Attention ASX Company Announcements Platform
Lodgement of Open Briefing®

corporatefile.com.au

Orica Limited
1 Nicholson Street
Melbourne
Victoria 3000

Date of lodgement: 31-Aug-2006

Title: Open Briefing®. Orica Ltd. On Mining Services Update

Record of interview:

corporatefile.com.au
Orica Limited yesterday provided an update on its integration of the European, Middle Eastern, African, Asian and Latin American businesses of Dyno Nobel, the acquisition of which you completed in June. Since you've taken control, have you discovered any aspects of the businesses that diverge significantly from your expectations at the time you announced the acquisition?

CEO Mining Services Philippe Etienne
No we haven't. The acquired businesses are performing pretty much in line with our expectations however, there have been some divergences on a region by region basis. Latin America is performing particularly well, volumes are strong, and the only down side is that some mines have experienced industrial disputes. Asia is in line with expectations, although strong volumes have been offset by some delays in raw material cost pass-through. The Europe, Middle East and Africa (EMEA) region is a little below expectations, mostly due to the timing impact of passing raw material prices through, with some volume shortfalls as a result of the harsh western European winter.

corporatefile.com.au
You've disclosed that the Dyno businesses had revenue of $575 million in the 12 months to June, up 8 percent from the previous year. In the recent first half to March, Orica's existing Mining Services businesses in Asia, Latin America and Europe collectively had revenue growth of 17 percent. How do you account for the discrepancy in growth?

CEO Mining Services Philippe Etienne
It's mainly a mix issue. The Dyno businesses we acquired are proportionally greater in EMEA than our pre-acquisition Mining Services business. We have rise and fall contracts, reflecting input costs, in all our regions but contracts in EMEA tend to be adjusted on an annual basis rather than quarterly or six monthly, as in our other regions.

corporatefile.com.au
You've flagged that the Dyno results, when reported under the Australian version of International Financial Reporting Standards (AIFRS), will differ from previous estimates. Can you comment further on the AIFRS adjustments that will be required?

CEO Mining Services Philippe Etienne
The adjustments will reflect the difference between the accounting standards in the old Dyno jurisdiction and current Australian standards. They'll affect the reported EBIT in some cases positively and some cases negatively. We'll finalise those adjustments for our financial reports for the year ending September 2006 and we'll be able to provide further details when we release those results.

What's important to understand is that these adjustments are non-cash items. The underlying cash-flow performance of the business, and therefore the value of what we've acquired, is unaffected.

corporatefile.com.au
What's been the customer response to the change in ownership and what's been your performance in retaining Dyno customers?

CEO Mining Services Philippe Etienne
We've managed so far to retain all our major customers in the affected territories, both Orica and Dyno customers, and the response has been very positive. I'm particularly pleased that a number of our largest customers have been enthusiastic about forming global alliances with us now that we're in an even better position to service their needs globally.

corporatefile.com.au
You continue to expect to generate total annualised synergies of $90 million from the Dyno acquisition, and have now indicated you expect to deliver $40 million to $50 million of benefits in the September 2007 year. What's the basis for this forecast?

CEO Mining Services Philippe Etienne
We're moving swiftly to achieve these synergy benefits and have developed very comprehensive delivery plans, which are the basis for our forecasts. There was a delay in approval of the acquisition as a result of the European Commission's regulatory process, and we didn't sit on our hands during that period. We continued our planning work and this allowed our integration team to move very swiftly to implement synergy release actions once clearance was achieved.

So far the closure of Dyno's head office in Oslo and the relocation of our initiating systems manufacturing, from Troisdorf in Germany to Gyttorp in

Sweden and less significantly to Brownsburg in Canada, are the two most significant synergy items. They've already been announced and are being implemented.

corporatefile.com.au
Can you comment on your revisions to the estimated breakdown of synergies compared with your expectations at the time of the Dyno acquisition? What's behind the estimated contribution from the procurement, logistics and other category being lifted to 38 percent from 33 percent previously?

CEO Mining Services Philippe Etienne
As we mentioned at the time of the acquisition, given the competitive considerations we had very limited opportunity for due diligence. I'm very pleased, now we have much greater detail, our view is very close to our initial estimates. We now think of synergy delivery in three broad categories: office closure and admin rationalisation; production rationalisation; and procurement, logistics and other minor synergies.

On closer examination we see more opportunity to extract benefits in the procurement and logistics area given our increased scale and volume. Overall, we remain very confident of delivering the synergy targets in our intended time frame.

corporatefile.com.au
What's the expected level of integration costs for the current year ending September 2006?

CEO Mining Services Philippe Etienne
We're yet to finalise the integration costs for this year but what we've said is that we expect about 80 percent of the $150 million of integration costs to be incurred by the end of the September 2007 year. We estimate that of the $150 million, about $100 million will involve cash spend, the remainder will be non-cash items such as write-downs of assets. We intend to book the integration costs as individually significant items in our results.

corporatefile.com.au
You've indicated you're scoping additional synergy opportunities. To what extent will these be revenue opportunities rather than cost saving opportunities?

CEO Mining Services Philippe Etienne
The business case for the acquisition didn't rely on revenue synergies, in fact we budgeted for a 5 percent revenue loss from the acquired businesses. We're very heavily focused on customer retention and will continue to look to extend value-adding technologies to both Orica and former Dyno customers.

corporatefile.com.au
In the Australia/Asia segment of the Mining Services business, you've commissioned the Yarwun expansion and expect ammonium nitrate production to achieve the forecast level of 572,000 tonnes per annum in the September 2007 year. What's the expected impact of the Yarwun capacity on margins in the second half 2006?

CEO Mining Services Philippe Etienne
The Yarwun expansion is being ramped up but we haven't yet reached the full additional production on an annualised rate. We've reduced imports of ammonium nitrate and customers are taking additional product from Yarwun, but due to the gradual ramp-up we don't expect any material contribution from the upgrade in the current financial year.

However, we have high confidence that we'll have the full benefit from the Yarwun expansion in our 2007 financial year. In 2007 we'll use the additional production to replace ammonium nitrate imports, which are running at about 80,000 tonnes per annum and have been expensive. We'll also cater for natural demand growth in the northeastern Australian region, which we estimate at about 100,000 tonnes. We'll have the balance for export.

corporatefile.com.au
The estimated final cost of the Yarwun expansion is $195 million, versus the previous forecast of $150 million. What are the expected returns on the investment and how might they be impacted if your main competitor goes ahead with a proposed 300,000 tonne ammonium nitrate plant in Moranbah, Queensland?

CEO Mining Services Philippe Etienne
We flagged some time ago that the cost of the Yarwun expansion had risen to around $200 million, which is consistent with what other projects in Australia have been experiencing. For example, Wesfarmers recently announced that the cost of its Kwinana expansion had risen from $200 million to $260 million. Despite the cost increase, the incremental returns from the Yarwun project are still very favourable and looking at capital costs per tonne, we continue to see this project putting us in a very strong competitive position in the region.

We're watching our competitor's proposal with interest. To make a project of that nature successful, a number of assumptions have to be made about future ammonium nitrate prices in Australia, about capital costs and of course about our competitive response. Some of those assumptions may prove to be incorrect. The point I want to make is that we won't relinquish Australian market share lightly. At best one would have to assume our export net-back returns, less any impact from the loss of associated accessories sales, for northeast Australian prices under such a scenario.

corporatefile.com.au
In the Asian region, you're evaluating opportunities for additional ammonium nitrate production capacity in Bontang, Indonesia. What are the parameters of this proposal and what's the likely time frame?

CEO Mining Services Philippe Etienne
The Indonesian market is structurally short of ammonium nitrate, and demand has risen to a level equivalent to a world-scale plant. We believe a 250,000 to 300,000 tonne per annum plant in Bontang could be a viable project. In addition, there are world-scale and world-class ammonia plants already in the Bontang region.

It's difficult for us to comment on a time frame because we're still in negotiations with the relevant parties in Indonesia. But we've now signed a letter of intent to negotiate the acquisition of land on Kaltim Industrial Estates, and it's a semi-brown-field parcel of land in as much as it has ammonia already available, is fully serviced and is immediately adjacent to an export wharf. The project is subject to our well publicised rate of return hurdle for capital projects, being an 18 percent return on net assets.

corporatefile.com.au
You've indicated market conditions in North America are favourable. What margin upside do you expect from ongoing input price recovery and from the ammonium nitrate supply from Terra, which comes on line in October?

CEO Mining Services Philippe Etienne
We prefer not to comment on our specific margin expectations. But the financial performance of our North American business continues to improve and we're now seeking to grow that business. And an important plank of our growth strategy is the optimisation of our ammonium supply arrangements. The Terra arrangement gives us long-term security of supply in the southern US and gives Terra the certainty it requires for the capital investment to convert at least some of its existing ammonium nitrate capacity from agricultural grade to explosives grade.

corporatefile.com.au
In North America your low cost ammonium nitrate sourcing strategy is underpinned by long-term contracts and your own capacity. What's your ammonium nitrate supply strategy for Latin America and what leverage can you have with producers without ownership of some capacity in the region?

CEO Mining Services Philippe Etienne
Our business team in Latin America is exploring a number of options to secure our long-term ammonium nitrate position. It's reviewing the feasibility of establishing our own manufacturing operations in Latin America as well as long-term supply contracts that help underpin investment by others in the region. Post the acquisition of Dyno we're looking particularly at opportunities to strengthen our ammonium nitrate position in servicing the east coast markets of Latin America, where we currently import most of our requirements.

corporatefile.com.au
Orica is market leader in electronic blasting systems. Can you comment on the current competitive environment in this market? What level of ongoing investment in product development will be required to maintain market leadership?

CEO Mining Services Philippe Etienne
The market for electronic blasting sytems continues to grow strongly, albeit from a low base, and that's being led by our i-kon and UNI-Tronic products. We believe we have a significant technological lead over competing systems and of course the acquisition of Dyno gives us further scale and reach that will justify further investment in the technology.

We're planning to invest in upgrading our Brownsburg facility in Canada to handle additional production following the closure of the Troisdorf plant, as well as to service the strong underlying growth we anticipate. The extent of that capital project is still being determined.

corporatefile.com.au
Thank you Philippe.

For more information about Orica, visit www.orica.com or call Greg Slade on (+61 3) 9665 7844

For previous Open Briefings, or to receive future Open Briefings by e-mail, visit www.corporatefile.com.au