

# CHAIRMAN'S MESSAGE

**RUSSELL R CAPLAN**  
Chairman



“Resilience in the face of headwinds”.

Orica's broad operating footprint, a determined self-help agenda and a focus on differentiated products and services, enabled the Company to deliver a resilient performance against considerable headwinds in 2014.

Net profit after tax of \$602.5M was up 2% primarily as a result of a lower interest expense and a lower effective tax rate while Orica's Earnings Before Interest and Tax (EBIT) of \$930M were 4% lower reflecting the subdued conditions confronting our key customers and markets.

The Board is pleased to declare a final dividend of 56 cents per ordinary share, bringing the full year dividend to 96 cents per share.

For the second year in a row, Orica has been free of fatalities in the workplace. This is a result that we strive to make the norm, as too is the continuing improvement in the All Worker Recordable Case Rate, which has fallen further in 2014. I applaud management's tireless efforts to embed a culture of safety above all else in our employees and contractors.

## TRANSFORMING ORICA TO SUSTAIN PROFITABLE GROWTH

It is Orica's goal to help our mining customers derive greater value from their projects and ultimately for Orica to share in that value creation. Orica's products and services help customers increase mine and resource productivity, reduce energy consumption and reduce environmental impacts from mining operations.

Orica has invested over the years in a geographic presence, a product portfolio, a flexible supply chain and technical and operating capability that together give us competitive advantage. But that competitive advantage can never be taken for granted, especially when business conditions pose challenges for mining services companies and the businesses of our customers.

Management recognised the need to do more and embarked on a comprehensive program of self-help initiatives across Orica's global operations; to reduce structural costs, enhance operational and asset management capability and improve customer focus. This self-help program has been a driving influence in 2014 and will better equip Orica to sustain profitable growth over the business cycle. This work will continue into 2015 and beyond.

Orica's centre of gravity is shifting. Progressively, more of Orica's revenue and profits are being earned outside Australia. Orica benefits from geographic diversity, with our significant presence in emerging markets offering opportunities for growth, particularly in the context of the Company's 'capital light' strategy. Examples include pleasing growth rates in Africa, the agreement with Apatit in Russia and Orica's capacity to leverage customer relationships across multiple markets. As well, the strategic focus on the development and commercialisation of differentiated services is making pleasing progress in Latin American markets, where some important technical innovations are being trialled and adopted.

Post September 30, Orica announced the sale of its Chemicals business to funds advised by Blackstone for \$750 million.

This transaction completes Orica's decade-long transition into a pure play mining services business.

For the Chemicals business, the transaction brings to a conclusion the strategic review process that commenced over a year ago and provides employees with certainty as to ownership and direction going forward.

## CAPITAL MANAGEMENT

The Board acknowledges shareholders' legitimate expectations for effective capital management. In considering the way forward, the Board is also balancing the requirement to maintain a prudent gearing ratio and maintain the flexibility for the Company to pursue its growth agenda.

Given Orica's improved cash flows, strong balance sheet and anticipated funds from the sale of its chemicals business, the Board will have the flexibility to consider capital management initiatives.

## GOVERNANCE AND REMUNERATION

Orica has a strong, diverse group of Directors but we are relatively new as a Board. I am almost one year into my role as Chairman and four of our nine Directors have been in place for a year or less. In 2014, we have undertaken comprehensive, independent external reviews of both our governance processes and of Board performance. I am gratified by the openness of Directors and managers to these reviews and by their shared ambition for us to achieve the highest levels of Board performance.

The Board was pleased to receive strong support for last year's Remuneration Report. Nevertheless, we consulted with shareholders and advisors in 2014 about remuneration. From the valuable feedback received and following a further review of the Company's remuneration practices and policies, changes have been made to better align remuneration and incentives with shareholder expectations. The changes are summarised in the Remuneration Report and will be embedded in the remuneration structure from 2015.

## BUILDING ORICA'S RESILIENCE

The business environment in 2014 has put our people to the test. Individually and collectively, Orica's employees, led by Ian Smith and his Executive Committee, have risen to the challenge. Through their efforts, Orica is navigating the testing times in a robust way. More than that, the Board and management are laying the foundations to make your Company more resilient and better able to capture the opportunities ahead.

# MANAGING DIRECTOR'S MESSAGE

**IAN K SMITH**  
 Managing Director and CEO



The 2014 result is a demonstration of Orica's capacity to maintain its financial performance in markets characterised by increasing supply of ammonium nitrate and a relentless drive across the resources sector to reduce costs. These are likely to be features of the market for the near future and Orica is responding decisively to these circumstances.

Volume growth in Orica's focus markets of the Pilbara, Africa and CIS has offset weaker conditions elsewhere which resulted in overall explosives volumes being slightly down for the year.

Further progress has also been made in the adoption of Orica's advanced blasting services by customers in Australia, Europe and North and South America. These services have become a key contributor to Orica's contract wins and extensions.

However, the Company cannot stand still and more is being done to ensure Orica is in the best position to capture the benefits of any future improvement in market conditions.

## TRANSFORMATION

The transformation program that is currently underway will further improve Orica's resilience in the face of continuing volatility and uncertainty, providing flexibility in how the Company is positioned across its diverse markets and customer base.

Progress has already been made to improve Orica's efficiency and reset its cost base. In 2014 the Company benefited from \$69M in efficiency savings. The means to reduce Orica's cost base by \$200 – 250M per year from 2016 have been identified. Savings will come from improvements to the Company's supply chain and procurement processes, the optimisation of its manufacturing footprint and elimination of functional duplication.

## SUSTAINABILITY

In 2014 Orica delivered improvements across many key sustainability indicators. From its 2010 baseline, Orica has reduced its annual greenhouse gas emissions by more than 900,000 tonnes. This is the equivalent of removing more than 300,000 cars from the road.

Orica develops and commercialises differentiated services and products that enable its customers to progress their own sustainability objectives. The use of chemical energy to break rock in the blasting process can be up to 25 times more effective than mechanical energy to do the same task by milling and grinding, resulting in lower greenhouse gas emissions.

Orica's innovation and use of technology also assists customers with improved noise, vibration and fume control, all of which support mine owners' ability to maintain the support of their host communities.

The Company has developed and implemented more than 100 site-specific Environment Management Plans and has again been included in the Dow Jones Sustainability Australia Index and the FTSE4Good Index.

Orica reports its greenhouse gas and energy related performance to the Carbon Disclosure Project.

## INNOVATION

One of the highlights of 2014 was the international recognition received by Orica for the development of its Ultra-High Intensity Blasting technique. This blasting method can improve mill throughput by up to 40% using ultra-high explosive energy to produce greater ore fragmentation. Successful trial and production blasts have been undertaken with customers in Mexico and South America.

Orica's innovation pipeline contains a number of important projects. The Mineral Carbonation Initiative joint venture with the New South Wales and Federal Governments and University of Newcastle is scheduled to commence trials at its pilot plant in early 2015. The program is investigating the permanent carbon capture potential of serpentinite and the use of the end product in building materials. Agreements have also been reached with Singapore's Agency for Science and Singxin Resources, a company with access to serpentinite reserves greater than nine billion tonnes. Further agreements with research, and potential commercialisation, partners are well advanced.

In August, Orica renewed its five year research alliance with the CSIRO. Over the period of the new agreement the two organisations will collaborate on the commercialisation of ground-breaking technology to improve productivity and environmental performance in the mining sector.

## PEOPLE AND SAFETY

In 2014 Orica recorded a 26% improvement in its All Worker Recordable Case Rate which measures the number of injuries and illnesses per 200,000 hours worked. This result is due to the enduring commitment of all Orica employees to workplace safety. To embed safety, risk management and sustainability processes into the Company's daily operations Orica introduced updated Safety, Health, Environment, Community (SHEC) systems and processes. These included a standardised semi-quantitative risk assessment process for Major Hazards across the organisation.

Orica also began the first phase of its new integrated SHEC information management and reporting system ENABLON, covering incident management, action management and reporting metrics.

## COMMUNITY

Orica's Community Partnerships Program commenced in 2014. It ensures Orica's community investments are better co-ordinated and more reflective of its global footprint. More than 20 initiatives in Australia, South America, Africa, Asia and North America have been selected for funding in the first round of the program. Each of the successful projects reinforces Orica's commitment to corporate social responsibility and will provide tangible results for host communities; and this contributes to Orica's licence to operate and grow.

## CHEMICALS

The sale of Orica's Chemicals business to funds advised by Blackstone is expected to be completed in the first quarter of calendar 2015 subject to customary regulatory approvals and conditions including Material Adverse Change provisions. The outcome achieved is a good result for Orica shareholders.

The acquisition of Orica's Chemicals business is Blackstone's largest investment to date in the Australian and New Zealand markets and is a strong vote of confidence in its employees, market leading positions and future growth opportunities in ANZ, Asia and Latin America.

The current head of Strategy and Chemicals, Andrew Larke, has confirmed that he will remain with the business as CEO under the new ownership arrangements.

## GROWTH INITIATIVES

The implementation of Orica's capital light investment strategy contributed to a 35% reduction in 2014 capital expenditure and 48% increase in net operating and investing cash flows. An example of the capital light strategy at work is the Burrup Ammonium Nitrate project which at September 30 was 90% complete. When commissioned in mid to late 2015, Orica, as 45% joint venture partner, will hold the marketing rights to 100% of the production from the plant.

Development of the Apatit emulsion plant in Russia is also on schedule. When complete the plant will have capacity of 40,000 tonnes per annum of emulsion. Eight mobile manufacturing units are also being provided under the contract with PhosAgro.

## OUTLOOK

The volatility and uncertainty in global resources markets makes it difficult to provide profit guidance for the year ahead. However, the Company does not expect a significant improvement in the resources markets, reinforcing the requirement for the Company to achieve its transformation objectives.