



Orica Limited
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ASX Announcement

ORICA LIMITED 2015 ANNUAL GENERAL MEETING – 29 JANUARY 2016

Speeches by Malcolm Broomhead, Chairman and Alberto Calderon, Managing Director and Chief Executive Officer

Malcolm Broomhead, Chairman

I'm new to the Chair – very new – yesterday was my first Board meeting. While today marks my first Orica AGM as Chairman, I know Orica from times past when I was your CEO between 2001 and 2005. Of course, many of the assets and people are completely different from that period and Orica today is a very global mining services Company. The extent of Orica's international breadth is illustrated by the fact that we have more than 12,000 employees representing 72 nationalities, working in operating sites in more than 50 countries. Over 80% of Orica's workforce is based outside Australia, and in 2015 more than 70% of revenue was generated in geographies other than Australia.

While Orica has changed in many ways since my time with the Company, I have of course followed it closely in the intervening years and I am pleased to return as Chairman.

Before we move to the formal aspects of today's Meeting, I want to say a few words about the recent past.

While we acknowledge 2015 was a very challenging year for Orica and the sector more broadly, let me say clearly, on behalf of the Board, that the performance of your Company in recent times has been very disappointing and unacceptable. The Earnings Per Share performance – even before the recent mining industry downturn, the need to write down assets, and an internal culture have not been as we would have wished or as you would have expected. This outcome was, in our view driven by poor capital allocation decisions on the one hand, a domineering culture and lack of transparency on the other hand.

The Board has this year taken significant steps to address these issues:

1. Firstly, they appointed a new CEO, Alberto. Alberto came with impeccable credentials for this role and has taken fast action to renew the management team and address the carrying value of historical acquisitions and capital items on the Balance Sheet.

The management team is first class and has set about its business of renewal professionally, logically and swiftly.

The write-downs were painful but necessary and an acknowledgement of the poor capital allocation decisions that I alluded to earlier.

Alberto has also introduced a new operating model which gives clear responsibility and accountability back to those groups who are charged with running the regions. It includes performance measures based around Return on Net Assets and customer service. The new operating model is aimed at bringing transparency and a sense of empowerment to our people.

2. The second action of your Board has been to appoint a new Chairman and begin the task of Board renewal. I would like to acknowledge the selfless work of Russell Caplan in this regard. He and Nora Scheinkestel, both of whom have left the Board, have been dedicated to the program of renewal.

Clearly the key immediate task of the Board is to appoint at least two and possibly three new Non-Executive Directors. We have begun the search process to ensure we get the appropriate skill sets for the task ahead.

3. Finally, the Board is focussed on improved transparency both in our internal reporting and the Company's communications to you, our shareholders.

The strategy for Orica at this point is simple – to improve the existing business and to realise the full potential of our existing assets. Alberto will say more about this shortly, but let me summarise the focus as being on returns and on culture.

Returns will be measured internally by Return on Net Assets which we believe drives Shareholder Value creation.

The culture focusses on:

1. Health, safety, the environment and communities;
2. Business performance;
3. Customers and listening to and delivering their needs and wants, rather than being arrogant and unresponsive; and
4. Teamwork, treating each other with respect and with empowerment.

I have full confidence in Alberto and his team but the task ahead - given the external environment - is a challenging one.

Finally, let me say that when preparing for this role, I dusted off my notes from what I said when I first joined Orica all those years ago. The words remain true today:

This is a Company with great assets, great market positions and great people. The challenge for us, your managers, is to realise that potential. We acknowledge that recent years have been unacceptably disappointing but we are now fully committed to the task of rebuilding your Company.

I will now ask your Managing Director and Chief Executive Officer Alberto Calderon to address you before we move to the formal business of the Meeting.

Alberto Calderon, Managing Director and Chief Executive Officer

Thank you Chairman.

Good morning everyone and thank you for attending today.

This morning I want to talk to you broadly about Orica's performance during the very challenging environment that marked 2015, the steps we are taking to position Orica to deliver long term, sustainable shareholder returns, and why – despite the difficult market conditions – I and your management team remain optimistic about the future.

Safety and Environment – A Core Value and Competitive Advantage

I will begin with safety. The safety of our people is the most critical responsibility we have. Each and every day, our people should come to work knowing that they will be operating safely. I also believe that a business that is performing well on safety reflects an organisation that is operating with discipline and control – a safe business is a well-run business.

I am pleased to report zero fatalities, a downward trend in our total recordable injury frequency rate for the third year running, and an injury rate that is among the lowest of ASX 100 companies¹.

However, this is not an area in which we can ever be satisfied – we must remain vigilant in our focus on this critical area.

Now, turning to our financial performance.

FY15 Summary

There is no doubt that 2015 was very challenging for Orica, our industry, and our customers. Our full year accounts included a non-cash impairment charge of \$1.692 billion on the carrying value of our Ground Support business, ammonium nitrate assets, and a range of other assets across the business.

Earnings before interest and tax of \$685 million was 21% lower than the prior year, and the Board declared a final dividend of 56 cents per share, unchanged from the prior corresponding period.

While the EBIT decline was disappointing, in the context of the most dramatic mining downturn in at least the last two decades, and compared to the EBIT declines experienced across the broader mining sector, Orica's underlying performance was credible.

Resilient in Challenging Markets

Furthermore, as we can see on this chart, continuing operating EBIT fell by half of this number, around 10%.

I want to focus on our EBIT performance, because I think this clearly demonstrates the impacts of both the current market conditions, and then the offsetting benefits of the actions we have taken as a management team.

¹ Safety Spotlight: ASX 100 Companies & More – Citi Research July 2015.

I will focus on the section of the chart within the yellow square, which starts with our 2014 EBIT, which we have adjusted to discount one-offs and the counteracting benefit from foreign exchange. This enables us to compare like for like 2014 against the 2015 continuing operating EBIT, and hence we can see a drop of \$81 million, or close to 10%. If we now focus on the most significant reason for the gross negative impact, not surprisingly it was caused by the negative impact of the mining downturn. However, through a range of 'self-help' initiatives we managed to offset the majority of the market impact. So we are doing everything we can to offset the difficult conditions that are expected to continue in the short to medium term.

The other point I would note here is that the majority of the market impacts relates to lower volumes. We consider this temporary and recoverable over the medium term, with the majority of the \$135 million impact of lower volumes due to miners deviating from mine plans or reducing production.

This naturally leads to a reduction in explosive volumes required and associated onsite services, and also affects our manufacturing utilisation. We believe these are unsustainable over the long term and volumes will eventually recover.

Commodity Volume Growth Forecast

In fact, the chart you see here highlights how while commodity prices are set to remain subdued over the longer term, commodity volumes are expected to grow broadly in line with GDP. While lower prices make the environment tough for our customers, Orica's fortunes are more closely correlated to volumes.

You will also see on the chart that these volume growth forecasts are not Orica's – this is the product of Wood Mackenzie research. For Orica's part, we are focused on ensuring we are ready to capitalise on the predicted volume growth, and on ensuring that Orica is best positioned for every part of the cycle.

Since my appointment as CEO in May, we have undertaken a number of critical initiatives to enable Orica to deliver long term performance for shareholders.

Taking Decisive Action

In a relatively compressed time frame, we have:

- Created a new management team, who I believe are world class and could stand shoulder-to-shoulder with any high performing management team in the world.
- We launched a new operating model to fundamentally change the way we work to be more customer-centric, nimble and easier to do business with.
- We rationalised our ammonium nitrate supply to balance Australia's east coast supply and demand.
- We strengthened our forward contract profile in key regions.
- Our Ground Support business – Minova – was separated into a discrete business with a dedicated senior leadership team for greater transparency, accountability and performance.

- We undertook a thorough review of the business, resulting in a realignment of our balance sheet to reflect current market conditions, and
- We delivered sustainable benefits from our transformation program – at the top end of our target range.

All these steps we have taken are laying the foundation to improve Orica's performance and embed our market leadership.

2015 was a year of 'resets', in which we had to take decisive action in the face of tough market conditions. However, there is little doubt that 2016 will also be challenging in the face of continued market headwinds.

In 2016, our priorities will be to continue to focus on improving our performance, with some important additional elements.

2016 Management Priorities

Shareholders deserve to expect that management will make decisions based on hard facts, and that our performance can also be measured against fact-based metrics. Therefore, a core focus of your management team and Board will be to institute rates of return metrics for every commercial decision, be it in capital allocation or contracts, to drive discipline and objectivity for better decision making.

Another priority will be embedding Orica's market leadership in technology. One of Orica's competitive advantages is our long-standing commitment to innovation and technology. We believe we are the clear industry leader in providing value-add products and services with a proven track record in improving customers' productivity. We will remain at the leading edge of innovative product development to provide customers with proprietary Orica innovations, such as our world-first wireless blasting system, which has the potential to change blasting practices to provide greater value for many of our mining customers.

Finally, but perhaps most significantly, management's efforts will be focused on developing and supporting the right culture within the organisation.

From my first day leading Orica, I committed to a cultural change program.

I truly believe that we will only achieve our business objectives if we create and sustain a positive culture.

Guiding Principles

In building the culture we want to have, the principles of respect, transparency, collaboration and performance must guide everything we do.

Treating all our stakeholders – including shareholders, employees, communities and customers – with respect in all our interactions must be our foundation.

Transparency means being open and honest in our communications – and being as open about any negatives as we are about the positives.

Collaboration means providing our people with the enabling tools and systems to ensure they can and are working together for a common purpose.

Finally, you should expect – and we will drive – a performance culture. We will do this by driving fact-based performance metrics against measurable financial and behavioural objectives.

These principles are the commitment you as shareholders have from me and the Orica management team.

Current Market Conditions

Before I conclude, let me talk about the current volatility across the globe. There is no doubt that we will continue to face challenging conditions in the short to medium term. With commodity prices expected to stay subdued, the volatility affecting our customers in the mining sector is expected to continue. In addition, uncertainty about China's growth rate and economic outlook will continue to drive market volatility more generally.

At our full year results in November we said we could see some improvement in EBIT in FY16, subject to among other things the forward curves for key commodities largely holding. It is too early in our financial year to provide any further update on this outlook.

In broad terms however, the environment remains very challenging for us and our customers. To illustrate, since early September 2015, the thermal coal price has fallen by around 16%, iron ore a further 20%, the copper price has dropped by 20% and oil by 49%.

Your management and Board are focused on ensuring we have the right strategy, people, and systems in the right places at Orica to deal with the current volatile times.

But in the medium and long term, the upward cycle will begin again, like it has always done. And we will be ready for this.

We have solid reasons to feel optimistic about the prospects of our company, despite the challenging market conditions we currently face.

Our Value Proposition

This slide neatly illustrates why Orica is a great company, uniquely positioned to create a great future.

We are the number one or number two in the key mining markets in the world in which we operate, and where any explosives company would want to be.

We have an unrivalled diversity by geography, commodity, and customer.

We are uniquely positioned. Our industry is at the beginning of everything – all roads, tunnels, mines have to start with explosives. The world still needs roads, infrastructure, buildings and the like – our products are fundamental to the world's development. Despite the mining downturn, the world will in the medium and longer term continue to increase its demand for commodities like copper and aluminium and even coal is still expected to grow around 2% per year.

We have fantastic technology. We out-invest and overachieve relative to our peers in technology that can demonstrably add value to our customers.

Finally, our customers are telling us that they like our security of supply, our safety record and the quality of our products and services.

We have the people, the skills, the technology, the tradition and the commitment to create a positive future for the long term.

Thank you.

The Chairman then moved to the formal items of business.

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