DIRECTORS' REPORT

The directors of Orica Limited ('the Company' or 'Orica') present the financial report of the Company and its controlled entities (collectively 'the consolidated entity' or 'the Group') for the year ended 30 September 2014 and the auditor's report thereon.

Directors

The directors of the Company during the financial year and up to the date of this report are:

R R Caplan, Chairman (appointed Chairman on 30 January 2014)	A Calderon
P J B Duncan, Chairman (retired 30 January 2014)	I D Cockerill
I K Smith, Managing Director and Chief Executive Officer	Lim C O
C B Elkington Executive Director Finance (appointed on 12 September 2014)	N L Scheinkestel
N A Meehan, Executive Director Finance (retired on 31 October 2013)	G T Tilbrook
M N Brenner	M Tilley (retired on 30 January 2014)

Particulars of directors' qualifications, experience and special responsibilities are detailed on page 14 of the Annual Report.

On 7 March 2014, C Hansen (LLB,BCom) was appointed to the position of Company Secretary of Orica Limited, in addition to his existing responsibilities of Group General Counsel. C Hansen joined Orica in June 2006. He has a wide range of experience in corporate and commercial law and corporate governance in a variety of in-house legal roles, as well as experience in a major Australian law firm.

This position was previously held by A Cook.

Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are listed below:

Director	Scheduled Board Meetings (1)		Audit and Risk Committee (1)		Human Resources and Compensation Committee (1)		Corporate Governance and Nominations Committee (1)		Safety, Health and Environment Committee (1)	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
R R Caplan	7	7	1	1	1	1	4	4	-	-
I K Smith	7	7	-	-	-	-	4	4	-	-
C B Elkington	1	1	-	-	-	-	1	1	-	-
M N Brenner	7	7	3	3	7	7	4	4	-	-
A Calderon	7	7	3	3	-	-	4	4	4	4
I D Cockerill	7	7	-	-	6	6	4	4	5	5
Lim C O	7	7	-	-	6	6	4	4	5	5
N L Scheinkestel	7	7	4	4	7	7	4	4	-	-
G T Tilbrook	7	7	4	4	-	-	4	4	-	-
Former										
P J B Duncan	1	1	-	-	-	-	1	1	-	-
N A Meehan	-	-	-	-	-	-	-	-	-	-
M Tilley	1	1	1	1	-	-	1	1	1	1

(1) Shows the number of meetings held and attended by each director during the period the director was a member of the Board or Committee.

Directors' interests in share capital

The relevant interest of each director in the share capital of the Company as at the date of this report is disclosed in the Director's Report - Remuneration Report. Directors' interests shown in this note are as at 30 September 2014, however there has been no change in holdings to the date of this report.

Principal activities

The principal activities of the consolidated entity in the course of the financial year were the manufacture and distribution of commercial blasting systems including services and solutions, mining and tunnelling support systems to the mining and infrastructure markets, and various chemical products and services.

DIRECTORS' REPORT

Likely developments

Likely developments in the operations of the consolidated entity and the expected results of those operations are covered generally in the review of operations and financial performance of the consolidated entity on pages 6 to 13 of the annual report.

Review and results of operations

A review of the operations of the consolidated entity during the financial year and of the results of those operations is contained on pages 6 to 13 of the annual report.

Dividends

Dividends paid or declared since the end of the previous financial year were:	**$m**
Final dividend at the rate of 55.0 cents per share on ordinary shares, franked to 100% at the 30% corporate tax rate, paid 13 December 2013.	201.7
Interim dividend declared at the rate of 40.0 cents per share on ordinary shares, franked to 40.0% (16.0 cents) at the 30% corporate tax rate, paid 1 July 2014.	147.6
Total dividends paid	349.3

Since the end of the financial year, the directors have declared a final dividend to be paid at the rate of 56.0 cents per share on ordinary shares. This dividend will be franked to 35.7 % (20.0 cents) at the 30% corporate tax rate.

Changes in the state of affairs

On 6 August 2014 Orica announced its intention to pursue the separation of the Chemicals business, either by demerger or sale.

There were no significant changes in the state of affairs of the consolidated entity during the year ended 30 September 2014.

Events subsequent to balance date

Dividends

On 19 November 2014, the directors declared a final dividend of 56.0 cents per ordinary share payable on 19 December 2014. The financial effect of this dividend is not included in the financial statements for the year ended 30 September 2014 and will be recognised in the 2015 financial statements.

Chemicals business separation

On 18 November 2014 Orica signed a contract to sell the Orica Chemicals business incorporating the chemicals trading businesses in Australia, New Zealand and Latin America, Bronson and Jacobs in Australia, New Zealand and Asia and the Australian Chloralkali manufacturing business to funds advised by Blackstone for a price of $750m. Closing of the transaction is subject to Australian Foreign Investment Review Board and New Zealand Overseas Investment Office approvals and other customary conditions, including material adverse change provisions, within the sale agreement and is expected to occur in the first quarter of calendar year 2015.

The directors have not become aware of any other significant matter or circumstance that has arisen since 30 September 2014, that has affected or may affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent years, which has not been covered in this report.

Environmental regulations

Orica aspires to be a business that does no harm to people and the environment.

To deliver on this aspiration, Orica, as a minimum, seeks to be compliant with all applicable environmental laws and regulatory permissions relevant to its operations. Where instances of non-compliance occur, Orica procedures require that relevant governmental authorities are notified in accordance with statutory requirements and internal investigations are conducted to determine the cause of the non-compliance to ensure the risk of recurrence is minimised.

The Company has committed major investments, both in terms of capital and resources, to improve its environmental performance at key sites in addition to its general maintenance program. The Company is working closely and co-operatively with regulators and government agencies in relation to these initiatives, as well as enhancing community engagement and consultation.

Orica continues to devote considerable resources to cleaning up legacy sites and is committed to dealing with environmental issues from the past in an honest and practical way.

Environmental prosecutions

Orica was the subject of legal proceedings issued by the New South Wales Environment Protection Authority (NSW EPA) in relation to incidents at its Kooragang Island and Botany sites that occurred during 2010 and 2011. In July 2014 the NSW Land & Environment Court imposed penalties of $768,250 for a total of nine offences to which Orica had pleaded guilty. The penalties will

DIRECTORS' REPORT

contribute to funding seven environmental enhancement projects in the Hunter Valley and Botany. Orica also will meet the NSW EPA's legal and investigation costs.

The NSW EPA has also commenced legal proceedings against Orica alleging one breach of the NSW Protection of the Environment Operations Act in relation to an ammonia vapour incident in March 2013 at the Kooragang Island site. Orica has entered a not guilty plea in relation to those proceedings.

The NSW EPA and the NSW Office of Heritage & Environment have issued legal proceedings against Orica alleging one breach of the NSW Protection of the Environment Operations Act and one breach of the NSW National Parks and Wildlife Act in relation to an overflow of grouting material at a mining operation near Newcastle. Orica has entered guilty pleas in relation to those proceedings.

More specific details about Orica's sustainability initiatives and performance, including safety, health and environment, can be found on the Orica website – www.orica.com/sustainability.

Greenhouse gas and energy data reporting requirements

The group is subject in Australia to the reporting requirements of the *National Greenhouse and Energy Reporting Act 2007*.

The Energy Efficiency Opportunities Act 2006 was repealed with an effective date of 30 June 2014 and Orica has no outstanding reporting obligations relating to this legislation.

The *National Greenhouse and Energy Reporting Act 2007* requires the Group to report its annual Australian greenhouse gas emissions and energy consumption and production. The Group is in compliance with the legislation as required under this Act.

Indemnification of officers

The Company's Constitution requires the Company to indemnify any person who is, or has been, an officer of the Company, including the directors, the secretaries and other executive officers, against liabilities incurred whilst acting as such officers to the extent permitted by law.

In accordance with the Company's Constitution, the Company has entered into a Deed of Access, Indemnity and Insurance with each of the Company's directors and in a few cases specific indemnities have been provided. No director or officer of the Company has received benefits under an indemnity from the Company during or since the end of the year.

The Company has paid a premium in respect of a contract insuring officers of the Company and of controlled entities, against a liability for costs and expenses incurred by them in defending civil or criminal proceedings involving them as such officers, with some exceptions. The contract of insurance prohibits disclosure of the nature of the liability insured against and the amount of the premium paid.

Non-audit services

During the year, KPMG, the Company's auditor, performed certain other services in addition to its audit responsibilities.

The Board is satisfied that the provision of non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Board Audit and Risk Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

No officer of the Company was a former partner or director of KPMG. A copy of the lead auditor's independence declaration as required under Section 307C of the Corporations Act is contained on page 48 of the annual report and forms part of this Directors' report.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are disclosed in note 31.

DIRECTORS' REPORT

Cover Letter (unaudited) to the Remuneration Report

Dear Shareholder

I am pleased to present the Remuneration Report for the year ended 30 September 2014.

This report contains our remuneration policies, practices and results, and outlines the links between business outcomes and rewards.

2014 performance and remuneration

The financial year 2014 has been a challenging year for Orica. Against a backdrop of difficult mining markets, falling commodity prices and significant pricing pressure, Orica demonstrated resilient earnings and strong cashflow performance. Pleasing progress was also made in safety, cash conversion and on corporate initiatives. The targets in the 2014 Short-Term Incentive (STI) Plan addressed all of these areas and payments of around half of maximum reflect achievement of some targets but not all.

The 2010 Long-Term Equity Incentive Plan (LTEIP) was tested in November 2013. This plan was subject only to one measure, Earnings Per Share (EPS) growth, which would deliver a level of loan forgiveness if the threshold performance outcome was achieved. As the compound EPS growth rate over the plan period was below the threshold, no loan forgiveness was payable. Executives achieved modest capital gains on their shares.

Following no increases in financial year 2013, no increase was made in the Managing Director and Chief Executive Officer's fixed remuneration or Directors' fees which were maintained at the same level for the fourth successive year. Other Executive Key Management Personnel (KMP) received moderate salary increases, in line with increases to employees generally.

The Board considers that these outcomes are consistent with shareholder outcomes.

Changes in key management personnel

Craig Elkington (Chief Financial Officer) and Nick Bowen (Executive Global Head Mining Services) were appointed to their roles during financial year 2014. In addition, Craig Elkington became Executive Director Finance, on 12 September 2014 (and is referred to as Executive Director Finance throughout the Remuneration Report). Andrew Larke assumed responsibility for Chemicals in addition to his existing Strategy and Planning duties.

Two executives ceased employment with Orica in financial year 2014: Noel Meehan (Executive Director Finance) and Alison Andrew (Executive Global Head Chemicals). Details of termination benefits paid are set out on Section E.

Remuneration arrangements for 2015

As indicated in last year's report, a detailed review of the Executive Remuneration Framework was undertaken during 2014. Information was considered from a number of sources, including stakeholders, advisors and comprehensive market research.

Our guiding principle was to develop a framework that is aligned to the business strategy, is simple and globally competitive, is consistent with best practice and which motivates executives while aligning their interests to those of our shareholders.

As a result of the review, key changes to Executive Remuneration in 2015 will be:

- The Total Remuneration opportunity for the Managing Director and Chief Executive Officer, comprising fixed remuneration, short and long-term incentives, will remain at financial year 2014 levels. In addition, a greater proportion of his remuneration will be delivered in shares and performance rights, strengthening alignment to shareholders.
- Fixed pay for other Executive KMP will remain at financial year 2014 levels. However, their performance-based pay opportunity will be increased to provide improved competitiveness to market. The effect is to re-balance their remuneration mix to reflect greater pay 'at-risk'.
- One-third of any future STI award for all Executive KMP will be deferred for 1 year into Orica shares.
- No further grants will be made under LTEIP, the loan-based LTI plan. As from 2015, all senior leaders will participate in a performance rights plan. Under the rights plan, rights will vest based on Relative Total Shareholder Return and Return on Capital performance. Targets have been set for the 2015 grant to ensure full vesting occurs only in the event of sustained superior performance.
- A malus policy will be introduced to formalise the Board's discretion to deny payment of unvested entitlements to Executives, should circumstances require.
- Executives will be required to hold a minimum percentage of their fixed remuneration in Orica shares. These shares must be acquired over a reasonable time.

Your Directors believe that these changes will provide a competitive remuneration structure that strengthens the alignment of Executives with the long-term success of Orica and its shareholders.

We therefore commend this report to you and welcome your suggestions for further improvements.

Nora Scheinkestel
Chairman, Human Resources and Compensation Committee