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Orica Limited yesterday reported net profit of \$100.7 million for the year ended September 2003, compared with \$213.6 million in the previous year. Excluding non-recurring items, net profit was \$270.3 million, up 13 percent. What were the primary drivers of the improvement in underlying earnings and what's the outlook for earnings in the current year ending September 2004?

MD & CEO Malcolm Broomhead

In 2003, three of our four businesses performed strongly and delivered record profits. The one that didn't, Incitec Pivot, was hit by a one-in-100-hundred-year drought.

We anticipate ongoing earnings growth momentum in 2004.

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The consensus forecast for net profit in 2004 is about \$310 million, implying growth of 15 percent. Given at least some recovery in Incitec Pivot's earnings post drought, is the consensus forecast too low?

MD & CEO Malcolm Broomhead

Given there's a much better understanding of Orica by the market and given also the regulatory requirements attached to providing guidance, I don't propose to provide a definitive number for our 2004 outlook. What I will say is that in 2004 we expect continued earnings momentum, driven by underlying growth in our existing businesses, the impact of our 2003 acquisitions and a partial recovery from the 2003 drought conditions.

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The Australian dollar has continued to rise since the end of September, hitting US\$0.70 recently. What's the sensitivity of Orica's earnings to further rises in the Australian dollar?

MD & CEO Malcolm Broomhead

From current levels of around 70 cents, a one cent movement impacts EBIT by approximately A\$1 million over a full year.

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Orica booked non-recurring costs of \$169.6 million after tax in 2003, compared with \$25.5 million previously. These related primarily to the \$123.2 million write-off of your investment in Qenos and a \$27.5 million provision for groundwater clean-up at your Botany plant. Significant non-recurring items, reflecting legacy issues, have been a constant in Orica's results in recent years. When will the legacy issues be dealt with and Orica able to release a clean set of earnings?

MD & CEO Malcolm Broomhead

Putting the Qenos write-down and the restructuring costs in Incitec Pivot and Mining Services to one side, the legacy issues of environmental clean-up costs and land sales wash themselves out. And that's been Orica's experience over the past years. Legacy issues haven't been a major net item for us.

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Orica reported efficiency improvements in 2003 of \$51 million after tax, \$27 million of which were from new procurement and supply chain savings. What level of efficiency improvements are you targeting in the current year and where do you expect to generate them?

MD & CEO Malcolm Broomhead

Going forward, we'll continue to improve our costs as a percentage of sales, as well as the capital intensity of our sales, through these types of initiatives.

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Your Mining Services business increased EBIT 20 percent to \$247.4 million in 2003, with return on net assets (RONA) improving to 24.2 percent from 19.3 percent. The RONA of the North American sector of the business, at about 11 percent, was still below your target of 18 percent. To what extent will achieving the RONA target in North America depend on an improvement in market conditions?

MD & CEO Malcolm Broomhead

North American Mining Services experienced worse market conditions than in the 2001 year, when it made large losses. So its performance in 2003 was a relatively good one.

We've said we'd like to see the business exit the 2004 year with our economic profit targets in sight. That of course would require market conditions to return to normal.

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In 2003, Orica booked about \$20 million in restructuring costs relating to the global initiating systems business within Mining Services. Can you quantify the benefits you expect to realise as a result of the rationalisation of the initiating systems sector and the impact it will have on a regional basis?

MD & CEO Malcolm Broomhead

The overall impact will be an improvement in net profit after tax at the Orica level of about \$3 million. The regional impact will vary, with North America being penalised and other regions benefiting.

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Your Fertilisers business booked EBIT of \$42.8 million in 2003, down 26 percent, reflecting the impact of the drought. Earlier in the week, Incitec Pivot reported EBIT of \$59.1 million for the period. Given your Fertiliser business is basically that of Incitec Pivot, your 70-percent owned subsidiary, shouldn't the EBIT numbers be identical? How do you explain the discrepancy?

MD & CEO Malcolm Broomhead

At Incitec Pivot level, Pivot was the merger vehicle, and hence the accounts reflect eight months of Pivot's trading and four months of the merged company's trading. In Orica's books on the other hand, we have eight months of the Incitec fertiliser business's trading plus the four months of the merged company.

We've provided a reconciliation of the two sets of numbers on our web site.

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Incitec Pivot expects to achieve merger synergies at an exit rate of \$30 million by the end of the current year, which given normal seasonal conditions should enable it to achieve the 18 percent RONA target in the following year. What are your plans for your shareholding in the business?

MD & CEO Malcolm Broomhead

We're very happy with our shareholding as it is currently. Our priorities are to bed down the acquisition and ensure the \$30 million of synergy savings are delivered.

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Your Consumer Products business reported EBIT of \$89.1 million in 2003, up 18 percent, and achieved RONA of 44.3 percent, up from 32.7 percent. Given a softening in the housing cycle, what's the outlook for earnings and returns in the current year?

MD & CEO Malcolm Broomhead

We do see some softening of demand in trade paints. Retail demand however, continues to be healthy, albeit dependent on consumer confidence remaining strong.

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Orica completed a number of acquisitions in 2003. Do they provide any lessons for the integration of the Yates Consumer Lawn and Garden Care

business, which you acquired in October? How do you plan to merge Yates into the business?

MD & CEO Malcolm Broomhead

Integration of new businesses has been a real strength of the Orica story in the last year. All of the Chemnet and Mining Services acquisitions and the fertiliser merger have been integrated seamlessly and are meeting or exceeding our targets. We expect the same to occur with Yates. We expect the same to occur with Yates. We have a dedicated integration team, reporting to me, which ensures we integrate professionally and capture the learning from each acquisition.

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You've recently expanded the Chemicals business via the bolt-on acquisition of Fernz Specialty Chemicals, Engineering Plastics, Welvic and Incitec Industrial Chemicals. Will the continued growth of the business be dependent on the realisation of further acquisitions?

MD & CEO Malcolm Broomhead

The Chemicals group's had 12 half-years of continued profit growth and I expect that to continue, and be boosted by contributions from acquisitions.

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In 2003, Orica's net operating cash flow was \$500.4 million, up from \$342.7 million. Capex rose to \$119.7 million from \$100.2 million, including maintenance capex of \$88.4 million, up from \$50.5 million, but was still well below the depreciation level of \$156.2 million. At which areas of the business will future spending be targeted and can spending remain below depreciation levels on a consistent basis?

MD & CEO Malcolm Broomhead

Whilst maintenance capex has been low due in part to recent new plant and equipment purchases, we expect it to increase this year. Our medium-term target for maintenance capex is 90 percent of the depreciation rate.

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Orica's net debt was \$877 million at the end of September 2003, down from \$979 million in March. Gearing fell to 35.7 percent, within your target range of 30 to 40 percent, and interest cover rose to 7.3 percent from 6.9 percent. Is the resumption of the share buy-back of 5 percent of capital a signal that there are fewer investment opportunities for the cash being generated by the business?

MD & CEO Malcolm Broomhead

We still see many opportunities for low risk, value creating acquisitions.

As far as the buy-back is concerned, we suspended it last year when our gearing went over 40 percent. Now we're back within our preferred gearing range, and given the low franking level of our dividends, we're reactivating the buy-back so we can deliver on our promise to buy back 5 percent of our shares.

From a financial point of view, we always judge potential acquisitions against a share buy-back.

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Orica paid a 19-percent franked final dividend of 34 cents per share, up from 29 cents previously, for a full-year, 22-percent franked payment of 50 cents, up from 44 cents, 34 percent franked. What's the outlook for dividends and franking in the current year?

MD & CEO Malcolm Broomhead

We're still at the bottom end of our payout range due to our franking position, which is expected to remain below 30 percent in 2004. The board has a policy of paying out at least 50 percent of sustainable profits as dividends.

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What are your management and strategic priorities for the current year?

MD & CEO Malcolm Broomhead

We'll continue to focus on efficiency, culture and strategy. Our growth will come from four areas: underlying industry growth in the businesses we're in; ongoing productivity improvements; capex within our businesses for new plant and equipment; and bolt-on acquisitions in our core businesses. I believe this growth, together with a healthy dividend, will result in above-average market returns for our shareholders.

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Thank you Malcolm.

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