

# 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 2015 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

A Calderon, Managing Director and Chief Executive Officer (appointed 19 May 2015), Interim Managing Director and Chief Executive Officer (appointed 23 March 2015)

I K Smith, Managing Director and Chief Executive Officer (resigned on 23 March 2015)

C B Elkington, Executive Director Finance (resigned on 6 July 2015)

M N Brenner

I D Cockerill

Lim C O

M Parkinson (appointed 1 October 2015)

N L Scheinkestel

G T Tilbrook

On 5 October 2015, K Gray was appointed to the position of Company Secretary of Orica Limited. This position was previously held by C Hansen.

On 27 July 2015, Orica announced Dr Nora Scheinkestel will retire from the Board on 1 December 2015.

On 27 October 2015, Orica announced Russell Caplan will retire as Chairman on 31 December 2015. Malcolm Broomhead will join the Orica Board on 1 December 2015 and will become Chairman on 1 January 2016.

Particulars of directors' and Company Secretary qualifications, experience and special responsibilities are detailed on page 22 of the Annual Report.

## 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 <sup>(1)</sup>		Audit and Risk Committee <sup>(1)</sup>		Human Resources and Compensation Committee <sup>(1)</sup>		Corporate Governance and Nominations Committee <sup>(1)(8)</sup>		Safety, Health and Environment Committee <sup>(1)</sup>	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
R R Caplan <sup>(2)(6)</sup>	12	12	5	5	4	4	7	7	5	5
M N Brenner	12	12	5	5	4	4	7	7	–	–
A Calderon <sup>(3)</sup>	12	12	2	2	–	–	3	3	2	2
I D Cockerill	12	12	–	–	–	–	7	7	5	5
Lim C O	12	12	3	3	4	4	7	7	5	5
N L Scheinkestel <sup>(7)</sup>	12	11	5	5	4	4	7	7	–	–
G T Tilbrook	12	11	5	5	–	–	7	7	3	3
<b>Former</b>										
I K Smith <sup>(3)(4)</sup>	5	5	–	–	–	–	–	–	–	–
C B Elkington <sup>(3)(5)</sup>	8	7	–	–	–	–	–	–	–	–

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

<sup>(2)</sup> The Chairman of the Orica Board attends all Board Committee meetings as an 'ex officio' member of that Committee.

<sup>(3)</sup> The Executive Directors attend the Corporate Governance and Nominations Committee meetings on an 'as needs' basis.

<sup>(4)</sup> Resigned on 23 March 2015.

<sup>(5)</sup> Resigned on 6 July 2015.

<sup>(6)</sup> R R Caplan will retire from the Orica Board on 31 December 2015. M Broomhead will join the Orica Board on 1 December 2015 and will become a Chairman on 1 January 2016.

<sup>(7)</sup> Nora Scheinkestel will retire from the Board on 1 December 2015.

<sup>(8)</sup> The former Executive Directors were invited to attend certain meetings.

# DIRECTORS' REPORT

## 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 Remuneration Report. Directors' interests shown are as at 30 September 2015 – 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.

## 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 21 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 21 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 56.0 cents per share on ordinary shares, franked to 35.7% (20.0 cents) at the 30% corporate tax rate, paid 19 December 2014.	208.1
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 2015.	148.0
<b>Total dividends paid</b>	<b>356.1</b>

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

The Chemicals business was sold on 27 February 2015 and is reported as a discontinued operation.

There were no other significant changes in the state of affairs of the consolidated entity during the year ended 30 September 2015.

## Events subsequent to balance date

### Dividends

On 18 November 2015, the directors declared a final dividend of 56.0 cents per ordinary share payable on 18 December 2015. The financial effect of this dividend is not included in the financial statements for the year ended 30 September 2015 and will be recognised in the 2016 financial statements.

The directors have not become aware of any other significant matter or circumstance that has arisen since 30 September 2015, 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.

# DIRECTORS' 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's 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

The NSW EPA and the NSW Office of Environment & Heritage 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 entered guilty pleas in relation to those proceedings. A mitigation and sentencing hearing of this matter took place in June 2015 before His Honour, Chief Justice Preston, of the NSW Land & Environment Court. Orica was convicted of both offences and fined \$60,000 for each offence.

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](http://www.orica.com/sustainability).

## 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 50 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 23.

# DIRECTORS' REPORT

## Cover Letter (unaudited) to the Remuneration Report

Dear Shareholder,

The Directors of Orica Limited present the Remuneration Report for the year ended 30 September 2015.

This year was one of change and challenge for Orica. The sale of the Chemicals business was completed, a new Managing Director and Chief Executive Officer, Alberto Calderon, was appointed and other changes in key management personnel also occurred. The appointment of Malcolm Broomhead, as a Non-Executive Director and Chairman from 1 January 2016, has also been announced. In accordance with the Listing Rules, Malcolm Broomhead will offer himself for election at the Annual General Meeting on 29 January 2016.

Orica's underlying profit result was significantly lower than in FY2014 and non-cash impairment charges of \$1,692m (after Tax and Non-Controlling Interest) were taken as a result of a full review of the business and its operating model in the context of challenging conditions facing the mining sector and oversupply in the ammonium nitrate market. The Remuneration Report reflects the effect on Executive remuneration of the non-cash impairment charges and the reduced underlying profit, while recognising the achievement of other important performance objectives including safety, gross margin, cash conversion and business transformation. In determining Executive remuneration outcomes, the Board has sought to align executive efforts in meeting some of the key targets set at the beginning of the year with shareholder outcomes. Executive remuneration outcomes include average Short-Term Incentive (STI) outcomes at approximately 32% of maximum opportunity, partially or fully deferred, no vesting of the Long-Term Equity Incentive Plan (LTEIP) and no benefit from the asset impairment in relation to FY2015 Long-Term Incentive grants.

Key remuneration outcomes for the year are summarised below:

<b>FROZEN PAY</b>	Fixed pay was frozen at FY2014 levels. No pay rises will be awarded in FY2016 except where appropriate on account of a change in role or responsibilities or other exceptional circumstances.
<b>REDUCED STI AWARD</b>	The challenging market conditions that led to revised profit guidance resulted in the Earnings before interest and tax (EBIT) and Net profit after tax (NPAT) measures applicable to the STI not being met. Management did, however, achieve threshold performance in relation to cash conversion and gross margin targets and good performance against safety targets. Board discretion on the Company Performance component was not awarded to continuing Executives. Management outperformed against personal transformation targets of cost and headcount reduction. However, the Board limited discretion to target on the Personal Performance component for continuing Executives. Taken together, these outcomes resulted in continuing Executives forfeiting on average 68% of their opportunity, with the average STI award at around 32% of maximum.
<b>INCREASED DEFERRAL FOR EXECUTIVES</b>	At his request, 100% of the Managing Director & CEO's STI payment has been deferred into Orica shares for 1 year (up from 50% as per the terms of his Service Agreement). The Board also determined that the proportion of STI payments for continuing Executives deferred into Orica shares would be increased from one-third to 50%.
<b>NIL LTI VESTING</b>	No benefit has been derived from the Long-Term Equity Incentive Plan (LTEIP) awards tested this year. The performance condition for loan forgiveness was not met and the value of Orica shares was less than the outstanding loan balance at the end of the performance period. Accordingly, shares were surrendered and forfeited to Orica in full settlement of the loan balance and no value was derived by Executives from this part of their remuneration package.
<b>IMPACT OF ASSET IMPAIRMENT ON LTI GRANTS</b>	The Board has reviewed the unvested 2015 grant made under the Long-Term Incentive Plan (LTIP), to ensure that Executives are not advantaged by the asset impairment. The Board has determined that Return on Capital (ROC) for the 2015 LTIP grant will be calculated for the performance period (2015-17) on the basis of the unimpaired Enterprise Value i.e., the impairment will be added back to Enterprise Value for the purposes of testing. Looking forward, ROC for the 2016 grant (tested in 2018) will be calculated on the basis of Enterprise Value (after impairment) over the performance period. The return range of 15-30% will be retained.
<b>NIL DIRECTOR FEE INCREASE</b>	Non-Executive Directors' fees were maintained at the same level for the fifth successive year.

The Human Resources and Compensation Committee and Board believe that these remuneration outcomes reflect alignment between rewarding Executive efforts in meeting some of the key targets whilst recognising shareholder outcomes.

## DIRECTORS' REPORT

### Implementation of the new Executive Remuneration Framework

The changes to the Executive Remuneration Framework outlined last year were implemented in financial year 2015. Grants under the rights-based Long Term Incentive Plan (which replaced the previous loan based LTEIP) were made in February 2015 as noted above. New minimum shareholding guidelines have been established and a new Malus standard providing for forfeiture of entitlements for misconduct has been introduced. Further details on the revised Executive Remuneration Framework can be found in Section B of this report.

### Key Management Personnel changes

Information on the remuneration arrangements of Alberto Calderon and Orica's new Chief Financial Officer, Tom Schutte, as well as information regarding the arrangements for Ian Smith and other KMP who ceased employment during the year are provided in Sections C and D of the report.



**Nora Scheinkestel**  
Chairman, Human Resources and Compensation Committee