**Orica CEO Alberto Calderon**
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***Leading through Every Part of the Cycle***

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**Check against delivery**

Introduction

Good afternoon. It's a pleasure to be here today in Western Australia, the heart of the resources industry in Australia and not surprisingly, recently voted the most attractive mining investment destination in the world[i].

In fact, in recognition of the significance of WA to mining globally, this year we decided to locate our Europe, Africa and Asia President, Tony Edmondstone and members of his leadership team in Perth – a clear recognition of Perth's status as a global mining hub. Tony and some members of his team are here with us today.

It would be an understatement to say that the past few years have been challenging. China's growth has slowed and that, combined with a subdued pricing outlook for metals and mining, has delivered a perfect storm. And the dark clouds only seem darker when we remember that in the 10 years leading into 2014 we were in the midst of the biggest mining boom in generations.

While we know that mining is cyclical, and some even predicted the timing of the end of the boom with relative accuracy, it has been the speed and severity of the pricing downturn that was unanticipated by the industry. What affects the mining industry of course has a flow on impact on the mining services sector, and Orica has certainly not been immune to this.

So we are in volatile times now and for the foreseeable future. But we also know the cycle will eventually turn. Across the broad mining spectrum, we are all focused on managing most effectively both for the 'now' and for the future up-turn. In my view, the companies that will perform best in the challenging times and be best positioned to benefit when the cycle inevitably turns will be those that:

- firstly, effectively control all the elements they can;
- secondly, have the right culture;
- thirdly, have effective leadership at all levels of the organisation; and
- finally, have a deep and enduring understanding of their customers.

So today, I would like to talk to you about how we at Orica are facing up to these challenges.

Our reality

From 2004, Australia experienced a decade of unprecedented growth in the resources sector. During this time, the price of our mining exports more than tripled. By the end of 2013, the RBA estimates that the mining boom raised real per capita household disposable income by 13%, real wages by 6% and lowered the unemployment rate by about 1.25 percentage points[ii].

China’s industrialisation during this time drove demand; just 10 years ago, China was producing around 350 million tonnes of crude steel annually[iii]. In 2014, it produced more than 820 million tonnes[iv]. Between 2003 and 2011, China’s GDP growth was near or at double digit growth every year.

But this has changed now. China’s GDP growth has slowed. In 2014, it was 7.4%, which – while still strong by global standards – is the lowest level for China in 25 years[v].

India, the other great industrialising economy, also had a 7.4% GDP growth rate in 2014[vi], but of course, India will be a very different experience to China. In 2014, India’s steel output was the equivalent of around 10.5% of China’s[vii]. India’s industrial intensity is never likely to be as high as China’s, and it is also moving towards the consumption-based phase.

This means lower prices for bulk commodities for the medium term. We are unlikely to see inducement pricing in bulk commodities for probably a decade. There are grounds for longer term optimism for base metals, and particularly copper, because demand for copper plateaus much later in the industrialisation cycle.

Steel intensity tapers off when GDP per capita reaches around the US$15,000 level (on a Purchasing Power Parity basis), while copper demand keeps growing until GDP per capita hits between US$30,000 and US$40,000.

China accounts for around 45% of global refined copper demand, and by the end of 2014, its GDP per capita was around US$13,000[viii]. Rising demand for renewable energy and the extension of power supply to the hundreds of millions of people (particularly in India) who still don’t have access to electricity will also be positive for copper.

Regardless, our reality has changed. All companies that have a vested interest in the sector have had to look at re-defining themselves given the current environment, and the mining industry has done an outstanding job of this. One sizable Australian iron ore house has, for instance, reduced their cash costs per tonne by almost 70% compared with four years ago. That’s an extraordinary effort. The industry is filled with companies that have re-invented the way in which they work to realise greater efficiencies.

While the cycle will inevitably turn back in our favour, we have to accept this paradigm shift and if we are to thrive in this new environment, adapt. There is a great deal that we can control within our organisations to build resilience and financial strength so we have the vigour to grasp opportunities, as growth returns to our sector.

Optimistic for the future

While the current environment presents serious challenges, we are playing a long game. We have a 140 year legacy – a testament to our resilience and adaptability. We believe that over the next few years, we will be able to grow our business by executing against the following strategies.

We believe our differentiation strategy will allow us to outperform the market. Additionally, our focus on customer centricity will improve the penetration of our differentiated products and services.

We also anticipate that the separation of our Ground Support division into Minova - a discrete business unit - with a dedicated and experienced management team, focused on improving performance will generate positive returns.

And finally, continuing to deliver productivity improvements, in both sourcing and fixed costs. The transparency of performance that our new Operating Model delivers, will enable us to identify and take advantage of opportunities in this area.

However, we are well-aware that our current circumstances also require us to prioritise some actions that will see us emerge stronger from the headwinds that we face today.

These actions are focused on driving high performance by: controlling the elements we can; having the right culture; and ensuring the right leadership within every level of the organisation.

Controlling the elements we can

We have taken decisive action at Orica and despite the market volatility we continued to control those elements that we can. Our transformation program has exceeded our forecast, and – more importantly – 80% of the benefits delivered are repeatable, long term benefits. In the half year ended March 2016, we delivered net benefits of 52 million dollars. Our forecast is to deliver benefits of between 70 and 80 million dollars by the end of this financial year.

Given the persistent oversupply of Ammonium Nitrate in Australia, we rationalised our supply, with curtailed production out of our Yarwun operation in Gladstone helping to balance the Australian east coast supply.

We have continued to strengthen our contract profile, locking in volumes through the down cycle for better certainty.

Our Ground Support business has been re-established as a separate business unit under the reinvigorated Minova brand, and will now be run ‘lean and mean’ for cash.

Last year, following a review of our whole business the balance sheet was aligned to the current market conditions. This has enabled us to set clear performance metrics for each business in each region, which will ultimately help us improve our returns on our investments.

Back to basics

Most importantly perhaps, we are determined to get the basics right. This sounds easy, but is actually the most difficult part of running a large, complex organisation.

In many ways, this is about reintroducing discipline and rigour as baseline expectations throughout Orica. For example, we turned our attention to a stringent and disciplined approach to capital management. Now, more than ever before, we have to ensure that every dollar invested in the business delivers a satisfactory return.

We implemented a Capital and Investment Management framework, governed by a formalised Investment Committee with Terms of Reference and Standards. The framework ranks, using consistent metrics, all the capital projects in the company on a scale of 0-300. This enables us to compare completely different projects on a like for like basis, and then deploy capital to the highest ranking projects as a priority.

Capex is now categorised as either Growth or Sustenance. Growth covers major growth, contractual growth and growth improvement. Each of these sub categories will need to meet set financial metrics including NPV and RONA.

Any capex spend categorised as regulatory compliance or that enables safety, health, environment and business risk reduction is classified as Sustenance. Given the critical nature of this spend, it will not be subject to meeting financial metrics. It is now however ranked based on regulatory and risk drivers using a basic risk driver matrix.

Any capex will, firstly, address critical business risks and regulatory requirements; and secondly, focus on growth projects that generate higher returns.

With this in place, we find we are making better decisions and investing in the right areas of the business.

And this is an important distinction. We will always continue to invest – the trick is to invest in the right things – be it through the downturn or upturn.

Costs to target

When you are in a downturn however, it’s easy to fall into the trap of instituting across the board cost cuts. Frankly, I have never been a fan of this approach because it doesn’t discriminate between ‘good’ and ‘bad’ costs. In my experience, a good management team should be able to distinguish ‘bad’ costs from ‘good’. Good costs are those that bring net benefits to the business; that is, if you cut these profits will suffer. On the other hand, bad costs are the inefficiencies in the business, and hence reducing them increases value.

The paradox of management is that usually ‘good’ costs are easier to take out, but end up destroying value for the corporation. An example that hits home for Orica is when we closed the specialised Minova sales division. This significantly impacted our ability to compete in the profitable ‘non-mining’ natural market and while we benefitted from the cost reduction in the short-term, it actually destroyed value.

Unfortunately, it is not always easy to correctly identify ‘bad’ costs. Without the right level of transparency, these costs can lurk in an organisation – a cancer that quietly chips away at the bottom line. We believe that the work we are doing in developing and embedding our new operating model have helped us to identify, and remove these costs.

Leveraging our global footprint

We have also turned our attention to defining our long-term, optimal initiation systems supply network. Orica has a highly geographically dispersed Initiation Systems manufacturing footprint, which we need to leverage more effectively for the benefit of our customers and Orica, while not compromising on the elements that are most important to our customers - safety, reliability and quality.

To ensure we deliver against these factors we have embarked on a project that will utilize our highly automated plants, like those in Gyttorp (Sweden) and Brownsburg (Canada), to produce a high quality product, consistently and efficiently.

Keeping in mind the supply reliability requirements of our customers we are also standardizing our products where possible, and obtaining the required certifications to supply in all jurisdictions that our customers operate in from all the manufacturing locations in our vast global network. This delivers a number of benefits to our customers. They are assured of a consistently high quality product, regardless of where it is manufactured. As the products become more standard, they also benefit from even better security of supply as we will be able to ship our products from any number of manufacturing plants, all over the world, to meet their needs.

You might have seen a recent announcement that we made with Thales to domestically produce boosters more efficiently and to a consistently high quality. This serves to accelerate the time between order and delivery, making us more responsive to our customer needs. We will continue to seek opportunities like this that better serve our customers.

In a continual bid for even greater efficiency, we will move the non-automated, labour intensive tasks to lower wage countries such as Philippines, Mexico, or Bulgaria.

Our new operating model, which I will touch on later, brings an added, necessary dimension to this as it provides the crucial visibility, common processes, and data, which will allow us to truly unlock the value of our manufacturing network.

While these structural changes are far-reaching and critical, I see it as the hardware of the organisation. Even more important is the software – or the people and the culture that we create.

Culture: Becoming customer-centric

But in order to have the right culture, you have to ensure the organisation has the right operating model to support it. As a mining services company, we know that the key to our success lies in our ability to be truly customer-centric – to reflect a culture where customers are at the heart of everything we do.

We reflected on the best way to organise ourselves – one that is efficient and delivers the greatest value to our customers. We designed a new operating model with our customers at the centre. This then defined how we are structured around the world, to enable the successful execution of our strategy and improve our responsiveness to customers. The result is a model where the four regions, Australia Pacific and Indonesia; Europe, Africa and Asia; North America and Latin America have accountability for end-to-end customer service delivery, operational and financial performance.

Under the operating model, work is executed and managed regionally, unless there is significant leverage in executing or managing this at the Group level. However, functional excellence is retained within a small number of Group Functions. The functions have a critical role to play in setting and managing a consistent set of Group Standards and systems for business critical processes that are to be complied with across the organisation.

We firmly believe this will allow us to provide the same, consistently high quality of products and services to customers everywhere. The same Orica experience around the world.

Supporting this will be a single, standard SAP system that drives common processes and data. This will deliver the required visibility of performance across our landscape.

This delivers value on a number of fronts. For example, in targeting 'bad' costs, the visibility that the operating model delivers provides clarity on the inefficiencies to target. As the operating model defines accountabilities of each and every role, we can benchmark against best in class and understand where the opportunities to remove 'bad costs' exist.

This surgical approach ensures that we are feeding the business where we need to and becoming leaner in the areas that we can.

When you consider our global footprint, this visibility of performance translates into an invaluable source of intelligence for us. We have people in more locations than anyone else – some 450 mine sites across every type of market and operation, from developing economies through to highly mature, sophisticated markets and operations.

We undertake around 1,500 blasts around the world, every day. This means we have an expansive 'big data' collection and knowledge base that can be fully leveraged to link customers' sites and regions and enable the very best in knowledge transfer.

We see this as a key differentiator for us and continue to leverage it further by investing around three times more than our competitors in R&D. We consider this investment necessary and can demonstrate how this leads to improved productivity for our customers through advanced blasting services, data recording, management and analysis for optimal productive blasting results.

This translates into real value for our customers. For example, by improving fragmentation in gold operations we have helped our customers reduce their power consumption and therefore their unit costs. Incidentally, unnecessary power costs would fall into the 'bad' cost category for our customers.

We are conscious that having the right products, systems and processes will only take us so far. Every day, our people interact with our customers. These moments of truths will define how our customers view us. Are we true partners or a mere supplier? It all boils down to our people.

## Our people and culture

In his book from Good to Great, Jim Collins writes on the importance of first getting the right people in the right roles. Over the past 12 months, we refreshed our most senior leadership team and empowered them to run their functions and businesses. We provided absolute clarity on what we need to achieve and then basically, trusted them to be the professionals that they are.

While we strive for functional excellence throughout the organisation, we also understand the value of culture. We've all heard the saying: "leaders drive culture; culture drives people; people drive performance". Therefore culture is a central issue for us and is certainly a priority for me. And values lie at the core of a company's culture, in our case values like respect, transparency, collaboration and performance. At Orica, we want to build an organisational culture that is a magnet for the best people and the best ideas.

And while culture is important, it can also be nebulous. We realised the power of harnessing and codifying the culture that we want to see at Orica. This has led to an expansive project in the company to develop Our Charter – one that clearly articulates our DNA. What we stand for. Our purpose. And, our values.

Hundreds of people across the world, in our offices and at our sites, are taking part in a series of activities to define exactly that. And once we develop it, Our Charter will be something that we live and breathe, every day, all around the world.

In challenging times, ensuring that everyone is aligned and driving towards common objectives becomes even more critical. We firmly believe this will also lift the level of sustainable engagement at Orica. Driving a higher level of sustainable engagement will see a more motivated workforce, extending a higher level of discretionary effort to achieve our goals. This will deliver dividends, not only to our shareholders, but also to our customers.

Re-setting our customer relationships

Understanding our customers – their needs, issues, and what they are looking for from us – is key. It's about building enduring partnerships as opposed to engaging in transactions. This means changing a mindset that in the past may have been to 'upsell' to everyone. Or put simply, chasing short term revenue targets that may damage long term customer relationships. In some instances, our customers don't necessarily want the 'bells and whistles' or technologically advanced suite of products. Instead, they want a simple, basic, reliable product. They want a product that conforms to the highest degree of safety and of a consistent high quality.

Companies sometimes fall into the trap of chasing and enjoying short term financial gains – but the long term cost of this can be significant. We have pledged to understand our customers and sell what adds the most value *to them*. We are also developing technologies, like our Field Information Systems, which will allow us to use actual data, to factually demonstrate how we add value.

For all of our customers we strive to provide a safe, reliable, high quality product that is supported by efficient service. For some customers, it might mean leveraging the investments we make in technologically advanced blasting products, to deliver even greater value. Within the industry, it is a well-known fact that we invest far more in research and development than our competitors. The onus is on us to be transparent and work collaboratively to demonstrate how we can develop resourceful solutions that help companies identify and realise opportunities to increase productivity.

At Orica we are working with our teams at the coal face to embed the right mindset and behaviours – both in our Charter and in our processes. All of us need to deeply understand that to keep a customer for life, we must sell them what is best *for them*. We must always honour our commitments to our customers and keep their goals front and centre. When we do this consistently, across geographies, products and services, we can say we have truly become a customer-centric organisation.

Summary

So finally, at the end of the day we are acutely aware that we are the custodians of a long, distinguished legacy at Orica. We have been here for over 140 years, serving our customers and our communities, through good times and bad. We command a leading market share in most of our major markets and partner with some of the best mining companies in the world. We have worked hard to ensure that as an organisation, we adapt to changing circumstances and shape our destiny over the years.

The actions that we are taking today in controlling the challenges that we face will see us emerge stronger through this down cycle and be in a far better position to take advantages of the opportunities when growth returns.

Our customers will always remain at the forefront of everything that we do and we are conscious of the fact that we need to consistently deliver value though our safe, reliable and quality products and services.

Internally, we continue to strengthen our structure and processes, tightly managing capital and costs to ensure a healthy balance sheet. There is tremendous value that we can unlock in effectively utilising our assets and streamlining our initiation systems supply network.

While all this is important, we will only be truly successful if we have the right people executing against the right priorities. Our focus in this space is unwavering – we need to provide clarity and make it simple for our people to excel. The operating model will do all that and more. When this is combined with a culture that is collaborative and respectful, we will have a winning combination and be able to deliver even greater value to our shareholders and customers.

Thank you.

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[i] Fraser Institute survey 2015
[ii] The Effect of the Mining Boom on the Australian Economy, RBA Research Discussion Paper, August 2014.
[iii] [iii] World Steel Association, Crude Steel Production 1980-2013:
https://www.worldsteel.org/dms/internetDocumentList/statistics-archive/production-archive/steel-archive/steel-annually/steel-annually-1980-2013/document/steel%20annually%201980-2013.pdf
[iv] World Steel Association media release, World Crude Steel Output Increases by 1.2% in 2014, 22 January 2015.
[v] Wood Mackenzie, Global Copper Long-term Outlook Q2 2015
[vi] World Bank GDP data: http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG
[vii] India produced 86 million tonnes of crude steel in 2014. World Steel Association, World Steel in Figures 2015
[viii] World Bank: http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD