



Orica Limited
ABN 24 004 145 868

ASX Announcement

CHAIRMAN'S 2012 AGM SPEECH

2012 was not a stellar year; partly because of the flow on impact of our difficulties at Kooragang Island in 2011 and partly because of the external environment. We can't do much about the economy but I hope you will see from my later remarks that we are determined to learn from the Kooragang Island incidents.

Your Company has delivered a modest increase in underlying profit. This was the eleventh year of successive growth in underlying net income. That is a good record. More fundamentally, the past ten years have seen the execution of a clearly defined corporate strategy. This has led to Orica becoming the global leader in the provision of innovative blasting solutions, mining chemicals, ground support technologies and other services to the international mining industry.

My address today by necessity, covers a wide range of issues that your Board and management have addressed over the past twelve months but the over-riding message that I wish to leave with you today, is that we are unanimously optimistic about the opportunities that lie in our path and our capacity to capture them.

Orica remains Australia's largest mining services company and today employs more than 15,000 people, with operations in over 50 countries and customers in more than 100 countries.

For much of the last decade our shareholder returns have been delivered against a backdrop of generally favourable economic conditions. These have given way to economic headwinds. Yet Orica's strategic focus means we remain well placed to continue our success.

For this reason I remain optimistic that our track record of shareholder returns can be maintained in the year ahead.

2012 has also been a year of significant change for Orica, not least of which was the arrival of our new CEO, Ian Smith, from whom you will be hearing in a moment. With Board support, Ian has initiated a lot of change.

Orica's long term strategy has been clear, focussed and successful but it now requires revitalising. This involves changing our organisation to a functional structure with the emphasis on "One Orica" rather than as previously as a group of discrete businesses.

The Executive Committee and the Company are now organised and staffed to focus more clearly and for the whole company on four particular areas of improvement, namely:

- understanding our customers;
- understanding the communities within which we operate;
- project management; and
- operational excellence.

I believe significant progress has already been made in all areas.

Changes of this nature are disruptive and I would like to acknowledge the efforts of all our employees in making sure these changes are delivered without impacting our customers.

As the new organisational structure is bedded down the renewed focus on delivering valuable solutions to our customers will drive further value for shareholders.

Volatile market conditions demand an even more disciplined approach to capital allocation and a strong focus on maintaining the strength of the Company's balance sheet.

In this regard the Board has three primary considerations.

Firstly, your Board recognises and seeks to meet the legitimate dividend aspirations of our shareholders. Secondly, we must maintain gearing ratios and other financial metrics at acceptable levels and thirdly we must consider the financing requirements of the business.

With this in mind, Orica continues to pursue a number of value-adding growth initiatives in attractive markets.

An example of this is Orica's joint ventures to build a 330,000 ton per annum ammonium nitrate plant and a distribution and marketing joint venture for mining customers in the Pilbara iron ore region.

Orica will own 45% of both joint ventures.

These projects, with production expected in 2016, form part of a wider supply chain which enhances the security of supply that Orica can offer customers in this important resources region.

Before Ian Smith speaks to you in further detail about our financial results, I owe you a word on Minova.

Let's be clear that a write down of any kind is an expression of failure. Minova and its US based subsidiary company, Excel, were acquired before the Global Financial Crisis and no doubt, with the benefit of hindsight, our timing, particularly with respect to the latter, was not good.

I believe that all those involved acted on the best information available at the time (and by the way I was one of them) but, given the way markets have developed, the Board took the difficult but necessary decision to write down the carrying value of Minova by \$367 million to a more realistic level.

Nevertheless, Minova continues to hold attractive positions in key geographies and is well positioned to capitalise on any improvement in demand for its products and services, although I am not going to make any prediction as to when this might occur.

Management has also initiated *Project Optimova* to simplify the business, lower its costs and, importantly, to ensure that its synergies with other parts of our services to the mining industry can be fully exploited. To achieve this its operations will be fully integrated into the broader Orica business.

Orica's social licence to operate underpins all of our operations around the world.

Many people may ask the question, what is a social licence? To us it means that Orica enjoys the support or acceptance of the communities within which it operates.

The new functional structure of 'One Orica' will better support both a financially successful and a socially responsible company.

Orica understands that we are part of the communities in which we operate, not separate from them. This means we must be socially responsible in everything we do and in all our relationships with communities, employees, regulators and governments.

It is our host communities that judge whether we have earned the right to operate and it is just as important as any of the formal licences that we require to run our plants.

2012 has seen greater focus on social responsibility, as well as a determined effort to implement the lessons learned from the disappointing events of 2011 at our Kooragang Island plant in Newcastle.

The Company has made significant investments to re-engineer the production processes in order to improve operational efficiency and, in particular, to minimise the risk that the breach of containment events are repeated.

Whilst we have made physical changes to the plant, we are also working to re-establish our relationship of trust with the community.

The community will tell us how successful we are in achieving this goal.

You may have noticed some media reports in the last couple of weeks about the legacy of past operations of an Orica plant at Botany in southern Sydney.

The public focus has been on the need for further testing to determine whether any additional mercury remediation work is required with respect to the former ChlorAlkali operations.

Last week the Environment Protection Authority in NSW announced the establishment of an independent process to examine all information around historic mercury emissions from this site.

In recent years Orica has spent in the region of \$200 million on remediation projects to address legacy issues at the Botany Industrial Park. Whilst testing undertaken shows that there is no unacceptable health risk to local residents, as the Chairman of Orica, I want to state very clearly to shareholders that we are listening to the community and we support the process established by the NSW Government. I believe it can earn the confidence of the community and all our stakeholders.

This process should deliver a scientifically robust and independent analysis of all the issues associated with mercury in the area.

On a related note, one of Orica's base values is: "No Accidents Today". This year we have continued to reduce the number and severity of accidents recorded at Orica workplaces but the sad death of one employee at our Antofagasta plant in Chile serves as a constant reminder of our obligation to drive further improvements.

Orica is a truly global company with customers in more than 100 countries and almost two thirds of our operations today are located outside Australia.

Whilst Australia is our largest single and most important market, many opportunities for growth are located elsewhere, particularly in Africa, South America and Asia. Orica's capacity to service these growth markets represents a unique opportunity for the Company not shared by our competitors.

The globalisation of our business is matched by the diversity of our shareholders. More than one third are now domiciled outside Australia.

The way we pay our senior employees is always a subject of major interest. This is perfectly justified. People expect that if very high salaries are paid for excellent corporate performance, there should be clear consequences when this is not achieved.

Orica shares this view. Our people are highly motivated and I take this opportunity to thank them for their continued efforts.

Since threshold economic performance was not achieved during the year, no short term incentives were paid to management staff. Ian Smith's contract, as new CEO, entitled him to receive a payment. However, as his team did not receive one, he chose to forego his entitlement.

Whilst the issue of corporate remuneration is a convenient whipping post for commentators and outside observers, the outcome on STI this year does serve as a reminder that this component of executive remuneration is not a given, it is an incentive that is earned and paid on the basis of performance. Our report shows that this also applies to long term incentives.

Following the customary review, the decision was also taken not to increase the salaries of the Executive Committee for the coming year and the Board has decided that the review of its fees, which would normally have been carried out during 2013, will be postponed until the following year, so that board fees will also remain unchanged.

I hope you have found the remuneration report clearer than in the past. We have attempted to describe as clearly as possible the way we aim to remunerate our employees and, particularly, our senior executives.

The core principles are as follows:

- Fixed Remuneration is set with reference to the median for comparable positions and comparable executives;
- Short Term Incentives aim to have clear and objective criteria for reward; and
- Long Term Incentives should encourage behaviours which improve the long term value of your company.

As you have heard we are a global entity in every sense of the word and, in particular, it is the expertise and commitment of each and every one of our employees all over the world that is key to Orica's ongoing success.

The Company's performance in 2012 has been set against both a difficult market environment and a significant re-orientation of the business.

Taking into account the broader economic hurdles which must be cleared, Orica is well positioned to be a strong partner with its customers, helping them work their assets harder and improve their productivity and profitability. Orica will share in that improved value.

I would like to thank all of our employees and the Orica management team for their significant efforts in a challenging year.

I am optimistic that the energy and focus directed to unleashing the full potential of our Company positions Orica for another year of success in 2013.

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