Orica Limited
ABN 24 004 145 868

## ASX Announcement

# ORICA 2012 FULL YEAR FINANCIAL RESULTS

Orica today announced a statutory net profit after tax and individually material items of $403 million for the full year ended September 30, 2012, a decrease of $239 million on the previous corresponding period (pcp) of $642 million. Individually material items were a loss of $247 million after tax (pcp: nil) relating to asset impairment of Minova.

Net profit after tax before individually material items was $650 million, up 1% on the pcp of $642 million. The financial result again demonstrates the underlying resilience of the Company.

The Board has declared a final dividend of 54 cents per ordinary share franked at 24 cents per share.

Higher demand in mining markets in Australia, Asia and Latin America and improved pricing mostly offset the adverse earnings impact arising from incidents at Kooragang Island and foreign exchange movements.

Orica's Mining Services division recorded a full year EBIT of $790 million, 3% down on the pcp due to the impact of Kooragang Island. Conditions remained generally strong in most markets throughout the period. Global ammonium nitrate volumes increased by 2% with higher demand in Australia, Asia and Latin America, offset partly by weak demand in US coal markets. Pricing conditions have generally improved, particularly in the North American market. Electronic Blasting Systems continue to record strong growth, with volumes 14% higher than in the previous corresponding period.

Minova reported EBIT up 4% to $109 million driven by solid market conditions in Australia and the Commonwealth of Independent States. Demand in other markets outside the US remained reasonably steady. Margins in the US, China and Poland remained under pressure due to competitive activity. The US business experienced considerable weakness in demand from coal markets in the second half and volumes were down 7% versus the pcp.

In light of challenging market conditions in the US and continued margin pressure in China, the Company has recognised an asset impairment for Minova of $247 million (after tax). In the near term, global market conditions are expected to remain difficult. Work continues on cost rationalisation and asset optimisation, which, together with a simplified business model, should see Minova returns improve in the medium term.

Orica's Chemicals division increased EBIT by 8% to $211 million reflecting strong demand for sodium cyanide and record production of emulsifiers. Conditions in most industrial sectors in Australia and New Zealand remained generally subdued, partly impacted by strong local currencies. In Latin America, strong growth was again achieved across the industrial market segments.

During the year, the Bontang ammonium nitrate plant in Indonesia started beneficial operation producing 60,000 tonnes. Orica's first bulk emulsion plant in the growing Pilbara iron-ore region is nearing commissioning, and with our Joint Venture partners, site work has commenced in preparation for construction of the ammonium nitrate plant on the Burrup Peninsula in Western Australia.

The proposal to expand capacity at the Kooragang Island ammonium nitrate plant to 750,000 tonnes per annum has been recently reviewed. The project team has optimised the design of the plant and confirmed an engineering pathway for construction. A detailed technical appraisal has been presented to the Board. In light of current market conditions, further consultation with customers will be undertaken to determine the optimal timing of construction.

Orica is continuing to progress environmental improvement programs at Yarwun and Kooragang Island. At Yarwun, a program agreed with regulatory authorities has been materially completed whilst at Kooragang Island the Company is investing more than $200 million over the next three years on a series of projects to improve ammonia management and environmental performance.

The Company recently completed an organisational restructure. The new management structure positions the Company to improve customer service, accountability and drive operational and process excellence. Process improvement studies have already commenced within manufacturing, with significant cost and efficiency opportunities identified.

Orica expects Group net profit after tax (pre individually material items) in 2013 to be higher than that reported in 2012, subject to global economic conditions.

**12 November 2012**


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# ORICA LIMITED PROFIT REPORT

## RESULTS FOR THE FULL YEAR ENDED 30 SEPTEMBER 2012

- **Statutory net profit after tax (NPAT) and individually material items [1] for the full year ended 30 September 2012 was $403M. The previous corresponding period (pcp) was $642M. The individually material item after tax was a loss of $247M relating to an impairment of goodwill in Minova.**
- **Statutory NPAT before individually material items [2] was $650M (pcp: $642M).**

### FINANCIAL HIGHLIGHTS

- Sales revenue up 8% to $6.7B;
- Earnings before interest and tax[3] down 1%;
- Rolling trade working capital to sales[4] at 13.3%;
- Earnings per ordinary share before individually material items at 177.9c, up from 173.5c in the pcp;
- Gearing[7] of 41.5%, up from 26.6% in the pcp, due in part to the repurchase of the Step-Up Preference Securities (SPS) and lower statutory net profit;
- Interest cover of 8.0 times[9]; and
- Final ordinary dividend is 54 cents per share (cps) – franked at 24 cps.

### BUSINESS HIGHLIGHTS

- Improved demand in most mining markets and improved pricing partly offset the adverse $90M (pcp $21M) EBIT impact arising from the loss of containment incidents at Kooragang Island (NSW);
- Foreign exchange movements, net of hedging, adversely impacted EBIT by $52M;
- Mining Services EBIT down 3% to $790M. The adverse financial impact of the Kooragang Island incidents was mostly offset by improved volumes in Australia, Asia and Latin America together with some improvement in pricing;
- Minova EBIT up 4% to $109M reflecting strong demand in Australia and Kazakhstan which offset the impact of lower demand from North American coal markets and lower margins due to competitive pressure in the US, China and Poland; and
- Chemicals EBIT of $211M, 8% ahead of the prior year. Strong demand from mining markets for emulsifiers and improved pricing for sodium cyanide offset the impact of generally subdued conditions in most industrial markets in Australia and New Zealand.

Certain non-IFRS information has been included in this report. This information is considered by management in assessing the operating performance of the business and has not been reviewed by the Group's external auditor. These measures are defined in the footnotes to this report.

| A$M | Year Ended September 2012 | 2011 | Change F/(U) |
|---|---|---|---|
| Sales Revenue | 6,674.1 | 6,182.3 | 8% |
| ***Underlying Results:*** | | | |
| EBIT [3] | 1,022.6 | 1,028.3 | (1%) |
| Net interest expense | (128.2) | (123.5) | (4%) |
| Tax expense | (223.2) | (241.4) | 8% |
| Non controlling interests | (21.0) | (21.1) | 0% |
| **Net profit for the year [2]** | **650.2** | **642.3** | **1%** |
| *Earnings per ordinary share (cents)* | 177.9 | 173.5 | 3% |
| Return on shareholders' funds | 18.9% | 17.7% | |
| ***Results including individually material items:*** | | | |
| Individually material items after tax and non controlling interests | (247.4) | - | |
| **Net profit for the year [1]** | **402.8** | **642.3** | **(37%)** |
| *Earnings per ordinary share (cents)* - after individually material items | 109.2 | 173.5 | (37%) |
| Return on shareholders' funds | 11.7% | 17.7% | |
| *Financial Items* | | | |
| Interim ordinary dividend per share (cents) | 38.0 | 37.0 | 3% |
| Final ordinary dividend per share | 54.0 | 53.0 | 2% |
| Total ordinary dividend per share | 92.0 | 90.0 | 2% |
| Payout Ratio [5] | 51.7% | 51.0% | |
| Net Debt [6] | 2,299.2 | 1,408.1 | (63%) |
| Gearing [7] | 41.5% | 26.6% | |
| Gearing (adjusted) [8] | 41.5% | 31.4% | |
| Interest cover (times) [9] | 8.0 | 8.3 | |
| Average exchange rate (A$/US$) [10] | 103.2 | 102.5 | (1%) |

### DIVIDEND

- The directors have declared a final ordinary dividend of 54 cps – franked at 24 cps; and
- It is anticipated that dividends in the near future are unlikely to be franked at a rate of more than 40%.

### OUTLOOK – 2013

- We expect Group net profit after tax (pre individually material items) in 2013 to be higher than that reported in 2012, subject to global economic conditions.

1) Equivalent to Net profit for the period attributable to shareholders of Orica Limited disclosed in note 2 to the Orica Annual Report (Segment report).
2) Equivalent to Profit after income tax expense before individually material items attributable to shareholders of Orica Limited disclosed in the Segment report.
3) EBIT (equivalent to Profit/loss before individually material items, net financing costs and income tax expense disclosed in the Segment report).
4) Rolling 12-month average trade working capital / 12-month total sales.
5) ((Interim dividend cps x shares on issue at 31 March 2012) + (Final dividend cps x shares on issue at 30 September 2012)) / NPAT.
6) Total interest bearing liabilities less cash and cash equivalents.
7) Net debt / (net debt + book equity).
8) Calculation as per Note (7) with SPS notionally treated as 50% Debt and 50% Equity in 2011.
9) EBIT / Net interest expense.
10) Income Statement translation rate.



**Note: numbers in this report are subject to rounding.**

## REVENUE

- Sales revenue of $6.7B increased by $492M (8%), driven primarily by:
  - Stronger underlying demand in Australian, Asian and Latin American mining markets;
  - Improved weather conditions in Australia and Asia;
  - Improved AN pricing conditions, particularly in North America; and
  - Higher average caustic and sodium cyanide prices.

  Partly offset by:
  - Unfavourable foreign exchange movements ($109M);
  - Pricing pressure in Minova from competitor activity and softer volumes in US coal markets in the second half; and
  - Softer demand for chemicals from industrial markets in Australia and New Zealand.
- Other income of $68M was $18M below the prior period due mostly to lower currency gains and higher profit from land sales.

**Revenue Summary**

| A$M | Year Ended September 2012 | 2011 | Change F/(U) |
|---|---|---|---|
| Mining Services | 4,377.1 | 3,938.0 | 11% |
| Minova | 854.1 | 821.9 | 4% |
| Chemicals | 1,592.8 | 1,510.0 | 5% |
| Other & Eliminations | (149.9) | (87.6) | (71%) |
| **Total sales revenue** | **6,674.1** | **6,182.3** | **8%** |
| Other income | 67.5 | 85.7 | (21%) |
| **Total** | **6,741.6** | **6,268.0** | **8%** |

**Earnings Summary**

| A$M | Year Ended September 2012 | 2011 | Change F/(U) |
|---|---|---|---|
| **EBIT** | | | |
| Mining Services | 789.7 | 817.0 | (3%) |
| Minova | 109.0 | 105.1 | 4% |
| Chemicals | 211.2 | 196.0 | 8% |
| Corporate Centre | (41.5) | (42.0) | 1% |
| Other Support Costs | (45.8) | (47.8) | 4% |
| **Total EBIT** | **1,022.6** | **1,028.3** | **(1%)** |
| Net interest | (128.2) | (123.5) | (4%) |
| Tax expense | (223.2) | (241.4) | 8% |
| Non controlling interests | (21.0) | (21.1) | 0% |
| **Net profit for the year** | **650.2** | **642.3** | **1%** |
| Individually material items after tax | (247.4) | - | |
| **NPAT and individually material items** | **402.8** | **642.3** | **(37%)** |

## EARNINGS BEFORE INTEREST AND TAX (EBIT)

- EBIT decreased by 1% to $1,023M (pcp $1,028M). Decreased earnings were attributed to:
  - The shutdown of the Kooragang Island ammonia and AN plants following loss of containment issues ($69M);
  - Unfavourable foreign exchange movements ($52M);
  - Higher fixed costs of $40M due primarily to higher depreciation and inflationary factors; and
  - Unfavourable lag impact on the recovery of ammonia and AN cost increases ($25M).

  Offset by:
  - Net volume and margin improvements of $150M reflecting improved underlying demand in most mining markets, improved weather conditions, higher emulsifier volumes and higher AN, caustic and sodium cyanide prices; and
  - Profit from land sales and the non-recurrence of Monclova plant closure costs ($31M).

## CORPORATE CENTRE & SUPPORT COSTS

- Corporate centre and other support costs decreased 3% to $87M (pcp $90M).

## INTEREST

- Net interest expense of $128M was 4% higher than the pcp ($124M) due to the impact of higher debt levels following the repurchase of the SPS in November 2011, partially offset by the benefit from a lower average interest rate;
- Capitalised interest was $38M (pcp: $37M); and
- Interest cover was 8.0 times (pcp: 8.3 times).

## TAX EXPENSE

- An effective underlying tax rate of 25.0% (pcp: 26.7%).

## NET PROFIT

- NPAT before individually material items increased 1% to $650M (pcp: $642M); and
- NPAT and individually material items decreased 37% to $403M (pcp: $642M).

## INDIVIDUALLY MATERIAL ITEMS

- The individually material item after tax was a loss of $247M (pcp: nil), representing an impairment of goodwill in Minova. This reflects challenging market conditions in the US, and continued margin pressure in China.

## DEBT FACILITIES

- The weighted average tenor of drawn debt facilities is approximately 5.2 years;
- Total US Private Placement debt is approximately $1.4B;
- Drawn debt under bilateral bank facilities and export credit agency funding is approximately $0.7B and $0.1B respectively. Total facilities are $2.3B; and
- In July and August 2012, Orica refinanced $200M of bilateral bank facilities. Weighted average tenor of bilateral bank facilities is approximately 2.2 years.

## BALANCE SHEET

- **Key balance sheet movements since September 2011 were:**
  - Trade working capital (TWC) has increased by $121M from the pcp as a result of an underlying increase of $152M and acquisitions of $2M, partially offset by a favourable foreign exchange impact of $30M and divestments of $3M;
  - The underlying increase in TWC mostly reflects an increase in inventories due to Bontang commissioning, increased contingency stock levels following the Kooragang Island incident and stock build in North America ahead of a planned supplier plant shut down;
  - Rolling TWC to sales(3) is comparable to 2011 at 13.3% (pcp 13.2%);
  - Net property, plant and equipment (PP&E) is $325M up on the pcp due to spend on growth projects ($368M), sustenance capital ($226M), capitalised interest ($35M) and PP&E from acquired businesses ($5M). These were offset by depreciation ($215M), foreign exchange translation ($65M) and disposals ($30M). Significant growth spend since the pcp within Mining Services included Bontang ($73M), Kooragang Island ($87M) and Nanling ($21M);
  - Intangible assets decreased by $459M pcp due to the impairment of Minova goodwill ($367M), the impact of foreign exchange translation ($109M) and amortisation ($37M), offset by acquisition of businesses/entities ($9M), capital expenditure ($42M) and capitalised interest ($3M);
  - Net other liabilities have decreased by $275M. Major movements include an increased deferred tax asset ($119M) relating to the impairment of Minova goodwill, earnout payments ($29M) on prior years' acquisitions, increased deferred receipts from sale of assets ($45M) and increased net indirect tax receivables ($33M);
  - Net debt increased by $891M due primarily to the repurchase of the SPS ($500M) which were previously classified as equity, dividend payments and capital expenditure, offset by operating cash flows; and
  - Orica shareholders' equity decreased by $633M, mainly due to the repurchase of the SPS and a decrease in the foreign currency translation reserve ($215M) offset by increased earnings net of dividends declared and an increase in shares on issue to satisfy the settlement of dividends under the Dividend Reinvestment Plan.

**Balance Sheet**

| A$M | Sept 2012 | March 2012 | Sept 2011 |
|---|---|---|---|
| Inventories | 693.6 | 695.6 | 614.5 |
| Trade debtors | 884.3 | 875.7 | 846.1 |
| Trade creditors | (855.7) | (779.4) | (859.8) |
| Total trade working capital | 722.2 | 791.9 | 600.8 |
| Net property, plant & equipment | 3,034.4 | 2,823.5 | 2,709.7 |
| Intangible assets | 2,046.8 | 2,414.6 | 2,505.4 |
| Net other liabilities | (257.7) | (445.4) | (532.2) |
| Net debt | (2,299.2) | (2,297.9) | (1,408.1) |
| **Net Assets** | **3,246.5** | **3,286.7** | **3,875.6** |
| Orica shareholders' equity | 3,121.5 | 3,164.0 | 3,754.3 |
| Non controlling interests | 125.0 | 122.7 | 121.3 |
| **Equity** | **3,246.5** | **3,286.7** | **3,875.6** |
| **Gearing (1)** | **41.5%** | **41.1%** | **26.6%** |
| **Gearing (adjusted) (2)** | **41.5%** | **41.1%** | **31.4%** |

- **Key balance sheet movements since March 2012 were:**
  - TWC decreased by $70M due to an underlying decrease of $64M and a favourable foreign exchange translation impact of $6M;
  - Net PP&E was up $211M mainly due to growth spend ($208M), sustenance capital ($134M) and capitalisation of interest ($15M), offset by depreciation ($114M), disposals ($27M) and foreign exchange translation impacts ($5M);
  - Intangible assets decreased by $368M due to the impairment of Minova goodwill ($367M), amortisation ($19M) and the impact of foreign exchange translation ($8M), offset by capital expenditure ($22M), capitalised interest ($2M) and acquisition of businesses/entities ($2M); and
  - Net debt increased marginally by $1M largely due to the ordinary dividends paid in the second half of $123M and capital expenditure of $354M, offset by operating cash flows in the second half of $505M.

## GEARING

- Gearing(1) increased to 41.5% from 26.6% at 30 September 2011. In accordance with accounting standards, the SPS were previously recognised as equity. The repurchase of the SPS in November 2011 was funded with debt and partly contributed to the increased gearing; and
- Adjusted gearing treated the SPS in 2011 as 50% equity and 50% debt (Standard & Poors credit rating treatment). At 30 September 2012, this is equal to gearing of 41.5% (pcp 31.4%).

1) Net debt/(net debt + equity).
2) Calculation as per Note (1) with SPS notionally treated as 50% Debt and 50% Equity in 2011.
3) Rolling 12-month average TWC / 12-month total sales.

## CASH FLOW

- Net operating cash inflows decreased by $214M to $544M, compared with the pcp mainly due to:
  - The earnings impact of Kooragang Island (KI) of $69M;
  - A higher cash outflow from the movement in trade working capital of $125M, due mainly to increased contingency stock levels following the KI incident, a small increase in debtor days, increased payments to ammonia creditors due to the closure of KI ammonia plant in 2011, partly offset by the benefit from improved creditor days;
  - Increased outflows from non trade working capital of $87M; and
  - Adverse FX movements on debt and reserves of $70M.
- Net investing cash outflows decreased by $92M to $674M, compared with the pcp due to:
  - Decreased spending on growth capital projects of $57M;
  - An increase in the proceeds from sale of surplus assets in the current period of $21M;
  - Decreased spend on acquisitions of $8M from the pcp. The current period has included spend of $41M for Burrup and $29M of earnout payments relating to prior years' acquisitions; and
  - Lower sustenance capital of $7M.
- Net financing cash inflows increased by $14M to $33M compared with the pcp, mainly due to:
  - Reduced SPS distribution of $21M;
  - Additional share proceeds of $12M primarily received for repayment of LTEIP loans; and
  - Lower dividends paid to Non Controlling Interest shareholders of $7M.

  Partly offset by:
  - A net decrease in proceeds from external borrowings of $12M;
  - Higher dividends paid to ordinary shareholders of $9M; and
  - Increased payments of $6M for shares purchased on market for the LTEIP plan.

| Statement of Cash Flows | Year Ended September | | |
|---|---|---|---|
| A$M | 2012 | 2011 | Change F/(U) |
| **Net operating cash flows** [1] | | | |
| EBIT | 1,022.6 | 1,028.3 | (1%) |
| Add: Depreciation | 214.7 | 187.5 | (15%) |
| Add: Amortisation | 36.7 | 36.7 | 0% |
| EBITDA | 1,274.0 | 1,252.5 | 2% |
| Net interest paid | (158.2) | (143.8) | (10%) |
| Net income tax paid | (174.1) | (229.7) | 24% |
| Trade working capital mvt [1] | (121.9) | 2.8 | 4454% |
| Non trade working capital mvt [2] | (138.6) | (51.7) | |
| FX mvt on debt/reserves | (45.7) | 24.6 | |
| Other | (91.4) | (96.5) | |
| | 544.1 | 758.2 | |
| **Net investing cash flows** | | | |
| Capital spending | | | |
| Sustenance capital [3] | (234.2) | (240.9) | 3% |
| Growth capital [4] | (394.7) | (451.7) | 13% |
| Total capital spending [5] | (628.9) | (692.6) | 9% |
| Acquisitions | (84.0) | (91.7) | 8% |
| Proceeds from surplus asset sales, investments and businesses | 39.0 | 18.3 | 113% |
| | (673.9) | (766.0) | |
| **Net financing cash flows** | | | $M |
| Net proceeds from share issues (inclusive of non controlling interests) | 25.5 | 13.7 | 11.8 |
| Net (payments)/proceeds from LTEIP [*] | (19.9) | (14.1) | (5.8) |
| Movement in borrowings | 335.9 | 347.6 | (11.7) |
| Dividends paid - Orica Limited | (289.1) | (280.3) | (8.8) |
| Distributions paid - SPS securities | (11.1) | (32.2) | 21.1 |
| Dividends paid - NCI shareholders | (8.5) | (15.8) | 7.3 |
| | 32.8 | 18.9 | 13.9 |

[*] LTEIP - long term employee equity incentive plans

## ORICA SPS

- A distribution of $16M on the SPS was paid during the period of which $5M was classified as interest; and
- On 29 November 2011 Orica repurchased the SPS using existing bilateral banking facilities. The repurchased amount was $500M.

1) Opening trade working capital (TWC) less closing TWC (excluding TWC acquired and disposed of during the year).
2) Non trade working capital: primarily includes other receivables, other assets, other payables and provisions.

   Movement: opening non trade working capital (NTWC) less closing NTWC (excluding NTWC acquired and disposed of during the year).
3) Capital expenditure other than growth expenditure.
4) Capital expenditure that results in earnings growth through either cost savings or increased revenue.
5) Total growth and sustenance expenditure reconcile to total payments for property plant and equipment and intangibles as disclosed in the Statement of Cash flows within the Orica Annual Report.

# ORICA LIMITED
# PROFIT REPORT – FULL YEAR ENDED 30 SEPTEMBER 2012
# MINING SERVICES

## KEY POINTS

- Loss of containment incidents at Kooragang Island and associated plant shutdowns negatively impacted EBIT by $87M ($21M in the pcp)**;**
- AN volumes up 2% with improved demand from mining markets in Australia, Asia and Latin America partly offset by weak US coal markets;
- Strong demand from metals markets in North America;
- Strong growth in Electronic Blasting Systems (EBS) with volumes up 14% versus the pcp;
- Improved pricing conditions, particularly in the North American market; and
- Negative impact on EBIT from unfavourable foreign exchange movements, net of hedging, of $47M.

## BUSINESS SUMMARIES

Australia/Asia

- EBIT of $412M, down 12% ($54M) on the pcp, due mostly to the shutdown of the Kooragang Island ammonia and AN plants following loss of containment issues;
- AN volumes up 5% with growth in all regions, particularly Western Australia;
- Modest pricing improvements; and
- Negative lag in recovery of ammonia input costs.

North America

- EBIT of $111M, up 7% ($8M) on the pcp due to improved pricing and stronger demand from metals markets, partly offset by weak demand from coal markets; and
- AN volumes down 7% on the pcp.

Latin America

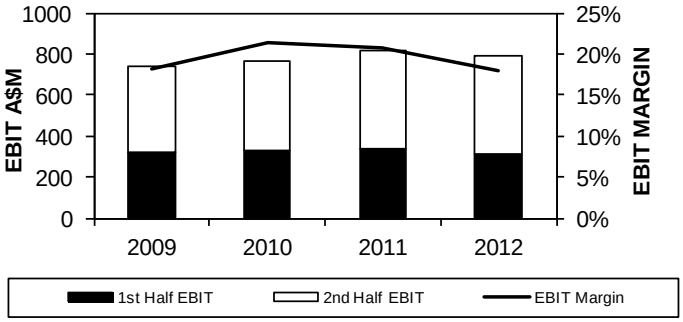
- EBIT of $86M, down 23% ($26M) on the pcp due to the transfer of specific commercial functions to the Global Hub in the prior year;
- Strong underlying performance reflecting stronger demand with AN volumes up 17% versus pcp; and
- Steady pricing conditions and cost management.

## EARNINGS

### EBIT down 3% to $790M.

| | Year Ended September | | |
|---|---|---|---|
| A$M | 2012 | 2011 | Change F/(U) |
| Sales Revenue | 4,377.1 | 3,938.0 | 11% |
| EBIT | 789.7 | 817.0 | (3%) |
| Operating Net Assets | 3,763.0 | 3,271.1 | 15% |
| **EBIT:** | | | |
| Australia/Asia | 412.3 | 466.5 | (12%) |
| North America | 110.6 | 102.9 | 7% |
| Latin America | 85.9 | 111.6 | (23%) |
| EMET | 74.4 | 59.4 | 25% |
| Other | 106.5 | 76.6 | 39% |

## EBIT TREND




Europe, Middle East and Turkey (EMET)

- EBIT of $74M, up 25% ($15M) on the pcp;
- Improved volumes in construction markets in Norway and stronger volumes in Estonia more than offset generally soft demand conditions in most other markets;
- Margins negatively impacted by increased competition;
- Favourable EBIT impact from land sales; and
- Negative impact from foreign currency translation.

Other (including the Global Hub)

- EBIT of $107M, up 39% ($30M) on the pcp due mainly to the transfer of specific commercial functions in Latin America to the Global Hub in the prior year.

## PERSPECTIVES FOR 2013

- Steady demand in mining markets in Australia and and Latin America;
- Coal markets in North America to remain reasonably weak; and
- Slow recovery in infrastructure markets in North America and most European markets.

## KEY POINTS

- An impairment of goodwill of $367M before tax has been recognised in the period;
- Strong demand in Australia and CIS;
- Lower demand from North American coal markets in the second half;
- Subdued activity in tunnelling markets in many parts of Europe due to difficult economic conditions;
- Steady volumes in most other markets;
- Continued competitive pressure in the US, Poland and China preventing margin recovery; and
- Continued focus on the introduction of new products and efficiency programs.

## BUSINESS SUMMARIES

Americas

- Volumes down 7% versus the pcp, mostly due to softer demand from coal markets in the second half of the year;
- Margins down on pcp due to competitor activity, though margins were in line with H2 2011;
- Input costs relatively stable; and
- Efficiency program delivering benefits.

Europe, Middle East and Africa (EMEA)

- Steady demand in CIS and the Czech Republic;
- Improved contribution from tunnelling markets versus the pcp, though conditions in most civil markets in Western Europe remain weak;
- Softer demand in Germany;
- Margin pressure in Poland due to aggressive competition;
- Steady demand in South Africa despite recent industrial disputes; and
- Efficiency programs established in response to margin pressures.

Australia

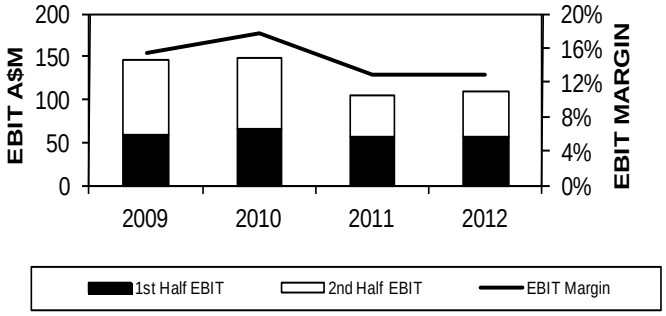
- Volume growth in the coal and hard-rock mining markets; and
- Margins positively impacted by increased sales of chemical related products and application services.

## EARNINGS

**EBIT up 4% to $109M.**

| | Year Ended September | | |
|---|---|---|---|
| A$M | 2012 | 2011 | Change F/(U) |
| Sales Revenue | 854.1 | 821.9 | 4% |
| EBIT | 109.0 | 105.1 | 4% |
| Operating Net Assets | 1,082.5 | 1,508.0 | (28%) |

## EBIT TREND




China

- Volumes in line with the pcp;
- Margin pressure due to increased competition from new market entrants; and
- Continued focus on the introduction of differentiated products.

## PERSPECTIVES FOR 2013

- Steady demand in Australian mining markets;
- Continued softness in demand and competitive pressures in North American coal markets;
- Demand from tunnelling expected to remain weak in parts of Western Europe due to difficult economic conditions; and
- Continue to pursue operational efficiencies and differentiated offerings across all regions.

# CHEMICALS

## KEY POINTS

- Strong demand for sodium cyanide and emulsifiers;
- Generally subdued conditions in most industrial markets in Australia and New Zealand, partly impacted by strong local currencies;
- Adverse impact caused by supply disruptions to industrial customers of ammonia and carbon dioxide from Kooragang Island ($3M);
- Solid growth in the industrial market segments in Latin America; and
- Higher global caustic soda prices.

## BUSINESS SUMMARIES

General Chemicals

- Sales up 5% on the pcp due mainly due to stronger trading volumes into mining markets;
- Generally soft demand from manufacturing markets in Australia and New Zealand with customer volumes impacted by strong local currencies;
- Good demand from the dairy market for cleaning chemicals in New Zealand;
- Volume growth in Bronson and Jacobs, though strong competition in some market segments negatively impacted margins; and
- Good growth in industrial and construction markets in Latin America.

Watercare

- Sales were down by 4% on the pcp due to unseasonal wet and mild summer conditions on the Australian East coast, offset partly by higher global caustic soda prices; and
- Watercare chemical sales in New Zealand were steady.

Mining Chemicals

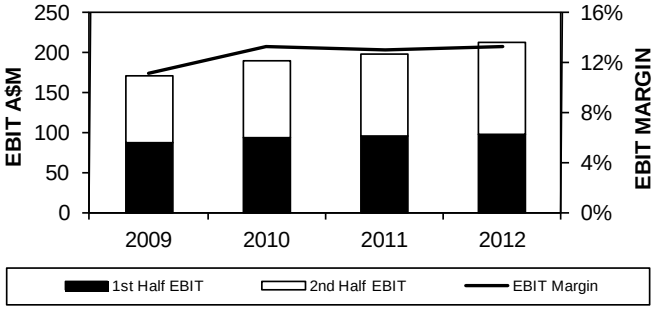
- Sales up 14% on the pcp due to improved pricing for sodium cyanide and stronger demand for emulsifiers and speciality mining chemicals; and
- Record production of emulsifiers with sales up 15% on the pcp.

## EARNINGS

**EBIT up 8% to $211M.**

| A$M | Year Ended September 2012 | 2011 | Change F/(U) |
|---|---|---|---|
| Sales Revenue | 1,592.8 | 1,510.0 | 5% |
| EBIT | 211.2 | 196.0 | 8% |
| Operating Net Assets | 832.7 | 830.6 | 0% |
| **Business Sales:** | | | |
| General Chemicals | 1,082.6 | 1,031.6 | 5% |
| Watercare | 215.9 | 224.6 | (4%) |
| Mining Chemicals | 342.9 | 299.8 | 14% |

## EBIT TREND




## PERSPECTIVES FOR 2013

- Firm demand from mining markets globally for sodium cyanide and emulsifiers; and
- Conditions in most other market segments in Australia and New Zealand expected to remain difficult.

Orica values people and the environment. In 2012 the Company continued to work towards its goal of 'No Accidents Today'.

**Sustainability Governance**
In 2012 Orica launched Project Sustain, a global initiative to review the Company's systems and structures for sustainability performance and to develop an organisational approach to a more detailed risk assessment process. When finalised, this approach will be adopted in future assessments of the Company's key sustainability challenges.

**Safety, Health and Environment (SH&E)**
Sadly, there was one fatality at the Company's EHM site in Antofagasta, Chile this year. Orica expresses its sincerest condolences to the employee's family, friends and fellow employees. An investigation has concluded. Learnings from the incident have been shared across the business and improvements to prevent a recurrence will be implemented. The Company will continue to work tirelessly towards its vision of 'No Accidents Today'. The outcomes of Project Sustain will further support Orica's efforts in effective SH&E management.

Energy efficiency for the group has improved in comparison with 2011, to 4.03 GJ/t of production compared to 4.15 GJ/t of production. Net greenhouse gas intensity has also improved, going from 0.53 tCO2e/t to 0.50 tCO2e/t of production. The prolonged shutdown of the Kooragang Island Ammonia plant influenced these figures in 2012. Ammonia is Orica's most energy intensive production process.

**Product Stewardship**
In 2012 a cross-business Stewardship Group completed its international review of the Company's suite of product stewardship model procedures. In an important step to increase Orica's focus throughout the life cycle of our products, the suite aims to give more prominence to the role of Product Stewardship in Orica's day-to-day business operations.

In 2012 Orica's Transportation Expert Panel implemented check point audits to measure and benchmark compliance to Orica's Supply Chain Global Transportation Standards.

Mining Services has adopted a Lights On At All Times (LOAT) Policy to enhance vehicle visibility and reduce risks during the movement of Company product.

**People and Community**
Orica established a Diversity Strategy, with specific initiatives and targets, in 2009. Since this time, the gender diversity of senior management has increased from 5% female to more than 15%, while international diversity has increased from 40% to 47%.

Orica has 121 graduates in its global development program, of which 26% are female. With graduate programs now being run in Australia, New Zealand, Asia, Latin America and North America, the Company's pipeline of international talent is also increasing. Six graduates were offered international twelve-month assignments this year in Mexico, Brazil, Chile, Colombia and Australia. Orica also offers scholarships to university students in Australia, New Zealand, Asia and Latin America.

Orica Canada has developed relationships with First Nation Groups, in particular the Haisla Nation. A joint-venture agreement has been signed for the supply of explosives and blasting services for any new developments in the Haisla territories, maximising social and economic benefits for the Haisla Nation through opportunities such as employment and training.

**Engagement and Communication**
Orica is working with authorities and the community to rebuild trust around its Kooragang Island operation following environmental incidents in 2011. Orica undertook a range of engagement activities with the local community and regulators during the reporting period. Regular Community Reference Group meetings, community information sessions, site tours and emergency response briefings were held for the community and the site has improved its website, newsletter, phone and mobile phone SMS communications. The Company also worked with local residents and regulators to install additional air quality monitoring in the area.

For more information, please read the 2012 Sustainability Report on line at www.orica.com/sustainability.

## BUSINESS DEVELOPMENT

During the period, work continued on a number of growth projects, including:

- The commissioning of the ammonium nitrate plant in Bontang, Indonesia. Beneficial operation started on the 1st of July 2012. The plant produced 56kt of ammonium nitrate in the period. The final capital cost (excluding capitalised interest) will be less than US$500M;
- The expansion of the ammonium nitrate plant at Kooragang Island, Australia, to bring total capacity to 750ktpa. The project team have optimised the design of the plant and confirmed an engineering pathway for construction. Current market conditions are such that further consultation with customers will be undertaken to determine the optimal timing of construction;
- The fully integrated non-electric detonator facility at Nanling, Hunan Province, China;
- The new emulsion plant at Kurri Kurri, Australia, which was commissioned in December 2011. The plant has capacity of 250ktpa; and
- The first bulk emulsion plant in the Pilbara region. The plant will have up to 150ktpa capacity, and is currently on-track to be commissioned in the 2012 calendar year.

## CORPORATE ACTIVITY

- In May Orica announced it had agreed to form a joint venture with Yara and Apache to build a 330,000 tonnes per annum industrial grade ammonium nitrate plant on the Burrup peninsula. Construction of the plant is expected to have a capital cost of approximately US$800 million and be completed by the end of 2015.

  The joint venture will be owned 45% (Orica), 45% (Yara) and 10% (Apache). Yara will manage construction and ongoing operation of the ammonium nitrate plant.

  The parties also agreed to form a distribution and marketing joint venture to distribute all ammonium nitrate and associated products and services to mining customers in the Pilbara. This joint venture will be owned in the same proportions as the ammonium nitrate plant joint venture, but will be managed by Orica.

  In addition to its share of the construction cost, Orica will also pay approximately US$110 million, to be split between Yara and Apache, payable upon commencement of construction.
- In October 2011, Minova purchased the self-drilling anchor business from Atlas Copco MAI GmbH. The acquisition extends Minova's product offering in the tunnelling and civils market.

**Further Information**

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