

BALANCING GROWTH AND RETURNS

Making sure we strike a good balance between investing for future growth and delivering short-term returns for shareholders is an important focus for the Board.

PERFORMANCE

In assessing performance for 2018, the company has made progress toward our longer-term goals, but short-term financial performance in 2018 did not meet our aspirations.

The business returned to revenue growth after some years of cyclical decline, reflecting both improved market demand and new customer contracts. Despite a strong improvement in earnings in the second half of the year, this was not sufficient to offset challenges experienced in the first half, resulting in a decline in earnings. Statutory net profit after tax was a loss of \$48 million, including individually significant items of \$372 million. The Board believes the improved performance in the second half of the year is more indicative of the company's underlying health and trajectory.

The balance sheet has absorbed the acquisition of GroundProbe during the year while also funding capital expenditure to support volume growth.

CAPITAL MANAGEMENT

The Board's approach to capital management is driven by a commitment to maintaining an investment grade credit rating, preserving flexibility for potential investments and being able to respond to changes in the operating environment.

Consistent with this approach, the Board declared a final dividend of 31.5 cents per share, bringing the total dividend to 51.5 cents per share, in line with the prior year. This reflects a payout ratio of 60% of underlying earnings.

CULTURE

The Board recognises the important role culture plays in delivering the company's strategy and meeting community expectations. Board members actively monitor feedback from a variety of stakeholder groups, visit operating sites around the world, and have observed first-hand the commitment of employees to our values, our stakeholders, and to achieving Orica's goals.

BOARD COMPOSITION

The Board has been further strengthened with the appointment of Denise Gibson. Denise is a seasoned business leader with a strong track record in the technology sector and brings valuable insight to the commercialisation of Orica's technology portfolio and broader operations. Denise will stand for shareholder election at the 2018 annual general meeting.

PRIORITIES AND OUTLOOK

As the resources industry explores new frontiers in automation and digitisation, we are confident the commercialisation of our new technologies and expertise will further consolidate our industry leading position and drive value well into the future.

Orica's priorities for the coming year centre around building on our safety performance, lifting returns from our global asset base and delivering against the rising demand from our customers. In the Pilbara region in Australia, returns in the medium term will improve as capacity at the Burrup Technical Ammonium Nitrate plant comes on line and produces reliably.

On behalf of the Board, I thank our shareholders for your continued support and our management team and employees for their contribution.



THROUGHOUT ITS LONG HISTORY, ORICA HAS LEVERAGED ITS EXPERTISE IN BLASTING AND PUSHED THE BOUNDARIES OF TECHNOLOGY TO IMPROVE OUTCOMES FOR CUSTOMERS AND SHAREHOLDERS.



A handwritten signature in white ink, which appears to read 'Malcolm Broomhead'.

Malcolm Broomhead
Chairman

BUILDING MOMENTUM

Throughout our organisation we are building momentum to lift returns and deliver sustainable growth.

PERFORMANCE

In 2018 we achieved our most important target of no fatalities. The work we have done over the past two years to understand our major hazards and ensure all key controls are in place has touched every part of our organisation and strengthened our safety culture and controls. While our Total Recordable Injury Frequency Rate increased slightly, the severity of injuries has declined. We have more work to do but I am confident we are making Orica a safer place to work, and this will remain our priority.

Strong demand and new contracts in key market segments saw our revenues return to growth in 2018, but we were disappointed with the decline in earnings before interest and tax of three per cent on the prior year. This was largely due to issues at manufacturing operations as we responded to increased demand levels, but lower earnings from the Minova business and difficult conditions in our Latin American business also contributed to the decline. We moved quickly to address the issues within our control and earnings in the second half increased 46%, reflecting solid operational performance and cost reductions.

Delivering superior technology and expertise for customers is at the core of our strategy. The acquisition of GroundProbe has significantly expanded our digital capability and customer offering and contributed positively to earnings for the year. Other initiatives including expansion into agricultural markets on the east coast of Australia and a new joint venture in China will increase returns on existing assets and build presence in these strong and growing markets.

Revenue growth from new technologies as a proportion of total revenues grew by more than 30% in 2018. While this still represents a modest proportion of sales, new technologies are driving market conversion to more modern, less commoditised products and services which will improve margins over time. Improved customer satisfaction and a lift in market share in key regions also underlines progress toward our longer-term transformation.

PEOPLE AND CAPABILITY

The expertise of our people is a differentiator for Orica. Developing and challenging our people continues to be a priority and we were pleased to lift employee satisfaction levels again this year and significantly increase the number of critical roles filled by internal candidates.

OUTLOOK

Over the past few years we have reshaped our business to respond more quickly to the needs of our customers, reduced our cost base and begun simplifying and standardising our operations to improve performance. We invested in game-changing technologies and strengthened capability at all levels of the organisation. Most importantly, we revised our approach to safety, prioritising the identification of major hazards and verification of controls to keep our people safe.

As the outlook in demand for our products and services strengthens, we are well placed to benefit. Our technologies and expertise are increasingly sought after as our customers seek new productivity and safety solutions. We are finding new ways to lift returns on our asset base and this will drive financial performance in the short and medium term. Capital efficiency and cost management will continue to be prioritised as the work we have done over the past two years to reduce our cost base and add value to our business is integrated into the way we work.

We have achieved much in 2018, especially in the second half of the year, and I am excited by the opportunity before us. I thank the dedicated people across our organisation for their sustained effort and contribution, and shareholders for their continued support.



AS THE RESOURCES INDUSTRY EMBRACES AUTOMATION AND BIG DATA TO LIFT RETURNS, WE ARE RESPONDING TO THIS OPPORTUNITY. INVESTMENT IN OUR PEOPLE, NEW TECHNOLOGIES AND NEW BUSINESSES WILL ENSURE WE CAN GROW FASTER THAN OUR COMPETITORS, GENERATE SUPERIOR RETURNS ON CAPITAL AND DELIVER STRONG FREE CASH FLOW.



Alberto Calderon
Managing Director and CEO