Iluka Resources Limited (ASX:ILU)

Interim 2014 Iluka Resources Ltd Earnings Call
22 August, 2014

David Robb (Managing Director): Thank you and good morning everybody. With me today, as usual, 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 and Doug Warden, Head of Resources Development in Iluka. As usual we'll try and move through the slides quickly to provide maximum time for questions.

So we might start with slide 2, the disclaimer, and as usual I would urge you to pay attention to that disclaimer.

Slide 3, I begin with a reminder of our approach, an approach that we have spoken to for quite a long time now. I make no apologies for this repetition. You all know that we have a simple objective which is to create and deliver value for shareholders and this approach, as articulated on this slide, is we believe the best way to achieve that objective.

Slide 4, I probably don't talk about my team enough. I think I'm very fortunate, my senior executives are competent, very experienced in mineral sands and elsewhere and are motivated. It is a team that I believe very strongly seeks to manage the day to day well but also address the longer term in tandem with that.

Slide 5, the ground we'll cover today. Obviously first half performance, some thoughts on the market and industry landscape and areas upon which we are focussed. So through slide 6 to slide 7. So if I think about the first half, points I would make, clearly we have maintained what we think about as our flexed production stance and despite low prices we generated $64 million in free cash flow. We determined to pay a slightly higher interim dividend than last year. We've lowered already low gearing. Our costs are well under control and in the half we did receive a pleasing recognition for our environmental performance in a very challenging setting in South Australia.

Slide 8, it goes without saying that there are more red arrows on this slide than we would like to see. But good cost control and margin capture resulted in cash flow used to pay a dividend, used to reduce debt and used to invest for the future across a number of options. You may well have some questions about those options later.

Slide 9, sustainability. You will observe that our step change in safety performance is being maintained and our environmental performance I think is, in many ways, appropriately described as excellent, as it was in that South Australian premier's award. We are a good company that tries to do the right thing in these areas.

Slide 10, an interim dividend of 6 cents fully franked. It is consistent with our distribution framework, albeit in this period at the low end. But I would draw your attention to the cumulative payout ratio of 72% as an

indication of what we have achieved and done, over time, with the cash flow that we have generated. With that, I'll now hand over to Alan to run through the results in a little more detail.

Alan Tate, Chief Financial Officer and Head of Strategy and Planning: Thank you David. Turning to slide 11 and, as noted on previous slide 8, mineral sands revenue has declined by 10% and this was predominantly due to the 14% decline in Australian dollar prices. The lower price of course leads to reduced margins and we've seen that, in fact, on earnings with EBIT down $34 million to $126 million and ultimately net profit after tax of $11.7 million, down $22 million from H1 2013, and return on equity was 1.5%.

Whilst this result obviously remains disappointing, we remain with subdued business conditions which have persisted and in those conditions in which our operations remain flexed downwards and our cash costs under control. With this setting I would note that it's quite pleasing to see that the Group EBITDA margin has been maintained above 30%, at 33%, which positions Iluka well for significant cash and earnings leverage with volume and price recoveries. Free cash flow for the half was $63.9 million, with net debt reduced to $155 million, representing a conservative gearing ratio of 9.2%.

With that I turn to slide number 12. The slide outlines the earnings from our Mining Area C royalty. Earnings for the half of $38 million were down $7 million on softer pricing and a lower capacity payments. The royalty continues to generate quality earnings and cash flow for Iluka and, as I've noted previously, BHP Area C Mine is a low cost, high quality mine. Whilst the capacity payment was not as high as previous periods, it does reflect the continuing increase in production capacity we have now seen for a number of periods.

Slide number 13, the graph shows the key changes in earnings between H1 2013 and H1 2014. As noted earlier the key driver is the lower prices, which on a US dollar basis had a negative $62 million impact, offset partially by the lower Australian dollar which had a positive impact of $38 million, and higher ilmenite and other product sales which had an $11 million positive impact. The flexing down of operations did lead to some continuing inefficiencies, which from a cash unit cost goods sold perspective had a negative $14 million impact.

The one-off restructure and idle costs that we had in H1 2013 led to a positive variance of $24 million in H1 2014 and I noted the reduction in MAC income of $7 million. The items of the waterfall to this point representing the decrease in EBITDA that we saw at $34 million. That decrease was partially offset by lower D&A and tax charges, which combined cumulatively resulted in an NPAT of $12 million for the half.

Slide 14 shows the overall change in net debt from 31 December 2013 and a free cash flow for H1 2014. There was free cash flow of $64 million in H1 2014. Operating cash flow was $102 million and Mining Area C contributed $41 million. These inflows were partially offset by exploration, interest, tax, capital expenditure and the Metalysis investment payments which, combined, totalled $79 million. The components to this point represent the net cash inflow of $64 million for the half. Dividend payments were $17 million representing the 2013 final dividend of 4 cents and there was a positive impact of FX on debt of $5 million, resulting in a debt at the end of H1 2014 of $155 million and a modest gearing ratio of 9.2%.

On debt is set out on slide 15. The slide outlines the level of debt held and the gearing ratio it represents at the end of each period. The blue bar and dots respectively representing the level of debt and gearing ratio,

with the level of finance facilities that we have available represented by the shaded area in the background. During the period Iluka increased the facilities by $50 million, with an additional facility added, with a maturity date of five years out to April 2019.

In addition, of the $800 million in banking facilities we put in place in April 2012 for five years out to April 2017, $675 million of this was extended out five years to April 2019. So in summary, this provides finance facilities available to Iluka of $850 million out to April 2017 and $675 million out to 2019, which when coupled with our current debt of only $155 million and modest gearing ratio retained Iluka's very strong balance sheet position which is in line with the philosophy of a balanced approach to shareholder value, of maintaining a prudent balance sheet and providing flexibility for managing business cycles, [progressing] in growth and for returning excess capital to shareholders. With that I'll pass back to you David.

David Robb: Thanks Alan - always good to have a strong balance sheet. Moving through slide 16 to slide 17, the market conditions dealing first with zircon. Look, what we've attempted to do here is contrast if you like, as in many cases emphasise the similarities between the first half of 2014 and what we observed in 2013. If I stand right back from it for a minute I would just observe that the world is really - whether you look at economic, political, military or developments there's an absence of synchronicity - positive synchronicity if you like. We've got a world that is moving in fits and starts and some data, much of it we think is positive but clearly there's also some contrary indicators so definitive trends therefore are pretty hard to identify.

Overall though, no big changes in our zircon or indeed TiO_2 market conditions. If you reflect back that's pretty much in line with what we said in our recent quarterly. There are variable demand patterns. There is an inventory work down to continue, prices are stable and in our view they are too low to induce new production or substantial new investment in the industry.

Slide 18, China is tracking in line with its recent past and suppliers principally from Australia and to a lesser extent South Africa. Slide 19, we have lead indicators that we track and think about. You've seen our heat maps in the past. This is just some of those we think are relevant to China and zircon. While risks obviously remain around prospective owner confidence, buyer confidence, completions are up year-on-year and sales in terms of area may be heading back into positive territory versus last year.

Slide 20, China is not just about housing in terms of zircon demand, as you know and in other segments activity is positive and it does appear to us that the downward trend in industrial production has eased whilst still being at a healthy year-on-year growth level. Slide 21 in the US and as you know the US market and zircon is much more impacted there by manufacturing trends and industrial applications and manufacturing is demonstrably a positive story in both absolute and trend terms in the US.

Slide 22, turning now to TiO_2. Well in TiO_2 it is our view that the mature market inventory overhang has largely been addressed and plant operating regimes are returning to more normal levels and there has certainly been some historical depiction of that utilisation level of many years and how it's adjusted up and down in some recent pigment maker releases that you could look at for a sense of perspective on where they are versus history. We see that return to more normal operating rates as a positive for high grade ore.

Slide 23, the long term recovery trend in US housing continues and for lots of reasons both new build, renovation, sales et cetera that's an important aspect in pigment demand in the US and for July data the most recent data we have was very positive. Slide 24, industry context - I'd like now to step back a little from the detail of the half and short term market dynamics if you like and consider the broader industry context that we see.

Slide 25, if I try and sum up this quite detailed slide I would say that in a nutshell we think grade and assemblage declines and sustaining capital expenditure requirements mean supply may not rise to the challenge of increased demand in the medium to long term. China has been a major factor in global zircon dynamics and now increasingly must be seen in a similar light in terms of TiO_2. Happy to take questions on that quite detailed slide later obviously. Slide 26, we've said exactly these things before so this is nothing new. Our industry is evolving quite rapidly. Associated risks and opportunities are to the fore, as you would expect of us in our thinking, but I would emphasise that those thematics, if you like, we have discussed them with you before.

Slide 27, also contains material that we've released previously. What I would say to this is do not be misled by headline grades at either the industry level or as quoted by project proponents. You should ask about trash percentage. You should ask about slimes content. These are very important factors in the true economics of the industry and indeed of specific projects. Based on our assessment and it does involve obviously looking into the future where information becomes a bit more patchy based on what we assess today, that the valuable fraction net of trash, if you like, referred to as VHM - valuable heavy mineral grade - as we look forward, will decline steeply in the ore bodies this industry has to rely upon.

Moving through slide 28 - I would just say that with that as context what are the areas on which we think we should focus. So turning to slide 29 first area really is that on the back of continuous improvement and the achievement of best practice in our existing operations which you would expect us to do but also I know I have said to you all in the past if you think about people's tendency to underestimate the challenges of mineral sands, ore bodies and their variability and so on then you need to be at best practice levels or close to it in your operations. It's a fairly unforgiving industry if you are not.

We are certainly focused on identifying new resources and finding efficient and increasingly on finding innovative ways to access those resources and then working also at the other end of the chain if you like to enhance demand and position our marketing efforts accordingly, so resources, resource to reserve conversion and how you position yourself in the marketplace.

Slide 30 - we think having a range of options is a valuable attribute in our industry at this time. What we have referred to in different ways in previous discussions and presentations really are all around the benefits that we see in having flexibility and being able to flex production. You know we do that around innovation and improvement you've heard me speak to them on many occasions and obviously the benefit of optionality in your decision making. The balance sheet that I refer to is clearly part and parcel of that picture. In terms of our project development you've seen this slide before - it hasn't changed. We are busy with our in-house projects. I would make the comment no two of which are the same and I guess that's one of the things that make life interesting for you, Doug, in your role.

Slide 32, Tapira, Brazil - we're pleased to have got underway in our work with Vale on this large complex - this large mineralisation area in Brazil and teams are being formed and evaluations are beginning in the various areas mentioned on the slide. Slide 33, Sri Lanka - the major challenges there as we were well aware of in going back into Sri Lanka, revolve around the absence in that country of mining and indeed of large project development precedent. So it's a landscape that has those challenges. We were encouraged to have our key Exploration Licence renewed recently for a further two years.

Metalysis slide 34 - very happy with our positioning investment there. Already seeing some of the upsides in our feedstock discussions and research consistent with what we've referred to before as wanting to bring more than a cheque book to opportunities. So to finish, slide 35 by returning to where we began. You can expect this approach, you can expect our actions to be consistent with it. We are running our operations safely and efficiently, generating cash, paying dividends and investing for short and long term horizons. To the best that we're able to do, we are positioning ourselves for both the upturn and for those evolving industry dynamics that we've discussed today and with you previously.

So thank you and with that, I'm happy to move onto questions.

Operator: Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question, please press star/one on your telephone and wait for your name to be announced. Your first question today comes from the line of Brendan Fitzpatrick from Morgan Stanley. Please ask your question.

Brendan Fitzpatrick: (Morgan Stanley, Analyst) Thank you. Good morning everyone. Two questions, one's specific to working capital and the other one's more broad. The working capital question, if I look at the inventory of finished product and also the heavy mineral concentrate, we can get an implied price per tonne looking at the volume differentials and the change in the inventory value. Could I just confirm that the implied price per tonne is applicable to all inventory held insofar as the inventory is held at an average price across all the tonnes?

David Robb: Simon?

Simon Green, General Manager, Finance: Brendan, it's Simon Green here. Inventory is held at the weighted average cost for each product, of all of our different Z/R/SR tonnes. So zircon produced in the Murray Basin, for example, would have a different carrying cost to zircon that comes from Virginia reflecting the underlying cost structures of the mining and processing operations.

David Robb: In terms of the balance, Brendan, between HMC inventory and finished goods inventory, we've said before and you would be aware that the majority of the costs are in the mining and the processing rather than in taking material through an MSP (mineral separation plant) to finished goods and we have said previously that what we're trying to do with our production settings is achieve the right balance between inventory objectives and efficiencies in production and therefore unit costs in that HMC (heavy mineral concentrate) production phase. So you'd also be aware that holding HMC is not a thing that bothers me or that I think much about, frankly, I'm just providing we're producing at a reasonably efficient cost.

Brendan Fitzpatrick: (Morgan Stanley, Analyst) Yes, that helps clarify the way I was thinking and the way I was looking at it going forward. The other question was, just reconciling two of the statements, one was in

your view pricing seemed below the inducement level for the industry, but also innovation still coming through in the industry. Is the innovation a competitive advantage to the established producers such as yourself and that global inducement pricing still applies to the projects not yet coming into the marketplace?

David Robb: We've in the past outlined on more than one occasion how we think inducement levels sat at particular times. Obviously inducement levels are partly a function of the resource that you have available and the cost of accessing and developing and producing. They're also a function of demand and how much, if you like, of second tier, third tier, whatever resources you need to bring on.

The innovation piece, well it is a good time to have a good balance sheet because you can afford to do the right thing by your shareholders in our view by being active in these areas. I know the language I have used previously is that this industry, in my view, is overdue for some innovation contribution. We run on pretty old technologies, I know I said in the context of Metalysis and that's the Kroll process, 80 years old, the process in terms of titanium metal manufacture. So wherever you look in our industry, it's hard to identify recent big advances in terms of technology. We think that's an opportunity for us.

Is it a competitive advantaged for established players? Possibly. I mean you need to know where to look, probably need to have some industry experience to help you with that, rather than it be too generic. Secondly, even if you are an industry player, you need to be prepared to invest in it and have the capacity and the intellectual property and everything else in your organisation to do it. As an aside I certainly had another executive in this industry say to me, in relation to the Metalysis transaction words to the effect of I'm so jealous, I wish we had the capacity to do that. So I think it's a good time for us to do it, whether it's demonstrable advantage or not, time will tell.

Clarke Wilkins: (Citi, Analyst) Hi David. Listen, a question in terms of the utilisation rates that you're seeing in terms of the pickup of the chloride pigment producers, are they taking the normal amount of high grade feedstock to put into their plant that you expected and see giving the pickup in utilisation? Or are you still seeing some sort of impact from effectively the low grading or taking a lower grade product because of where prices are sitting at the moment? The other side of the equation, just in terms of Kenmare, obviously not mentioned at all, is there anything additional you can say in terms of timing, what's the next steps, et cetera please?

David Robb: Okay, on the first one, will be a longer answer than the second one, Clarke, first up.

Clarke Wilkins: (Citi, Analyst) I imagine so.

David Robb: On the first one, I think it's clear that there's a lag, right, in terms of paint demand translating into pigment demand, in turn translating into feedstock demand. They're not concurrent. Secondly, there was a fair bit of - and I've referred to this before - about the final roll off of the legacy contracts; some of the use it or lose it nature of those contracts we think kind of stuffed the ore inventory pretty full at the end of last year and that's flowed through into the early part of this year. People took legacy priced material because if they didn't, it wouldn’t be available to them beyond the end of the contract. So that's had a lingering effect. How material it is today is hard to judge.

I think we would also have a view about valuing use relativities between high grade ore and low grade ore haven't quite normalised yet. We think that's upside for us to come. These things tend to happen in sequence and you get decent housing, decent paint demand, decent pigment demand, for the US, for example. Over time, that translates into feedstock demand and particularly high grade feedstock demand as they move into the period when they're wanting to maximise production as distinct from run at average rates, because the way they tend to do that is sweeten the blend and more high grade ore goes in.

On Kenmare and the status of that, the short answer that I alluded to is that due to the restrictions under the Irish Takeover Code, I'm unable to comment at this time.

Clarke Wilkins: (Citi, Analyst) It was worth a shot. Thanks David.

David Robb: Yes, okay. Next please.

Mark Busuttil: (JP Morgan, Analyst) Hi guys, just a couple of things from me. With the build-up of the HMC stockpiles and the end of mining at WRP (Wornack, Rownack, Pirro), how long do you think post the end of WRP you can continue to run the Hamilton MSP based on those stockpiles? Then secondly, I'm a little confused about your rutile sales strategy. It seems half-on-half you expect your sales volumes to go down, so that means you would have sold more on that first half in a declining price environment than the second half of the year when you expect prices to be stable and you're talking about potential shortage of rutile supply into next year. It seems to me it would make more sense to have sold less in the first half in a declining price environment and more in the second half when the market was tightening. So just trying to understand the rutile sales strategy, thanks.

David Robb: So Hamilton MSP will process Murray Basin concentrate. It already processes J-A (Jacinth-Ambrosia) concentrate to a greater or lesser extent. We've done some experimentation actually about just how much J-A HMC can go into that plant. Because you know, plants are designed - MSPs tend to be designed around particular ore bodies and you get different bottlenecks occurring in the plant depending on which feed you're putting in. So put in a rutile rich feed, you might have capacity to spare in your zircon circuits and the reverse is also true. So Hamilton is not an asset in any way that is just linked to WRP HMC, you should not think about it in those terms.

On the rutile question and the strategy there, well I'm not quite sure I agree with your logic on pricing at all. I mean if prices are flat or stable, then language we've used, then there's no price incentive really around when you sell while that applies. Indeed if prices are trickling down, then your weighted average price realisation in that trickle down period is logically higher than in the stable period that represents the low point of the trickle. So I don't agree with you on the price logic, but let me say actually quite a few more things about all of that, because I think it's a very valid line of inquiry and I'm pleased you asked it, frankly.

Rutile demand is steady, so forget about tactics and assets and whatever, what's going on in the market, it's steady. Prices are stable, as we've said before. You should also be aware, you would know, there's a small percentage of the market really that is truly rutile dependent alone. You need to think in terms of high grade ore rather than just rutile or just slag or just SR. You also need to think of our idle SR kilns in that context. In a nutshell, Mark, I think both capex, quantum and capex timing are important factors in shareholder returns.

We obviously in that regard like to redeploy equipment, and we do so in major mine moves. We did it when we moved from Kulwin to WRP and we had a gap.

Those gaps are usually covered by processing concentrate from the old site and to an extent, that's exactly what we'll be doing with WRP because the concentrator from WRP is earmarked for Balranald. You know, so that's how we think about rutile. I'm comfortable that our thinking on it is consistent with our objective of creating and delivering value for shareholders.

Chris Terry: (Deutsche Bank, Analyst) Hi David. Just following on I guess with a bit more detail hopefully on some of the things you've touched on already, but in terms of that slide 31 in the presentation pack looking at the future project developments, are you able to give some more clarity on the likely release dates of when you might present the data and the specific time, development time scale and then how that flows through to your forward capex? I think the guidance is broadly $200 million to $250 million per year for the next four years. Just looking at how that may actually play out on a trajectory level if we go from this year with quite low capex through that cycle.

The second question I have just relating specifically to 2014, first half of the year you've done a good job of managing the costs and the capex I guess as well. Both of those I guess are coming in at less than half for the full year guidance numbers. Is there a step up in the second half or are you looking likely to come in well under those numbers for the full year?

David Robb: Okay, I'll deal with the second one first if I may. Look, we're certainly trending below guidance on costs. Too soon to call it. We haven't issued any revised guidance. It depends a little bit, you know, how much cost we choose to incur in finished product, production - you know, conversion of HMC to finished goods, those kind of things, the transport associated with that. So the trend might indicate that we will come in under. I agree with that, but we have not revised our guidance at this stage.

On the capex, yes a very low run rate in the first half. There's some Metalysis capex that was, is in the second half, a further injection, best project and PFS timing aspects. Again, we haven't altered our guidance. It might be that we come a little under, it's not really material. It'll just be timing issues if we do.

Sorry, turning to timing and your question about slide 31. Look, in the normal course, it is difficult to be absolutely specific about project timing. You know, that's what PFSs are all about and it's a very brave person who calls in advance the absolute end date of a feasibility study and a decision to move to execute. For various reasons, commercial and competitive, whilst I realise it may be a little frustrating to people, I don't think it's in our interests to try and be explicit about these project timings right now. So I'm not prepared to do that.

We stand by the capital expenditure high level guidance that we've given, Chris. We haven't altered that. If we felt it was somehow wrong, we would obviously have updated that. So there's nothing there that should be concerned about. Am I able to really narrow that down and be much more explicit about the year to year shape? No. Some of that goes to the innovation issue. Most of you would be aware about work we're doing on innovation in various area, including mining and some of that work may well be worth waiting for. So that's another uncertainty because there are potential upside investigations [on] work that we are running in

parallel that may impact our overall project thinking and therefore timing. You would not want to build a project in a less effective way than if you had been just a little more patient.

We will provide, obviously, in the continuous disclosure sense and otherwise, if there's any material information it will be disclosed.

Chris Terry: (Deutsche Bank, Analyst) Thanks David.

David Robb: Thanks Chris. We all know that's a little frustrating but I have my reasons. Next please and I'll try and be shorter with my answers so we can cover everybody's questions.

Stephen Gorenstein: (Merrill Lynch, Analyst) Hi Dave. Just a quick question on SR (synthetic rutile) kilns that you've touched on a couple times. You mentioned in the release that the conditions for reactivation might be emerging. Can you elaborate a bit on that and what do you need to see to bring those back on and how close do you think you might be?

David Robb: Well, the conditions include the things I referred to around high grade ore market trends, TiO_2 demand trends, pigment plant utilisation and so on. So it's really all around demand. Beyond that - look frankly, to be too explicit about pre-conditions for anything at the moment I think is unwise. It's unwise competitively, it may be unwise in terms of negotiations to be too explicit about what we may or may not need. So I'm sorry, I just can't answer that question in the detail that you would like. We stand by what we've said around conditions emerging that may be encouraging in relation to a restart, but putting a timeframe on it, I'm not able or prepared to do that at the moment. I'm sorry.

Owen Birrell: (Goldman Sachs, Analyst) Hi, thanks for the question. Just wanted to take a look a bit more broadly and looking in terms of the marketing strategy for both zircon and TiO_2 feed stocks. I understand you're moving downstream and you've set up marketing hubs and inventory hubs near your customers for both zircon and feed stocks. Just wanted to understand, I guess, what the key drivers behind that strategy are, given that you're pretty much the only producer that does it. Do you believe that the value has actually transitioned downstream or is this just an attempt to better meet customer needs?

Just following on from that, if the markets for say zircon starts becoming a little weaker than it is today, do you think that provides a more defensive position within that zircon market for you?

David Robb: Well look, the marketing strategy and the moving product closer to customers et cetera and new marketing offices, the numbers tell me that it's the right thing to do. As Alan mentioned, we still have a healthy EBITDA margin per tonne. So extra tonnes that we can generate through being closer to customers and more responsive and so on, well the numbers tell us that's the right investment to make and we have the capacity to do it when others cannot. This leverage is our strength, particularly in zircon, as the largest supplier. Remember too, the zircon market is very fragmented, you've got a lot of small players. Smaller delivery sizes and so on, are helpful to some of our customers and to do that, you need warehouse facilities nearby. So I don't see any change in that rollout that we are pursuing.

On the question of if zircon drops, does that - sorry can you just - I'm not sure I quite understand that question.

Owen Birrell: (Goldman Sachs, Analyst) It was more around if your peers start becoming a little less rational in zircon, they were pushing product to the market at I guess market clearing prices, does this provide you I guess a bit of defensibility in terms of the interface that you have with the ultimate customer in terms of holding your margins?

David Robb: Look, I think the market has already cleared. If you think about it, other than the majors - and there's certainly no sign of irrationality there - we identify in the slides that other big producers are also flexed down and I don't detect any change to that approach. By definition, what we do is allow others to be close to fully sold. So there isn't a risk in that regard that I see in the way that you perhaps do, unless it comes from one of the other major producers and I don't see how they would be incentivised to do that when margins overall are under pressure and where the history tells you that if one major were to attempt it, the others follow suit immediately and everybody is a loser, so why would you do that. Lower the prices and sell no more tonnes - that doesn't seem to be a very sound approach to me.

We have absolute proof of that if you think about what happened a little while ago with some marketing strategies that didn't work. They were not ours, but they were unhelpful. So I think lessons have been learned and zircon pricing is as we have described it in the release.

Matthew Hope: (Credit Suisse, Analyst) Hi David. I was just hoping you could outline a bit more of what's happening in Metalysis. I mean it seems pretty important to stimulating demand, but what exactly are you doing there? Can we expect a plant? Your slide 34 seems to be talking about tantalum but not a lot about titanium. I was just interested on how that's going to work.

Secondly, with some of the big projects, I mean, how are anxious are you about replacing Jacinth-Ambrosia and Murray Basin and is there a point in a few years if you're really getting success in replacing them from greenfields exploration where you might start thinking about some other approach, buying something or investing in slag production or whatever?

David Robb: Okay, there's lots in that so quickly Metalysis I've said, three buckets of value. Obviously we think it's a company with great financial potential, therefore our shareholder is one potential bucket of values that will be realised, we hope.

Secondly, it's around our rights to participate in plant that use the technology, in the titanium space not the tantalum. Third it's about feedstock supply and what we can bring in that regard.

Yes, there's a reference to Tantalum because that is a way of making the business self-sustained reasonably quickly and reducing any calls on shareholders for further funding. So that's a thing we support.

The demand lift, if you like, from the world being able to convert lots of applications for titanium metal that are currently stainless steel or whatever, that's a long-run strategy. That's why I refer to our ability to think about long-term as well as short.

What I have observed categorically is that benefit of our dialogue with them around TiO_2 feedstock, around SR customisation into that process and SR is a product we make. It's not one that comes out of the ground. It is what it is. It is - it may well be very well suited to that process. I don’t know yet but Doug's team are

doing a lot of work in that area and I'm very confident that our logic in that regard, when we made the investment, has already demonstrated to us about the benefits of our involvement and discussions.

J-A and Murray Basin replacements, well obviously, mines have a finite life. I'd refer you to the Sonoran, Atacama, Typhoon deposits, though, that are adjacent to J-A. There's a lot of work going on around those satellites and I'm encouraged by all of that work. Yes, Murray Basin replacement, we have that in train. In terms of Balranald, we also have that in the, you know, we hope there's an innovation contribution in that area as well that I covered before.

So yes, you're right. Obviously, logically, eventually all ore bodies are depleted. If you haven't done anything, well then that's game over but that's not our plan. Greenfields versus acquisition, I don't see them as in competition with one and another necessarily. We think about both in parallel all the time and always have. You need to have the capacity to pursue either at all times because you don't know which ones comes along first, in some cases, and we're positioned to do that. We're investing in exploration and there is in the public domain a transaction that we have proposed, so both at once.

Can we keep going, I guess, otherwise we'll run out of time and not get through them.

Matthew Hodge (Morningstar, Analyst) Hi David, just a couple of questions around incentive pricing. Has your view around those prices changed materially at all, and how do you think about how the incentive price will move in the medium to longer term? Obviously, we've probably had some costs coming off in Australia, so that's probably perhaps brought it down a little bit but then there'll be some offsetting factors longer-term, the challenges and headwinds that you've talked about but just how do you see that playing out in the longer term?

David Robb: I would just say our view on inducement pricing in the here and now hasn't changed. I would draw your attention to slide whatever it was, the assemblage one – slide 27.

Matthew Hodge: (Morningstar, Analyst) Yes.

David Robb: This is what the industry has ahead of it. Less zircon proportionately, less chloride ilmenite proportionally perhaps in the long run, and lots of sulphate ilmenite. Bear in mind also geographic risk, regulatory risk. These resources are not in the most hospitable of places. They're not in - well, some of them will be but they're not in my backyard.

So all of that will have an effect on inducement pricing ultimately, unless innovation rides to the rescue. That's why innovation's so important. We've tended - and I know I've alluded to this before and some of you would know that I started my career in oil and gas, and you look at the contribution of innovation in energy markets - oil and gas markets, horizontal drilling, ultra-deep water capabilities, all the way through to fracking and so on, shale gas - are there analogues that you can readily look at in minerals? I don't think so. Certainly they don't exist in our industry.

I'm very excited about both the need for innovation and our ability to be at the forefront of it because when we look at the resource endowment of this - that support this industry, we think it is needed. Otherwise the per cost issues that you allude to are potentially quite stark. .

Mike Harrowell: (BBY, Analyst) Thanks. Just on guidance, you haven't, as I'm aware, changed…

David Robb: Sorry Mike, I can't hear you quite. Could you speak up a little?

Mike Harrowell: (BBY, Analyst) Yes, is that better?

David Robb: Yes, thank you.

Mike Harrowell: (BBY, Analyst) Okay, just on guidance, in particular the cash other. I just wanted to know, you know, the implication is for that $150 million other cash costs that you're going to have a step-up of about $50 million in the second half, relative to what's been reported so far. So you're still maintaining guidance obviously but what would be the additional cost be related to? I guess, well, I might have another question but let's see how that one goes.

David Robb: So sorry Mike, the question is what are additional costs…

Mike Harrowell: (BBY, Analyst) Well no…

David Robb: …in that guidance?

Mike Harrowell: (BBY, Analyst) It looks like you - relative to what you've incurred so far you'll have quite a large step-up in other costs in the second half. Is that correct, I guess, is the first question. The second is can you point us to why that would be the case?

David Robb: Alright. Mike, as usual you've asked a question that I can't answer so I'll hand it over to the experts, Alan and Simon.

Simon Green: Mike, it's Simon here. As David's mentioned elsewhere no change in any of the released materials for guidance. But I think what you're seeing there is a bit of phasing between first half and the second half.

Mike Harrowell: (BBY, Analyst) Okay, and just on the unit costs, the guidance for the year on cash costs is $625 and it was higher than that in the first half. Would you also be seeing a fall away in the second half, and that is the non - that's the production cost related calculation, obviously?

David Robb: Mike, if I understand you correctly - - I mentioned earlier on trend that total cash cost number might be a little on the high side but we're just not calling that as definite yet. It does depend a little bit on decisions we may make in the second half. If I'm hypothetically doing some prep work for the kiln restart that would lift costs. But there's a number of decisions that we might make that would bring us back closer to that guided number versus the trend that we see.

Simon Green: Production in the first half of 252kt of Z/R/SR against a full year guidance of around 550 kt. So that's more 2H weighted. As David commented earlier on, the incremental cost that we incur to actually produce finished goods is relatively modest.

So just in terms of when the finished goods are produced, it obviously influences that unit cost calculation whilst not really changing the underlying cost incurred.

Kim Christian: (AAP) Hi David. I just wondered if I could get your view on the Chinese housing market and how further price falls…Yes, I'd just like to get your view on the Chinese housing market and how further price falls might affect Iluka's business.

David Robb: Look, as we indicated in our materials, Kim, you can't generalise about the Chinese housing market in the same way as you can't generalise anything about China. I am somewhat frustrated at really simplistic theses about China housing and its correlation with Iluka, because that is just such a simplistic thesis that I find it frustrating.

We do know that in China in ceramics sector - and remember that even in China ceramics, i.e. housing, if you like is only a little more than half of demand typically, so you're talking about half of global zircon demand divided by a half divided by our market share, whatever. It's not the only factor in our outlook. But it's really about completions and sales because that's when fit out occurs, is when occupancy occurs.

Yes, the pipeline and the investment in real estate and construction is important long-term but in the near-term it's really around, as I say, housing completions and housing sales. I can actually think of a scenario in which price corrections incentivise developers to offer better deals to get occupants into their properties and make it easier for people to become homeowners. That would be good for us.

We've also mentioned the issue of digital printing and how embryonic that is in China relative to other places - and I refer you to a slide that's not in this pack. It's in the supplementary slides, isn't it, Rob, I think? No, it's not. Okay. Anyway, there's a slide about digital printing, and you see that the adoption of that, as yet, in China is very low. As China does adopt, that's good for zircon intensity, based on our survey, our most recent survey of tiles.

So I can actually easily talk to a scenario where pricing adjustments in housing in China are actually good news for us. There are also the developments, as you would know, around the [unclear] system and the ability of people who move within China to actually be recategorised as legitimate residents of a city and therefore able to buy property, which has not been the case up until now.

So, clearly, a major upheaval in the Chinese economy or, indeed, Chinese housing is bad news for everybody, including us. But do we see that? No. I have said before, China's a market that runs on sentiment as well as observable fact. It tends to move en masse, so sentiment's important. A lower price is good for purchaser sentiment or bad. You tell me. .

Michael Evans: (CIMB, Analyst) Good morning, David. Thanks very much. A couple of questions. One's a bit of a follow-up from an earlier question on the Hamilton MSP. You made the point that each MSP is designed around a particular ore body, but you are putting JA ore through that plant at the moment. Can you give us a feel for the quantum of just how much JA ore or HMC you can put through there as a percentage of the total? I mean do you have to make any modifications?

To what extent can that - can that potentially delay capex at Balranald or delay that decision until you, I don't know, have more confidence on the market outlook? I mean your capital numbers - I appreciate you can't be too specific on your development projects, but your CapEx [says you're] running relatively low, relative to your guidance. So we've got these big numbers in our models, and it's difficult to allocate exactly where it's

going; so perhaps some colour around that. Secondly, and related, your $110 million CapEx expenditure guidance for this year, can you give a sense - I know it's probably a bit tricky - on what you regard as sustaining or what you consider project capital in that $110 million figure?

David Robb: Yes. MSPs - some are flexible, some are not. Our MSP in Narngulu, for example, is two quite distinct trains. It can run in a modular fashion. It can run in an integrated fashion. It is actually more flexible than Hamilton in that regard.

It's really not much capex to debottleneck an MSP. So, for example, as I said, if you run more JA in the blend - if you've got a zircon bottleneck because J-A's mainly zircon and your zircon circuits - you reach capacity, even though you may have spare capacity in the TiO_2 circuits in the rutile circuit. The reverse is also true.

We've been, I think, in our most recent trials - and they are only trials, but we've been up to about 40%. We're just all holding fingers up in the room. We're not quite sure whether it's 30%, 40% or 50%, so let's pick the mid number, 40%. That is - let me put that in context. We have used this lull to do lots of envelope pushing around blend flexibilities, feed stock flexibility, logistics, efficiencies, different ilmenites that might make different SRs, all of those things that you are aware of. Now is a wonderful time, when we're not trying to maximise production, to play around with those things.

But does any of that really bear on Balranald timing or capex? No, Doug. I don’t think there's much capex in Balranald, if you like, that's linked to the Hamilton MSP itself, no. So Balranald capex, whatever it may be, is all around the mining and the processing and the logistics of getting HMC to Hamilton.

On the current split, look, I guess where I'm at with the capex, is - and, obviously, it's not material to anything, given it's only a $100 odd million or so in our guidance. I am holding to that guidance because there's a discretion, if you like, about some things that we may or may not do in the second half, and there are also some timing uncertainties.

As to the split between sustaining and growth in all of that, well, Metalysis is clearly not sustaining categorically. Other than that we don't really think about it in those terms. We've said previously that, overall, our sustaining capex is, not surprisingly, not that different to our D&A, and that's about $200 million a year. We are below that run rate now. That's why the lumpiness has been referred to about we play catch up as these projects are executed over the next few years. We're not at that sustaining run rate this year, quite clearly, so your observation's correct.

Within the $110 million, when we're down that low, I don't really - I don't have the answer to which is sustaining and which is growth, other than, clearly, Metalysis is growth.

Glyn Lawcock: (UBS, Analyst) Hi, David. David, I just wanted to think a little bit about how you're going to approach the development of your new projects. You've already said inducement or prices is not sufficient to induce them now but, obviously, if you're right on slide 27, as you get closer to exhaustion of, say, WRP, prices will have to go up because you're not going to be able to produce it.

So as you get out there, as you and your team think about it, do you think about your pricing strategy? We used to have an industry which was fixed prices for long durations. Are you happy with the current pricing

regime? Or do you try and say to people look, we want to look in a price to actually guarantee to get this project to market? Just wondering if it's too early to be thinking like that.

David Robb: A good question. On our first point, inducement pricing is always an industry average calculation. It doesn't give you a direct line of sight to what any specific project may needs in terms of price. We've been through a period of some upheaval, Glyn, as you'd know well, around changing the pricing horizons within the industry from old style legacy contracting - which we think worked in favour of customers and to the disadvantage of our shareholders. It wouldn't surprise you, therefore, that having done the hard yards, if you like, we're pretty reluctant to go back to the ways of the past.

Does that mean that you would not be creative about underpinning economics? Do we think about de-risking projects in lots of ways, not only engineering solutions and lower capex and all the usual stuff to reduce risk? In some cases there's merit in thinking about off-take risk. Less important where your products are really quite fungible and of clear market acceptable quality - which is the case with us. Harder to do in zircon than it is in TiO_2, clearly, because, generally, the balance sheets and the capacity to deliver a long term commitment downstream of us in zircon are much more limited than they are in TiO_2.

So, look, it's really a horses for courses thing. We try and balance return and risk, to state the obvious. There can be a trade-off sometimes where you might accept a little lower risk in return for a little more - sorry, a little lower return in return for a little certainty around risk. Is that likely to lead to an undoing of the changes that we've been a part of in our industry? Well, not on my watch, I don’t think.

I mean if someone wanted to come along and offer to pay me the previous peak price forever, Glyn, I might go back.

Glyn Lawcock: (UBS, Analyst) Oh yeah, but that may not happen either.

David Robb: No, I know.

Glyn Lawcock: (UBS, Analyst) I was just [unclear]. But I was just curious.

David Robb: No, I like the fact that you said may. That's good.

Glyn Lawcock: (UBS, Analyst) But there's more about just - if you could lock in a price north of here that gives you the returns you want on the project - I mean the long term price, but at a decent return is what you would - to give you - to lower the risk.

David Robb: Yes. And across your portfolio, having a blend of arrangements that produce the best aggregate outcome, Glyn...

Glyn Lawcock: (UBS, Analyst) Yes.

David Robb: ...it's a project specific call and, as Doug reminds me, product specific. So I agree with your sentiment, if you like, that you shouldn't be too blinkered in your thinking about how you generate the best returns for shareholders. In some project cases, or for some products, across our whole portfolio, a blend arrangement probably works best through the cycle, Glyn.

Glyn Lawcock: (UBS, Analyst) Yes. Sorry, David, just finally on that same topic, when you talk to your customers and show them slide 27 - and I'm sure they can see it - is there a sense of nervousness dawning upon them yet, that you guys aren't prepared? Or do they think you'll cave at the last minute and develop it anyway?

David Robb: I don't know. You'll have to go and ask them. Look, people's time horizons - top of market and bottom of market - tend to get very short. It's hard to get people thinking really longer term. I don't know. I'm a Chinese pigment maker and half my capacity only is running or whatever, and I'm under the pump margin-wise. I think there is an awareness and a recognition. Is there a willingness to act - yes - on that? Well, time will tell.

I think - and someone may make a discovery tomorrow that turns that on its head, in which case we're wrong, but it is clear that we're the only ones really looking seriously with good credentials, it's likely to be us. There's - I think the people who have the capacity to think longer term are aware of this issue.

Andrew Knuckey: (Commonwealth Bank of Australia, Analyst) Yes, hi David. Just two questions. Slide 18 where you show the trend of zircon imports into China for 2014, directionally it's well below the step change that we saw in 2013. Can you just confirm the commentary that you make in the written notes that you still expect the second half to be greater than the second half of 2013? Looking at that chart it looks like quite an order of magnitude step change and what gives you confidence that we're going to see that given current conditions? Then the second question just refers again to slide 27 - are you able to give any indication on that [unclear] access around perhaps timeframes that you see the decline in terms of those assemblage mixes?

David Robb: Yes okay. The answer to the second one is no, it is a representation of a trend. I don't think it's actually intellectually honest to try and be too prescriptive about timeframes when you're looking at an overall industry picture where we believe that is the outlook. Your first question I'm not sure I quite agree with you about step change. Really the step change was post GFC in China but it has maintained numbers that are pretty commensurate with that. Year-to-date versus the dotted 2013 line we're tracking similarly.

You know that Chinese New Year et cetera tends to mean that second half is bigger than first half. We also know and we've said before that if prices go up paradoxically in the short term volumes go up depending on what people think about what that presages. So no I don't agree with you that there's anything fundamental about that other than China is tracking roughly in line with how it has in the past.

Andrew Knuckey: (Commonwealth Bank of Australia, Analyst) Okay so...

David Robb: Our guidance around aggregate sales and our commentary around relativities we had not changed.

Andrew Knuckey: (Commonwealth Bank of Australia, Analyst) Yes okay so based on that we should expect to see that grey 2014 line sort of kick up just like we saw the 2013 dotted line and in fact the path given that you expect sales to be greater than the second half of 2013?

David Robb: I think what we've deliberately not done is guide specifically by product and we've guided only the aggregate rutile, zircon and SR and I'm not going to be drawn into a more specific guidance around zircon than we have given and that we stand by. We discussed China housing - I gave you my view. We could be wrong. There are lots of uncertainties still as we sit here in August.

Andrew Knuckey: (Commonwealth Bank of Australia, Analyst) Yes you do say that specific to zircon on page three of your notes that you do expect sales to be greater than the second half of 2013.

David Robb: Yes well if you do the maths that's clearly what we expect given our guidance.

Matthew Fist: (Macquarie Group, Analyst) Hi David. Just picking up on your comments on slide 26 on technology shifts in pigment - are you able to provide any more information on some of the changes that you're seeing in terms of technology in those markets? Following on from that, has your thinking changed at all over the past six months in terms of the outlook for the build-up of chloride [unclear] capacity in China?

David Robb: No our view on that has not changed. Technology shifts really relate to China also and the government's explicit encouragement of chloride. So that's really around the sulphate chloride balance that technology shifts comment and China is a big part of that and we are in country and working hard with the embryonic chloride pigment manufacturers to help them. As you are aware we also have a view that developing a capacity to service the large installed sulphate pigment capacity perhaps with a higher grade product to help them minimise their environmental footprint that's also part of our thinking. So it's sulphate versus chloride and it's feedstock innovation to service both is what is behind that technology shifts short hand Matthew.

Clarke Wilkins: (Citi, Analyst) Sorry thanks for taking a follow up. Just the restructure in idle costs is there still further of those costs to be incurred in the second half of the year? I think the guidance was like $45 million for the full year originally. Also just around mining - the royalty - has the thinking on that changed and the [cash flow] that comes in from that does that have some influence in terms of gearing if you are looking at doing acquisitions in the marketplace?

David Robb: Well the restructuring in idle capacity costs with idle charges we haven't changed our guidance on that Clarke. So $45 million or thereabouts is still the number we think for the full year.

The important point there is the restructure element was one off last year or non-recurring this year but idle costs that we've incurred in the first half we'd expect to see those in the second half given the production settings that I've outlined in the materials. So $45 million or thereabouts is still the number Clarke and all idle charges if you like. On MAC if you are - are you actually asking would we I don't know monetise it in some way as part of the transaction is that?

Clarke Wilkins: (Citi, Analyst) Well I suppose it works both ways. Do you monetise it or does the ability to borrow against that revenue stream also make it valuable to keep in terms of if you are looking to do M&A into - won't mention of names of course but in terms of acquisitions that have been announced?

David Robb: Well it's a wonderful cash flow and we don't worry about its specific utilisation. It's a part of the mix. It's a very helpful part of the mix when the mineral sands is at a low point in the cycle. I can assure you

there are plenty of people in this industry including people who have operational problems of which there's another big one at the moment in the public domain. I think proving how difficult it can be to get projects up and whatever in this industry -the kind of stuff we've referred to before about don't underestimate technical challenges, that's a live issue this week.

We've commented upon publicly and we have said that our proposal in relation to the transaction was 0.036 Iluka shares for each share. So in that context the monetising MAC cash flow or by proffering its value to some particular transaction is actually not relevant. It's also the case that we're not limited in what we can do and we've said this before that there is no particular limit in our banking arrangements that relates to what we do with MAC. Alan and Simon and the guys did a very good job in all that refinancing to make sure that we had not only big capacity but lots of flexibility in terms of how we use our balance sheet. So there's no restriction on what we do with MAC in terms of our financing but it's not in the mix at all in many things specific at the moment.

Okay with that I think an hour and a half or thereabouts. Thank you for your patience everybody and thank you for your interest. Follow up questions obviously feel free. Thanks for your time.