Orica Limited
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ASX Announcement

7 August 2015

REVIEW LEADS TO EXPECTED IMPAIRMENT OF ASSETS AND OUTLOOK UPDATE

Melbourne: Orica (ASX: ORI) has conducted a full review of its business and its operating model in the context of the ongoing challenging conditions facing the mining sector and the oversupplied ammonium nitrate market. As a consequence, the Company advises that it expects to recognise a non-cash impairment charge of certain property, plant, equipment and intangibles in the range of $1.35 billion to $1.65 billion (after tax) in its 2015 full year financial results.

A summary of the expected, approximate impairment charges is outlined below:

Asset	Impairment (after tax)	Comments
Ground Support	$730-870 million	Separation into a stand-alone business unit has resulted in a reassessment of its carrying value, as required under accounting standards.
Ammonium Nitrate (AN) assets	$500-600 million	Largely the Bontang (Indonesia) asset and feasibility work on an AN manufacturing facility in Peru
Portfolio refinement	$120-180 million	Revaluation of assets across the business as a result of the changed longer-term operating conditions.

The impairment outcomes are subject to finalisation of the full year accounts, which will be released on 18 November 2015.

Orica Managing Director and Chief Executive Officer Alberto Calderon said:

“When I was appointed CEO, the Board asked me to undertake a thorough analysis of every part of the business in the context of the challenging operating conditions facing the mining sector. This followed a commitment I made at our interim financial results to provide greater transparency to the market and bring a different style of leadership to Orica.

“Market conditions remain extremely challenging and in this environment there is an increased need to further reduce costs and increase efficiency. The business review has been the first step in this process.

“Orica is a resilient business that is well positioned to deliver long term, sustainable earnings, but action is needed on the elements of our business that are not working as well as we would like.

“As a result of the business review, we are introducing greater visibility of the performance lines within each business and region, and aligning accountabilities and authorities so our leaders have more control and drive better performance. Importantly, this includes re-establishing Ground Support as a separate business unit to give it greater focus, to better assess its performance and provide greater optionality for its future.   A broader review of our business model will also ensure the same accountability for each part of the Orica business.

“The issue of oversupply in the ammonium nitrate market has been well flagged by Orica. We have demonstrated a willingness to take action, with recent announcements of partial production curtailment planned at our Yarwun operation. Additionally, we are assessing a range of strategic options for how we manage our Bontang ammonium nitrate manufacturing facility in Indonesia for the medium and longer term. While there are several options, each implies a lower asset valuation.

“Today’s announcement is disappointing but it demonstrates decisive action in response to a changed operating environment. These are critical steps in our commitment to fostering a culture of transparency, performance, collaboration and respect.”

Commenting on today’s announcement, Orica Chairman Russell Caplan said a business review was a clear expectation set by the Board upon CEO transition:

“Any impairment is always disappointing but today’s announcement does not reflect the quality of Orica’s broader business or strategy. What it reflects is an expectation from the Board and the CEO of an increased focus across the company on performance, reporting and decision making in the best interest of shareholders. These decisions, combined with a continued focus on transformation, provide a strong platform to best position Orica through the cycle for the long term,” Mr Caplan said.

Share buy-back

In light of today’s announcement, Orica is reviewing the on-market share buy-back that was announced on 2 March 2015, in the context of the business environment, Orica’s cash flow, progressive dividend and gearing position. The total number of shares purchased under the buy-back to date is 2,629,765 for a total consideration of $53.5 million.

Since the announcement of the sale of the Chemicals business to funds advised by Blackstone on 19 November 2014, a further $66.8 million has been applied to the on-market purchase of shares outside of the buy-back program. These shares were purchased to satisfy shareholder participation in the Dividend Reinvestment Plan in connection with the FY14 full year dividend and the FY15 interim dividend.

Outlook

The Company does not generally provide profit guidance. However, upon receiving the latest July operating figures we now have a clearer view of the likely full year outcome.

There remains divergence in the market around expectations for Orica for FY15. The mean point of broker reports (excluding outliers) for full year Net Profit After Tax (NPAT) is around $490 million. With the latest data, the Company is now able to say that it expects FY15 NPAT to be between 10% and 15% lower than this, based on the following assumptions:

- Orica remains on track to deliver global explosives volumes of around 3.75 million tonnes (+/-100kt).
- Sodium cyanide volumes are expected to increase by approximately 7% at the full year results on the prior year, slightly under the outlook provided at interim results.
- The adverse impact of price resets being fully felt in the second half.
- A range of one off impacts, including increased environment provisions and reduced asset sales compared to the prior year, that are forecast to have a negative year on year NPAT impact of approximately $40 million.
- Gross benefits from the transformation program will be above the target range of $140 million to $170 million for FY15. One-off cash costs will be slightly higher in FY15 than anticipated, due to the acceleration of the program.

Orica expects FY16 earnings to be in line with FY15, subject to no further deterioration in global economic or mining sector conditions.

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