

MANAGING DIRECTOR'S ADDRESS TO AGM

Thank you, Don.

This been a successful year for Orica; a year in which we lifted underlying profit by 13% and began to develop a strong platform for growth.

When I joined Orica just over 2 years ago, I came with confidence in the business and the people. We began to apply what I believe are the three sources of creating value for shareholders: efficiency, culture and strategy.

Our performance in lifting underlying profit from \$60 million in 2001 to \$270 million in 2003, demonstrates the quality of the assets and the people and gives me even greater confidence going forward.

Over the last two years, our management approach has been focused on improving returns from our existing businesses in order to increase value for our shareholders.

This result demonstrates the strength of Orica's current businesses as a platform for growth and reflects the continued development of the performance based culture within the company as well as the tremendous commitment of Orica's people.

During 2003, We have been able to increase profitability in an environment which posed extremely challenging trading conditions in North America as well as the worst drought on record in Australia.

The result highlights, one of the strengths of Orica where negatives in one business can invariably be offset by positives in other businesses.

While we now have a great base to build on and our attention will increasingly turn to growth, we will maintain our strong focus on efficiency and culture.

Today, I will be discussing each of these three sides of the value creation pyramid, Efficiency, Culture and Strategy and in concluding with strategy, I will give an outline of Orica's pathway to the future.

However, in relation to the result itself, firstly let me add some depth to the headline figures which Don provided.

EBIT, or Earnings Before Interest and Tax, and before acquisitions and divestments was up 11% to \$428 million.

EBIT in Mining Services, Consumer Products and Chemicals increased by between 18% and 22%.

All three had record results, whilst the drought caused a 26% decrease in Fertiliser profitability.

Gearing was just under 36% at year end, well within our target of between 30% and 40%, reflecting excellent cash management during the year. Interest cover, which you recall was a significant problem for Orica not too long ago, is now a healthy 7.3 times.

Let me look in more detail at the first of our three value drivers, Efficiency, which made a substantial contribution to our result, again proving that you can drive business improvement through self help when the external environment is unfavourable.

Cost efficiencies after tax of \$51 million drove the improvement in earnings. This was made up of \$24 million which was a flow on impact from the 2002 fixed cost reduction program plus \$27 million which came from our broadening of the approach.

We call this approach "attacking the whole of the cost bar" which has the goal of year-on-year reductions in cost per unit of revenue.

This approach applies to all costs and is a multi period approach. The main two areas of savings were transportation and logistics and raw Materials. Other savings in telecommunications, IT hardware, travel and energy were also captured.

Now moving on to capital efficiency. We made good progress in 2003. The focus on reducing our investment in trade working capital, particularly trade debtors, has continued throughout the year.

The Yarwun ammonium nitrate expansion and the de-bottlenecking of the sodium cyanide plant were excellent examples of our ability to use our technical expertise to drive capital productivity.

Manufacturing is a key element of capital efficiency and it is this efficiency which was evident at the ammonium nitrate plants at Kooragang Island and Yarwun and ChlorAlkali plants in NSW and Victoria which are continuing to operate at 110% of name plate capacity.

The successful operation of our plants is primarily a tribute to our people. This leads me to the second side of the value-creation pyramid, Culture.

We are committed to developing a performance culture driven by commercial and financial outcomes and personal accountability. While we made good progress on the four cultural principles in the year, we recognise that there were areas for improvement.

This was particularly so in Safety, Health & Environment. During the year we were saddened by the death of a work colleague in an accident at our ammonium nitrate plant at Seneca in the US. Any year in which we have a fatality is unacceptable.

Despite this tragedy, our underlying performance has improved as calculated by the recordable case rate, which measures the frequency of injuries for every 200,000 hours worked.

Our rate of 0.94 is among the best in Australia.

In relation to the Environment, we take our responsibilities very seriously and understand the community's awareness and expectations on these matters. Don has already mentioned Botany groundwater which is one of a number of legacy environmental issues we are addressing.

Let me say, that Orica has a high standard of technical expertise and also a long history of meeting its responsibilities, which we will continue to do in the future.

Commercial Ownership - - running the business as if it was your own, continues to be a highlight. I have already referred to the contribution to this year's result of the emphasis on efficiency and costs. This will continue to be a focus going forward.

Creative Customer Solutions and Working Together are two principles where we are increasing our attention because we believe that we can derive substantial value.

Creative Customer Solutions is the key to driving revenue growth and while we have had a number of successes, there is much more we can do in this area.

We will succeed only if our customers succeed and this is at the core of Creative Customer Solutions. We are producing innovative solutions to meet the needs of our customers and we are keen to work with them to find "a better and faster way to service them".

Working Together has been important in successfully integrating a number of bolt-on acquisitions during the year as well as generating some substantial new Group-wide cost savings.

We have a portfolio of different businesses offering many opportunities for synergies and learnings across the Orica group.

Before turning to strategy, I will touch briefly on the inherent strengths of our businesses, for it is this strength that forms the basis for going forward.

Orica's businesses are united by the chemical sciences that underpin their product ranges and by the creation of products that meet basic human needs.

For example, the foundation of Fertilisers and Mining Services is nitrogen chemistry. The science of passing gas over a catalyst is the fundamental process in the manufacture of ammonia, formaldehyde resins, ammonium nitrate and urea.

All of our products meet basic human needs with stable demand growth through the economic cycle.

For example:

our chemicals purified the water that is in your coffee or tea, our fertilisers grow the food on your table, our explosives helped blast the rock for construction of roads and buildings in this city and as you know, our paints protect and colour the surfaces in this room.

Before the start of the meeting, many of you will have been watching the Consumer Products television commercials on the screen behind me. The fact that you have heard of Dulux, Berger, British Paints, Selleys and Yates is no surprise. They are all icon brands in this country.

This inherent value of our business has driven the strategy of the past two years - to lift returns from our existing assets. This slide illustrates the transformation we have undergone in that time.

The chart is based on a set of "traffic lights". Green illustrates growth, yellow "fix" and red "sell". As you can see in 2001 the majority of our businesses were in the "yellow" category and needed to improve efficiency.

Looking at 2003, you can now see that the chart is now dominated by "green", and we essentially only have one business, North American Mining Services, in our ongoing portfolio, that is yet to meet our minimum performance hurdles.

The impact of the drought on our Fertiliser business has meant that this business did not achieve an economic profit, however we remain confident that within two years this newly formed business will deliver returns that satisfy our investment criteria.

Back in 2001, we had identified three businesses that needed to be sold and so far two of these businesses (Australian Vinyls and Crop Care) have been sold.

In addition we have written off our total investment in Qenos and will look to exit our 50% interest when market conditions improve.

The clear message here is that these are very good businesses and the majority of them have earned the right to grow.

Let me give an illustration of the underlying strength of the businesses in the Orica portfolio and why we have maintained our commitment to them.

As a benchmark if we look at the earnings profile for the last ten years, there has been some good growth, both in our domestic and international operations.

Over this ten year period the compound annual growth rate has been over 9%.

Our strategic intention is to build on the strength of our existing businesses to continue to improve our performance going forward.

As you are aware, Orica's strategy is to "build on strength" and is based on three principles.

These are:

Firstly, Market leadership

There is compelling evidence that a business is far more likely to be successful from a leadership position, even in a low growth industry, than from being a follower, even in a high growth industry.

Orica is fortunate in that all of our businesses to enjoy market leadership positions.

Our second criterion is to grow only economically profitable businesses or those that have "earned the right to grow".

Our strict financial criteria mean that our businesses must generate an economic profit, which we define as an 18% return on net assets at the operating level, before we will reinvest for future growth.

And our third principle is related growth of our existing (best) businesses.

Research shows that growing close to the core of existing businesses is far more successful than large step-outs.

By adhering to these three strategic principles, we believe we will be able to follow a low risk strategy that will produce superior returns going forward.

This slide provides you with a snapshot of our broad strategic direction for the future.

We see growth coming from four areas:

- Industry Growth
- Productivity Improvements
- Capital expenditure
- Mergers and acquisitions

There will be organic growth in all the industries in which our businesses operate. Although we have made considerable gains through our major restructuring programs, we believe that there is continued scope for year on year ongoing productivity improvements.

Organic growth and productivity gains will generate significant free cash to be able to fund further capital expenditure, bolt-on acquisitions and geographic expansion.

Given our strict investment criteria this growth will lead to increased profitability, which together with a healthy dividend will result in above market returns for our shareholders.

As Don has reported, during 2003, we either spent or committed, in round numbers, \$600 million on growth.

The biggest transaction involved our fertiliser business and this industry rationalisation is a tribute to our people that made it happen. We are ahead of schedule to deliver the \$30 million of annual synergies of this business.

To the Chemicals Group, we added the Fernz, Engineering Plastics, Incitec Chemicals and Welvic.

Mining Services was boosted by geographic expansion into India and the recently-announced Russian joint-venture as well as through the purchase of minorities in Initiating Systems in Australia, North America and India.

Orica Consumer Products is successfully integrating the Yates garden products business which will join OCP's other icon brands.

The brownfield expansions are providing or will provide us with increased capacity at extremely economical rates.

So in summary, 2003 has been a very good year.

We have built on the 2002 turnaround with a 13% increase in profit and returns which were underpinned by \$51 million of efficiencies.

This has been achieved despite the impact of the worst drought on record and the difficult trading conditions in North America in terms of gas prices and coal demand.

On the way through we have dealt with a number of legacy issues in a decisive and responsible manner.

We have started building for the future by executing a number of strategic plays, including rationalisation of the Australian fertiliser industry in a value-creating way - a task which had eluded those in the industry for many years - and also completed a number of low risk bolt-on acquisitions.

As the chairman has said, we have maintained a good dividend yield.

Above all, we have continued to “deliver the promise.”

In the future, we will continue to build on strength.

Execution against our strategy will be driven by managing through strict financial criteria and a relentless focus on cost and capital efficiency.

You will also continue to see Orica pursue growth in our existing four business platforms through plant expansions, industry rationalisation, bolt on acquisitions and moving into new geographies.

This will lead to increased top line growth.

In the current year, you will see continued earnings momentum driven by expected underlying growth in our existing businesses, the impact of 2003 acquisitions and expected partial recovery from 2003 drought conditions.

Finally, let me, on behalf of Orica's 9000 employees, thank you for your continued support and also, wish you a safe and happy festive season.

17 December 2003

- **Contacts:**

- Stewart Murrihy, Manager, Corporate Affairs: 03) 9665 7538 Mob: 0412 675 510
- Noel Meehan, Manager, Investor Relations: 03) 9665 7844 Mob: 0413 187 000

- **Web site:** www.orica.com