



24 May 2010

The Directors
Orica Limited
1 Nicholson Street
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Dear Directors

Demerger of DuluxGroup Limited from Orica Limited

1 Introduction

On 21 July 2008, Orica Limited (“Orica”) announced a proposal to separate Orica’s Consumer Products business into a separately listed company. To facilitate the Demerger, Orica incorporated DuluxGroup Limited (“DuluxGroup”) as a public company on 24 September 2008. The demerger was expected to be completed in February 2009. However, on 7 November 2008, Orica announced the indefinite deferral of the demerger as a result of the extreme volatility in the equity and financial markets at the time.

On 3 May 2010, Orica announced its intention to proceed with the demerger of the Consumer Products business (renamed DuluxGroup) (the “Demerger”). The Demerger is to be effected by a capital reduction, demerger dividend and a scheme of arrangement between Orica and its ordinary shareholders. Orica will transfer the DuluxGroup business to DuluxGroup and its subsidiaries prior to the Demerger becoming effective. The following steps will be implemented if the Demerger is approved:

- Orica will establish an independent capital structure for DuluxGroup, which is expected to have net debt of approximately \$245¹ million immediately following the Demerger;
- Orica will distribute the shares in DuluxGroup to Orica ordinary shareholders by way of a capital reduction (totalling approximately \$216 million) and a demerger dividend (the amount of which will be based on the volume weighted average price (“VWAP”) of DuluxGroup shares in the first five days of trading);
- the capital reduction and demerger dividend will be applied by Orica on behalf of Orica ordinary shareholders as payment for shares in DuluxGroup (no cash payment will be made to Orica ordinary shareholders as a result of the capital reduction or the demerger dividend);
- each eligible Orica ordinary shareholder will receive one new share in DuluxGroup for every Orica ordinary share they hold on the record date for the Demerger;
- Orica will continue to own the Orica Mining Services, Minova and Orica Chemicals businesses and will retain its listing on the Australian Securities Exchange (“ASX”); and
- DuluxGroup will apply to the ASX for DuluxGroup shares to be separately listed on the ASX.

Following the Demerger there will be no cross-shareholdings between Orica and DuluxGroup, other than a small number of DuluxGroup shares that may be held by a subsidiary of Orica as trustee for employees under the Orica Share Acquisition Plan. There will, however, be one common Orica and DuluxGroup Director (Garry Hounsell) and certain contractual arrangements have been entered into between Orica and DuluxGroup in relation to the separation of the businesses and ongoing supply arrangements.

¹ Includes \$12.1 million provision for trade card liability.



Orica ordinary shareholders with registered addresses in certain jurisdictions outside Australia (“ineligible overseas shareholders”) will not receive DuluxGroup shares. An agent has been appointed by Orica to sell those DuluxGroup shares on behalf of ineligible overseas shareholders. Ineligible overseas shareholders will receive in cash the net proceeds of the sale of those shares to which they would otherwise have been entitled, free of any duties and brokerage costs.

In addition, eligible ordinary shareholders in Australia and New Zealand who hold 1,000 Orica shares or fewer may elect to have their DuluxGroup shares sold on the ASX under a share sale facility, free of any duties and brokerage costs (“electing shareholders”).

The effect of the Demerger is that, immediately following the Demerger, eligible Orica ordinary shareholders (other than electing shareholders) will hold an equal number of shares in Orica and in DuluxGroup. The ownership interests of eligible shareholders (other than electing shareholders) in DuluxGroup will be equal to their ownership interest in Orica immediately prior to the Demerger.

The Demerger requires the following approvals:

- approval of the capital reduction by Orica ordinary shareholders and Orica step-up preference security (“Orica SPS”) holders at a general meeting;
- approval of the scheme of arrangement by Orica ordinary shareholders under Section 411 of the Corporations Act, 2001 (“the Corporations Act”). Under Section 411 a scheme of arrangement must be approved by a majority in number (i.e. at least 50%) of Orica ordinary shareholders present and voting (either in person or by proxy) at the meeting and by Orica ordinary shareholders representing at least 75% of the votes cast on the resolution;
- approval by the Victorian Supreme Court at a hearing following the shareholder votes referred to above; and
- approval of admission of DuluxGroup to the Official List of ASX.

The resolutions to approve the capital reduction and scheme of arrangement are interdependent. Failure to approve either of these resolutions will result in the Demerger not proceeding.

Orica SPS holders are not entitled to, and will not, participate in the capital reduction, the demerger dividend or the scheme of arrangement. Orica SPS holders are entitled to vote on the capital reduction resolution but are not entitled to vote on the scheme of arrangement. No demerger dividend will be paid to the Orica SPS holders in connection with the Demerger.

The Directors of Orica have engaged Grant Samuel & Associates Pty Limited (“Grant Samuel”) to prepare an independent expert’s report setting out whether, in its opinion, the Demerger is in the best interests of Orica shareholders and to state reasons for that opinion. Grant Samuel has also been requested to give its opinion as to whether the capital reduction materially prejudices Orica’s ability to pay its creditors. This letter contains a summary of Grant Samuel’s opinion and main conclusions, includes all material information that is contained in the full report and will accompany the Notices of Meeting and Explanatory Memorandum (“Demerger Scheme Booklet”) to be sent to shareholders by Orica. The full independent expert’s report from which this summary has been extracted will be available on the Orica website or available to Orica shareholders on request.

2 Summary of Opinion

Immediately following the Demerger, Orica ordinary shareholders (except ineligible and electing shareholders) will essentially hold the same investment interests that they currently hold in Orica, although these interests will be split into two parts: a shareholding in Orica and a separate shareholding in DuluxGroup. The Demerger will not result in a change in ownership or economic interest, and there will be no value leakage (except to the relatively minor extent of the transaction costs associated with the Demerger). Accordingly, the evaluation of the Demerger requires an assessment as to whether the change in the corporate structure resulting from the Demerger is of



itself likely to deliver greater value to shareholders over time than if the Demerger did not proceed. This could occur if the Demerger:

- results in an improvement in the underlying performance of the demerged businesses;
- promotes a more positive sharemarket assessment of the value of the demerged businesses; or
- improves the prospect that shareholders will receive full underlying value for the demerged businesses, through a takeover or other change of control transaction.

Orica's core businesses are major participants in the international mining services industry, with a strategy focussed on leveraging technical superiority, innovation and scale to achieve strong growth in the context of a rapidly growing global resources sector. The businesses are expected to have extensive opportunities to expand, both organically and through acquisition. In the short to medium term, at least, they are likely to require considerable funding.

The characteristics of the DuluxGroup business are very different. DuluxGroup is a manufacturer and marketer of premium branded products with leading positions in the coatings, home improvement and garden care markets in Australia and New Zealand. Although DuluxGroup has a small start up operation in China, the business is essentially focussed on the domestic Australian and New Zealand markets. Its key competitive advantage is a number of very powerful consumer brands, supported by ongoing research and development and a strong focus on customer service. While the DuluxGroup business has delivered consistent earnings growth in recent years, it operates in relatively mature markets. The DuluxGroup business is expected to be a strong generator of positive cash flow.

Accordingly, DuluxGroup and the remainder of Orica have essentially nothing in common (other than sharing some corporate services). The key management skills required to run the brand focussed DuluxGroup business are very different from the skills required to run a growth oriented global mining services business. DuluxGroup and the remainder of Orica have very different growth and funding profiles and are likely to appeal to different sets of investors. Given these differences, there appears to be good reason to expect that separation of DuluxGroup from the remainder of Orica will over time yield real benefits.

There is nothing to suggest that DuluxGroup's operation within the broader Orica corporate vehicle has disadvantaged the business, either in terms of access to appropriate management or to the capital required to support the business. The DuluxGroup business has achieved excellent operational and financial performance in recent years and has essentially been self-funding. However, it is reasonable to assume that, over time, the demerger of DuluxGroup will provide opportunities for improvements in its performance. These may come about through greater Board and management focus, improved transparency and market discipline in relation to the performance of the DuluxGroup business, and an ability to incentivise management on a basis directly related to the shareholder returns generated by DuluxGroup. While operating within the Orica structure has not constrained DuluxGroup in terms of access to capital, it is conceivable that in the future preferential funding of the larger and faster growing core mining services businesses could make it more difficult for DuluxGroup to access the funding required to take advantage of growth opportunities. On balance, Grant Samuel believes that there are reasonable prospects that the demerger of DuluxGroup, over time, will improve the performance of the DuluxGroup business.

In Grant Samuel's view a more compelling advantage of the Demerger is that it will improve the attractiveness of Orica and the demerged DuluxGroup from the perspective of investors and potential investors. Orica appeals to global investors seeking resources sector exposure and capital growth rather than yield. By contrast, the natural investors in DuluxGroup are likely to be domestic Australian investors with a focus on yield. In particular, for foreign investors seeking exposure to Orica's global mining services businesses, the DuluxGroup business is at best an irrelevancy and at worst potentially confusing and an investment disincentive.



The Demerger will allow investors to make their own investment decisions about their relative exposure to the Orica businesses and the DuluxGroup business, rather than having their investment mix essentially dictated by the Orica corporate structure. Over time, it will allow those investors who value most highly each of Orica and DuluxGroup to become the price-setting investors for each company, which should ultimately reduce each company's cost of equity and improve its market rating. In the case of DuluxGroup, the Demerger should promote greater transparency about its operations, strategy and future prospects than is likely to be achieved within the larger Orica group, which should also help to enhance its investment appeal.

In addition to preserving shareholders' opportunity to share in the upside potential of both Orica and DuluxGroup, the Demerger is likely to improve shareholders' prospects of realising full underlying value through a takeover of either of the demerged entities. This will be particularly relevant in the case of DuluxGroup which, prior to the Demerger, is a relatively small part of a larger mining services group. Following the Demerger, DuluxGroup will have a significantly smaller market capitalisation than Orica and will have a relatively open share register. There will be no significant impediments to a takeover or other corporate activity involving DuluxGroup.

The disadvantages of the Demerger include some duplication of corporate costs, one-off transaction costs and the prospect that DuluxGroup may incur higher borrowing costs than it would do within the current Orica structure. While the one-off transaction costs of approximately \$81 million and the \$13 million of additional annual corporate costs appear significant, they are not material in the context of Orica's size (pre-Demerger market capitalisation of approximately \$9.6 billion and EBIT for the year to 30 September 2009 of \$1.08 billion²). In Grant Samuel's view it is reasonable to conclude that the costs and risks of the Demerger are outweighed by the expected benefits. However, while the costs have an immediate impact on financial performance, the benefits (management focus, optimisation of investment characteristics, etc.) may take longer to realise.

The evaluation of the Demerger is essentially subjective as the benefits are not easily quantifiable and cannot be empirically tested. The benefits are, at least to some extent, a matter of investor perception and the Demerger does not provide a guarantee of future performance. The question is whether Orica and DuluxGroup over time are likely to deliver better returns to shareholders on a demerged basis than as part of a single Orica. In Grant Samuel's view, while none of the expected benefits of the Demerger on its own is likely to justify the Demerger, the benefits are collectively compelling. On balance, shareholders are likely ultimately to be better off if the Demerger proceeds, notwithstanding the disadvantages and risks. Accordingly, Grant Samuel believes that the Demerger is in the best interests of Orica ordinary shareholders.

3 Key Conclusions

- **The Board and management of Orica have considered a number of alternatives to demerging. However the Orica Board believes the Demerger achieves the best possible outcome for shareholders.**

Orica has identified a number of the key advantages of the Demerger in the Demerger Scheme Booklet:

- better focus on strategies and core competencies, supported by separate boards and management teams;
- improved ability for DuluxGroup to pursue growth opportunities;
- greater investor choice (for investors to make their own diversification decisions);
- enhanced investor awareness (resulting from increased transparency);
- independent capital structure and financial policies (tailored to each entities specific operational and strategic objectives); and

² Excludes individually material items.



- better alignment of DuluxGroup management incentives with performance.

The Board and management of Orica have considered a number of alternatives to demerging. The primary alternatives considered were to:

- continue with the status quo;
- divest DuluxGroup by way of an initial public offering (“IPO”);
- divest DuluxGroup through sale of the business on a trade sale basis; and
- seek a joint venture partner for DuluxGroup.

Each of these alternatives has a number of advantages and disadvantages. Continuation with the status quo would enable Orica to retain the diversification that it currently enjoys. However, there are no material synergies between DuluxGroup and Orica and the businesses have different strategies, growth and risk profiles and investment characteristics. An IPO would allow Orica to realise cash proceeds for the DuluxGroup business. However, it is likely that any IPO would be priced at a discount to full underlying value and would dilute existing shareholders’ exposure to DuluxGroup. The sale of 100% of DuluxGroup by way of a trade sale has the potential to realise full underlying value for DuluxGroup, but there are currently no proposals of this nature. In any event, following the Demerger there should be nothing to prevent a takeover of DuluxGroup to realise full underlying value for shareholders. The sale of a partial interest in DuluxGroup to a joint venture partner could result in a partial cash return to Orica. However, it would result in an unnecessarily complex ownership structure for the business (at least from an investment perspective) and may not deliver full underlying value for DuluxGroup. Having considered the advantages and disadvantages of these alternatives, the Orica Board believes the Demerger achieves the best outcome for shareholders.

- **There will be no change in ownership or economic interest immediately following the Demerger. However, the Demerger will provide shareholders with increased flexibility in managing their relative investment exposure to Orica’s businesses.**

The Demerger does not result in any change in shareholders’ economic interests in the businesses currently owned by Orica. Eligible Orica ordinary shareholders are entitled to receive one DuluxGroup share for every Orica ordinary share they own. As a result, the relative ownership interests held immediately after the Demerger by each Orica ordinary shareholder (other than ineligible shareholders and electing shareholders) in Orica and DuluxGroup will be equal to their ownership interest in Orica immediately prior to implementation of the Demerger.

However, the Demerger will provide shareholders with increased flexibility in managing their investment exposure. The risk/return profile of Orica’s mining services businesses is quite different from the risk/return profile of DuluxGroup’s consumer products businesses. Given the different investment characteristics of the Orica and DuluxGroup businesses, it is likely that DuluxGroup and Orica will appeal to very different sets of investors.

At present, shareholders must have an exposure to both the mining services and consumer products businesses or no exposure at all. Following the Demerger, shareholders will be able to make their own investment exposure decisions and shift their relative exposures to the strong cash flow, low risk, domestic consumer products business of DuluxGroup or the high growth, global mining services businesses of Orica, as they see fit.

- **The Demerger should result in greater focus and discipline of the boards and management of the demerged entities.**

The Demerger will result in the creation of two companies with separate boards and senior management teams focussed on their respective businesses. Orica and DuluxGroup have very different business characteristics and management requirements including in relation to manufacturing, product development, brand management, marketing and customer support. The challenge for Orica management will be to successfully manage what are expected to be strong rates



of growth in a rapidly expanding global resources industry. By contrast, DuluxGroup's objective will be to preserve and if possible expand what are already very strong market shares in relatively mature domestic markets, while simultaneously seeking out niche opportunities for expansion and developing its start up business in China. The Demerger should help to ensure that each company has a Board and management team focussed on its own particular challenges and requirements.

The Demerger may also result in enhanced financial disclosure and operational discipline, in particular for DuluxGroup. The separation of DuluxGroup from Orica is likely to result in the disclosure of additional information regarding DuluxGroup's performance, which will make it easier for brokers and investors to analyse the company's performance and benchmark it against the performance of its peer group companies. This enhanced transparency and the resulting increased scrutiny should increase incentives for the DuluxGroup Board and management to improve performance.

On one view, management's performance and remuneration should be the same whether the business sits within a wider group or as a standalone entity. However, the Demerger will allow a more direct linkage between business performance and the remuneration of managers responsible for that performance. In the current Orica structure, remuneration of key management is to some extent linked to overall performance measures for Orica (including share price growth and total shareholder return). The Demerger will allow each of Orica and DuluxGroup to link management remuneration to its own share price performance, creating a more direct relationship between remuneration and management performance, and more closely aligning the interests of shareholders and management.

- **The demerged entities will have improved flexibility in pursuing their strategic objectives.**

As a standalone company, DuluxGroup will be able to more readily pursue mergers and/or acquisitions, alliances or other strategic transactions that could add value to the business but that may not have fitted or been a high priority within the larger Orica group. DuluxGroup will be able to focus purely on achieving its own strategy without having to compete with the other Orica businesses for board support and capital (although there is no evidence that DuluxGroup has historically been starved of capital or thwarted strategically as a result of being part of the broader Orica). Similarly, Orica will be able to assess all strategic opportunities available to it without considering the needs of DuluxGroup.

- **There is the potential for DuluxGroup to be rated more highly by the sharemarket following the Demerger.**

Orica is ranked in the top 30 companies by market capitalisation on the ASX and is covered by over ten research brokers. As part of its financial disclosures, Orica provides summarised financial performance on a divisional basis. In theory, the combination of extensive analyst coverage and divisional performance disclosure should enable the market to accurately determine values for both the Orica and DuluxGroup businesses, as part of the overall process whereby analysts and the broader market estimate an aggregate value for the group. As a practical matter, almost all the analysts that cover Orica attribute a separate value to the consumer products businesses to be transferred to DuluxGroup. Nonetheless, it appears reasonable to conclude that Orica's current structure, at least to some extent, militates against recognition in the Orica share price of the full value of the DuluxGroup business.

One of the benefits typically associated with a successful Demerger is an enhanced market valuation of the demerged entity, as a result of greater transparency about the demerged group's operations, strategy and future prospects than would otherwise be apparent in a larger group. This benefit is more pronounced when the demerged entity is a small part of a larger group or operates in an industry sector to which the market applies valuation parameters different from those that apply to the larger group.

Orica has traditionally been researched by analysts that follow the mining sector, given Orica's focus on its mining services business. Following the Demerger, Orica will continue to be covered



by mining sector analysts, whereas it is likely that DuluxGroup will be covered by consumer product and/or building sector analysts. It is also arguable that historically, some investors and analysts may not have fully understood the DuluxGroup business. There is the potential for DuluxGroup to be rated more highly by the sharemarket following the Demerger:

- higher levels of disclosure increase investors’ confidence in their ability to judge and value the company;
- as a separate listed entity, DuluxGroup will have a higher level of visibility to the investment community;
- more focussed research coverage will improve the understanding of the investment community; and
- as a smaller company with a different operational focus, DuluxGroup is likely to appeal to a different set of investors than the investors who would generally invest in the broader Orica group. By allowing these “natural investors” in DuluxGroup to become the price setting investors, the Demerger has the potential to lower DuluxGroup’s cost of equity and lead to a market re-rating.

On the other hand, the smaller size of, in particular, DuluxGroup, might reduce its investment appeal to some investors. Orica has a market capitalisation of approximately \$9.6 billion and is included in all the major S&P/ASX market indices. The Demerger will result in Orica being split in two smaller companies, although Orica will be significantly larger than DuluxGroup. The reduction in size, in particular for DuluxGroup, may potentially reduce liquidity and therefore reduce the attractiveness of Orica and DuluxGroup for some investors. In recent years, it appears that companies with larger market capitalisations have attracted greater investor interest reflecting, in part, the deep and liquid market for their shares and their relative importance to the performance of the market in general.

While Orica and DuluxGroup will have smaller market capitalisations than Orica before the Demerger, it should be noted that:

- both entities will still be a meaningful size (in the context of their respective peers). Orica in particular will remain a very substantial company;
- while it is possible that DuluxGroup may not be included in the S&P/ASX 100 Index (the cut off is a market capitalisation of around \$1 billion), both entities are expected to be included in the S&P/ASX 200 Index, which is the key index for institutional investment purposes. Accordingly, index based investors are likely to continue to hold both Orica and DuluxGroup shares; and
- both Orica and DuluxGroup would largely retain Orica’s (pre Demerger) relatively open and diverse share register, which should promote deep and liquid markets for their shares.

The impact of the Demerger on the liquidity of the shares in the demerged entities, and the consequent impact on investor interest, is difficult to predict with any confidence. However, in Grant Samuel’s view the adverse effect on investor interest of lower liquidity (if any) is unlikely to be significant.

■ **The Demerger should enhance the prospects of a takeover offer for DuluxGroup.**

Takeovers are an important mechanism by which shareholders can realise value in excess of sharemarket prices as bidders will typically pay a premium to acquire control. The Demerger does not involve a change of control (at least initially) as the same shareholders will own proportionally the same shares in Orica and DuluxGroup. However, the Demerger should increase the likelihood of shareholders receiving a takeover offer for DuluxGroup and enhance the prospects of achieving full underlying value:

- prior to the Demerger, Orica had a market capitalisation of approximately \$9.6 billion. It is one of the top 30 companies listed in the S&P/ASX 100 Index. Any acquisition of Orica would be a very large and complex transaction. Following the Demerger, DuluxGroup will have a significantly lower market capitalisation and will be more easily digested by a wider range of potential acquirers;

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- the mix of businesses in Orica (mining services combined with consumer products) may not have appealed to a single bidder, adding complexity to any potential transaction. However following the Demerger, both Orica and DuluxGroup will have less diversified businesses, which is likely to increase their appeal to a wider range of potential acquirers; and
 - there will be no cross-shareholdings between the entities that would act as an impediment to a takeover or change of control transaction.
- **The Demerger will result in various disadvantages, costs and risks. In Grant Samuel’s view, however, these are unlikely to be material.**

The Demerger does involve some disadvantages, costs and risks. These include:

- the Demerger will result in the loss of some financial benefits that result from the operation of two businesses within a single group. In particular, additional corporate costs will be incurred in running two standalone companies. Although DuluxGroup already operates as a standalone entity in most respects, as part of Orica it has the benefit of a single Board of directors, and it shares with Orica corporate overheads in relation to ASX listing, compliance and regulatory reporting requirements. In addition, the taxation, accounting, treasury, superannuation, legal, insurance administration, company secretarial, information technology and human resources (including payroll) functions are provided centrally.

Following the Demerger, DuluxGroup will be a standalone entity and will have to establish its own corporate functions. DuluxGroup has estimated that additional costs will be approximately \$13 million per year, broken down as follows:

DuluxGroup – Additional Corporate Costs (\$ millions)	
Cost	Estimated additional costs per year
ASX listing fees	1.0
Board costs	2.0
Corporate finance / payroll costs	2.9
Corporate HR / superannuation / workers compensation	2.2
Other	4.9
Total	13.0

Source: Demerger Scheme Booklet

- The Demerger will result in one-off transaction costs of approximately \$81 million on a pre-tax basis. These transaction costs will be allocated between Orica and DuluxGroup following the Demerger as follows:

Demerger Costs (before tax) (\$ millions)			
Cost	Orica	DuluxGroup	Total
Stamp duty and other taxes	36	-	36
Re-branding / establishment costs	10	4	14
Advisory fees and other costs	31	-	31
Total	77	4	81

Source: Demerger Scheme Booklet

Approximately \$20 million of these costs will have been committed prior to the Orica ordinary shareholders’ meeting to approve the Demerger. The total one-off transaction costs, while significant, are not material in comparison to the assets and market capitalisation of Orica. Total transaction costs (before tax) represent approximately 0.8% of Orica’s current market capitalisation;

- DuluxGroup has no track record of operating as a standalone entity, notwithstanding that DuluxGroup has operated autonomously of Orica’s other businesses. In addition, there is no track record of the DuluxGroup Board working together. DuluxGroup will need to establish its



own treasury, legal, taxation, statutory financial reporting and, to some degree, information technology support functions. Transitional arrangements have been put in place to assist with the Demerger. Whilst these organisational changes involve some degree of risk, change is a regular part of corporate development and any negative impact is unlikely to be material;

- DuluxGroup is currently supported by Orica's overall financing program, which enjoys a BBB+ credit rating issued by Standard & Poor's. As a standalone entity, DuluxGroup will no longer have the financial support or credit profile associated with being part of the larger Orica group, which over time is likely to increase its funding costs and limit its access to debt. However, DuluxGroup's business generates strong cash flows and operates in relatively mature markets. Unless there is a dramatic change in the competitive outlook or overall market dynamics facing DuluxGroup, it appears reasonable to conclude that DuluxGroup's capital structure and funding arrangements provide a prudent base for the future funding of the business;
- the smaller size of DuluxGroup as a standalone entity may exacerbate the impact of any significant adverse events on the financial performance and operations of DuluxGroup. Such adverse events could include:
 - a dramatic downturn in the Australian economy;
 - significant damage to DuluxGroup's brands;
 - any loss of or unfavourable change in key customer relationships;
 - material damage to key manufacturing facilities; or
 - the impact of new entrants to the markets in which DuluxGroup operates.

The impact of these events would be less material for Orica in its current form (although the absolute magnitude of the events would not change). While DuluxGroup would be more vulnerable to such events due to its smaller size, its strong brands and leading positions in mature markets should be a mitigant to any adverse impact.

Orica will also be a smaller company following the Demerger. However, the reduction in its size will be far less material. Its assets and market capitalisation will still be substantial. The Demerger should not result in any significant increase in the impact of any adverse event on the company;

- ineligible overseas shareholders will not be entitled to participate in the Demerger. The DuluxGroup shares that would otherwise have been issued to them, will be issued to a sale agent and sold on ASX, with the proceeds remitted to the ineligible shareholders following the sale of those shares. The ineligible shareholders may also pay tax on any profit on that disposal (in their country of residence). However:
 - their DuluxGroup shares will be sold for market value;
 - they can acquire DuluxGroup shares through ASX following the listing if they wish to retain an exposure; and
 - shareholders representing less than 0.1% of Orica's listed capital are expected to be impacted by these provisions;
- it is possible that following the Demerger there will be some abnormal short term share trading (share register transition) in both entities, in particular in DuluxGroup. Given that DuluxGroup is a much smaller consumer products business currently operating in a larger mining services company, the reality is that many Orica shareholders will have invested in Orica shares for the mining services exposure rather than on account of the DuluxGroup business. The investment mandates of some Orica shareholders may preclude their continued holding of DuluxGroup shares. Accordingly, there may be some short term selling pressure following the Demerger. On the other hand, it is also reasonable to expect that many Australian investors with a focus on yield and a preference for franked dividends, who previously may not have invested in Orica because of its international focus, will be interested in investing in DuluxGroup. The short term net effect of these factors is difficult to forecast. In any event, DuluxGroup is planning investment marketing campaigns and road shows in order to maximise awareness of



and interest in the company following the Demerger. This should help to provide buying support during any share register transition.

Apart from the increase in corporate costs and the one-off transaction costs associated with the Demerger, these disadvantages and risks are not quantifiable. Assessment of their impact is accordingly judgemental. Grant Samuel believes that these disadvantages and risks are unlikely to have any material adverse consequences for Orica shareholders.

- **The Demerger is not expected to give rise to any adverse tax consequences for Australia resident shareholders.**

The Demerger is not expected to give rise to any adverse tax consequences for Australian resident shareholders. Australian shareholders account for approximately 70% of Orica's issued capital. Shareholders should refer to Section 13 of the Demerger Scheme Booklet for more information regarding the taxation implications of the Demerger and should consult their own professional adviser if in any doubt as to their personal situation.

Orica shareholders who are not residents of Australia will not be subject to Australian capital gains tax unless they hold (together with their associates) at least 10% (by value) of Orica shares or DuluxGroup shares. The non-Australian taxation implications for non-Australian resident shareholders will depend on the country of domicile of the shareholder. Non-Australian residents should seek their own taxation advice in relation to the taxation impact of the Demerger.

- **Alternatives to the Demerger are not attractive.**

The Demerger proposal reflects a recognition that there is little or no strategic or operational commonality between DuluxGroup and the remainder of Orica. The Demerger addresses this through the separation of DuluxGroup from Orica, although ownership of DuluxGroup (at least in the short term) stays with existing Orica shareholders. An alternative approach would be to separate DuluxGroup from Orica through some form of divestment, with ownership transferred to third parties. This could be achieved through a trade sale or IPO, or (hypothetically at least) on a partial basis through some form of joint venture.

These alternatives have a range of disadvantages. Any divestment of 100% of DuluxGroup would be likely to crystallise a capital gain and would result in value leakage by way of capital gains tax. Divestment by way of an IPO would almost certainly realise less than full underlying value and (to the extent that the IPO involved third party investors) would result in a dilution of the economic interests of Orica shareholders. A partial divestment through some form of joint venture would have additional disadvantages. In particular, a partial divestment would not address the disadvantages from a market and investor perspective of holding two very different businesses within the single corporate structure; in fact, a joint venture structure would be likely to exacerbate such disadvantages.

The Demerger has none of the disadvantages associated with the alternatives. There is no value leakage through the crystallisation of a capital gain, and no dilution in the economic interests of Orica shareholders. Shareholders retain the prospect of realising full underlying value for the DuluxGroup business through some future change of control transaction involving DuluxGroup. In the absence of a fully priced offer to buy the DuluxGroup business on a trade sale basis (which would have to be assessed on its merits), in Grant Samuel's view the Demerger is clearly preferable to alternative approaches to the divestment of DuluxGroup (whether by way of trade sale, IPO or joint venture).

- **Grant Samuel has concluded that the benefits of the Demerger are collectively compelling and that shareholders are likely to be better off if the Demerger proceeds, notwithstanding the disadvantages and risks. Accordingly, in Grant Samuel's view, the Demerger is in the best interests of Orica shareholders.**

The Orica and DuluxGroup businesses have essentially nothing in common (other than sharing some corporate services). They have very different characteristics, strategies, growth and return profiles.



They require different management capabilities and are likely to appeal to different set of investors. There are no obvious reasons for them to operate within a single corporate structure.

In Grant Samuel's view, it is reasonable to expect that the separation of Orica and DuluxGroup achieved by the Demerger will, over time, improve the underlying performance of the businesses. At the same time, the Demerger should enhance the investment appeal of the businesses, in part because it will allow those investors that attribute greatest value to Orica and DuluxGroup to become the price setting investors in each company. The Demerger should increase the prospects for shareholders of realising full underlying value for DuluxGroup (and to a lesser extent Orica) through a takeover transaction. Quantifying these benefits is not possible and their impact may only become apparent over the medium term. It is likely that none on its own would justify the Demerger. However, in Grant Samuel's view the benefits are collectively compelling. The costs, disadvantages and risks of the Demerger principally relate to one-off transaction costs and increased corporate costs. These are not material having regard to the scale of the demerged Orica and DuluxGroup.

Grant Samuel believes that Orica shareholders are likely to be better off if the Demerger proceeds, notwithstanding the costs, disadvantages and risks. Accordingly, in Grant Samuel's view, the Demerger is in the best interests of Orica shareholders.

- **In Grant Samuel's view, the capital return will not materially prejudice Orica's ability to pay its creditors.**

As a result of the Demerger, Orica will be split into two separate entities. Certain of the existing creditors of Orica (and its subsidiaries) will become creditors of DuluxGroup, while the remainder will remain creditors of Orica.

To effect the Demerger, Orica will undertake a capital reduction and declare a demerger dividend. The capital reduction and demerger dividend will be used on behalf of shareholders as payment for DuluxGroup shares ("Distribution Entitlement"). The capital reduction is expected to be approximately \$216 million. The demerger dividend will make up the remainder of the Distribution Entitlement. The Distribution Entitlement will be calculated by multiplying the number of DuluxGroup shares issued by the VWAP of DuluxGroup shares on ASX over the first five trading days immediately following the commencement of trading. The Distribution Entitlement will result in a reduction in Orica's shareholders' funds although this will be offset by the profit booked on the sale by Orica of the DuluxGroup business to DuluxGroup. At an economic level, however, there will be a reduction in Orica's shareholders' funds because Orica will no longer have the benefit of the earnings contributed by the businesses to be transferred to DuluxGroup.

The Directors of Orica have requested that Grant Samuel express an opinion as to whether the capital reduction will materially prejudice Orica's ability to pay its existing creditors. Given that the capital reduction and demerger dividend will effectively occur concurrently and are both fundamental aspects of the Demerger, it is difficult to assess whether the capital reduction of itself (i.e. considered in isolation from the demerger dividend) will materially prejudice Orica's ability to pay its creditors. Accordingly, Grant Samuel has assessed the impact of the capital return by considering whether the payment of the Distribution Entitlement will materially prejudice Orica's ability to pay its existing creditors. If the payment of the Distribution Entitlement does not materially prejudice Orica's ability to pay its creditors, then it follows that the capital return, as a component of the Distribution Entitlement, does not materially prejudice Orica's ability to pay its creditors.

By definition, any reduction in the equity base of a company reduces in an absolute sense the capacity of the company to fund commitments. However, while the Demerger has the effect of reducing the equity base of Orica, it does not necessarily reduce or prejudice the ability of Orica to pay its creditors, because the Demerger will also result in a reduction in the quantum of Orica's creditors. Put another way, while the Demerger will reduce Orica's absolute ability to fund its commitments, it will also reduce the extent of those commitments. In particular:



- Orica’s net debt will be reduced by \$245 million, representing the amount to be paid by DuluxGroup for the businesses to be transferred to it; and
- Orica’s trade creditors and other working capital liabilities (e.g. accruals, employee provisions, etc) will be reduced by an estimated \$180 million following the transfer of the DuluxGroup business and related trade and other creditors to DuluxGroup.

Moreover, Orica will continue to be a substantial company following the Demerger:

Impact of Demerger on Pro Forma Financial Parameters (\$ millions)		
	Orica	Orica pro forma³ post Demerger
<i>Financial Performance for year ended 30 September 2009</i>		
Revenue	7,411.0	6,470.8
EBITDA	1,190.6	1,044.7
EBIT	942.9	814.0
<i>Financial Position as at 31 March 2010</i>		
Total assets	7,225.6	6,638.3
Net borrowings	1,228.9	1,060.9
Net assets	3,710.4	3,595.8
<i>Liquidity and Gearing Metrics</i>		
Current ratio ⁴	1.0x	1.1x
Leverage ratio ⁵	1.0x	1.0x
Gearing (net borrowings/(net assets plus net borrowings))	24.9%	22.8%

Source: Demerger Scheme Booklet and Grant Samuel analysis

Analysis of the position of Orica following the Demerger suggests that there will be no significant impact on Orica’s ability to pay its creditors:

- there are not expected to be any significant changes in the liquidity and gearing metrics of Orica following the Demerger. If anything, gearing on a pro forma basis is expected to fall marginally from 24.9% to 22.8%;
- on a pro-forma basis, Orica’s net borrowings and trade and other creditors will decrease by 13.7% and 16.3% respectively. Orica’s EBITDA will fall by only 12.3% (on a pro-forma basis);
- prior to the Demerger, Orica’s credit rating issued by Standard & Poor’s was BBB+. Standard & Poor’s has indicated that Orica will retain its BBB+ rating following the Demerger;
- Orica will have uncommitted facilities (facilities available to be drawn down) of approximately \$2.2 billion;
- as a substantial listed company, Orica would if necessary have access to the public equity markets to fund creditor payments (although there is absolutely no indication that this might be required);
- Orica will incur substantial capital expenditures for 2010, relating to a number of projects including the construction of an ammonium nitrate plant at Bontang, Indonesia, increasing capacity at the ammonia plant at Kooragang Island and the construction of an initiating systems facility in Nanling, China. Orica’s cash flow forecasts show these capital expenditures can be comfortably funded within Orica’s existing facilities; and

³ Includes transaction costs.

⁴ Current ratio is current assets divided by current liabilities.

⁵ Leverage ratio is net borrowings divided by EBITDA and provides a measure of the level of debt supported by earnings.



- the Directors of Orica have stated the Demerger, if implemented, will not materially prejudice Orica's ability to pay its creditors.

Overall, in Grant Samuel's view it is arguable that payment of the Distribution Entitlement will have no negative effect on Orica's ability to pay its existing creditors, given the reduction in Orica's creditors that will result from the Demerger. At the very least, in Grant Samuel's view, it is clear that payment of the Distribution Entitlement will not materially reduce Orica's ability to repay its existing creditors. Accordingly, Grant Samuel has concluded that the capital return will not materially prejudice Orica's ability to pay its existing creditors.

Grant Samuel makes no warranty, express or implied, as to the potential recoverability of existing or contingent debts owed by Orica at the date of this report or at any subsequent time. Grant Samuel's opinion relates only to the impact of the Demerger on Orica's ability to pay its existing creditors. Future creditors must rely on their own investigations of the financial position of Orica following the Demerger. Grant Samuel offers no opinion in relation to and makes no warranty, express or implied, as to the potential recoverability of existing or contingent debts owed by DuluxGroup at the date of this report or at any subsequent time.

4 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Orica shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Demerger Scheme Booklet issued by Orica in relation to the Demerger.

Voting for or against the Demerger is a matter for individual shareholders, based on their own views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Demerger should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in Orica or DuluxGroup. This is an investment decision independent of a decision on whether to vote for or against the Demerger upon which Grant Samuel does not offer an opinion. Shareholders should consult their own professional adviser in this regard.

Advance drafts of this report were provided to Orica and its advisers. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to Grant Samuel's methodology, evaluation or conclusions as a result of issuing the drafts.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is included at the beginning of the full report.

This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully
GRANT SAMUEL & ASSOCIATES PTY LIMITED

Grant Samuel & Associates



**Financial Services Guide
and
Independent Expert's Report
in relation to the
Proposed Demerger of DuluxGroup
Limited from Orica Limited**

Grant Samuel & Associates Pty Limited
(ABN 28 050 036 372)

24 May 2010



Financial Services Guide

Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The Corporations Act 2001 requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for Orica Limited ("Orica") in relation to the Demerger into two separately listed companies (the "Orica Report"), Grant Samuel will receive a fixed fee of \$315,000 plus reimbursement of out-of-pocket expenses for the preparation of the Orica Report.

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission in October 2007. The following information in relation to the independence of Grant Samuel is stated in Section 8 of the Orica Report:

"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with Orica that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Demerger. Grant Samuel advises that:

- *Grant Samuel was retained by Orica or its previous subsidiary, Incitec, to prepare independent expert reports on:
 - *the selective buy-back of shares by ICI Plc in 1997;*
 - *the takeover offer by Orica for the minority interests in Incitec in 1999;*
 - *the proposed demerger of the industrial products business of Incitec in 2002; and*
 - *the proposed demerger of Orica's Consumer Products business in 2008, which did not proceed.**
- *a Grant Samuel executive has a shareholding in Orica consisting of fewer than 600 shares.*

Grant Samuel had no part in the formulation of the Demerger. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of \$315,000 for the preparation of this report. This fee is not contingent on the outcome of the Demerger. Grant Samuel's out-of-pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by ASIC in October 2007.

Grant Samuel has internal complaints-handling mechanisms and is a member of the Financial Ombudsman Service, No. 11929. If you have any concerns regarding the Orica Report, please contact the Compliance Officer in writing at Level 19, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000. If you are not satisfied with how we respond, you may contact the Financial Ombudsman Service at GPO Box 3, Melbourne VIC 3001 or 1300 780 808. This service is provided free of charge.

Grant Samuel holds professional indemnity insurance which satisfies the compensation requirements of the Corporations Act, 2001.

Grant Samuel is only responsible for the Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.



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Appendix - Market Evidence from Comparable Listed Companies

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1 Details of the Demerger

On 21 July 2008, Orica Limited (“Orica”) announced a proposal to separate Orica’s Consumer Products business into a separately listed company. To facilitate the Demerger, Orica incorporated DuluxGroup Limited (“DuluxGroup”) as a public company on 24 September 2008. The demerger was expected to be completed in February 2009. However, on 7 November 2008, Orica announced the indefinite deferral of the demerger as a result of the extreme volatility in the equity and financial markets at the time.

On 3 May 2010, Orica announced its intention to proceed with the demerger of the Consumer Products business (renamed DuluxGroup) (the “Demerger”). The Demerger is to be effected by a capital reduction, demerger dividend and a scheme of arrangement between Orica and its ordinary shareholders. Orica will transfer the DuluxGroup business to DuluxGroup and its subsidiaries prior to the Demerger becoming effective. The following steps will be implemented if the Demerger is approved:

- Orica will establish an independent capital structure for DuluxGroup, which is expected to have net debt of approximately \$245¹ million immediately following the Demerger;
- Orica will distribute the shares in DuluxGroup to Orica ordinary shareholders by way of a capital reduction (totalling approximately \$216 million) and a demerger dividend (the amount of which will be based on the volume weighted average price (“VWAP”) of DuluxGroup shares in the first five days of trading);
- the capital reduction and demerger dividend will be applied by Orica on behalf of Orica ordinary shareholders as payment for shares in DuluxGroup (no cash payment will be made to Orica ordinary shareholders as a result of the capital reduction or the demerger dividend);
- each eligible Orica ordinary shareholder will receive one new share in DuluxGroup for every Orica ordinary share they hold on the record date for the Demerger;
- Orica will continue to own the Orica Mining Services, Minova and Orica Chemicals businesses and will retain its listing on the Australian Securities Exchange (“ASX”); and
- DuluxGroup will apply to the ASX for DuluxGroup shares to be separately listed on the ASX.

Following the Demerger there will be no cross-shareholdings between Orica and DuluxGroup, other than a small number of DuluxGroup shares that may be held by a subsidiary of Orica as trustee for employees under the Orica Share Acquisition Plan. There will, however, be one common Orica and DuluxGroup Director (Garry Hounsell) and certain contractual arrangements have been entered into between Orica and DuluxGroup in relation to the separation of the businesses and ongoing supply arrangements.

Orica ordinary shareholders with registered addresses in certain jurisdictions outside Australia (“ineligible overseas shareholders”) will not receive DuluxGroup shares. An agent has been appointed by Orica to sell those DuluxGroup shares on behalf of ineligible overseas shareholders. Ineligible overseas shareholders will receive in cash the net proceeds of the sale of those shares to which they would otherwise have been entitled, free of any duties and brokerage costs.

In addition, eligible ordinary shareholders in Australia and New Zealand who hold 1,000 Orica shares or fewer may elect to have their DuluxGroup shares sold on the ASX under a share sale facility, free of any duties and brokerage costs (“electing shareholders”).

The effect of the Demerger is that, immediately following the Demerger, eligible Orica ordinary shareholders (other than electing shareholders) will hold an equal number of shares in Orica and in DuluxGroup. The ownership interests of eligible shareholders (other than electing shareholders) in DuluxGroup will be equal to their ownership interest in Orica immediately prior to the Demerger.

The Demerger requires the following approvals:

¹ Includes \$12.1 million provision for trade card liability.

G R A N T S A M U E L



- approval of the capital reduction by Orica ordinary shareholders and Orica step-up preference security (“Orica SPS”) holders at a general meeting;
- approval of the scheme of arrangement by Orica ordinary shareholders under Section 411 of the Corporations Act, 2001 (“the Corporations Act”). Under Section 411 a scheme of arrangement must be approved by a majority in number (i.e. at least 50%) of Orica ordinary shareholders present and voting (either in person or by proxy) at the meeting and by Orica ordinary shareholders representing at least 75% of the votes cast on the resolution;
- approval by the Victorian Supreme Court at a hearing following the shareholder votes referred to above; and
- approval of admission of DuluxGroup to the Official List of ASX.

The resolutions to approve the capital reduction and scheme of arrangement are interdependent. Failure to approve either of these resolutions will result in the Demerger not proceeding.

Orica SPS holders are not entitled to, and will not, participate in the capital reduction, the demerger dividend or the scheme of arrangement. Orica SPS holders are entitled to vote on the capital reduction resolution but are not entitled to vote on the scheme of arrangement. No demerger dividend will be paid to the Orica SPS holders in connection with the Demerger.



2 Scope of the Report

2.1 Purpose of the Report

The Demerger is subject to the approval in general meeting by Orica shareholders pursuant to:

- Sections 256B and 256C of the Corporations Act (“Sections 256B and 256C”); and
- Section 411 of the Corporations Act (“Section 411”).

Sections 256B and 256C and Section 411 govern reductions of share capital and schemes of arrangement respectively. They require the prior approval of shareholders before a capital reduction or scheme of arrangement can be effected. Sections 256B and 256C do not require an independent expert’s report to be prepared.

Part 3 of Schedule 8 to the Corporations Regulations prescribes the information to be sent to shareholders in relation to schemes of arrangement pursuant to Section 411. Part 3 of Schedule 8 requires an independent expert’s report in relation to a scheme of arrangement to be prepared when a party to a scheme of arrangement has a prescribed shareholding in the company subject to the scheme, or where any of its directors are also directors of the company subject to the scheme. In those circumstances, the independent expert’s report must state whether the scheme of arrangement is in the best interests of shareholders subject to the scheme and to state reasons for that opinion.

Although an independent expert’s report is not required to be prepared for Orica’s ordinary shareholders under Part 3 of Schedule 8, the Directors of Orica have engaged Grant Samuel & Associates Pty Limited (“Grant Samuel”) to prepare an independent expert’s report, as if it were required. The report is to set out Grant Samuel’s opinion as to whether the Demerger is in the best interests of Orica shareholders and to state reasons for that opinion. Grant Samuel has also been requested to give its opinion as to whether the capital reduction materially prejudices Orica’s ability to pay its creditors.

The sole purpose of this report is an expression of Grant Samuel’s opinion as to whether the Demerger is in the best interests of Orica shareholders and whether the capital reduction materially prejudices Orica’s ability to pay its creditors. A summary of this report will accompany the Notices of Meeting and Scheme Book (“the Demerger Scheme Booklet”) to be sent to shareholders by Orica. The full report will be available on the Orica website or available to Orica shareholders on request.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Orica shareholders. Because of that, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Demerger Scheme Booklet issued by Orica in relation to the Demerger.

Approval or rejection of the Demerger is a matter for individual shareholders based on their expectations as to the advantages and disadvantages of the Demerger and future market conditions and their particular circumstances including risk profile, liquidity preference, portfolio strategy and tax position. Shareholders who are in doubt as to the action they should take in relation to the Demerger should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell shares in Orica or DuluxGroup. This is an investment decision independent of a decision to vote for or against the Demerger upon which Grant Samuel does not offer an opinion. Shareholders should consult their own professional adviser in this regard.

2.2 Basis of Evaluation

Schemes of arrangement pursuant to Section 411 can encompass a wide range of transactions. Accordingly, “in the best interests” must be capable of a broad interpretation to meet the particular



circumstances of each transaction. However, there is no legal definition of the expression “in the best interests”.

The Australian Securities & Investments Commission (“ASIC”) has issued Regulatory Guide 111 which establishes guidelines in respect of independent expert’s reports. ASIC Regulatory Guide 111 differentiates between the analysis required for control transactions and other transactions. In the context of control transactions (whether by takeover bid, by scheme of arrangement, by the issue of securities or by selective capital reduction or buyback), it comments on the meaning of “fair and reasonable” and continues earlier regulatory guidelines that created a distinction between “fair” and “reasonable”. A proposal that, under takeover analysis, was “fair and reasonable” or “not fair but reasonable” would be in the best interests of shareholders.

For most other transactions the expert is to weigh up the advantages and disadvantages of the proposal for shareholders. This involves a judgement on the part of the expert as to the overall commercial effect of the transaction, the circumstances that have led to the proposal and the alternatives available. The expert must weigh up the advantages and disadvantages of the proposal and form an overall view as to whether the shareholders are likely to be better off if the proposal is implemented than if it is not.

In Grant Samuel’s opinion, the Demerger is not a control transaction and therefore the most appropriate basis on which to evaluate the Demerger is to assess the overall impact on the shareholders of Orica and to form a judgement as to whether the expected benefits outweigh any disadvantages and risks that might result.

In forming its opinion as to whether the Demerger is in the best interests of Orica shareholders, Grant Samuel has considered the following:

- the impact of the Demerger on business operations;
- the effect on earnings and dividends attributable to existing shareholders;
- the effect of the Demerger on the financial position of Orica and DuluxGroup;
- the likely impact on the market value of shareholders’ interests and the market for shares in the demerged companies generally;
- any other advantages and benefits arising from the Demerger; and
- the costs, disadvantages and risks of the Demerger.

In forming its opinion as to whether the capital reduction materially prejudices Orica’s ability to pay its existing creditors, Grant Samuel has considered the following:

- the effect of the capital reduction on the financial position and size of Orica;
- the impact of the capital reduction on Orica’s credit rating;
- the debt facilities available to Orica after the capital reduction;
- the impact of the capital reduction on the cash flow of Orica; and
- any other issues relating to the capital reduction.

2.3 Sources of the Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

Publicly Available Information

- the Demerger Scheme Booklet (including earlier drafts);
- annual reports of Orica for the four financial years ended 30 September 2009;



- half year results for Orica for the six months ended 31 March 2010;
- press releases, public announcements, media and analyst presentation material and other public filings by Orica including information available on its website;
- brokers' reports and recent press articles on Orica and the mining services, chemicals and home improvement sectors; and
- sharemarket data and related information on Australian and selected international listed companies engaged in the mining services, chemicals and home improvement sectors.

Non Public Information provided by Orica

- board papers and other internal briefing papers relating to the Demerger;
- management estimates of forward earnings and cash flows for Orica businesses prepared by Orica management;
- due diligence reports for Orica and DuluxGroup businesses; and
- other confidential documents, presentations and working papers.

Grant Samuel has also held discussions with, and obtained information from, senior management of Orica and its advisers.

2.4 Limitations and Reliance on Information

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying the opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

This report is also based upon financial and other information provided by Orica and its advisers. Grant Samuel has considered and relied upon this information. Orica has represented in writing to Grant Samuel that to its knowledge the information provided by it was complete and not incorrect or misleading in any material aspect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the Demerger is in the best interests of Orica shareholders. However, Grant Samuel does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose. Due diligence of the type undertaken by companies and their advisers in relation to, for example, prospectus or profit forecasts, is beyond the scope of an independent expert's report.

Accordingly, this report and the opinions expressed in it should be considered more in the nature of an overall review of the anticipated commercial and financial implications rather than a comprehensive audit or investigation of detailed matters.

An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Orica. It is understood that the accounting information

GRANT SAMUEL



that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

The information provided to Grant Samuel included pro forma accounts for Orica and DuluxGroup for the year ended 30 September 2009 and the six months ended 31 March 2010 and management estimates of forward earnings and cash flows for Orica and DuluxGroup. Orica is responsible for this financial information.

The pro forma historical financial information was subject to review by the Investigating Accountant, KPMG Transaction Services (Australia) Pty Limited (“KPMG Transaction Services”). The Investigating Accountant’s Report is set out in Section 11 of the Demerger Scheme Booklet. On this basis, Grant Samuel considers that there are reasonable grounds to believe that the pro forma historical financial information on Orica and DuluxGroup as presented in the Demerger Scheme Booklet has been prepared on a reasonable basis.

The directors of Orica have decided not to include any forecast financial information in the Demerger Scheme Booklet and therefore management’s estimates of forward earnings and cash flows have not been disclosed in this report. Grant Samuel has had regard to management’s estimates of forward earnings and cash flows in undertaking its analysis but has not relied upon it in forming its opinion. Given the nature of the transaction, management’s estimates of forward earnings and cash flows are not the fundamental basis for assessing the Demerger. Rather, other factors such as strategic implications for the businesses and investors are more important.

In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the information set out in the Demerger Scheme Booklet sent by Orica to its shareholders is complete, accurate and fairly presented in all material respects;
- the publicly available information prepared by Orica and relied on by Grant Samuel in its analysis was accurate and not misleading;
- the Demerger will be implemented in accordance with its terms; and
- the legal mechanisms to implement the Demerger are correct and will be effective.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.



3 Profile of Orica

3.1 Background

Orica is an Australian based public company that has operations in approximately 50 countries and employs over 15,000 people worldwide. Orica is among the top 30 ASX listed companies and as at 30 April 2010 had a market capitalisation of around \$9.6 billion.

Founded over 130 years ago as Jones, Scott & Co, Orica originally operated as a supplier of explosives to the Victorian gold fields in Australia. It was later acquired by Nobel (Australasia), which subsequently merged with United Alkali Co, Brunner Mond & Co and British Dyestuffs Corporation, to form Imperial Chemical Industries PLC (“ICI PLC”).

Imperial Chemical Industries of Australia and New Zealand was formed in 1928 to coordinate the Australasian activities of ICI PLC. In 1971, this became ICI Australia Limited, and in 1997, following the divestment of ICI PLC’s 62.4% stake, ICI Australia became an independent Australian company. In 1998 ICI Australia Limited was re-named Orica Limited, and, shortly afterwards, purchased part of the global explosives business of ICI PLC (1998) and began its transformation into a global explosives business.

Since 1997, Orica has grown both organically and through acquisition. Acquisitions have primarily been of mining related businesses that offer geographic or product expansion and fulfil Orica’s criteria of 18% return on net assets. Recent acquisitions include selected Dyno Nobel assets (2006), Minova (2006), Excel Mining Systems (2007) and Sopel (2008). In addition, Orica rationalised its business portfolio and divested a number of non-core businesses including technical coatings (1998), pharmaceuticals (1998), surfactants (1998), polyurethanes (2000), Qenos (2005), Incitec Pivot (2006) and Adhesives & Resins (2007).

In August 2008 Orica completed a 1-8 pro-rata renounceable rights offer at an issue price of \$22.50 per share which raised approximately \$900 million. The rights offer reduced Orica’s gearing levels and allowed Orica to ensure that it retained its BBB+ credit rating, while providing Orica with long-term financial flexibility to pursue organic and acquisition growth.

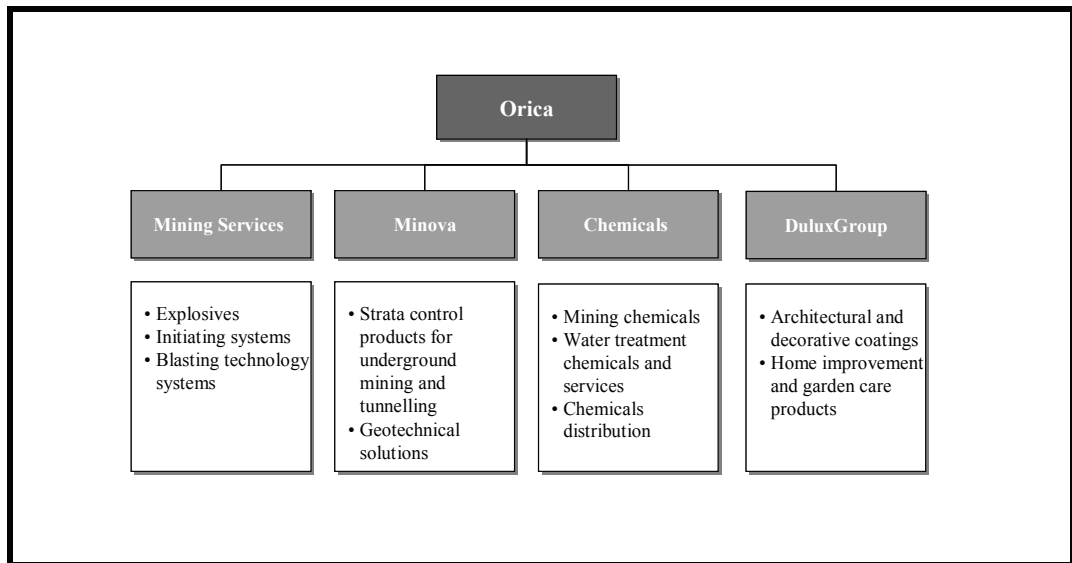
3.2 Operations

Orica’s operations comprise four business segments: Orica Mining Services, Minova, Orica Chemicals and DuluxGroup. In 2009, Orica Mining Services contributed around 80% of Orica’s earnings before net interest and tax (“EBIT”)² and is the world’s leading supplier of commercial explosives and blasting technology for mining, quarrying and construction. Minova specialises in delivering chemical-based consumables, steel bolts and accessories, associated equipment and services for ground consolidation, ventilation and water control to the underground mining, tunnelling and civil engineering markets. Orica Chemicals occupies a market leading position as a manufacturer, supplier and distributor of industrial and specialty chemicals and related services for customers in industrial, mining, pulp and paper, water treatment, construction, dairy, food and beverage and agricultural markets. The DuluxGroup business is a leading manufacturer of paint in Australia, New Zealand and Papua New Guinea and is a leading supplier of branded coatings and home improvement and garden care products.

² Before deducting corporate allocations.

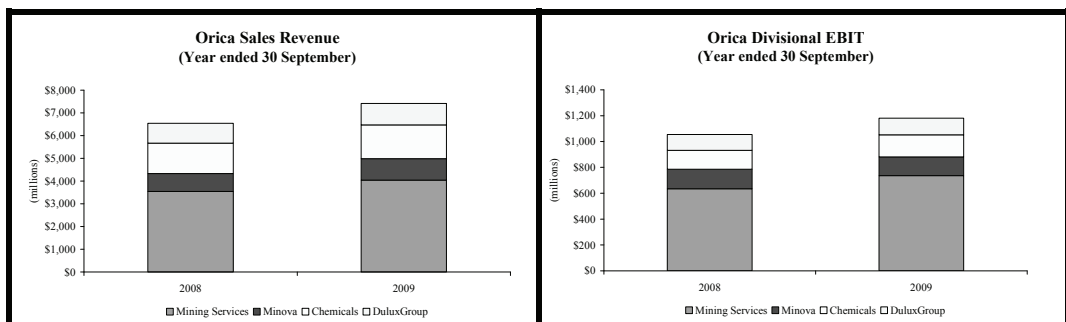


Orica’s business structure is set out below:



Source: Orica

Orica Mining Services is the largest contributor to Orica’s revenue and EBIT, as depicted below:



Source: Orica

Note: Revenue excludes intersegment sales. EBIT excludes corporate and support services.

3.2.1 Orica Mining Services

Orica Mining Services offers a range of blasting products, services and technology to the mining, quarrying and construction industries, and is the largest commercial explosives company in the world. The business has operations in approximately 50 countries including throughout Oceania, Asia, Europe, Africa, North America and Latin America. Orica Mining Services has a sales presence in more than 100 countries.

Orica Mining Services' product range includes Initiating Systems, Ammonium Nitrate, Bulk Explosives and Packaged Explosives. As a leading supplier of explosives, Orica Mining Services also offers integrated solutions to customers, including tailored blast based services and courses, exclusive Electronic Blasting System technology and mine modelling systems. Orica Mining Services is also widely recognised for its development and implementation of advanced safety systems.

Orica Mining Services’ business model centres on providing comprehensive blasting solutions to global clients that require coverage from a single service provider. In recent times the business has expanded its mining services offerings via a mix of ‘bolt on’ acquisitions and joint ventures. Acquisitions have included:

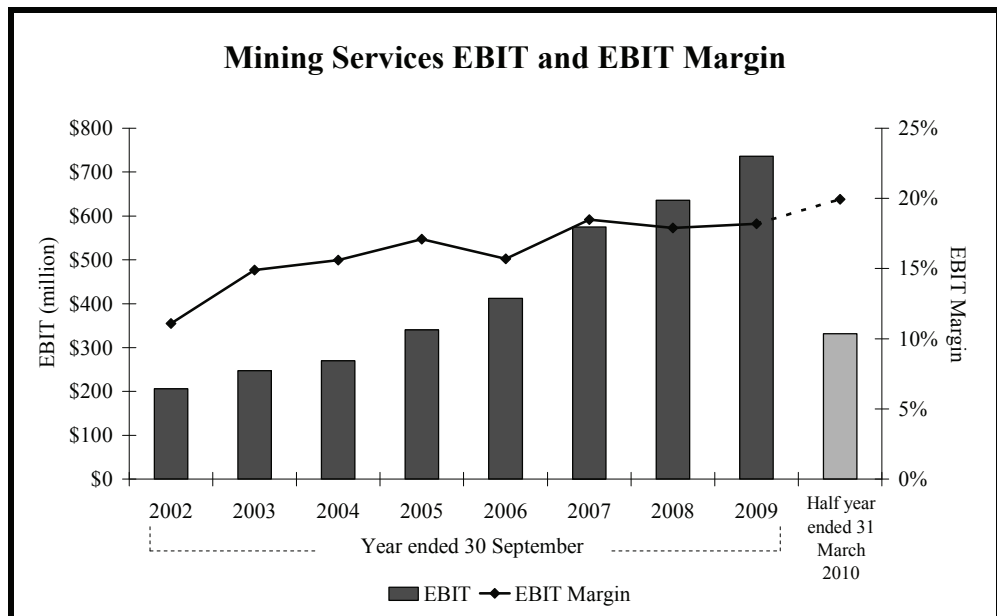
- acquiring the European, Middle Eastern, African, Asian and Latin American commercial mining services businesses of Dyno Nobel;



- BST Manufacturing Inc in North America and Blasting and Quarry Surveys in Northern Ireland in 2007;
- a number of other North American businesses, including Guelich Explosive Company, Intermountain West Energy Inc, Southern Blasting Services Inc and 50% of South West Energy Inc during the course of 2007 and 2008;
- acquiring its joint venture partner’s 48.6% interest in the Samex explosive distribution business in Peru in 2008; and
- establishment of a joint venture in 2009 to build a new non-electric detonator initiating systems plant in the Hunan Province (Nanling), China, with commissioning expected in 2011.

Orica Mining Services operates three of the world’s largest industrial ammonium nitrate plants, the largest of which is located at Yarwun in Queensland, Australia. The Yarwun plant was upgraded in August 2006, increasing production by 277ktpa to approximately 575ktpa. Orica recently began construction of a new ammonium nitrate plant in Bontang, Indonesia, which, once fully operational, will have a production capacity of 300ktpa. Commissioning is planned for 2011 and the total cost of the investment is currently estimated at approximately US\$550 million, with approximately A\$148 million spent as at 30 September 2009.

Orica Mining Services contributed EBIT³ of \$736.5 million in the financial year ended 30 September 2009. Historical EBIT and EBIT margins of Orica Mining Services are shown in the table below:



Source: Orica³

3.2.2 Minova

The Minova business focuses on the provision of ground support products and services for underground mining and tunnelling. The business has been developed through a series of acquisitions over the last several years, including the acquisitions of Minova, Excel Mining Systems (United States), Strata Control Systems (Australia), BWZ (Germany), Arnall (Poland), a 25% interest in FiReP Holding AG (Switzerland), Weldgrip Geotechnical

³ EBIT excludes individually material items. Data prior to 2005 is stated under accounting standards used prior to the adoption of International Financial Reporting Standards.



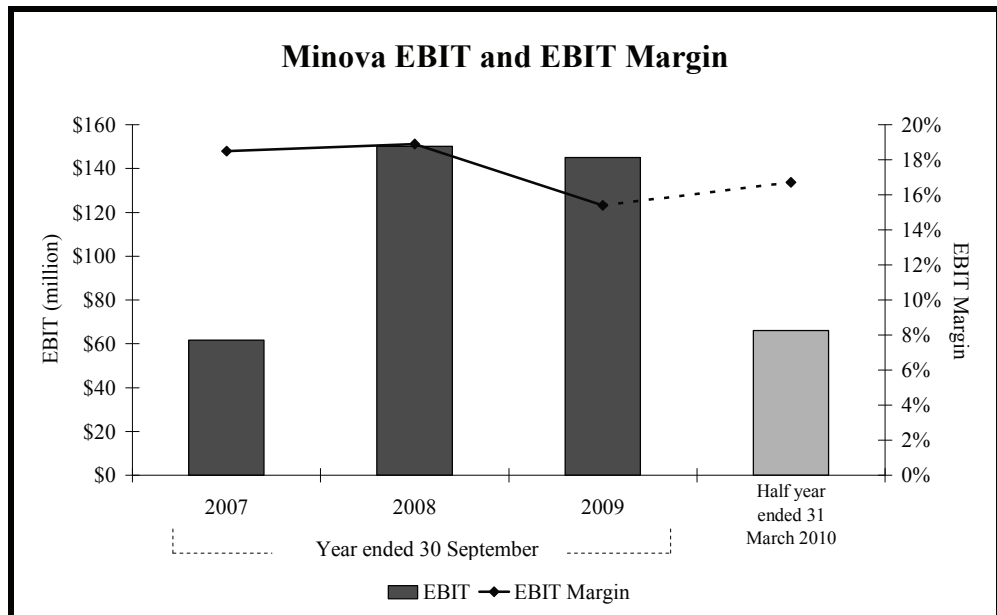
(United Kingdom) and a 51% joint venture with IMEL (Chile). Minova, acquired by Orica in 2006 for approximately \$870 million, is the global leader in resin-based roof control products. Excel Mining Systems was acquired by Orica in 2007 for approximately \$775 million and produces the associated steel roof bolts in the United States, while Strata Control Systems, BWZ, and Arnall were acquired in 2008 for undisclosed amounts.

Minova operates in all of the world's major mining regions and has sales in 50 countries supported by 26 manufacturing facilities in 11 countries. It provides specialist chemical products, steel bolts and associated products for underground mining and civil engineering activities. These products include resin capsules, powders, injection chemicals, rock/coal bolts and bolt accessories for use in strata support, ground consolidation and ventilation systems. The business provides both proprietary and custom-engineered applications. Minova's major end market is underground coal mining. However, its business in the tunnelling and hard rock (metals) mining markets are becoming increasingly important. Minova has established global Research & Development centres specialising in bolting technology (United States), chemicals and resins (Germany) and cement powders (Poland).

In order to enhance Minova's competitive position relative to other participants in the sector, Minova is pursuing a global bolts and resins expansion strategy. This strategy will enable Minova to offer a truly global service to the world's largest mining, construction and civil engineering companies, whilst providing an opportunity to continue to leverage Orica Mining Services' existing footprint and customer base. Minova will continue to explore lateral expansion opportunities and increase its product and services offering.

Minova is well positioned to benefit from the long term gradual shift towards underground mining resulting from diminishing access to commercially viable open cut mines. Management anticipates that key developing markets such as China, India and Russia will begin to adopt modern mining methods, including the use of resin and bolt offerings. Recent developments in China, in particular the Chinese government's increased focus on productivity and safety, have led to an increase in demand for products produced by Ruichy Minova China (Minova's China based joint venture). Minova is well positioned to capitalise on these emerging opportunities with its expanded product offering and established presence in these countries.

Minova contributed \$145.1 million of EBIT in the financial year ended 30 September 2009. Minova's EBIT and EBIT margin over the last three years and for the half year ended 31 March 2010 is shown below. The fall in EBIT and the EBIT margin in 2009 is predominantly the result of difficult trading conditions in the United States and Eastern Europe.



Source: Orica

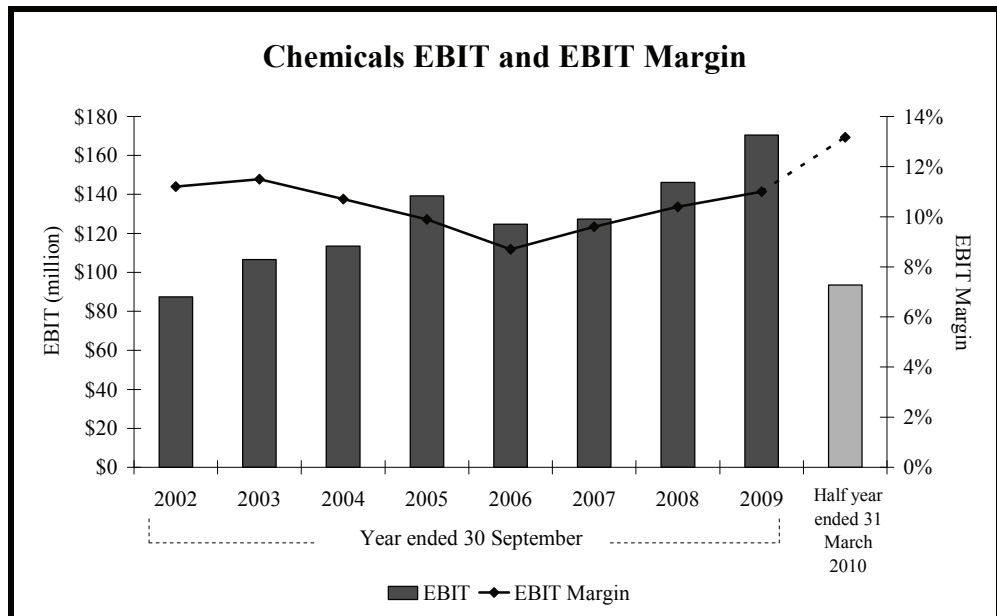
Orica expects that Minova will deliver earnings growth in 2010 and 2011, in part through the realisation of synergies through the integration of recent acquisitions. The business has limited capital expenditure requirements.

3.2.3 Orica Chemicals

Orica Chemicals was formed by the merger of Orica’s Chemnet and Chemical Services businesses in 2008 and is a major manufacturer and distributor of chemicals, services and technology to the water treatment, mining chemicals and industrial chemicals markets. The business conducts chemical manufacturing, distribution, trading activities and related value-added services. Its products include chlorine, caustic soda, sulphuric acid, aluminium sulphate, sodium hypochlorite, hydrochloric acid, ferric chloride and sodium cyanide. Orica Chemicals, which is based in Australia, has operations globally through its divisions Orica Mining Chemicals, Chemicals Australia, Chemnet New Zealand, Orica Chemicals Latin America, Bronson & Jacobs and Marplex. Orica Chemicals is a world leading producer of sodium cyanide for use in gold extraction.

Orica Chemicals contributed EBIT of \$170.4 million in the financial year ended 30 September 2009. Historical EBIT⁴ contributions and EBIT margins are shown below:

⁴ EBIT excludes individually material items.



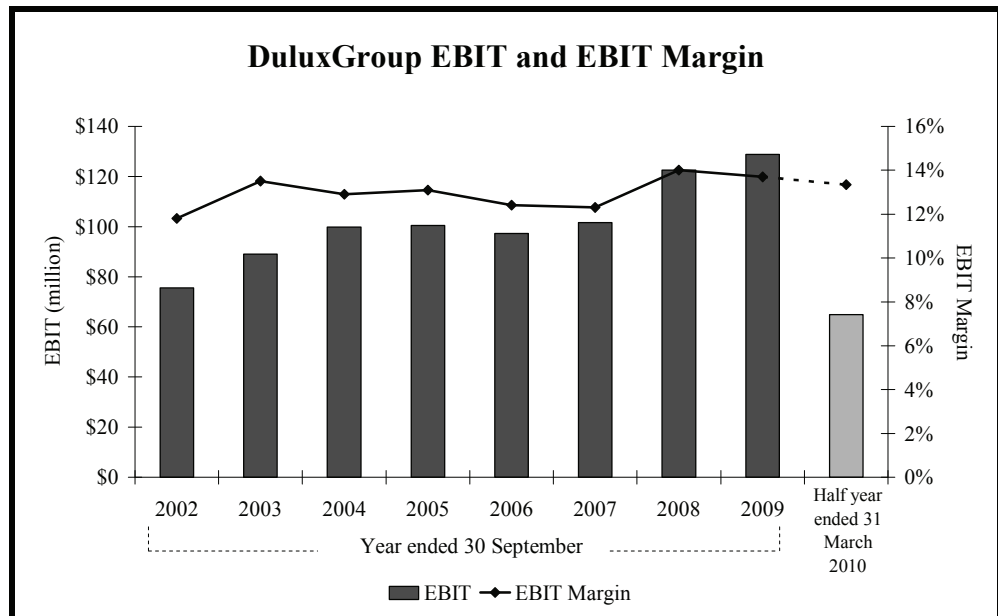
Source: Orica

3.2.4 DuluxGroup

With operations primarily in Australia and New Zealand, DuluxGroup manufactures a range of branded coatings and home improvement products. Its premium brands are Dulux, Cabot's, Selleys and Yates. However, DuluxGroup also has a number of other well established brands including Berger, British Paints, Dynamic Lifter, Feast Watson, Hortico, Intergrain, Polyfilla, Ratsak, Thrive and Walpamur. DuluxGroup can be divided into two broad categories: Coatings, which contributes the majority of sales and earnings, and Home Improvement & Garden Care. In November 2008, DuluxGroup acquired Sopel, a woodcare business in Shanghai, China. Further information on DuluxGroup is included in Section 5.3.

DuluxGroup contributed EBIT of \$128.9 million in the financial year ended 30 September 2009. Historical EBIT⁵ contributions and EBIT margins are shown below:

⁵ EBIT excludes individually material items.



Source: Orica

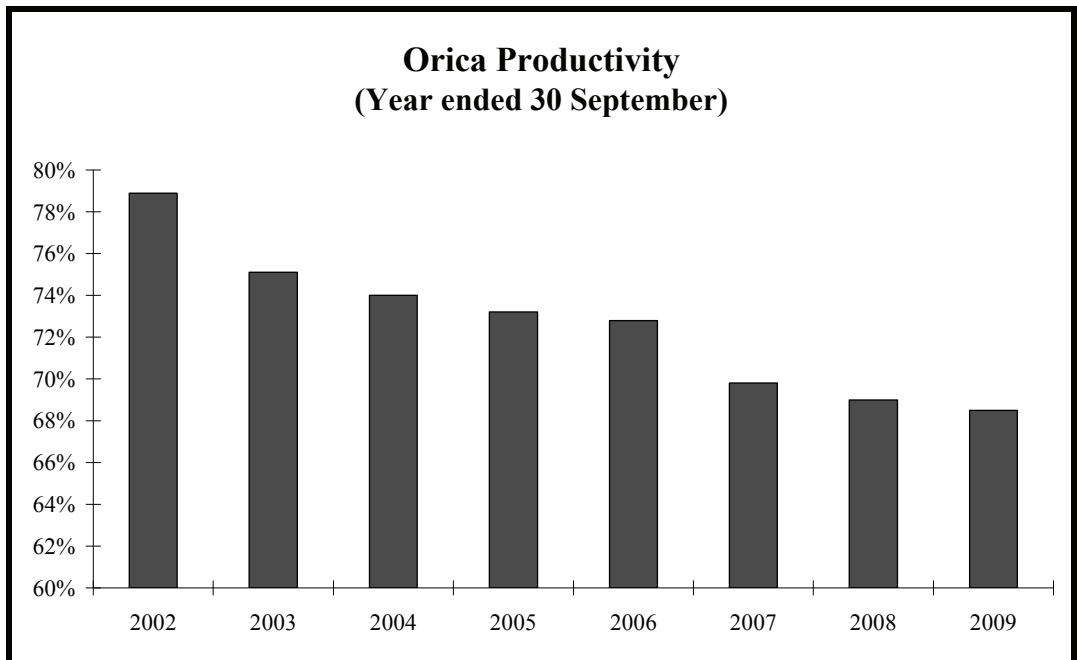
For further information on DuluxGroup please refer to Section 5.3 of this report, or Section 4 of the Demerger Scheme Booklet.

3.3 Strategy

Orica's strategic objective is to deliver top quartile returns to shareholders and is guided by three principles: growth, productivity and culture. Orica's core strategy to achieve this is to be the global leader in the provision of high service, critical consumables to the mining and infrastructure markets leveraged to long-term increases in production and development volumes. Orica grows organically and through acquisitions. This involves expanding into new product categories, improving its ability to meet customer needs, and expanding into new geographies. Orica continually reviews acquisition opportunities and will pursue opportunities as they arise. Its growth strategy is underpinned by three criteria:

- market leadership: Orica's aim is to be market leader in each of its chosen global or regional businesses;
- grow 'close to the core': Orica pursues opportunities in related businesses where it can leverage its expertise and achieve synergies; and
- invest in the 'winners': Orica only grows its best performing businesses, which meet financial performance targets and have earned the right to grow.

Orica's aim is to improve productivity year-on-year by way of effectiveness, efficiency, or leveraging its fixed cost base. All of Orica's businesses are focused on improving efficiency, paying particular attention to manufacturing and supply chain improvements. Orica measures its improvement in productivity as the ratio of total fixed costs to gross margin. The improvement in Orica's productivity from 2002 to 2009 is shown below:



Source: Orica

Note: Productivity is measured as the ratio of total fixed costs (including depreciation and amortisation) to gross margin.

3.4 Financial Performance

The financial performance of Orica for the three years ended 30 September 2009 and the six months ended 31 March 2010 is summarised below:

Orica – Summary Financial Performance (\$ millions)				
	Year ended 30 September			Half year ended 31 March 2010
	2007 actual	2008 actual	2009 actual	
Total sales revenue	5,527.2	6,544.1	7,411.0	3,226.0
EBITDA	973.6	1,147.2	1,190.6	548.8
Depreciation	(153.3)	(177.6)	(202.7)	(99.1)
Amortisation	(29.9)	(41.1)	(45.0)	(20.6)
EBIT	790.4	928.5	942.9	429.1
Net interest expense	(122.6)	(157.7)	(133.5)	(70.6)
Tax expense	(154.4)	(203.5)	(228.0)	(286.5) ⁶
Reported profit after tax	513.4	567.3	581.4	72.0
Minority interests	(25.7)	(27.7)	(39.6)	(16.9)
Net profit after tax to members of Orica	487.7	539.6	541.8	55.1
Individually material items	(22.3)	(41.6)	(139.6)	(66.8)
EBIT excluding individually material items	812.7	970.1	1,082.5	495.9
<i>Statistics</i>				
<i>Basic earnings per share (cents)</i>	146.3	159.8	145.2	80.6 ⁷
<i>Diluted earnings per share (cents)</i>	144.4	158.0	140.8	80.0 ⁷
<i>Dividends per share (cents)</i>	89.0	94.0	97.0	41.0
<i>Dividend payout ratio (%)</i>	60.8%	58.8%	66.8%	50.9% ⁷
<i>Total sales revenue growth (%)</i>	16.5%	18.4%	13.2%	
<i>EBITDA growth (%)</i>	10.0%	17.8%	3.8%	
<i>EBIT growth (%)</i>	8.5%	17.5%	1.6%	
<i>EBITDA margin (%)</i>	17.6%	17.5%	16.1%	17.0%
<i>EBIT margin (%)</i>	14.3%	14.2%	12.7%	13.3%
<i>Interest cover⁸ (times)</i>	6.4	5.9	7.1	6.1

Source: Orica and Grant Samuel analysis

Orica's business in 2007 reflected the company's strategic plan to shift its focus towards core operations in the mining services and infrastructure sectors. Earnings for 2007 were significantly higher than for 2006. This was primarily due to incremental EBIT from the acquisitions of the Dyno Nobel assets and Minova. Margins showed significant improvement predominantly due to stronger pricing in Orica Mining Services.

Sales revenue and EBIT grew in all businesses in 2008. This was the result of a number of factors including the integration of Dyno Nobel assets into Orica Mining Services, the acquisition of Excel Mining Systems by Minova, the full year impact of the Yarwun sodium cyanide plant upgrade within Orica Chemicals and strong market share gains in the DuluxGroup business.

Despite the difficult market conditions in 2009, Orica delivered its eighth consecutive year of underlying growth. Orica Mining Services, Chemicals and DuluxGroup all announced record results driven by productivity and efficiency initiatives. Minova EBIT was down 3% as a result of reduced volumes caused by difficult trading conditions in the United States and Eastern Europe.

⁶ Includes tax, penalties and interest of \$191.8 million in relation to the sale of the pharmaceuticals business to Zeneca BV in 1998.

⁷ Basic earnings per share, diluted earnings per share and dividend payout ratio is before individually material items (including the pharmaceuticals tax case).

⁸ Interest cover is EBIT divided by net interest expense.



However, Orica's 2009 financial performance was affected by an increase in individually material items, which are set out in further detail below.

For the six months ended 31 March 2010, Orica recorded a fall in sales from the prior corresponding period as a result of softer volumes and unfavourable exchange rate movements. EBIT, however, increased as a result of improved pricing and more favourable input costs as well as the continued benefit from productivity and synergy improvements. Net profit was impacted by a charge of \$191.8 million in relation to tax, penalties and interest from the sale of the pharmaceuticals business to Zeneca BV in 1998 (incurred in the tax expense in the table above).

Individually material items for the three years ended 30 September 2009 and for the six months ended 31 March 2010 are summarised as follows:

Orica – Individually Material Items (\$ million)				
	Year ended 30 September			Half year ended 31 March 2010
	2007	2008	2009	
Restructuring and rationalisation costs				
Orica Mining Services	-	-	(32.1)	
Chemicals	-	(20.0)	-	
Marplex business	(16.9)	-	-	
DuluxGroup Demerger costs		-	(20.8)	
Environmental Provisions				
Mercury remediation				(45.0)
Hexachlorobenzene remediation				(18.1)
Asset Impairment writedowns				
Marplex	-	-	(16.5)	
Botany Groundwater Treatment Plant	-	-	(61.1)	
Integration Costs				
Dyno Nobel assets	(44.7)	(9.6)	(16.3)	
Minova/Excel		(12.0)	(12.8)	(3.7)
Net gain on derivatives	-	-	20.0	
Profit on sale of Adhesives and Resins	23.3	-	-	
Tax Indemnity - Cropcare	16.0	-	-	
Individually material items	(22.3)	(41.6)	(139.6)	(66.8)

Source: Orica

Individually material items (excluding the pharmaceuticals tax case discussed above) amounted to \$66.8 million for the six months ended 31 March 2010. This includes \$45 million in relation to the establishment of a provision for the remediation of mercury contamination at Botany.

Individually material items in 2009 included asset write downs and provisions relating to the restructuring of Orica Mining Services, costs relating to the proposed demerger of DuluxGroup and the write down of the Botany Groundwater Treatment Plant assets to nil following a review of the recoverability of the plant assets. The net gain on derivatives relates to currency hedging on the purchase of minority shareholdings in partially held subsidiaries during the period.



3.5 Financial Position

The financial position of Orica as at 30 September 2009 and 31 March 2010 is summarised below:

Orica – Summary Financial Position (\$ millions)		
	As at 30 September 2009	As at 31 March 2010
Debtors and prepayments	964.8	963.0
Inventories	619.8	634.8
Creditors and accruals	(1,057.9)	(1,031.0)
Net working capital	526.8	566.8
Property Plant & Equipment	2,075.0	2,161.8
Intangible assets	2,756.5	2,626.6
Investments accounted for using the equity method	167.4	171.1
Deferred tax assets (net)	177.0	165.9
Current tax liabilities	(78.7)	(108.9)
Provisions	(629.8)	(683.2)
Other	73.1	39.2
Total funds employed	5,067.3	4,939.3
Cash and deposits	308.5	273.6
Borrowings	(1,403.0)	(1,502.5)
Net borrowings	(1,094.5)	(1,228.9)
Net assets	3,972.8	3,710.4
Outside equity interests	(112.1)	(120.7)
Equity attributable to step-up preference security holders	(490.0)	(490.0)
Equity attributable to Orica ordinary shareholders	3,370.7	3,099.7
<i>Statistics</i>		
<i>Shares on issue at period end (millions)</i>	<i>360.0</i>	<i>361.1</i>
<i>Net assets per share (\$)</i>	<i>11.0</i>	<i>10.3</i>
<i>NTA per share⁹ (\$)</i>	<i>1.7</i>	<i>1.3</i>
<i>Gearing (net borrowings/(net assets plus net borrowings))</i>	<i>21.6%</i>	<i>24.9%</i>

Source: Orica and Grant Samuel analysis

The following is noted in relation to Orica's financial position:

- provisions include:
 - defined benefit superannuation plans across several local and overseas businesses. As at 31 March 2010, Orica reported a defined benefit liability of \$191.6 million; and
 - environmental provisions, which predominantly relate to the Botany Groundwater contamination. Further details on the Botany transformation projects are included in Section 8.5 of the Demerger Scheme Booklet. As at 31 March 2010, Orica had provided for environmental provisions of \$296 million;
- the majority of Orica's drawn borrowings relate to guaranteed senior notes issued in the United States private placement market in 2000, 2003 and 2005. The notes have maturities between 2010 and 2018;
- Orica issued the Orica SPS in February 2006. The Orica SPS are stapled securities comprising a fully paid Preference Share and a fully paid unsecured note. Further information on the SPS is set out in Section 3.7; and

⁹ Excludes outside equity interests and equity attributable to Orica SPS.



- Orica has significant undrawn bilateral facilities in place with a combination of domestic and international lenders.

3.6 Cashflow Information

Orica's operations have been funded over time from profit from operations, the proceeds of share issues and borrowings.

Orica – Summary Cashflow Statement (\$ millions)				
	Year ended 30 September			Half year ended 31 March 2010
	2007	2008	2009	
EBITDA	973.6	1,147.2	1,190.6	548.8
Changes in working capital and other adjustments	(618.9)	376.0	(114.0)	(226.9)
Capital expenditure (net)	(280.9)	(394.8)	(345.6)	(195.3)
Operating cash flow	73.8	1,128.4	731.0	126.6
Tax paid	(141.4)	(190.0)	(235.4)	(114.5)
Net interest paid	(108.3)	(148.5)	(136.5)	(65.5)
Net dividends paid	(285.5)	(186.7)	(314.0)	(187.4)
Acquisitions (net of cash)	(958.3)	(869.2)	(167.0)	(42.2)
Disposals	99.6	5.9	9.7	15.1
Proceeds from share issues (net buybacks) and equity	(127.7)	893.1	(31.3)	(0.3)
Proceeds/(repayments) of borrowings	459.0	(376.9)	81.7	128.5
Other	(14.8)	29.1	(12.2)	5.3
Net cash generated/(used)	(1,003.6)	285.2	(74.0)	(134.4)
Net cash/(borrowings) - opening	(302.1)	(1,305.7)	(1,020.5)	(1,094.5)
Net cash/(borrowings) - closing	(1,305.7)	(1,020.5)	(1,094.5)	(1,228.9)

Source: Orica and Grant Samuel analysis

Orica's capital expenditure for the year ending 30 September 2010 is expected to be approximately \$830 million, broken down as follows:

Orica – 2010 Capital Expenditure		
Business	Major Projects > \$10 million	\$ millions
Orica Mining Services	Bontang, Nanling, Kooragang Island ammonia plant upgrade, Hunter Valley emulsion plant	440
Chemicals	Chemicals Australia chlorine capacity upgrade and hypo plant relocation storage, Mining Chemicals PIBSA manufacturing and cyanide plant upgrade (95ktpa)	40
DuluxGroup	Protective coatings plant, upgrade to decorative New Zealand manufacturing site	20
Other	Various	100
Total planned expansion capital expenditure		600
Total planned sustenance capital expenditure		230

Source: Orica

3.7 Capital Structure and Ownership

As at 15 April 2010, Orica had the following securities on issue:

- 361,088,962 ordinary shares;
- 40,600 options issued under the Share Option Plan¹⁰;

¹⁰ These options are expected to be exercised in May 2010.

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- 5,000,000 Orica SPS which are stapled securities comprising a fully paid preference share and a fully paid unsecured note. The Orica SPS have no fixed repayment date, but Orica has the right to repurchase them for cash or convert the Orica SPS into a variable number of ordinary shares in Orica from November 2011 or earlier in certain circumstances. Holders rank ahead of ordinary shares but behind creditors. Orica SPS holders do not have voting rights in shareholder meetings except in limited circumstances. Distributions payable on the Orica SPS are discretionary, payable semi-annually, non-cumulative, unfranked and payable based on the 180 day bill swap rate plus a current margin of 1.35% per annum. Should the credit rating of the Orica SPS fall below Standard & Poor's BBB- or equivalent, or the Orica SPS no longer be rated, an additional 1% will be added to the distribution rate.

As at 3 May 2010, there were 66,689 registered ordinary shareholders in Orica with the top 10 registered ordinary shareholders holding approximately 62% of the ordinary shares on issue. The top 10 registered ordinary shareholders are principally nominee or custodian companies. Orica has a significant retail investor base representing approximately 35% of the ordinary shares on issue. Just over 70% of Orica's ordinary shareholders are understood to be Australian based.

As at 21 May 2010 Orica had only one substantial shareholder (ordinary shareholders with interests of more than 5% of the Orica shares on issue) that has issued a substantial shareholder notice. The substantial shareholder is Perpetual Limited and Subsidiaries who holds approximately 28 million Orica ordinary shares, or 8.8% of issued capital.



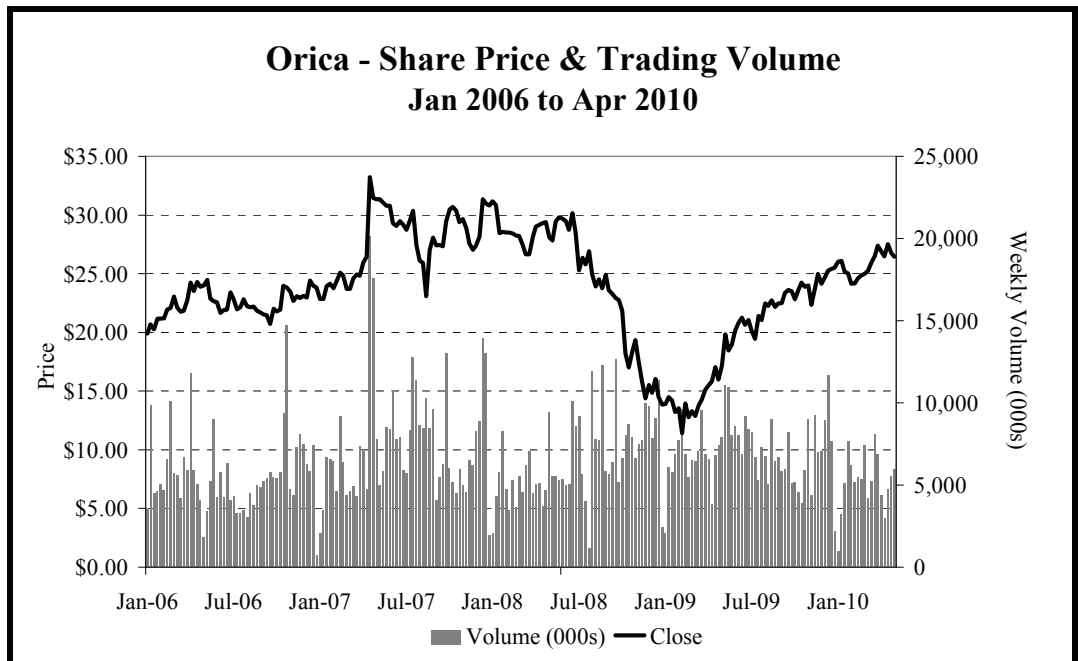
3.8 Share Price History

A summary of the share price and trading history of Orica since January 2006 is set out below:

Orica Share Price History					
	Share Price (\$)			Average weekly volume (000s)	Average weekly transactions
	High	Low	Close		
Year ended 31 December					
2006	25.92	19.77	23.81	5,626	3,980
2007	34.16	22.21	31.11	7,518	7,447
2008	31.55	12.36	13.98	6,607	13,392
2009	26.14	10.75	26.05	6,973	21,860
Quarter ended					
31 March 2010	27.51	23.23	26.79	5,635	19,970
Month ended					
30 April 2010	27.75	26.17	26.45	4,725	17,997

Source: IRESS

The following graph illustrates the movement in the Orica share price and trading volumes since January 2006.



Source: IRESS

The period from January 2006 to June 2008 was a period of steady share price appreciation. It was characterised by strong operating performance and included the \$775 million acquisition of Excel Mining Systems and the completion of major portfolio restructurings, including the merger of Chemical Services with Chemnet.

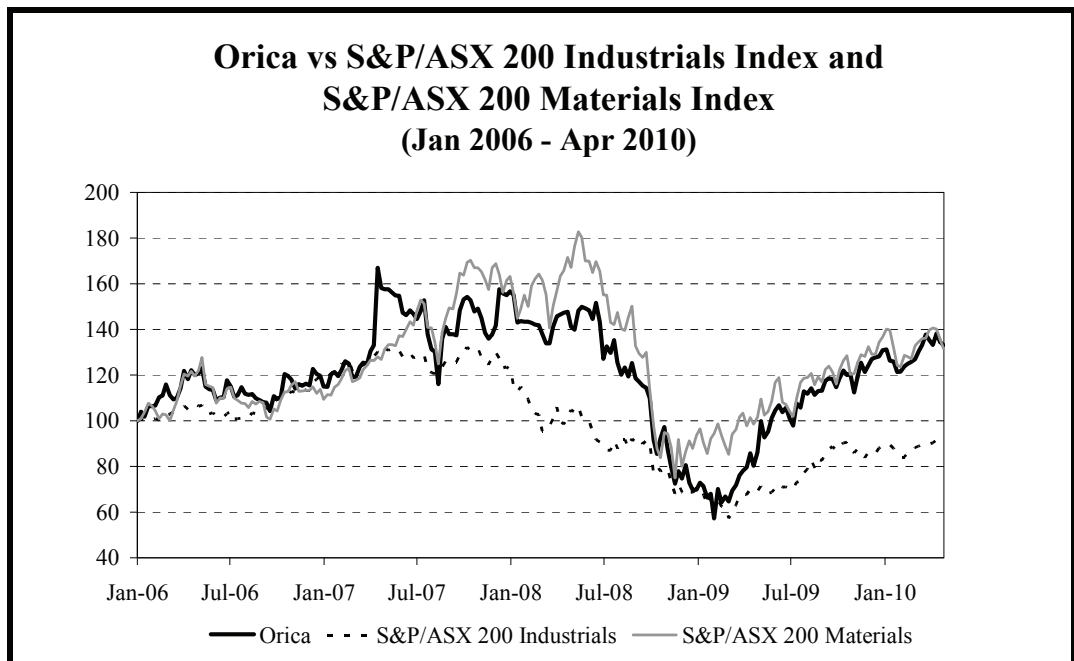
Orica's share price trended downwards during the latter half of 2008 and into the first few months of 2009 which was in line with the broader market. On 21 July 2008 Orica announced a proposed demerger of its consumer products business, which was subsequently deferred in November 2008. Orica's share price began to recover in March 2009, in line with the general recovery in the Australian share market. It continued to rise following the announcement of strong first half results in May 2009 and strong performance for the year ended 30 September 2009. On



3 May 2010, Orica announced the Demerger. Since that time Orica shares have traded in the range \$24.50 – 27.47.

Orica is a liquid stock with no controlling shareholders or restrictions on its free float. Average weekly volume over the 12 months prior to the announcement of the Demerger represented approximately 2% of shares on issue or annual turnover of around 100% of shares on issue.

The market capitalisation of Orica prior to the announcement of the proposed Demerger was approximately \$9.6 billion¹¹. Orica is a member of a number of indices including the S&P/ASX 50 Index. The relative performance of Orica shares against the S&P/ASX 200 Industrial Index and S&P/ASX 200 Materials Index since January 2006 is shown below:



Source: IRESS

Orica has generally tracked the S&P/ASX 200 Materials Index and has outperformed S&P/ASX 200 Industrial Index. Orica’s exposure to the mining sector has resulted in outperformance against the S&P/ASX 200 Industrial Index.

¹¹ As at close of business 30 April 2010.



4 Background on Demergers

4.1 Rationale

A “demerger” or “spin-off” is generally understood as a pro-rata transfer of shares in a subsidiary to shareholders. The broad principle underlying demergers is that sharemarkets generally do not reward corporate diversification unless there are substantial synergies available to a corporate holder of a diversified portfolio of assets or some other strategic rationale. Investors can achieve diversification themselves and it is generally accepted that investors prefer the investment flexibility resulting from the separation of assets into separate companies that have relatively focussed businesses. Consequently, demergers have typically been undertaken to create investment opportunities with a single geographic focus, a single industry focus or a single product focus.

A pure demerger involves the transfer to existing shareholders of 100% of the shares in the subsidiary and there is no dilution of equity or transfer of ownership from the current shareholders. There are a number of variants that are also loosely referred to as demergers including:

- a majority demerger, where the parent distributes the bulk of the subsidiary’s shares to existing shareholders and either retains the remaining shares for a period or sells them immediately through an initial public offering (“IPO”) or other sale process;
- an equity carve-out, where the parent company sells a portion of a subsidiary’s shares through an IPO. The carved-out subsidiary has its own board, management and financial statements while the parent company provides strategic direction and central resources; and
- a divestiture IPO, where 100% of the shares in the subsidiary are sold to the public.



The use of demergers as a method of divesting a subsidiary has become a common feature of equity markets in recent years. Recent examples of demergers in Australia include:

Selected Recent Demergers in Australia					
Date	Parent	Business/ Market focus	Demerged entity	Business/ Market focus	% demerged
Pending	CSR Limited	Building materials, aluminium, property	Sugar	Sugar, renewable energy	100.0%
Dec 2007	Publishing and Broadcasting Limited (renamed Consolidated Media Holdings)	Media	Crown Limited	Gaming	100.0%
Jun 2007	Toll Holdings Limited	Logistics	Asciano Limited	Ports and rail	100.0%
Nov 2006	Tower Limited	Multi-line insurance (New Zealand)	Tower Australia Group Limited	Life insurance (Australia)	100.0%
Jul 2006	Macquarie Infrastructure Group	Toll roads (globally)	Sydney Roads Group	Toll roads (Sydney)	100.0%
Nov 2005	Mayne Group Limited (renamed Symbion Health Limited)	Healthcare	Mayne Pharma Limited	Pharmaceuticals	100.0%
Feb 2005	Tower Limited	Insurance (Australia/ New Zealand)	Australian Wealth Management Limited	Funds management (Australia)	100.0%
Oct 2003	AMP Limited	Life insurance, wealth management/Australia, New Zealand	HHG plc	Life insurance, wealth management/United Kingdom, Europe	85.0%
Mar 2003	CSR Limited	Building materials, aluminium, sugar	Rinker Group Limited	Heavy building materials	100.0%
Dec 2002	WMC Limited (renamed Alumina Limited)	Alumina	WMC Resources Limited	Resources	100.0%
Jul 2002	BHP Billiton Limited	Resources	BHP Steel Limited	Steel	94.0%
Oct 2000	The Broken Hill Proprietary Company Limited	Resources	OneSteel Limited	Steel	100.0%
Apr 2000	Amcor Limited	Packaging	PaperlinX Limited	Paper	82.0%
Feb 2000	Origin Energy Limited	Energy	Boral Limited	Building Materials	100.0%

Source: IRESS

In addition, there has been a number of divestiture IPOs in Australia:

Selected Recent Divestiture IPOs in Australia					
Date	Parent	Business/ Market focus	Demerged entity	Business/ Market focus	% demerged
Apr 2007	Transfield Services Limited	Infrastructure services	Transfield Services Infrastructure Fund	Energy and transport infrastructure	51.0%
Dec 2005	Burns, Philp & Company Limited	Food manufacture	Goodman Fielder Limited	Basic foods	80.0%
Oct 2005	Alinta Limited	Gas utilities	Alinta Infrastructure Holdings Limited	Gas pipelines and power stations	80.0%
Oct 2003	Foster's Group Limited	Alcoholic beverages	Australian Leisure & Hospitality Group Limited	Hotels, liquor and gaming, property	100.0%
Aug 2001	Futuris Corporation Limited	Rural and automotive systems	Australian Agricultural Company Limited	Agriculture	60.0%
Mar 2001	Village Roadshow Limited	Media and entertainment	Austereo Limited	Radio	55.0%
Jun 2000	The Australian Gas Light Company	Energy	Australian Pipeline Trust	Gas pipelines	70.0%

Source: IRESS



The benefits typically cited for demergers largely reflect the focus of the demerged entity. However, there are a number of disadvantages and potential risks associated with demergers:

Benefits and Disadvantages/Risks of Demergers	
Benefits	Disadvantages/Risks
<ul style="list-style-type: none"> ▪ transparency ▪ investor attraction and interest ▪ enhanced flexibility to shareholders ▪ clarity in capital allocation ▪ flexibility in raising capital ▪ better targeted incentives and management focus ▪ independence and strategic flexibility to undertake growth initiatives 	<ul style="list-style-type: none"> ▪ loss of synergies ▪ transaction costs ▪ duplication of corporate costs ▪ increased financing costs ▪ loss of diversification ▪ reduced liquidity and rating in key indices

4.2 Market Evidence

There is little definitive evidence as to whether or not demergers have actually been successful in enhancing shareholder value, largely because it is not possible to reliably measure what the share prices would have been had the demergers not occurred. Some of the evidence and views which have emerged are summarised below:

- several studies¹² have found that there was a positive impact on the share price (of around 3-6%) at the time of the announcement. A similar rise occurred where there was a targeted share or equity carve-out. One study has shown that, in some circumstances, there is no decline even if the demerger is ultimately withdrawn¹³;
- several studies¹⁴ have also found significantly positive abnormal returns over an extended period (of up to three years) following the demerger for the demerged company, the parent and the demerged company/parent combination. Although, one study¹⁵ found that long term value creation only exists for the demerged subsidiary not the parent and another study¹⁶ found significant evidence that spin-offs create more value than carve-outs;
- some of the reasons found to be associated with positive abnormal returns have included:
 - corporate restructuring activity¹⁷. Both the demerged subsidiary and the parent experience an unusually high incidence of takeovers in comparison to their control group comparable companies. The abnormal performance is limited to companies involved in takeover activity. The findings suggest that demergers provide a low-cost method of transferring control of corporate assets to bidders who are able to create greater value;
 - mitigation of information asymmetry¹⁸. The hypothesis was that value would be enhanced if the demerged subsidiary is able to convey more information about its

¹² See for example: P.L. Anslinger, S.J. Klepper and S. Subramaniam, "Breaking up is good to do", The McKinsey Quarterly, 1999 Number 1; Thomas Kirchmaier, "The Performance Effects of European Restructures", Centre for Economic Performance, London School of Economics and Political Science, May 2003; UBS Investment Research, "Q-Series: Spin-offs and restructures", UBS Limited, 14 April 2005.

¹³ K. Alli, G. Ramirez and K. Yung, "Withdrawn Spin-offs: An Empirical Analysis", The Journal of Financial Research, Winter 2001.

¹⁴ See for example: J. Wyatt, "Why Spinoffs Work for Investors", Fortune, October 16 1995, p72; P.J. Cusatis, J.A. Miles and J.R. Woolridge, "Restructuring Through Spin-outs, The Stock Market Evidence", Journal of Financial Economics, Volume 33 No. 3, June 1993, T.A. John, "Optimality of Spin-outs and Allocation of Debt" Journal of Financial and Quantitative Analysis, 1993.

¹⁵ Thomas Kirchmaier, "The Performance Effects of European Restructures", Centre for Economic Performance, London School of Economics and Political Science, May 2003.

¹⁶ Rodger Rüdüstüli, "Value Creation of Spin-offs and Carve-outs", Doctoral Dissertation, University of Basel (Switzerland), May 2005.

¹⁷ P.J. Cusatis, J.A. Miles and J.R. Woolridge, "Restructuring Through Spin-outs, The Stock Market Evidence", Journal of Financial Economics, Volume 33 No. 3, June 1993.

¹⁸ S. Krishnaswami and V Subramaniam, "Information asymmetry, valuation and the corporate spin-out decision" Journal of Financial Economics, Volume 53, No. 1, July 1999.



operating efficiency and future prospects when it is a separate entity than when it is part of a combined unit. The findings were that firms that engage in demergers have higher levels of information asymmetry compared to their industry and size matched counterparts and the information problems decrease significantly after the demerger as analyst scrutiny increases. The relationship is more pronounced for those companies that demerge related subsidiaries;

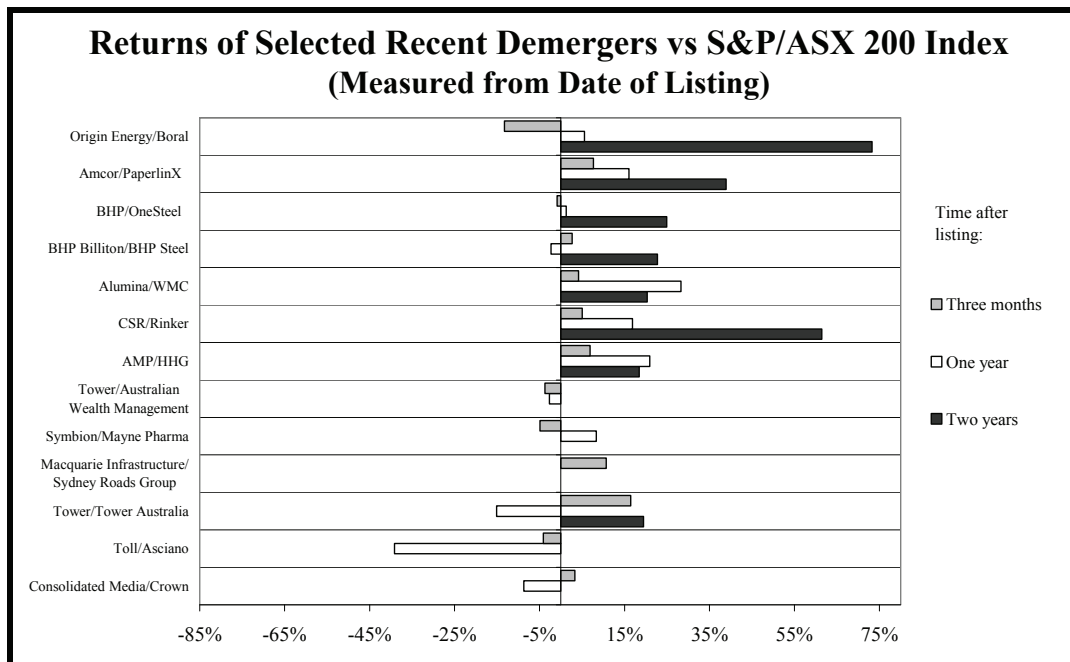
- increased focus¹⁹ translating into better sharemarket and operating performance. The abnormal returns for focus-increasing demergers are significantly larger than the corresponding abnormal returns for the non-focus-increasing demergers. A focus-increasing demerger reduces the diversity of assets under management and thereby increases the efficiency of management. However, an analysis of non-focus increasing demergers showed that companies are likely to undertake these demergers to separate underperforming subsidiaries from their parents with efficiency not being a major motivating factor. Indeed, positive returns after the demerger have been found to be due to pre-announcement sharemarket weakness;
- improved financing decisions²⁰. Conglomerates tend to divide resources evenly between divisions thus investing too little in strong industries and too much in weaker industries. The study showed that capital expenditure showed greater sensitivity to changes in growth opportunities after a division became independent; and
- one analyst report²¹ found that following a demerger, where the resulting entities are relatively similar in size, both entities generally underperform the market for a period of approximately six months. In the long term however, both stocks tend to outperform the market (implying that the market awaits a reporting period before committing to the new entities). In comparison, where the subsidiary is much smaller than the parent, the demerged entity is typically a strong outperformer while the parent moves with the market.

While an admittedly imperfect basis of analysis and somewhat crude (given the wide range of factors that influence share prices), studies of the relative performance of some of the Australian companies that undertook demergers would support this thesis, particularly looking at performance one to two years after the demerger. The following graph summarises the relative share price performance, in percentage terms, of the hypothetical combined sharemarket value of the parent company and the demerged entity three months, one year and two years after the date the demerged entity was listed on the ASX:

¹⁹ See for example: H. Desai and P.C. Jain, "Firm performance and focus: long-run stock market performance following spin-outs", *Journal of Financial Economics*, Volume 54, No. 1, October 1999 and L. Daley, V. Mehrotra and R. Sivarenmar, "Corporate Focus and Value Creation: Evidence from Spinoffs", *Journal of Financial Economics*, Volume 45, 1997.

²⁰ R. Gertner, E. Powers and D. Scharfstein, "Learning About Internal Capital Markets From Corporate Spinoffs", November 2000.

²¹ Macquarie Research Equities, "Australian Gas Light: Acquisitions, restructures and au revours", 1 November 2005.



Source: IRESS

- Note: (1) No two year return is calculated for the Tower/Australian Wealth Management demerger as Tower demerged a second entity (Tower Australia) within the two year period.
- (2) Symbion/Mayne Pharma commenced trading separately on 21 November 2005. Mayne Pharma was acquired by Hospira Inc on 22 January 2007 while Symbion was acquired by Primary Healthcare in March 2008.
- (3) Macquarie Infrastructure Group ("MIG")/Sydney Roads Group commenced trading separately on the 31 July 2006. Sydney Roads Group was acquired by Transurban Group in April 2007.

The above analysis indicates that there has been mixed combined performance of demerged entities immediately following a demerger, with evidence of both outperformance and underperformance to the general market. However, the evidence suggests that more recently demerged entities have outperformed the market within two years of listing. Evidence of significant underperformance can be explained by industry or operational features of either or both entities (e.g. Tower/Tower Australia were impacted by the underperformance of the insurance sector relative to the market during 2007 and Toll/Asciano were impacted by Asciano's need to reduce high gearing levels following the global financial crisis in 2008/2009). Further, it should be noted that four of the above demerged entities (Sydney Roads Group, Mayne Pharma, Rinker and WMC Resources) were subject to corporate activity within 3-4 years of their respective demerger transactions.

On the other hand, some studies have found that demergers may negatively impact value and that conglomerates have outperformed the market over some periods²². Conglomerate structures do have benefits including financial size and strength, better liquidity and higher index rating, lower earnings volatility and risk (if business units are not correlated in terms of economic cyclicality), greater depth of management and lower cost of capital (depending on other factors).

While the balance of evidence does favour demergers as adding value, the alternate views underline the fact that there is no universal structure for businesses. There are successful and unsuccessful conglomerates. While some demergers create substantial value, others do not. In the end, the success of demergers depends on the specific circumstances of each case.

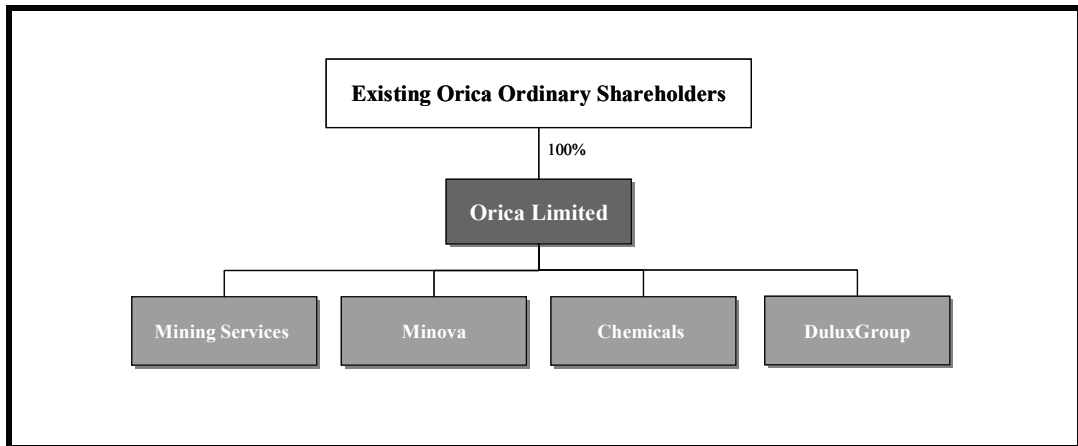
²² Boston Consulting Group, "Conglomerates Reports", 2002. However, this study was based on share price performance up to 2000 and several of the conglomerates in the sample (e.g. Marconi, Vivendi Universal, Tyco) would now show a very different picture.



5 Impact of the Demerger

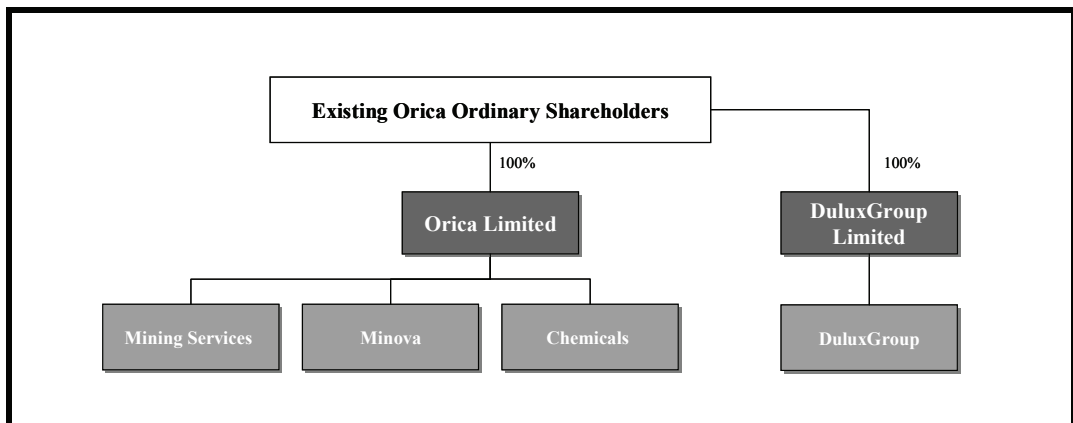
5.1 Impact on Structure and Ownership

The structure and ownership of Orica prior to the Demerger is shown below:



Source: Grant Samuel

The effect of the Demerger on the structure and ownership is shown below:



Source: Grant Samuel

Upon implementation of the proposed Demerger, eligible Orica ordinary shareholders will receive one DuluxGroup share for every Orica ordinary share they own as at the Record Date. Each of Orica and DuluxGroup will have approximately 361 million ordinary shares on issue plus any Orica ordinary shares issued under the Orica dividend reinvestment plan. Orica will continue to have five million Orica SPS on issue. The relative ownership interest held by Orica ordinary shareholders (other than ineligible overseas shareholders and electing shareholders) in Orica and DuluxGroup will be equal to their ownership interest in Orica immediately prior to implementation of the Demerger.

The separate entities will be arms' length parties. There will be no cross-shareholdings between Orica and DuluxGroup (other than a small number of DuluxGroup shares that a subsidiary of Orica may hold as trustee for employees under the Orica Share Acquisition Plan). There will, however, be one common Orica and DuluxGroup Director (Garry Hounsell) and certain contractual arrangements have been entered into between Orica and DuluxGroup in relation to the separation of the businesses and ongoing supply arrangements.



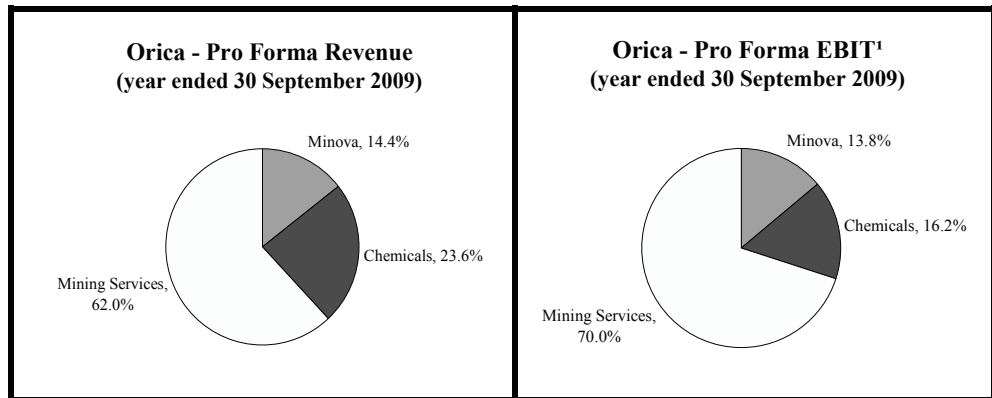
5.2 Orica

5.2.1 Operations and Strategy

After the Demerger, Orica will be made up of Orica’s existing businesses other than DuluxGroup: Orica Mining Services, Orica Chemicals and Minova. The operations of each business are detailed in Section 3.2.

Orica’s core strategy is to be the global leader in the provision of high service, critical consumables to the mining and infrastructure markets leveraged to long-term increases in production and development volumes. Orica’s strategy will continue to be structured around what the company regards as its enablers of success: growth, productivity and culture. Orica’s growth strategy is based on three criteria: market leadership, growing core business platforms through acquisitions and investment, and investing further in top performing businesses which meet financial targets. Improving productivity will continue to be a key element of Orica’s operations. The continuation of Orica’s strong culture is integral to ensuring that all employees are committed to a common approach to the way Orica does business.

Based on Orica’s 2009 pro forma financial performance post Demerger, Orica Mining Services will contribute approximately 62% to pro forma revenue (before segment eliminations) and approximately 70% of pro forma EBIT (before individually material items and corporate allocations):



Source: Orica

Note 1: EBIT excluding individually material items.



5.2.2 Financial Performance

The pro forma financial performance of Orica (excluding DuluxGroup) is summarised below:

Orica (excl. DuluxGroup) – Pro Forma Summary Financial Performance (\$ millions)				
	Year ended 30 September			Half year ended 31 March 2010
	2007	2008	2009	
Total sales revenue	4,700.9	5,668.7	6,470.8	2,739.8
EBITDA	857.3	1,010.9	1,044.7	474.4
Depreciation	(141.9)	(166.3)	(187.4)	(90.7)
Amortisation	(26.6)	(38.7)	(43.3)	(19.5)
EBIT	688.8	805.9	814.0	364.2
Individually material items	(22.3)	(41.6)	(139.6)	(66.8)
EBIT excluding individually material items	711.1	847.5	953.6	431.0
<i>Total sales revenue growth (%)</i>		20.6%	14.1%	
<i>EBITDA growth (%)</i>		17.9%	3.3%	
<i>EBIT growth (%)</i>		17.0%	1.0%	
<i>EBITDA margin (%)</i>	18.2%	17.8%	16.1%	17.3%
<i>EBIT margin (%)</i>	14.7%	14.2%	12.6%	13.3%

Source: Demerger Scheme Booklet and Grant Samuel analysis

The pro forma summary of financial performance represents the adjusted historical earnings of Orica after deducting the historical performance of the DuluxGroup business. To establish DuluxGroup as a separate group of companies, a number of share and asset transfers will be implemented before the date of implementation of the proposed Demerger. The pro forma financial performance is prepared on a consolidated basis, and therefore includes 100% of the results of any businesses in which Orica has controlling interests. Pro forma adjustments for net financing costs and tax have not been made because the financing arrangements and tax structures under which the Orica businesses operated during the above periods may not reflect the financing arrangements and tax structure of Orica following the Demerger.

The pro forma summary of financial performance was prepared on the basis of the following assumptions:

- the proposed Demerger was completed on 31 March 2010;
- the capital structure of Orica is as presented in the pro forma statement of financial position in Section 5.2.3 of this report; and
- no adjustment has been made to the pro forma historical financial information in relation to the transaction costs to be incurred by Orica to effect the Demerger. However Orica and DuluxGroup will incur one-off transaction costs of approximately \$81 million before tax. Approximately \$4 million of this will be incurred by DuluxGroup and approximately \$77 million will be incurred by Orica. Refer to Section 14.8 of the Demerger Scheme Booklet for further details.

The financial performance represents the historical financial performance of Orica after deducting DuluxGroup's historical financial performance as it operated in the context of Orica, but does not purport to represent the Orica financial performance that would have occurred had DuluxGroup been a standalone entity during the periods.

Detailed pro forma financial information for Orica after the Demerger is set out in Section 9 of the Demerger Scheme Booklet. Pro forma financial information has been prepared by Orica and reviewed by the Investigating Accountant, KPMG Transaction Services. KPMG Transaction Services' report is set out in Section 11 of the Demerger Scheme Booklet.

G R A N T S A M U E L



The financial policies of Orica and DuluxGroup (including their dividend policies) will be at the discretion of their respective Boards after the Demerger and may change over time. Following the Demerger, the absolute value of dividends paid on Orica Shares may be reduced, reflecting the loss of earnings from DuluxGroup. On the other hand, DuluxGroup Shareholders will receive dividends paid by DuluxGroup after the Demerger. Dividends are expected to be paid twice annually. Historically, Orica has franked some proportion of the dividends paid to Orica Ordinary Shareholders. It is likely that the level of franking of Orica dividends will decrease after the Demerger, reflecting the reduced proportion of income expected to be earned in Australia. In the Orica Board's view, Orica's capacity to pay distributions to Orica SPS Holders will not be affected by the implementation of the Demerger.



5.2.3 Financial Position

The pro forma financial position of Orica (excluding DuluxGroup, after transaction costs) as at 31 March 2010 is summarised below:

Orica (excl. DuluxGroup) – Pro Forma Summary Financial Position (\$ millions)	
	As at 31 March 2010
Debtors and prepayments	824.8
Inventories	531.8
Creditors and accruals	(863.4)
Net working capital	493.2
Property, plant & equipment	2,021.2
Intangible assets	2,537.2
Investments accounted for using the equity method	169.4
Deferred tax assets (net)	143.4
Current tax liabilities	(87.4)
Provisions	(646.6)
Other	26.3
Total funds employed	4,656.7
Cash and deposits	196.6
Borrowings	(1,257.5)
Net borrowings	(1,060.9)
Net assets	3,595.8
Outside equity interests	(120.7)
Equity attributable to Orica SPS	(490.0)
Equity attributable to Orica ordinary shareholders	2,985.1
<i>Gearing (%) (net borrowings/(net assets plus net borrowings))</i>	<i>22.8%</i>

Source: Demerger Scheme Booklet and Grant Samuel analysis

The pro forma balance sheet has been prepared on the following basis:

- it has been assumed that the Demerger occurred on 31 March 2010;
- it has been derived from the interim financial report of Orica as at 31 March 2010 on the basis that all assets, liabilities and legal entities of DuluxGroup will be transferred from Orica to DuluxGroup at historic book value;
- an adjustment to cash has been made to reflect Demerger transaction costs to be incurred by Orica; and
- it reflects the proposed debt structure of Orica following the Demerger. An amount of approximately \$245 million will be repaid to Orica from DuluxGroup on completion of the Demerger for the transfer of DuluxGroup businesses' assets and liabilities.

As at 31 March 2010, on a pro forma basis following the Demerger, Orica will have net debt of approximately \$1,061 million.

As discussed above in Section 3.5, Orica has environmental legacy obligations which predominantly relate to clean up projects at Botany. As such almost all of these provisions will remain with Orica (approximately \$4 million of the \$296 million environmental liability provisions relate to DuluxGroup).

A detailed pro forma balance sheet is set out in Section 9.4 of the Demerger Scheme Booklet. The pro forma balance sheet has been prepared by Orica and reviewed by the Investigating Accountant, KPMG Transaction Services. KPMG Transaction Services' report is set out in Section 11 of the Demerger Scheme Booklet.



5.2.4 Cash Flow

The pro forma operating cash flow of Orica (excluding DuluxGroup) is summarised below:

Orica (excl. DuluxGroup) – Pro Forma Operating Cash Flow (\$ millions)				
	Year ended 30 September			Half year ended 31 March 2010
	2007	2008	2009	
EBITDA	857.3	1,010.9	1,044.7	474.4
Net profit/(loss) on sale of business, property, plant and equipment	(22.2)	(3.9)	(15.6)	0.8
Share of associates net profit/(loss)	(10.8)	(8.1)	5.7	(10.0)
Asset impairments	15.4	-	80.3	-
Share based payments expense	2.5	6.0	7.3	4.7
Other non-cash items	-	5.6	(23.0)	-
Change in working capital	(163.8)	(29.3)	2.6	24.7
Net operating cash flow, before financing activities & tax	678.4	981.2	1,102.0	494.6
Capital expenditure	(295.5)	(389.0)	(351.9)	(193.0)
Net operating cash flow after capital expenditure, before financing activities & tax	382.9	592.2	750.1	301.6
<i>Capital expenditure comprises:</i>				
<i>Growth capital expenditure</i>	<i>(171.7)</i>	<i>(204.8)</i>	<i>(206.2)</i>	<i>(125.9)</i>
<i>Sustenance capital expenditure</i>	<i>(123.8)</i>	<i>(184.2)</i>	<i>(145.7)</i>	<i>(67.1)</i>

Source: Demerger Scheme Booklet

The pro forma operating cash flows for Orica (excluding DuluxGroup) have been presented before financing activities and income tax because the financing arrangements and tax structures under which Orica businesses operated during the above periods may not reflect the financing arrangements and tax structure of Orica following the Demerger.

5.2.5 Directors and Management

Peter Duncan will continue as Chairman of Orica while Graeme Liebelt will continue as Managing Director and Chief Executive Officer. Peter Kirby will resign from the Orica Board and become Chairman of DuluxGroup. Garry Hounsell will remain as an Orica Director and will be a Non-Executive Director of DuluxGroup.

Orica's existing senior management team is to remain in place except for Patrick Houlihan. Patrick Houlihan, currently Chief Executive Officer of the DuluxGroup businesses, will be appointed as Managing Director and Chief Executive Officer of DuluxGroup Limited.

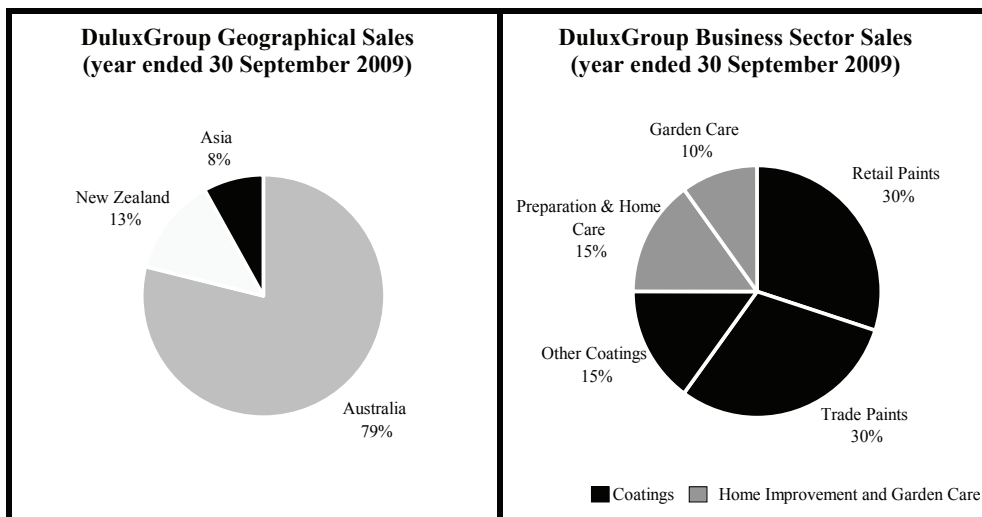
5.3 DuluxGroup

5.3.1 Operations

DuluxGroup is a manufacturer and marketer of premium branded coatings and home and garden improvement products in Australia, New Zealand, Papua New Guinea and Asia. It holds a portfolio of market leading brands such as Dulux, British Paints, Cabot's, Selleys and Yates, and maintains a leading market share in the Australia and New Zealand markets.



In the year ended 30 September 2009, Australia accounted for approximately 79% of DuluxGroup sales. On a business sector basis, the Coatings division contributed approximately 75% of DuluxGroup sales:



Source: Orica

Coatings Industry

The coatings market predominately consists of two broad sectors: architectural and decorative paints and other coatings for domestic and trade applications; and industrial coatings which are applied as part of the manufacturing process as well as coatings used in construction activities.

IBIS World estimates the Australian coatings market is valued at approximately \$2.7 billion²³ and is expected to experience a compounded annual growth rate of 3.3% over the next five years. The architectural and decorative sector is the largest sector in Australian coatings market. The Australian coatings market is a mature market dominated by four major participants (DuluxGroup, PPG Industries Australia, Wattyl and Akzo Nobel Industries) which collectively account for approximately 62% of the market by revenue.

A number of international companies have recently entered the market or increased their market shares. PPG Industries acquired Barloworlds' decorative coatings business (which includes the Taubmans brand) in 2007 and Nippon Paints commenced distribution of its branded products through Bunnings in 2008. Major participants in the New Zealand market include DuluxGroup, Resene Paints and Wattyl and in Papua New Guinea include DuluxGroup and Akzo Nobel (including the Taubmans brand). The Asian coatings market is highly fragmented and includes a number of local and international companies.

In Australia, distribution in the architectural coating sector is predominately via retail and trade channels: the retail channel includes corporate and independent hardware stores and paint specialists and the trade channel includes manufacturer and independently operated stores. Recent changes to the retail sector include the entry into the hardware channel of Woolworths Limited (as part of a joint venture with Lowe's Companies Inc, a United States home improvement retailer) which acquired Danks Holdings Limited, a hardware company in Australia and announced plans to secure over 150 sites for home improvement stores within five years. Further, Metcash Limited has expanded into hardware distribution channels by acquiring 50.1% of Mitre 10 Australia Limited in 2010.

²³ For the year ended 30 June 2009.



Coatings Business

DuluxGroup's coatings business operates via owned and licensed brands in Australia, New Zealand, Papua New Guinea, Fiji and parts of Asia. In Australia and New Zealand, products are primarily marketed under the Dulux²⁴, Cabot's, British Paints and Berger brands. In parts of Asia, products are marketed using the Levene, Opel, Pacific Gold and other brand names. DuluxGroup's coatings businesses are described in more detail below.

Decorative Coatings

DuluxGroup's decorative coatings business is a leading Australasian manufacturer and supplier of decorative paints. Brands include Dulux, British Paints, Berger, Walpamur, Levene and Spring. The decorative coatings product range includes solvent and water-based paints for both consumer (Do-It-Yourself) and professional markets. There has been an increasing trend towards water-based paints and DuluxGroup is now the largest manufacturer of these paints in Australia and New Zealand.

Texture Coatings

Dulux AcraTex preparation products include surface cleaners and acrylic and cement based render products for broad wall rendering or skim-coating. DuluxGroup has recently established a sales and distribution office in China for AcraTex products and has manufacturing facilities in Malaysia and China.

Protective Coatings

The protective coatings product range includes primers, enamels, polyurethanes and epoxies for use in a variety of industrial applications ranging from light industrial coatings systems for machinery and steel used in mild environments, to high performance systems for protection in chemically and environmentally harsh conditions.

Woodcare Coatings

DuluxGroup is Australia's largest manufacturer and marketer of timber finishes including stains, varnishes, clear finishes, oils, paints and polishes for the preservation of timber and is used by both households and professionals. Different brands are targeted towards different markets and include Cabot's, FeastWatson, Intergrain, Toby and Enviropro. The Opel woodcare coatings brand is used in China.

Powder Coatings

DuluxGroup's powder coatings business offers a range of powders that can be used over a multitude of surfaces, including aluminium, steel, zinc coated metals and glass. Its brands include Fluoroset, Duratec, Kinetic, Duralloy, Xienta and Trimatrix for architectural applications and Armourspray, Zincshield, Clinikill and Durepoxy for industrial applications.

Automotive Refinish

Via the Dulux AutoSpeed and Dulux AutoSolv brands, DuluxGroup sells a range of polyurethane and lacquer coatings which restore painted surfaces on damaged vehicles. An extensive range of refinish primers, clearcoats, hardeners and thinners are also sold.

Home Improvement and Garden Care Industry

The home improvement and garden care market in Australia is highly fragmented with a diverse range of products and industry players. Within the home improvement market, DuluxGroup competes with a number of international businesses including Sika, Bostik and Henkel. Within the retail garden market DuluxGroup competes with a number of national players including Scotts Miracle Gro, Brunnings and Seasol. There are multiple

²⁴ DuluxGroup owns the Dulux® trade mark in Australia, New Zealand, Papua New Guinea, Samoa and Fiji. It manufactures Dulux® products in Australia, New Zealand and Papua New Guinea and licenses the trade mark and technology to a third party in Fiji.



distribution channels for both the home improvement and garden care market. These include corporate and independent hardware, nursery and garden centres, grocery retailers and discount department stores.

Home Improvement and Garden Care Business

DuluxGroup operates in these markets through its Selleys home care business and Yates garden care business.

Selleys

Selleys manufactures, sources and distributes an extensive range of ‘Do-It-Yourself’ household products:

Sector	Products	Key Brands
Build and Construct	Construction adhesives, roof pointing materials, silicone, polymer and polyurethane sealants, putty and foam fillers	Liquid Nails, No More Gaps, All Clear, Parfix, Pointworks and Selleys ProSeries
Decorate	Paint brushes, rollers and painting accessories, fillers, paint and wallpaper preparation products, sugar soap and paint strippers	Selleys, Poly and RotaCota
Repair and Fix	Specialist glues and adhesives	Quik Fix, Aquadhere, Tarzan’s Grip, Kwik Grip and Araldite ²⁵
Car Care	Washes, waxes, protectants for dash and trim, glass and windscreen cleaners, tyre cleaners, conditioner and blacking protectant, lubricants, degreasers and a variety of sealants and glues	Polyglaze and Turtle Wax ²⁶
Household	Specialised household cleaning products including oven cleaners, mould eradicators, cleaning cloths, BBQ wipes, leather cleaners, specialised surface cleaners and pest control products	Selleys, Hillmark and Talon ²⁷

Source: Orica

Selleys products are sold through Selleys sales offices in Australia, New Zealand, Papua New Guinea, Malaysia, Singapore, Hong Kong and China. Selleys operates through distributors in Thailand, the Philippines, Vietnam, Indonesia, Cambodia, Brunei, Sri Lanka and Mauritius. Selleys manufactures some products and sources a significant portion of other products from local and international manufacturers.

Yates

Yates manufactures and distributes an extensive range of garden products:

²⁵ Araldite is a brand licensed from Huntsman Advanced Materials and has been part of the Selleys range for over 50 years.

²⁶ Turtle Wax products are distributed in Australia and New Zealand through agreement with Turtle Wax Inc.

²⁷ Distributed pursuant to a distribution agreement with Syngenta.



Sector	Products	Selected Brands
Fertilizers	Granular, organic based, slow release, specialised and water soluble fertilisers	Yates, Thrive, Dynamic Lifter, Acticote and Hortico
Lawn Care	Lawn fertiliser, lawn seed and lawn pest, disease and weed control products	Yates, Dynamic Lifter and Hortico
Water Saving	Products that improve water penetration as well as products that promote water retention	Yates, Waterwise, Rainsaver and Hortico
Weed and Disease Control	Products to control garden plant diseases and selective and non-selective weed control products	Yates, Zero, Nature's Way and Hortico
Seeds	A large range of popular flower, vegetable and herb seeds	Yates and Grower's Pride
Pest Control	Products for the eradication and control of garden insects and household pests	Ratsak and Blitzem
Pots and Potting Mix	Plastic pots, planters and potting mixes	Yates and Hortico

Source: Orica

5.3.2 Facilities and Distribution

DuluxGroup operates a number of manufacturing facilities as follows:

DuluxGroup Manufacturing Facilities				
Location	Products	Year Constructed	Year of Most Recent Upgrade	
Coatings				
Auckland, New Zealand	Powder	2000	NA	
Beverley, Australia	Texture	1985	1995	
Dandenong, Australia	Woodcare	2005	NA	
Dandenong, Australia	Powder	2008	NA	
Dongguan Joint Venture, China	Powder	2004	NA	
Gracefield, New Zealand	Decorative, protective, woodcare, automotive refinish	1937	Full upgrade in progress, expected completion 2011	
Kuala Lumpur, Malaysia	Texture	1998	NA	
Lae, Papua New Guinea	Decorative, protective	1968	NA	
Rocklea, Australia	Decorative, texture, woodcare	1957	2008 (filling line only)	
Shanghai, China	Decorative, texture, woodcare	2007	NA	
Home Improvement and Garden Care				
Auckland, New Zealand	Pots and potting mix	2004	NA	
Mt Druitt, Australia	All garden care excluding water saving	1997	2008	
Padstow, Australia	All home improvement	1965	2010 (mixing area only)	
Wyee, Australia	Fertilisers and lawn care	1999	NA	

Source: Orica

DuluxGroup has a comprehensive distribution network with products sold through more than 5,000 retail outlets and 232 trade distribution outlets, including 70 Dulux Trade Centres throughout Australia and New Zealand. DuluxGroup also operates training



academies in each state in Australia and New Zealand, which assist in educating retail staff about DuluxGroup's brands and products features.

During 2010, DuluxGroup will upgrade its Gracefield plant in New Zealand and establish a new protective coatings plant at the Dandenong site. Capital expenditure totalling \$38 million has been approved and is expected to be incurred over the next two years to September 2011, of which approximately one third is expected to be spent by 30 September 2010. DuluxGroup will also be transitioning from its current Western Australian distribution sites at Canning Vale and O'Connor to a new distribution centre in Welshpool from mid 2010.

5.3.3 Strategy

DuluxGroup's growth strategy will continue to focus on maintaining its position as the pre-eminent manufacturer and marketer of premium branded coatings and home improvement products in Australia and New Zealand. The core elements of DuluxGroup's business strategy are:

- to optimise and grow market leading positions in Australia, New Zealand and Papua New Guinea; and
- to continue to develop niche market positions in new, higher growth regions such as China.

DuluxGroup acquired Sopel, a Chinese based woodcare coatings business in November 2008. Sopel has a manufacturing presence and distribution platform in Shanghai, with access to over 750 outlets and a market leading position in woodcare coatings in the Shanghai region.

5.3.4 Shareholders

After the Demerger becomes effective, DuluxGroup will become a listed company, and Orica and DuluxGroup will operate independently of each other except for transitional services and site arrangements and minor ongoing commercial supply arrangements. DuluxGroup's share register will (at least initially) be very similar to the current Orica share register with no cornerstone or dominant shareholder.



5.3.5 Financial Performance

The pro forma financial performance of DuluxGroup is summarised below:

DuluxGroup – Pro Forma Summary Financial Performance (\$ millions)				
	Year ended 30 September			Half year ended 31 March 2010
	2007	2008	2009	
Total sales revenue	826.3	875.4	940.2	486.2
EBITDA	116.3	136.3	145.9	74.4
Depreciation	(11.4)	(11.3)	(15.3)	(8.4)
Amortisation	(3.3)	(2.4)	(1.7)	(1.1)
EBIT	101.6	122.6	128.9	64.9
Individually material items	(9.5)	-	-	-
EBIT excluding individually material items	111.1	122.6	128.9	64.9
Pro forma additional operating costs	(13.0)	(13.0)	(13.0)	(6.5)
Pro forma EBIT excluding individually material items	98.1	109.6	115.9	58.4
<i>Total sales revenue growth (%)</i>		5.9%	7.4%	
<i>EBITDA growth (%)</i>		17.2%	7.0%	
<i>EBIT growth (%)</i>		20.7%	5.1%	
<i>EBITDA margin (%)</i>	14.1%	15.6%	15.5%	15.3%
<i>EBIT margin (%)</i>	12.3%	14.0%	13.7%	13.3%

Source: Demerger Scheme Booklet and Grant Samuel analysis

DuluxGroup's pro forma summary of financial performance represents the adjusted historical earnings of all the operations and assets of DuluxGroup transferred, or to be transferred, by Orica to DuluxGroup Limited. DuluxGroup's pro forma historical financial performance has been presented before net financing costs and income tax because DuluxGroup did not previously have independent financing arrangements or form its own consolidated tax group as part of Orica. The above periods do not reflect the anticipated financing arrangements and tax structure of DuluxGroup following the Demerger.

The pro forma historical financial information has been prepared on the basis of the following assumptions and approaches:

- DuluxGroup will adopt and consistently apply Orica's accounting policies;
- the proposed Demerger was completed on 31 March 2010;
- the capital structure of DuluxGroup is as presented in the pro forma statement of financial position in Section 5.3.6 of this report; and
- DuluxGroup will incur approximately \$13 million of ongoing additional operating costs before tax per year to operate as a standalone entity. These will comprise ASX listing fees, Board costs, and additional corporate costs. These costs have been included in the pro forma adjustments. Refer to Section 6.2 of the Demerger Scheme Booklet for further details.

No adjustment has been made to the pro forma historical financial information in relation to the transaction costs to be incurred by DuluxGroup to effect the Demerger. Orica and DuluxGroup will incur one-off transaction costs of approximately \$81 million before tax. Approximately \$4 million of this will be incurred by DuluxGroup and approximately \$77 million will be incurred by Orica. Refer to Section 14.8 of the Demerger Scheme Booklet for further details.

Detailed pro forma financial information for DuluxGroup is set out in Section 6 of the Demerger Scheme Booklet. The pro forma financial information has been prepared by



Orica and reviewed by the Investigating Accountant, KPMG Transaction Services. KPMG Transaction Services' report is set out in Section 11 of the Demerger Scheme Booklet.

DuluxGroup's dividend policy will be determined by the DuluxGroup Board at its discretion and may change over time. It is currently envisaged that DuluxGroup will declare at least 70% of its net profit after tax (excluding individually material items and subject to the availability of retained earnings) as dividends to DuluxGroup Shareholders on an annual basis. Following the proposed Demerger, DuluxGroup will have no franking credit balance. DuluxGroup intends to frank its dividends to the maximum extent possible.

5.3.6 Financial Position

The pro forma statement of financial position of DuluxGroup as at 31 March 2010 is summarised below:

DuluxGroup – Pro Forma Summary Financial Position (\$ millions)	
As at 31 March 2010	
Debtors and prepayments	138.2
Inventories	103.0
Creditors and accruals	(167.6)
Net working capital	73.6
Property plant & equipment	140.6
Intangible assets	89.4
Investments accounted for using the equity method	1.7
Deferred tax assets (net)	18.3
Current tax liabilities	(10.0)
Provisions	(36.6)
Other	12.9
Total funds employed	289.9
Cash and deposits	6.0
Borrowings	(255.0)
Net borrowings	(249.0)
Net assets	40.9
<i>Gearing (net borrowings/(net assets plus net borrowings))</i>	<i>85.9%</i>

Source: Demerger Scheme Booklet and Grant Samuel analysis

The pro forma statement of financial position for DuluxGroup has been prepared on the following basis:

- it has been assumed that the Demerger occurred on 31 March 2010;
- the pro forma historical balance sheet of DuluxGroup as a stand alone entity has been derived from the historical balance sheet of Orica as at 31 March 2010 on the basis that all assets, liabilities and legal entities will be transferred from Orica to DuluxGroup at historic book value. This results in DuluxGroup having net assets of approximately \$40.9 million;
- an adjustment to cash of \$4 million has been made to reflect Demerger transaction costs to be incurred by DuluxGroup after the Demerger with a corresponding charge (net of tax) to retained earnings;
- an adjustment to deferred tax liabilities has been made to reflect that, on Demerger, DuluxGroup will form a new Australian consolidated tax group for the purposes of separately paying tax. As a result of this consolidation, certain deferred tax balances may arise as a result of the resetting of the tax bases of certain tangible and intangible assets with a corresponding charge to retained earnings; and



- the statement of financial position reflects the proposed capital structure of DuluxGroup following the Demerger. An adjustment of \$12.1 million has been made to current interest bearing liabilities in respect of trade finance facilities and an adjustment of \$242.9 million to non-current interest bearing liabilities to reflect external debt to be drawn down by DuluxGroup at the time of the Demerger, with \$245 million applied to repayment of the liability to Orica for the transfer of DuluxGroup businesses' assets and liabilities, with the balance of \$10 million²⁸ retained by DuluxGroup as cash.

On completion of the Demerger, DuluxGroup will have new banking facilities up to a maximum amount of \$400 million with tenor of three and five years. It is anticipated that at the time of the Demerger, DuluxGroup will have net debt of approximately \$245 million, comprising approximately \$255 of total debt obligations (including trade finance facilities of \$12.1 million) and \$10 million of cash. The gearing for DuluxGroup appears high, however, this is based on the current book value of assets. The leverage ratio (net debt to EBITDA) is a more appropriate measure of DuluxGroup's ability to service its debt and based on 2009 pro forma EBITDA (pre additional corporate costs), DuluxGroup's pro forma leverage ratio is 1.7 times.

Further detail on the pro forma financial information for DuluxGroup and DuluxGroup's new banking facilities are set out in Section 6 of the Demerger Scheme Booklet.

5.3.7 Cash Flow

The pro forma cash flow of DuluxGroup is summarised below:

DuluxGroup – Pro Forma Summary Cash Flow (\$ millions)				
	Year ended 30 September			Half year ended 31 March 2010
	2007	2008	2009	
EBITDA	116.3	136.3	145.9	74.4
Other non-cash items	1.1	2.9	3.9	1.7
Change in working capital	1.1	(17.0)	5.3	5.4
Net operating cash flow, before financing activities & tax	118.5	122.2	155.1	81.5
Capital expenditure	(41.5)	(37.3)	(19.0)	(9.2)
Net operating cash flow after capital expenditure, before financing activities & tax	77.0	84.9	136.1	72.3
<i>Capital expenditure comprises:</i>				
<i>Growth capital expenditure</i>	(26.5)	(14.1)	(5.5)	(3.9)
<i>Sustenance capital expenditure</i>	(15.0)	(23.2)	(13.5)	(5.3)

Source: Demerger Scheme Booklet

As a standalone entity following the Demerger, DuluxGroup will have additional cash outflows relating to corporate operating costs, financing activities, taxation and dividends. Pro forma adjustments have not been made for these items as the above periods do not reflect DuluxGroup's corporate and operating structure, financing facilities, tax arrangements and capital structure following the Demerger.

5.3.8 Directors and Management

Following the Demerger, DuluxGroup's Directors will be:

- Peter Kirby: Chairman, Non-Executive Director;
- Garry Hounsell: Non-Executive Director; and

²⁸ Excludes \$4 million in Demerger transaction costs.

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- Patrick Houlihan: Managing Director and Chief Executive Officer.

DuluxGroup intends to appoint at least two additional Non-Executive Directors following the Demerger. Upon the appointment of the first Non-Executive Director, DuluxGroup intends to appoint Stuart Boxer, currently Chief Financial Officer, as an Executive Director. For details of the senior management team refer to Section 5.12 of the Demerger Scheme Booklet.



6 Evaluation of the Demerger

6.1 Summary

Immediately following the Demerger, Orica ordinary shareholders (except ineligible and electing shareholders) will essentially hold the same investment interests that they currently hold in Orica, although these interests will be split into two parts: a shareholding in Orica and a separate shareholding in DuluxGroup. The Demerger will not result in a change in ownership or economic interest, and there will be no value leakage (except to the relatively minor extent of the transaction costs associated with the Demerger). Accordingly, the evaluation of the Demerger requires an assessment as to whether the change in the corporate structure resulting from the Demerger is of itself likely to deliver greater value to shareholders over time than if the Demerger did not proceed. This could occur if the Demerger:

- results in an improvement in the underlying performance of the demerged businesses;
- promotes a more positive sharemarket assessment of the value of the demerged businesses; or
- improves the prospect that shareholders will receive full underlying value for the demerged businesses, through a takeover or other change of control transaction.

Orica's core businesses are major participants in the international mining services industry, with a strategy focussed on leveraging technical superiority, innovation and scale to achieve strong growth in the context of a rapidly growing global resources sector. The businesses are expected to have extensive opportunities to expand, both organically and through acquisition. In the short to medium term, at least, they are likely to require considerable funding.

The characteristics of the DuluxGroup business are very different. DuluxGroup is a manufacturer and marketer of premium branded products with leading positions in the coatings, home improvement and garden care markets in Australia and New Zealand. Although DuluxGroup has a small start up operation in China, the business is essentially focussed on the domestic Australian and New Zealand markets. Its key competitive advantage is a number of very powerful consumer brands, supported by ongoing research and development and a strong focus on customer service. While the DuluxGroup business has delivered consistent earnings growth in recent years, it operates in relatively mature markets. The DuluxGroup business is expected to be a strong generator of positive cash flow.

Accordingly, DuluxGroup and the remainder of Orica have essentially nothing in common (other than sharing some corporate services). The key management skills required to run the brand focussed DuluxGroup business are very different from the skills required to run a growth oriented global mining services business. DuluxGroup and the remainder of Orica have very different growth and funding profiles and are likely to appeal to different sets of investors. Given these differences, there appears to be good reason to expect that separation of DuluxGroup from the remainder of Orica will over time yield real benefits.

There is nothing to suggest that DuluxGroup's operation within the broader Orica corporate vehicle has disadvantaged the business, either in terms of access to appropriate management or to the capital required to support the business. The DuluxGroup business has achieved excellent operational and financial performance in recent years and has essentially been self-funding. However, it is reasonable to assume that, over time, the demerger of DuluxGroup will provide opportunities for improvements in its performance. These may come about through greater Board and management focus, improved transparency and market discipline in relation to the performance of the DuluxGroup business, and an ability to incentivise management on a basis directly related to the shareholder returns generated by DuluxGroup. While operating within the Orica structure has not constrained DuluxGroup in terms of access to capital, it is conceivable that in the future preferential funding of the larger and faster growing core mining services businesses could make it more difficult for DuluxGroup to access the funding required to take advantage of growth opportunities. On balance, Grant Samuel believes that there are reasonable prospects that the demerger of DuluxGroup, over time, will improve the performance of the DuluxGroup business.



In Grant Samuel's view a more compelling advantage of the Demerger is that it will improve the attractiveness of Orica and the demerged DuluxGroup from the perspective of investors and potential investors. Orica appeals to global investors seeking resources sector exposure and capital growth rather than yield. By contrast, the natural investors in DuluxGroup are likely to be domestic Australian investors with a focus on yield. In particular, for foreign investors seeking exposure to Orica's global mining services businesses, the DuluxGroup business is at best an irrelevancy and at worst potentially confusing and an investment disincentive.

The Demerger will allow investors to make their own investment decisions about their relative exposure to the Orica businesses and the DuluxGroup business, rather than having their investment mix essentially dictated by the Orica corporate structure. Over time, it will allow those investors who value most highly each of Orica and DuluxGroup to become the price-setting investors for each company, which should ultimately reduce each company's cost of equity and improve its market rating. In the case of DuluxGroup, the Demerger should promote greater transparency about its operations, strategy and future prospects than is likely to be achieved within the larger Orica group, which should also help to enhance its investment appeal.

In addition to preserving shareholders' opportunity to share in the upside potential of both Orica and DuluxGroup, the Demerger is likely to improve shareholders' prospects of realising full underlying value through a takeover of either of the demerged entities. This will be particularly relevant in the case of DuluxGroup which, prior to the Demerger, is a relatively small part of a larger mining services group. Following the Demerger, DuluxGroup will have a significantly smaller market capitalisation than Orica and will have a relatively open share register. There will be no significant impediments to a takeover or other corporate activity involving DuluxGroup.

The disadvantages of the Demerger include some duplication of corporate costs, one-off transaction costs and the prospect that DuluxGroup will incur higher borrowing costs than it would do within the current Orica structure. While the one-off transaction costs of approximately \$81 million and the \$13 million of additional annual corporate costs appear significant, they are not material in the context of Orica's size (pre-Demerger market capitalisation of approximately \$9.6 billion and EBIT for the year to 30 September 2009 of \$1.08 billion²⁹). In Grant Samuel's view it is reasonable to conclude that the costs and risks of the Demerger are outweighed by the expected benefits. However, while the costs have an immediate impact on financial performance, the benefits (management focus, optimisation of investment characteristics, etc.) may take longer to realise.

The evaluation of the Demerger is essentially subjective as the benefits are not easily quantifiable and cannot be empirically tested. The benefits are, at least to some extent, a matter of investor perception and the Demerger does not provide a guarantee of future performance. The question is whether Orica and DuluxGroup over time are likely to deliver better returns to shareholders on a demerged basis than as part of a single Orica. In Grant Samuel's view, while none of the expected benefits of the Demerger on its own is likely to justify the Demerger, the benefits are collectively compelling. On balance, shareholders are likely ultimately to be better off if the Demerger proceeds, notwithstanding the disadvantages and risks. Accordingly, Grant Samuel believes that the Demerger is in the best interests of Orica ordinary shareholders.

6.2 Background on the Demerger and Alternatives Considered

Orica's Board and management have been considering a demerger of DuluxGroup from Orica for some time. Orica had planned to proceed with a demerger in mid 2008. However, the extreme volatility in equity and debt markets as a result of the global financial crisis would have created a number of risks for the demerger process and for the demerged DuluxGroup. In particular, due to the dislocation in debt markets at the time, it was not clear that it would be possible to secure finance facilities for DuluxGroup on appropriate terms and with reasonable maturity.

²⁹ Excludes individually material items.



Accordingly, Orica decided to defer the Demerger until the external environment was more propitious.

Since that time, except for some shared corporate functions, DuluxGroup has largely functioned on a standalone basis, operating separately from the other Orica businesses. As a result of the recovery of the financial markets, the availability of debt on reasonable terms and the resilient performance of both Orica and DuluxGroup, the Orica Board and management believe that it is now appropriate to proceed with the Demerger.

Orica has identified a number of the key advantages of the Demerger in the Demerger Scheme Booklet:

- better focus on strategies and core competencies, supported by separate boards and management teams;
- improved ability for DuluxGroup to pursue growth opportunities;
- greater investor choice (for investors to make their own diversification decisions);
- enhanced investor awareness (resulting from increased transparency);
- independent capital structure and financial policies (tailored to each entities specific operational and strategic objectives); and
- better alignment of DuluxGroup management incentives with performance.

The Board and management of Orica have considered a number of alternatives to demerging. The primary alternatives considered were to:

- continue with the status quo;
- divest DuluxGroup by way of an initial public offering (“IPO”);
- divest DuluxGroup through sale of the business on a trade sale basis; and
- seek a joint venture partner for DuluxGroup.

Each of these alternatives has a number of advantages and disadvantages. Continuation with the status quo would enable Orica to retain the diversification that it currently enjoys. However, there are no material synergies between DuluxGroup and Orica and the businesses have different strategies, growth and risk profiles and investment characteristics. An IPO would allow Orica to realise cash proceeds for the DuluxGroup business. However, it is likely that any IPO would be priced at a discount to full underlying value and would dilute existing shareholders’ exposure to DuluxGroup. The sale of 100% of DuluxGroup by way of a trade sale has the potential to realise full underlying value for DuluxGroup, but there are currently no proposals of this nature. In any event, following the Demerger there should be nothing to prevent a takeover of DuluxGroup to realise full underlying value for shareholders. The sale of a partial interest in DuluxGroup to a joint venture partner could result in a partial cash return to Orica. However, it would result in an unnecessarily complex ownership structure for the business (at least from an investment perspective) and may not deliver full underlying value for DuluxGroup. Having considered the advantages and disadvantages of these alternatives, the Orica Board believes the Demerger achieves the best outcome for shareholders.

6.3 Impact on the Underlying Businesses

6.3.1 Structure and Ownership

The Demerger does not result in any change in shareholders’ economic interests in the businesses currently owned by Orica. Eligible Orica ordinary shareholders are entitled to receive one DuluxGroup share for every Orica ordinary share they own. As a result, the relative ownership interests held by each Orica ordinary shareholder (other than ineligible shareholders and electing shareholders) in Orica and DuluxGroup will be equal to their ownership interest in Orica immediately prior to implementation of the Demerger.



6.3.2 Impact on Key Investment Parameters

The proposed Demerger will create two smaller but still substantial entities. The table below sets out the pro forma financial parameters of the two entities compared to the financial parameters of Orica prior to the proposed Demerger:

Impact of Demerger on Pro Forma Financial Parameters (\$ millions)			
	Orica	Orica pro forma ³⁰	DuluxGroup pro forma ³⁰
<i>Financial Performance for year ended 30 September 2009</i>			
Revenue	7,411.0	6,470.8	940.2
EBITDA	1,190.6	1,044.7	145.9
EBIT	942.9	814.0	128.9
<i>Financial Position as at 31 March 2010</i>			
Total assets	7,225.6	6,638.3	516.3
Net borrowings	1,228.9	1,060.9	249.0
Net assets	3,710.4	3,595.8	40.9
<i>Liquidity and Gearing Metrics</i>			
Current ratio ³¹	1.0x	1.1x	1.3x
Leverage ratio ³²	1.0x	1.0x	1.7x
Gearing (net borrowings/(net assets plus net borrowings))	24.9%	22.8%	81.1%

Source: Demerger Scheme Booklet and Grant Samuel analysis

The Demerger is not expected to have a material impact on Orica's liquidity and gearing ratios. While DuluxGroup's book gearing appears high, the gearing calculation is based on the book value of assets. The gearing would be substantially lower if based on market values for DuluxGroup. The leverage ratio (net debt to EBITDA) is a more appropriate measure of DuluxGroup's ability to service its debt. Based on 2009 pro forma EBITDA, DuluxGroup's pro forma leverage ratio is 1.7 times, which is well within reasonable limits.

6.3.3 Management and Board Focus

The Demerger will result in the creation of two companies with separate Boards and senior management teams focussed on their respective businesses. Orica and DuluxGroup have very different business characteristics and management requirements including in relation to manufacturing, product development, brand management, marketing and customer support. The challenge for Orica management will be to successfully manage what are expected to be strong rates of growth in a rapidly expanding global resources industry. By contrast, DuluxGroup's objective will be to preserve and if possible expand what are already very strong market shares in relatively mature domestic markets, while simultaneously seeking out niche opportunities for expansion and developing its start up business in China. The Demerger should help to ensure that each company has a Board and management team focussed on its own particular challenges and requirements.

The Demerger may also result in enhanced financial disclosure and operational discipline, in particular for DuluxGroup. The separation of DuluxGroup from Orica is likely to result in the disclosure of additional information regarding DuluxGroup's performance, which will make it easier for brokers and investors to analyse the company's performance and benchmark it against the performance of its peer group companies. This enhanced

³⁰ Includes transaction costs.

³¹ Current ratio is current assets divided by current liabilities.

³² Leverage ratio is net borrowings divided by EBITDA and provides a measure of the level of debt supported by earnings.



transparency and the resulting increased scrutiny should increase incentives for the DuluxGroup Board and management to improve performance.

On one view, management’s performance and remuneration should be the same whether the business sits within a wider group or as a standalone entity. However, the Demerger will allow a more direct linkage between business performance and the remuneration of managers responsible for that performance. In the current Orica structure, remuneration of key management is to some extent linked to overall performance measures for Orica (including share price growth and total shareholder return). The Demerger will allow each of Orica and DuluxGroup to link management remuneration to its own share price performance, creating a more direct relationship between remuneration and management performance, and more closely aligning the interests of shareholders and management.

6.3.4 Strategic Flexibility

As a standalone company, DuluxGroup will be able to more readily pursue mergers and/or acquisitions, alliances or other strategic transactions that could add value to the business but that may not have fitted or been a high priority within the larger Orica group. DuluxGroup will be able to focus purely on achieving its own strategy without having to compete with the other Orica businesses for board support and capital (although there is no evidence that DuluxGroup has historically been starved of capital or thwarted strategically as a result of being part of the broader Orica). Similarly, Orica will be able to assess all strategic opportunities available to it without considering the needs of DuluxGroup.

6.3.5 Additional Administration and Finance Costs

The Demerger will result in the loss of some financial benefits that result from the operation of two businesses within a single group. In particular, additional corporate costs will be incurred in running two standalone companies. In addition, to the extent that DuluxGroup funds its activities through debt, it is likely to experience increased funding costs. It will no longer have the credit support, and implicit access to the credit rating, of the larger Orica group.

Although DuluxGroup already operates as a standalone entity in most respects, as part of Orica it has the benefit of a single Board of directors, and it shares with Orica corporate overheads in relation to ASX listing, compliance and regulatory reporting requirements. In addition, the taxation, accounting, treasury, superannuation, legal, insurance administration, company secretarial, information technology and human resources (including payroll) functions are provided centrally.

Following the Demerger, DuluxGroup will be a standalone entity and will have to establish its own corporate functions. DuluxGroup has estimated that additional costs will be approximately \$13 million per year, broken down as follows:

DuluxGroup – Additional Corporate Costs (\$ millions)	
Cost	Estimated additional costs per year
ASX listing fees	1.0
Board costs	2.0
Corporate finance / payroll costs	2.9
Corporate HR / superannuation / workers compensation	2.2
Other	4.9
Total	13.0

Source: Demerger Scheme Booklet

After the Demerger, DuluxGroup will have new debt facilities of \$400 million. Following the Demerger, DuluxGroup is expected to have net debt of approximately \$245 million.



DuluxGroup's facilities may attract higher interest charges and fees and stricter covenant ratios than the current Orica facilities in the longer term.

6.4 Impact on Capital Structure

DuluxGroup will be appropriately capitalised for a standalone public company. Its initial gearing (based on book values) will be approximately 81%. However, gearing based on market values is expected to be substantially lower and DuluxGroup's leverage ratio (net debt to EBITDA) suggests that the overall gearing level appears reasonable. Based on pro forma 2009 EBITDA, DuluxGroup's leverage ratio is 1.7 times. The \$400 million of new facilities will have tranches with terms of three and five years. DuluxGroup as a listed entity will have access to raise capital from equity markets if deemed appropriate. However, it will also have access to undrawn facilities, which will ensure that DuluxGroup has sufficient financial capacity for capital expenditure and/or acquisitions without the immediate need to raise equity.

DuluxGroup is currently supported by Orica's overall financing program, which enjoys a BBB+ credit rating issued by Standard & Poor's. As a standalone entity, DuluxGroup will no longer have the financial support or credit profile associated with being part of the larger Orica group, which will both increase its funding costs and limit its access to debt. However, DuluxGroup's business generates strong cash flows and operates in relatively mature markets. Unless there is a dramatic change in the competitive outlook or overall market dynamics facing DuluxGroup, it appears reasonable to conclude that DuluxGroup's capital structure and funding arrangements provide a prudent base for the future funding of the business.

Orica's net debt will be reduced by \$245 million as a result of the payment by DuluxGroup for the transfer of the relevant assets from Orica to DuluxGroup. Orica's pro forma book gearing following the Demerger is approximately 23% which is marginally lower than Orica's book gearing prior to the Demerger of 25%. Standard & Poor's has stated there will be no change to Orica's BBB+ credit rating following the Demerger.

6.5 Equity Market Issues

6.5.1 Shareholder Flexibility

Immediately following the Demerger, Orica's ordinary shareholders (except ineligible and electing shareholders) will retain their existing economic exposure to Orica's assets by holding both Orica and DuluxGroup shares. However, the Demerger will provide shareholders with increased flexibility in managing their investment exposure.

The risk/return profile of Orica's mining services businesses is quite different from the risk/return profile of DuluxGroup's consumer products businesses. Given the different investment characteristics of the Orica and DuluxGroup businesses, it is likely that DuluxGroup and Orica will appeal to very different sets of investors.

At present, shareholders must have an exposure to both the mining services and consumer products businesses or no exposure at all. Following the Demerger, shareholders will be able to make their own investment exposure decisions and shift their relative exposures to the strong cash flow, low risk, domestic consumer products business of DuluxGroup or the high growth, global mining services businesses of Orica, as they see fit.

6.5.2 Share Register Transition

It is possible that following the Demerger there will be some abnormal short term share trading (share register transition) in both entities, in particular in DuluxGroup. Given that DuluxGroup is a much smaller consumer products business currently operating in a larger mining services company, the reality is that many Orica shareholders will have invested in Orica shares for the mining services exposure rather than on account of the DuluxGroup business. The investment mandates of some Orica shareholders may preclude their continued holding of DuluxGroup shares. Accordingly, there may be some short term selling pressure following the Demerger. On the other hand, it is also reasonable to expect



that many Australian investors with a focus on yield and a preference for franked dividends, who previously may not have invested in Orica because of its international focus, will be interested in investing in DuluxGroup. The short term net effect of these factors is difficult to forecast. In any event, DuluxGroup is planning investment marketing campaigns and road shows in order to maximise awareness of and interest in the company following the Demerger. This should help to provide buying support during any share register transition.

6.5.3 Loss of Diversification

The Demerger will result in the loss of diversification inherent in Orica's current portfolio of businesses. Shareholders in Orica currently have exposure to two very different sets of risk profiles and growth prospects:

- Orica operates in the global mining services industry, whereas DuluxGroup primarily operates in the Australasian home improvements/renovations/building sector;
- Orica is a high growth business for investors seeking capital returns, whilst DuluxGroup's business operates in relatively mature markets and should generate significant investment yields; and
- following the Demerger, only 35% of Orica's pro forma 2009 revenues are sourced from Australia, while Australia accounts for approximately 79% of DuluxGroup's pro forma 2009 revenue.

Given the differences in their investment characteristics, it is likely that Orica and DuluxGroup will appeal to different sets of investors. However, the split into two companies may not suit all shareholders, as some shareholders may prefer the larger scale and diversification currently offered in one company. As an example, following the Demerger, an unfavourable event and resulting impact on performance in one business will no longer be supported by the other business. However, the same is true in the opposite case: strong performance in one business will not be hampered by the need to support an underperforming business.

Moreover, shareholders should be able to achieve effectively the same level of diversification as is provided through Orica in its current form, through continuing to hold shares in both Orica and DuluxGroup following the Demerger.

6.5.4 Transparent Market Valuations

Orica is ranked in the top 30 companies by market capitalisation on the ASX and is covered by over ten research brokers. As part of its financial disclosures, Orica provides summarised financial performance on a divisional basis. In theory, the combination of extensive analyst coverage and divisional performance disclosure should enable the market to accurately determine values for both the Orica and DuluxGroup businesses, as part of the overall process whereby analysts and the broader market estimate an aggregate value for the group. As a practical matter, almost all the analysts that cover Orica attribute a separate value to the consumer products businesses to be transferred to DuluxGroup. Nonetheless, it appears reasonable to conclude that Orica's current structure, at least to some extent, militates against recognition in the Orica share price of the full value of the DuluxGroup business.

One of the benefits typically associated with a successful Demerger is an enhanced market valuation of the demerged entity, as a result of greater transparency about the demerged group's operations, strategy and future prospects than would otherwise be apparent in a larger group. This benefit is more pronounced when the demerged entity is a small part of a larger group or operates in an industry sector to which the market applies valuation parameters different from those that apply to the larger group.

Orica has traditionally been researched by analysts that follow the mining sector, given Orica's focus on its mining services business. Following the Demerger, Orica will continue



to be covered by mining sector analysts, whereas it is likely that DuluxGroup will be covered by consumer product and/or building sector analysts. It is also arguable that historically, some investors and analysts may not have fully understood the DuluxGroup business. There is the potential for DuluxGroup to be rated more highly by the sharemarket following the Demerger:

- higher levels of disclosure increase investors' confidence in their ability to judge and value the company;
- as a separate listed entity, DuluxGroup will have a higher level of visibility to the investment community;
- more focussed research coverage will improve the understanding of the investment community; and
- as a smaller company with a different operational focus, DuluxGroup is likely to appeal to a different set of investors than the investors who would generally invest in the broader Orica group. By allowing these "natural investors" in DuluxGroup to become the price setting investors, the Demerger has the potential to lower DuluxGroup's cost of equity and lead to a market re-rating.

6.5.5 DuluxGroup Market Valuation Parameters

Approximately 75% of DuluxGroup's business mix is concentrated on the less cyclical home improvement and maintenance sector rather than on residential building construction activity. DuluxGroup's earnings will be influenced by consumer sentiment, building turnover/starts and renovation numbers. It is expected that DuluxGroup will be compared to listed domestic consumer product companies with a renovation/construction focus and to global paint companies. The implied valuation parameters for a selection of these companies are summarised below:

Sharemarket Ratings of Selected Listed Consumer Product Companies³³							
Company	Market Capitalisation ³⁴ (\$ millions)	EBITDA Multiple ³⁵ (times)			EBIT Multiple ³⁶ (times)		
		Historical	Forecast Year 1	Forecast Year 2	Historical	Forecast Year 1	Forecast Year 2
Australia							
GWA International Limited	934	10.6	9.7	8.6	12.9	11.6	10.0
Hills Industries Limited	593	9.6	7.2	6.6	14.3	9.4	8.4
GUD Holdings Limited	506	8.4	7.6	7.2	9.9	8.8	8.3
Alesco Corporation Limited	239	4.5	6.6	5.8	7.1	10.8	8.8
Wattyl Industries Limited	63	5.5	4.1	3.3	14.5	7.6	4.9
<i>Minimum</i>		4.5	4.1	3.3	7.1	7.6	4.9
<i>Maximum</i>		10.6	9.7	8.6	14.5	11.6	10.0
<i>Median</i>		8.4	7.2	6.6	12.9	9.4	8.4
International							
Akzo Nobel N.V.	14,417	7.7	6.0	5.4	13.2	8.8	7.8
PPG Industries Inc.	12,550	9.8	7.2	6.8	15.5	9.8	9.1
Sherwin-Williams Company	10,001	10.3	9.5	8.8	13.0	11.6	10.6
Asian Paints Limited	4,967	27.3	16.5	14.7	30.5	17.9	15.9
Valspar Corporation	3,681	10.2	8.7	8.1	13.1	10.7	9.8
<i>Minimum</i>		7.7	6.0	5.4	13.0	8.8	7.8
<i>Maximum</i>		27.3	16.5	14.7	30.5	17.9	15.9
<i>Median</i>		10.2	8.7	8.1	13.2	10.7	9.8

Source: Grant Samuel analysis³⁷

This analysis is based on share prices as at 21 May 2010 and does not reflect a premium for control. The international comparables are focussed on coatings, and in some cases have operations in Australia as well as internationally. The Australian comparables have exposure to demand drivers similar to those relevant to DuluxGroup, such as consumer sentiment and building turnover, starts and renovations. Whilst Wattyl is the closest comparable to DuluxGroup, it is worth noting that there are significant differences between the two businesses:

- Wattyl is a substantially smaller company in terms of market capitalisation;
- Wattyl does not enjoy the market leading position that DuluxGroup holds in Australia and New Zealand in decorative coatings. Dulux, in particular, is Australia's most recognised paint brand, with awareness levels amongst consumers more than double those of its major competitors (including Wattyl);
- Wattyl is more exposed to the construction industry (rather than the Do-It-Yourself sector), which tends to be more cyclical; and

³³ The companies selected have a variety of year ends and therefore the data presented for each company is the most recent annual historical result plus the subsequent two forecast years.

³⁴ Market capitalisation based on sharemarket prices as at 21 May 2010.

³⁵ Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items.

³⁶ Represents gross capitalisation divided by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.

³⁷ Grant Samuel analysis based on data obtained from IRESS, Capital IQ, Bloomberg, company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.



- Wattyl has recently experienced a loss of market share due to the entry into the Australian market of the Nippon paint brand.

The international comparables are coatings focussed businesses, with similar end markets to that of DuluxGroup. However, there are some significant differences:

- a number of the comparables are more geographically diverse than DuluxGroup with sales across the United States, Europe and Asia;
- Akzo Nobel is the largest coatings supplier in the world. Akzo Nobel manufactures and sells the Dulux brand in Europe, North America, Latin America and Asia. In the 2009 financial year, its decorative paints business contributed 34% of revenue and 39% of EBITDA;
- the majority of the comparables have a more diversified earnings base than that of DuluxGroup. Not only is PPG the second largest coatings supplier in the world, it is the largest flat glass producer in the United States, is a leader in the optical materials segment and is the third largest producer of Chlor-Alkali chemicals; and
- Asian Paints trades on significantly higher multiples than its peers, which in part reflects its dominant position in the growing Indian market, the company's focus on high margin decorative paints and the high returns that it enjoys.

The actual trading price of DuluxGroup shares will depend on a range of factors, including:

- equity market conditions;
- economic conditions;
- interest rates;
- factors specific to DuluxGroup including:
 - operating performance;
 - its ability to successfully expand in China;
 - its success in maintaining and growing market share in Australia and New Zealand;
 - market perceptions about DuluxGroup's earning prospects; and
 - the effectiveness of DuluxGroup in communicating the company and its prospects to analysts, institutional investors and other market participants.

6.5.6 Index Weighting and Impact on Liquidity

Orica has a market capitalisation of approximately \$9.6 billion and is included in all the major S&P/ASX market indices. The Demerger will result in Orica being split in two smaller companies, although Orica will be significantly larger than DuluxGroup. The reduction in size, in particular for DuluxGroup, may potentially reduce liquidity and therefore reduce the attractiveness of Orica and DuluxGroup for some investors. In recent years, it appears that companies with larger market capitalisations have attracted greater investor interest reflecting, in part, the deep and liquid market for their shares and their relative importance to the performance of the market in general.

While Orica and DuluxGroup will have smaller market capitalisations than Orica before the Demerger, it should be noted that:

- both entities will still be a meaningful size (in the context of their respective peers). Orica in particular will remain a very substantial company;
- while it is possible that DuluxGroup may not be included in the S&P/ASX 100 Index (the cut off is a market capitalisation of around \$1 billion), both entities are expected to be included in the S&P/ASX 200 Index, which is the key index for institutional



investment purposes. Accordingly, index based investors are likely to continue to hold both Orica and DuluxGroup shares; and

- both Orica and DuluxGroup would largely retain Orica’s (pre Demerger) relatively open and diverse share register, which should promote deep and liquid markets for their shares.

The impact of the Demerger on the liquidity of the shares in the demerged entities, and the consequent impact on investor interest, is difficult to predict with any confidence. However, in Grant Samuel’s view the adverse effect on investor interest of lower liquidity (if any) is unlikely to be significant.

6.6 Impact on Corporate Control

Takeovers are an important mechanism by which shareholders can realise value in excess of sharemarket prices as bidders will typically pay a premium to acquire control. The Demerger does not involve a change of control (at least initially) as the same shareholders will own proportionally the same shares in Orica and DuluxGroup. However, the Demerger should increase the likelihood of shareholders receiving a takeover offer for DuluxGroup and enhance the prospects of achieving full underlying value:

- prior to the Demerger, Orica had a market capitalisation of approximately \$9.6 billion. It is one of the top 30 companies listed in the S&P/ASX 100 Index. Any acquisition of Orica would be a very large and complex transaction. Following the Demerger, DuluxGroup will have a significantly lower market capitalisation and will be more easily digested by a wider range of potential acquirers;
- the mix of businesses in Orica (mining services combined with consumer products) may not have appealed to a single bidder, adding complexity to any potential transaction. However following the Demerger, both Orica and DuluxGroup will have less diversified businesses, which is likely to increase their appeal to a wider range of potential acquirers; and
- there will be no cross-shareholdings between the entities that would act as an impediment to a takeover or change of control transaction.

6.7 Taxation Issues

6.7.1 Corporate Taxation

The Demerger is not expected to result in any capital gains tax or other related tax liability for Orica or DuluxGroup.

The capital gains tax consequences of the Demerger are set out in Division 125 of the Income Tax Assessment Act 1997 (Cth) (the “demerger provisions”). As a result of the demerger provisions, Orica expects that the transfer of certain assets and liabilities to DuluxGroup and the separation of its mining services and consumer products businesses will have no capital gains tax implications for the company.

Orica has no material carried forward capital or income tax losses. The capital and income tax losses that do exist are expected to be preserved within Orica.

Following the Demerger, Orica and DuluxGroup will become head companies for two new consolidated groups under the Australian tax consolidation system. The effective tax rates of Orica and DuluxGroup as independent entities may be different from the rates that would have applied to Orica prior to the Demerger.

6.7.2 Impact on Dividends and Franking Credits

Historically, Orica has franked some proportion of the dividends paid to Orica ordinary shareholders. There is no assurance as to whether and to what extent Orica will be able to frank dividends following the Demerger. However, it is likely that the extent of any



franking will decrease following the Demerger, because the Demerger will result in the “loss” of Australian taxed revenue earned by DuluxGroup. The dividend policy of Orica will be at the discretion of its Board and may change over time. Orica currently has a progressive dividend policy (meaning dividends will increase incrementally yearly and are not increased in proportion to earnings).

At the time of the Demerger, DuluxGroup will form a new tax consolidated group and have a zero franking credit balance. As the majority of DuluxGroup’s profits are earned in Australia and subject to Australian taxation, DuluxGroup is expected to generate franking credits over time and intends to frank its dividends to the maximum extent possible. The dividend policy of DuluxGroup will be at the discretion of its Board and may change over time. However, it is expected that DuluxGroup will pay at least 70% of its net profit after tax (excluding individually material items and subject to the availability of retained earnings) as dividends to DuluxGroup shareholders on an annual basis. Under DuluxGroup’s banking facility, DuluxGroup’s dividend payout ratio is limited to 90% under certain circumstances. The DuluxGroup Board will consider declaring its first dividend from earnings accrued after the Demerger to the end of DuluxGroup’s financial year on 30 September 2010, a period of approximately two and a half months.

6.7.3 Tax Consequences for Australian Resident Shareholders

The Demerger is not expected to give rise to any adverse tax consequences for Australian resident shareholders. Australian shareholders account for approximately 70% of Orica’s issued capital.

Under the tax provisions applicable to demergers, Australian resident Orica ordinary shareholders will be eligible for rollover relief to defer the capital gains tax consequences of the capital gains tax events relating to the capital reduction. Orica has lodged a class ruling request with the Australian Taxation Office (“ATO”) to confirm the Australian income tax consequences of the Demerger for Orica ordinary shareholders and understands that this treatment will be confirmed in a class ruling published by the ATO following completion of the Demerger.

For shareholders who elect to obtain relief pursuant to the demerger provisions, the tax consequences of the Demerger are expected to be as follows:

- the cash amount to be notionally distributed to Orica ordinary shareholders pursuant to the Demerger will be wholly accounted for as a return of share capital and will not give rise to any gain for tax purposes;
- Orica ordinary shareholders will be required to apportion the existing cost base of their Orica shares between their Orica and DuluxGroup shares following the Demerger. The cost base of the Orica shares will be apportioned between the cost base of the Orica shares and DuluxGroup shares on the basis of market values immediately following the demerger (i.e. the VWAP of Orica shares and DuluxGroup shares on the ASX for the first five days of trading commencing on the first day on which both Orica shares and DuluxGroup shares trade on the ASX); and
- the capital gains tax status of shareholders’ Orica and DuluxGroup shares acquired under the Demerger will be the same as the status of shareholders’ Orica shares. If the Orica shares were pre-capital gains tax shares (that is, they had been acquired before 20 September 1985 and were therefore not subject to capital gains tax), the Orica shares and DuluxGroup shares will be treated as pre-capital gains tax shares.

For shareholders who do not elect to obtain Demerger relief pursuant to the demerger provisions, the capital gains tax consequences of the Demerger are expected to be as follows:



- shareholders will realise a capital gain to the extent that the market value of the DuluxGroup shares received is greater than the cost base of the Orica shares held by shareholders. Any capital gain may be eligible for the capital gains tax discount concession;
- the existing cost base of the Orica shares held by shareholders immediately after the Demerger will be apportioned over their Orica and DuluxGroup shares in the same manner as for shareholders who elect to use demerger relief; and
- the DuluxGroup shares issued to shareholders will be acquired at the date of the Demerger and will be post-capital gains tax shares, regardless of the capital gains tax status of shareholders' Orica shares.

6.7.4 Tax Consequences for Non-Australian Resident Shareholders

Orica shareholders who are not residents of Australia will not be subject to Australian capital gains tax rules unless they hold (together with their associates) at least 10% (by value) of Orica shares or DuluxGroup shares.

The non-Australian taxation implications for non-Australian resident shareholders will depend on the country of domicile of the shareholder. Non-Australian residents should seek their own taxation advice in relation to the taxation impact of the Demerger.

6.7.5 Disclaimer

The analysis set out above outlines the major tax consequences of the Demerger and should be viewed as indicative only. It does not purport to represent formal tax advice regarding the taxation consequences of the Demerger for shareholders. Further details on the taxation consequences of the Demerger for Australian resident shareholders are set out in Section 13 of the Demerger Scheme Booklet. In any event, the tax consequences for shareholders will depend upon their individual circumstances. If in any doubt, shareholders should consult their own professional adviser.

6.8 Other Issues

6.8.1 One-Off Transaction Costs

Orica has estimated that the total transaction costs of the Demerger will be approximately \$81 million on a pre-tax basis. These transaction costs will be allocated between Orica and DuluxGroup following the Demerger as follows:

Demerger Costs (before tax) (\$ millions)			
Cost	Orica	DuluxGroup	Total
Stamp duty and other taxes	36	-	36
Re-branding / establishment costs	10	4	14
Advisory fees and other costs	31	-	31
Total	77	4	81

Source: Demerger Scheme Booklet

Approximately \$20 million of these costs will have been committed prior to the Orica ordinary shareholders' meeting to approve the Demerger. The total one-off transaction costs, while significant, are not material in comparison to the assets and market capitalisation of Orica. Total transaction costs (before tax) represent approximately 0.8% of Orica's current market capitalisation.



6.8.2 Lack of Track Record of DuluxGroup

DuluxGroup has no track record of operating as a standalone entity, notwithstanding that DuluxGroup has operated autonomously of Orica's other businesses. In addition, there is no track record of the DuluxGroup Board working together. DuluxGroup will need to establish its own treasury, legal, taxation, statutory financial reporting and, to some degree, information technology support functions. Transitional arrangements have been put in place to assist with the Demerger. Whilst these organisational changes involve some degree of risk, change is a regular part of corporate development and any negative impact is unlikely to be material.

6.8.3 Impact of Adverse Events

The smaller size of DuluxGroup as a standalone entity may exacerbate the impact of any significant adverse events on the financial performance and operations of DuluxGroup. Such adverse events could include:

- a dramatic downturn in the Australian economy;
- significant damage to DuluxGroup's brands;
- any loss of or unfavourable change in key customer relationships;
- material damage to key manufacturing facilities; or
- the impact of new entrants to the markets in which DuluxGroup operates.

The impact of these events would be less material for Orica in its current form (although the absolute magnitude of the events would not change). While DuluxGroup would be more vulnerable to such events due to its smaller size, its strong brands and leading positions in mature markets should be a mitigant to any adverse impact.

Orica will also be a smaller company following the Demerger. However, the reduction in its size will be far less material. Its assets and market capitalisation will still be substantial. The Demerger should not result in any significant increase in the impact of any adverse event on the company.

6.8.4 Ineligible Shareholders

Ineligible overseas shareholders will not be entitled to participate in the Demerger. The DuluxGroup shares that would otherwise have been issued to them, will be issued to a sale agent and sold on ASX, with the proceeds remitted to the ineligible shareholders following the sale of those shares. The ineligible shareholders may also pay tax on any profit on that disposal (in their country of residence). However:

- their DuluxGroup shares will be sold for market value;
- they can acquire DuluxGroup shares through ASX following the listing if they wish to retain an exposure; and
- shareholders representing less than 0.1% of Orica's listed capital are expected to be impacted by these provisions.

6.9 Alternatives to the Demerger

The Demerger proposal reflects a recognition that there is little or no strategic or operational commonality between DuluxGroup and the remainder of Orica. The Demerger addresses this through the separation of DuluxGroup from Orica, although ownership of DuluxGroup (at least in the short term) stays with existing Orica shareholders. An alternative approach would be to separate DuluxGroup from Orica through some form of divestment, with ownership transferred to third parties. This could be achieved through a trade sale or IPO, or (hypothetically at least) on a partial basis through some form of joint venture.



These alternatives have a range of disadvantages. Any divestment of 100% of DuluxGroup would be likely to crystallise a capital gain and would result in value leakage by way of capital gains tax. Divestment by way of an IPO would almost certainly realise less than full underlying value and (to the extent that the IPO involved third party investors) would result in a dilution of the economic interests of Orica shareholders. A partial divestment through some form of joint venture would have additional disadvantages. In particular, a partial divestment would not address the disadvantages from a market and investor perspective of holding two very different businesses within the single corporate structure; in fact, a joint venture structure would be likely to exacerbate such disadvantages.

The Demerger has none of the disadvantages associated with the alternatives. There is no value leakage through the crystallisation of a capital gain, and no dilution in the economic interests of Orica shareholders. Shareholders retain the prospect of realising full underlying value for the DuluxGroup business through some future change of control transaction involving DuluxGroup. In the absence of a fully priced offer to buy the DuluxGroup business on a trade sale basis (which would have to be assessed on its merits), in Grant Samuel's view the Demerger is clearly preferable to alternative approaches to the divestment of DuluxGroup (whether by way of trade sale, IPO or joint venture).

6.10 Shareholder Decision

The decision whether to vote for or against the Demerger is a matter for individual shareholders based on each shareholder's views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from shareholder to shareholder. If in any doubt as to the action they should take in relation to the Demerger, shareholders should consult their own professional adviser.

Any decision to continue to hold shares in Orica or DuluxGroup, or to sell shares in Orica or DuluxGroup, is a separate investment decision independent of a decision on whether to vote for or against the Demerger. Grant Samuel does not offer any opinion in relation to shareholders' decisions in relation to these matters. Shareholders should consult their own professional adviser in this regard.



7 Impact on Orica's Ability to Pay its Creditors

As a result of the Demerger, Orica will be split into two separate entities. Certain of the existing creditors of Orica (and its subsidiaries) will become creditors of DuluxGroup, while the remainder will remain creditors of Orica.

To effect the Demerger, Orica will undertake a capital reduction and declare a demerger dividend. The capital reduction and demerger dividend will be used on behalf of shareholders as payment for DuluxGroup shares ("Distribution Entitlement"). The capital reduction is expected to be approximately \$216 million. The demerger dividend will make up the remainder of the Distribution Entitlement. The Distribution Entitlement will be calculated by multiplying the number of DuluxGroup shares issued by the VWAP of DuluxGroup shares on ASX over the first five trading days immediately following the commencement of trading. The Distribution Entitlement will result in a reduction of Orica's shareholders' funds although this will be offset by the profit booked on the sale by Orica of the DuluxGroup business to DuluxGroup. At an economic level, however, there will be a reduction in Orica's shareholders' funds because Orica will no longer have the benefit of the earnings contributed by the businesses to be transferred to DuluxGroup.

The Directors of Orica have requested that Grant Samuel express an opinion as to whether the capital reduction will materially prejudice Orica's ability to pay its existing creditors. Given that the capital reduction and demerger dividend will effectively occur concurrently and are both fundamental aspects of the Demerger, it is difficult to assess whether the capital reduction of itself (i.e. considered in isolation from the demerger dividend) will materially prejudice Orica's ability to pay its creditors. Accordingly, Grant Samuel has assessed the impact of the capital return by considering whether the payment of the Distribution Entitlement will materially prejudice Orica's ability to pay its existing creditors. If the payment of the Distribution Entitlement does not materially prejudice Orica's ability to pay its creditors, then it follows that the capital return, as a component of the Distribution Entitlement, does not materially prejudice Orica's ability to pay its creditors.

By definition, any reduction in the equity base of a company reduces in an absolute sense the capacity of the company to fund commitments. However, while the Demerger has the effect of reducing the equity base of Orica, it does not necessarily reduce or prejudice the ability of Orica to pay its creditors, because the Demerger will also result in a reduction in the quantum of Orica's creditors. Put another way, while the Demerger will reduce Orica's absolute ability to fund its commitments, it will also reduce the extent of those commitments. In particular:

- Orica's net debt will be reduced by \$245 million, representing the amount to be paid by DuluxGroup for the businesses to be transferred to it; and
- Orica's trade creditors and other working capital liabilities (e.g. accruals, employee provisions, etc) will be reduced by an estimated \$180 million following the transfer of the DuluxGroup business and related trade and other creditors to DuluxGroup.



Moreover, Orica will continue to be a substantial company following the Demerger:

Impact of Demerger on Pro Forma Financial Parameters (\$ millions)		
	Orica	Orica pro forma³⁸ post Demerger
<i>Financial Performance for year ended 30 September 2009</i>		
Revenue	7,411.0	6,470.8
EBITDA	1,190.6	1,044.7
EBIT	942.9	814.0
<i>Financial Position as at 31 March 2010</i>		
Total assets	7,225.6	6,638.3
Net borrowings	1,228.9	1,060.9
Net assets	3,710.4	3,595.8
<i>Liquidity and Gearing Metrics</i>		
Current ratio ³⁹	1.0x	1.1x
Leverage ratio ⁴⁰	1.0x	1.0x
Gearing (net borrowings/(net assets plus net borrowings))	24.9%	22.8%

Source: Demerger Scheme Booklet and Grant Samuel analysis

Analysis of the position of Orica following the Demerger suggests that there will be no significant impact on Orica's ability to pay its creditors:

- there are not expected to be any significant changes in the liquidity and gearing metrics of Orica following the Demerger. If anything, gearing on a pro forma basis is expected to fall marginally from 24.9% to 22.8%;
- on a pro-forma basis, Orica's net borrowings and trade and other creditors will decrease by 13.7% and 16.3% respectively. Orica's EBITDA will fall by only 12.3% (on a pro-forma basis);
- prior to the Demerger, Orica's credit rating issued by Standard & Poor's was BBB+. Standard & Poor's has indicated that Orica will retain its BBB+ rating following the Demerger;
- Orica will have uncommitted facilities (facilities available to be drawn down) of approximately \$2.2 billion;
- as a substantial listed company, Orica would if necessary have access to the public equity markets to fund creditor payments (although there is absolutely no indication that this might be required);
- Orica will incur substantial capital expenditures for 2010, relating to a number of projects including the construction of an ammonium nitrate plant at Bontang, Indonesia, increasing capacity at the ammonia plant at Kooragang Island and the construction of an initiating systems facility in Nanling, China. Orica's cash flow forecasts show these capital expenditures can be comfortably funded within Orica's existing facilities; and
- the Directors of Orica have stated the Demerger, if implemented, will not materially prejudice Orica's ability to pay its creditors.

Overall, in Grant Samuel's view it is arguable that payment of the Distribution Entitlement will have no negative effect on Orica's ability to pay its existing creditors, given the reduction in Orica's creditors that will result from the Demerger. At the very least, in Grant Samuel's view, it is clear that payment of the

³⁸ Includes transaction costs.

³⁹ Current ratio is current assets divided by current liabilities.

⁴⁰ Leverage ratio is net borrowings divided by EBITDA and provides a measure of the level of debt supported by earnings.

G R A N T S A M U E L



Distribution Entitlement will not materially reduce Orica's ability to repay its existing creditors. Accordingly, Grant Samuel has concluded that the capital return will not materially prejudice Orica's ability to pay its existing creditors.

Grant Samuel makes no warranty, express or implied, as to the potential recoverability of existing or contingent debts owed by Orica at the date of this report or at any subsequent time. Grant Samuel's opinion relates only to the impact of the Demerger on Orica's ability to pay its existing creditors. Future creditors must rely on their own investigations of the financial position of Orica following the Demerger. Grant Samuel offers no opinion in relation to and makes no warranty, express or implied, as to the potential recoverability of existing or contingent debts owed by DuluxGroup at the date of this report or at any subsequent time.



8 Qualifications, Declarations and Consents

8.1 Qualifications

The Grant Samuel group of companies provide corporate advisory services (in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally), property advisory services, manages specialist funds and provides marketing and distribution services to fund managers. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 430 public independent expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Stephen Cooper BCom (Hons) ACA CA(SA) ACMA and Cameron Stewart LLB BCom. Each has a significant number of years of experience in relevant corporate advisory matters. Tina De Young and Warwick Earl assisted in the preparation of the report. Each of the above persons is an authorised representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

8.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Demerger is in the best interests of Orica shareholders and whether the capital reduction materially prejudices Orica's ability to pay its creditors. Grant Samuel expressly disclaims any liability to any Orica shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

Grant Samuel has had no involvement in the preparation of the Demerger Scheme Booklet issued by Orica and has not verified or approved any of the contents of the Demerger Scheme Booklet. Grant Samuel does not accept any responsibility for the contents of the Demerger Scheme Booklet (except for this report).

8.3 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with Orica that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Demerger. Grant Samuel advises that:

- Grant Samuel was retained by Orica or its previous subsidiary, Incitec, to prepare independent expert reports on:
 - the selective buy-back of shares by ICI Plc in 1997;
 - the takeover offer by Orica for the minority interests in Incitec in 1999;
 - the proposed demerger of the industrial products business of Incitec in 2002; and
 - the proposed report on a demerger of Orica's Consumer Products business in 2008 that did not proceed.
- a Grant Samuel executive has a shareholding in Orica consisting of fewer than 600 shares.



Grant Samuel had no part in the formulation of the Demerger. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of \$315,000 for the preparation of this report. This fee is not contingent on the outcome of the Demerger. Grant Samuel's out-of-pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by ASIC in October 2007.

8.4 Declarations

Orica has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a court to be primarily caused by any conduct involving gross negligence or wilful misconduct by Grant Samuel. Orica has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Any claims by Orica are limited to an amount equal to the fees paid to Grant Samuel. Where Grant Samuel or its employees and officers are found to have been grossly negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action.

Advance drafts of this report were provided to Orica and its advisers. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

8.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Demerger Scheme Booklet to be sent to shareholders of Orica. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

8.6 Other

The accompanying letter dated 24 May 2010 and the Appendix form part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

GRANT SAMUEL & ASSOCIATES PTY LIMITED

24 May 2010

Grant Samuel & Associates



Appendix

Market Evidence - Comparable Listed Companies

The sharemarket ratings of selected listed consumer product companies are set out below.

Sharemarket Ratings of Selected Listed Consumer Product Companies ¹							
Company	Market Capitalisation ² (\$ millions)	EBITDA Multiple ³ (times)			EBIT Multiple ⁴ (times)		
		Historical	Forecast Year 1	Forecast Year 2	Historical	Forecast Year 1	Forecast Year 2
Australia							
GWA International Limited	934	10.6	9.7	8.6	12.9	11.6	10.0
Hills Industries Limited	593	9.6	7.2	6.6	14.3	9.4	8.4
GUD Holdings Limited	506	8.4	7.6	7.2	9.9	8.8	8.3
Alesco Corporation Limited	239	4.5	6.6	5.8	7.1	10.8	8.8
Wattyl Industries Limited	63	5.5	4.1	3.3	14.5	7.6	4.9
<i>Minimum</i>		4.5	4.1	3.3	7.1	7.6	4.9
<i>Maximum</i>		10.6	9.7	8.6	14.5	11.6	10.0
<i>Median</i>		8.4	7.2	6.6	12.9	9.4	8.4
International							
Akzo Nobel N.V.	14,417	7.7	6.0	5.4	13.2	8.8	7.8
PPG Industries Inc.	12,550	9.8	7.2	6.8	15.5	9.8	9.1
Sherwin-Williams Company	10,001	10.3	9.5	8.8	13.0	11.6	10.6
Asian Paints Limited	4,967	27.3	16.5	14.7	30.5	17.9	15.9
Valspar Corporation	3,681	10.2	8.7	8.1	13.1	10.7	9.8
<i>Minimum</i>		7.7	6.0	5.4	13.0	8.8	7.8
<i>Maximum</i>		27.3	16.5	14.7	30.5	17.9	15.9
<i>Median</i>		10.2	8.7	8.1	13.2	10.7	9.8

Source: Grant Samuel analysis⁵

The multiples shown above are based on sharemarket prices as at 21 May 2010 and do not reflect a premium for control.

All of the companies have a 30 June year end with the exception of: PPG Industries Inc. ("PPG"), Sherwin-Williams Company ("Sherwin-Williams") and Akzo Nobel N.V. ("Akzo Nobel") which have 31 December year ends; Asian Paints Limited ("Asian Paints") which has a 31 March year end; and Valspar Corporation ("Valspar") which has a 31 October year end.

¹ The companies selected have a variety of year ends and therefore the data presented for each company is the most recent annual historical result plus the subsequent two forecast years.

² Market capitalisation is based on sharemarket prices as at 21 May 2010.

³ Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBITDA. EBITDA is earnings before net interest, tax, depreciation, amortisation, investment income and significant and non-recurring items.

⁴ Represents gross capitalisation divided by EBIT. EBIT is earnings before net interest, tax, investment income and significant and non-recurring items.

⁵ Grant Samuel analysis based on data obtained from IRESS, Capital IQ, Bloomberg, company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.



A brief description of each company is set out below:

Australian

GWA International Limited

GWA International Limited (“GWA”) is a leading Australian designer, manufacturer, importer and distributor of household consumer products. GWA operates through five business divisions: Caroma Dorf (bathroom fixtures, kitchen fixtures and sanitaryware); Dux (hot water systems such as mains pressure gas and electrical storage, continuous flow gas, as well as electrical and gas boosted solar and heat pump products); Gainsborough (domestic and commercial door hardware and fittings under the Gainsborough, Trilock, Homecraft and In-Style brands); Rover (domestic and commercial walk-behind and ride-on mower equipment, garden chip and shred products and spare parts; and Sebel (commercial furniture business with subsidiaries in New Zealand, Singapore, Hong Kong and the United Kingdom). On 1 April 2010, GWA announced the completion of the sale of the Rover division and the acquisition of Bravis Climate System for \$50 million. The acquisition enables GWA to establish and grow a Heating and Cooling division.

Hills Industries Limited

Hills Industries Limited (“Hills”) is a diversified Australian company which manufactures, imports and distributes electronics, home, hardware, building and industrial products in Australia and overseas. Hills operates under three segments: Electronic Security and Entertainment (through Hills Electronic Security, Hills Antenna & TV Systems, Hills Sound Vision & Lighting, Crestron and Access Television Services); Home Hardware & Eco (including metal-based branded hardware products, water storage tanks, as well as mobility, rehabilitation and aged care equipment); and Building & Industrial (steel tubing and pipes). On 6 April 2010, Hills announced the completion of its move to 100% ownership of Fielders Australia Pty Ltd, who manufacture a range of mainly roll-formed metal products, such as gutters.

GUD Holdings Limited

GUD Holdings Limited (“GUD”) owns a strong portfolio of consumer and industrial brands in Australia. GUD operates under four key business segments: Consumer Products (which incorporates Sunbeam small electrical appliances and Oates cleaning hardware products); Automotive Products (including Ryco, Cooper and Wesfil brands); Water Products (comprising Davey pumps and water products); and Security Products (including Lock Focus locks for metal furniture and garage doors). In each of these segments, GUD’s businesses market a blend of own-manufactured and sourced product ranges. Through the Davey and Lock Focus businesses, GUD has a growing presence in export markets, servicing a range of customers in Europe, the Middle East, South East Asia and North America. In May 2009, GUD acquired a 19.4% shareholding in the Breville Group Limited (“Breville”) and in October 2009 launched a takeover bid for the remainder of Breville. The takeover was opposed by the Australian Competition & Consumer Commission in December 2009.

Alesco Corporation Limited

Alesco Corporation Limited (“Alesco”) provides industrial trade customers in Australia and New Zealand with branded products and services within the new housing, renovations, commercial buildings and infrastructure market. Alesco currently operates four primary divisions: Construction and Mining, Functional & Decorative Products, Garage Doors and Openers, and Water Products and Services. Alesco has been impacted significantly as a result of the global financial crisis and the resulting decline in housing activity and in April 2009 sold its Scientific and Medical division. Alesco’s low multiples reflect the company’s profit downgrade announced in March 2010, where softer market conditions have resulted in Alesco reducing its 2010 forecast EPS by approximately 27%.

Wattyl Limited

Wattyl Limited (“Wattyl”) is a paint and surface coatings company with manufacturing, sales and distribution operations in Australia and New Zealand. Wattyl produces a broad range of paints, lacquers, varnishes and special purpose and protective coatings. Approximately 70% of Wattyl’s sales are sourced from the trade



channel with the retail channel accounting for the remainder. Watty1 has been impacted by the entry of Nippon Paint into the Australian market and has lost market share due to a decrease in shelf space at Bunnings stores.

International

Akzo Nobel N.V.

Akzo Nobel is a Dutch-based manufacturer and supplier of specialty chemicals, decorative paints and performance coatings worldwide and is the largest coatings supplier in the world. The Decorative Paints division includes lacquers and varnishes, adhesives and floor levelling compounds, as well as specialty coatings for metal, concrete and other building materials. It also provides mixing machines, colour concepts and training courses for the building and renovation industry. Akzo Nobel manufactures and sells the Dulux brand in Europe, North America, Latin America and Asia. In the 2009 financial year, the Decorative Paints business contributed 34% of revenue and 39% of EBITDA. Akzo Nobel's other business units comprise Performance Coatings (automotive, marine and industrial) and Specialty Chemicals. During the 2009 financial year, the company acquired two distributors in Continental Europe, as well as the SABA, Kronospan and Dow Powder Coatings assets. Akzo Nobel also divested its Chemcraft Brazil and non-stick (powder coatings) businesses.

PPG Industries Inc.

PPG is a leading producer of coatings for decorative, protective, automotive and industrial end markets and is headquartered in the United States. Globally, PPG is the world's second largest player in the paints sector. In addition to its core Paints & Coatings business (which represented 75% of sales and 71% of EBITDA for the 2009 financial year), PPG operates three additional business segments: Optical & Specialty Materials (supplying lenses, sun lenses and optical lens materials, as well as synthetic printing sheet used in waterproof labels, e-passports and identification cards, etc); Glass (where PPG is the largest flat glass producer in the United States); and Commodity Chemicals (where PPG is the third largest producer of Chlor-Alkali chemicals, such as chlorine, caustic soda and hydrochloric acid, which serve housing and industrial end markets). PPG sells its products through company-owned stores, home centres, paint dealers and independent distributors, as well as directly to customers worldwide.

Sherwin-Williams Company

Sherwin-Williams, based in the United States, manufactures, distributes and sells coatings and related products to professional, industrial, commercial and retail customers globally. Sherwin-Williams operates under three distinct businesses: Paint Stores Group, which represents Sherwin-Williams' 3,354 paint stores across the United States, Canada and the Caribbean; Consumer Group, which supplies branded and private label products to retailers throughout North America and supports the Paint Stores Group with new product research and development, manufacturing, distribution and logistics; and Global Finishes Group, which manufactures and sells original equipment manufacturer finishes, automotive finishes, protective and marine coatings and architectural coatings in North and South America, Europe and Asia. The Paint Stores business is the largest contributor to profit and in 2009 accounted for 73% of segment profit. In March 2010, Sherwin-Williams announced the acquisition of the Industrial Wood Coatings business of Arch Chemicals, Inc.

Valspar Corporation

Valspar is a global producer of high quality paints and coatings, with large positions in both architectural and industrial coatings, ranking third behind Sherwin-Williams and PPG in the US\$25 billion United States architectural paint market. The company is broken into three main businesses. The Coatings business, which supplies packaging, wood and coil coatings, represented 55% of sales for the 2009 financial year. The Paints business (Architectural and Automotive) accounted for 38% of Valspar's annual sales for the 2009 financial year. Other Specialty Coatings, including the Resins business, represented 8% of sales for the 2009 financial year. Valspar is headquartered in the United States and generates the majority of its sales domestically (approximately 65% for the 2009 financial year).



Asian Paints Limited

Asian Paints (formerly known as The Asian Oil & Paint Company), is headquartered in Mumbai, India. Asian Paints is the market leader in India's decorative paints industry, whilst also catering to the industrial paints segment. It is well established in all major sub-segments including enamels, emulsions, distempers and exterior paints. Asian Paints also manufactures chemicals and leases tinting systems to its dealers. Asian Paints has a presence in over 20 countries including South East Asian countries, China, Australia, the Caribbean and the Middle East, deriving 17% of its sales from overseas. Asian Paints trades on significantly higher multiples to its peers which in part reflects its dominant market position in the growing Indian market, the company's focus on high margin decorative paints and high return ratio's. It is also important to note that Asian Paints has a year end of 31 March with the historical multiples based on 31 March 2009.