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Orica Limited recently announced an agreement to acquire the European, Middle Eastern, African, Asian and Latin American businesses of Dyno Nobel for US$685 million (A$900 million) from the Macquarie consortium, which has announced the acquisition of the entire Dyno Nobel portfolio from Industri Kapital. The Macquarie consortium will retain Dyno Nobel's North American and Australian businesses. You've said the acquisition is an outstanding strategic fit for Orica. What are the major strategic pluses of the deal?

MD Graeme Liebelt
Mining Services is an important platform for us and we've already established a global leadership position in the business that's delivering fine returns for the company. This is a unique opportunity for us to build on that strength by way of acquiring a part of the Dyno Nobel business.

It will do a number of things for us. It will give us greater scale, which will enable us to better fund R&D improvements, better fund sales and marketing efforts, and better service our global customers. It will also give us a bigger global footprint and more presence in areas where the anticipated growth in mining and quarrying is quite strong, for example Latin America and Eastern Europe, and to some extent Asia.

It's a good strategic fit for all of those reasons and of course there are significant cost savings to be achieved because we should be able to economise very effectively with respect to overlaps in management and operations.

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The Macquarie consortium's notional price for the North American and Australian businesses it will retain is US$1.0 billion (A$1.3 billion). Given the North American and Australian businesses account for about 70 percent of Dyno Nobel's revenue, the Macquarie consortium's acquisition price would appear to be at a lower multiple than Orica's 11.1 times actual EBITDA for the 12 months to June 2005. Can you comment?

MD Graeme Liebelt

What matters to us is that the acquisition meets our strict financial criteria, which means it has to earn 18 percent return on net assets (RONA) in year three. The reason we're able to pay a multiple that's higher and still meet our strict financial hurdles, is that we're in a position to achieve very significant cost savings because of the overlap with our existing businesses. Factoring in our estimated annual cost savings of A$90 million, our acquisition multiple falls to 5.3 times the June 2005 EBITDA.

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Orica is making the acquisition on a debt-free basis. Of your A$900 million acquisition cost, what proportion relates to tangible assets and what proportion to goodwill?

MD Graeme Liebelt

It's difficult to be definitive at this stage because we haven't yet done the acquisition accounting or adjusted the numbers to Australian GAAP. As a broad indication, about A$200 million would relate to working capital and property, plant and equipment, the latter accounting for the bulk of that. Intangible assets such as intellectual property (IP) and trademarks might account for A$80 million. Most of the remainder would be goodwill.

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What will happen to the Dyno Nobel IP and brand under the new ownership structure and what are the major issues regarding the geographic separation of the businesses?

MD Graeme Liebelt

The Dyno Nobel trademarks and brands will stay with us for periods that vary by country and range from three years up to 10 years. All Dyno IP will be able to be used by Orica in all of the countries in which it will acquire Dyno businesses and the Macquarie consortium will be able to use Dyno IP without restriction. The only caveats to this are that there are restrictions on Orica's use of Dyno IP in North America and Australia during the first 3 years and the DetNet technology, which will remain exclusively with the Macquarie consortium. In any event, the use of Dyno IP is not a major issue for us, as Orica's technology is, in nearly all cases, at least as good as Dyno's.

As for the separation issues, there are of course shared services between the entities that the Macquarie consortium will retain and those we'll ultimately own because Dyno Nobel has been run as a global business in much the same way our Mining Services business is run. There's an integration team and arrangements between us and the Macquarie consortium to transition from those shared services over a period of time.

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What due diligence have you performed on the Dyno Nobel businesses and what level of confidence do you have that the businesses have been adequately capitalised under Industri Kapital's private equity ownership?

MD Graeme Liebelt
This is an opportunity we've been looking at for some time. For an extended period we've been collecting publicly available external data to understand the business as well as we possibly can. We also had somewhat limited, but meaningful, access to due-diligence information from IK in the course of the acquisition process. We're satisfied as to the amount of due diligence we've been able to do.

Since IK acquired Dyno Nobel in 1999 it has invested relatively vigorously in the business. The merger with Ensign-Bickford Company is one example. Acquisitions of ammonium nitrate plants in North America and the construction of a new initiating systems plant in Colombia are other examples. We're reasonably comfortable that the business hasn't been starved of capital.

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Can you comment on the operational structure of the Dyno Nobel businesses you're acquiring and how it compares with that of Orica's Mining Services operations?

MD Graeme Liebelt
The businesses are very similar to our own in those regions. In Europe, the Dyno Nobel businesses, like ours, buy in their ammonium nitrate supply and manufacture their own initiating systems. Typically their selling contracts with clients, like ours, have rise-and-fall clauses. In Asia, Dyno Nobel has small ammonium nitrate plants in Thailand and the Philippines, but the bulk of ammonium nitrate supply is external. And in Latin America, Dyno Nobel has an ammonium nitrate supply agreement with Yara, similar to our own with Enaex. Both businesses also include rise-and-fall provisions in their selling contracts.

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Orica has ongoing environmental and other legacy issues associated with some of its operations in Australia. Can you provide any assurance that similar issues won't arise in the Dyno Nobel businesses you're acquiring?

MD Graeme Liebelt
This is an area that's been covered by our due diligence program. We've seen expert reports and questioned Dyno management on this issue. We've made additional allowances in our modelling for those areas where we think we're going to have to spend money to make environmental improvements.

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What assumptions underlie your expectation that the acquired businesses will achieve 18 percent RONA within the third full year of ownership, i.e. the year ending September 2009, and to what extent will it depend upon realising the forecast annualised cost savings of A$90 million?

MD Graeme Liebelt
We've done a very thorough and extensive analysis, project by project, of the cost savings we plan to realise. The acquisition is underpinned by detailed planning as well as access to due-diligence information and management interviews, and we're confident we can achieve those cost savings. We've probability weighted them to an extent, so we're not making the assumption that everything we can identify will drop to our bottom line. We're also not relying on benefits from any new growth opportunities. We're confident we can deliver on the 18 percent.

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What are your assumptions regarding market conditions and revenue growth over the three-year period post acquisition?

MD Graeme Liebelt
We've modelled 10 percent revenue growth over the next few years in determining the price we were willing to pay. We're assuming reasonably robust conditions continue in the industry so we've built what we consider to be moderately strong growth rates into our basic forecast. Nevertheless, we haven't made any heroic assumptions around significant penetration in Eastern Europe or any of the large new projects in Latin America. Those would be over and above what we've allowed for in our modelling. We can see some reasonably robust growth coming out of this acquisition.

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To what extent is your RONA forecast for the acquired businesses exclusive of head office costs? Can you quantify the extent to which corporate costs might increase as a reflection of the larger size of the Orica group?

MD Graeme Liebelt
We're not seeing that we'd need to significantly increase corporate costs as a consequence of this acquisition. In any case, we've allocated all the additional marginal costs associated with the acquisition into the project case. Where we've seen the need for corporate-type costs, we've allocated those to the businesses.

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You expect to realise nearly half the cost savings from the Dyno Nobel acquisition through the rationalisation and optimisation of plants. Where are the major operational overlaps and what are the specific opportunities?

MD Graeme Liebelt
We're not in a position to be specific about what the opportunities are. Basically we've analysed where there are overlaps and because we have exceptionally good information about our own sites, we've estimated cost savings, often by using the costs associated with closing our own facilities. Once we get access to detailed information, we'll then be in a position to review our assumptions and may end up making different decisions than those assumed in our model. We'd only do that of course if the outcome was better than our assumptions and created more shareholder value.

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Orica's Mining Services business booked EBIT of $270 million in the September 2004 year, with an EBIT margin of 15.6 percent. Is this level of margin sustainable in a larger, more diverse business?

MD Graeme Liebelt
The EBIT margins of the businesses we're acquiring are significantly below those we're earning on average in our existing Mining Services businesses. However, we have an opportunity to realise very significant cost savings, which will go a long way towards bringing those EBIT margins to levels nearer ours. The acquisition will also create value in enabling us to provide a better range of services to our global customers and invest more in research and development, and sales and marketing in turn providing opportunities to achieve further market growth.

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The Mining Services business achieved RONA of 25.3 percent in 2004. What is the outlook for the RONA of the business on a five-year view?

MD Graeme Liebelt
Our expectation of achieving an 18 percent RONA in the acquired businesses in 2009 and further improvements beyond that mean we'll create more shareholder value, but the average RONA of the Mining Services group is likely to fall taking a five year view. Of course we expect our underlying businesses to continue to perform satisfactorily.

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Can you comment on the extent of any tax losses within the Dyno Nobel businesses you're acquiring?

MD Graeme Liebelt
There are tax losses held in the business. However, we have no certainty about out ability to access these, so we've made no allowance for them in our modelling.

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Do you have any indication of the Macquarie consortium's plans for the remaining Dyno Nobel businesses? Will they be on-sold to one of Orica's competitors?

MD Graeme Liebelt
This is something you'd need to ask the Macquarie consortium.

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Will the Macquarie consortium's Dyno Nobel business be able to compete with your Mining Services business anywhere in the world and to what extent might the emergence of a stronger competitor negatively impact your return forecasts?

MD Graeme Liebelt
There's no limitation on the Macquarie consortium's ability to compete in other markets. We're assuming it will be a major competitor of ours where it retains the businesses and that there'll continue to be robust competition in all

of the other regions as well, as there has been until now. We expect the competitive environment to be as strong as it's always been.

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Orica will progressively acquire the Dyno Nobel businesses as regulatory approvals are obtained. What level of confidence do you have that you will get the necessary approvals and is there a mechanism whereby a business that doesn't receive approval would revert to the Macquarie consortium?

MD Graeme Liebelt
In fact we've done a lot of due diligence around the issue of anti-trust approvals in the different jurisdictions, so we're reasonably confident of our position. In any case where we don't get regulatory approval, there's no automatic mechanism by which we must sell the business back to the Macquarie consortium. But there'd be nothing to stop the Macquarie consortium being a bidder in any ensuing sale process.

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You've called the deal "a transforming acquisition for Orica Mining Services with manageable risk." What do you see as the biggest areas of risk, apart from the integration risks associated with any large acquisition?

MD Graeme Liebelt
Frankly, we see the biggest area of risk being in the integration itself. A lot of our attention therefore will be put into making sure we manage the complexity of the integration effectively. The reason we say it's manageable risk is that we know the business well, it's a customer base we're very familiar with, we know the way in which the industry is developing and we've been successful in this arena.

Our existing Mining Services business has had a reasonably significant number of integrations over the years. We've acquired ammonium nitrate businesses from LaRoche, we've acquired the Dynamit Nobel businesses in Europe – these are different businesses from the Dyno businesses – and we've effectively integrated ICI India and a number of other smaller acquisitions. So we have some experience, but we acknowledge that the Dyno Nobel acquisition has a degree of difficulty and complexity beyond any of these previous examples. We certainly don't underestimate what's in front of us in terms of managing the integration and continuing our focus on our existing businesses.

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Orica will fund the Dyno Nobel acquisition via a pro-rata entitlement issue, the issue of hybrid securities and existing debt facilities. Why have you decided to issue the hybrid rather than raise more equity funding, e.g. through a placement?

MD Graeme Liebelt
It's a matter of looking at the total balance of our financing structure. The advantage of a hybrid is that it provides equity-like support but doesn't have the same dilutionary effect as equity in terms of EPS. It's a useful component of a funding plan; it can't be all of it.

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The mix of new equity and hybrid, which will be treated as equity for accounting purposes, and debt, together with your expectation that Orica's target gearing range of 35 to 45 percent would be restored by the September 2007 year, suggest the current gearing level remains above the target range. Can you comment on your current gearing and interest coverage and the expected trend through to September 2007?

MD Graeme Liebelt
The reason we're saying it would take through until September 2007 is to do with the delivery of the cost savings, which will involve reasonably large up-front cash outlays. Those outlays will be made earlier than the cost savings will be realised and so it will take until 2007 to bring our gearing back into the target range.

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Can you comment on the Dyno Nobel culture and its fit with Orica's?

MD Graeme Liebelt
This is not something we understand in great detail, but from observation we know the Dyno Nobel people have developed a very good company and one that's well respected by customers, suppliers and the communities they operate within. We're also aware a number of our values are very consistent; we know Dyno Nobel has a high focus on safety, health, environment and looking after the communities in which it operates, and we know it's adept at managing multicultural businesses because it's as extensive as our own Mining Services business. We know it has strong values with respect to customer satisfaction, and over the last few years it's been very determined to deliver a high level of shareholder value, all of which is consistent with our own values.

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Who will lead the Mining Services business over the coming months and what progress have you made toward appointing a new group manager for the business?

MD Graeme Liebelt
We have a process underway but I'm not currently in a position to comment either on the timing or on any of the candidates.

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Mining Services already accounts for nearly half of Orica's EBIT and, assuming it achieves your return targets post acquisition, the business will dominate the group's earnings. Given this dominance, would you see any advantage in adopting a single business focus rather than the current portfolio focus?

MD Graeme Liebelt
No. Our position continues to be that we see value adding opportunities in our other business platforms and, even though Mining Services becomes even larger as a consequence of this acquisition, we're likely to pursue those opportunities where they meet our criteria. We don't have any plans to move towards a single platform.

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Thank you Graeme.

For more information about Orica, visit www.orica.com or call Frank Micallef on (+61 3) 9665 7479

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