ASX Announcement

ORICA LIMITED 2017 ANNUAL GENERAL MEETING – 15 DECEMBER 2017

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

Malcolm Broomhead, Chairman

Before we move on to the resolutions as outlined in the Notice of Meeting, I would like to address three topics that are of significance to Orica, and to you as our owners.

These are:

1. Orica's financial results for the 2017 financial year;

2. the progress your management team is making in restoring the high-performance culture of Orica's past; and, finally

3. the importance for all of us in ensuring the Australian business sector supports our government to resist the global trend towards nationalism and nationalist policies.

<u>Orica's 2017 performance</u>

Before I talk about Orica's financial performance, let me begin by addressing the most important part of our performance: safety.

Your Board was devastated by the death of two of Orica's people during the year in separate workplace accidents. It is our clear expectation that no-one at Orica should suffer serious or fatal injuries in performing their jobs. In this, management and the Board are aligned.

To that end, one quarter of management's short term incentive scorecard is based on the Company's safety performance.

This year, as a result of the two fatalities, the Board determined to reduce the bonus outcomes by 20 per cent for both the CEO and the Safety, Health, Environment and Security Group Executive, by 15 per cent for the Executives in whose area of accountability the fatalities occurred, being the Group Executive Latin America and the Chief Commercial Officer, and by 10 per cent for all other Executives.

These adjustments to business performance outcomes directly affect the level of short term incentive each Executive received, and reflect the applicable level of management control by the Executives over the causal factors of the fatalities, as well as reinforcing our absolute commitment to the safety of every Orica person. Reflecting how closely the Board and management are in lock-step on this issue, these adjustments to the performance scores were recommended by management.

In relation to Orica's financial performance, despite a continued tough external environment, your management team delivered a credible 2017 financial result, with statutory net profit after tax 13 per cent higher than the prior year at $386 million. Before individually material items, NPAT was $386 million, broadly flat against the prior year.

Last year, I talked about how we had introduced a revised dividend policy that provides greater flexibility to ensure shareholder returns reflect the Company's position and market conditions. The policy consists of a payout range of 40 to 70 per cent to ensure that shareholder returns reflect the Company's position and market conditions. For the 2017 performance year, your Board declared a final ordinary dividend of 28 cents per share, unfranked. The dividend represents a full year payout ratio of 50 per cent, and a total dividend for the financial year of 51.5 cents per share. This is 4 per cent higher than the 2016 dividend.

Alberto will talk in detail about Orica's 2017 performance in his address.

In terms of the strategic direction of the Company, the Board is focusing on the period five years out and beyond. Clearly, we expect to see improved results in the interim years coming from the business improvement initiatives that Alberto and his team are vigorously pursuing, as well as from the improvements in market conditions. Beyond that we need to focus on further top-line growth. We see technology both within our existing business and into related industries as being a vital component of that growth.

Board renewal

We therefore have been seeking additional directors with experience in the technological and digital transformation of companies to help us guide the Company through this phase. I am therefore very pleased to announce the appointment of Denise Gibson to the Orica Board commencing 1 January 2018.

Denise is a US citizen and a seasoned Chief Executive and board director, with 30 years' experience in consumer electronics design, manufacturing, logistics and supply chain. Denise spent much of her career as an executive in Motorola, before subsequently helping found two companies in the wireless industry, which she grew from start-up to high-growth businesses.

When making Board appointments, the focus is always on enriching the knowledge and experience across the team, and Denise will be a terrific addition to the team and will provide a different perspective in the consideration of Orica's strategic direction.

Culture

Your Board believes that Orica has the right strategy in place to ensure improvement in its financial and operational performance. However, it has always been my view that these alone will not make a great business. To be truly world class, a business needs to be performing at the highest levels across three areas, being:

1. Safety, health and environment;

2. Financial and operational; and
3. It needs to have a positive culture in which everyone is engaged, motivated and supported to reach their potential.

In my first Orica AGM as Chairman in January 2016, I made it clear that as well as measuring our performance in those first two elements, I had an expectation that there would be a strong focus on rebuilding a positive culture in the organisation. Alberto and his management team have prioritised this over the past two and a half years and while there is still work to be done, they have made great strides over that time.

This began when employees from all across the Orica globe developed a new charter, including refreshed values, for the organisation back in 2016. In 2017, the management team focused on continued, improved engagement with our people at every level and the results are more than encouraging. We have seen stronger alignment among our people to the strategic direction of the organisation, and a better understanding of how individual business areas contribute to our strategy.

An important part of building a positive, high-performance culture is ensuring our workplace reflects the diversity and inclusiveness of our communities. This is not easy when you think that Orica is a truly global organisation, working across more than 100 countries, with more than 11,500 employees representing more than 70 nationalities. We may be proudly Australian-headquartered, but we are truly global.

The management team has actively focused on building a workforce that reflects the cultural background of their customer base. To that end, 53 per cent of senior leaders are now from cultural backgrounds outside of Australia. This is compared to 33 per cent only two years ago. Twenty-one per cent of our senior leadership roles are now held by women, and while there is still some way to go in this area, this has lifted significantly from just 14 per cent two years ago.

Your Board recognises this as an area of critical importance, and will continue to monitor progress closely. Bringing people of different genders, ages, ethnic and cultural backgrounds together and giving them the opportunity to apply their diverse skills, experiences and perspectives, creates value for Orica and for our customers.

<u>A global perspective</u>

I would now like to turn to the broader economic issues facing Orica and Australian industry in general. As world economic growth picks up it is important that Australia benefits as well. Economic growth is central to our improved standard of living and to a stable society. Australia has done well when we fully participate in the global economy and when we encourage our wealth creators – Business – to compete and prosper. That is what drives job creation and improved standards of living for us all.

As the US joins other nations with a significantly lower tax rate, it is vital that we follow so that we continue to encourage the investment we need to underwrite the prosperity of future generations of Australians.

It is also important that we engage successfully with China, which will continue to grow as the regional and global economic powerhouse. Australian companies can benefit enormously from this regional growth and can be helped by a good productive relationship at the government level.

More broadly, it is worth considering the significance of global trade and cross-border investment that enabled the most recent mining boom and underpins the success of the mining and Mining Equipment Technology and Services – or METS – sectors.

To appreciate the importance of Australia doing everything possible to support our mining and METS industry, just consider that in the 2015/16 financial year, the total economic contribution of these sectors was $236.8 billion, or around 15 per cent of the Australian economy, while supporting approximately 10 per cent of Australia's full time equivalent employment[1].

The industry – and the nation – has benefited from decades of structural reforms that eventually opened Australia's economy to the world, enabling cross border free trade, in products, services and human talent.

Our openness to foreign investment has been a boon for mining and METS. Without it we would never have been in the position to capitalise on the unprecedented commodities demand from China and the developing world throughout the early to mid-2000s. A range of major resources projects and regions was developed off the back of foreign direct investment, including iron ore in the Pilbara, coal in the Bowen Basin, oil and gas in the Bass Strait, among others.

More broadly, Australia's economy is reliant on foreign investment. In 2016 the net inflow of direct foreign investment into Australia was valued at $64.8 billion, with mining the sector that benefited the most, accounting for 39% of all foreign direct investment[2].

Meanwhile, the relaxation or abolishment of barriers to trade globally has also been a key enabler to our success. Our ability to access overseas markets more readily has allowed us to build on the comparative advantage of our resources endowment to enrich Australia, while acting as a natural market incentive for mining and METS companies to continue to invest in local operations.

Foreign investment is essential in supplementing Australia's domestic savings to enable us to get the most out of our economy and create and sustain employment.

In fact, without foreign direct investment and global trade, Australia would not have enjoyed over a quarter of a century of continuous economic growth.

So it is incumbent upon all of us to rail against the growing global trend towards nationalism over globalisation. We have seen this play out in recent times in the United States, the United Kingdom, and in pockets of the European Union too. The rising tide of nationalism

[1] *Mining and METS: engines of economic growth and prosperity for Australians*, Deloitte Access Economics, 2017.
[2] *International Investment Australia 2016*, Commonwealth Department of Foreign Affairs and Trade.

presents a genuine risk to our global competitiveness, and we must do all that we can as a nation and as business leaders to advocate for global free trade.

Australia's major political parties have long maintained bipartisan support for an open free-market economy, and both sides have made great progress in the pursuit of free trade agreements with key trading partners.

The role we in the business community can play is in ensuring that business continues to support this by reinforcing the importance of global trade and foreign investment to all our stakeholders, and publicly supporting our Governments when supportive policies are introduced.

Before we move to the formal business of the Meeting, I would now like to invite your Managing Director and CEO Alberto Calderon to the stage to talk about Orica's 2017 financial year performance in more detail.

Thank you.

Alberto Calderon, Managing Director and Chief Executive Officer

Thank you, Chairman, and thank you – our shareholders – for joining us today.

This morning I will talk about Orica's performance over the 2017 fiscal year, our outlook for 2018, and the important steps we are taking to bring greater value to our customers and to Orica's owners.

<u>Safety</u>

As always, I will start with safety. Safety is always our priority at Orica. As I have said many times, there is nothing that is more important than making sure all our people return home safe each and every day.

Tragically, during the year we lost two of our people to workplace accidents: one on a customer site in Peru and the other at our Manufacturing facility in Gyttorp, Sweden.

Let me be clear in saying that any fatality is both unacceptable and preventable.

There is nothing more painful than coming to terms with losing colleagues to avoidable accidents, and you can be assured that the entire management team is prioritising our focus on safety.

Following both incidents this year, we undertook comprehensive investigations to understand the root causes. It was found that a significant contributing factor to each of these fatalities was that processes that were put in place to protect us from injury were not being followed.

Obviously, this is never acceptable, and we are making it clear through every level of the organisation that this will not be tolerated. We have ensured a clearer and deeper understanding across Orica of our risks. We implemented a major hazards initiative focussing on identifying the few major hazards that could lead to serious harm.

We continue to verify all key controls at every site and defined standards and procedures are in place that must be adhered to at all times.

I have given all our employees my personal commitment and support to raise any issue that they believe leads to unsafe work or if they see dangerous gaps in our procedures and processes. I am determined to embed and uphold a safety culture at Orica, and demonstrate that it is a culture in which each of our 11,000 plus employees around the world understands and follows our safety standards, procedures and processes, all the time.

Our total recordable injury frequency rate benchmarks well against industry standards but of course is not relevant if our colleagues are fatally injured.

FY2017 Financial Results

In 2017 the mining sector began to recover from the severe downturn that began in 2015. However, it takes time for this to flow through to our results, and FY17 continued to be characterised by significant headwinds, including increases in raw material costs, foreign exchange impacts and price resets in older customer contracts.

Despite this, we delivered a sound and stable result. In fact, the 2017 fiscal year marked the first time since 2012 that our EBIT was steady against the prior year. This is a direct result of the steps we have taken to build Orica's resilience.

We delivered earnings before interest and tax of $635 million, broadly in line with the prior year, and statutory net profit after tax of $386 million, which was 13% higher than 2016. Explosives volumes for the year of 3.65 million tonnes were 3% up on the prior year. Positively, much of this was driven by increasing demand in our biggest market – Australia Pacific and Indonesia – where explosives volumes increased 10% compared with the previous year.

I am particularly pleased that by continuing our business improvement initiatives we delivered net benefits of $127 million, which offset the headwinds we faced during the year. Apart from mitigating the impact of any external challenges, these initiatives are fundamentally making Orica a more efficient and effective organisation.

During the year we saw prices stabilise – particularly over the second half of the year. This positively underpins the return of greater predictability in our results. When we talk about "price resets" that impact our revenue, this in fact is the consequence of old contracts with prices that had been set when ammonium nitrate prices were much higher, being renewed at the current market prices. We are pleased to say that we are nearing the end of the roll overs of these older, long dated contracts. While there will be some further roll overs in FY18, we do not expect any new roll overs in FY19. I will speak about that more when I talk about the outlook a little later.

We continue to have a disciplined approach to capital management. Capital expenditure of $306 million was well within the previously stated annual range of $300 million to $320 million. This included scheduled maintenance shut downs and turnarounds at Kooragang

Island, Carseland and Yarwun Cyanide manufacturing facilities. In addition, we ensure that all capital expenditure related to safety, environmental obligations and ensuring we meet our licence to operate conditions is maintained.

Our Minova business' turnaround is continuing. I am pleased that the business has stabilised and turned the corner in terms of revenue, which was up 12% year on year. However, while the business is now delivering positive EBIT, the pace of recovery is slower than expected. We are making significant changes to how the business is run and expect to see improved performance.

The Group balance sheet remains strong with gearing further reduced to just under 33 per cent. Maintaining a balance sheet with gearing in a range of 35 to 45% is something that we are comfortable with.

In summing up our results, FY17 demonstrated a returning predictability to our financial and operational results. We expect the recovery that we have seen this year and the normalisation of long term mining plans that it implies to continue in 2018.

In the meantime, we are continuing to focus on what we can control and reap the benefit of the recovery as and when it occurs. Central to this effort are our business improvement initiatives.

Business Improvement Initiatives

I mentioned that our business improvement initiatives offset all the headwinds during the year.

This is not a short-term program – it is focused on embedding new ways of working that make Orica a better business by ensuring we are buying better, producing more efficiently, and bringing more value to our customers.

We now have more than 1,900 individual initiatives that have been generated across the business, focusing on procurement, the optimisation of our manufacturing network, improving commercial capability and customer value initiatives. These initiatives are being owned and led by around 1,000 Orica people, but include the involvement of more than 4,000 of our people globally. Each individual initiative is recorded in a central system and tracked week by week, ensuring a disciplined approach to bringing each of these to fruition and then embedding and sustaining them across the business.

Looking ahead

Looking ahead, when we released our financial results we gave guidance for FY18 that we expect our global AN volumes to be around 3.65 million tonnes, plus or minus 5%. Today, we expect to be around the upper end of that range.

In relation to headwinds, we flagged in FY18 that we expected a negative impact of around $50-$55 million from contract rollovers and the flow through of price resets on contracts renewed in FY17. It is important to understand that of the $50-$55 million, around two-thirds represents contracts that were rolled over and reset in FY17, with the remainder representing contracts that are up for renewal in FY18, which we expect to reset to current market prices. These are the tail end of contracts agreed when market prices for AN were significantly higher than we are experiencing today. However, importantly we see no new or unexpected price resets in FY19, because keeping in mind that our contracts are mostly three-year contracts, any contract renewals that come up for negotiation in FY19 will be reflective of current market prices.

We believe that we are close to the end of the known headwinds that we have routinely faced over the last three years.

We expect the business initiative benefits in 2018 to offset these headwinds and more importantly, enable us to now start investing for the future.

In FY18, we will increase our investment in Technology R&D and IT to around $40 million. This is a positive, reflecting the confidence we have that we are nearing the end of the period of headwinds and can significantly increase our investment in future growth for the first time since the end of the mining commodities boom. In other words, with the bulk of the headwinds now behind us and the remainder to be offset by business improvement initiatives, we have reached an inflection point at which we can begin to reinvest for growth.

The focus of the investment in technology is to further advance the digitisation and automation of our blast operations to create value for our customers and incremental returns for Orica.

The convergence of many developing technologies such as cloud and edge computing, artificial intelligence, and robotics applied to the blasting space will enable the rapid optimisation of blasting outcomes for our customers and the automation of our operations for productivity and safety.

So, in FY18 we will continue the cadence of embedding business initiatives that will make Orica a more efficient and effective business.

We remain positive that we have now overcome the majority of the market and internal headwinds and are at a position where we can start using the initiative benefits to invest for the future – in our people, in technology and to drive more value for our customers.

Most importantly, we will continue to maintain a strong and flexible balance sheet which will enable continued profitable growth for Orica.

All of which will deliver strong shareholder returns.

Before I hand back to the Chairman, there are two areas I would like to briefly cover, because while your management team is very pleased with what we have achieved to date, we are very much enthused with what the future holds in terms of our customer relationships and proprietary technology.

<u>Delivering higher value customer relationships</u>

Continually evaluating and improving our customer relationships is a key pillar of Orica's strategy, ensuring we become a more customer-centric organisation.

12 months ago we launched Orica's Voice of the Customer program globally so that we could better understand our customers' needs and improve customer service but more importantly, to enable us to close the loop on issues more quickly and effectively.

By combining customer insight and delivering our core Customer Promise, focussed on Safety, Reliable Supply, Quality and Delivering Value every day, we create deeper, more meaningful customer relationships. This makes us more valuable to our customers, and delivers more value to Orica, while also providing a key competitive advantage in the market.

The program generates data around customers who are favourable about Orica, combined with those who are detractors or more neutrally disposed, to give us a 'net promoter score' that is comparable across our competitors and other industries as well. While we are always looking at opportunities to improve our favourability, we are encouraged that since we launched the program, we have continually achieved a favourable Net Promoter Score higher than the comparable industry benchmark.

This is reflected in the fact that more than 90 percent of our customer contracts were retained this year. Additionally, we have made significant inroads into competitor held accounts and greenfield contracts, which are being won on the full service and support offering and not on price.

Our way of working with customers is making a difference. For Example, I'm pleased to say that last month we won a new contract with BHP in the Pilbara, Western Australia for the supply of ammonium nitrate from the Burrup TAN plant from December 2019. This combined with our existing customer contracts, means we expect the Burrup plant to be fully loaded from 2020.

Step-change in Technology

We are also starting to commercialise our game-changing technologies.

We successfully completed trials during the year of our WebGen 100 wireless detonator technology, a critical pre-cursor to automating drill and blast loading with proven safety and productivity improvements and greater reliability. We are now expanding this product into the Latin America region.

We are also rapidly increasing the uptake of our Blast IQ system, of which we are very proud. Blast IQ is an integrated field information system that improves blasting performance by linking modelling and design with field operations and delivery. We saw a 35% increase in licences globally in the second half of FY2017 alone.

Both WebGen 100 and Blast IQ technologies are aligned with our customer's long-term goals around automation and data enabled blast optimisation, leading to significant productivity gains. Early results show that these technologies will be key enablers to delivering even greater productivity for our customers' operations in the future.

To complement our internal technology development program, we have been actively looking at the potential acquisition of additional technology capability. We have assessed – and will continue to assess – leading proprietary technologies and software that would enhance our suite of technology-based solutions and assist our customer base to operate more productively and safely. The current focus is on targets that are small, stand-alone profitable, meet our financial returns targets and can be funded by existing debt facilities. Our strong balance sheet provides the capacity to fund a right-sized acquisition – say – within a range of 2% or 3% of our current market capitalisation – while allowing us to remain at the lower end of our stated gearing range and maintain our commitment to our investment grade credit rating. Of course, you can expect that we will be financially disciplined. We will update the market if a transaction emerges.

On top of these technologies, our Applied Technology program delivers continuous improvements to products and services based on direct customer feedback.

For example, our differentiated Global Booster and Bulkmaster 7 Smart Delivery System, both manufactured in regional Australia, are poised to deliver success for our customers. We have had successful trials completed in Australia over the past 6 months, with results including increased safety, efficiency, quality and security of supply as well as reduced total cost of operation.

We believe that this step-change in technology will be a core competitive differentiator for us into the future, creating greater value for our customers and therefore opening new revenue opportunities for Orica. Combined, our WebGen, Blast IQ and our Applied Technology solutions are unmatched in the market place, and provide us with a solid foundation from which to build lasting, long term value.

These are proprietary Orica technologies that cannot easily be replicated, which is part of what makes them so competitively advantageous. We will also build on these over time, but with discipline and strategic clarity.

The internal hurdle for us that we must clear before any investment in technology can be approved, whether that be investment in our own R&D or through acquisition, is: does it complement our existing technology suite, is it proven, and does it provide enough value to our customers to make a difference? In other words, any investment must be both a win for our customers and a win for Orica's shareholders.

Conclusion

In summary, despite the substantial headwinds we delivered a steady, sound result in FY17.

While FY18 will continue to have challenges, we are looking forward with confidence. We are developing a more effective and resilient business and we have returned our focus to growth.

The work we are doing with our customers to deliver game-changing technology to help them deliver improvements in safety and productivity outcomes is delivering tangible benefits to them and us.

Beyond the current year, we are also optimistic for the 2019 fiscal year, which we expect will build on FY18 to deliver continued volume growth, more efficiency benefits as we continue to transform Orica, and a more stable pricing environment.

Finally, thank you to you, our shareholders, for your continued support.

Thank you.

The Chairman then moved to the formal items of business.

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