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Delphine Cassidy: Good morning, all. Welcome to Orica's First Half Financial Year 21 results. Joining us today in the room is Sanjeev Gandhi, our newly appointed CEO, and Christopher Davis, CFO who many of you have met before.

We've got Sanjeev presenting to us first, followed by Chris, and then Sanjeev to close out the presentation before we open up for questions. We look forward to meeting you, hopefully on a one-on-one basis, subject to our travel restrictions being lifted. I'll hand over to Sanjeev now to take us through the results.

Sanjeev Gandhi: Thank you, Delphine. Good morning, everyone, and welcome to our half year 2021 results presentation. Since starting in this role, I've had the opportunity to meet many of our investors and analysts either virtually or face-to-face. Once vaccination programs have been rolled out more widely and we are able to travel again, I hope to meet many more, including our offshore investors.

Thank you for joining us today after what has been a challenging half year. I'm joined by our Chief Financial Officer, Chris Davis.

Before we go into detail, I'll ask you to take a moment to read the disclaimer on slide 2 and then we'll move to slide 4.

It has been an exciting first six weeks in my role as CEO of Orica. Besides meeting investors, I've spent some time meeting key customers, our employees, and visiting some sites here in Australia. I have announced a newly revamped management team and we have kicked off initiatives to address our cost base and revisit our corporate strategy.

I can say with confidence that the fundamentals of the business remain sound. However, our first half financial results reflect the combination of market factors, such as the ongoing COVID-related disruptions, geopolitical and community issues in Latin America and the Australia/China tensions, and obviously FX.

Although these are mostly temporary factors, they've had a significant impact on our earnings. While each of these will largely reverse over time, we cannot directly influence them. So I have charged my new management team to focus on what we can control.

Our clear priorities are to continue to stabilise SAP and reap the benefits of efficiencies of the integrated ERP platform, to reduce our cost base sustainably, to continue to drive innovation and to commercialise our technology faster, and to continue to advance our core strategic goals.

We've also commenced the sale process for Minova which Chris and I will talk about later in the presentation.

Moving on to results on slide 5. Impacted mainly by factors out of our control, the EBIT for this half was disappointing. Excluding Exsa's 160,000 tonnes of AN, volumes were down 9% over the half while EBIT declined 51% due to increased change management and training expenses for the new SAP system, a significant strengthening of the Australian dollar, volume impact on the higher margin thermal coal markets in Australia, loss of volume and services due to COVID disruptions around the world, increased input costs, including gas and ammonia, and higher depreciation to do the investments in Burrup, 4S and Exsa.

I'm pleased to say that both Burrup and Exsa are performing in line with expectation, although we have incurred further arbitration costs at Burrup.

As we address these challenges, we have maintained our disciplined approach to our balance sheet and capital management, and delivered a step up and cash generation. Chris will go into more detail on all of this shortly. The Board has declared a dividend of 7.5 cents per share.

Moving on to slide 6. Safety is our number one priority. I'm pleased to report a fatality free half, but we do see an uptick in our serious injury case rate. We are working very hard to bring this back on track. As we have detailed previously, we continue to have strict protocols in place to keep our people safe. We are also continuing to support our local communities severely impacted by COVID, especially in Peru and India.

We are advancing our strategy to become an even more responsible and more sustainable organisation. Our major decarbonisation projects are progressing to plan, and we are on target to meet our industry leading emissions targets.

Importantly, it was a half with no significant environmental incidents. We are also continuing to make progress on diversity and inclusion with females representing 32% of our senior management.

Onto slide number 7. There are three components to our climate action strategy. The first is ensuring that climate is deeply embedded into all our strategic thinking and decision making. Climate is now being progressively integrated into our commodity scenario analysis and risk management framework. This is informing our decision-making process such as diversifying into other commodities and leveraging technology to help decarbonise our operations and help our customers do the same.

Adhering to the principles of the Paris Agreement is key to our thinking. We have also committed to strong governance on our performance in this area and have aligned ourselves to the Task Force on Climate-related Financial Disclosures.

The second component is accelerating our decarbonisation. Last year we announced a strong commitment to reduce our Scope 1 and 2 emissions by at least 40% by the end of this decade. This is not just an aspirational target, rather a real, credible and challenging, but achievable goal.

We will do this using proven technology and we are progressing with plans for several of our major manufacturing sites. The first will be Carseland in Canada where low emission abatement technology will be installed later this year.

Here in Australia, we've completed a decarbonisation pre-feasibility study at Kooragang Island. You may have seen that we have recently secured the right to generate carbon credits and an optional delivery contract to sell credits to the government. These wins demonstrate strong validation and support for our plans and will be important factors influencing the final decision on this project.

At KI, we announced a $39 million investment to reduce particulate emissions from the AN prill tower, significantly improving air quality around the site. At Yarwun, we are currently undertaking a feasibility study for the use of renewable energy in our energy mix.

The third component is to stimulate climate action outside of our direct control. We are doing this by both forming partnerships across hard-to-abate sectors and entering public-private partnerships that enable decarbonisation as well as engaging with our customers to encourage and support their efforts.

Some of these include being a founding member of the Australia Industry Energy Transition Initiative, the Alberta Provincial Government co-funding low emissions technology in Canada, research partnerships with universities to further develop low emission technology and support commercialisation.

Next, we look at each of our regions starting with Australia, Pacific and Asia on slide 8. As you can see, overall volumes held up over the half. We saw an increase in Pilbara volumes thanks to the strong iron ore market, which supported the loading of the Burrup plant. However, this was offset by a decline in volumes to coal markets due to the China trade restrictions in Australia and lower coal prices, as well as COVID-related shutdowns in Indonesia in the first half.

APA did deliver an increase in initiating systems volumes in the half while cyanide volumes were broadly the same as last year. While this volume performance was reflected in revenue, EBIT was impacted by several factors, including the strong Australian dollar, a decrease in higher margin volumes, and lower recoveries of fixed costs due to the underloading of our AN plants on the east coast of Australia and in Indonesia.

We had a major copper and zinc contract win in Australia, successful turnarounds at Yarwun and KI, and we are recommencing WebGen trials in Australia with our customers.

Next, a detailed look at the Australian thermal coal. This chart shows the first impacts to trade flows to China. They were felt already around September last year and worsened as the calendar year ended. Our customers have been able to offset the impact by placing the products into alternate markets, including India, South Korea, Japan and Taiwan. While we have started to see some evidence of a rebalancing of trade flows, there is still a lot of uncertainty about how all of this will play out and over what timeframe as reflected in the March statistics.

The worsening COVID-19 situation in India is driving further uncertainty around future thermal coal trade flows. It's worth noting that there is no direct correlation between export levels and demand for explosives. Many factors such as inventory come into play and there is usually a lag before we see that impact.

Moving on now to slide 10. North America saw some difficult market conditions in the first half that impacted volumes across the region. In Canada, there was lower mine production alongside a contract loss. In Mexico, volumes were subdued due to COVID and some mines being mothballed. In the US, while AN volumes were affected by the structural decline in the thermal coal market, we saw increased EBS volumes, particularly in base and precious metal markets.

EBIT was impacted by FX, increased supply chain costs, mine disruptions, and a non-repeat of last year's Canadian carbon credits.

As our North American business stabilises, we have strong fundamentals in place. The region is leading the way with adoption of WebGen and we are encouraged by the strong outlook in key commodities and in the Q&C market.

Next on slide 11, in Latin America. Excluding Exsa’s 160,000 tonnes, AN volumes were down year on year as were initiating systems due to COVID disruptions, social unrest in Peru, and some strikes in Chile. Cyanide volumes remained flat compared to a year ago.

The decline in EBIT was mostly again due to FX, a decline in product volumes and services, lower margins on the Exsa tonnes and a temporary negative product mix in Peru as customers moved to lower value products in an effort to reduce costs in the short term.

Again, our fundamentals remain strong. There have been some new customer wins and contract retention remains strong. We are seeing increasing upside from the Exsa integration and there is positive movement in the product mix in Peru. On the macro side, the outlook for copper mining projects is very encouraging.

Moving on now to Europe, the Middle East and Africa on slide 12. While volumes of our electronic blasting systems in EMEA grew slightly over the half from demand in the Nordic countries, AN volumes, in particular the high value emulsions and packaged products, continue to be impacted significantly by the second and third COVID waves with projects postponed in Norway and in the Middle East. The CIS region remained largely resilient. Cyanide volumes were also lower due to a customer loss.

EBIT was heavily impacted by FX, volume reductions in higher margin regions, postponement of some profitable infrastructure projects and increased freight and manufacturing costs.

On the positive side, we have begun WebGen trials in Finland, and we are expecting a recovery in volumes as the weather warms up and vaccines are rolled out across the region.

Next on slide 13, Orica Monitor. Orica Monitor, which includes GroundProbe and Nitro Consult delivered strong EBIT growth despite the pandemic. Revenue was slightly up on last year from increased demand for GroundProbe's leased radar systems and geotechnical monitoring services. This is a particularly positive result given the challenges of COVID, travel restrictions and increased freight costs.

EBIT was also up on the same period last year against a very positive result despite FX headwinds. We also benefited from higher margin lease revenue, premium radar sales and remote monitoring services.

Following a successful restructuring, Nitro Consult delivered increased EBIT.

The fundamentals for our monitoring services are very positive. We have a strong forward order book with the radar manufacturing now back to 100% of capacity.

GroundProbe's new radar product has launched very successfully and is already being deployed across three continents. The team continues to develop a range of new software solutions.

Turning next on slide 14 to Minova. Minova performed well over the half, delivering a firm result and was cash positive. Revenue was down on the same period last year due to a decline in the US coal market and the Australia/China trade tensions impacting resin and steel volumes. A focus on hard rock mining resulted in a sharp increase in Canada from new customer wins.

EBIT declined slightly due to a number of factors including raw material cost pressure, freight costs and FX.

Overall, the fundamentals remain positive. Minova has a very high contract retention rate and is diversifying into infrastructure and hard rock mining while also expanding into growing markets such as India and Canada.

More broadly, while Minova has delivered a substantially improved performance in recent times, it has been identified as non-core. Therefore, we have begun a process to sell the Minova business to a more strategically aligned parent and we will consider selling at an appropriate price. Chris will talk about this shortly.

Turning on now to slide 15, I wanted to spend some time on cyanide as it presents some interesting growth opportunities for Orica. Sodium cyanide solution is used to leach gold from ore. Because this process is very efficient it allows profitable mining of lower ore grades.

The market outlook is very favourable. Elevated prices are driving mining activity and declining ore grades are leading to a large volume of ore needing to be treated. Forecasts show that cyanide consumption growth is expected to exceed that of gold. Orica is very well placed to capitalise on this opportunity as our cyanide manufacturing plant at Yarwun is perfectly located to ship to global customers.

We have recently increased capacity and being co-located with our AN plant we are able to utilise assets and resources very efficiently on that platform.

While we are already the largest player in the seaborne market, we are confident that our global supply chain network and safer delivery offering together with our ability to deliver efficiencies right through the value chain gives us a tremendous competitive advantage.

Now, I will hand over to our Chief Financial Officer, Chris Davis, who will take you through our financial performance over the half.

Christopher Davis: Thanks, Sanjeev. Looking at the key financial metrics on slide 17, as Sanjeev has already mentioned, the first half of 2021 has been challenging with a number of external factors impacting the results. Whilst we believe the business will recover, the timing remains uncertain and as a result, we are taking several actions to reduce our cost base and improve our cash position, which I will outline in my presentation.

Looking at the half year results for 2021, sales revenue of $2.6 billion was down 9% from the prior period across all business segments with the exception of Orica Monitor. The decrease was driven by lower volumes in the first half of the year and the impact of foreign exchange on the translation of foreign currency revenue.

This was partly offset by added revenue from the newly acquired Exsa business in Peru. Excluding the revenue from Exsa, which is not reflected in the prior year numbers, sales revenue is down 13%.

At $362 million, underlying EBITDA has decreased 25%. Underlying EBIT of $152 million has decreased 51% over the same period, which I will outline in more detail in the following slides.

Underlying NPAT of $73 million is 56% below the prior period driven primarily by lower earnings in the first half of the year. Statutory NPAT of $77 million was 54% lower, benefitting marginally from the after-tax gain on significant items, which I will discuss on the next slide.

The effective tax rate of 32% on underlying earnings is in line with expectations. At 18.1 cents, earnings per share is down 58% on the prior period, driven by lower underlying impact.

The interim dividend of 7.5 cents per share will be unfranked and represents a payout ratio of 42%. Despite the weaker first half performance, we are pleased that we've been able to continue paying a dividend during these challenging and uncertain times.

Turning to slide 18, entitled individually significant items. As in prior periods, we have outlined what we consider to be one-off adjustments, not in the ordinary course of business that we believe are material to the user's understanding of the financial statements.

In aggregate the net amount after tax is a gain of $3 million comprising the following. Firstly, we regularly review the facts and circumstances of each environmental legacy site to determine whether changes to the provisions are required as new information becomes available. This has resulted in a $28 million after tax increase in the provision for environmental remediation driven by an increase in costs at the Botany ground water treatment plant, and an increased shipment associated with the Botany HCB waste disposal.

As part of the global restructuring project, $16 million in after tax restructuring costs were recognised during the period. Finally, as part of our focus on monetising non-core land holdings we entered into contracts to sell the Villawood property in New South Wales resulting in an after-tax gain of $47 million.

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

Turning to the EBIT bridge on slide 19, The impact of the strengthening Australian dollar on the translation of our foreign currency earnings has had a significant impact on the first half compared to the prior period.

By way of example, the average Australian dollar to US dollar exchange rate for the first half of 2020 was approximately 67 cents compared to 75 cents in the first half of 2021. Considering the basket of currencies in which Orica operates, this has had an adverse impact of $25 million in the six months to 31 March. This has impacted all segments with the largest impact in North America.

Ammonium nitrate sales volumes at 1.9 million tonnes includes 160,000 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 half year at 1.8 million tonnes decreased by 9% compared to the prior period, which resulted in an adverse volume variance of $56 million.

This reduction in volumes is driven by trade tensions between Australia and China, which has impacted on Orica’s higher margin Australian thermal coal business, reduced mining activity and customer mine closures associated with COVID-19 in Colombia, Africa, Mexico, Indonesia, and parts of Europe and social unrest in Peru and strikes and Chile, which temporarily reduced mining activity at certain customer sites.

The impact of significantly reduced customer demand has resulted in reduced throughput, adversely impacting manufacturing fixed cost recoveries with the greatest impacts felt at Kooragang Island, Yarwun and Bontang.

Whilst Kooragang Island and Yarwun can be directly attributable to trade tensions between Australia and China, the impact of COVID-19 restrictions has impacted Bontang. Given the high fixed cost nature of our business, the impact on EBIT due to lost sales can be disproportionate, diluting EBIT beyond the fully absorbed EBIT margin.

Additionally, increased sourcing 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. Together, the reduced volumes and increased costs has resulted in an adverse variance in manufacturing of $26 million against the prior period.

Net mix and margin decreased by $34 million with impacts felt across all regions due to an expected lag in the pass-through of increased ammonia prices to customers in Asia, product mix and Latin America as customers temporarily shift to entry-level products to drive short-term cost savings in response to COVID-19, increased freight and supply chain costs across the business and the previously mentioned and expected reduction in carbon credits in Canada.

Adjacent businesses includes Orica Monitor and Minova. As Sanjeev has mentioned earlier, GroundProbe continues to perform well with increased demand for radar systems and remote geotechnical services.

Importantly, the outlook remains strong with the forward order book driving manufacturing capacity to 100%. The Nitro Consult business has delivered a significant improvement in EBIT with the growth in revenue and a reduction in operating costs following the restructuring activities in late 2020. Together, this has resulted in a 38% EBIT improvement from the Orica Monitor business.

Looking at the Minova business, despite the external factors negatively impacting performance in the first half of the year, the diversification into infrastructure and hard rock mining, as well as expansion into the growing India market has allowed the business to deliver a positive EBIT outcome of $7 million for the half.

Finally, the other category reflects a year-on-year EBIT reduction of $16 million. Key drivers for this include the increase in overheads and depreciation associated with the single SAP system and ongoing Burrup arbitration costs. This has been partly offset by gains on asset sales.

The net result is that EBIT finished the half at $152 million impacted by a number of external factors in line with the market update in February of this year.

Looking at capital expenditure on slide 20. As I mentioned on the previous slides, the first half of 2021 has been difficult due to a number of external factors. Whilst we remain confident that the business will recover, the exact timing remains unclear. As a result, we have focused on cash preservation with first half capital expenditure of $152 million well below the prior period.

Growth capital expenditure at $46 million includes investment in Australia, Brazil, Africa, and CIS to support new customer contracts, capital to support expansion of the Exsa facility in Peru, further investment in the commercialisation and manufacturing capacity of WebGen in North America and investment to support Minova's new manufacturing capacity in India.

Sustaining capital expenditure of $80 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.

At $80 million, sustaining capital expenditure is lower than normal with reduced spend driven by the targeted deferral of non-time critical projects and extended maintenance cycles. Importantly, no projects were deferred that impact safety and environmental obligations. Capital expenditure on both the Burrup plant and the new SAP system is well below that of the prior period, which is in line with expectations as these projects near completion.

As a result of this focus on cash preservation, we have revised our outlook for capital expenditure for 2021 to be in the range of $320 million to $360 million, including the final spend on the Burrup plant.

Depreciation and amortisation has increased in line with expectations to $210 million, reflecting the increased depreciation associated with the new SAP system, the commencement of depreciation on Burrup in the first half of 2021, and the inclusion of depreciation associated with the Exsa business that was acquired in May 2020. For the full 2021 year it is expected that depreciation and amortisation will be up to 25% higher than 2020.

Moving on to slide 21 entitled cash flow. As I have previously reinforced to the market, the generation of strong cash flows remains a key priority for the business. In this respect I'm extremely pleased to report strong cash generation in the first half of the year with positive net operating cash flow of $158 million and cash conversion of 139%.

At the time of the earnings update on 26 February 2021, we were progressing with system stabilisation associated with the processing of invoices to customers which had resulted in lower cash collections and an increase in our debtors balance. These efforts gained significant momentum into March and our efforts to ensure correct and timely invoicing and follow up on customer collections has resulted in our trade working capital balance reducing by $140 million since 30 September 2020, with debtors reducing by $152 million.

As we continue to work on the embedment of the SAP system, we will continue to monitor our cash generation and cash conversion metrics with a view to maintaining cash conversion at our stated expectation of between 90% to 100%.

Turning to net debt and gearing on slide 22. We remain pleased with the balance sheet performance, despite the impact of lower earnings in the first half of the year. Net debt at $1.7 billion includes a favourable translation impact of $153 million resulting from FX on our US dollar denominated debt.

Importantly, despite a significant reduction in EBITDA, the material improvement in trade working capital has helped offset capital expenditure outflows, taxation and interest payments and the reduction in non-trade creditors. At $1.7 billion, this results in gearing of 35.4%, which is comfortably within our target range of 30% to 40%.

Moving on to slide 23, on our balance sheet and liquidity profile. As we have previously reported, we continue to have high levels of liquidity available as demonstrated by the $869 million of undrawn committed bank facilities and a further $989 million of cash at 31 March. Our average drawn debt tenor is currently 4.7 years.

As a result of the proactive pre-refinancing completed in 2020, we have limited near term refinancing requirements. Our all-in cost of funds is 4%. With gearing at 35.4% and interest cover at 4.3 times, our two debt covenants are comfortably within requirements.

Our focus in the near term will remain on cash preservation with a specific focus on inventory management where we will continue to maintain inventory at appropriate levels in the business. We will focus on stability of debtors invoicing and collections as we continue to embed the SAP system. Capital expenditure discipline will continue without compromising safety or environmental obligations and finally, there will be an increased focus on cost reductions so as to right-size the business and leverage the benefits of a global standardised SAP system.

We remain committed to maintaining a strong and flexible balance sheet supported by adequate liquidity levels as we continue through these challenging times. With that mind, I'd like to take you to my final slide 24 entitled balance sheet initiatives in which I've outlined a number of initiatives we have already commenced.

We continue to review our portfolio of assets with a view to focusing on our market leading commercial explosives and technology-led outcomes. As a result, Orica has announced today its intention to commence a sale process for the Minova business.

Minova is a global leader in chemical and mechanical earth control products, adhesives and ground support solutions, which are used in underground mining and tunnelling markets globally. The business has and continues to progress well on its turnaround journey and growth agenda, focusing on supplying its range of products to the hard rock and infrastructure markets whilst pursuing new and attractive markets, such as India and Canada.

For the 12 months to 30 September 2020, Minova reported revenue and EBITDA of $471 million and $32 million respectively and is a cash generative business. We believe that the timing is right to evaluate opportunities for a sale of the business to a more strategically aligned party that recognises the value and upside we see in Minova, thereby allowing Orica to focus on its core mining and infrastructure activities in the explosives and technology space.

Turning to non-core land holdings, I am pleased to report that in March 2021 we signed agreements for the sale of our Villawood land holdings in New South Wales for a cash consideration of $65 million, with the balance of proceeds expected to be received in the second half of this financial year.

Furthermore, we have commenced the sale of Lot 9 at Botany in New South Wales and the much-anticipated sale process of the first tranche of our 150 hectare industrial land at Deer Park in Melbourne's western industrial heartland. The proposed land sales enable us to release further cash to strengthen our balance sheet.

It is important to note that we entered these challenging times in a position of strength with significant cash on hand and strong levels of liquidity. The actions we have outlined today, including sale of non-core assets and land holdings, reduced capital expenditure and a focus on sustainable cost reductions across the business demonstrate we remain committed and focused on maintaining that position.

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

Sanjeev Gandhi: Thanks, Chris. Now we will turn to our strategic priorities. My first priority upon accepting the role was to put together a new leadership team, which you will see on slide 26.

It's a good mix of diverse experiences, qualifications, background, and industry knowledge, which I intend to leverage for the future benefits of Orica and our customers. We are fortunate to have a deep and broad pool of talent and I'm very pleased to say that these were all internal appointments and promotions.

We made some subtle, but purposeful modifications to the role structure within Exco that are designed to accelerate our strategic strategy delivery. A key change is that our ammonium nitrate continuous manufacturing plants have been aligned to the regions they supply, as we want the regions to benefit from the competitive edge of local production. This means that continuous manufacturing as a global organisation no longer exists.

We have created a new role that brings together our global discrete manufacturing network, which includes initiating systems and packaged explosives as well as our global supply chain team together. The technology, innovation and IT teams are now together under a Chief Technology Officer role. I would also like to add that the safety function will now directly report to me as I want to be directly connected with our most important priority.

This Exco team has been structured to achieve our key strategic objectives, which I will talk to next on slide number 27.

We have two key objectives: operating as efficiently as possible and ensuring we are focused on the areas that will deliver growth fastest.

In terms of the first, we've undertaken a number of projects to ensure our continuous and discrete manufacturing sites are operating reliably and are able to deliver to customers on a timely basis. At the same time, we will ensure that our overheads and operating model are fit for purpose and aligned with the commercial and practical realities of our operating environment.

Our growth objectives fall into three categories. The first, extend and capitalise on our position as leaders in high growth, high margin technology and innovation. The second is to identify and aggressively pursue all options for organic growth. And third, ensure a portfolio of assets perfectly matches our aspirations.

Deeply embedded within all of these programs is our commitment to sustainable economic profitable growth. Last year, we developed a sustainability framework to drive deeper sustainability engagement and outcomes across the Company. This focuses on areas that matter most to Orica and our stakeholders, where we have the expertise to make the biggest impact.

Moving now to slide 28, as I mentioned at the start of the presentation, the fundamentals of our business are strong and are the basis of our competitive advantage. To build on these fundamentals, first, we will optimise our costs. That means sustainably reducing our overheads, which is currently already in progress.

At the same time, we need to achieve full stability and reliability of our SAP platform as quickly as possible so that we can maximise the benefits and efficiencies that will come from it.

Together, this combination of a streamlined reduced cost base and an integrated enterprise management platform will provide the best and most powerful foundation from which to build success.

Key to this will be our focus on technology and innovation. Orica has a proud history of innovating, from our earliest days supplying explosives to the Australian goldfields, to the launch of WebGen, the world's first fully wireless initiating system.

We need to increase the pace and adoption of new technologies to reap the benefits of our investments. We will continue to invest in research and development that creates the cutting-edge technologies of the future, that will deliver additional value to our customers, and will also seize inorganic growth opportunities.

And finally, our five immediate strategic priorities sit within what we can control and what we can influence.

(1) Ensuring we have a streamlined, efficient operating model that's directly aligned with our commercial success. We've already made good progress on this front, and we expect another step change following the full stabilisation of our SAP platform.

(2) Accelerating our technology development and commercialisation. We saw growing uptake of our higher margin digital solutions in the first half, and we are on track to further ramp up significantly.

(3) Is the ongoing integration of Exsa and realising the synergies.

(4) Is to ensure that our continuous manufacturing plants are operating as efficiently, cost effectively, reliably and safely as possible.

And (5) Is our multiyear program to optimise the performance of our global initiating systems network. This is progressing well. The closures we've announced previously are on track, and the program will ramp up next year.

Next, I want to talk in more detail about our technology strategy. I wanted to spend some time on how we can move beyond the blasting space of the mining process where Orica has typically operated and is a market leader.

Over time, we have progressively launched fully integrated technology that has revolutionised drill and blast, delivering accurate and repeatable execution of carefully planned blasts.

We introduced the world's first full wireless initiating system, WebGen. We created blast design and modelling software called SHOTPlus, that enables users to design, visualise and analyse blast initiating sequences across surface and underground mining, quarrying and construction.

We developed Bulkmaster 7, a state-of-the-art technology laden, automated truck delivery system that ensures the right explosives mix goes into the right hole, delivering predictable, reliable and transparent blasting outcomes, while minimising the number of assets, people and time it takes to load a blast.

We launched BlastIQ, our cloud-based platform that provides the blast control workflow solution connecting the blast design, on-bench quality control, and our smart-connected truck, enhancing productivity of mine operations, and compliance to regulatory requirements.

Just last month, we announced the global release of advanced vibration management software, a new module within the BlastIQ platform, that links blast design, modelling and measurement, to conserve sensitive structures near quarries and mines.

We've started expanding our scope and capability across the mining value chain. We have launched FRAGTrack and ORETrack. FRAGTrack is binocular image capture technology which captures and analyses 2D and 3D blast fragmentation data. Using this data, blast designs can be optimised to ensure fragmentation needs of our customers are met, in terms of sizing requirements, thereby reducing processing costs and assisting the georeferencing stockpiles by partnering with fleet management solution providers.

ORETrack traces rock material from a blast, right through to the plant, and in combination with FRAGTrack, provides the ability to optimise fragmentation by associating the particle size with the blast hole.

Late last year, we were chosen as the commercialisation partner for the integrated extraction simulator platform developed here in Australia. It's a cloud-based solution designed to optimise energy across the mining value chain, from blasting to flotation, to the application of simulation, neural networks and advanced machine learning. As part of the commercialisation, we will be leveraging the current renowned industry experts in mineral processing from the IES team, who will join Orica, providing us the right to play in the mineral processing optimisation solutions field.

Using the GroundProbe expertise, we also offer the market-leading geotechnology solutions, which enable our customers to make confident, informed decisions to better manage risk, increase productivity and ensure maximum safety.

At the same time, we are expanding our role in the value chain prior to the blast, in ore body intelligence. Last year we acquired Rhino, a geoscience logging tool which uses IoT sensors, seismic while drilling techniques, and machine learning, to provide in situ high resolution rock characteristics from blast hole drills, in real time. Ore body intelligence is an area we are actively exploring, which offers geotechnical exploration technology through a portfolio approach of sensors and AI-based algorithms.

Looking ahead, our strategy is to operate our platform as open, secure and integrated, thereby providing best-in-class products and services across the individual verticals in the mining value chain that our customers can choose from, and offer a seamless workflow integration across the mining value chain, unlocking productivity gains for customers and presenting huge opportunity for growth for Orica.

Next, we will move to the outlook, beginning with an overview of the current uncertainty around COVID, on slide 31. As we see on the news every day, COVID-19 is still devastating many regions around the world. Unfortunately, while vaccines are now being rolled out in many countries, there is still a great deal of uncertainty about the timing of a full global recovery. We will continue to adapt to changing conditions on the ground, utilising technology and the incredible creativity and commitment of our team, to keep serving our customers safely.

Moving now on to outlook, on slide 32. The performance of the underlying business has improved, and we are expecting volumes in the second half to be better than the first half this year. However, there is uncertainty from continued COVID-related disruptions and the ongoing Australia/China trade issues.

We remain cautious about the short-term outlook and expect the second half EBIT to be lower than the pcp due to;

- Negative FX impact of approximately $40 million for the half, based on current exchange rates.
- Additional depreciation and operating costs in the second half of approximately $30 million following the implementation of SAP.

The integration of Exsa and related synergies remain on plan to deliver $20 million for the year. We expect $12 million to be delivered in this half.

We expect additional benefits from continued customer adoption of our technology, which is expected to more than offset increased supply chain costs.

Over the next few months, my team and I will be realigning our strategy and identifying key initiatives to achieve sustainable profitable growth for Orica. We have already started working on some key strategic initiatives, including manufacturing optimisation, sustainable overhead cost reduction and capital optimisation. I will present this to the market, along with the outcomes from these initiatives already under way, at the full year results in November this year.

Before we open for questions, I would like to reiterate that whilst we have some short-term challenges, the fundamentals of our business remain sound. My team and I are energised, focused on resetting the business, so that we are well positioned for recovery as external conditions stabilise.

Thank you. Chris and I are now happy to take your questions.

Operator: Thank you, Sanjeev. Just a reminder, if participants wish to ask a question, please press star one on your telephone.

Our first question comes from Richard Johnson at Jefferies. Please go ahead.

Richard Johnson: (Jefferies, Analyst) Thank you very much. Could I start, please, with the cash flow and the balance sheet? Chris, I'm just interested to get a sense of whether the, what looks like a very good outcome in the half has actually ended up being a bit better than you'd hoped, when you had the update back in February?

Chris Davis: Richard, it is better than I'd hoped. When we had the update in February, we were still having a lot of teething problems. We pushed quite hard in the month of March, to resolve a number of the billing issues. It's not to say we're out of the woods, but we're certainly well on top of it, and I expect that this will further improve as we go, during the course of this year.

Richard Johnson: (Jefferies, Analyst) From that, can I assume that, as you embed SAP, there'll be further working capital release?

Chris Davis: There should be, particularly in the space of debtors, during the course of this year. What I hope, as we go into 2022, we should get better line of sight on inventory and further working capital releases around inventory, particularly as you align it with our projects around footprint rationalisation, which will see a number of sites close, as Sanjeev has mentioned, we should get better use of inventory across the Group.

Richard Johnson: (Jefferies, Analyst) Okay. Have you got a sense, very broadly, of how material that might be?

Chris Davis: Oh, Richard, I'd hate to quote that number right now, but - no, I'd rather not quote that number, but I do want to go to the land sales, because the land sales that I had referred to earlier will generate us up to $300 million in additional cash.

Richard Johnson: (Jefferies, Analyst) Okay, thank you, that's very helpful. Then, in relation to the asset sales, including Minova, how should we think about any tax treatment on those proceeds?

Chris Davis: How should we think about?

Richard Johnson: (Jefferies, Analyst) The tax proceeds, the tax treatment of those proceeds? What's the net number to you?

Chris Davis: The book value that we have for Minova at the moment is about $90 million, so a lot of it will depend on what our - the ultimate purchase price is on that, Richard.

Richard Johnson: (Jefferies, Analyst) I should just apply the average tax rate, and that will get me close, right?

Chris Davis: I think there'd probably be some tax benefits on that, given how much we've impaired in the past, but I'm happy to come back to you on that one.

Richard Johnson: (Jefferies, Analyst) Thanks, then just two quick other ones. In Canada, historically, you've had competitive advantage has been an important business to you. Just trying to get a sense of where the business stands today. Has it gone backwards? What do you need to do with it? Or is just really a COVID-related issue that you're facing?

Sanjeev Gandhi: Thanks, Richard, this is Sanjeev. Yes, Canada has been a very, very strong market for us, and continues to be. The outlook is quite positive, given the exposure Canada has to the minerals where we want to grow. Canada business has been impacted by COVID. As we speak, we still see emerging cases around our sites in Canada, so we are being a little bit cautious there.

Obviously, the weather has impacted with the cold winter, but as we get into spring and summer, the outlook is quite positive for Canada, and we see that translating into good volumes for us, going forward.

Secondly, technology uptake from our customers in Canada has been pretty good, and North America basically has been a highlight for our WebGen launch, because they have seen the strongest uptake from our new products and technology, so this is very, very promising.

Richard Johnson: (Jefferies, Analyst) That's great. Thank you. Then, just finally, I was wondering if you could remind me how material your business in India is?

Sanjeev Gandhi: The business in India has been, it's been a long-running business. We have been traditionally a very strong player. The business has tapered off in the recent years, given the cost-competitive environment, and the monopolised nature of the market in India, given there is one state-owned monopoly, but the outlook for the business is quite good, after India surpasses these COVID challenges, because the government is very keen to open up the mining sector.

Energy independence, as you can imagine, for all third world developing countries, is very, very important, and bringing in new technology, bringing in the private sector, is going to give a significant boost in terms of business potential there. We have quite a strong network. We have manufacturing sites across the country, and we are also bringing in, through the support of regulation, the transition from electrical detonators, which are basically old tech, which are being phased out, into the new, modern EBS and wireless technologies.

So the outlook for the business is very, very strong. We also see that positive outlook reflecting in the Minova business, where we are setting up a joint venture to start manufacturing, in fact, in June, and COVID-permitting, we should be able to start that plant up, which will give significant uptick to Minova sales, as well as margins.

So, the outlook is very, very strong. The current situation, obviously, with COVID, is very, very concerning, unfortunately.

Richard Johnson: (Jefferies, Analyst) That's very helpful, thank you. That's it from me.

Chris Davis: Richard, just before you disappear, just to answer your question on the tax on Minova, given the high tax base, as you'll appreciate, from the original purchase acquisition, we don't expect a lot of tax on that at all.

Richard Johnson: (Jefferies, Analyst) Great. Thanks very much, Chris.

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

Andrew Scott: (Morgan Stanley, Analyst) Hi, Sanjeev, and possibly, Chris, you can chime in as well. I just wanted to really get an understanding on where we are with SAP. Obviously, a pretty significant bill for this, and it's still, apparently, is not performing. You referenced stabilisation. Can you just talk us through what that means and what's required to get it to an adequate position?

Sanjeev Gandhi: Absolutely, Andrew. This is Sanjeev here.

As we initially indicated, when we rolled out SAP go-live as of July, it would take us up to 18 months to stabilise the system. We are in the process of coming close to business stabilisation. Every week and every month that we use the system it gets better.

There is still some work to do. First of all, we have to ensure that all the master data that we uploaded into the new SAP system has been validated and corrected. Obviously, if you move errors from the old system into the new system, it translates into errors in terms of outcomes from the new system. So we have to go back and look at all the master data, which we have gone through that exercise, but on a global basis, it takes a lot of time and effort. So master data clean up is an ongoing process. That is something that we intend to complete within the next five months of this financial year.

The second is the management of change, and training. Now, I myself am using the SAP system as of July, every day, and I tell you, I just get comfortable with it, because it gets more familiar to me, and it's easier for me now to navigate the different tiles and to try and find what I'm looking for. It's just a matter of training and compatibility and getting comfortable.

We are investing a lot of time and effort in training our users, and you can imagine, we have a lot of users, globally, for the SAP system, because we have been operating now, fully, on that particular system. So that continues to be an effort, in terms of time and resources spent on training our organisation.

Thirdly, obviously, addressing some of the system impacts that we had - change requests, as we call them, in technical jargon. There has been a bit of a build-up of change requests, so we are going through these every week. We have a tracking system, under our CTO, who's monitoring this on a bi-monthly basis. We have every region, every stakeholder involved in these steering committee meetings, so that we can address challenges as we see them coming up.

So, the top line message is, it gets better every day. We still need a bit more time, and that is why we have flagged that there will be certain costs related to stabilising the system, in the second half of this financial year, as well as the additional depreciation that we have to bear now.

Andrew Scott: (Morgan Stanley, Analyst) Okay. Understood. Thank you. Secondly, you referenced that at the full year you'll give us some, a strategy update and you've talked about overhead cost reductions and manufacturing optimisation. To be fair, this does precede you, but it's not dissimilar to what we've heard from your - I think, both of your predecessors. Just interested to get some of your first impressions and where you think the opportunities lie, given that this is really the first time we’re hearing you speak on the record since you have adopted the CEO role.

Sanjeev Gandhi: Well, the first obvious opportunity is that our costs need to come down. The trick is always to see what can the business afford today, and going forward, here. So there's obvious potential to take costs out.

Now, these are different kinds of costs. One, obviously, are the overheads, and sometimes, in global organisations, you see this inflation of overheads, which then comes and catches up with you. We are looking at tasks that we are doing, which are nice to do, and we are either deciding to eliminate those tasks, or to push them out. Now, that gives us immediate relief in terms of costs, because there are resources behind every task that we do in this organisation.

The second major uplift will come when we have the ERP system stabilised, because then we can leverage off all the automation activities that the SAP system provides you. Now, one example is clearly billing. At the moment we are doing manual billing, so every invoice that we send out to our customer, all across the globe, has to be done manually. Once the system is stabilised and we have started ramping up what we call auto billing module, the system will take care of the billing for the month, whether this is a consolidated bill, with all the products and services, or this is individual bills for products and services. This leads to significant efficiencies in terms of manual intervention, so obviously, that will give us benefits.

These are short-term things that we are doing, without waiting for any kind of strategy discussion, because that's something that we need to do now, and today, so that process has already started. Some of that impact will be positively visible already in this financial year, and a lot of that will be visible in the next year.

Now, I will be ready to quantify all of that when I come up in November, to announce the results for this financial year.

On the manufacturing side, we already had a process running to look at our initiating systems network, globally. This is something we are going to expand, because you know that in discrete manufacturing we have not only initiating systems, but also packaged explosives and emulsion factories. So we're going to look at the global network of all our discrete manufacturing sites, to see, first of all, where can we leverage off Exsa, so that we can consolidate sites? Where can we take out sites which are in high-cost countries? Where can we take out sites which are underutilised and there is limited potential to fill those sites?

This is going to give us significant benefits, but these are structural moves, and obviously they will not happen overnight, but we are working on a very, very clear plan and we will continue to announce this to the market as we are ready to talk to some of the site closures that are in the planning.

Then the last major cost impact, which is a big one, is our continuous manufacturing assets. We have five plants manufacturing ammonium nitrate, globally. Obviously, some of them have been challenged in terms of age, high cost and then, the most important factors are high natural gas. So, we are developing a strategy and optionalities to look into that manufacturing network to see, where can we take costs out, short term, and where can we take out costs long term, in terms of being sustainable, in terms of being cost competitive, and moving to the left of the cost curve?

So, there are several work streams progressing, and as part of the strategy, we are also looking into our technology rollout. Now, we have ambitious plans to roll out our new technologies, new products, new services, but unfortunately, because of COVID, some of that has gotten delayed, because we couldn't get our technical teams down to our customer sites to demonstrate and hold hands and take them through the process of introducing a new product.

Now that things start to get a little bit better in certain markets, we are able to move our tech teams down, and we see a very strong uptick and a very strong uptake for our technologies and solutions. Now, hopefully, we will build on this. We are going to allocate more resources to our commercialisation teams, and we want to ramp up significantly on technology.

We are planning a tech day, in July, where we are inviting some of you to come and see our technology, so it's not about talking and presentations, but demonstrating what we are doing there. Then, obviously, in November, as part of the strategy, we will update on all benefits.

Andrew Scott: (Morgan Stanley, Analyst) That's really helpful, Sanjeev. Thank you.

Operator: Our next question comes from Sophie Spartalis, at Bank of America. Please go ahead.

Sophie Spartalis: (Bank of America, Analyst) Good morning, Sanjeev, Chris and team. I just want to ask a few questions. Firstly, Chris, slide 38, can you help us understand those EBIT sensitivities to the currency, please? How we can apply that, going forward?

Chris Davis: Sophie, as a general rule of thumb, each one cent move in the average basket of goods, and I use the US/Australia dollar as a proxy, equates to just over $3 million impact to our earnings. So, what we've seen in the first half of the year, the 67 cents plays the 75 cents, that was roughly $25 million.

Now, in the outlook Sanjeev had indicated approximately $40 million impact. So, the second half of last year we were also roughly at about 67 cents, and if you look at the exchange rate over the last couple of days, I think it hit about 79 cents. So, if you just do that translation, you'll get to approximately $40 million. But there is, clearly, a basket of currencies at play here, and it really depends on what happens in a lot of those jurisdictions.

Sophie Spartalis: (Bank of America, Analyst) Okay, that's helpful. Thank you. Then, Sanjeev, you mentioned in your commentary earlier, that there was a temporary effect in Latin America due to them reverting to entry level products. You thought that this was temporary in nature, but can you elaborate there, and just talk around the conviction of it just being temporary, that they will move to a higher margin mix product, going forward?

Sanjeev Gandhi: Sophie, we already see that happening in the last couple of months. What is helping is obviously the very, very lucrative prices for products like copper and iron ore, also gold, which is encouraging our customers in Latin America to go back to the high value products and solutions that Orica offers, because this obviously comes with benefits, in terms of better yields, better efficiency, and lower costs. So we already see that happening, and barring any unforeseen unfortunate events that might happen in Latin America, I expect that to continue.

I mean, we've seen that trend happening over a period of time, and we also see opportunities here, because with Exsa, we have now access to customers where we have the opportunity to also upsell, with our advanced technologies and products and solutions, so it's going to be a double win for us, once things start to normalise, in terms of COVID in Latin America.

Sophie Spartalis: (Bank of America, Analyst) Okay. Great. Thank you. A final question - in terms of coal, you talked around optimising your manufacturing asset base - but in terms of Glencore, they've announced a 40% coal reduction - a coal production cut, from 2019 and 2035. Can you talk through how you intend to reshape your business to address that coal exposure risk? Particularly in the Australian business. Then, how that ties into your comments earlier, around optimising your asset base?

Sanjeev Gandhi: There are a couple of initiatives we are taking. We all agree that there is going to be a structural decline of coal consumption. The question is not if, but when. But I am also convinced that this is not happening overnight, which gives us a little bit of time to plan for that transition, so there are several things we are doing.

Now, Australia obviously has the biggest exposure to coal, within our portfolio, and Indonesia, obviously. In most of the rest of the world, we have very, very limited exposure to coal. So that's the good news, and that's not impacted. For example, in the US, we've already seen the structural decline of coal happening, for a certain period of time, and we've already adapted and changed our business models there. That's a good example for us as to what we should be doing in Australia.

There are a couple of measures that I have implemented as soon as I've gotten on board here. The first is, in the past, we've had one consolidated commercial and sales and marketing team catering to the entire Australian market. What we have done, as of 1 April, is we have split the team into two. We now have a dedicated coal team, and we have a dedicated team catering to all other customers and commodities.

Now there are clear reasons for this. One is obviously we need to adapt our business model to the coal industry because there is going to be continued pressure as the coal business consolidates and there is more cost pressure on that business, and we need to have a different mindset as to how we cater to that business. Obviously, for the rest of the commodities when we offer our full-service business model, there is much more attractiveness there in terms of upselling, in terms of value captured and all of that.

In the coal segment we see cost pressure and we see here more competition and that's why we are going in with a lean and reliable business model there. The obvious target there is to optimise our cash flows there – because coal is still a very, very profitable business for us and it's not going to disappear overnight. But we want to maximise what we can get out of that business and continue to cater to our customer base.

Now this in the mid to long-term is obviously going to have an impact on our manufacturing base and that is where we have started a process of benchmarking, looking at the cost competitiveness, looking at factors such as natural gas, import costs for our manufacturing assets which are exposed to coal, and then we will formulate a strategy and then once we are ready in November then I will be ready to talk about this in a bit more detail. At the moment it's a work in progress, Sophie.

Sophie Spartalis: (Bank of America, Analyst) Okay, that's fantastic, thank you, I'll leave it there.

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

Grant Saligari: (Credit Suisse, Analyst) Good morning, Sanjeev and Chris, and thanks for the opportunity. Second half outlook statement that you've provided you've highlighted obviously $70 million of headwinds. Other than the contribution from Exsa is there anything that's actually going to be positively contributing in the second half and if so it would be great if you could put some numbers around that?

Sanjeev Gandhi: Thanks, Grant, yes, this is Sanjeev. There are a couple of things that are working in our direction positively. One obviously is the better volumes that we see developing across the globe in every region and that should continue in the second half so that's going to be a positive factor. Secondly, it's the technology uptake I talked about. Our technology targets that we talked about at the end of last financial year were backloaded into the second half and we see that being realised today.

So there obviously we will see opportunities to upsell and getter better margin, higher value products into the market. The cost cutting that I talked about, which we have already initiated, some positive uplift we will see in the second half even given the fact that we just have a few more months left now. Most of the impact will be in the future but we should see some short-term positive uptake.

We see this continuous trend of moving into higher value products into EBS and things like this. So, yes, there's quite a few things going for us which are positive in the second half. But once again, I always frame it in terms of the uncertainties that we cannot control and influence and that's why I'm being a little bit more prudent here Grant.

Grant Saligari: (Credit Suisse, Analyst) Okay, and are they likely to be material relative to the $70 million? I mean can you just give us some sort of insight into whether they are a material mitigating factor or whether they're sort of a bit more of a minor mitigating factor?

Sanjeev Gandhi: I cannot quantify that but what I can tell you is that the cost escalation we see in our operations, for example, higher supply chain costs given that shipping space and port costs and everything are going up – we are trying to mitigate most of them with these uplifts that we expect to deliver in the second half of the year.

Christopher Davis: If I can just add to that. You would have seen is about a $70 million reduction between the FX and the depreciation and operating costs of SAP. But there is some upside there on the Exsa which contributes about $12 million. So I think your assumption and it depends how you model this but those are the material items that we are flagging.

Grant Saligari: (Credit Suisse, Analyst) Okay. In the first half you had a negative mix margin impact of $30 odd million, which you have attributed to the ammonia cost increases and also the customer downgrade in terms of product mix. Is that likely to continue through at a similar rate or at what point do you start to be able to pass through those ammonia – higher ammonia costs so that we don't see that sort of negative margin impact coming through?

Sanjeev Gandhi: Yes, there were two impacts there. One was obviously you know we have been burdened by low ammonia prices historically over the last several months and quarters. Then we have seen deflation happening because of COVID which is also factored into our rise and fall formulas with our customers so the CPI. We do see both of these turning around. We have seen ammonia prices go up because of seasonal effects because we are now in the peak fertiliser season so that's ticking upwards, and we also see inflation coming in.

So both of these will roll into our formulas and into our contracts and margins but there's always a lag, it all depends on how our contracts have been calibrated. So there's normally anything between a 3-to-6-month lag after which we see those benefits flowing in. So, yes, we should see an uptick, but it always comes with a time lag.

Grant Saligari: (Credit Suisse, Analyst) So for our purposes we might sort of think maybe the impact might be half as great in the second half.

Sanjeev Gandhi: On an approximate basis, yes.

Grant Saligari: (Credit Suisse, Analyst) Okay. Just finally from me, your North American volumes you've attributed the entire volumes. You've attributed the volume decline mainly to thermal coal. Your thermal coal exposure in the US is quite small, it certainly is according to the revenue diagram you've put out there. Was there anything else happening by way of volume in North America or was it really just predominately through the thermal coal volumes?

Christopher Davis: The thermal coal volumes ultimately come through are indirect through our joint ventures so that was significantly down. There's also the Mexico business hasn't performed as a result of COVID. I think that's the biggest thing from a revenue line, Grant.

Grant Saligari: (Credit Suisse, Analyst) The revenue number, the other revenue as a percent of total fell from 20%-odd pcp to 13% now, is that coming through from the joint ventures, is that what that is or is that something else?

Christopher Davis: So, that would probably be something else because I think the joint ventures are coming through in the commodity.

Grant Saligari: (Credit Suisse, Analyst) Okay, so the other revenue was – so that bright orange thing on the pie chart this result is 13%, pcp it was 20%, what changed?

Delphine Cassidy: That's other commodities, different commodities. It's revenues from other commodities, Grant.

Grant Saligari: (Credit Suisse, Analyst) Well, maybe you might want to come back on that one. It's just – it's such a big change half to half .

Christopher Davis: Fine, we'll come back to you on that one.

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

Scott Ryall: (Rimor Equity Research, Analyst) Hi there, thank you very much. Sanjeev, I was hoping you could talk a little bit about revenue per tonne. So you could call it pricing about the value proposition whatever terminology you want to use. You've spent a lot of time talking about costs today, but it seems to me that over the last five or six years that Orica has underperformed the market on revenue per tonne trends in both the Australian market and North America.

It would also seem that it's a pretty opportune time to be able to take price with ammonia prices up and imports and trade more and more difficult. So I was wondering if you could talk to how you would turn around the price performance, how you sell the better value proposition that you're talking about through technology, and how you'd deliver operating leverage through that in addition to the cost base, thank you.

Sanjeev Gandhi: I can, Scott, thanks. You see the pricing power basically in any commodity market comes from supply and demand and as you can well imagine, at least for the last 18 months we have seen depressed demand. This is connected with COVID and everything else we have already discussed in terms of the headwinds the business faced. Now if you look at the trend, especially here in the Australian business, yes, we have seen a decline in revenue per tonne or margin per tonne coming off the last couple of years and there were several reasons for this.

The one single most important reason was that we were bringing in a world-scale ammonia nitrate plant on-stream and as you can imagine these continuous assets need to be operated at a certain operating load. So we needed some base load customers and we had to go ahead and contract volumes to enable this base load for our Burrup unit. Now this obviously came at low margins, and that is something which has factored into the margin decline. The other impact has been obviously the imbalance in supply and demand over the last 18 months.

This is more COVID related and as the economies start to recover out of it and as we see the volume trend starting to uptick, we should see a better-balanced market. On top of it, it's the input factors and as we discussed ammonia trending up, CPI trending up, all of that should help us to get some pricing power back. Having said all of that, there is one factor that is not going to change overnight for us and that is going to be the gas price.

So we have been significantly burdened with our east coast assets with significantly higher natural gas pricing and that is something that we are not able to change overnight. So that is going to be a constant challenge and that is why my comment earlier on seeing whether there is an opportunity to run our continuous manufacturing assets in a different configuration so that we can benefit out of some cost savings there.

So it's a collection of a lot of things but I think it's a fair comment that we have seen margins continue to decline and the expectation is as things start to pan out and we get our ducks in order we should see some improvement coming.

Scott Ryall: (Rimor Equity Research, Analyst) You mentioned the restructuring of your sales team. Do the sales guys need some additional – some renewed incentives to drive revenue per tonne, you know what are they incentivised on I guess, is it profitability or just volumes at the moment?

Sanjeev Gandhi: No, I mean volumes were frankly never an incentive based KPI, it has always been for us for the regions the EBIT and the RONA and that has not changed. So margin per tonne is something that we watch very, very carefully, and the margin per tonne AN is just the starting point for us, because then we bring in our discrete products, we bring in our services, and that's where we see the uptick coming which adds up to the AN margins.

So it's just a different mindset as to what you are focusing on and not just focusing on moving tonnes but on focusing on moving tonnes profitably and then starting off with a lower cost base that also helps. So it's just a different mindset. The volume target was never really a key target in our KPIs for the sales and commercial teams.

Scott Ryall: (Rimor Equity Research, Analyst) Okay, so I guess the crux of my question is do you believe you've had to change the mindset of your salespeople since you have come on board?

Sanjeev Gandhi: Absolutely, absolutely, I mean it's a matter of the management and the new Exco asking the right questions. So saying, I mean is it necessary that we get this contract at all costs and would it be better if somebody else will supply this, but we move on to better businesses where we see more potential to upsell with our technologies and services? So those are the kind of discussions we are having at the moment. So you are absolutely right there, yes, there is a change in culture and mindset in that respect.

Scott Ryall: (Rimor Equity Research, Analyst) Okay, so that's all I had, thank you.

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

John Purtell: (Macquarie Group, Analyst) Good morning, guys. I just have a few questions. Just the first one, slide 37 of your presentation shows plant reliability. I'm surprised that Kooragang Island held up and Yarwun has come off so much. I appreciate there's some plant turnarounds there for Yarwun, but I would have expected a bigger impact on Kooragang Island given what's happened re China. So just trying to understand what's happened there in the half.

Sanjeev Gandhi: So I mean, John, that's a good news story. Because I mean we have been able to keep our volumes at KI going at relatively high levels despite the impact of the China and the coal issues and all of that. There are a couple of impacts on Yarwun which I wanted to call out. One of that was that there was a planned shutdown for maintenance and obviously when you have that within that half that has a direct impact on volumes.

So if the shutdown is for four weeks you don't produce anything for those four weeks and that also leads to a resulting lower capacity utilisation. The expectation for our second half, given the fact that we are seeing this uptick in volumes is that we will be able to run all our assets including Yarwun at higher loads than in the first half.

John Purtell: (Macquarie Group, Analyst) Thank you, and that was part of the next question around, well, you obviously have called out the China impacts there in the first half, what's your expectation around the second half? The market does appear to be recalibrating but I'm just trying to get a sense of what sort of degree of improvement you might be expecting.

Sanjeev Gandhi: It's very difficult for us to quantify exactly what an impact there might be in case it's a negative impact. What we do see as I mentioned earlier, we see every month our volumes getting better. Now obviously the thermal coal is ending up in new markets or going stronger into existing markets like in Japan and Korea which is very positive and also Taiwan. My concern in India, because India as you can see in the slide that we have – what number was that?

Christopher Davis: Nine.

Sanjeev Gandhi: In slide 9 we have shown that development in terms of shipping out of the port statistics. India is a significant portion as a destination for this coal and if India continues with this very severe COVID impact that they are and they go into a national lockdown then obviously coal consumption will be cut back because industrial activity and power generation will go down.

So that's a bit of an uncertainty and it's very, very difficult for us to quantify that and that's why we have kept it as a risk, but we have kept it more as a qualitative risk that we cannot put a number on.

John Purtell: (Macquarie Group, Analyst) Okay, thank you. Look, just a last one re North America and EMEA, margins have been hit significantly in those regions despite volumes actually being better in the first half than the sequential second. So I appreciate currency has got its role to play there and you've made some comments just before on North America, but just trying to understand what's happened there and your outlook for the second half, thank you.

Christopher Davis: In both regions we are expecting improvements in the second half of the year. I think one of the things you need to look at in North America particularly as the impact of FX, as I said, the second half of last year that ran about 67 cents whereas it ran at 75 cents in the first half of the year. As I mentioned in the previous – in my presentation there were some issues around the La Portada lead azide plant, and as a result North America had to source product from independent third parties which obviously came through at a cost. Then they've had increased IT costs in the period. So that's from a North America perspective.

EMEA, if you look at it, where they have really lost a lot of volume has been in some of the IS products and that's obviously the higher margin products and particularly the project work that Sanjeev mentioned around the Emirates and around the Scandinavian countries.

John Purtell: (Macquarie Group, Analyst) Thank you.

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

Nathan Reilly: (UBS, Analyst) Good morning. I was just wondering if I could get an update on how you are going with the domestic re-contracting process.

Sanjeev Gandhi: We have had pretty good retention so there is nothing to call out. At the beginning of the year, we had around 20% of our contract book domestically up for renewal and so far we have been pretty good at nailing them all so there is nothing to call out. But we still have a few more months to go until the end of the year so we will see how that develops. But overall, I would say I'm pretty satisfied with the contract retention when they come up for renewals and this is not just here domestically but globally. We have had a pretty good record there and we continue to keep a close eye on that.

Nathan Reilly: (UBS, Analyst) The pricing outcomes, I know it's hard to be specific on individual contracts but just given some of the supply and demand issues you were talking to earlier, can you give us a bit of an update on some of the outcomes that you've achieved?

Sanjeev Gandhi: Yes, there have been a few resets obviously happening given the fact that we were in a long market. But obviously you still have the rise and fall basis there and as the ammonia CPI flows through, we will see an uptick coming there which happens basically to all our contracts.

Nathan Reilly: (UBS, Analyst) Got it, thank you. Sanjeev, you've put a bit of focus there on the cyanide business. I'm just curious, can you give us an update or some guidance just in terms of what level of EBIT that business is typically doing for you?

Sanjeev Gandhi: No, we don't break that down and that is something that we may consider in the future but at the moment I would not do that. I just wanted to highlight that business because within the Orica portfolio when I come in as a newcomer, and I come in from the chemical industry, I see these pockets of excellence which are kind of hidden there. I just wanted to bring that to all your notice that we have this wonderful business that we have been operating very, very successfully.

We are a market leader here and there is a lot of potential because as you know well gold is anti-cyclical commodity and given the uncertainties that the world faces in terms of COVID and everything else there are significant opportunities for us to grow that business in the future. So I just wanted to bring that to everybody's notice. There was no real agenda behind this, it was just something I was very curious of given my own background in chemistry and having a spent a long time in the chemical industry I thought it would be interesting to talk about it.

Nathan Reilly: (UBS, Analyst) Okay, and would you consider M&A to supercharge some of the growth in that business?

Sanjeev Gandhi: We always do, for every core business that we have in our portfolio, wherever we see opportunities in M&A, whether it is growing and scaling up our digital platform, new technologies, opportunities like we did with Exsa or in the past with GroundProbe, wherever we see good opportunities we always try to get a seat at the table. So, yes, that's an ongoing exercise.

Nathan Reilly: (UBS, Analyst) Got it and look final question just in relation to some of the asset sale opportunities particularly around the land bank and maybe it's one for Chris.

Can you give us a bit of a guide just in terms of what sort of carrying values you've got for your Botany and Deer Park assets?

Christopher Davis: Most of them are fairly low. I think Deer Park has probably got a higher carrying value on that, but it will be a sub $100 million. So there will be profits on those land sales but that said they will be treated as significant items as we have done now and they won't form part of the underlying result. My focus on those land sales is to get the cash out of them particularly given that they are non-operating assets and we have spent a lot of time on cleaning up the past environmental liabilities.

Nathan Reilly: (UBS, Analyst) Got it, and cash proceeds that you would be aiming for.

Christopher Davis: I think in one of the other questions I'd said for the land alone it would be up to about $300 million.

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

Delphine Cassidy: The next question from the next participant, thank you.

Operator: Yes, the next question comes from Brook Campbell at JP Morgan. Please go ahead.

Brook Campbell: (JP Morgan, Analyst) Yes, thanks for taking my question. Just one from me. On slide 19 you call out the $56 million from volumes and $26 million on manufacturing so $82 million in total. Can you just provide a breakdown between how much of that is relating to Australian thermal coal issues versus COVID and social unrest?

Christopher Davis: Yes, I need to bring the volume and the manufacturing together so that you can get the pull through. But the Australian thermal coal impact is around $24 million, $25 million.

Brook Campbell: (JP Morgan, Analyst) Great thanks, $24 million, $25 million of the $82 million.

Delphine Cassidy: Okay, thank you all for joining us today. We have run out of time but we are absolutely open to other one-on-ones after we have finished today's session. Please feel free to contact me and thank you for your questions and your engagement today.

End of Transcript