Australian Shareholders' Association

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Orica racks up the significant items

Company/ASX Code	Orica / ORI
AGM date	Wednesday 14 December 2022
Time and location	10:30am AEDT Ballroom, Park Hyatt Melbourne, 1 Parliament Square, East Melbourne, Victoria and online at meetings.linkgroup.com/ORI22
Registry	LINK Market Services
Type of meeting	Hybrid
Poll or show of hands	Poll on all items
Monitor	Adam Raymond assisted by Belinda White
Pre AGM Meeting?	Yes with Chair Malcolm Broomhead

Monitor Shareholding: Some of the individuals involved in the preparation of this voting intention have a shareholding in this company.

Summary of issues for meeting

There is nothing of great controversy listed for the meeting, although Orica has once again had write downs associated with exceptional items which have materially reduced a strong UPAT to a slim statutory profit of $60 million. The largest of these significant items related to the decision to exit our operations in Russia given the difficult operating environment, the significant decline in the local economy in Turkey, and the flow on impacts across Europe, Middle East and Africa region, with the war in Ukraine coming on top of COIVD impacts.

While many of these exceptional items were outside the direct control of Orica, it is concerning that this is the fifth year in a row that Orica's reported downgrades exceeding $100 million each year (with cumulative down-grades of $3.1 billion in the last 8 years).

Proposed Voting Summary

No.	Resolution description	
2.1	Re-election of Gene Tilbrook as a Director	For
2.2	Re-election of Karen Moses as a Director	For
2.3	Election of Gordon Naylor as a Director	For
3	Adoption of the Remuneration Report	Against
4	Grant of performance rights to the MD/CEO, Mr Sanjeev Gandhi, under the Long-Term Incentive Plan	Against
5	Proportional takeover bids	For

Summary of ASA Position

A capital raising during the year provided significant financial strength to the balance sheet with a focus on addressing global risk, increasing capital expenditure by approximately $80M in the next financial year, and completing the purchase of Axis. Some loans have been rolled over into sustainability loans. These loans have performance covenants which will result in Orica incurring penalties if abatement targets are not met.

Governance and culture

Orica's board are experienced and have diverse backgrounds.

However, there is an opportunity for Orica to improve innovation and reduce risks by increasing board diversity to capture individuals with skills in the technology, climate challenges, social media, and innovation space.

Financial performance

The final dividend declared in 2021 was unfranked 67.2 cents per ordinary share. In 2022 (including after the end of the financial year) directors declared an unfranked dividend of 53.1 cents per ordinary share (paid 08 July 2022) and an unfranked dividend of 22.0 cents per ordinary share (payable on 22 December 2022) with the total being 75.1 cents per ordinary share.

Key events

At $682 Million capital raising occurred during the year, with separate institutional and retail raisings - $650 million from institutional investors and $41 million from retail shareholder, with $9 million in costs.

Key Board or senior management changes

The Orica board increased to nine with the appointment of independent director Gordon Naylor on 1 April 2022.

Changes in Key Personnel include the departure of Christopher Davis (departing CFO) and the arrival of Kim Kerr (joining CFO).

Orica have not listed safety personnel, governance personnel or climate personnel to be key management personnel. This reflects Orica's long-term priorities.

Summary

(As at FYE)	**2022**	**2021**	**2020**	**2019**	**2018**
NPAT ($m)	60	(173.8)	82.3	245.1	(48.1)
UPAT ($m)	317.0	208.4	299.1	371.9	324.2
Share price ($)	$13.22	$13.79	$15.43	$22.54	$17.03
Dividend (cents)	35	24.0	33.0	55.0	51.5
Simple TSR (%)	(14.94)	(9%)	(30%)	36%	(11.66)
EPS (cents)	14.5	(42.7)	20.8	64.5	(12.7)
CEO total remuneration, actual ($m)	$3.04	1.4	6.2	4.7	2.8

Mr Gandhi's current total fixed remuneration is $1.7m, with additional short-term incentives of up to $2.55m ($1.0574m paid in 2022) and long-term incentives of up to $3.4m (not yet tested for 2022).

Mr Gandhi's actual remuneration of $3.04m is 33 times the average weekly total earnings of employees in Australia. Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking by the share price at the start of the year).

Item 2: Election or re-election of directors

2.1 Re-election of Gene Tilbrook

2.2 Re-election of Karen Moses

2.3 Re-election of Gordon Naylor

All directors of Orica have completed less than nine (9) years on the Orica board, and the majority are considered independent.

Orica has expanded its Board, but this expansion has not been to address any communicated gaps in the skills matrix.

ASA anticipates that multiple directors will depart in the next 12 months to allow for Board refresh, introduction of younger and more innovative directors, and introduction of a director with specific climate qualification and experience.

Orica does not have a board member who is qualified and experienced in relation to climate. Despite upgrading its Board skills matrix, this requirement for a Board member with currency in these skills does not appear to be a requirement in Orica's Board skills matrix and is not addressed in Orica's annual report.

Orica statements pertaining to climate are sufficiently general to not alert regulators.

Item 3: Adoption of Remuneration Report and Item 4: Approval of equity grants to Managing Director/CEO

The Short Term Incentive (STI) and Long Term Incentive (LTI) structure of the Chief Executive Officer (CEO), Sanjeev Gandhi has been modified slightly from the previous reporting period, but the Fixed Annual Rate (FAR) of pay remained the same. Broadly this was also the case from the key personnel. There are positive features of the structure including holding locks on the equity awards.

Some executive pay was adjusted in 2022 due to changes in responsibility. (Such as occurred in relation to Chris Davis, who was replaced as Chief Financial Officer at the end of Orica's Financial Year).

Despite some winding back of the LTI from 215% to 200%, in 2021, we still consider the package in total is too generous for a company of this size and complexity. The take home pay has lifted substantially this year despite the fall in total shareholder return (TSR) and we are unable to support the remuneration report or grant of equity. We look forward to the promised review in 2023 and encourage the company to introduce a gateway of positive TSR to the relative TSR hurdle.

Orica's persistent failure to properly predict for exceptional items means the occurrence of these items does not impact sufficiently on key performance indicators (KPI) used to calculate remuneration and equity for key management personnel. A total of more than $3 billion dollars of write downs have occurred over the last eight reporting years, wiping out all of the after tax profit of the company during that time.

Item 5: Renewal of proportional takeover provisions

ASA supports the renewal of Orica's constitutional provisions as this prevents a partial take-over which could result in retail shareholders being left with a controlling shareholder who is not of their choosing.

Appendix 1

Remuneration framework detail

The below table indicates how remuneration has been structured for the Orica CEO.

Further details are found in the Orica annual report (with the remuneration report commending at page 101 of the Orica 2022 Annual Report).

Orica has introduced metrics for Scope 1 and Scope 2 emissions to short term incentives and re-weighted safety, environmental and financial metrics for the CEO scorecard.

STI outcomes were generally above targets, but this was due to financial matters (with the removal of consideration of the impact of exceptional items) and not due to improved ESG.

The current CEO remuneration is based on 75% variable remuneration (with a base wage constituting 25% potential total remuneration being a combination of cash and equity). For the CEO 50% of maximum remuneration is based on Long term Incentive (LTI) rights.

Other executives have a base wage (in cash only) constituting 35.7% of potential total remuneration.

Take-home pay is disclosed in the Remuneration Report and values attributed to equity are transparent, being based on the five-day VWAP following release of the end of year financial results.

The CEO's take-home pay was well above the 2021 take-home pay.

LTIs and holding locks associated with equity provided (be it under STI or LTI) are of a reasonable duration (with LTI being for three years and holding locks being for two or three years).

Directors' fees are clearly detailed. All directors have invested in equity in Orica. Of note, Maxine Brenner and Denise Gibson (both long-term directors) have not attained the minimum shareholding required.

CEO rem. Framework for FY2022	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.700	25	1.700	22.2
STI - Cash	0.850	12.5	1.275	16.6
STI - Equity	0.850	12.5	1.275	16.6
LTI	3.400	50	3.400	44.4
Total	6.80	100.0%	7.65	100%

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.