Orica Limited
ABN 24 004 145 868

ASX Announcement

ORICA LIMITED 2016 ANNUAL GENERAL MEETING – 15 DECEMBER 2016

Speeches by Malcolm Broomhead, Chairman and
Alberto Calderon, Managing Director and Chief Executive Officer

Malcolm Broomhead, Chairman

We will address the resolutions spelled out in the Notice of Meeting shortly, but before we do I would like to make some specific comments on three relevant areas:

1. Firstly, I will talk about Orica's performance;

2. Secondly, I want to cover changes that we will be introducing in the remuneration of our senior leaders to more closely align their outcomes with shareholder returns; and

3. Lastly, I would like to talk more broadly about industry and our place in society.

<u>Orica's 2016 performance</u>

Starting with performance, it is clear that we did not meet our own expectations in relation to safety. An explosion at our packaged emulsions manufacturing plant in Antofagasta, Chile, resulted in the death of two workers. The Board and management team were devastated by this, knowing that every accident is avoidable and any fatality unacceptable. Management's priority is appropriately focused on ensuring the safest operations globally, and Alberto will address this directly in his comments. The Board will be updated regularly on management actions in this critical area.

In terms of your company's financial performance, last year at the annual shareholder meeting I made it clear that Orica's performance in the recent prior years had been below par, and that the new management team was focussed on addressing this. While there is still a long way to go to fulfilling Orica's potential, your Board believes that the steps your CEO and his team have taken are starting to show encouraging results.

Orica's 2016 statutory net profit after tax was $343 million, compared to the $1,267 million loss in the prior year. Before one off items, net profit after tax for the period was $389 million, 7% lower than the prior corresponding period, and earnings before interest and tax was $642 million, 6% lower than 2015.

This year, your Board replaced Orica's progressive dividend policy with a payout ratio dividend policy with a range of 40% to 70%. This will enable greater flexibility and ensure that shareholder returns reflect the Company's position and market conditions throughout the cycle. For the 2016 financial year, your Board declared a final ordinary dividend of 29 cents per share (representing a 55% payout ratio), franked at 8 cents per share, and representing a full year payout ratio of 48%. This represents a final combined dividend for the financial year of 49.5 cents per share.

The 2016 financial results were delivered in the midst of a challenging market, which is expected to continue throughout the 2017 financial year. Despite this, the Board believes the management team is taking the right steps to ensure Orica is positioned for growth over the longer term.

I am particularly encouraged by the new capital management disciplines that have been introduced. Orica today now has greater disciplines in all capital decisions, with the introduction of an improved capital and investment framework. This enables us to focus on return on net assets as a key hurdle for approving capital expenditure, and as a metric to assess performance in relation to all new growth capital.

As I said, there is still a way to go before Orica's performance is where it should be, but I believe Orica has a strong management team in place, the right strategy and the most appropriate operating model to position the company to capture opportunities to deliver improved and sustainable shareholder value.

Remuneration

Turning to executive remuneration, I would like to talk about some of your Board's views on this matter and work currently underway to more closely align executive remuneration to shareholders.

Over time executive remuneration in general has become overly complex. Shareholders of listed organisations are consistently asked to approve executive remuneration when the inputs into incentives are increasingly opaque because of multiple plans and policies for short term versus long term rewards, and highly complex accounting methods for calculating returns or rewards.

Furthermore, one of the ways management is aiming to drive performance at Orica is by instilling an owners' mindset in all Orica people, but specifically for our leaders. If our executives think like a shareholder, and feel the effect of the Orica share price performance at a very personal level, it is natural that this will ensure a high performance mindset.

In my experience, the only way to truly align executives with shareholders is to make executives shareholders themselves. It is human nature that when there is a strong correlation between real shareholder value and executive remuneration it will focus executive performance (and therefore company performance) to long term and sustainable shareholder value.

With that in mind, the Board is considering introducing significant changes to our executive remuneration structure at the next AGM. While we are still considering options, any new plan would be based on four guiding principles.

1. Firstly, it needs to be strongly aligned to shareholder returns;

2. Secondly, it should be fit for purpose and aligned to the Orica business strategy;

3. Thirdly, any new structure should be simple and transparent; and

4. Finally, it should be globally competitive.

Against these principles, some key elements the Board is considering include:

- building in greater shareholdings held over a longer period for all executives to align them to you, the shareholder;

- moving to a much higher weighting for financial and business improvement outcomes; and

- aligning incentives to metrics that are not as susceptible to the cycle. For example, this may mean moving away from a relative total shareholder return metric to a more heavily weighted return on capital measure, which effectively measures executives on elements within their control.

These are significant changes and we will take the appropriate time throughout FY17 to get the model right, while also consulting further with shareholders. Any changes will be effective in 2018 and the relevant resolutions will be presented for shareholder vote at the 2018 AGM.

In the meantime, ahead of any comprehensive change to executive remuneration in FY18, we are making step changes in our approach next year. There will be no change to the structure of quantum of executive pay next year, with executive fixed pay frozen for the third consecutive year.

We have made some changes to our measures for short and long term incentive payments, including increasing the financial and business improvement metrics required to reach target, and lifting the return on capital target to drive improved earnings performance and better capital discipline.

<u>Industry and society</u>

Finally, I would like to address a topic that is of critical significance to all industry, and also to the broader community. That is, the role of industry in society, and specifically, in helping build and maintain a healthy society.

Since the effects of the Global Financial Crisis hit in 2008, the capitalist free enterprise system has lost public confidence and support across the western world.

Certainly, the GFC exposed some flaws in business that needed to be addressed. A number of high profile businesses across the globe collapsed or faced near failure, and governments in the US, Europe, Australia and elsewhere took steps to shore up the financial system and ensure greater consumer protection.

While governments had a regulatory response, many would say that the regulators risk going too far the other way and stifling enterprise and wealth creation. Partly this is because business has failed to argue its case as a force for good in civil society. We failed to understand the depth and breadth of community distrust in its institutions that the GFC fuelled.

At no time has the lack of faith in big institutions – both government and commercial – been more starkly obvious. We saw this in June with ‘Brexit’, when more than half of the UK voted for the withdrawal of the United Kingdom from the European Union based on a Leave campaign focusing on mistrust in the EU single market 'institution'.

More recently, the election of Donald Trump as the 45th President of the United States of America was even more of a protest against intrusive regulation on the one hand and poor business governance on the other.

In both Brexit and the new US President-Elect, the view of many in the communities who voted for both was that the core of the capitalist system – both business and democratic government institutions – had let them down, and so the desire is to retreat away from our current globalised business and government institutions to an undefined, simpler world.

In this context, it is important for business to get better at explaining our contribution and ensuring people understand that our standard of living relies on the contributions of industry. In the absence of business taking a credible and genuine leadership position in this, the vacuum will be and is being filled by others.

There can be no wealth re-distribution unless there is wealth creation in the first place.

Wealth is best created by unleashing the power of the individual human spirit to create, to grow and to evolve. It is people and corporations, acting with enlightened self-interest who will find the multitude of ways to do things better, who will react flexibly and nimbly to the many and constant changes in the world around us.

Of course there must be consequences for improper behaviour. Of course there must be moral hazard but not at the expense of handicapping everyone who works within the law.

Yes, high reward carries risk, and there will always be what economists call "creative destruction" in a capitalist system but the rise in living standards and quality of life of people everywhere has always been most successful when individual enterprise has been set free. For example, the greatest alleviator of poverty in the history of the world has been the rise of China in the last 20 years, based on a capitalist, free enterprise economy.

Governments have an important role in setting the environment for this wealth creation, by ensuring efficient:

- industrial relations;
- infrastructure investment;
- regulation streamlining to remove the dead-hand of bureaucracy and reduce the cost of government;
- a competitive taxation regime; and
- a world class education system,

but then it needs to free business up to create a better future for us all.

So let me start today with Orica and the industries in which we operate and serve.

Orica is a leader in the global mining equipment, technology and services sector – or METS. The METS sector is a key part of the Australian economy, contributing more than $90 billion annually in gross revenue to Australia's prosperity. Australian METS export more than $15 billion of products and services around the globe each year, while also investing $4 billion in R&D. The sector employs around 386,000 people in Australia, which is almost twice as many as employed by the mining sector[1].

The Australian METS sector is comprised of around 2,500 companies, of which 84% are Australian owned[2]. Three-quarters of Australian METS companies are also small to medium enterprises[3].

At a recent speech at an industry conference in Melbourne, one of the major miners also pointed out that the mining and METS sector combined account for around 10% of Australia's GDP[4]. This makes us part of one of Australia's largest industries, and a core part of the Australian economy.

So it is fair to say that the Australian METS industry is a key contributor to Australia's economic health, and therefore our standard of living.

We are proud, too, of Orica's individual contributions.

In 2016, Orica paid $139 million globally in corporate income taxes and $49 million globally in payroll taxes. In Australia, Orica paid $51 million in corporate income taxes, $17 million in payroll tax and $3 million in fringe benefits tax. That's money that goes straight to governments to pay the way for governmental services for communities.

While Australians benefit indirectly from our contributions, we have more than 11,500 employees globally, and 51,000 shareholders who rely on us directly. To illustrate, in 2016 globally, we paid more than $4.8 billion in payments to suppliers and employees, and $283.5 million in dividends to our shareholders.[5] We also require all our major sites to have plans in place to engage effectively with their local stakeholders, with the idea of ensuring a shared purpose within our communities.

We take these responsibilities seriously. And we are prepared to press our case to our constituents on why our relationship is mutually beneficial.

We and the industry to which we belong, and the industries we serve, are too significant and too entwined in the success of Australia to allow ourselves to fall short of our ambition of appropriately securing our stakeholders' confidence in us.

Conclusion

Finally, I would like to reiterate my views about your company. When I addressed you last year I said that I believed Orica is a great company, with great assets, great market positions and the right people.

While FY17 will continue to be marked by a challenging external environment, I believe that these elements, combined with the actions management is taking to control all the elements it can, will ensure Orica is as productive and efficient as possible, while also well positioned for when the cycle turns.

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[1] Austmine and METS Ignited
[2] Austmine, 2013 Australian Mining Equipment, Technology and Services (METS) sector benchmarking survey
[3] Austmine, 2015 Australian Mining Equipment, Technology and Services (METS) sector survey
[4] Mike Henry, BHP Billiton, speech at IMARC, 9 November 2016
[5] FY2016 Compendium

I will now ask your Managing Director and Chief Executive Officer Alberto Calderon to address you before we move to the formal business of the Meeting.

Alberto Calderon, Managing Director and Chief Executive Officer

Thank you Chairman, and thank you to our shareholders for joining us here.

Today I will address Orica's performance, our outlook for FY17, the actions we are taking to deliver improved, sustainable performance, the development of our new Charter, and our outlook.

Safety

I will begin with safety. As I said at last year's AGM, ensuring our people are safe at work is the most critical responsibility we have, and safety is always our priority.

So it was devastating when we lost two of our colleagues, Miguel Araya Barraza and Marcelo Antonio Ganga Pérez, in an explosion at our manufacturing plant in Chile on 10 September. I personally saw the grief that this caused families and friends of Miguel and Marcelo.

We have thoroughly investigated the accident and we have launched a Group-wide program focusing on ensuring common safety standards, with consistent application for all major hazards. Further, we are putting the onus on all leaders to visibly lead in safety programs, engaging with all our people and confirming that appropriate controls are in place. We are also undertaking a program of work to ensure all our employees and contractors are educated on exactly what happened in the Chile incident, so they understand the importance of our re-doubled efforts on major hazards. We are also reviewing our core safety standards and procedures. All these actions are priorities for FY17 and beyond, because no family should ever have to lose a loved one through a workplace accident.

FY16 financial results

Turning to our financial performance, 2016 continued to be a challenging year for Orica, the mining services and mining sectors. Within that context, by continuing to actively manage all the elements of our business that are within our control, we were able to significantly offset market impacts to deliver a strong result.

Our ammonium nitrate volumes were above the guidance that we gave at our interim financial results, and while volumes declined year on year, it was a relatively modest decline in the context of the external environment.

We continued to make progress on cost reduction and business improvements, which supported our EBIT result of $642 million, a decline of 6% on the prior corresponding period. We are sometimes compared to the broader mining sector, and when compared to the major mining market, this is about a tenth of the impact felt by the large miners. That just underlines our resilience that we've spoken of in the past.

Statutory net profit after tax of $343 million for the year compared favourably to the loss in the prior year of $1,267 million. Before one off items, NPAT for the period was $389 million, 7% lower than 2015.

It is worth calling out our specific focus on margin management. Over the year we were able to maintain or increase margins across every region and business in the second half, which in very challenged markets, was particularly encouraging. Importantly, business improvement initiatives delivered net benefits across every region, as we continued to deliver supply chain efficiencies and labour and operational productivity improvements.

Our continued focus on optimising our operations and embedding efficiencies across the organisation delivered net benefits of $76 million, partly offsetting market impacts and significantly outperforming the forecast of $50 million to $60 million provided in the prior corresponding period.

These initiatives are widespread, and to give you some idea of this they have included:

- the further rationalisation and optimisation of our ammonium nitrate and initiating systems network;

- improvement in plant productivity;

- procurement savings;

- a sustainable reduction in headcount; and

- a substantial improvement in trade working capital as a result of a reduction in receivables, a reduction in inventory held, offset by lower levels of outstanding creditors.

This focus on business improvement initiatives is now embedded in our business and is simply a new way of working across every part of Orica. In FY17 we will continue to focus on:

- reducing external spend, including manufacturing input costs and corporate overheads;

- maximising supply chain efficiencies, such as cost controls, operational consistency, and inventory management;

- embedding working capital disciplines, including standardising payment terms and better management of receivables; and

- operational optimisation, which includes improving utilisation rates and labour productivity.

Through this expansive program, we expect to continue to deliver market off-sets throughout the next year and into the future. So while we expect market conditions to remain tough, we are controlling all the elements we can to deliver greater value over the long term.

<u>Delivering against our plan</u>

Last year when I addressed shareholders at my first AGM as Orica’s CEO, I committed to refocus management priorities on driving better commercial decision making, embedding our competitive advantages, and developing the right culture within the organisation.

Over the past 18 months, we have instituted a range of fundamental changes to the way Orica operates, focused on improving our performance for long term shareholder returns. I thought it would be worthwhile to summarise some of the key initiatives.

We started with a new operating model to enable us to become truly customer focused. We have empowered those closest to our customers – our regional businesses – to be able to make decisions and respond to customers more efficiently. We have improved transparency and streamlined reporting. All of this has been embedded now with standards and procedures for the functions and regions developed. This has been a fundamental change for the business in organisational structure, ways of working and in enabling a customer-centric approach.

We have substantially improved organisational capability. We have a highly experienced executive and senior leadership in place. Of the top 60 executives and senior leaders, more than 70% are either new or newly promoted. It is quite a significant change but we're comfortable that we have the right people in place to take Orica forward.

We have also increased the speed of business improvements. We surpassed expectation, delivering $76 million of net benefits. In a tough market, we have continued to defend our market share. While prices have continued to be weak, we have improved our EBIT margin. This is an important result in the difficult market conditions that we had to endure.

On the capital front, we established capital disciplines and processes, with investment committees, a new capital framework, standard disciplines for licence to operate and growth expenditure. So now all expenditure is compared on a like-for-like basis. We also have a new dividend policy that will be sustainable through the cycle, as the Chairman noted. All of this enabled us to reduce our gearing and today we are close to where we want to be.

And on Minova, it has been a difficult turnaround and we are beginning to see the results. While it's certainly not a celebration point, we have arrested the decline. The business remains cash flow positive and finished at EBIT breakeven this year. There's a good pipeline of opportunities in the non-mining sectors, although the market remains difficult.

So while we still have much more work to do, we have come a long way in a compressed time frame, and I believe we have every reason to feel optimistic about our direction.

Before I wrap up with our outlook for the future, I wanted to talk a little about one of the most important projects we undertook this year. That is, the development of a new Orica Charter.

<u>Our Charter</u>

When I spoke to you at last year's AGM I said that we will only achieve our business objectives if we create and sustain a positive culture. I truly believe this to be the case.

The development of Our Charter is the cornerstone of our cultural change program and will be the bedrock of the organisation. It aligns every person in the organisation on our purpose, strategy and values. The Charter values were developed from the ground up, with the active participation of more than 3,000 Orica employees from all over the globe, who came together to define the values and behaviours we wanted to live by, and be measured against.

Our Charter will be at the heart of everything that we do, guiding our every action and helping us to make the right decisions. It is our commitment, shaped by our people all over the world, to stand united on the things that matter the most to us.

For me, Our Charter is a clear reminder of the type of organisation that we all want it to be – a high-performing organisation that celebrates our values.

I am very proud of this work, and of being an organisation that lives and breathes each of these values and behaviours in all our interactions, including of course with you, our shareholders.

Looking forward

Looking ahead, FY17 will continue to be challenged by operational headwinds.

However, our differentiated strategy combined with the actions we are taking today in controlling the challenges that we face will see us emerge stronger through this down cycle and be in a far better position to take advantage of the opportunities when growth returns.

Throughout our legacy reaching back more than 140 years, we have worked hard to ensure that as an organisation we adapt to changing circumstances and shape our destiny, and that won't change regardless of where the cycle takes us. While the market is challenging now and in the short to medium term, there seems to be some stabilisation. While I'm not prepared to call the bottom of the cycle, it does feel like the mining world has reached an inflection point.

However, we remain cautious and conservative. We are confident that we are focusing on the right things for both the down time and the up cycle when it comes. We are continuing to control all the elements we can; we are transforming Orica into a leaner and more efficient organisation. Efficiencies are being embedded in the business to counteract the cyclical declines in volumes and prices that our industry has experienced. We have worked hard to ensure that as an organisation we adapt to changing circumstances and shape our destiny over the years.

We are actively building a culture that supports our people and that ensures that we work collaboratively with each other and with our customers to create recognised value for us and for them. We are deeply committed to our customers being at the forefront of everything we do, while understanding our value to them is in the assurance of consistently safe, reliable and quality products and services.

Finally, I would like to thank you, our owners, for your continued support.

Thank you.

The Chairman then moved to the formal items of business.

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