

## **Australian Shareholders' Association**

Ladies & gentleman, thank you for the opportunity to be here today.

The Australian Shareholders Association are perennial attendees at Orica AGMs, so it's a pleasure to return the favour. I welcome the occasion to speak directly with shareholders and, of course, potential shareholders.

Perhaps one of the greatest changes in the marketplace over the past decade has been the increased level of share ownership amongst individual members of the general community. Most major newspapers today carry weekly colour lift-outs devoted to the sharemarket. Financial advice is a feature of TV lifestyle programmes. And, talkback radio shows are devoted to providing fiscal counsel to so-called 'mum & dad' investors.

With the ever increasing importance of superannuation in the retirement years of the babyboomer generation and beyond, this interest in investment performance will only become more widespread and more intense. People are generally better educated about the market and we have seen the rise of what is often termed 'shareholder activism.' Without doubt it has added new demands and an increased level of scrutiny.

On balance, I see this as a very positive development. It has, in my view, led to improved shareholder communication and a greater focus on corporate governance. At Orica we pride ourselves on providing open, timely and relevant information to all of our shareholders – regardless of their location or the size of their shareholding.

All of our shareholders, large or small, are essentially the suppliers of risk capital. For individual investors, that personal risk is perhaps more considerable. We understand that your primary concern is achieving the highest possible return for the risk you undertake. In this, our interests coincide.

I'm here to tell you how Orica meets that purpose. I'm here to tell you the Orica story, which in my perhaps biased opinion, is a fascinating tale of how a small 19<sup>th</sup> 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?

Orica as a name does not have a very public face and you might not notice us, but we're in your lives everyday. We're the paint on your walls. We're the cotton in your shirt, the flavour in your food and the fragrance in your hair shampoo. And, next time you have that 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\$7 billion.

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, is Australia's largest manufacturer and distributor of Fertilisers.

We employ around 14,000 people, more than half of who are located outside of Australia. Our employees are located in nations collectively boasting nine different official 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.

And delivering on that promise has provided excellent shareholder value.

In the financial year to September 2005, we delivered record underlying profit and a return on shareholders funds of 23%. The amount of the dividend was also a record.

At the end of last week we were number 36 on the ASX.

Admittedly from a low point in 2001, the share price has increased by nearly 500% in less than 5 years.

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.

Over the past four years we have completed more than 20 merger and acquisition opportunities. We have spent or committed more than \$1.8bn on brownfield expansion, mergers and acquisitions. This has given each of our business platforms the chance to either consolidate its market position or grow through geographic or category expansion.

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 it's 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.

Our relatively rapid evolution from local subsidiary to an independent global market player has been achieved whilst staying true to those targets. To demonstrate how non-negotiable they are, I need only recall my time as CEO of our International Mining Services business, located in Denver Colorado.

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 won't happen.

Well, Benjamin Franklin is quoted as saying “*The secret of success is constancy of purpose.*” And there is nothing like being told “you can’t” succeed to strengthen your resolve to do just that.

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. I also believe it demonstrates our core principle of maximising shareholder return by ensuring we achieve our fundamental performance targets.

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.

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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 talk 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.

We are looking for avenues 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.

It's been said that the key to a successful speech is to make sure you stop speaking before your audience has stopped listening. So, I don't intend to go for too much longer and would like to provide the opportunity for questions to ensure you hear what's of greatest interest to you about Orica.

However, an area I'd like to briefly touch on before I finish, because I think it will become increasingly important in the future is the balance between our commitment to maximum shareholder return and our perceived obligations to other external stakeholders.

I believe this is an issue that most publicly listed companies will grapple with to varying degrees. However it is especially so at Orica where our operations can have direct social and environmental impacts.

There is a school of thought that corporate social responsibility is in conflict with shareholder interests. That a commitment to CSR focuses companies on non-commercial activities that subjugates the interests of shareholders.

At Orica we acknowledge our environmental, social and community obligations and are committed to proving to our customers and the community that we can meet them. That does not mean we are slavishly beholden to external interest groups who have no capital risk invested in our financial performance at the expense of those who actually own the company – including yourselves.

It means that we actually see our social responsibilities as being complementary to our financial performance. It's becoming clear that shareholders are less tolerant of corporate behaviour that is socially or morally irresponsible. Without judging the conduct of other companies, the negative publicity alone surrounding recent events has the potential to impact on shareholder value.

It is our view that responsible corporate practices will in fact enhance financial performance.

An example of our commitment is our programme for remediating legacy environmental issues and our focus on safe product stewardship. We are facing up to responsibilities in this area, particularly in regard to a number of sites with contaminated soil and groundwater, the legacy of operations which ceased long ago. Equally we have done much to further improve the environmental performance of current operating plants, so we are not leaving the burden of future environmental legacies to our successors and to future generations.

I am especially pleased with our improved relationship with local communities thanks to a renewed focus on community relations – this is nowhere more evident than at our Botany site in Sydney.

Yes, these activities have required a financial commitment. However, such a commitment is, I believe, consistent with our goal of becoming the best performing science-based solutions company in the world. Achieving that goal will be to the benefit of the community and our shareholders alike.

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.