ANNUAL REPORT 2018

ORICA

NO. 1 GLOBAL SUPPLIER OF COMMERCIAL EXPLOSIVES

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ABOUT US

As the world's largest provider of commercial explosives and innovative blasting systems, we provide expert services to the mining, quarrying, construction, and oil and gas markets. From commercial explosives and blasting systems, supply of sodium cyanide for gold extraction and expert ground support services, we have more than 11,500 people ready to support our customers in more than 100 countries around the world.

We're known for our unmatched technology and expertise. We've built our reputation by taking the time to understand what drives our customers so we can create change that's important to them. We do this with knowledge, expertise and technology we believe is second to none.

The way we do business is as important to us as the results we generate. We seek to build relationships based on honesty, collaboration and shared end goals. We're guided by our values to earn the trust of our stakeholders.

OUR PURPOSE

Our purpose is to make our customers successful, every day, all around the world. We take pride in operating safely, responsibly and sustainably. Together, these enable us to grow and create enduring value for our shareholders.

OUR STRATEGY

We aim to be the trusted partner of choice for our customers, by creating, developing and delivering mining and civil blasting and ground control solutions that help them be more productive and manage their critical risks. We do this by bringing together:

- the best people;
- high quality products and services;
- safe, secure and reliable supply; and
- unmatched technology that creates value for our customers, today and tomorrow.

OUR VALUES

SAFETY is our priority. Always

The most important thing is that we all return home, safely, every day.

- We care and take accountability for everyone's safety and wellbeing, including our own.
- We recognise the risks we face in our work and follow all safety controls.
- We speak up when we see hazards or causes of potential harm.

We RESPECT and value all

Our care for each other, our customers, communities and the environment builds trusted relationships.

- We treat everyone fairly, with dignity and we value diversity.
- We work with our local communities to contribute positively.
- We find ways to minimise our impact on the environment in all our actions.

TOGETHER we succeed

Collaboration makes us better, individually and collectively.

- We freely share information and ideas with our colleagues.
- We are a team. We take accountability and responsibility for our team's performance.
- We partner with our customers for a better understanding and result.

We act with INTEGRITY

We are open and honest, and we do what is right.

- We are transparent in all our communications.
- We always demonstrate ethical conduct and sustainable practices.
- We are trusted because we do what we say we will.

We are committed to EXCELLENCE

We take accountability for our business and for delivering outstanding results.

- We bring our best effort every day and trust our colleagues to do the same.
- We understand our tasks and how we contribute to Orica's overall success.
- We look for ways to deliver higher performance and adapt swiftly to changing needs.

11,500+ EMPLOYEES

100+ COUNTRIES

400+ CUSTOMER SITES

LEADING THROUGH INNOVATION

The resources industry is being reimagined. Automation and big data are transforming every element of the value chain. After almost 150 years of delivering innovation and expertise, Orica is at the forefront of this transformation in drill and blast.

WebGen™
Wireless Electronic Blasting Systems

"

WIRELESS INITIATION AND THE AUTOMATION OF DRILL AND BLAST WILL BE A GAME CHANGER FOR THE RESOURCES INDUSTRY.

"

Richard Goodridge
Vice President Research and Innovation

WORLD FIRST WIRELESS INITIATION SYSTEM

Automation removes people from harm's way and will deliver a step change in productivity for our customers.

WebGen™ is bringing our customers one step closer to true automation. It uses wireless technology to initiate blasts through rock, water or air from surface control rooms. With the manual task of connecting wires removed, our customers are improving productivity, opening the door to new mining methods that improve ore recovery, and keeping their people safe.

Commercial sales of WebGen™ have commenced in Australia and North America and successful customer trials have been completed in Latin America and Europe. The next generation of WebGen™ is now being developed to bring this ground-breaking technology to surface mining.

We're proud of the role we're playing in this transformation, and we're excited about the benefits it will deliver.

"

THE POTENTIAL FOR DATA-DRIVEN IMPROVEMENT IN DRILL AND BLAST IS ENORMOUS

"

Rajkumar Mathiravedu
Vice President Digital Solutions

DIGITALLY ENABLED BETTER BLASTING

Our customers collect massive volumes of data on site every day. BlastIQ™ connects the wealth of data relevant to blasting in a single platform. By providing actual data on each blast to the teams that manage the blasts, we help customers see the impact of blasting on the entire value chain. When they can see and measure the value of their decisions, it leads to lower costs, better productivity and safety outcomes and regulatory compliance.

BlastIQ™ is used across more than 100 customer sites globally. With the release of the next generation of BlastIQ™ in financial year 2019, we are responding to our customers' needs and connecting data from sources right across the value chain. The launch of this market-led technology will help unlock value for our customers, and for us.

BALANCING GROWTH AND RETURNS

Making sure we strike a good balance between investing for future growth and delivering short-term returns for shareholders is an important focus for the Board.

PERFORMANCE

In assessing performance for 2018, the company has made progress toward our longer-term goals, but short-term financial performance in 2018 did not meet our aspirations.

The business returned to revenue growth after some years of cyclical decline, reflecting both improved market demand and new customer contracts. Despite a strong improvement in earnings in the second half of the year, this was not sufficient to offset challenges experienced in the first half, resulting in a decline in earnings. Statutory net profit after tax was a loss of $48 million, including individually significant items of $372 million. The Board believes the improved performance in the second half of the year is more indicative of the company's underlying health and trajectory.

The balance sheet has absorbed the acquisition of GroundProbe during the year while also funding capital expenditure to support volume growth.

CAPITAL MANAGEMENT

The Board's approach to capital management is driven by a commitment to maintaining an investment grade credit rating, preserving flexibility for potential investments and being able to respond to changes in the operating environment.

Consistent with this approach, the Board declared a final dividend of 31.5 cents per share, bringing the total dividend to 51.5 cents per share, in line with the prior year. This reflects a payout ratio of 60% of underlying earnings.

CULTURE

The Board recognises the important role culture plays in delivering the company's strategy and meeting community expectations. Board members actively monitor feedback from a variety of stakeholder groups, visit operating sites around the world, and have observed first-hand the commitment of employees to our values, our stakeholders, and to achieving Orica's goals.

BOARD COMPOSITION

The Board has been further strengthened with the appointment of Denise Gibson. Denise is a seasoned business leader with a strong track record in the technology sector and brings valuable insight to the commercialisation of Orica's technology portfolio and broader operations. Denise will stand for shareholder election at the 2018 annual general meeting.

PRIORITIES AND OUTLOOK

As the resources industry explores new frontiers in automation and digitisation, we are confident the commercialisation of our new technologies and expertise will further consolidate our industry leading position and drive value well into the future.

Orica's priorities for the coming year centre around building on our safety performance, lifting returns from our global asset base and delivering against the rising demand from our customers. In the Pilbara region in Australia, returns in the medium term will improve as capacity at the Burrup Technical Ammonium Nitrate plant comes on line and produces reliably.

On behalf of the Board, I thank our shareholders for your continued support and our management team and employees for their contribution.

THROUGHOUT ITS LONG HISTORY, ORICA HAS LEVERAGED ITS EXPERTISE IN BLASTING AND PUSHED THE BOUNDARIES OF TECHNOLOGY TO IMPROVE OUTCOMES FOR CUSTOMERS AND SHAREHOLDERS.

Malcolm Broomhead
Chairman

BUILDING MOMENTUM

Throughout our organisation we are building momentum to lift returns and deliver sustainable growth.

PERFORMANCE

In 2018 we achieved our most important target of no fatalities. The work we have done over the past two years to understand our major hazards and ensure all key controls are in place has touched every part of our organisation and strengthened our safety culture and controls. While our Total Recordable Injury Frequency Rate increased slightly, the severity of injuries has declined. We have more work to do but I am confident we are making Orica a safer place to work, and this will remain our priority.

Strong demand and new contracts in key market segments saw our revenues return to growth in 2018, but we were disappointed with the decline in earnings before interest and tax of three per cent on the prior year. This was largely due to issues at manufacturing operations as we responded to increased demand levels, but lower earnings from the Minova business and difficult conditions in our Latin American business also contributed to the decline. We moved quickly to address the issues within our control and earnings in the second half increased 46%, reflecting solid operational performance and cost reductions.

Delivering superior technology and expertise for customers is at the core of our strategy. The acquisition of GroundProbe has significantly expanded our digital capability and customer offering and contributed positively to earnings for the year. Other initiatives including expansion into agricultural markets on the east coast of Australia and a new joint venture in China will increase returns on existing assets and build presence in these strong and growing markets.

Revenue growth from new technologies as a proportion of total revenues grew by more than 30% in 2018. While this still represents a modest proportion of sales, new technologies are driving market conversion to more modern, less commoditised products and services which will improve margins over time. Improved customer satisfaction and a lift in market share in key regions also underlines progress toward our longer-term transformation.

PEOPLE AND CAPABILITY

The expertise of our people is a differentiator for Orica. Developing and challenging our people continues to be a priority and we were pleased to lift employee satisfaction levels again this year and significantly increase the number of critical roles filled by internal candidates.

OUTLOOK

Over the past few years we have reshaped our business to respond more quickly to the needs of our customers, reduced our cost base and begun simplifying and standardising our operations to improve performance. We invested in game-changing technologies and strengthened capability at all levels of the organisation. Most importantly, we revised our approach to safety, prioritising the identification of major hazards and verification of controls to keep our people safe.

As the outlook in demand for our products and services strengthens, we are well placed to benefit. Our technologies and expertise are increasingly sought after as our customers seek new productivity and safety solutions. We are finding new ways to lift returns on our asset base and this will drive financial performance in the short and medium term. Capital efficiency and cost management will continue to be prioritised as the work we have done over the past two years to reduce our cost base and add value to our business is integrated into the way we work.

We have achieved much in 2018, especially in the second half of the year, and I am excited by the opportunity before us. I thank the dedicated people across our organisation for their sustained effort and contribution, and shareholders for their continued support.

AS THE RESOURCES INDUSTRY EMBRACES AUTOMATION AND BIG DATA TO LIFT RETURNS, WE ARE RESPONDING TO THIS OPPORTUNITY. INVESTMENT IN OUR PEOPLE, NEW TECHNOLOGIES AND NEW BUSINESSES WILL ENSURE WE CAN GROW FASTER THAN OUR COMPETITORS, GENERATE SUPERIOR RETURNS ON CAPITAL AND DELIVER STRONG FREE CASH FLOW.

Alberto Calderon
Managing Director and CEO

SUSTAINABILITY

Over the past few years we have gained greater insight into the expectations of our stakeholders, more clearly defined our sustainability risks and developed mitigation plans and performance targets to build a more resilient business.

In 2018, we made progress toward our targets and continued to improve how we integrate sustainability into our management frameworks and day to day operations. A major focus has been lifting employee understanding of our sustainability risks, their obligations, and how they contribute to achieving our goals.

Safety remains our number one priority and we achieved our most important target of no fatalities in 2018. Our approach to safety prioritises the identification of major hazards and the verification of key controls. More than 90,000 key control verifications were performed throughout the year as our Major Hazards program transitioned from a campaign approach to a standard way we work. While the Total Recordable Injury Frequency Rate did not achieve our targeted reduction, the severity of injures recorded showed an improvement on the prior year. Safety leadership interactions are important to our safety culture and are a practical way our leaders live our charter values every day. More than 24,000 leadership interactions have occurred since the launch of the program in 2017.

We believe our responsibility for safety extends to our customers and communities. During the year we reviewed our product security policies and controls and developed a whole of company position on product security. Further work to embed the implications of this review will occur over the coming year.

We also made considerable progress in strengthening our governance framework with the introduction of ethics and compliance controls and training, and a refreshed Code of Business Conduct that clearly communicates to employees how we work and expectations of their personal conduct.

The work we completed last year to better define our approach to climate-related risk has been followed up with the conduct of carbon emission abatement trials. This work will inform our investments in carbon reduction into the next decade. We have also increased our focus on water, waste and energy management.

Expectations for disclosure on non-commercial performance are increasing and we will see enhanced regulation and best practice standards emerge over the coming years. This year we have released the data we provided to the Carbon Disclosure Project. We will also continue to analyse opportunities presented by the recommendations of the Task Force on Climate-related Financial Disclosure and assess our on-going participation in sustainability surveys and indexes.

ORICA
BILL

BOARD MEMBERS

Malcolm Broomhead
BE, MBA

Non-Executive Director of Orica Limited since December 2015 and Chairman as of 1 January 2016. Chairman of the Nominations Committee.

Director of BHP Ltd & Plc. Former Chairman of Asciano Limited.

Director of the Walter & Eliza Hall Institute, Chairman of the Australia-China Belt and Road Initiative Advisory Board and Council Member of Opportunity International Australia.

Alberto Calderon
PhD Econ, M Phil Econ, JD Law, BA Econ

Non-Executive Director since August 2013. Appointed Managing Director and Chief Executive Officer on 19 May 2015.

Former Group Executive and Chief Executive of BHP Aluminium, Nickel and Corporate Development. Former Chief Executive Officer of Cerrejón Coal Company and Colombian oil company, Ecopetrol.

Maxine Brenner
BA LLB

Non-Executive Director since April 2013. Chairman of the Human Resources and Compensation Committee and member of the Board Audit and Risk Committee and the Nominations Committee.

Director of Origin Energy Limited, Qantas Airways Limited and Growthpoint Properties Australia Limited. Former director of companies including Neverfail Australia Ltd, Treasury Corporation of NSW and Federal Airports Corporation. Former Managing Director of Investment Banking at Investec Bank (Australia) Ltd. Former member of the Takeovers Panel.

Ian Cockerill
BSc (Hons) Geology, MSc (Mining), MDP, AMP

Non-executive Director of Orica Limited since July 2010. Chairman of the Safety, Health, Environment & Community Committee and a member of the Human Resources & Compensation Committee and the Nominations Committee.

Chairman of BlackRock World Mining Trust plc and a Director of Endeavour Mining Corporation and Ivanhoe Mines Limited. Former Chief Executive Officer of Anglo Coal and Gold Fields Limited, and a former executive with AngloGold Ashanti and Anglo American Group.

Former Chairman of the Leadership for Conservation in Africa, a not-for-profit organisation, and Chairman for Conservation 360, a Botswanan conservation NGO dealing with anti-poaching initiatives. Former Director of Business Leadership South Africa, the South African Business Trust and the World Gold Council.

Lim Chee Onn
BSc (Hons), MPA, D.Eng (Honorary)

Non-Executive Director since July 2010. Member of the Safety, Health, Environment & Community Committee, Human Resources and Compensation Committee and the Nominations Committee.

Chairman of the Singapore-Suzhou Township Development Pte Ltd, Pro-Chancellor Singapore Management University, Member of the Council of Presidential Advisers (Singapore), and Director of the International Institute for Strategic Studies (Asia) Ltd. Former Chairman of Keppel Corporation Limited and Singbridge International Singapore Pte Limited.

Denise Gibson
BA (Business Administration), MBA (Management)

Non-executive Director since January 2018. Member of the Human Resources & Compensation Committee and the Nominations Committee.

Co-founder and Chairman of Ice Mobility. Director of Aerial Technologies Inc., NASDAQ-listed VOXX International Corporation and ORBCOMM Inc., and a director of the Consumer Technology Association and the Consumer Technology Association Foundation, both not-for-profit organisations. Founder and former CEO of Brightstar US.

Karen Moses
BEc, DipEd, FAICD

Non-Executive Director since July 2016. Member of the Board Audit & Risk Committee, Safety, Health, Environment & Community Committee, and the Nominations Committee.

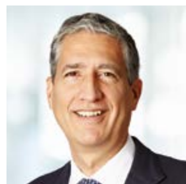
Director of Boral Limited, Charter Hall Group, Sydney Symphony Limited and Sydney Dance Company, and a Fellow of the Senate of Sydney University. Former director of companies including SAS Trustee Corporation, Australia Pacific LNG Pty Limited, Origin Energy Limited, Contact Energy Limited, Energia Andina S.A., Australian Energy Market Operator Ltd, VENCorp and Energy and Water Ombudsman (Victoria) Limited.

Gene Tilbrook
BSc, MBA, FAICD

Non-Executive Director since August 2013. Chairman of the Board Audit and Risk Committee and member of the Safety, Health, Environment & Community Committee and the Nominations Committee.

Non-Executive Director of GPT Group and Woodside Petroleum. Deputy Chairman of the Australian Institute of Company Directors, and Director of the Bell Shakespeare Company. Former director of Aurizon Holdings and Fletcher Building. Former Executive Director of Wesfarmers Limited.

EXECUTIVE COMMITTEE



Alberto Calderon
PhD Econ, M Phil Econ, JD Law, BA Econ
Managing Director and Chief Executive Officer

Alberto was appointed Chief Executive Officer in May 2015, having been a Non-Executive Director since August 2013. Alberto is a former Group Executive and Chief Executive of BHP Aluminium, Nickel and Corporate Development. He is also a former Chief Executive Officer of Cerrejón Coal Company and Colombian oil company, Ecopetrol. Prior to this, Alberto was Executive Director of the International Monetary Fund, held senior roles in the Colombian government, and has been a Board member of a range of private, public and non-government organisations.

James Bonnor
B.Com, (Econ, Mark)
Group Executive and President, North America

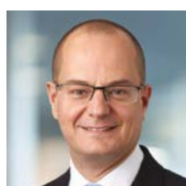
James was appointed Group Executive and President, North America in October 2015. He has more than 20 years of commercial and operational experience with Orica where he has held a range of management, sales, marketing, and customer relationship roles across international market segments including Australia, New Zealand and Latin America.

Eileen Burnett-Kant
MEng Manufacturing Sciences and Engineering, MBA
Group Executive, Human Resources

Eileen joined Orica in March 2013 and has group-wide responsibility for the human resources function. Prior to joining Orica Eileen held senior roles in human resources and communications with Jetstar Airways and Wesfarmers. Eileen also gained experience in strategic consulting with McKinsey & Company and has deep experience in operational HR management and transformation.

Darryl Cuzzubbo
BEng (1st class Hons) Mechanical Engineering, Masters (Hons) Total Quality Management, MBA.
Group Executive and President, Australia Pacific and Asia

Darryl was appointed to his current role in October 2017 after having held the role of Group Executive and President, Australia Pacific and Indonesia since 2016. He joined Orica in 2015 after a 24 year career with BHP where he held senior positions in group-wide functions as well as the Australian and South African coal and copper businesses.



Christopher Davis
B. Com, Acc; Chartered Accountant
Chief Financial Officer

Christopher was appointed Chief Financial Officer in October 2018 and has responsibility for the group-wide finance function as well as investor relations and group risk and assurance. Before joining Orica, Christopher held senior financial and executive roles within Anglo American Plc, including as CEO of its subsidiary Scaw Metals Group from 2009 to 2013 and CFO from 2008.

Carlos Duarte
BSc Aeronautical Engineering, MBA
Group Executive, Manufacturing and Supply

Carlos was appointed as Group Executive, Manufacturing and Supply in October 2017 following more than 30 years at global oil and gas technology and services company, Schlumberger. During his time at Schlumberger Carlos held senior leadership positions including Vice President, Supply Chain, Vice President, Manufacturing, and Vice President, New Businesses.

Kirsten Gray
BA/LLB (Hons), PDM
Group Executive Corporate Services and Company Secretary

Kirsten joined Orica in October 2015 and has responsibility for the legal function, company secretariat, sustainability and corporate affairs. She joined Orica after a 20 year career with BHP, where she held senior global legal positions. Kirsten has deep experience in corporate governance, global mergers and acquisitions and general commercial law.

Angus Melbourne
BEng (Hons) Mechanical Engineering, BSc Applied Mathematics
Chief Commercial Officer

Angus joined Orica in 2016 and has responsibility for strategic marketing and technology. He joined Orica following a 25 year career at Schlumberger where he held a number of senior roles responsible for research and development, engineering, manufacturing, operations and sales. Angus's experience at Schlumberger included responsibility for explosives and perforating products research, development and manufacturing.

Germán Morales
MSc, Civil Engineering, Executive MBA
Group Executive and President, Latin America

Germán joined Orica in September 2018 following 18 years at commercial explosives manufacturer and distributor Maxam. At Maxam, Germán held business leadership roles in Europe, Middle East and Africa, the Americas and Australasia, served as a Board member for several Maxam companies around the world, and most recently was the Senior Executive Director and General Manager Civil Explosives.

Andrew Rosengren
MA Oxon, BE Mining (Hons), Grad Dip Finance
Group Executive, Strategy, Planning and Mergers and Acquisitions

Andrew was appointed to his role in 2015 and is responsible for corporate strategy, long term planning, mergers and acquisitions, Minova and new growth businesses. He has more than 15 years experience in the mining industry, including with Rio Tinto. Prior to joining Orica in 2012 he held senior roles with Boral Limited and was CEO of Fulton Hogan Australia.

Thomas Schutte
B.Com (Hons) Acc, Chartered Accountant (SA)
Group Executive and President, Europe, Middle East and Africa (EMEA)

Thomas was appointed to his role in October 2017 after having held the role of Chief Financial Officer since September 2015. Before joining Orica Thomas spent 20 years with BHP where he held a number of leadership positions, including President and CEO Samancor Manganese Ltd, President Global Marketing and CFO of the Global Commercial Group.

REVIEW OF OPERATIONS

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

SUMMARY

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

GROUP RESULTS

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

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

2018 SUMMARY

FY18 REVENUE (A$)

$5,374M

FY18 EBIT (A$)

$618M

FY18 DIVIDEND

51.5C

BUSINESS SUMMARY

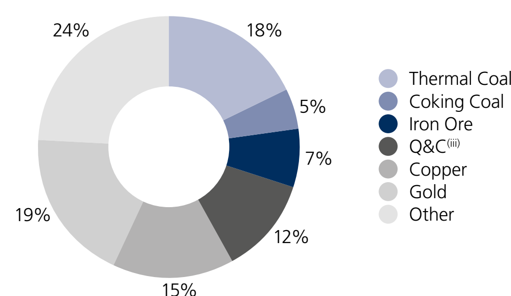
A summary of the performance of the segments for the 2018 and 2017 financial years is presented below:

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

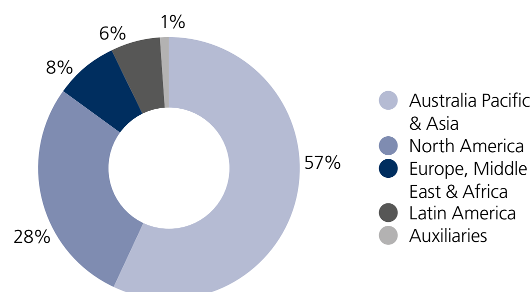
Year ended 30 September 2017 A$m	AN Tonnes (i) ('000)	Sales Revenue (ii)	EBITDA	EBIT	Capital Expenditure
Australia Pacific & Asia	1,424	1,725.9	492.2	367.6	147.7
North America	1,121	1,362.8	223.8	187.5	48.0
Europe, Middle East & Africa	468	812.2	98.2	74.5	23.6
Latin America	637	915.9	86.7	61.3	20.7
Minova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

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

REVENUE BY COMMODITY 2018



EBIT BY REGION (iv) 2018

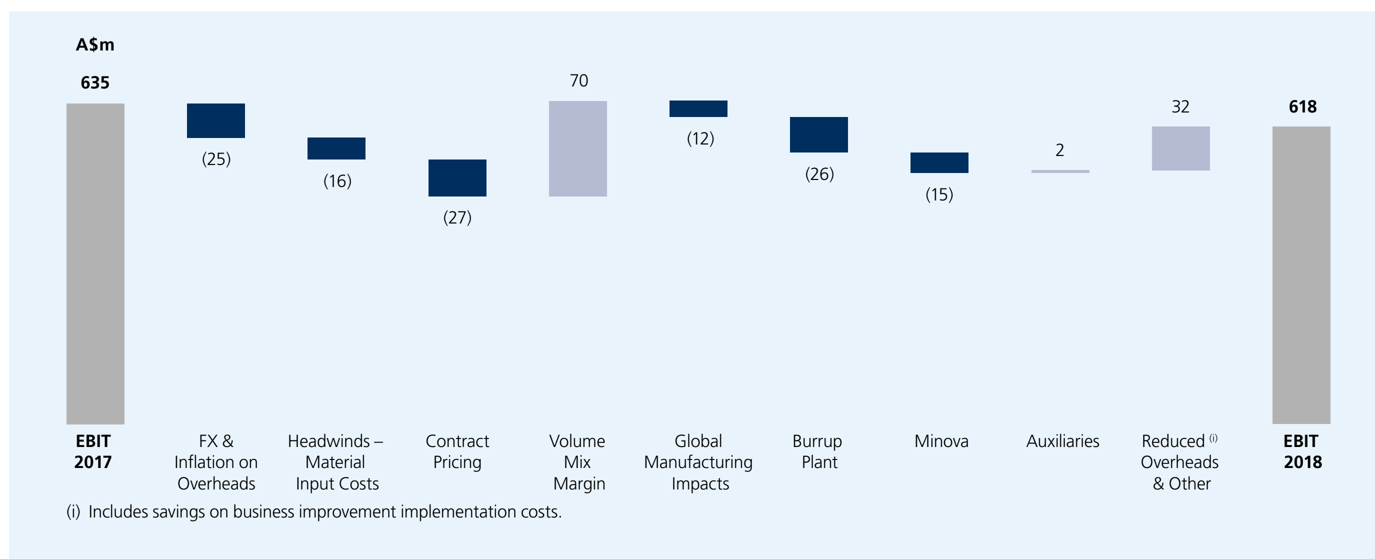


Note: The above charts exclude Global Support and Eliminations.
(iii) Quarry and Construction.
(iv) Minova is excluded due to negative EBIT result.

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

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

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



(i) Includes savings on business improvement implementation costs.

Key items in the above chart:

FX & Inflation on Overheads

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

Headwinds – Material Input Costs

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

Contract Pricing

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

Volume, Mix & Margin

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

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

Global Manufacturing Impacts

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

Burrup Plant

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

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

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

Minova

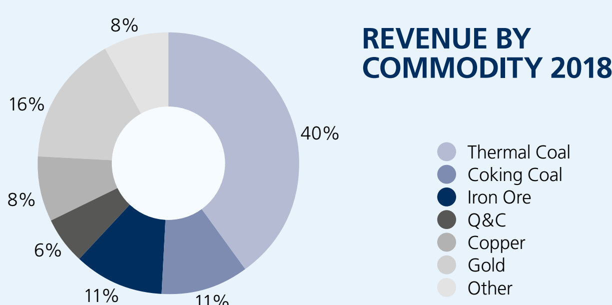
Adjusting for the profit from the divestment of a business in the pcp of $8 million, EBIT declined $7 million despite increases in volume and revenue, due to unfavourable mix and cost pressures.

Reduced Overheads & Other

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

AUSTRALIA PACIFIC & ASIA

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



COMMODITY EXPOSURE

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

EBIT PERFORMANCE DRIVERS

Volume and mix

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

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

Margin and price

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

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

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

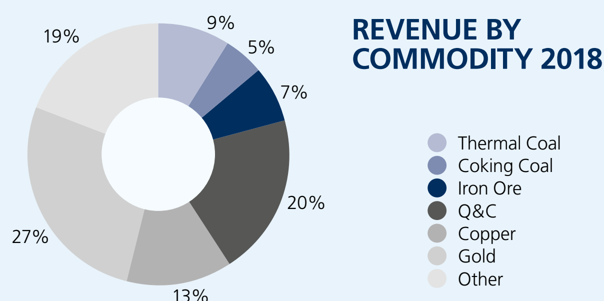
Outlook

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

NORTH AMERICA

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

REVENUE BY COMMODITY 2018



COMMODITY EXPOSURE

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

EBIT PERFORMANCE DRIVERS

Volume and mix

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

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

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

Margin and price

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

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

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

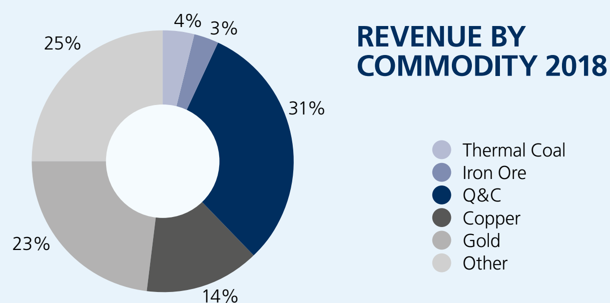
Outlook

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

EUROPE, MIDDLE EAST & AFRICA

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

REVENUE BY COMMODITY 2018



COMMODITY EXPOSURE

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

EBIT PERFORMANCE DRIVERS

Volume and mix

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

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

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

Margin and price

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

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

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

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

Outlook

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

LATIN AMERICA

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

REVENUE BY COMMODITY 2018

COMMODITY EXPOSURE

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

EBIT PERFORMANCE DRIVERS

Volume and mix

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

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

Margin and price

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

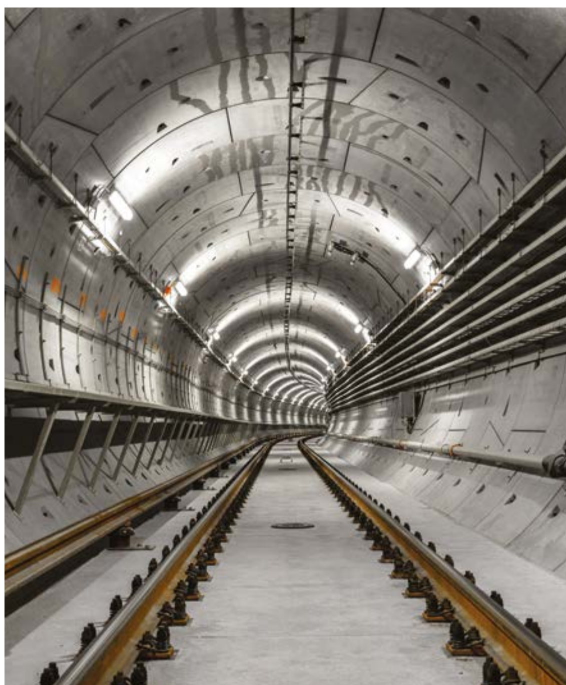
Continued high inflation resulted in increased overhead costs across the region.

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

Outlook

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

MINOVA



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

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

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

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

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

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

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

AUXILIARIES

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

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

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

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

GLOBAL SUPPORT

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

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

NET INTEREST EXPENSE

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

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

TAX EXPENSE

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

GROUP CASH FLOW

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

Performance highlights

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

Net operating cash flows

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

Net investing cash flows

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

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

DEBT MANAGEMENT AND LIQUIDITY

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

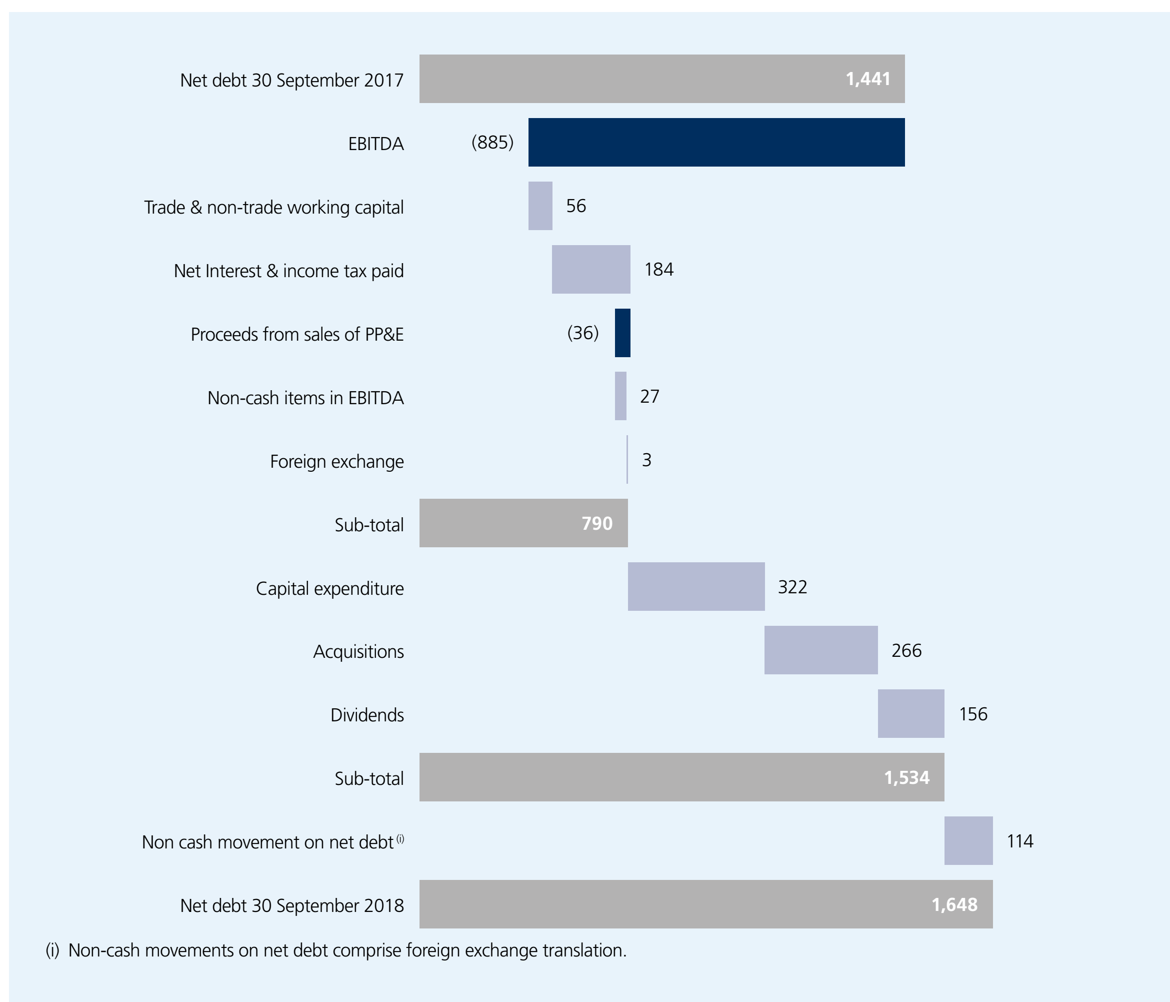
Interest bearing liabilities of $2,163 million comprise $1,947 million of US Private Placement bonds and $216 million of committed and other bank facilities. The average duration of drawn debt is 5.0 years (2017 6.1 years).

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

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

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

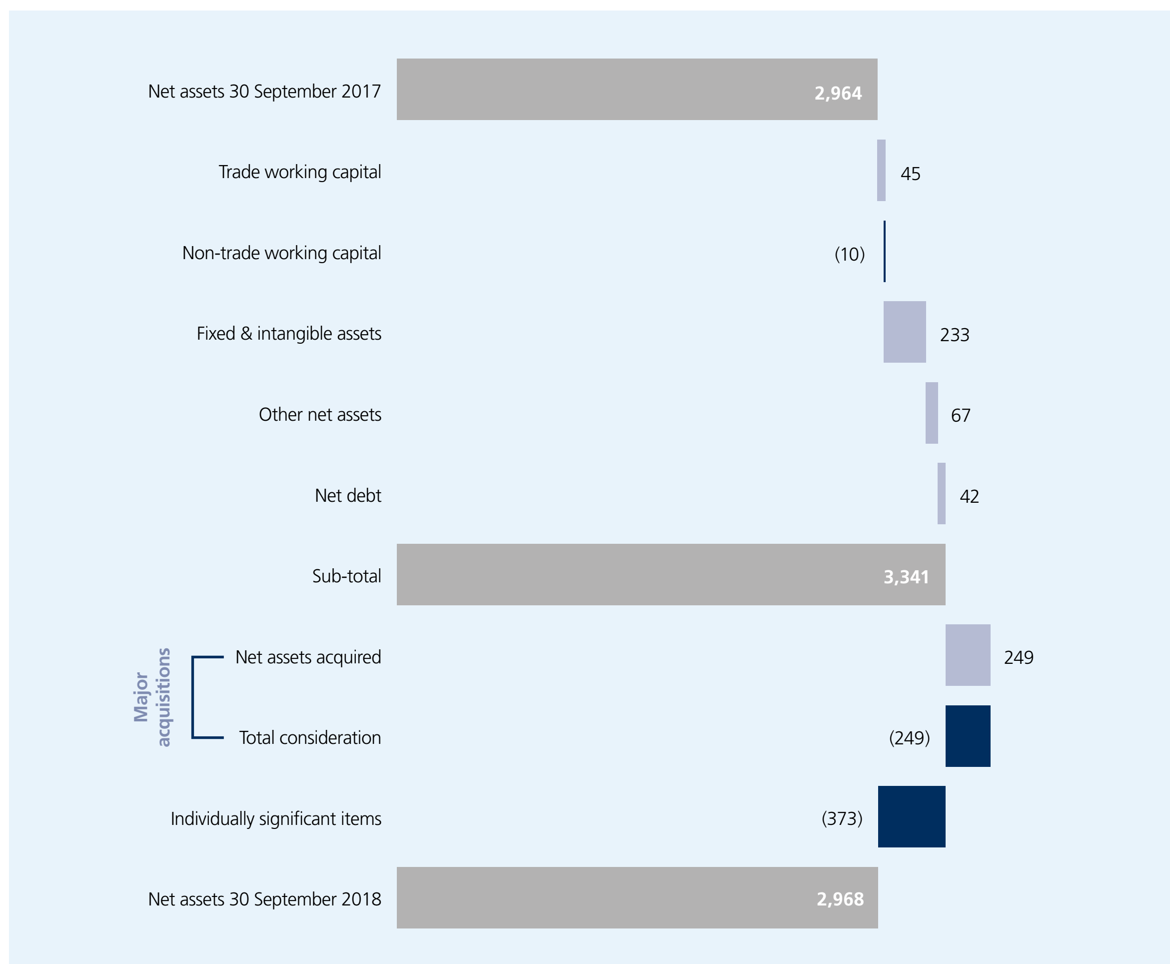
Movement in net debt (A$m)



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

GROUP BALANCE SHEET

Movement in net assets (A$m)



Performance highlights

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

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

DIVIDEND

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

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

INDIVIDUALLY SIGNIFICANT ITEMS

	Gross A$m	Tax A$m	Net A$m
Impairment of Minova business	(204.2)	0.6	(203.6)
Botany environmental provision expense	(114.7)	34.4	(80.3)
Write down of US deferred tax assets	–	(47.9)	(47.9)
Impairment of other assets	(21.2)	6.4	(14.8)
Restructuring	(35.2)	8.5	(26.7)
Individually significant items	**(375.3)**	**2.0**	**(373.3)**
Non-controlling interests in individually significant items	1.0	–	1.0
Individually significant items attributable to shareholders of Orica	**(374.3)**	**2.0**	**(372.3)**

Impairment of Minova business

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

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

Botany environmental provision expense

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

Write down of US deferred tax assets

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

Impairment of other assets

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

Restructuring

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

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

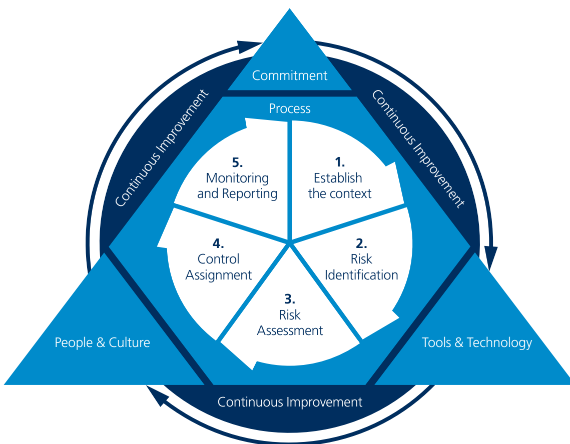
RISK MANAGEMENT

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

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

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

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



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

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

i. Macro-economic

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

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

ii. Markets

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

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

iii. Manufacturing and Supply

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

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

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

iv. Workplace Safety

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

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

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

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

v. Cyber Security

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

vi. Climate Change

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

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

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

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

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

vii. Ethical Business Practices and Good Governance

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

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

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

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

TAX TRANSPARENCY REPORTING

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

Tax Policy – Orica's approach to tax

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

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

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

Tax strategy and governance

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

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

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

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

Compliance

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

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

Structure

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

Relationships with tax authorities

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

Use of tax havens

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

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

Transparency

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

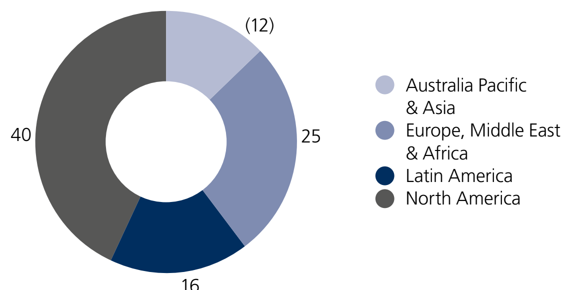
On 3 May 2016, the Treasurer of Australia released a Corporate Tax Transparency Code. The Code was developed by the Board of Taxation in Australia and Orica has signed the Corporate Tax Transparency Code Register and is committed to applying the principles and the details of the Code.

Tax contribution summary

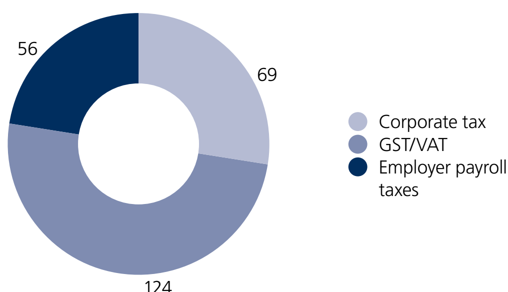
In 2018, Orica paid $69 million (2017 $189 million) globally in corporate income taxes and $56 million (2017 $48 million) globally in payroll taxes. Orica collected and remitted $124 million (2017 $120 million) globally in GST/VAT.

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

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



Global tax paid by type 2018 A$m



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

A RECONCILIATION OF ACCOUNTING PROFIT TO INCOME TAX PAYABLE

	Consolidated 2018 A$m	Consolidated 2017 A$m
Before individually significant items:		
Accounting profit/(loss) before tax	**496.8**	563.4
Prima facie income tax expense/(benefit) calculated at 30% on accounting profit	**149.0**	169.0
Material non-temporary differences		
variation in tax rates of foreign controlled entities	**(16.3)**	(38.6)
tax under provided in prior years	**2.0**	8.0
de-recognition of booked tax losses	**3.5**	4.0
taxable/(non taxable) gains on disposal of assets	**(3.2)**	12.3
other foreign deductions	**(3.7)**	(23.0)
non creditable withholding taxes	**11.2**	13.8
non allowable interest deductions	**11.3**	14.9
non allowable share based payments	**4.4**	3.0
utilisation of unbooked prior year tax losses	**(8.0)**	(6.4)
sundry items	**7.8**	7.0
Income tax expense/(benefit) before individually significant items	**158.0**	164.0
Individually significant items:		
Individually significant items before tax	**(375.3)**	–
Prima facie income tax expense/(benefit) calculated at 30% on individually significant items	**(112.6)**	–
Material non-temporary differences		
variation in tax rates of foreign controlled entities	**2.1**	–
impairment of Minova business	**60.6**	–
write down of US deferred tax assets	**47.9**	–
Income tax expense/(benefit) on individually significant items	**(2.0)**	–
Income tax expense/(benefit)	**156.0**	164.0
Material temporary differences		
deferred tax	**(6.3)**	(26.9)
write down of US deferred tax assets	**(47.9)**	–
Tax payments more/(less) than tax charges	**(18.6)**	14.2
Tax payments/(refunds) on matters in dispute with tax authorities	**(13.9)**	37.8
Income tax paid per the statement of cash flows	**69.3**	189.1

EFFECTIVE TAX RATE FOR AUSTRALIAN AND GLOBAL OPERATIONS

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

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

International related party dealings

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

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

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

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

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

AUSTRALIAN TAX RETURN DATA

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

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

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

OUTLOOK

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

Key assumptions for the 2019 financial year are:

Operations

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

Manufacturing

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

Other

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

Capital

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

Forward-looking statements

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

No representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of the information, opinions and conclusions contained in this presentation. To the maximum extent permitted by law, none of Orica Limited, its directors, employees or agents, nor any other person accepts any liability, including, without limitation, any liability arising out of fault or negligence, for any loss arising from the use of the information contained in this presentation. In particular, no representation or warranty, express or implied, is given as to the accuracy, completeness or correctness, likelihood of achievement or reasonableness of any forecasts, prospects or returns contained in this Review of Operations. Such forecasts, prospects or returns are by their nature subject to significant uncertainties and contingencies.

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

Past performance is no guarantee of future performance.

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

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

Footnotes

The following footnotes apply to the Review of Operations:

(1) Equivalent to profit after income tax expense before individually significant items attributable to shareholders of Orica Limited disclosed in Note 1(b) to the financial statements.

(2) Equivalent to profit/(loss) before financing costs and income tax and individually significant items in Note 1(b) to the financial statements.

(3) Equivalent to net cash flows from operating activities and net cash flows used in investing activities as disclosed in the Statement of Cash Flows.

(4) GP Holdco Pty Ltd and its Companies.

(5) Comprises total payments for property, plant and equipment and payments for intangibles as disclosed in the Statement of Cash Flows.

(6) Total interest bearing liabilities less cash and cash equivalents as disclosed in note 3 to the financial statements.

(7) Net debt/(net debt + total equity), as disclosed in note 3 to the financial statements.

(8) EBIT before individually significant items plus depreciation and amortisation expense.

(9) Equivalent to net cash used in financing activities (as disclosed in the Statement of Cash Flows) excluding dividends paid to Orica ordinary shareholders and non-controlling interests.

(10) Equivalent to net (decrease)/increase in cash held disclosed in the Statement of Cash Flows.

(11) (EBITDA add/less movement in trade working capital less sustaining capital expenditure excluding SAP project spend)/EBITDA.

(12) Comprises inventories, trade receivables and trade payables disclosed in the Balance Sheet.

(13) Dividend amount/NPAT before individually significant items.

DIRECTORS' REPORT

The Directors of Orica Limited ('the Company' or 'Orica') present the Annual Report of the Company and its controlled entities (collectively 'the Group') for the year ended 30 September 2018 and the auditor's report thereon.

Directors

The Directors of the Company during the financial year and up to the date of this report are:

M W Broomhead, Chairman
M N Brenner
Lim C O
K A Moses
A Calderon, Managing Director and Chief Executive Officer (CEO)
I D Cockerill
D W Gibson (appointed 1 January 2018)
G T Tilbrook

K Gray is Company Secretary of Orica.

Particulars of Directors' and Company Secretary qualifications, experience and special responsibilities are detailed in the Annual Report.

Directors' meetings

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the directors of the Company during the financial year are listed below:

Director	Scheduled Board Meetings(1)		Audit and Risk Committee(1)		Human Resources and Compensation Committee(1)		Nominations Committee(1)		Safety, Health, Environment and Community Committee(1)	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
M W Broomhead(2)	12	12	–	–	–	–	4	4	–	–
M N Brenner	12	12	8	8	7	7	4	4	–	–
A Calderon(3)	12	12	–	–	–	–	–	–	–	–
I D Cockerill	12	12	–	–	7	7	4	4	6	6
Lim C O	12	12	–	–	7	7	4	4	6	6
D W Gibson	7	7	–	–	3	3	3	3	–	–
K A Moses	12	12	8	8	–	–	4	4	6	6
G T Tilbrook	12	12	8	8	–	–	4	4	6	6

(1) Shows the number of meetings held and attended by each Director during the period the Director was a member of the Board or Committee.

(2) The Chairman of the Orica Board attends all Board Committee meetings as an 'ex officio' member of that Committee.

(3) The Managing Director and CEO attends Committee meetings on an 'as needs' basis.

Directors' interests in share capital

The relevant interest of each Director in the share capital of the Company as at 30 September 2018 and as at the date of this report is disclosed in the Remuneration Report.

Principal activities

The principal activities of the Group in the course of the financial year were the manufacture and distribution of commercial blasting systems including technical services and solutions, mining and tunnelling support systems to the mining and infrastructure markets, and various chemical products and services.

Likely developments

Likely developments in the operations of the Group and the expected results of those operations are covered generally in the review of operations and financial performance of the Group in the Annual Report.

Review and results of operations

A review of the operations of the Group during the financial year and of the results of those operations is contained in the Annual Report.

Dividends

Dividends paid or declared since the end of the previous financial year were:	$m
Final dividend at the rate of 28.0 cents per share on ordinary shares, unfranked, paid 8 December 2017.	105.6
Interim dividend declared at the rate of 20.0 cents per share on ordinary shares, unfranked, paid 2 July 2018.	75.6
Total dividends paid	181.2

Since the end of the financial year, the Directors have declared a final dividend to be paid at the rate of 31.5 cents per share on ordinary shares. This dividend will be unfranked.

Changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the year ended 30 September 2018.

Events subsequent to balance date

Dividends

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

The Directors have not become aware of any other significant matter or circumstance that has arisen since 30 September 2018, that has affected or may affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent years, which has not been covered in this report.

Environmental regulations

Orica seeks to be compliant with applicable environmental laws and regulatory permissions relevant to its operations. Where instances of non-compliance occur, Orica's procedures require that relevant governmental authorities are notified in accordance with statutory requirements and internal investigations are conducted to determine the cause of the non-compliance to ensure the risk of recurrence is minimised.

The Company has committed major investments, both in terms of capital and resources, to improve its environmental performance at key sites in addition to its general maintenance program. The Company is working closely and co-operatively with regulators and government agencies in relation to these initiatives, as well as enhancing community engagement and consultation.

Environmental prosecutions

Orica Australia Pty Ltd is the subject of legal proceedings issued by the Queensland Department of Environment and Heritage Protection in relation to an incident that occurred in September 2016 at its Fisherman's Landing Ammonia Terminal. The matter continues to be progressed and is yet to be concluded.

More specific details about Orica's sustainability initiatives and performance, including safety, health and environment, can be found on the Orica website – www.orica.com/sustainability.

Indemnification of officers

The Company's Constitution requires the Company to indemnify any person who is, or has been, an officer of the Company, including the Directors, the Secretaries and other Executive officers, against liabilities incurred whilst acting in good faith as such officers to the extent permitted by law.

In accordance with the Company's Constitution, the Company has entered into a Deed of Access, Indemnity and Insurance with each of the Company's Directors and, in certain instances, specific indemnities have been provided. No Director or officer of the Company has received benefits under an indemnity from the Company during or since the end of the year.

The Company has paid a premium in respect of a contract insuring officers of the Company and of controlled entities, against a liability for costs and expenses incurred by them in defending civil or criminal proceedings involving them as such officers, with some exceptions. The insurance contract prohibits disclosure of the nature of the liability insured against and the amount of the premium paid.

Non-audit services

During the year, KPMG, the Company's auditor, performed certain other services in addition to its audit responsibilities.

The Board is satisfied that the provision of non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Board Audit and Risk Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in *APES 110 Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

A copy of the lead auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is contained on page 58 of the Annual Report and forms part of this Directors' Report.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are disclosed in note 23 to the Annual Report.

Cover Letter (unaudited) to the Remuneration Report

Dear Shareholders,

On behalf of the Board, I am pleased to present Orica's 2018 Remuneration Report, for which we seek your support at our Annual General Meeting this December.

Changes for 2018

During 2018, we implemented the revised Executive Remuneration Framework (the Framework) as outlined last year. The Framework is designed to promote an owner's mindset, encourage longer-term decision-making, and to align remuneration outcomes to sustainable value creation. Key changes introduced were an increased emphasis on financial metrics linked to improvement in Return on Net Assets (RONA) and significant holding locks for both Short-Term and Long-Term Incentives (STI and LTI respectively). The Framework is illustrated in section 2.2 of the Remuneration Report.

Performance alignment

A key priority for the Board is to ensure a high degree of alignment in outcomes between shareholders and management.

Positive progress was made on aspects of safety performance. EBIT and RONA outcomes in FY2018 were lower than in FY2017 with non-cash impairment charges and increases to environmental provisions announced in March. Management and the Board recognise that Orica's overall level of financial performance did not meet our expectations, nor those of shareholders.

Accordingly, the Board considered outcomes and exercised its discretion to reduce the outcomes for all financial metrics by 75% for the CEO and Executives. This reduced the overall STI award for the CEO to 36.67% of target (18.34% of maximum), a reduction of $630,000; the lowest STI outcome for the CEO in 6 years, and to an average of 46.51% of target (23.25% of maximum) for the Key Management Personnel, including the CEO. The disappointing outcome for FY2018 also means that the RONA target applicable to the 2018 LTI grant has become more challenging to meet over the performance period to September 2020.

The main remuneration outcomes for the year are summarised below. The Board believes that these outcomes appropriately align Orica's performance with outcomes for shareholders.

SIGNIFICANTLY REDUCED SHORT-TERM INCENTIVE (STI) AWARD	Board discretion exercised to reduce financial outcomes significantly. On average, approximately 23% of the maximum STI opportunity was achieved by Executives. This compares with an average of 60% of maximum for the prior year.
NIL LONG-TERM INCENTIVE (LTI) VESTING	No vesting of the performance-tested LTI awards granted to Executives in FY2015 occurred, as threshold performance conditions were not met.
PAY FROZEN FOR CEO	Fixed pay for the Managing Director and CEO was maintained at the same level for the third successive year. As foreshadowed last year, fixed pay for selected continuing Executives was adjusted for forecast local inflation rates in January 2018, having been frozen for three years prior.
NO INCREASE TO DIRECTOR FEES	Non-Executive Directors' fees were maintained at the same level for the eighth successive year.

Remuneration for 2019

The Board has determined that no pay rises will be awarded to Executive KMP in FY2019 except where there has been a change in role or responsibilities. Non-Executive Director fees will similarly not be adjusted in FY2019.

Orica remains focused on long-term growth in RONA, together with margin and capital efficiency in the short-term. For FY2019, the Board will measure short-term progress with two measures: EBIT and one-year RONA. These measures are simpler and are directly aligned to value creation for shareholders.

With respect to target setting for the 2019 STI plan, the Board has generally raised the threshold levels at which STI may be earned, increasing alignment between rewards and shareholder outcomes.

Culture and organisational health

The Board and management believe that culture and performance are inextricably linked. A positive, engaged culture which motivates and supports employees to reach their potential is critical to achieving world-class performance. Rebuilding this positive culture has been a priority for the Board and management since 2015, with actions including development of Orica's purpose and values (Our Charter); strengthening risk and safety culture through the Major Hazards Initiative and through investment in Ethics and Compliance and Business Conduct functions, standards and systems, demonstrating our commitment to improvement.

A key objective of the Human Resources and Compensation Committee is to review and monitor progress on sustainable engagement of employees with Orica's strategy, vision and values, and on development of a culture of safety, respect, integrity, excellence and collaboration. This is measured through the annual Organisation Health Index Survey. We invite all our people to respond worldwide and enjoyed a pleasing response rate of above 80% to the most recent survey conducted at the end of FY2018. This year, our health outcome, which measures the quality of management practices at Orica, positioned Orica in the second quartile versus external benchmarks; an improvement versus the prior year.

Developments are underway to gain further insight into risk and safety culture. The Board's position on the consequence of poor safety culture and outcomes on remuneration is clear – in 2016 and 2017, the Board has made downward adjustments to STI outcomes for all Executives in response to the tragic fatalities in Orica's operations. Informed by further insight into risk and safety culture, the Committee will undertake a review in 2019 as to how broader risk and culture matters may be reflected through Orica's performance management and remuneration structures and outcomes.

The 2018 Remuneration Report

In line with the principles of simplicity and transparency that underpin the Executive Remuneration Framework, we have reshaped the structure of our Remuneration Report in order that the link between our strategy, our performance and executive remuneration outcomes is clearly and simply articulated; that key stakeholder questions are addressed upfront; and that more information is provided on governance and matters considered by the Board.

It remains our intention to encourage open dialogue with shareholders and other stakeholders, particularly around our remuneration practices and disclosures, and accordingly I welcome any feedback you may have.

Yours faithfully,

Maxine Brenner
Chairman, Human Resources and Compensation Committee

1 November 2018

DIRECTORS' REPORT – REMUNERATION REPORT 2018 (AUDITED)

Executive summary

How are Remuneration Strategy and outcomes linked to business strategy and performance?

At Orica, remuneration is linked to the drivers of our business strategy, helping to create long-term success for shareholders. The at-risk components of remuneration are tied to measures that reflect operating and capital efficiencies both in the short and long-term. Strategic drivers are reflected in STI and LTI performance measures – so Orica's actual performance directly affects what Executives are paid. The diagram below provides an overview of the Framework and the specific performance linkages. Key terms of the Short-Term and Long-Term Incentive Plans are outlined in Section 3.1.

Our strategic drivers…	are reflected in STI and LTI performance measures…	so Orica's actual performance in FY2018…	links to what Executives are paid.
Safety	**Reduce risk from major hazards and lower lost time due to injury**	Positive progress in implementation of Orica's Major Hazards program together with a disappointing increase in lost-time injuries; albeit more severe injuries and events were reduced.	**CEO STI outcome** in FY2018 = 36.67% of target (18.34% of maximum) **Average STI in FY2018 for Executive KMP, including the CEO** = 46.51% of target (23.25% of maximum) The Board revised outcomes against the financial metrics and exercised its discretion to reduce these outcomes by 75% for the CEO and Executives.
Business Transformation	**EBIT/Sales** Sustainably increase productivity and devolve responsibility to regional businesses.	Volume mix/margin improvement mainly from new contracts was offset by one-off first-half impacts. While strong sales volume growth was achieved, full year EBIT was lower than last year. This resulted in no award against this metric.	
	Sales/Net Operating Assets Enhance returns on invested capital, deliver enabling technology, develop adjacency growth and optimise capital allocation.	Strong sales volume growth together with disciplined Net Operating Asset growth resulted in an above-target outcome.	
	Personal objectives for each Executive (other than the CEO) reflect strategic priorities including growth, enhancing Orica's development and use of technology, and culture.[(1)]	Continued penetration of high-value technology-based products. Successful implementation globally of the second phase of Orica's systems renewal program. Positive progress on culture and organisation health.	
Long-term shareholder value creation	**Return on Net Assets, together with increased holding locks.** Drive sustainable productivity improvement and efficient capital allocation.	During FY2018, the FY2015 award was eligible for testing. This award was subject to testing against RTSR and ROC measures. Threshold performance was not achieved for either metric.	No LTI vested in FY2018 for the CEO and eligible Executive KMP.

(1) While not specifically included as an STI metric for the CEO, the Board continues to measure progress against rigorous, externally validated employee engagement and organisation health baselines and against plans to improve engagement and strengthen business conduct, ethics and compliance. Building and strengthening diversity and conduct is a specific focus area for the Human Resources and Compensation Committee and is included in the assessment of any exercise of discretion by the Board in relation to remuneration outcomes.

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Section 1. Key Management Personnel

1.1 Executive Key Management Personnel

The table below lists the Executives of the Company whose remuneration details are outlined in this Remuneration Report. These Executives, together with the Directors, are defined as Key Management Personnel (KMP) under Australian Accounting Standards. In this report, Executive KMP refers to the KMP other than the Non-Executive Directors. Non-Executive Directors have oversight of the strategic direction of the Company but have no direct involvement in the day-to-day management of the business.

Name	Role in FY2018	Commencement date in role	Country of Residence
Executive Director			
Alberto Calderon	Managing Director and CEO	19 May 2015	Australia
Executive KMP			
Vincent Nicoletti	Chief Financial Officer	1 October 2017	Australia
James Bonnor	Group Executive and President, North America	1 October 2015	United States
Darryl Cuzzubbo	Group Executive and President, Australia Pacific & Asia	1 October 2016	Australia
Carlos Duarte	Group Executive, Manufacturing & Supply	1 October 2017	Australia
Angus Melbourne	Chief Commercial Officer	1 October 2016	Singapore
Germán Morales	Group Executive and President, Latin America	1 September 2018	Chile
Sebastian Pinto(1)	Group Executive and President, Latin America	1 October 2015	Chile
Thomas Schutte	Group Executive and President Europe, Middle-East and Africa	1 October 2017	United Kingdom

(1) Ceased to be a reportable KMP on 27 April 2018.

Changes in Key Management Personnel effective 1 October 2018

- Christopher Davis was appointed as Chief Financial Officer effective 1 October 2018; and
- Vincent Nicoletti, Chief Financial Officer, ceased to be a reportable KMP from 30 September 2018 and will leave Orica at the end of December 2018.

Particulars of Executives' qualifications, experience and responsibilities are detailed in the Annual Report.

1.2 Non-Executive Directors Key Management Personnel

The Non-Executive Directors who held office during FY2018 are set out below:

Name	Role in FY2018	Commencement date in role	Country of Residence
Directors			
Malcolm Broomhead	Non-Executive Director, Chairman	1 December 2015	Australia
Maxine Brenner	Non-Executive Director	8 April 2013	Australia
Ian Cockerill	Non-Executive Director	12 July 2010	South Africa
Denise Gibson	Non-Executive Director	1 January 2018	United States
Karen Moses	Non-Executive Director	1 July 2016	Australia
Lim Chee Onn	Non-Executive Director	12 July 2010	Singapore
Gene Tilbrook	Non-Executive Director	14 August 2013	Australia

Section 2. Key stakeholder questions

2.1 What is Orica's Executive remuneration strategy?

Orica's Executive Remuneration Strategy is illustrated below:

2.2 How is Executive remuneration structured?

Orica's FY2018 Executive Remuneration Framework focuses on delivery of the ongoing turnaround of the Company through operating safely, enhancing operating and capital efficiency and embedding those efficiencies for long-term improvement in capital returns. The diagram below provides an overview of the different components within the Framework.

Three key elements that underpinned the design were:

- Increasing the quantum and length of management shareholding;
- Increasing the weighting of financial metrics – 75% financial performance metrics applied to the CEO, with overriding Board discretion to adjust for appropriate outcomes; and
- Improving transparency – metrics directly linked to long-term value creation.

Overall Board discretion is retained to adjust incentive outcomes as appropriate.

		Significant proportion at risk Extended equity 'lock in' (five year total hold) Overriding Board discretion to adjust for appropriate outcomes	
REMUNERATION COMPONENT	**FIXED ANNUAL REMUNERATION (FAR)**	**SHORT-TERM INCENTIVE (STI)**	**LONG-TERM INCENTIVE (LTI)**
PURPOSE	Provide competitive base pay to attract and retain the skills needed to manage a global business in a complex operating environment	Drive performance aligned to long-term value creation	Drive long-term value creation for shareholders Encourage an owner's mindset and long-term decision-making
DELIVERY	Base salary, superannuation and allowances (per local market practice)	Annual cash payment Deferred into share rights for one year with a further three year holding lock	Performance rights (vesting after three years, subject to performance) with a further two year holding lock
FY2018 APPROACH	Target Fixed Remuneration positioning is **median** of comparator group Comparators: custom group that reflects Orica's operations, size and has substantial global operations plus additional reference to ASX-listed companies with similar market capitalisation and geographic/role-specific benchmarks	**STI Performance Measures (CEO)** Sales/NOA 30% Safety 25% EBIT/Sales 45%	**LTI Performance Measure** Return on Net Assets (RONA) – averaged over three years For each year RONA is calculated as annual Earnings Before Interest and Tax (EBIT) *divided by:* Rolling 12 month Net Operating Assets (NOA)

2.3 When is remuneration earned and received?

Remuneration is structured to reward Executives progressively across different timeframes with an emphasis on alignment with shareholders through extended holding locks and a five-year effective holding period. The diagram below illustrates the period over which FY2018 remuneration is earned and delivered, and when holding locks are lifted.

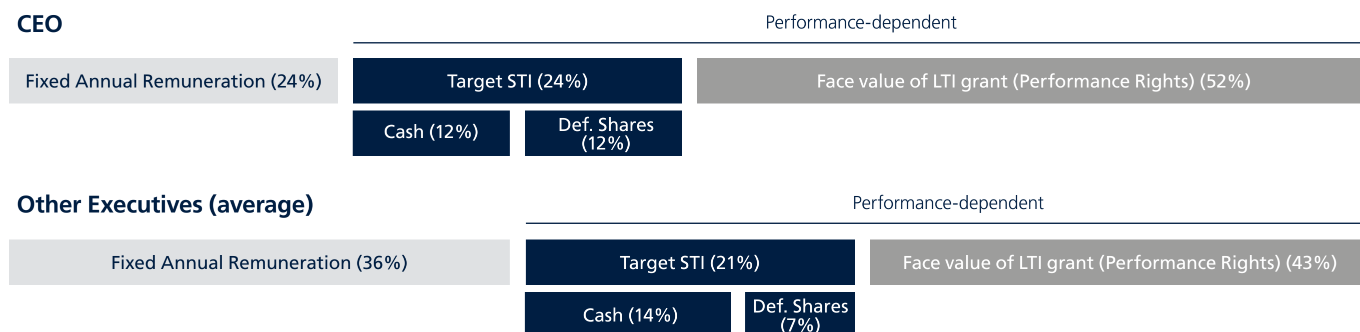
2.4 What is the remuneration mix for Executive KMP?

The remuneration mix for Executive KMP is weighted towards variable (at-risk) remuneration to provide alignment with the interests of shareholders and to drive performance against Orica's short-term and long-term business objectives.

Assuming target STI and the face value of LTI granted to Executives the remuneration mix is as follows:

- CEO: 76% of his remuneration is performance-based pay and 64% is delivered as shares or share rights.
- Other Executive KMP: 64% of their remuneration (on average) is performance-based pay and 50% is delivered as shares or share rights.

LTI is granted at face value (based on the volume weighted average price (VWAP) of Orica shares during the five trading days following the full year results announcement, rounded down to the nearest whole number of rights). Executive KMP have minimum shareholding requirements.



2.5 How much did Executives get paid in FY2018?

The table below presents the remuneration paid to, or vested for, Executive KMP in FY2018.

Executives (KMP)	Fixed annual Remuneration(1) $000	STI to be paid in cash(2) $000	Total cash payment $000	Prior year equity awards vested during year(3) $000	Other(4) $000	Total remuneration received $000
Alberto Calderon	1,800.0	330.0	2,130.0	718.0	1.6	2,849.6
Vincent Nicoletti(5)	920.0	174.2	1,094.2	–	191.4	1,285.6
James Bonnor	893.3	148.3	1,041.6	119.1	59.5	1,220.2
Darryl Cuzzubbo	813.2	243.4	1,056.6	–	1.5	1,058.1
Carlos Duarte	900.0	171.0	1,071.0	–	262.2	1,333.2
Angus Melbourne	962.9	239.7	1,202.6	446.8	183.4	1,832.8
Germán Morales	55.5	–	55.5	–	250.0	305.5
Sebastian Pinto(6)	363.7	–	363.7	97.6	24.8	486.1
Thomas Schutte	1,025.5	237.6	1,263.1	222.8	575.4	2,061.3
Total	7,734.1	1,544.2	9,278.3	1,604.3	1,549.8	12,432.4

(1) Annual remuneration paid includes actual base pay received and superannuation (or equivalent pension) contributions.

(2) FY2018 STI will be delivered in two components: cash and deferred equity that will vest 12 months post the grant date and then be subject to a three-year holding lock.

(3) This contains deferred STI from FY2017 that has vested. No LTI vested in FY2018.

(4) Includes cash value of relocation assistance and other benefits provided (where applicable). Movements in annual leave and long-service leave balances have not been shown.

(5) Vincent Nicoletti, Chief Financial Officer, ceased to be a KMP on 30 September 2018 and will leave Orica at the end of December 2018. In addition to his statutory entitlements to accrued annual leave at separation date, under the terms of his severance agreement, he will receive a severance payment of $460,000 being the balance of his 6 month notice period and a payment of $50,000 for relocation costs. The Board determined that, as a good leaver, any incentives under the Orica LTI plan that are unvested at the time of cessation or vested but under restriction will continue up to and beyond the cessation date and remain subject to the terms of the grant.

(6) Sebastian Pinto, the former Group Executive and President Latin America, ceased employment with Orica on 27 April 2018. In addition to his statutory entitlements to accrued annual leave, he was paid a severance payment of $480,326 on cessation of employment in accordance with Chilean law. As detailed in the table in Section 2.5 above, no STI payment was paid in relation to FY2018. The Board determined that, as a good leaver, any incentives under the Orica LTI plan that are unvested at the time of cessation or vested but under restriction will continue up to and beyond the cessation date and remain subject to the terms of the grant.

Section 3. Executive remuneration

3.1 Executive Remuneration Framework

The following table outlines the FY2018 Executive Remuneration Framework.

REMUNERATION POSITIONING	
Market position	Median for FAR and between Median and 75th percentile for total remuneration where outstanding performance is delivered.
Comparators	**Primary comparator group** – 18 listed-companies from within the ASX100 in similar industries with at least 50% of revenue generated overseas and with market capitalisation of at least $2bn. Based on data available as at 31 August 2017, the custom comparator group (excluding Orica) comprised the following companies: Amcor, Ansell, BHP, BlueScope Steel, Boral, Brambles, CSL, Fortescue Metals Group, Goodman Group, James Hardie, Newcrest Mining, Nufarm, Res Med, Rio Tinto, Sims Metal, South32, Woodside and Worley Parsons. **Secondary comparator group (reference)** – ASX listed companies with market capitalisation between 50% and 200% of Orica's 12-month average market capitalisation, all as at 31 August 2017.
FAR	
Payment vehicle	FAR includes cash, superannuation and other benefits.
STI	
Changes in FY2018	STI performance measures were focused on safety and financial metrics linked to improvement in RONA. For FY2018, financial performance was measured through two elements of RONA: operating efficiency (EBIT/Sales) and capital efficiency (Sales/NOA).
Payment vehicle	Cash and deferred shares.
Opportunity	CEO: 0% to 200% of FAR; 100% at target. Other Executives: 0% to 120% of FAR; 60% at target.
Performance Measures	CEO: Safety (25%); EBIT[(1)]/Sales (45%); Sales/NOA[(1)] (30%) Other Executives (in general): Safety (17.5%); EBIT[(1)]/Sales (31.5%); Sales/NOA[(1)] (21%); Strategic Priorities (30%) For each measure, a threshold level is set, below which no incentive is paid, a target level and a maximum level that caps payment with straight line vesting applied between threshold and target and between target and maximum. For Regional Presidents, Safety and Financial metrics are rewarded equally on Group and Regional performance. The Board continues to measure progress against rigorous externally validated employee engagement, organisational health baselines, and against plans to improve engagement, strengthen business conduct and compliance frameworks.
Deferred STI	CEO: 50% deferral of STI into shares for one-year subject to risk of forfeiture Other Executives: one third deferral of STI into shares for one-year subject to risk of forfeiture The number of deferred shares is based on the five-day volume weighted average price (VWAP) at the grant date after the annual results are announced.
Holding lock	CEO and other Executives – following the one-year deferral period, vested shares are subject to a further three-year holding lock during which time Executives are restricted from trading in shares. Disposal restrictions may be relaxed where an Executive is required to fund personal tax obligations arising from the vesting of shares.
Access to dividends	During both the deferral and holding lock periods, Executives are entitled to receive dividends on unvested and vested shares respectively.

LTI	
Changes in FY2018	For FY2018, the LTI outcome is determined solely by RONA (see Performance Measure below). The holding lock was introduced to be more aligned with shareholder experience.
Payment vehicle	Performance share rights.
Opportunity (face value)	CEO: 215% of FAR grant at face value Other Executives: 120% of FAR grant at face value The actual number of performance share rights issued to each Executive was determined by dividing their respective grant values by the five-day VWAP of Orica shares following the announcement of Orica's FY2017 annual results ($18.62).
Performance period	Performance is measured over three financial years (FY2018, FY2019 and FY2020).
Performance measure	RONA – calculated as annual EBIT/rolling 12-month Net Operating Assets (calculated on an average basis over three financial years).
Targets and vesting schedule	The FY2018 vesting schedule for the RONA performance measure is as follows:

Average RONA over 3 years	% of Rights vesting
Below 13.7%[2]	No vesting
At 13.7%	30% of rights vest
Between 13.7% and 14.0%	Straight line vesting between 30% and 60% of rights vest
At 14.0%	60% of rights vest
Between 14.0% and 14.7%	Straight line vesting between 60% and 100% of rights vest
At or above 14.7%	100% of rights vest

RONA targets reflect the Board's expectations for returns through the current industry/market cycle, Orica's Corporate Plan and Transformation Program and are set to provide genuine opportunity for outperformance to be rewarded.

For the FY2018-20 LTI grant, the RONA required for maximum (stretch) vesting is set to reflect RONA levels required to achieve long-term value for shareholders. Management must deliver average RONA aligned to FY2017 outcomes to achieve threshold vesting.

To achieve target or above-target vesting for this grant, management must deliver EBIT growth that is significantly above the underlying explosives market growth rate and is in the second quartile of EBIT growth rates achieved by ASX100 Industrials and Materials companies over the preceding three to five years.

Holding locks	Following the three-year performance period, vested performance share rights are converted into shares and are subject to a further two-year holding lock during which time Executives are restricted from trading in shares. The holding lock was designed to support an owner's mindset and provide alignment with shareholders. Disposal restrictions may be relaxed where an Executive is required to fund personal tax obligations arising from the vesting of performance share rights (typically applies to non-Australian based Executives).
Access to dividends	Executives are not entitled to receive dividends on unvested performance share rights during the three-year performance period. Once vested, however, Executives are entitled to receive dividends including when shares are restricted from disposal during the two-year holding lock.

(1) Defined as per section 3.2.

(2) The Board originally approved the RONA minimum threshold at 13.6%. This was subsequently amended in December 2017 to 13.7% in line with the actual RONA achieved in FY2017.

3.2 Short-term incentive outcomes – link to performance

(a) Summary of FY2018 STI performance conditions and performance level achieved

For FY2018, business and personal performance, target weighting of each component of the CEO's scorecard and performance level achieved are summarised below:

Category	Measure	Performance and reward alignment	Weighting (at target)	2018 outcome	Outcome commentary
Safety	All Worker Recordable Case Rate (AWRCR)[1]	Rewards a continuous focus on safe and reliable operations measured through a combination of lagging and leading indicators.	8.33%	△	Positive progress in implementation of Orica's Major Hazards program together with a disappointing increase in lost-time injuries; albeit more severe injuries and events reduced.
	Key control verifications[2]		8.33%	●	
	Overdue actions[3]		8.33%	◑	
Operating efficiency	EBIT[4]/Sales	Rewards improvements to operational efficiency and sustainable increases in productivity and profitability during transformation period.	45%	△	Volume mix/margin improvement mainly from new contracts was offset by one-off first-half impacts. Whilst strong sales volume growth was achieved, full year EBIT was lower than last year. This resulted in no award against this metric.
Capital efficiency	Sales/Net Operating Assets[5]	Rewards enhanced returns from invested capital, developing enabling technology and adjacency growth, optimising capital allocation and reallocation.	30%	◕	Strong sales volume growth together with disciplined Net Operating Asset growth resulted in an above-target outcome.
Board discretion	Given Orica's disappointing EBIT and RONA outcomes, the Board applied its discretion to reduce the outcome for financial metrics by 75%.				
Overall STI outcome (post Board discretion)			**% Target**	**36.67%**	
			% Maximum	**18.34%**	
KEY	△ Threshold not met ○ Threshold ◔ b/w Threshold & Target ◑ Target ◕ b/w Target & Maximum ● Maximum				

(1) AWRCR measures number of employee and contractor recordable cases (injuries and illnesses) per 200,000 hours worked by employee/contractor.

(2) Completion of scheduled Safety, Health & Environment (SHE) Assessments against specified SHE Management System. SHE Assessments measures percentage completion of scheduled regional and site level self-assessments.

(3) Overdue actions arising from corporate safety audits and assessments, major hazard assessment actions and severity 3+ incident actions.

(4) For STI purposes, EBIT is defined as earnings from Continuing Operations before interest, tax and individually significant items. For the purposes of the STI calculation, GroundProbe's operating results have been deducted from EBIT so that they are not treated favourably for management.

(5) Net operating assets is defined as rolling 12-month average assets including net property, plant and equipment; intangibles at NBV; current and non-current investments in associates at current carrying value; trade working capital; non-trade working capital excluding environmental provisions. For the purposes of the STI calculation, net operating assets attributable to GroundProbe have been deducted and the Minova and IT impairments have been added back so they are not treated favourably for management.

In determining outcomes for FY2018, management and the Board recognise that Orica's overall level of performance did not meet shareholder expectations.

While pleasing progress was made on aspects of safety performance, full year EBIT and RONA outcomes in FY2018 were lower than in FY2017 impacted by one-off first-half impacts including Burrup operational issues and unplanned maintenance at the Yarwun plant, together with challenging market conditions in LATAM. Additionally, non-cash impairment charges and increases to environmental provisions were taken.

The Board considered outcomes against financial metrics and exercised its discretion to reduce these outcomes by 75% for the CEO and Executives. This reduced the overall STI award for the CEO to 36.67% of target or 18.34% of maximum (a reduction of $630,000), the lowest STI outcome for the CEO in 6 years, and to 46.51% of target or 23.25% of maximum for Key Management Personnel, including the CEO.

Outcomes for Executive KMP variously reflected Group and Regional Safety outcomes, Group and Regional Financial outcomes (adjusted as above) and achievement of strategic initiatives specific to Executives' roles. There was a wide range of outcomes ranging from zero for the former Group Executive and President LATAM to 74% of target overall for the Group Executive and President APA.

In determining overall outcomes, the Board considered and adjusted for several non-cash/individually-material items to ensure that management was neither advantaged nor disadvantaged by these items. The key impacts of this approach were to remove the otherwise dilutive effect of GroundProbe in the year of acquisition (GroundProbe will be included from FY2019 onwards), and to remove any benefit to management from Minova and IT impairments.

Management's efforts are focused on driving growth in FY2019, building on improved second-half results.

(b) Short-term incentive outcome – FY2018

Details of the FY2018 outcomes for eligible Executive KMP are set out in the table below.

For the year ended 30 September 2018	Maximum STI opportunity(1) $000	Actual STI paid in cash $000	Actual STI paid in deferred equity(2) $000	Actual STI payment as % of maximum	% of maximum STI forfeited
Current Executive KMP					
Alberto Calderon	3,600.0	330.0	330.0	18.3	81.7
Vincent Nicoletti	1,104.0	174.2	87.1	23.7	76.3
James Bonnor	1,072.2	148.3	74.2	22.0	78.0
Darryl Cuzzubbo	981.1	243.4	121.7	37.2	62.8
Carlos Duarte	1,080.0	171.0	85.5	23.8	76.2
Angus Melbourne	1,112.1	239.7	119.9	32.3	67.7
Germán Morales(3)	–	–	–	–	–
Thomas Schutte	1,241.5	237.6	118.8	28.7	71.3
Former Executive KMP					
Sebastian Pinto	408.0	–	–	–	100.0

(1) For Australian based Executives KMP, maximum STI opportunity is calculated on FAR inclusive of superannuation. For overseas based Executives, KMP maximum STI opportunity does not include the equivalent pension contributions.

(2) Under AASB 2 *Share-based Payments*, STI paid to Executives as deferred equity is accounted for as a share-based payment and expensed over two years. Accordingly, 50% of the value of the deferred equity arising from the 2018 STI outcome has been included in each Executive KMP's share based payments expense in 2018 and the remainder will be included in 2019.

(3) Not eligible to participate in the FY2018 STI plan.

3.3 Long-term incentive outcome

The table below summarises the LTI Plan awards tested in the current financial year together with awards that remain unvested.

Plan	Grant	Performance period	Performance measures applicable to award	Outcome
LTIP	FY2015	FY2015 – FY2017	Vesting of Rights is subject to: ▪ Average ROC (50%); and ▪ Relative TSR ranking against ASX 100 (50%).	Forfeited
LTIP	FY2016	FY2016 – FY2018	As above	Not yet tested
LTIP	FY2017	FY2017 – FY2019	As above	Not yet tested
LTIP	FY2018	FY2018 – FY2020	RONA (100%)	Not yet tested

The FY2015 LTIP was tested in November 2017. The minimum performance hurdles for both ROC and RTSR were not met. Accordingly, no vesting occurred, and all awards were forfeited. As previously advised, the Board determined that ROC for the FY2015 LTIP grant should be calculated for the performance period (FY2015-17) based on unimpaired Enterprise Value i.e. the impairment announced in FY2015 was added back to the Enterprise Value for the purposes of testing.

3.4 What equity was granted in FY2018?

The table below presents the equity granted at face value to Executive KMP for FY2018.

Executives	FY2018 LTI(1) $	FY2017 Deferred shares(2) $	Sign-on rights $	Total $
Alberto Calderon	3,870,000	949,825	–	4,819,825
Vincent Nicoletti	1,104,000	–	–	1,104,000
James Bonnor	959,477	199,923	–	1,159,400
Darryl Cuzzubbo	981,120	232,582	–	1,213,702
Carlos Duarte	1,080,000	–	522,750	1,602,750
Angus Melbourne	1,075,162	227,574	–	1,302,736
Germán Morales	–	–	256,200	256,200
Sebastian Pinto	695,310	128,646	–	823,956
Thomas Schutte	1,191,079	300,732	–	1,491,811
Total	**10,956,148**	**2,039,282**	**778,950**	**13,774,380**

(1) Subject to performance conditions and due to vest in November 2020 and then subject to two-year holding lock.

(2) Not subject to any further performance conditions except continued employment for duration of deferral period and then subject to a three-year holding lock.

3.5 Overview of business performance – five-year comparison

The table below summarises key indicators of the performance of the Company, relevant shareholder returns over the past five financial years and the impact this has had on STI and LTI vesting outcomes, which shows alignment of Orica's incentive awards with its performance.

Financial year ended 30 September	2014	2015	2016	2017	2018
Profit/(loss) from Operations ($m)	929.7	(1,195.0)	637.6	635.1	**242.8**
Individually significant items – net expense ($m)(1)	–	1,884.4	4.6	–	**375.3**
EBIT ($m)(2)	929.7	689.4	642.2	635.1	**618.1**
Dividends per ordinary share (cents)	96.0	96.0	49.5	51.5	**51.5**
Closing share price ($ as at 30 September)(3)	18.90	15.04	15.20	19.77	**17.03**
3-month average share price (1 July to 30 September) each year	20.56	17.29	14.12	20.12	**17.31**
EPS growth (%)(2)	0.5	(30.0)	(8.8)	(1.7)	**(16.6)**
NPAT ($m)(2)	602.5	424.2	389.1	386.2	**324.2**
External Sales ($m)	6,796.3	6,123.2	5,091.9	5,039.2	**5,373.8**
Cumulative TSR (%)(4)	9.6	(3.0)	(16.7)	22.1	**7.9**
Average STI received as % of maximum opportunity for Executives	49.0	32.0	39.0	60.0	**23.0**

(1) This figure is before interest, tax and non-controlling interest.

(2) Before individually significant items.

(3) The opening share price for financial year 2014 was $20.06.

(4) Cumulative TSR has been calculated using the same start date for each period measured (1 October 2013). In calculating the cumulative TSR, three-month average share prices (1 July to 30 September for each year) have been used.

3.6 Service agreements

Remuneration and other terms of employment for Executives are formalised in service agreements. The terms and conditions of employment of each Executive reflect market conditions at the time of their contract negotiation on appointment or subsequently. The material terms of the employment contracts for the current Executives are summarised in the table below and subject to applicable law.

Contractual Term	Executives affected	Conditions
Duration of contract	All Executives	Permanent full-time employment contract until notice given by either party.
Notice period to be provided by Executive	All Executives	6 months.
Notice period to be provided by Orica	MD & CEO	6 months. Orica may elect to make payment in lieu of notice. In the event of Orica terminating the service agreement, the MD & CEO will be entitled to receive a termination payment of 6 months' salary in addition to the notice period. Should the MD & CEO's service agreement be terminated by mutual agreement, 6 months' salary is payable (in which case no notice is required to be given).
	Other Executives	Executives have either 13 weeks or 26 weeks notice period with the exception of Germán Morales. In accordance with Chilean employment law, Mr. Morales' notice period is one month. Executives are entitled to be paid an amount equal to 26 weeks fixed annual remuneration on termination (52 weeks in the case of James Bonnor and Thomas Schutte). In accordance with Chilean employment law, Germán Morales is entitled to one month's annual gross base salary for each year of service. A minimum payment equivalent to 6 months base salary will apply with a maximum payment of 11 months base salary.
Post-employment restraints	All Executives	Each Executive has also agreed to restraints and non-solicitation undertakings as part of their service agreements, which will apply upon cessation of their employment to protect the legitimate business interests of Orica.

3.7 FY2019 Short-term incentive metrics

Orica remains focused on long-term growth in RONA, together with margin and capital efficiency in the short-term. For FY2019, the Board will measure short-term progress with two measures: EBIT and one-year RONA. These measures are simpler and are directly aligned to value creation for shareholders.

With respect to target setting for the 2019 STI plan, the Board has generally raised the threshold levels at which STI may be earned, increasing alignment between rewards and shareholder outcomes.

Section 4. Non-Executive Director arrangements

4.1 Overview

Fees for Non-Executive Directors (Directors) are set by reference to the following:

- The individual's responsibilities and time commitment attaching to the role of Director and Committee membership;
- The Company's existing remuneration policies and survey data sourced from external specialists;
- Fees paid by comparable companies and the level of remuneration required to attract and retain Directors of the appropriate calibre; and
- To preserve their independence Directors do not receive any form of performance-based pay.

The current aggregate fee pool for Directors of $2,500,000 was approved by shareholders at the Company's 2010 Annual General Meeting. The Company pays both superannuation and committee fees to the Directors from this pool. Committee fees are not paid to the Chairman of the Board.

4.2 Fees and other benefits

The table below sets out the elements of Directors' fees and other benefits:

Fees/benefits	Description	2018 $	Included in shareholder approved cap
Board fees	**Main Board**		
	Chairman – Malcolm Broomhead	510,000	
	Members – all Non-Executive Directors	170,000	Yes
Committee fees	**Board Audit and Risk Committee (BARC)**		
	Chairman – Gene Tilbrook	45,000	
	Members – Maxine Brenner, Karen Moses	22,500	
	Human Resources and Compensation Committee (HR&C)		
	Chairman – Maxine Brenner	45,000	Yes
	Members – Ian Cockerill, Denise Gibson (appointed February 2018), Lim Chee Onn	22,500	
	Safety, Health, Environment and Community Committee (SH&E)		
	Chairman – Ian Cockerill	45,000	
	Members – Lim Chee Onn, Gene Tilbrook, Karen Moses	22,500	
Superannuation	Superannuation contributions are made on behalf of the Directors at a rate of 9.5% being the current superannuation guarantee contribution rate subject to a cap at the Maximum Contributions Base.		Yes
Other fees/benefits	Directors receive a travel allowance based on the hours travelled to a Board meeting. The allowance paid is $2,500 per meeting for travel between 3 and 12 hours or $5,000 if travel time exceeds 12 hours. Directors are also entitled to be paid additional fees for extra services or special exertions.		No

Section 5. Remuneration governance

5.1 Responsibility for setting remuneration

The Human Resources and Compensation Committee (the Committee) is delegated responsibility by the Board for reviewing and making recommendations on remuneration policies for the Company, including policies governing the remuneration of Executives.

Activities of the Committee are governed by its Terms of Reference, which are available on the Company's website at www.orica.com. Amongst other responsibilities, the Committee assists the Board in its oversight of:

(a) remuneration policy for Executives;

(b) level and structure of remuneration for Senior Executives, including short-term and long-term incentive plans;

(c) the Company's compliance with applicable legal and regulatory requirements in respect of remuneration matters; and

(d) approval of the allocation of shares and awards under Orica's LTIP and General Employee Exempt Share Plan.

5.2 Use of remuneration advisors during the year

No remuneration recommendations were received from remuneration consultants as defined under the *Corporations Act 2001*.

5.3 Share trading policy and Malus

Malus

Orica's Malus Standard allows the Board to require any Executive to forfeit in full or in part any unvested LTIP or deferred STI award as a result of:

- a material misstatement in financial results;
- behaviour that brings Orica into disrepute or has the potential to do so;
- serious misconduct; or
- any other circumstance, which the Board has determined in good faith.

In considering whether any adjustment is necessary in respect of any or all participants, the Board may take into account the individual's level of responsibility, accountability or influence over the action or inaction, the quantum of the actual loss or damage, any impact on Orica's financial soundness, the extent to which any internal policies, external regulations and/or risk management requirements were breached and any other relevant matters.

Securities dealing

All Executives are required to comply with Orica's Securities' Dealing Policy at all times and in respect of all Orica shares held, including any defined employee share plans. Trading is subject to pre-clearance and is not permitted during designated blackout periods unless there are exceptional circumstances. Executives are prohibited from using any Orica shares as collateral in any margin loan or derivative arrangement.

5.4 Executive and Director share ownership

The Board considers that an important foundation of Orica's Executive Remuneration Framework is that each Executive and Director accumulate and hold a significant number of Orica shares to align their interests as long-term investors.

Executives

The Executive Minimum Shareholding Guideline requires each Executive to accumulate a minimum vested shareholding in Orica equivalent to 50% of FAR (and 100% of FAR for the Managing Director and CEO) over six years from commencement of employment (by 31 December 2022 for Executives employed prior to 1 January 2015; the effective date of the guideline). Under the Framework, at target performance and vesting, Executives would exceed these guidelines.

Non-Executive Directors

To create alignment between Directors and shareholders, Directors are required to hold (or have a benefit in) shares in the Company equivalent in value to at least one year's base fees. Such holdings must be acquired over a reasonable time using personal funds.

The table below sets out the number of shares held directly and indirectly by Directors and Executive KMP employed at 30 September 2018:

	Balance at 1 October 2017	Acquired[1]	Disposed	Balance at 30 September 2018	Minimum Shareholding Required[2]	Date Minimum Shareholding Required to be met
Executive KMP						
Alberto Calderon	26,352	42,237	–	68,589	105,695	31 December 2022
Vincent Nicoletti	–	–	–	–	n/a	n/a
James Bonnor	6,037	7,008	–	13,045	26,227	31 December 2022
Darryl Cuzzubbo	–	–	–	–	24,004	30 September 2022
Carlos Duarte	–	–	–	–	26,423	30 September 2023
Angus Melbourne	17,758	24,612	–	42,370	27,209	30 September 2022
Germán Morales	–	–	–	–	19,620	31 August 2024
Thomas Schutte	–	13,106	–	13,106	30,375	31 December 2022
Non-Executive Directors						
Malcolm Broomhead	30,300	5,800	–	36,100		
Maxine Brenner	6,039	3,500	–	9,539		
Ian Cockerill	16,597	190	–	16,787		
Denise Gibson	–	–	–	–		
Karen Moses	8,000	3,000	–	11,000		
Lim Chee Onn	11,000	–	–	11,000		
Gene Tilbrook	9,000	3,500	–	12,500		

(1) Shares acquired, including through the Dividend Reinvestment Plan (DRP).

(2) Calculated using the Orica closing share price on 28 September 2018.

Section 6. KMP statutory disclosures

6.1 Executive KMP remuneration

Details of the nature and amount of each element of remuneration of Executive KMP are set out in the table below:

Remuneration outcomes presented in these tables are calculated with reference to the *Corporations Act 2001* and relevant Australian Accounting Standards rather than the basis of take-home pay.

	Short-term employee benefits				Post-employment benefits				
	Base (Fixed) Pay $000	Cash STI Payment(1) $000	Other Benefits(2) $000	Other Long-Term Benefits(3) $000	Super-annuation Benefits $000	Termination Benefits $000	Total excluding SBP* Expense $000	SBP Expense (4)(6) $000	Total $000
Current Executive Directors									
Alberto Calderon									
2018	**1,779.8**	**330.0**	**55.8**	**–**	**20.2**	**–**	**2,185.8**	**1,930.1**	**4,115.9**
2017	1,780.3	949.8	10.0	–	19.7	–	2,759.8	1,892.2	4,652.0
Current Executive KMP									
Vincent Nicoletti									
2018	**899.8**	**174.2**	**239.8**	**–**	**20.2**	**–**	**1,334.0**	**160.3**	**1,494.3**
James Bonnor(5)									
2018	**873.1**	**148.3**	**81.6**	**15.9**	**20.2**	**–**	**1,139.1**	**473.6**	**1,612.7**
2017	822.2	399.9	82.6	13.9	19.7	–	1,338.3	502.8	1,841.1
Darryl Cuzzubbo									
2018	**793.0**	**243.4**	**7.4**	**–**	**20.2**	**–**	**1,064.0**	**459.9**	**1,523.9**
2017	780.3	465.2	39.2	–	19.7	–	1,304.4	322.1	1,626.5
Carlos Duarte									
2018	**900.0**	**171.0**	**293.3**	**–**	**–**	**–**	**1,364.3**	**406.9**	**1,771.2**
Angus Melbourne(5)									
2018	**962.9**	**239.7**	**175.1**	**–**	**–**	**–**	**1,377.7**	**633.5**	**2,011.2**
2017	874.5	455.2	277.5	–	4.9	–	1,612.1	712.3	2,324.4
Germán Morales(5)									
2018	**52.2**	**–**	**252.9**	**–**	**3.3**	**–**	**308.4**	**10.7**	**319.1**
Thomas Schutte(5)									
2018	**998.4**	**237.6**	**584.8**	**–**	**27.1**	**–**	**1,847.9**	**606.2**	**2,454.1**
2017	950.0	601.6	67.1	–	–	–	1,618.7	589.2	2,207.9
Total Current Executive KMP									
2018	**5,479.4**	**1,214.2**	**1,634.9**	**15.9**	**91.0**	**–**	**8,435.4**	**2,751.1**	**11,186.5**
2017	3,427.0	1,921.9	466.4	13.9	44.3	–	5,873.5	2,126.4	7,999.9
Former Executive KMP									
Sebastian Pinto(5)									
2018	**334.6**	**–**	**24.8**	**–**	**29.1**	**552.6**	**941.1**	**212.1**	**1,153.2**
2017	538.9	257.4	0.1	–	47.1	–	843.5	327.6	1,171.1
Total Executive KMP									
2018	**5,814.0**	**1,214.2**	**1,659.7**	**15.9**	**120.1**	**552.6**	**9,376.5**	**2,963.2**	**12,339.7**
2017	3,965.9	2,179.3	466.5	13.9	91.4	–	6,717.0	2,454.0	9,171.0
Total									
2018	**7,593.8**	**1,544.2**	**1,715.5**	**15.9**	**140.3**	**552.6**	**11,562.3**	**4,893.3**	**16,455.6**
2017	5,746.2	3,129.1	476.5	13.9	111.1	–	9,476.8	4,346.2	13,823.0

* Share-based payment (SBP).

(1) Cash STI Payment includes payments relating to FY2018 performance accrued but not paid until FY2019.

(2) These benefits include relocation costs, car parking, medical and insurance costs and movements in annual leave accrual (inclusive of any applicable fringe benefits tax). For overseas based Executives other benefits include reimbursement of accommodation and health insurance.

(3) This benefit includes the movement in long service leave accrual.

(4) This includes the value calculated under AASB 2 *Share-based Payment* to Executives which vests over three years. Value only accrues to the Executive when performance conditions have been met. The share-based payment expense represents the amount required under Accounting Standards to be expensed during the year in respect of current and past long-term incentive allocations to Executives. These amounts are therefore not amounts received by Executives during the year nor may they be payable to the Executive at any other time if performance hurdles are not met. The mechanism which determines whether or not long-term incentives vest in the future is described in Section 3.1.

(5) For overseas based Executives, salary reported is based on the salary figure in overseas currency converted at the average foreign exchange rate for the year.

(6) Under AASB 2 *Share-based Payment*, STI paid to Executives as deferred equity is accounted for as a share-based payment and expensed over two years. Accordingly, 50% of the value of the deferred equity has been included in the Executives share-based payment expense in FY2018 and the remainder will be included in FY2019.

6.2 Summary of awards held under Orica's LTI and STI deferred share arrangements

Details of LTIP rights, sign-on rights and deferred shares awarded under the STI plan are set out in the table below:

For the year ended 30 September 2018	Grant date	Granted during FY2018	Vested	Lapsed	Balance at year end	Fair value of instruments at grant date $	Value of equity instruments included in compensation for the year $
Current Executive Directors							
Alberto Calderon							
LTIP rights	5 Jan 18	207,841	–	–	207,841	3,273,496	409,187
LTIP rights	30 Dec 16	–	–	–	192,742	2,639,602	539,658
LTIP rights	22 Feb 16	–	–	–	220,000	1,977,800	341,326
Deferred shares(1)	1 Dec 17	51,011	–	–	51,011	949,825	474,913
Deferred shares	1 Dec 16	–	42,237	–	–	710,010	–
Current Executive KMP							
Vincent Nicoletti							
LTIP rights	5 Jan 18	59,291	–	–	59,291	933,833	116,729
James Bonnor							
LTIP rights	5 Jan 18	51,529	–	–	51,529	811,582	101,448
LTIP rights	30 Dec 16	–	–	–	47,864	655,497	134,015
LTIP rights	22 Feb 16	–	–	–	65,137	585,582	101,059
LTIP rights	23 Feb 15	–	–	23,940	–	309,425	–
Deferred shares(1)	1 Dec 17	10,737	–	–	10,737	199,923	99,962
Deferred shares	1 Dec 16	–	7,008	–	–	117,811	–
Darryl Cuzzubbo							
LTIP rights	5 Jan 18	52,691	–	–	52,691	829,883	103,735
LTIP rights	30 Dec 16	–	–	–	47,590	651,745	133,247
LTIP rights	22 Feb 16	–	–	–	28,560	256,754	44,310
Deferred shares(1)	1 Dec 17	12,491	–	–	12,491	235,582	117,791
Carlos Duarte							
LTIP rights	5 Jan 18	58,002	–	–	58,002	913,532	114,192
Sign-on rights(2)	27 Oct 17	25,000	–	–	25,000	522,750	250,011
Angus Melbourne							
LTIP rights	5 Jan 18	57,742	–	–	57,742	909,437	113,680
LTIP rights	30 Dec 16	–	–	–	52,760	722,548	147,723
LTIP rights	22 Feb 16	–	–	–	68,545	616,220	106,347
Deferred shares(1)	1 Dec 17	12,222	–	–	12,222	227,574	113,787
Deferred shares	1 Dec 16	–	6,854	–	–	115,220	–
Sign-on rights	12 Jan 16	–	17,758	–	17,757	670,352	91,983
Germán Morales							
Sign-on rights(2)	3 Sep 18	15,000	–	–	15,000	256,200	10,675
Thomas Schutte							
LTIP rights	5 Jan 18	63,967	–	–	63,967	1,007,480	125,935
LTIP rights	30 Dec 16	–	–	–	56,513	773,946	158,231
LTIP rights	22 Feb 16	–	–	–	72,353	650,453	112,254
Deferred shares(1)	1 Dec 17	16,151	–	–	16,151	300,732	150,366
Deferred shares	1 Dec 16	–	13,106	–	–	220,318	–

For the year ended 30 September 2018	Grant date	Granted during FY2018	Vested	Lapsed	Balance at year end	Fair value of instruments at grant date $	Value of equity instruments included in compensation for the year $
Former Executive KMP							
Sebastian Pinto							
LTIP rights	5 Jan 18	37,342	–	24,895	12,447	196,040	24,505
LTIP rights	30 Dec 16	–	–	10,806	21,610	443,937	60,506
LTIP rights	22 Feb 16	–	–	–	40,488	363,987	62,816
LTIP rights	23 Feb 15	–	–	19,291	–	249,336	–
Deferred shares(1)	1 Dec 17	6,909	–	–	6,909	128,646	64,323
Deferred shares	1 Dec 16	–	5,741	–	–	96,509	–

(1) Deferred shares awarded on 1 December 2017 in respect of the FY2017 STI award.

(2) Rights to Orica shares granted in FY2018 as part of an employment agreement. 50% of rights will vest 12 months from grant date and the remaining 50% will vest 24 months from grant date.

The number of Rights issued under the LTIP issued to Executive KMP and senior management and accounting values is detailed below:

Grant date	Vesting date	Number of rights issued	Number of rights held at 30 September 2018	Number of rights held at 30 September 2017	Number of participants at 30 September 2018	Number of participants at 30 September 2017	Fair value of rights at grant $
20 July 18(1)	30 Nov 20	117,150	**117,150**	–	**21**	–	1,995,065
5 Jan 18	30 Nov 20	1,751,427	**1,623,852**	–	**308**	–	28,911,209
10 July 17(1)	30 Nov 19	98,410	**93,028**	96,649	**46**	48	1,742,349
30 Dec 16	30 Nov 19	1,712,055	**1,510,610**	1,659,139	**263**	284	23,446,593
4 July 16(1)	30 Nov 18	150,793	**140,014**	146,681	**12**	13	1,090,987
22 Feb 16	30 Nov 18	2,163,913	**1,815,125**	1,928,189	**172**	187	19,453,578
23 Feb 15	30 Nov 17	1,505,466	**–**	1,036,602	**–**	190	19,465,675

The assumptions underlying the rights valuations are:

Grant date	Price of Orica Shares at grant date $	Expected volatility in share price %	Dividends expected on shares %	Risk free interest rate %	Fair value per right RONA(2) $	Fair value per right ROC(3) $	Fair value per right RTSR (3) $
20 July 18(1)	17.93	25	3.00	2.07	15.75		
5 Jan 18	18.53	25	3.00	2.07	15.75		
10 July 17(1)	20.68	25	3.00	1.73		19.35	16.06
30 Dec 16	17.68	30	3.75	1.96		15.87	11.52
4 July 16(1)	12.39	30	4.50	1.62		11.23	3.24
22 Feb 16	13.84	30	5.50	1.80		12.04	5.94
23 Feb 15	19.85	25	4.00	1.88		17.92	7.93

(1) A supplementary LTI offer was made in July 2016, July 2017 and July 2018 to selected senior management other than Executives who joined Orica after the grant date of the main offer in February 2016, December 2016 and January 2018. The terms and conditions of this supplementary offer are the same as the main offer.

(2) For the FY2018 LTI plan rights granted are subject to a single performance condition, Return on Net Operating Assets (RONA).

(3) For Executives 50% of rights granted are subject to a Return on Capital (ROC) performance condition and 50% are subject to Relative Total Shareholder Return (RTSR) performance.

6.3 Non-Executive Director remuneration

Details of Non-Executive Directors' remuneration are set out in the following table:

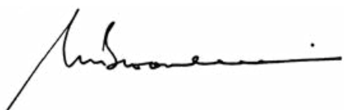
	Short-term employee benefits			Post-employment benefits	
	Directors fees $000	Committee fees $000	Other benefits(1) $000	Super-annuation $000	Total $000
Current Directors					
Malcolm Broomhead, Chairman					
2018	**510.0**	**–**	**0.2**	**20.2**	**530.4**
2017	510.0	–	0.3	19.7	530.0
Maxine Brenner					
2018	**170.0**	**67.5**	**–**	**20.2**	**257.7**
2017	170.0	67.5	–	19.7	257.2
Ian Cockerill					
2018	**170.0**	**67.5**	**30.0**	**20.2**	**287.7**
2017	170.0	67.5	34.9	19.7	292.1
Denise Gibson					
2018	**127.5**	**13.1**	**20.0**	**13.4**	**174.0**
Karen Moses					
2018	**170.0**	**45.0**	**–**	**20.1**	**235.1**
2017	170.0	22.5	–	18.2	210.7
Lim Chee Onn					
2018	**170.0**	**45.0**	**12.5**	**20.2**	**247.7**
2017	170.0	52.5	10.0	19.7	252.2
Gene Tilbrook					
2018	**170.0**	**67.5**	**15.0**	**20.2**	**272.7**
2017	170.0	67.5	17.5	19.7	274.7
Total Non-Executive Directors					
2018	**1,487.5**	**305.6**	**77.7**	**134.5**	**2,005.3**
2017	1,360.0	277.5	62.7	116.7	1,816.9

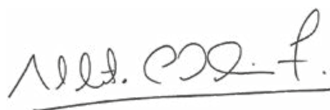
(1) These benefits include travel allowances and car parking benefits.

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 Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* dated 24 March 2016.

This Directors' Report is signed on behalf of the Board in accordance with a resolution of the Directors of Orica Limited.





M W Broomhead
Chairman

A Calderon
Managing Director and Chief Executive Officer

Dated at Melbourne 1 November 2018.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Orica Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Orica Limited for the financial year ended 30 September 2018 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Penny Stragalinos
Partner

Melbourne
1 November 2018

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Liability limited by a scheme approved under Professional Standards Legislation.

INCOME STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER

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

The Income Statement is to be read in conjunction with the accompanying notes to the financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 SEPTEMBER

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

The Statement of Comprehensive Income is to be read in conjunction with the accompanying notes to the financial statements.

BALANCE SHEET

AS AT 30 SEPTEMBER

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

The Balance Sheet is to be read in conjunction with the accompanying notes to the financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER

	Ordinary shares $m	Retained earnings $m	Foreign currency translation reserve $m	Cash flow hedge reserve $m	Other reserves $m	Total $m	Non-controlling interests $m	Total equity $m
2017								
Balance at 1 October 2016	2,025.3	1,247.1	(341.3)	(62.9)	(85.7)	2,782.5	0.7	2,783.2
Profit for the year	–	386.2	–	–	–	386.2	13.2	399.4
Other comprehensive loss	–	23.4	(101.3)	13.8	–	(64.1)	(4.6)	(68.7)
Total comprehensive income for the year	–	409.6	(101.3)	13.8	–	322.1	8.6	330.7
Transactions with owners, recorded directly in equity								
Total changes in contributed equity	43.2	–	–	–	–	43.2	–	43.2
Share-based payments expense	–	–	–	–	11.6	11.6	–	11.6
Divestment of non-controlling interests	–	–	–	–	–	–	(0.3)	(0.3)
Dividends/distributions	–	(197.1)	–	–	–	(197.1)	–	(197.1)
Dividends declared/paid to non-controlling interests	–	–	–	–	–	–	(7.8)	(7.8)
Balance at the end of the year	2,068.5	1,459.6	(442.6)	(49.1)	(74.1)	2,962.3	1.2	2,963.5
2018								
Balance at 1 October 2017	**2,068.5**	**1,459.6**	**(442.6)**	**(49.1)**	**(74.1)**	**2,962.3**	**1.2**	**2,963.5**
Profit/(loss) for the year	**–**	**(48.1)**	**–**	**–**	**–**	**(48.1)**	**13.6**	**(34.5)**
Other comprehensive income	**–**	**2.0**	**161.7**	**24.3**	**–**	**188.0**	**(10.6)**	**177.4**
Total comprehensive income for the year	**–**	**(46.1)**	**161.7**	**24.3**	**–**	**139.9**	**3.0**	**142.9**
Transactions with owners, recorded directly in equity								
Total changes in contributed equity	**41.6**	**–**	**–**	**–**	**–**	**41.6**	**–**	**41.6**
Share-based payments expense	**–**	**–**	**–**	**–**	**14.8**	**14.8**	**–**	**14.8**
Acquisition of non-controlling interests	**–**	**–**	**–**	**–**	**(74.2)**	**(74.2)**	**74.2**	**–**
Dividends/distributions	**–**	**(181.2)**	**–**	**–**	**–**	**(181.2)**	**–**	**(181.2)**
Dividends declared/paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**(13.6)**	**(13.6)**
Balance at the end of the year	**2,110.1**	**1,232.3**	**(280.9)**	**(24.8)**	**(133.5)**	**2,903.2**	**64.8**	**2,968.0**

The Statement of Changes in Equity is to be read in conjunction with the accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 SEPTEMBER

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

The Statement of Cash Flows is to be read in conjunction with the accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER

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About this report

This is the Annual Report of Orica Limited ('the Company' or 'Orica') and of its controlled entities (collectively 'the Group') for the year ended 30 September 2018.

It is a general purpose Financial Report which has been prepared by a for-profit entity in accordance with the requirements of applicable Australian Accounting Standards and the *Corporations Act 2001* and complies with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board.

It has been prepared on a historical cost basis, except for derivative financial instruments, superannuation commitments and investments in financial assets which have been measured at fair value. It is presented in Australian dollars which is Orica's functional and presentation currency.

The amounts shown have been rounded off, except where otherwise stated, to the nearest tenth of a million dollars, in accordance with *ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191* dated 24 March 2016.

Orica's Directors have included information in this report that they deem to be material and relevant to the understanding of the consolidated financial statements.

Disclosure may be considered material and relevant if the dollar amount is significant due to size or nature, or the information is important to understand the:

- Group's current year results;
- impact of significant changes in Orica's business; or
- aspects of the Group's operations that are important to future performance.

Disclosure of information that is not material may undermine the usefulness of the Financial Report by obscuring important information.

In order to develop this Financial Report, management is required to make a number of judgements and apply estimates of the future as part of the application process of the Group's accounting policies. Judgements and estimates, which are material to this report, are highlighted in the following notes:

Note 5	*Working capital*
Note 6	*Provisions*
Note 7	*Property, plant and equipment*
Note 8	*Intangible assets*
Note 9	*Impairment testing of assets*
Note 11	*Taxation*
Note 15	*Businesses and non-controlling interests acquired*
Note 20	*Superannuation commitments*
Note 22	*Contingent liabilities*

Section A. Financial performance

A key element of the Group's current strategy is to create sustainable shareholder value. This section highlights the results and performance of the Group for the year ended 30 September 2018.

1. Segment report

(a) Identification and description of segments

Orica's reportable segments are based on the internal management structure as reported to the Group's Chief Operating Decision Maker (the Group's Managing Director and CEO).

The reporting segments are as follows:

Reportable segments	Products/services
▪ Australia Pacific & Asia ▪ North America ▪ Latin America ▪ Europe, Middle East & Africa	Manufacture and supply of commercial explosives and blasting systems including technical services and solutions to the mining and infrastructure markets, and supply of mining chemicals including sodium cyanide for gold extraction.
▪ Minova	Minova is a provider of chemical and mechanical earth control products, adhesives and ground support solutions for the underground mining, construction, tunnelling and civil engineering industries.
▪ Auxiliaries	Manufacture and supply of advanced hardware and software solutions to the mining industry and specialist consultation for blasting and rock engineering, vibration control and surveys.
▪ Global Support	Corporate and support costs which cannot otherwise be allocated to other segments on a reasonable basis, operation of legacy environmental sites and non-operating assets.

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

1. Segment report (continued)

(b) Reportable segments

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

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

1. Segment report (continued)

(b) Reportable segments

2017 $m	Australia Pacific & Asia	North America	Latin America	Europe, Middle East & Africa	Minova	Auxiliaries	Global Support	Elimina-tions	Consoli-dated
Revenue									
External sales	1,685.5	1,199.1	874.9	793.5	452.1	20.3	13.8	–	5,039.2
Inter-segment sales	40.4	163.7	41.0	18.7	3.5	–	976.8	(1,244.1)	–
Total sales revenue	1,725.9	1,362.8	915.9	812.2	455.6	20.3	990.6	(1,244.1)	5,039.2
Other income (refer to note 1c)(1)	6.1	2.8	8.8	8.4	12.9	–	12.8	–	51.8
Total revenue and other income	1,732.0	1,365.6	924.7	820.6	468.5	20.3	1,003.4	(1,244.1)	5,091.0
Results before individually significant items									
Profit/(loss) before financing costs and income tax	367.6	187.5	61.3	74.5	13.1	3.1	(72.0)	–	635.1
Financial income									28.2
Financial expenses									(99.9)
Profit before income tax expense									563.4
Income tax expense									(164.0)
Profit after income tax expense									399.4
Less: Profit attributable to non-controlling interests									(13.2)
Profit after income tax expense before individually significant items attributable to shareholders of Orica Limited									386.2
Individually significant items (refer to note 1d)									
Gross individually significant items	–	–	–	–	–	–	–	–	–
Tax on individually significant items	–	–	–	–	–	–	–	–	–
Net individually significant items attributable to non-controlling interests									–
Individually significant items attributable to shareholders of Orica Limited									–
Net profit for the period attributable to shareholders of Orica Limited									386.2
Segment assets	2,886.5	882.2	564.4	660.4	386.1	9.7	1,396.0	–	6,785.2
Segment liabilities	409.9	223.2	177.5	205.6	81.7	20.4	2,703.4	–	3,821.7
Investments accounted for using the equity method	3.2	173.6	5.0	1.4	–	–	1.4	–	184.6
Acquisitions of PPE and intangibles	166.2	48.0	20.5	22.9	9.0	2.4	63.5	–	332.5
Impairment of PPE	–	–	–	0.1	–	–	–	–	0.1
Impairment of inventories	1.5	0.8	1.9	(0.3)	0.4	–	3.2	–	7.5
Impairment of trade receivables	0.3	–	2.0	5.2	0.2	0.2	0.3	–	8.2
Depreciation and amortisation	124.6	36.3	25.4	23.7	9.1	0.5	41.6	–	261.2
Non-cash expenses: share based payments	1.3	1.2	0.5	1.1	0.9	–	6.6	–	11.6
Share of net profit of associates accounted for using the equity method	2.7	31.8	2.7	(0.6)	–	–	–	–	36.6

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

1. Segment report (continued)

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

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

(1) Refer to note 9

(2) Refer to note 6

(3) Refer to note 11

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

(e) Geographical segments

The presentation of geographical revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

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

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

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

1. Segment report (continued)

Recognition and measurement

Sales revenue

External sales are measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. External sales are recognised when the significant risks and rewards of ownership are transferred to the purchaser, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Other income

Profits and losses from sale of businesses, controlled entities and other non-current assets are recognised when there is a signed contract of sale and no continuing management involvement. Dividends are recognised in the Income Statement when the right to receive them is established. Other income includes profit on sale of property, plant and equipment, profit from the sale of businesses and controlled entities, foreign currency gains/(losses) and royalties.

2. Earnings per share (EPS)

	Consolidated	
	2018 $m	2017 $m
(i) As reported in the Income Statement		
Earnings used in the calculation of basic EPS attributable to ordinary shareholders of Orica Limited		
Net (loss)/profit for the period from continuing operations	**(34.5)**	399.4
Less: Net profit for the period attributable to non-controlling interests	**13.6**	13.2
Total	**(48.1)**	386.2

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

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

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

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

Section B. Capital management

Orica's objectives when managing capital (net debt and total equity) are to safeguard the Group's ability to continue as a going concern and to ensure that the capital structure enhances, protects and balances financial flexibility against minimising the cost of capital. This section outlines the principal capital management initiatives that have been undertaken, current year drivers of the Group's cash flows, as well as the key operating assets used and liabilities incurred to support financial performance.

3. Net debt

In order to maintain an appropriate capital structure, the Group may adjust the amount of dividends paid to shareholders, utilise a dividend reinvestment plan, return capital to shareholders such as a share buy-back or issue new equity, in addition to incurring an appropriate level of borrowings. Currently, Orica maintains a dividend payout ratio policy and expects the total payout ratio to be in the range of 40 to 70 percent of underlying earnings. It is also expected that the total dividend paid each year will be weighted towards the final dividend.

Orica monitors debt capacity against a number of key credit metrics, principally the gearing ratio (net debt divided by debt plus equity) and the interest cover ratio (EBIT excluding individually significant items, divided by net financing costs adjusted for capitalised borrowing costs). These ratios, together with performance measure criteria determined by Standard & Poor's, are targeted in support of the maintenance of an investment grade credit rating, which facilitates access to borrowings from a range of sources.

The Group's current target level for gearing is 35% to 45% and interest cover is 5 times or greater. Ratios may move outside of these target ranges for relatively short periods of time after major acquisitions or other significant transactions.

In addition, the gearing and interest cover ratios are monitored to ensure an adequate buffer against covenant levels applicable to the various financing facilities.

The gearing ratio is calculated as follows:

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

3. Net debt (continued)

(a) Interest bearing liabilities

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

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

(2) $2.2 million (2017 $2.5 million) of property, plant and equipment is pledged as security for finance leases. In the event of default by Orica, the rights to the leased assets transfer to the lessor.

During the current and prior year, there were no defaults or breaches of covenants on any loans.

3. Net debt (continued)

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

Recognition and Measurement

Cash and cash equivalents

Cash includes cash at bank, cash on hand and deposits at call which are readily convertible to cash on hand and which are used in the cash management function and are disclosed for the purposes of the Statement of Cash Flows net of bank overdrafts. The Directors consider the net carrying amount of cash and cash equivalents to approximate their fair value due to their short term to maturity. Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the relevant taxation authorities are classified as operating cash flows.

Interest bearing liabilities

Interest bearing liabilities are initially recognised at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the Income Statement over the period of the liabilities on an effective interest basis, unless they are liabilities designated in a fair value relationship in which case they continue to be measured at fair value (refer to note 10a).

Amortised cost is calculated by taking into account any issue costs and any discount or premium on issuance. Gains and losses are recognised in the Income Statement in the event that the liabilities are derecognised.

Borrowing costs

Borrowing costs include interest, unwinding of the effect of discounting on provisions, amortisation of discounts or premiums relating to borrowings and amortisation of ancillary costs incurred in connection with the arrangement of borrowings, including lease finance charges. Borrowing costs are expensed as incurred unless they relate to qualifying assets. Where funds are borrowed specifically for the production of a qualifying asset, the interest on those funds is capitalised, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average interest rate.

4. Contributed equity and reserves

(a) Contributed Equity

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

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

(b) Reserves

Recognition and Measurement

Foreign currency translation reserve: The foreign currency translation reserve records the foreign currency differences arising from the translation of foreign operations, the translation of transactions that hedge net investments in a foreign operation or the translation of foreign currency monetary items forming part of the net investment in a foreign operation.

Cash flow hedge reserve: The amount in the cash flow hedge reserve represents the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Other reserves: Other reserves represents share based payments reserves and equity reserves arising from the purchase of non-controlling interests.

(c) Dividends

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

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

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

The financial effect of the final dividend on ordinary shares has not been brought to account in the financial statements for the year ended 30 September 2018 – however will be recognised in the 2019 financial statements.

Franking credits

Franking credits available at the 30% corporate tax rate after allowing for tax payable in respect of the current year's profit and the payment of the final dividend for 2018 are $16.9 million (2017 $91.5 million).

Section C. Operating assets and liabilities

This section highlights current year drivers of the Group's operating and investing cash flows, as well as the key operating assets used and liabilities incurred to support delivering financial performance.

5. Working capital

(a) Trade working capital

Trade working capital includes receivables and payables that arise from normal trading conditions. The Group continuously looks to improve working capital efficiency in order to maximise operating cash flow.

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

(i) Inventories

The classification of inventories is detailed below:

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

Recognition and Measurement

Inventories are valued at the lower of cost and net realisable value. Inventories have been shown net of provision for impairment of $25.0 million (2017 $21.6 million). Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and selling expenses. Cost is based on a first-in first-out or weighted average basis. For manufactured goods, cost includes direct material and fixed overheads based on normal operating capacity. For purchased goods, cost is net cost into store.

(ii) Trade receivables

The ageing of trade receivables and allowance for impairment is detailed below:

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

Recognition and Measurement

The collectability of trade receivables is assessed continuously and at balance date specific allowances are made for any doubtful trade receivables based on a review of all outstanding amounts at year end. The net carrying amount of trade and other receivables approximates their fair values. A risk assessment process is used for all accounts, with a stop credit process in place for most long overdue accounts.

5. Working capital (continued)

(iii) Trade payables

Recognition and Measurement

Trade payables, including accruals for costs not yet billed, are recognised when the Group becomes obliged to make future payments as a result of the purchase of goods or as services are provided. Trade payables are normally settled within 60 days from invoice date or within the agreed payment terms with the supplier. Trade payables are non-interest bearing and include liabilities in respect of trade financing within the normal operating cycle of the business. The carrying amount of trade payables approximates their fair values due to their short term nature.

(b) Non-trade working capital

Non-trade working capital includes all other receivables and payables not related to purchase of goods and is recognised net of provisions for impairment of $17.6 million (2017 $13.4 million).

In the current year, other non-current assets include a receivable of $23.9 million for amounts paid to the Australian Tax Office (ATO) in FY2017. This amount represents 50% of the primary tax payable as per amended assessments which have been issued by the ATO in relation to the Australian tax audits as disclosed in note 11.

Recognition and Measurement

Other receivables are carried at amounts due. Payment terms vary. A risk assessment process is used for all accounts, with a stop credit and follow up process in place for most long overdue accounts. Interest may be charged where the terms of repayment exceed agreed terms.

The collectability of other receivables is assessed at balance sheet date and specific allowances are made for any doubtful receivables based on a review of all outstanding amounts at year end. There are no individually significant receivables that have had renegotiated terms that would otherwise, without that renegotiation, have been past due or impaired.

Critical accounting judgements and estimates

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

6. Provisions

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

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

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

Recognition and Measurement

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that a future sacrifice of economic benefits will be required to settle the obligation and a reliable estimate of the liability can be assessed. The amount of the provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

6. Provisions (continued)

Employee entitlements

A liability for employee entitlements is recognised for the amount expected to be paid where the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and that obligation can be reliably measured. Liabilities for employee entitlements which are not expected to be settled within twelve months of balance sheet date, are accrued at the present value of future amounts expected to be paid.

Decommissioning

In certain circumstances, the Group has an obligation to dismantle and remove an asset and to restore the site on which it is located. The present value of the estimated costs of dismantling and removing the asset and restoring the site on which it is located are recognised as an asset within property, plant and equipment and depreciated on a straight line basis over its estimated useful life. A corresponding provision is raised where a legal or constructive obligation exists.

At each reporting date, the liability is remeasured in line with changes in discount rates, timing and estimated cash flows. Any changes in the liability are added or deducted from the related asset, other than the unwinding of the discount which is recognised as a finance cost.

Environmental

Estimated costs for the remediation of soil, groundwater and untreated waste are recognised when the there is a legal or constructive obligation to remediate and the associated costs can be reliably estimated. The timing of recognition of the provision generally coincides with the commitment to a regulatory or formal remediation plan.

Where the cost relates to land held for resale then, to the extent that the expected realisation exceeds both the book value of the land and the estimated cost of remediation, the cost is capitalised as part of the holding value of that land, otherwise it is expensed.

The amount of provision reflects the best estimate of the expenditure required to settle the obligation having regard to a range of potential scenarios, input from subject matter experts on appropriate remediation techniques and relevant technological advances.

Individually significant items

Botany Groundwater Remediation

Orica's historical operations at the Botany Industrial Park (NSW) resulted in the contamination of the soil and groundwater. Due to the complex nature of the chemicals involved and its distribution (e.g. Dense Non-Aqueous Phase Liquid (DNAPL)), the lack of known practical remediation approaches, and the unknown scale of the contamination, a practical solution to completely remediate the contamination has not been found. Orica continues to work in close cooperation with the New South Wales (NSW) Environmental Protection Authority (EPA) to address the contamination.

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

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

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

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

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

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

6. Provisions (continued)

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

Critical accounting judgements and estimates

Provisions for other sites

For other sites where Orica has recognised a provision for environmental remediation, judgement is required in determining the future expenditure required to settle the obligation due to uncertainties in the assumptions regarding the nature or extent of the contamination, the application of relevant laws or regulations and the information available at certain locations where Orica no longer controls the site. Changes in these assumptions may impact future reported results. Subject to those factors, but taking into consideration experience gained to date regarding environmental matters of a similar nature, Orica believes the provision balances to be appropriate based on currently available information. However, considering the uncertainties noted above additional costs may be incurred in future periods which are greater than the amounts provided.

Contingent environmental liabilities

Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the Group. A contingent liability may also be a present obligation that is not recognised as it is not probable that an outflow of resources will be required or the amount of the obligation cannot be reliably measured.

Environmental contingent liabilities

In respect of historical and current operations, certain sites owned or used by the Group may require future remediation actions. For sites where the remediation actions are identified, agreed with regulatory authorities and reliable estimates are possible, provisions for estimated regulatory and remediation costs have been recognised.

Sites with significant uncertainties relating to the following are disclosed as contingent liabilities:

- Sites where contamination is known or likely to exist however, the impact cannot be reliably measured due to uncertainties related to the extent of Orica's remediation obligations or the remediation techniques that may be utilised; or
- Sites where known contamination exists but does not pose a current threat to human health or the environment, therefore no regulatory or formal remediation action is probable.

Any costs associated with these matters are expensed as incurred.

Botany – remediation of source contamination

During the year, and as part of assessing the approach to mitigating the impact of the groundwater, management consulted with both internal and external remediation experts through a triennial strategy workshop to review developments in applicable technology, the level of assessed contamination and whether alternate remediation approaches could be implemented. Specifically related to the remediation of DNAPL source contamination a reliable estimate of the costs to complete remediation is not possible given the lack of proven remediation techniques that can be effectively deployed at the site and uncertainty of the scale of the DNAPL contamination.

The total environmental and decommissioning provision comprises:

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

7. Property, plant and equipment

Consolidated	Land, buildings and improvements $m	Machinery, plant and equipment $m	Total $m
2017			
Cost	851.8	4,368.8	5,220.6
Accumulated depreciation	(293.3)	(2,185.8)	(2,479.1)
Total carrying value	558.5	2,183.0	2,741.5
Movement			
Carrying amount at the beginning of the year	524.8	2,200.5	2,725.3
Additions	41.5	223.3	264.8
Disposals	(0.2)	(7.6)	(7.8)
Disposals through disposal of entities	–	(7.4)	(7.4)
Depreciation expense	(25.6)	(192.3)	(217.9)
Impairment expense (see note 9)	–	(0.1)	(0.1)
Foreign currency exchange differences	18.0	(33.4)	(15.4)
Carrying amount at the end of the year	558.5	2,183.0	2,741.5
2018			
Cost	**882.3**	**4,703.5**	**5,585.8**
Accumulated impairment losses	**–**	**(6.7)**	**(6.7)**
Accumulated depreciation	**(313.3)**	**(2,399.6)**	**(2,712.9)**
Total carrying value	**569.0**	**2,297.2**	**2,866.2**
Movement			
Carrying amount at the beginning of the year	**558.5**	**2,183.0**	**2,741.5**
Additions	**20.0**	**189.0**	**209.0**
Additions through acquisitions of entities (see note 15)	**–**	**54.6**	**54.6**
Disposals	**(4.7)**	**(7.2)**	**(11.9)**
Depreciation expense	**(23.2)**	**(198.8)**	**(222.0)**
Impairment expense (see note 9)	**–**	**(6.7)**	**(6.7)**
Foreign currency exchange differences	**18.4**	**83.3**	**101.7**
Carrying amount at the end of the year	**569.0**	**2,297.2**	**2,866.2**

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

Recognition and Measurement

Property, plant and equipment is stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item and includes capitalised interest (refer to note 3). Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Critical accounting judgements and estimates

Management reviews the appropriateness of useful lives of assets at least annually and any changes to useful lives may affect prospective depreciation rates and asset carrying values.

Depreciation is recorded on a straight line basis using the following useful lives:

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

8. Intangible assets

Consolidated	Goodwill $m	Patents, trademarks and rights $m	Customer contracts and relationships $m	Software $m	Other $m	Total $m
2017						
Cost	2,281.0	289.0	67.4	348.6	61.8	3,047.8
Accumulated impairment losses of goodwill	(1,187.7)	–	–	–	–	(1,187.7)
Accumulated amortisation	–	(68.7)	(67.4)	(124.3)	(22.6)	(283.0)
Net carrying amount	1,093.3	220.3	–	224.3	39.2	1,577.1
Movement						
Carrying amount at the beginning of the year	1,094.1	222.5	–	201.3	40.9	1,558.8
Additions	–	6.9	–	54.4	6.4	67.7
Disposals through disposal of entities (see note 16)	–	(0.7)	–	–	–	(0.7)
Amortisation expense	–	(2.3)	–	(31.6)	(9.4)	(43.3)
Foreign currency exchange differences	(0.8)	(6.1)	–	0.2	1.3	(5.4)
Carrying amount at the end of the year	1,093.3	220.3	–	224.3	39.2	1,577.1
2018						
Cost	**2,526.2**	**365.4**	**67.4**	**502.3**	**77.9**	**3,539.2**
Accumulated impairment losses	**(1,475.9)**	**–**	**–**	**(14.5)**	**–**	**(1,490.4)**
Accumulated amortisation	**–**	**(96.1)**	**(67.4)**	**(166.8)**	**(20.6)**	**(350.9)**
Net carrying amount	**1,050.3**	**269.3**	**–**	**321.0**	**57.3**	**1,697.9**
Movement						
Carrying amount at the beginning of the year	**1,093.3**	**220.3**	**–**	**224.3**	**39.2**	**1,577.1**
Additions	**–**	**–**	**–**	**114.8**	**23.0**	**137.8**
Disposals	**–**	**–**	**–**	**–**	**(0.2)**	**(0.2)**
Additions through acquisition of entities (see note 15)	**116.4**	**37.0**	**–**	**29.4**	**–**	**182.8**
Amortisation expense	**–**	**(4.9)**	**–**	**(29.3)**	**(10.8)**	**(45.0)**
Impairment expense	**(197.0)**	**–**	**–**	**(14.5)**	**–**	**(211.5)**
Foreign currency exchange differences	**37.6**	**16.9**	**–**	**(3.7)**	**6.1**	**56.9**
Carrying amount at the end of the year	**1,050.3**	**269.3**	**–**	**321.0**	**57.3**	**1,697.9**

Recognition and Measurement

Identifiable intangibles

Identifiable intangible assets with a finite life (customer contracts and relationships, patents, software, capitalised development costs, trademarks and rights) are amortised on a straight-line basis over their expected useful life to the Group, being up to thirty years. Identifiable intangible assets with an indefinite life are not amortised but the recoverable amount of these assets is tested for impairment at least annually.

Unidentifiable intangibles – Goodwill

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

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Critical accounting judgements and estimates

Management reviews the appropriateness of useful lives of assets at least annually and any changes to useful lives may affect prospective amortisation rates and asset carrying values.

9. Impairment testing of assets

Recognition and Measurement

Methodology

Formal impairment tests are carried out annually for goodwill. In addition, formal impairment tests for all assets are performed when there is an indication of impairment. The Group conducts an internal review of asset values at each reporting period, which is used as a source of information to assess for any indications of impairment. External factors, such as changes in expected future prices, costs and other market factors, are also monitored to assess for indications of impairment. If any such indication exists, an estimate of the asset's recoverable amount is calculated.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the Income Statement to reduce the carrying amount in the Balance Sheet to its recoverable amount. The recoverable amount is determined using the higher of value in use or fair value less costs to dispose. Value in use is the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Group's continued use and does not consider future development. The value in use calculations use cash flow projections which do not exceed 5 years based on actual operating results and the operating budgets approved by the Board of Directors. Fair value less costs to dispose is the value that would be received in exchange for an asset in an orderly transaction.

In testing for indications of impairment and performing impairment calculations, assets are considered as collective groups and referred to as cash-generating units (CGU). CGUs are the smallest identifiable group of assets, liabilities and associated goodwill that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets with each CGU being no larger than a segment. CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The test of goodwill and its impairment is undertaken at the segment level.

Key assumptions

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

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

9. Impairment testing of assets (continued)

Critical accounting judgements and estimates

Minova

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

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

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

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

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

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

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

Latin America (LATAM)

The carrying value of the LATAM segment includes goodwill of $143 million. The performance of the business was below budget and forecasted earnings which identified indicators for impairment and an estimate of the CGU's recoverable value was calculated. Based on the latest projected cash flows of the operation, the carrying value approximates its value in use. The value in use calculations are sensitive to earnings forecasts, changes in discount rates and terminal growth rates.

The carrying value of LATAM is reliant on achieving growth in earnings. Continuing recent contract wins that have already occurred in 2018 is critical to LATAM's forecast earnings and underpins the future cash flow forecasts used to determine the recoverable amount.

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

Any variation in the key assumptions of the LATAM cash flows would result in a change in the assessed value in use. If the impact of the change had a negative impact, it could, in the absence of other factors require an impairment to goodwill.

Key assumptions underlying the value in use are as follows:

- Growth in EBIT from $43 million in 2018 to $58 million in 2023
- A weighted average terminal growth rate in line with local country economic forecasts of 3.8%
- A weighted average post tax discount rate of 10.9%.

Other Assets

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

Section D. Managing Financial Risks

Orica's Review of Operations and Financial Performance highlights funding and other treasury matters as material business risks that could adversely affect the achievement of future business performance.

This section discusses the principal market and financial risks the Group is exposed to and the risk management program, which seeks to mitigate these risks and reduce the volatility of Orica's financial performance.

10. Financial risk management

Financial risk factors

The Group's overall risk management program seeks to mitigate risks and reduce the volatility of Orica's financial performance. Financial risk management is carried out centrally by the Group's Treasury department under policies approved by the Board.

The Group's principal financial risks are associated with:

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

(a) Interest rate risk management

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates.

The Group is primarily exposed to interest rate risk on outstanding interest-bearing liabilities. Non-derivative interest-bearing assets are predominantly short-term liquid assets. Interest bearing liabilities issued at fixed rates expose the Group to fair value interest rate risk while borrowings issued at a variable rate give rise to cash flow interest rate risk.

Interest rate risk on long-term interest-bearing liabilities is managed by adjusting the ratio of fixed interest debt to variable interest debt. This is managed within policies determined by the Board via the use of interest rate swaps and cross currency interest rate swaps. Under the policy, up to 90% of debt with a maturity of less than one year can be fixed. This reduces on a sliding scale to year five where a maximum 50% of debt with a maturity of between five and ten years can be fixed. Beyond this, a maximum 25% of the debt with a maturity of between ten and twenty years can be fixed. The Group operated within this range during both the current year and the prior year. As at September, the fixed rate borrowings after the impact of interest rate swaps and cross currency swaps were $1,204 million (2017 $1,113 million) and the borrowings designated in a fair value relationship were $743 million (2017 $714 million).

Interest rate sensitivity

Orica has exposure to interest rate movements in the underlying currencies it deals in. A 10% movement in interest rates without management intervention would have a $5.1 million (2017 $1.7 million) impact on profit before tax and a $3.6 million (2017 $1.1 million) impact on shareholders' equity.

(b) Foreign exchange risk management

(i) Foreign exchange risk – transactional

Foreign exchange risk refers to the risk that the value of a financial commitment, recognised asset or liability or cash flow will fluctuate due to changes in foreign currency rates.

The Group is exposed to foreign exchange risk primarily due to significant sales and/or purchases denominated, either directly or indirectly, in currencies other than the functional currencies of the Group's subsidiaries.

As at reporting date, cross currency interest rate swaps entered into to hedge debt principal had a fair value gain of $56.2 million (2017 $5.0 million gain).

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are translated to the functional currency of the entity at the foreign exchange rate ruling at that date.

Foreign exchange differences arising on translation are recognised in the Income Statement. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency of the entity at foreign exchange rates ruling at the dates the fair value was determined.

10. Financial risk management (continued)

In regard to foreign currency risk relating to sales and purchases, the Group hedges up to 100% of committed exposures. Anticipated exposures are hedged by applying a declining percentage of cover the further the time to the transaction date. Only exposures that can be forecast to a high probability are hedged. Transactions can be hedged for up to five years. The derivative instruments used for hedging purchase and sale exposures are bought vanilla option contracts and forward exchange contracts. Forward exchange contracts may be used only under Board policy for committed exposures and anticipated exposures expected to occur within 12 months. Bought vanilla option contracts may be used for all exposures. These contracts are designated as cash flow hedges and are recognised at their fair value.

Exchange rate sensitivity

The table below shows the Group's exposure to foreign currency risk (Australian dollar equivalent) and the effect on profit and equity had exchange rates been 10% higher or lower than the year end rate with all other variables held constant. The 10% higher sensitivity represents the Australian dollar strengthening against the other currencies.

The analysis takes into account all underlying exposures and related hedges but not the impact of any management actions that might take place if these events occurred. The net exposure includes both external and internal balances (eliminated on consolidation).

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

2017	**USD $m**	**CAD $m**	**NZD $m**	**NOK $m**	**SEK $m**	**EUR $m**	**GBP $m**
Cash and internal deposits[1]	1,844.5	3.5	0.6	9.2	126.2	800.8	337.7
Trade and other receivables	154.7	22.8	0.2	1.1	1.7	22.8	29.6
Trade and other payables	(162.5)	(32.1)	–	(1.1)	(7.2)	(52.4)	(0.6)
Interest bearing liabilities[1]	(2,548.1)	(198.8)	(19.3)	(18.6)	(41.0)	(891.1)	(151.5)
Net derivatives	1,270.6	42.7	2.4	(63.0)	15.7	51.1	48.0
Net exposure	559.2	(161.9)	(16.1)	(72.4)	95.4	(68.8)	263.2
Effect on profit/(loss) before tax							
If exchange rates were 10% lower	12.0	(0.1)	(0.1)	(0.2)	(0.6)	(2.4)	3.3
If exchange rates were 10% higher	(9.9)	0.0	0.1	0.2	0.5	1.9	(2.7)
Increase/(decrease) in equity							
If exchange rates were 10% lower	79.0	(12.6)	(1.2)	(5.7)	7.4	(5.3)	20.5
If exchange rates were 10% higher	(77.6)	10.3	1.0	4.6	(6.1)	4.4	(16.8)

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

(ii) Foreign currency risk – translational

Foreign currency earnings translation risk arises primarily as a result of earnings generated by foreign operations with functional currencies of USD, CAD, MXN, PHP, NOK and PEN being translated into AUD. Derivative contracts to hedge earnings exposures do not qualify for hedge accounting under Australian Accounting Standards. However, Board approved policy allows hedging of this exposure in order to reduce the volatility of full year earnings resulting from changes in exchange rates.

10. Financial risk management (continued)

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates applying at the balance sheet date.

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

Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations, and of related hedges are taken to the translation reserve. They are released into the Income Statement upon disposal.

Hedging of exposures is undertaken primarily through originating debt in the currency of the foreign operation or by raising debt in a different currency and effectively swapping the debt to the currency of the foreign operation. The remaining translation exposure is managed, where considered appropriate, through forward foreign exchange derivative instruments or cross currency swaps. Gains and losses resulting from these hedging activities are recorded in the foreign currency translation reserve within the equity section of the Balance Sheet and offset against the foreign exchange impact resulting from the translation of the net assets of foreign operations. 34.7% of the Group's investment in foreign operations was hedged in this manner as at 30 September 2018 (2017 32.5%).

As at reporting date, derivative instruments designated as hedging net investment exposures had a fair value of $4.7 million liability (2017 $2.9 million liability).

(c) Credit risk management

Credit risk represents the loss that would be recognised if counterparties failed to meet their obligations under a contract or arrangement. The Group is exposed to credit risk from trade and other receivables and financial instrument contracts that are outstanding at year end.

The creditworthiness of customers is reviewed prior to granting credit, using trade references and credit reference agencies. Credit limits are established and monitored for each customer, and these limits represent the highest level of exposure that a customer can reach. Trade credit insurance is purchased when required.

Orica's maximum exposure to trade and other receivables at 30 September 2018 is $830.8 million (2017 $765.0 million).

In regard to credit risk arising from derivatives and cash, this is the credit exposure to financial institutions that are counterparties to derivative contracts and cash deposits, with a positive fair value from Orica's perspective.

As at 30 September 2018, the sum of all derivative contracts with a positive fair value was $76.8 million (2017 $70.8 million). The Group does not hold any credit derivatives to offset its credit exposures.

(d) Liquidity risk management

Liquidity risk arises from the possibility that there will be insufficient funds available to make payment as and when required.

The Group manages this risk via:

- maintaining an adequate level of undrawn committed facilities in various currencies that can be drawn upon at short notice;
- using instruments that are readily tradeable in the financial markets;
- monitoring duration of long-term debt;
- spreading, to the extent practicable, the maturity dates of long-term debt facilities; and
- comprehensively analysing all forecast inflows and outflows that relate to financial assets and liabilities.

Facilities available and the amounts drawn and undrawn are as follows:

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

The bank overdrafts are payable on demand and are subject to an annual review. The repayment dates of the committed standby and loan facilities range from 7 October 2018 to 25 October 2030 (2017 28 April 2018 to 25 October 2030).

10. Financial risk management (continued)

The contractual maturity of the Group's fixed and floating rate financial instruments and derivatives are shown in the table below. The amounts shown represent the future undiscounted principal and interest cash flows:

	2018				2017			
Consolidated	**1 year or less $m**	**1 to 2 years $m**	**2 to 5 years $m**	**Over 5 years $m**	**1 year or less $m**	**1 to 2 years $m**	**2 to 5 years $m**	**Over 5 years $m**
Non-derivative financial assets								
Cash	**514.6**	**–**	**–**	**–**	516.9	–	–	–
Trade and other receivables	**748.1**	**82.7**	**–**	**–**	665.7	97.6	–	–
Derivative financial assets	**1,775.0**	**57.7**	**659.0**	**397.3**	1,415.6	354.6	539.4	488.4
Financial assets	**3,037.7**	**140.4**	**659.0**	**397.3**	2,598.2	452.2	539.4	488.4
Non-derivative financial liabilities								
Trade and other payables	**1,198.9**	**6.1**	**–**	**–**	1,059.8	3.9	–	–
Bank overdrafts	**3.2**	**–**	**–**	**–**	–	–	–	–
Bank loans	**6.3**	**139.4**	**45.0**	**–**	1.7	1.3	76.7	–
Export finance facility	**17.5**	**16.6**	**–**	**–**	16.2	15.9	15.2	–
Private Placement	**228.7**	**85.6**	**1,263.4**	**925.0**	86.7	210.3	634.8	1,462.8
Other loans	**3.6**	**2.9**	**–**	**–**	10.9	2.7	–	–
Lease liabilities	**1.1**	**0.1**	**–**	**–**	1.2	1.1	0.1	–
Derivative financial liabilities	**1,787.6**	**61.6**	**595.3**	**383.7**	1,438.2	393.4	529.1	516.2
Financial liabilities	**3,246.9**	**312.3**	**1,903.7**	**1,308.7**	2,687.4	627.3	1,179.2	1,979.0
Net outflow	**(209.2)**	**(171.9)**	**(1,244.7)**	**(911.4)**	(89.2)	(175.1)	(639.8)	(1,490.6)

(e) Commodity risk management

Commodity risk refers to the risk that Orica's profit/loss or equity will fluctuate due to changes in commodity prices. At reporting date Orica has derivative contracts which are exposed to fluctuations in the price of Brent Crude Oil entered into to fix the price of future gas supply contracts.

The table below includes Orica's derivative contracts that are exposed to changes in Brent Crude Oil at 30 September and the impact of a 10 per cent change in observable prices (holding all other things constant) on profit/loss or equity based solely on Orica's price exposures existing at the reporting date but does not take into account any mitigating actions that management might undertake if the price change occurred.

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

Recognition and Measurement

Valuation of financial assets and liabilities (included within other on Balance Sheet)

Derivatives are carried at fair value and categorised as Level 2 under AASB 7 *Financial Instruments: Disclosures*. The inputs are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices). There has been no movement between levels since prior year.

Valuation techniques include, where applicable, reference to prices quoted in active markets, discounted cash flow analysis, fair value of recent arm's length transactions involving the same instruments or other instruments that are substantially the same, and option pricing models. Changes in default probabilities are included in the valuation of derivatives using credit and debit valuation adjustments.

The fair values of forward exchange contracts are calculated by reference to forward exchange market rates for contracts within similar maturity profiles at the time of valuation.

The fair values of cross currency interest rate swaps and interest rate swaps and other financial liabilities measured at fair value are determined using valuation techniques which utilise data from observable markets. Assumptions are based on market conditions existing at each balance date. The fair value is calculated as the present value of the estimated future cash flows using an appropriate market based yield curve, which is independently derived and representative of Orica's cost of borrowings.

10. Financial risk management (continued)

Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet where Orica currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Orica also entered into master netting arrangements that do not meet the criteria for offsetting but allow for the related amounts to be set-off in certain circumstances, such as the event of default.

Hedge accounting

The Group uses financial instruments to hedge its exposure to certain market risks arising from operational, financing and investing activities. The Group holds financial instruments that qualify for hedge accounting under one of the three arrangements:

	Fair value hedges	Cash flow hedges	Net investment hedges
What the financial instrument is designated to hedge?	To mitigate the risk of changes in the fair value of its foreign currency borrowings from foreign currency and interest rate fluctuations.	As a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction.	As a hedge of risk of changes in foreign currency when net assets of a foreign operation are translated from their functional currency to Australian dollars.
Where are gains or losses on fair value movements of the financial instrument recorded?	Recognised in the Income Statement, together with gains or losses in relation to the hedged item.	The effective portion is recognised in other comprehensive income. The ineffective portion is recognised immediately in the Income Statement.	The effective portion is recognised in the foreign currency translation reserve in equity. The ineffective portion is recognised immediately in the Income Statement.
Discontinuation of hedge accounting	The cumulative gain or loss that has been recorded to the carrying value of the hedged item is amortised to the Income Statement using the effective interest method.	When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity.	

For a cash flow hedge arrangement that has a forecasted transaction that is being hedged, when the transaction occurs, the cumulative gain or loss is removed from equity and:

- included in the initial cost or other carrying amount of the non-financial asset or liability when the forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability;
- reclassified into the Income Statement in the same period or periods during which the asset acquired or liability assumed affects the Income Statement, where a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability;
- recognised in the Income Statement in the same period or periods during which the hedged forecast transaction affects the Income Statement, when the transaction is not covered by the above two statements.

Derivatives not in a designated hedge arrangement

Financial instruments that do not qualify for hedge accounting but remain economically effective, are accounted for as trading instruments. These instruments are classified as current and are stated at fair value, with any resultant gain or loss recognised in the Income Statement. The Group policy is to not hold or issue financial instruments for trading purposes.

Section E. Taxation

This section outlines the taxes paid by Orica and the impact tax has on the financial statements.

Orica has operations in more than 50 countries, with customers in more than 100 countries. In 2018, Orica paid $125.6 million (2017 $237.5 million) globally in corporate taxes and payroll taxes. Orica collected and remitted $124.4 million (2017 $119.7 million) globally in GST/VAT.

As Orica operates in a number of countries around the world, it is subject to local tax rules in each of those countries. Orica's tax rate is sensitive to the geographic mix of profits earned in different countries with different tax rates, as tax will be due in the country where the profits are earned. Many of the jurisdictions Orica has operations in have headline tax rates lower than 30%.

11. Taxation

(a) Income tax expense recognised in the Income Statement

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

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

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

11. Taxation (continued)

(c) Income tax recognised in Comprehensive Income:

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

(d) Recognised deferred tax assets and liabilities

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

11. Taxation (continued)

(e) Unrecognised deferred tax assets

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

Tax losses not booked expire between 2019 and 2027.

Recognition and Measurement

Income tax on the profit or loss for the year comprises current and deferred tax and is recognised in the Income Statement.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at reporting date, and any adjustments to tax payable in respect of previous years.

Under AASB 112 *Income Taxes*, deferred tax balances are determined using the Balance Sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the balance sheet and their associated tax bases. Current and deferred taxes attributable to amounts recognised directly in equity are also recognised in equity.

The amount of deferred tax provided will be based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantively enacted at reporting date.

A deferred tax asset will be recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets will be reduced to the extent it is no longer probable that the related tax benefit will be realised.

Tax consolidation

Orica Limited is the parent entity in the tax consolidated group comprising all wholly-owned Australian entities.

Due to the existence of a tax sharing agreement between the entities in the tax consolidated group, the parent entity recognises the tax effects of its own transactions and the current tax liabilities and the deferred tax assets arising from unused tax losses and unused tax credits assumed from the subsidiary entities.

Individually significant items

Impact of Tax Reform in the United States

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

11. Taxation (continued)

Critical accounting judgements and estimates

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provision in the period in which such determination is made.

In addition, deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable profits are available to utilise those temporary differences and losses, and the tax losses continue to be available having regard to the nature and timing of their origination and compliance with the relevant tax legislation associated with their recoupment.

Assumptions are also made about the application of income tax legislation. These assumptions are subject to risk and uncertainty and there is a possibility that changes in circumstances or differences in opinions will alter outcomes which may impact the amount of deferred tax assets and deferred tax liabilities recorded on the Balance Sheet and the amount of tax losses and timing differences not yet recognised. In these circumstances, the carrying amount of deferred tax assets and liabilities may change, resulting in an impact on the earnings of the Group.

Contingent tax liabilities

In the normal course of business, contingent liabilities may arise from tax investigations or legal proceedings. Where management are of the view that potential liabilities have a low probability of crystallising or it is not possible to quantify them reliably, they are not provided for and are disclosed as contingent liabilities.

(i) Investigations and audits

Consistent with other companies of the size and diversity of Orica, the Group is the subject of ongoing information requests, investigations and audit activities by tax and regulatory authorities in jurisdictions in which Orica operates. Orica co-operates fully with the tax and regulatory authorities. It is possible that Orica may incur fines and/or other penalties as a consequence of these investigations and audits.

(ii) Brazilian Tax Action

The Brazilian Taxation Authority (BTA) is claiming unpaid taxes, interest and penalties of approximately $38 million for the 1997 financial year relating to an alleged understatement of income based on an audit of production records. Orica believes the auditor has misread those production records. ICI plc, the vendor of the business to Orica, has been notified to preserve Orica's rights under the tax indemnity obtained upon acquisition of the business which provides indemnity for amounts exceeding certain limits. The BTA has been granted a bank guarantee of up to approximately $38 million.

(iii) Australian Tax Audit

As a result of an income tax audit covering the 2010 to 2011 years, the Australian Taxation Office (ATO) has challenged Orica's tax returns in relation to thin capitalisation valuations of land and buildings and intellectual property resulting in a denial of interest deductions. Assessments for 2010 to 2015 amounting to approximately $48 million have been received from the ATO. Interest and penalties for this period have been assessed by the ATO at approximately $24 million. Orica believes that the valuations are in accordance with the tax law and has lodged objections against the assessments.

(iv) Ghana and Senegal Tax Audits

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

Section F. Group structure

Orica has a diverse spread of global operations, which includes controlled entities incorporated in over 50 countries, as well as entering strategic partnering arrangements with certain third parties. This section highlights the Group structure including Orica's controlled entities, as well as those where Orica holds less than 100% interest.

12. Investments in controlled entities

Recognition and Measurement

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the Group, being the Company (the parent entity) and its subsidiaries as defined in AASB 10 *Consolidated Financial Statements*.

Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition.

Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceed the cost of acquisition, the excess is credited to the Income Statement in the period of acquisition.

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

Refer to note 25 for the list of investments in controlled entities.

13. Non-controlling interests in controlled entities

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

14. Investments accounted for using the equity method and joint operations

(a) Investments accounted for using the equity method

The table below shows material investments (based on carrying values). All other investments are included in "Other".

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

(1) Entities are incorporated in USA.
(2) Entity is incorporated in Australia.
(3) Acquired on 21 December 2017.

Summary of profit and loss of associates:

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

(b) Joint operations

The Group owns a 50% interest of Yara Pilbara Nitrates Pty Ltd, the remaining shares are held by subsidiaries in the Yara International ASA group. The entity owns and will operate a 330,000 tonnes per annum industrial grade ammonium nitrate plant on the Burrup Peninsula (Western Australia, Australia).

Yara Pilbara Nitrates will operate as a toll manufacturer, receiving a tolling fee from entities within the Group and the Yara group. The Orica and Yara group have rights to all the economic benefits of the assets. The dependence of the manufacturing entity upon Orica and Yara for the generation of cash flows indicates that the parties have an obligation for the liabilities of the manufacturing arrangement and accordingly it is accounted for as a joint operation.

(c) Transactions with associates

Transactions during the year with associates were:

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

(d) Transactions with related parties

All transactions with other related parties are made on normal commercial terms and conditions and in the ordinary course of business.

Recognition and Measurement

Associate entities

Where Orica holds an interest in the equity of an entity, generally of between 20 per cent and 50 per cent, and is able to significantly influence the decisions of the entity, that entity is an associated entity. Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting.

Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. Orica recognises its share of any jointly held or incurred assets, liabilities, revenue and expenses in the consolidated financial statements under applicable headings.

15. Businesses and non-controlling interests acquired

Consolidated – 2018

Acquisition of businesses and controlled entities

Business combinations are accounted for under the acquisition method when control is transferred to the Group, in accordance with AASB 3 *Business Combinations*. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. The transaction costs are expensed in the Income Statement.

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

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

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

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

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

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

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

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

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

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

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

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

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

Consolidated – 2017

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

16. Businesses disposed

Disposal of businesses and controlled entities

The following businesses and controlled entities were disposed of:

2018

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

2017

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

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

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

17. Parent Company disclosure – Orica Limited

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

The Company did not have any contractual commitments for the acquisition of property, plant or equipment in the current or previous years.

Contingent liabilities and contingent assets

Under the terms of a Deed of Cross Guarantee entered into under *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*, each company which is a party to the Deed has covenanted with the Trustee of the Deed to guarantee the payment of any debts of the other companies which are party to the Deed which might arise on the winding up of those companies. A consolidated Balance Sheet and Income Statement for this closed group is shown in note 18.

Orica Limited has provided guarantees to Export Finance and Insurance Corporation and banks for loans relating to the Bontang Ammonium Nitrate plant.

Orica Limited guaranteed senior notes issued in the US Private Placement market in 2003, 2010, 2013 and 2017. The notes have maturities between calendar years 2018 and 2030 (2017 between calendar years 2017 and 2030) (see notes 3 and 10). Orica Limited has also provided guarantees for senior committed bank facilities.

18. Deed of Cross Guarantee

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

The parties to the Deed are:

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

By entering into the Deed, the wholly owned subsidiaries have been relieved from the requirement to prepare a financial report and Directors' report under *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*.

18. Deed of Cross Guarantee (continued)

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

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

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

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

Section G. Reward and recognition

Orica operates in more than 50 countries and has more than 11,500 employees. This section provides insights into the reward and recognition of employees, in addition to the employee benefits expense and employee provisions disclosed in the Income Statement and note 6 respectively.

This section should be read in conjunction with the Remuneration Report, contained within the Directors' Report, which provides specific details on the setting of remuneration for Key Management Personnel.

19. Employee share plans and remuneration

The following plans have options or rights ("instruments") over Orica shares outstanding at 30 September 2017 or 30 September 2018:

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

Orica engaged PwC to value issued instruments. The valuations prepared by PwC use methodologies consistent with assumptions that apply under the Black Scholes option pricing model and reflect the value (as at grant date) of instruments held at 30 September. The inputs underlying the instrument valuations are: (a) the exercise price of the instrument, (b) the life of the instrument, (c) the current price of the underlying securities, (d) the expected volatility of the share price, (e) the dividends expected on the shares, and (f) the risk-free interest rate for the life of the instrument.

(a) Sign-on Rights

For a select group of senior managers who join Orica post allocation of an LTIP grant (and who generally have forgone at-risk remuneration from their previous employer) rights may be allocated at the discretion of the Orica Board. Allocations are made on the following basis:

- Employees are granted a number of rights, which vest upon the satisfaction of a time based hurdle, generally aligned to their anniversary of joining Orica.
- The number of rights granted to each employee is based on either a specified percentage of their fixed remuneration, or a straight dollar value. The value is determined on an individual basis, but generally aligned to either their future LTIP grant percentage or the foregone at-risk remuneration from their previous employer.
- Each right is an entitlement to be allocated one ordinary share in Orica.
- Rights are unlisted and do not carry any dividend or voting rights.
- Shares allocated upon vesting of rights may be either newly issued shares or existing shares acquired on market.
- Holders of rights that leave the Group prior to the end of the performance period will, in general, forfeit their rights. The Board has discretion to allow a number of rights remain 'on foot' to be tested and vest if the holder leaves due to death, disability or other Board approved reason.

Sign-on Rights allocations, values and related information is shown in the following table:

Grant dates	Vesting date	Number of rights issued	Number of rights held at 30 September 2018	Number of rights held at 30 September 2017	Number of participants at 30 September 2018	Number of participants at 30 September 2017	Value of rights at grant date[(1)] $
12 Jan 16 – 3 Sep 18	30 Jun 16 – 27 Oct 20	131,833	**84,653**	70,934	**6**	4	1,487,769

(1) The inputs underlying the rights valuations are:

Grant dates	Price of Orica shares at grant date $	Expected volatility in share price %	Dividends expected on shares %	Risk free interest rate %	Fair value per right $
12 Jan 16 – 3 Sep 18	13.88-20.91	25-30	3.0-5.5	1.49-2.07	11.92-20.91

19. Employee share plans and remuneration (continued)

(b) Key Management Personnel compensation summary

As deemed under AASB 124 *Related Parties Disclosures*, Key Management Personnel (KMP) include each of the Directors, both Executive and Non-Executive, and those members of the Executive Committee who have authority and responsibility for planning, directing and controlling the activities of Orica.

A summary of the KMP compensation is set out in the following table:

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

Information regarding individual Directors and Executives compensation and some equity instrument disclosures as permitted by Corporation Regulations 2M.3.03 are provided in the Remuneration Report.

20. Superannuation commitments

Recognition and Measurement

Contributions to defined contribution superannuation funds are recognised in the Income Statement in the year in which the expense is incurred. For each defined benefit scheme, the cost of providing retirement benefits is expensed in the Income Statement so as to recognise current and past service costs, interest cost on net liabilities, and the effect of any curtailments or settlements. Actuarial gains and losses for post-retirement plans are recognised in other comprehensive income. The Group's net liabilities in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds or in countries where there is no deep market in such bonds, the market yields on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed annually by a qualified actuary using the projected unit credit method.

(a) Superannuation plans

The Group contributes to a number of superannuation plans that exist to provide benefit for employees and their dependants on retirement, disability or death. The superannuation plans cover company sponsored plans, other qualifying plans and multi-employer industry/union plans.

Company sponsored plans

- The principal benefits are pensions or lump sum payments for members on resignation, retirement, disability or death. The benefits are provided on either a defined benefit or defined contribution basis.
- Employee contribution rates are either fixed by the rules of the plans or selected by members from time to time from a specified range of rates. The employer entities contribute the balance of the cost required to fund the defined benefits or, in the case of defined contribution plans, the amounts required by the rules of the plan.
- The contributions made by the employer entities to defined contribution plans are in accordance with the requirements of the governing rules of such plans or are required under law.

Government plans

- Some controlled entities participate in government plans on behalf of certain employees, which provide pension benefits. There exists a legally enforceable obligation on employer entities to contribute as required by legislation.

Industry plans

- Some controlled entities participate in industry plans on behalf of certain employees.
- These plans operate on an accumulation basis and provide lump sum benefits for members on resignation, retirement, disability or death.
- The employer entities have a legally enforceable obligation to contribute a regular amount for each employee member of these plans.
- The employer entities have no other legal liability to contribute to the plans.

(b) Defined contribution pension plans

The Group contributes to several defined contribution pension plans on behalf of its employees. The amount recognised as an expense for the financial year ended 30 September 2018 was $32.6 million (2017 $38.0 million).

20. Superannuation commitments (continued)

(c) Defined benefit pension plans

The Group participates in several Australian and overseas defined benefit post-employment plans that provide benefits to employees upon retirement. Plan funding is carried out in accordance with the requirements of trust deeds and the advice of actuaries. The information within these financial statements has been prepared by the local plan external actuaries. Orica were assisted by Willis Towers Watson to consolidate those results globally. During the year, the Group made employer contributions of $27.5 million (2017 $23.8 million) to defined benefit plans. The Group's external actuaries have forecast total employer contributions and benefit payments to defined benefit plans of $27.1 million for 2019.

(c) (i) Balance Sheet amounts

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

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

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

The amounts recognised in the Income Statement are as follows:

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

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

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

20. Superannuation commitments (continued)

(c) (iv) Reconciliations

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

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

The fair value of plan assets does not include any amounts relating to the Group's own financial instruments, property occupied by, or other assets used by, the Group.

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

20. Superannuation commitments (continued)

(c) (iv) Reconciliations (continued)

The principal assumptions applied in determining the present value of defined benefit obligations and their bases were as follows:

- Rates of increase in pensionable remuneration, pensions in payment and healthcare costs: historical experience and management's long-term future expectations;
- Discount rates: prevailing long-term high quality bond yields, chosen to match the currency and duration of the relevant obligation; and
- Mortality rates: the local actuaries' designated mortality rates for the individual plans concerned.

The weighted averages for those assumptions and related sensitivity information are presented below. Sensitivity information indicates by how much the defined benefit obligations would increase or decrease if a given assumption were to increase or decrease with no change in other assumptions.

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

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

Critical accounting judgements and estimates

The expected costs of providing post-retirement benefits under defined benefit arrangements relating to employee service during the period are charged to the Income Statement. Actuarial gains and losses from post retirement plans, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, are recognised immediately in the Statement of Comprehensive Income. In all cases, the superannuation costs are assessed in accordance with the advice of independent qualified actuaries but require the exercise of judgement in relation to assumptions for future salary and superannuation increases, long term price inflation and bond rates. While management believes the assumptions used are appropriate, a change in the assumptions used may impact the earnings and equity of the Group.

Section H. Other

This section includes additional financial information that is required by Australian Accounting Standards and management considers to be relevant information for shareholders.

21. Commitments

Capital expenditure commitments

Capital expenditure on property, plant and equipment and business acquisitions contracted but not provided for and payable no later than one year was $78.4 million (2017 $28.4 million) and later than one but less than five years was nil (2017 $0.9 million).

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

22. Contingent liabilities

Contingent liabilities relating to environmental uncertainties are disclosed in note 6 and those relating to taxation in note 11. All others are disclosed below.

(a) Guarantees, indemnities and warranties

- The Group has entered into various long term supply contracts. For some contracts, minimum charges are payable regardless of the level of operations, but the levels of operations are expected to remain above those that would trigger minimum payments.
- There are guarantees relating to certain leases of property, plant and equipment and other agreements arising in the ordinary course of business.
- Contracts of sale covering companies and assets which were divested during the current and prior years include commercial warranties and indemnities to the purchasers.

(b) Legal, claims and other

There are a number of legal claims and exposures which arise from the ordinary course of business. There is significant uncertainty as to whether a future liability will arise in respect of these items. The amount of liability, if any, which may arise cannot be reliably measured at this time.

22. Contingent liabilities (continued)

Critical accounting judgements and estimates

In the normal course of business, contingent liabilities may arise from product-specific and general legal proceedings, from guarantees or from environmental liabilities connected with current or former sites. Where management are of the view that potential liabilities have a low probability of crystallising or it is not possible to quantify them reliably, they are not provided for and are disclosed as contingent liabilities.

Legal proceedings

The outcome of currently pending and future legal, judicial, regulatory, administrative and other proceedings of a litigious nature ("Proceedings") cannot be predicted with certainty. Thus, an adverse decision in Proceedings could result in additional costs that are not covered, either wholly or partially, under insurance policies and that could significantly impact the business and results of operations of the Group. Proceedings can raise difficult and complex legal issues and are subject to many uncertainties and complexities including, but not limited to, the facts and circumstances of each particular case, issues regarding the jurisdiction in which each Proceeding is brought and differences in applicable law. Upon resolution of any pending Proceedings, the Group may be forced to incur charges in excess of the presently established provisions and related insurance coverage. It is possible that the financial position, results of operations or cash flows of the Group could be materially affected by an unfavourable outcome of those Proceedings. Proceedings are evaluated on a case-by-case basis considering the available information, including that from legal counsel, to assess potential outcomes. Where it is considered probable that a future obligation will result in an outflow of resources, a provision is recorded in the amount of the present value of the expected cash outflows if these are deemed to be reliably measurable.

Warranties and Indemnities

In the course of acquisitions and disposals of businesses and assets, Orica routinely negotiates warranties and indemnities across a range of commercial issues and risks, including environmental risks associated with real property. Management uses the information available and exercises judgement in the overall context of these transactions, in determining the scope and extent of these warranties and indemnities. In assessing Orica's financial position, management relies on warranties and indemnities received, and considers potential exposures on warranties and indemnities provided. It is possible that the financial position, results of operations and cash flows of the Group could be materially affected if circumstances arise where warranties and indemnities received are not honoured, or for those provided, circumstances change adversely.

23. Auditor's remuneration

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

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

From time to time, KPMG, the auditor of Orica, provide other services to the Group, which are subject to strict corporate governance procedures adopted by the Company which encompass the selection of service providers and the setting of their remuneration.

24. Events subsequent to balance date

Dividends

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

The Directors have not become aware of any other significant matter or circumstance that has arisen since 30 September 2018, that has affected or may affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent years, which has not been covered in these financial statements.

25. Investments in controlled entities

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

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

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

25. Investments in controlled entities (continued)

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

Name of Entity	Place of incorporation if other than Australia
Orica Explosives Holdings No 3 Pty Ltd[(c)]	
Orica Explosives Research Pty Ltd[(c)]	
Orica Explosives Technology Pty Ltd	
Orica Explosivos Industriales, S.A.	Spain
Orica Finance Limited	
Orica Finance Trust	
Orica Finland OY	Finland
Orica GEESP Pty Ltd[(c)]	
Orica Ghana Limited	Ghana
Orica Grace US Holdings Inc.	USA
Orica Holdings Pty Ltd[(c)]	
Orica Ibéria, S.A.	Portugal
Orica IC Assets Holdings Limited Partnership	
Orica IC Assets Pty Ltd	
Orica IC Investments Pty Ltd[(c)]	
Orica International IP Holdings Inc.	USA
Orica International Pte Ltd	Singapore
Orica Investments (Indonesia) Pty Limited[(c)]	
Orica Investments (NZ) Limited	NZ
Orica Investments (Thailand) Pty Limited[(c)]	
Orica Investments Pty Ltd	
Orica Japan Co. Ltd	Japan
Orica Kazakhstan Joint Stock Company	Kazakhstan
Orica Logistics Canada Inc.	Canada
Orica Mauritania SARL	Mauritania
Orica Med Bulgaria AD – 40%	Bulgaria
Orica Mining Services (Namibia) (Proprietary) Limited	Namibia
Orica Mining Services (Hong Kong) Ltd	Hong Kong
Orica Mining Services Peru S.A. – 0.94%	Peru
Orica Mining Services Portugal S.A.	Portugal
Orica Mining Services (Thailand) Limited	Thailand
Orica Mongolia LLC – 51%	Mongolia
Orica Mountain West Inc.	USA
Orica Mozambique Limitada	Mozambique
Orica Netherlands Finance B.V.[(a)]	Netherlands
Orica New Zealand Finance Limited[(a)]	NZ
Orica New Zealand Limited	NZ
Orica New Zealand Securities Limited[(a)]	NZ

25. Investments in controlled entities (continued)

Name of Entity	Place of incorporation if other than Australia
Orica New Zealand Superfunds Securities Limited	NZ
Orica Nitrates Philippines Inc – 4%	Philippines
Orica Nitratos Peru S.A.	Peru
Orica Nitro Patlayici Maddeler Sanayi ve Ticaret Anonim Sirketi – 49%	Turkey
Orica Nitrogen LLC	USA
Orica Nominees Pty Ltd(c)	
Orica Norway AS	Norway
Orica Panama S.A. – 40%	Panama
Orica Philippines Inc – 5.48%	Philippines
Orica Portugal, S.G.P.S., S.A.	Portugal
Orica Qatar LLC(b)	Qatar
Orica Securities (UK) Limited	UK
Orica South Africa (Pty) Ltd(d)	South Africa
Orica Share Plan Pty Limited(c)	
Orica Senegal SARL	Senegal
Orica Singapore Pte Ltd	Singapore
Orica St. Petersburg LLC	Russia
Orica Sweden AB	Sweden
Orica Sweden Holdings AB	Sweden
Orica Tanzania Limited	Tanzania
Orica UK Limited	UK
Orica US Finance LLC	USA
Orica US Holdings General Partnership	USA
Orica USA Inc.	USA
Orica U.S. Services Inc.	USA
Orica Venezuela C.A.	Venezuela
Orica (Weihai) Explosives Co Ltd – 20%	China
Orica Zambia Limited	Zambia
OriCare Canada Inc.	Canada
Oricorp Comercial S.A. de C.V.	Mexico
Oricorp Mexico S.A. de C.V.	Mexico
Penlon Proprietary Limited(c)	
Project Grace	UK
Project Grace Holdings	UK
Project Grace Incorporated	USA
PT GroundProbe Indonesia(e)	Indonesia
PT Kalimantan Mining Services	Indonesia
PT Kaltim Nitrate Indonesia – 10%	Indonesia
PT Orica Mining Services	Indonesia
Retec Pty Ltd(c)	
Rui Jade International Limited	Hong Kong
Sarkem Pty Ltd(c)	
Sprengstoff-Verwertungs GmbH	Germany
Transmate S.A.(f)	Belgium
White Lightning Holdings, Inc	Philippines

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

26. New accounting policies and accounting standards

(i) Changes in accounting policies

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

The Group assessed and applied a number of new and revised accounting standards issued by the Australian Accounting Standards Board (AASB) which were required to be applied from 1 October 2017. The adoption of these standards has not resulted in any material changes to the Group's financial statements and primarily impact disclosures.

(ii) New accounting standards and interpretations issued but not yet adopted

A number of new accounting standards and interpretations have been issued or amended but are not yet effective. These standards are available for early adoption but have not been applied in these financial statements. The Group's assessment of the impact of these new standards is set out below:

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

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

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

Supply of products and provision of services

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

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

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

Under AASB 15, the Group has assessed that:

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

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

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

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

Contracts to provide a designated output

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

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

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

26. New accounting policies and accounting standards (continued)

AASB 9 *Financial Instruments* (AASB 9)

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

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

Impairment – Financial assets and contract assets

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

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

Hedge accounting

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

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

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

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

AASB 16 *Leases* (AASB 16)

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

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

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

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

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

DIRECTORS' DECLARATION

We, Malcolm William Broomhead and Alberto Calderon, being Directors of Orica Limited, do hereby state in accordance with a resolution of the Directors that in the opinion of the Directors,

(a) the consolidated financial statements and notes, set out on pages 59 to 108, and the Remuneration Report in the Directors' Report, set out on pages 38 to 57, are in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the financial position of the Group as at 30 September 2018 and of its performance for the financial year ended on that date; and

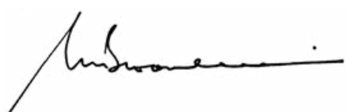
   (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

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

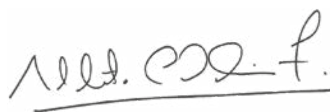
There are reasonable grounds to believe that the Company and the controlled entities identified in note 18 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*.

The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Managing Director and Chief Financial Officer for the financial year ended 30 September 2018.

The Directors draw attention to "About this report" on page 64 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.



M W Broomhead
Chairman



A Calderon
Managing Director and Chief Executive Officer

Dated at Melbourne 1 November 2018.

Independent Auditor's Report

To the shareholders of Orica Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Orica Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 30 September 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated balance sheet as at 30 September 2018
- Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of Orica Limited (the Company) and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Carrying value of goodwill associated with the Minova and Latin America ("LATAM") segments
- Accounting for environmental and decommissioning provisions
- Accounting for uncertain tax positions

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

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Carrying value of goodwill associated with the Minova and LATAM Segments ($0m and $142.9m)

Refer to Note 9 to the Financial Report

The key audit matter	How the matter was addressed in our audit
A key audit matter was the Group's testing of goodwill attributable to the Minova and LATAM Segments (the Segments). Given the size of the balance and recent performance of the Segments, we exercised significant judgment in evaluating the audit evidence available. *Minova Segment* As described in note 9 to the financial statements, at the interim reporting period the performance of the Minova business was below budget and forecasted earnings which identified indicators of impairment. At 31 March 2018, management revised the short to medium term outlook of the business due to the underperformance. Accordingly, the Group reassessed the recoverable amount of the Minova segment at 31 March 2018 using a value in use discounted cash flow model. This model identified that the carrying value exceeded the recoverable amount resulting in an impairment charge of $204.2 million. *LATAM Segment* As described in note 9 to the financial statements, the performance of the LATAM business was below budget and forecasted earnings which identified indicators of impairment. This resulted in a restructure of the business, and also caused management to review the outlook in connection with the annual impairment testing. *Significant assumptions* We focused on the significant assumptions the Group applied in their value in use models including: • Forecast operating cash flows – the Segments experienced declining cash flows in the period due to competitive market conditions and weaker volumes and have not met prior forecasts, raising our concern for the reliability of current forecasts. These conditions, coupled with the Group's models being highly sensitive to changes in forecast operating cash flows, increase the possibility that goodwill may be impaired. • Forecast terminal growth rates – in addition to the uncertainties described above, the Group's models are highly sensitive to changes in terminal growth rates. This drives additional audit effort in relation to the feasibility of the terminal growth rates and consistency with the Group's strategy. • Discount rates – the determination of discount rates applicable to underlying cash flows is a subjective exercise, and they are influenced by the countries in which the Group operates. The Group's models are sensitive to changes in discount rates.	Our procedures included: • We considered the appropriateness of the value in use method applied by the Group to perform the annual impairment test of goodwill against the requirements of the accounting standards. • We tested key controls in the Group's valuation process including Board approval of budgets and review and approval of the impairment assessment, including cash flow forecasts, by examining information presented to the Board. • We compared the forecast cash flows contained in the value in use models to Board approved budgets. • We assessed the accuracy of previous Group forecasts for the Segment's cash flows to inform our evaluation of forecasts incorporated in the models. We noted previous trends, in particular where weakening demand and continuing lower prices have occurred and how this impacted the business, for use in further testing. We applied increased scepticism to forecasts in areas where previous forecasts were not achieved. • We challenged the Group's significant forecast cash flow assumptions in light of competitive market conditions and weaker volumes relative to historical trends to assess the Segment's capacity to achieve future cash flows. We used our knowledge of the Segments, their past performance, business and customers and our industry experience to evaluate the feasibility of these plans. • We assessed the scope, expertise and independence of the external specialists engaged by the Group to assist the Group determine the discount rate applicable to the operations which comprise the Segments. • Working with our valuation specialists we also independently developed a discount rate range for key operations which form part of the Segments, using publically available market data for comparable entities, adjusted for risk factors including country risk. We compared the discount rates applied by the Group for key operations to our acceptable range. • We considered the sensitivity of the models by risk adjusting cash flows, varying key assumptions such as contributions from new products and services, forecast growth rates and discount rates, within a reasonably possible range, to identify those assumptions at higher risk of bias or inconsistency in application and to focus our further procedures. • We compared forecast terminal growth rates for the key operations which form part of the Segments to external information and considered the implication of any variances. • We assessed the disclosures in the financial report using our understanding of the matter obtained from our testing and against the requirements of the Accounting Standards.

<table>
<tr><th colspan="2">Environmental and decommissioning provisions $319.3m and contingent liability disclosures</th></tr>
<tr><td colspan="2">Refer to Note 6 to the Financial Report</td></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>The estimation of environmental remediation and decommissioning provisions is considered a key audit matter. This is due to the inherent complexity associated with estimating remediation costs, particularly for potential contamination of ground beneath established structures and long term legacy matters, and in gathering persuasive audit evidence thereon.

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

• The inherent challenges experienced by the Group in precisely determining the size and location of potential contamination beneath established structures.
• Current and potential future environmental and regulatory requirements and the impact on completeness of remediation activities within the provision estimate, including the activities which will be acceptable to the regulator.
• The expected environmental remediation strategy and availability of any known techniques to remediate source contamination, in particular for treatment of Dense Non-Aqueous Phase Liquid source areas at Botany, New South Wales.
• Historical experience, and its use as a reasonable predictor when evaluating forecast costs.
• The expected timing of the expenditure given the long term nature of these exposures.

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

• Testing controls relating to the completeness of the Group's identification of areas which contain contamination and the related recognition and measurement of provisions, including the Group's review and authorisation of cost estimates.
• Testing the accuracy of historical remediation provisions by comparing to actual expenditure. We used this knowledge to challenge the Group's current cost estimates and to inform our further procedures.
• We conducted site visits and made enquiries of various personnel regarding the Group's strategy for remediating certain source contamination.
• We read correspondence with regulatory authorities to understand their views about acceptable remediation techniques and compared this with the assumptions made in the Group's models.
• We challenged the Group where provisions were unable to be made for source contamination about the existence of information which would enable a reliable estimate of the provision to be made. We compared this to our understanding of the matter and the criteria in the accounting standards for recording a provision.
• We obtained the Group's quotations for remediation work, as well as internal and external supporting documentation for the Group's determination of future required activities, their timing and associated cost estimates. We compared them to the nature and quantum of cost contained in the provision balance.
• We assessed the environmental provision for the Botany Industrial Park based on the following:
o compared the findings of internal and external environmental experts relating to the operational plans for the GTP with the assumptions adopted in the provision model for consistency;
o assessed the forecast net GTP running costs and capital outlays by comparing to historical trends, supporting quotations and the findings of external experts;
o considered the sensitivity of the provision model by varying key assumptions and inputs to identify those assumptions at higher risk of bias or inconsistency in application and to develop a reasonable range for the provision;
o considered the qualifications and experience of internal and external experts to determine their suitability in conducting the scope of work undertaken; and
o tested the mathematical accuracy of the provision model.
• We assessed the Group's disclosures using our knowledge of the business and the requirements of the Accounting Standards. In particular, we focused on the disclosure of uncertainties associated with the provision or exposure.</td></tr>
</table>

Uncertain tax positions and contingent liability disclosure	
Refer to Note 11 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
The Group operates in a global tax environment and its corporate structure reflects the nature of global operations which is driven by acquisitions, transactions and the execution of the Group's global strategy. This includes external sales to customers in over one hundred countries. A number of the Group's tax positions are presently subject to challenge by tax authorities. The ultimate outcome of these matters is inherently uncertain. Accounting for uncertain tax positions is a key audit matter due to: • The Group undertaking transactions in a number of tax jurisdictions which require the Group to make significant judgements about the interpretation of tax legislation and the application of accounting requirements. • The changing tax environment where there have been significant developments to enhance transparency of tax arrangements. We used significant judgment, including involvement of our tax specialists, to assess the Group's position with reference to tax legislation and in particular the likely outcome of the Group's defence of its positions through legal appeal processes.	Working with our tax specialists our procedures included: • We tested the Group's controls for identification and assessment of uncertain tax positions. Our testing included challenging senior management and the Group's taxation department, and inspecting correspondence with tax authorities and the Group's external tax advisors for evidence of significant uncertain tax positions not identified by the controls. • We considered the Group's methodologies, assumptions and estimates for significant tax positions and the likelihood of future tax outflows. Our evaluation was based on application of our knowledge of the industry, tax legislation and current regulatory focus areas, and recent rulings relevant to the uncertain tax positions. • We read correspondence with relevant tax authorities and considered both external tax and legal advice provided to the Group to check for any information which was contradictory to the Group's conclusions. • We compared the Group's accounting policy for recognition of tax provisions against the requirements of the Accounting Standards. • We compared the positions adopted by the Group to our knowledge of latest interpretations by tax authorities and court rulings to test the positions adopted for compliance with Accounting Standards. • We made independent enquiries of the Group's external legal advisors. We compared their responses to the assessment made by the Group. • We assessed the Group's disclosures in respect of uncertain tax positions against the requirements of the Accounting Standards and our understanding of the matters.

Other Information

Other Information is financial and non-financial information in Orica Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the *About Us statement, Innovation statement, Chairman's Message, Managing Director's Message, Review of Operations, Global Presence statement, Sustainability Overview, Board Members biographies, Executive Committee biographies, Directors' Report and Five Year Financial Statements. Shareholder Information and Corporate Directory* are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

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

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A of the Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in the Directors' report for the year ended 30 September 2018.

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

KPMG

KPMG

Penny Stragalinos
Partner
Melbourne
1 November 2018

FIVE YEAR FINANCIAL STATISTICS

FOR THE YEAR ENDED 30 SEPTEMBER

Orica consolidated ($m)	2018	2017	2016	2015	2014
Profit & Loss					
Sales	**5,373.8**	5,039.2	5,091.9	6,123.2	6,796.3
Earnings before depreciation, amortisation, net borrowing costs and tax	**885.0**	896.3	908.1	995.1	1,230.5
Depreciation and amortisation (excluding goodwill)	**(266.9)**	(261.2)	(265.9)	(305.7)	(300.8)
Earnings before net borrowing costs and tax (EBIT) before individually significant items	**618.1**	635.1	642.2	689.4	929.7
Net borrowing costs	**(121.3)**	(71.7)	(84.3)	(82.1)	(115.8)
Individually significant items before tax	**(375.3)**	–	(4.6)	(1,884.4)	–
Taxation expense	**(156.0)**	(164.0)	(198.4)	(119.3)	(187.9)
Non-controlling interests	**(13.6)**	(13.2)	(12.1)	(129.0)	(23.5)
Profit/(loss) after tax and individually significant items	**(48.1)**	386.2	342.8	(1,525.4)	602.5
Individually significant items after tax attributable					
to members of Orica Limited	**(372.3)**	–	(46.3)	(1,691.6)	–
Profit after tax before individually significant items net of tax	**324.2**	386.2	389.1	424.2	602.5
Dividends/distributions	**181.2**	197.1	283.5	356.1	349.3
Financial Position					
Current assets	**1,960.3**	1,784.8	1,577.9	1,895.1	2,137.3
Property, plant and equipment	**2,866.2**	2,741.5	2,725.3	2,917.9	3,794.9
Investments	**213.3**	184.6	188.1	203.5	208.0
Intangibles	**1,697.9**	1,577.1	1,558.8	1,633.2	2,388.5
Other non-current assets	**426.7**	497.2	545.7	671.6	310.5
Total assets	**7,164.4**	6,785.2	6,595.8	7,321.3	8,839.2
Current borrowings and payables	**1,357.2**	1,084.1	1,382.9	1,285.2	1,775.8
Current provisions	**254.2**	213.2	207.9	244.1	181.5
Non-current borrowings and payables	**2,010.7**	1,937.4	1,562.9	2,150.7	1,997.0
Non-current provisions	**574.3**	587.0	658.9	654.1	485.8
Total liabilities	**4,196.4**	3,821.7	3,812.6	4,334.1	4,440.1
Net assets	**2,968.0**	2,963.5	2,783.2	2,987.2	4,399.1
Equity attributable to ordinary shareholders of Orica Limited	**2,903.2**	2,962.3	2,782.5	2,984.6	4,263.0
Equity attributable to non-controlling interests	**64.8**	1.2	0.7	2.6	136.1
Total shareholders' equity	**2,968.0**	2,963.5	2,783.2	2,987.2	4,399.1

Orica consolidated	2018	2017	2016	2015	2014
Number of ordinary shares on issue at year end (millions)	**379.2**	377.0	374.9	370.1	372.7
Weighted average number of ordinary shares on issue (millions)	**378.2**	376.2	372.4	370.3	368.1
Basic earnings per ordinary share					
– before individually significant items (cents)	**86.0**	102.7	104.5	114.6	163.7
– including individually significant items (cents)	**(12.7)**	102.7	92.0	(342.3)	163.7
Dividends per ordinary share (cents)	**51.5**	51.5	49.5	96.0	96.0
Dividend franking (percent)	**–**	5.8	36.4	35.4	37.5
Dividend yield – based on year end share price (percent)	**3.0**	2.6	3.3	6.4	5.1
Closing share price range – High	**$21.37**	$21.03	$16.92	$22.56	$24.78
Low	**$16.34**	$15.57	$12.26	$14.86	$18.51
Year end	**$17.03**	$19.77	$15.20	$15.04	$18.90
Stockmarket capitalisation at year end ($m)	**6,458.0**	7,454.1	5,698.9	5,566.3	7,044.0
Net tangible assets per share ($)	**3.18**	3.67	3.26	3.65	5.03
Ratios					
Profit margin – earnings before net borrowing costs					
and tax/sales (percent)	**11.5**	12.6	12.6	11.3	13.7
Net debt (millions)	**1,648.3**	1,440.9	1,549.4	2,026.1	2,236.7
Gearing (net debt/net debt plus equity) (percent)	**35.7**	32.7	35.8	40.4	33.7
Interest cover (EBIT/net borrowing costs excluding capitalised interest) (times)	**4.9**	6.2	5.4	5.8	6.5
Net capital expenditure on plant and equipment (Cash Flow) ($m)	**(153.0)**	(210.7)	(123.9)	(292.5)	(392.7)
Net cash flow from (acquisition)/sale of businesses/controlled entities ($m)	**(252.8)**	9.5	(13.3)	658.7	0.4
Return on average shareholders' funds					
– before individually significant items (percent)	**11.1**	13.4	13.5	11.7	14.8
– including individually significant items (percent)	**(1.6)**	13.4	11.9	(42.1)	14.8

SHAREHOLDERS' STATISTICS

AS AT 8 NOVEMBER 2018

Distribution of ordinary shareholders and shareholdings

Size of holding	Number of holders		Number of shares	
1–1,000	27,453	65.05	10,229,445	2.70
1,001–5,000	12,788	30.30	26,688,894	7.04
5,001–10,000	1,311	3.11	8,943,477	2.36
10,001–100,000	600	1.42	11,529,165	3.04
100,001 and over	53	0.13	321,823,808	84.87
Total	**42,205**	**100.00**	**379,214,789**	**100.00**

Included in the above total are 2,453 shareholders holding less than a marketable parcel of 27 shares.

The holdings of the 20 largest holders of fully paid ordinary shares represent 82.25% of that class of shares.

Twenty largest ordinary fully paid shareholders

	Shares	% of total
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	169,194,415	44.62
J P MORGAN NOMINEES AUSTRALIA LIMITED	74,173,638	19.56
CITICORP NOMINEES PTY LIMITED	19,325,200	5.10
NATIONAL NOMINEES LIMITED	18,036,119	4.76
UBS NOMINEES PTY LTD	5,211,835	1.37
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	5,080,485	1.34
BNP PARIBAS NOMS PTY LTD <DRP>	4,708,889	1.24
AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	2,711,626	0.72
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	2,391,292	0.63
ARGO INVESTMENTS LIMITED	2,307,983	0.61
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	2,079,733	0.55
THE SENIOR MASTER OF THE SUPREME COURT <COMMON FUND NO 3>	1,400,678	0.37
AMP LIFE LIMITED	918,159	0.24
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	870,718	0.23
GWYNVILL INVESTMENTS PTY LTD	711,574	0.19
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2	612,189	0.16
BNP PARIBAS NOMINEES PTY LTD <WSTSUSEXCNTYPN DRP>	572,408	0.15
CARLTON HOTEL LIMITED	541,764	0.14
BNP PARIBAS NOMS (NZ) LTD <DRP>	538,171	0.14
AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED	500,000	0.13
Total	**311,886,876**	**82.25**

Register of substantial shareholders

The names of substantial shareholders in the company, and the number of fully paid ordinary shares in which each has an interest, as disclosed in substantial shareholder notices to the Company on the respective dates, are as follows:

22 March 2018	Harris Associates	48,032,550	12.70%
17 July 2018	Schroder Investment Management Australia Limited	19,049,672	5.04%
13 August 2018	Perpetual Limited	19,530,244	5.15%
20 August 2018	The Vanguard Group, Inc.	19,006,916	5.01%
17 October 2018	BlackRock Group	19,019,422	5.01%

Voting rights

Voting rights as governed by the Constitution of the Company provide that each ordinary shareholder present in person or by proxy at a meeting shall have:

(a) on a show of hands, one vote only; and

(b) on a poll, one vote for every fully paid ordinary share held.

CORPORATE DIRECTORY

Investor Information

Registered and Head Office

Orica Limited
Level 3, 1 Nicholson Street,
East Melbourne, Victoria
Australia 3002

Postal Address

PO Box 4311, Melbourne
Victoria, Australia 3001

P +61 3 9665 7111
E companyinfo@orica.com

Investor Relations

P + 61 3 9665 7111
E companyinfo@orica.com

Stock Exchange Listings

Orica's shares are listed on the Australian Securities Exchange (ASX) and are traded under the ticker ORI.

Share Registry

Link Market Services
Level 12, 680 George Street
Sydney, NSW, Australia, 2000

Locked Bag A14
Sydney South
NSW, Australia 1235

Toll Free 1300 301 253 (Australia only)
International +61 1300 301 253

F +61 2 9287 0303
E orica@linkmarketservices.com.au
W www.linkmarketservices.com.au

Financial Calendar

Half Year Profit and Interim Dividend Announced	9 May 2019
Books Close for 2019 Interim Ordinary Dividend	31 May 2019
Last date to participate in Dividend Reinvestment Plan	3 June 2019
Interim Ordinary Dividend Paid	1 July 2019
Full Year Profit and Final Dividend Announced	1 November 2019
Books Close for 2019 Final Ordinary Dividend	13 November 2019
Last date to participate in Dividend Reinvestment Plan	14 November 2019
Full Year Ordinary Dividend Paid	6 December 2019

Annual General Meeting

The 2018 Annual General Meeting of Orica Limited will be held in the Grand Ballroom, Park Hyatt Hotel, 1 Parliament Square, East Melbourne Vic 3002 on Wednesday 19 December 2018 at 10.30am (AEDST).

Website

To view the 2018 annual report, corporate governance statement, shareholder and company information, news announcements, financial reports, sustainability report, historical information, background information on Orica visit the company website at www.orica.com.

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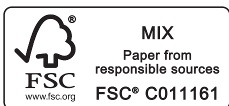

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