Iluka Resources Limited (ASX:ILU)

2015 Full Year Results
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Speakers

David Robb, Managing Director

Doug Warden, Chief Financial Officer and Head of Strategy and Planning

Matthew Blackwell, Head of Marketing, Mineral Sands

David Robb: Thank you and good morning and welcome everybody. Thanks for your time at the end of a very busy reporting week. With me, as usual, Doug Warden, Chief Financial Officer and Head of Strategy and Planning; Matt Blackwell, Head of Marketing; Adele Stratton, Financial Controller and Rob Porter, General Manager of Investor Relations and Corporate Affairs.

We have a couple more slides than usual in the pack, so we will move through them fairly quickly to allow time for questions. I draw your attention to slide 2, as always, please note our disclaimer in relation to forward-looking statements.

Slide 3, as I think about our industry today, clearly the mineral sands industry has its challenges, particularly if you are carrying a lot of debt. In that regard, our industry is not alone. Growth is there but you need to work hard to find it and you need to have well developed marketing capabilities.. As usual, some new projects have not performed as expected. There has been, as we have commented on before, a significant supplier response and in relation to the last three points on this slide, as Doug will detail later, there is a looming sustaining capital expenditure (CapEx) requirement which in our view may not be met.

Slide 4, thinking about Iluka in that context, Iluka is well placed. We have no debt, combined with very large funding headroom in terms of the facilities available to us. The business is running efficiently and safely and sustainably in terms of its environmental performance. Volumes are up and margins are stable, so with low CapEx we see positive cash flow resulting. I have been very pleased with our efforts to reduce and, where possible, slow spend and, to the last point on the slide, we seek a balance between the returns that we offer shareholders today and the returns we can offer shareholders in the future.

Slide 5, I will not dwell on this. Our approach, as we think of it, custodians of cash which belongs to shareholders has not changed; our approach is as previously stated. We want to get shareholders the cash that we generate as and when we have it and we don't want the franking account to become a value trap, value that we need to think about finding ways of getting to shareholders.

Slide 6, key features of 2015, well, production and sales were up largely on the back of a very successful restart of our largest kiln, SR2. Total and unit revenues were up as I mentioned at the half, foreign exchange (FX) headwinds have become tailwinds for us. I am very pleased with our cost performance. I

think our unit cost performance in particular is very pleasing. We've seen obviously a return to profitability after 2014 was impacted by US write downs.

I must emphasise that in slowing our project spend, which we have done to the extent we prudently can, we have not compromised the projects or our future and our already strong balance sheet was enhanced over the course of the year via further elimination of debt and an expansion of the available facilities.

Slide 7, a slide we have not attempted to talk to before, but what the chart does is illustrate that balance to which I referred between shareholder returns now and in the future. On the right hand side, we see that as investment in growth, if you like, in the future, including in some cases industry transformational opportunities. On the left hand side, you see a split between making sure the company is suitably resilient and providing a running yield for investors in the company.

Slide 8, sustainable development, we are focused on sustainability in all its aspects: environment, health, safety, social responsibility, licence to operate, etcetera. After years of steadily improving performance, 2015 did see an increase in total recordable injury frequency rate, TRIFR. That was a result of higher occurrence of very minor injuries and first aid treatments. The lost time injury performance remained at an industry-leading level, but we have redoubled our focus on awareness raising, the kind of activities that we know over time lead to better safety performance.

The SR2 restart, after a fairly considerable idle period, was a real tribute to our people, both old and newly recruited and we had the third consecutive year of reducing our open area and with that, of course over time, we reduced the size of our future rehabilitation task.

With that introduction, I'll hand over to Doug to run through the result in more detail.

Doug Warden: Thanks David. Turning to slide 9, just one observation that there is more green than red on the slide, which is always pleasing. Some of the key features of the results, just to point out, Net Profit After Tax for the year of $53.5 million versus a loss last year of $62.5 million which was obviously influenced by an $82 million write down in the United States (US) in 2014.

Strong free cash flow again with $155 million for the year versus $196 million in 2014. A key factor in this difference is the one-off benefit from debtor factoring in 2014 of $84 million. Although we continue to factor debtors for cash flow purposes, there is obviously a one-off benefit in the year in which you start.

Net cash of $6 million versus net debt in 2014 of $59 million and full year dividends of 25 cents made up of the 6 cent interim and the 19 cent declared at year end, versus 19 cents in total in 2014.

Turning to slide 10, sources and uses of funds since 2005, demonstrates a track record since 2010 of generating strong operating cash flows, which are the orange bars, to help fund necessary CapEx, which are the maroon bars, and pay down debt also during the good times, which are the blue bars; all of which has reduced gearing and enabled us to take advantage of opportunities in the tough times, or acting counter-cyclically as appropriate as you would be familiar with us talking about and all the while paying out healthy dividends, which are the green bars.

Turning to slide 11, dividends, already touched on this, 19 cent final and an interim of 6 cents. Totals roughly $105 million in dividend distributions for 2015, or 68% of free cash flow. David has already mentioned the total dividends paid since 2010. That is mentioned on this slide. Our framework has not changed. Just to point out, that the framework is to pay out a minimum of 40% of free cash flow not required for investing or balance sheet activities and to distribute maximum practical franking credits.

As per note 9 in our financial statements, you will see that after payment of the $0.19 final dividend and a $26 million payment of 2015 tax in 2016, we will still have $103 million in franking credits available. So if you like, franking credits available for future dividends, which are sufficient to pay .57 cents per share fully franked dividends or, to put it in dollar terms, $240 million in fully franked dividends.

Turning to slide 12, basically just tells the story from slide 11 in a graphical sense. I just would point out that since 2013, when you could argue the downturn in mineral sands commenced, Iluka has generated just shy of $325 million of free cash flow and declared $222 million in dividends. So the numbers we quote earlier aren't all to do with the good times in 2010 and 2011 in terms of free cash flow and dividends.

Slide 13, net debt and gearing, tells a similar story to previous slides, but essentially we started 2010 with just over $300 million of debt. Now it is zero with the dividends that we have mentioned also being paid.

Balance sheet, slide 14, you are well aware of our debt facilities available. They were extended slightly towards the end of last year and now just over $1 billion, obviously no drawings of that at year end. But I would note that after the .19 cents dividend, it will not be paid until April of course, gearing increases from zero to 5.2% at a year-end position, if you assume that the dividend was paid in the year end.

Slide 15, net debt movement from 2014 to 2015. It also highlights, similar to the pie chart that David spoke to earlier, how operating cash flows have been used to fund growth activities, as well as the payment of $80 million of dividends in 2015, bearing in mind it was the 2014 final and the interim that was actually paid in 2015.

Slide 16, a summary of our Group results. Much of this I have already mentioned, but I would just point out mineral sands revenue up 13% as a result of a 10% increase in unit revenue, up from $1030 to $1136 which is largely Australian dollar driven. You see the average price or the average FX achieved in 2015 down the bottom there of 75 cents versus 90 cents in 2014. Z/R/SR volumes, as David has mentioned, were also up 5.6%.

The business continues to maintain an EBITDA margin above 31% despite bottom of the cycle market conditions. I would also point out that net interest and financing costs, although down 20% on the 2014 number due to lower average debt during the year in 2015, however it's important to note that there are commitment fees on undrawn debt facilities and in periods of low indebtedness, i.e. little in the way of debt drawings, this can represent a significant proportion of the interest expense. So carrying those debt facilities, in short, is not free, for those who might wonder why there's $11 million of net interest in a debt-free company.

ROC and return on equity, we acknowledge remain below acceptable levels, reflecting the bottom of cycle conditions and I have already mentioned the tailwinds from the Australian dollar.

Slide 17, Mining Area C, $61 million EBIT contribution for the year which included an US$8 million settlement with BHP, higher capacity payments of $3 million, all of which was more than offset by lower iron ore prices.

Slide 18, net profit after tax waterfall, this is dealt with in more detail in the annual report where the bars are explained. I will just point to some key issues during the year. Some erosion of US dollar prices you see which is more than offset by the lower FX, giving higher Aussie dollar prices. Lower unit cost of goods sold for the year, including in mineral sands other; some higher resource development – funding of future growth, if you like – costs, higher royalties as we transition from a period of lower royalties at Jacinth-Ambrosia - a royalty holiday, if you like, that was provided by the government - are the main issues there.

Obviously the US impairment that we suffered in 2014 was not repeated in 2015, hence the green bar. And we announced the $27 million increase in rehabilitation due to the lower discount rate in December.

Slide 19, 2015 results relative to guidance. There's three columns, the first being the initial guidance, then the December update that was issued and then our actual performance against those. I guess the key point to note is that December zircon sales, as we mentioned in the announcement, did soften towards the end of the year and consequently Z/R/SR sales volumes of 651 were lower than the 2015 production of 680. However, I would point out that sales volumes were still almost 6% higher than 2014.

Good result on cash costs of production, 9% below the February guidance and CapEx well down on guidance as well.

Some of the accounting aspects that are worthy of note on slide 20, firstly the increase in the rehabilitation provision I have already mentioned for closed sites, due to the lower discount rate, was flagged in the December announcement. The second thing I would point out is a higher effective tax rate of 38% is due largely to the minimal tax benefit associated with the US losses, as well as non-deductible overseas exploration costs and also non-deductable costs associated with the Kenmare transaction.

Just a bit more on the US loss of $35 million, which you can see in the segment material in the annual accounts. It was driven largely by a $27 million increase in the rehabilitation provision. Now that is separate from the increase in the provision relating to the lower discount rate, but I would note - and you will see it again in the segment notes - that that increase in provision in the US was largely offset by a reduction in the rehabilitation provision in Australia of $25 million. So at a Group level, those movements have negligible impact on EBIT, a bit over $2 million. However, in the US, we were unable to book a tax benefit in respect of that loss as we have idled the operations.

As stated in the notes to the key physical and financial parameters released this morning, we expect the 2016 tax rate to be in the mid-30s% range and there will continue to be some US losses associated with care and maintenance activities, as well as continued overseas exploration expenditure which is non-deductible. However, I would point out that notwithstanding P&L losses in the US, we expect that part of the business to be cash flow positive as we sell down finished goods inventory where the costs are essentially sunk.

Turning to slide 21, unit costs and unit revenue, unit cash cost down 16% to $558 a tonne, unit costs of goods sold down 10% to $780 a tonne and minerals sands EBITDA margin, as opposed to the Group EBITDA margin I mentioned earlier, of 33%.

Slide 22 -- a standard slide in our pack these days, but particularly pertinent given the suspension of mining and concentrating activities at Jacinth-Ambrosia. Inventory levels remain above $800 million at year end, approximately half of which is finished goods and half of which is work in progress.

The majority of the work in progress (WIP) is heavy mineral concentrate, I would point out. Finished goods were down about $42 million versus the previous year. WIP up a similar amount, as you can see noted on the chart. With the suspension of Jacinth-Ambrosia mining and concentrating activities, we would expect these inventory levels to reduce to, if you like, pre-2012 levels of $200 million to $300 million at any one time, over time.

And in terms of a time period, in respect of the work in progress, or the concentrate stocks, we expect that will happen over the next two years as we draw concentrate from the JA mine site and also, importantly to not forget the Woornack, Rownack and Pirro (WRP) mine site as well. In respect of finished goods, we think that will take a little bit longer, perhaps around three years, depending on market conditions, if you assume that we broadly maintain finished good production levels in the near term.

With that, I'll hand over to Matt Blackwell to cover off on the market update.

Matt Blackwell: Thanks, Doug. So, as David mentioned, 2015 was a year characterised by subdued growth, and there was some new supply. But despite this new supply, Iluka's sales remain consistent for zircon year-on-year, with gains in Europe, the Middle East, Africa and India offsetting some minor loss of share in the US.

Slide 24 breaks this down in a little bit more detail. What I would point out is that sales in China were actually slightly up on 2015, representing the highest sales volume since 2011. And although sales to producers of firing flour for consumption in the ceramics sector was softer, this is partially offset by sales to producers of fused zirconia.

Chemicals clearly remains challenged and has prompted some traditional supplies to move into sectors, or to move that product into other sectors of the market. Foundry and refractory was lower on the back of reduced equipment manufacturing and orders.

Turning to slide 25 and high grade oil, sales were up 16% year-on-year, which I think is a very pleasing result, given a fairly flat market. This was primarily a result of the increase in synthetic rutile (SR) sales, and I believe reflects the value and use of Iluka's SR offering to its customers.

Slide 26. We recognise that it remains a difficult market for our customers in the pigment sector, but we are increasingly encouraged by the actions being taken downstream with this to rebalance supply and demand and efforts to recapture realistic value for these very essential products.

There are signs that the market is turning. Between Christmas and New Year there was news of emergency purchasing of pigment to replenish paint manufacturers' stocks, and this has been followed up by pre-buying of pigment, and I do not believe we've seen this type of activity since 2011. Together, you might conclude that paint manufacturers are running low on stocks and now making efforts to normalise inventory, ahead of the well published price rises.

Global shipping appears to have an order book characterised by high specific specification end users: think oil and gas. Transport and storage, which has prompted a shift in activity to yards with the capability and history of delivering vessels of these higher end applications in geographies we serve well. Demands for titanium metal in industrial applications is down slightly, but this represents a small percentage of overall demand. Aircraft orders are a positive for metal consumption, driven both by the sheer volume and the new generation of aircraft.

Slide 27. Opportunities for profitable sales of ilmenite in China have been limited in the past year and, hence, our volumes are down. This was partially offset by sales to new customers in Eastern Europe and improved volumes into the US year-on-year. Now, you should expect that sales into the US will decline in 2016 as the stocks of Virginia lmenite are depleted.

Bringing us to slide 28. Overall, we have been very encouraged by the adoption of the pricing payments framework with all Iluka's zircon now sold relative to the reference price. Iluka Rewards has been embraced by those customers who qualified for participation, and we will be offering participation to a broader customer base in 2016.

We launched two new products for more cost driven markets in 2015, and we expect further market penetration with these offerings in '206.

During 2015 we reviewed our distribution network, with a focus on optimising inventory terms and lowering holding costs, and we are currently implementing a number of initiatives to lower our cost to serve.

The China Technical Centre is progressing, and should be commissioned in the second half of this year.

Finally, we released the results of our third tile study. The fourth tile study is currently under way. Some of the key conclusions are that substitution and thrifting efforts would appear to have played out, and the trend to digital printing has positive implications for zircon demand.

So, with that, I'll hand you back to Doug.

Doug Warden: Thanks, Matt. Slide 29. The Jacinth-Ambrosia suspension effectively just summarises our announcement from Tuesday. Just to point out, obviously, that we will continue to process heavy mineral concentrate through Narngulu and Hamilton to produce finished product from those stockpiles. And we are expecting net cash cost savings of $30 million in 2016, reflecting an eight and a half month suspension period and $45 million in 2017, reflecting a full year of net cash cost savings from that suspension.

Slide 30, industry supply considerations. David has covered some of these, but in the short term, we see large inventories, largely held in safe hands. No secret that some of the small producers are highly geared and keen sellers of inventory. It is important to factor in, as David has mentioned, some of the project commissioning challenges that people face and have been facing. Declining retail zircon assemblages is a reality now and will just accelerate into the coming years. And we are seeing continued discipline by the majors, as evidenced by our suspension of JA most recently.

In the medium term, there's certainly new supply required to address grade decline and mine closures. The current pricing dynamic are unlikely to induce this new supply, in our view, and we see this being a challenge within three years. You will see why on slide 31, when we summarise in that chart our view of zircon supply out to 2020.

As you can see from the blue hash, new investment is required by 2019 and, certainly, even as early as 2018, to maintain supply. So even if demand is flat - and you can draw your own demand line on that chart - there appears to be a deficit emerging in the zircon market around 2018, which grows quickly in 2019 with grade drop-offs and mine closures.

Based on publicly available information and our estimates, the capital cost for the announced projects to achieve that blue hashed supply that you see is around US1.6 billion. That current price is unlikely to be all induced.

Slide 32 highlights that required CapEx over the next few years, in the blue hashed bars. It's also worth noting that it was the higher prices in 2010 and 2011 that induced the larger investments you see in that chart in 2012 and 2013. That time will come again, and we believe that it will be sooner than many think.

Slide 33, Iluka's production settings, 2016 compared to 2015. As announced, no mining and concentrating activities at Jacinth-Ambrosia from 16 April onwards. We will continue to process WRP concentrate through Hamilton as well as the Jacinth-Ambrosia concentrate, as I have mentioned.

Tutunup South will continue to run at 100% to produce ilmenite for SR2, which will also run at 100%. Hamilton and Narngulu [mineral separation plants] will run at 60% and 50% capacity respectively.

With that, I'll hand over to David to wrap up.

David Robb: Thanks, Doug and Matt. So, the characteristics looking forward to 2016. As luck would have it, we are well positioned; strong balance sheet, good margins, plenty of value realisable from inventory. I

think our challenge is to take advantage of that position via what we refer to as our bias to acting counter-cyclically and, certainly, a bias that we have to deploy capital now, if appropriate opportunities are available. And that is consistent with a cautiously optimistic mindset that I mentioned at the half.

So in 2016 we expect to see aggregate SR, as ZR/SR sales volume higher than 2015 and higher than our 2016 production; and you have seen the guidance on that. We expect to see a work in progress inventory drawdown; i.e. we will be holding less heavy mineral concentrate.

Materially lower costs. Our cost and CapEx position in 2016, I think, is ideal for the times that we are in, and we see another year of positive free cash flow, although strongly weighted to the second half based on our typical seasonal sales pattern and - the inverse of that - for some of the expenditure commitments that we have.

Questions

We do have our first question today from Mr Paul Young from Deutsche Bank. Please ask your question, Mr Young.

Paul Young: (Deutsche Bank, Analyst) The first question's on zircon mix. I see that in your guidance you stated that you expect a higher proportion of standard grade and zircon in concentrate in the sales profile. It's an ongoing trend that I'm certainly observing at the moment, is higher concentrate sales into China, and the Chinese are doing a lot of the processing themselves.

So you stated that that's higher margin on a percentage basis, but at a dollar per tonne it's less so. So I'm just wondering what percentage of your zircon sales you expect to be standard grade and zircon in concentrate. That's my first question.

David Robb: Okay. Look, thanks, Paul. I think we got that. I will throw it to Matt. He can comment on that.

Matt Blackwell: Yes. Paul, two parts to your question. First of all, let me address China. Our numbers do not concur with your observations. In fact, concentrate as a percentage - well zircon in concentrate as a percentage of import to China of total zircon has actually been decreasing since 2011 and the gap, relative gap between zircon in concentrate and zircon price relativity has actually widened. So yes, there is an increase in concentrate to China but it is not consistent with the growth in overall zircon imports for finished goods. You need to look very carefully at the percentage of zircon in the material that has been brought in, not just the overall tonnes. That's the first point.

Second, you know we do not guide exactly on where the percentages increase of standard is. It is actually a very minor increase next year. There will be a little bit of increased zircon in concentrate tonnage next year, we have said that, but it's important - and I think you alluded to this - that people should not conclude that we are sacrificing margins with this particular product.

Paul Young: (Deutsche Bank, Analyst) Okay, all right. Okay thanks. A second question, I was actually on your CapEx guidance and I note there that you've reduced I guess the five year guidance profile to $150 million $175 million per annum which is I think on my maths it's $750 million to $875 million over the next five years total, which you know obviously within that I presume you've got Cataby and Balranald. Just a question on actually the timing of those two projects. Of course they're very different as far as the mix is concerned. Cataby sort of supports your SR production profile and Balranald sort of more supports your rutile and your zircon strategy as you move from I guess Jacinth-Ambrosia down the track. So there's a lot of moving parts, a lot of it obviously depends on the market and what your competitors do but I'm just curious as to when you need to make a decision on developing one of these projects and which do you think comes first?

David Robb: Yeah, well, you are quite right, Paul. There are a lot of moving parts. As I think I have answered sort of similar questions before, we choose not to be explicit about deadlines we have for development or anything else. They are not helpful in a commercial sense. We have got Matt out there trying to secure commitments as he successfully did for the restart of SR 2. You are right in your characterisation of Cataby but remember that it has got a very healthy zircon component as well and we have lots of flexibility about when we develop these projects. In fact our permitting for Cataby has been extended another five years I think it is, Doug? So in neither case do we have any imperative in relation to regulatory approvals limits, etcetera. It is really all around the market and our comfort with supply and demand dynamics. You are right though that they are both basically in the CapEx numbers that we have guided. So there is an embedded assumption that they will happen within that timeframe.

Paul Young: (Deutsche Bank, Analyst) Yes okay. Just lastly then, if I work backwards then from your SR 2 kiln three year campaign, when you run out of ilmenite in a - your majority but I should say in the, on my numbers, second half of 2018, so if I work back from that, you know on a long lead items and development timeframe on Cataby, that means you've obviously got to have Cataby in production to maintain SR 2 as long as the customers are there. So what would be the development timeframe in Cataby? Let's - I'll ask it another way, thanks.

Doug Warden: Well done.

David Robb: I might have to offer you a job, Paul. This is your last question, we need to move on to some other people. Your observations are, you know, appropriate. There is however plenty of ilmenite available in the world, including from other producers. So do not assume that the only source of ilmenite is our own and there is ilmenite that comes out of Balranald as well, some of which is suitable for the kiln and it also depends a bit on what standard of product - so SR premium or SR standard - we are trying to make, according to what customers want. So there are a number of factors in the decision but I would not dispute your observations.

Paul Young: (Deutsche Bank, Analyst) Okay, no worries. I'll keep my circular reference in my model then. I'll move it on then.

Clarke Wilkins: (Citi, Analyst) Hi David. Just a question or two questions. First off, the other cash costs are increasing year-on-year, I think the comment there about $35 million for the innovative solutions and processing technical challenges. Can you just delve into that a bit more detailed? Is that related to Murray Basin and Balranald or where is that money being spent? The other one just in regards to the Eucla Basin, I think the grade you've been mining out there is about 7.5%. Even when those operations restart, the reserve grade is about 4%. Is it like a gradual declining grades which sort of drives that drop in zircon production in that chart you showed earlier or is it more of a step change when you move to - from the ore bodies to the second ore body of Ambrosia?

David Robb: Right. In relation to the first one, I am sorry Clarke, I am not going to provide the granularity that you seek. This is an area of we think significant IP value to the company and the longer we can keep it relatively obscure, the better for us and the better for our shareholders we believe. So we have had to flag it as a factor in the year's cash flow shape, but I am not prepared to go beyond that. In relation to the grade profile at JA, I think we have always been quite clear that towards the back end of Jacinth is when the grade starts to drop away and then obviously all of Ambrosia is at a lower grade than Jacinth. It is addressable with some capital. That is what you typically do. So the throughputs will need to go up to sustain production and that was the plan in fact when JA was sanctioned to be developed back in 2008.

It is always been assumed that there would be some capital going in as we approached the back end of Jacinth. So next question if we may?

Owen Birrell: (Goldman Sachs, Analyst) Hi guys, it is a couple of questions from me. The JA mining activity obviously being deferred by sort of 18, 24 months. I am just wondering if you can give us a sense of any restart costs at the end of that and has that restart cost been included in that capital expenditure guidance? A second question just on Balnarring (sic), I am just wondering if you can give us an update on the hydro testing on the - in option B on that asset.

David Robb: Look, the restart CapEx is negligible. It is really – it is a rehiring cost basically, so it is getting people in, getting them trained up. We have preserved a significant degree of expertise by the decision to do the rehab ourselves during the interim and deploy our skilled people on that rather than letting them go. That is essentially the same approach we took at SR 2 in the period that it was idle. We always keep a core knowledge base on hand. So look, I do not think there is anything in the capital budget of significance because there is not any real capital to spend to restart it. All the kit is relatively new as you would appreciate.

On Balranald, not Balnarring…

It is a bit further away I think. Look on Balranald, the feasibility studies have gone as expected. There is nothing hydrogeologically or otherwise that suggests to us the mine is not developable.

We have had some delays associated with water permitting regulatory approval issues rather than technical issues. New South Wales government has been rewriting the rules in relation to water licensing and so on and that has caused some delay.

Owen Birrell: (Goldman Sachs, Analyst) Can I just ask one final question? With your production of SR, are you guys actually buying any import ilmenite for those assets at this point in time?

David Robb: Look I am not at liberty to disclose what we have done or what we have not done. I think we have made it pretty clear that there's some distress in some parts of this industry to the extent that we can take advantage of that. I think shareholders would expect us to.

Paul McTaggart: (Credit Suisse, Analyst) Hi guys. Look, I guess it is a follow on to Paul's question. I just wanted to understand how you think about that balance sheet. So you do not have a requirement to spend money right today. Do you build cash ahead of taking on mining expansions or is the plan to say okay, we are happy to kind of pay out a significant amount of cash, use up those franking credits and draw on the facilities as and when due? How do you think about the structure of the balance sheet ahead of going into potentially some of these projects?

David Robb: It is a good question. - But that's my CFO's job. We CEOs don't have to worry about where the money is coming from. So Doug, do you want to comment on that?

Doug Warden: Yes sure. Look Paul, building cash is not in our DNA. It's not something that we think is a good use of shareholder funds so if we have got it, we distribute it is how we think about it. That is what the debt facilities are there for, to not only take advantage of external opportunities but also organic ones and if you can do it during the tough times, both for organic and inorganic, that's what we seek to do with the idea being that the projects or whatever you have bought come to fruition or come online as conditions improve and you can generate strong cash flows to pay down the debt. So that is how we think about it rather than we always want to be debt free, just sitting there with a billion dollars' worth of debt facilities. That is - and to do so will build cash to make sure that we remain so post a CapEx spend – that is not how we think about it. We are willing to draw debt. That is why we have got the facilities and as I mentioned earlier, they are not free. So if we wanted to be debt free we would just get rid of the facilities and save ourselves commitment fees.

Paul McTaggart: (Credit Suisse, Analyst) So there's a follow up there, which is you kind of touched on it. So you really will look to take on projects effectively when markets improve and as you pointed out earlier, that kind of gap in the market is sort of a little way out now, 2019. So should we think about Iluka's attitude to timing some of these new projects, are you going to look to wait until the market's improving or will you as Paul alluded to earlier be driven by other considerations in terms of what you need to see? How do you think about that?

Doug Warden: That's a CEO question so I'll hand that to David.

David Robb: Paul look, great question. You have to invest and make the commitment before it is blindingly obvious to everyone that the market has turned. If you wait for certainty, then I think you miss the best period. We were lucky enough to have that experience in 2010, 2011 and the first half of 2012 and we would seek to replicate that. It is why we talk about having a bias towards the deployment of capital now and I would disagree with your comment about it being some way off. History tells us that these things come upon you quicker than people think and so the judgment call is, you know, getting set for that, about having the courage of your convictions if you like, and having this bias to act when others may not be able to or may not have the confidence to. So that is how we think about it and it's worked well for shareholders in the past and we look forward to a repeat occurrence.

Glyn Lawcock: (UBS, Analyst) David, hi, I was just wondering, I know you've talked a little bit about you've got about $100 million in franking credits or I think it's 57 cents , just wondering though, you're in cash harvest mode at the moment until you put the button on CapEx that you've been talking about already today, just wondering at the Board level, have you considered alternative forms of returns on top of just dividends? Just if you could talk through how you balance that, I mean I realise you've got franking credits, but you will be in cash harvest mode for the next maybe one to two years, thanks.

David Robb: Terrific, this is ping pong; that is a CFO question.

Doug Warden: Thanks Glyn. Look we would consider all forms of capital management, as you would expect. So off market buy back being the other way of getting those franking credits into the hands of shareholders and certainly the makeup of one's register overseas versus domestic is important in those considerations as well. So I guess in simple terms, yes we consider other forms and if we get to that point, we will seek to choose the most appropriate for our shareholder makeup.

Glyn Lawcock: (UBS, Analyst) Maybe I could just ask then, David, I mean at the Board level then, is it being considered at the moment, other forms like buy backs, etcetera or is the Board very comfortable and it is just unanimous that we just keep paying dividends at the moment?

David Robb: Well Glyn, I know you would not expect me to comment in any great detail about deliberations around a board table. I think you know us – that we are thorough and we try and be comprehensive in our thinking around decisions. The same is true in relation to the distribution of cash and it's a thing we have been thinking about for a while. So our Board is fully informed, as you would expect, about the various options and it is a fully informed discussion at each balance date.

David Robb: Okay, terrific. Well thanks everybody for your time. We are available for follow-ups of course should you wish to have a further conversation. You can arrange that through Rob and thank you for your time.

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