Start of Transcript

Delphine Cassidy: Good morning ladies and gentlemen. Welcome to Orica's 2018 full year results. We welcome those on the phone, on the webcast and here with us today in the room. Presenting today we'll start off with Albert Calderon, our CEO, followed by Christopher Davis, CFO. Alberto, I'll hand over to you.

Alberto Calderon: Thank you, Delphine. Good morning, all. Thank you for joining us in the room, on the phone and on the webcast. I will ask you to quickly read the disclaimer, which is obviously impossible, so let's go to safety.

We achieved our most important objective of no fatalities in 2018. Safety is our number one priority. The total recordable injury frequency rate remained stable during the year and we are seeing that in some areas injury severity has reduced. The rate compares favourably against industry peers and benchmarks but that is not a case for complacency. Our safety leadership program has been embedded across the organisation and the work we have done to understand our major hazards and ensure all key controls are in place has touched every part of our business. There is more work to do but I'm confident we are making Orica a safer place to work.

Our approach to sustainability is evolving and I am pleased with our progress. We will have more detail in our sustainability report when it is published in December, so I'll just mention a couple of the highlights. We've made good progress with the trials of a new catalyst at Kooragang Island, which will inform our approach to the abatement of carbon emissions into the next decade. That's an important strategic piece of work regarding our direct exposure to future carbon cost.

I would also like to mention the work we've done in rebuilding our culture, which has been an ongoing priority since 2015. We measure progress on this through an annual organisational health index survey. Our results have continued to improve in our health outcome, which benchmarks the quality of management practices at Orica, has moved from the third quartile in 2015 to near the top of the second quartile this year. We know that culture is critical for delivering performance and we will continue to work on this.

The highlights. Before we go into the details of the results, I wanted to take a moment to summarise the last 12 months. The first half of the year was clearly disappointing. We were not happy with our performance. Nevertheless, I said at our half-year result in May that we were seeing clear signs of continued market recovery and improved operating performance that gave me confidence that we would be able to deliver a stronger second half result, and we have.

The second half of EBIT of $366 million is a significant uplift from the first half result, exceeding our full-year expectation of around $600 million. We are happy with our second half performance as it sets the basis for fiscal year ’19 and the years to come. The benefits of new contract wins and improvements in the macros during the year resulted in strong volume growth and improved volume mix and margin. This accounted for around $70 million uplift year-on-year, which Chris will go through later.

However, this benefit was masked by the substantial one-off headwinds in the first half, particularly in manufacturing due to the unplanned shutdowns and the additional sourcing and freight costs associated with the issues in the Burrup plant. I feel confident that the headwinds are now behind us and we are making good progress on ensuring that Burrup is up and running in the first half of fiscal year ’20. I will talk more about this later.

During the half we improved the operational performance of our plants and we are starting to see some positive outcomes from the increased operating discipline instilled by the new management team. We also said at the half-year results that we would be working hard to improve cash conversion and we did. It was a substantial improvement from the half, finishing the year in a slightly better position than the prior year. I will talk later about our high-value technology-based products but I’m pleased to say that several of our newly-signed contracts have been based on productivity improvements through technology.

Results summary. AN volumes continued to grow, up 5% from last year, reflecting strong demand from new and existing customers. Improved sales mix contributed to the revenue lift of 7% with EBS sales up 12% year-on-year. The APA and North American regions were the strong contributors this year with particularly strong demand in Australia and Indonesia. Despite the significant improvement in EBIT of around 46% from first half to second half of this year, EBIT was down year-on-year, largely as a result of the manufacturing issues in the first half that I spoke about earlier.

The expensing of Burrup-related interest costs further reduced NPAT. We are very focused on maintaining the health of our balance sheet and the improvement in cash generation from the first half allowed us to reduce debt from $1.9 billion to $1.6 billion. Gearing is now at 36%, slightly below 36%, post the acquisition of GroundProbe and the increase in our Burrup shareholding during the year. That's at our lower point of the 35% to 45% range.

The Board has declared a final dividend of 31.5 cents per share, taking the total dividend for the year to 51.5 cents per share which reflects a payout ratio of 60% of underlying earnings. This is a significant uplift from a 50% payout ratio in fiscal year '17.

Australia Pacific. The APA region, our highest-margin region, contributed over 60% towards EBIT. Explosives volumes were up 14% or around 200,000 tonnes year-on-year, which has largely been due to winning new contracts and organic growth. Around 40% of this increase was from Indonesia which is proving to be a strong growth market for Orica and more importantly, has meant the Bontang plant operated at full capacity this year. While the margins achieved in this region are lower than Australia, the returns are very good and way above our threshold – of 20%, I mean RONA.

We believe the Indonesian market will continue to grow and as such have commenced engineering works to expand Bontang's capacity by approximately 30,000 tonnes at a relatively small capital outlay. Demand grew in the Pilbara region as a result of new contracts and increased commodity prices and strip ratios accounting for around 20% of the increase. However, given the current short-term issues with the Burrup plant, the additional sourcing and freight cost to service our customers have masked the benefit of this growth. This has amounted to an average of around $200 per tonne.

We have been asked by some of our key stakeholders about the profitability of our new contracts. These new contracts are value accretive to Orica, but the immediate benefit is obviously masked by the short-term issues at Burrup. These are long-term contracts that will improve the return on deployed assets by significantly more than the 20% and will add significant value to Orica in the medium and long term. We are also realising tangible value from our technology portfolio. We have had very good penetration of EBS, BlastIQs and Bm7s this year. Our customers have an increasing appetite for value-sharing agreements based on our technology and services offerings and we expect this strength to continue.

Turning now to EBIT, one-off costs in the first half dampened EBIT but there was a significant lift in the second half with EBIT up some 29% from the first half. This was a result of improved volumes, product mix and better plant reliability. Notwithstanding the issues with the Burrup plant we're expecting EBIT growth in APA in the coming year with market shares increasing from recent contract wins, continued growth in EBS sales and further penetration of our new technology offerings.

I would like to spend some time on Burrup. As you know, the plant originally ran very well. It produced good quality AN. When issues were identified towards the end of the commissioning, the unique model or nature of the plant design by Yara contributed to the time it took to identify the extent of the issue and develop a plan to rectify those issues. Whilst Yara, the joint venture operating partner, has been managing these issues for the past 12 months or so, we have now taken an active role in working for the Yara team. This is to ensure these issues get fixed as soon as practical while balancing the need to make sure we get this right and we have a reliable plant going forward.

Some of the initiatives we have taken including appointing our own experienced Orica project manager to direct the project, embedding Orica technical staff in the project structure with personnel based onsite. We will retain ongoing engineering support onsite at the plant following the completion of the rectification activities. We have also replaced our Board representatives with manufacturing and technical experts and elevated the project to CEO level with the Yara CEO and myself in regular discussions on its progress.

In terms of the status of the project, the temporary repairs to the heat exchangers, as previously disclosed to the market, have now been completed. All nine new replacement heat exchangers are currently being manufactured in Europe and are expected to be installed in the second half of the 2019 calendar year. Issues with the absorption tower have also been identified where the cooling coils and columns need to be replaced. A new column will be erected alongside the existing one to minimize downtime for the changeover.

There are some environmental issues that have been raised recently which we're working to resolve systematically. We have had some successful discrete runs of the plants which produced again high-quality AN. However, we have yet to test it on a continuous operating basis. We'll be running the plant as much as possible as construction continues, but again the bias – the management bias is towards permanently fixing the plant versus running it in the short term. As a result, we have estimated around 20% utilisation in fiscal year '19.

Depreciation and amortisation will only be expensed when we believe the plant is running on a reliable, continuous basis.

We remain fully confident that the current issues can be rectified and that the plant will operate successfully. The Burrup plant is a 30-plus-year plant positioned in the heart of the Pilbara where the strip ratios are expected to grow at a 3%-plus CAGR over the next five years.

In the past 12 months we have secured contracts to supply ammonia nitrate to BHP from November 2019 and Roy Hill, which came into effect in February of this year. With these contract wins, we expect the time plan to be essentially loaded in 2020.

Turning now to North America. It also delivered a strong second half in line with our expectations, once the impact of changes to our joint venture partner sourcing arrangements are removed, direct sales were strong about 5% year-on-year which shows the strength of demand in the region. Volumes were up in Canada and Mexico and a positive seasonal uplift drove a stronger second half, particularly in the quarrying and construction markets for services, detonators and boosters.

Full-year EBIT remained steady with a strong second half from improved volumes, (so second half on second half grew by about 8% due to improved volumes), services, margins and mix and further cost reductions. This result was achieved despite an increase of around $8 million in third party AN sourcing costs relative to 2017. Going forward, volume and EBIT growth are expected to be steady in the 2019 financial year. We are talking about volume and EBIT growth.

Increased penetration of new technology offerings will help drive EBIT growth in the coming years. We have seen very strong demand for BlastIQ platform and customers are eager to implement the next generation of this platform released in 1 October. WebGen has been successfully demonstrated and trials have been arranged with several customers both for service and underground applications.

Turning to Europe, Middle East and Africa. I said at the half year that the second – we would expect a much better second half, similar to the second half of 2017. We delivered this and a bit more. second half EBIT of $36 million was boosted by increased AN volumes in the CIS region, strong EBS growth across all subregions, improved performance in manufacturing and much lower fixed cost. The Turkey business however was down over 40% on last year due to reduced volumes and the significant depreciation of the Turkish lira, lower cyanide volumes due to mine closures and a contract loss also resulted in a lower contribution.

Momentum for the second half is expected to continue into the 2019 financial year with EBIT growth to be underpinned by volume growth across all subregions and improved margin from more profitable EBS growth and new technologies.

Latin America. Overall, explosives was down 3%, higher volumes in Chile were offset by delays at a customer mine site in Colombia, mine closures in Argentina and a partial contract loss in the second half which impact both AN and EBS sales. At the half year, we expected the second half EBIT to be similar to last year, while there was good improvement relative to the first half result, we did not hit that goal. Continued competing pricing pressures on explosives, the partial loss of a significant contract and increased overhead cost due to high inflation impacted the result. We view these as short to medium-term challenges as the long-term fundamentals in copper and gold, which account for around 70% of the region's revenue, remain strong. The contract pipeline from fiscal year '20 onward is very strong.

We were recently awarded a substantial long-term underground project for a major mine in Chile, which is where we had lost a contract, so we were quite happy with that, and also in Peru we were awarded probably the largest contract. We have appointed a new president for the region who comes not only with extensive global experience but also has deep knowledge and understanding of the competitive landscape of the region. The area business managers are also significantly new. An operational review of the business has commenced, focusing on right-sizing the business. We will talk more about this at the half-year results.

Minova. We are now beginning to see some progress in the business. Revenue is up 14% on the year mainly from higher steel product sales. The new management team appointed earlier this year has substantially reduced overhead cost, which has had a positive impact in the last quarter of the year and will continue into the next year. I've said in the past that probably this has been a – this appointing and why it took so long, at least I'm happy that for probably the fourth month in a row we've now seen a stable contributing EBIT of between $500,000 and $1 million per month and we expect that to converge towards the higher end. That final transformation is starting to come through finally.

Auxiliaries. The acquisition of GroundProbe was completed in January 2018 and its integration has been successfully completed. GroundProbe is a global market leader in the provision of critical monitoring and measurement technologies for the mining sector. One of the main synergies of the acquisition was leveraging Orica's global network to accelerate the penetration of GroundProbe solutions into sites currently not serviced by GroundProbe. We are already seeing the benefits of this and a strong pipeline of future opportunities has been developed.

The underlying contribution from GroundProbe in fiscal year '18 is slightly above the investment case assumptions on acquisitions. We said that GroundProbe would be accretive in the first full financial year of ownership and that's going to happen. We are confident it will deliver somewhere around 10% of RONA in the first year, which is fiscal year '19, and plus 15% RONA within three to five years.

I will now hand over to our new Chief Financial Officer, well known by most of you, Chris Davis, to go through the financial performance.

Chris Davis: Thanks, Alberto. If we look at the key financial metrics, sales revenue for the year was over $5.3 billion. This is up 7% from the prior comparable period, mainly from the Australia Pacific Asia and North America regions. Revenue in the APA region increased by 13% year-on-year, reflecting both volume growth and improved mix. Revenue in North America increased by 5% with volume growth in both Canada and Mexico on the back of new contract wins as well as the restart of a number of mines.

The significant uplift in earnings in the second half that Alberto has already spoken about has resulted in both EBITDA and EBIT being only slightly below last year. Underlying EBITDA increased by 34% from the first half to the second half and underlying EBIT increased by over 46% over the same period. Underlying NPAT of $324 million was lower than the prior comparable period, largely as a result of lower earnings and increased net interest expense, in line with higher debt levels and on the back of acquisition activity and interest on Burrup no longer being capitalised in 2018.

Statutory net loss after tax of $48 million was impacted by individually significant items which I will go through on the next slide. The effective tax rate increased to 32% in 2018. This increase was due to reduced profitability in jurisdictions with lower tax rates and reduced foreign deductions.

Looking at individually significant items, to recap, in March this year we flagged that we would be taking some non-cash adjustments in the first half of the year. This included non-cash impairments of $204 million to the Minova business, an increase of $115 million to our environmental provision for remediation of the Botany site, and a one-off restatement to the value of our US deferred tax assets as a result of the corporate tax rate changes that occurred in December 2017.

In March, we also flagged that we commenced further streamlining of the business across each of the operating regions which would result in further reductions to overall headcount. This program commenced during the year and is expected to deliver an incremental $30 million per annum in benefits. Given the substantial size of this restructure, we have accounted for these one-off costs of $35 million as a significant item.

In total, the value of the significant items for the year is $372 million after tax.

Looking at the EBIT bridge at a high level, inflation on fixed cost overheads had an adverse impact of $26 million which was in line with our expectations. This was marginally offset by FX. In terms of headwinds and material input costs, the $16 million is the last flow-through effect of the increase in contracted gas prices in Australia and AN prices in North America which were effective from January 2017.

Contract pricing. Contract renewals have continued to align to current market prices. The impacts of contract pricing of $27 million for the year was lower than expected. This is a reflection of price stabilisation as we start to see positive benefits on renewed contracts. As mentioned at the half year results, there is a deferral of some contract renegotiations to the 2019 financial year. As a result we expect the impacts in 2019 to be a negative $25 million.

Volume mix and margin increased $70 million. New business and improved demand from existing customers, particularly in Indonesia and Australia, drove an increase in AN volumes of 5%, contributing to an increase in EBIT.

A higher proportion of emulsion product sales also contributed positively to EBIT. Sales of EBS increased across most regions with a combined increase of 12% in EBS volumes compared to the prior year.

Global manufacturing inputs. This negative $12 million impact reflects the unplanned maintenance of shutdowns at the Yarwun and Kooragang Island manufacturing plants in the first half of the year, which led to unrecovered labour and operational costs as well as higher short-term third-party product purchases.

Operations at Gyttorp were also reduced as the site continues to recover from the explosion in May 2017.

The improved focus on manufacturing reliability in the second half has helped offset some of the $20 million impact originally reported in the first half of the year.

In terms of the Burrup plant, Alberto earlier gave you a very comprehensive update on the plant's progress. At all times, servicing our customers' requirements has been the number one priority for us. The $26 million negative EBIT impact represents the continued sourcing and freight costs associated with securing AN to meet our customers' needs as well as the commencement of administration overheads in anticipation of the plant operating.

We thought it was important to identify these costs separately as a component relates to sourcing costs that are temporary in nature and will not be repeated once the plant is up and running.

Minova. After adjusting for the one-off asset disposal in the prior comparable period of $8 million, Minova's EBIT declined $7 million due to unfavourable mix and cost pressures, despite increases in volume and revenue. As Alberto mentioned, there has been a positive trend in EBIT in the last quarter of the year and we expect that to continue into 2019.

Auxiliaries represents the contribution from GroundProbe and Nitro Consult that were set up as a new segment in 2018. Included in the number is $6 million of acquisition costs. GroundProbe is now in its first nine months of ownership. As Alberto mentioned, this year's underlying contribution is ahead of the investment case and we expect this trend to continue into 2019 and beyond.

The last bar of $32 million is comprised of lower implementation costs and fees associated with the business improvement initiatives program and the early benefit from reduced people costs following the restructuring activity that took place during the year. In addition, following the increased provision on the Botany Groundwater Treatment Plant taken in the first half of the year, all related costs are now offset against the provision.

Turning now to capital expenditure. We continue to practise a disciplined approach to capital management. As mentioned over the past few results, at all times we will ensure that CapEx related to safety and environmental obligations are maintained. In essence, capital allocations for these purposes will not be subject to financial metrics. All other capital request are the subject of rigorous review and approval processes. At $322 million for the year, capital expenditure is in line with our expectations.

The implementation of the SAP project across the organisation is progressing well, with increased spend in 2018 in line with the ramp-up of this project and in line with our expectations. The cost of the maintenance shutdowns at KI and Yarwun are included in sustenance capital as well as the ongoing investment in our MMU fleet.

Growth capital has increased year-on-year due to an investment in assets to support new contracts in Australia and the CIS region, as well as an investment in infrastructure to support sales to the agriculture market.

Going forward, we believe that capital expenditure will be approximately $350 million in 2019 as the SAP implementation project nears its final stages and we continue our investment in our MMU fleet. Despite that, we continue to maintain our guidance that capital expenditure will remain within the $300 million to $320 million range from 2020 onwards.

Depreciation and amortisation for 2019 is expected to be around 10% higher due to the commencement of depreciation on our investment and IT infrastructure and the new MMU fleet.

Looking at cash and debt. The performance in the second half has delivered a targeted improvement in cash conversion which at 71% is aligned with the prior year. This has been achieved through a stronger EBITDA performance in the second half and a focus on trade working capital management. Whilst net debt has increased $207 million against the prior comparable period, this largely reflects the acquisition capital deployed in 2018 for the purchase of GroundProbe and the additional 5% shareholding in Burrup, which together accounted for $249 million.

Importantly, gearing at 35.7% remains at the low end of our targeted 35% to 45% range. We remain committed to maintaining a strong and flexible balance sheet through the cycle.

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

Alberto Calderon: Thanks, Chris. In considering our strategy and how we allocate human and capital resources, we categorise our priorities in each of our three discrete lines of business. There's a manufacturing and supply, where we are a cost leader; there's the field services, where we're a market leader; and then there's the productivity solutions where we are a valued differentiator. While these lines of businesses are highly complementary, they are distinct in terms of their competitive environments, key success factors, capital intensity, required management approach and the skills and capability to be successful.

The primary focus for manufacturing and supply is delivering cost leadership through high levels of reliability and utilisation. The physical location of our manufacturing assets close to target markets provide a strategic competitive advantage and this is supported by strategic third-party sourcing. Our scale, global reach and expertise in moving regulated materials is also central to our competitive advantage.

Field services have long been the heart of our business. This is a contract management business that leverages specialist products, people and in-field assets to deliver safe, reliable and high-quality field services. Our field services network to over 400 locations around the world allows us to build industry-leading capability and leverage knowledge across the globe to deliver efficiencies and manage risks.

Finally, we are committed to be the industry leader in new technologies that shift the market from conventional commoditised products and deliver productivity improvements for our customers. A big part of our future is the evolution of new technologies in digitally-enabled blasting, automated charging and in-field measurement technologies. We are focused on sharing the value we create for our customers so we can create value for our shareholders. I think I flipped the slide to early, so now this is manufacturing and supply. Our commitment to improving our manufacturing performance is paying off and we have seen significant improvement in the second half of the year.

Except for Yarwun, all plants achieved above our 80% target for overall equipment efficiency – which is one of the main measures, OEE, that we track – with Yarwun's performance improving significantly in the last quarter to 71%. To give you an idea of the magnitude of this, when we were recommissioning and we had the issues in November and December of last year, we were producing in Yarwun around 20,000 per month and we're now producing around 40,000. It's a massive difference, and when you look at the 20,000 or 40,000 that we didn't produce, well, we had to go and buy it elsewhere. That was the origin of the temporary but significant impact on manufacturing that we saw in the first half of the year. But I have to say, I am quite happy to see all of our plants above our target of OEE of 80% and this is again probably what we've been focusing on in the past 24 months. Our plan is to get Yarwun close to that 80% soon.

We will continue to focus on ensuring our continuous manufacturing plants are reliable and to help us to capitalise on the stronger demand outlook. We expect further improvements from Yarwun in fiscal year '19 and are also looking to debottleneck our plant in Bontang in Indonesia to meet growing local demand.

Just to do another high-level numbers of the leverage of this manufacturing, for next year with Yarwun performing better and not having the issues that we had in KI and Yarwun, that's about a $30 million uplift in '19 versus '19, so it is a significant leverage.

Resolution and commissioning issues at Burrup remains a big value driver for our manufacturing business. The initial state of rationalising our initiating systems product portfolio is complete and we have reduced our SKUs by more than 30%. This initial stage was primarily concerned with removing obsolete and superseded products and materials. While there are some minor financial benefits to doing this, it is also an essential first step in stabilising our baseline of current products in the portfolio which can then be more effectively reviewed. In the next stage we will address overlap and redundancy in current products. This will increase manufacturing efficiency, improve network security of supply, reduce asset footprint, reduce working capital and increase overall asset returns. You should expect us to continue to be talking about this every six months. We expect to achieve significant financial benefit from this project over the next two years.

Blasting field services. Our differentiated value proposition makes us an ideal partner for our customers, sales and new technology have been showing a positive contribution since the transparency of technology sales was established in fiscal year '16. Year to date NT5, new technology in the last five years, results are on target to exceed plan with year-on-year growth of more than 30%. That number was about 18% about two or three years ago. Our customers are recognising these capabilities with a further improvement in our net promoter score in 2018. Commercialisation activities are progressing well for two key field service product tools, BlastIQ and BM7 trucks. The following slides outline how these products create value for our customers and for us.

BlastIQ. BlastIQ is a cloud-based platform that collects the wealth of data relevant to blasting onsite and puts real-time information in the hands of the teams who manage the blasts. When they can see the impact of blasting on the entire value chain, it improves regulatory compliance and leads to lower cost, better productivity and safety outcomes. The economic benefits for both the customer and Orica are compelling. For the customer, the drill costs have reduced by around 10% and we have delivered productivity improvements of around 5%.

For Orica, this is a licensed offering so we get direct recurring licensing revenue. We also share the savings from increased customer productivity. We have more than 40 customers using BlastIQ at more than 120 sites with version two currently on global release. As you will see in the next slides, the new technology investments are starting to pay off and go to the bottom line.

Bulkmaster 7. Our new mobile manufacturing unit Bulkmaster 7 can deliver significant cost savings of around 10% to the customer by reducing the labour and assets required onsite. It requires 15% less operators, 20% less assets and the delivery rate improves by 46%. These are big numbers that again go into the bottom line of our customers and ourselves. We share in the value by operating at a lower cost base and through the licensing revenue from BlastIQ which is an integral part of the BM7. We currently have seven Bm7s in operation in Australia but we'll introduce roughly 20 units per year for the next five years. That will significantly change the composition and again the quality of our fleet.

Hopefully we can go a bit faster than that.

Productivity solutions. We have a strong record of delivering value through technology. Our newly-acquired GroundProbe business is at the forefront of mining stability monitoring and it also expands our overall digital capability and customer offering. We have identified around 100 mines where GroundProbe could leverage Orica's existing presence and customer relationships. The opportunity for customers to use Orica's sensitive blasting and GroundProbe's risk assurance monitoring to steepen pit wall represents a very strong value upside for our customers and Orica.

WebGen, which we hold a patent on, is the world's first wireless blasting system. It is putting our customers one step closer to automation in drilling and blast, it improves safety by removing people from harm's way, and we are removing the constraints imposed by wired connections. It can fundamentally change the way blasting and mining is approach which lifts productivity.

We have recently signed a long-term commercial WebGen services agreement in North America and currently have five active trial sites in Australia, North America and Latin America. I will take you through its commercial benefits next. The second generation WebGen 200 is currently under development and due for release in 2020. This will further expand the market opportunities in underground and tunnelling applications and will open a new market open-cut application.

The commercial benefits of WebGen for both the customer and Orica are also compelling. From our customer trials to date, there has been around 34% improved ore recovery through reduced dilution and 20% increased productivity through digging and hauling efficiencies.

While WebGen for surface mining will ultimately enable multi-seam blasting where you can drill and load multiple passes at once but then blast sequentially. This provides significant productivity improvement by removing constraints from the mining sequence. This multilayer blasting is what we will start doing with our largest customer in the Pilbara with BHP, that's the plan.

For Orica, this unique differentiated technology and services offering will deliver a significant return on investment and is equally important, the precursor for blast automation.

Let's turn finally to the outlook. As I mentioned at the start of the presentation, we are very happy with the second half performance as it set the basis for growth in fiscal year '19 and beyond. Higher revenue and EBIT will be underpinned by increased demand and manufacturing improvements. Global AN product volumes is expected to be around 3% higher than fiscal year '18 with continued growth mainly in North America and Australia Pacific Asia regions. We expect continued firming of AN pricing across most regions. Contribution from some new advanced products and services contracts in the APA region will benefit the second half.

EBIT growth is expected from all regions and businesses except Latin America. We will continue to focus on improving the average utilisation rates in our operational plants. As mentioned earlier, we expect around a 20% utilisation rate at Burrup as work continues in order to get the plant available for use at its nameplate capacity, which is the main objective. We're expecting a marginal EBIT impact relative to fiscal year '18 and fiscal year '19. Based on APA's new advanced products and services contracts coming into effect in the second half and the normal seasonality skew, we expect the split for the first half and second half for fiscal year ’19 to be more towards 45/55.

Chris spoke earlier about the tax, capital expenditure and depreciation. To sum it up, improved operating leverage from the second half result underpins a stronger fiscal year ’19 result. Beyond fiscal year ’19, I believe that we now have got a strong platform to deliver the improved returns to our shareholders. As I said at the start, I feel confident the headwinds are now behind us and we’re making good progress on ensuring that Burrup is up and running in the first half of fiscal year ’20. Our operating leverage should increase from volume growth and as we continue to improve plant utilisation and generate more cost efficiencies.

I am confident our evolving productivity solution offerings in digital, automation and field measurements are the key to Orica’s future. With that, I now open to questions and thank you, we will now take questions from the floor and from the phone. We’ll start probably with the floor. Richard.

Richard Johnson: (CLSA, Analyst) Thanks, Alberto. Richard Johnson from CLSA. Alberto, one of the things that caught my eye was the performance, or the turn in the performance in Europe. I was just wondering if you could talk a little bit about the changes that Tom’s made there and whether there’s any structural reason that division can’t get back to historic levels of profitability?

Alberto Calderon: Basically, Tom has new CFO, new HR, new Africa,. Most of the EMEA business managers are new, new guy in Russia. He spent some time and that showed a little bit of an impact in the first half.. He has a strong team and we’re starting to see the results. The guy in CIS, for example, has done a great job and it underpins most of the improvements in the second half that we’re seeing.

In Turkey, even though the lira collapsed and all of that the relationship with the joint venture is much better probably than it has been in the last 15 years. Tom has improved that relationship significantly, and it is a big area of future growth. Europe is doing well, quarries, tunnelling in Norway is doing very well. Africa is probably the one that is still lagging from its full potential. Having said that, I do believe that that area can continue to be one of the areas of let’s say high-level EBIT growth into the future.

Richard Johnson: (CLSA, Analyst) That’s helpful, thanks. Just one for Chris. On the central cost line, which is obviously a little better than we’d expected and I’m sure for the market generally – can you just talk a little bit about the – or give some explanation around the asset sale contribution, but most importantly, the year-on-year delta from asset sales?

Chris Davis: The year-on-year delta from asset sales, as you'll see, is about $2 million. There was obviously profit last year on the sale of businesses. That $2 million contributes partly to what's happening in the year-on-year global support. If you look at the global support, as I mentioned in my speech, the $12 million that we spent in the past on the Botany environmental legacy at the site, because of the increased provision that we now have on board that goes against the provision and is no longer sitting in the costs.

Richard Johnson: (CLSA, Analyst) That's great, thanks. Then finally, Alberto, when we look at SAP, can you remind me what the total cost of that investment is? Then how do you think about the return on that investment or how should we think about that?

Alberto Calderon: The total cost is going to be around the $250 million point which in my whatever, 18 years on SAPs, it will be the most efficient SAP project to date. It's quite interesting, the reason for that is it's cloud-based but also SAP is doing a much better job in ensuring that we have available a world-class process that you just take straight off the shelf, in financial and others. A big part of the cost in the past was Accenture would get a big part of the pie, as you do your own quote-unquote world-class processes, so a lot of that has been taken from the shelves.

There was an old [Kamus] project in Orica from five years and that was a $500 million project, so it's quite efficient from the point of view of cost. From the point of view of impact, the impact is going to be incalculable. I can't tell you how much it is but I can give you ideas of what – we already have released one and two already, which is contracting system and all the HR processes. Every time I asked something of HR, it took two to three weeks to do manually because we had so many systems around the world. Now it's on real-time, we know exactly by region, division, billable, non-billable where it grows.

So, the level of control, everything that we've done – breakaway – we probably could not keep without a system like this. We have taken in breakaway – improvements, let's say, we don't call it breakaway but system improvements, efficiency improvements is $300 million or $250 million and we could not really ensure that they stay out without assistance like that.

The release 3 will come in March and October of next year and that will completely transform the type of information we have. We will have mark-to-market on every single contract we don't have, we will have profitability for SKU. The management of the supply chains will completely change. The amount of people in HR around the world doing transactional work is about 60% and that could also be probably done more efficiently in shared businesses services. I can tell you that there's not a single project that will have a higher payoff. It's enormous.

Richard Johnson: (CLSA, Analyst) That's great. Thanks very much.

Unidentified Company Representative: We can go to the phone if you want and then we'll come back here.

Operator: Thank you. If you wish to ask a question, please press the star key then 1 on your phone and wait for your name to be announced. The first question comes from Mark Wilson of Deutsche Bank. Go ahead, please.

Mark Wilson: (Deutsche Bank, Analyst) Thanks very much, Alberto. I was just wondering with the Burrup plant whether you could actually detail what the outstanding issues are and certainly go through the absorption tower which looks as though it's a new issue and then just a likely timeline of being able to permanently fix the issues?

Alberto Calderon: The project team right now is a dedicated project team of 32 people run by probably the most experienced project manager that we have at Orica, and we're working very well with Yara again, to be honest on this. They have identified every single piece that would need a lead time to fix. The two big ones – well, groups – is the nine heat exchangers and the absorption column. That is a pretty fundamental piece of kit.

At the origin of the issues is the same thing which is deficient welding when it was built in both cases in China and there was no quality control that ensured that the needed quality of the welding was in place. In terms of the absorption column, for example, the issue that that deficient welding has led to acid going into the cooling water system and hence makes it impossible to run it efficiently, you have to run it at a much lower than nameplate capacity, it's part of the reason why we expect such lower utilisation rates until it's permanently fixed.

You would say, can't you fix the welding? You can't. It's a fatal flaw so we had to – or that's what the experts tell me and I believe them, so we've had to order those components. They are being built in Europe as we speak. They have been ordered and should be delivered around July of 2020 or in July of 2020. In terms of the components and the critical components that are needed for the permanent fix at Burrup, that is all underway.

When I talk about it, we are significantly confident that the plant can be permanently fixed because many months of work of the project team have identified all of the issues available, what needs to be fixed and what needs to be ordered. If there is some level when we talk about first half of 2020, and its months, it's because when everything is fixed in this plant and everything is in place, the commissioning, all these teething problems, I've had this since I ran my first company, a power company and a new hydro project. In manufacturing you don't know if the commission is going to last two months, three months, four months, five months. It's not going to be more than that.

So, that's what's getting a little bit of leeway that we won't know until it's tested, but again, we're quite confident that it is permanently fixed and everything that we can do is in place and that the project team has all of the resources to do what they know how to do because we know how to run these plants, we know to manufacture and we know how to fix them, hence.

Mark Wilson: (Deutsche Bank, Analyst) Okay. Is your team now running the project? Have you taken over from Yara?

Alberto Calderon: The project management – we work together with Yara and we have a very good relationship. That relationship goes with quarterly or monthly meetings between the CEO of Yara and myself, weekly meetings between the President of Manufacturing, Carlos Duarte and the president of manufacturing of Yara and then so on and forth at the level of the project team.

Because this is our home turf, we have offered the best people that we have available and it has been determined by both sides that for example the project team should be run by this experienced Orica person but it's a joint team. It's just that we have, being the local, we have provided a significant number of the people who are working on repairing it. The visibility that we have and the confidence is assured by just the quality of the team in place and the numbers again. We were adamant again six months ago to separate the running of the operation from the project team that was going to fix it and that has happened as a consequence of all of these meeting. I'm just highlighting that that team is significant, 32 people and run by an Orica guy, but it's a joint venture effort.

Mark Wilson: (Deutsche Bank, Analyst) Right. Given that you've got your best people over there, you're confident that the issues at Yarwun are overcome?

Alberto Calderon: Yes. It's the best project guy, it's not an operating guy. As you may know from this, the project guys and the operating guys are very different usually, or girls, and so he is the project guy, we are not really doing any projects right now, but the manufacturing organisation is stretching things to help.

Having said that, Yarwun is a key priority and it wouldn't be where it is if we didn't have all the resources. Yarwun has a new manager who's doing a spectacular job. On top of him, you have Greg Holmes who did a fantastic job in Kooragang Island some years ago and is probably our senior expert in manufacturing, and then Carlos. I have great confidence that we have the right people right now.

Mark Wilson: (Deutsche Bank, Analyst) Thanks very much, Alberto.

Operator: Thank you. The next question comes from Daniel Kang of Citigroup. Go ahead, please.

Daniel Kang: (Citigroup, Analyst) Hi, everyone. I just wanted to ask about the volume expectation. It would take FY19 volume to around 3.9 million tonnes, which is probably your highest on record. Thinking about that, if I include Burrup at 300,000 tonnes, does that suggest that your capacity is around $4.2 million or can you stretch this further?

Alberto Calderon: We can stretch it further. Right now – but your numbers are right, at the current OEE. We have plans in manufacturing to increase our whole manufacturing capacity. It's not easy but it's going to take two or three years to go from average OEEs of 80% to around 88%. We do plan to let's say in the next years as that demand comes in to liberate maybe another 150,000 tonnes and then we have plus the 30,000 tonnes in Bontang that we're already working on debottlenecking.

The point that you're making is the correct one. The east coast is fully – right now in deficit, because the Yarwun plant is being – and without Burrup running, the whole Australia right now is in deficit. With Burrup coming in, there would be some level of almost supply-demand, maybe a little bit more supply than demand but not much. The whole market has tightened significantly and that's why we're looking to, as we look two or three years down the line, we will need Bontang and we will need to keep debottlenecking.

Daniel Kang: (Citigroup, Analyst) Thanks, Alberto. In terms of east coast you mentioned, can you give some colour in terms of the current east coast negotiations, coal negotiations? Do you expect the recent positive decision from the Anti-Dumping Commissioner to have an impact in these negotiations?

Alberto Calderon: There's this significant contract that we have been negotiating. That's all negotiated at this stage. Let me answer in a different way. We have seen firming prices in the last 18 months, which means that every price that we have negotiated is a bit above the previous price. So, there has been a systematic firming of prices.

It is clear that this determination, it's a preliminary determination so we have to let it run its course, but clearly what it means is that imports have been coming into Australia and clearly dumping prices and we obviously share that view. That means it should have some sort of impact on IPP going forward, and hence it will have an impact for spot prices and all of that.

I just want to probably reiterate that we have been seeing the firming of prices and again we'll see how things continue. It is a preliminary determination. We were however happy again to have seen it, we're very supportive of it, there was clear dumping from China.

How does your comment on firming of prices marry up with the guidance of a further negative price reset of $25 million?

Alberto Calderon: That one is the last of the contracts. We flagged it last year. We had a $55 million price reset last year. I actually said I'm not going to talk anymore of price resets because there's really no more price resets. This was just a contract that has been a bit difficult to end a negotiation and it's a very large contract, there's no more price resets. This was something that we flagged last year. The new contracts that we've won have been mostly in the Pilbara and that has been an issue.

You would have seen the prices coming straight through but the issue of the Burrup and the costing of that has not allowed it. The east coast, there was another, probably, thing that you didn't see, we had lots of wins but there were those big strikes last year which dampened part of the volumes in the east coast so there wasn't that level of increase. Let me point you back to one area where you can see it. Chris showed you that volume growth of $70 million volume mix. A lot of that is increasing volume and increasing margin is showed in that $70 million.

For next year, there's not major contract renegotiations. What I would tell you is we expect to see pricing passing through into the EBIT line more noticeable in 2021-22. It's the same thing that happened with the pricing going down. Remember, the prices really from the market went down from '14 to '15 which was my luck as I joined the Company. That was the big, big drop from '14 to '15, but it took '15, '16, '17 and '18 to really flow through to the bottom line. This will take time to flow but you will start seeing it.

Daniel Kang: (Citigroup, Analyst) Right. Thanks for that, Alberto. Just a very quick one for Chris. Tax rate has moved up to 32% last year. What's your expectation going forward?

Chris Davis: We expect the tax rate to remain in line with the 32% and that's driven by the reduced deductions that I spoke about, in particular on the unwind of a number of hybrid financing structures we have in place as well as the mix of the geographies and where our income is coming from.

Daniel Kang: (Citigroup, Analyst) Thank you, guys.

Operator: Thank you. The next question comes from Sophie Spartalis of Merrill Lynch. Go ahead, please.

Sophie Spartalis: (Merrill Lynch, Analyst) Good morning, team. I just wanted to come back to Burrup and the timings around there. I'm just a little bit confused. You talked about there being parts being ordered at the moment and expected delivery in July 2020 and yet you also talk about commissioning in one half '20. Can you just maybe talk through it in a little bit more detail where you expect that FY20 run rate to be and by the time you get to end of FY20 do you expect to be at 100% run rate?

Alberto Calderon: I don't know if I misspoke. I thought I said July '19, so if I did – that's what I meant, obviously. The parts take a year to make and they were ordered some months ago. So it's July of '19.

Sophie Spartalis: (Merrill Lynch, Analyst) Okay. Then just going back then to the run rate expected in FY20, given that you're commissioning first half '20?

Alberto Calderon: The run rate when, I'm sorry?

Sophie Spartalis: (Merrill Lynch, Analyst) At the end of FY20, do you expect the plant to ramp up in six months to 100%?

Alberto Calderon: Yes. What the guidance has been – the plant should be within the first half of 2020, should be fully running at nameplate or close to nameplate capacity.

Sophie Spartalis: (Merrill Lynch, Analyst) Okay. Then just remind me, is there an insurance claim that is potentially outstanding on the performance of Burrup and the impact that it's had to Orica?

Alberto Calderon: There is a performance bond of $120 million that is the equivalent of a bank guarantee and that will pay for all of the capital cost of the reparations and it should be more than enough to pay for those capital costs.

Sophie Spartalis: (Merrill Lynch, Analyst) Okay, great. Thank you.

Operator: Thank you. The next question is from Grant Saligari of Credit Suisse. Go ahead, please.

Grant Saligari: (Credit Suisse, Analyst) Thanks. Maybe just following on from the Burrup theme, Alberto, I agree with you that once Burrup is up and running in fiscal '20 it's going to be a big benefit to the business but I guess conversely, if you find more problems there and the plants are not up and running at the end of fiscal '19 it's going to be a huge ball and chain for the business. I guess – a couple things. I'd be interested to know what the total capital by the joint venture partners has been spent on Burrup to date, and beyond $120 million that you've just outlined if there are further rectification problems identified that are required with Burrup, who coughs up the capital to fix that? I guess I'm just after an impression.

My impression is with the control measures you've taken that this plant would be much better off for Orica if it was under Orica management, and I wonder if there is a pathway – whether you would agree with that and whether there's a pathway towards Orica management or dare say for ownership of that plant?

Alberto Calderon: Just to put a timeline on things, the plant started failing but again, nobody knew what was happening in September of last year. Initially, they said they were going to be fixed by December but when everything was dismantled around February or March the extent of the issues were much more significant. At that time, we started sending engineers, so that is about six, seven months ago from Orica, even though again they run it but we couldn't just stand idle and so we started sending teams of engineers to work on how to fix the plant and how to run it, and then some months later it was clear that we needed a full project team.

That project team has basically been led by Orica and that has identified up to today every single piece of kit that needs to be repaired or changed. Again, the guy who is there was – my understanding is he knows Bontang inside and outwards, KI inside and outwards. So, they know. There's no technology, except that it's a modular, the technology is nothing that scares them. The list of things that need to be repaired is extensive but it is also exhaustive. They have gone through every single piece.

At this date, the understanding is that the $120 million will be more than enough to cover all of the capital costs required. Because again, the pipe of analysis has been exhaustive, I think at this stage it will be just speculation to think of anything more than that. Our view we know what needs to be fixed, we have ordered the critical parts, we know what it's going to cost, or more than that, we know that the money that we have is enough for that. Up until now, including the 5%, Orica's share is about $800 million.

Grant Saligari: (Credit Suisse, Analyst) So the total is $1.6 billion?

Alberto Calderon: We don't know. Remember, we came in late and so that negotiation I wasn't privy, but they would have different numbers.

Grant Saligari: (Credit Suisse, Analyst) If the plant is not up and running at the end of fiscal '19, is there a possibility that you would lose that additional BHP volume?

Alberto Calderon: Let me remind you, we sold in 2018 in the Pilbara 240,000 tonnes. That's probably something that we haven't explained. We have the logistics to source, 240,000 tonnes. With BHP and the pluses and minuses, we're going to be around 280,000, so that means 40,000 tonnes more than what we did this year. That is a marginal amount that we can handle. We expect to have the plant ready but we have the capacity to handle it if it's two or three months delayed.

Grant Saligari: (Credit Suisse, Analyst) Okay. Can I just ask a quick question, or hopefully it's quick, around gas into…

Alberto Calderon: Is that clear, that we are already doing 240,000?

Grant Saligari: (Credit Suisse, Analyst) That's clear, yes. Thank you. Thank you, that's a fulsome explanation on Burrup. Could I quickly just ask about gas into Kooragang Island? I noted your comment that this is the last of the previous or the contract step-ups that started in 2017. Can you just remind us of the duration of that current gas supply contract into Kooragang Island?

Alberto Calderon: It's into 2020.

Grant Saligari: (Credit Suisse, Analyst) Could you give us some indication as to where the current contract is relative to what we're seeing in terms of east coast gas prices at the moment? Because my perception would be that currently offered gas contracts would be significantly higher than where you might be standing at the moment.

Alberto Calderon: I said that our prices, because of some things that we did with the hedge and all of that, we're already close to market prices and that view hasn't changed. Probably that's still the basis. It's going to be something that would be manageable, but more importantly, if there is any issue of gas it's for all of the competitors so that would go into the normal rises and falls.

There's a technical issue why it wasn't before, it was because it was the link with the petroleum hedge that made it impossible before to pass the gas increase onto the contracts. Any contract that we sign now will have rises and falls with the price of gas. All in all, we are close to that price. We are in negotiations with several – and will be for the next 12 months, but we're hopeful of reaching constructive agreements with some of the larger companies.

Grant Saligari: (Credit Suisse, Analyst) That's very helpful. Thanks for your patience.

Operator: Thank you. The next question is from Scott Ryall of Rimor Equity Research. Go ahead, please.

Scott Ryall: (Rimor Equity Research, Analyst) Thank you very much. Alberto, you mentioned something about $200 a tonne I think that it's costing you for every tonne that you can't take from Burrup and deliver into the Pilbara. Did I take that away correctly? That was about your cost?

Alberto Calderon: It is the cost if we have to move it from Yarwun. We have agreements with CSBP so that has a different cost and we sometimes can source some from Bontang but on the margin, let's say, any additional tonnes that we have to move would be from Yarwun and that's $200 of freight. I wouldn't calculate it on all the tonnes because we have different sourcing facilities.

Scott Ryall: (Rimor Equity Research, Analyst) Sure. If you were to need to go from that run rate of 240,000 to 280,000 with the BHP contract ramping up, then you would take it from Yarwun and that would be $200 a tonne?

Alberto Calderon: Or from Bontang, but let's say yes, that would be 40,000 tonnes at $200 would be $8 million.

Scott Ryall: (Rimor Equity Research, Analyst) Okay, great. That's very helpful. Perhaps a question for Chris. On the EBIT bridge in the first half there was a drag of $21 million from PPE and asset sales, which has disappeared for the full year. Could you just explain to me what happened here? I'm not sure; I missed it in that prepared commentary.

Alberto Calderon: The sale that we did in the second half for Trident sale of $70 million so that's what happened. It compensated for that.

Scott Ryall: (Rimor Equity Research, Analyst) Okay. Which division was that recognised?

Alberto Calderon: Which what?

Scott Ryall: (Rimor Equity Research, Analyst) Where was that recognised?

Alberto Calderon: You're talking about the first half that it showed something versus the second half, if I understood it?

Scott Ryall: (Rimor Equity Research, Analyst) Yes, but in the second half, so you…

Alberto Calderon: In the waterfall chart there was a $21 million impact of asset sale that we did in the first half of 2017 that we didn't do in the first half of '18. As we moved into the second half, we did this asset of something that we had occurring in Ireland and so that neutralised, so that went in that waterfall chart. All in all, if you compare '17 to '18 the delta is about $5 million in asset sales.

Scott Ryall: (Rimor Equity Research, Analyst) Yes, okay. So you recognised that $17 million in second half '18, is that correct?

Alberto Calderon: Yes.

Scott Ryall: (Rimor Equity Research, Analyst) Okay, all right. You spent a bit of time talking about the technology and you're clearly excited from the outside. I am as well. I wondered if you could talk through what do you believe is the most important technology in terms of miners, thinking about the total cost of production and the productivity benefits. What is it that you're most excited about delivering to them, please?

Alberto Calderon: I think the holy grail where we're heading to is automated drilling and blasting. In that regard, wireless and BlastIQ, but wireless mainly will be a key part of this. If you – and we said it before, ask BHP but also Roy Hill, the reason why we won those contracts was only based on what they saw as the productivity improvements in technology.

Let me again try to give one example that is quite exciting that could really transform, open-pit mining. When you open-pit mine, you have a bench of about 10 feet or something like that and then you're going to drill about five benches. But you only have to drill one hole and load it and then put all the cables in at a time and then you blow that bench and then you do that several times and then you remove the bench and then you go to the second bench. Then you do that all over again.

With wireless, what you do is that you drill a hole and you prepare five – with explosives, for five benches, and then you put the wireless detonator and then the detonators that are on the four benches underneath are asleep. So then you prepare the whole field with that and then when you start you blow the first bench and then you remove everything and then when you go to the second bench, everything is ready. You don't have to do it again, you don't have to cable again, you just wake up the wireless detonator and do it again.

The productivity improvements of that in terms of efficiency of speed, when we talk about productivity of 10%, 15%, that is what we are talking about. That type of modus operandi will be trialled with BHP, is being trialled in other regions of the world and it will change how they do mining. In Olympic Dam we're also going to try it and there the benefits are even higher in the sense that what you do is you change the mining sequence. That means that today the mining sequence is usually determined by the last person that is exposed to the wall, to the front of the operations and when you do a wireless, you can remove people from that front of operations and hence you support it less, you can do quicker and all of that.

The benefits are very, very significant. What we are doing right now is proving through trials all of that and then that would move to significant deployment in '20 and '21 of wireless. We will be telling the market how that goes but I expect to see in '20 noticeable EBIT and in '21 very noticeable EBIT coming from these new technologies. That's probably the leading one, but then the BlastIQ truck, we can't have enough production from that truck, there's 36 to 40 months of backlog of production. That's because they are just so much better. That's one competitive advantage that probably can be eroded within two to three years but wireless is much longer than BlastIQ.

Scott Ryall: (Rimor Equity Research, Analyst) Okay, great. Then my last question is just back on the Asia Pacific, please. If I look just at the second half results, your revenue is up 17%, your EBIT was up 9%, but one of the themes you're talking to going forward is operating leverage. Now, you've given some quantification around the issues at Yarwun being $30 million annualised and if I took $15 million from that and added it to your EBIT, then your EBIT growth would be about the same in the second half as your revenue growth. Is that the key for operational leverage in the Australian market? Obviously, you've been hamstrung a little bit by Burrup for the longer term, but in the next 12 months is Yarwun improving really the critical thing for operating leverage, please?

Alberto Calderon: Yes. That's a good point. So, yes, if I look at the operating leverage for next year versus '18 – remember at the first half we talked about a [$17 million] manufacturing impact from breakdowns in the cyanide plant that we didn't have in the second half and don't expect to have in 2019. So, that is about '17. Then just purely improve Yarwun between '18 and '19 is about $13 million. There's $30 million of manufacturing from just running better manufacturing between the two years that you would see in the 2019 results.

Burrup unfortunately is still limping on but even if we produced that 20%, that's 60,000 tonnes that we would save roughly about $200 so that's $20 million. Then there's several other things that we've said in the results. Headcount, we did a significant headcount reduction. That will have benefits in 2019, roughly about $25 million and then there's other things coming through. Volume is growing, 100,000 tonnes, margins from technology and mining services are also growing. The pluses are clearly significantly higher than the minuses.

Scott Ryall: (Rimor Equity Research, Analyst) Okay, great. That's why I looked at the second half. Essentially, in '19, I just want to be really clear about this, you are expecting to demonstrate operating leverage, i.e. EBIT growth higher than revenue growth?

Alberto Calderon: Yes. Well, let us say around it. We still have Burrup, so that's the big issue.

Scott Ryall: (Rimor Equity Research, Analyst) That's one that comes in '20. Okay, thank you. That's all I have.

Operator: Thank you. The next question comes from John Purtell of Macquarie Group. Go ahead, please.

John Purtell: (Macquarie Group, Analyst) Good morning. I just had a couple of quick questions, Alberto. Just again on Burrup, just to understand the language in the release. You've indicated in the divisional commentary that production at Burrup is not expected until the first half of 2020 but at the same time you're expecting 20% utilisation in '19. Are you referring – maybe it's terminology – to beneficial production in the first half of 2020? Because on the face of it there's an inconsistency there.

Alberto Calderon: No. The 20% is let's say from the average of Burrup – so it's 60,000 tonnes of production at Burrup in fiscal year '19. That's what the 20% means. For 2020 we have not given any guidance of production at Burrup. We're just saying that it's going to be permanently fixed in H1 of 2020. That's fiscal year again.

John Purtell: (Macquarie Group, Analyst) Okay, thank you. You've indicated that the commissioning for the fix is in place in the first half of '20, the commissioning will take two to three months after that, or is that built into the first half?

Alberto Calderon: It's built in. When we talk about H1 2020, that it's running, fully running. That's the uncertainty that I said – the parts are arriving in July so let's say by October/November the plant should be running but if it takes three or four months to commission, that's what we don't know. That's the uncertainty. Remember we're talking about 15 months before that time, so we will give more colour as the timing approximates. We probably won't be able to really give you more precision until we start operating in August/September of 2019.

John Purtell: (Macquarie Group, Analyst) Okay, thank you. Just the last one, just on North America, just to clarify your outlook comments there in terms of whether you're actually expecting earnings growth there in fiscal '19. I do note that your EBIT growth was actually minus 1% in Aussie dollar terms there so whether you're referring to Aussie or US dollar there as well.

Alberto Calderon: It was Aussie dollars, but again, we had the last of the headwinds of $10 million there; that business was significant to swallow. So I'd look more at the second half, to second half as I mentioned before. We do continue to see growth, some growth in volumes and so growth in EBIT in 2020 in North America.

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

Operator: Thank you. The next question comes from Donald Carducci of JP Morgan. Go ahead, please.

Donald Carducci: (JP Morgan, Analyst) Good morning. Two quick ones from me, the first one being should we think about corporate costs increasing into fiscal year '19 given no more profit from asset sales?

Alberto Calderon: You're talking about the global support?

Donald Carducci: (JP Morgan, Analyst) The corporate costs, yes, please.

Chris Davis: What you should expect for global support going forward is we won't have any benefit from asset sales and then there's some increased costs that we have in the business, so you're looking at around 60 to 65.

Donald Carducci: (JP Morgan, Analyst) Okay, great. Thank you. You've mentioned the extra $30 million in manufacturing from next year but can you explain where the remaining confidence for unit growth some of those potential offsets like 10% higher D&A, the increased corporate costs, maybe potentially some input costs?

Alberto Calderon: That's what I tried to say. There's Burrup coming in, there's 100,000 of volume coming in, there's headcount reductions that have a lower cost into next year of about $25 million. Minova and auxiliaries should perform significantly better in '19 than '18 and then we have about $20 million coming of margins from technology and mining services.

Delphine could run through it again; I think we've put all of the pieces of the puzzle out there, but yes, there are significant benefits coming through into the bottom line next year.

Donald Carducci: (JP Morgan, Analyst) Great, thank you.

Operator: Thank you. That is the final question from the phone, Mr Calderon.

Alberto Calderon: Thank you. Nothing from the floor. Thank you very much.

End of Transcript