ASX Announcement

16 May 2017

Continued focus on core disciplines delivers sound 2017 interim result

Melbourne: Orica (ASX: ORI) today announced a solid first half financial result, with statutory net profit after tax (NPAT) of $195 million for the six months ended 31 March 2017, 31% higher than the prior corresponding period (pcp) ($149 million[1]).

During the six month period there were indications that miners were beginning to return to more normal mine plans, and associated strip ratios. This development combined with our business improvement initiatives offset the impacts from the expected headwinds resulting mainly from increases in gas and ammonia prices in Australia and North America. As a result, underlying EBIT of $314 million (pcp: $317 million) highlighted a stabilisation of earnings after the downward trend that had been apparent over recent years.

Safety at Orica is regarded as the key priority across the business, and so it was devastating that in February an accident on a customer mine site in Peru resulted in the death of an employee. A full investigation was undertaken and a program has been implemented to ensure everyone at Orica understands the major hazards in their work, that the right controls are in place and adhered to at all times, and that all levels of leadership across the organisation are actively involved in hazard identification and in verifying the appropriate controls. This will forever be a priority focus at Orica.

Key components of the result include:

- Total ammonium nitrate (AN) volumes of 1.78 million tonnes (pcp: 1.71 million tonnes)
- EBIT before individually material items of $314 million (pcp: $317 million)
- EBITDA before individually material items of $446 million (pcp: $450 million)
- NPAT before individually material items of $195 million (pcp: $190 million)
- Business improvement initiatives delivered net benefits of $53 million, which offset the previously flagged external headwinds
- Capital expenditure of $114 million (pcp: $137 million)
- Net operating and investing cash flows increased to $84 million (pcp: $10 million), underpinned by the generation of operating cash and a continued disciplined approach to capital expenditure
- Net debt of $1.5 billion, with gearing at 35% (pcp: 43%)
- Interim ordinary dividend of 23.5 cents per share

Orica CEO Alberto Calderon said: “Our result for the first half demonstrates a returning predictability to our financial and operational results. While our turnaround will continue throughout FY17, our underlying EBIT reflects a stabilising business performance.”

[1] Includes Australian Taxation Office Part IVA dispute settlement of $41 million

"We have continued to focus on reinforcing core operational and financial disciplines, with solid results across all key components of our performance, and a significant reduction in net debt compared to the prior corresponding period.

"Despite the expected external headwinds during the period, we continued our focus on business improvement initiatives. These initiatives enabled us to successfully offset these headwinds. Importantly, we also began to see the beginnings of the normalisation of mine plans and the return of more sustainable strip ratios across our mining customer base.

"It is particularly pleasing that in our largest business – Australia Pacific and Indonesia – volumes grew by 10% and EBIT increased 12%," Mr Calderon said.

Business Improvement Initiatives

Business improvement initiatives delivered $53 million net benefits in the half. Mr Calderon said the initiatives would be embedded in the business, eventually creating a world class organisation well positioned for all parts of the cycle.

"The work we are doing today on business improvement taps into the enormous potential that exists in Orica and will ultimately deliver a more efficient and effective organisation. This touches every part of our organisation. We have involved more than one thousand Orica people across the globe to review the whole business and consider all factors that create value, including initiatives that generate revenue, reduce costs, deliver improved trade working capital, and capital expenditure. The program has so far generated more than 1,300 ideas and initiatives, with individual initiative benefits ranging from thousands of dollars to multi-millions, over FY17 and beyond. We are now embedding this in the organisation to go beyond a program to being a normal part of the way we do business," he said.

Operations

Volumes either increased or were in line with the pcp across all four regions of Australia Pacific & Indonesia (API), North America, Latin America, and Europe, Africa and Asia (EAA).

In API, improved volumes and efficiencies supported an EBIT uplift. Volumes were up 10% from the pcp, with the normalisation of mining practices and favourable sentiment driving increased coal and iron ore volumes from existing and new customers. EBIT was 12% higher than the pcp, as a result of increased volumes, and business improvement initiatives offsetting known input cost increases.

Across North America, higher sales volumes through direct channels and improved placement of advanced products and service offerings (particularly in Canada and to Q&C markets) drove favourable volumes, mix and margin. Business improvement initiatives partially offset external headwinds. The stronger Australian dollar negatively impacted EBIT, which declined 5% against the pcp.

In Latin America AN volumes were maintained against the pcp, while EBIT margins declined slightly. EBIT decreased 20% against the pcp in a period marked by external competitive dynamics, including: increased competition; unfavourable sourcing costs; and negative price resets reflective of the broader Latin American market.

In EAA, higher demand drove an increase in AN volumes of 3%. Along with reduced costs, this resulted in an 8% increase in EBIT and improved EBIT margins against the pcp. Improved demand, better customer and service mix, and business improvement initiatives offset negative pricing resets and contract renewals.

The Minova turnaround continues, and while this will take time the decline in profitability has been arrested. Australian and North American markets have shown improvement, while Europe has declined due to challenging market conditions. EBIT improved to $8.3 million, from a loss of $2.2 million in the pcp.

Capital Management

<u>Capital expenditure</u>

Capital expenditure for the period was contained to $114 million. Full year capital expenditure is expected to be in the previously advised range of approximately $300 million to $320 million.

<u>Burrup Technical Ammonium Nitrate (TAN) Plant</u>

A strategic decision was taken in 2012 to enter a joint venture with Yara (operator) for the Burrup TAN plant (Orica has a 45% economic interest with marketing rights).

The plant is currently in commissioning mode with handover from the construction contractor achieved in late March. A key focus of commissioning is to complete performance testing to ensure capability of the plant at design levels for a continuous period of time and resolution of remaining environmental licence approvals. The current plans remain unchanged, focusing on a ramp up of production in line with market demand.

The Burrup TAN plant is a 30 year plus asset situated in the Pilbara region in Western Australia, a market that is expected to grow over the next five years.

<u>Dividend</u>

Orica’s dividend policy of a payout range of 40% to 70% enables greater flexibility and ensures that shareholder returns reflect the Company’s position and market conditions throughout the cycle.

The Board has declared an interim ordinary dividend of 23.5 cents per share (45% payout ratio), 12.8% franked at 3 cents per share. Shareholders registered as at the close of business on 1 June 2017 will be eligible for the dividend, which is payable to shareholders on 3 July 2017.

Outlook

While there has been some normalisation of mine plans, we anticipate that recovery will be gradual. We continue to focus on business improvement initiatives that improve profitability and drive shareholder value.

The outlook for 2017 remains unchanged from November 2016, despite an unfavourable $15 million foreign exchange impact. Business improvement initiatives will continue to have a sustainable, positive impact in 2017 and beyond. There is a high level of confidence that business improvement initiatives will offset the known headwinds in the current year.

Analysts’ Contact:
Delphine Cassidy, Vice President, Investor Relations, ph: +61 (0) 419 163 467

Media Contacts:
Sam Stevens, Vice President, Corporate Affairs, ph: +61 (0) 400 693 915
Nerida Mossop, External Communications Manager, ph: +61 (0) 437 361 433