CEDA CEO Vision Series – Graeme Liebelt, Managing Director and CEO, Orica.

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Good afternoon Ladies and Gentlemen,

Today I want to talk to you about the evolution of an Australian based multinational, now a global leader in its field and how we came to be in this position. At the same time, in telling the Orica story, particularly to this audience, I want to highlight the way in which the opening of the Australian economy led initially to great challenge and some distress for the company, but ultimately, in my belief, provided the impetus to find a formula that would be successful on the world stage, and therefore in a sense helped create more success and opportunity than would otherwise have been possible. So, this is the story of how an Australian-based, market leading international company, Orica, emerged from the dismantling of Australia's highly protected manufacturing sector.

To begin, I'll briefly explain what Orica is and what we do.

Based here in Melbourne, Orica is the world's leading explosives company. The company supplies explosives to the mining and infrastructure sectors in more than 100 countries. Critically, we specialise in handling these otherwise dangerous products very safely and efficiently – and in the process we provide the very high quality advice and support that enables our customers to optimize their use of energy and thereby maximise their productivity.

In many cases we have people permanently on the customer's site, putting the explosives down the hole, helping design the blast. In explosives, we have a global market share nearing 30%, although our presence in three great mining regions Russia, China and Africa is still relatively small – so there is still plenty of opportunity for further growth in market share. We think of ourselves as providers of high service consumables, serving the global mining industry and infrastructure markets. In that spirit, we are moving horizontally to supply our customers with other high service

consumables – chemical and steel roof bolting for underground mining and tunnelling is one area we moved into recently with our acquisition of two market leaders - Minova and Excel. So now we are global leaders in underground strata control as well.

Many of the world's best next generation resource deposits are being exploited further underground, and with Minova and Excel we are taking advantage of that trend. Their products are increasing their penetration of the industry as the desire for safer mining creates greater demand for more sophisticated strata control systems.

The features common to these opportunities are two-fold: serving global resource and infrastructure sector customers on one hand, and combining science-based consumable products with sophisticated, customer focussed know-how on the other.

To complete the description of Orica I must add that we have other great businesses too. In our chemicals group we have very strong mining chemicals, water treatment and traded chemicals businesses . And of course we have Australia and New Zealand's leading paint and home products business through our ownership of the Dulux, Selleys and Yates businesses. These are great businesses and recently we announced that we intend to demerge them from Orica, because they are very different from the mainstream of Orica these days, and we are confident that they will be very successful as a stand-alone entity.

So, in total we have about 14000 employees around the globe. Australia and New Zealand is still a fairly large part of our operations, reflective of the strong mining sector in our part of the world and the strong presence of our chemicals and consumer products in this region, but these days Australia and New Zealand is less than 50% of the business, a very marked change from our beginnings. Once the demerger of the consumer products business is complete we will be around 90% focussed on the mining and infrastructure sectors – a very deliberate strategy based on a view that

these areas of the economy globally will show above average growth in the foreseeable future.

This step to demerge the consumer products businesses is the latest in a radical re-structure of Orica as a company which started way back in the late seventies and was accelerated in the late nineties when we became an independent Australian owned company – but let me go back a step or two, to explain how Australian economic policy influenced all this.

Orica has grown out of one of the most illustrious global chemicals giants of the twentieth century, ICI (Imperial Chemical Industries). In various guises ICI Australia can claim to have been established in this part of the world since the 1870's when its predecessor companies began supplying explosives to the Victorian goldfields. In some ways we are in the process of coming full circle back to those roots, but that is another story.

Over the years ICI plc through its subsidiaries in ANZ developed very strong and widely diversified Chemicals businesses, and certainly played an absolutely critical part in the development of Australia economically over about seventy years; particularly from around the mid 1930's to late 1970's. Unquestionably ICI recruited well and its scientific and production standards were second to none.

But as time went on a changing underlying economic reality asserted itself. In the chemical industries globally economics were increasingly driven by scale and access to privileged feedstocks, and ultimately ICI Australia found itself positioned in a sub-scale, sub-economic sector of a relatively closed economy, protected by high tariffs – in some cases as high as 60%. Over time, the company had developed a very diverse business with large market shares. But as an Australian subsidiary it had not been allowed by the parent to go anywhere else in a meaningful way. It was highly successful, but constrained to a small region.

I wasn't in the company at the time but you can imagine the shock that must have reverberated through the company when an unexpected, pretty well across the board tariff cut was announced in the 70's by the Whitlam government. This began a process which continues to this day, of opening the Australian economy and reducing trade barriers. Naturally enough this presented some immense challenges to a business in sub-economic, protection reliant sectors.

It is a little difficult to project backwards into the mindset of managers at the time, but I think for a period of about 15 or 20 years from the late seventies through to the mid nineties the company responded mainly defensively. That is to say we exploited new opportunities where we could, but there was an enormous focus on cost reduction and the inevitable downsizing that had to occur. In a way this is the great tragedy of protectionist policies; quite apart from the cost to our standard of living of higher cost goods, protectionist policies are usually only temporarily successful in achieving their aims, and the subsequent cost of adjustment is very high.

The circuit-breaker for the company came in 1997 when ICI, pursuing its own restructuring, decided to sell its shareholding in ICI Australia, and we became an independent Australian listed and Australian owned company, shortly thereafter renamed Orica. We were cut free from the secure, though sometimes frustrating, parenthood of ICI and thrown a very significant strategic challenge. Namely, in an increasingly open Australian economy, without the benefit of a large international parent, which businesses could we sustain against the world's best players in those sectors, and which businesses did we have to exit? Where was our growth going to come from? And, more as a subsidiary question, how could we reduce the volatility of our earnings?

So we had to contemplate questions like – did we have long term sustainable or privileged assets, did we have or could we develop the necessary scale, could we sustain the technology and know-how necessary to be successful in the longer term?

What volatility of earnings could we accept? Which sectors were likely to grow and have increasing profit pools over time? And once all of that was thought through, how should we manage the transition from where we were at that time, to the desired end state?

So, we chose a number of business platforms to retain at the time, some of which we have since decided to exit, by the way. Explosives, though was an obvious first choice for us for a number of reasons.

Firstly, we had a relatively strong position in the sector, there was no obvious competitor who had a stronger position than us, and we had the opportunity to establish an international business by buying back from the former parent, its explosives business. Secondly, it answered the growth question by giving us international scope in a reasonably strongly growing sector, and there were still plenty of opportunities for further expansion.

And thirdly, explosives promised to reduce the volatility of earnings. This was because it,was and still is dependant on the volume of mining, and less related to movements in commodity prices than many of our other businesses.

I don't think we recognised it at the time, but we were part of a internationally competitive cluster of connected industries, spawned by Australia's most competitive sector, the resource industries. We may be part of a text book case of what Professor Michael Porter was describing in his work on the competitive advantage of nations.

In any case, what is certain, is that our linkages to Australia's most internationally competitive industries and companies in the resources sector, had nurtured in our explosives business a supply and service capability that was also of international standard, and that stood us in good stead on the global stage.

So quickly we became an international market leader, which gave us the necessary scale. We supplied a product which provided the cheapest form of energy to the mining process, and we had the best safety, handling and security systems. We had the ability to innovate and again the scale to sustain and enhance the R&D effort. Through deep understanding of the material science of our product, and of the unique conditions at each mine site, our solutions had the ability to lower our customers' costs and improve their productivity. This, and the sophistication of the advisory services that complemented our products, constituted a powerful platform for competitiveness . We were confident about our ability to sustain and grow our earnings through time.

Not that the transition of the company over the past decade or so has been easy or uneventful. In total we have bought and sold businesses to a value many times the total market capitalisation of the company at the time we became Orica. And we have made some mistakes and learnt a lot along the way (again, that is the subject of another presentation), but we have just completed our seventh year of continuous profit growth and we are confident that we can continue that record in coming years.

Why the confidence? Well we are all at present witness to a remarkable economic event in the global mining boom, driven by the growth of developing countries particularly China and India, but others too. Of course there is another remarkable event under way at present as the financial system goes through unprecedented upheaval as it systematically re-prices risk, and this in turn is impacting economic growth, but we are still optimistic about the long term outlook for volume growth in the resources and infrastructure sectors.

So you can sense our enthusiasm at Orica. We have positioned ourselves in a world where demand for our products and expertise will grow steadily – so it's up to us as to how well we take advantage of the very strong strategic position we have been able to achieve.

I have talked about portfolio reshaping, but financial and strategic discipline have also been very important.

Orica's success has come from applying three key strategic rules. First we seek to achieve leadership positions in each of our chosen businesses. Leaders earn better returns, they are better able to achieve economies of scale, they can spend more on marketing and innovation, and in the cases of our businesses, they are better able to service consolidating and globalising customers.

Secondly we ensure our businesses earn the right to grow, that is earn the right to further investment. We have strict financial criteria and investment hurdles, and every-one knows that they need to be met before additional investment will be made.

And thirdly , we stay close to our core businesses. Partly as a result of history, but mostly due to the conscious strategic choices made over the past decade, we are now in businesses that will show above GDP levels of growth, and they offer plenty of scope to meet our growth ambitions - so there is no need to move far away from our existing sectors.

That is not to say that we have not taken calculated risks along the way, and would not be prepared to do so in the future. M&A generally is risky and part of the making of the company has been the significant acquisitions we have made – the original acquisition of the international explosives businesses from ICI in 1998, the acquisition of part of our major competitor Dyno Nobel in a complicated transaction commencing in 2005, and the building of a global leadership position in strata control in two key transactions in 2006 and 2007. In fact over the past ten years there have been about 40 acquisition and divestment transactions involved in the reconstruction of the company.

So, success in an international business is not one big idea. It's many things, but principally it's about building and consolidating leadership around the core of things you know well and execute well.

Now, before I conclude, I want to make a couple of comments about some of the broader implications of the Orica story, both past and present, for policy setting.

The first point to make is that our company, despite being initially imperilled by the progressive opening up of the Australian economy, has in the end benefited enormously from that policy. The restructuring we had to go through initially was painful. There were plenty of people who suffered difficult dislocation as a consequence, but ultimately we found a way to respond, and to make the company more than competitive internationally, and I think that has left the company on a much stronger footing than could otherwise have been the case.

I think we are entering a more challenging period in which to keep the momentum behind the reform necessary for the continued expansion of free trade. The collapse of the Doha talks in Geneva earlier this year was extremely disappointing, as much for what it said about the difficulty of promoting concerted international action as for the specific opportunity lost. There have been signs in the US for a while of an emerging strain of protectionism. This has been pushed from the headlines for the moment, but it may well be a threat in an economy under a degree of economic pressure, hopefully emerging from the financial crisis in coming months. Free trade may well get caught in a backlash, if the globalisation of the financial system gets blamed for some of the fall-out from the current crisis. In short, the support for pursuing free trade policies may be waning for the moment, but the benefits are as large as ever and we need to press on.

Over the last two decades, Australia has succeeded in producing an internationally competitive economy. It has done so not through paying its people less, or cutting its

living standards. Rather, it has done so by playing to its strengths, especially its natural resource strengths, and encouraging other firms connected to its most competitive sectors to widen their horizons, to compete and grow.

Australia maximised the contribution of its natural and human resources, it opened its economy to international competition but also to international opportunities. It has forced its enterprises to make hard decisions and adopt strategies to maximise competitiveness, and in the process it encouraged the growth of internationally competitive firms.

It is tempting to talk about Orica as one example of a very few successful Australian-based internationally competitive firms. But this is not really the case. Without mentioning their names, the success of many Australian firms in the mining, mining services, engineering, education, manufacturing, medical and agricultural sectors is quite considerable and set to continue.

In particular, Orica is part of the internationally competitive cluster of firms which have grown around the Australian mining industry. Recently I saw a list of ASX listed companies connected to the mining industry as suppliers, and I was amazed to see that over 70 fitted the definition.

Clearly, Australia is a good place to be based for companies like ours. There is a strong cohort of internationally competitive customers, our suppliers are of a high standard and complement the high standards which we believe we provide, the regulatory regimes are, by and large, sensible and in our case, the supply of science-based, motivated young employees is reasonably good. Australia is an enormous beneficiary of free trade and we must be at the forefront making the case for continued reform.

But now that we operate as a global company, it is also easy to see how Australia is competing amongst other nations to attract its share of investment and employment.

To a large extent the location of investments we make as a company will be driven by the location of the mining and infrastructure business we are targeting. In our business many of the investments need to be close to the customer's operations. But there are investments that support the business globally or internationally and Australia competes for those.

To this end minimising sovereign risk, simplifying and reducing taxation, and improving the productivity of our workforce are the key objectives. We have a fairly good record on sovereign risk, although we ranked number only 11 in terms of the least operationally risky places to do business, in a recent survey by the Economist Intelligence Unit. I haven't studied this in any detail but clearly, there is still room for improvement.

The Henry review of taxation is a tremendous opportunity to simplify our taxation system. The Interim report found that we have up to 125 different taxes paid by Australians each year and many of these are levied on essentially similar types of transactions, by different governments, across different jurisdictions. This can't be efficient, and while it is common for businesses to be arguing, self-interestedly, for lower rates of business taxation, it has to be recognised that we do compete with other low tax regimes, and a lower rate of business tax will almost certainly be beneficial in the medium term.

Productivity improvement is a multi-faceted and long term challenge, but it is the key to improving our standard of living . It encompasses policies relating to competition , education, innovation, workforce and participation, immigration and so on. It is no secret that our productivity improvement has stalled since around 2002, ironically enough in large part due to a decline in productivity in the mining sector. But, if I might make a special plea, it is that we really push home the current efforts within COAG to improve the inter governmental interfaces that are so critical to the certainty of policy making, to the development of key infrastructure and to the operation of a

relatively efficient and seamless economy. The inefficiency of duplicated and overlapping legislation and the inertia in policy making that results from the lack of co-operation amongst the different levels of government in Australia is a real drag on our economic progress.

So, in many ways the Orica story is one full of optimism, and an affirmation of the policies Australian governments have followed over the past twenty or thirty years, but we all know that in a competitive world we can't stand still. Australia has many advantages in the current global economic context, but we have to keep driving for economic reform and productivity improvement, so that our successors can look back in twenty years' time and reflect on continued improvement in our standard of living, driven by many more success stories like ours.

Thank you.