Iluka Resources Limited(ASX:ILU)

2014 Full Year Results
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Speakers

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David Robb: Thank you, and welcome everybody, thank you for your time today. With me I have Alan Tate, CFO and Head of Strategy and Planning, Simon Green, GM of Finance and Risk, Rob Porter, GM of Investor Relations and Corporate Affairs, Doug Warden, who is Head of Resources Development, and Matthew Blackwell on the line from the US, Head of Marketing. I'll draw your attention to the disclaimer, please note what is there. Be advised also that we are joined on the call today by a transaction advisor chaperone in line with and as required by the Irish Takeover Code.

Turning to slide four, as I said in the ASX commentary, 2014 was a year in which, in my view, the health of the company was preserved, foundations were laid for recovery in the existing business, and new options were secured for future growth. But of course reported profit was not satisfactory with regrettably our inability to extend the life of our US operations, resulting in an impairment charge.

Healthy free cash flow I think evident to all, a final dividend of $0.13 fully franked making a full year total of $0.19 fully franked. I'm very pleased with our cost performance. Our capital expenditure was low but we did all that we wanted to do, to maintain, acquire and progress options for the future. And our balance sheet finished even stronger than it began the year.

Slide five, look there's not a lot new here, I think we've covered most of this through the year, but markets were pretty much as expected. Margins stabilised at a solid level of profitability, our operations were managed as we indicated they would be, and volumes were achieved consistent with our guidance.

In terms of 2015 guidance, as you know our practice has been to issue our key physical and financial parameters guidance document at the time of this full year results release. We are not in a position to issue the 2015 guidance at this time, but we'll do so in due course and it will be in the same form as in the past. Please note this decision is not related to any M&A activity.

Slide six, the strong improvement trend in our environment health and safety performance continued, and we are now in many respects at or approaching best practice levels, and that's a very pleasing outcome.

Slide seven. As I said at the half, there's more red here than we would like to see, but solid free cash flow was used to increased dividends, reduce debt and invest for the future.

Slide eight, 2014 dividends were paid consistent with our framework. That's a framework that's been observed since 2010 with the restart of dividend payments, and cumulative payout ratio is now 68% of free cash flow. With that I'll now hand over to Alan to run through the results in more detail.

Alan Tate: Thank you David, just turning to slide nine for the summary of Group results. As David noted on slide seven, our mineral sands revenue has declined 5%. This was due to the lower prices which were down 12% to $1030 per tonne, partially offset by a higher sales volumes we saw up 5%. The net impact led to reduced earnings with Group EBITDA down 13% at $257 million.

Iluka has been able to retain a relatively healthy margin structure through EBITDA margin of 32.5%, which provides significant cash and earnings leverage to volume recovery and pricing. With impairment charge of our US operations at $82 million [after tax $86 million], Iluka's net loss after tax was $62.5 million, down from a profit of $18.5 million in 2013.

Free cash flow for the year was $196 million up from a cash outflow in 2013 of $27.5 million, which reflects the reduced cost structure that was introduced in 2013, having a full years benefit in 2014, and also timing of receipts. Iluka's net debt at December 31 was $59 million and gearing at 3.9%. Average exchange rate for 2014 was $0.903, which is still well above the levels we now see it trading at of around $0.78.

Then to slide number 10, this slide outlines earnings from the Mining Area C Royalty. Again this year we've seen an increase in both production and sales, however this was offset by a decline of prices down 23% to $98.7 per tonne in Australian dollar terms. As we have observed previously, Area C is a low cost high quality mining province, with an increase in production over a number of periods which highlights the quality of the asset. Whilst the US dollar prices per tonne of iron ore has decreased since 2013, the lower exchange rate has offset this somewhat, and as I noted on a prior slide, the exchange rate has reduced further from 2014 in 2015.

Slide number 11. This graph shows the key changes in earnings between 2013 and 2014. The key driver, as I mentioned on prior slides, was the lower prices which on a US dollar basis had a negative $118 million impact, offset partially by the lower Australian dollar which had a positive impact of $50 million. The restructuring of operations in 2013 saw full year benefits in 2014, with lower cash unit cost of goods having a positive $29 million impact, and lower restructure and idle costs of $30 million relative to 2013.

As you saw in the prior slide, MAC earnings were down $22 million. The items of the waterfall to this point represent the decrease in EBITDA of $38 million to $257 million. As well, D&A was slightly up and there was a net higher $42 million charge to 2014 - in 2014 relative to 2013 in carrying value adjustments associated with the US impairment. 2013 had the impact of lowering the discount rates applied to rehabilitation provisions, which increased the charge in that year, which accumulatively resulted in a loss of $63 million.

Turning to slide 12, this slide shows the overall change in net debts and a free cash flow 2014. There was a free cash inflow of $196 million in 2014. Operating cash flow was $255 million, which was after an

overall decrease in trade receivables of $89 million. As you will recall from the previous presentation, Iluka's sales and therefore cash collections can be lumpy, and as part of a focus on working capital efficiency in 2014 we put in place two trade receivable facilities, at a very low US dollar financing cost, which enables earlier collection of receivables.

Mining Area C royalty contributed $75 million and Iluka continued to spend on growth with exploration at $22 million and investment in Metalysis of $18 million. Capital expenditure remains low at $48 million, predominantly on project studies, and with the components of the graph at this point representing the net cash inflow of $196 million. Dividend payments were $42 million made up of a 2013 final dividend of $0.06 and 2014 interim of $0.04, and so net debt at the end of 2014 was $59 million with a gearing ratio of 3.9%.

Slide 13, as we discussed last year, in 2013 Iluka faced low-cycle business conditions and responded accordingly, with production and cash cost reductions. We've been able to idle or reduce utilisations to achieve significant cash cost reductions, which you will note in the red line, and we've been able to do that while maintaining efficient mine operations in the USA, the Eucla Basin and the Murray Basin.

In 2014, we've seen the benefit of reduced cash costs on our unit costs and slight improvement in 2014 production, and as I noted earlier, this was achieved whilst maintaining a relatively healthy EBITDA margin, which in the mineral sands level is still at 32.9%.

Slide 14, this slide sets out the production settings for zircon and rutile SR. We flexed production and reduced associated costs to more equally match our sales profile. This has meant that into 2014, we were able to maintain below cost base and, as well, Iluka has maintained the ability to quickly flex up production if market conditions warrant, with associated improvements in efficiency.

Slide 15, you will recall this from previous presentations. Overall finished with inventories declined, but this was offset by building HMC, predominantly at our WRP [Woornack, Rownack, Pirro] mine in the Murray Basin, which will be drawn down on upon completing mining activities there in the first half of 2015. I would see normal inventories at about the $350 million to $400 million mark and hence, as the stocks are drawn down over the coming years, this material will be highly cash flow-accretive and provide significant production upscaling as market conditions improve.

Slide 16, and finally on the balance sheet, as noted earlier Iluka retained significant financing capacity on a low gearing ratio. Our current financing facilities are $850 million Australian and we have a tenure of $175 million out to April 2017, and $675 million out to 2019, with current gearing level of 3.9% and net debt of $59 million.

So we retain a very healthy EBITDA margin. We have inventories of good quality material that we can draw down with high cash flow accretion, and low gearing and a healthy finance structure. With that, I'll pass it back to David.

David Robb: Thanks, Alan. We'll now turn to market conditions and slide 18. As we observed through the year in our quarterlies and, obviously, at the half, there's no big change in zircon or TiO2 [titanium dioxide] market conditions, but in my opinion there were some interesting aspects as we moved from 2014 into

2015. In terms of major producers, it would appear that they are following a demand-led approach, and there is evidence of lower supply than perhaps some expected.

Slide 19. While imports don't necessarily equal sales in the short-term, in the long-term they clearly do. I'd just point out here that 2013 and 2014 imports into China were above 2011, for zircon, this is. 2012 was a little unusual, in that it was first-half weighted, whereas 2013 and 2014 saw the more typical second half weighting, and some of that, as you know, is associated with the timing of Chinese New Year in the first half.

Slide 20. Sales volumes for zircon improved, quarter-on-quarter, through 2014. There was some mix variability, but prices overall were stable. Interestingly, and I would caution that it is nothing more than an interesting point at this stage, but our combined December/January volumes were the highest we've seen for some time. Obviously, Chinese New Year is a bit later this year, so it will be interesting to see how February goes. But adding together December and January, I think you get a reasonable view that's less distorted by year-end practices and by the January typical lull that follows.

Slide 21, we are comfortable with respect to the zircon outlook. Of course, in our business, we are not immune to global geopolitical and macroeconomic forces, as you've heard me say many times, and our results will reflect the impact of those forces, as they will for other businesses.

Slide 22, in TiO2 we have seen a return to more normal operating regimes, and the question now is whether the industry cycles beyond that, more towards high-cycle conditions as the fundamentals continue to improve.

Slide 23. As with zircon, we've seen a combination of supply restraint and supply disappointments in terms of project advancement and, indeed, initial performance, in some cases.

Slide 24. These aspects of our TiO2 production and price outcomes and plans, I think, have been well covered in earlier commentary and ASX releases, including, obviously, our most recent quarterly, and I've touched upon the decision we've taken in the US.

Slide 25, I think it will be interesting to see how supply and demand dynamics interact in 2015 and 2016, as I've said, with a backdrop potentially of the industry moving beyond the normal operating regimes that it has recovered to.

Turning to our areas of focus and slide 27. You all know that our objective is to both create and to deliver value for shareholders and we think about growth in that logical sequence. I'll touch on each of these areas, arguably except the last one on this slide 27 to be clear, and I'll ask Doug and Matt to comment along the way if needed and certainly to help in the Q&A period. We've got a lot on.

Slide 28, market development. We continue to invest to improve our knowledge, our footprint, our product range and our overall customer offer and we're excited about the opening of our technical centre in China this year.

Slide 29. We have specialist, expert and international marketing capabilities that are unusual in our industry.

Slide 30. In terms of mineral sands projects we've got a set of options at varying stages of development. This slide attempts to show most of them starting from a zero year base if you like, and what we think about when we look at these options is capital efficiency and timing flexibility. You've heard me say before that in this industry we think timing of investment decisions is very important.

So slide 31. I want to emphasise that Balranald is a significant project for Iluka but certainly also in an industry context. It is a very rich ore body and it's large in terms of rutile and zircon production, but it's deep. In terms of our DFS [definitive feasibility study] progress I would emphasise that anticipated and some new challenges have been addressed to date, and I want to emphasise the bullet that says current technical and financial analyses support the view that financial returns are likely to be above an appropriate risk weighted hurdle rate. You know that that's how we think about investing and they certainly support continued investment in feasibility studies and approval processes. So I do not support, and I have reason not to support, some of the negative sentiment that appears to be in some people's minds about this project; quite the reverse.

In terms of Cataby, in a number of ways it's more straightforward than Balranald. It'll be a significant SR [synthetic rutile] ilmenite and zircon producer. It's a bit further advanced and we're in fact moving into pre-execute planning phases. Importantly, the WA Government has agreed some additional start time flexibilities under our existing approval, meaning we don't have to renew them, and I would emphasise again the point about the current technical and financial analyses supporting a view that returns are above a risk weighted hurdle rate and that we should continue to move forward.

Slide 33. In the Eucla Basin we've a number of satellite deposits which can potentially benefit from existing infrastructure. There's a little bit more preliminary and our focus currently is on physical characterisation of the ore body and more detailed work on likely product attributes.

Puttalam in Sri Lanka, well we like this opportunity. We liked it when we had it in the 1990s, we liked it when we reacquired it and we like it even more following the somewhat unexpected change of government in Sri Lanka.

Slide 35. We've continued to bear down hard on capital expenditure without compromising any of our project options or any of our innovation and technology initiatives and opportunities.

Slide 36. As you know our resource base is circa four times, if memory serves me correctly Doug, our current reserves.

Doug Warden: More like five or six.

David Robb: Okay. My conservatism to the four. Four to five times our reserves, so not surprisingly resource to reserve conversion is a focus for us because of the value it will create for shareholders. Our search is international for new resources and we also think about non-mineral sands opportunities that are adjacent, whether that be geographically, technically or commercially to our mineral sands interests.

Slide 37, our industry needs new answers. You've heard me talk to this before. Our industry relies predominantly on old approaches and old technologies and we are determined to change that.

Slide 38, our JV with Vale [Vale S.A] in Brazil is a case in point. We've suggested a path to Vale that's different to the ones they were on and to how the industry has thought about this mineralisation in the past.

Slide 39. This is a very large mineral complex. The titanium dioxide, and indeed the rare earth oxide, are between a thin overburdened layer and the phosphate below that has been mined for a long time.

Slide 40. We have a strategic relationship with and a strong shareholding in a company with a revolutionary technology and we see multiple sources of potential value for Iluka shareholders in this move that we've made.

Slide 41. It's a simpler, cleaner, cheaper, more flexible way to produce titanium powder, tantalum powder and powders from many metal oxides.

Slide 43. As explained, I'm unable to provide the usual guidance document at this time, but our expected major asset utilisation is shown here.

Slide 44. In 2015 I see lots of positives including a balance sheet strength that underpins much of what we do and that at this time not many can do frankly. As I look forward I see top line growth, margin expansion, inventory monetisation and another low underlying capital expenditure year before project expenditure kicks in. We don't guide on free cash flow but I would draw your attention to the mirror image nature of capital expenditure and sales revenue in 2015 which means we expect free cash flow to be second-half weighted.

I've said that -- finally slide 45 -- as I've said before, we think having a range of options is a valuable attribute, and while flexible in the short term, we seek consistency in our focus in the long term. Creating options both conventional and innovative, organic and inorganic, is what we seek to do and we have the balance sheet strength to deliver those options.

With that I'll conclude and we'll begin questions. Thank you.

Chris Terry: (Deutsche Bank, Analyst) Hi David, two questions from me.

David Robb: Chris can you just speak up a little please?

Chris Terry: (Deutsche Bank, Analyst) Sorry, is that better?

David Robb: Yes, that's fine.

Chris Terry: (Deutsche Bank, Analyst) Yes, two questions. The first one is on your growth projects. You talked about timing being important. On something like Balranald what would you see is the lead time and how do you think about the overall project in terms of the rutile market and working out what price you think will be the medium term price, whether that project's in or out?

Then secondly, just around your - the zircon, obviously a very encouraging start to 2015 with that December and January number on slide 20. Can you talk a little bit just at the moment on maybe as a percentage from the top to the bottom from standard to premium grade zircon, just so we get an idea of how much the price can be moving on some of the sales?

David Robb: Alright, I'll deal with the second one first. Look it's interesting, we typically have and I think the industry generally has a reasonably big December. All kinds of reasoning in terms of zircon and then you have a much lower January. So what we did was just add the two together and compare that with history and it's an interesting trend. We don't disclosure product split. I think what we're doing in this space leverages our capabilities and I frankly just don't want my competitors to know about that level of detail, so I choose not to go there, I'm sorry Chris.

On the growth projects and the lead time for Balranald, well we haven't finished the DFS yet. We've got a second stage of DFS to do. We deliberately broke it into two to make sure some of the major technical challenges were addressed right up front, and they have been. We need to finish the second stage of the DFS before answering that, and again, some of these lead time questions can be commercially sensitive.

On the rutile, well we will bridge the gap with the material from Murray Basin that sits in the concentrate there. We've flagged previously that we would be apportioning that material, if you like, across the gap. And of course we have synthetic rutile and I'm confident about the role it will play in 2015.

On pricing, we don't have a single point view, I think single point views are dangerous. We stress test and I guess even though I think it's totally irrelevant, and it leads to pro-cyclical investing, today's spot prices are something we do test. You have to make an appropriate exchange rate assumption that matches that, and if we do both, then the two bullet points on the slide, Chris, still hold. So the notion about current prices being somehow an impossibility is wrong on the numbers we have today, we haven't finished the DFS, but on the numbers we have today.

So I would emphasise though we have a long run view of prices. You know that we do inducement work; you know we do very detailed supply and demand modelling. Let me just emphasise, and I know it's a long answer, one of the great failings of the resource industry is that it invests based on spot prices and shareholders pay the price for that trend-following behaviour which is not what we seek to do.

Next question please?

Operator: Your next question comes from the line of Clarke Wilkins of Citi. Please go ahead.

Clarke Wilkins: (Citigroup, Analyst) Hi David, a question just on the work in progress inventory. There's a pretty clear pathway, I suppose, at the Murray Basin how that gets drawn down. But in terms of the concentrate at the Eucla Basin or JA that continues to build, how long are you comfortable continuing to build that inventory before a decision needs to be made about operating rates et cetera there?

David Robb: Oh look, it's already pretty stable Clarke, and obviously depending on sales performance, we'd expect it to start to go the other way. So it's not an issue. Obviously there's a lot of value entrained in it as Alan said. As I've said before, you've got to balance the inventory build in that with the unit cost benefit of running efficiently, that's what we choose to do. But it's not a…

Clarke Wilkins: (Citigroup, Analyst) Yes.

David Robb: It's - we're getting to a point where it will go the other way. Okay, next question.

Operator: Your next question comes from the line of Matthew Hodge of Morningstar. Please go ahead.

Matthew Hodge: (Morningstar, Analyst) Hi David. Just a question around incentive pricing. It's been a while since I guess you've put something explicit out in the market, but just wanted to get your general view. Industry CapEx is falling quite rapidly. Has that kind of changed your long term view of what kind of price is going to be required to bring on new supply?

David Robb: Look, I think the last time we spoke about inducement pricing, I just gave a leg up to the whole industry, frankly. Probably wasn't - probably one of my dumber moves, but anyway. I think - it's a long run view we have. It doesn't sort of shift that much. I would agree with your observation that this industry has battened down the hatches and there will be a consequence of that in due course around new production.

It's also true as we've said before, this is an industry where the quality of the resource that we know of ahead of us is more challenging and you factor in lower prices, more difficult ore bodies, gee it starts to look hard for new projects. And I have made the point strongly about how we see our own projects as a contrast to that.

Matthew Hodge: (Morningstar, Analyst) Okay and just a second one if I can. You've rattled off a lot of options there and I can see you've built quite a few throughout the last year. How do you go about sorting those options out and making sure you're focusing on the right ones?

David Robb: Well, ultimately shareholders will judge whether we've done it well or not, obviously. We look at lots of metrics - we are very financial literate and disciplined, I think. We look at lots of financial metrics, we don't have a myopic view that NPV is the only thing that counts. We look at payback periods, we look at profiles, we look at IRRs, we look at return on capital. You name it, we think about it in the context of how we prioritise things. If we get it right, as we clearly did with JA [Jacinth-Ambrosia] in pressing ahead during the GFC and having the surge capacity post the GFC, if we get it right it can be very rewarding for shareholders.

It's good to have them, what we call, shovel ready if you like. So you've spent the money on the DFS, you know exactly what you're going to do, what it's going to cost. You then have that timing option that is available to you.

Matthew Hodge: (Morningstar, Analyst) Thanks David.

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

Mike Harrowell: (BBY, Analyst) Morning David. Just page 30, the internal production options. What does the period extent of the green bars mean? I can see the JA, I guess that means it's expected to run out in the middle of that fourteenth year, but what does say Atacama, Sonoran, Typhoon terminating at the end of 2012 actually mean? Because I would have thought it could have been shifted…

David Robb: Yes sorry Mike. That's - obviously we haven't been clear enough on that slide. That's if you start from a notional year zero, Atacama, Sonoran and Typhoon would have a 12 year life. So if we started it today, it would finish roughly 2027, that's what we're trying to show there, or indeed Balranald

from when it starts would have seven or eight year's life. Then obviously you layer them on top of one another to get the right mix that we think meets the market requirement…

Mike Harrowell: (BBY, Analyst) Right and…

David Robb: Yes, go on.

Mike Harrowell: (BBY, Analyst) And the Cataby bars there, does that reflect the upper level of the ore body or the upper and lower levels of the ore body?

Doug Warden: It reflects our current reserve.

David Robb: Yes.

Mike Harrowell: (BBY, Analyst) So the lower level has the same challenges as Balranald?

Doug Warden: No I'd say a bit more grade related, but yes I mean depth, Mike, obviously doesn't help but the resource is almost double the reserve at Cataby. So at higher prices, I guess another way of putting it, at higher prices, more of that resource comes into reserve. It's just a pricing function.

Mike Harrowell: (BBY, Analyst) Right.

Doug Warden: Or cost, if we can find a cheaper way of mining it.

David Robb: So we're assuming a conventional development of Cataby, Mike.

Mike Harrowell: (BBY, Analyst) Okay, but that lower part of the ore body is below the water table, so you'd be facing the same challenges as at Balranald from a pit stability point of view, wouldn't you?

Doug Warden: It's nowhere near as meaningful in terms of water rates but yes, there is - there would be a dewatering aspect.

Mike Harrowell: (BBY, Analyst) Okay.

Alan Tate: But nothing that we would find overly concerning.

David Robb: Yes Mike, look obviously water management's a big part of our DFSs. There are no issues that we see with dewatering Cataby. Indeed nor are there - we have dewatered to ore at Balranald.

Mike Harrowell: (BBY, Analyst) Okay, thank you very much.

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

Glyn Lawcock: (UBS, Analyst) Good morning. I've just three questions. Firstly just on your comments about the projects can make returns, even at spot. Just wondering, if you go ahead, would you prefer to see a contract where the pricing environment is - has got a floor in it or do you think you'd be happy with these, unlike what you're doing with the US, to take just market price or do you need a floor?

Second question, on your comment about free cash flow being second half weighted, is that volume inventory movement or CapEx timing that's driving that comment?

Then thirdly, if I look at - you know, if you don't do many projects this year, you follow your current dividend policy, you'll probably end up net cash. Just wondering your intentions, your thoughts, is that

where you want to end up? Or if you don't spend the money this year because projects get pushed out due to market, could we see a slight change just for this year on your dividend policy? Thanks.

David Robb: Yes okay, Glyn all good questions. Look, how we think about the revenue aspect of projects is project specific as I think you've just pointed out in your question. If we think of risk as a layer cake, and there may be some aspects of risk that you choose to reduce, if you can do that with a credible offtaker, in some cases you might do that for part of the revenue stream. You know I've said previously we don't wish to return to the contracting methods of the past in this industry.

We've worked very hard to move away from that, but are there some projects where you might choose to reduce risk in some way with an appropriate offtake arrangement without selling the future, if I could put it that way, then sure we would look at that. There's not a lot of counterparties in this industry, frankly, where you would feel confident about their ability to deliver such an offtake. It's particularly difficult in zircon it's fair to say.

On free cash flow, look it's a bit of everything that you mentioned. Certainly the capex is more front half weighted that we see. There is some sales timing issues, we're usually second half weighted as we generally observe so if that normal pattern occurs, there would be second half weight. Alan, is there anything else you want to say on that?

Alan Tate: WRP finishes in the first half.

Glyn Lawcock: (UBS, Analyst) Right.

David Robb: WRP Glyn, did you get that, finishes in --

Glyn Lawcock: (UBS, Analyst) Yes, I did.

David Robb: -- the first half. So on the dividend framework, I don't see the framework changing. You are right that we've dropped - that we are at the bottom end of that framework by a minimum of 40% of free cash flow. We do have some significant project expenditure ahead of us, and you may recall we've said previously that we would expect our five year average capital expenditure to be in the $200 million, probably more like $250 million a year range. So '14 is unusually - will be below that because the projects have not started. Sorry, '15.

So yes, it's - I would hope what shareholders feel about us, Glyn, is that we believe in getting cash to shareholders and we believe in getting franking credits to shareholders and we will continue to do that.

Glyn Lawcock: (UBS, Analyst) Thank you.

Operator: Your next question comes from the line of Owen Birrell of Goldman Sachs. Please go ahead.

Owen Birrell: (Goldman Sachs, Analyst) Hi guys. Well I've just got a question on the SR kiln restart. Since you first put forward the potential of the restart, the price of SR has deteriorated somewhat. I'm just wondering how the economics have changed for this restart and whether you've been able to sort of I guess restructure the potential operating metrics to keep the economics constant?

I'm just wondering if we can get a sense from you what hurdles you are considering in terms of requiring - I guess return hurdles in - required to do the restart. I see that Tutunup South only has a three year mine life left. Am I correct in assuming that you're going to need at least a three year payback to justify a restart?

David Robb: Okay, there's a lot in that Owen. I've said very consistently to our customers and generally that we only run assets if we can make an appropriate return. So SR kilns are no different. In the case of SR 2, the big one which is first cab off the rank, we could either choose to restart it for a negligible capital expenditure which is essentially using the remaining life of the refractory in the kiln, call it a three year campaign or so, or you do a re-line which gives you a full year four year plus campaign life. I'm not going to comment today on which of those we'll choose to do.

I've never put any numbers on any targets because it's the first thing that my customers want to know. So we choose not to quote them. I'm sorry, but it's pointless me being that transparent with our customers, so we don't. Your issue about the economics, the big driver of economics is ilmenite feed cost, it's how flexible you are in ilmenites that you can use. We've done a lot of work on becoming more flexible in what we can put into the kiln and what we can make out of it. You can be assured that if and when it restarts, it will be on the basis of attractive returns to our shareholders.

Owen Birrell: (Goldman Sachs, Analyst) Is assuming above cost of capital a fair assumption?

David Robb: Look I think yes, it's pretty basic that if you're going to generate value for shareholders, you have to generate a return above your WACC so yes. As I said earlier, we're a financially literate resources company, perhaps more so than some.

Tutunup South - yes but look, Tutunup South is only one element of our supplier options, there'll be others.

Operator: Your next question comes from the line of Brenton Saunders of BT Investment Management. Please go ahead.

Brenton Saunders: (BT Investment Management, Analyst) Good morning, gentlemen. I just wanted to - David if you could just expand a little. What aspects of the zircon market are encouraging you to think that your [unclear] this year slightly better the year this year, if not in prices then in volumes?

David Robb: Sorry, can you just repeat the last bit, Brenton?

Brenton Saunders: (BT Investment Management, Analyst) What aspect of the zircon market are encouraging you to the point where you can see an improvement this year in volumes if not prices?

David Robb: Well I guess sales trends and obviously the budgetary process that we go through which involves a very granular assessment dialogue with all our customers, our own analysis, you name it. Matt, given you're in the US and been patiently waiting to say something, why don't you comment on that?

Matthew Blackwell: Okay David, thanks. Brenton what - in answer to your question I'd say that we look very hard at the market, for example, our leading indicator pack is made up of 79 different data points.

So it's just not one element that we focus on. We pull all those together and then we form a view on where we think the world's going to go. That also includes feedback from customers, and we have seen growth in recent times, for example, in the zirconium chloride area, zirconium chemicals, very strong growth in 2014 in that area.

It's across the board, Brenton, and we don't, as I said, we don't focus on one particular data point.

David Robb: It's also fair to say, Brenton, that I believe there were some people counting on supply that's not going to be there.

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

David Robb: Other than us obviously, but that doesn't include us. You only have to have a look at what's happening in this industry more broadly to understand why we're confident.

Brenton Saunders: (BT Investment Management, Analyst) Well within that context, I think if we think about some of the big demand drivers for basic materials and mineral sands generically, you - I guess where my questioning is coming from is that we're still seeing big parts of it, notably the Chinese real estate market at this point at various levels and by all accounts it continues to seem to be slowing. So I'm just trying to understand it within that context.

David Robb: I'd say to that we have a very substantial in-country presence. We have firsthand read, not derivative read, on what's going on. Matthew mentioned the zirconium chemicals trend is very, very positive. Remember that ceramics is only just over half of demand for zircon, and indeed in China it's all about property sales, not the property pipeline, not whether property developers are making any money or not but are people buying and trading up in terms of what they live in?

So generic assumptions about our market versus others, if you look back over the years, we’ve actually shot our own cycle, not that that is joined at the hip to anything else.

Brenton Saunders: (BT Investment Management, Analyst) Understood. One last question for me, I guess quite a big consideration for some of us is what you're doing on the new business side. The Kenmare process has been dragging on forever and we continue to hear that we're not allowed to say anything because we've got some guy from Goldman Sachs on the line, but when do we see this process reach some kind of finality one way or the other?

David Robb: Well you know obviously that I can’t answer that question. I can only refer you to things we've said about we continue to be in discussions with and conduct due diligence on Kenmare. I think, surely, the interpretation is - should be - that we are disciplined, that the issues of financial merit are uppermost in our mind. Most people have heard me talk about being sceptical of strategy with a capital S. So, we're a disciplined company and that is reflected in the process we're in.

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

Lachlan Rutherford: (Taylor Collison, Analyst) Thanks, anyway. If you could just expand a bit more on your non-minerals and exploration, exactly what you're up to in that area.

David Robb: I don't think we'll tell you exactly what we're up to, but…

Lachlan Rutherford: (Taylor Collison, Analyst) Well, you know generally.

David Robb: It's all about adjacency. We understand the risks of leaks into the wild blue yonder, which we don't propose to take, but Doug, do you want to comment on the non-mineral sands?

Doug Warden: Look, Lachlan was it? I think it's fair to say we've got a fairly significant tenement package, particularly in the Eucla Basin and for many, many years that region has been considered, at least conceptually in the minds numerous geologists, prospective for base metals. So we're having a look at that. It's probably all I'd say.

Considered, conceptually, prospective: those words are important because no one's really done much work in large part we think because of the remoteness of that area. But we've been exploring that for over 10 years now and we think we can handle that remoteness pretty well, so we're having a look at it.

Lachlan Rutherford: (Taylor Collison, Analyst) Okay, thanks.

David Robb: I think we're all out of questions, thank you Lachlan. Just to conclude, thank you for your time, again, obviously these are busy periods of the year. I just - say that we do hope to get our guidance - do expect to get our guidance out shortly. As I think about the year ahead and beyond I see top line growth, margin expansion, inventory monetisation and another low underlying CapEx year before our project expenditure kicks in. So thank you for your time.

Operator: Ladies and gentleman that does conclude the conference for today. Thank you all for participating, you may all disconnect.

End of Transcript