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Ansell Limited said at its recent AGM that performance during the first quarter of the current year ending June 2003 had been on track to achieve double-digit EBITA growth for the full year. What is the progress in the first stage of Operation Full Potential and are you on track to embark on the later stages of the programme as planned?

CEO Harry Boon

Operation Full Potential is expected to add 50 percent to the 2001 EBITA result of US\$77 million by 2005. The targets of the first “wave” of Operation Full Potential include the short-term reduction of overheads across the company, and the launch of the medium-term “Europe Full Potential” and “Occupational Value Proposition” projects.

Certainly we’ve made progress in our first wave of initiatives. We’ve reduced head office costs and established a more efficient sales and marketing structure in Europe. We expect the benefits of our downsized head office and the centralisation of our European operations at one location in Belgium to start coming through in the current year.

The second wave of Operation Full Potential – growing sales of powder-free surgeon’s gloves in the US and Europe, reducing working capital, accelerating product innovation and rationalising our US distributors – is due to start on January 1, 2003. These are all continuing projects, where benefits will come through gradually over the next few years.

Meanwhile, we'll prepare for the third wave – reducing the asset base, growing our market share in the US alternate care, or non-hospital, sector, and in personal products and rationalising our SKUs.

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One of your initial targets is the roll-out of the “Occupational Value Proposition,” whereby you provide hand injury “solutions” to industrial customers. What progress have you made in getting manufacturers to accept the “solutions” model?

CEO Harry Boon

We continue to have good responses to the results of our programme with Ford USA, where hand injuries have been reduced by 50 percent in some facilities. We're now targetting other companies with workforces of over 10,000 people, and over 1,000 staff members per facility. We're currently involved in a round of detailed interviews with target companies to gain their input in developing and fine-tuning key aspects of the proposition before launching it later this year.

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What's the potential impact of the “solutions” model on margins and how are you placed in relation to potential competitors in this space?

CEO Harry Boon

The model allows us to introduce an element of profit sharing, reflecting the savings to the customer of reduced hand injury costs and the productivity gains resulting from the use of our ergonomic gloves. So it's inherently a higher margin business than simply supplying product. It also creates a very different client relationship for us. We're talking to companies at senior management and board level, forming a partnership and working together to achieve certain goals. So the loyalty dynamic is also different from a simple supply arrangement.

Our competitors aren't offering a similar integrated solutions model. We have a 25 percent share of the global occupational glove market, excluding cotton and leather gloves, and we're two and a half times the size of our largest competitor.

Most of our competitors remain pricing oriented and aren't equipped to add value in terms of the service dimension. Certainly, the HyFlex™ ergonomic technology has placed us well in front of our competitors in terms of actual product performance, and it gives us a platform to tailor solutions to individual customer needs in a way our more commodity-oriented competitors can't match.

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What potential is there to roll out the “solutions” model across your Professional Healthcare and Consumer Healthcare product groups?

CEO Harry Boon

We're taking the model to hospitals, where the value we add is related to the fulfillment of their total hand protection and infection control needs, and where product reliability is critical.

But in both the Professional and Consumer Healthcare Divisions, our opportunities to add value relate mainly to product differentiation and branding. That's particularly true in the powder-free surgeon's glove market, where gloves made by the few top-tier manufacturers bring prices 20 percent better than those made by a market also-ran.

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The later stages of Operation Full Potential call for reductions to working capital and a lighter asset base. What implications does this have for your current business model, under which you manufacture 80 percent of your product range, and does it mean further big asset write-downs in future?

CEO Harry Boon

We've just completed the previously announced closure of the Troy, Alabama facility, and flagged the future closure of some of our few remaining US plants for an estimated cost of about US\$15 million over the next three years, not all of which would be cash.

Primarily, the "Asset-Lite" initiative relates to getting much better returns out of our existing asset base. We'll continue to review our unit costs, and wherever we're not getting economic returns, we'll look at either discontinuing production or out-sourcing from a lower-cost supplier. We already out-source our production of powdered examination gloves, which are commodity products suffering from global oversupply.

Conversely, we'll concentrate our own manufacturing on products that generate the most attractive margins, and have proprietary or protected technology. All of this means maintaining the flow of innovative new products and in turn, a continuing commitment to research and development at our state-of-the-art new Innovation Centre in Malaysia.

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There's some concern among investors that Ansell has little opportunity for top-line growth to maintain its earnings momentum following the conclusion of Operation Full Potential. Do you believe this concern is valid?

CEO Harry Boon

Not at all. We see plenty of growth opportunities for us in powder-free surgeon's gloves, in both the US and Europe, where the powder-free segment is growing. Breaking into the US alternate care market will also bring growth. That's a sector of the professional care market that's growing, particularly given the ageing population, and increasing numbers of minor surgical procedures outside the hospital environment. It's a segment where we haven't been active in the past.

We also see potential in some of our new products – the entire range of ergonomic HyFlex™ gloves for example – is opening markets in industry sectors where gloves haven't been used before. There are also opportunities on the Consumer Healthcare side in tapping into government condom-supply tenders in countries where HIV is a growing threat.

However, it's important to keep in mind that our focus over the next three years is very much on delivering the “full potential” of the existing Ansell business. Of course, a lot can happen in three years. There are still consolidation opportunities in the industry, and given our strengthened balance sheet, we'd have to be well placed.

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Thank you Harry.

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