



# **ORICA**

## **INVESTOR PRESENTATION**

March 2018

Vince Nicoletti, Chief Financial Officer



# DISCLAIMER

---

## **Forward looking statements**

This presentation has been prepared by Orica Limited. The information contained in this presentation 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 presentation 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 presentation. 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**

This presentation 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. Forecast information has been estimated on the same measurement basis as actual results.

# AGENDA

---

<b>1. Orica Introduction</b>	<b>4</b>
<b>2. Key Strategic Priorities</b>	<b>12</b>
<b>3. Financial Performance</b>	<b>20</b>
<b>4. Update and Outlook</b>	<b>25</b>

---



# **1. ORICA INTRODUCTION**

# GLOBAL LEADER IN MINING AND CIVIL BLASTING

## Economies of scale

- ✓ Scale and efficiency that comes from being the leading supplier of commercial explosives and blasting systems to the mining and infrastructure markets globally

## Leading brand and strong reputation

- ✓ Leading supplier of commercial explosives globally with c.30%<sup>1</sup> market share, and a strong reputation for innovative solutions, safety and security of supply

## Highly regulated industry

- ✓ Expertise acquired through a long history of operating in a highly regulated industry involving production, storage, transport and handling of dangerous products and chemicals

## Market leadership in technology

- ✓ Market leadership in technology and innovation that comes from having more than 140 years of experience. Orica estimates it invests 2-3 times its nearest competitor in R&D and innovation

## Strong customer relationships

- ✓ Strong and longstanding customer relationships supported by contracts that can span 3-5 years in duration

## Strong Balance Sheet

- ✓ Disciplined approach to capital management
- ✓ Committed to maintaining investment grade credit rating

**Substantial competitive advantage that is difficult to replicate**

1. Management estimate

# TRUE GLOBAL FOOTPRINT

- Operates in over 50 countries and customers in more than 100 countries worldwide

**140+**

**YEARS**

of experience and innovation

**No.1**

**GLOBAL SUPPLIER**  
of commercial explosives

**11,500+**

**EMPLOYEES**

serving customers across more than 100 countries

**1,500**

**BLASTS PER DAY**  
on our customer sites



# GLOBAL MARKET LEADER

## Orica's global leadership is a key differentiator

- Unrivalled licensing, scale, facility footprint, and market presence to service large customers in multiple jurisdictions regionally and globally
- Facility proximity to customer operations provide material cost advantages and security of supply
- Agility to respond to dynamic market requirements through a managed balance of internal manufacturing capacity and third party sourcing
- Unmatched technology and focus on creating value for blasting customers

## Orica's key competitors by region



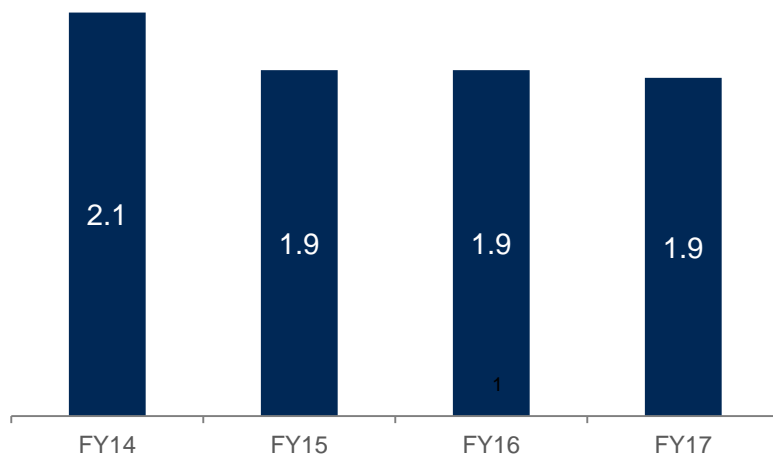
**Orica does not have a true global competitor**



# SAFETY IS ORICA'S TOP PRIORITY

## Safety performance

% Total Recordable Injury Frequency Rate<sup>1</sup>



1. Total Recordable Injury Frequency Rate (TRIFR) represents total number of recordable cases per 1 million hours worked  
– Safety Spotlight: ASX 100 Companies & More–Citi Research September 2016

## Safety is a Core Value

- Strongly aligned to our customers' focus on safety
- Total Recordable Injury Frequency<sup>1</sup> at comparable industry benchmark

## Major Hazards Initiative (MHI)

- Company-wide identification of site major hazards and verification of key controls
- Achieved >99% verification of prioritised key controls

## Leadership Interaction Program

- All levels of leadership actively involved in key control verification

## Strong Environmental Performance

- Climate Change Policy launched



**Safety** is our  
priority. Always.



# FLEXIBLE MANUFACTURING AND SOURCING CAPABILITY

Orica complements own manufacturing capabilities with flexible global sourcing arrangements:

- Highly disciplined approach to the management of the company's AN manufacturing capacity
- c.50% AN volume globally, strategically 3<sup>rd</sup> party sourced to meet specific business/regional requirements



1. Orica has a 50% economic interest alongside its joint venture partner Yara.

# VERTICAL INTEGRATION

Bringing together advanced manufacturing capability, global supply chain, operational capability and technical excellence, Orica is uniquely positioned to add value for our customers



## Manufacturing

Mature and highly experienced manufacturing capability, complemented by strategic sourcing from 3<sup>rd</sup> party suppliers

## Logistics

Integrated global logistics and supply chain network, supporting reliable supply to more than 100 countries

## Operational Capability

Global technical services network of mining engineers and blasting technicians work to improve the efficiency, productivity and safety of our customers

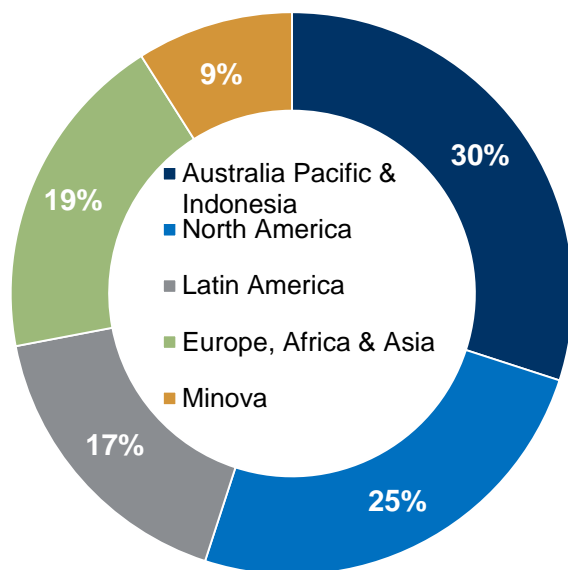
## Technical Excellence

Over 140 years of experience and innovation with an estimated R&D investment of 2-3 times our nearest competitor

# DIVERSIFIED GLOBAL BUSINESS

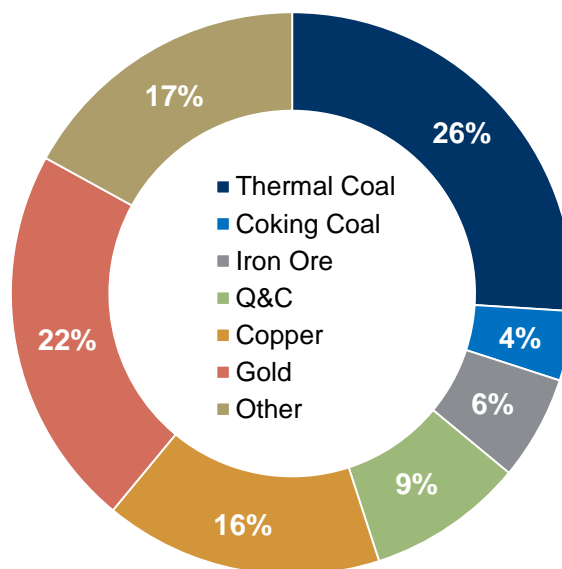
## Geographic portfolio

% of FY17 revenue<sup>1</sup>



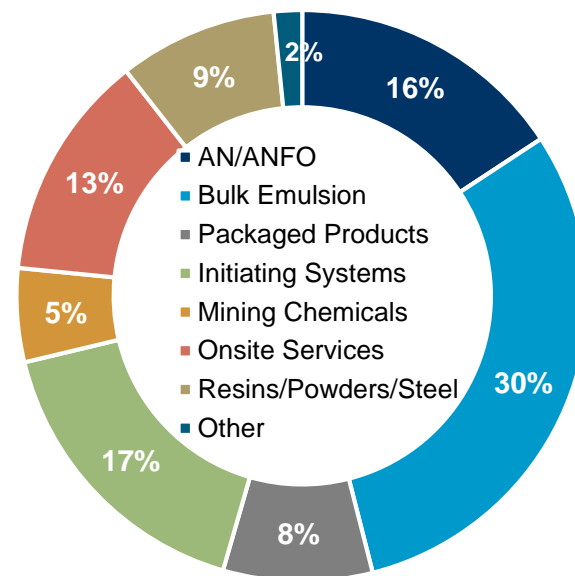
## By commodity

% of FY17 revenue<sup>1</sup>



## By product/service offering

% of FY17 revenue<sup>1</sup>



1. Excludes inter-segment sales

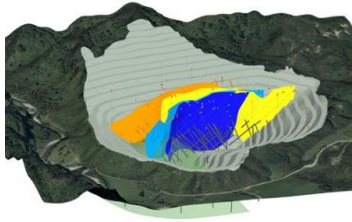


## **2. KEY STRATEGIC PRIORITIES**

# ORICA'S DIGITAL GROWTH STRATEGY

## ENABLING STATIC TO DYNAMIC DRILL AND BLAST OPTIMISATION

### Understand the resource

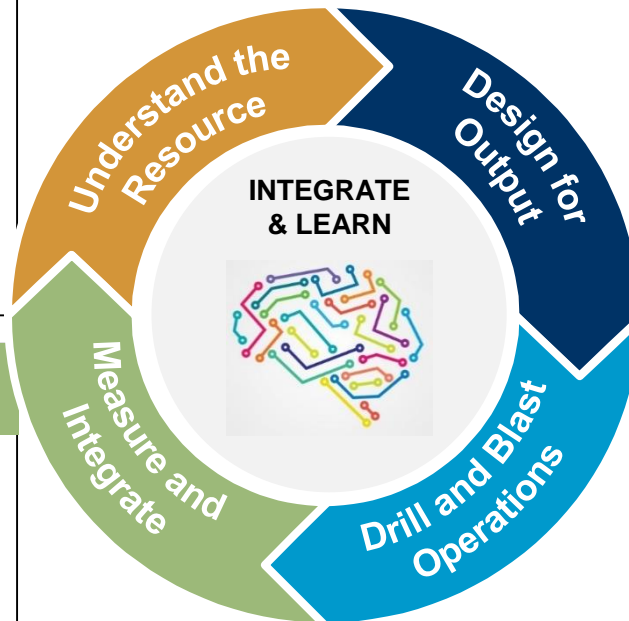


Exploration geotechnical and rock sensing data is collated and analysed

### Measure and integrate

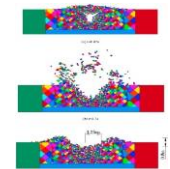


Outcomes are surveyed and validated.  
Data is used to improve future outcomes



- ✓ Targeted investment in technology
- ✓ Digitisation
- ✓ Focus on commercialisation
- ✓ Customer engagement

### Design from output



Orica's technical expertise is combined with input data to customise blast designs to desired customer outcomes

### Drill and blast operations



Increasingly automated on-bench operations implement intelligent blast designs



# CONTINUOUS IMPROVEMENT ON APPLIED TECHNOLOGY



- Outperform conventional boosters
  - Delivering improved safety, quality and performance
  - Australian manufacturing commenced; increased security of supply
  - Product rationalisation leading to supply chain cost advantage

## Bulkmaster™7



- Smart delivery system technology
  - Reduced total cost of operation
  - Increased efficiency and safer operating environment
  - Australian based manufacturing
  - Compatible platform for BlastIQ and advances towards automation
  - Field implementation commenced February 2018

# STEP-CHANGE TECHNOLOGY

**WebGen™**  
Wireless Electronic Blasting System



- Allows modification to the conventional mining sequence only made possible by wireless blasting
  - Critical pre-cursor to automated blast loading
  - Unprecedented safety and productivity improvement
  - Flexible blasting with greater reliability
  - New long term WebGen™100 service agreement with Goldcorp's Musselwhite Mine commencing 2018

 **BLASTIQ™**



- Powering better blasting
  - Digitally enabled blast management
  - Productivity, cost reduction, and safety and compliance benefits realised
  - 34% increase in licences globally on FY18 to date
  - Insights to demonstrate and drive increased value from blasting



# STRATEGIC ACQUISITION - GROUNDPROBE

---

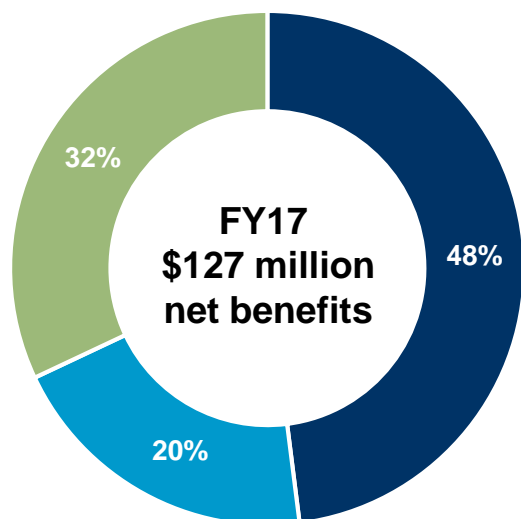
**GroundProbe®**



- Acquisition completed mid January 2018
- Purchase price A\$205 million plus adjustments
- Industry leading provider of geotechnical slope stability monitoring solutions for the mining industry
- Highly complementary to Orica's core business operating in an adjacent part of the mining value chain with similar customer profile
- Aligned with Orica's digital strategy, with wall stability data a key data input for Blast IQ tool
- EPS accretive during first full year of ownership
- Integration activities are well underway and on track

# NET SUSTAINABLE BENEFITS

## SUSTAINABLE SUPPLY CHAIN & COMMERCIAL EFFICIENCIES



■ Buying better (supply chain)  
■ Adding value for our customers (commercial)  
■ Producing more with less (manufacturing/other)



- \$127 million in net benefits offset headwinds
- Supply chain benefits
  - Product cost savings (input cost margins, volume rebates)
  - Sourcing and network (utilisation, booster network sourcing)
  - Transport and shipping (vessel network optimisation, rail car rates)
- Commercial benefits
  - Upselling and differentiation (emulsion, EBS products)
  - Field operations and margin (rock on ground services optimisation, on-site resourcing rationalisation)
- Manufacturing and other benefits
  - Process improvements (yield, scrap reduction)
  - Maintenance efficiency (reduced maintenance cost, contracted labour rates)
  - Workforce rationalisation in Australia Pacific & Indonesia and North America
- Robust program risk management and governance
  - Building capability and embedding desired behaviours to achieve long term sustainable benefits

# DISCIPLINED CAPITAL EXPENDITURE

Disciplined approach to capital and investment evaluation drives sustainable reduction

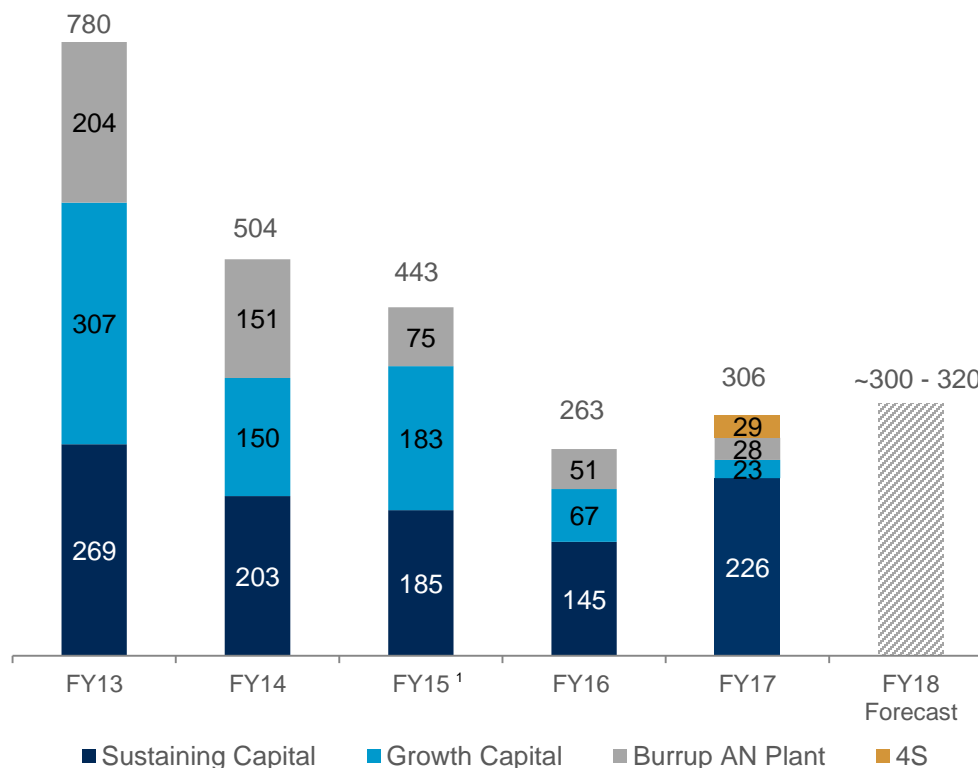
Capital expenditure  
prioritised across the group

20% RONA for all new  
growth capital projects

Licence to operate capital  
expenditure prioritised  
(safety, environment, regulatory)

Capital Expenditure profile

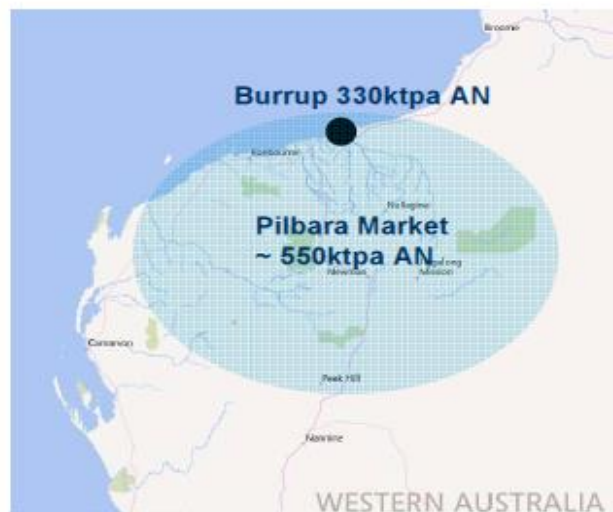
(\$m)



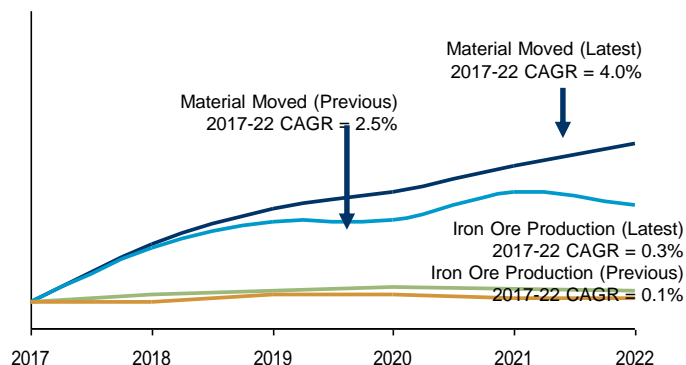
1. FY15 Capex from continuing operations

# STRATEGIC ASSET IN THE PILBARA

Pilbara region iron ore province



Australia Iron Ore Production



- The Burrup Technical Ammonium Nitrate “TAN” plant is a 30+ year asset located in the Pilbara region of Western Australia
  - Major Pilbara based iron ore miners are the world’s lowest cost producers
  - 5 year materials moved growth greater than iron ore production growth
- A strategic decision was taken in 2012 to enter a joint venture with Yara (as operator) for the Burrup TAN plant.
  - 50% economic interest with marketing rights
- Recently awarded the BHP and Roy Hill Iron Ore contracts
  - These contracts, along with our existing contracts, enable optimal asset utilisation and delivery of an appropriate RONA
- Temporary technical issues with plant
  - No interruption to customer supply; approximately \$19 million net negative FY18 EBIT impact



## **3. FINANCIAL PERFORMANCE**

# FY17 RESULTS SUMMARY

## FOCUS AND DISCIPLINED APPROACH DRIVES SOUND RESULT

---

- **Total AN product volumes** of 3.65 million tonnes (pcp: 3.54 million tonnes)
- **Stabilised underlying EBIT** of \$635 million (pcp: \$642 million)
  - EBIT margin of 12.6% (pcp: 12.6%)
- **Underlying EBITDA** of \$896 million (pcp: \$908 million)
- **Net Profit After Tax (NPAT)**<sup>1</sup> of \$386 million (pcp: \$389 million)
  - Statutory net profit after tax<sup>2</sup> of \$386 million (pcp: \$343 million)
- **Net business improvement initiatives** of \$127 million
  - FY17 headwinds offset by new business improvement initiatives
- **Capital expenditure** of \$306 million (pcp: \$263 million)
- **Gearing** further reduced to 32.7% (pcp: 35.8%)
- **Return on Net Assets** of 13.7% (pcp: 12.8%)
- **Total dividend per share for the year of 51.5 cents, increase of 4% from pcp; payout ratio of 50%**

1. Equivalent to profit after income tax expense before individually material items attributable to shareholders of Orica Limited disclosed in Note 1(b) within Appendix 4E – Preliminary Final Report

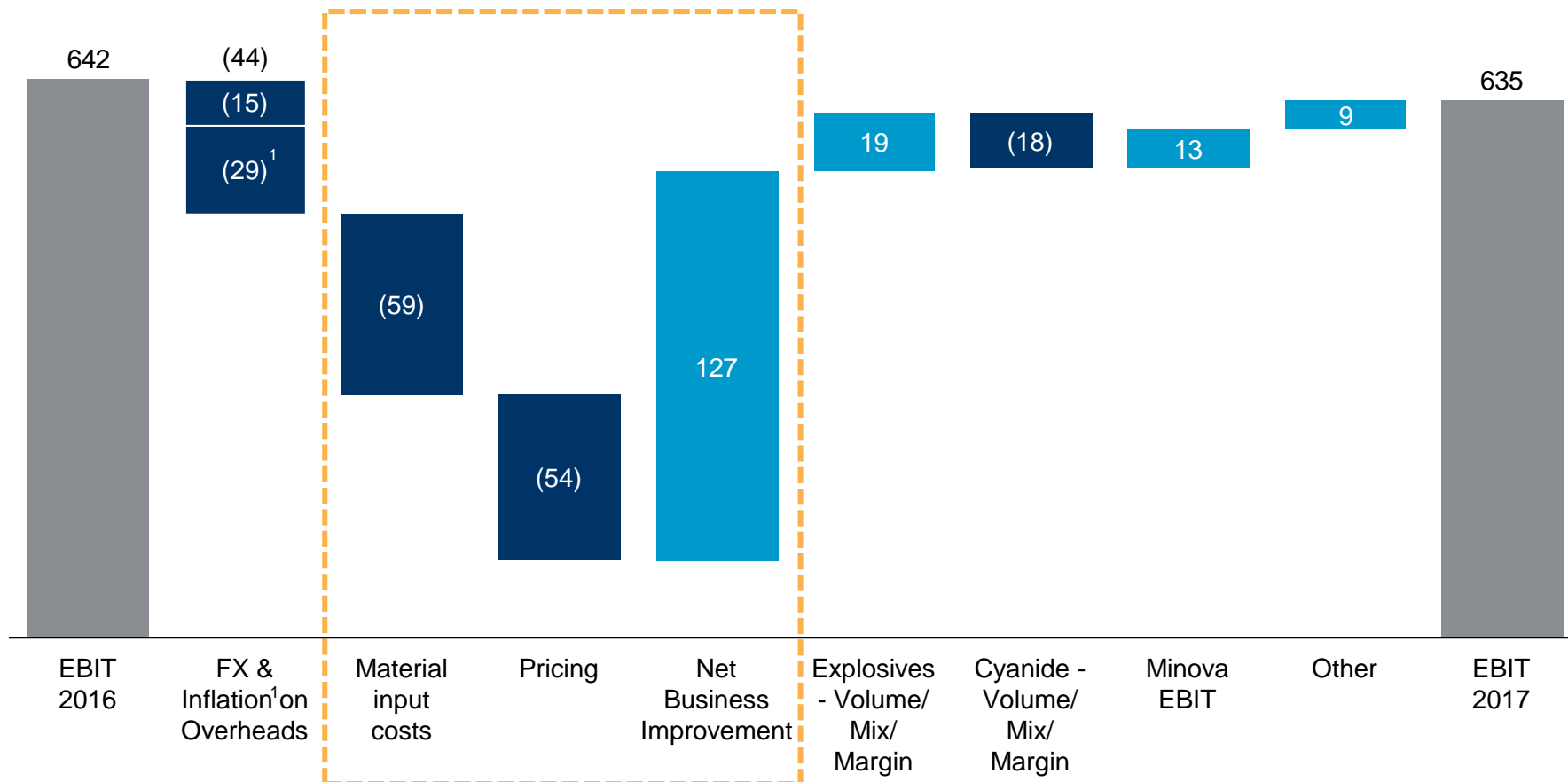
2. Net profit for the year attributable to shareholders of Orica Limited in the Income Statement of Appendix 4E – Preliminary Final Report.

Note: all comparisons are to the prior corresponding period unless stated otherwise

# FY17 INITIATIVES OFFSET HEADWINDS

## Orica Group EBIT

\$m FY16 to FY17





# FY17 REGIONAL OVERVIEW

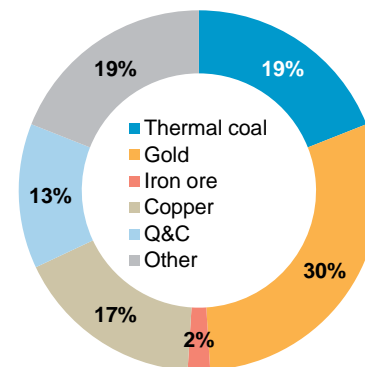
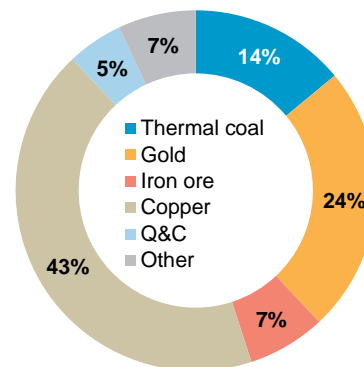
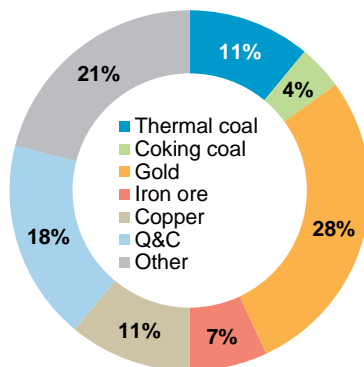
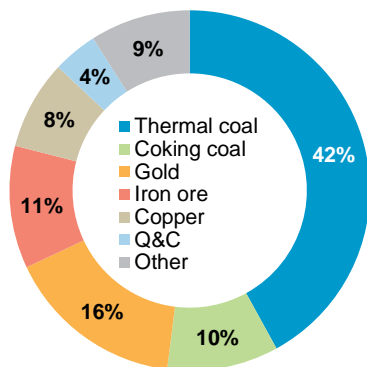
## Australia, Pacific & Indonesia

## North America

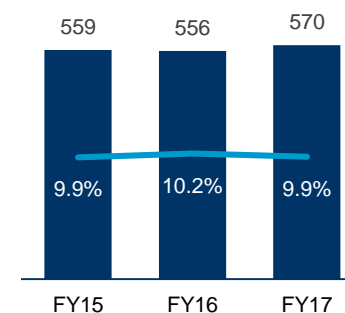
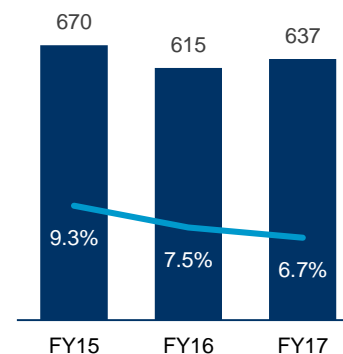
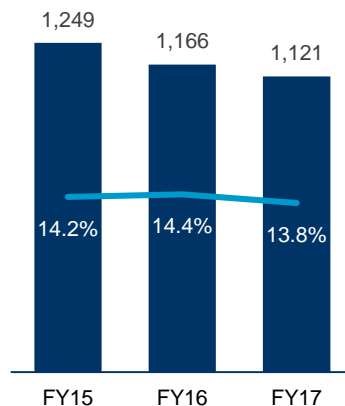
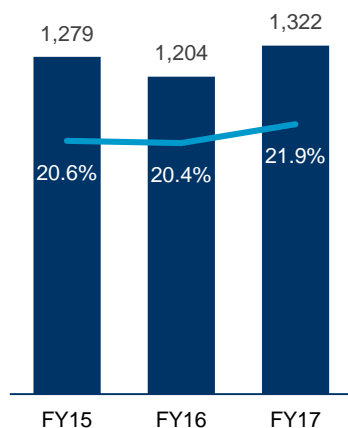
## Latin America

## Europe, Africa, Asia

Revenue by commodity<sup>1</sup>



AN volume & EBIT margin



■ AN volume (kt)  
— EBIT margin

1. Based on FY17 revenue. Note: all comparisons are to the prior corresponding period unless stated otherwise

# HISTORICAL FINANCIALS

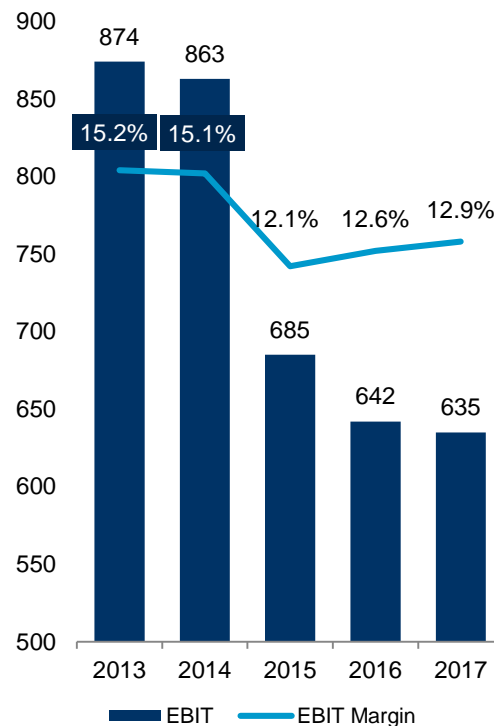
## Revenue<sup>1</sup>

\$m



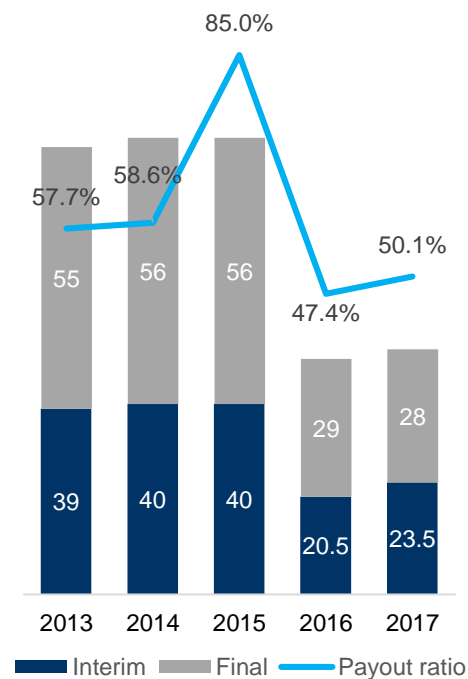
## EBIT<sup>1</sup>

\$m



## Dividends

cps and payout ratio



Note<sup>1</sup> Continuing Operations



## **4. UPDATE AND OUTLOOK**

# UPDATE

## As per ASX announcement 1 March 2018:

### First half performance

- Global AN product volumes have continued to grow in the first half of the year
- Several factors will result in reduced EBIT for the first half:
  - Impact of ~\$17 million due to unplanned maintenance shutdowns at Kooragang Island and Yarwun
  - Continuing challenges in the Cyanide market, underperformance of Minova and extreme weather in North America ~\$15 million
  - Additional costs resulting from Burrup joint venture technical issues ~\$19 million full year, skewed to first half

### Full year performance

- FY18 EBIT performance to be skewed to the second half with significantly stronger performance expected
- Full year results will be supported by:
  - Approximately \$60 million from continued volume growth, particularly in Australia; contribution from GroundProbe business; business improvement initiatives; improvement in Latin America and EMEA
  - One-off plant maintenance impacts (~\$17 million) and operational impacts (~\$15 million) from first half not expected to recur
  - Business improvement program continuing to deliver significant benefits. Further streamlining of the business expected to deliver incremental \$30 million per annum from FY19
- Orica remains on track to deliver full year sales volumes at upper end of stated guidance

### Non-cash adjustments

- US taxation reform
  - One off restatement to value of US deferred tax assets of ~\$55 million
- Potential impairment and increased provisions
  - Minova business has stabilised but recovering at a slower pace than expected. Non-cash impairment expected in first half.

# FY18 OUTLOOK ASSUMPTIONS

---

## Key assumptions for FY18 as disclosed at FY17 Full Year Results in November 2017:

<b>Explosives</b>	<ul style="list-style-type: none"><li>▪ Global AN product volumes in the range of 3.65 million tonnes <math>\pm</math> 5%</li></ul>
<b>Headwinds and Business initiatives</b>	<ul style="list-style-type: none"><li>▪ FY17 headwinds to extend into FY18:<ul style="list-style-type: none"><li>- ~\$50 - \$55 million impact from contract rollovers and FY17 price resets flow on; and</li><li>- ~\$10 million flow on impact from FY17 increased input costs from previously negotiated contracts</li></ul></li><li>▪ Increased investment in operating expenditure in Technology R&amp;D and IT of ~\$40 million</li><li>▪ FY17 business improvement initiative benefits and expected FY18 new business improvement initiatives to offset above headwinds and support increased investment for the future</li></ul>
<b>Capital</b>	<ul style="list-style-type: none"><li>▪ Upper end of stated range of ~\$300 - \$320 million</li></ul>
<b>Other</b>	<ul style="list-style-type: none"><li>▪ Effective tax rate (excluding individually material items) to be marginally higher than FY17</li><li>▪ Following completion of the Burrup plant, interest will no longer be capitalised, resulting in an increased interest expense</li></ul>

# LOOKING FORWARD

---

- We will continue to focus on embedding business initiatives that make Orica a more efficient and effective business
- Increased investment in our people and technology will consolidate our industry leading position and drive future value for our customers and all of our stakeholders well into the future
- Maintain a strong and flexible balance sheet
- We remain firmly committed on our journey to make Orica a world-class organisation in all respects

# DEFINITIONS

Term	Definition
<b>Ammonium Nitrate volume</b>	Includes Ammonium Nitrate (AN) prill and solution and Emulsion products include bulk emulsion and packaged emulsion
<b>NPAT</b>	Net profit after tax. Equivalent to net profit for the period after income tax expense before individually material items attributable to shareholders of Orica Limited disclosed in note 16 within Appendix 4E – Orica 2017 Preliminary Final Report
<b>EBIT</b>	Earnings before Interest and Tax. Equivalent to Profit from operations in Note 16 within Appendix 4E – Orica 2017 Preliminary Final Report from continuing operations before individually material items.
<b>EBITDA</b>	EBIT from continuing operations before individually material items plus Depreciation and Amortisation expense from continuing operations
<b>EBIT margin</b>	EBIT / Sales
<b>Capital expenditure</b>	Comprises total payments for property, plant and equipment and intangibles as disclosed in the Statement of Cash Flows within Appendix 4E – Orica 2017 Preliminary Final Report.
<b>Growth Capital</b>	Capital expenditure that results in earnings growth through either cost savings or increased revenue
<b>Sustaining Capital</b>	Other capital expenditure
<b>Net debt</b>	Total interest bearing liabilities less cash and cash equivalents as disclosed in note 3 within Appendix 4E – Orica 2017 Preliminary Final Report
<b>Payout Ratio</b>	Dividends per share for the year / Earnings per share
<b>Gearing %</b>	Net debt / (net debt + total equity) as disclosed in note 3 within Appendix 4E – Orica 2017 Preliminary Final Report.
<b>Q&amp;C</b>	Quarry & Construction
<b>pcp</b>	Prior corresponding period