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Operator: Thank you all for standing by, and welcome to the Orica Limited 2021 Full Year Financial Results. At this time, all participants are in a listen-only mode. After the speakers' presentation there'll be a question-and-answer session. To ask a question at that time, you will need to press star one on your telephone. I'd now like to hand the conference over to Chief Communications Officer, Ms Delphine Cassidy. Thank you. Please go ahead.

Delphine Cassidy: Good morning, everyone, and welcome to our full year 2021 results presentation. Thank you for joining us today. In the room with me, I've got Sanjeev Gandhi, our Managing Director and CEO, and Christopher Davis, our Chief Financial Officer.

Before we start the presentation, just a couple of points, if I may. We have extended today's session to an hour and a half, to give you enough time to talk and to raise questions on our strategy, and to discuss our results.

Secondly, before I hand over to Sanjeev, I'd like you all to just take a quick minute to review the disclaimer on slide 2.

Thank you. With that, I'll hand over to Sanjeev.

Sanjeev Gandhi: Thank you, Delphine. Good morning, everyone. Thank you all for joining. Let's start.

When I presented the half year results in May, I said that I would take the next six months to stabilise our core business and, in parallel, to work with the executive team on our refreshed strategy, and would present to you, our investors, at the full year results. I'm pleased that we're able to do both of that today.

For the next 60 minutes or so, we will talk briefly about the performance of the 2021 financial year and then spend most of the time on our refreshed strategy, followed by Q&As.

Moving to slide 5. I've spent the last six months uncovering the competencies and strengths of our business and identifying opportunities for growing our business profitably in the future.

In May, I said that the fundamentals of the business remain sound, and this has been validated in the second half of the last financial year. Orica is the global leader in mining blasting. Our core business in on-mine blasting and detonator supplies, which has been built over the past 148 years, remains strong. But today, Orica is more than that.

We are the leading quarry and construction blasting and services provider in a highly fragmented but attractive market. We are a leading provider of blasting and orebody intelligence software, fragmentation and stability monitoring, and we are a leading provider in mining chemicals, particularly cyanide, where our product is trusted by gold miners around the world.

Our refreshed strategy has been built on exploiting the strong competitive advantages in each of these four verticals to drive profitable growth and doing it sustainably, as we mobilise the Earth's resources with our customers. I will go into detail after we have covered our 2021 performance.

Turning to slide 6. At Orica, nothing is more important than safety, and we are pleased to report that once again we had no fatalities across our operations. Our focus has remained on the health and wellbeing of our people. We continue to provide support for employees and their families in areas most impacted by COVID-19, and sadly, we lost 12 colleagues to COVID-19. We extend our deepest condolences to the families and friends of our colleagues who lost their lives.

In 2021 we continued to focus on delivering on our sustainability commitments. We are pleased to report a 13% reduction in our combined Scope 1 and 2 greenhouse gas emissions from the 2019 baseline and have now set a new zero ambition by 2050.

In October, we completed the installation of tertiary abatement catalyst technology at our Carseland plant in Canada and have announced our Kooragang Island decarbonisation project for tertiary abatement, in partnership with the New South Wales Government and Clean Energy Finance Corporation.

Importantly, the executive compensation for myself and my relevant ExCo members now includes the climate change metric. I will go into more detail about our approach to sustainability later in the presentation.

Turning now to our financial and operational performance on slide 7. The second half was focused on delivery. Our key focus was on stabilising the core of our business and building on the key priorities that I spoke about at the half year results. The adoption of our products and solutions from our new technology portfolio has delivered to plan with a good proportion of this from our digital suite of products, which I will talk more about in detail later.

Exsa has now been successfully integrated and is delivering in line with the original investment case, so we have achieved business as usual. Burrup is fully operational and producing good quality product, so we have again achieved business as usual.

The team have worked hard on reducing the number of SKUs by over 70% since 2018, and the previously announced closures of the Minden and the Tappen initiating system plants have been completed. I am also pleased to report that good progress has been made on stabilising the new ERP system, and we will start seeing the benefits come through from FY2023.

All of these measures give us a strong foundation for our refreshed strategy and sound platform for future growth.

Moving to slide 8. Critical to delivering on our refreshed strategy will be a relentless focus on improving profitability through three key areas. Firstly, pricing discipline. We have already commenced lifting prices as contracts come up for renewals, and obviously also for new contracts that we will bid for. This will reflect the value we provide to our customers and the security of supply we are able to offer from our global network.

Secondly, ongoing reduction in our cost base. In the second half we started to reduce our headcount, mainly in functional roles, which account for the restructuring charges that Chris Davis will talk about later. As we embed more efficient ways of working, we will focus on continuously reducing our cost base moving forward.

Finally, getting the benefits from the new SAP system. It has been a substantial investment for Orica. We will leverage the integrated system to enable better operational and commercial outcomes. This is over and above the cost reduction that I just spoke about.

Our global reach is one of our most competitive advantages, but there are some countries that are not strategically aligned or could be serviced through alternative channels. Based on our review, we will exit our physical presence, including offices, in up to 10 countries, with some countries already exited over the last six months.

Good progress has also been made in the disposal of some of our non-core land holdings, and Chris Davis will cover this later.

Moving on to slide 9, for a summary of the FY21 financial results. Our financial performance this year has been disappointing due to a very challenging first half. We have felt the impacts of a strong Australian dollar, ongoing trade tensions with China, and the ongoing impact of COVID, mainly in the first half of the year. All of this contributed to underlying earnings before interest and tax decreasing by 30% to $427 million.

Following our announcement in September, we booked $382 million after tax in individually significant items, leading to a statutory net loss after tax of $174 million, compared to a profit of $82 million in FY2020.

We maintained a very disciplined approach to our balance sheet and capital management, while stepping up our cash generation, and controlling our levels of debt and gearing.

The final ordinary dividend of 16.5 cents per share, unfranked, brings the total dividend to 24 cents per share, down 9 cents per share compared with FY2020, reflecting a payout ratio of 47% of underlying earnings.

Gearing of 34.6% remains within our target range of 30% to 40%.

Chris will go through the financial performance in more detail shortly.

Turning now to the regional performance, on slide 10, I will keep this at a high-level summary, because there's a lot more detail in the appendix.

Australia Pacific and Asia. Two key factors contributed to the 25% reduction in EBIT this year, firstly, the impact from disrupted thermal coal trade in the first half. It was a combination of lower volumes and also the under-recovery of continuous manufacturing plant fixed costs. This was partially offset by growing demand from metals customers, both in the Pilbara and on the Australian East Coast.

Secondly, with global ammonia prices increasing by around 85% in the second half of the financial year, there is a temporary lag in the recovery through our rise and fall mechanism.

North America. Operationally, this region was sound, albeit faced with ongoing political and economic challenges in Mexico, and labour shortages in the US and Canada. The 35% EBIT decline on the pcp was largely driven by the non-repeat of carbon credits in 2020, temporary external sourcing costs, and adverse foreign exchange impacts.

Latin America. The 25% reduction in EBIT in the region was due to several factors impacting business in the first half, including the significant downturn in the Colombian coal market production, strikes in Chile, unfavourable foreign exchange movements and freight cost increases, noting that all ammonium nitrate and cyanide in this region is sourced offshore, and not manufactured locally.

As mentioned earlier, the Exsa business is now successfully integrated, and performing well, to plan.

Europe, Middle East and Africa. EBIT in this region was 61% lower than last year, reflecting a soft first half, followed by a much improved second half. You will recall that the first half performance was impacted by significant second and third waves of the COVID-19 pandemic, which affected higher margin markets of Europe and the Middle East, as well as unfavourable foreign exchange movements.

While these factors improved in the second half, margin was impacted by a substantial increase in sea freight costs and a shift to lower margin products in Africa, as customers sought to cut costs in the first half.

Pleasingly, across all regions, firstly, there was increased adoption of Orica's new technology, particularly our digital solutions, and secondly, there was improved performance in quarter 4, giving us good momentum into the new financial year.

Moving now to Orica Monitor and Minova, on slide 11. Our GroundProbe business celebrated 20 years this year, and continues to grow from strength to strength. Sales were higher than the pcp, driven by increased demand for radar systems, mainly in Brazil and Africa, the introduction of new products and remote geotechnical services. EBIT improved on the pcp from positive mix, as high margin leases and premium radar sales increased.

Minova performance was solid, despite weaker thermal coal production in the first half in Australia and the Americas. Growth was led by increased demand, most notably in Canada in hard rock. The business remains EBIT and cash flow positive, with positive momentum going into the future.

I will now hand over to Chris for a review on the financial performance.

Christopher Davis: Thanks, Sanjeev. For clarity, the numbers on these slides presented today include Minova, whereas in the financial report, Minova has been treated as a discontinued operation.

With that in mind, looking at the key financial metrics on slide 13, as we mentioned at our half year results in May, the first half of 2021 was challenging. Specifically, a strengthening in the Australian dollar, which resulted in lower foreign earnings; China trade tensions, which impacted Australian thermal coal exports; the ongoing uncertainty associated with COVID-19; and further political and economic uncertainty in Latin America.

Despite these external factors, the second half of the year has seen a strong improvement, driven by stronger sales volumes of ammonium nitrate and EBS, and strong contributions from Orica Monitor.

Looking at the full year results for 2021, sales revenue of $5.7 billion was up 1% from the prior period, with improved performances from Orica Monitor, and the full year contribution from the newly acquired Exsa business in Peru.

At $796 million, underlying EBITDA has decreased 16% over the comparable period. Underlying EBIT of $427 million has decreased 30%, which I will outline in more detail on the following slides.

Underlying NPAT of $208 million is 30% below the prior period, driven primarily by the lower earnings. Statutory net loss after tax of $174 million has been impacted by after-tax significant items of $382 million, which I will outline in more detail on the next page.

At 51.2 cents, earnings per share is down 24.4 cents on the prior period, driven by a lower underlying NPAT. The final dividend of 16.5 per share will be unfranked and represents a payout ratio of 50%. We implemented our revised dividend payout ratio policy in 2016, in which we committed to shareholders to pay 40% to 70% of underlying earnings as a dividend. I am pleased to report that despite the challenges and uncertainty, we have maintained the dividend payout ratio policy over the past five years.

Turning to slide 14, entitled Individually Significant Items. On 29 September we communicated to the market several items that were not in the ordinary course of business that were expected to impact the statutory reported result. These include the sale of two land holdings in New South Wales that generated an after-tax cash profit of $118 million, with the full $140 million in cash proceeds received in September; a continuation of the global restructuring project, resulting in $33 million in after tax costs being recognised during the period; the previously reported $28 million increase in provisions for environmental remediation; a non-cash impairment of the goodwill in the EMEA segment of $162 million; and finally, following the impairment recognised by our joint venture partner, Yara, we have reviewed the carrying value of our 50% shareholding in the Pilbara joint venture, resulting in a non-cash impairment of $277 million, which includes a full impairment of the goodwill associated with the investment.

Given the materiality of these items, these one-off costs have been accounted for as significant items, and do not form part of the underlying result.

Turning to the EBIT bridge on slide 15. The impact of the strengthening Australian dollar on the translation of our foreign currency earnings has had a significant impact, compared to the prior period. By way of example, the Australian dollar to US dollar average exchange rate for 2020 was approximately $0.68, compared to $0.75 for 2021. Considering the basket of currencies in which Orica operates, this has had an adverse impact of $42 million in the 12 months to 30 September, with the largest impact in North America, Latin America and Asia.

The increase in costs associated with the new SAP system of $32 million includes increased licencing and maintenance costs, infrastructure support, as well as incremental depreciation.

Ammonium nitrate sales volumes, at 4.1 million tonnes, includes 327,000 tonnes of sales from the Exsa business, which was acquired in the second half of the 2020 financial year. Excluding the lower margin Exsa tonnes, sales volumes for the year decreased compared to the prior period, which resulted in an adverse volume variance of $31 million.

This reduction in volumes was driven by a disruption in thermal coal trade flows with China, which has impacted the higher margin Australian thermal coal business; the non-repeat of high margin spot sales to competitors that occurred in 2020; reduced mining activity and customer mine closures associated with COVID-19 in Colombia, Africa, Mexico, Indonesia and parts of Europe; social unrest in Peru and strikes in Chile, which temporarily reduced mining activity at certain customer sites; and delayed sales of cyanide in the latter part of the year, as a result of constrained global shipping capacity.

This was partially offset by new contracts in the Australia East Coast metals market, and increased demand from the lower margin Pilbara region.

The impact of significantly reduced customer demand in the first half of the year resulted in reduced throughput, adversely impacting manufacturing fixed cost recoveries at Kooragang Island, Yarwun and Bontang.

Additionally, increased insurance costs have been incurred, following an incident at the lead azide press at the La Portada plant in Chile in the first half of the year which, together with the lower manufacturing recoveries, has resulted in an adverse variance in manufacturing of $22 million against the prior period.

Net mix and margin decreased by $40 million, with impacts felt across all regions, due to the previously mentioned and expected reduction in carbon credits in Canada, contract pricing in Latin America and Australia, and increased freight and supply chain costs across the business.

In the second half of the year, we experienced a significant increase in ammonia and gas pricing, with ammonia rising approximately 85% since 1 April. Whilst most of these costs are ultimately passed through to our customers as part of the rise and fall pricing mechanism, there remains a lag on contract pricing adjustments that resulted in a temporary impact of $27 million.

Adjacent businesses includes Orica Monitor and Minova. Orica Monitor has delivered a 51% improvement in EBIT, compared to the prior period. The GroundProbe business continues to perform well, with increased demand for radar systems, remote geotechnical services and care plans. The Nitro Consult business has delivered a significant improvement in EBIT, with the growth and revenue on the back of improved infrastructure spending and new contract wins, as well as a reduction in operating costs, following the restructuring activities in late 2020.

Despite the challenging operating environment and reduced demand from coal customers, the Minova business has delivered an EBIT of $22 million, an improvement on the prior period. This has been achieved as a result of increased demand and new customer wins in infrastructure and hard rock mining.

Finally, the Other category reflects a year-on-year EBIT reduction of $5 million. The net result is that EBIT finished the year at $427 million.

Looking at capital expenditure on slide 16. In the 2021 financial year, we have applied a disciplined approach to capital expenditure, which has resulted in total capital expenditure for the year of $323 million. This is at the lower end of our guidance of $320 million to $360 million that we communicated to the market at our half year results presentation.

Growth capital expenditure at $100 million includes investment in new emulsion manufacturing plants in Africa, and CIS to support new customer contracts, new MMUs and fixed plants to service new customers in Australia and Brazil, capital to support expansion of the Exsa facility in Peru, and further investment in the commercialisation and manufacturing capacity of WebGen in North America.

Sustaining capital expenditure of $187 million reflects spend on compliance and efficiency capital at Kooragang Island, Yarwun and Carseland, tertiary abatement at Carseland, and ongoing replenishment of end-of-life MMU fleet on existing customer contracts.

In 2022, capital expenditure is expected to be in the range of $340 million to $360 million.

Adjusting for the changes and the new accounting standard, depreciation and amortisation has increased 12%, to $358 million, reflecting the commencement of depreciation on Burrup in 2021, and the inclusion of a full year of depreciation associated with the Exsa business that was acquired in May 2020.

In 2022 it is expected that depreciation and amortisation will be up to 5% higher than 2021.

Moving on to slide 17, entitled Cash Flow. As I've previously reinforced to the market, the general of strong cash flows remains a key focus for the business. In this respect, I'm extremely pleased to report strong cash generation with positive net operating cash flow of $619 million and cash conversion of 127%.

As we had previously communicated to the market, with the timing of the implementation of the SAP go live in close proximity to the September 2020 year end, it resulted in temporary delays in the processing of invoices to customers, resulting in lower cash collections in the prior reporting period.

During the 2021 financial year, we have been progressing with system stabilisation to ensure correct and timely invoicing and follow-up on customer collections. Excluding the $56 million of trade working capital of Minova that has been reclassified as assets held for sale, the underlying decrease in trade working capital is $217 million, which includes a reduction in debtors of $92 million.

Going forward, we expect cash conversion to normalise towards the 90% to 100% level.

Turning to net debt and gearing on slide 18. We remain pleased with the balance sheet performance, despite the impact of lower earnings.

The actions we have taken during 2021 to focus on capital expenditure discipline, trade working capital optimisation and monetising non-core land sales, which has released $140 million in cash proceeds, has positioned us well, with net debt at under $1.5 billion. This is a reduction of $342 million against the 2020 financial year and represents the lowest level in the past four years.

This results in gearing of 34.6%, which is comfortably within our target range of 30% to 40%.

Moving on to my final slide, on page 19, reflecting our balance sheet and liquidity profile. We continue to have significant levels of liquidity available, as demonstrated by the $1.5

billion of undrawn committed bank facilities, and a further $594 million of cash at 30 September. We monitor debt capacities against our two key financial covenants, namely the gearing ratio and the interest cover ratio. With gearing at 34.6% and interest cover at 4.6 times, our two debt covenants are comfortably within requirements.

These ratios, together with additional performance measurement criteria, determined by Standard and Poor's, are targeted in support of the maintenance of an investment grade credit rating, which provides us with access to borrowings from a range of sources. Of note, Standard and Poor's rating methodology adjusts Orica's net debt to incorporate leases, post-retirement benefit obligations and asset retirement obligations. By comparison, Orica's debt covenants are exclusive of these.

Our average drawn debt tenor is currently 5.4 years, and we have limited near term refinancing requirements. Our all-in cost of funds is 3.8%.

With that, I'll now hand you back to Sanjeev. Thank you.

Sanjeev Gandhi: Thank you, Chris. Let's talk strategy. On page 21 I would like to call out that Orica is the leading global supplier of blasting products and services today. We would like to leverage that global footprint, and our aspiration is to become the leading supplier of mining services.

We are active in more than a hundred countries, and that is so important today, given the challenges that we all face in supply chains in inter and intra-regional trade. We have this extensive network of both continuous and discrete manufacturing sites, spread globally. We have a fantastic suite of technologies, highly skilled and competent workforce, and a heritage of over 140 years, and we would like to leverage this by delivering solutions and technologies that drive productivity for our customers, globally.

Turning now to page 22, our refreshed strategy. This is our strategy on a page. It focuses us on delivering solutions and technology that drive productivity for our mining and infrastructure customers across the globe, leading to profitable growth and creating enduring value for our shareholders in a sustainable manner.

Our refreshed strategy is about focus, using our scale and our expertise. Our business has not changed. It's the how and where that have changed.

The how is centred on three key elements, delivering smarter solutions, optimising our operations and partnering for progress, across our core business.

The first element is offering smarter solutions and cutting-edge disruptive technologies. WebGen is one example - there are many more, where we are world-leading, and we will continue to invest in smarter solutions, and new technologies.

Secondly, we will continue to focus on optimising our operations, not only our continuous and discrete manufacturing assets, to make us more cost competitive, but also our global business and services. What can we do in-house? What should be outsourced? How do we leverage our centres of excellence, and our new ERP platform?

Last but not least, is partnering for progress. Partnering within and outside our organisation. Internally, we want our teams working as partners, across regions, across functions, across businesses, across manufacturing sites. Sharing best practices, helping each other to grow, and learn from each other.

Partnering with our customers is equally important. Design for outcome, which I will talk about shortly, is a fantastic example of partnering with customers, where we share in the benefits with our customers.

We are also partnering with future-facing industry players, such as Alpha HPA and MCi. The Alpha HPA project is a new, low-carbon economy project, providing materials to electric vehicle batteries. Orica will supply key process reagents to Alpha HPA, and in return, be the recipient of core products from the project, via pipelines connecting Orica's Yarwun plant to Alpha HPA's facility in Gladstone, across the fence.

MCi, or Mineral Carbonation International, a joint venture between Orica and the GreenMag Group, with support from the University of Newcastle, is a world-leading Australian clean technology company. I will talk more about this later.

The 'where', is focusing on our four key business verticals, mining, quarry and construction, our digital business and the mining chemicals business, which will allow us to leverage our strengths and create opportunities for growth, beyond blasting. I will go into each of these verticals in detail shortly.

Turning now to slide 23. With our purpose centred around sustainably mobilising the Earth's resources, we truly believe that sustainability and value creation go hand-in-hand. Orica operates within a very hard to abate manufacturing environment. The primary greenhouse gas emissions associated with our operations are nitrous oxide, from the production of nitric acid, and industrial carbon dioxide emissions.

At our nine nitric acid plants, we are focusing on mitigating our nitrous oxide process emissions by deploying the best available catalytic technology. Tertiary abatement catalysts can eliminate up to 95% of nitrous oxide emissions, compared to unabated levels. This year tertiary abatement catalyst technology was successfully installed at our Carseland plant in Canada, and we announced recently the Kooragang Island decarbonisation project in partnership with the New South Wales Government, and Clean Energy Finance Corporation in Australia.

In June this year, MCi, the joint venture that I spoke about earlier, was awarded one of the largest individual grants by the Australian Federal Government, from its inaugural Carbon Capture Use and Storage Fund. Proceeds from the grant will go towards the construction of a world-first mineral carbonation mobile demonstration plant being built on our KI site. This technology and this demonstration facility will have access to approximately 250,000 tonnes of captured carbon dioxide on site, from our manufacturing operations. This technology, by the way, won the first prize as the most innovative sustainability technology at COP26 at Glasgow.

Our first ever automated used oil recycling system, Cyclo, is another outstanding example of how we are creating smarter solutions for our customers. The system was originally developed by a third-party technology partner, to recycle used oil for ammonium nitrate fuel oil in the Australian coalfields. Our team put in some amazing work to develop the Cyclo service, which combines our emulsifier technology with used oil processing technology to transform mine site used oil for application in explosives. This is a fantastic example of our strategic focus on optimised resource use through circularity.

This is, in turn, also reducing diesel consumption for our customers, which can be a major challenge.

We remain confident on achieving our targets of at least 40% reduction in Scope 1 and 2 greenhouse gas emission by 2030.

Turning to slide 24. Building on our medium-term target to reduce Scope 1 and 2 operational emissions by at least 40% by 2030. In October we announced our ambition to achieve net zero emissions by 2050, covering Scope 1 and 2 greenhouse gas emissions and our most material Scope 3 greenhouse gas emission sources.

This ambition is based on a credible roadmap that we have developed, which includes continuing to prioritise our Scope 1 and 2 operational emissions reduction by deploying tertiary catalyst abatement technology, sourcing renewable energy and optimising energy efficiency in industrial processes.

We have allocated approximately $45 million over the next five years in capital, to deploy tertiary abatement technology across our Australian sites, which could deliver 750,000 tonnes CO2 equivalent reduction annually.

Collaborating with our suppliers to source lower emission intensity ammonium nitrate and ammonia, to reduce Orica's Scope 3 emissions, as new and emerging technologies scale, and become commercial. This accounts for approximately 70% of Orica's total Scope 3 emissions.

And, prioritise and develop low carbon intensity ammonium nitrate, as well as new products, services and technology offerings to help customers achieve their own sustainability goals. Cyclo was a good example of that.

Our ambition of net zero emissions by 2050 shows our commitment to playing a part in achieving the goals of the Paris Agreement, and we will hold ourselves accountable for making a difference.

Turning now to the four verticals on slide 25. As mentioned earlier, our refreshed strategy is about focus, using our scale and expertise. I spoke about the 'how', through smarter solutions, optimise operations and partnering for progress. Now, let's look at 'where' we will win.

We have divided the business into four verticals, the first one being the mining vertical. Blasting in mining for metals and both thermal and met coal is still the core of our business. We already have a very strong presence in copper, a future-facing commodity, and we will look to service other future-facing commodities, including nickel, cobalt, lithium, manganese and more.

To complement this, we will continue to accelerate adoption of our industry-leading suite of blasting technology and solutions, and simultaneously unlock value across our global manufacturing network.

Quarry and construction is the second vertical, servicing the quarry, construction and tunnelling markets. We are, today, a leading player in the sector, and are very well positioned to capture opportunities from both mature and developing Q&C markets.

The third vertical is digital solutions. We are now taking our expertise in innovation and technology in blasting solutions to beyond blasting - from orebody intelligence to blast design and execution, to measurement and monitoring. Orica is at the forefront of this end-to-end solution or what we call design for outcome, across the entire mining value chain.

Last but not least is our mining chemicals business. Orica has a strong and successful history servicing the cyanide market, as well as being one of the leading producers of emulsifiers in the world. Using this expertise, we want to explore extraction opportunities in other commodities, including some of the future-facing exciting opportunities that we see in front of us.

I will now go into each of these verticals in detail, starting with the mining vertical on slide 26. Without doubt, blasting and mining remains at the core of our business, and Orica is the industry leader in blasting technologies and solutions. Expected global growth, excluding China, over the next five years in iron ore and met coal is 2.4% and 3.4%, respectively, with gold growing at around 1%. Copper, which is considered a future-facing commodity, is expected to grow at around 3% over this time.

Negative production growth is expected in coal, over the next five years. As part of our strategy, our focus will be to prepare an orderly transition away from thermal coal. That does not mean that we will stop servicing the coal business.

The coal business will continue to remain a very important part of our portfolio, but we will follow our customers as they move away from coal, into new future-facing commodities, such as copper, cobalt, nickel, lithium - all of these, which will help with the energy transition of the world.

We have the products and service offerings; we will start customising these offerings for future-facing commodities.

Turning now to slide 27. I've already spoken about the expected growth in the traditional commodities, so I will go into a bit of detail on future-facing commodities, which are expected to grow the fastest.

Sustainability is the most important megatrend and is comprised of two main elements impacting our business.

First, growth in electric lightweight vehicles, or eMobility. The transition from internal combustion engines to electric vehicles will drive demand for battery raw materials, including lithium, cobalt, nickel, graphite and manganese, and the increased demand for light weight in vehicles, for better fuel efficiency, will increase demand for materials such as aluminium.

Secondly, as the world shifts from fossil fuels to renewable energy, there will be an expansion of energy networks based on wind and solar energy, and addition of storage capacity to accommodate intermittent renewable energy. This will require copper, nickel, iron ore and zinc. All of this amounts to substantial opportunities for Orica, where we can build on our already strong presence in these sectors and will give us new opportunities to extend our digital and monitor offerings.

Looking to slide 28, the blasting segment of the value chain remains at the core of our business model. The convergence of new technologies and solutions enables us to think differently, mine differently, operate more precisely, and more importantly, responsibly.

Critical to leveraging these trends will be accelerating the penetration of our core and new flagship technologies as our customers will continue to demand increased efficiency and productivity with safe and sustainable outcomes.

Through our green technology roadmap, we are investing in technology to capitalise on new commercial opportunities in converging areas of decarbonisation, automation and digitalisation across the value chain. We believe that this approach also strengthens our overall customer value proposition and our competitive advantage by targeting technologies that improve safety and productivity and focus on renewables, recycled or low carbon intensity and circular solutions.

This year we unveiled 4D, our new variable density bulk explosive system which has a real time matching of explosive energy to geology changes with wider range than any other existing product. This is a step change in bulk explosives and value delivery.

Our second generation fully wireless technology, WebGen 200, entered alpha trials with a commercial product this year. The technology has been engineered for new markets and applications and paves the way for the first stage of blast automation through our world first Avatel technology. These exciting new technologies focus on better blasting outcomes.

Turning to slide 29. Finally, we will continue to identify opportunities to unlock value across our continuous and discrete manufacturing operations and supply chains. In continuous manufacturing, we will strive to achieve the right balance between make and buy in both ammonium nitrate and ammonia. We are already today a major purchaser of ammonia and ammonium nitrate globally. We have commenced the application process to build a new 30,000 tonne ammonia storage tank at KI. This will give us optionality as and when the market changes and furthermore, enable us to explore options for lower carbon inputs, including imported green ammonia.

All of this will help build in flexibility for future operations and our investment in KI's long-term sustainability. The structural change to combine discrete manufacturing and global supply chain will accelerate synergies and strategic sourcing, and operational growth and efficiencies in our discrete manufacturing products.

We are projecting to grow EBS capacity by 30% to service higher demand from our customers. With 21 discrete manufacturing sites across the globe, network optimisation will be core to unlocking efficiencies and increasing utilisation. Some examples include:

- In packaged emulsions, work has begun on standardising product offerings which will lead to increased plant utilisation.
- Shifting production to the Lurin plant which was part of the Exsa acquisition has enabled the closure of two sites driving manufacturing efficiencies.
- On the global supply chain front, we are implementing a global supplier quality framework and strategic sourcing implementation to support growth and also reduce shipping complexity.
- We will also be strengthening our security of supply position by implementing a global logistic sea charter model and utilising a global network more efficiently.

Turning to the next vertical. Quarry and construction on slide 30. We are today a leading global player in a highly fragmented market and we are the market leader in tunnelling drill and blast solutions. Volumes in the sector are expected to continue to grow strongly as global economies start to come out of recession and governments are going to spend more and more on infrastructure. As an example, the $1.2 trillion infrastructure bill that was recently passed in the US. So, the intention is to grow this business, focusing on quarry, construction and tunnelling.

On the next slide. Orica is the leading supplier of ammonium nitrate and services to Q&C globally, predominantly where Q&C is mature and consolidated in markets including Australia, North America and the Nordic countries and Western Europe. We also have a very strong track record in servicing developing Q&C markets as is evidenced by our presence in countries such as Malaysia and the Philippines. We will leverage our expertise in these markets where we have been very successful, use that knowhow and competency and enter into new markets where there are new growth opportunities.

As an example, Asia's expected to be the fastest growing market in quarry and construction. China, India, South-East Asia are all expected to invest significantly in the Q&C sector and we will have a lot of opportunities to deliver focused technology specific to the needs of our customers in these emerging economies. We are creating a new region, Asia, headquartered out of Indonesia to drive growth in these regions.

Slide 32. In the mining vertical, I spoke about our innovation and better blasting technology. We are also accelerating our technology offerings beyond blasting. Leveraging advanced workflows, measurement, modelling and data science, Orica is developing high impact solutions across the mining value chain from orebody intelligence to blasting and processing to wall stability monitoring, expanding the Company's footprint with both existing and new customers. This business has seen double-digit growth in uptake over the last couple of years and we have doubled and tripled even our footprint in terms of customer access and activities on customer sites.

We've had success winning business at sites where competitors supply blasting solutions. That tells you how powerful this business and our offering is. The opportunities are immense and exciting.

Let me talk to you a little bit more on slide 33. Moving beyond blasting to design for outcome. Over the last 12 months, we have been building a portfolio which is today an industry leading end-to-end solution in the mining industry. We have acquired five technology companies in the last six months alone and an excellent bunch of competent people along with it. Our industry is being reimagined - robotics, automation and big data are transforming every element of the mining value chain.

We are today the only company in the industry who can provide a holistic offering to customers in terms of end-to-end digital solutions backed by our core blasting products and services. With our digital technologies, we can now quantify value delivered at every stage of the mining value chain, including reduced energy consumption, costs or emissions as well as the ability to manage environmental factors such as dust and vibration.

Let me take you through design for outcome. Upstream from blasting, we are actively taking steps to help our customers better understand orebody. Recent digital acquisitions such as RHINO, HIG and RIG Technologies International gives us a strong presence in orebody intelligence. We think the emerging integrated set is something unmatched in the market and our trial customers seem to agree.

We are collaborating with customers and industry ecosystem partners to develop technologies and integrate vast amounts of complex geotechnical data into the blast design process. This is where our SHOTPlus blast design and OrePro 3D modelling software come into play by helping to ensure the right explosives are delivered into the right holes at the right time to achieve desired customer outcomes.

Our BlastIQ Advanced Vibration Management solution safeguards licence to operate and optimises blasting productivity in constrained environments such as near heritage sites and civil structures by providing our customers the tools to design, model, implement and measure blasts within vibration limits.

We've also made significant progress downstream from blasting in post-blast monitoring, including GroundProbe technologies and measurement technologies that deliver insights around blast outcomes. FRAGTrack, for example, captures 2D and 3D blast fragmentation imagery and data with auto analysis capability.

MonitorIQ is the industry’s most sophisticated and feature-rich platform for monitoring that gathers and visualises all information from onsite sensors ensuring users spend less time collecting data and more time analysing data and identifying trends, and enabling decision-making in real time.

Further downstream, we are building capability and technologies in ore processing with tools like IES which is a great example of a digital technology which can improve the value of major mine sites by up to 5% to 6% through the optimisation of processing operations.

We recently established a digital immersion centre in Brisbane. It’s a specialised facility where we work with development partners, including Microsoft and customers, to promote innovation, spur collaboration and also establish an Orica data and analytic centre of excellence. This Centre of Excellence brings together data science, artificial intelligence, modern cloud computing and Orica’s 140 plus years of domain expertise. It will also act as an incubator for new Orica digital businesses in future.

We will continue to invest in this vertical and acquire new technologies, integrate them into the digital portfolio and strengthen our offerings to our customers. We are proud to be driving this change and we are very excited about the critical role we play here.

Turning to the last vertical on slide 34. Mining chemicals. Orica has run a very successful cyanide business servicing over 80 gold mines globally. Security of supply through our extensive supply chain network and our safer sparge transport technology makes Orica a leading supplier in this industry. Orica is also one of the leading producers of emulsifiers in the world with manufacturing plants in Australia and North America. We want to do more here.

As we are successful with extraction of gold, we will develop products and solutions that we could use for extraction of future-facing commodities. We are going to invest in this business. We want to build on the portfolio and be able to expand our offerings.

I hope I've given you some insights into where we will win. I would like to hand over now to Chris to talk more about our approach to cost efficiencies and capital management.

Christopher Davis: Thanks, Sanjeev. Looking at slide 35 on sustainable cost reduction, the success of our refreshed strategy will be underpinned by a continued focus on ongoing cost effectiveness and process efficiencies. In 2017 we established a Centre of Excellence in Manila with the aim to build core competencies in back-office Finance transactional activities. This allowed us to scale a highly skilled employee workforce and standardise common transactional processes.

Our SAP investment has further accelerated the standardisation and today our centre of excellence in Manila has grown to approximately 250 Orica staff across processes in Finance, Human Resources, Supply Chain and IT.

Some of the benefits that have already been delivered include simplification and standardisation of key Finance processes, increased organisational productivity including transactional speed and efficiency with customers and vendors and a lower operating cost with the benefit of highly talented employees. Key to this delivery has been the selection and retention of highly capable employees in this region as well as appropriate application of automation technology, including robotic process automation.

As we look forward, our attention is now on establishing other Centres of Excellence, in Brisbane for technology close to our key mining customers and our GroundProbe business, in India for SAP to access the depth of talent in SAP support and in Manila to perform reporting and analysis activities thereby leveraging the benefits of a single SAP system. We expect that these centres of excellence in Manila, Brisbane and India will contribute cost and productivity benefits to the organisation on a long-term sustainable basis over the next three years.

Turning to slide 36 entitled capital management framework. We maintain a prudent and disciplined approach to investment decisions with the objective of ensuring that the capital structure protects and balances financial flexibility against an effective cost of capital. Our capital management framework is underpinned by this disciplined approach toward the deployment of capital and is based upon three key objectives, namely maintaining our investment grade credit rating, preserving the flexibility for investment and to respond to changes in the external operating environment and maximising returns to shareholders.

We seek to promote and maintain safe and reliable operations first and foremost while maintaining a strong liquidity position and balance sheet, an investment grade credit rating and delivering sustainable returns to shareholders. This framework is designed to keep in balance our two sources of capital, namely equity and debt, whilst maximising shareholder value.

As we move forward with our refreshed strategy outlined today, we will continue to focus on trade working capital efficiencies, disciplined capital expenditure and further sale of non-core assets, most notably land holdings to release cash. Importantly, our organic growth ambitions as outlined by Sanjeev today are premised on a capital light strategy. With that, I will now hand you back to Sanjeev to take you through our three-year performance indicators and outlook starting on slide 37. Thank you.

Sanjeev Gandhi: Thanks, Chris. So, to pull it all together, I believe this refreshed strategy gives us a clear pathway towards sustainable profitable growth creating value for stakeholders. By focusing on the how and the where of our plan, we will pursue organic growth from the core, accelerate adoption of innovative blasting technologies and digital solutions, both upstream and downstream, continue to optimise manufacturing and supply chains, grow presence in future-facing commodities, diversify our portfolio by increasing presence in quarry and construction markets and increase presence in high-growth economies and expand in high-growth mining chemicals markets.

This will be supported by a continued focus on cost reduction and pricing discipline, and we will leverage the capabilities of our new ERP system. It is expected that this strategy will deliver a three-year average RONA between 10% and 12% aligned with the long-term incentive targets set for my management team. Overlaying all of this will be a continued focus on working towards our net zero ambition.

Looking at the outlook for 2022 financial year on slide 39. Global commodity growth in copper and gold and in the Q&C market is anticipated to continue. FY22 EBIT is anticipated to increase from FY21 EBIT from continuing operations with a much stronger first half than the last year based on carrying forward strong momentum from the last quarter. Earnings are expected to be weighted towards the second half.

There have been no material changes in our assumptions since our update in September and accordingly, we expect the year-on-year increase from volume growth in line with global GDP growth, increased adoption from our technology offerings, particularly digital and monitoring solutions, supply chain efficiencies, overhead cost reductions net of inflation.

Our focus on pricing discipline is expected to mitigate some of the pass-through lag from rising import costs. As Chris mentioned, Capex will be between $340 million and $360 million and gearing within a stated range of 30% to 40%. D&A is expected to increase by up to 5% from 2021.

With that, we now open to questions.

Operator: Thank you. As a reminder, if you wish to ask a question, please press star 1 on your telephone and wait for your name to be announced. If you need to cancel your request, please press the pound or hash key. Our first question comes from Richard Johnson from Jefferies. Please go ahead.

Richard Johnson (Jefferies, Analyst): Thanks very much. Sanjeev, can I just start with the first point you made on slide 8 on pricing discipline which I'm sure everybody is very pleased to hear you talk about. I was just wondering how you guys are actually implementing that from a practical perspective?

Sanjeev Gandhi: Richard, thanks for the question. I mean, there are several ways we are doing this. The first is that we now have fantastic transparency on pricing with our new ERP system. So, not to make a joke of it but there's nowhere to hide. So obviously, all pricing is now transparent and we know what prices we are setting and we know what our commercial teams are delivering to our customers. So, we have a very, very strict price management policy here to ensure that these increased input costs that we are facing in terms of inflation are obviously then pushed through.

The second mechanism is obviously our rise and falls that happen every quarter as you know for existing contracts. We have also done a clear check and a very, very thorough check of the rise and fall engine to ensure that there are absolutely no leakages happening there because we just cannot afford this. Now obviously when we go out and bid for new businesses, our intention will be to get those prices up because high inflation and high input costs are just putting a lot of pressure on margins.

So, it's a twofold approach. One is obviously the transparency that we get on pricing from our new ERP system and secondly, is the stringent discipline that we have in terms of pushing through those inflated costs. So, the twofold effect is first of all, obviously to maintain our margins and wherever we see opportunities also to improve on our margins.

Richard Johnson (Jefferies, Analyst): That's great but if I go back quite some years when last time there was efficient pricing culture within the business, there's no question that security of supply was an important aspect of that. In fact, I think everybody will remember that Orica used to achieve a premium to import parity at the time. Are you sensing from your customers now that supply security is becoming an increasingly important issue?

Sanjeev Gandhi: Supply security is absolute key given an environment where there's inflation, where there's challenges in moving products around and just given the nature of our product. There's more and more regulatory scrutiny with unfortunate incidents like Beirut not helping here. So, supply chain is very, very tight. I think we mentioned it earlier, supply chain costs are up nearly 40% but even more challenging, there's no capacity in the market. So, it's very difficult even to book cargoes and try to ship cargoes. So, supply chain is, and reliability is very, very crucial to our customers.

Now here again, Orica and our global network comes into play because we have now the luxury of moving products around from our regional assets from the countries and the inventories that we keep across the globe to ensure that we do not fail our customers. But as you can imagine, Richard, this comes at a cost. Nothing comes for free and that's why we do expect that our pricing reflects this supply security and the insurance policy that we are providing to our customers.

Richard Johnson (Jefferies, Analyst): Got it, thanks. Then secondly, I just wanted to ask about plant performance which you detail on slide 37. You can see the big step up at Yarwun in the second half which is very encouraging. Carseland seemed to go the other way in the second half and I was just curious to understand why that was?

Sanjeev Gandhi: Yes, Richard, that was planned because we had the annual turnaround in Carseland starting early September and then we were, you know, that's when we put in the tertiary abatement by the way, and then we also did our maintenance and inspections and everything else. The plant is now in October up and running. So, it was straddling two years, two financial years. There was an impact in September and there is also some impact obviously in the first part of October but the plant is up and running.

The team did a fantastic job as you can imagine with all the COVID restrictions and hundreds of contractors operating on the site. But it was very well executed and I'm pretty pleased - most importantly that was our proof of concept for tertiary abatement because the technology is working absolutely to plan. So, I'm quite pleased about that.

Richard Johnson (Jefferies, Analyst): Great, thank you and then just lastly, this is an easy one for Chris. On the interest charge, can you just take us through the moving parts and explain what were the reasons for the big move year on year and how we should think about that for the current year?

Christopher Davis: Thanks, Richard. If I can point you probably to note 3b in the financial statements. In the 2020 year, our net financing costs are about $161 million whereas if you look at it in the current year, it's $106 million. In the 2020 year, we had a significant decrease in the discount rate which resulted in an unfavourable unwind on the discounting of provisions predominately related to the Botany groundwater provision. That is not expected to repeat on that magnitude going forward. That was about $48 million.

I think the way you need to look at interest and just looking at the interest expense plus the lease interest, is really I've always maintained it will sit at about $100 million to $110 million and that's the cash component. Anything that happens on the discount on provisions is really a non-cash element. So, when you look at the cash component being interest expense and the lease interest, actually this year was about $111 million and last year it was about $113 million. So, it's normally pretty static.

Richard Johnson (Jefferies, Analyst): That's great. Sorry, if I can just have one more quick one for Sanjeev. I think you said, Sanjeev, the RONA target was the average over the three years. So, presumably then on a run-rate basis, the fourth year steps up relatively materially again.

Sanjeev Gandhi: That's the plan, Richard, and to keep in mind that we've ended up with around 8% for the last financial year. So, obviously we would like to progressively get that up.

Richard Johnson (Jefferies, Analyst): Perfect. Thank you very much. That's it from me. Thank you.

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

Grant Saligari (Credit Suisse, Analyst): Good afternoon, everyone, and thank you for the expansive discussion around the strategy. I guess just one question on that for me. You talk about the infrastructure and the Q&C opportunity, particularly in Asia. Can you elaborate on what you need to do in terms of development of capability to take advantage of that opportunity please?

Sanjeev Gandhi: Thanks, Grant. The capability is there because we are already active in Asia in the mining space. But our presence in the Q&C market is underrepresented. My view was when I looked into the business, it was just because of a lack of knowledge and expertise that we've had in other parts of the world. We are very successful in the US market; we are very successful in the Nordics and Europe but that has not translated into a skill upgrade of our teams there.

So, now based on the new region that we are setting up in Asia, one of the tasks of the regional president will be to build that capability, leverage off our existing footprint of manufacturing sites. For example, we have manufacturing in Bontang, we are investing in Indonesia, we are manufacturing in Philippines, we are manufacturing in India, we have a presence in China but to start looking more into the Q&C opportunities and start bidding for business there.

That’s something that we really were not doing and you can imagine why that was because our folks, our frontline folks are focusing on the big volumes coming out of the mining business but the Q&C market is much more fragmented. So, you have to bid for several more contracts there and that’s where you start to build scale but obviously, the margins are also pretty good there.

I had a feeling that we were kind of ignoring that market because we were all busy catering to the big mining customers. So, we’re going to put in some dedicated resources. We’re going to do a lot of training and then we’re going to leverage off our existing offerings that we have and start to bring them into those new tenders.

Grant Saligari (Credit Suisse, Analyst): Thank you. That’s helpful. Second question if I could. I guess, over the last decade or so, we've had various discussions with Orica around the value-add of technology and no doubt, it’s a contributor and you’ve outlined a range of technologies in the presentation today. But how should we actually think about the profit contribution of that in terms of potential given that in a lot of cases, you’re selling bundled contracts where the products are bundled under a single pricing arrangement.

I would sort of assume that if, for example, the growth in EBS was contributing materially that would be called out somewhere on the earnings bridge. So, how should we actual think about the real profit contribution that the various technology initiatives will deliver for Orica?

Sanjeev Gandhi: So, Grant, I'll just refer to the earlier comment I made. Bundling in future in Orica for new contracts and for new businesses will be built bottom up, product by product. So, nothing is given away for free and that is possible today because we have this new ERP system with individual SKUs for every product and service that we offer. So, there's no way for cross subsidisation. That is not permitted anymore, and we have hardwired that into the pricing system. So obviously, we will not be giving anything away for free unless obviously it's a demonstration product where we then have to do trials. So, that's the first aspect of it.

Technology rollout and, as I mentioned also in May, especially for products like WebGen, it was significantly delayed unfortunately because of COVID. Now since borders start to open since we have higher vaccination rates, we are able to travel, we have done a lot of new blasts. So, basically, we have doubled the number of trial blasts we have done year on year, for example, in WebGen, and we are starting to scale up that technology. The same with 4D.

But again, to put it into context, this is still the beginning, right. It's not really making a material impact on our bottom line because we need to scale this up. Once we start to scale this up and there will be rapid scaling up, we will start to see a material impact, a positive impact in terms of margin uplift, in terms of returns that we get out of the new products and technologies. It's the same with EBS, right. Today we are selling EBS at a significant premium to the standard detonators and our expectation is that we are going to sell WebGen at a significant premium to EBS. But you will not see that impact till we could scale it up.

So, for us now with our dedicated commercialisation team, in the technology and innovation scope now, their task is 24/7 get new contracts, get the trials done and start to scale the business up. We have seen fantastic momentum year on year and given the plans that we have with our customers in terms of trialling and commercialisation, I am pretty excited that we'll see big numbers coming in the near future.

Grant Saligari (Credit Suisse, Analyst): Okay. Just finally if I could, just what's the expected timing on Minova?

Sanjeev Gandhi: So, I would have hoped that I could have announced Minova today but given the fact that it's a complex global business, some of these interested bidders would have, they wanted to go do physical due diligence and visit sites in the US, in our new investment in India, in Europe and obviously because of COVID, the logistics has been challenging. So, that part of the negotiation is still ongoing. I do hope that before the end of this calendar year, we will have something to announce and we'll come back to you and give you information.

Just to reiterate, I have no intention of giving it away for free. As we have seen at 2021 performance, Minova has been performing to plan and we do see significant uplift in their business and earnings as global economies start to recover. So, the process is well on track. It's just slightly delayed because of logistics issues related to COVID.

Grant Saligari (Credit Suisse, Analyst): All right, thank you. That's it from me.

Operator: Our next question comes from Andrew Scott from Morgan Stanley. Please go ahead.

Andrew Scott (Morgan Stanley, Analyst): Thank you, good morning. Sanjeev, I just wanted to start if I could with just some of the premises or the background to how you've sat back and thought about and laid out this strategy and what I'm particularly interested in, we've obviously seen a huge dislocation in global gas markets in recent months. Has that played a part in how you position the business and do you think that is something that you're viewing at the moment as structural or temporary or are you trying to position the business to, if you like, be agnostic to how that plays out?

Sanjeev Gandhi: That's a great question. I mean, it helps that there's a fresh pair of eyes, right, because coming in new, I have no legacy issues. I look at the business without emotions and I see where the opportunities are and that's exactly what I've done in the last six months. Obviously couple this with the refreshed management team.

We have built this strategy bottom up internally. It's a strategy made by Orica with Orica resources but with significant contributions from the outsiders and newcomers like myself. So, all of that has gone into the formulation of the strategy. There are obvious trends to the business that we have. In my view we have not leveraged that enough. I spoke about a few of them like our global footprint, our technology and innovation machine. We have not done enough in terms of monetising that.

Then there are obviously some structural weaknesses. So, the strategy has built on the strengths and will address the weaknesses. Now an interesting aspect is obviously the gas markets and the current energy crisis that the world is facing, and this is still before winter sets in in the western hemisphere. It's going to be challenging. It's not structural. I'm not surprised it happens, because some economies were a little bit too quick to pull the trigger in terms of transitioning away from conventional energy into renewable energy, and obviously, the grids are not robust enough, there was not enough inventories, connectivity, and all the other issues that we have.

This, coupled with the bounce back of economies in terms of demand, recovery from COVID, in terms of the pent-up demand of consumers and all of that, has led to a shortage, and I'm not surprised about this.

When I called out inflation in May, when we last spoke, I already had a feeling that something like this would happen. It would be a V-shaped recovery, and this would put a lot of pressure on the global supply chains. But this is not something that will continue forever. Now it's anybody's guess when it will normalise, but it will eventually normalise.

For me, it was more important that we reflect the megatrend of sustainability and the impact that will have on our future business, on our asset base, and on the way we will function in future. That's been, I think, a more important factor in our thinking, in terms of the strategic direction of the company.

Andrew Scott: (Morgan Stanley, Analyst) That's very helpful, thank you. Then if I can extend, maybe the answer to Richard's question around the domestic manufacturing business and the gas dislocation is essentially seeing those assets return to previous asset class, however long that may last. But then when we turn it around, how does it make you think about your positions where you don't have manufacturing, in particular, I'm thinking about Latin America, where I think you're circa 900,000 tonnes short. Does that leave you exposed or at a competitive disadvantage relative to the other players in that market, and maybe extend that to Europe as well, if you could?

Sanjeev Gandhi: You're right, it's not just Latin America, also in Europe, we don't have our own ammonium nitrate manufacturing and cyanide manufacturing, so all the product is either imported or traded in. Having said that, and I referred to that in my talk earlier, we have run a strategy quite successfully on make and buy. It is not possible for us to build heavy assets with heavy capital investment in all regions. That's something that's not feasible for us. We have a very, very strong network of five ammonium nitrate manufacturing assets, and one cyanide asset, but obviously we cannot reach the globe here.

We have run this make and buy strategy quite successfully, and as a result, we are a major purchaser of ammonia and ammonium nitrate in the global markets. That means we have a bit of pricing power, we have a bit of leverage with our ammonium nitrate and ammonia suppliers, and that helps us, because they value our business. We are a baseload business for quite a few of our global suppliers, and we are able to leverage this. Fortunately for us, so far, despite the challenges with the very high gas prices and ammonia prices in Europe and in the US, our supply from our suppliers did not get interrupted.

Obviously, our suppliers have been charging us surcharges for the additional costs, and we have been very, very diligently passing those surcharges within our trading models in Latin America as well as in EMEA, to our customers. We have no choice, we cannot absorb those temporary surcharges in terms of higher freights, higher natural gas price, higher labour costs and everything else, so we are pushing that down to our customers. Nobody is happy about the situation, but it is a fact, and we have to find ways to mitigate this.

Andrew Scott: (Morgan Stanley, Analyst): Understood, thank you. Last one from me. To what extent did your analysis and your strategic considerations turn your mind to whether it would be advantageous to funnel product into the agricultural market or fertiliser market, whether it be to combat declining volumes from coal or short-term opportunities? Is that something that's being considered?

Sanjeev Gandhi: You know we gave up the fertiliser business, right, and we are not a big fan of the volatility that brings to our business. We would like to have a stable, predictable, steadily growing business and I'm not a big fan of the volatility that that brings in. Now, obviously, if there are short-term opportunities to help out, and if we have capacity, we are more than happy to do so, but for us, and for me, that was not a strategic consideration at all.

Andrew Scott: (Morgan Stanley, Analyst): Okay, understood. Thank you very much, I'll jump off.

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

Scott Ryall: (Rimor Equity Research, Analyst) Hi, thank you very much. Sanjeev, I was wondering if you could talk about, maybe just expand a little bit on what you described as the momentum in the second half. You almost touched on it in your closing remarks, talking about the last quarter. If I look at second-half performance versus the second half last year, you're down EBITDA and EBIT in every business. Can you just expand a little bit more about what momentum you're talking about, please?

Sanjeev Gandhi: Thanks, Scott. When I was talking of momentum, I was comparing this to the first half, and when we went out in May, I did mention that we see month-on-month volume improvement, and that was basically the bounce-back of the coal business here in Australia, and the recovery of global economies from COVID. We've seen that happen in the second half, as predicted, and we do see that momentum continuing, in terms of volume improvement continuing into the next year.

Now, when you couple this with the cost reduction efforts that we have put in, where we have had some effects in 2021, but this will carry forward, also, into 2022, that's going to help us. On top of that, the focus on stringent margin management, that's the third aspect that's going to help us.

So the momentum comes from three factors. One is the growing volumes that we continue to see and will continue to deliver. It's the continuous focus on reducing costs, and it's the focus on improving margins and pricing. When you couple all of this with the technologies that come on top of it, with the digital suite where we are growing very, very smartly, all of that adds up, and that's the momentum I'm talking about going into the three-year plan.

Scott Ryall: (Rimor Equity Research, Analyst) Okay, great. You touched a little bit on it in an answer to an earlier question around the process of developing strategy, and you mentioned that it was a bottom-up driven strategy. Could you just give maybe an example, maybe quarry and construction is a great example, where perhaps that hasn’t been as big a focus as what you'd emphasised today. How do you decide to focus on that from a bottom-up side of things, as opposed to top-down, please?

Sanjeev Gandhi: That's a very interesting question. I'll give you one example; I can give you many. But in the interest of time, I was looking into the US market and the very successful transition we have done away from the coal exposure. Our coal exposure is now down to something like 10%, 11%. It was obviously, 10 years back, significantly higher, and we saw this transition away from coal and natural gas, shale gas impact coming into our business, and I wanted to understand, how did we manage to do this very successfully? Then I understood that we grew our presence in the quarrying and construction market, which is quite an exciting market, because as you know in the US, a lot of infrastructure needs to be upgraded, because there's been a significant backlog of investment even before COVID. We've become quite successful there, and market leading.

Then I also started looking into the Nordics, where there's not much mining activity, but we have a very profitable business there. Once again, quarrying and construction stood out there. We are a market leader in the Nordics in tunnelling, for example. I said, if we have all of that expertise, why are we not participating in the most exciting growth market in the world, which is Asia? That's where most of the new infrastructure is coming, that's where population is growing, and that's where quality of life will improve, and governments will continue to put more and more money.

Then I realised, obviously, because mining was such a big part of that portfolio, there was not much attention focused on Q&C. I asked the question why, and then we started that discussion, and then we realised that there are clear opportunities, and we don't have to reinvent the wheel, we just have to transfer the knowledge from the US and from the European colleagues down to the Asian colleagues, train them up, put them onstream, focus them, and start to grow the business. In the end, it was quite a simple activity.

But then, we wanted to verify that with growth rates, and then we crosschecked construction market statistics that externals provide us. We looked at new housing starts, we looked at infrastructure spend, and then we realised, interestingly enough, outside of some future-facing commodities, Q&C is going to be the fastest growing market in the world in the next three to five years. That just reinforced what our thinking was. We said, now we want to double down on this, and we want to participate in that growth.

Scott Ryall: (Rimor Equity Research, Analyst) Great, thank you. Last question from me. You set up some decarbonisation goals, obviously, and made some pretty good progress on some of them with Carseland and the agreements that you've indicated in Newcastle. How does that tie in to achieving the goals that you've set out today, please?

Sanjeev Gandhi: In my view, everything we do going forward now will be keeping in mind our ambition to become carbon neutral by 2050. I think it's going to be very, very important. This means continuous optimisation of our manufacturing sites. It means continuous optimisation of our global supply chains. It means introducing new products to our customers, which helps them with their scope three emissions. I quoted the example of Cyclo which is a very, very exciting technology where we take used oil from our customers' mine sites, and we put it into our manufacturing assets. We're talking here about circularity; we're talking here about closed loop systems. There is another added benefit, obviously, it also reduces diesel consumption on the site, which is a major bugbear of a lot of our mining customers. But that's just one example.

Our end-to-end digital solutions will help to optimise these global operations of miners and make them more efficient. If you're talking about energy waste, if you're talking about groundwater remediation, we're talking about a lot of things that our technology can offer which we did not have in the past.

Then future-facing commodities, this is going to be an exciting growth area, and I talked about it. Whether it is e-mobility, whether it is energy storage, whether it is lightweighting, whether it is solar and wind installations, all of that need these future-facing commodities, and as you can imagine, we are here in pole position to take advantage of this. Everything we thought of, we always thought of also from a sustainability angle, and we would like to reflect that in everything we do going forward. I think that's going to be very, very important. I think it is just a responsibility of ours to do that.

The feedback I got from all of our key customers, when I shared that ambition with them, was extremely positive. They said thank you, Orica, for leading the way. We understand you are in a very hard-to-abate industry, so chemical manufacturing, continuous manufacturing, heavy industry is very difficult to abate, but with the support of authorities, for example, the Alberta province in Canada, where we have our Carseland plant, or New South Wales, we have been very, very grateful for all the support we have been getting from the Australian government, and we are going to continue on this path towards decarbonisation and net zero by 2050.

Scott Ryall: (Rimor Equity Research, Analyst) Can I just clarify one thing, though, with those customers who are very happy with you, are they looking to change providers, or do you think it becomes a source of competitive advantage to either be lower carbon at the same price, or are you starting to see some of your customers willing to pay more for decarbonised offerings?

Sanjeev Gandhi: I hope that happens, and I expect it to happen because if countries and customers are serious about their 2050 ambition, and most of our customers have announced this, then they need to also work with their suppliers, which is Orica. It will not happen overnight. Differentiation will happen already, today. Premiums will come in future. I don't expect premiums to come overnight, and that's not factored into our three-year plan. But the differentiation advantage we have as a leading-edge player in the industry, that will certainly give us advantages when we go out bidding for new businesses, because our customers and their procurement teams just cannot afford to ignore this anymore.

Scott Ryall: (Rimor Equity Research, Analyst) All right. That's all I had, thank you.

Operator: Our next question comes from John Purtell at Macquarie. Please go ahead.

John Purtell: (Macquarie, Analyst) Good day, Sanjeev and Chris, I hope you're well. I just had a single question on price. Obviously, you've had a few questions on that today. Regarding the focus on lifting prices, is this across all regions, and is the competitive environment supporting this? I know that the commentary mentioned the competitive environment in Latin America. Just the last part is, are you prepared to walk away from business if acceptable pricing is not achieved?

Sanjeev Gandhi: John, the answer is yes to everything. Pricing focus is across the globe, in all our portfolios, in all our products, and in all the regions. Yes, if the pricing does not fulfil our expectations, I'm more than happy that our teams will walk away from the business.

John Purtell: (Macquarie, Analyst) Sanjeev, is that over and above cost? Obviously, you've got to manage cost at the moment, or cost inflation, we're talking underlying, in addition to cost? Obviously, the focus in the first instance is to get inflation recovered.

Sanjeev Gandhi: I'll clarify that. For existing contracts, we have the rise and fall engine, we have the rise and fall mechanisms, so every quarter we pass on inflation, CPI, labour costs, higher raw material costs, gas prices, whatever else it is. That's what will continue to happen. When we bid for contract renewals or for new businesses, obviously, we are also going to go not only for passing through inflation, but also trying to get our margins up.

It's a two-pronged approach. First, it's to protect margins in existing businesses, and obviously, with our cost reduction and everything else, we'll also find potential to improve that, and the second one is obviously when we bid for new businesses, we want to go for better margins. As these inflationary pressures start to ease, obviously we will see some margin expansion happening. I think Chris called it out, he said there's a lag of something like $27 million that we have carried forward into this financial year, and we will catch up with that once we see inflationary pressure start to ease off. But it's anybody's guess when that will happen.

John Purtell: (Macquarie, Analyst) Got it, thank you.

Operator: As a reminder, it is star one to ask a question. Our next question comes from Brenton Saunders at Pendal Group. Please go ahead.

Brenton Saunders: (Pendal Group, Analyst) Hi, Sanjeev, thanks for the opportunity. Just very briefly, I was just wondering with the SAP system, if there was a way you could get a vertical for some of the technology offerings that Orica has? I detect there's a lot of money being spent on R&D in the space, and it's very hard for us to understand what it's all amounting to, and whether it's just a loss-leading must-have, or if it's a profit-generating nice-to-have part of the offering. That's my first question, thank you.

Sanjeev Gandhi: Thanks, Brenton, that's a very fair question. First of all, all new technologies have been margin and EBITDA accretive for us. We even gave some numbers last year, and we hit all of them; we even exceeded them. So, yes, all of those products are generating profits and margins, quite high margins for us, which is very, very promising.

Now, our ERP system, yes, obviously can and hopefully in future will report on vertical P&Ls, but I was not brave enough to do it today, because we are still in the phase of stabilisation, I do not want to do anything that will distract the team working on this 24/7. We need to get that system fully stabilised. It's going to take us another seven to eight months.

My hope and expectation is in the last quarter of the new financial year, we should have a fully stabilised system operating with no more challenges and teething issues. We have had significant progress in stabilising the system, but we are not yet there in terms of announcing business as usual. That's why I have held back on trying to report on those verticals.

In future, I do have the intention of doing that, so that you get a lot more transparency on what we are investing, what we are getting out of it, how are we growing, where are we growing, and what kind of margins we are contributing to the bottom line here.

Brenton Saunders: (Pendal Group, Analyst) Yes, okay, thank you. I guess my question refers more to the fact that there's a lot of focus that the company spends on telling investors about these initiatives, but we just see margin squeeze, and that's been happening for years and years and years, and so I guess we were wondering when the benefits of this expenditure show up in some kind of tangible way, where we can see improved margins on divisionals and different geographies, which has not been apparent today.

Sanjeev Gandhi: I'll just clarify that. I mentioned that earlier, I said, as soon as we see scale. At the moment, the business is exciting, it's growing from a very small base, so we are doubling and tripling our business there, but it's still small in the bigger scheme of things at Orica. We need to scale that up, and it's been challenging over the last two years because of all the restrictions that we have all faced in our lives. Now that those restrictions ease, we are seeing very rapid scale up.

You know that any technology introduction comes with a lot of challenges. You have the prototyping, you do the testing, you get approvals from your customers, and then you start to sign commercial contracts, and it's all about proof of concept. It's about giving confidence to your customers. We have reached that stage where we have viable commercial products already in the market, and now the focus is on commercialisation and scaling up.

As soon as that starts to happen, we'll see the needle moving. Until then, there's a lot of promise, but it's not contributing a lot. We are on the cusp of starting to scale this thing up, and then we'll - hopefully, from next year, we'll be able to talk about some material gains coming from the new technology investments that we've been making so far.

Brenton Saunders: (Pendal Group, Analyst) Thank you. Can I just ask, the Latam divisional, you've got nearly a billion dollars of revenue, and like $30 million of EBIT, it seems like a lot of effort for a little bit of EBIT. There's been quite a lot of capital put to work in that geography with the acquisition in the last - in fact, I think Exsa was supposed to be close to $20 million of EBIT by itself by now. I'm just wondering about that divisional. It seems like it's been very volatile for the Group over time, and it feels like it's really battling. I understand there's a lot of disruption from an industrial action perspective and a COVID perspective in Latam, but maybe you could just describe to us how that EBIT number gets better and how you get better operating leverage there?

Sanjeev Gandhi: Absolutely, Brenton. First of all, Exsa, the integration is on track, the business delivered, basically, the synergies and the results that were in the acquisition case. I'm pretty pleased with this, given the fact that we have this fantastic position in Peru, where we're a market leader. Latam as a region was one of the most severely impacted in terms of COVID, and then you mentioned all the civil strifes and strikes and the inflation that's also been quite significant in Latam. There are certain markets, like Brazil, where we have seen 30%, 40%, 50% cost inflation coming. Not just us, but everybody who participates in that region.

A couple of measures that we are doing. We now leveraging off the network of Exsa to start consolidating our manufacturing footprint in Latin America. We've had a couple of country exits there, where we don’t see potential, so we're working very hard on taking costs out. We have started to upsell to Exsa customers, because Exsa was offering basic products. We have now brought the Orica suite of products and services, the higher margin solutions, and that's starting to flow through into Exsa customers, which is fantastic to see. That's working very well.

Then the last is the pricing discipline. We are really working very, very hard on - in fact, Latam, and I have to give credit to my team there, they were the leaders in trying to push prices up, because obviously, we had the lowest margins globally in that region, given the nature of the business, and they have been very, very successful. In fact, they led the way, and they gave confidence then to the rest of the organisation to say, this is working, this can happen, and we'll all do it. There are a lot of measures happening, and I'm hoping that next year, when we talk about our full year results, we will see improvements in the Latam contribution to Orica.

Brenton Saunders: (Pendal Group, Analyst) Thank you very much.

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

Nathan Reilly: (UBS, Analyst) Thanks, Sanjeev. Just with respect to some of these strategic pillars that you've outlined in terms of supporting that strategic refresh, do you see any particular pillar or pillars being a more material driver in terms of achieving your three-year RONA targets?

Sanjeev Gandhi: In my view, all of them are and will continue to be material drivers. The one I'm most excited about is digital, as you can imagine. It's not just a buzz word; we have the offerings today. Today, what we can do, is we can tell our mining customer about their orebody. We have sensors today which are able to, in real time, as we drill into the ground, into the ore, give us information. That helps us to do the mine planning. That helps us then to design the blast, and then you have BlastIQ coming in, obviously. That helps us then to look at the ore, and the fragmentation size. We have the FRAGTrack and the ORETrack that looks in real time at ore size, feeds that back into the drill and blast plans, feeds that back in real time to our blasting intensity, and then we have the 4D where we can do variable blasting per hole to get the adequate fragmentation size. That helps the customer to get the most out of the ore, most efficiency, least wastage, and then to get the highest quality that goes into the market.

We are also able then, to speed up the process, from ore to mill, and then from mill to the market, because our customers today are quite excited, they have these high prices, and they are telling us, Orica, we need more volumes and we need it yesterday. We have our sprint services; we have the new BM7s with the latest BlastIQ technology in it. It's all there.

If a customer is interested in design for outcome, we can do end-to-end, including blasting. If a customer says no, we are only interested in orebody intelligence, there you go, we have the offering ready to go. I did mention that we are today in a situation where we are offering our digital solutions to customer sites where we don't do blasting. This means that some of our peers in the industry, our competitors, are planning their blasting based on our technology and software, and I think that's a fantastic ratification of this technology.

The good news was that we were able to scale this up despite COVID, because a lot of those digital technologies are then rolled out over the cloud and virtually, so that was one fortunate part that we had that COVID did not slow us down there, as it did in WebGen and all these other widgets that we are introducing into the market. For me, that's the most exciting future growth business. Outside of that, it's obviously going to be future-facing commodities, and I talked a lot about it.

Nathan Reilly: (UBS, Analyst) Thanks for that. Maybe a question for Chris, just in terms of some of these cost reduction targets, or the focus on cost reduction, shorter term, can you give us an idea of how much that cost reduction process is going to support the earnings growth outlook into F22?

Christopher Davis: We haven't given any guidance on what that cost reduction is going to be. There's going to be cost reduction over the next three years. Part of it's related to the Manila Centres of Excellence, the Brisbane Centres of Excellence and the India Centres of Excellence. But I think, broadly speaking, you should look at what's happened in past years, and that's about it.

Nathan Reilly: (UBS, Analyst) Understood. Final question, just in relation to your gas supply portfolio, in terms of any near-term contract maturities, I know that you've got some longer-term gas supply arrangements in there, but just wondering, in terms of the near-term outlook, particularly on the east coast, if there's anything that needs to be renegotiated there and how you're factoring that into your contract pricing management plans going forward?

Sanjeev: Nothing in the near-term, Nathan, because we are booked, our contract book is until 2026. At the moment, there is not much we can and will do. Obviously, in terms of the pricing, the gas price is reflected in the rise and falls. When gas price moves, the pricing on every quarter moves there. But in terms of anything material in 2022, no, there is nothing material in 2022.

Nathan Reilly: (UBS, Analyst) Okay, thanks for that.

Operator: Our final question comes from Brook Campbell at Barrenjoey. Please go ahead.

Brook Campbell: (Barrenjoey, Analyst) Thanks for taking my question. Just in relation to the RONA targets, are you able to provide an idea of how you think the asset base or the funds employed might move over the next three years? Any potential impairments, for example, for these countries that you're exiting?

Christopher Davis: We are not planning on any impairments per se, but I think if you just turn to the compendium, which we've released as part of the market results, it gives you the net operating asset base. What I did reflect in my comment right up front is it is a capital-light strategy. The quantum of the Capex that I've outlined today is pretty much aligned with depreciation. If you take it on that basis, it's a level head on the net operating asset base.

Brook Campbell: (Barrenjoey, Analyst) Understood, thanks. Then just with WebGen, can you confirm what proportion of your sales at the moment are on a trial basis, versus paying customers?

Sanjeev Gandhi: I don't have the numbers with me, but I can tell you that the number of blasts we did year on year doubled, so from 2020 to 2021, and the plan is to double them again in 2022. The number of customer sites that we have where we did trials that have started also commercial supply has also doubled year on year, and we are going to continue that momentum going forward.

The only thing that holds us back is that we have to get through those final trials, because the proof of concept is there. We have now videos of different customer site blasts that we are able to share, but obviously customers would like to do a test on their own sites, and that's what's taking time, because we are going site by site, region by region, customer by customer, and getting those blasts done, and then starting to negotiate commercial contracts. The scale up is pretty rapid, but also to keep in mind, it comes from a very, very small base.

Brook Campbell: (Barrenjoey, Analyst) One more if I could, actually. Just with respect to COVID, is there any part of your business, any regions where that's still impacting customer demand, or are you back to normal operating conditions?

Sanjeev Gandhi: I think in most regions, fortunately now, the world has gotten used to live with this pandemic, and we have business as usual. There are always concerns. I've been reading that Europe is facing a fourth wave of COVID, so we have to wait and watch as they get into winter, whether that would impact, I cannot predict this. The other one is China, because I understand that the Chinese population is starting to stock up on essential goods. I have a feeling that they might end up in a national lockdown because they have also seen a resurgence.

There are always pockets of concern. But I have a feeling that having learnt the hard way the challenges that COVID comes up with in the first half of last year, we have become a little bit more resilient. We have all the systems in place, and we focus on what we can control and what's within our scope of influence.

Brook Campbell: (Barrenjoey, Analyst) Great, thanks.

Operator: Thank you. That was our final question.

Delphine Cassidy: I'll close. Thank you all for joining us today. I'm available at any time if you have any further questions. Thank you for your time. Have a good day.

End of Transcript