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Orica Limited
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ASX Announcement

MD and CEO Speech to Investors on 18 August 2008

Thank you Don. I'd also like to add my welcome to everyone and thank you for being here tonight in what we know is a busy time for all.

The last 12 months have been fairly tough of course, particularly in financial markets, as risk is comprehensively re-priced across the market following the sub-prime crisis. Most commodity prices have been at record levels, interest rates are high in many parts of the world, though not universally, and real incomes are falling. Wealth effects from housing and asset re-pricing generally, add to the downward pressure on consumption and investment globally. The downside risks are fairly obvious and well–articulated.

So I thought I might make a couple of comments about the impact of all this on our business, from an operational rather than a financial point of view.

Over the past twelve months it has certainly created some pressures. Firstly, the strength of the Australian exchange rate on average through the year, itself partly a response to strong commodity prices, has been a drag on our reported earnings, mostly due to the translation of earnings, and will probably reduce our earnings before interest and tax by $30 to $40 million dollars versus what they would otherwise have been during our 2008 financial year.

Ammonia prices have risen strongly through the year too. As you know, we ultimately recover the dollar cost involved, although percentage margins are compressed in the process. But more importantly, when costs are rising we suffer from a lag in recovery, which might be anything up to about $20 million during this financial year.

Cost pressures generally continue at pretty well every level whether it be energy, labour or materials, and we have to work hard to recover those too.

There are pressures on working capital through rising input costs, special arrangements we have had to put in place both to secure product in a tightening ammonium nitrate market and as a consequence of the China Olympics, and due to more difficult credit conditions generally.

And finally on the negative side, some parts of our business are impacted by poor conditions in their end use markets – US construction, the smaller end of Australian manufacturing, New Zealand consumer markets are the most notable soft spots in this regard.

So there are fairly significant operational pressures out there, but the good news for us is that all of our businesses continue to do well.

The explosives business is experiencing steady underlying demand and we think we are seeing the early stages of an uplift in volume growth due to both public and private investment in production and distribution assets in the sector. Our customers certainly have robust plans and together with infrastructure development going into place this foreshadows looming shortage of ammonium nitrate – hence our need to create additional capacity in the reasonably near term.

The pricing environment for AN is strong. Whereas, generally speaking, the constraint on our pricing in the recent past has been import parity often from China or Russia, those prices has been rising in a tight market, which is the response that needs to happen in order to justify investment in new capacity, against a background of high construction costs. So re-investment economics probably becomes the new pricing constraint, and it is no surprise to us to see our competitors talking about prices at or above $700 per tonne to support their new investments.

The uprate at Yarwun AN that we completed in 2006, although itself suffering from a cost increase versus estimate, has been a great investment, as has the earlier uprate at Kooragang Island.

The Dyno acquisition has gone very well as you know. We completed the transaction in June 2006, so we are just over two years into the transaction and it continues to provide benefits to the business on a global basis. The effective multiple that we paid for that business, given the delivery of synergies, will have been about 5 times earnings before interest, tax and depreciation.

We have been increasing market share in explosives, electronic blasting systems continue to grow strongly and we are installing significant new production capacity in Canada which will allow us to push even harder for growth in that sector, we have the benefit of some smaller bolt-on acquisitions coming through, particularly in the US. Last week we purchased our partner's share of the Samex joint venture in Peru, which will be important in that growing region over coming years.

The outlook for the business is strong we believe, and really is built on the continued growth and urbanisation of the developing countries, most notably China. While we note the increasing debate about risks attaching to China's growth, we continue to believe that it will provide the underlying demand for more of our customers' products well into the future.

Minova continues to meet our expectations, despite the unwelcome loss of some business in the US earlier this year. The financial synergies were realised in the very early stages, cost synergies are being delivered according to expectation, and with the passage of time we are firming up our plans for future delivery, and our confidence increases. Underlying growth in the businesses is at least as strong as we expected as we benefit from a shift to underground and from the increasing use of the safety systems Minova provides. So we expect to achieve our 15% internal rate of return and 18% return on net assets (including the grossed up value of the financial synergies) in 2011. One piece of recent good news is that Atlas Copco has agreed in principle that Minova will distribute its range of products in this sector, globally.

Our Chemicals businesses see mixed conditions, but year on year water volumes will probably be up, MIEX continues to improve, cyanide demand and prices are strong and the mining chemicals business will benefit from the recent uprate of our cyanide capacity at Yarwun which has gone very well, caustic prices are firm and so overall we expect a strong performance. Of course as we bring the two chemicals platforms back together there will be synergies generated over the next twelve months or so as well.

And in some ways, perhaps most impressive of all is our consumer products business. So far we have seen only a mild slow-down in Australia, although there has been a fairly severe downturn in the New Zealand market; but against that background our business is performing very well. We have kept the rate of marketing spend and innovation up and as a consequence we have increased our market share, the Yates turnaround is delivering results and we hope for a good spring season, Selleys and Woodcare also continue to perform well.

It will be interesting to watch market development over the next few months, but if interest rates have peaked, and if consumer sentiment bottoms out and begins to recover, we may find that, in Australia at least, this will be a very shallow downturn and the business may see improving conditions as it launches on its own early next year; we will have to wait and see.

Finally, a word about cash. I think a lot of businesses are going to struggle with cash in this period. It is no secret that we were not pleased with about $40 million we had tied up in working capital at the half year which was unanticipated, but we have extremely stringent controls in place to ensure we meet our targets in the second half, and I am confident we will meet those targets, and that we will meet our original commitments with respect to gearing that we made at the time of the Excel acquisition, and all of that without the counting the benefit of the money raised in the current rights issue.

In many ways it is difficult to see past the current turmoil in many of the world's important markets, and it is difficult not to be completely pre-occupied with the short term, but Orica is now reaping the benefit of the hard work that has been done to simplify the portfolio, to focus on what we think will be above average growth sectors in resources and infrastructure, and we believe to eliminate much of the volatility in our earnings profile. We are in our seventh year of consistent profit growth, despite the vagaries of exchange rates over that period, and I see no reason why we can't continue that record for years to come.

So thank you again for your time tonight. We want it to be an informal and enjoyable night, so I will get out of the way and leave you to the food and conversation.

Thank you.

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