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Operator: Thank you all for standing by and welcome to the Orica 2022 Half Year Results. At this time all participants are in a listen-only mode. After the speaker's presentation, there will be a question-and-answer session. To ask a question at that time you'll 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 Orica's 2022 Half Year Results presentation. Thank you all for joining us today. In the room with me today we have Sanjeev Gandhi, our CEO, and Christopher Davis, our CFO. Both will be presenting shortly. We'll have plenty of time for questions after their presentations, so please feel free to queue up and we will ask those questions.

Before we go into detail can I just ask you to have a quick look at the disclaimer on page 2. Thank you and with that I hand over to Sanjeev.

Sanjeev Gandhi: Thank you, Delphine, morning all. Turning now to a review of the first half starting with two of our highest priorities, safety and sustainability, which are at the heart of our purpose. I am very proud of the safety culture of our people across Orica. Despite having to deal with the challenges of COVID, our team has continued to make good progress on verifying major hazard controls across all operational sites and more importantly we remain fatality free.

Since the start of the Ukraine-Russia conflict, our priority has been on the safety, wellbeing, and continued support of our 550 plus employees in Russia, while complying with national and international regulations and sanctions. Orica has made the decision to exit from our operations in Russia within the next six months in a responsible and structured manner that balances the interests of all our stakeholders.

In the first quarter of this year, we ran an all-employee engagement and inclusion survey. Around 65% of our employees participated and 88% of them felt engaged, energised, and enabled, but there's always much more to do. We are now focusing on a few impactful and achievable global actions to develop and retain our talented people, while creating a simpler and more efficient organisation.

With our new integrated enterprise system now stabilised, we will simplify processes and systems to make us more agile, reduce our workload and give us the capacity to focus on meaningful, exciting work that contributes to our strategic objectives for profitable growth.

Protecting our environment is also a key priority for Orica as we aim to minimise loss of containment and serious environmental incidents. This is a good segue to the next slide as we accelerate decarbonisation and move towards a low carbon future.

To recap, last year we set a new 2050 net-zero emissions ambition to guide long-term strategic investment decision making and we updated our rem framework, to more explicitly link executive remuneration to emission reduction performance.

Since then, in the first half of this year we have commissioned tertiary catalyst abatement technology at our Carseland plant in Canada, that has improved emission intensity significantly and can deliver over 80 kilotons of CO2 equivalent of emissions abatement each year. Installation of a similar tertiary abatement technology is expected to be completed at Kooragang Island in Australia, within the next 12 months.

We have successfully signed MoUs with key industry partners in Australia to explore the feasibility of green hydrogen and green ammonia production hubs, both in Queensland and in New South Wales. We have signed an agreement with Alpha HPA Project leveraging our Yarwun plant, to open new opportunities in high growth future facing industries like e-mobility.

We have commenced pre-feasibility for Yarwun decarbonisation and secured approval to generate carbon credits there. We are continuing to invest in digital and automated technologies offering safer solutions to our customers that increase productivity, while managing social and environmental impacts.

We are also growing our market share in quarry and construction and future-facing commodities, as we actively manage our exposure to thermal coal. We will continue to partner and engage with our suppliers and customers on Scope 3 emissions to support technical solutions for decarbonisation, as well as understanding how to further reduce our value chain emissions.

We operate in a hard to abate environment and I'm very pleased with our progress on accelerating decarbonisation and moving towards a lower carbon future.

Turning to our financial results for the first half on slide number 7. Our first half results reflect the relentless efforts of our team in improving performance in line with our refreshed strategy and better market conditions driven by strong global commodity prices. All regions delivered improved performance versus the PCP.

There was strong volume growth particularly in Australia, Indonesia and Latin America and improved product mix as customers shifted to premium products in Australia, Latin America, Africa, and the Nordics.

Importantly, we have started to see the benefits of our focus on pricing discipline in new and renewed contracts. We expect to see pricing improvements continue as our contracts come up for renewal over the next couple of years. These pricing initiatives have helped broadly offset the increased input costs.

Export bans from Russia, followed by the Russia-Ukraine conflict, and elevated energy prices in Europe, has led to significant disruptions in the ammonium nitrate market and constrained supply.

The strength of our global manufacturing and supply network enables us to meet our customers' needs, as we continue to navigate through difficult operating conditions, particularly from the ongoing Russia-Ukraine conflict.

We completed the sale of Minova in the half. Chris Davis will go through the impact of the sale, along with the other non-core asset sales shortly. The Board declared a dividend of $0.13 per share, in line with our dividend target payout ratio.

Turning now to the regional performances on slide 8. I will keep this at the high level and more detail can be found in the appendix. I am pleased to say that each of the regions and Orica Monitor delivered an improved EBIT this half compared to the PCP. In APA, there was strong volume growth across the region.

In coal, there was strong customer demand due to the high coal prices, though continued wet weather on the east coast of Australia held back the full volume potential. The wet weather has resulted in increased demand for high-margin emulsions, which is needed to mine in wet conditions. The Indonesian coal market performed very well with Asia contributing strongly to the results in this half.

Metal volumes increased, driven mainly by strong demand as a result of high commodity prices. The planned maintenance turnarounds at Yarwun and Burrup were completed in the half and all continuous manufacturing plants operated at available capacity, as commodity prices drove strong market demand.

Ammonia costs have continued to increase to unprecedented levels having an adverse cost impact on Yarwun, Burrup and Bontang due to the time lag in passing through these costs. This has been offset by improved pricing discipline across the region and cost control initiatives.

In North America, operating conditions strengthened across the region during the first half. Mining activity continues to recover towards pre-COVID levels. Demand for gold, particularly in Canada, increased and demand for other commodities was strong, driving high market prices.

Quarry and construction markets in the US were up, supported by the US infra bill. The Q&C market in Canada also improved. Improved contract pricing together with a favourable product mix offset the impact from higher third-party sourcing costs during the Carseland plant turnaround.

Supply chain challenges from raw material shortages, inflationary pressure and increased gas and freight costs were mostly mitigated by efficiency and cost reduction initiatives. Earnings growth was partially limited by supply constraints in the US, due to the short North American AN market and labour shortages, in a highly inflationary environment.

The Carseland ammonium nitrate manufacturing plant is now operating at full capacity following the planned major maintenance turnaround which was completed in October 2021. As mentioned earlier, tertiary abatement technology has been installed at the plant reducing unabated carbon emissions, in line with Orica’s decarbonisation plans.

In Latin America there was a strong recovery in mining activity, particularly in copper and gold, driven by higher commodity prices. This led to high AN volume growth and increased demand for premium products and electronic blasting systems, as the higher commodity prices offset previous customer cost constraints.

AN trade flows into Latin America from Russia were constrained due to the Russia, Ukraine conflict. Alternative AN sourcing initiatives were successfully put in place, as security of supply for customers was paramount.

Increases in ammonia prices and sea freight costs, along with cost inflation, continued to drive higher AN prices. The Latin American team acted swiftly by implementing pricing initiatives which included, changes to rise and fall clauses from quarterly to monthly on some contracts and terms in many customer contracts were updated to include clauses for the pass through of freight costs.

Supply initiatives included negotiating improved supplier terms, and changes to shipment loadings and movements, this also contributed to the region's improved performance. Exsa which was acquired in 2020 and is now fully integrated into the business, continues to perform well.

Turning now to slide 9. In EMEA, the region faced the most challenges in the first half. European gas prices increased significantly during the half, leading to the closure of several ammonia plants in the region and changing supply-demand dynamics in the AN market.

Russia enforced quotas on AN exports from December 2021, followed by a ban from February 2022. The Russia-Ukraine conflict has created significant disruption to AN and energy trade flows, and mining activity in Russia decreased towards the end of the first half.

As mentioned earlier, Orica will exit from its operations in Russia in the second half. The related assets have been fully impaired in the first half. Chris Davis will talk more about this shortly.

On the positive side, copper and gold mining activity in Africa remained very strong, along with improvements in quarrying and construction in the Nordics and Western Europe as post COVID-19 activities picked up.

Initiating system volumes grew strongly with a favourable mix shift towards electronic blasting systems in the Nordics and in Africa. Despite the significant market challenges, EBIT in this half was higher than the PCP.

And finally, to Orica Monitor. Since its acquisition in 2018, this business continues to be a solid contributor to Orica's overall results. With continued growth in radar sales, improved pricing and further penetration of new customer sites, GroundProbe remains the global leader in this sector.

In addition, there was strong growth in recurring contracts from leases, care plans and geotechnical remote monitoring support services, particularly in Brazil where a new regional geotechnical support service office was opened.

With further growth in radar volumes expected to continue, planning has begun on a second assembly line outside of Australia to double production, reduce landed cost and improve speed to global markets.

We are also now working on broadening and integrating Orica Monitor's sensors and software suite, with Orica Digital Solutions end-to-end digital workflows. This will be truly an end-to-end service offering for our customers.

I now hand over to Chris, to take us through the financials for this half.

Christopher Davis: Thanks, Sanjeev. For clarity the numbers presented today include the results of Minova, which has been treated as a discontinued operation in the financial reports. With that in mind, I would like to turn your attention to the key financial metrics on Slide 11.

The first half of 2022 has seen a strong improvement in results driven by improved volumes, in particula,r in the Australia Pacific Asia and Latin America regions. The unit cost benefit at our manufacturing plants as a result of higher volumes and improvement in contract pricing across the business, as well as customers moving to higher value products and the benefit of reduced overheads.

Looking at the first half results, sales revenue of $3.3 billion was up 25% from the prior period due to increased volumes, the impact of a significant increase in the ammonia indices and an increase in selling prices.

At $424 million, underlying EBITDA has increased 24% over the comparable period. Underlying EBIT of $245 million has increased 58%, which I will outline in more detail in the following slides. Underlying NPAT of $129 million is 71% above the prior period, driven primarily by improved earnings.

Statutory net loss after tax of $85 million has been impacted by after tax significant items of $214 million, which I will outline in more detail on the next page. At $0.361, earnings per share is up $0.175 on the prior period, driven by a higher underlying NPAT. The interim dividend of $0.13 per share will be unfranked and represents a payout ratio of 41.1%.

Turning to slide 12 entitled Individually Significant Items. On 1 March we communicated that Orica had successfully sold its interest in the Minova business to the Aurelius Group for $180 million, subject to transaction costs and customary completion adjustments.

Along with the sale of Orica's Nitro Consult business in Sweden this has resulted in a combined cash profit of $30 million, before tax.

As a result of the sale of the Minova business, the non-cash foreign currency translation reserve loss of $95 million before tax that is held in equity, has been released to the income statement, as required by accounting standards and adversely impacts the statutory reported result.

Following the invasion of Ukraine by Russia, Orica has made the decision to exit our operations in Russia in a safe and responsible manner, ensuring at all times the interests of our people are taken into account.

This has resulted in the need to consider the carrying value of the Europe, Middle East, Africa segment, resulting in a non-cash write-off before tax of $78 million of assets within the Russian business and $45 million of goodwill in the EMEA segment. The non-cash foreign currency translation reserve balance relating to Russia will be released to the income statement in the second half of the year upon exit of the business.

Additionally, within EMEA a further $33 million relating to Orica's investment in Turkey, has been written off, of which $18 million is attributable to non-controlling minority interests. Given the materiality of these items, these one-off costs have been disclosed as significant items and do not form part of the underlying result.

Turning to the EBIT bridge on slide 13. The impact of the movement in the Australian dollar on the translation of our foreign currency earnings has had an adverse impact of $8 million in the six months to 31 March, with the largest impact in the EMEA segment. Improved volumes had a positive impact of $28 million.

Ammonium nitrate sales volumes increased 5% to 2 million tonnes driven by new customer contracts in Australia and Brazil, as well as improved demand from existing customers in Canada, Indonesia and Peru.

Sales volumes of our higher margin more advanced electronic blasting systems increased 12% on the prior period, specifically in Australia, Colombia, Chile, Norway and the UAE, due to conversions by customers to more advanced products and increased sales opportunities on new infrastructure projects.

The impact of the increased volumes, in particular in Australia and Asia, compared to the prior year, has resulted in increased throughput, positively impacting manufacturing fixed cost recoveries at Kooragang Island, Yarwun and Bontang.

Furthermore, the costs incurred in 2021 associated with the incident at the La Portada plant in Chile have not recurred in 2022. This was partially offset by higher third-party ammonium nitrate sourcing costs at the beginning of the year, during the Carseland turnaround. Together, this has resulted in a positive year-on-year EBIT benefit in manufacturing of $14 million.

Net mix and margin increased by $21 million. This included benefits from improved pricing, most notably in Australia, Asia, Peru and Canada and a shift by Australian and Latin America customers back to premium products following an increase in mining commodity prices.

This was partly offset by a temporary lag in recovering the significant cost increases in ammonia pricing from customers. While 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.

Mining Chemicals has benefited from an 11,000-tonne increase in sales volumes on the prior period, most notably in Australia, Asia and Mexico, as a result of new customer wins and increased demand for spot sales. Additionally, the increase in ammonia and caustic input costs has driven higher cyanide selling prices resulting in margin improvement. This has resulted in an EBIT benefit of $8 million compared to the prior period.

Orica Monitor has delivered an incremental $2 million, or 15% improvement in EBIT compared to the prior period. The other category reflects a year-on-year EBIT improvement of $17 million driven by a reduction in non-billable overheads across the business following the operating model restructuring activities implemented in late 2021 and a further focus on cost reduction activities in 2022.

Finally, the benefit of $8 million from discontinued operations reflects the year-on-year improvement in performance from the Minova business, for the five months to 28 February. The net result is that EBIT for the first six months of 2022 was $245 million, an increase of 58% on the prior period.

Looking at capital expenditure on slide 14. In the 2022 financial year, we have continued to apply our disciplined approach to capital expenditure, which has resulted in capital expenditure for the first half of $152 million.

Growth capital expenditure at $52 million includes capital required to support new customer contracts in Australia, Mexico, Brazil, Peru and Africa. Capital to support expansion of the Brownsburg EBS manufacturing facility in Canada and the Exsa facility in Peru and further investment in the advancement of Orica's technology offerings in Digital and Webgen.

Sustaining capital expenditure of $85 million reflects spend on compliance and efficiency capital at Kooragang Island and Carseland and ongoing replenishment of assets, including MMU fleet, on existing customer contracts.

Importantly, our commitment to decarbonisation and sustainability, and the allocation of capital toward this commitment, has resulted in capital expenditure in the first half of the year of $15 million. This includes spend on the nitrous oxide abatement at Carseland and Kooragang Island and the Prill Tower scrubber at Kooragang Island, to reduce particulate emissions.

For 2022 capital expenditure is expected to be in the range of $340 million to $360 million, which includes planned spend on sustainability initiatives in excess of $30 million. At $179 million, depreciation and amortisation is in line with the prior period, and this is expected to continue for the remainder of the 2022 financial year.

Moving on to slide 15 entitled cash flow. As I have previously reinforced to the market, the generation of strong cash flows remains a key focus for the business. Unfortunately, the first half of the year generated a net operating cash outflow of $157 million driven by an increase in trade working capital, most notably inventories, and an increase in prepayments, as well as spend against provisions, including environmental obligations. Despite the increase in trade working capital, which I will talk to on the next slides, cash conversion came in at 66%.

To illustrate the impact to inventories, trade receivables and ultimately cash utilisation, I would like to turn your attention to slide 16, entitled rising input costs. As you are aware ammonia is the primary raw material in the production of ammonium nitrate. Approximately 1 tonne of ammonia is required to manufacture 2.2 tonnes of ammonium nitrate. It is, therefore, a significant cost driver and has a material impact on inventory valuation when prices increase.

In the first half of 2022 key ammonia indices, namely the Far East CFR and Tampa CFR indices, have increased 67% and 144% respectively, as shown in the charts on the left. This impacts not only our inventory valuation but also trade receivables values.

The impact on the overall trade working capital balance can be seen in the chart on slide 17, entitled trade working capital. Looking at slide 17, trade working capital has increased by $138 million on the prior period, most notably in inventories.

The increase in inventories is not altogether unexpected given the significant increase in raw material input costs as explained on the previous slide, as well as the need to secure alternative sources of ammonium nitrate following the cessation of third-party ammonium nitrate purchases from Russia, which has historically accounted for a significant portion of Orica's ammonium nitrate requirements.

Looking at our key efficiency metrics on the right-hand side of the slide, despite the increased absolute dollar value of inventories and trade receivables, we have managed to maintain or improve the days efficiency measures as is reflected by days inventory held and days sales outstanding, respectively.

Whilst our days payables outstanding measure has deteriorated by 4 days, this reflects the tight supply conditions and the need for prepayments and shorter credit terms, in order to secure ammonium nitrate supply. In this context, these are pleasing results and demonstrate the control efficiencies we are maintaining in these uncertain times.

Turning to net debt and gearing on slide 18. We ended the half with net debt at just over $1.6 billion, an increase of $166 million since 30 September 2021. In the first half of 2022 we monetised the sale of both Minova and Nitro Consult, bringing in net cash proceeds of $124 million. This was offset by the increase in trade working capital and non-trade working capital balances that have impacted operating cash flow, as previously discussed.

The net result is gearing at 38.3%, which is within our target range of 30% to 40%. We continue to make progress toward the divestment of non-core land sales, the bulk of which is expected to be delivered in 2023 and 2024.

Moving on to my final slide on page 19 reflecting our balance sheet and liquidity profile. We continue to have adequate levels of liquidity available, as demonstrated by the $1.2 billion of undrawn committed bank facilities and a further $494 million of cash at 31 March.

We monitor debt capacities against our two key financial covenants, namely the gearing ratio and the interest cover ratio. With gearing at 38.3% and interest cover at 5.4 times, our two debt covenants are comfortably within requirements.

These ratios, together with additional performance measurement criteria determined by Standard & 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. Our average drawn debt tenor is currently 4.7 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: Thanks Chris. Turning to slide 21. I will give you a quick recap of our refreshed strategy. It centres around 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.

Turning to slide 22, which summarises the where. The where is refocusing on our four key business verticals, mining, quarry and construction, digital and mining chemicals. This will allow us to leverage our strengths and create opportunities for growth beyond blasting. Today, I am going to go into some detail on two of these verticals, mining and digital solutions. We do have an investor day scheduled for the end of July and we will do a deep dive into each of these verticals at that point of time.

Turning now to slide 23, 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 strong presence in copper, and we are now beginning to service future facing mines, particularly nickel and lithium in Australia.

A considerable proportion of Australia Pacific and Latin America's mining pipeline is focused on future-facing commodities. We are in a great position to service these customers. To complement this, we are continuing to accelerate adoption of our industry leading suite of blasting technology and solutions, and simultaneously unlock value across our global manufacturing network.

In this half, we rolled out 4D, the new innovative variable density bulk explosives system which has real-time matching of explosives energy to geology changes. We also announced the first commercial trial of Avatel, the world's first blast automation technology. This is a vital step in the journey toward safer and more productive blasting operations underground. We are now looking forward to bringing this ground-breaking solution to customers worldwide.

Progress has also been made on the application process to build a 30,000-tonne ammonia storage tank at Kooragang Island. This will enhance our network advantage on the east coast of Australia and enable options for lower carbon inputs including green ammonia.

As mentioned earlier, the strength of our global manufacturing and supply network has proven beneficial through the current difficult operating conditions. Our plan is to further enhance our global network advantage.

We are investigating opportunities to debottleneck our continuous manufacturing plants, design a regional electronic blasting systems assembly model to increase assembly capacity, and upgrade our Lurin and Gomia plants enabling additional capacity. We also intend to improve our packaged explosives network globally. All of these opportunities will enable us to meet demand, reduce network costs, and more importantly, ensure security of supply for our customers.

Turning to the next exciting vertical, digital solutions, on slide 24. We are now taking our expertise in innovation and technology in blasting solutions to beyond blasting, both upstream and downstream. The digital solutions vertical focuses on end-to-end integrated digital workflows across the value chain, from orebody intelligence to blast design and execution, to downstream measurement and optimisation.

Let me take you through each of these components. Starting with orebody intelligence, or OBI as we call it internally. In the past 12 months we made two acquisitions, Hopper Industrials Group and RIG Technologies. Both these technologies provide in-situ knowledge enabling real time mine planning.

HIG provides an industry-leading borehole magnetic resonance logging service. It uses advanced nuclear magnetic resonance, or NMR technology, to measure in-situ moisture content and fluid permeability in boreholes.

RIG Technologies provides real-time geophysics while drilling technology. It allows informed decisions to be made during drilling and skips an entire step of bringing a truck back to the site. The acquisition of both these technologies offers customers unrivalled digitised workflow solutions for orebody knowledge, in an open, secure, and connected platform.

We are already seeing results from these acquisitions, with over 20% growth in HIG's borehole magnetic resonance logging service, and RIG's geophysics while drilling technology has moved from trial to commercial contracts with three tier 1 miners.

Now to blast design and execution. This is where we began our digital solutions journey just over three years ago with automated blasting, enabling orebody variability. Adding to our BlastIQ and ShotPlus solutions, we officially launched our OREPro 3D blast movement modelling software in this half.

Understanding where the rock mass has moved post blast, is critical to separating ore and waste effectively and creating downstream efficiencies in the mining process. This has the potential to unlock significant value for customers.

The release of OREPro 3D is driven by these needs. It is a critical enabler to build an open, secure and connected digital ecosystem that will allow our customers to accurately model and continually improve blast outcomes and the impact on their downstream operations.

And finally, to downstream measurement and optimisation. The integrated extraction simulator or IES, is a simulation software platform for improving the efficiency of mineral processing operations.

Developed by the Brisbane-based Cooperative Research Centre for Optimising Resource Extraction, IES is a cloud-based software platform designed to reduce the use of energy and water in mining, through the application of simulation, optimisation and machine learning. From a technology perspective, there are enormous synergies with our existing blasting and measurement solutions, including BlastIQ, FRAGTrack and ORETrack.

We are also able to integrate our automated, data science enabled blast design technology and solutions with IES, offering end-to-end digitised workflow solutions, from orebody

General

knowledge through to mineral processing, in an open, secure, and connected platform. This, by the way, is an industry first.

This research was funded by miners and suppliers. Orica was selected to own the IP and commercial rights and today, we have this adopted commercially across six customer sites globally. The adoption and commercialisation of our blast design and downstream measurement and optimisation digital solutions across customer sites continues to accelerate, and is ahead of plan, as you can see in the graph on the left.

So, when you put these components together, Orica is at the forefront of an end-to-end integrated Digital solution across the value chain. This is what we call design for outcome.

Turning to the outlook for the remaining 2022 financial year on slide 26. The momentum in EBIT from the ongoing businesses is expected to continue in the second half, noting that there will be no contribution from Russian operations, Nitro Consult and the divested mineral ore business.

At our 2021 full year results, we stated that we expect improvement in margins based on five key drivers. These drivers remain very much valid, and these include volume growth to be in line with global GDP growth, increased adoption of advanced technology offerings, particularly digital and monitoring solutions. Key strategic initiatives driving supply chain efficiencies. Sustainable overhead cost reductions, net of inflation. Pricing discipline expected to broadly mitigate rising input costs and pass-through lag.

As Chris mentioned earlier, we will continue our focus on optimising our balance sheet and cash flows. Capital expenditure is expected to be within $340 million to $360 million range, and gearing is expected to be at the higher end of our stated range of 30% to 40%.

Looking at our outlook over the next three years on slide 27. In November last year we set out a pathway towards profitable growth and value creation for our shareholders and stakeholders. Summarised here, is a dashboard of our progress.

It is pleasing to see that we have made progress on several targets over the past six months. There is still a lot of work to do ahead of us and the management team of Orica as well as the 13,000-plus employees are excited and ready to move ahead on this path towards profitable growth.

With that, I will now open to questions.

Operator: Thank you. We will now begin the question-and-answer session. If you'd like to ask a question, please press star one 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 John Purtell, at Macquarie Group. Please go ahead.

John Purtell: (Macquarie Group, Analyst) Good morning, Sanjeev and Chris, how are you going?

Sanjeev Gandhi: Good thanks, John.

John Purtell: (Macquarie Group, Analyst) Just had a couple of questions, thank you. Just in terms of the seasonality of the business in terms of first half / second half. You've previously talked to - I think back in November, you did talk to a bigger than normal skew due to turnarounds in the first half. Is that still the case, or are there any call outs there in the second half to be aware of outside of Russia, for example?

Sanjeev Gandhi: John, no real call outs. Seasonality is obviously something we try to factor and predict. Now obviously weather conditions and the extreme wet weather, especially here on the east coast of Australia, including in Queensland today, is under water, this has impacted volumes in the first half of the year.

Now given the fact that we did better in the first half despite all of these challenges, we did in the first half results compensate a little bit for the negative impact that Russia will show on the second half. So, we feel pretty comfortable given what we know today and are not accounting for any other unforeseeables which are not part of the plan. So, yeah, we remain committed to what we said in terms of the skew in the guidance.

John Purtell: (Macquarie Group, Analyst) Thank you. Just the second one. Just in terms of some of the supply chain impacts there re Russia. I know that you do supply a fair amount of – or source a fair amount of Russian AN into Latin America, I think Europe as well.

So, just in terms of how you're managing that. Are you able to meet demand from your customers and are there any adverse costs associated with this re having to cover those external purchases, given that you probably don't have the same access now to Russian AN?

Sanjeev Gandhi: No, absolutely. I mean, when Russia announced quotas in November they obviously knew something we didn't, and that made us nervous and we already started moving our sourcing requirements to other suppliers. Now given the fact that we are global, we are connected to every other manufacturer of the nitrogen molecule in the world globally, and we started connecting with them and we started lining up supply.

So once the conflict in Ukraine started, we had already moved away from Russia and we have lined up other supply sources, apart from obviously ramping up our own internal network and pushing our plants to max, so we feel comfortable.

Now, all of this obviously comes at a cost, because we had quite favourable contracts with our Russian suppliers, given the fact that we are one of the biggest purchasers of technical-grade ammonium nitrate in the world. It came at high cost, it came at supply chain disruptions, but the supply chain team in Orica works 24/7, 365 days and they managed a fantastic job. We have not let a customer down, and even though the challenges will remain, and volatility will remain, we feel pretty comfortable that we are covered.

John Purtell: (Macquarie Group, Analyst) Okay, thank you.

Operator: Our next question comes from Niraj Shah at Goldman Sachs. Please go ahead.

Niraj Shah: (Goldman Sachs, Analyst) Hi Chris and Sanjeev. Just a couple from me. First, just a point of clarification, and apologies if I've missed it. Can you quantify the lag, the rise and fall lag impact in this result as well as the adverse impact from alternative sourcing for Carseland, please?

Christopher Davis: It's Chris here. On the lag, I think we had flagged at the year end, it was about $27 million, roughly. For purposes of this half, it's probably about half of that. We've been able to mitigate a large part of it, in particular, in Latin America, where as Sanjeev indicated, we've moved to monthly rise and falls. That should clarify the lag. Sorry, the second part was clarify the…

Niraj Shah: (Goldman Sachs, Analyst) The alternative sourcing cost in Carseland.

Christopher Davis: Yes, the Carseland sourcing impact is about $8 million.

Niraj Shah: (Goldman Sachs, Analyst) Thanks for that. My second question, obviously, tightness in global nitrogen markets is pretty well documented. I was just hoping you could comment on the state of the initiating systems and supply chain, both for yourselves and the market, and whether that is different for conventional versus electronic detonators, for example?

Sanjeev Gandhi: Thanks, Neeraj, I'll take that one. All products across the industry, across the supply chain, have been disrupted. In the downstream businesses which we call discrete manufacturing, we've seen significantly increased input costs. We've seen shortages, we've seen forced majeures announced by some of our suppliers. The electronics that go into our initiating systems have been impacted. This is also well-documented in the industry. There have been significant disruptions there, and then obviously, the higher freight costs, and sea freight as well as air freight costs.

The team has been working again, very, very hard to try and optimise our global networks. What we are doing at the moment is we are working on a regional concept, a hub and bespoke model, so that we are trying to eliminate all kinds of inter-regional trade flows, and staying close to assembling and manufacturing products closer to the markets and the main regions we are active in. We have successfully managed to do all of that, and obviously, with pricing discipline and commercial acumen, we've mitigated most of those challenges.

But it continues to be disruptive, supply chains globally, and you don't know what new surprises will come up tomorrow. The teams are on it, and we are managing to deliver to our customers. We have seen that the volumes have grown, and I think we called out EBS, our electronic blasting system is growing double-digit, but also, non-electrics have grown over the period. It's been a good business for us.

Niraj Shah: (Goldman Sachs, Analyst) Great, thanks. Appreciate the colour, guys.

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

Andrew Scott: (Morgan Stanley, Analyst) Hi, good morning, and thank you. Sanjeev, I just wanted to focus in on the Australian business, and in particular, the east coast business which in this time of gas dislocation, having such a large, integrated position is obviously the jewel in the crown. A couple of questions there. One, could you just talk to the gas supply contract into Kooragang, which I believe comes up at the end of this year, where are you on discussions on that and expectations about whether you'll be able to see similar pricing which remains pretty advantageous in a global sense at the moment?

Sanjeev Gandhi: Sure, Andrew, happy to do that. We are contracted across all our continuous assets globally, including in Australia. The one that was up for renewal this year, we've already managed to roll over. That's done and dusted, and we are now covered until 2025, 2026, 2027, depending on which supplier is catering to us. You know, Andrew, that we are major consumers of gas, so we obviously get the attention of our gas suppliers. The relationship has been good. My concern today is that we get enough gas to continue operating so that the resource industry in this country, as well as the ag industry does not get disrupted. That's a bit of a concern. But to answer your question, the gas book is in good shape. We have contracted; we have secured. Now it's all about ensuring reliable manufacturing supply and ensuring that customers don't get disrupted.

Andrew Scott: (Morgan Stanley, Analyst) Do I take from that, you would have called out if there was a meaningful step up in gas costs under the extension?

Sanjeev Gandhi: Gas costs are always high for me, right, I'm never happy with what I pay for gas. But you're right, there's been no meaningful change to the average gas cost on our books. It's been where it is.

Andrew Scott: (Morgan Stanley, Analyst) Perfect, thank you. Can we just stay on the east coast and just talk about the contracts that you are seeing come up in rollover? You did mention those, but I'd just like to explore that a bit further. Import parity incredibly high, if you can actually get your hands on any tonnes. Can you give us some flavour of what you're seeing when these contracts are rolling over, either the magnitude, or how that dynamic of very high spot prices, but you're setting a contract for three years, how that's playing out?

Sanjeev Gandhi: Yes, exactly. It's a discussion about tenure and cost, obviously, with our customers. You know that around 20% to 30% of our book rolls over every year, and whenever they roll over, we have those conversations. These are, as you can imagine, not pleasant conversations, but the reality of the fact is that we are tight, the markets are tight, costs are going up, so we need to reset those, and we have managed quite successfully to do them.

There are obviously some customers who get upset and then go around and then maybe test and then come back to us. We haven’t seen major disruptions in our supply contracts, and we'll continue on that journey. It's a two-, three-, four-year journey till we are able to go through the entire contract book, but so far, the commercial teams have done an outstanding job in terms of being disciplined here. No complaints there, and we will continue those hard discussions.

Andrew Scott: (Morgan Stanley, Analyst) Fantastic. Last one from me, in the Latin American discussion, you called out that you reduced the lag in that business down to one month, and also, you're putting in freight surcharges. Is there any reason that is within that market? Is there any reason you can't do that across the rest of your business globally?

Sanjeev Gandhi: We have - we called out Latin America because they were leading here, and driving the charge, because you can imagine we are the largest importer of the nitrogen molecule into that region. They had that impact coming really hard at them, and they went harder in trying to put those surcharges in place and reducing the lag time. We have done the same in the EMEA region, across the board, because obviously, this was the region most hurt in terms of the higher AN and gas pricing, and then everywhere else in the world, wherever we've seen opportunities - Asia is another callout, where they've done an excellent job. Frankly, Andrew, it's across the board, wherever we've seen the option to open up those discussions, we've done that successfully. The focus has been on reliability.

Andrew Scott: (Morgan Stanley, Analyst) Thank you, that's fantastic, Sanjeev. I'll leave it there.

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

Brook Campbell-Crawford: (Barrenjoey, Analyst) Thanks for taking my question. Just a high-level one again, back on pricing. It seems like the two big opportunities for the business now is repricing contracts globally on a higher AN price, but then you're also tackling the cost base, and you've got a number of organic initiatives, SAP benefits, investing in the plants and taking that cost, et cetera. I was just wondering, if you look over the next couple of years, do you see a bigger driver of earnings being the re-pricing of contracts, or the self-help around cost out and a few organic initiatives?

Sanjeev Gandhi: Thanks, Brook. I think it will be a mix of everything that we have done so far and we will continue to do. We'll continue to address our cost base. You've seen the favourable development in overheads, and we will continue to work on it. We now start as soon as we finish the stabilisation of the SAP system by July, we'll start leveraging that, in terms of getting salary arbitrages and better efficiencies, eliminating bureaucratic work and all of that.

We'll continue to become leaner, more agile, more efficient. We've started on that journey last April. We've seen promising results, and we have done all of that while stabilising the

ERP system. We have not even started to leverage that. That comes on top, and that will happen '23, '24, '25, and it's going to be an ongoing activity. Brook, we need to keep our heads above the water in terms of inflation. We have inflation across the board, salaries, input costs, diesel, everything else. That's going to be an ongoing theme in Orica, and we have great plans, and we know what to do, and we're going to address this.

The other level, obviously, is commercial discipline. That is again something we started back in April, and the teams are now getting used to it. They see success, they feel more confident, and customers do see the value of supply reliability out of Orica, so they are willing to entertain us and talk with us, and we normally come with reasonable solutions which are win-win on both sides. That's all working. The one very positive trend is the upselling to premium products, new technologies, rolling out the new products and services.

Customers are much more inclined now to talk to us about that, because we can help them to reduce their costs, make them more efficient, but also, increase throughput, and that is obviously a very strong ask of all our customers. They want more volumes than they wanted yesterday. That's where our digital technologies, our blasting technologies come into play. That comes on top, and that will help us to continue to improve the quality of our earnings.

Brook Campbell-Crawford: (Barrenjoey, Analyst) Thanks. A question again on pricing in North America, where you're purchasing ammonia from Nutrien, I think it is, to supply Carseland, then you're buying ammonium nitrate from CF. Would you expect a margin benefit from higher AN prices over the next couple of years, or does the benefit more go to your suppliers? Any comment around that would be great.

Sanjeev Gandhi: Both those contracts, Carseland as well as the US contracts are back to gas, so obviously, Carseland, back to Canadian gas, and the US contract back to US gas. I didn’t watch the number today, but I saw US gas at $8 per million BTU, so obviously, the input cost for our suppliers goes up, which means that they come under pressure, and that's then obviously passed on to us, and then we pass it on to our customers and distributors. That's the same cycle we see in Latin America, in Europe, and everywhere else.

Obviously, we do have the leverage of own manufacture product there, out of Carseland, and then we have the long-term supply with a very, very important supplier for us. We will leverage that to the fullest. When Carseland went into turnaround, we fell short of volumes, and we had to go buy in the market, and we had to pay premiums for that. That has impacted North American earnings. But now that the plant is running stably and at very high loads, I do expect that we'll start to see some benefits of better operations flow into our margins.

Brook Campbell-Crawford: (Barrenjoey, Analyst) All right, thanks.

Operator: The next question comes from Daniel Kang at CLSA. Please go ahead.

Daniel Kang: (CLSA, Analyst) Good morning, everyone. I just wanted to touch on the Russian situation a little bit more. I wonder if you can elaborate on where you've managed to source AN supply now. I'm just interested in how sustainable the new supply arrangements will be, and also, whether your competitors are also self-sanctioning purchases from Russia.

Sanjeev Gandhi: Daniel, I can't speak for what competitors do. I'll tell you what Orica does. Orica, as I mentioned earlier, Orica is a major buyer of technical ammonium nitrate in the world. We pay on time, we are predictable, we treat our suppliers well, and suppliers are happy that they are able to open up contracts that we had tied down with our two very important Russian suppliers, who have basically been - they've been fantastic contracts, so I don't have any complaints about this.

We have then basically gone to every producer of the nitrogen molecule in the world because we know them all, across the globe. They've been in Asia, they've been in Latin America, they have been in Western Europe, they've been in Eastern Europe, everywhere. We've done deals with them, and they are happy to do those deals. Some of those deals, we have converted into longer-term contracts. The others are work in progress.

We'll run through that activity, but again, to reiterate, we are a major player in the traded nitrogen tonne, and we do have an impact, and when we go and talk to potential suppliers and co-producers, they are more than happy to deal with us. The supply chain and procurement teams have done an outstanding job. They have managed to get, obviously, at some initial higher costs, supply security for us and our customers, and we intend to leverage our global network here to continue to do this.

Daniel Kang: (CLSA, Analyst) Thanks, Sanjeev. A question for Chris. In terms of trade working capital, thanks for the slides, they were really well-explained in terms of it being largely due to inventory values. We have seen in recent weeks that ammonia and AN prices have been retracing. If current prices hold, should we expect a significant reverse in your operating cash flow performance in the second half? I guess a further element to that question is that with the recent ammonia price pull back, should we also expect a tailwind from the rise and fall clauses reversing.

Christopher Davis: There are a couple of elements to that. The decrease that we've seen recently is relatively small, if you compare it to the increases that we've had since the beginning of the year. If it stays at these levels, what we won't see is further absorption into inventory and trade receivables.

Going on to your next point, which is if the rise and fall - if it comes down substantially, we would expect to see some degree of margin improvement, but that would only be at that point that we unwind the inventory that we have in stock. To ensure the security of supply to our customers, not only has the value gone up on the rate, but we've also increased our holdings, for example, on ammonium nitrate in Latin America, from 45 days to 60 days. We'd have to unwind that inventory first. Does that answer the question, where you were looking at it?

There was one further point I just wanted to add on Sanjeev's comments about securing Russian supplies. If you don't mind, if I can go back to that one. Sorry, securing alternative supplies. We've also ramped up production at our existing own operations, for example, Burrup and Yarwun, so that we've got a security of supply for our regions.

Daniel Kang: (CLSA, Analyst) Thanks for that, Chris. That was my next question, actually. In terms of utilisation rates, you have in the past put in a slide on OEE with utilisation rates of your key manufacturing plants. Can you update us on the current levels, or shall we assume that you're currently running at close to full capacity at all plants?

Sanjeev Gandhi: Yes, Daniel, that's a good assumption. We're running full out, so I thought there was no value in putting that in. Everything is running full out, and as you can imagine, we will not hold back to do that. Just keep in mind that we had major turnarounds in the first half, and we have a couple planned in the second half. Outside of that, uninterrupted production, the continuous manufacturing teams have done an outstanding job keeping those assets running. Some of them had a few learnings, because they haven’t seen those assets being run full out for several years now, so that's been an interesting, exciting time for the folks on the sites there, which motivates them, obviously. All good so far, nothing to point out, and at the moment, the network is fully booked.

Daniel Kang: (CLSA, Analyst) Great news, guys. Thank you very much.

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

Richard Johnson: (Jefferies, Analyst) Thanks very much. Sanjeev, can I just start with the answer you've just given to the last question on the domestic market balance? Really, the way I was thinking about it was, what capacity do you have, or does Orica have on the east coast to continue to service natural market growth on the east coast, or at what point does the market become dependent on imports again, which of course have been next to nothing coming in? What does that mean for pricing, particularly with the dollar at a sub-$0.70 level?

Sanjeev Gandhi: Richard, hand to mouth at the moment, there is not much left within the network. That is why we have supplemented the network with those new procurement contracts. Obviously, there's seasonality, as you can imagine. Wet weather means less AN tonnes, more emulsion, so that gives us a bit of a buffer. We took that opportunity, and even exported some volumes, as Chris was saying, to Latin America and Africa, just to check that the resilience of the supply chain was able to do that. We'll continue to use every tool we can. But in terms of, can we step in if somebody needs today several hundred thousand tonnes? I don't think we can do that.

Richard Johnson: (Jefferies, Analyst) What that essentially implies in simplistic terms is that there's a real danger there's going to be a shortage of AN in Australia, is that right?

Sanjeev Gandhi: We will ensure that our customers are fully supplied. We've always done that; we've never let anybody down. I don't intend for that to happen. Our focus is clearly on our existing contracts, on our long-term relationships with our customers. The big difference and the big differential for Orica apart from technology innovation is our reliability, and we'll continue to be reliable to our customers. We did this during COVID, we did this during the downturn with coal, and we do this now when our customers are pumping. I don't intend - I don't want that to change at all. That's a very strong focus for us.

Richard Johnson: (Jefferies, Analyst) Okay. Would it be fair to say that the orphan plants that exist around the world, particularly in the Middle East, which from time to time, I can think of a plant in Egypt which has caused problems, because they've been a disruptor. Given what you're talking about from a supply-demand perspective, those disruptive plants are no longer an issue at all?

Sanjeev Gandhi: Today, they are all our friends, Richard, if that answers the question.

Richard Johnson: (Jefferies, Analyst) Yes, it does. Perfect, thank you. Moving on to Europe, Sanjeev, if you think about the European business, obviously, post-Russia, where are the opportunities?

Sanjeev Gandhi: Everywhere. Outside of Russia, opportunity is everywhere. Africa has been a massive highlight for the team. If you remember, we talked about country-footprint rationalisation when we rolled out the strategy, and even earlier than that. All of that now comes into play because we've already started to consolidate our country footprint and focus resources which are limited and scarce and expensive into growth markets.

One success story that the European team has done, is they moved a lot of resources on one nice contract in Africa. Africa is growing. Africa is stepping in where Russia stepped out, and Africa has capacity, but they have challenges in mobilising, because of infrastructure shortfalls, because of lack of capital. That’s where Orica steps in, and they are really, really happy to work with us. These are mainly tier twos, but also some tier ones, and we've been pretty successful there.

Secondly, our safety record comes into play here. When we operate, we help them to improve their own safety standards. We operate in a safe and responsible manner, environmentally friendly manner, and Africa really appreciates this. We have been very successful there. That's for me, the big highlight. Then coming back to Western Europe, the Q&C market starts to bounce back. We've seen some markets even going to pre-COVID levels.

We continue with the footprint rationalisation where we don't see opportunities for growth and high cost, and we start to laser-focus those free resources now into the growth markets, and we are quite successful with quarrying, construction and tunnelling. It's a good news story, and that's why the team is quite motivated that despite not having Russia on our books anymore, we will continue to fulfil our growth ambitions in that region.

Richard Johnson: (Jefferies, Analyst) That's very helpful, thanks. Just finally, just for clarification on one element of the guidance where you talk about volumes for the year being in line with GDP, given the very strong start you had to the first half, I'm just curious as to try and understand exactly what that might mean. Should we think nominal GDP or real GDP? What are you actually saying about volume growth for the year?

Sanjeev Gandhi: There's a little bit of catch up that we expect because of the lags because of weather and COVID in the first half, so there will be some slight uptick in volumes. But remember the comment I made earlier, at least on our own manufactured product; we are sold out. Obviously, there will be spot opportunities here and there to release a few tonnes, but there's not too much. Obviously, the traded volume, we have more access to, so that will continue to grow. But overall, I think that the focus in the organisation is again, commercial discipline, pricing, and getting the most bang for the buck, speaking figuratively.

Richard Johnson: (Jefferies, Analyst) Got it. Thank you, that's very helpful. I appreciate it.

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. Congratulations for getting the franchise momentum going. My question, you touched on SAP, Sanjeev. I was hoping to get a little bit more clarity over what you've seen in the last six months. You mentioned that you expect it to be fully stabilised, I think it was, by end of June this year. Are you saying you got no benefits from SAP in this current period, so therefore, you're really expecting to see the run rate of those come in fiscal '23 and '24?

Sanjeev Gandhi: Thanks, Scott. The stabilisation activity, which was basically addressing the technical defects in the system, will be fixed by end of July. There's slight slippage, and this was because our consultants got impacted by COVID, so there were small delays. But that was built into the plan. Once we have done that, then we will have done most of the technical stabilisation, and then we go after benefits.

Having said that, we already get, today, the visibility benefits out of it. We are able to see customer profitability, SKU profitability, Chris is able to monitor receivables, payables, inventory by SKU in the very complex manufacturing and trade environment that we have. All of those benefits are already there, and we are leveraging them. I expect to see further benefits in terms of automation, in terms of salary arbitrages, offshoring, outsourcing, and those are the benefits that we are now planning to start to bring into play, once we are finished with stabilising.

Why do I do this in phases? Because I don't want to distract the team. We have limited resources. It's quite challenging to get SAP experts in the market today. It's a hot market there. We are trying to leverage people, getting them focused to do first the task on hand, which is to get that fully stabilised system working, operating for us. Then, as soon as that's done, we've already started planning for the next phase of benefits to come in.

Benefits are already available today. Difficult to monetise, but you can imagine, with all the transparency we have today, we can go after all those weak links in our network and fix them. Then the real benefits in terms of salary arbitrage and all of that will come post-stabilisation in July.

Scott Ryall: (Rimor Equity Research, Analyst) That's very clear, thank you. My other question was with regard to your slide 6, your decarbonisation strategy, and your - particularly, the hydrogen MoUs that you've signed in New South Wales and Queensland. I've read the press releases. Just give us a little bit more colour on where you see the opportunity for hydrogen. Origin, I think, is probably pretty - it's pretty clear what they bring to the table, I was hoping you would tell us in terms of the partners that you've brought in there, what they actually specifically bring to the table, please?

Sanjeev Gandhi: Yes, happy to do that, Scott. There are two benefits that Orica brings to the table, then I'll talk about the partners. The first is that we are a sizable manufacturer and consumer of hydrogen, today. We produce hydrogen, we consume hydrogen on a large scale, which is basically what we do with our gas. That's the first. Which means we have a base load in terms of consuming hydrogen from any supplier who's able to offer us cost-competitive green hydrogen today. We can already start to put that hydrogen into our ammonia plant and start to make green ammonia with it. We are ready to go. We have an operating ammonia plant; we have the infrastructure.

The one thing that was missing, and I mentioned that in my presentation, was this ammonia tank that we need to buffer receiving and exporting our green ammonia. We don’t have that at KI, at Kooragang Island, so we are working on it. We have the port infrastructure in New South Wales. We have the ability to take in green hydrogen and produce green ammonia and green ammonium nitrate with it, and we can do this today.

The same in Queensland, we are consuming significant amounts of hydrogen. We could convert that into green hydrogen and start making green ammonium nitrate there. Also, in Queensland, we have port infrastructure, so when partners come and talk to us, and these are quite often our existing suppliers of gas, because they realise, over a period of whatever, 10, 15, 20 years, natural gas demand will go down and hydrogen demand will go up. They have the pipes connecting to our sites.

The simple question is, can you, instead of moving gas to Orica, move hydrogen, and the other way around. If we produce hydrogen ourselves, can we move it through your grid? Those are the kinds of discussions we've been having, both with H2U in Queensland and Origin in New South Wales. It's a perfect fit. The energy companies are interested in the upstream energy business, which is basically hydrogen replacing or supplementing natural gas. Orica is more interested in green ammonia and green ammonium nitrate, because that's what fits our purpose.

The obvious benefit of doing all of this is that we reduce our carbon footprint. This is the benefit, and then if we can generate carbon credits, as we have done successfully at KI, at Carseland, hopefully, also at Yarwun, then that becomes an additional stream of revenue for us. It's, in my view, win-win-win. It also helps us to mitigate the risk, because we all understand this is a risky business, this is a new, emerging market. Costs are still up there, higher cost of renewable energy, instability of the grid, all of that still plays in. I'm really pleased that we are able to work with these good partners, whether it's an energy company or an infrastructure company, and then we get the support from the states, and the federal government.

All of that is playing in our favour. We are a major producer of ammonia in this country. We are also a major consumer of hydrogen in this country, so we do have a clear role to play, and we will continue to leverage this. I hope that answers it, Scott. It's a bit long-winded, but that's the strategy behind this.

Scott Ryall: (Rimor Equity Research, Analyst) Yes, more specifically, at Yarwun though, can you give us - H2U doesn’t have any operations at the moment. I get Origin, they're gas, they're energy. I get all of that, I get the decarbonisation. Just, H2U, they have a proposed project, but they don't actually do anything at the moment.

Sanjeev Gandhi: Yes, but they do have government support and grants, and we are continuing to work with them on feasibility, pre-feasibility. We're helping them with technical assessments on hydrogen manufacturing, because we do this quite well ourselves. Then we obviously will remain a potential consumer of that hydrogen and make green ammonium nitrate.

The second important fact, and I think I mentioned this, is that we have port infrastructure in place today, so we are bringing in ammonia into Yarwun today, and you can imagine how valuable this infrastructure is, because we could then help our partner, H2U, to also export that ammonia, using the same - leveraging the same infrastructure. As you can imagine, investment into these kind of projects will basically move the project from a profitable to a non-profitable one. We are able to help them save capital.

We have the experience to operate these assets, and we are trading in ammonia today, already at Yarwun. That is just another stream that goes in and out of the Yarwun site. There are a lot of strategic fits there. As you can imagine, this is a pre-feasibility, feasibility study. It is not exclusive, by the way, so we have opportunities to also work with other potentially interested partners who come and talk to us every day. It's all work in progress. We know what we need from that. Whether we can make that happen, time will tell.

Scott Ryall: (Rimor Equity Research, Analyst) Okay, thank you very much. That's all I had.

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

Nathan Reilly: (UBS, Analyst) Good afternoon. Just a couple of quick questions, hopefully, from me. Chris, could you just give us an idea of the EBIT contribution you had from Russia and the divested nitro business in the first half?

Christopher Davis: Nitro is more like - I wouldn’t bet the bank on that one. It's low single digits in any one year. If you look at Russia, Russia was high single digits for the first half of the year, and then typically, in the second half of the year, there's a traditional step up for seasonality. I think you can probably do the math off that one. That's not a number we've historically disclosed.

Nathan Reilly: (UBS, Analyst) Thanks for that. That's fine, thanks for that. Then finally, Sanjeev, just in terms of your recontracting experience, particularly on the east coast of Australia, but more broadly around APAC, I get the fact that you're rebasing those prices higher, just given the tighter AN market dynamics. I'm curious to understand how you'd go on just in terms of renegotiating, potentially, some of those rise and fall mechanisms, particularly around the timing around lags on those mechanisms. I'm also curious to understand how you've gone in terms of your technology offering around that negotiation discussion, and finally, just in terms of any shifts through the value guarantee arrangements on those contracts as well.

Sanjeev Gandhi: Nathan, we have done that in a very respectful and open and transparent manner, showing and demonstrating to our customers that input costs have gone up beyond our control and we do need to recover them, we cannot just continue to subsidise this. In most cases, I would say, people have been reasonable. On the other hand, nobody's happy about it. These are not easy conversations to have, but we've been relatively successful here, no regrets on everything we have done. That's one aspect of it.

In terms of technology, this has got nothing to do with the pricing. Research technology stands on its own two feet today. We have a dedicated team which does not sell AN which focuses on commercialising technologies. Their job is to go out and get contracts for new products, new technologies, new services every day, and do not care what happens to AN. We have instances where our digital solutions are used on sites where competitors are supplying ammonium nitrate. That just tells you how valid those technologies are and how eagerly customers are happy to receive us and talk to us about it.

In the past, we had sometimes this unfortunate issue that we were mixing up ammonium nitrate with technology, and in certain cases, even cross-subsidising. We have stopped that because we have separated the responsibility. The folks who sell ammonium nitrate don't sell technology and vice versa. They do talk to each other, because you sometimes go to the same customers, but each have a clear margin target and a P&L responsibility. Technology stands on its own two feet, and ammonium nitrate is what it is. It will stay short, it will go long, it's a commodity, and we'll just follow the flows there.

Nathan Reilly: (UBS, Analyst) Thanks, Sanjeev. Just finally, in relation to any shift in the value guarantees, in terms of the arrangements there, is there an opportunity to share a little bit more of the potential upside in relation to those guarantees going forward?

Sanjeev Gandhi: Absolutely. I'm not a big fan of value guarantees, because it's a one-way deal, where we guarantee and our opposing partner enjoys it. We have moved into value share, and if we are able to demonstrate this is your baseline and if you implement an Orica product, service or technology that the baseline is improved by say, 10%, you give us 4% out of that.

I'm really pleased to say that we have started receiving the first cheques from customers, so this is not a concept. It's starting to pay out, and it will all translate into our technology P&L. The new word in Orica is value sharing, because if there's a commitment, we have invested in technology, we are willing to back it up, and if there's a value benefit, then obviously, we need a share of it. This obviously also comes with risks, because if we don't deliver, we get nothing. I'm more than happy to take that risk because we feel so confident about our new products and services offerings.

Nathan Reilly: (UBS, Analyst) Your success rate in converting those value guarantees to value share arrangements on your re-contracting - or the contracts that you've been re-contracting?

Sanjeev Gandhi: As contracts roll off, we will also address - we address several things, right? We address the base price, we address rise and falls, we address lag, we address the indices, for example, in Latin America, some contracts did not have freight, so we brought freight in. We address technology value guarantees, we address payment terms. Basically, when you have that discussion with a customer and a partner, you want to then touch all the KPIs. We basically address everything across the board in the contract.

Nathan Reilly: (UBS, Analyst) Okay, thank you.

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

Grant Saligari: (Credit Suisse, Analyst) Good afternoon. Apologies if I missed this, but could you outline specifically how you're actually exiting Russia? Are you selling the business assets, are you permanently ceasing operations? Exactly what are you doing to exit Russia?

Sanjeev Gandhi: Grant, you have not missed it, because we have not elaborated that. It's all work in progress. You can imagine that Russian authorities are flooded with these kinds of incidents, so we will have to run through regulatory issues. We have to take care of our people, we have to take care of our assets, we have to take care of our contractual obligations to customers. It's work in progress.

We have several options on the table, but since we are under negotiation, I do not want to talk about this. We have given ourselves a timeline of six months, which means that latest by September we should be clear as to where that business lands. The topmost priority is the safety of our operations and the wellbeing of our people. No, you did not miss it, Grant, we have not elaborated that, because there are several balls in the air in that respect.

Grant Saligari: (Credit Suisse, Analyst) Is the intention for it to be a permanent exit? I guess that's what I was trying to get at.

Sanjeev Gandhi: I never say never. You never know what happens in future, and I haven't seen the future, unfortunately, so I cannot tell you. But for the moment, for the foreseeable future, yes, we'll be out.

Grant Saligari: (Credit Suisse, Analyst) Okay, that's helpful. If I could ask a question on the broader EMEA business, if I take Russia out of that, it's barely profitable. I'm glad you indicated earlier that there are opportunities there, but are there any parts of the EMEA business that are actually profitable? How do you actually make it material to Orica, and are you actually the right people to actually own that business?

Sanjeev Gandhi: Yes. You see post-allocation numbers. We obviously do not disclose pre-allocation numbers. On a pre-allocation basis, the business has really performed very well despite all the challenges. The bigger challenge is, we obviously have a certain overhead base that covers the entire region including Russia, and Russia is no longer contributing, so we have to now find ways to take down those costs so that the business is right-sized for the current environment, and then comes the growth.

The first step is that we have already started doing this, including relocating from high-cost locations, moving out of countries, we have line on site for three, four, five, countries today in Europe, so all of that is in play. We are optimising our manufacturing network there, which is predominantly discrete. Automation, shutting down sites, consolidating. We are attacking the cost base very, very hard, because you need to right-size your cost base so that the post-allocation number starts to become meaningful. That's work in progress, and I'm hoping that - it will not take us years, so by September, when we come up with the full year results, we should see a significant chunk of that cost out of the P&L for Europe. That's the good news.

Then comes the growth opportunities, and I mentioned that earlier, it's Africa, clearly. It's Eastern Europe, everything but Russia, where we have fantastic positions, strong market growth opportunities, and then they benefit once the border stabilises there, with Russia being out of the market. Then it's Western Europe, where it is cost, but also high-value, high-margin products coming into the Nordics and also in other parts where we are active. It's a combination of a lot of things, but I think the key short-term measure is to take those overheads down and right size them for the smaller business footprint we have today.

Grant Saligari: (Credit Suisse, Analyst) Okay. Finally, just on Latin America, with the alternative sourcing arrangements that you've managed to obtain with a higher cost, are you actually competitive on going into Latin America vis-a-vis with the local competitors there? How do you actually become - or maintain competitiveness?

Sanjeev Gandhi: The entire market has risen, right? When the tide rises, all boats go up. It's not that our costs went up and all our competitors have better sourcing or lower costs. The whole industry has reset on a higher cost base, and so has Orica. There's one big difference, we have scale in procurement. We don't procure 50,000 or 100,000 tonnes, we procure several hundred thousand tonnes, even millions of tonnes.

We are leveraging our scale, and once we have scale, and we have the volume lined up, then we leverage our supply chain efficiency. We send the products with the shortest lead time, the lowest cost. We move products around plants, and we have the capability to do that because we have manufacturing assets in 45 countries, or 45 locations globally. We are leveraging our size, we are leveraging our scale and skillset, so we will end up slightly better in terms of efficiency of procurement than most others in that field.

In terms of competitors who manufacture their own product, they obviously also have rising input costs. They have their own challenges, as we do, for example, in Australia or in Carseland. The entire industry has been disruptive, and cost base across all players in the industry has gone up significantly.

Grant Saligari: (Credit Suisse, Analyst) All right, that's very helpful, thank you.

Operator: Our final question comes from Richard Johnson at Jefferies. Please go ahead.

Richard Johnson: (Jefferies, Analyst) Thanks very much. Sorry, Sanjeev, just one more from me. I was just thinking about a scenario which you can logically put together which would see industrial grade heading in a different direction to agricultural grade. Really, my question is around North America, and whether there's a risk - not so much a risk, but could we expect to see agricultural grade producers swinging back into the industrial sector, which they've done historically in the past, or is there a structural reason as to why they won't do that?

Sanjeev Gandhi: You know the scale of the market, Richard, right? I always say explosives are the tail of the tiger, and the scale at which the fert-exposed producers operate is massive. Yes, they can all swing, and they have done that in the past, and they'll continue to do that in future. Today, I am happy if there is a single tonne available to the explosives industry.

I take everything that they are able to offer me, and they obviously - food security becomes a concern, rising fertiliser prices, shrinking food production. You know that Ukraine is called the breadbasket of the world, Russia was also producing a lot of food grains. The soft commodity prices are also going up. Inflation is coming through the food value chain. In the end, I cannot talk about the fertiliser producers. They do what is right for them and for their shareholders. But today, if I had more volumes coming out from fert into explosives, I would take it. But I don't see that happening. What's the future? We'll wait and see, Richard, and we'll monitor that, as we did in the past.

Richard Johnson: (Jefferies, Analyst) Got it. That's very helpful. Thanks very much.

Delphine Cassidy: Thank you all for joining us today. Any further questions, please feel free to get in touch with me, and we'll take it from there. Thank you all and good afternoon.

End of Transcript