

## **ASX Announcement**

### **MANAGING DIRECTOR & CEO ADDRESS FOR 2006 AGM** **MR GRAEME LIEBELT**

Thank you Don.

Good morning ladies and gentlemen. It is a pleasure to be here today to present my report to you following my first full year as Managing Director and CEO.

It has been a very successful year at Orica. A year when we delivered strong results, and significantly re-shaped our business positioning it for growth.

Orica is now a truly global Australian company.

Our transition from an ICI subsidiary constrained to Australia and New Zealand, to a global company was completed when we sold the final legacy business, Qenos, to the China National Chemical Corporation earlier this year.

We have market leading positions in each of our businesses. Our chosen businesses now have reduced exposure to volatile cycles. Our more resilient earnings stream is reflected in pleasing results from a year of mixed market conditions across our four business platforms.

Let me briefly outline the headline result.

Net profit after tax and before significant items was \$380 million, up a pleasing 12 per cent on 2005.

Sales revenue increased 5 per cent to \$5.4 billion.

Earnings Before Interest and Tax were up 9 per cent.

Mining Services and Chemical Services achieved record results, underscored by strong trading conditions in each of their markets. We anticipate this will continue as customers in the resources sector strive to increase their volume of output, both from existing and new mines.

Mining services achieved volume growth across all regions. Particularly pleasing is that Earnings Before Interest and Tax were up an impressive 21 per cent, despite another year of very strong input price increases.

Chemical Services' record result was largely due to a strong performance in mining chemicals, firm caustic soda pricing and the successful integration of the 2005 Aluminates acquisition.

Earnings from our consumer products division were slightly down on the previous year. However this is a pleasing performance in the context of softer market conditions. The weakening of the New Zealand dollar also had an impact.

Chemnet's earnings were down 26 per cent reflecting difficult trading conditions in Australia and New Zealand, and loss of market share in some businesses that we have acquired over the past few years.

We have implemented a restructuring program for Chemnet in response to this disappointing performance and I will come back to this shortly.

Your company aims to provide superior returns to shareholders by simultaneously generating productivity improvements and continuous growth. This is underpinned by a strong culture which guides our day to day decision making.

We impose strict targets on our businesses before they are allocated funds for growth, and each project must meet our financial criteria.

We challenge all of our businesses to grow faster than the markets within which they operate.

For example, our consumer products division increased market share in its Yates, Selleys and Australian paints' businesses in a year when overall market volumes declined.

Our market leadership position across a range of product categories was enhanced by increased marketing expenditure.

Investment in research and development saw a number of new products successfully launched during the year. Some of these include: 'Dulux Once' - an interior, single coat paint – launched in the Australian market; numerous new products in Selleys across a number of different categories, including adhesive products, paint accessories and a new range of household cleaning products; and a number of new product ranges in our Yates business.

The Mining Services business has achieved volume growth across all regions. The Dyno acquisition and subsequent integration is already having an impact with a four month contribution of \$26 million in earnings.

The recently announced acquisition of Minova, a specialty underground mining chemicals company, delivers geographic and product portfolio growth in the mining services sector globally.

Minova, on expected 2006 earnings before interest, tax and depreciation of \$98 million, represents around 12 per cent of your company's earnings. And upon completion - which we anticipate very shortly pending regulatory approvals - it will immediately increase Orica's earnings per share.

Minova already has an established, high performing management team in place. They will operate as a stand-alone business for up to two years, allowing us to maintain our focus on the Dyno integration.

In our Chemical Services business, the growth already realised and the potential available within our Watercare business is noteworthy.

This year we acquired CSBP's chlor-alkali business, positioning Orica as the leading supplier to the West Australian water treatment market. We also see significant further opportunities, including geographic expansion of mining chemicals and new installations of our MEX technology.

Chemnet has won significant new business in sulphuric acid supply, particularly new nickel mining operations in the Northern Territory. The Bronson & Jacobs business has steadied and continues to win significant new business with major customers in the cosmetics, food and pharmaceuticals sectors.

Chemnet's South American operations continue to expand organically – albeit from a small base. Our initial footprint in Peru and Chile has continued to spread with contracts to supply into Argentina, Ecuador and the Dominican Republic.

Hand-in-hand with our growth strategy is an unrelenting focus on improved capital efficiency and reduced costs.

Good examples of enhanced capital efficiency are up-rates of both the Yarwun and Kooragang Island ammonium nitrate facilities and our sodium cyanide production, also at Yarwun.

We have applied a continuous improvement methodology, called Six Sigma, to ensure long term sustainable improvements in trade working capital. We have already seen an improved performance this past year, and we expect more improvement in 2007.

Six Sigma has been employed across dozens of different projects including supply chain optimisation, lean manufacturing, sales force effectiveness and plant productivity.

Another example of productivity improvement is the successful centralisation of our Australian and New Zealand consumer products' customer call centres.

The Dyno integration has realised savings in the order of \$12 million in the first four months of ownership and we are well on the way to successfully implementing our plans to achieve the projected \$90 million in synergies.

Earlier in the year we announced a restructure of the Chemnet business after a thorough review of its cost base and the prevailing market conditions.

We have a sound track record with such exercises. For example, the turnaround of the North American Mining Services business in recent years is something of which I am personally very proud. It speaks volumes about our ability to succeed in competitive markets and demonstrates our determination to achieve very challenging performance targets.

In Chemnet, we are already seeing good results, with cost savings of \$9 million achieved in the second half of the year. We anticipate annual cost savings of \$20 million before tax. Together with the implementation of a comprehensive program to

improve sales effectiveness, which is already showing positive signs, this gives us confidence that the business will achieve its 18% return on net assets target in 2007.

Don referred to our strategy of having the right people in place to ensure that we are able to grow. Further to that, our success comes from developing a culture where people are empowered to act within a strong guiding framework - to the benefit of our customers, our work colleagues, the community, the environment and, of course, our shareholders.

That culture is shaped around four guiding principles developed by our employees.

- To care for people and the environment;
- To run the business commercially as if it's our own;
- To develop creative customer solutions; and
- To work together for success as a team and as individuals.

With the Minova acquisition, we have more than 14,000 people in 50 countries, across six continents, native in more than a dozen different languages. But they are all guided by the same principles. At Orica, it's not only about what we do, but how we do it.

Since the principles were developed five years ago, many new employees have joined Orica, largely as a result of our acquisitive growth. And so it is timely to renew our commitment to those principles.

This will be a major focus for us during 2007, and for me personally. During 2006 I was able to visit more than two dozen of our sites around the globe and see our progress first hand. I was pleased with what I saw, but we cannot ease our focus – for we believe it is at the heart of our great success over the past five years.

One of those fundamental principles is a commitment to caring for our people – ensuring no injuries to anyone ever. We are not there yet.

This year we saw an improvement, with our best ever performance in recordable injuries and illnesses. However, it is deeply regrettable and unacceptable that we had a fatality, from a fall at the Incitec Pivot site in Mackay, earlier this year.

Turning to our environmental performance. During the year we further advanced the quest to reduce our impact on the environments in which we operate.

We continuously strive to reduce our resource consumption, waste generation and total environmental footprint through our 'Challenge 2010' milestones. We are making good progress.

We are also steadily cleaning up our environmental legacies. The company has been in business for 130 years and it is inevitable that we would need to address the impact of past, outdated manufacturing practices. We don't resile from that responsibility.

The most significant of these is the contamination at our Botany site.

The Groundwater clean-up project is progressing well, with the Treatment Plant at Botany successfully commissioned.

And, this year we also announced that we had applied to the Federal Government to export HCB waste, to specialised destruction facilities in Germany. These facilities are well established and operate to the most stringent environmental standards in the world. This path is being pursued after investigating, and exhausting, all options to dispose of the waste domestically. We are optimistic about a positive response from the Federal Government as the export option is the most environmentally sound solution.

As we look forward to 2007, which marks our first decade as an independent company, we will see the benefits of changes undertaken in this year of transition. The further impact of Dyno synergies, the contribution of Minova, the up-rate of several of our plants, and the many growth opportunities across the businesses, give us cause for optimism.

Trading in the first two months of this year has met our expectations.

Perhaps the most important focus though, is on our people. Earlier you will have noticed new faces in our team and I would particularly like to welcome Andrew Larke and Andrew Coleman to the Group Executive.

These talented people are welcome additions to the senior team and, in closing, I would like to acknowledge the contribution and support of all of the Orica team, including my colleagues on the Board, during what has been a very exciting year.

Of all of the elements that make up the success of Orica, and our ability to deliver superior shareholder returns, it is our people who are the most important.

Having the right strategy is critical. But having the right people – with the talent, commitment, vision and energy to implement it - is essential.

We have great people, and because of them we have great confidence in the future prosperity of your company.

Thank you.

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