Start of Transcript

Alberto Calderon: Good morning everyone. Thank you for joining us today under what continues to be the most extraordinary of circumstances. I hope everyone is healthy and staying safe.

Currently there is a definite feeling of cautious optimism in many western countries, with governments beginning to ease social restrictions and people making the first steps towards restarting their societies and their economies. Mining will play a crucial part in that global economic recovery and all of us at Orica are proud of our role in that.

But of course, there are still millions of people that have yet to go through the worst of it, including numerous countries that our people work in. We are doing everything we can to keep them safe and I hope we can all find the quickest way back to normal life.

On this note, I will commence the presentation. I ask you to quickly glance at the disclaimer on the next slide before moving to slide three.

Nothing is more important to Orica than keeping our people safe, so I'm pleased to let you know that over the half, our serious injury case rate was at its lowest in the past three years. Of course, the safety of our people has been our number one priority throughout the COVID-19 pandemic. Around the world there are strict protocols in place to protect our people and communities.

Starting in February, we set up a crisis management team across Orica, at a group level in each region, in manufacturing, Minova, GroundProbe and at a country level. The teams meet regularly and have been closely following the advice from the World Health Organization and local authorities. I'm very proud to say that they have led what has been a fantastic response across the breadth and depth of Orica.

Our people across the globe have risen to the challenge, adapting their ways of working to minimise risk and have quickly settled into a new normal about keeping our manufacturing plants operational so that we can continue to serve our customers. It has been inspiring to see how our company has responded with flexibility, resilience and courage.

As well as looking after our people, Orica strives to be a good corporate citizen and we have endeavoured to support other communities in which we operate, many of which have been deeply impacted by the pandemic.

If I may give a couple of examples, in Peru our people delivered food to those living in the remote district of Uchumayo, in the Philippines our Global Business Service team delivered meal packages to medical and front line workers, and here in Australia, our Kooragang Island team contributed to a fund to help disadvantaged people access free meals.

Our community support throughout this crisis has been a good example of a broader strategic repositioning of our global investment program that is under way which aims to address issues at the local level, particularly around economic development and vulnerable populations.

Orica also takes its responsibility to the environment very seriously. I am pleased to report we have had no major environmental incidents in the half, and our greenhouse gas emissions intensity was steady, keeping us on track to meet our fiscal year '20 target. We are also on track to align our corporate governance and climate risk disclosure, with the recommendations of the task force on climate-related financial disclosures.

Moving to slide four which details the impact the coronavirus has had on our business. It has been gratifying to see mining activities confirmed as an essential service in most countries around the world. As a result, we have limited impact in Australia, the United States and CIS countries.

Across these regions, approximately 90% of our volumes have remained intact, which is very fortunate compared to the impact many other industries have suffered. However, strict government mandates have led to varying demand in countries including Quebec, Mexico, parts of Latin America, Asia and Europe. I want to clarify these are all related to quarantine measures, not demand measures.

Based on this, we currently expect the second half volumes to be somewhere between 10% to 15% below the expected pre-COVID-19 volumes for the second half of fiscal year 2020.

Throughout this, our commitment to our customers has been undiminished. Our manufacturing teams have gone above and beyond the call of duty to deliver, with all our continuous plants achieving overall equipment effectiveness of at least 80% in the half.

More precisely, Carseland and Kooragang Island have been in the 90s and the others around 80%. Our supply chain management team has tirelessly worked to support our ongoing operations, albeit at increased freight costs and other increased supply costs.

While there has been great uncertainty on so many fronts, we continue to control what we can. We are being prudent and controlled on cash whenever we can, including reducing discretionary expenditure within our control, we have maintained strong liquidity and capacity to debt covenants. Chris will talk more about this later.

We are now running more frequent supply and demand planning reviews, as customers continue to adapt their mine plans and with that we are managing inventory tightly. In simple terms, we are setting ourselves up to hit the road running once conditions begin to normalise.

On slide five, you will see our strong underlying financial results for the half. Let me start by saying that we are delighted with the results and they are strong results in spite of what have been very strong headwinds. Just to summarise, we had at the start of the year in Australia with the bushfires, then extreme weather conditions in the east led us to lose about 30,000 to 40,000 tonnes. We had a cyclone hit Burrup right in the middle, that delayed us several weeks. Gas prices continue to hinder the competitiveness of all the industry and we actually started feeling significantly coronavirus in the second half of March. That took away about $7 million of EBIT. So when you take all the headwinds and we still delivered probably slightly above consensus, we are delighted with these results.

Total AN volumes were up by 4%, led by strong growth in Australia and the CIS. EBIT was up 2% to $309 million, or probably more realistically 5% up on a normalised basis after adjusting for the ownership structure change in the China business, as announced last year. This is a strong result, as I stated before.

This earnings growth has come from strong volume demand from new and existing customers, further improvements from Minova and the cost savings we have put in place over the half. I’m delighted to confirm that the Burrup plant is now operational. I'll talk more about that shortly.

Positive cashflows are ensuring strong liquidity and our balance sheet remains strong. Chris will speak more about that later. The interim dividend will be 16.5 cents per share unfranked, which will represent a 40% payout ratio. Whilst many companies have cancelled their dividend in this uncertain world, the strength of our balance sheet, our view of the mining activities and the commitment to our shareholders have allowed us to pay this dividend.

I will now go through the performance of each region, starting with Australia Pacific and Asia on slide six. Starting with APA, overall this is a pleasing result for the half, AN volume is up 5% on the prior corresponding period, driven by an increase in our market share from new contracts despite, as I mentioned before, the impact of the bushfires and severe weather in Australia early this year, which reduced volumes by some 30,000 to 40,000 tonnes, with some of it being in the Australian east cost coal sector and these are very high margin tonnes.

Thanks to strong customer conversion we have been able to deliver an 18% increase in Electronic Blasting Systems, EBS, with a large percentage of this being in the east coast of Australia. We continue to see further successful adoption of WebGen and other technology products at many existing and new sites in the region, including at Newcrest's Cadia mine, which I will talk about later.

Since 2018, Orica and Roy Hill have collaborated in an innovation focused partnership committed to developing a smart mine of the future. Over the coming months, Orica and Roy Hill will continue to integrate measurement up and down the mining value chain and increase the value delivered away from the blast and the pit.

So far, Roy Hill has seen improvements in dig rates and continues to investigate further benefits. We are very excited by these partnerships with some of our key customers as we realise the full potential of the innovative technology solutions that we have created and implemented.

EBIT was 1% up excluding the accounting change from the China JV formation in the second half year. This growth was due to higher volumes and increased uptake of more advanced products and continued improvements in manufacturing. However, EBIT was impacted by higher gas costs on the Australian east coast, which is reflective of the continuing gas industry issues in Australia and the loss of volume due to weather issues as I mentioned earlier.

Let's move now to the slide on Burrup. Burrup is now producing ammonium nitrate tonnes, as you see from the picture that I was very glad to receive. The rectification works required to commence production are now complete, with no major issues to date. It was encouraging to see Yara's ammonia plant over the fence recommence production in March.

Looking forward, the outlook is positive. We expect a positive contribution in the second half and we anticipate the plant being fully loaded in fiscal year 2021, with current secured contracts. As you know, this plant is very strategically placed near to our customers in the Pilbara region of Western Australia. It will be a key asset in the years ahead.

Production for the half year will exceed 100,000 tonnes. We should quickly get up within some two or three months to 80% of production, but the plant was already producing around 90% yesterday, but in the first months the average is lower because of commissioning issues, but it is running very well.

North America. Onto slide eight. North America, where our steady performance continues. Volumes of AN were in line with the same period last year, with growth in the United States mainly in quarry and construction. However, this was offset by lower volumes in Mexico due to ongoing political unrest and the shutdown of the majority of mines due to COVID-19. Right now, it looks like this uncertainty will continue through the second half of the financial year.

In Canada we have delivered a 5% increase in EBS from new contract wins and the exit of a competitor for the eastern Canadian market. In addition, Canada continues to lead on the conversion of non-electric detonators to electronics.

Across the region, EBIT increased by 2% in the half. In the US, we delivered growth in AN volumes and saw some upside in currency fluctuations. This was partly offset by customer consolidation in the gold sector which impacted pricing, and lower margin from increased wholesale sales to JV partners. Fortunately, despite the devastation in some parts of the US, mining activity in our largest market in this region has only been marginally impacted by COVID-19 with continued demand particularly in quarry and construction.

In Canada we saw positive product mix thanks to the increasing EBS sales I just mentioned, however there was an impact from COVID-19 in the second half of March with the Quebec provincial government order shutting down all mines. This has subsequently been lifted with most mines having restarted in the later part of April.

In Mexico unfortunately we have seen lower product volumes and no spot sales of cyanide compared to the same time last year.

We next turn to Latin America. Strong AN volume growth continued in Peru, which is one of the leading copper and gold markets in Latin America and where our recent strategic acquisition Exsa has a strong market position. AN volumes were down by 4%, mostly due to a Colombian customer's change in business model where they shifted the requirements from AN to services. This was partly offset by new customer wins in Peru and higher demand from our customers in Brazil.

The outbreak of COVID-19 in the region did result in significant disruption to mining activity in some parts of the region, particularly in Peru, Colombia and Argentina where mining activities were completely closed. As a result, volumes in these countries were down in March by 20,000 tonnes and continued with a similar impact in April.

While Peru has been slowly ramping up during April, some mines in Argentina were authorised to open in late April and Colombia will only resume in May.

More positively, EBS sales were up 14% following significant market conversion, particularly in Peru, Colombia and Brazil. Cyanide volumes were 30% higher from new customer wins in Brazil and Argentina, plus higher demand from our customers in Peru.

Altogether, EBIT grew by 16% over the prior period, from an improvement in service margin, strong cyanide sales, improved product mix and cost efficiencies. This is a very good result given the COVID related volume impact as mentioned earlier.

We now move to EMEA and the CIS. We've seen a continued uplift in the AN sales in our key growth markets, particularly Russia and Kazakhstan, which was driven from both new contract wins and higher demand from existing customers. This has more than made up for lower demand across Europe.

The positive trend in Electronic Blasting Systems in the region has continued, with strong customer conversion in Europe, particularly in Norway. Sales are up 7%, which comes on top of what was already high growth last year. In addition, we have increased cyanide volumes to high-margin customers in Europe. Similar to the other regions, COVID-19 has impacted this region, and quite strongly. We have seen some lower EBS sales, particularly in the Nordic countries, as several tunnelling projects were temporarily stopped. We expect this to continue in the second half.

In terms of earnings, EBIT improved by 9% from the previous half. This was underpinned by sustained volume growth in the high-margin CIS region from both new and existing customers. As just mentioned, the lower demand in Europe, particularly Norway, impacted the result and is expected to continue into April and May. A continued focus on cost efficiencies remained a key priority for the region, delivering lower fixed costs for the period.

On to Orica Monitor division. More and more of our customers are no longer seeing these monitoring systems as nice to have but as a must have. That is translating into positive commercial outcomes. I'm delighted to let you know that March was a record sales month for both GroundProbe radar and laser systems. In particular, our new laser products are now gaining a foothold in the civil tunnelling market, with units deployed in Australia and Asia.

GroundProbe's EBIT remains ahead of our initial investment case even with the higher costs associated with investing in strategic growth initiatives in LATAM and Australia and Asia. Included in this segment is Nitro Consult, a blasting consulting company in Sweden, which is undertaking some restructuring in underperforming areas and impacted earnings in the half. Going into the second half, we expect a temporary increase in supply chain costs, particularly in freight costs, as a result of COVID-19.

Next on slide 12 is Minova. Sales of powder volumes were up 20% overall, led by a remarkable 40% growth from new customer wins in Russia. Revenue was down 10% over the period as a result of lower natural gas prices in the US, impacting coal sector volumes. The outbreak of COVID-19 has had some impact on steel and resin volumes from mid-March and we expect this to continue in the second half, although we think this will also be temporary.

However, we did see an uplift in EBIT across geographies, actually around 60%, supported by better product mix and improved pricing, and an improvement in manufacturing cost efficiencies from plant rationalisation and a continued reduction in overheads.

I will now hand over to Chris to talk about financial performance.

Chris Davis: Thanks, Alberto. Looking at the key financial metrics on slide 14. Sales revenue of almost $2.9 billion was up 2% from the prior period, with growth across all segments of the business from a combination of higher volumes from increased demand and new contract wins, increased service revenue and favourable FX. This has been partially offset by lower revenue from Minova, the impact of pricing as a result of customer consolidation in the North American gold sector, and the impact of the change in ownership of the China business.

Underlying EBITDA has increased 10%. Adjusting for the impact of the new lease accounting standard which reclassifies operating lease expenses to depreciation and interest, EBITDA is up 2%. Underlying EBIT has increased 2% over the same period. Excluding the impact of the China business, which is now equity accounted and no longer consolidated, EBIT is up 5% on the prior period.

Underlying NPAT of $165 million is 1% below the prior period, driven by higher interest expense as a result of the impact of the adoption of the new lease accounting standard and foreign currency translation of US-dollar interest expense at a lower exchange rate. Statutory NPAT of $165 million was significantly higher than the prior period, driven primarily by the non-repeat of significant items that occurred in the first half of 2019. The effective tax rate of 32% was in line with expectations.

At 42.9 cents, earnings per share is down 2% on the prior period, driven by a lower underlying NPAT and an increase in issued shares during the period following the equity raising to support the acquisition of Exsa in Peru. The interim dividend of 16.5 cents per share will be unfranked, and represents a payout ratio of 40%. Whilst this is at the lower end of our target dividend range, it is appropriate given the uncertain external environment as it relates to COVID-19.

Turning now to the EBIT bridge on slide 15. As a reminder, in the second half of 2019, Orica formed a new explosives initiating systems and blasting services joint venture in China with Guizhou Jiulian Industrial Explosives. The effect of this is that $7 million of EBIT previously consolidated is now treated as an after-tax equity accounted investment at 49%. This one-off impact reduced the year-on-year EBIT contribution by $7 million.

Inflation on overheads had an adverse impact of $15 million, which is in line with our expectations.

Volume had a positive impact of $7 million. Ammonium nitrate volumes increased by almost 4%, driven by new business and higher demand from existing customers in Australia and the CIS countries. Specifically in Australia, AN volume growth was underpinned by strong demand from existing customers in the Pilbara, new contract wins in the east coast coal markets, and increased sales to competitors. Increased demand in the CIS countries was driven by new customer contracts and expansion at existing customer sites. This was partially offset by lower volumes in Colombia, following a change in supply conditions whereby the customer directly sources its own AN, and a continuation of unfavourable operating conditions and political uncertainty in Mexico reducing demand from mining customers.

Sales volumes of our higher value, more advanced Electronic Blasting Systems increased 8% over the prior period, specifically in the Australia Pacific Asia business, Latin America and EMEA, due to continued conversions by customers to more advanced products.

Net mix and margin increased by $18 million. Improved margins, most notably in Latin America, North America and Australia, have contributed positively to EBIT. Within the Latin America business, this has been delivered through higher service margins in Colombia, Chile and Peru as the business focuses on a full service offering to customers. This has been aided by a lower cost structure as the business focuses on driving cost efficiencies.

The improved performance of the joint ventures in North America and a focus by the Australia business on reducing raw material costs in cyanide have contributed to improved margins. In addition, increased sales to higher margin cyanide customers in Africa has driven an improvement in EMEA. Additional benefits have been achieved through favourable FX, impacting margins.

These benefits have been partially offset by the impact of price on contracts in the North American gold sector following a consolidation in the key players, and a known lag in the pass-through of higher gas costs in Australia via contract mechanisms.

Global manufacturing impacts. Improved reliability and performance, and cost management across the continuous manufacturing plants has contributed $3 million in EBIT compared to the prior period. This reflects the continued focus on operating discipline and efficiency to ensure our manufacturing plants are able to meet our production requirements. It is our expectation that, in the second half of the 2020 financial year, a number of planned plant shuts are expected with a view to managing down inventory levels. I will discuss the impact of this further at the end of my presentation.

In terms of the Burrup plant, Alberto has previously given a comprehensive update on the rectification works and plant commissioning. From the negative $7 million impact in the first half of 2020, some $4 million represents the ongoing impact of increased arbitration costs. The arbitration with the contractor continues and we are pursuing recovery of costs associated with the rectification works. The balance of the adverse impact includes environmental provisions and overheads.

Adjacent businesses includes Orica Monitor and Minova. Whilst GroundProbe continues to deliver in line with expectations, the impact of restructuring costs within Nitro Consult has meant that Orica Monitor has delivered a similar EBIT to the prior period. We remain pleased with the performance of the Minova business, which has delivered a further increase in EBIT of $4 million over the prior period. This improvement has been driven by higher demand for injection chemicals and powders, improved pricing in key sectors, and manufacturing cost efficiencies and further reductions in overhead costs.

Finally, savings in overheads has resulted in a benefit on the prior period of $5 million. The net result is that EBIT finished the half at $309 million, despite the impact of COVID-19 which had an adverse impact to EBIT of approximately $7 million in the last two weeks of March as a result of lockdowns that occurred in a number of countries within North and Latin America, and EMEA.

Looking at capital expenditure on slide 16. As mentioned over the past few years, we will ensure that capital allocations related to safety and environmental obligations are not restricted. All other capital requirements continue to be subject to financial metrics and a rigorous review and approval process. Excluding the $72 million of capital expenditure to replace the defective Burrup assets, total capital expenditure for the half-year is $206 million, marginally above our expectations due to the impact of FX on offshore capital spend.

Included in the total spend is $67 million of capital associated with the final ramp-up of the SAP project which is expected to go live in the second half of the financial year. In total, the implementation of the single SAP project is expected to cost $340 million.

Growth capital expenditure, at $39 million, includes spend on new customer contracts in the CIS countries, Peru and Asia, further investments in the commercialisation of new technologies that contribute to an increase in future earnings, such as the BulkMaster 7 units, WebGen and BlastIQ, and investment in new GroundProbe units to support their leasing market revenues. Sustaining capital expenditure of $100 million reflects spend on compliance and efficiency capital at Kooragang Island, Yarwun, Carseland, Brownsburg, and continued replacements of the older MMU fleet on existing customer contracts.

The spend on the rectification works at the Burrup plant is progressing well, with the plant now producing its first tonnes in May 2020. Our disciplined approach to capital expenditure continues to be a key focus area to ensure we maintain a strong balance sheet. In 2020, capital expenditure is expected to be in the range of $380 million to $400 million, excluding the spending on the Burrup rectification works. The increase of $10 million on previous guidance is driven by the capital expenditure requirements for the recently acquired Exsa business.

Including the impact of the new lease accounting standard, which has resulted in leases being brought onto the balance sheet in 2020, depreciation and amortisation is up 26% on the prior period. This includes $33 million increased depreciation as a result of the new accounting standard. For the full 2020 year, it is expected that depreciation and amortisation will be up to 30% higher due to the impact of the new lease accounting standard, the commencement of depreciation on our investments in IT systems, and the commencement of depreciation on the Burrup plant in the second half of the 2020 financial year.

Moving on to slide 17, entitled cashflow. The generation of strong cashflows remains a key priority for the business. As I previously reported in the 2019 Investor Day presentation, and as part of our full-year results presentation in November 2019, we expected a decline in cash conversion and cash generation in 2020. These numbers presented are in line with that expectation.

Despite this, cash generation remained positive, with net operating cashflow generation of $108 million and cash conversion of 62.9%, driven by an increase in trade working capital of $178 million compared to that as at 30 September 2019. The increase in inventory levels and creditors balance was in line with expectations as we built inventory at Burrup to ensure our customers' needs are met in advance of the plant commencing production, as we plan an appropriate increase in inventory safety stock levels as a conservative contingency in advance of the new SAP system and as we achieve discipline, simplification and standardisation across our supplier base on contractual terms as well as an improvement in our payment processes aligned with the implementation of a single SAP system.

The increase in debtors that occurred in the first half was driven by an associated increase in sales volumes and a temporary delay in debtors' payments as a result of lockdowns in certain countries in late March that resulted in customers being unable to process their payments. Importantly we monitor debtors' balances closely and have no reason to believe payment commitments will not be met going forward.

As previously flagged, we expect cash conversion in 2020 to remain at around 70%, returning to between 90% and 100% in future years.

Turning to net debt and gearing on slide 18 - our balance sheet remains strong. Net debt at $1.9 billion includes the translation impact of $199 million resulting from FX on our US dollar denominated debt and the additional $282 million of lease liabilities which are now treated as debt under the new lease accounting standards.

Despite the inclusion of lease liabilities as part of reported net debt with effect from the 2020 financial year we continue to reduce our gearing which is now 33.7% and is comfortably within our target range of 30% to 40%.

The final slide I will talk today is slide 19 on our financial strength. The actions we have taken in the past to strengthen our balance sheet have positioned us well as we navigate these difficult times. We have strong liquidity available as demonstrated by the $1.2 billion of undrawn committed bank facilities and a further $1.2 billion of cash, noting that $300 million has subsequently been deployed as planned via the settlement of the Exsa acquisition on the 30th of April 2020.

Over the past year we refinanced and proactively pre-financed $855 million of committed debt facilities with existing Group relationship banks to extend our debt maturity profile. In February of this year in the pre-COVID-19 environment we extended a number of key facilities for periods of four and five years without any adverse changes in terms, at favourable financing costs. Our all-in cost of funds is currently 4.3%. Our average drawn debt tenor is four years.

Available liquidity and our refinancing activities position us well in terms of options to refinance our next bond maturity of $410 million due in October 2020. Our two debt covenants, namely gearing and interest cover, are comfortably within range.

Our focus in the near term will remain on cash preservation with a specific focus on inventory management. In this respect and balancing the requirements of both the Burrup commissioning and the single SAP go live we are planning some temporary site closures to maintain inventory at responsible levels given the reduced demand we are experiencing in a number of countries within EMEA, Latin America, Asia and Canada.

Whilst this will see cash flow benefits through a reduction in absolute inventory levels it will have an adverse impact on EBIT in the second half of the year as a result of lower recoveries through the manufacturing plants.

With the increase in supply chain costs associated with COVID-19 that is currently being experienced and that is expected to continue in the second half of the year we are focused on accelerating operating efficiencies and have placed a hold on discretionary spend. Additional focus areas include the utilisation of leave balances, the suspension of hiring activities, the review of contractor workforce and the use of furloughs. In addition we are also focused on a review of the operating model to accelerate the benefits of the single SAP implementation post go-live.

We are also looking at a reduction in overhead costs at manufacturing plants that are subject to temporary shutdowns. Finally, we continue to review our capital expenditure for opportunities for deferment. That said, we will not sacrifice capital related to safety or environmental obligations and will continue with the completion of both the Burrup plant and the single SAP system.

We expect to maintain our strong BBB investment grade credit rating and remain committed to maintaining a strong and flexible balance sheet as we go through these unprecedented times.

It is important to note that we entered this current COVID-19 crisis in a position of strength with ample cash and available liquidity. This also places us in a good position for our business to be ready to support growth and be ready for when customer demand returns to normalised levels.

With that I will now hand you back to Alberto. Thank you.

Alberto Calderon: Thanks Chris. Moving now to slide 21 and recapping Orica's strategy which centres on our core and high growth engines. We will continue to explore M&A activity that supports our existing core markets. We will expand our existing products into new applications and commodities. For example, the way we have expanded WebGen from underground to surface applications.

We will continue to optimise our existing product line as we are currently doing with WebGen 200 and continue product development in both ore extraction and monitoring and measurement across such products as BlastIQ and BulkMaster 7.

We will seek opportunities to supplement our customer offerings with technology capabilities including GroundProbe. We will invest in key upgrades of our systems, processes and product lines with our current SAP project and SKU rationalisation programs being familiar to all of you.

In summary, we will continue to take a disciplined approach to assessing opportunities in our core capital initiatives and growth engines where the asset base, market dynamics and financial returns justify further investment.

We now turn to slide 22. As a reminder, Exsa is Peru's leading manufacturer and distributor of industrial explosives. The acquisition makes us the number one player in the country, consolidates our position in the broader Latin American market and transforms our entire initiating systems, manufacturing capability, our worldwide capability.

I am pleased to confirm that we have now completed the acquisition of 83.5% of the shares and anticipate completing the tender process for the outstanding shares by the end of the calendar year as planned. So far everything has gone extremely smoothly and while Peru has been significantly impacted by COVID, being with most of the population under a night curfew and a day lockdown, we have been able to progress our plans in line with our schedule.

Last week we formally welcomed the Exsa team into the Orica family with a town hall gathering that I was able to address remotely. We have formed an integration management office comprised of experienced members from both companies which is executing our comprehensive integration plans. Under German Morales's leadership we feel confident that we are well prepared to hit the ground running and remain on track to meet or exceed the significant synergies that are expected to be achieved from the integration of Exsa with Orica.

Moving to slide 23 to recap the synergies. Central to the acquisition is Exsa's new initiating systems manufacturing facility at Lurin, Peru. Not only does it utilise state of the art technology, but it is considerably under-utilised. The facility currently manufactures around 11 million caps per year which can be increased to around 55 million caps per year and with no capital requirements can deliver an estimated net cost savings of around US12 cents per cap.

The plant also has further potential to increase capacity to approximately 60 million to 70 million caps per year which is enough to service Orica's demand across the entire Americas. Furthermore, the Lurin facility integrates the manufacture of almost every component of a detonator on site meaning we don't have to source them externally which will deliver significant efficiencies to Orica's local supply chain.

Once Exsa's assets are fully integrated into Orica's operation we expect to realise significant synergies. By the third full year of ownership we anticipate run rate synergies of around US$18 million each year with approximately only $20 million capital expenditure required.

These savings will come predominantly from material manufacturing synergies and reduce supply chain costs by improving Exsa's supply chain and optimising the combined IS production.

As you can see this is a game changer for operations in the region. Consistent with our strategic drivers the integration of Exsa into Orica will build on our strong foundations in Latin America, will strengthen our entire global initiating systems manufacturing footprint and will grant us access to the Peruvian underground market.

Turning now to the technology slide. We are continuing to see an increase in awareness and interest of our new technologies from both existing customers and new customers across the industry which is leading to growing customer uptake and adoption of our innovative solutions.

WebGen, the world's first fully wireless initiating system, capable of firing blasts through hundreds of metres of rock, air and water is continuing to gain traction in the market. We have now fired WebGen in over 750 blasts in both surface and underground mines around the world and have seen a fivefold increase in the number of units fired in blasts over the last 12 months.

Following successful initial trials at BMC Poitrel, the mine is now moving into a phased introduction of WebGen technology, a trend we are seeing among customers trialling the product. Customers are identifying and validating the value of this game-changing technology to their operations.

We are preparing to launch our next generation WebGen 200 product with significant improvements that will open new markets and possibilities. It will feature improved safety and reliability as well as enhanced security to support new and complex mining operations.

WebGen 200 will consist of several product variants opening new market applications and opportunities including large volume surface market and enabling the first stages of automation of blasting.

FRAGTrack uptake continues to grow globally and customers are confirming value delivered. Remote installations will enable adoption growth to continue through COVID-19. It is now operational in some of the world's harshest conditions across all continents.

We have also recently completed the first fully remote installation of FRAGTrack at a customer's site in Australia. This enables us to adapt to COVID-19 restrictions and continue to release the product to new customers without having to be on site to do so.

Our BlastIQ digital platform adoption is on track. It is enabling remote workers during COVID-19 and we are starting to see our customers integrate blast data into their operational systems to discover insight and make data driven decisions at a whole of mine level.

BlastIQ, our digital blast optimisation platform, is now active across 59 sites globally and delivering significant value to our customers. Our cloud-based BlastIQ technologies are also supporting our customers' remote employees and operations during COVID-19, providing them with digital licences and products to ensure they can continue to operate. Continuous improvement and releases are also supporting acceleration of adoption of our digital products.

Moving on to slide 25 - in the automation space we are making good progress and have advanced with two key partnerships to make the automation of drill and blast a reality. In November '19 Orica and Epiroc announced a collaboration partnership to deliver a semi-automated explosives delivery and charging system leveraging the unique capabilities of WebGen.

A prototype of the system is currently in development which will enable the explosives charging at the development tunnel face in underground mining. The partnership brings together experience and expertise from two global organisations with the goal of addressing the growing demand from customers mining increasingly more hazardous and challenging underground operations.

A customer-led collaboration between Newcrest, Orica and MacLean Engineering successfully applying the WebGen wireless technology to develop a tele-remote solution to safely remove human exposure and bring down drawpoints in block cave mines. That is a reality. Hang-up blasting is a major challenge for block and sub level cave mines where up to 30% of all drawpoints can be unavailable due to oversized material and exposes employees and equipment during removal.

The size of this problem we are solving for here in block and sub-level cave mines is significant. In one particular mine I can think of they have approximately 6,000 block drawpoints each year, 4,000 of which require blasting to open up. In a positive step forward, trials were successfully completed in March this year with the first fully mechanised drawpoint hang-up blasting solutions at Newcrest's Cadia mine in New South Wales, Australia, demonstrating the capability of drilling and charging up to eight blast holes remotely, using WebGen wireless technology. For Newcrest, this has improved safety dramatically, with no need to tie in detonators and eliminating exposure risk to employees. It has also improved production rates and enabled full automation through remote management of ore hang-ups and oversized rocks. The entire industry is moving rapidly towards a digital and automated future, and the introduction and adoption of WebGen, BlastIQ and FRAGTrack and other products signifies that we are serious about being a big part of the future. Let's move to outlook.

As we prepare for the COVID-19 recovery, our immediate priorities remain on continuing to keep our people safe and ensuring our manufacturing plants remain operational and our customer requirements continue to be met. We are running as fast as we can, while maintaining best practice principles and operations and setting ourselves up to hit the ground running, when the situation normalises. Earlier in the presentation, I spoke about the varying impact of COVID-19 on our business across the globe, and the expected impact to be somewhere between 10% to 15% below the expected volumes for the second half of fiscal year 20. We continue to analyse the impact of this pandemic on commodity production in the medium to longer term, in conjunction with external research. According to Wood Mackenzie, as of, Q1 2020, global production of commodities Orica is most exposed to is forecast to increase by an average of 3% between 2019 and 2021, resulting in a positive growth in material moved outcomes. Just to clarify, this is a post-COVID estimate, by WoodMac. Taking this 3% forecast and adding the continued benefit of the increases in strip ratios and our known situation with new and existing contracts, we expect Orica’s AN growth of around 4-5% between 2019 and 2021. This will be complemented by a number of factors. First Burrup, which, as I mentioned earlier, is now operational and will deliver a positive contribution in the second half. Based on our current contracts in the Pilbara regions, we expect the plant to be fully loaded in fiscal year 21, and with its strategic location alongside our customers will give us significant competitive advantage. A full deployment of 4S will be a game changer for Orica, giving us truly transformational operational insights and efficiencies. In addition, we will continue our focus on achieving efficiencies across the board, through improved manufacturing reliability, supply chain efficiencies, product and footprint rationalisation, streamlined overhead structure and cost reductions following the deployment of 4S. The full integration of Exsa will establish Orica as the number one player in Peru, Latin America’s highest growth market, transform our entire initiating system footprint, increase our exposure to gold and copper, and offer significant cross-selling opportunities to introduce our products and services to Exsa's broad customer base. We are firmly on track to integrate Exsa's operations, and we will meet or exceed the synergies by 2022. The commercialisation of our unrivalled technology suite will ramp up, affirming our leadership in this high potential growth area. We will increase penetration of our best-in-class technology, and alpha testing of our new generation WebGen 200 product is the start of our next phase of growth in this area. We will continue to improve our manufacturing sites, ensuring reliable, safe and efficient production. In summary, our platform to deliver continued profitable growth remains unchanged. That concludes our presentation. Chris and I are now happy to answer any questions you have. Thank you.

Operator: Thank you. If you wish to ask a question, please press star-one on your telephone, and wait for your name to be announced. If you wish to cancel your request, please press star-two. If you are on a speakerphone, please pick up the handset to ask your question. Your first question comes from Alex Karpos, from Goldman Sachs. Please go ahead.

Alex Karpos: (Goldman Sachs, Analyst) Hi team. Good morning. Just two on my end. First, if we could dive a little more into what you're seeing in the USA. Surprising to not see more impacts, there, on the business, just maybe (1) what you're seeing COVID-related, and (2) just a little more colour on that commentary around gold contract pricing in the period.

Alberto Calderon: Thanks Alex. Look, we are - we were also pleasantly surprised, and I can tell you this is March data - April data versus our plans before COVID. They have been very much on-track, on the United States. So, that has been pleasing. Our biggest impact has been Mexico. So, Mexico's about 25% of our EBIT of the region, and that has, with - as you know, all costs are almost fixed, in the short term, and so that's probably where we have been hit very, very significantly, and Quebec also hit us quite hard in April. So, we expect Mexico to continue to not perform, but we expect US and Canada to be close to normal quite soon. This consolidation of gold companies, again, and the leverage that they have on all suppliers is not a surprise. So, it's part of business as usual. Now, I do want to say something on the other hand. We have been able to renew worldwide, for the largest gold mining companies in the world, and copper mines, and in Australia for two to three years, now. So, all in all, we're quite happy with the performance of our marketing team, in that area. We've actually been able to increase our contracts in Australia, contracts we didn't have with one of the largest local producers, and in Peru, for example, all of our very large customers - all of that has been renewed, 100%.

Alex Karpos: (Goldman Sachs, Analyst) Thanks for that. Just a bit of clarification on the guidance, and more on Latin America, specifically. So, when you're guiding to your volume outlook and you look at a region like Latin America, where you've talked about Peru's restarting, Argentina's restarting, Colombia's coming later this year, is your assumption that, when you come out of those forced shutdowns, you go to that normalised kind of trend level, or will it take a bit of time to get to normalised rates, and is that what's embedded in the guidance, here?

Alberto Calderon: Look, it will take time. So, you can see, for example, take Colombia. So Cerrejon is restarting, but they are restarting at 10% of production, and it will take them months to ramp up to where they were. So, this guidance was particularly difficult, Alex, because of the uncertainty. If I look at what I'm seeing in May, we would think that by July or August, things would be much better. But there's some - many things you don't know. What happens if there's a second wave? And all of that. So, it's just very, very uncertain. Even though, in spite of that uncertainty, I think one thing is COVID and one thing is mining activities. We don't believe that we would see something in mining worse than April. So, that gives me some confidence that the guidance that we give has a reasonably high probability, let's say a P80. But, then again it will all depend on the quarantines of the different countries, so, that is our best estimate, as of today. It implies a slow normalisation, but then we are getting to around October or November, close to where we would have been, before COVID. That's the current conventional wisdom, and that sort of also illuminates the guidance we gave for 2021.

Alex Karpos: (Goldman Sachs, Analyst) Very helpful. Thanks, Alberto. That's it for me.

Operator: Your next question comes from Grant Saligari, from Credit Suisse. Please go ahead.

Grant Saligari: (Credit Suisse, Analyst) Good morning. Thank you. Alberto, I wondered whether you could talk a little more around Europe, and - I guess one of the things we're trying to think about is the impact on public spending and private spending, for that matter, on various forms of construction, and the impact that that could have on your quarrying volumes, there, so I wonder whether you just talk a little bit about what the exposure is, there, to quarry, in Europe and the degree to which, I guess, the cost structure could potentially flex to mitigate some of that impact.

Alberto Calderon: Look, the European and Middle East region, it's about 30-40% of the whole region. If you take the first three weeks of April, it was very badly hit in Europe, not surprising. But, in the last week of April, and the beginning of May starting to see, actually, some activities in several countries in Europe. One point we haven't incorporated into our forecast, but there's a lot debating this is infrastructure. We do hear that governments in the United States in particular, in Canada, and in many places in Europe, will have to - sort of, compensate for the unemployment, will have to increase infrastructure spending. So, that would not be in our current estimates, but that could really help the normalisations, and, as you say, Europe is basically quarries for construction and infrastructure and tunnelling. So, we would be very much depending - to have a full normalisation, it would have to pass by increases in infrastructure spending, we would think.

Grant Saligari: (Credit Suisse, Analyst) And Mexico has been a problem, and it's – a factor that is completely outside your control, but could you talk - are you able to indicate approximately what the level investment that Orica has in Mexico, and could this be a long-term situation, where there is either any risk to the capital that's invested there, or that the cashflow gets to a point where it's - you have to reconsider the position of that market?

Alberto Calderon: Look, the level of investment is very small, and Chris could - I will ask him to elaborate on the level of investment in Mexico. It has been hit by COVID, mining is not ever - it's not that big, so, it's not deemed as essential, we do expect - and part of the guidance - Mexico is about 25% of the EBIT of the region, but it doesn't take much to wipe that EBIT with 20% down or 30% down in volumes and you sort of wipe that EBIT up. So, that's what we've seen in April. So, very difficult to call. Basically, our assumption is that for many months, Mexico still stays doing not well. What we will do, and what the president of North America is really tasked doing is - if we start seeing in eight or ten weeks the situation not improving, we can pull fixed costs down relatively quickly, and we will do that. So, we will probably give it some weeks, but we have no let's say patience to start, for example, bleeding cash or anything, and there are levers we can pull to reduce that pretty quickly. So, that's part of the analysis that we're doing. It may not give us much profit, but it will not lead us to a, let's say, negative cash depletion. Those are all works that are in progress, as we speak, but now I'll pass to Chris to talk about...

Christopher Davis: Yeah, so, just on the assets that you spoke about, we don't have a significant capital investment. What assets that we do have on the ground are by and large movable assets. To the extent that they were moved out of Mexico, we can redeploy them to other part of the business. Then, Alberto's right. We've already identified what operating costs we would take out, if the need arose, so, we could respond fairly quickly.

Grant Saligari: (Credit Suisse, Analyst) Okay, that's helpful. Just one quick one, if I could, just Yarwun tonnes. Now that Burrup is up and operational. Has there been any change, I guess, in the opportunity to place the freed-up tonnes in Yarwun, now?

Alberto Calderon: Our contract profile, right now, is quite good, in the sense that we have very high percentage of contracts contracted almost 100% for the year and for next year about 85% contracted, but a lot small-medium sort of competitors are coming up. We will use those funds to compete in that market. Probably the disappointment is that those 40,000 tonnes that we lost in the east would have come from Yarwun, and so it's been below what we would have wanted. The capacity of Yarwun for 2021 would be around 450, 470 and that's where we're preparing it to be. At the same time, want to make sure that we have a good understanding of prices and next best alternatives and all of that. So, we are preparing with Burrup now coming in, we are preparing to displace some of those tonnes into the market but in a thoughtful way.

Grant Saligari: (Credit Suisse, Analyst) Okay. Thank you. I appreciate it.

Operator: Your next question comes from Richard Johnson from Jefferies. Please go ahead.

Richard Johnson: (Jefferies, Analyst) Thank you very much. Good morning, everybody. Could I just start with a question for Chris please. I'll give you a rest, Alberto. Chris, I apologise if I have missed this bit. Could you take me through, or step me through all the moving parts of AASB 16 on the first-half numbers?

Christopher Davis: Richard, the 2019 key numbers that are presented there remain the same as what we presented last year, so there's no impact to 2019. When you look at 2020, how you've got to look at this is there's $35 million of operating lease expenses that were previously above EBITDA that now gets reclassified. You get an increase in depreciation of $33 million and an increase in interest of $5 million.

Now, that doesn't quite balance out and that's really a function of the fact that the depreciation and amortisation on the assets that we've recognised as linear, whereas the impact on the interest is weighted towards the front-end of the lease arrangement. So, in the first three years of the leasing standard we actually get penalised at an NPAT level and in the years after that it starts improving, if that makes sense?

Richard Johnson: (Jefferies, Analyst) It does, and I've got that. It's really helpful. Thank you. Just two quick questions on the operations. Alberto, I'd like to return to the US quickly, and I'll be interested to get your view on what, or how you're seeing US coal in particular and what that means for your JV partners.

Alberto Calderon: Yeah. Look, at a macro level, in the US we are up actually in volumes but that’s because the copper, the gold, the quarry sectors have been very strong. You are right that we are beginning to see some decrease in coal. The one that is mostly feeling it is Minova. Minova in April, and it will probably, we flagged it as in May - the underground coal is particularly the first thing they cut is this - like exploration. So, it's a similar level of thought in Minova products. We're seeing more reductions in those type of expenditures. That's basically it. All in all, when I take US, it is still positively growing.

Richard Johnson: (Jefferies, Analyst) Got it, that's great.

Alberto Calderon: That's on the US. I want to comment also Richard, to thank you for your question to Chris because it makes his day. He loves these topics of accounting and all of that, so thank you for that.

Richard Johnson: (Jefferies, Analyst) That's a pleasure. Then a similar question on Bontang, and I was just curious as to how you're seeing that and whether you've changed or are taking a different view on potentially increasing the capacity there.

Alberto Calderon: Bontang actually - I think that was the other one that was up and very high OEE in the 90%. Look, with so much expenditure we are still going to increase that by 25,000 to 30,000 but at this stage, probably that was one that will slow down a bit in terms of when we look at all of our capex. As probably Chris said, we prioritise 4S, Burrup and any sustaining capex but that one was pushed up a little; but we're still keen on increasing de-bottlenecking that by 25,000, to 30,000.

Richard Johnson: (Jefferies, Analyst) Thank you. That's it from me and good luck. Thanks.

Operator: Your next question comes from Sophie Spartalis from Bank of America. Please go ahead.

Sophie Spartalis: (Bank of America, Analyst) Good morning, team. I might ask another accounting question to Chris given he likes it so much. Just in terms of the cash conversion, 62.9%. You talked through some measures to improve that. Can you just maybe expand on those points a little bit more, as to how you think you can get to an average of, I think you said 70% in FY20 and then up to 90% in '21?

Christopher Davis: From the 62.9% to 70%, that's really going to be a function of taking back the debtors that didn't pay at the half-year and there will be some tightening of the inventory. As I said, we were going to slow down the plants so that should get you back up to the 70%. Then going forward, once we have the stabilised level from a creditors perspective that I mentioned, you won't have further absorption or decrease in creditors balances; plus you'll have inventory back at the right level.

So, theoretically in a stable market you should be generating about 90% to 100%; 100% in a stable market, 90% in a growing market. Did that answer your question, Sophie?

Sophie Spartalis: (Bank of America, Analyst) Yeah, that's fine. Just in terms of the debtors, can you maybe provide some colour as to which region you're getting impacted by most?

Christopher Davis: In terms of the lockdowns it was predominantly in Latin America. We had some impact in Europe and we had some impact in Canada and a little bit in Asia to some degree; but those payments subsequently came in shortly after year-end. We continue to watch our debtors balances every week to make sure that we don't have any risk as a result of the COVID situation and we monitor it very closely with our customers.

Sophie Spartalis: (Bank of America, Analyst) Okay. Then just in terms of COVID Alberto, just in terms of any lasting impacts; you talk about the expectation to normalise by October/November this year, with FY21 back to normalised levels. Can you see, whether it be positive or negative, any lasting impacts coming through that we need to consider?

Alberto Calderon: Look, at this stage we don't see any but it all will depend on, really on what happens to mining. Let me tell you by sector. I think iron ore with Vale issues and all of that, I think that should be fine. Copper is interesting. You would have seen all the forecasts, copper was getting back to probably six months from now at $2.80 or something like that per pound and many have shifted up to around $2.20 but as long as copper is - I mean for six months, above $2.00 we don’t foresee any problems in the sense that the mines are still, most of the mines, I'd say 90%, would be cash positive and hence, they would remain open. So, the issue is if in any sector the price goes to such levels for six months that the mines start closures, in which case we would be affected. At this stage we would not see that but that is going to be really the secondary effects of COVID and what we don't know.

One thing that was encouraging; if you saw JS’s comments on Rio Tinto, China getting back to normal. That's what we see too, and China is 50% of the market, of the world market of all of these. Then Asia in particular, would also be on thermal coal, is very, very important for thermal coal in particular. So, the long answer is we monitor these very closely but at this stage, if we believe that the prices reflect the expected views of the next 12 or 24 months, we would be fine. Hence, there would be enough end demand so that the operations remain open.

Now, exploration, expansions, investment; at this stage, probably would go much slower than usual but the ongoing operations at this stage seem to be going as business as usual. When I talk to the CEOs of the large companies they are very, very committed to keeping the lights on and to keep producing as much as they can. So, that's as much as we can tell you today but I can’t tell you that in a 10% world something could happen in some of these sectors; but in a P80 world, if I can put it that way, I think we're fine.

Sophie Spartalis: (Bank of America, Analyst) Okay. Then on the positives, in terms of the way you've looked at this internally, in terms of the cost outs, is there any sustained cost outs or reprioritisation of factors that you can see Orica benefiting from the way you've dealt with the virus or the way you've dealt with the situation?

Alberto Calderon: I think the working from home and the teams that work and all of that has been very, very interesting. There is different teams and different results and the productivities in some places have actually increased. So, we do have some visibility and it has given us some important insights. I probably won't - I'd like to comment things when we do them and not that we are going to do them.

As you may have heard Chris say, we are completing our 4S. That's a big investment and it will increase our efficiency and our effectiveness and that will entail some implications. There's a lot of work around how can we improve after going live. That will happen sometime in the third quarter of this year and then we will start seeing the benefits in 2021. I've spoken probably about it in the past. We are thinking a lot about that but I'd prefer to say things when they are done.

Sophie Spartalis: (Bank of America, Analyst) Okay. Just a final one on Burrup. You mentioned that you will get to full capacity by FY21. Does that mean that it's 100% or do we need to factor in the 330,000 tonnes or do we need to factor in shutdowns?

Alberto Calderon: Look, on average these plants, they never run at 100% but I would say on average, that plant should be producing between 20,000 and 23,000 tonnes per month. That's the expectation and we should get there within three months, is the expectation. So, after that, that's what I would expect from the plant. There are still some works to be done on the plant. There is Stage 3 remediation and after that Stage 3 remediation that will last around six months, probably we would like that plant to be at 25,000; but for now, after three months, something between 20,000 and 23,000 is where I would expect the plant to be. We can sell those volumes today. We don't have to wait until 2021. The demand is there today for that. So, when we talk about that, is that in 2021, let's say, you could take 21,000 or 22,000 and multiply it by 12 and that's what we would expect Burrup to produce in 2021.

Sophie Spartalis: (Bank of America, Analyst) Okay. Clear. Thank you very much.

Operator: Thank you. Your next question comes from Sam Teeger from Citi. Please go ahead.

Sam Teeger: (Citigroup, Analyst) Good morning, Alberto and Chris. The first question. Can you please provide a bit more insight around the softness in EBIT per tonne in APAC and Asia. Besides for the gas prices, what other additional costs were incurred during the period and when do you expect both the gas prices and any of these other costs, these cost increases to start falling away?

Alberto Calderon: We had in Australia, the first one just was a pure accounting issue. That was the China JV. That was $7 million that was not accounted any more in the Australian numbers. So, that's the first one. Then we did have the gas increases and those contracts, you don't have an immediate pass through. So, we have flagged that but that hit us about $10 million in increases in gas that we have not been able to pass them through. So, that is a second one.

Then we had the bushfires and the east coast high margin tonnes, about 30,000 to 40,000 tonnes. You will see that reciprocated probably in the reports of the miners and all the heavy rains. That was January, February; basically January and February. When you factor all of this, let's say, we try to look at it but the margins, the see through margins of all of this, and we would have actually increased the EBIT margins.

Probably one thing that is important. When you see the gas cost go up, let's say that we remain, EBIT is the same in the long-term but revenues go up because of the pass through. So, the EBIT margin will go down even though the EBIT is unaltered. So, that's just a factor of the very sizeable component of the gas cost in the formula. That's not necessarily a bad thing, it's just how it's calculated.

Sam Teeger: (Citigroup, Analyst) I understand. Just wanting to clarify the guidance. When you're guiding for second-half '20 volumes to be 10% to 15% below your pre-COVID expectations, is it fair that your previous expectations were 5% growth, so we should be expecting Group second-half '20 volumes to be down between 5% to 10%?

Alberto Calderon: Look, in numbers it is about north of 300,000 tonnes that we expect to lose versus a 5% increase.

Sam Teeger: (Citigroup, Analyst) Got it. Great. Then more of a medium to long term question, just how are you thinking around trading off volumes versus price over the medium to long term? Given you probably have joint goals of market share but also profit?

Alberto Calderon: Look, we have a very rigorous view on what the next best alternative is and we are market leaders. So we will privilege obviously profits over anything else. So we will lose a contract if it's just not the right thing but up to now, I would say that our track record in the last six months on contracts is probably on standard. So way north of 90% of contract retention. So I'm pretty happy how that has been and that contract retention has been not a price issue but more based on technology and others. We did have, as I flagged, the only place where we had issues was with the big gold miners and that's just because of the clout that they have in they did worldwide renegotiations.

So we did lose a little bit of that in some - but it's part of business as usual and I said a long time ago that if that happens, we just have to swallow it.

Sam Teeger: (Citigroup, Analyst) Got it. Thank you.

Operator: Your next question comes from Nathan Reilly from UBS. Please, go ahead.

Nathan Reilly: (UBS, Analyst) Good morning, just a quick one around the updated second half volume guidance. I'm just curious to try and understand the implied narrative there around Australia in particular, just in terms of what level of demand disruption you'd be anticipating in Australia in the second half and also in the broader APAC region and I guess also in the context of Australia, the extent to which you'd be comping those weaker - or weather-related volume disruptions from the first half?

Alberto Calderon: Just to be clear you have the Australia, Asia. If you take only Australia, we have seen no disruption because of COVID. We have seen costs going somewhat up, just logistics costs, supply chain and all of that but our volumes in April and in May, are expected to be on plan pre-COVID.

United States, it's the same thing. We are on plan in April and May, pre-COVID. So that's quite good. What it tells you is, that the volumes in other places are much more than, the 10% or 15% is an average. Those 300,000 tonnes that I said before are being lost, obviously, in many other places that are not those two.

You take Asia, for example. Asia is roughly 25% of the EBIT of the Australia Pacific Asia region and there, we have today, India closed. We have our operations in Limay going at 30%. We have Oyu Tolgoi even though it's open, it's not at the level it was and we're having actually our crew in Oyu Tolgoi has been four weeks stranded over there.

So there's a lot, even though we sort of have a relatively calm demeanour, there's a lot of mad paddling underneath like the swan. So there's a lot of very good work done by our teams in Asia under very difficult situations.

You go then to EMEA, you have Africa also we are facing significant issues in many of the places. In Europe, April, first weeks was very bad and then it started to get better and then we have in North America, Mexico, continuing to be bad. South America starting to get better in Colombia, in Peru, but Argentina still pretty much closed - it's just we thought it would be very difficult to give out, you know, forecast region by region. It becomes impossible.

I think by the laws of large numbers, I'm sort of confident that we will end up between that 10% and 15% volumes. We felt that was just a better way of dealing with it and we sort of have learnt to understand how you guys model things. I would not put too much science into that except 300,000, our average EBIT margins and then maybe 20 more million in terms of supply costs.

Nathan Reilly: (UBS, Analyst) Okay, thank you. Thanks for the feedback there and also just picking up the comment in relation to slowing down the plants to manage the inventory build. Can you just give us a bit more detail around what the plan is around those plants? How long you think you'll be needing to slow those down for and whether there's any opportunity to bring forward any shuts or maintenance?

Alberto Calderon: So this is more around initiating systems and not around continuous manufacturing. In initiating systems, we have some plants that we're operating at capacities of around 60, 65%. So when we see the demand go down, there's probably an opportunity to ramp up some plants and then ramp down some others. Then furlough people and that - our unit costs may go up in some places but our cash, it's sort of a perverse thing that we reduce inventory but our unit costs go down. So, from a cash perspective, it's good but our EBIT goes slightly down and - right now, we are privileging in that scenario, probably cash preservation over anything else. We think it's in the best interest of the company. It's not massive but that's what we're trying to do.

The other thing that is happening is with Exsa coming into play and this may accelerate part of the synergies in the sense of some plants being permanently closed. That was factored in and spoken about, about the synergies in Exsa. So there are opportunities but this is just work that we are just starting to do.

Nathan Reilly: (UBS, Analyst) Okay and picking up that point around cash management, just in the context of the interim dividend with the payout ratio coming in below your typical target range, appreciating the logic behind that just given the uncertainty of what we're facing at the moment but if that level of uncertainty does subside through the balance of the year, is there potential from the full year perspective for that payout ratio to normalise towards your typical payout ratio? For that to be more of a catch-up coming through on the final dividend?

Alberto Calderon: That's absolutely the intention and the plan. We debated this long and hard. It was an interesting discussion and I have to say, we got a bit worried when we saw all the big banks cancelling the dividend and we thought, well they have a strong balance sheet and they're cancelling their dividend then what should we do?

But we were confident, as we said before, in the strength of our balance sheet. In the strength of our cashflows and we recognise that there was uncertainty. So the message that we wanted to send, just to send it explicitly to our shareholders, is we understand how important the dividend is. We just want to continue to pay this dividend and if things go as we are forecasting, that means a normalisation of mining, yes, the plan would be to get back to the levels of normality and much higher payout ratios in the month of November.

Nathan Reilly: (UBS, Analyst) Okay, thanks for taking my questions.

Operator: Your next question comes from Scott Ryall from Rimor Equity Research. Please go ahead.

Scott Ryall: (Rimor Equity Research, Analyst) Thanks - thank you very much. Alberto, you commented on some of the lost volume was with respect to gold companies doing global contracts. Have I heard that correctly?

Alberto Calderon: It wasn't lost volumes, it was lost prices in the contracts.

Scott Ryall: (Rimor Equity Research, Analyst) Oh okay, that's fine. That answers my question then and then the second one I had is, on the SAP implementation, you've obviously highlighted there's a fair bit of capital that has gone into that project internally. Where will we see the benefit come through - and you mentioned a number of things in a qualitative sense - in a quantitative sense and maybe this is a question for Chris but where will I see it come through in your P&L, your cashflow? Those sorts of things? Can you just give me some colour, please?

Alberto Calderon: Look, I've said before, I prefer to talk about things when we have done them. I can tell you the following, which is we will spend around $300 million in that system. Like any investment, it needs to make returns that say, will be north of 15%. So in two to three years, we should be seeing that return in the EBIT and we expect to see some of that return already in 2021.

I, for some reason, obvious reasons, maybe they're not so obvious, I don't want to give more colour at this stage but I can give you the magnitudes and our commitment to get that return.

Scott Ryall: (Rimor Equity Research, Analyst) All right, yes, that's not so obvious. If I look at your major two,- just on a consolidated basis - on your major two cost items, raw materials and inventories, I wouldn't expect a huge impact there and then your employee benefits expenses, so around about half of that amount because they're the big two cost items by quite some way.

Presumably to get anywhere near a 15% return, you have to be hitting well both of those cost lines. Is that - just thinking at it from a high level - is that a fair assumption to make, that your revenue productivity ratio or something like that, should be getting better over time as you become more efficient utilising the systems that you're putting in place?

Alberto Calderon: The big benefits will be, obviously there's benefits on supply chain. There's benefits on procurement. There's benefits around planned maintenance. We're also - our systems are from the 1990s. They're 40 years old. There's a lot of manual work across the world in our reporting. Our reporting is pretty poor.

So the level of productivity and efficiency that we will get in how we do things will increase significantly. We will probably do more with less, but at this stage I can only probably tell you that we have a lot of detailed understanding of how we will get those numbers and that we have a commitment to the Board to deliver them.

Scott Ryall: (Rimor Equity Research, Analyst) Yes, okay. Great, thank you. That's all I had.

Operator: Your final question comes from John Purtell from Macquarie Group. Please, go ahead.

John Purtell: (Macquarie Group, Analyst) Good morning. Just had a few quick questions. Alberto, just to clarify, Burrup production in terms of the second half of '20. I think you said greater than 100,000 tonnes for the second half? I just wanted to clarify that.

Alberto Calderon: Yes, that's what I said. So John, it just came in at the beginning of May. As I said before, it produces between 20 and 23 so north of 100 for five months.

John Purtell: (Macquarie Group, Analyst) Thank you and again, just your comments on APA - you've probably answered this but are you seeing on APA, are you seeing any underlying slow-down in demand due to lower coal prices?

Alberto Calderon: No, I'm sorry. That was not the meaning. Thank you, let me clarify. No, we're seeing no reduction in demand. We're actually seeing increases in demand. In the United States, there's an impact but not in Australia. We are seeing up to now, no reduction in demand. Australia, actually as I said in April and our expectations of May are above - slightly above what we call our S&OP, which is our forecast for the month.

John Purtell: (Macquarie Group, Analyst) Just following on APA. You've talked in the past around the potential for price improvement as your book opens up in fiscal '22. Do you still see an opportunity to improve net price realisation locally in light of where IPP is?

Alberto Calderon: We do, we definitely do. As we renew contracts, the current price where it is, it's much higher than our average contracts so yes, we do but that's - as I said, it's got to be only small - relatively small percentage on '21 and a much higher percentage in '22.

John Purtell: (Macquarie Group, Analyst) Thank you and just a last one. You've obviously outlined the volume impacts you expect in the second half. How should we think about potential offsets in terms of additional cost out or other mitigating factors? You've obviously called out some overhead reduction in the past. Is that being accelerated? Shall we - should we expect to see some form of mitigation there?

Alberto Calderon: Okay, Chris will help us with this one.

Chris Davis: John, as I said, we would have some impact from the lower recoveries in manufacturing and then we've got some increased supply chain costs as you'll appreciate. A lot of the stuff that we're putting on hold is really stuff like discretionary spend. Putting people on furloughs, pushing leave forward. Those kinds of things. Those are temporary in nature because they are short term.

What you should expect is about half of the negative impact through manufacturing and through supply chain is offset by those benefits, if that makes sense?

John Purtell: (Macquarie Group, Analyst) Got it. Thanks very much.

Alberto Calderon: Thank you, John

Operator: There are no further questions…

Alberto Calderon: …thank you all for your time today.

End of Transcript