EDITED TRANSCRIPT

Iluka Resources Limited

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All currency is Australian dollars unless otherwise cited

David Robb: Thank you and as always, everybody on the call, thank you for your time today, in a busy reporting period. We've got quite a lot of material to get through, so I will move through it quickly, to maximise time for questions. I have with me Alan Tate, CFO, Simon Green, GM Finance and Commercial, Chris Cobb, our Head of Marketing, who has dialled in and not with us here in Perth and Rob Porter, who you all know, GM of Investor Relations and Corporate Affairs.

The ground I want to cover is an operational and financial overview, current market characteristics, a reminder about what's important, we think, in the medium term, a few slides on China tile manufacturing, perhaps to dispel some myths and finish with a couple of outlook comments and then allow, as I say, as much time as possible for questions.

Slide 2, the increasingly comprehensive disclaimer that we are required to make, showing the pervasive and no doubt, positive influence of the legal profession in our business environment.

Slide 3, more importantly. We have had a major focus in recent years on sustainability matters, environment, health and safety performance and in 2012 we saw a number of breakthroughs, most notably in our safety performance and that's pleasing, after effort that has gone into this area over the last couple of years.

Slide 4, key features. I think I would characterise it as after climbing the mountain in 2011, which, as you would recall, was a record year for us 2012 became a year of an industry looking to establish a base camp, rather than staying on the summit. We fought to protect our margins, reduce production costs and capital expenditure in what we believed was an appropriate way. There is now, as you would all know, significant value within our increased inventory levels. Importantly, we protected and we continue to pursue growth options within and outside mineral sands and that is actually reflected in large part in the increase that you see in corporate costs year-on-year.

Slide 5, the main features. I won't dwell on it. Quite a contrast, obviously, from 2011, that was essentially all green. It's disappointing to see so much red. But in every respect through the year, I believe we did what we said we would do. We sacrificed volume and cash flow in the short term. We protected our margins as long as we could and we wanted our base camp to be as high as possible, shortening the next climb, because I am confident we'll get the opportunity to climb again.

Slide 6, dividend payment. We've also done what we said we would do with respect to distributions as a key element of total shareholder return. Over the last three years we've distributed 68% of simple reported cash flow and in fact 82% of free cash flow, adjusted to align cash tax payments with the corresponding earnings periods and, of course, most of you would be aware that we're experiencing something of a catch up in tax payments in '12 and '13, having returned to a tax paying position.

Slide 7. We think of our dividends over time, not just period for period. This chart shows what we've generated, distributed and retained cumulatively. So the way to think about the adjusted free cash flow, dark red line is 2010 to '12, and generated $603 million. Same three year period distributed $493 million, including and retaining $110 million, indicated just above the $100 million mark on the right-hand axis. So that's how to look at that slide.

Slide 8. Our track record is, I believe, shareholder-orientated as measured by solid payout ratios. Our framework focuses on per cent of free cash flow, shown here also, for those who prefer to think about it in those terms, a payout ratio as a per cent of profit. So that's a brief overview from me. I'll now hand over to Alan Tate for just a few slides, covering the results in more detail. Alan.

Alan Tate: Thank you David. If I could ask you to turn to slide 9. As mentioned, we had a reduction in sales volumes over the year of 53% and that's reflected in lower mineral sands revenue, which is down 30%. Not as large as the reduction in volumes, because of the high realised price that we've been able achieve and although we've had production response in 2012, we've also been able to retain a strong margin and that's reflected in the Group's EBITDA of $748.8 million, representing a 66% group EBITDA margin, which on a margin basis, is up from the 60% in 2011.

Profit after tax was $363.2 million and whilst down 33% from 2011, still represents an earnings per share of 87.1 cents, a return on capital of 27.3% and a return on equity of 23.2%. You will also note free cash flow which was $81.2 million, which relative to profit is lower. As David mentioned, during 2012 we did built stocks with favourable inventory movement up $347 million. This material is predominantly finished goods sitting on the balance sheet and able to be monetised into 2013.

Turning to slide 10, Mining Area C, which remains a very strong EBIT and cash flow contributor to Iluka. The overall contribution was $72.3 million and whilst down on 2011 on the back of lower Australian dollar realised prices of US$118 a tonne. We see that there is a continuation in the increase in sales volumes, which were up 6.4% at 47.4 million dry metric tonnes.

Slide 11 net profit after tax. NPAT has reduced 33% from $542 million to $363 million. The key component of that change is an overall improvement in the margin position and that's represented by the higher price impact, which was positive $648 million. A higher revenue per tonne of almost $1991, up 35% from 2011, partially offset by a higher unit cost base. The impact being negative $249 million, the combined margin improvement at $400 million.

The lower sales revenue had a negative impact of $625 million and those key components overall had a net EBITDA decrease of $230.5 million, which brings us also to the lower EBITDA of $748.8 million. From an NPAT perspective the other key component, in 2011 we did have an impairment reversal, with no impairment in '12. Lower D&A as we moved from Douglas and Kulwin to now one operation in the Murray Basin, WRP, and a lower tax expense on the lower profit, bringing it to an NPAT of $363 million, representing an EPS of 87 cents per share.

Net cash to net debt movement. We began the year at $157 million net cash, finished the year at $96 million net debt. The overall free cash flow, which we define as cash flow, including capital expenditure and before dividends, was $81 million, as I noted. Relative to 2011, operating cash flow was down about $340 million, which is predominantly due to the lower receipts and our inventory build. The overall dividend payments you see there of $334 million is the final dividend for 2011 of $0.55 and our interim in 2012 of $0.25.

The $96 million net debt represents a gearing of 6% and I remind you that we have facilities in place of $800 million and US$60 million and Iluka remains in a very strong balance sheet position and with that, I'll turn back to David.

David Robb: Thanks Alan. I'm going to have to pick up the pace. Slide 13, turning now to the current market characteristics. I said 12 months ago that people tend not pay enough attention to the TiO2 side of business. Well, with a coincident downturn in both TiO2 and zircon, it's not surprising that balance was maintained in terms of a roughly equal revenue contribution from major global economic areas. It's also the case, as you can see here, that the relative weakness in Europe is quite evident.

Slide 14, market conditions 2012. A number of factors at work here. For us, a more severe downturn than in 2009. Some unique, I believe, transition related distortions in TiO2 markets, which will ease and I'll cover the use of zircon in tiles in China in more detail later.

Slide 15. Well, late in the year we were forced to open some sluice gates in the pricing dam that we were guarding.

Slide 16. As we start the year, I am certainly feeling better than I did at the end of last year. Some positive signs have emerged. What I have referred to as preconditions for a period of stability and without emphasising the point, because obviously it can go both ways, but in my experience, certainly after stability, recovery is possible.

Slide 17. In high grade ores there is a consensus or maybe its self serving group think, time will tell, about a second half recovery. We believe we will have a slow first half, as those distortions I mentioned dissipate. Recent industry announcements, we believe, are significant and positive, clearly, for market dynamics.

Slide 18. A complex slide. The analogy I would use here is that the students of history, you would know that after the first couple of planes went through the sound barrier, designers learnt some things. For example, it was better to have swept back wings than straight ones if you were going to go through the sound barrier. I think in our case that clearly we've learnt some things as we went through the sound barrier in 2011.

And our industry clearly has some interesting cyclical features, most notably, I think, the business school academics who talk about inventory bullwhips should do a mineral sands case study. A bullwhip is unique, in that the handle - if you think about that as end use demand in a market - doesn't have to move very much to cause the tip - in this case zircon sand or pigment feedstocks - to see a supersonic change. Our challenge, we think, is to be flexible and not to lock into low cycle outcomes beyond low cycle time periods, as was the pattern in this industry previously.

Slide 19 - 2009, '10, '11, '12, arguably, reflects all of low, mid, high, low periods, so it's a pretty short cycle so far; but perhaps short cycles are not that surprising after a long, somewhat sleepy, period in which returns for companies like Iluka were more predictable, but less than acceptable.

Slide 20 - we are disciplined managers of shareholder funds. Over the last three years we've generated good cash flows. We've distributed more to shareholders than we have spent on capital expenditure. At the same time we have strengthened our balance sheet and shifted our focus to more greenfield exploration in an industry which is increasingly reliant on tier 2 or worse ore bodies.

Slide 21 - in terms of production and costs our focus is on being flexible, given the cyclicality that I've referred to earlier.

Slide 22 - I won't go through the detail. There's a separate release. Happy to take questions on it, but we did quite a lot and we are doing more in 2012, and we are doing more in 2013.

Slide 23 - I would emphasise that, regrettably, and so soon after 2009, our need for operational adjustments is costing jobs within the company; something that we have worked hard to try and find a balance about as we navigated through a tricky period. As you would expect, as there are operational changes, so there are reviews under way in relation to corporate and overhead areas.

Slide 24 - The impact on production, cash costs and capital expenditure are significant in the short term, but we try never to lose sight of the medium to long term; what we refer to as keeping our feet on the ground and our eyes on the horizon.

Turning now to that medium term, or the horizon, if you like, I remain as bullish as ever about the fundamentals; urbanisation, for one, in China and other developing economies leading to dramatic increases in floor space.

Slide 26 - one you may not have seen before. Our analysis, and that of various ceramics bodies around the world, clearly demonstrates that ceramics demand follows urbanisation and wealth increases.

Slide 27 - one we have shown before. The sound bite is that the emerging world is in love with tiles.

Slide 28 - a variant on ones I know you've seen before. Pigment demand evolution follows a clear S curve; and when a society, historically, approaches a per capita income of about $5000 or so - a point China is approximately at now - consumption of cars, durable goods, increases dramatically. Consumerism, in all its forms, is great for pigment demand.

Slide 29 - China's economy is rebalancing. The consumer genie is out of the bottle and there is no putting him or her back, in my view. Consumption in China is still in its infancy and there is a long way to go. Now, I know that people often cite the unprecedented fixed asset investment flows - and that is true, they are exceeding even those of Singapore in its prime - but I would draw your attention - not shown here on the slide, but I would draw your attention to the fact that the information I have reviewed highlights that capital stock, the total infrastructure - everything built, if you like, in China today - is at about US$10,000 per capita; still less than 10% that of the US. So the flows are large. It makes some people nervous about sustainability, but the footprint in China is still very small by developed countries' standards.

Slide 30 - this is where I want to talk to you a little bit about tiles. Now, as you know, ceramics are something that's above 50% of global demand. Tiles in China a big part of that, but there is a lot of mixed information out there about Chinese tile manufacture, I believe.

We've chosen not to draw conclusions from trawling up a handful of producers in one province and generalising from a pretty small sample, given there are more than 3000 tile production lines in China. Our detailed research highlights, not surprisingly, that those generalisations are inaccurate. Good data is hard to get out of China, as we all know, but highlighted, perhaps, by the fact that even the official institute estimates, when compared with other so-called reliable statistics - give a tile production range of 6 billion square metres per annum, up to just under 9 billion all in the same year. There's some other information there about how we did our sampling, and I believe it was quite comprehensive. The pie chart just shows the provincial split of tile production estimated in 2011.

Slide 31 - as a result of our detailed sampling - and when I say detailed collect sampling I do mean collecting tile fragments, bringing them back to Australia, processing them and analysing scientifically the amount of zircon in them. This chart shows zircon loading per square metre, on the vertical axis, and some individual samples, as analysed in our labs, on the horizontal axis. It is clear that even within the same tile segments - same tile types - there are wide variations in the amount of zircon that people choose to use.

Slide 32 - even within the same tile category - in this case glazed ceramic tiles - there are wide variations in the practices between provinces. We are not going to name too precisely some of this data or - because we think it's useful information for our marketing efforts and we prefer to keep it to ourselves.

Slide 33 - an important slide. This tracks zircon loading over the course of 2012. Our sampling indicates that there has been no discernible usage intensity trend, up or down, in 2012. It suggests, or perhaps confirms, that the majority of the structural changes to which we have referred did, in fact, occur and were absorbed in 2011, and perhaps raises the possibility that 2012 was more cyclical in nature than some have argued. Specifically, we've analysed tile samples produced by a number of major tile manufacturers in a major tile making province, just to be sure that the general data was representative of specifics.

Slide 34 - the last of these on China specifically because I hope we'll get some questions about other parts of the world. Our fundamental premise has been, as you would know, both on TiO_2 and zircon. If there was an industry capacity and we tested its capability for cost pass-through - and just a small example of that ability, exemplified by the success of new medium zircon intensity tiles, known as crystal-jade tiles, in the Chinese market. To me, a small isolated example - I wouldn't want to make too much of a point of it, but this cost pass-through potential in our industry has been demonstrated. It didn't get all the way in ceramics for tiles. It did get all the way in other segments of our business, but this small example shows that it is possible, even in tiles, even in China, with the retail price of these tiles being four to five times greater than the normal.

So slide 35, and in conclusion, we expect a tough first half, as we have alluded to in our release and in these slides, but I believe a turning point is near. The bullwhip effect could mean it is nearer than we estimate.

Slide 36 - what are we focused on? Well, we continue to pursue our strategies. We continue to concentrate on executing well. We continue to spend on both organic and inorganic growth, and we intend to remain shareholder focused through the variations in the cycle in this industry. There are then, obviously, a lot of supplementary slides which you are free to refer to later, or we'll take questions on them, but with that, and with having done - thank you, Alan. I think a reasonable job in getting through a lot of material fairly quickly. I realise I may well have glossed over some specific points on the slides, so feel free to ask questions.

With that we'll throw the line open for questions please, Joel.

Operator: Ladies and gentlemen, we will begin the question and answer session. Should you wish to ask a question please press star and then the number one on your telephone keypad and wait for your name to be announced. If you do wish to withdraw your question request you can do so by pressing the pound or the hash key. Your first question comes from the line of Chris Terry from Deutsche Bank. Please go ahead.

Christopher Terry: (Deutsche Bank, Analyst) Hi guys. I've got two questions for you. First of all, just on the strategy around building up concentrate and reducing final product, add Jacinth-Ambrosia, what's the timing to get to that maximum capacity that you've got under the new permit with the South Australian Government? I think it's around a million tonnes or so and looking back at 2011 production, I think it was around about 800,000 tonnes of concentrate you built up there. Secondly, just around the overall market, taking on board the outlook over the medium term and the possible increases through that Chinese growth story, where do you see the core zircon demand level? So what's the new base that we're now building off with that profile when you consider the work that you've been doing on the tile sector?

David Robb: Okay, good questions, thanks Chris. On the concentrate at J-A, obviously I have to put a condition on the answer which is it all depends how much demand there is and therefore how much of that concentrate we don't leave at J-A and we actually move elsewhere in our system to put in front of our plants to replace finished goods sales. So as a generalisation, though, I would say we have at least a year or thereabouts at our anticipated production levels, depends a bit on what we encounter as we mine and so on, but if you think about that, it's at least a year.

On the core zircon demand, we don't habitually publish our estimate of industry size and our market share and so on within it, until the ink is well and truly dry on the numbers and they are not material to our strategies and possibly for how others are thinking about the world. So therefore, I'm not going to give you an answer, I'm sorry, to that second question. I'll emphasise the point I made earlier and in fact I've said this before, if there was a lot of supposition, a lot of guesstimating through the course of '12 about particularly in China, how much was modernisation shifting in substitution, how much was therefore structural and how much was cyclical, we published a paper on it, in fact, without putting any numbers on it. So in effect, I'm not going to put any numbers on it now, having not done so then. The point I made earlier on was the evidence of our detailed analysis might point to a conclusion that there was a bit more cycle and a bit less structure than some people claim.

Christopher Terry: (Deutsche Bank, Analyst) Okay, thanks David.

David Robb: Thanks Chris. Next question please.

Operator: Next question comes from the line of Clakre Wilkins from Citi. Please go ahead.

Clarke Wilkins: (Citi, Analyst) I need a haircut, obviously. Just a question on the feedstock side, with what happened in the market last year in terms of utilisation rates being turned out and the impacts of the Chinese pigment coming to the market et cetera, do you think that's just purely a cyclical thing as well or do you actually think there's structural implications here for the market and how you see the asset base, the demand for the high grade feedstocks are actually going to be lower going forward than they have been in the past, given the changing nature of the market and the growing Chinese production?

David Robb: Yes, that is the structural question Clarke, you're quite right to hone in on it which is the issue of global production growth, is it going to be Chinese sulphate, is it going to be Western chloride pigment, how do we have a business model that targets both scenarios? We're working very hard on exactly that. We clearly have to have a product in our suite that goes to China in that if that's where all the growth is, that's where we want to be.

But one thing I'll say about downstream of us in TiO_2, so pigment, paint, et cetera, we track what we call heat maps, we track them for global lead indicators, we track them for what we think's happening downstream of us, we're not going publish them, but they're useful for us. I have one in front of me that looks at revenue and profit quarterly for retailers and paint producers and pigment producers. I have to tell you that when it turns from negative quarterly results to positive quarterly results, year on year, it turns fast. The maximum lag is about six months from going from a negative period to a positive period and they are big shifts, typically.

So if you think about we've been - sorry, the other thing I would observe is that the negative periods, well at least in what I'm looking at, don't really extend ever beyond about 12 months. We've been in this one now for certainly all of the second half of 2012 and maybe a bit longer given the inventory that was built in anticipation. So what I would say about TiO_2 is it turns on a dime, it would seem and I think I've said to some of you I've always believed that some of that was tactical, rather than reality, in order to get better commercial outcomes than you might otherwise. The positive indicators I referred to obviously in the US includes this, where our traditional pigment supply customer base is, population growth is strong in the US, new home starts, house sales, prices for houses. The structural question around China, pigment imports into the US seem to be abating. So maybe again a positive for high grade or sales to Western producers, if China is redirecting its production back into stronger domestic economy class.

Operator: Your next question comes from the line of Jeff Green from RBC. Please go ahead.

Geoff Breen: (RBC, Analyst) David I just want to take you back to slide 4, the finished goods inventory, $450 million, can you elaborate on that and I believe the $250 million is part of the $450 million, is that right? How much [blank audio 0:00:22.3 0009] where is it, just a few more details.

David Robb: I'll get Alan and Simon to comment on the detailed split. You may recall Geoff that I have always said it doesn't really fuss me. There's a holding cost, sometimes there are physical limits and we've discussed one and there's alternate J-A, funding cost of doing it is marginal, the issue is over what time period do you think we'll monetise it, we're quite confident that that's not too lengthy a period. It is a priority next year given how much there is of it, to use it - to draw it down rather than run our assets to add to it. But Alan? Simon?

Alan Tate: Yes, Geoff, finished goods of over $450 million plus also intermediate inventory over $250 million but we have overall inventory of around $780 million. But we've had a build, obviously, in '12 and a little bit in '11 as well and the point is we've chosen to retain the finished goods and that material obviously can be monetised going forward. As we cut back production, that material on our balance sheet is straight cash flow.

David Robb: Of course the other thing that happens in industries that cycle is once the finished goods inventory's gone, you are then capacity constrained potentially versus resurgent demand and prices react accordingly. Geoff, I hope that answers your question.

Geoff Breen: (RBC, Analyst) Can you just follow on with Jacinth-Ambrosia and your decision in what you're doing there? I notice you've tailored a little bit that maybe you won't do it too long. I'm just not sure where you're going.

David Robb: Well in all of these things, if you don't have to make a clear decision now and if there are consequences of pulling the trigger too early, then it's prudent to wait and that's all that we're doing in relation to J-A where we're going back to a more optimum unit cost position given industry prices are lower, that's a sensible thing to do and we'll run it normally to optimise those unit costs. Whether we do that for the full year and beyond or whether we choose to take what is the logical zircon split and produce offline, remains to be seen.

I mean I forget how many different operating scenarios there are for J-A but there's about 20 from memory, different ways of running that thing. At the moment we've chosen to go back to the normal setting and we'll keep that under review as we see how the year tracks.

Jeff Green: (RBC, Analyst) Can I ask one more if I may? Just page 16 and 17 about current prices for zircon and retail, you talk about retail prices 30% below December quarter which was 2094, implying about 1460. My understanding is that several sales have been made well below that. Can you just comment on that sort of number?

David Robb: We will always - well (a) we don't comment on specific sales Jeff; they're often not representative of what's going on in the industry, that these numbers refer to, as it says, Iluka's outcomes. I must say and perhaps I might see if Chris has a comment he wishes to add, he's been patient on the call, Chris Cobb, Head of Marketing, but when a big customer goes from asking you how much lower can or should prices go, or asking you if they're going to go up in the next quarter, well one swallow does not a summer make, but I'd rather be facing that question than the previous typology of where are prices going to bottom. Maybe that's a positive indicator Jeff.

We're going to move on, give others a go. Brendan, I think it was, next.

Operator: Next question comes from the line of Brendan Fitzpatrick from Morgan Stanley. Please go ahead.

Brendan Fitzpatrick: (Morgan Stanley, Analyst) Thanks very much. I was really interested with the Chinese tiler now as you've provided and the comments you're making around slide 33 was clear about the potential for a cyclical rather than a structural change. If I just contrast that with slide 31, the different zircon loadings per tile, would the read back be that those different loadings represent different tile qualities and therefore different product prices and that's why we get these steep curves rather than suggesting that product types needs to normalise going forward?

David Robb: I'm not suggesting that at all, no. The point I'm emphasising is the one that you've made I think, Brendan, that's it's a sort of horses for courses situation. It depends what markets the tile manufacturer is aiming at, whether he's got access to either technology or substitutes or can be bothered, whether he's worried about his energy costs, because often changing our zircon incurs costs in other areas in making a tile, his success in marketing his tiles versus anyone else's and therefore his ability to get the prices he wants, people that have experimented in moving away from zircon and have had problems as a result with tile durability or whatever.

But I'm not suggesting there should be a meeting of those lines on page 31, quite the reverse. I am suggesting that generalising by talking to a person who makes one of those lines is probably not really a good way of doing your [sampling].

But Chris, do you want to make any comments?

Chris Cobb: No, just want to follow on from that David. If you look at slide 31 on the porcelain tiles, the range of the zircon use is very high and obviously different tile manufacturers in different regions are targeting different markets. So in terms of supplying the low cost housing, which is a major market at the moment in China, you would expect them to be in the bottom end of the zircon loading. Whereas the tiles to the left hand side under the porcelain tile section, they are most likely for export or for luxury establishments. Therefore depending on the eventual use determined from the tile manufacturer's point of view what price you can get, and therefore what loading you can put in, in terms of zircon.

David Robb: Yeah, and also how much he's prepared to invest, frankly, to change, you know, his habits. As with all manufacturing, changing processes comes with a cost. It may not be worth it in terms of saving, particularly with zircon prices where they are. So if you do these curves again in a little while, they may well be different.

Brendan Fitzpatrick: (Morgan Stanley, Analyst): Okay, thanks. That's...

David Robb: Okay, thanks. Glyn, I think, is next.

Operator: The next question comes from the line of Glyn Lawcock from UBS. Please go ahead.

Glyn Lawcock: (UBS, Analyst) Oh, good morning. Just two quick questions. One, David, if you have any comments about just your inventories at the producer end, both on the pigment side, tile side and maybe just reduced inventories across the - or inventories across the producer side as well. And secondly, if you are wrong, and let's hope you're not, you know, and we do see things pick up in '13, where are the opportunities for you to pull even harder on the lever to pull out, you know, volume costs, et cetera? Thanks.

David Robb: Well inventories downstream of us we've said consistently, and nothing has happened to change our perspective, that zircon sand, and indeed, Chris, you may make a comment on opacifier, but zircon sand inventories are virtually nothing because people have been running hand-to-mouth for quite a while, often only running their plants - their milling plants when they have back-to-back commercial deals so that they de-risk their purchase decision on the zircon.

In TiO2 all of the commentary suggests that those inventories are pretty well worked through and that's a factor in people making statements about stronger second halves, et cetera. If we're wrong, clearly there's another lever to be pulled. We discussed it earlier in relation to J-A, and our - most of our costs are in mining. So that's where you'd go, and you'd just accelerate the balance of supply that comes out of inventory.

So we've certainly done our stress tests, we do it - we don't believe in uni-point views of the future, and I believe we've sort through, other than the classic black swan event that nobody sees coming. We also know, and as I mentioned earlier, just go and have a look at the short cycle period between downstream of us on TiO2 reported results, quarter to quarter, and how rapid the swing has been historically, including, interestingly, in the period towards the end of '09 and into early '10, which was a one to two quarter swing period at most from negative to very positive. So we'll see. Flexibility is our catch-cry, Glyn.

Glyn Lawcock: (UBS, Analyst) Yes.

David Robb: Matt, I think Matt Hope.

Operator: Your next question comes from the line of Matthew Hope from Credit Suisse. Please go ahead.

Matthew Hope: (Credit Suisse, Analyst) Hi David, I just want to find out what the strategy on synthetic rutile is, firstly. I mean, it looks like you're closing all your plants and you've got about 100,000 tonnes, as I understand it, of inventory. So have you starting to give up on selling SR versus natural rutile? And, you know, I understood that pigment producers preferred the synthetic rutile. Secondly, you've noted that zircon has picked up in some regions but not in Europe. I just want to figure out what's actually happening in Europe? Is there - I mean, this used to be the second biggest zircon consumer. Is it dead for a long time?

David Robb: Yeah, I'll get Chris to comment on zircon in Europe. He's just back from there, so has firsthand, current read, I guess. On SR, - no, absolutely we haven't given up on SR, and you are right, for some customers, they like it. And, you know, they're - I think I've said before that really struck me when I came into this industry is how comprehensive the specifications are in relation to our products, be it zircon or indeed feed stocks. So different customers, plants, have different quirks and they like or dislike particular feed stocks as a result. And then of course there's a commercial overlay on top of that about the cost and the - what we refer to as the value in use in a particular plant.

Our goal is to get all four SR plants running. This is sunk capital. I'm not prepared - we haven't been prepared to run it for unacceptable returns, recognising the replacement cost for those assets, because that's what the industry would face in a high cycle period. When they'd all be running, someone would have to go and build another one. So no, it's simply that, you know, there are additional costs in running SR plants and energy inputs, for example, that we don't have if you simply mine rutile in the Murray Basin and put it through a mineral separation plant. That's a better option for us. If we can get customers to take that instead, we'd prefer to do that. But it's an idling, as we've said before, and nothing should be read into beyond that. And we are retaining the critical skills that we need for a rapid re-start.

Next question, please?

Matthew Hope: (Credit Suisse, Analyst) To get to Europe?

David Robb: Europe? Oh, sorry, Chris, yes.

Chris Cobb: Yes, as David said, I've just spent a couple of weeks in Europe around the ceramics fair in Valencia. Europe really is the most depressed of the zircon markets around the world. It's nothing new. Europe's been depressed for some time. It's reinvented itself to some extent in that the southern European tile manufacturers have changed over their emphasis from producing tiles to producing frits and glazes and exporting those around the world. So the predominant market for the European produces now is actually exports to the Middle East, North Africa, South America and Central America.

However, in terms of tile production in Europe, obviously there is very little housing being built anywhere in Europe and especially in places like Spain where there’s a massive overhang. So the local tile industry really now is not the major, or tile usage locally is not the major support of zircon, it’s more in the export markets. In those export markets in 2012, obviously the Arab Spring has had some impacts on some of the plans that were quite high up, have actually gone back onto lower production as a result of some of those things in places like Egypt.

So it’s a market where, although it reinvented itself after 2009 and focussed on exports, it's found exporting particularly difficult over the last 12 months.

Matthew Hope: (Credit Suisse, Analyst) Right, thanks.

David Robb: We better move on to the next question.

Operator: Your next question comes from the line of Mike Harrowell from BBY. Please go ahead.

Mike Harrowell: (BBY Ltd, Analyst) Good morning gentlemen, just a – you’re asking us I guess to look through the current sort of financial numbers and the current operating levels to what the business is worth on a sustainable basis. Would you give us some sense, is Iluka like a million tonnes a year of Z+R+SR at around about $600 a tonne operating cost or is there some other way we should be looking at the business?

David Robb: We can clearly run in that mode Mike and we’ve demonstrated that. It’s not our max obviously, because if we’re running all four kilns and we’re maxing out the zircon production and then you add the rutile on it you get a number quite a bit bigger than one million tonnes a year and your unit cost estimate, probably is historically about right. Now, I’m not going to make a precise investment pitch as to how you should come up with those numbers, but the point we are making is that this is an industry that is demonstrating to us after a long period of artificial stability in my view, it is getting to grips with more volatility and it is cycling quite rapidly as sound barriers get broken, to continue my earlier analogy. So it’s why I’ve referred to the importance, I think, for Iluka of trying to recreate a base camp at a suitably high altitude so that when we climb the mountain again, and I believe that opportunity will come, we don’t have to start from deep in the valley. That’s essentially how we think about our task. We have learnt just how slow we can run plants and not totally destroy unit costs.

We also know how we can max out production by high grading J-A for example and 20 different mine plans that we have for that thing. So, a million is probably a pretty fair observation I think Mike around what you would hope to see in mid-cycle.

Mike Harrowell: (BBY, Analyst) Okay, well just a supplementary, if you had to get back up, I guess the question would be how much capacity or capital have you lost through this closure process and how long would it take and what would the cost be to reinstall the, I guess, the human capital element and be able to get back to those levels?

David Robb: Time wise circa six months Mike. Cost – typical cost of restarting a kiln, including a reline so that it has a 4 year campaign rather than what's left, is maybe $30 million-$50 million, each one. Low end if the kiln has only just had a major maintenance outage and probably more towards the high end if you're going to do a comprehensive reline. Eneabba restart was about $35 million, $30 million or there about to restart that mine and obviously – and that included a kiln refurb, so obviously that's a bit of a swing producer for us, we know it's higher cost than other options.

I don't see any capital constraint at all to a surge in available capacity. Alan, do you want to comment?

Alan Tate: I agree David, SR2 is idle and that's – our intention is to just bring that back on, limited capital costs there. Flexibility, I mean the SR1 or SR3, those combined would bring SR at over 300,000 tonnes and we naturally produce about 180,000 tonnes of rutile. So that in itself is 500,000 tonnes of high grade CI2. Zircon as you know, we can produce at least up to 600,000 tonnes per annum.

David Robb: With virtually no capital in that case.

Alan Tate: And we have finished goods available for the pickup that we expect.

David Robb: I'd also say Mike, just in the context of the dividend commentary we've given, obviously fundamentally where cash flow does not equal, quote, a firm basis, unquote, or thinking about future distributions. I would make the point that as in 2009, I want to be able to invest for growth when others are not, and nothing pleases me more than seeing people pulling their horns in because our experience is doing a little bit counter-cyclical in that area of investment, either in your own business or outside, I think that's the smart thing to do. Our caution looking forward allows for that to still be in place. I've got to take the last few questions I guess, hopefully we can run just a little bit over. Next one.

Operator: Your next question comes from the line of Fred Truong from Bell Potter Securities. Please go ahead.

Fred Truong: (Bell Potter Securities, Analyst) Yes hi guys just a broader question on succession planning given that it seems to be flavour of the month [unclear] Rio and BHP. So I just wanted to know what your plans are in the short and medium turn with Iluka and whether you're planning on staying with the company in the foreseeable future.

David Robb: Thanks. Well I am still here, I'm determined to leave my successor, whenever that may happen, and clearly events of the last little while have demonstrated that that's not really – CEO's don't have any say in that. I want to leave my successor with a clear growth platform. I had one and it had some challenges attached to it but there was a discovery it was called J-A. There was no real knowledge within the business about how best to develop it and the numbers [unclear] , it was isolated it was expensive. But it was there, it was in the portfolio. I would feel a job not done, probably, would be my emotion, Fred if I were to leave before similar options were in place for my successor. Other than that I have no plans to go anywhere, you know health and all those other things permitting. As I said, right at the outset, I actually, maybe I've had a good summer, I don't know. Feeling better; generally feeling better about things now that in the latter part of last year so. And my team has got the bit firmly between its teeth. You know, we're quite energised. But yeah I had to ask my chairman. Frankly I don't know, but that what the newspaper suggested is the person you should be talking to not me. Next question.

Operator: The next question comes from the line of Amber McKinnon from Nomura. Please go ahead.

Amber McKinnon: (Nomura, Analyst) Hi David, Amber McKinnon here from Nomura. Apologies, Mike Harrowell earlier asked the question I was going to ask regarding resuming production. But I suppose another question would be, could you elaborate a bit more. You know, assuming we do see improvement in the second half of this calendar year. You know of the feedstock which do you think are most likely to be impacted more quickly, or do you expect that to be a broad reaction? You know assuming it does go ahead as potentially anticipated.

David Robb: Look I think it will depend how quickly price distortions dissipate from the market. It'll depend on competitor behaviour. It always does, you know that's stating the obvious I guess. What we do know is – and I suspect volatility increases this tendency that the most capital- efficient way to increase production to go back to levels I was at as a processor is to run high grade feedstocks. So you would do that to the maximum you would think, given industry volatility, before you would slash it up on plant expansions and the like. So therefore high grade ore would be back in favour, you would think, and quite quickly. And whether its rutile or SR or some other intermediate style of product really is quite plant specific. Okay, better move on, next one.

Amber McKinnon: (Nomura, Analyst) Thanks for that.

David Robb: Thank you.

Operator: Next question comes from the line of Mark Busuttil, from JP Morgan. Please go ahead.

Mark Busuttil: (JP Morgan,Analyst) Yeah hi guys, just a couple of things. Firstly can you make any sort of comment on what you think the impact of the news from Richards Bay is going to have on each of the markets? And secondly: lots to chat about zircon use in ceramics but the biggest growth has been zircon in chemicals. So can you give us an idea of what's been going on in zircon in chemicals over the last twelve months?

David Robb: Yes, but I'll get Chris to comment. Again, he's probably closer to that than I am. We're really excited, is what I will say though, about medium term prospects for new uses. It's why we're sort of supporting the Zircon Industry Association. It's why we've got strong industry buy in. Because the history of this industry in zircon is that different end use drivers; be it foundries, be it then TV glass, be it then ceramics, be it then maybe, increasingly zircon chemical derivatives, you know these are the cycles of demand evolution that you see in many markets. On the impact of the closures that have been announced by a thousand others: I thought Alan we indicated-yes we indicated in the release, in fact, that we gave that detail as to what we think the reduction will be at an industry level.

Mark Busuttil: (JP Morgan) Okay thanks.

David Robb: Thank you. Next question.

Operator: Your next question comes from the line of Ian Preston from Goldman Sachs.

Ian Preston: (Goldman Sachs, Analyst) David two very quick ones. Sulphate SR; where are you in terms of commercialising that? And that second one; you refer to inorganic growth opportunities, could you give us some sort of feel for what you're thinking of?

David Robb: New SR product trials are underway now. The commercialisation process obviously has to wait for technical results and then getting sufficient volumes for sufficient customers to clearly establish the marketability of the product. We may find, Ian and I –I read with great interest, lots of evidence about emerging environmental awareness in China. And we know that official Chinese government policy is, in effect, that all new plants in China should be chloride because they have to be world scale, 100,000 tonnes. They've said they have to be - use high grade ore defined as 90% plus I believe. So you can easily mount the case for a scenario in which in fact all new capacity in China is actually some form of chloride pigment technology which plays to our traditional strong suits.

On the question of inorganic growth, I just say as I've always said Ian, that we have a very clear objective to create and deliver value for shareholders and we have quite wide views in how we might do that. Beyond that I don't think I should comment.

I should hand back very quickly to Chris for a comment about zircon chemicals markets too, that I forgot to ask him. Chris?

Chris Cobb: Look, the zircon chemicals market is 95% in China. It's very concentrated. The vast majority is exported. The markets remain reasonably strong. Pricing falls - zirconium chemicals actually took quite a dip during last year, but it has stabilised and quite rightly it is the fastest growing segment currently in the market.

In 2013 that market historically has drawn quite large quantities of material from small local producers - Hainan Island and from imported concentrates. With the demise of the Indonesian concentrates due to export restrictions and the current pricing, the demand for imported zircon from Australia and South Africa in that segment is in fact growing currently.

David Robb: Thank you. Next question?

Operator: Your next question comes from the line of Tony Mitchell from stockbrokers, Ord Minnett. Please go ahead.

Tony Mitchell: (Ord Minnett, Analyst) I'm just going to get a couple of questions. What percentage of your TiO_2 to production is represented by legacy contracts?

David Robb: In 2013 it's minimal. We came out from under those contracts much earlier than others. It is why we ended up with these distortions in the market that I referred to where legacy contract prices were contracted and did not reflect supply and demand fundamentals at the time, we feel - or at least as represented by the prices that we obtained. So we've been in that position effectively for some time in relation to our major products.

Tony Mitchell: (Ord Minnett, Analyst) I know what your answer's going to be, but I'll ask anyway. Rio's discounting of price, I mean do you think that - I know it's only a small amount of production - but do you see that as counterproductive? Or do you see them continuing to do that? What do you think is going to happen there?

David Robb: Well, everyone plays their cards the way they see fit. I think if you were to ask our customers, they would say they felt those actions were unhelpful. But it's not for me to say frankly. They paddle their own canoe. I paddle our canoe.

There's clearly new management there at lots of levels in a major competitor. So I think it will be interesting to see how they play their cards going forward and whether it's any different to what we've seen in the past. I don't know, obviously.

Tony Mitchell: (Ord Minnett, Analyst) Okay. Look, you've answered this already. But in terms of the ability to meet additional demand if it does come quickly, how long does it take you to upgrade or bring on additional capacity over and above the concentrate that you've got in stock?

David Robb: Look as I mentioned, it's only the upgrading capacity in SR that has to be recommissioned, or possibly some of the smaller mining operations like Eneabba that we closed. I closed and we brought it back, now it's idled again. So I've really, I think, already answered that question in relation to SR. You're looking at a maximum of six months, particularly as we are working hard to retain the core skills within the organisation that we need to populate the workforce around the kilns.

All of the other capacity, it's literally a case of picking up a call to a contractor to bring their fleet back to a mine or to bring the drivers back to start it when it's parked up. In the current environment of course you get a pretty quick response when you make that call. So no, it's not an impediment at all to our ability to respond to a surge in the market.

Tony Mitchell: (Ord Minnett, Analyst) Okay, thanks very much. Good on you.

David Robb: Okay, we've got a couple more calls. We'll take them and then we'll have to close. Thank you very much. A couple more questions.

Operator: Your next question comes from the line of Andy Gardner from AMP.

Andy Gardner: (AMP, Analyst) Good morning David. I suppose we're all trying to get our head around the volatility and price volume and cost which ultimately is really trying to get down to what is the right level of our margin assumption for the business going forward.

Now if you look back over a history from the 20 years or so of what data's easily accessible, EBITDA margins were consistently in the range of 25% to 30%. I'd be interested in your opinion of how you think that margin range has changed and where you think the industry has changed and the business has changed; to where it will sit going forward? Ignoring the cyclical, structural debate we're going to have over the next six to 12 to 24 months, where you think that will ultimately settle.

David Robb: It has to settle at a higher point theoretically given that long period to which you referred meant minimal investment in new technologies, in grass roots exploration worldwide, the industry created a supply problem for itself which in my view has been masked by demand volatility over the last few years. But it will resurface. I am a believer in the thesis of structural deficits in many minerals because we have not seen in them the contribution from technology that we've seen in say, energy markets. So basically the processing plants having changed. Coal wash plants are maybe bigger. The yield's a bit better. Copper mines go a bit deeper, grades get lower. But you have not seen in minerals the equivalent of coal seam methane, now shale, ultra deep water capabilities in oil and gas etcetera. So without those technical advances - and we are certainly working on some ourselves - but I think the industry's going to - supply will reflect that long period of pretty ordinary returns to which you referred.

To characterise our margins right now, as a sort of mid-cycle picture to think about for us or others, well (a) I wouldn't venture to make a comment about others. In our own case, I think it's a bit early to make that call. We're going to learn by doing is the answer, as we did in '10 and '11, and as we are doing now in sort of reacting the other way and trying to protect what was achieved in '10 and '11.

So I think this is an iterative process and you know that I referred earlier to views we have about cost pass through and it's a deep value chain therefore there are adjustments at lots of different levels for that to happen. There's a bullwhip inventory issue that exists today, but over time people will learn to operate more just in time to take some of that inventory forward in a successful way. So the industry is going through a really interesting transition.

With that, thank you. Good interesting question. We think about it a lot actually, clearly, from a strategic point of view.

Final question we'd better take.

Andy Gardner: (AMP, Analyst) Sure, thanks.

Operator: Next question comes from the line of Peter O'Connor from Merrill Lynch. Please go ahead.

Peter O'Connor: (Merrill Lynch, Analyst) Dave, three things. Firstly on competitor behaviour, you've mentioned a couple of times. In zircon it was more than just the company you've mentioned, Rio, that was behaving necessarily not rationally. Others out there? Do you have a sense on how that market will behave this year.

David Robb: (a) I haven't raised competitor behaviour. Questions have. (b) I haven't raised anyone's name. Questions have. So let's just be clear about who is pointing fingers. It's not me.

Look, very difficult to answer Peter. I said before we paddle our canoe in the way that we think is best for our shareholders and that reflects our asset base and our capabilities, and our strategies. Others may well have a different view.

Clearly for someone for whom zircon is the classic by-product story, you are more motivated to generate cash from it no matter what the unit profitability is because your main game lies somewhere else. Interestingly, as we have observed before, on our analysis industry's getting leaner over time as to zircon to

TiO_2 ratio. So as those decisions inevitably are driven by TiO_2 dynamics, less and less zircon will come with them and some new discoveries or more J-As or technology.

So it's really hard to generalise and I certainly don't think it's productive to point fingers. We've got a pretty clear view about how we should play our cards. As I said at the outset I think if you look back at 2012 I'm firm in my view that we have done exactly what we said we would do. We've walked the talk.

Did you have two other questions Peter.

Peter O'Connor: (Merrill Lynch, Analyst) On the cost out program including the cash, non-cash and CapEx, clearly a lot of that is deferral, not long term baked in. What should we take away from that as baked in on either the non-cash, cash or CapEx component?

David Robb: I think there's very little that's actually baked in Peter. It's consistent with my view that it is cycle. Now there will be some things that if we don't restart an Eneabba for example, that will be permanent. If we - you always push the pendulum every few years. You find ways to get a bit leaner. You find pockets where headcount and costs have built up. I think we've always run pretty lean. We're a modest little Perth company and I don't think we've had airs and graces. Therefore the sort of big multi-year curtailments do not really apply to us. We don't have massive projects with baked in capex or opex that we're now not going to do for the foreseeable future. I want to do them again as soon as I can. So therefore this is, as you characterise it, a way of navigating through a low point in the cycle.

Peter O'Connor: (Merrill Lynch, Analyst) David, you led to my third point, which is about employees and contractors. What is the situation like? Do you have thoughts on - giving you're cutting back staff and the current situation in WA - you must have some sense of the confidence that you can hire people back again. Is it as tight over in WA as it has been? What gives you the confidence you can restart as quickly? Is it not a constraint, labour?

David Robb: Well we have a mature workforce Peter. They've all been briefed this morning. We've got our operations managers in face to face discussions. We are totally transparent with our workforce. We always have been. So people have known that the cycle turned against us last year. So therefore whilst always confronting to have your fears confirmed, it's not a surprise to people.

The challenge is - and it is why we don't pull triggers prematurely - if you get a reputation as a here today, gone tomorrow employer, then clearly that makes it hard to recruit talent. I don't think we're anywhere near that position at the moment. And things in the resources space around employment generally are clearly a bit weaker than they were a while ago. So therefore we are confident, particularly given where we are based and largely residential workforces, that we can get the people back we need. In fact, where we determine that skills are critical we are retaining them anyway. For example, simple things like you have your own employees do rehab work rather than contractors. You have your own employees do maintenance work rather than getting in contractors. So you get a prioritisation of work in favour of the key employees that you need.

Peter O'Connor: (Merrill Lynch, Analyst) So what's the proportion of contractor versus owner employees and what is the split that you're taking out? Are you focussing more on taking out contract numbers?

David Robb: Look I don't know. I don't have the split in front of me Peter. We can get it for you. But yes, typically given most of our mining operations are contractor, that's where the bulk of the impact is. Interestingly, if you want to - some would argue if you want a really flexible model then you should be owner operator because then at least the penalty clauses and everything else - terminating contracts earlier don't exist. On the other hand you fund that flexibility. I'm confident that what we are doing is flexing and not doing permanent damage Peter.

Peter O'Connor: (Merrill Lynch, Analyst) Okay thanks David. It's good to hear you've got your mojo back. Well done.

David Robb: I'm not sure who Doctor Evil is in that scenario - who stole it. But anyway, thank you Peter.

Thanks everybody. Obviously follow up calls with myself David Robb, Simon and Alan on the detail of anything in the accounts. So please feel free to make those calls. Thank you for your time.

End of Transcript