EDITED TRANSCRIPT

Iluka Resources Limited
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Matthew Blackwell, Head of Marketing, Mineral Sands (by phone from USA)

All currency is Australian dollars unless otherwise cited

David Robb (Managing Director):. Welcome everybody and as usual, thank you for your time. I know it's been a busy week for you and this is the tail end of it, so thanks for joining on the call. With me I have a large number of my team today as it happens. Alan Tate, CFO; Simon Green, General Manager, Finance and Risk; Rob Porter, GM Investor Relations; Doug Warden, Head of Resources Development; Chris Cobb, Head of Alliances, New Ventures and Royalties. Matthew Blackwell is on the line from the US, our new Head of Marketing. Lots of slides, so I'll move through them fairly quickly to preserve maximum time for questions. The usual disclaimer, slide two, that I draw your attention to. Turning to slide four, 2013 Key Features.

I think we have navigated through and are now emerging from a cyclical low that has affected both sides, i.e., zircon and TiO_2 [titanium dioxide], of our business at the same time. We've done what we said we would do and what we believe is the right response in such circumstances. Reducing production in line with demand and what I might summarise as not overreacting to inventory movements up or down in the short term. We've lagged prices down and we've ended up with a full year EBITDA margin still okay at 34.7%. Slide five. I think we have protected the long term during this period, while responding to the short term requirements that we face. It's what we refer to a feet on the ground, eyes on the horizon orientation and we have maintained that. As you have seen the full year profit reported result was impacted by some accounting adjustments. Some of that a result of what we see as very positive developments around our ability to use and sell illmunites of various qualities in new ways.

The old equipment, well, it may have no accounting value, but for me it still has an option value in things we made do in future and the rehabilitation provisions, well, technical accounting issues related to 20 plus year cash flow s. I'll throw any questions on that to those better able to handle them than me. We've distributed as much of free cash flow as prudently possible. Those of you who've listened to us for a while would know that we've had this approach in relation to distributions arguably before others got the same religion and we've continued with it. Most importantly, we think a broad range of indicators point to demand recovery in both zircon and TiO_2, and I'll cover that more later. Slide six. Very pleasing to all of us in Iluka is our arrival at best practice levels of safety performance. I have to say achieved while simultaneously flexing production in ways that could have distracted a less engaged, less motivated workforce than the one we are fortunate enough to have.

Slide seven. 2013 obviously saw unacceptable returns, but after the two best years in the company's history. To pick out a few points, we've seen the initial volume recovery we've expected, although prices are down. We fundamentally had no change to our pricing approach. The reality is, you cannot be a price maker all the time, unless you are a monopoly and this is a competitive industry. Free cash flow was impacted by the final tax catch up payment of $118 million relating to 2012. So absent that, free cash flow would have been at $0.28 per share higher. Slide eight. A simple way to think of this dividend decision, I believe, is when we generated $0.04 per share of free cash flow in the second half and we paid all of it out. That is consistent with our framework. I do notice that some people get a bit hung up on short term reconciliations of dividends to profit or dividends to free cash flow. As I've said before, it is not really the way we think about it.

For me, the key numbers are the 76% of free cash flow payout ratio cumulatively, since we resumed paying dividends, but also some other numbers I would perhaps point out. That in the time from 2007 until '13, we've generated profit of about $1 billion, free cash flow of about $950 million and we've paid out dividends of about $550 million. So 55% of profit, 59% of free cash flow. With the balance used to increase our balance sheet strength from a starting net debt position for circa $600 million or so from memory. So I don't see any problem with those numbers. In terms of the more detailed treatment of the results, I'll now hand over to Alan Tate, CFO, for more detailed comments.

Alan Tate (Chief Financial Officer): Thank you, David. Turning to slide nine and as noted on slide seven, Mineral Sands revenue, slide number nine for summary, has climbed 29%. This was due to significant decline in prices which were down 41% to $1173 per tonne. Though this impact was partially offset by the higher sales volume that David noted, the lower prices did lead to reduced margins and we see that impact on earnings with EBITDA down $453 million to $295 million and optimally, Iluka's net profit after tax of $18.5 million down $345 million from 2012 levels. Whilst the result is obviously disappointing, as David noted, 2013 was the year of low cycle business conditions in which the operations were flexed downwards and cash production costs reduced. Whilst margins did decline significantly, I think it's pleasing to see the group EBITDA margin of 35%, which provides significant cash in earnings leverage to volume recoveries and pricing upticks we may see in the future.

Free cash flow for the year was an outflow of $27.5 million, which reflects the earnings decline, coupled with the large tax payment made in 2013, which related to 2012. Turning to slide number 10, and this slide outlines the earnings from our Mining Area C Royalty. Again, this year, there's been an increase in earnings, which were up 22% to $88 million. This was due to a combination of higher volume and higher prices. As we have noted earlier, previous presentations, the Area C mine is a low cost, high quality mine. An increase in production we've now seen over a number of periods really highlights the quality of the assets and to this end, I do think BHP has done a good job. Turning to slide number 11, the graph shows key changes in earnings between 2012 and 2013. As stated earlier, the key driver is the lower prices, which we achieved and on a US dollar basis, these had a negative impact of US$475 million, which was partially offset by the lower AU$, which had a positive impact of $85 million.

Flexing down of operations led to some inefficiencies, which from a cash unit cost of goods sold perspective had a negative $37 million impact and there were also some high restructure and idle costs, up $55 million relative to 2012. We saw improvements in overheads and, as noted, in our Mining Area C royalty.

The items to the waterfall to this point representing the decrease in EBITDA of $454 million. As well D&A was lower and there were $40 million in carrying value adjustments and the lowering of our discount rate we apply to rehabilitation provisions, which increased the charge for the year, which ultimately resulted in an NPAT of $18 million.

Turning to slide number 12 now. This slide shows the overall change in net debt and the free cash flow for 2013. There is the free cash out flow of $28 million in 2013. Operating cash flow was $124 million and I note this was after an overall increase in receivables of $50 million. The Mining Area C contributed $83 million and Iluka paid $140 million in tax, of which $118 million related to 2012 earnings.

Capital spend was low at $58 million. The components of the graph to this point represent the outflow of $28 million, which is the payment of $118 million tax relating to 2012 earnings were to be excluded, with some as David noted, to a positive $90 million. Dividend payments were $63 million, representing 2012's final dividend of $0.10 and the 2013 interim of $0.5. So, net debt at the end of 2013 was $207 million with a gearing ratio of 11.89%.

You'll also note to the right of the slide that at the end of January 2014 net debt was $130 million, with the reduction from $207 million, a result of the large cash inflow in January, reflecting in a large part the correction associated with the high year end receivables I noted earlier. Overall, we retained $800 million in banking facilities out to April 2017, which when coupled with our low gearing ratio puts Iluka in a very strong balance sheet position.

Turning to slide 13 now. As David noted, in 2013 Iuka faced low cycle business conditions and responded accordingly, firstly, operations have been flexed with 2013 production relative to 2011, down 52% for Zircon and 67% for TiO2. This profile is more closely aligned to our sales, a negator to build in finished goods. What was pleasing, as I noted earlier, was that this was achieved while still maintaining a relatively healthy EBITDA margin.

Slide 14, this slide sets out our 2013/14 production settings. We've been able to idle or reduce utilisations to achieve significant cash costs reductions, while still maintaining efficient mining operations in the USA, the Eucla Basin and the Murray Basin. Into 2014 we can maintain that low cost base and as well, Iluka has retained the ability to quickly flex up production if market conditions warrants.

You will note, I think, in the guidance sent out that overall our cash production costs are $430 million, but embedded within that, the amount of $430 million is an increase in costs associated with by-products, which will be offset by the equivalent of revenue and hence adjusting for that increase of $43 million relating to by-products underlying production costs of only increased around $10 million and on top of that, our overall RZSR production is up 80,000 tonnes. So, an increase in production efficiencies.

Finally, turning to slide 15. As well as production flex, Iluka is also focussed on conserving cash, with cash production costs down 40% relative to 2011 and capital expenditure down 63%. Of course, the capital spend is lower than our normal through the cycle spend, as highlighted on the graph and with that, I'll pass back to David.

David Robb: Thanks Alan and I guess for me just in summary, the actions of Iluka over the last couple of years, how we believe a company should adapt to the cyclical variations and I'll return to some of the logic for that in just a little bit.

If I might turn now to market conditions and slide 17. In zircon we are pleased with what we are seeing with respect to demand. Notwithstanding the usual quite first quarter that we see and driven by Chinese New Years, the northern hemisphere winter, etc. There is the intriguing possibility of an upwards inflexion in zircon use in tiles, which I will come to in a moment.

In terms of supply, short term, major producers, not just Iluka, have flexed down. We remain of the view that long term supply is a potential problem, with not enough to offset grade and assemblage headwinds that the industry is facing. If I take China demand verses what we see in supply, there is a wide range of estimates for Chinese zircon consumption in 2013. I have seen numbers ranging from below 500,000 tonnes to above 700,000 tonnes. Let's pick the middle, 600,000. Growing at circa 10% per annum is just the China increment alone, equalling 60,000 tonnes a year. But beyond the about two or recently commissioned projects, we do not see where that supply will come from over the next two to five years.

In terms of TiO2 markets, slide 18, I think we've spoken a lot about what has happened in TiO2 and what we see appearing now and have our customers and indeed our competitors. There is a lot of commentary available about this sector. There is little doubt that inventory has normalised downstream from us and demand recovery is underway.

In relation to longer term trends, our extensive on the ground research, our relationships and our initial supply of high grade ore into Chinese chloride pigment producers or potential producers, gives us reason to be more confident than some naysayers about China's ability to master chloride pigment making and then to rapidly replicate its perfected plants. You only have to have a look at the evolution of Chinese capacity in other metals, for example, to perhaps get a clue as to what we think will happen in China.

Geographically, slide 19. For us the global demand issues are not China issues and we're somewhat bemused when we see such strong linkages ascribed to ourselves. For us, the issues are more European and Asia ex-China than they are China.

Slide 20, product prices. Well, they have fallen a lot. Our posture reflects the reality that volumes, up or down, tends to lead prices up or down, inescapably so in the competitive industry and particularly if the volume trends up or down are sustained for a significant period. In relation to this slide, please note the notes, including the last sentence. The notes emphasise my view that volumes lead and prices follow and also that in a nutshell, it seems very logical to me that today's price in an uncertain world is the best guide to tomorrow's price.

Turning to slide 21. As we've already alluded to, I think our Operations team, our operations people, did a great job last year. They stayed focussed. They reduced production. They reduced costs. But they maintained a capability to rapidly restore that production.

Slide 22. Lead indicators are clearly on the improve. Just some of those we track are shown here. On slide 13 what we refer to as our heatmap. A way to think about this rather complex picture is that relatively over the last eight quarters, indicators or conditions are now the best they have been in two years. Similarly, if you look at slide 24, TiO2 indicators, some of them shown here are more positive also and on slide 25, as is the heatmap, with again conditions based on these indicators, generally better than they have been at any other time in the past two years.

Slide 26, we are going to spend just a little bit of time on this. I think it's important. You know that we think there has been a lot of ill-informed comment regarding what's going on or indeed in tiles. But we've just completed our second comprehensive survey and we believe the only one which actually measures what's happening. At slide 27 the results, the latest results are just to hand and they are very encouraging.

In summary, zircon use in tiles is increasing across the board. Customer preference is shifting to tile types and styles with high, and in some cases the highest, median zircon loadings. On slide 28, this relates to the comment I made out at the outset, we see - we could be about to see a new upwards inflection point in the Zircon intensity of use in tiles after 30 years of decline. People's attempts to be more efficient in their use of an ingredient, not surprisingly, have been around for a long time. That decline was also associated with the rise of demand for tiles in China, particularly.

Indeed, intensity of use has more than halved over that time. If you think about what we have seen in terms of underlying growth, it has been against that backdrop of declining intensity of use. The only thing we've had countering that has been square metres of tiles produced and used. Simply put, increased digital printing, all the evidence suggests will lead to increased zircon loadings and digital printing is the new wave technology in tile making.

Slide 29. We showed a similar slide previously, but our survey again shows wide variations, even within the same tile types or the same regions, highlighting the dangers in small, unrepresentative and often verbal sampling. The medium loadings are highest in the fastest growing tile types and are on the increase in the others.

Slide 30, one for the mathematicians perhaps. The digital printing difference is quite stark. On average, in our study sample, digitally printed tiles had 80% higher zircon loadings than conventionally printed tiles, as demonstrated by the mean of 180 versus 100.

Additionally, recently announced by, breakthrough big nozzle printing technologies are set to increase loadings further and thinner digitally printed tiles are also more competitive with traditional wall, ceiling and external building materials and finishes.

Slide 31, we have kept our projects on track. They currently range from almost shovel ready to the very early stage. Slide 32, 2013 naturally was a low reserve depletion but as it happened, a big resource addition year. I guess conceptually how I think about that is there are times when it is better to leave high quality reserves in the ground or stay a layer at higher prices. There are also times when resources can be acquired cost effectively and we did a bit of both in 2013.

Slide 33, our 10 year reserve life or thereabouts is still the case and you will also note on that slide that as we look at the difference between reserve and resource, obviously the resource with the longer term potential, we do not appear to face the grade headwind but some do but zircon assemblage to climb is an industry reality based on known resources and technologies.

Slide 34, I have announced recently an executive reorganisation. You may have some questions on that but in summary, it frees up another senior executive to concentrate on capturing the opportunities created by a shifting industry landscape in terms of structures, participants and technologies and we think additional resource focussed on that is warranted.

We will now turn to Metalysis, the TIO2 story if you like in this release. A quick answer to the question of why Metalysis from me before handing over to Doug Warden for some more detail, well, number one, it is adjacent to our current business. Number two, we had no noted its progress for almost 10 years before coming to the view that the time is right to participate.

For three, we bring much more than the cheque book and many of you would have heard me refer to that condition previously. Finally we think the potential returns reflect its game changing nature. Doug, over to you.

Doug Warden, Head of Resources Development: Yes, thanks, David. Just a little bit of detail on slide 36 around the investment itself. So Iluka has acquired an 18.3% interest in Metalysis for GBP12.2 million or AUD22.5 million. Metalysis has developed a new technology proof to pilot plant scale that takes Rutile directly to titanium powder. As David mentioned, we have been looking at this for some 10 years. What has changed in recent times in the last 18 months or so is their ability to take the Rutile to titanium powder. Previously it was a requirement for them to use tickle, which is a form of the pigment process but now they have proved at a pilot scale that they can take it directly from Rutile.

So they have plans to build a larger plant to produce both titanium powder and tantalum in order to commercialise the technology. It is early days but we believe the technology had the potential to significantly lower the cost of titanium powder and as well as titanium sheet metal which would open up new markets for Ti metal and powder that are currently not available to that product due to the prohibitive costs of making titanium metal and powder via the traditional kroll process.

So in terms of slide 37, the key elements of the investment, in addition to the 18.3% equity interest in Metalysis, we have also acquired, as you would expect, One Board Seat, an additional observe status seat around the table. We have also got a non-exclusive worldwide licence over the Metalysis technology to produce titanium powder and that is in return for a net revenue royalty that has been negotiated on normal commercial terms.

We have also importantly got a right of first offer over all future titanium licences offered by Metalysis. We see this as a critical element as, if they go down the route of a licensing company, we get first rights to take up any future licences.

In addition, we have got the right to increase our holdings between 20% and 24.9% in the event of an RPO and we also have first rights over any transfers or new issues of shares.

Look under slide 38, just a quick snapshot of the current state of play in the titanium metal industry. Some of you will be familiar with this detail. But essentially a relatively small market by tonnes but obviously a very high valued product, circa 150,000 tonnes per annum of Ti metal mill products produced for a total industry value of about $5.5 billion, currently consumes only about 5% of global TIO2 feed stocks with pigments being the overriding source of demand for our feed stocks. But part of the rationale for this investment is that we see the Metalysis technology as potentially increasing that demand for our TIO2 feed stocks through opening up new industries for Ti metal and powder.

A fairly low margin industry historically, the coal process is very expensive and it is a batched process and the incumbents have not enjoyed high margins historically. So in terms of the potential, I have talked to some of this already but slide 39, by lowering the costs of Ti metal and powder we believe that there is a real opportunity to enter other markets not currently served by titanium metal due to costs constraints. So we have mentioned their high performance alloys and the duplex stainless steel market.

So the Metalysis strategy post-commercialisation is not to focus necessarily on the traditional Ti and metal markets because the quality control process associated with entering military and aerospace applications for Ti metal is, as you would expect, a very long one and can take more than 10 years. So we see great potential in being able to enter markets that are not currently available to Ti metal but still require the high strength to weight ratio of Ti metal and its corrosion resistant properties.

3D printing. Obviously a huge growth potential in that space and it stands to reason that low cost titanium powder would be able to take advantage of that revolution. That is it, David.

David Robb: Thanks, Doug. You might just like to reflect a little bit after this call on what makes the disruptive technology but typically it can involve something that provides most of the benefits for a much lower price, not cannibalising necessarily existing demand but dramatically changing the breadth of demand and we see this potentially here and it is also potentially applicable to other letters on the periodic table, not just tantalum and titanium.

You had heard me refer consistently to my view that this is an industry overdue for an injection of new technology and we think this could be part of that injection.

Final slide, Iluka's approach slide 40. Well, nothing new. Our approach is unchanged. We have always been shareholder focussed. That is not a new religion for us but reflects when we need to while protecting the future at the same time. We march to the beat of our own drum and we are happy for that beat to be a counter point to what the herd is doing.

With that, we will hand over to questions.

Chris Terry: (Deutsche Bank, Analyst) Hi, guys. I have got two questions today. The first one relates to the restructuring and holding costs and how that ties in with the SR market. So really just interested in your views as to how SR fits into the mix. Obviously the higher grade feed stocks being later a cycle traditionally but how the Rutile and SR will go further out and what that is likely to mean for a restart of the kilns and also whether you feel that you still have, I guess, the available people on the ground or how that would look if you were to restart them and whether that $45 million, I guess, is a stable cost until you do go to that stage of putting the first kiln back in place.

The second question I have just relates to your production guidance for 2014. Is it mainly driven by your estimates of how you see the sales dropping out and then your imagery drawn down or are there other operational and staffing considerations that are dictating that production guidance you have given?

David Robb: Thanks, Chris, it is David. I think that is more than two questions, by the way, but anyway, I will try and cover the ground and I will also get Alan and Simon to comment on the issue of pervasiveness or otherwise of the idle costs.

Look, SR, what we think is really germane to our restart is the work we have been doing to be able - a broader variety of illmunites including some used to throw away into a kiln to make a saleable product. But obviously the margin enhancement for cost reduction associated with using otherwise waste illmunite rather than expensive illmunite is significant.

So that has been the focus and that - and I referred to that earlier as one of the positive developments that actually led to some equipment write offs. We retain a fast start capability, Chris, so you should think about our ability to do a restart as a matter of months, a few months. We retain a core skill set and that is part of the costs that we retain over and above what we could go to. We incur additional costs to retain key skills. It is the function also of our customers being willing to look a bit longer term rather than simply wanting to get their inventories down. Obviously a restart opportunity's a four year campaign decision typically, so we would want to have a view over a multi-year horizon before restarting one. But as we've indicated, we expect to be running no kilns in 2014 and we've made no comment yet on what we think about 2015. I would observe that a slight change in our thinking has been that when we are running two, we might prefer to run the two side by side in the south west, rather than one in the mid-west and one the south west and there are various logistics and other efficiency reasons for doing that.

In terms of production guidance, well the production is really a balance between what we think we need to do to respond to increasing demand, sales above production still, leading to an inventory drawer of finished goods and targeting the best cost efficiencies in that production that we can. So it's usually a multi-dimension decision and 2014 production settings are no different. It's a balance between production to follow demand and maximum efficiency of production, rather than an overriding motive to do anything with inventories. Because as I said, that's not the way we think about inventory. Now, on the idle cost Simon or Alan?

Simon Green: Chris it's Simon. Probably the best way to characterise it is to refer back to slide 14 which is the production settings slide that Alan talked to. Fair to say that the costs in the guidance number for 2014, that's an idle cost number as opposed to the incurrence in 2013 of restructure costs, particularly in the first half. And in essence that's the costs associated with maintaining the optionality for restarts of the various plants and facilities noted on slide 14 as being idle through the year. So until such time as there's any change in decisions to operate or decisions around the level of optionality that's maintained, then I think it's reasonable to assume that those -- that level of idle cost burden would continue.

David Robb: Thanks Simon. And thanks Chris. We've got a number of other questions. So we'll try and be a little quicker in our responses I think for future questions. Next question please.

Operator: Your next question comes from the line of Clarke Wilkins from Citi. Please ask your question.

Clarke Wilkins: (Citigroup, Analyst) Hi David. Just a couple of questions. Just to clarify, with the south or the SR is there any carrying value still current at balance sheet for the SR kilns, because effectively it's all been written off. And secondly just, I don't know if there's any more detail just in terms of the CapEx. Obviously over the next couple of years there's a -- in the guidance there's a bit of a step up in the CapEx. Is it possible to sort of go through the major projects and sort of what's been allowed for in terms of CapEx for those and does that include any restart costs of SR kilns.

David Robb: Well the answer to the last question is yes. But as to when, time will tell. You are right that, but as I've said before right, you know capital is lumpy. The projects are at various stages. We haven't yet settled on what we think the capital profile that is optimal is. We have a corporate plan obviously that has, if you like raw numbers and raw schedules in it. There's no way that the level of capital we've seen in the last couple of years is sustained on the level (unclear) and growth capital that's obviously guided much higher numbers than that and indeed the chart highlights that we are not at those levels.

Over a five year outlook period it is the case that AUD200 million to AUD250 million is the range in our corporate plan as an average. But, projects like Balranald perhaps Cataby they will not come cheap. So we'll have a period of more intensive capital. I'm not prepared to be specific on it yet because we haven't done the optimisation yet on how we best phase that capital.

Unidentified Participant: Kilns.

David Robb: Oh and the kilns, there's still value on the books in the South West (Western Australia). In the Mid-West - no.

Chris Drew: (Royal Bank of Canada, Analyst) Thanks. Just a little bit more detail perhaps on the capex spending for this year. Is Hickory moving into construction now and will you, just timing I guess around the (unclear) DFS? And secondly that January free cash flow number AUD78 million, obviously are pretty big numbers. Perhaps a bit of an explanation around what was driving that? And then lastly if I could, what sort of proportion of the tile market do you think is digitally printed at the moment?

David Robb: Well Hickory's almost shovel ready. Matt Blackwell's on the line in the US. He's had regional carriage of that. He can talk to just where it's at in a minute. But it's the most advanced as the slide indicates. Balranald circa 2015 start and the feasibility studies timed to suit that. We've got some flexibility. Balranald. Sorry, 2015 -- 2017, 2016, 2017 out that far for Balranald. My apologies. Sorry your third--

Unidentified Participant: Digital.

David Robb: Digital printing. If I go to slide.

Unidentified Participant: 29.

David Robb: 29. I mean that's China, you can see that it's the green and the portion of the yellow. It is very difficult to get a precise handle on that in terms of installed capacity today. Chris, as you know, more than 2000 tile makers in China alone. It's really a comment about what we see as the trend, what we see in industry, ceramics gatherings, what people are paradigm as the new technology and the excitement level that we see around that technology. I can't give you a precise, current market share of that technology. It is a clear trend however.

Chris Drew: (Royal Bank of Canada, Analyst) And January free cash flow?

David Robb: Yeah well either Chris or Matt could talk through just the profiling of the sales that we saw through, you know, it's essentially a late sales profile in December or in 2013, but particularly December. Not unusual at all as people tend to take product before year end, before winter whatever. So it's not an unusual situation. It's a bit different in magnitude to last year which is why we've highlighted it. But Chris or Matt do you want to comment? And Matt do you want to comment on Hickory?

Matt Blackwell (Head of marketing, Mineral Sands): Yeah sure David. Chris, Hickory is at the stage where all the detailed engineering and in fact bids have been received. We have a good understanding of the estimate. And as David pointed out, it's heading towards shovel ready once the final permits are in place from the regulatory agencies. We'll pull the trigger on that where the conditions are right and you would see that in the production setting slides for the US, it mentions that Concord is being idled in February and it will remain idle until inventory positions are worked through and we see the right markers for starting that back up again. And clearly with Hickory it's also dependent on getting the right contracts in place to underpin its investment.

On the cash flow I can mention that and Chris you might want to add to this. But we saw strong sales, particularly in China in December for zircon and those sales we receipted that cash or received that cash in January. And that was ahead of the Chinese New Year. Typically China is pretty slow in February and we're starting to see the factories and various organisations start to enquire about purchasing again now. So you would expect a slightly slower February.

David Robb: Thanks Matt. Chris you were in the chair at the time. Do you want to say anything?

Chris Cobb: Yeah Chris, the large factor that was involved in the cash flow in January was I regard to bulk shipments of TI02 high grade products that left in December, some of which were carried over from November. So we had a bit of a condensing of November and December into December with five bulk shipments going out during the month.

David Robb: Yes plus the zircon effect that Matt mentioned there added to it. Thanks Chris, we'd better move on. Next question please.

Matthew Hope: (Credit Suisse; Analyst) Hi guys. Just quickly on that Metalysis process you were talking about. You said you use rutile. Can you also use titanium slag? Secondly just Balranald. You've made references in the past to potentially testing out some new technologies which might potentially save on some of the stripping. Could you have any words about what that is? And thirdly, just on the longer term, we're looking at zircon grades declining in your mines. You pointed out that's happening across the industry. But do you really see your leading position in zircon essentially becoming much lower? I mean some of the new projects, the projects around, Jacinth-Ambrosia, the new Sri Lanka deposit; they've all got much lower zircon grades. Is that going to sort of bring you back down to sort of market averages or our zircon position? Thanks.

David Robb: Titanium slag, no. No this takes our raw material and converts it direct to a powder. I'd encourage anyone who hasn't yet done so, just have a look on the web at various technologies for the (unclear) powders. It's essentially aim an electron beam or laser at it, melt it, create the product you want. Shapes that can be created, the complex engineering structures are mind blowing. And open up new applications. It's certainly worth a look and it's, in our case it's about the powder. I would emphasise our interest initially anyway, sparked by the titanium application. But the technology has quite broad application potentially across the periodic table.

Balranald, we are doing some work on some innovative approaches and that's all I'm prepared to say at this stage. Sorry my mind is a bit slow today. The third question was?

Unidentified Participant: Declining zircon grades.

David Robb: Oh yeah, good question Matt. Thank you. It's not an imminent thing for us. Depends really on your time horizons. But the world has not seen another Jacinth-Ambrosia. Many of the large ore bodies that we know of range from zero zircon to low figures, certainly lower than historic industry averages, which were driven by the (unclear) and the heyday of Richards Bay and Namakwa and so on. If you look to the major ore bodies of the future they are leaner in zircon. So capital and costs go up to preserve the ratio perhaps of zircon TiO_2 or technology perhaps rides to the rescue. It's an interesting conundrum that the industry faces. We don't see any change to our market share position in the near to medium term. Long term I think it's more going to be influenced by new approaches. Next question please.

Paul Hissey: (Goldman Sachs, Analyst) Yes my question is around the printing on the tiles. I guess it seems to me that the real development or the acceleration in development of digital printing seemed to coincide with the spike in zircon prices and a tightness in supply of zircon. I guess I just wondered if you have some thoughts maybe just some observations if I was a guy developing a printing technology for tiles I suppose I would be a little bit reluctant about developing a product which was becoming more reliant upon a product which is prone to volatile prices and periods of supply scarcity. So maybe just could you give us a little bit more background on who these guys are Dave? I don't know a great deal about the process.

David Robb: Yes sure, sure Paul. Your initial observation I'm sorry is fundamentally wrong.

Paul Hissey: (Goldman Sachs, Analyst Okay, okay.

David Robb: There's absolutely no connection between the advent of digital printing and zircon availability prices, quality anything like that. The tile industry is largely a fashion industry and digital printing enables you to do things with tiles that where just not possible under conventional Rotopress or screen printing approaches or double charging for cheaper soluble salt tile production in China. What it does do is enable the production tiles that mimic natural materials in more realistic ways that create much more vivid colours. If you think about it one way to think about it is the way to get the vivid pattern and the striking features is you need a white engobe underneath and it's the zircon in that engobe and in the printed glaze on top that drives the zircon usage.

As to why would someone build their technology or future around zircon supply I'll just remind you that the value of zircon in a tile particularly a high end tile price wise circa 1% of the cost of the tile. It is an irrelevance to the demand or the long run economics of producing that tile is why we got the price passed through without any impact on ultimate tile use in '10 and '11, it's the price in elastic sector, it's structural.

Paul Hissey: (Goldman Sachs, Analyst) Alright thanks.

Paul Hodsman: (CBA, Analyst) Yes hi good morning guys. I just had a quick question in relation to your inventory levels. Last year you obviously sold more than you produced by about 100,000 tonnes but the inventory value on your balance sheet actually increased. So from a cash flow perspective you had an investment in working capital and I understand that you can be a function of what you sold in terms of finished goods versus products still in progress. But can you just perhaps provide a bit of guidance as to what you expect for your inventory levels this year? You're obviously guiding to potentially sales being higher than production but are you expecting that we'll see a bit of cash unwind in your inventory position? Thanks.

David Robb: We've guided that we expect sales above production therefore by definition a drawn down in finished goods. We've also guided that there's potentially an increase in HMC the intermediate product and in illmenite inventory depending on sales and how much we choose to process through our separation plants ultimately rather more than how much we choose to produce because we think the settings that we've advised are likely to remain pretty stable through the year therefore it's more a function of sales as to what actually happens with those two inventory categories. Is there a big leverage in cash flow terms to the unwind of that inventory yes because basically we've absorbed the costs of producing it already.

Paul Hodsman: (CBA, Analyst) So you're expecting a big unwind then in the bottom line in the inventory position this year?

David Robb: Well that's the way to think about it is there's likely to be a somewhat unusual relationship between cash flow and reported profit.

Paul Hodsman: (CBA, Analyst) Okay thanks.

David Robb: With cash flow obviously very much greater than you might expect versus profit if you were producing and selling absolutely contemporaneously. It's the cost of the production have been absorbed. Obviously there's the cost of producing replacement material which is still there but there is a leverage in cash flow terms that we would expect to see in 2014 -- yes.

Paul Hodsman: (CBA, Analyst) Okay thank you.

Fred Troung: (Bell Potter, Analyst) Thank you good morning gentlemen. I've just got a question for Doug mainly around the Metalysis transaction. Doug are you able to provide us with I guess timing of the commercial relation process? I guess if it all goes well, when can we potentially expect first production by and maybe some indicative numbers around CapEx costs and what not? Just secondly, I did notice that here hasn't been any mention around diversification and I think you mentioned that last time at the results. Just wanting to know whether this particular transaction has changed your views around your strategy around diversification to other commodities? Thanks.

Doug Warden: Look thanks for that. I'll answer the first one and might let David talk about the strategy around diversification. But essentially in terms of commercialisation our funding is part of that process. So add to timing we're obviously going to get comfortable as a shareholder. We don't control the company but we've got to get comfortable as a shareholder that project for the development of the plant to commercialise this technology is to a level that we're comfortable with. But we would see that in the next 12 to 18 months. We're not talking about something that's going to take five years to build. Capex I'd rather not say at this point but suffice that our investment goes a reasonable way towards that so we're not talking huge numbers. As to strategy around diversification I'll let David talk to that.

David Robb: Yes thanks Doug. Just to add to what Doug said. We've noted this company for a long time we think now is the right time to invest and we wouldn't do that if we thought the benefits were off in Never Never Land. As to the diversification well it's never really been a "diversification" strategy. We don't think about it like that. It's all about can we create additional value initially from our existing tenement holdings and other minerals that may well be potentially discoverable in those tenements either by us or by others if we let them in. Its focus at the moment is more around things that are quite adjacent to what we do.

I think at a time when exploration budgets have been slashed it is an appropriate time for us to be just a little bit more creative in how we think about ways we could create value on our ground or near to our ground or any areas that we think have not been picked over. So I wouldn't and I never have described it as a diversification strategy per se. All of these things we try and do are to leverage skills, leverage existing positions and see if we can extract some more value for shareholders. It's taken a little while to get the right skill set in the company it's fair to say Doug. It's getting an appropriately prudent level of funding at the moment given where it's at but we are spending money on it.

Operator: Your next question comes from Mike Harrowell from BBY. Please ask your question.

Mike Harrowell: (BBY, Analyst) Just another question on the Metalysis if you don't mind. Just in terms of the feed stock is there a broadish range and then can it handle the material, say with the U plus Th? Can it handle synthetic rutile? Is there a sort of a spec for what it can handle or is it very high quality input product which is relatively rare?

David Robb: Yes there's work to do on that Mike. It's fair to say up until now they have dealt with what was available in the vanilla sense in the marketplace. What we bring to the table is knowledge and an ability to customise the feed and to push the boundaries potentially on the feed in a way that Metalysis cannot. They do not have the expertise. So one of the attractions from a Metalysis existing investor point of view is that we bring all of that knowledge and can flesh out the answer to your question. They have not been in a position to do it up until now.

Doug Warden: Yes and just to add to that Mike it's not a better preciation process as such so it doesn't extract impurities so the quality of the feed is important. Whatever impurities you have in the feed you get in the final product. So that's just to add to what David's saying our ability to provide high quality feed stocks and remove impurities that are not ideally the end product is critical to the success of producing saleable products.

Mike Harrowell: (BBY, Analyst) As a process it strips out iron oxygen and leaves the rest...

Doug Warden: It strips out the oxygen in the TiO_2 to make Ti.

Matthew Hodge: (Morning Star, Analyst) You're doing an excellent job of answering all my questions David.

David Robb: You've got to hit the button sooner you know.

Matthew Hodge: (Morning Star, Analyst) I was just going to ask about your competitive advantage - how do you see the Metalysis investment fitting in with that? You kind of answered that by saying the feed stock angle. Is part of the attraction of investing in it just lifting overall demand for titanium in that all of the industry will benefit or is there some specific benefit that you guys are looking to get? Just a second question on the capital guidance are you assuming some sort of uplift in your productive capacity in that 200/250 number over the course of the next few years?

David Robb: The first one clearly this is a market expanding opportunity. I think history tells you that disruptive technologies are not seen before they happen because people are fixated on a particular paradigm around quality and price and application and whatever and the disruptive technology is one that makes that - the properties of the material or the good much more ubiquitously available, dramatically expands use. So yes, we see this as a usage expanding opportunity in relation to titanium metal.

On the capex, the $200 to $250 million range is predominantly sustained over time. Obviously there's an element in there around Sri Lanka that could bleed five years plus out to expansions and certainly tackling sulphate pigment markets in a way that we do not, which we would see as growth for Iluka. And likewise, some of the capital that's involved in the development of the Australian deposits will broaden our product sales next and we would see that as a growth opportunity also.

But we've said consistently that our sustaining capex number is circa $200 million and obviously without D&A being - Alan - I don't know, $190 million or something.

Matthew Hodge: (Morning Star, Analyst) (Inaudible).

David Robb: Yes and obviously you would expect that we would spend capital to restart kilns in that, which volumetrically will be growth from where we are now. But that capex, as you know, is only $30 million, $40 million per kiln restart. It's quite small.

Operator: Your next question comes from the line of Mark Busuttil from JP Morgan. Please ask your question.

Mark Busuttil: (JP Morgan, Analyst) Yes, hi guys. Just interested in a couple of questions on the zircon market. Could you give us an idea or your best guess as to where not only your own inventories for zircon are but your competitors and also what you're seeing or hearing from customers in terms of their own inventory levels?

David Robb: We've never disclosed, and nor do our major competitors, specific products' inventories, Mark, as you know. But the important aspect of those inventories is that they are overwhelmingly in large producer hands and large producers who have shown a willingness to hold those inventories for as long as it takes. I think that's the major takeaway around the inventories is the disciplined approach that has been evident, not only by Iluka and we are encouraged by that obviously. Downstream of us, again, Chris or Matt could comment. They've just done the rounds by way of introducing Matt to our customers. We're very happy with how lean things are downstream of us in zircon markets. Chris, do you want to comment?

Chris Cobb: Yes. I've just returned recently from Valencia so I've met with many of the European customers. I've spoken to the Chinese customers. Effectively, since the price declined through 2013, people reduced their inventory downstream to an absolute minimum, obviously not wanting to have working capital that was declining in price and that's all there is; very little stocks of zircon sand either with the classified producers or the opacifier producers and in terms of opacifier, their final product (unclear) very little with the tile producers as well. So downstream seems to be very little with stocks being held; it's all held by the producer.

David Robb: Also Mark, I'll just refer you again to slide 13 as to our own position. We're not fussed by our finished goods inventory level at all, as you see in that slide where the production and reduction is approximated to sales reduction. So as we see it in finished goods terms, certainly over the course of '14, it's not really an issue. And Simon, you make the comment, if you like, that you wanted to make.

Simon Green (General Manager, Finance): Sure, thank you. Refer back, when you get a moment, to the December quarterly production report there's a five year summary in there of production and sales by major product.

David Robb: They line up.

Simon Green: Whilst we don't give the inventory numbers, you can just run there and see the delta between production and sales over that five-year period.

Mark Busuttil: (JP Morgan, Analyst) Ok, but then…

Simon Green: The zircon there's - it's 1.8 million tonnes of sales and 1.9 million tonnes of production, so over the period that leads to being reasonably in balance.

David Robb: Mark, as I've said before, it's a question of who holds the inventory and we and our counterparts hold it rather than our customers. The just-in-time philosophy's alive and well.

Mark Busuttil: (JP Morgan, Analyst) Okay, so then just to clarify then, whereas a couple of years ago there was excess inventory at customers which caused the destocking that we've seen over the last couple of years, that's not the case anymore and we can't see - there's not enough inventory from your customers to see an impact on demand like we have seen in the last couple of years?

David Robb: No.

Mark Busuttil: (JP Morgan, Analyst) Okay.

Glyn Lawcock: (UBS, Analyst) Hi David. You made some fairly pointed comments on pricing, so thanks for that. But I just wanted to talk a bit about incentive pricing.

David Robb: We don't guide on pricing, remember that Glen.

Glyn Lawcock: (UBS, Analyst) Correct, correct, but you just pointed to a very - a one liner, so thank you. Just incentive pricing, I wonder if you've updated your work you've done on that. Clearly, current prices are below what you've in the past have said incentive prices are and I draw an analogy to what happened in Met Coal where Met Coal prices went from 100 to 300 and people got excited and raised all their long term prices and now they've had to bring them all back down.

I mean last year, 35% of the EBITDA margin, if that's the bottom of the cycle, that's pretty impressive. I think a lot of companies would give their left one for a margin like that at the bottom, so just your thoughts on pricing, incentive pricing and…

David Robb**:** My child-caring days are long behind me so I - thank you for your very sexist remark.

David Robb**:** It's why we emphasise I guess - we do think people miss the point a little bit Glyn I'm glad you raised this issue because yes, an EBITDA margin of circa 35% bottom of cycle - if that is what is maintained or is the bottom - in average terms it's worth pointing out so that's not a margin calculated in December. That's a margin over the course of the year so I think it's arguable that that means our approach has worked and I can certainly recall that if we were back when I started at this company and you were talking prices at circa $1,100 or whatever a tonne, people would have said tell him he's dreaming. There is an issue which is why I mentioned the grade headwind, the assemblage headwind, we look at the cost structures, we look at where the future production is going to come from, we look at the shape of the revenue the revenue to cash cost curve, we are quietly confident about our view on long term pricing which has not fundamentally changed.

Clearly there was a period where everyone got pretty excited about apparent demand and if you projected that demand forward, you logically came up with even higher inducement prices - as we commented on a few years ago as I recall - but our long run view is essentially is essentially unaltered, as you would expect of a long run view Glyn. Do these prices make life tough for new projects? Yes is the answer to that question and I think if you look around the world, the silence in relation to some of those neutered projects compared with the noise of a few years ago is overwhelming.

Brenton Saunders: (BT Investment Management, Analyst) Thank you and good morning, there's just two things. Firstly I just wanted to square your comments about zircon loading from the tile industry and some of the trends which you alluded to and pointed out on Page 29, which show a steady and long run decline in those loadings.

David Robb: Sure yes.

Brenton Saunders: (BT Investment Management, Analyst) Then the other thing is just with regards to the Metalysis acquisition I mean, the intellectual appeal aside, I'm just battling to understand how this fits with your strategy and what the benefit is other than for the broader industry? It strikes me as exploration or indeed for a tech company, I'm battling to understand it.

David Robb: Well a couple of things. First your interpretation of Slide 29, and perhaps we I think, could have been clearer in the labelling so my apologies for that Brenton. The horizontal axis is samples, not time. So it is a snapshot based on the most recent survey and it shows the enormous variety of loadings within the same tile category at the same point of time when we sampled.

Brenton Saunders: (BT Investment Management, Analyst) Understood.

David Robb: It's not a time sequence left to right, so there is no decline - quite the reverse. You need to look at sample to sample comparisons which I'm - your question suggests to me we need to make clearer next time we do it - which we will do - so apologies for that.

Brenton Saunders: (BT Investment Management, Analyst) Thank you.

David Robb: On Metalysis, I guess as I say, people have heard and listened to me for some years now so that this is an industry - and indeed minerals generally - have not benefitted in production or supply availability terms from a technology contribution that we've seen in energy markets for example. So you've got an industry running of empty or if not empty now - then running on old news when it comes to conventional, oil bodies conventionally mined and processed. So we have felt and said for some time that technology is important to this industry and to Iluka, so it's not inconsistent with any way with what we've said. As to the question of whether it's a benefit for the whole industry or just us, this is technology protected by extensive patterns, so the IP piece has been very clearly part of our due diligence, there's a tech services agreement in place which enables us and requires us to be the source of the TI-O2 to these plants, wherever they are built but Metalysis is an independent company and will have the ability to - in theory - source it's TI-02 feed stock from elsewhere.

The game changing aspect of this - for us and potentially other high grade producers - which you can help on the fingers of one hand don’t forget is dramatic market demand expansion. That's what disruptive technologies do, it's why we…

Brenton Saunders: (BT Investment Management, Analyst) Yeah I get…

David Robb: It's why we all have a mobile phone now.

Brenton Saunders: (BT Investment Management, Analyst) Yeah sure I get that part of it but these guys have been venture funded before, why is it your role now to come in and venture fund them further? If it's a good business in concept they'll get funding somewhere else and you can do a separate off-take agreement with them as an aside, I just…

David Robb: We think there's value in the company itself and being position within the company is an appropriate thing for us to do. It's part of a package. It's difficult to think about it as separable pieces, and also as you know, VCs tend to have pretty firm timelines and when they approach the end of their investment horizons, that they think about how long they've been invested in a way that's quite different from how we would think. So no, I see it as entirely consistent with the kind of things we've looking at - you may well see more of this kind of thing - from us.

Brenton Saunders: (BT Investment Management, Analyst) That would concern me greatest.

David Robb: Well - you're free to be concerned - it's modest amounts of money for what is a positioning stake in what we think is a very exciting development for this industry.

Clarke Wilkins: (Citigroup, Analyst) Oh David, just a follow up question. With Jacinth-Ambrosia, we saw that that - sort of the concentrate build last year - are we going to see that continue this year and is there any potential that it actually approaches the limits of how much concentrate storage you have there, and is there any risk that we see that you have to - at some point - shutdown Jacinth-Ambrosia or are you comfortable that now that you're recovering demand would allow you to actually start drawing down that concentrate inventory there?

David Robb: We would expect to be drawing that down somewhat over the course of this year Clarke. We'll actually be processing some JAHMC through Hamilton as well as through Narngulu, just to optimise the overall production out of Hamilton. So as you know, over the last few years we've developed logistics and other technically related capabilities to move HMC more flexibly, but that even includes moving Virginia illmunite for example, as a finished product to WA to make (unclear) out of that we've not done before so no, I would expect the JAHMC to draw down on our current expectations.

Clarke Wilkins: (Citigroup, Analyst) Great thank you

David Robb: Thank you for your time gentlemen and ladies, I do appreciate your participation in the call. As I said at the beginning I know it's been a big week for all of you and I thank you for your interest in Iluka and we'll now, sign off. Thank you.