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Survived COVID – so far

Company/ASX Code	Orica / ORI
AGM date	Tuesday 22 December 2020
Time and location	10.30 AM AEDT Virtual http://agmlive.link/ORI20
Registry	Link Market Services
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Adam Raymond assisted by Belinda White
Pre AGM Meeting?	Yes with Chair Malcolm Broomhead

The individual(s) (or their associates) involved in the preparation of this voting intention have a shareholding in this company.

Item 1	**Financial Report, Directors' Report and Auditor's Report**
ASA Vote	No vote required

Summary of ASA Position

COVID-19 has had a clear negative effect on Orica for Financial Year 2020 (FY20), resulting in Net Profit After Tax (NPAT) dropping significantly from a tough FY19. Underlying profit dropped, but Orica still remained profitable even after abnormal items of AUD$131m. Orica's markets were broadly unaffected by COVID-19 in the first half, but there was a significant contraction in non-Australasian markets in the second half, signalling that there might still be pain to come.

The major highlights for Orica's FY20 were the deployment of the System Applications and Products (SAP) system throughout the company and the purchase of Exsa (a Peru based detonator and explosives manufacturer). Both are aspects of changing the structure of the global supply chain for Orica. These changes are both focussed on sharpening and streamlining costs out of the business, with Exsa providing production geographically in the key South American market.

Another significant change was the statement that Orica is seeking to reduce greenhouse gas scope 1[1] and 2[2] emissions by 40% in 2030 from FY2019 levels and to maintain scope 1, 2 and 3[3] emissions intensity at or below 1.7 tCO2-e (tons of CO2 -equivalent)/tonne ammonium nitrate sold by FY22. This year Orica had total global scope 1, 2 and 3 emissions of 6.3 MtCO2-e (mega-tonnes of CO2 -equivalent), a reduction of 9.8 per cent from FY19, with work focusing on the older plants as these generate the biggest gains in this area.

1 Scope 1 emissions are that are directly produced directly by the activities of the company in question
2 Scope 2 emissions are the result of power consumed by the company in question as part of its business
3 Scope 3 emissions are indirect emission as are result of the company's value chain, usually resulting from the use of their product.

The purchase of Exsa (total cost ~US$203m) was done in conjunction with a capital raising (which raised AUD$517.3m, $500m of which was institutional, the remainder retail) and the placement of a US Private Placement debt facility of AUD$715m, leaving plenty of powder dry to cover both future shocks, new purchases or flexibility on debt position.

Unfortunately, the capital raising had a significantly dilution effect on retail shareholders, with retail shareholders making up roughly 10% of the shareholding of company, whereas they only made up 3% of the capital raising.

Finally, the dividend represents a conservative 45% payout ratio of a reduced profit, at the bottom end of the 40%-70% payout guidelines set by the board for Orica.

Summary

(As at FY end)	**2020**	**2019**	**2018**	**2017**	**2016**
NPAT ($m)	168.3	250.5	(34.5)	324.2	386.2
UPAT ($m)	299	372	324	324.2	386.2
Share price ($)	$16.35	$22.54	$17.03	$19.77	$15.20
Dividend (cents)	33.0	55.0	51.5	51.5	49.5
Total Shareholder Return (%)	(24.4%)	34.8	(11.5)	0.3	(31.5)
Earnings Per Share (cents)	75.5	64.2	(12.7)	102.7	92.0
CEO total remuneration, actual ($m)	6.138	4.672	2.850	4.652	3.413

For 2020, the CEO's total actual remuneration was **69 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Item 2.1	**Re-election of Malcolm Broomhead as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Broomhead has a long history with both Orica, being a previous CEO for 4 years, and the Australian mining industry in general. He was appointed to the board as independent director in 2015 and the chair in 2016. This doesn't constitute a workload that would prevent him from fulfilling his role on the Orica board. It is expected that the board will face a challenging year and it is the hoped that Mr Broomhead's experience will aid in the challenges that Orica has to face in the near future.

Mr Broomhead is also a director of BHP Group Limited and PLC, the Walter and Eliza Hall Institute and Council Member of Opportunity International Australia. Whilst this is a heavy workload, we do not consider Mr Broomhead's workload so excessive as to not vote for his reinstatement.

Skin the game: Mr Broomhead's shareholding in Orica is 37,984 shares, roughly 1.5 times his pre-tax income from Chair position.

Item 2.2	**Election of John Beevers as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Beevers has been put forward for election as a replacement for Lim Chee Onn on the Orica board, holding a position on the board as a non-executive director since February 2020. Growth for Orica is firmly placed on the introduction of new technology with GroundProbe at it's centre. Having the former Chief Executive Officer of GroundProbe on the board is going to have direct access to the organisational knowledge. His experience is also valid for being introduced to the Orica board. As he no longer holds a position within Orica, the ASA considers Mr Beevers will be an independent director if elected to the board.

Mr Beevers holds positions on multiple Orica committees, and is a directorship with Syrah Resources Limited. We do not consider his workload excessive.

As of 30 September 2020, Mr Beevers held 7,727 shares. Whilst this is below 50% of Mr Beever's FAR, the short duration that Mr Beever's tenure as a director ASA does not oppose Mr Beever's shareholding.

Mr Beevers is considered an independent director.

Item 3	**Adoption of Remuneration Report**
ASA Vote	**For**

Summary of ASA Position

The ASA appreciates the clarity of the remuneration report, and fact that directors and executives considered the impact of COVID-19 on the broader economy in determining incentives.

There is no doubt that there has been a big impact on shareholders from the drop in profit, and this has been reflected in the award of 0% of the Long Term Incentives (LTI) of the CEO. The ASA feels that this is an impact commensurate with impact to shareholders.

The STI is 75% financial: half Return on Net Assets (RONA) and half based on Earnings Before Interest and Taxes (EBIT) changes. The balance based on three different safety metrics. It was safety that made up most of the CEOs award for FY20.

CEO rem. Framework for FY20	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.8	28%	1.8	19%
STI - Cash	0.4	6%	1.8	19%
STI - Equity	0.4	6%	1.8	19%
LTI	3.9*	60%	3.9	43%
Total	6.5	100.0%	9.3	100%

* The LTI represents the vesting of the FY18-FY20 LTI incentive, no award was made for the FY20 year, but 24.88% for FY18 and 77.15% for FY19. These are issued to the CEO, but subject to holding locks for a 2 year period after they have vested.

The LTI is based solely on RONA which is linked to shareholder value. The LTI award is based on a value that rises very steeply, going for no award to 100% award within a narrow band of performance:

Average RONA over 3 years	% of rights vesting
Below 13.7 %	Nil
At 13.7%	30% of rights
Between 13.7% and 14.0%	Straight line vesting between 30% and 60% of possible rights
At 14.0%	60% of right vest
Between 14.0% and 14.7%	Straight line vesting between 60% and 100% of rights vest
At or above 14.7%	100% of rights vest

The ASA considers is somewhat of a risk to make one metric so dominant in the incentives. In this case, the RONA: 37.5% of STI and 100% of LTI. It is a fairly good metric to choose as it has a good correlation with shareholder return, but can be open to swings of fortune in economic conditions (bad one year, then recovery makes it much higher the next year). On the positive side, both the STI and LTI use holding locks for granted rights, ensuring key personnel share the fortunes of shareholders to some degree. On the balance the ASA supports the approach taken by Orica.

Item 4	**Grant of performance rights to the Managing Director and Chief Executive Officer (CEO) under the Long-Term Incentive Plan**
ASA Vote	**For**

Summary of ASA Position

The FY17 LTI was tested in November 2019 with 77.15% of the performance rights granted vesting. In calculating the LTI, the Board applied discretion to adjust the enterprise value used in determining ROC to remove influences of exceptional events and impairments. This discretion has the potential to be abused. The Board does not anticipate the FY18 LTI will achieve minimum RONA (November 2020).

Notwithstanding the exercise of discretion by the board for FY17 LTI, the structure of the LTI and general consideration of the board in relation to application of rights, ASA support this resolution.

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