market value.

Anticipated transactions

Foreign currency transactions are translated at the exchange rate prevailing at the date of the transaction. Foreign currency receivables and payables outstanding at balance date are translated at the exchange rates current at that date. Exchange gains and losses on retranslation of outstanding receivable and payables are taken to the Income Statement.

Where hedge transactions are designated as a hedge of the anticipated purchase or sale of goods or services, purchase of qualifying assets, or an anticipated interest transaction, gains and losses on the hedge, arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the Income Statement.

The net amount receivable or payable under open swaps, forward rate agreements and futures contracts and the associated deferred gains or losses are not recorded in the Income Statement until the hedged transaction matures. The net receivables or payables are then revalued using the foreign currency, interest or commodity rates current at balance date.

When the anticipated transaction is no longer expected to occur as designated, the deferred gains and losses relating to the hedged transaction are recognised immediately in the Income Statement. Gains and losses that arise prior to and upon the maturity of transactions entered into under hedge strategies are deferred and included in the measurement of the hedged anticipated transaction if the transaction is still expected to occur as designated. If the anticipated transaction is no longer expected to occur as designated, the gains and losses are recognised immediately in the Income Statement.

(xxiii) 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 flow, net of bank overdrafts.

1. Accounting policies (continued)

(xxiv) Share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from total equity.

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

Redeemable preference shares

Redeemable preference shares which provide for mandatory redemption are included in liabilities as they are, in substance, borrowings. Dividends payable on these shares are recognised in the Income Statement as borrowing costs on an accruals basis.

Cumulative non-redeemable preference shares

Cumulative non-redeemable preference shares are included in liabilities as they are, in substance, borrowings. Dividends payable on these shares are recognised in the Income Statement as borrowing costs on an accruals basis.

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 October 2005. The Group has applied previous AGAAP to the comparative information on the financial instruments within the scope of AASB 132 and AASB 139. Under accounting policies applied in the comparative period, cumulative non-redeemable preference shares were included in share capital.

Step-Up Preference Securities

Step-Up Preference Securities are included in equity. A provision for distributions payable is recognised in the reporting period in which the distributions are declared.

(xxv) Impairment of assets

The carrying amount of Orica's and the Group's non-current assets excluding defined benefit fund assets, deferred tax assets, goodwill and indefinite life intangible assets is reviewed at each reporting date to determine whether there is any evidence of impairment. If such indication exists, the asset is tested for impairment by comparing its' recoverable amount to its' carrying amount. Goodwill and indefinite life intangible assets are tested for impairment annually.

The recoverable amount of an asset is determined as the higher of fair value less costs to sell and value in use. The recoverable amount is estimated for each individual asset or where it is not possible to estimate for individual assets, it is estimated for the cash generating unit to which the asset belongs.

A cash generating unit is the smallest identifiable group of assets that generate cash inflows largely independent of the cash inflows of other assets or group of assets with each cash generating unit being no larger than a segment. In calculating recoverable amount, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects the current market assessments of the risks specific to the asset or cash generating unit.

Cash flows are estimated for the asset in its present condition and therefore do not include cash inflows or outflows that improve or enhance the asset's performance or that may arise from future restructuring.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount.

Impairment losses are recognised in the Income Statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units and then, to reduce the carrying amount of the other assets in the unit.

Reversals of impairment

An impairment loss is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss in respect of goodwill is not reversed. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(xxvi) Goods and services tax

Revenues, expenses, assets and liabilities other than receivables and payables, are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the relevant taxation authorities. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. The net amount of GST recoverable from, or payable to, the relevant taxation authorities is included as a current asset or liability in the Balance Sheet.

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.

(xxvii) Rounding

The amounts shown in this report and in the financial statements have been rounded off, except where otherwise stated, to the nearest tenth of a million dollars, the Company being in a class specified in the ASIC Class Order 98/100 dated 10 July 1998.

2.Segment Report

Segment information is presented in respect of the consolidated entity's business and geographical segments. The primary format is business segments. The consolidated entity's operations have been divided into six business segments comprising Mining Services, Consumer Products, Chemnet, Chemical Services, Fertilisers and Other Operations and Corporate & Support Services.

The Fertilisers business was disposed on 15 May 2006 and is reported as a discontinued operation.

The consolidated entity's policy is to transfer products internally at negotiated commercial prices. Other income includes royalties and profit on sale of property, plant and equipment.

The Group's geographical segments are determined based on the location of the Group's assets.

The major products and services from which the above segments derive revenue are:

Defined business areas	Products/services
Mining Services	Manufacture and supply of explosives and mining services, initiating systems and blasting technology to the mining, quarrying, construction and exploration industries.
Consumer Products	Manufacture and supply of paints and other surface coatings to the decorative and technical markets and a range of home handyman, car care and garden care products.
Chemnet	Distribution and trading of a broad range of industrial and specialty chemicals, raw materials, ingredients and associated services to a wide range of manufacturers.
Chemical Services	Manufacture and supply of a broad range of industrial and specialty chemicals including chlorine, MIEX® DOC resin, sodium hypochlorite, caustic soda, adhesives and resins and related chemicals for watercare, food, timber and general industrial purposes, and sodium cyanide to the gold mining industry.
Other Operations, and Corporate & Support Services	Minor activities, non-operating assets, corporate costs and financial items such as foreign currency gains/losses on borrowings.
Fertilisers	Manufacture, import and supply of a broad range of fertilisers including nitrogen, phosphate and other fertilisers for the agricultural industry including profit/loss on sale of discontinued business.

2. Segment report (continued)

Primary reporting Business segments	Mining Services	Consumer Products	Chemnet	Chemical Services	Other Operations and Corporate & Support Services	Eliminations	Total Continuing Operations	Fertilisers	Eliminations	Consolidated
2006										
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Revenue										
External sales	**2,608.3**	**784.9**	**933.6**	**440.9**	**-**	**-**	**4,767.7**	**591.5**	**-**	**5,359.2**
Inter-segment sales	**12.6**	**0.1**	**53.8**	**36.1**	**-**	**(98.2)**	**4.4**	**22.1**	**(26.5)**	**-**
Total sales revenue	**2,620.9**	**785.0**	**987.4**	**477.0**	**-**	**(98.2)**	**4,772.1**	**613.6**	**(26.5)**	**5,359.2**
Other income	**44.5**	**1.0**	**2.9**	**2.0**	**7.4**	**-**	**57.8**	**440.8**	**-**	**498.6**
Total revenue and other income	**2,665.4**	**786.0**	**990.3**	**479.0**	**7.4**	**(98.2)**	**4,829.9**	**1,054.4**	**(26.5)**	**5,857.8**
Results										
Profit before individually material items, net financing costs and income tax expense	**412.0**	**97.3**	**57.7**	**67.1**	**(50.7)**	**-**	**583.4**	**74.3**	**-**	**657.7**
Individually material items	**(151.3)**	**-**	**(49.1)**	**(10.1)**	**(119.1)**	**-**	**(329.6)**	**400.4**	**-**	**70.8**
Profit from operations	**260.7**	**97.3**	**8.6**	**57.0**	**(169.8)**	**-**	**253.8**	**474.7**	**-**	**728.5**
Net financing costs										**(92.2)**
Profit before income tax expense										**636.3**
Income tax expense										**(74.9)**
Profit after income tax expense										**561.4**
Minority interests in profit after income tax										**(22.3)**
Net profit for the period relating to members of Orica Limited										**539.1**
Segment assets	**3,427.0**	**335.6**	**426.8**	**399.4**	**1,120.2**	**-**	**5,709.0**	**-**	**-**	**5,709.0**
Segment liabilities	**976.4**	**180.1**	**158.8**	**76.8**	**1,648.7**	**-**	**3,040.8**	**-**	**-**	**3,040.8**
Investments accounted for using the equity method	**118.7**	**1.3**	**1.4**	**-**	**0.8**	**-**	**122.2**	**-**	**-**	**122.2**
Acquisitions of PPE, intangibles and other non-current assets	**323.4**	**10.7**	**4.9**	**34.1**	**29.4**	**-**	**402.5**	**29.5**	**-**	**432.0**
Impairment of PPE	**14.9**	**-**	**3.3**	**2.9**	**(2.7)**	**-**	**18.4**	**-**	**-**	**18.4**
Impairment of intangibles	**14.1**	**-**	**2.5**	**-**	**-**	**-**	**16.6**	**-**	**-**	**16.6**
Impairment of inventories	**1.1**	**1.7**	**12.1**	**-**	**-**	**-**	**14.9**	**0.5**	**-**	**15.4**
Impairment of trade receivables	**2.3**	**0.6**	**2.8**	**6.9**	**(1.5)**	**-**	**11.1**	**(0.1)**	**-**	**11.0**
Depreciation and amortisation	**94.0**	**14.6**	**8.3**	**17.9**	**3.1**	**-**	**137.9**	**19.0**	**-**	**156.9**
Non-cash expenses other than depreciation and amortisation	**3.6**	**1.1**	**0.7**	**0.6**	**3.4**	**-**	**9.4**	**0.4**	**-**	**9.8**
Share of associates net profit equity accounted	**12.5**	**(0.2)**	**0.1**	**-**	**-**	**-**	**12.4**	**-**	**-**	**12.4**

2. Segment report (continued)

Primary reporting Business segments	Mining Services	Consumer Products	Chemnet	Chemical Services	Other Operations and Corporate & Support Services	Eliminations	Total Continuing Operations	Fertilisers	Eliminations	Consolidated
2005										
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Revenue										
External sales	1,965.7	768.3	976.0	381.2	-	-	4,091.2	1,035.5	-	5,126.7
Inter-segment sales	21.3	0.2	53.5	30.7	-	(89.2)	16.5	38.4	(54.9)	-
Total sales revenue	1,987.0	768.5	1,029.5	411.9	-	(89.2)	4,107.7	1,073.9	(54.9)	5,126.7
Other income	35.0	1.1	13.5	4.1	2.7	-	56.4	7.9	-	64.3
Total revenue and other income	2,022.0	769.6	1,043.0	416.0	2.7	(89.2)	4,164.1	1,081.8	(54.9)	5,191.0
Results										
Profit before individually material items, net financing costs and income tax expense	340.0	100.5	78.5	60.8	(62.4)	-	517.4	83.5	-	600.9
Individually material items	(22.6)	-	-	(37.0)	(71.4)	-	(131.0)	(56.7)	-	(187.7)
Profit from operations	317.4	100.5	78.5	23.8	(133.8)	-	386.4	26.8	-	413.2
Net financing costs										(102.5)
Profit before income tax expense										310.7
Income tax expense										(88.8)
Profit after income tax expense										221.9
Minority interests in profit after income tax										(13.6)
Net profit for the period relating to members of Orica Limited										208.3
Segment assets	2,152.2	309.4	455.8	361.5	309.1	-	3,588.0	723.2	-	4,311.2
Segment liabilities	618.9	160.1	149.6	67.7	1,498.2	-	2,494.5	297.2	-	2,791.7
Investments accounted for using the equity method	43.3	0.6	3.5	-	1.7	-	49.1	-	-	49.1
Acquisitions of PPE, intangibles and other non-current assets	213.1	20.1	8.1	26.9	56.6	-	324.8	26.2	-	351.0
Impairment of PPE	22.6	-	-	12.4	-	-	35.0	14.8	-	49.8
Impairment of intangibles	-	-	-	2.8	-	-	2.8	-	-	2.8
Impairment of inventories	(1.5)	0.5	-	(0.4)	-	-	(1.4)	2.9	-	1.5
Impairment of trade receivables	1.2	-	0.9	0.3	-	-	2.4	(0.5)	-	1.9
Depreciation and amortisation	71.0	13.1	8.2	18.6	3.4	-	114.3	26.1	-	140.4
Non-cash expenses other than depreciation and amortisation	3.5	0.9	0.4	0.7	6.7	-	12.2	(0.6)	-	11.6
Share of associates net profit equity accounted	5.3	0.2	0.5	-	-	-	6.0	-	-	6.0

2. Segment report (continued)

Secondary reporting Geographical segments	Australia	New Zealand	Asia	Americas	Other	Eliminations	Consolidated
2006							
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Revenue							
External sales	**2,870.5**	**453.8**	**405.8**	**1,315.9**	**313.2**	**-**	**5,359.2**
Inter-segment sales	**122.3**	**14.0**	**10.2**	**9.8**	**52.2**	**(208.5)**	**-**
Total sales revenue	**2,992.8**	**467.8**	**416.0**	**1,325.7**	**365.4**	**(208.5)**	**5,359.2**
Other income	**459.4**	**3.2**	**1.1**	**22.2**	**12.7**	**-**	**498.6**
Total revenue and other income	**3,452.2**	**471.0**	**417.1**	**1,347.9**	**378.1**	**(208.5)**	**5,857.8**
Results							
Profit before individually material items, net financing costs and income tax expense	**351.6**	**59.0**	**56.8**	**137.8**	**52.5**	**-**	**657.7**
Individually material items	**266.6**	**(3.5)**	**(16.8)**	**(60.4)**	**(115.1)**	**-**	**70.8**
Profit from operations *	**618.2**	**55.5**	**40.0**	**77.4**	**(62.6)**	**-**	**728.5**
Net financing costs							**(92.2)**
Profit before income tax expense							**636.3**
Income tax expense							**(74.9)**
Profit after income tax expense							**561.4**
Minority interests in profit after income tax							**(22.3)**
Net profit for the period relating to members of Orica Limited							**539.1**
Segment assets	**3,269.3**	**280.3**	**281.6**	**1,029.8**	**848.0**	**-**	**5,709.0**
Segment liabilities	**1,592.1**	**612.7**	**80.3**	**506.3**	**249.4**	**-**	**3,040.8**
Investments accounted for using the equity method	**3.5**	**-**	**-**	**45.8**	**72.9**	**-**	**122.2**
Acquisitions of PPE, intangibles and other non-current assets	**344.0**	**6.6**	**9.1**	**42.8**	**29.5**	**-**	**432.0**
Impairment of PPE	**3.3**	**-**	**2.9**	**-**	**12.2**	**-**	**18.4**
Impairment of intangibles	**2.6**	**-**	**0.1**	**1.1**	**12.8**	**-**	**16.6**
Impairment of inventories	**12.0**	**1.2**	**0.8**	**0.1**	**1.3**	**-**	**15.4**
Impairment of trade receivables	**7.2**	**0.8**	**-**	**2.8**	**0.2**	**-**	**11.0**
Depreciation and amortisation	**97.4**	**6.4**	**8.9**	**30.0**	**14.2**	**-**	**156.9**
Non cash expenses other than depreciation and amortisation	**7.6**	**0.1**	**0.2**	**1.3**	**0.6**	**-**	**9.8**
Share of associates net profit equity accounted	**(0.1)**	**-**	**-**	**10.1**	**2.4**	**-**	**12.4**

* The discontinued operation (Fertilisers) operated in one geographical segment - Australia.

2. Segment report (continued)

Secondary reporting Geographical segments 2005	Australia	New Zealand	Asia	Americas	Other	Eliminations	Consolidated
	$m	$m	$m	$m	$m	$m	$m
Revenue							
External sales	3,143.3	489.4	348.6	936.8	208.6	-	5,126.7
Inter-segment sales	113.1	12.4	15.9	12.0	35.3	(188.7)	-
Total sales revenue	3,256.4	501.8	364.5	948.8	243.9	(188.7)	5,126.7
Other income	31.3	2.1	1.9	27.1	1.9	-	64.3
Total revenue and other income	3,287.7	503.9	366.4	975.9	245.8	(188.7)	5,191.0
Results							
Profit before individually material items, net financing costs and income tax expense	347.4	63.1	53.1	106.9	30.4	-	600.9
Individually material items	(158.8)	(0.7)	0.1	(30.7)	2.4	-	(187.7)
Profit from operations *	188.6	62.4	53.2	76.2	32.8	-	413.2
Net financing costs							(102.5)
Profit before income tax expense							310.7
Income tax expense							(88.8)
Profit after income tax expense							221.9
Minority interests in profit after income tax							(13.6)
Net profit for the period relating to members of Orica Limited							208.3
Segment assets	2,983.4	257.4	207.4	712.2	150.8	-	4,311.2
Segment liabilities	2,078.0	144.7	88.5	404.0	76.5	-	2,791.7
Investments accounted for using the equity method	3.7	-	-	34.4	11.0	-	49.1
Acquisitions of PPE, intangibles and other non-current assets	285.6	10.2	12.6	31.3	11.3	-	351.0
Impairment of PPE	27.2	-	-	22.6	-	-	49.8
Impairment of intangibles	2.8	-	-	-	-	-	2.8
Impairment of inventories	1.7	0.5	0.6	(1.3)	-	-	1.5
Impairment of trade receivables	(0.4)	(0.1)	1.3	0.1	1.0	-	1.9
Depreciation and amortisation	94.2	6.2	6.3	25.5	8.2	-	140.4
Non-cash expenses other than depreciation and amortisation	9.7	0.1	0.2	1.3	0.3	-	11.6
Share of associates net profit equity accounted	0.7	-	-	3.8	1.5	-	6.0

* The discontinued operation (Fertilisers) operated in one geographical segment - Australia.

3. Sales revenue and other income from continuing operations

This note should be read in conjunction with note 11, discontinued operations and businesses disposed.

	2006 $m	2005 $m
Sales revenue	**4,745.6**	4,052.8
Other income		
Royalty income	**2.6**	1.0
Other income	**33.3**	22.9
Profit from sale of businesses/controlled entities	**6.4**	-
Profit on sale of property, plant and equipment	**15.5**	32.5
Total other income	**57.8**	56.4

4. Specific profit and loss income and expenses

This note should be read in conjunction with note 11, discontinued operations and businesses disposed.

	2006			2005		
	Gross $m	**Tax $m**	**Net $m**	Gross $m	Tax $m	Net $m
Profit after income tax includes the following individually material items of income and expenses:						
Profit on disposal of IPL	**428.6**	**(19.8)**	**408.8**	-	-	-
Environmental provisions:						
Botany HCB (NSW) (1)	**(70.1)**	**21.0**	**(49.1)**	-	-	-
Villawood (NSW)	**(33.0)**	**9.9**	**(23.1)**	-	-	-
Seneca (North America)	**(30.5)**	**11.7**	**(18.8)**	-	-	-
Cockle Creek (NSW)	**(28.2)**	**8.5**	**(19.7)**	-	-	-
Botany Groundwater (NSW)	**-**	**-**	**-**	(26.4)	7.9	(18.5)
Restructuring and rationalisation costs: (2)						
Chemnet business	**(49.1)**	**14.0**	**(35.1)**	-	-	-
Seneca (North America)	**(13.3)**	**5.1**	**(8.2)**	-	-	-
Incitec Pivot business	**-**	**-**	**-**	(56.7)	15.8	(40.9)
Corporate and Chemical Services businesses	**-**	**-**	**-**	(21.8)	6.6	(15.2)
Dyno Nobel (expenditure)/income:						
Integration costs (3)	**(114.8)**	**36.1**	**(78.7)**	-	-	-
Net financing income (4)	**7.3**	**(5.0)**	**2.3**	-	-	-
Impairment writedowns (5)						
Adhesives and Resins	**(10.1)**	**-**	**(10.1)**	(15.2)	3.7	(11.5)
Seneca (North America)	**-**	**-**	**-**	(22.6)	7.9	(14.7)
Tax indemnity - Cropcare (6)	**(16.0)**	**-**	**(16.0)**	-	-	-
Qenos divestment	**-**	**-**	**-**	(35.2)	1.2	(34.0)
Restructuring provisions on acquisition	**-**	**-**	**-**	(9.8)	3.0	(6.8)
Individually material items	**70.8**	**81.5**	**152.3**	(187.7)	46.1	(141.6)
Minority interests in individually material items	**(9.0)**	**2.5**	**(6.5)**	(14.1)	4.1	(10.0)
Individually material items attributable to members of Orica	**79.8**	**79.0**	**158.8**	(173.6)	42.0	(131.6)

(1) Environmental provision related to HCB export and remediation of Botany (New South Wales, Australia) Car Park Waste encapsulation.

(2) Costs including asset write downs and provisions relating to restructuring of the Chemnet business and closure of Seneca (North America) in 2006 and Incitec Pivot and Corporate and Chemical Services businesses in 2005.

(3) Costs including asset write downs and provisions relating to the integration and restructuring of the Mining Services business following the purchase of the Dyno Nobel businesses.

(4) Financing income received from the Dyno Nobel businesses related to purchase price paid prior to the acquisition, offset by interest cost on borrowings associated with the purchase.

(5) Impairment writedown of assets of Indonesian Adhesives and Resins in 2006 and the Adhesives and Resins and Seneca businesses in 2005.

(6) The Cropcare business was sold to Nufarm Limited in October 2002 and Orica provided a tax indemnity. A tax assessment has been received by Nufarm Limited and Orica has provided for this amount although it intends to dispute the claim received by Nufarm with the Australian Tax Office.

5. Earnings per share (EPS)

	2006 Cents per share	2005 Cents per share
(i) As reported in income statement		
From continuing operations		
Basic earnings per share	**35.6**	74.1
Diluted earnings per share	**35.3**	73.1
Basic earnings per share adjusted for effect of rights issue	**35.6**	71.8
From discontinued operations		
Basic earnings per share	**142.2**	2.2
Diluted earnings per share	**141.2**	2.1
Basic earnings per share adjusted for effect of rights issue	**142.2**	2.2
Total attributable to equity holders of Orica		
Basic earnings per share	**177.8**	76.3
Diluted earnings per share	**176.5**	75.2
Basic earnings per share adjusted for effect of rights issue	**177.8**	74.0

	Number	Number
Weighted average number of shares used as the denominator:		
Number for basic earnings per share	**303,134,081**	272,755,004
Effect of executive share options	**1,936,793**	3,952,074
Effect of award rights	**-**	56,703
Effect of Orica Step-Up Preference Securities	**317,892**	-
Number for diluted earnings per share	**305,388,766**	276,763,781
The following Orica long term equity incentive plans have not been included in the calculation for diluted earnings per share as they are not dilutive:		
- issue date 22 December 2004	**-**	1,096,702

	$m	$m
Reconciliation of earnings used in the calculation of earnings per share		
Net profit for the period from continuing operations	**120.5**	211.5
Net profit for the period from continuing operations attributable to minority interests	**(12.6)**	(9.2)
Less preference share dividends appropriated	**-**	(0.1)
Net profit for the period from continuing operations attributable to ordinary equity holders	**107.9**	202.2
Net profit for the period from discontinued operations	**440.9**	10.4
Net profit for the period from discontinued operations attributable to minority interests	**(9.7)**	(4.4)
Earnings used in calculation of earnings per share	**539.1**	208.2

(ii) Adjusted for individually material items	Cents per share	Cents per share
From continuing operations		
Basic earnings per share	**113.5**	111.1
Diluted earnings per share	**112.7**	109.4
Basic earnings per share adjusted for effect of rights issue	**113.5**	107.7
From discontinued operations		
Basic earnings per share	**12.0**	13.5
Diluted earnings per share	**11.8**	13.4
Basic earnings per share adjusted for effect of rights issue	**12.0**	13.1
Total attributable to equity holders of Orica		
Basic earnings per share	**125.5**	124.6
Diluted earnings per share	**124.5**	122.8
Basic earnings per share adjusted for effect of rights issue	**125.5**	120.8

	$m	$m
Reconciliation of earnings used in the calculation of earnings per share adjusted for individually material items		
Net profit for the period from continuing operations	**120.5**	211.5
Net profit for the period from continuing operations attributable to minority interests	**(12.6)**	(9.2)
Less preference share dividends appropriated	**-**	(0.1)
Add individually material items from continuing operations	**236.3**	100.7
Net profit for the period from continuing operations attributable to ordinary equity holders	**344.2**	302.9
Net profit for the period from discontinued operations	**440.9**	10.4
Net profit for the period from discontinued operations attributable to minority interests	**(9.7)**	(4.4)
(Less)/add individually material items from discontinued operations	**(395.1)**	30.9
Earnings used in calculation of earnings per share	**380.3**	339.8

6. Dividends and distributions

	2006 $m	2005 $m
Dividends		
Dividends paid or declared in respect of the period to 30 September were:		
Ordinary		
interim dividend of 25 cents per share, 32% franked at 30%, paid 15 Jul 2005	**-**	68.1
interim dividend of 26 cents per share, 34.6% franked at 30%, paid 7 Jul 2006	**81.0**	-
final dividend of 45 cents per share, 46.7% franked at 30%, paid 8 Dec 2004	**-**	119.2
final dividend of 46 cents per share, 32.6% franked at 30%, paid 16 Dec 2005	**126.1**	-
Preference [(1)]		
final dividend of 2.5 cents per share, 46.7% franked at 30%, paid 31 Jan 2005	**-**	0.05
interim dividend of 2.5 cents per share, 32% franked at 30%, paid 29 Jul 2005	**-**	0.05
Redeemable Preference [(2)]		
quarterly dividend at 5.36% per annum, per share, unfranked, paid 27 November 2004	**-**	0.7
Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the period were as follows:		
paid in cash	**186.2**	142.5
satisfied by issue of shares	**20.9**	12.3
Dividends satisfied by the purchase of shares on market for dividend reinvestment plan [(3)]	**-**	32.6
Subsequent events		
Since the end of the financial year, the directors declared the following dividends:		
Ordinary		
Final dividend of 48 cents per share, 43.75% franked at 30%, payable 15 December 2006	**148.4**	

The financial effect of the final ordinary dividend has not been brought to account in the financial statements for the period ended 30 September 2006 and will be recognised in the 2007 financial report.

(1) Dividends on these shares have been charged to the Income Statement as borrowing costs because the shares are classified as liabilities.
The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 October 2005. The Group has applied previous AGAAP to the comparative information on the financial instruments within the scope of AASB 132 and AASB 139. Under accounting policies applied in the comparative period, cumulative non-redeemable preference shares were included in share capital and distributions disclosed as dividends.
(2) Dividends on these shares have been charged to the Income Statement as borrowing costs because the shares were classified as liabilities.
(3) During the period, the Company bought 3,617,903 (2005 697,854) shares on market to satisfy shareholders' Dividend Reinvestment Plan (DRP) requirements and the transaction costs have been charged directly against contributed equity.

Franking credits available and prospects for paying fully or partly franked dividends for at least the next year.
It is anticipated that dividends will be partly franked at a rate of no more than 35%.

Amount per security of foreign source dividend:

Interim dividend:				Interim dividend:			
Current period	-	Ordinary	Nil	Previous period	-	Ordinary	Nil
Final dividend:				Final dividend:			
Current period	-	Ordinary	10 cents	Previous period	-	Ordinary	9.8 cents

The dividend or distribution plans shown below are in operation.

A dividend reinvestment plan for ordinary securities and a share acquisition scheme have operated since 30 April 1998. No discount will be applied for shares acquired under either plan for the time being.

The last date(s) for receipt of election notices for the dividend	Ordinary	24-Nov-06
	Preference	12-Jan-07

7. Contributed equity

	2006 $m	2005 $m
Contributed equity		
Issued and fully paid: (1)		
Cumulative non-redeemable 5% preference shares - 2,000,000 (2005 2,000,000) (2)	-	2.0
Orica Step-Up Preference Securities - 5,000,000 (2005 nil) (3)	490.0	-
Ordinary shares - 309,217,777 (2005 273,104,280) (4)	815.3	327.3
Balance at end of the period	**1,305.3**	329.3

(1) Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of issued shares.
(2) The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 October 2005. The Group has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139. Under AASB 139, the 5% cumulative non-redeemable preference shares are treated as non-current interest bearing liabilities. Under accounting policies applied in the comparative period, cumulative non-redeemable preference shares were included in share capital.
(3) The Group issued Orica Step-Up Preference Securities (SPS) via a prospectus dated 17 February 2006. The SPS are stapled securities comprising a fully paid SPS Preference Share and a fully paid unsecured note. The SPS have no fixed repayment date, but Orica has the right to repurchase them for cash or convert the SPS into a variable number of ordinary shares in Orica from November 2011 or earlier in certain circumstances. Holders rank ahead of ordinary shares but behind cumulative non-redeemable preference shares and creditors. Distributions payable on the SPS are discretionary, payable semi annually, non cumulative, unfranked and payable based on the 180 day bill swap rate plus a margin of 1.35% per annum. Should the credit rating of Orica SPS fall below Standard and Poor's BBB- or equivalent, or no longer be rated, then an additional 1% will be added to the distribution rate. Distributions are payable in priority to distributions on Orica shares, but behind existing Orica preference shares. Where a distribution on SPS is not paid, Orica may not declare or pay any dividends, pay any interest, or distribute any income or capital on any security that ranks behind the SPS until Orica has paid SPS distributions scheduled for the twelve months following the missed distribution or Orica has paid an amount equivalent to the unpaid distributions in the last twelve months, or all SPS have been repurchased or converted, or a special resolution of the SPS holders has been passed approving such payment. Orica SPS holders do not have voting rights in shareholder meetings except in limited circumstances.
Under a Deed of Undertaking and Indemnity between Orica Limited and Australian Stock Exchange Limited (ASX), the ASX reserves the right (but without limiting its absolute discretion) to remove either or both of the Company and Orica New Zealand Securities Ltd (Orica NZ) from the official list if a) any of SPS Preference Shares of the Company and Notes of Orica NZ cease to be stapled together, or b) if any SPS Preference Share or Notes are issued by either of the Company or Orica NZ which are not stapled to corresponding securities in the other entity.
(4) Includes 34,426,827 shares issued pursuant to rights issue prospectus dated 21 November 2005.

7. Contributed equity (Continued)

Movements in issued and fully paid shares of the Company during the past two years were as follows:

Details	Date	Number of shares	Issue price $	$m
Cumulative non-redeemable 5% preference shares				
Opening balance	1-Oct-05	2,000,000	1.00	2.0
Reclassification under AASB 139	**1-Oct-05**			**(2.0)**
Balance	**30-Sep-06**	**2,000,000**		**-**
Step-Up Preference Securities				
Opening balance	1-Oct-05			
Step-Up Preference Securities issued (1)	**16-Mar-06**	**5,000,000**	**100.00**	**500.0**
Step-Up Preference Securities issued - costs (1)	**16-Mar-06**			**(10.0)**
Balance	**30-Sep-06**	**5,000,000**		**490.0**
Ordinary shares				
Opening balance of ordinary shares issued	1-Oct-04	270,057,893		345.9
Shares issued under the Orica executive option plans (5)		3,971,566		27.7
Share buy-back (3)		(2,943,418)	18.24	(53.7)
Share movements under the Orica LTEIP plan (6)	22-Dec-04	1,096,702		(13.6)
Share movements under the Orica SESLP plan (6)		151,122		7.4
Shares issued under the Orica GEESP plan (2)		72,561	17.53	1.3
Shares issued under the Orica dividends reinvestment plan	8-Jul-05	697,854	17.68	12.3
Balance	**30-Sep-05**	**273,104,280**		**327.3**
Shares issued under the Orica executive option plans (5)		**3,057,493**		**23.7**
Shares issued under the Orica dividends reinvestment plan	**16-Dec-05**	**1,038,688**	**20.06**	**20.9**
Share movements under the Orica LTEIP plan (6)	**23-Dec-05**	**1,208,392**		**13.2**
Shares issued under the Orica Rights Issue (4)	**23-Dec-05**	**34,426,827**	**15.00**	**516.4**
Expenses related to issue the Orica Rights Issue (4)	**23-Dec-05**	**-**		**(8.4)**
Share movements under the Orica SESLP plan (6)				**3.7**
Share buy-back (3)		**(3,617,903)**	**22.53**	**(81.5)**
Balance	**30-Sep-06**	**309,217,777**		**815.3**

(1) Shares issued and costs incurred pursuant to the Step-Up Preference Securities issue in accordance with the prospectus dated 17 February 2006.
(2) Shares issued under the Orica general employee exempt share plan.
(3) Shares bought back and cancelled over a period from July 2006 to August 2006 (2005 January 2005 to June 2005).
(4) Shares issued and costs incurred pursuant to rights issue prospectus dated 21 November 2005.

7. Contributed equity (Continued)

Details	Date	Number of shares	Issue price $	$m
(5) Shares issued under the Orica executive option plan				
2004/2005		174,200	-	-
		6,380	8.31	0.1
		159,400	5.72	0.9
		998,000	5.67	5.7
		2,437,842	7.91	19.3
		8,127	9.02	0.1
		10,044	9.24	0.1
		20,920	10.35	0.2
		10,000	5.67	0.1
		146,653	7.91	1.2
Total for period to :	**30-Sep-05**	**3,971,566**		**27.7**
2005/2006		**32,000**	**5.09**	**0.2**
		6,800	**5.14**	**-**
		14,900	**5.72**	**0.1**
		27,000	**5.67**	**0.2**
		830,511	**7.33**	**6.1**
		4,620	**7.73**	**-**
		1,982,007	**7.91**	**15.7**
		23,380	**8.31**	**0.2**
		12,191	**9.02**	**0.1**
		15,066	**9.24**	**0.1**
		12,759	**9.77**	**0.1**
		34,241	**10.18**	**0.3**
		41,015	**10.35**	**0.4**
		10,000	**10.36**	**0.1**
		11,003	**13.38**	**0.1**
Total for period to :	**30-Sep-06**	**3,057,493**		**23.7**

The options and award rights have been exercised at various times during the year. The weighted average of the fair value of shares issued was $21.92 (2005: $18.86).

Details	Date	Number of shares	Issue price $	$m
(6) Shares issued/bought back under the Orica LTEIP plan				
Shares issued	22-Dec-04	1,096,702	20.16	-
Shares bought back	22-Dec-04	-		(13.6)
Total for period to :	**30-Sep-05**	**1,096,702**		**(13.6)**
Shares issued	23-Dec-05	**1,208,392**	**20.67**	**-**
Shares bought back	23-Dec-05	**-**		**(0.1)**
Shares bought back	23-Dec-05	**-**		**(3.1)**
Shares issued - loan repayment	Various	**-**		**16.4**
Total for period to :	**30-Sep-06**	**1,208,392**		**13.2**
Shares issued under the Orica SESLP plan				
2004/2005		-		
Shares issued	6-Jun-05	151,122	16.05	-
Shares issued - loan repayment	Various	-		7.4
Total for period to :	**30-Sep-05**	**151,122**		**7.4**
2005/2006 Shares issued - loan repayment	Various			**3.7**
Total for period to :	**30-Sep-06**	**-**		**3.7**

Under the SESLP and LTEIP, eligible executives are provided with a 3 year, interest free, non-recourse loan from the Company for the sole purpose of acquiring shares in Orica. Executives may not deal with the shares while the loan remains outstanding and any dividends paid on the shares are applied (on an after tax basis) towards repaying the loan. The shares issued to the executives are either purchased on market or issued by Orica. Shares issued under employee incentive share plans in conjunction with non-recourse loans are accounted for as options. As a result, the amounts receivable from employees in relation to these loans are not recognised in the financial statements. Shares issued under the plans are recognised as shares issued at nil value, with a share based payments expense recognised in the income statement. Shares purchased on-market under the plans are recognised as a share buy-back. Repayments of share loans are recognised as share capital.

The amounts recognised in the financial statements of the Company and the consolidated entity in relation to executive share options exercised during the financial year were:

	Company	
	2006	2005
	$m	$m
Issued ordinary share capital	**40.6**	35.1

7. Contributed equity (continued)

Options over unissued shares:

Exercisable between		Balance 30 Sep 04	Issued/ Reinstated During Period	Exercised During Period	Lapsed During Period	Balance 30 Sep 05	**Exercised During Period**	**Lapsed During Period**	**Balance 30 Sep 06**
01 Jan 03	31 Dec 09	61,880	-	(6,380)	(11,000)	44,500	**(28,000)**	**-**	**16,500**
01 Jan 04	31 Dec 10	215,700	-	(159,400)	-	56,300	**(21,700)**	**-**	**34,600**
31 Dec 04	31 Dec 06	1,116,000	10,000	(1,008,000)	-	118,000	**(59,000)**	**-**	**59,000**
31 Oct 05	31 Oct 07 [1]	7,492,067	42,397	(2,584,495)	(72,307)	4,877,662	**(2,812,518)**	**(277,654)**	**1,787,490**
31 Oct 05	31 Oct 07 [1]	40,176	-	(10,044)	-	30,132	**(15,066)**	**-**	**15,066**
31 Oct 05	31 Oct 07 [1]	32,509	-	(8,127)	-	24,382	**(12,191)**	**-**	**12,191**
31 Oct 05	31 Oct 07 [1]	115,421	-	(20,920)	(13,882)	80,619	**(53,774)**	**-**	**26,845**
31 Oct 05	31 Oct 07 [1]	20,000	-	-	-	20,000	**(10,000)**	**-**	**10,000**
31 Oct 05	31 Oct 07 [1]	84,576	-	-	(9,167)	75,409	**(34,241)**	**-**	**41,168**
10 Nov 05	31 Oct 07 [1]	27,507	-	-	-	27,507	**(11,003)**	**-**	**16,504**
10 Nov 06	31 Oct 07 [1]	21,045	-	-	-	21,045	**-**	**-**	**21,045**
Total		9,226,881	52,397	(3,797,366)	(106,356)	5,375,556	**(3,057,493)**	**(277,654)**	**2,040,409**

[1] Options may be exercised from one day after the release of the annual results to 31 October of the following year during specific trading periods as outlined in the Corporate Governance practices disclosure.

Pursuant to the terms on which they were granted, the exercise price of outstanding ESOP and SOP options were adjusted in accordance with ASX listing rule 6.22.2 to reflect the impact of the rights issue in December 2005 as follows:

Old price	5.67	5.72	7.91	8.31	9.02	9.24	10.18	10.35	10.36	13.38	17.35
New price	5.09	5.14	7.33	7.73	8.44	8.66	9.60	9.77	9.78	12.80	16.77

Award Rights over unissued shares:

Exercisable between		Balance 30 Sep 04	Issued/ Reinstated During Period	Exercised During Period	Lapsed During Period	Balance 30 Sep 05
31 Dec 04	31 Dec 06	172,200	2,000	(174,200)	-	-
Total		172,200	2,000	(174,200)	-	-

	2006 $m	2005 $m
Total equity reconciliation		
Total equity at the beginning of the period	**1,519.5**	1,539.4
Total changes recognised in statement of recognised income and expense	**510.1**	187.8
Transactions with owners as owners		
Dividends provided for or paid	**(207.1)**	(187.4)
Share based payments reserve movements	**9.8**	11.6
Transfer of reserves to income statement on disposal of foreign subsidiaries	**(0.1)**	-
Purchase of minorities	**1.9**	-
Disposal of minorities	**(1.9)**	-
Contribution of equity	**978.0**	(18.6)
Adjustments to Share Capital on transition to AASB 139	**(2.0)**	-
Total changes in minority interest	**(140.0)**	(13.3)
Total equity at the end of the period	**2,668.2**	1,519.5

8. Statement of reserves and retained earnings

	2006 $m	2005 $m
Reserves and retained earnings		
(a) Reserves		
Share based payments	**18.9**	9.1
Cash flow hedging	**(15.6)**	-
Foreign currency translation	**(49.9)**	(29.9)
Equity	**-**	-
Balance at end of the period	**(46.6)**	(20.8)
Movement in reserves during the period		
Share based payments		
Balance at beginning of year	**9.1**	(2.5)
Share based payments expense	**9.8**	11.6
Balance at end of the period	**18.9**	9.1
Cash flow hedging		
Balance at beginning of year	**-**	-
Transition adjustments re AASB 139	**(19.0)**	-
Movement for the period	**3.4**	-
Balance at end of the period	**(15.6)**	-
Foreign currency translation		
Balance at beginning of year	**(29.9)**	-
Transition adjustments re AASB 139	**6.5**	-
Transfer to income statement on disposal of foreign subsidiaries	**(0.1)**	-
Translation of overseas controlled entities at the end of the period	**(26.4)**	(29.9)
Balance at end of the period	**(49.9)**	(29.9)
Equity		
Balance at beginning of year	**-**	-
Purchase of minority interests	**1.9**	-
Disposal of entities	**(1.9)**	-
Balance at end of the period	**-**	-
(b) Retained earnings		
Retained earnings at the beginning of the period	**1,019.4**	989.1
Operating profit after income tax attributable to members of Orica	**539.1**	208.3
Transition adjustments re AASB 139	**(6.3)**	-
Defined Benefit Fund Superannuation movement	**12.8**	9.4
Dividends:		
Preference – declared/paid	**-**	(0.1)
Ordinary – interim paid	**(81.0)**	(68.1)
Ordinary – final prior year declared/paid	**(126.1)**	(119.2)
Retained earnings at the end of the period	**1,357.9**	1,019.4

9. Investments accounted for using the equity method

The consolidated entity has an interest in the following entities:

Name of entity:	Percentage of ownership interest held at end of period or date of disposal		Contribution to net profit	
	30 Sept 2006	30 Sept 2005	**30 Sept 2006**	30 Sept 2005
	%	%	**$m**	$m
Qenos Holdings Pty Limited (Disposed 16 February 2006)	**-**	50.0	**-**	-
Nelson Brothers, LLC	**50.0**	50.0	**10.1** (Nelson Brothers, LLC; Nelson Brothers Mining Services, LLC; Emirates Explosives LLC)	6.3 (Nelson Brothers, LLC; Nelson Brothers Mining Services, LLC; Emirates Explosives LLC)
Nelson Brothers Mining Services, LLC	**27.7**	27.7		
Emirates Explosives LLC	**49.0**	49.0		
Pigment Manufacturers of Australia Limited	**50.0**	50.0	**Individually not material In aggregate 2.3** (Pigment Manufacturers of Australia Limited to PIIK Limited Partnership)	Individually not material In aggregate loss of 0.3 (Pigment Manufacturers of Australia Limited to PIIK Limited Partnership)
BXL Bulk Explosives Limited	**50.0**	50.0		
Controlodora DNS de RL de CV *	**49.0**	-		
Dyno Nobel Petrolera *	**47.0**	-		
Dyno Nobel UMMC LLC *	**50.0**	-		
Irish Mining Emulsion Systems Ltd *	**50.0**	-		
Makina Kimya Nitro Nobel Kimya Sanayii A.S *	**25.0**	-		
Norabel Ignition Systems AB *	**50.0**	-		
OY Forcit *	**20.0**	-		
SVG&FNS Philippines Holdings Inc	**40.0**	-		
Thai Nitrate Company Ltd *	**50.0**	-		
Ulaex SA *	**50.0**	-		
Northwest Energetic Services, LLC	**33.3**	33.3		
Botany Industrial Park Pty Limited	**33.4**	50.0		
Geneva Nitrogen LLC	**50.0**	50.0		
MicroCoal Inc.	**50.0**	5.0		
Geodynamics B.V. (Acquired 15 July 2005)	**29.0**	29.0		
Sprewa Sprengmittel GmbH	**24.0**	24.0		
MSW-Chemie GmbH	**31.5**	31.5		
Troisdorf GmbH	**50.0**	50.0		
Wurgendorf GmbH	**50.0**	50.0		
Pinegro Products Pty Ltd	**50.0**	50.0		
Orica Camel Coatings Ltd	**50.0**	50.0		
Australian Plantations Pty Ltd	**50.0**	50.0		
Tasmannia Lanceolata Plantation	**50.0**	50.0		
Exor Explosives Limited	**50.0**	50.0		
PIIK Limited Partnership	**49.0**	49.0		
Total			**12.4**	6.0

*Acquired on 1 June 2006 with purchase of Dyno Nobel entities.

10. Acquisition and disposal of businesses/controlled entities

Businesses acquired

Consolidated - 2006

Acquisition of businesses and controlled entities

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

Dyno Nobel entities

In September 2005, Orica announced that it had signed an agreement with a Macquarie led consortium ("Macquarie consortium") to acquire substantially all of the European, Middle Eastern, African, Asian and Latin American businesses of Dyno Nobel. The agreement followed the Macquarie consortium's acquisition of 100% of Dyno Nobel from Industri Kapital which was subject to regulatory approvals and which was completed in late November 2005. Approximately US$685 million (A$902 million) was paid to the Macquarie consortium under the purchase agreement and this amount was initially recognised by the Group as a receivable, pending the completion of the acquisition of the identified individual entities. As regulatory approvals were obtained, the businesses were acquired on a country by country basis and the receivable was progressively reduced. The acquisition of entities under the agreement was completed on 1 June 2006, at which time the receivable was reduced to nil.

The Dyno entities were acquired as follows:

(1) On 31 December 2005, Dyno Nobel (Thailand) Limited, Dyno Nobel Slovakia AS, Dyno Nobel Schweiz AG and Ensign-Bickford Venezuela C.A. (51%).

(2) On 8 March 2006, Orica Dyno Nobel Philippines Inc. (96.1%) and Nitro Asia Company Inc.

(3) On 10 May 2006, 56% of Dyno Nobel Chile and Industriales Chile.

(4) On 1 June 2006, the remainder of Dyno Nobel Chile and Industriales Chile.

(5) On 1 June 2006, the remaining Dyno entities in Asia, Latin America, Europe, the Middle East and Africa.

Other entities

During December 2005, Orica purchased the remaining 49% minority interest in Orica Kimit Explosives AB and Orica Kimit Norge AS.

On 31 May 2006, 60% of GeoNitro Limited was purchased.

Accounting standards require the fair value of the net assets acquired to be recognised. These financial statements include the preliminary purchase price allocation of acquired net assets. Accounting standards permit up to 12 months for acquisition accounting to be finalised following the acquisition date. The final position of the acquired net assets will be presented in the full year financial statements at 30 September 2007.

2006	Book Values $m	Fair Value Adjustments $m	Total $m
Consideration *			
cash paid	**918.0**	**-**	**918.0**
acquisition costs	**41.8**	**-**	**41.8**
net cash acquired	**(77.6)**	**-**	**(77.6)**
	882.2	**-**	**882.2**
Fair value of net assets of businesses/controlled entities acquired			
trade and other receivables	**104.7**	**39.2**	**143.9**
inventories	**72.3**	**2.1**	**74.4**
investments	**27.0**	**44.4**	**71.4**
property, plant and equipment	**93.1**	**22.0**	**115.1**
intangibles including purchased goodwill	**10.8**	**69.4**	**80.2**
other assets	**34.4**	**23.2**	**57.6**
payables and interest bearing liabilities	**(150.3)**	**-**	**(150.3)**
provision for dividends	**(1.1)**	**-**	**(1.1)**
provision for employee entitlements	**(61.6)**	**(23.7)**	**(85.3)**
provision for restructuring and rationalisation	**(3.4)**	**-**	**(3.4)**
provision for environmental	**(6.9)**	**(24.0)**	**(30.9)**
provision for taxation	**(3.7)**	**(23.5)**	**(27.2)**
contingent liabilities	**-**	**(8.1)**	**(8.1)**
other provisions	**(5.2)**	**-**	**(5.2)**
	110.1	**121.0**	**231.1**
Less minority interest at date of acquisition	**(12.2)**	**-**	**(12.2)**
	97.9	**121.0**	**218.9**
Goodwill on acquisition	**-**	**-**	**663.3**

* The total consideration amount of $882.2 million includes $875.6 million for newly controlled entities and $6.6 million for the minority share of controlled entities.

10. Acquisition and disposal of businesses/controlled entities (continued)

Results contributed by acquired entities since acquisition date	**2006 $m**
Revenue for the period	**247.7**
Earnings before interest, tax, depreciation and amortisation (EBITDA) for the period	**35.0**

The unaudited operating revenue and earnings before interest, tax, depreciation and amortisation for the 12 months to 30 June 2005 as disclosed in the rights issue prospectus dated 21 November 2005 and the Orica Step-Up Preference Securities Prospectus dated 17 February 2006 are as follows:	2005 $m
Operating revenue	537.3
EBITDA	82.0

The historical information was compiled by Orica management based on limited financial information available to Orica during due diligence and assuming no material transactions between Orica and the acquired businesses. Revenue and net profit of the acquired entities for the 12 months ended 30 September 2006 have not been disclosed due to lack of separate historical information, significant historical transactions between entities purchased and entities not purchased, material acquisition adjustments and restructuring and integration activities of the acquired businesses.
Goodwill has arisen on the purchase of these entities because of assets that did not meet the criteria for recognition as an identifiable intangible asset at date of acquisition.

Consolidated - 2005
Acquisition of businesses and controlled entities
The consolidated entity acquired the following businesses and entities (100% unless stated otherwise):
(1) On 1 December 2004, the purchase of Woods and Woods was completed.
(2) On 1 February 2005, the purchase of Keith Harris Flavours and Fragrances was completed.
(3) On 28 February 2005, the purchase of 51% of Andean Chemicals Group was completed.
(4) On 2 May 2005, the purchase of Aluminates Chemicals Industries was completed.

2005	Book Values $m	Fair Value Adjustments $m	Total $m
Consideration			
cash paid	67.4	-	67.4
net cash acquired	(8.2)	-	(8.2)
	59.2	-	59.2
Fair value of net assets of businesses/controlled entities acquired			
trade and other receivables	12.7	-	12.7
inventories	10.7	-	10.7
property, plant and equipment	11.0	-	11.0
intangibles including purchased goodwill	3.7	-	3.7
other assets	2.9	-	2.9
payables and interest bearing liabilities	(15.3)	-	(15.3)
provision for employee entitlements	(0.8)	-	(0.8)
provision for restructuring and rationalisation	(1.5)	-	(1.5)
provision for taxation	(0.5)	-	(0.5)
	22.9	-	22.9
Less minority interest at date of acquisition	(4.4)	-	(4.4)
	18.5	-	18.5
Goodwill on acquisition	-	-	40.7

Results contributed by acquired entities since acquisition date	2005 $m
Revenue for the period to 30 September 2005	51.9
EBITDA for the period to 30 September 2005	6.9

Revenue and net profit of the acquired entities for the 12 months ended 30 September 2005 have not been disclosed due to lack of historical information, and restructuring and integration activities of the acquired entities resulting in historical results not being comparable for the acquired entities activities going forward. Goodwill has arisen on the purchase of these entities because of assets that did not meet the criteria for recognition as an identifiable intangible asset at date of acqusition.

The goodwill on acquisition of Bronson and Jacobs Group was increased during the year following agreement on the final earn out due on the acquisition of the acquired entities.

11. Discontinued operations and businesses disposed

The Fertilisers business was disposed of on 15 May 2006 and is reported as a discontinued operation. This note shows the results of the continuing businesses and the discontinued business.

For the year ended 30 September	Continuing 2006 $m	Discontinued 2006 $m	Consolidated 2006 $m	Continuing 2005 $m	Discontinued 2005 $m	Consolidated 2005 $m
Sales revenue	**4,745.6**	**613.6**	**5,359.2**	4,052.8	1,073.9	5,126.7
Other income	**57.8**	**440.8**	**498.6**	56.4	7.9	64.3
Expenses						
Changes in inventories of finished goods and work in progress	**(13.2)**	**96.9**	**83.7**	28.7	23.2	51.9
Raw materials and consumables used and finished goods purchased for resale	**(2,473.5)**	**(437.6)**	**(2,911.1)**	(2,147.2)	(733.6)	(2,880.8)
Share based payments	**(9.4)**	**(0.4)**	**(9.8)**	(12.2)	0.6	(11.6)
Other employee benefits expense	**(780.5)**	**(43.0)**	**(823.5)**	(687.7)	(82.1)	(769.8)
Depreciation and amortisation expense	**(137.9)**	**(19.0)**	**(156.9)**	(114.3)	(26.1)	(140.4)
Purchased services	**(354.6)**	**(28.4)**	**(383.0)**	(300.1)	(51.5)	(351.6)
Repairs and maintenance	**(119.4)**	**(31.9)**	**(151.3)**	(98.4)	(45.6)	(144.0)
Impairment of property, plant & equipment	**(18.4)**	**-**	**(18.4)**	(35.0)	(14.8)	(49.8)
Impairment of intangibles	**(16.6)**	**-**	**(16.6)**	(2.8)	-	(2.8)
Outgoing freight	**(238.9)**	**(15.2)**	**(254.1)**	(190.2)	(31.0)	(221.2)
Lease payments - operating leases	**(59.7)**	**(5.4)**	**(65.1)**	(55.7)	(12.5)	(68.2)
Other expenses from ordinary activities including individually material items	**(339.9)**	**(95.7)**	**(435.6)**	(113.9)	(81.6)	(195.5)
Share of net profits of associates accounted for using the equity method	**12.4**	**-**	**12.4**	6.0	-	6.0
	(4,549.6)	**(579.7)**	**(5,129.3)**	(3,722.8)	(1,055.0)	(4,777.8)
Profit from operations	**253.8**	**474.7**	**728.5**	386.4	26.8	413.2
Net financing costs						
Financial income	**64.7**	**(4.5)**	**60.2**	13.6	(7.2)	6.4
Financial expenses	**(151.6)**	**(0.8)**	**(152.4)**	(106.6)	(2.3)	(108.9)
Net financing costs	**(86.9)**	**(5.3)**	**(92.2)**	(93.0)	(9.5)	(102.5)
Profit before income tax expense	**166.9**	**469.4**	**636.3**	293.4	17.3	310.7
Income tax expense	**(46.4)**	**(28.5)**	**(74.9)**	(81.9)	(6.9)	(88.8)
Profit after tax	**120.5**	**440.9**	**561.4**	211.5	10.4	221.9
Net Profit for the period attributable to:						
Equity holders of Orica Limited	**107.9**	**431.2**	**539.1**	202.3	6.0	208.3
Minority interest	**12.6**	**9.7**	**22.3**	9.2	4.4	13.6
Net Profit for the period	**120.5**	**440.9**	**561.4**	211.5	10.4	221.9

11. Discontinued operations and businesses disposed (continued)

Disposal of businesses/controlled entities

The following controlled entities were disposed of:

(1) On 2 March 2006, Orica disposed of its 88.3% share in Orica Paints (Fiji) Limited.

(2) On 15 May 2006, Orica completed the sale of a 56.5% stake in listed company Incitec Pivot Limited (IPL), via an institutional placement underwritten by Macquarie Equity Capital Markets Limited. The balance of Orica's holding in IPL (13.5% of IPL's issued ordinary shares) was sold to IPL under a selective share buy-back on 11 July 2006, ceasing Orica's involvements in the fertilisers business. This disposal has been disclosed as a discontinued operation.

(3) On 31 July 2006, Orica disposed of Orica Scandanavia Mining Services AB and Orica Kimit Norge AS.

	Consolidated	
	2006	2005
	$m	$m
Consideration		
cash received	**876.8**	-
cash disposed	**(22.8)**	-
disposal costs	**(34.5)**	-
	819.5	-
Carrying value of net assets of businesses/controlled entities disposed		
trade and other receivables	**234.8**	-
inventories	**362.8**	-
property, plant and equipment	**299.9**	-
intangibles	**213.5**	-
other assets	**51.0**	-
payables and interest bearing liabilities	**(482.3)**	-
provision for employee entitlements	**(14.6)**	-
provision for restructuring	**(10.9)**	-
provision for dividends	**(12.8)**	-
provision for income tax	**(42.1)**	-
provision for environmental	**(47.5)**	-
provision for other	**(7.9)**	-
	543.9	-
Less outside equity interests at date of disposal	**(159.4)**	-
	384.5	-
Profit on sale of business/controlled entities [1]	**435.0**	-

[1] Disclosed as Profit on sale of business/controlled entities: $428.6 million relates to discontinuing operations and $6.4 million relates to other minor divestments.

Cash flows from discontinued operations		
Cash flows from operating activities	**(72.4)**	69.7
Cash flows from investing activities	**(17.9)**	(29.2)
Cash flows from financing activities	**108.2**	(121.1)
	17.9	(80.6)

11. Discontinued operations and businesses disposed (continued)

Reconciliation of net profit after tax	Continuing 2006 $m	Discontinued 2006 $m	Consolidated 2006 $m	Continuing 2005 $m	Discontinued 2005 $m	Consolidated 2005 $m
Before individually material items						
Profit before income tax expense	**496.5**	**69.0**	**565.5**	424.4	74.0	498.4
Income tax expense	**(139.2)**	**(17.2)**	**(156.4)**	(112.2)	(22.7)	(134.9)
Profit after tax before Minority Interests	**357.3**	**51.8**	**409.1**	312.2	51.3	363.5
Minority Interests	**13.1**	**15.7**	**28.8**	9.2	14.4	23.6
Profit after tax before individually material items	**344.2**	**36.1**	**380.3**	303.0	36.9	339.9
Individually material items						
Profit before income tax expense	**(329.6)**	**400.4**	**70.8**	(131.0)	(56.7)	(187.7)
Income tax expense	**92.8**	**(11.3)**	**81.5**	30.3	15.8	46.1
Profit after tax before Minority Interests	**(236.8)**	**389.1**	**152.3**	(100.7)	(40.9)	(141.6)
Minority Interests	**(0.5)**	**(6.0)**	**(6.5)**	-	(10.0)	(10.0)
Profit after tax from individually material items	**(236.3)**	**395.1**	**158.8**	(100.7)	(30.9)	(131.6)
Net profit after tax						
Profit before income tax expense	**166.9**	**469.4**	**636.3**	293.4	17.3	310.7
Income tax expense	**(46.4)**	**(28.5)**	**(74.9)**	(81.9)	(6.9)	(88.8)
Profit after tax before Minority Interests	**120.5**	**440.9**	**561.4**	211.5	10.4	221.9
Minority Interests	**12.6**	**9.7**	**22.3**	9.2	4.4	13.6
Profit after tax	**107.9**	**431.2**	**539.1**	202.3	6.0	208.3
Net Profit for the period attributable to:						
Equity holders of Orica Limited	**107.9**	**431.2**	**539.1**	202.3	6.0	208.3
Minority interest	**12.6**	**9.7**	**22.3**	9.2	4.4	13.6
Net Profit for the period	**120.5**	**440.9**	**561.4**	211.5	10.4	221.9

	Consolidated 2006 $m	Consolidated 2005 $m
Assets/liabilities held for sale		
The following assets and liabilities are held for sale:		
Trade and other receivables	**19.0**	-
Inventories	**12.4**	-
Other assets	**0.4**	-
Total current assets held for sale	**31.8**	-
Property, plant and equipment	**30.3**	-
Total non-current assets held for sale	**30.3**	-
Trade and other payables	**20.5**	-
Provision for income tax	**0.1**	-
Provision for environmental	**2.7**	-
Provison for employee benefits	**1.1**	-
Total current liabilities held for sale	**24.4**	-

12. Income tax

	Continuing 2006 $m	Discontinued 2006 $m	Consolidated 2006 $m	Continuing 2005 $m	Discontinued 2005 $m	Consolidated 2005 $m
Income tax expense						
a) Income tax expense recognised in the income statement						
Current tax expense						
Current year	**117.9**	**38.7**	**156.6**	71.2	10.2	81.4
Deferred tax	**(76.0)**	**(8.5)**	**(84.5)**	14.3	(3.2)	11.1
Under/(over) provided in prior years	**4.5**	**(1.7)**	**2.8**	(3.6)	(0.1)	(3.7)
Total income tax expense in income statements	**46.4**	**28.5**	**74.9**	81.9	6.9	88.8
b) Reconciliation of income tax expense to prima facie tax payable						
Income tax expense attributable to operating profit before individually material items						
Prima facie income tax expense calculated at 30% on profit before individually material items	**149.0**	**20.7**	**169.7**	127.3	22.2	149.5
Tax effect of items which (reduce)/increase tax expense:						
variation in tax rates of foreign controlled entities	**4.2**	**-**	**4.2**	5.0	-	5.0
tax under/(over) provided in prior years	**4.5**	**(1.7)**	**2.8**	(3.6)	(0.1)	(3.7)
non allowable share based payment	**2.8**	**0.1**	**2.9**	3.5	(0.2)	3.3
non taxable profit on sale of investments	**(0.9)**	**(1.4)**	**(2.3)**	-	-	-
non taxable profit on sale of property, plant and equipment	**(0.1)**	**(0.5)**	**(0.6)**	(4.4)	0.1	(4.3)
other foreign deductions	**(25.1)**	**-**	**(25.1)**	(20.9)	-	(20.9)
sundry items	**4.8**	**-**	**4.8**	5.3	0.7	6.0
Income tax expense attributable to profit before individually material items	**139.2**	**17.2**	**156.4**	112.2	22.7	134.9
Income tax expense/(benefit) attributable to individually material items						
Prima facie income tax (benefit)/expense calculated at 30% on loss from individually material items	**(98.9)**	**120.1**	**21.2**	(39.3)	(17.0)	(56.3)
Tax effect of items which (reduce)/increase tax expense:						
variation in tax rates of foreign controlled entities	**(6.0)**	**-**	**(6.0)**	(1.1)	-	(1.1)
individually material items:						
recognition of capital losses	**-**	**(110.2)**	**(110.2)**	-	-	-
non allowable impairment write down (A&R)	**3.0**	**-**	**3.0**	0.9	-	0.9
non allowable IPL restructuring costs	**-**	**-**	**-**	-	1.3	1.3
non allowable provisions & expenses re Qenos	**-**	**-**	**-**	9.4	-	9.4
non allowable Chemnet restructuring costs	**0.9**	**-**	**0.9**	-	-	-
non allowable Dyno Nobel integration costs	**1.4**	**-**	**1.4**	-	-	-
non allowable Dyno Nobel net financing income	**2.0**	**-**	**2.0**	-	-	-
non allowable taxation writedown and provision - Cropcare	**4.8**	**-**	**4.8**	-	-	-
other	**-**	**1.4**	**1.4**	(0.2)	(0.1)	(0.3)
Income tax expense/(benefit) attributable to profit from individually material items	**(92.8)**	**11.3**	**(81.5)**	(30.3)	(15.8)	(46.1)
Income tax expense reported in the income statements	**46.4**	**28.5**	**74.9**	81.9	6.9	88.8

13. Critical accounting judgements and estimates

Management determined the development, selection and disclosure of the consolidated entity's critical accounting policies, estimates and accounting judgements and the application of these policies and estimates. Management necessarily makes judgements and estimates that have a significant effect on the amounts recognised in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates used in preparing the financial report are reasonable and in accordance with accounting standards. Changes in the assumptions underlying the estimates could result in a significant impact on the financial statements. The most critical of these assumptions and judgements are:

Contingent liabilities

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 our current or former sites. Where we believe that potential liabilities have a low probability of crystallising or it is not possible to quantify reliably, we treat them as contingent liabilities. These are not provided for in the financial statements but are disclosed in the notes. In view of the significance of environmental issues associated with Botany (NSW, Australia) Groundwater, Botany Hexachlorobenzene (HCB) Waste, Botany Car Park Encapsulation, Villawood (NSW, Australia) and Seneca (Illinois, USA) they continue to be disclosed as contingent liabilities even though estimated costs have been recognised in the financial statements. Further details regarding contingent liabilities are set out in Note 14.

Environmental and Decommissioning Provisions

The business of the Group is subject to a variety of laws and regulations in the jurisdictions in which it operates or maintains properties. Provisions for expenses that may be incurred in complying with such laws and regulations are set aside if environmental inquiries or remediation measures are probable and the costs can be reliably estimated. For sites where there are uncertainties with respect to what Orica's remediation obligations might be or what remediation techniques might be approved and no reliable estimate can presently be made of regulatory and remediation costs, no amounts have been provided for. With regard to the HCB Waste Clean Up, it is assumed that the licence to export waste to Europe will be obtained. It is also assumed that the methods planned for environmental cleanup will be able to treat the issues within the expected timeframe.

It is difficult to estimate the future costs of environmental remediation because of many uncertainties, particularly with regard to the status of laws, regulations and the information available about conditions in the various countries and at the individual sites. Significant factors in estimating the costs include previous experiences in similar cases, expert opinions regarding environmental programs, current costs and new developments affecting costs, management's interpretation of current environmental laws and regulations, the number and financial position of third parties that may become obligated to participate in any remediation costs on the basis of joint liability, and the remediation methods which are likely to be deployed.

Environmental costs are estimated using either the work of external consultants or internal experts. Changes in the assumptions underlying these estimated costs could impact future reported results. Subject to these factors, but taking into consideration experience gained to date regarding environmental matters of a similar nature, Orica believes the provisions to be appropriate based upon currently available information. However, given the inherent difficulties in estimating liabilities in this area, and recent experience, it cannot be guaranteed that additional costs will not be incurred beyond the amounts provided. It is possible that final resolution of these matters may require expenditures to be made in excess of established provisions over an extended period of time that may result in changes in timing of anticipated cash flows from those assumed and in a range of amounts that cannot be reasonably estimated. The discount rate used for environmental provisioning is Orica's weighted average cost of capital and this may vary from year to year.

Legal Proceedings

The outcome of currently pending and future proceedings cannot be predicted with certainty. Thus, an adverse decision in a lawsuit 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. Litigation and other judicial proceedings as a rule 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 suit is brought and differences in applicable law. Upon resolution of any pending legal matter, 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 the unfavourable outcome of litigation. Litigation and administrative 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.

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.

13. Critical accounting judgements and estimates (continued)

Defined benefit superannuation fund obligations

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. Any actuarial gains and losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, are recognised immediately in the consolidated statement of recognised income and expense. In all cases, the pension costs are assessed in accordance with the advice of independent qualified actuaries but require the exercise of significant judgement in relation to assumptions for future salary and pension increases, long term price inflation and investment returns. While management believes the assumptions used are appropriate, a change in the assumptions used would impact the earnings of the Group.

Property, plant and equipment and definite life intangible assets

The Group's property, plant and equipment and intangible assets (other than indefinite life intangibles) are depreciated/amortised on a straight line basis over their useful economic lives. Management reviews the appropriateness of assets useful economic lives at least annually but any changes to useful economic lives could affect prospective depreciation rates and asset carrying values.

Impairment of assets

The Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash generating unit (CGU). The recoverable amount of those assets, or CGU's, is measured as the higher of their fair value less costs to sell and value in use. Management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate CGUs. The determination of value in use requires the estimation and discounting of cashflows. The estimation of the cashflows considers all the information available at closing date which may deviate from actual developments. This includes, among other things, expected revenue from sales of products, the return on assets, future costs and discount rates. Subsequent changes to the CGU allocation or to the timing of cash flows could impact the carrying value of the respective assets.

The Botany Groundwater Treatment Plant is not yet fully operational. Impairment testing of this plant has assumed that the plant becomes operational and that the treated water from this plant will be sold to industrial customers for the assumed prices (approximately Sydney Water prices). The carrying value of the Groundwater Treatment Plant included in property, plant and equipment at 30 September 2006 is $63 million.

Current Asset Provisions

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

Taxation

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 anticipated tax audit 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 will alter expectations 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.

Foreign exchange movements

The Annual report gives a detailed detailed analysis of the foreign exchange exposure of the consolidated entity and risks in relation to foreign exchange movements.

Acquisition Accounting

During the year, Orica progressively acquired the Dyno Nobel businesses on a country by country basis as regulatory approvals were obtained. Acquisition accounting standards require the fair value of the net assets acquired to be recognised. This financial report includes the preliminary purchase price allocation of acquired net assets. Accounting standards permit up to 12 months for acquisition accounting to be finalised following the acquisition date. The final classification of the acquired net assets will be presented in the full year annual report at 30 September 2007, however they may vary significantly from those disclosed in this report.

14. Contingent liabilities and contingent assets

Environmental

(i) General

A number of sites within the Group has been identified as requiring environmental remediation or review. Appropriate implementation of remediation actions to meet Orica's obligations for these sites is continuing.

In accordance with the current accounting policy (refer note 1 xix) provisions have been created for all known environmental liabilities that can be reliably estimated. For sites where the requirements have been assessed and are capable of reliable measurement, estimated regulatory and remediation costs have been capitalised, expensed as incurred or provided for. For environmental matters where there are significant uncertainties with respect to Orica's remediation obligations or the remediation techniques that might be approved, no reliable estimate can presently be made of regulatory and remediation costs.

There can be no assurance that new information or regulatory requirements with respect to known sites or the identification of new remedial obligations at other sites will not require additional future provisions for environmental remediation and such provisions could be material.

Orica has entered into arrangements with the relevant regulatory authorities for a number of sites to investigate possible land and groundwater contamination and where appropriate, undertake voluntary remediation activities on these sites. Where reliable estimates are possible and remediation techniques have been identified for these sites, provisions have been established in accordance with current accounting policy.

(ii) Significant environmental matters which are in progress at the date of this report are as follows:

Botany Groundwater (New South Wales, Australia)

Orica is continuing to conduct extensive remediation activities, including the commissioning and operation of a Groundwater Treatment Plant, to treat the groundwater at Botany, which is contaminated with pollutants from historical operations. The commissioning of the Groundwater Treatment Plant is taking longer than expected due to some initial commissioning and operating issues. Management is confident these issues will be resolved.

Orica is also investigating suitable remediation options for Dense Non-Aqueous Phase Liquid (DNAPL) source areas. No provision has been established for remediation activities in respect of DNAPL as a reliable estimate is not possible at this stage.

Orica has received preliminary results indicating elevated concentrations of mercury in soil and groundwater at the southern end of the Botany site and at adjacent offsite locations. An environmental consultant has been commissioned to assess and report on these concentrations of mercury. No provision has been established for remediation activities in respect of this matter as the extent of contamination is unknown.

Hexachlorobenzene (HCB) Waste Clean Up (Botany, New South Wales, Australia)

In August 2006, Orica submitted its application for export approval of HCB waste to the Federal Government. In its application, Orica is seeking permission to export the HCB waste for final destruction at high temperature incinerators in Germany. The submission of this application follows an extensive search for a suitable host site in regional New South Wales in accordance with the recommendation of the New South Wales Government Independent Review Panel. A suitable host site could not be located that was acceptable to the local community and that met Orica's siting criteria. In the event that the Federal Government does not grant Orica permission to export the waste, Orica will continue to ensure the safe storage of the HCB waste at Botany. Orica has provided for the estimated costs associated with export and treatment of the waste in the 2006 financial statements.

Car Park Waste Encapsulation (Botany, New South Wales, Australia)

Soil and ash contaminated with low level chlorinated materials (including hexachlorobutadiene and HCB) are stored in an approved and licensed encapsulation on the Botany site, known as the Car Park Waste Encapsulation. Orica has investigated technologies that may be suitable to treat this material and has evaluated conventional destruction methods, such as thermal desorption. Orica has also funded research into novel technologies, including in-situ bioremediation. Due to uncertainty relating to bioremediation, thermal treatment of this waste is the preferred treatment technology. The Botany site environmental licence conditions require Orica to submit an application for planning approval of the proposed remediation in 2006. Orica has provided for estimated costs of treatment of the soil using thermal desorption technology.

Dyno Acquisition

With respect to the sites acquired as a result of the Dyno acquisition, preliminary environmental provisions have been created on acquisition in accordance with applicable accounting standards. There can be no assurance that these preliminary provisions are sufficient to meet future environmental obligations, as only a limited environmental review of these sites has been possible pre and post acquisition. Acquisition accounting standards permit acquisition accounting to be finalised up to 12 months following the acquisition date. The preliminary environmental provisions for Dyno acquired entities will be reviewed and updated if necessary in 2007. They may vary significantly from those disclosed in this report.

14. Contingent liabilities and contingent assets (continued)

Taxation

(i) Tax investigations and audits

Consistent with other companies of the size and diversity of Orica, the Group is the subject of periodic information requests, investigations and audit activities by the Australian Taxation Office ("ATO") and tax authorities in other jurisdictions in which Orica operates.

(ii) Brazilian Tax Action

The Brazilian Taxation authority is claiming unpaid taxes relating to the 1997 financial year of approximately $25 million. ICI, the vendor, has been notified to preserve Orica's rights under the tax indemnity obtained upon acquisition of the business. The Brazilian Taxation authority has been granted security over the Lorena site in relation to these matters.

(iii) Tax Audit – 1998 Sale of Pharmaceuticals Business

On 13 October 2004, Orica Limited received a notice of amended assessment from the ATO for $210.3 million (primary tax of $95.3 million, penalties of $23.8 million and interest of $91.2 million). The amended assessment relates to the sale of the pharmaceuticals business to Zeneca in September 1998.

On 9 November 2004, Orica lodged an objection against the amended assessment. On 10 March 2005, the ATO disallowed the objection and, in March 2005, Orica applied to have the matter dealt with by the Federal Court.

After due consideration, the directors are of the opinion the ATO's case has no merit and accordingly no liability is recognised.

In accordance with the ATO administrative practice, Orica has paid 50% of the amended assessment, which has been recognised as a non-current receivable.

On 28 March 2006, the ATO advised Orica of an error with the interest calculation in relation to the amended assessment, reducing the interest component by $10.2 million. On the basis of the 50% arrangement, Orica Limited received a refund of $5.1 million from the ATO.

The ATO has indicated that if it is unsuccessful in defending the amended assessment against Orica, it may consider issuing an amended assessment for a similar amount to Orica Australia Pty Ltd in respect of the same transaction. The ATO considers that it is not in a position to decide if the second assessment should be issued until the outcome of the dispute with Orica Limited is known. Orica would also contest this matter.

Discounted bills of exchange

A discounted bill of exchange facility is in place with a bank and is utilised by a number of customers for the purpose of trade finance. The majority of these discounted bills of exchange are issued for periods less than 120 days.

The adoption of AIFRS has meant the full amount of this trade finance facility has been brought onto the balance sheet. Prior to the adoption of AIFRS, the facility was disclosed as a contingent liability totalling $191.6 million at September 2005. The total amount of the facility outstanding at 30 September 2006, recognised on the balance sheet as a current interest bearing liability and also as current trade receivables, is $19.6 million.

Guarantees, indemnities and warranties

- The consolidated entity has entered into various long term supply contracts. For some contracts, minimum charges are payable regardless of the level of operations, but in all cases the levels of operations are expected to remain above those that would trigger minimum payments.
- There is 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.
- The consolidated entity has entered into various sales contracts where minimum savings are guaranteed to customers and such savings are expected to be achieved in the ordinary course of business.
- There is a number of other 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. In the opinion of the directors, any further information about these matters would be prejudicial to the interests of the Company.
- There are guarantees relating to certain leases of property, plant and equipment and other agreements arising in the ordinary course of business.

15. Events subsequent to balance date

On 25 August 2006, Orica announced that it had reached an agreement to sell its Australian and New Zealand Adhesives & Resins businesses to Hexion Specialty Chemicals for a purchase price in excess of carrying value. The transaction is subject to ACCC approval. On 1 November 2006, the ACCC issued a Statement of Issues seeking further information on the competitive effects of the proposed sale to Hexion Speciality Chemicals with a final decision expected on 6 December 2006.

On 17 October 2006, Orica announced that it had signed an agreement to acquire leading mining services company Minova for a purchase price of £343m (A$857m) plus £5m (A$13m) of acquisition costs. The acquisition of Minova is expected to be completed before the end of calendar year 2006, after required regulatory clearances are obtained. Orica has entered into forward exchange contracts to hedge the Australian dollar exposure of the acquisition price at a rate of 0.4023.

On 13 November 2006, the directors declared a final dividend of 48 cents per share payable on 15 December 2006. The financial effect of this dividend is not included in the financial statements for the year ended 30 September 2006 and will be recognised in the 2007 financial statements.

The Directors have not become aware of any other significant matter or circumstance that has arisen since 30 September 2006, that has affected or may affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent years, which has not been covered in this report.

16. Impact of adopting AASB equivalents to IASB standards

This is the Group’s first financial report prepared in accordance with the requirements of AIFRS which Orica is required to adopt from 1 October 2005. The rules for first time adoption of AIFRS are set out in AASB 1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards (“AASB 1”). In general, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet as at transition date, being 1 October 2004 with the exception of the requirements of AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement which is only applicable from 1 October 2005 and for which no comparative information is required. AASB1 also allows a number of exemptions and exceptions to this general principle to assist in the transition to reporting under AIFRS, which are set out in this note to the extent they are relevant to Orica.

Presented below are the restated balance sheets at 1 October 2004, 30 September 2005 and 1 October 2005, together with the restated income statements for the period ending 30 September 2005. There are no changes to the cash flow statement identified as part of AIFRS transition.

Balance Sheets under AIFRS

The following table sets out the adjustments to the balance sheet of the Group at transition to AIFRS on 1 October 2004:

		Consolidated		
		AGAAP	**Adj**	**AIFRS**
	Notes	**2004 $m**	**$m**	**2004 $m**
Current assets				
Cash and cash equivalents		148.9	-	148.9
Receivables		754.4	-	754.4
Other financial assets		-	-	-
Inventories		744.7	-	744.7
Other assets	(a)	61.6	(10.0)	51.6
Total current assets		1,709.6	(10.0)	1,699.6
Non-current assets				
Receivables	(g)	21.3	(20.1)	1.2
Investments accounted for using the equity method	(e)	65.7	(17.3)	48.4
Other financial assets		-	-	-
Property, plant and equipment	(a)(c)(e)	1,518.0	(15.4)	1,502.6
Intangible assets	(c)(d)(f)	581.8	18.3	600.1
Deferred tax assets	(b)(e)(j)	216.8	91.7	308.5
Other assets	(a)	40.1	(14.6)	25.5
Total non-current assets		2,443.7	42.6	2,486.3
Total assets		4,153.3	32.6	4,185.9
Current liabilities				
Payables		779.7	-	779.7
Interest bearing liabilities		385.7	-	385.7
Current tax liabilities	(j)	28.2	3.5	31.7
Provisions	(f)	193.2	(9.8)	183.4
Total current liabilities		1,386.8	(6.3)	1,380.5
Non-current liabilities				
Payables		14.8	0.4	15.2
Interest bearing liabilities		740.5	-	740.5
Deferred tax liabilities	(j)	151.7	26.4	178.1
Retirement benefit obligations	(b)	-	86.9	86.9
Provisions	(k)	221.6	23.7	245.3
Total non-current liabilities		1,128.6	137.4	1,266.0
Total liabilities		2,515.4	131.1	2,646.5
Net assets		1,637.9	(98.5)	1,539.4
Equity				
Parent entity interest				
Contributed equity		369.3	(21.4)	347.9
Reserves	(a)(g)	108.1	(110.6)	(2.5)
Retained profits	(a)	951.2	37.9	989.1
Total parent entity interest		1,428.6	(94.1)	1,334.5
Minority interest	(g)(j)	209.3	(4.4)	204.9
Total equity		1,637.9	(98.5)	1,539.4

Balance Sheets under AIFRS

The following table sets out the adjustments to the balance sheet of the Group as at 30 September 2005.

		Consolidated		
		AGAAP	**Adj**	**AIFRS**
		2005		**2005**
	Notes	**$m**	**$m**	**$m**
Current assets				
Cash and cash equivalents		214.7	-	214.7
Receivables		673.6	(2.6)	671.0
Other financial assets		12.3	-	12.3
Inventories		826.3	-	826.3
Other assets	(a)	65.6	(8.3)	57.3
Total current assets		1,792.5	(10.9)	1,781.6
Non-current assets				
Receivables	(g)	144.0	(44.3)	99.7
Investments accounted for using the equity method	(e)	64.1	(15.0)	49.1
Other financial assets		-	-	-
Property, plant and equipment	(a)(c)(e)	1,651.3	(57.6)	1,593.7
Intangible assets	(c)(d)(f)	576.5	57.8	634.3
Deferred tax assets	(b)(e)(j)	208.6	(78.3)	130.3
Other assets	(a)	33.1	(10.6)	22.5
Total non-current assets		2,677.6	(148.0)	2,529.6
Total assets		4,470.1	(158.9)	4,311.2
Current liabilities				
Payables		909.4	-	909.4
Interest bearing liabilities		49.5	-	49.5
Current tax liabilities	(j)	16.5	4.9	21.4
Provisions	(f)	197.3	-	197.3
Total current liabilities		1,172.7	4.9	1,177.6
Non-current liabilities				
Payables		9.1	0.8	9.9
Interest bearing liabilities		1,277.3	-	1,277.3
Deferred tax liabilities	(j)	160.6	(128.9)	31.7
Retirement benefit obligations	(b)	-	74.2	74.2
Provisions	(k)	197.3	23.7	221.0
Total non-current liabilities		1,644.3	(30.2)	1,614.1
Total liabilities		2,817.0	(25.3)	2,791.7
Net assets		1,653.1	(133.6)	1,519.5
Equity				
Parent entity interest				
Contributed equity		381.2	(51.9)	329.3
Reserves	(a)(g)	82.2	(103.0)	(20.8)
Retained profits	(a)	996.9	22.5	1,019.4
Total parent entity interest		1,460.3	(132.4)	1,327.9
Minority interest	(g)(j)	192.8	(1.2)	191.6
Total equity		1,653.1	(133.6)	1,519.5

Balance Sheets under AIFRS

The following table sets out the adjustments to the balance sheet of the Group for the impact of AASB 132 and AASB 139 as at 1 October 2005.

		Consolidated		
	Notes	**AIFRS 2005 $m**	**Adj $m**	**AIFRS 2005 $m**
Current assets				
Cash and cash equivalents		214.7	-	214.7
Receivables	(m)	671.0	191.6	862.6
Other financial assets		12.3	-	12.3
Inventories		826.3	-	826.3
Other assets	(m)	57.3	17.5	74.8
Total current assets		1,781.6	209.1	1,990.7
Non-current assets				
Receivables		99.7	-	99.7
Investments accounted for using the equity method		49.1	-	49.1
Other financial assets		-	-	-
Property, plant and equipment		1,593.7	-	1,593.7
Intangible assets		634.3	-	634.3
Deferred tax assets	(m)	130.3	8.1	138.4
Other assets		22.5	-	22.5
Total non-current assets		2,529.6	8.1	2,537.7
Total assets		4,311.2	217.2	4,528.4
Current liabilities				
Payables	(m)	909.4	60.4	969.8
Interest bearing liabilities	(m)	49.5	175.6	225.1
Current tax liabilities		21.4	-	21.4
Provisions		197.3	-	197.3
Total current liabilities		1,177.6	236.0	1,413.6
Non-current liabilities				
Payables		9.9	-	9.9
Interest bearing liabilities	(m)	1,277.3	2.0	1,279.3
Deferred tax liabilities		31.7	-	31.7
Retirement benefit obligations		74.2	-	74.2
Provisions		221.0	-	221.0
Total non-current liabilities		1,614.1	2.0	1,616.1
Total liabilities		2,791.7	238.0	3,029.7
Net assets		1,519.5	(20.8)	1,498.7
Equity				
Parent entity interest				
Contributed equity	(m)	329.3	(2.0)	327.3
Reserves	(m)	(20.8)	(12.5)	(33.3)
Retained profits	(m)	1,019.4	(6.3)	1,013.1
Total parent entity interest		1,327.9	(20.8)	1,307.1
Minority interest	(m)	191.6	-	191.6
Total equity		1,519.5	(20.8)	1,498.7

Impact of AIFRS on Retained Earnings

The impact of the transition to AIFRS on retained earnings at 1 October 2004 is summarised below:

	Notes	Consolidated $m
Retained earnings at 1 October 2004 under AGAAP		951.2
AIFRS Reconciliation		
- Transfer from realisation and revaluation of assets reserve	(c)	75.6
- Transfer from general and other reserve	(a)	157.0
- Transfer from foreign currency translation reserve	(a)	(124.5)
- Impairment losses	(e)	(28.0)
- Impact of decommissioning and restoration provisions	(k)	(16.6)
- Impact of taxation	(j)	30.2
- Defined benefit superannuation plans (deficits)/surpluses	(b)	(60.2)
- Expensing of share based payments	(g)	4.8
- Minority effect of reconciliation items		(0.4)
Retained earnings at 1 October 2004 under AIFRS		989.1

The impact of the transition to AIFRS on retained earnings at 30 September 2005 is summarised below:

	Notes	Consolidated $m
Retained earnings at 1 October 2004 under AGAAP		951.2
Movements under AGAAP 2004/05		45.7
Retained earnings at 30 September 2005 under AGAAP		**996.9**
1 October 2004 AIFRS adjustments		
- Transfer from realisation and revaluation of assets reserve	(c)	75.6
- Transfer from general and other reserve	(a)	157.0
- Transfer from foreign currency translation reserve	(a)	(124.5)
- Impairment losses	(e)	(28.0)
- Impact of decommissioning and restoration provisions	(k)	(16.6)
- Impact of taxation	(j)	30.2
- Defined benefit superannuation plans (deficits)/surpluses	(b)	(60.2)
- Expensing of share based payments	(g)	4.8
- Minority effect of reconciliation items		(0.4)
Sub total		1,034.8
30 September 2005 AIFRS adjustments		
- Impairment losses	(e)	(26.2)
- Impact of taxation	(j)	(16.0)
- Defined benefit superannuation plans surpluses/(deficits)	(b)	9.3
- Expensing of share based payments	(g)	(11.8)
- Write back of dividends not paid re share based payments	(g)	3.2
- Writeback of goodwill amortisation	(d)	35.5
- Restructuring provisions on acquisition		(6.8)
- Writeback of imputed goodwill amortisation	(d)	0.7
- Expensing of lease payments		(0.2)
- Minority effect of reconciliation items		(3.1)
Retained earnings at 30 September 2005 under AIFRS		**1,019.4**
- Recognition of AASB 139 adjustments	(m)	(6.3)
Retained earnings at 1 October 2005 under AIFRS		**1,013.1**

Income Statements under AIFRS

The following table sets out the adjustments to the income statement of the Group for the year ended 30 September 2005

	Notes	2005 AGAAP $m	Adj $m	2005 AIFRS $m
Revenue		5,126.7	-	5,126.7
Other income	(c)	128.5	(64.2)	64.3
Operating expenses				
Changes in inventories of finished goods and work in progress		51.9	-	51.9
Raw materials and consumables used and		-	-	-
finished goods purchased for resale		(2,880.8)	-	(2,880.8)
Employee expenses		(769.8)	-	(769.8)
Share Based Payments	(g)	-	(11.6)	(11.6)
Depreciation and amortisation expense	(d)	(175.9)	35.5	(140.4)
Purchased services		(351.6)	-	(351.6)
Repairs and maintenance		(144.0)	-	(144.0)
Property, plant & equipment retired/disposed	(c)	(64.2)	64.2	-
Property, plant & equipment/Investments written down	(e)	(14.8)	(37.8)	(52.6)
Outgoing freight		(221.2)	-	(221.2)
Lease payments - operating leases		(68.2)	-	(68.2)
Other expenses from ordinary activities including significant items		(184.8)	(10.7)	(195.5)
Share of associates' net profit equity accounted	(d)	5.3	0.7	6.0
		(4,818.1)	40.3	(4,777.8)
Profit from operations		437.1	(23.9)	413.2
Net financing cost				
Financial income		6.4	-	6.4
Financial expenses		(109.5)	0.6	(108.9)
		(103.1)	0.6	(102.5)
Profit from ordinary activities before income tax expense		334.0	(23.3)	310.7
Income tax expense attributable to profit from ordinary activities	(k)	(87.2)	(1.6)	(88.8)
Profit from ordinary activities after income tax expense		246.8	(24.9)	221.9
Outside equity interests in (profit) from ordinary activities after income tax		(10.5)	(3.1)	(13.6)
Profit from ordinary activities after income tax relating to members of Orica Limited		236.3	(28.0)	208.3

	cents	cents	cents
Earnings per share			
Basic earnings per share:			
Ordinary shares	86.6	(10.3)	76.3
Diluted earnings per share:			
Ordinary shares	85.3	(10.1)	75.2

16. Impact of adopting AASB equivalents to IASB standards (continued)

The significant changes in accounting policies expected to be adopted in preparing the AIFRS reconciliations and the elections expected to be made under AASB 1 are set out below.

a) Reclassifications

On the initial application of AIFRS, Orica elected to apply the exemption in AASB 1 relating to the balance of the foreign currency translation reserve. The cumulative translation differences for all foreign operations represented in the foreign currency translation reserve was deemed to be zero at the date of transition to AIFRS. As a result of this exemption, the balance of the foreign currency translation reserve of the Group at 30 September 2004 was reset to zero with retained earnings decreasing by $124.5 million.

On the initial application of AIFRS, Orica transferred the balance of general and other reserves to retained earnings. The balance of general and other reserves decreased by $157.0 million and retained earnings increased by the same amount.

On the initial application of AIFRS, Orica reclassified expenditure on major cyclical maintenance from other assets to property, plant and equipment. It will then be depreciated over the life of those assets capitalised. As a result of this, current other assets of the Group decreased by $10.0 million, non current other assets of the Group decreased by $14.6 million and property, plant and equipment of the Group increased by $24.6 million.

In September 2005, Orica reclassified expenditure on major cyclical maintenance from other assets to property, plant and equipment. It will then be depreciated over the life of those assets capitalised. As a result of this, the incremental increase over September 2004 to current other assets of the Group at 30 September 2005 was $2.1 million, non current other assets of the Group increased by $4.0 million and property, plant and equipment of the Group decreased by $6.1 million.

b) Employee benefits

Under AASB 119 - Employee Benefits, employer sponsors are required to recognise the net surplus or deficit in their employer sponsored defined benefit funds as an asset or liability respectively. This resulted in a change in the Group's accounting policy which required defined benefit plans to be accounted for on a cash basis, with no defined benefit obligations or plan assets recognised on balance sheet. Under the new policy, Orica is required to recognise an asset/liability of the defined benefit funds for the net surplus/deficit based on an actuarial calculation of the position of the funds. On transition, the net deficit of the defined benefit funds was a decrease to retained earnings. Subsequent to transition, Orica elected to recognise actuarial gains and losses directly to retained earnings.

On transition, superannuation liabilities of the Group increased $86.9 million, deferred tax assets increased by $26.7 million and retained earnings decreased by $60.2 million.

For the financial year ended 30 September 2005, the incremental adjustment for the Group to recognise the decrease in superannuation liability was $12.6 million, deferred tax assets decreased by $3.3 million and retained earnings increased by $9.3 million.

c) Property, plant and equipment

Property, plant and equipment is measured at cost under AIFRS. However, as permitted by the election available under AASB 1, at transition date certain items of property, plant and equipment are recognised at deemed cost, being a revalued amount prior to transition date that approximates the fair value as at the date of transition.

The realisation and revaluation of assets reserve at 30 September 2004 was decreased by $75.6 million. Retained earnings increased by the same amount.

Under AIFRS, the profit or loss on disposal of property, plant and equipment is recognised on a net basis in the income statement rather than separately recognising the consideration as revenue. There is no profit and loss effect of this change. However revenue of the Group for the year to 30 September 2005 decreased by $64.2 million.

Computer software assets included in property, plant and equipment under AGAAP have been reclassified under AIFRS to intangible assets on transition to AIFRS. This resulted in a decrease in the net book value of property, plant and equipment of $25.1 million at transition date, and a reduction of $26.7 million at 30 September 2005 with a corresponding increase in intangible assets.

d) Business combinations

An election is available in AASB 1 which provided Orica with the ability to choose whether the acquisition accounting of business combinations prior to transition date is restated under AIFRS. Entities could choose to restate all prior business combinations; only those after a certain date; or none at all. The Group has elected not to restate business combinations prior to transition date.

Under AASB 3 - Business Combinations, amortisation of goodwill (including imputed goodwill on acquisition of investments accounted for using the equity method) is prohibited, and is replaced by annual impairment testing. This resulted in a change in the Group's accounting policy which amortised goodwill over its useful life but not exceeding 20 years. As a result of not amortising goodwill, the goodwill amortisation expense of the Group decreased by $35.5 million for the year to 30 September 2005 and the share of associates' net profit/(loss) equity accounted increased by $0.7 million.

16. Impact of adopting AASB equivalents to IASB standards (continued)

e) Impairment of assets

Under AASB 136 - Impairment of Assets, the recoverable amount of an asset is determined as the higher of fair value less costs to sell and value in use. This resulted in a change in the Group's existing accounting policy which determined the recoverable amount of an asset on the basis of discounted cash flows. Under AIFRS, the carrying amount of the Group's non-current assets excluding defined benefit fund assets, deferred tax assets, goodwill and indefinite life intangible assets is reviewed at each reporting date to determine whether there is any evidence of impairment. If such indication exists, the asset is tested for impairment by comparing its recoverable amount to its carrying amount. Goodwill and indefinite life intangible assets are tested for impairment annually.

The recoverable amount is estimated for each individual asset or where it is not possible to estimate for individual assets, it is estimated for the cash generating unit to which the asset belongs. A cash generating unit is the smallest identifiable Group of assets that generate cash inflows largely independent of the cash inflows of other assets or Group of assets with each cash generating unit being no larger than a segment. In calculating recoverable amount, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects the current market assessments of the risks specific to the asset or cash generating unit. Cash flows are estimated for the asset in its present condition and therefore do not include cash inflows or outflows that improve or enhance the assets performance or that may arise from future restructuring.

At the date of transition, due to changes in requirements, a writedown of assets of $28.0 million was expensed to retained earnings with property, plant and equipment being written down by $14.9 million, investments in associates by $17.3 million and deferred tax assets increased by $4.2 million.

For the financial year ended 30 September 2005, the incremental adjustment for the Group was a further writedown of assets of $26.2 million with property, plant and equipment being written down by $35.0 million, intangibles written down by $2.8 million and deferred tax assets increased by $11.6 million.

f) Provisions

Under AASB 3 - Business Combinations, provisions for restructuring on acquisition of businesses may only be created when the acquiree has, at the acquisition date, an existing liability for restructuring recognised in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets. The restructuring provisions recognised as part of acquisition accounting under AGAAP and outstanding at 30 September 2004 are not allowable under AIFRS. These provisions have been written back against goodwill at 30 September 2004 (net $6.8 million after a tax benefit of $3.0 million).

g) Share based payments

Under AASB 2 Share based payments, Orica is required to determine the fair value of share based payments issued to employees as compensation and recognise an expense in the income statement with a corresponding increase in equity. This applies to all share-based payments issued after 7 November 2002 which have not vested as at 1 January 2005. The impact on Orica was to decrease retained earnings at date of transition by $4.8 million, decrease minority interests by $1.0 million and increase shareholders equity.

For the financial year ended 30 September 2005, the expense relating to share based payments is $11.6 million with a corresponding increase in contributed equity.

AASB 2 also requires that shares issued under employee incentive share plans in conjunction with non-recourse loans are to be accounted for as options. As a result, the amounts receivable from employees in relation to these loans have been deducted from contributed equity on transition to AIFRS amounting to $20.1 million.

At September 2005, the incremental amounts from 30 September 2004 receivable from employees in relation to these loans has been deducted from contributed equity totalling $25.0 million.

In addition, as the dividends on these shares are returned to the Company to reduce the loans, the dividends on these shares are treated as if they were not paid and reversed to retained earnings. The effect of this in 2005 was to increase retained earnings by $3.2 million.

h) Intangible assets

Under AASB 138 Intangible Assets, internally generated intangible assets (except development phase expenditure in certain circumstances) will not be recognised and intangible assets can only be revalued if there is an active market. There are no adjustments required regarding internally generated intangible assets.

i) Earnings per share

Under AASB 133 Earnings Per Share, earnings per share are calculated using the profit or loss from continuing operations attributable to ordinary shareholders. The basic and diluted earnings per share for the discontinued operations are calculated and disclosed separately. Orica did not have any discontinued operations in 2005.

16. Impact of adopting AASB equivalents to IASB standards (continued)

The restated earnings per share for the year to 30 September 2005 due to the restatement to AIFRS results are:

Basic EPS: 76.3 cents

Diluted EPS: 75.2 cents

j) Income taxes

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 sheets and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

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. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences will not be provided for: goodwill for which amortisation is not tax deductible, the initial recognition of assets and liabilities that affect neither accounting or taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. 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.

As a result there was a change to the AGAAP accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes are recognised only if realisation of the benefit can be regarded as being assured beyond any reasonable doubt.

Tax Consolidation

Legislation to allow Groups, comprising a parent entity and its Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantially enacted on 21 October 2002. This legislation, which includes both mandatory and elective elements, is applicable to the Company. Orica Limited is the parent entity in the tax consolidated Group comprising all wholly-owned Australian entities. The implementation date for the tax-consolidated Group was 28 August 2003.

Due to the effect of applying UIG 1052 issued in June 2005 on tax consolidation accounting and 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. In accordance with the tax sharing agreement, the subsidiary entities are compensated for the assets and liabilities assumed by the parent entity as intercompany receivables and payables and for amounts which equals the amounts initially recognised by the subsidiary entities. There is no adjustment for tax consolidation contribution by (or distribution to) equity participants.

Apart from tax changes arising from other AIFRS changes in this note, the impact of the change in basis and the transition adjustments on the deferred tax balances and the previously reported tax expense at 1 October 2004 is an increase in deferred tax assets of $53.7 million, an increase in provision for income tax payable of $0.5 million, an increase in deferred tax liabilities of $26.4 million, a decrease in minority interests of $3.4 million and an increase in retained earnings of $30.2 million.

For the financial year to 30 September 2005, the incremental adjustment over 30 September 2004 for the Group was a decrease in deferred tax assets of $170.0 million, an decrease in deferred tax liabilities of $162.0 million, a decrease in foreign currency translation reserve of $0.9 million and an increase in tax expense of $16.0 million.

k) Decommissioning and restoration costs of long lived assets

AGAAP did not require the recognition of provisions associated with the retirement or disposal of long-lived assets. However, AASB 137 Provisions, Contingent Liabilities and Contingent Assets requires that a provision be recognised when:

- an entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Where the Group is required to recognise the provision, the decommissioning, restoration or similar liability to be added to the cost of the asset to which it relates and the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. This change resulted in an increase in provisions at 1 October 2004 of $23.7 million, an increase in deferred tax assets of $7.1 miilion a decrease in retained eranings of $16.6 million with no incremental change in 2005.

16. Impact of adopting AASB equivalents to IASB standards (continued)

l) Borrowing costs

AGAAP required borrowing costs relating to qualifying assets to be capitalised as part of the cost of that asset. Under AIFRS, there is an option to either expense borrowing costs in the period in which they are incurred or to capitalise them as part of the cost of the asset.

Orica elected to continue its current policy and capitalise borrowing costs as part of the cost of assets. Therefore there is no change to the AGAAP treatment.

m) Classification of financial instruments and hedge accounting

Orica has taken advantage of the election available in AASB 1 to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement only from 1 October 2005. This allows the Group to apply previous AGAAP to the comparative information of financial instruments within the scope of AASB 132 and AASB 139 for the September 2006 Financial Report.

Classification

Under AASB 139 Financial Instruments Recognition and Measurement: Financial instruments will be required to be classified into one of five categories which will, in turn, determine the accounting treatment of the item. The classifications are:

- loans and receivables - measured at amortised cost;
- held to maturity - measured at amortised cost;
- held for trading - measured at fair value with fair value changes charged to net profit or loss;
- available for sale - measured at fair value with fair value changes taken to equity; and
- non-trading liabilities - measured at amortised cost.

This resulted in a change to the AGAAP accounting policy which did not classify financial instruments and where measurement was at amortised cost, with certain derivative financial instruments not recognised on balance sheet. The effect at 1 October 2005 was to increase derivative assets by $17.5 million, increase deferred tax assets by $8.1 million, increase deferred derivative liabilities by $60.4 million, decrease borrowings by $16.0 million, decrease cash flow hedging reserve by $19.0 million, increase foreign currency translation reserve by $6.5 million, reduce minority interests by $1.7 million and reduce retained earnings by $6.3 million. In addition preference shares of $2 million have been reclassified to borrowings.

Recognition of assets and liabilities

Under AASB 139, certain trade finance facilities organised for Orica customers have been brought back onto balance sheet as Orica has guaranteed a portion of those facilities. This has resulted in an increase in receivables and an increase in borrowings for the Group of $191.6 million at 1 October 2005.

Hedge Accounting

Under AASB 139, in order to achieve a qualifying hedge, the entity is required to meet the following criteria:

- Identify the type of hedge - fair value or cash flow;
- Identify the hedged item or transaction;
- Identify the nature of the risk being hedged;
- Identify the hedging instrument;
- Demonstrate that the hedge has and will continue to be highly effective; and
- Document the hedging relationship, including the risk management objectives and strategy for undertaking the hedge and how effectiveness will be tested.

This resulted in a change in the entity's existing accounting policy where hedge transactions are designated as a hedge of:

- the anticipated purchase or sale of goods or services,
- purchase of qualifying assets, or
- an anticipated interest transaction.

Gains and losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, were deferred under AGAAP and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Under AIFRS, hedge accounting may no longer be able to be applied to such contracts, and gains and losses on the contracts will be recognised in the income statement.

n) Changes in accounting policies

Under AIFRS, changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments, with note disclosure of prior year effects as was the practice under AGAAP.

Compliance statement

This report has been subject to audit.

The entity has a formally constituted audit committee.

Sign here: A. Cook Date 13 November 2006
(~~Director~~/Company Secretary)

Print name: ANNETTE COOK