

American Chamber of Commerce Speech

Thank you Tony for that kind introduction and thank you for the opportunity to be here today.

It's always a pleasure to attend Am Cham functions. I have a special interest in and affinity with America, having lived in Denver Colorado between 2000 and 2004. I emerged with a passion for skiing, having lived at the foot of the Rockies – one of the most spectacular winter playgrounds one could wish for. And, my young son, in particular, came away with a distinct twang, which still lingers and reminds me of the terrific time we enjoyed there as a family. But, more about Orica's presence in the US later.

I'm here to tell you the Orica story, which in my perhaps biased opinion, is a fascinating tale of how a small 19th Century explosives supplier to the Victorian goldfields grew to become a multibillion dollar global market leader operating in 50 countries and serving customers in twice that many.

So – Orica, who are we?

You might not notice us but we're in your lives everyday. We're the paint on your walls. We're part of the wine right there in your glass. We're the cotton in your shirt, the flavour in your food and the fragrance in your hair shampoo. And, as Sydney turns on perfect weather for a backyard BBQ, consider that: the minerals for making your beer glass; the iron ore in the stainless steel BBQ tongs; and the aluminium for your drink can are likely to have been mined using explosives supplied by Orica Mining Services.

At the core of our product range is science. Simply, we turn science into solutions for our customers. And by doing so we have grown to become one of Australia's largest publicly listed companies with a market capitalisation in excess of A\$6.5bn.

We have five businesses:

- Orica Mining Services, the world's largest supplier of commercial explosives to the mining and quarrying industries;
- Orica Consumer Products, Australia's leading supplier of paints and stains, texture and powder coatings, paint preparation products, car care and lawn and garden care products under the Dulux, Selleys and Yates brands;
- Chemical Services, Australia's leading supplier of chemicals to the Water, Adhesives & Resins and Mining & Specialty Chemicals markets;
- Chemnet, the largest chemical distributor in Australasia, with a recently acquired significant operation through Andean Chemicals in Latin America; and
- Incitec Pivot, 70% owned by Orica, it is Australia's largest manufacturer and distributor of Fertilisers.

We employ around 14,000 people, more than half of whom are located outside of Australia. Our employees, collectively, are native speakers of nine different languages. Spread across six continents, they reflect the global spectrum of cultural, social, religious and economic backgrounds. What they all share is the skill and enthusiasm to deliver on our promises to our customers.

So, how did we get here?

I don't propose to take you through the entire 130 years since we first supplied the explosives for those chancing their luck during Victoria's gold rush.

Our major transformation occurred after 1997 when UK owned ICI divested its major shareholding, allowing its Australian and New Zealand subsidiary to become an independent corporation – to be known as Orica.

It was at that time that we were ‘unleashed’ to move from a relatively inward looking subsidiary confined to Australia and New Zealand, to aggressively explore new growth opportunities in markets where we felt we had a sustainable competitive advantage.

That process began with a frank reassessment of the businesses we were in and the businesses we felt we should be in. This has resulted in continuous growth through geographic and brownfield expansion, mergers and acquisitions, as well as category expansion and organic growth. Importantly, we also divested ourselves of businesses we didn’t believe would deliver the results we wanted.

Between 1997 and 2000 we sold approximately \$A1.3bn worth of our business and bought \$A1.3bn in new businesses.

Our assessment criteria were, and continue to be:

- Market leadership – can we be market leader in that business either globally or locally and do we have the competitive advantage to sustain that position?
- Grow ‘close to the core’ – pursue opportunities in related businesses where we can leverage expertise and achieve synergies.
- Invest in the ‘winners’ – only grow our best performing businesses that meet our financial performance targets and earn the right to grow.

This has led us to the five businesses we are in today. We are the Australian market leader in four of our businesses and the global market leader in the fifth and largest – Orica Mining Services which operates in the commercial explosives market.

Interestingly, just two weeks ago we sold the last of what I would describe as our legacy business from the ICI days, when

we divested Qenos. Qenos is a good example of a business that had grown up in Australia, behind tariff barriers cloistered from the global economy we have today. As a small player in that global economy, we could not compete with world scale players that had emerged.

Since 2001 we have spent or committed more than \$1.8bn on brownfield expansion, mergers and acquisitions.

This includes the most recent example of our growth strategy - more than \$900m to acquire parts of Dyno Nobel's commercial explosives business. Essentially we're acquiring all of the European, Middle Eastern, African, Asian and Latin American businesses of Dyno Nobel. This purchase fits our strategic criteria as its highly complementary with our existing operations and provides excellent opportunities for synergy and growth.

One of the strict financial performance targets we demand of our businesses is a return on net assets of 18 per cent or greater. We are very clear on this and if a business is acquired, it has three years to meet that hurdle.

Before becoming the Managing Director and CEO of Orica, I was CEO of Orica Mining Services. Which brings me back to my time living and working in Denver as CEO of our International Mining Services business.

When we purchased this business, America was underperforming and not even close to passing that 18 per cent return on net assets hurdle.

We were always told that Australian companies would struggle to do business successfully in the US. Those who'd tried before us said we'd need to tailor our performance targets to the local market. I was told it would be IMPOSSIBLE to achieve an 18 per cent RONA in a chemicals company. It simply wont happen.

Well, there's nothing like being told "you can't" to bring your 'pig headedness' to the fore.

I don't pretend that it was easy. We were essentially a distribution business operating on relatively small margins. Yet we turned it around – something we wouldn't have thought possible in the beginning. Last year this business achieved a return on net assets of 26 to 27 per cent. We did this by:

- an aggressive cost reduction programme;
- renegotiating long term contracts for profit;
- de-risking the business by incorporating 'risers & falls' into contracts; and
- managing the supply/demand imbalance in the key ammonium nitrate market.

I'm personally very proud of that turn-around. I believe it speaks volumes about the ability of an Australian based company to succeed globally.

That is not to say that there are not challenges.

There will always be cultural, language, political and social issues to contend with. It is our general policy to recruit local managers wherever possible.

However, the Orica culture and values of 'delivering the promise' to our customers has permeated throughout our global team of people.

An example of Orica people working together is our mining services team in China assisting their Australian colleagues to deliver high quality packaged emulsion to Papua New Guinea in a very tight timeframe to meet customer demand.

We also encourage movement of people within the global Orica network.

For example, we have moved some executives from the US to Australia. In the last six months we've appointed a General Manager of Business Efficiency from GE in the States. She is now located in our Australian head office. Our Global HR manager for Orica Mining Services is an American who was previously HR Manager for Orica North America.

The challenges of being an Australian based company operating globally are not necessarily restricted to those countries with language and obvious cultural barriers.

During my time in the US I experienced that, even though our nations share a long history of alliance and association, it was still critical to Orica's success that we earn trust and establish credibility.

Being in the businesses we're in (explosives and chemicals) it becomes even more critical to gain the trust of the local authorities and communities and provide reassurances about security measures and safe product stewardship.

This only became more so, of course after September 11, 2001. I was based in America during that time. Like most of the nation on that day, we had no clear picture of what exactly was happening. We faced some fairly weighty decisions such as whether we should immediately freeze all transportation of our goods. I personally, had never experienced 24 hours like it and hope I never do again.

Interestingly, following that terrible day I was required to undergo background checks which, amongst other things, required being questioned extensively by two FBI agents and being finger printed. As Australians we like to think of ourselves as having a fairly laid-back existence, so this was a little confronting.

My wife was separately interviewed and asked whether “...there was any reason why I should be considered unfit to manage an explosives business.” I was grateful that she refrained from adopting any Australian vernacular or sarcasm in her response and played it with a straight bat. At least, I assume she provided the answer they were seeking as I heard no more about the matter and received my FBI approvals – albeit once I’d returned to Australia.

Never the less, it shows that even in the US there is a significant trust issue that needs to be carefully managed and it’s a long term relationship building exercise. It’s even more so when you operate in markets such as Indonesia or China.

We’ve been immensely successful in our global endeavours because we’ve selected our markets carefully and been extremely thorough in our risk analysis.

Part of that analysis is a long term view of the market as a springboard for future growth.

So let me round off by talking very briefly about where we see some of those growth opportunities.

We are actively investigating opportunities for geographic expansion.

We are well positioned to take advantage of strong economic growth in countries such as China, India, Brazil and Russia.

There are excellent avenues for us to leverage our brand management and distribution expertise to expand our consumer products business into Asia.

Outside of Australia and New Zealand, we currently operate consumer products businesses in Papua New Guinea, Hong Kong, Singapore, Malaysia and China.

But, we believe we're nowhere near fully exploiting the potential of Asian markets.

In particular, we're extremely positive about our ability to capitalise on emerging consumer markets such as China.

We currently have a powder coatings joint venture with Camel Paints in China. This venture has allowed us to take our considerable experience to the world's fastest growing powders market.

Likewise our strong chemicals manufacturing position provides us leverage into promising new markets.

Because we have sound manufacturing fundamentals we're able to look beyond our current footprint and explore the immense potential out there.

Our joint venture with the Andean Chemicals Group in Chile and Peru will establish Chemnet's first direct presence in Latin America.

We will seek to pursue growth in the mining services sector.

And, as a truly customer driven company, we invest heavily in R&D. We will be seeking to realise the commercialisation of new technologies.

So that is a postcard view of what I consider to be a unique journey of internationalisation of a company with its roots firmly planted in Australia. And, a forward look at the exciting road ahead.

Again, I thank you for listening and would be pleased to answer questions.