Start of Transcript

Alberto Calderon: Good morning, all. Thank you for joining us here in the room, on the phone and on the webcast. I will ask you to glance at the disclaimer.

If we go to slide 3, I'm pleased to report that in the six months of the year we have sustained our most important objective of no fatalities. Safety is and continues to be our first priority. Knowing and understanding our major hazards and embedding our key controls into standard work has strengthened our focus and efforts on fatality prevention. We are developing a robust management system and a continuous learning culture to systematically achieve and maintain improvements in our safety, health and environmental performance.

In February of this year, our Kooragang Island plant achieved 50 years onsite operation. This is not a milestone you achieve by chance. The Kooragang Island site's support of the local and broader Newcastle community is a real point of pride, not only for our team at the site but for Orica as a whole. Countless community initiatives have benefited from Kooragang Island's corporate support and the support of our people who generously donate their personal time and money to make the community in which we operate a better place.

When I last addressed you at the 2018 full year result in November, I said that improved operating leverage from the 2018 second half would underpin a stronger 2019 fiscal year result. I am pleased to say that this is clearly demonstrated in the strong performance in this half. AN volumes were up 3% with strong demand from coal market customers in Australia and good growth in Latin America and the CIS. Sales revenue increased 12% from higher volumes and services and further adoption of Orica's new technology products.

EBIT was significantly higher, up 20% from the 2018 first half, supported by a strong performance across all regions, including Latin America, which I will talk about later, improvement in manufacturing reliability and sustainable overhead reduction benefits, including the headcount reduction that I spoke about last year. GroundProbe continues to deliver ahead of our expectations and we are beginning to see improved performance from Minova. I will talk more about these businesses later on.

We continue to focus on maintaining balance sheet strength. Gearing is at 38% and operating cash has improved. The Board has declared an interim dividend of $0.22, up $0.02 from the first half of 2018 or 10%. This equates to a payout ratio of 50% of underlying earnings.

Turning to the performance of the regions now. Despite the severe weather conditions on the east coast of Australia, in the first quarter AN volumes were up 4% year-on-year. This was driven mainly from new businesses in the Pilbara and strong demand from existing customers, particularly Queensland, driven by increasing strip ratios and coal production. This has resulted in total AN market share in Australia, Pacific and Indonesia increasing over the period. EBS detonator volumes also increased by some 20%, particularly in Indonesia, driven by demand and customer conversion.

All of these factors have contributed to a 10% increase in revenue from the previous half. Higher uptake in service, improved manufacturing reliability and increased penetration of Bulkmaster 7 in Australia supported 4% EBIT growth.

You can see from the numbers we are reporting today that Orica's operating leverage is strengthening. However, in this period the previously disclosed contract pricing issues at the Burrup plant and our increased investment in plant reliability have to some extent offset the benefits of our improving operating leverage.

Across the region, prices continued to firm. This trend is expected to continue over the next few years as demand and supply come into balance. This tightening of the market means that plant reliability is more important than ever. Based on the region's forward sales contract profile, we expect to see the benefits of improved pricing to largely start to come through the year 2021 and beyond. However, it is a reality that the current short-term issues with the Burrup plant continue to impact the region's result and I will explain more about our progress in Burrup shortly.

The outlook for the second half remains strong. EBIT is expected to be higher from volume growth in line with normal seasonality, growth in EBS products and contribution from new advanced product and service contracts.

I would like to give an update on our progress on the Burrup plant. I am pleased to report that the rectification work is progressing to plan and all critical components are currently being manufactured by suppliers. Two of the nine replacement heat exchangers have already arrived in Australia with the remaining - two of them are on a boat and the remaining heat exchanges due for delivery between now and August of this year. The absorption power fabrication is on schedule and all the long lead materials for the rotating drums have been ordered.

We are continuing to prioritise the long-term reliability of the plant over short-term production and as a result, we now expect the plant to run at minimum utilisation this year. Having said this, I am pleased to say that the plant should be able to be running sometime - we expect to be running again sometime next week.

Chris will talk about capital costs shortly. We expect the plant to be fully operational in the first half of fiscal year 2020 and our forecasting overall equipment effectiveness for that year to be approximately 50%. We are seeing very strong demand in the Pilbara region and we continue to view the Burrup plant as a strategic asset into the future.

North America has delivered a significant revenue and EBIT uplift this half. Whilst AN volumes remain stable overall, there was strong demand in Canada in the gold sector which was offset by lower volumes in Mexico due to mine plant changes at a key customer site and from community problems that they have been experiencing. There was lower activity in the quarry and construction market due to unfavourable weather conditions and tightening in the skilled labour market in the USA. However, the forward outlook for this sector remains strong.

EBS detonator sales increased by about 8%, predominantly in Canada and Mexico, due to stronger customer adoption of more advanced products. EBIT was up 7%, benefiting from improve manufacturing performance at Carseland and Brownsburg, higher services activity in the USA and improved emulsion and EBS conversion in Canada. Lower overheads and successful conversion of new technology trials have also contributed to EBIT uplift. Looking forward, services growth and a continued focus on technology offers will continue to drive a strong EBIT performance.

Now moving to Latin America. I am very pleased with the performance of the Latin American region in this half. As I mentioned last year, an operational review of the business commenced under the leadership of a new and experienced President. The findings were simple but critical. We have implemented a much-needed renewal of our customer focus and engagement in the region and the benefits of this is evident in the earlier than expected recovery in business performance. Volumes were up 10% from the previous half underpinned by strong growth in Colombia and Peru. This growth more than offset the volume decline in Chile from our partial contract loss in the second half of last year.

Cyanide volumes were lower due to customer mine plan changes. The EBIT contribution from this region was ahead of our expectations despite the impact of the continued competitive pricing pressures and lower cyanide volumes. The benefits of lower overheads in the second half of last year also contributed to this result. Volume growth is expected to continue into the second half. New services contracts as well as cyanide contracts that come into effect in the second half as well as effective cost control will underpin the region's continued recovery. The long-term fundamentals in copper and gold which accounts for most of the region's revenue remain strong.

Europe, Middle East and Africa. In November, I said that the positive momentum from the second half of '18 for EMEA would continue into 2019 and it has. Sales revenue was up 12% with strong ammonium nitrate volumes and key growth including Kazakhstan, Russia and Africa that were partially offset because of the lower volumes in Turkey due to continued economic weakness in that country.

Over 20% of the growth in EBS detonators as conversion continues to progress with higher market penetration in Africa and the Nordics and increased cyanide volumes in Africa. EBIT was up 56% from the first half '18, underpinned by growth in the CIS from new and existing rock and ground customers, higher detonator sales across most of the region, services growth from new projects in the Middle East and sustained overhead cost reduction benefits. Manufacturing performance has also improved as the Gyttorp plant progresses with its recovery following the explosion in May of 2017.

We expect the momentum from first half to continue into the second half and beyond. Growth will be underpinned by higher volumes across the regions and a focus on EBS conversion and new technology offerings.

Auxiliaries is Orica's monitoring business which includes the recently acquired GroundProbe and Nitro Consult, a blasting consultancy business servicing the construction industry. It is becoming a strategically important segment for Orica, providing us with an essential capability during times of heightened focus on mine productivity as well as safety and regulatory compliance.

GroundProbe has performed strongly since acquisition in January of 2018 from both a market share and financial perspective. It continues to increase market share, growing from around 55% to 66% of new sales and leases over the past 12 months. In the past few months GroundProbe has gained market acceptance for our new laser technology with sales to both the underground mining sector and the important civil tunnelling sector with contracts in Indonesia, Norway and Australia. It has also deployed 20 new systems to tailings dams in Brazil, Indonesia, Australia and Botswana.

Orica's existing channels have helped GroundProbe gain market traction in previously unserved markets such as the civil tunnelling market in Norway and the French-Canadian mining sector. Orica support and co-location has facilitated the advancement of key strategies such as the new remote monitoring centre to be located in our LATAM Orica headquarters in Santiago.

From a financial perspective, GroundProbe's EBIT contribution to date is slightly ahead of the investment case and is expected to deliver a 10% RONA as previously disclosed in its first full year of ownership, that being fiscal year '19. The growth plans for the monitoring business are strong, including the growing global focus on safety monitoring on sites and further expansion into the tunnelling sector. With GroundProbe's current run rate along with the initiatives in the pipeline, we expect to achieve the 15% targeted return on acquisition within the next two years, earlier than the previously anticipated three to five years.

Turning now to Minova. We are finally starting to see some sustainable benefits from the turnaround that the new management team embarked on last year. Revenue has increased by 22% from a combination of increased market share, increased pricing and higher demand from existing customers in America, Canada, Australia and India. In addition to growing the top line, the team has worked hard on reducing its overhead cost substantially and on a sustainable basis and has also lowered its mixed manufacturing cost through plant rationalisation. We expect the EBIT run rate to continue into the second half and then increase from fiscal year '20 and beyond from additional product offerings and entry into new markets.

I will now hand over to our Chief Financial Officer, Chris Davis, to go through the financial performance.

Christopher Davis: Thanks, Alberto.

Looking at the key financial metrics, sales revenue for the first half was over $2.8 billion. This is up 12% from the prior corresponding period with growth across all regions from a combination of volume and services growth, new contract wins, higher input commodity prices and favourable FX.

The stronger performance across all regions is reflected in the increase in underlying EBITDA by 15% and underlying EBIT by 20%. Underlying NPAT of $167 million increased 35% over the prior corresponding period, driven by higher earnings. This has resulted in a similar increase in earnings per share to $0.439.

Statutory NPAT of $33 million was impacted by individually significant items which I will go through in the next slide. The effect of tax rates of 31.8% were slightly higher than the prior corresponding period due to an increase in non-allowable interest deductions and lower utilisation of unbooked prior year losses. The higher effective tax rate is in line with our expectations.

As a reminder, we flagged as part of our 2018 year-end results that rectification works were progressing on the Burrup plant. Following a detailed, bottom-up review, a decision has been taken to derecognise certain assets that will be replaced and as a result, we have written off $155 million which includes capitalised interest.

In addition, as we have progressed with the phased implementation of our single SAP project, we have identified a further $36 million of RT assets that will no longer be utilised within the business. Accordingly, these assets have been impaired. These one-off costs have been accounted for as significant items, so in total, the value of these significant items for the half year is $191 million before tax or $134 million after tax.

Looking at the EBIT bridge at a high level, inflation on fixed-cost overheads had an adverse impact of $15 million, which is in line with our expectations. This was offset by FX due to the Australian dollar depreciating against the US dollar, favourably impacting earnings by $7 million.

Volume had a positive impact of $13 million. This increase was mainly from new business and improved demand from customers in Australia, Latin America and the CIS region. Specifically in the Australian region, AN growth was underpinned by strong demand from existing customers in Australia and new business in the Pilbara. In Latin America, volume growth in Colombia and Peru was strong, more than offsetting the lower volume in Chile from the partial contract loss in late 2018.

Higher demand in the CIS region was driven by new contract wins in the latter part of the 2018 financial year. In addition, there has been a 13% increase in electronic blasting systems across most regions due to strong customer conversion to more advanced products.

Net mix and margin had a negative impact of $7 million. This was driven by the impact of previously disclosed contract pricing, lower margins from cyanide due to regional sales mix and new spot sales into Mexico, and continued sourcing and freight costs into the Pilbara, while rectification works at the Burrup plant are being completed. This was partially offset by higher services margins across most regions, particularly on the east coast of Australia and in EMEA.

Global manufacturing impacts.

The positive $19 million reflects improved performance across the continuous and initiating system network as we continue to focus on operating discipline and efficiency as well as the non-repeat of the unplanned maintenance shutdowns at the Yarwun and Kooragang Island plants in the first half of last year. This was partly offset by the larger planned turnaround at the Yarwun plant and disruption of utility supply at the Bontang plant in Indonesia in the first half.

In terms of the Burrup plant, Alberto has previously given a comprehensive update on the plant's status. The negative $3 million impact in the first half of 2019 represents increased administration overhead costs in line with preparing the plant for full operation. This will continue to increase as the plant gets closer to being fully operational.

Auxiliaries. GroundProbe accounts for a large portion of the EBIT generated in the auxiliaries segment, which also includes our Nitro Consult business. As Alberto mentioned, GroundProbe has had a strong performance in the first half and is on track to deliver the 10% RONA target in its first full year of ownership. Nitro Consult, a blasting consultancy business servicing the construction industry, delivered a stable EBIT contribution in the half.

Importantly, we are beginning to see the benefits of improved performance from the Minova business which has seen an increase in EBIT of $11 million over the prior corresponding period. Increased pricing, higher volumes, sustainable overhead reduction initiatives and lower fixed manufacturing costs have contributed to this EBIT uplift and we expect this to continue into the second half of the year.

In November last year, I mentioned that we expected to deliver an incremental $25 million per annum in benefits as we continue to streamline the business. The positive $13 million impact from reduced overheads included the benefit from lower people costs following the restructuring activities that took place during the second half of the 2018 financial year.

Turning now to capital expenditure. Our approach to capital expenditure remains unchanged. At all times, we will ensure that capital allocations related to safety and environmental obligations will not be restricted. All other capital requirements will be subject to financial metrics and a rigorous review and approval process. Growth capital has increased year-on-year due to ongoing investment in the Bulkmaster 7 mobile manufacturing units and spend on the Burrup rectification works.

In November, we stated that capital expenditure for this financial year would be around $350 million due to higher sustaining spend on manufacturing plants, continuous investment in the replacement of our ageing MMU fleet and the SAP implementation ramp-up. We continue to expect that capital expenditure will be contained to $350 million, excluding the impact of the capital required to replace the defective Burrup assets.

Importantly, the joint venture has the right to call on a performance bond from the contractor. To date, the joint venture has called on and received US$90 million in cash proceeds. As is normal in these circumstances, the application of the performance bond is subject to an arbitration process. Therefore, a decision has been taken that as rectification works are undertaken on the plant, these costs will be reflected as capital expenditure. The cash received to date will be recognised in our accounts as other liabilities until such time as a decision is made in the arbitration process.

Looking at cash flow, Orica generated operating cash flow of $184 million in the half, a significant improvement on the prior corresponding period. EBITDA of $437 million was offset net interest income and income tax paid, a decrease in non-trade creditors and increase in trade working capital to support increased sales activity and inventory levels in the Pilbara. Cash conversion, including sustenance spend, has improved to 72%. Excluding sustenance spend, this is at 91%, reflecting the increase in trade working capital that I previously mentioned.

Net debt has increased $119 million to $1.8 billion with gearing at 38.1%. The increase in gearing is driven by the timing of the final dividend for 2018, a movement in exchange rates impacting US dollar-denominated debt and the impact to shareholders' equity of the non-cash significant item adjustments I previously spoke about. At 38.1%, gearing remains within our revised target gearing range of 30% to 40%. The target range has been reduced to better align with past performance and other key metrics against which the Group monitors its performance. At these levels, gearing is well below our financing facilities covenant of 57.5%. 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.

We are maintaining our focus on our strategic priorities across the business, with particular attention on improving our manufacturing performance. We previously spoke about the significant potential benefits in improving the performance of our plants. This is especially important at a time when prices are firming and the market is moving towards a supply-and-demand balance, but we always knew that this would take time and that we will continue to invest in our plants over the next few years.

Improving the reliability and integrity of our continuous plants will reduce some plant downtime and lower cost as well as providing security of supply for our customers. Our improved turnaround management process has been highly effective with turnaround successfully completed at Bontang, Yarwun and KI over the first half, all within our anticipated timeframe and budget. OEE performance for these plants has been impacted by the turnarounds but has otherwise improved and we are also seeing improved daily production rates as a result of the work that has been done.

Carseland is currently undergoing a scheduled turnaround in the second half with no further turnaround work planned across the continuous plant portfolio for the rest of the year. With the plant maintenance completed, we are expecting OEE across the portfolio to improve dramatically in the second half of the year. In response to growing demand in the Indonesian market, our plan to increase capacity at Bontang at minimal capital cost has progressed further and we are currently anticipating that the project should be completed in the first half of 2021.

Initiating systems were focused on ensuring that we are delivering the products that meet our customer needs in a timely, reliable and cost-effective manner. We commenced production of WebGen this year in response to growing market demand for more advanced products. We have also added an additional electronic blasting systems production line Helidon. Ensuring our plants are making the right products does not only mean adding new products to our catalogue, it also means not making the wrong products.

At the full year, I spoke about our plans to rationalise our initiating systems product portfolio and I am pleased to say that we have made the very good progress in the half. At the beginning of the program, Orica had more than 40,000 SKUs across the business; to date, more than 20,000 SKUs have been deleted. While many of the SKUs deleted were obsolete or had no recent sales, this is just the first phase of the project and there is more work to be done.

The next phase of the program is harder and will take longer but will also deliver much more significant benefits. We will need to work closely with our customers to ensure that we continue to meet their needs as well as considering our production capacity, logistical requirements and regulatory approvals. Ultimately, reducing our product portfolio will reduce complexity and duplication in our manufacturing facilities and supply chain. First and foremost, this will increase security of supply for our customers and better enable us to meet their needs. In addition to the changes - these changes will enable us to improve the utilisation of our plants, reduce cost and make a significant reduction in trade working capital.

Customer adoption of technology solutions. There is a clear and accelerating trend from our customers wanting products and services that lift their productivity and Orica is the leading provider of technology-based solutions. After several years of investment in research and development, we have now successfully trialled and commercialised several key technologies to the market.

One example where Orica has captured first mover advantage and delivered clear market leadership is the development of our unique end-to-end true wireless blasting system WebGen. Initial market entry focused on the underground sector where WebGen has a compelling value proposition of safety, productivity and increased ore recovery. We understand customers take time to familiarise with completely new ways of working but we are making very good progress.

To date, we have secured several commercial service contracts and we are on track to undertake full-scale operational trials on a further 28 customer sites across all regions by the end of this fiscal year. I think two days ago we did the first ever open pit wireless detonation in Latin America so that is also progressing well.

After the successful introduction of the technology underground, plans are in place for expansion into open pit applications in coal, iron ore, copper and gold, as I just said. These trials will serve to refine and validate the value proposition in surface applications and secure long-term volumes in readiness for the next generation of WebGen. Rapid adoption is planned, which is expected to deliver a material EBIT uplift in the coming years.

The next generation of BlastIQ was commercially released in October with commercial agreements already in place across target regions including the first customer utilising the Bulkmaster BlastIQ fully integrated solution. This allows real-time data synchronisation of blast hole data with explosive delivery and together with WebGen is an important step towards automating the drill and blast processes. Importantly, Orica is the only company in the world that has been able to deliver this game-changing technology. As of March this year, we have placed 22 units of our smart large-capacity Bulkmaster 7's on customer sites.

The rapid adoption rate in the iron ore, met coal and thermal coal sectors reflect the broader appeal of Bulkmaster 7 benefits and the flexibility of its product configuration. While the Australian Pacific Asian region has led the development and introduction of the Bulkmaster 7's, Latin America is an attractive market with seven units planned for customer trials. These technologies are now entering a phase of rapid scale and adoption led by the regions with support from the central technology teams. Rapid adoption is the key to strong market participation and maximising long-term financial returns.

Turning now to the outlook. At the 2018 fiscal year results I mentioned that the improved operating leverage from the second half of the last fiscal year would underpin a strong 2019 fiscal year result based on various assumptions which are included in the supplementary section of this results pack, and this is evident in the underlying strength of the result in the first half after stripping out the $3.5 million asset sale. With this in mind, the fiscal year '19 outlook assumptions remain unchanged except for the lower utilisation expected from the Burrup plant which I covered earlier. Fiscal year '19 underlying EBIT will be weighted to the second half with an approximate 45/55 split.

The forecast stronger EBIT run rate in the second half of the 2019 fiscal year is expected to continue into the 2020 fiscal year, based on the following assumptions: AN volume, well-supported by commodity growth and mine plan outlook, and we have good visibility into that; AN pricing, which is expected to remain firm; improved reliability and operating efficiency across the manufacturing network; further benefits from advanced product adoption and continued services uptake; Burrup plant rectification works, which are expected to be completed in the first half as previously indicated. This is however subject to no significant changes in the market, regulatory and economic environment.

Looking beyond fiscal year '20, we expect the positive momentum to continue supported by solid demand and supply demand as we've seen in Australia, further operating leverage benefits, a fully operational and loaded Burrup plant, and rapid and further penetration of our next-generation technology product and services.

With that, I open to questions. Thank you.

Richard Johnson: (CLSA, Analyst) Thanks, Alberto. Richard Johnson from CLSA. Can I just ask you about the EBIT margins in the APA business in the first half which were down a little year-on-year, and obviously mix has had an impact on that because there was no growth in emulsion. I was wondering if you could just step through what the other main moving parts were, please?

Alberto Calderon: There was probably two that will be more permanent and two that are temporary. The more permanent, we flagged in the half year the last big contract renegotiation and that was flagged at for the year about $25 million and that hit about $14 million for the year on a gross basis.

Then we're also investing more in to manufacturing, so there's about $8 million probably to sustain that reliability. Those are permanent, but the temporary ones, there was a weather-related - were not affected as our competitors but we're still about $4 million for the half year over and above the normal, and then the Burrup sourcing piece, that is significant. When you strip out the temporary ones, we should be around approximately a 20% margin.

Richard Johnson: (CLSA, Analyst) Great. This maybe a question for Chris. I was just curious as to how we should think about the minority charge going forward.

Christopher Davis: Yes. The minority charge should sit at around about the $12 million/$13 million. What we've had in the half is an intercompany loan in our Venezuela business that has been obviously devalued on the FX, so there's a loss on the FX on the loan, so our minority partner picks up a portion and as a result it comes back to us in the minority interest line.

Richard Johnson: (CLSA, Analyst) Great, thanks. Then just finally on the SAP investment, I know you touched on it but I was wondering if you could talk in a little bit more detail around what cost-saving opportunities that investment has released and what the timing of those is. Then in a practical sense, what does it do to the Group if you think about pre-SAP and post-SAP from an efficiency perspective?

Alberto Calderon: The systems that we have in Orica are from 1990s. The current system SAP has only SAP as a name; it has about 50,000 customisations. The degree of manual intervention and Excel sheets and the degree of transactional work that we have to do in finance and HR is enormous. We don't have profit per SKU, even profit per products we don't have. The impact that it will have in terms of not only information but supply chain management, manufacturing information and reliability in terms of commercial, mark-to-market, we will know the book on a daily basis. Today it would take three or four weeks to know where the book is, the average book. The impact will be very significant.

The benefits, we expect the last part which is called release 3B to be live around the first quarter of calendar 2020. Then after that it will be 12 or 18 months of leveraging that investment. So the full benefits of that investment in terms of having probably a much more efficient Company, continuing probably with growing the outsourcing in Manila; probably it will grow pretty significantly, so we will have any remaining transactional work in Manila. Then all the efficiencies in supply chain and other places will be felt in '21 and probably that underpins why we were unusually talking beyond '20, we expect a lot of those benefits to be seen in '21. In '20 we actually start seeing a bit of the cost because depreciation will start, will come in at about an increase of $20 million just from the SAP in '20.

Richard Johnson: (CLSA, Analyst) Fantastic. Thank you very much.

Alberto Calderon: We'll now go to the phones.

Operator: Thank you. Ladies and gentlemen, if you wish to ask a question today via the phones, please press star-1 on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the pound or hash key.

Your first question today comes from the line of Grant Saligari from Credit Suisse. Please ask your question.

Grant Saligari: (Credit Suisse, Analyst) Thank you and good morning. I'd like to delve into if I could just the operational performance in a little more detail, because I think I agree with you, that's key here and it may be something that Orica has had a little bit of critique in the past few periods.

In that context, could you just run me through the deterioration that appears to have occurred in the TRIFR, the safety record? Because safety is a pretty important indicator of controllables within a manufacturing environment and it looks to me just on the headline numbers that there's been quite a deteriorating trend in TRIFR since 2017, but perhaps I'm not normalising or reading the figures correctly, so if you could expand on that, please.

Alberto Calderon: Yes. If you decompose the numbers in APA of the TRIFR, a significant increase has been the Asia region and we believe it's more - much better reporting and more standardised and homogenous reporting than anything else. If you just isolate the Australia region, it would be similar of what it was.

One measure we are tracking more than TRIFR is significant injuries - our whole focus changed some years ago into prevention of fatalities and again, the current status of the theory tells you that focusing on serious injuries, which is one component of the TRIFR, is critical in avoiding fatalities. That is stable at around 0.19; that was where it was '18, that's where it is in the first half, 0.19. For any company that would be a pretty significant one. Our increase has been in not the serious injuries but in the other areas and all of that and it has been, we believe, more a reporting issue in areas that previously had very probably unusually low TRIFRs.

Grant Saligari: (Credit Suisse, Analyst) Okay, that's helpful. If I could, just on a similar theme, draw your attention back to slide 21 where you're talking about equipment effectiveness. That's a really helpful slide. We can see there the improvements in Carseland and KI fairly I guess stable above that 80%. With Bontang and Yarwun which had the turnarounds during the period, would you expect them to be above 80% even in a turnaround year? How should we interpret their performance?

Alberto Calderon: Bontang had this year not only the turnaround but we suffered unfortunately from the feeding of the - from our partners of the ammonia plant and there were several unfortunate issues that really took a bit out of the OEE from causes that were not directly related to Orica. Even with turnarounds, Bontang should be on the 80%; it is a good plant and well-run plant and it should get back to around the 320,000 tonnes. We've actually been able to in the past months unlock another 10,000 of annual capacity just with a $200,000 investment so I would expect that to be above 80% on a permanent basis.

Yarwun is an older plant. If you exclude the turnaround, the OEE for this year would be around 78%. It should get to the 80% mark, Yarwun; it is probably our oldest and more complex plant and many, many things can go wrong with several nitric acid plants, as you know, so it makes it more difficult. I expect that plant to reach 80% excluding turnarounds. If you then go to KI and Carseland, they're in the 90% range of OEE.

There's probably another indicator that illustrates the improvements in manufacturing and it is the average number of days of above the planned turnaround days. If you go back to 2011, '12, '13, '14, we were usually on average about 25 to 30 days on average above the planned days of turnaround. Now, in '14 or '15 or '16 that didn't matter because we had so much excess supply that you just didn't see the impact of that. We felt the brunt of the impact of that in the first half of 2018. For the past 18 months we're averaging two to three days more than plan per year, so the performance has gone again from 25 to two to three days. Even those two to three days harm us right now and that's why we're happy to make a bit more investment in the reliability of the plants because anything below 80% comes back to have a significant impact on our financials.

Grant Saligari: (Credit Suisse, Analyst) I would agree. Thank you, that's very helpful.

Operator: Your next question today comes from the line of Niraj Shah from Morgan Stanley. Please ask your question.

Niraj Shah: (Morgan Stanley, Analyst) Hi, guys. Just a first one from me. Can I just clarify, Alberto, you said of the $25 million price reset impact this year, $14 million was realised in the first half?

Alberto Calderon: Roughly, but then you see that goes into that bridge that's at $7 million, only a net of $7 million because we have all these value-adding services contracts which were having a positive impact on the price line. We separated what is volume from price and that's why that column you're seeing $7 million. There is embedded in that $7 million a negative in the reset of that large last contract.

Niraj Shah: (Morgan Stanley, Analyst) Then just further down that path, how much of that $7 million includes the additional Burrup sourcing cost? What was the year-on-year impact of that?

Alberto Calderon: No, that would be on the volume part of the bridge, the sourcing costs. Chris could help on that.

Christopher Davis: Included in there is about $4 million for Burrup sourcing costs.

Niraj Shah: (Morgan Stanley, Analyst) Okay, got it. Then just the last one from me, Alberto. Obviously, $25 million price reset impact this year; how should we think about that line, I suppose, in FY20?

Alberto Calderon: We don't expect to have any major negotiation in APA. That was the last of the contract that was out of the money. There is maybe something in North America that we expect but it's of a different order of magnitude. It's much, much less; very small in '20. The guidance has been we don't have any major headwinds going into '20 or '21. What we have, if anything, is prices firming overall across the Company. So, tailwinds and better leverage from improvement in SKUs and operating performance and then Burrup fully operational in '21.

Niraj Shah: (Morgan Stanley, Analyst) Okay. Sorry, last one, and apologies if this is a bit too broad. Given all the work you're doing on operational performance, just to I guess simplify it, how many additional tonnes do you think you'll be able to make across your network next year versus say this year?

Alberto Calderon: I don't have it from the top of my mind but if I look at just the plant, it will be more than 50,000 tonnes.

Niraj Shah: (Morgan Stanley, Analyst) Okay, thank you.

Alberto Calderon: Maybe Delphine can come back to you.

Niraj Shah: (Morgan Stanley, Analyst) Sure. Thanks.

Operator: Your next question comes from the line of Sophie Spartalis from Merrill Lynch. Please ask your question.

Sophie Spartalis: (Merrill Lynch, Analyst) Good morning, team. Just firstly some accounting questions from me. Just in regards to depreciation following the news of Burrup, can you provide some guidance to the expected depreciation for '19?

Alberto Calderon: You're talking about the Burrup depreciation?

Sophie Spartalis: (Merrill Lynch, Analyst) No, the Group depreciation. It seems to be running between $260 million, $265 million over the last few years. Is that what we can expect coming into 2019 as well?

Christopher Davis: What we indicated in November was that the depreciation would be up about 10% in 2019, I think on the half it's up about 8%, and so we're still expecting about 8%, 9% for the 2019 year. As we go into 2020, there's going to be an increase on Burrup as that comes in, and I think we've always quoted the depreciation on Burrup at around about $24 million. The only thing, Sophie, is that's not going to commence on 1 October; it will commence once the plant is up and running and demonstrated reliable operations. That will be sometime during the course of the second half of the year when the plant is up and running. Then when our new SAP project comes on board there will be a lift in depreciation of about $20 million next year.

Sophie Spartalis: (Merrill Lynch, Analyst) Okay, that's great. Then just in terms of the tax rate, we saw a little bit of an uplift in the half. Do we carry that across to the second half as well?

Christopher Davis: Yes, you should.

Alberto Calderon: Yes, something around the same; close to 32%.

Sophie Spartalis: (Merrill Lynch, Analyst) Okay. Then just to reconfirm, Alberto, the earnings guidance that you provided, that's at the EBIT level?

Alberto Calderon: It is at the EBIT level. Again we're saying approximate and the other thing is we don't expect to repeat that $3 million of the sale, so I would reduce it again.

Sophie Spartalis: (Merrill Lynch, Analyst) Sure. Then just more of an operational question. Just in regards to Yarwun, we've seen that the turnaround has been continuing and you mentioned previously that you expect that, that should get up to the 80% level going forward. Just in terms of the contracts that are due for renewal this year around that Bowen Basin, where do you see that incremental tonnage that you'll be able to produce from Yarwun being placed?

Alberto Calderon: How I see it more in the medium term obviously is there's about 200,000 tonnes of Chinese tonnes right now being imported in Australia, so once Burrup is up and running, we will liberate a significant capacity from Yarwun to be able to place it in the market. Right now the east is pretty much fallen; any tonnes that we can produce we'll be able to sell. That's how I would think about it more.

Sophie Spartalis: (Merrill Lynch, Analyst) The ability to sell more tonnes out of Yarwun, do you see that coming from existing contracts given increased material movements, strip ratios et cetera, or do you see that coming from new contracts?

Alberto Calderon: It would be from new contracts. Now a lot of the tonnes are probably from Chinese tonnes which are going into smaller and medium operations with not longer-term contracts. We would expect to be able to cover a significant part of those tonnes. Again, if you look at how it works, the plants of CSBP and the plants of Dyno in the east are full, so the marginal tonnes would come, once Burrup comes in from Yarwun.

Sophie Spartalis: (Merrill Lynch, Analyst) Okay, that's great. Thank you very much.

Operator: Your next question today comes from the line of Mark Wilson from Deutsche Bank. Please ask your question.

Mark Wilson: (Deutsche Bank, Analyst) Thanks very much, Alberto. Just in relation to Burrup, what is the expected capital cost of the rectification works?

Alberto Calderon: Mark, we're right now out in the market for the final EPCM so the numbers right now are not very firm, but it would be around $200 million. We have a performance bond of $120 million so that would be for Orica around about a $40 million CapEx. But again, these numbers are being firmed up as we speak.

Mark Wilson: (Deutsche Bank, Analyst) Right, okay. So that performance bond, that was the $US90 million that was referred to before?

Alberto Calderon: That was the total of the performance bond. It was $20 million. Now, as you know, we are in court so there's a lot of if's up in the air. That will take a long time; those trials take a long time. But let's say assuming we got that first $90 million, it was challenged and in the end we were able to get all of the $90 million so in a working hypothesis we get the $120 million and then it's around $200 million or plus. It will be around $40 million, in the scheme of things not that material for us. My most pressing objective is to get that plant reliably going. The cost of that plant not running is dwarfing any really capital cost that we may incur.

Mark Wilson: (Deutsche Bank, Analyst) Yes. Just in relation to that, can you just step through the timeframe? You've got the equipment on its way; you'll take extended downtime from August. Can you just run through the timeline?

Alberto Calderon: Timeline is the project team will get it around - it takes about one month to clean and all of that and then there's a handover, maybe September, maybe October. The problem is that we're getting to Christmas. There's usually a stoppage in Christmas. The project team will have it for some months; we don't know if it's four or five months, it depends how Christmas comes into it. Then once it's reliably running it hands back to the operating team. We are assuming that that will happen around let's say in the first months of calendar year 2020 and that's why we're assuming that it's fully operational by April, let's say. That's the 50%, where you get the 50%.

Mark Wilson: (Deutsche Bank, Analyst) Okay. That's great. Thanks, Alberto.

Operator: Your next question today comes from the line of Daniel Kang from Citigroup. Please ask your question.

Daniel Kang: (Citigroup, Analyst) Morning, everyone. I just had a few questions, if I may. Firstly, on slide 15 of the pack, noticed that the Burrup negative impact was $3 million. That's quite sharply lower than the $26 million negative impact in FY18. Can you just talk us through the variants there?

Alberto Calderon: This is versus the performance of the previous year and this is only related to the increase in operational costs at Burrup, but obviously hidden in that number - or not hidden, but this is versus last year because last year Burrup wasn't working either. The impact to Orica, it's obviously in orders of magnitude higher than that. This is just a comparison of year to year. We've talked about the likely impact on cash flow will be about $40 million, $45 million. Again, this is the comparison versus the previous half year.

Christopher Davis: Sorry, can I just add to Alberto's response there? Last year, given the magnitude of the amount we separated - you saw the $26 million, of which roughly 50% was sourcing and 50% was increased administration costs - that's now effectively built into the base. If you look at this year, the increase is about $3 million in administration overheads, and then as I mentioned earlier, the incremental sourcing tonnes is sitting in the margin of about $4 million.

Daniel Kang: (Citigroup, Analyst) That's really helpful, Chris. Thank you for that. A simple question then. In terms of Burrup, what sort of losses did it make in the first half?

Alberto Calderon: We don't go into the pricing of contracts.

Daniel Kang: (Citigroup, Analyst) Never mind. The second question I had was in terms of seasonality of profits. You've indicated 45/55 for this year but as we look into FY20, should we assume that seasonality would normalise back towards that 48/52 level?

Alberto Calderon: Yes, around that. We'll give greater guidance obviously in the full year, but it will not be skewed 45/55, no. It will be more towards traditional, but we'll give more, greater guidance in November.

Daniel Kang: (Citigroup, Analyst) Then just the last one for Chris. I guess we've got CapEx at about $350 million for this year. What should we be assuming going forward? Should we be around that level or at the lower range of about $320 million to $330 million levels in the past?

Christopher Davis: In November when I spoke to you, I indicated it would be $350 million for this year and then $320 million for next year. Our revised outlook for next year is going to be about $360 million and that is driven by the increased spend that we are putting into our manufacturing plants to ensure that the reliability is there and a slight increase in the spend on our single SAP project.

Daniel Kang: (Citigroup, Analyst) Then beyond that we should just be moving back towards sustaining CapEx?

Christopher Davis: Beyond that, I think we'll be somewhere between the $320 million and the $360 million.

Alberto Calderon: We may have to do a bit more on the continuous manufacturing plant so that's something that we'll give more update in November.

Daniel Kang: (Citigroup, Analyst) Very good, guys. Thank you very much.

Operator: Your next question comes from the line of John Purtell from Macquarie.

John Purtell: (Macquarie, Analyst) Good morning. How are you, guys? Good morning. Can you hear us?

Alberto Calderon: Oh, yes. I thought it was a good question, but anyway.

John Purtell: (Macquarie, Analyst) Okay. Sorry. I just had two or three questions. Just again following up on Burrup, Alberto, just to clarify the comment in terms of outlook that you're expecting 50% utilisation across the - are you expecting that across the whole of fiscal '20, so essentially an assumption that it's close enough to 100% in the second half or is it 50% after the plant starts up in the first half of '20?

Alberto Calderon: No, no, no. It will be close - it should be close to capacity for six months; that's what it is.

John Purtell: (Macquarie, Analyst) Okay. Just the second one related to that. Can you give us some colour in terms of what's happening on the ground as far as Orica's operational involvement in the joint venture and the extent that that's providing confidence that that can be achieved in terms of your targets?

Alberto Calderon: We have a project team on the ground; there's 32 engineers. It's led by Stewart Thatcher. Stewart Thatcher has been involved in Bontang, in Yarwun and is probably one of our most experienced project guys in the Company. We have several others. Obviously, Yara has also sent their best engineers. I still talk to the CEO every month. Then Carlos Duarte, who is the president of manufacturing, talks to Tove, who is the president of manufacturing of Yara, every week.

There is a lot of alignment. That project team particularly is running very well and in particular Stewart, I talk with him every fortnight and obviously Carlos talks with him every week. I've had long conversations with him. He again continues to assure me this is technology we know, there is nothing strange about this, the issues were clear. The big equipment, there should have been quality inspections while they were being built; that didn't happen. Basically, the issues with all of thes equipment, the heat exchangers, the absorption column, the dry drums, were around cracks from the welding that you couldn't really fix so that's why they have been manufactured in Germany, Italy and France.

He is confident that the plant will run again. He has Monte Carlo simulations of about 90% to underpin what I'm telling the market. Of course, there's a 10% that there is a delay of two or three more months; that's always a 10% probability, but he's confident that there's nothing technology-based [new] or nothing that he doesn't really know. He's highly confident on that, I'm just going on from my many conversations with Stewart.

John Purtell: (Macquarie, Analyst) Thank you. Just the last question. In terms of APAC, we saw your volumes up 4% and your revenues were up 10%, and obviously you had prices down in Australia in terms of that contract you mentioned. It does appear quite a bit differential, if you like between volume and revenue outcomes, so I just was interested in what was driving the extent of that difference, please.

Alberto Calderon: As I said, there's permanent and temporary, but if you want the temporary ones, it's the Burrup sourcing, increased additional sourcing that Chris was talking about, and there were some weather impacts that were over and above the normal weather impacts of about $4 million. If you want to say, what is the more normalised EBIT margin, it's not 17.6% but around 20% EBIT margin; that's what it would look like.

Obviously, there were permanent impacts of the big negotiation of contract that was a four or five-year contract that was still of the prices of 2014 which we flagged in November. That obviously impacted the margin. But as we go forward into the future, that 20% is let's say excluding the temporary variables it will be around 20%, and then we're confident that everything we're doing around technology and value-added should take it from there, I don't want to start going two or three years down up the line.

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

Operator: Your next question comes from the line of Niraj Shah from Morgan Stanley. Please ask your question.

Niraj Shah: (Morgan Stanley, Analyst) Hi, guys. Just a couple of follow-ups. One, and apologies if I missed it, but the KI gas contract obviously comes up in January 2020, and just keen to get your thoughts on how that's going to play out in terms of financial impact next year.

Alberto Calderon: We are now fully covered for gas until 2021 and we're partially covered in 2021. I've been in the market publicly saying how the insanity of the gas price situation in Australia. We do have pass-through in our contracts but that doesn't mean that we don't do everything we can to try to protect our customers, so that will go into a pass-through.

Right now in Australia it's not about even price but getting the quantity was difficult, so we've covered that well. The impact will be different than Yarwun. We had already felt that impact in 2018 and so if anything, Yarwun was slightly lower than that so we won't see much impact in Yarwun. In KI there will be an impact but that was just going through the normal rises and falls of our contracts.

Niraj Shah: (Morgan Stanley, Analyst) Okay. Just to clarify in terms of I guess the EBIT bridge that we all look at next year, gas cost shouldn't be a material item then.

Alberto Calderon: There's no more headwinds, we don't see any cost headwinds, because anything that is coming up, it is in the pass-through.

Niraj Shah: (Morgan Stanley, Analyst) Okay. Last one. I just wanted to understand where we are with the anti-dumping, whether that's showing up in market prices. Can you give your thoughts there as well?

Alberto Calderon: Dumping has continued, though I think with spending right now the minister approval, the commission has given its final regulatory statement. We are fully aligned and are fully agreeing with what the commissioner has said in the sense that there is very clearly demonstrated dumping coming from those three countries, China, Thailand and Sweden. So, we are happy with that outcome. What we have seen in any case in Australia is a firming of prices. What we've also clarified is that we basically don't have major negotiations in '20; it's only about 6% that we'll negotiate. What we've said is that we should see some impact in '21 and beyond.

Niraj Shah: (Morgan Stanley, Analyst) Thank you.

Richard Johnson: (CLSA, Analyst) Alberto, can I just ask about North America as it perhaps sometimes gets a little bit ignored. You make the comment that AN pricing is still reflecting competitive pressures in the region but if I look at your average realised pricing year-on-year in the first half, it's significantly higher, and that's obviously a good outcome. I was wondering if you can reconcile those two things.

Alberto Calderon: Canada is doing very well and so the mix - it's part of the mix. Also in Canada we have a lot of - more EBS, more wireless, so you're seeing the value-added coming through.

Richard Johnson: (CLSA, Analyst) Great, thanks.

Alberto Calderon: That's it? Okay. Thank you very much, all.

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