Transcript of Iluka Resources 2013 Half Year Results teleconference call
Perth – 21 August 2013

David Robb (Managing Director, Iluka Resources): Thank you and good morning everybody. As always, thank you for spending time with us in what is a very busy reporting period for many of you, I know. With me, I have Alan Tate, CFO and Head of Strategy and Planning, Simon Green, General Manager Finance and Risk and Rob Porter, General Manager of Investor Relations and Corporate Affairs. Also joining us today, particularly for the Q&A session, is Doug Warden, Head of Resource Development and Chris Cobb, Head of Marketing. I expect the presentation to take roughly half an hour. It will focus on the results on market conditions and on growth and about 30 minutes Q&A.

Slide 2, the usual disclaimer which I must highlight to you, particularly with respect to any forward-looking statements we might make.

Slide 3, after a breakthrough in 2012 and despite what has obviously been a very challenging year for our operations management and staff in terms of the changes that we've made, it is particularly pleasing to all of us in the company to see safety performance continue to improve as you see in that declining total recordable injury frequency rate green line.

Slide 3, we've said previously that we expected conditions to improve over the course of 2013 and they have. The first half saw stronger than budgeted zircon demand and titanium dioxide markets subdued as expected. Pigment feedstock demand recovery preconditions are emerging, I believe for example when you think about inventory draw down in pigment making plants, that's a positive factor.

We've done what we said we'd do to manage through a low cycle period.

Our balance sheet remains in strong shape, as we flagged at the full year results, there's been a net cash outflow in the half largely due to a tax payment catch up and we are paying a small interim dividend despite that cash outflow.

Slide 5, the main features, obviously there are some more red arrows than 12 months ago, which I think highlights the big impact of confidence and inventory management priorities throughout a long industry value chain. There are also some positives in terms of zircon sales, the cost reductions we've achieved and the capital efficiencies that we see, but still a significant fall in earnings returns and distributions. But I believe that to be cyclical and not structural.

Slide 6, the interim financials, we maintain our focus on distributions as a key element in TSR generated over time and we think about them in line with our framework.

In three-and-a-half years to 30 June 2013, we've distributed 75% of free cash flow. Note, as I mentioned, that first half tax payment sees us fully caught up, so what we've referred to and do on this slide as free cash flow, or as adjusted free cash flow, become one and the same.

Slide 7 shows that history graphically and you can see there in fact the blue and the red lines coming together, the free cash flow and the adjusted free cash flow being the same thing.

Slide 8, I want to emphasise that we do see short term demand cyclicality as largely inventory driven. So we necessarily think of our business free cash flow and dividends over time, not just period to period. This chart shows what we've generated, what we've declared, what we've paid and what we've retained since the start of 2010. In total, it is significant cash flow generated and a significant distribution of that cash flow to shareholders.

I'd now like to hand over to Alan for a few slides covering the results in more detail.

Alan Tate: Thank you David. Turning to slide 9 and focusing on the Half 1 2013 results, so that's the left hand column of the table, 30 June 2013, mineral sands EBITDA was $136.6 million, representing an EBITDA margin of about 36%. Whilst this is down on the Half 2 2012 margin of 60%, it still represents a healthy EBITDA generation at a low point of the cycle. The lower EBITDA, whilst coupled with one-offs restructure costs of $31 million associated with the operational adjustments David mentioned, resulted in an after tax profit of $34.3 million. This is relative to H2 2012 of $88.8 million and H1 2012 of $274.4 million. Our net debt at the half was $197 million, half $101 million lower than the start of the year and this mainly result of the payment of the 10 cents final 2012 dividend which was $42 million, coupled with the free cash out flow for the half of $44.5 million.

Turning to slide 10 and this is a comparison of net profit after tax relative to the second half 2012 which is a more appropriate relative comparative period. The NPAT for H2 2012 was $89 million and that's versus first half 2013 of $34 million. The key driver for the decline has been the lower realised prices for our products of zircon, rutile and synthetic rutile (SR), which was $1178 a tonne versus H2 2012 of $1655 a tonne. Overall, sales volumes of zircon, rutile and SR were up at 287,000 tonnes versus 215,000 tonnes in H2 2012. This had a positive margin impact of $17 million. Our overall unit cost of goods sold was down which had a positive $7 million impact.

I noted earlier the impact of the one-off restructuring costs which had a net $30 million impact for the half and these costs were also concluded in the first half 2013. Mining Area C (MAC) was positive $15 million and corporate costs were positive $11 million due to cash conservation measures but also coupled with a positive FX translation relative to H2 2012 of about $8 million. For this point it's highlighted in the box on the graph, the changes represent a decrease in EBITDA from H2 2012 of $84 million to the Group EBITDA for the half of $160 million. This change in EBITDA of $84 million coupled with D&A, positive rehabilitation unwind in interest and lower tax – of course on a lower before profit in H2 takes us to a H1 2013 NPAT of $34 million.

Turning to slide number 11 and as I noted MAC was up $15 million from the second half 2012 and this was the result of three key components: higher sales volumes which were up 11.8% to $26.6 million dry metric tonnes, coupled with a higher realised Australian dollar price which was up 20.2%. In addition the royalty realised a $4 million capacity payment on higher annual production. As a result the EBIT from MAC for the half totalled $45.4 million.

Turning to slide number 12 and this slide describes the movement in net debt during the half from a beginning balance of $96 million to the closing balance of $197 million, an increase of $101 million. Operating cash flow was $92 million and MAC receipts for the half were $36 million. The largest impact for the half as noted by David was a tax payment of $124 million and this includes $118 million in respect of

2012 profits and I note that the first half of 2013 the actual tax expense was $13 million, so if there was a relative measure of the underlying tax for the half that would be the number. These changes coupled with capital expenditure for the half of $31 million represents free cash outflow of $45 million. When combined with the payment of the 2012 final dividend of $42 million and a re-valuation we had on the US debts which was valued at $1.04 at 31st of December down to $0.93 at 30th of June, that had a negative impact of $15 million resulting in an overall net debt at the 30 June of $197 million.

Slide number 13 highlights the inventory within Iluka and from a cash flow perspective it is worth noting that for the half overall inventory increased by $38 million whilst our finished goods which is represented by the green bar declined $20 million with sales being above production. We have had to build in work in progress which is mainly our concentrate at mine sites and this increased $58 million, a net $38 million impact. This balance and this material represents a significant asset which when realised, obviously through sales and further processing, will be highly cash flow accretive. Total inventory is $819 million with finished goods of $464 million and work in progress of $354 million.

Slide 14 in respect of Iluka's balance sheet, Iluka remains in a very strong position. The blue bar represents the net debt position and at H1 2013 as I talked to of $197 million. The facilities available to Iluka represented by the grey block are over $800 million and undrawn at the end of the half obviously was $600 million and these facilities are available to April 2017. Our gearing level is modest at 11.2% and with that I'll hand back to David.

David Robb: Yes, thanks Alan and obviously anyone who wants the equivalent of those slides, that is first half '13 to first half '12 comparison they are in the supplementary slides, should you prefer to refer to those.

Slide 15, I said at the full year results that we were - I think from memory I said we were feeling better about the zircon demand outlook and that some positive signs had emerged, well those positive signs built into a stronger recovery than we had been prepared to plan for or budget for in late 2012, early '13 and as we have already announced we have increased production somewhat accordingly. We do remain cautious about sales weighting half to half, we are typically quite strongly second half weighted. We feel this year might be more even in nature. I am now confident about a recovery back to industry trend growth levels over the next 18 months or so.

Slide 16, again I said at the start of the year I felt there was a "perhaps dangerous or self-serving consensus", within the industry about second half TiO2 recovery. We said in our case we believe we've had a very slow first half as market distortions slowly dissipated and so it has turned out, despite what I think are significant and encouraging for long term industry dynamics, industry production adjustments that have been made in this low cycle period and I'll return to that a little later. As with zircon we've seen the powerful impact of inventory build versus draw priorities on short term apparent demand and in high grade ores, in high grade feedstocks, an important markets for us, particularly in spot or merchant sales not supported by long term contracts.

That has flowed through to lower prices but we do see the pre-conditions emerging for demand recovery as I've mentioned and finally the last bullet on the slide, a reminder, perhaps not necessary but I feel I need to say it anyway, the fundamentals not inventory drive industry demand and supply and therefore attractiveness over time and those fundamentals in TiO2 are good.

Turning now to what is titled here growth. I'll preface this by saying that within Iluka we like to march to the beat of our own drum. Simplistically one aspect of that philosophy is to invest when others are not. We did it in the GFC for example and we saw a great benefit flow to our shareholders in 2010 and '11 particularly.

So we are very busy right now on future option development. In terms of our marketing, for example, what we refer to as Wave 2 is essentially increasing our market presence and improving the ease with which customers can deal with Iluka and we firmly believe, I certainly personally, strongly hold the view, that there is a big long term pay off for the whole industry in jointly sponsored R&D in the application of common standards, in trend analysis in new application development and so on and we are active in our support in those areas of industry work.

Slide 19, exploration. In exploration our reach is also spreading to new search spaces within Australia and increasingly internationally and increasingly in true greenfields work. Occasionally we may see a benefit in acquisitions to add future development potential to our project pipeline.

An example of that, slide 20, our return to Sri Lanka, we've been there before or at least a predecessor company has, announced on the 5th of August - this is a case in point - this is a very large addition to our resource base, with potentially a lot more to come.

Slide 21, we believe these resources have the potential to be very competitive as to scale and grade and therefore one would assume cost. They augment our ability to serve our traditional chloride customers far into the future and they position us also to serve existing and possibly future sulphate demands.

Slide 22, I am really very excited about the work we're doing and the initiatives we're taking which could conceivably transform our industry. For obvious reasons made in the last point that's all we'll be saying on that for now.

Slide 23, we are investing for the future, as I mentioned particularly when others are unable or unwilling to do so. You would all appreciate that now is a good time to build things, certainly in Australia that is the case and we are investing for the future, a long list of projects at various stages, a number of them approved this month at our Board meeting and reasonably significant sums of money. If I add it all up it's somewhere between $150 million and $200 million, time will tell and obviously there's further spend in areas that I've touched upon relating to innovation and technology.

Slide 24, the cycle. Well, I've discussed this before, I include it not to make a statement about where we think we are but as a reminder of how we think about cyclical aspects and the challenge we have to be flexible. Our flexibility is all about trying to shorten the time that we, and indeed perhaps the industry, spend in a low cycle environment albeit as Alan mentioned in percentage terms margins are still okay even in the low cycle but clearly not as high as they might be in other times. The logic is that if we can do that, shorten the time in the low cycle period, then in effect you create an asymmetrical cycle and if you think about that what it produces over time is more value for shareholders than a simple mid-cycle average and that's what we try and do.

Slide 25, our approach. Well, first and foremost it's to do what we say we'll do. We have a terminology within the company about keeping our feet on the ground which is all about managing the day to day and the short term challenges but our eyes on the horizon, which is about preserving a long term focus, developing options, and remembering that growth is important for the creation and delivery of shareholder value. I think allied to that I would say that we don't like to follow the herd particularly. Obviously there are major forces, be it global economic ones or others, that influence us, the same as everybody else. Where we can, we try and march to the beat of our own drum.

I'm really quite excited about what I think lies ahead for us now, and the shareholder value we can create and deliver, especially given my sense that zircon has turned and the TiO2 turning point is near. With that, obviously there's a lot of information in the supplementary slides. We're happy to take questions on those or on anything else. So Annie, we'll now throw it open to questions please.

Clarke Wilkins: (Citi, Analyst) Hi David. Listen, just a question on the pricing strategy. This is dynamic - I think you alluded to in - with the pigment produced at the moment. So lowering it, running at low utilisation rates and preferring slag over the high grade feedstock stores. Did that change at all the pricing approach for rutile and synthetic rutile, and if that strategy continues, and you also get the continued build of capacity or sulphate capacity in China, what does that mean for the SR kilns in WA in terms of is it perhaps a more permanent closure rather than the temporary closure we've seen of some of those facilities?

David Robb: To deal with the second one first Clarke, we certainly see those kilns as valuable assets that are idled, they are not closed. So that's certainly not how we think about their future, and time will tell. You need in this industry very definitely not to be pressured into cyclical decision making. I think we've demonstrated we try and avoid that. The same is true to the kilns. A couple of those project developments I mentioned, and some of the innovation work that we are pursuing is, and could be, even more so, hugely influential about the role of those kilns in our business.

So certainly Cataby for example, has very, very good ilmenite feed, and if there are things that we can do that effectively free up material to go into those kilns at very low cost, they become very competitive. So now we're focused on that. So very definitely idled, not closed.

On the pricing question, well again you need to be thinking medium to long term here. You know Clarke our goal is to preserve margin where we can. We also need to recognise market realities through the different points of the cycle. As I've said before, the trick is to be competitive in the short term, that is, you can't stick your head in the sand ignoring all that is going on around you, but try and do it in a way that does not lock in low cycle economics through the mid and high cycle which follows. That was, I believe, a failing of our part of the industry in the past. We're very keen to avoid that.

The building of inventory, well it's a mixed bag. Zircon is down, and rutile and SR is up a bit. We've always said we maintain a balance sheet to enable us to do exactly that. There is a lot of in-trained value in that inventory, be it concentrate or finished product. I would expect that value to flow to shareholders in due course. So it doesn't concern me that it sits there.

I think we can - it's a good time to be just a little bit patient at the moment. I hope that answers your questions Clarke?

Clarke Wilkins: (Citi, Analyst) Great, thanks David.

David Robb: Next please?

Chris Terry: (Deutsche Bank, Analyst) Hi David. I've got two questions. You've touched on parts of both a little bit in those answers, but just trying to get a little bit more detail. The first question relates to your growth from this point forward, and now that you've got more exposure and you're more nimble with that sulphate purchase going forward. Are you happy with where the company sits, or do you see still some gaps, and maybe opportunities for M&A on the horizon?

The second question, it's more a bigger picture argument and again you have touched on this through the presentation, but just interested in what the key learnings are from the last cycle that we've just been through, and whether you think that Iluka is now better at forecasting and can better I guess predict where you want to actually target your inventory levels et cetera to be, and hit those and be able to manage costs up and down through the cycle?

David Robb: Thanks Chris. Good questions. Can I deal with the sulphate one first? Sorry Clarke, I recall now that you raised that one as well. Look, there's a very big installed base in China. Mainly sulphate, but some in chloride pigment capacity. China represents now something like 30% of global pigment capacity. So it's too big to ignore. Even if nothing is added to that sulphate capacity and all the future capacity is chloride, then it's a big market. So I think it's in our shareholders' interests that we should have a capability of competing in.

On chloride in China though, let me just emphasise that you should pay attention to that, it's official government policy, now government policy has a habit of working in China. And as an anecdote for you, we know of a large sulphate producer there, private, looking to IPO, no Government permission for the IPO because they don't have a credible active chloride pigment capacity or strategy. So the Government is serious about its preference, and I think that will have an effect.

So we've been doing a lot of work where probably it's not sensible for us to share it at the moment, but that work highlights the chloride potential in China. So I don't think it's an either or fundamentally Chris, I think there will be very healthy chloride opportunities for us in China in due course. And Clarke I hope that addresses your point as well.

Key learnings, I don't know my key learnings are other than that I've got no chance of ever predicting anything probably Chris, and I think pragmatic people recognise that in the resources game that's probably an honest assessment. We are doing a lot of work on understanding where we can - with more granularity what's going on down stream of us.

If I go back in history we used to be somewhat of stick it on a ship and forget about it, we are now much more deeply engaged further down the value chain, talking to people, researching what's going on, collecting data. For example the last time you may recall I discussed the results of the tile sampling we had done in China which was somewhat counterintuitive and quite contrary to some species about what was going on there. Well we're just replicating, that's a thing we'll do regularly to discern trends.

The inventory challenge knowing independently what inventory is held at all levels in all places in the very deep value chains below us, you know that's still a difficult task. And because you know that can create a whipsawing or what we've referred to as a bullwhip effect, quite significant movement in apparent demand short term, it's a thing we're working on assiduously. But I certainly wouldn't rule out the prospect of future surprises, I think that would be kind of naive to do that.

We do think we're better across the board at, I guess our diligence and our research into all aspects of the industry. Will that translate into better predictive capabilities? Well time will tell. We're certainly working very hard on being able to flex more efficiently, I do not want to incur the kind of restructuring costs that we've seen in the first half, and we think we can build a business model which is optimised around the mid cycle if you like, and that can flex to low and high more seamlessly.

There's a lot of work going on within our operations and within our procurement and within our marketing to put that in place, so that you see less of those one off restructuring costs as we flex in the future.

Mark Busuttil: (JP Morgan, Analyst) Can you hear me?

David Robb: Yes Mark.

Mark Busuttil: (JP Morgan, Analyst) Oh sorry about that. Just a couple of questions from me. Firstly and this is something you may have alluded to on the titanium feed stock side, but specifically on zircon, last year when demand fell materially you cut your sales volumes in the order of about 60% - 65%. This year as you've seen demand recover, you seem to be reintroducing your sales, you're doubling sales volumes potentially from last year, but we really haven't seen the price increase at all.

So I'm just sort of wondering have you prioritised increasing sales volumes for zircon over price maybe somewhat different from what you did last year? And the second thing, just a quick thing, you had a slide with your debt facilities in your presentation, I'm just wondering why you have so much debt available to you given the fact, you know you talked about $150 to $200 million worth of project spend, you're sort of free cash flow positive excluding the tax payments. I'm just wondering why you have so much debt available?

David Robb: Oh okay, on the first one about prioritising sales over price, no we don't do that, we prioritise margin dollars, a combination of the two at all times. We are prepared to take a hit short term particularly on the volume front in order to protect the price. You've heard me talk before about what you want to avoid is margin-less volume recovery, and I see that happen in many other industries.

Where price has fallen to a level that is you know destroys the fourth quartile of the cost curve perhaps, margins go to zero and then volume comes back but nobody makes any money. So we try and create a landing that is better than that.

I have also said that I see these things as a bit sequential. Recovery tends to happen first in the form of returning confidence, inventory work downs, these kinds of factors, that's usually accompanied by a price stabilisation period and then only after that do you get attraction potentially in terms of both volume and price together. So you work with the forces that are at play. I think I've said previously, there's not a lot of point pushing price when the door is locked shut and confidence is still fragile, it's much better to push price when the door is unlocked. I hope that helps explain the thinking.

On the debt facilities, well, I don't know. In the world that we've seen over the last few years, can you ever have too much? I think Alan and Simon and the team did a fabulous job taking advantage of the conditions of the day to put in place long-dated very flexible, very attractive debt facilities. The capital numbers I mentioned, don't forget, they are largely feasibility study oriented and you've got larger sums potentially further out, too, it's fair to say, on execute capital expenditure. So we've got to think very long term when we think about capital programs, project development timing and balance sheet capacity and I hope that answers your question Mark. Alan, anything you want to add - or Simon?

Alan Tate: No fine thanks.

David Robb: Mark, thank you. Next please.

Adam Orlando: (Mergermarket, Analyst) Good morning, gentlemen. It's nothing new that you look for growth opportunities external to your existing portfolio and you just said, just now, you invest when others don't and Iluka marches to the beat of your own drum. In that, you might view acquisition opportunities. I've got two questions. What would the catalyst be for this potential M&A and have you set targets on projects or asset size or any particular geographical location you'd like to target?

David Robb: Thanks Adam. Well, the catalyst is simply determining on any opportunities that the numbers add up and the risk versus return to shareholders equation is a good one. That's it, quite simple. I'm very financial, I guess, when I think about these things. I tend not to believe as everyone who knows me knows in strategy with a grand S because in my experience that's a great recipe for destroying shareholder value. Therefore, we do not have targets or market-cap aspirations or X percent of revenues coming from Y geography by year 5.

I think all of that can lead to value destruction rather than value creation. So we choose not to go there. Do we have themes we think about? Do we think about major global dynamics and sectoral appeal or otherwise? Of course we do and we do a lot of work internally thinking about where it might be productive to go, but that does not equate to the setting of targets, or feeling driven by any particular timeframe to do anything.

Matthew Hope: (Credit Suisse, Analyst) Hi David. Just a couple of questions. Now, you've mentioned the recovery to trend over 18 months or so. I'm just wondering if you could outline what you see trend as. Secondly, in the quarterly you spoke about - the quarterly mentioned that you were seeing some sort of recovery in Europe. I'm just wondering how that's playing out? Is that seemed to fizzle out or is it picking in strength? What can we expect from Europe?

David Robb: Well, look, Europe, you would have read the latest, so-called end to the recession in Europe driven by Germany particularly but I'll ask Chris in a minute just to comment on the market that we see there. The recovery trend - I think we just have to wait and see. I have emphasized and used the word confidence many times over the last six to 12 months and it is just powerful force globally in all industries and it's a bit hard to predict.

What I will say is it has been emphasized to me in discussions with our customers and so on and with industry veterans of the TiO_2 space that when it - I think the phrase was when it returns, it tends to return with a rush, and people have also used language like snap back. Now, that is not a prediction by any means but - that is why we carefully use words like pre-conditions. How long it takes between pre-conditions and actual returning demand, we'll have to wait and see.

The fundamentals, if you look at China growth at 7% to 8% - I don't really care whether it's 7% or 8% or any other number, frankly, it's still a big engine for us. If you look at US housing for example, if you look at US growth in manufacturing, if you look, I think, many other positive signs - Japan - conversely you might look at India and say that's a bit of a concern. But on balance, I think the fundamentals look better now than they did a while ago for a couple of really large engines of the global economy and that will drive the fundamentals of demand for our product. So, I'm quite relaxed about that frankly, Matt.

David Robb: Chris, do you want to mention anything specific on Europe?

Chris Cobb: Thanks, David. Yes, Matthew, obviously on zircon China was the first out of the blocks and was very strong through the first and second quarter. US steady. Europe would - I'd describe as coming late to the party, but in the last two to three months we've seen increasing inquiries which flowed through to greater supply in the zircon market. TiO_2 has been fairly quiet, as has the rest of the world. But, again, we're starting to see inquiries that we haven't seen for a few months in that part of the world as well.

Fred Truong: (Bell Potter, Analyst) G'day, Dave. Just two questions from me. Firstly, just on the HMC build up - just wanted to understand how we should be thinking about the HMC build up at JA, going to Q3 and Q4? You know, the furthest [seam] that the amount of JA, HMC, to be processed at Narngulu will exceed the amount of HMC produced in Q3 and Q4?

David Robb: Sorry, Fred, just to answer that one, look, I think they'll be in balance. That's the target to try and reach. It'll depend on the demand that we see, obviously, and it may not go just to Narngulu. Some may go to the Murray Basin for processing as well. So, your next one was?

Fred Truong: (Bell Potter, Analyst) Yep, just going back to the sulphate market, how are you guys progressing with your ASSR trials and when can we expect first commercial production from that product?

David Robb: Trials have gone well. It's a journey that will take some time. It's really important to us that we have really stress tested this concept. To do that we've got to produce commercial quantities. We've got to get it in the hands of customers. We've got to test it in the real world and we have to weigh it up, frankly, against our ability to sell all the sulphate ilmenite that we can produce at the moment into a market that's quite keen to take the ilmenite, rather than the upgraded products. So, you know, there's a margin balance we have to discuss. Doug Warden do you want to make a bit - that area of work, it's under Doug Warden, so, Doug, do you want to comment on?

Doug Warden: That is about as much as we'd like to say about it.

David Robb: Certainly we have not encountered technical disappointments, it's fair to say, Doug, in the journey so far?

Doug Warden: The trial has gone well.

Matthew Hodge: (Morningstar, Analyst) I just wanted to ask about Sri Lanka. How do you think that fits in strategically for Iluka; how do you think it helps potentially extend or enhance the company's competitive advantage?

David Robb: Well, I'll ask Doug to comment on the specifics of what we know is there versus what we surmise might be there. But, you know, it'll be a long way off, is the first thing to say. You know, this is not something that's going to be in our product mix tomorrow. How do I think you should think about it is a 50% roughly addition to our resource base. That's how you should think about it, possibly more. So it's about making sure that the longevity of the business, and its capacity to serve what has grown to be a very important part of the market, that is enhanced. Doug, do you want to make any comments on the nature of what's there?

Doug Warden: Sure, David. Look, what we've disclosed in the 56 million tonnes of HM that's what we've got access to at this time. Obviously we were there for a considerable period of time in the late '90s and early 2000s. We've got a pretty good handle on what is in that region - and there is certainly more material in that region. It's just a matter of getting access to it. Also we think that Sri Lanka is a very prospective place, and as it continues to develop and open up, post the conflict, we think that will present further opportunities from an exploration perspective.

David Robb: It's ground we knew, Matt. So you really had to wait for the right conditions to go back there, frankly.

Matthew Hodge: (Morningstar, Analyst) Do you think that the conditions are right now? What do you see as the...

David Robb: Well, Doug and I were there last week. We met with senior ministers. We met with Australian High Commissioner. and so on. We were welcomed, it's fair to say. This is a country that realises it needs to attract investment. It's prepared to offer concessions in order to get it. Obviously it is looking like all countries do, to get investment that is value-adding, rather than just extractive, so there are conversations we will need to have with the Government about that.

I might just observe, too, that Doug and I flew in and out commercially, unlike an Australian businessman in the gaming business, who flew in and out just before us in his own plane. So we don't have one of those. But, no, look, it's just a journey we're on and I think we can play in a global sense in terms of our exploration and production and this is another step in that direction.

Matthew Hodge: (Morningstar, Analyst) Yep, just that a second quick question, if I may. Do you see these sufficient opportunities in mineral sands for Iluka longer term, or are there other markets that you would, you know, perhaps think about getting into in the fullness of time?

David Robb: Yes and/or both, is the answer to that question.

Paul Hissey: (Goldman Sachs, Analyst) Yeah, I'll go next Dave, thanks. Just a question perhaps more on strategy and growth. You've probably tackled this in some parts already. You mentioned the potential for the material in Sri Lanka to be used as a feed stock for the slag upgrading process. I just wanted to hear a few thoughts quickly on if it meant your stated goal of continuing to add shareholder value whether you would be interested in perhaps moving your business sideways to capture that processing method, perhaps even downstream to the kind of people that buy particularly your titanium dioxide feed stocks. Would that be off limits? Or again, is that sort of really evaluated on the potential to add value?

David Robb: Well fundamentally the last point you made Paul is how we think about it. I've always been quite ambivalent really about how we create value and I think I've said that on a number of occasions. I'm not wedded to a particular changing view of the world.

I do think you have to be careful about backing today's technologies in an industry where those technologies have not changed for a very long time. Where it is possible that there might be some more disruptive technologies that will in time take their place. So you want to make sure you're backing the right horse. Clearly there are companies in our industry at our level and downstream of us that have very significant competitive advantages. You need to be satisfied that those advantages are sustainable before you would put a lot of shareholder money to work in those spaces. But you never say never. I think anyone who knows me would know that that's how I think about value generation.

It is about good old Porter's Five Forces Analysis and how do you think about the sustainability of competitive advantage where you look to go. We feel we have that in our sector of the mineral sands world. You'd want to make sure you had it also if you went outside there.

Peta Arnott: (Merrill Lynch, Analyst) Thank you. Just a couple of quick questions. Firstly if you're able to confirm your production and sales guidance on the TiO_2 side for Rutile and Synthetic Rutile of around 200,000 tonnes. I know you've reiterated the zircon guidance, but just if you could confirm that hasn't changed.

Secondly if maybe Chris could provide a bit of an update on new term trends in demand and pricing in the early second half. We are seeing most of the pigment producers are also reporting and have stated their inventory levels are at normal levels. So just keen to find out if that has actually started translating into improved customer enquiries, what your visibility is like in terms of forward buying?

David Robb: Thanks Peta. I'll answer the first and then get Chris to answer the second. If we had any departure from our guidance that's in the market we would update it. I have to say that frankly it's a bit interesting to me that people ask if there's something we haven't told the market, because that's big getting into trouble stuff. We don't do that. It's very early in the second half to really call anything. Let's just wait and see. I mentioned that I think the TiO_2 turning point is near. Time will tell if that judgement is correct or not. Our guidance is our guidance until we change it.

Chris, do you want to deal with that second question?

Chris Cobb: Thank you David. Yes, I think I'd characterise 2013 as the year that is improving as it unwinds. As I see both our stocks and our competitors' stocks are declining and improving enquiries. I think the year - especially as we go through into the second half in TiO_2 - has signs of a better outlook. Reduced pigment stocks held by customers and potentially them starting to wind up the yields for their pigment plants going into Q3, Q4 to hold their inventory levels as it appears the paint companies have also had a pretty good year.

Glyn Lawcock: (UBS, Analyst) Good morning David. Just wanted to talk a little bit about Sri Lanka. Just wondering, is that something on your watch that we might see developed or is it an option you leave for your successor? In answering that question you've made the comment zircon has turned - turning point near for feedstock. Just going back to your favourite Chart 24, we're obviously coming out of the bottom, heading up again hopefully. Seven years on now you've been with the company, just thinking, what does your future hold when you answer that question, thanks.

David Robb: Oh gosh Glyn. I know probably even less about my future than I know about the company's future frankly. Will it be on my watch? I don't know. It depends how fast Doug can run. It depends how long the Board and shareholders want me around. Look, I think I have said that I think there's some unfinished business at Iluka Glyn, and clearly growth options being in a box with a pretty bow around it is something I'm keen to leave behind. Do I think that we have right at this minute? You know, I think we've got a bit of work to do and I'm enjoying what I'm doing. Timing is everything in life, isn't it?

So we'll wait and see. I - there's a very good team at this company. There's a very good feel within it. We're confident we're on the right path. Our culture's strong and cohesive. I think I would just point to how we've coped with dynamic circumstances in that regard. I think we're transparent in what we do. It's a good place to be a member of the leadership group here, I think. Glen, so I'm enjoying it. Sorry, was that it?

Michael Evans: (CIMB, Analyst) Good morning, David. Just a couple of questions. Is this in the context of your comments around the Chinese sulphate pigment capacity utilisation being a bit negative at the moment. Do you see the value for Iluka over the short to medium term in Chinese sulphate pigment or chloride pigment or are you positioning yourselves to have options in both those markets? Secondly, a simple question on the numbers. The February guidance on cash costs, how does that fit in the context of the slide 23 discussion around $150 million to $200 million in business development expenses? Is that within that February guidance or since you've bought Sri Lanka and you're looking at a couple of other projects? Has that increased and over what timeframe are you spending that 150 to 200?

David Robb: Yeah, okay. The second one at 150 to 200 is capital dollars so doesn't really go to cash costs. As I said earlier, our guidance stands until such time as we change it and we haven't done so associated with this release. So you should take that guidance as our guidance still. On the value equation and China sulphate versus chloride; well, clearly it's already 30% of global pigment capacity and that's overwhelmingly sulphate. The really interesting was is how much going forward, continues to be sulphate in the wake of a - or in the face of a government policy which is clearly saying in effect, you shall build chloride capacity and develop that technology. Therefore, having capabilities both to serve the existing base and support the development of a chloride capability in China, to me, is a sensible thing to do. So we now have a foot in both camps, we hope.

Tony Mitchell: (Ord Minnett, Analyst) Good morning, David. The first thing is just on the currency sensitivity. If the currency stays where it's like it is now for the next year or so that should be a pretty good kick for you. I just wanted to mention that. The other thing is what's been the reaction of Rio in recent times, both from inventory and pricing particularly in zircon and you could comment on that?

David Robb: Well, thank you for the observation about the currency sensitivity. As you know, it's not a thing we talk about anymore. We did away with hedging a long time ago. We coped with its ups and its downs. We've tried to build a business that tolerates movement in both directions. Certainly, we posted record years in times when the currency was - historically anyway - elevated levels. So I think we've shown we can do that. If we get a bit of a tailwind from it over the rest of the year; well, so be it but it might also be associated with faltering global growth which would be a negative. Who knows? The second one - sorry, can you just repeat the second please?

Tony Mitchell: (Ord Minnett, Analyst) What's Rio's…

David Robb: Tony, well, it's not for me to comment on what a major competitor is doing. I think they've made their ambitions for the profitability of that part of the business pretty clear in various presentations as they alluded how they see the end of legacy contracts and associated pricing is in the public domain. They've also closed capacity which - with supportive actions or - Alan reminds me it's idled just like we have. Not necessarily closed. It's a company that, from everything I read, has perhaps increasingly got religion about shareholder returns and surely that's a good thing for our industry.

Tony Mitchell: (Ord Minnett, Analyst) Right, right.

Brett Saunders: (BT Investment, Analyst) Morning, gents. 2 things, just for the uninitiated, could you just remind me what your CapEx guidance is within the context of that comment about the 150, 200 for this year. Then secondly, could you just expand a little bit about any of the outstanding payments for Sri Lanka should this go to production and more or less what you expect the fiscal regime to be there?

David Robb: Okay, Doug can talk to second one. The payments, other than what we choose to spend on the project are absolutely tiny. Our capital expenditure guidance for this year is unchanged at about $100 million. Doug, you want to talk about Sri Lanka?

Doug Warden: Yes, so the payments were outlined just at the very back of the announcement on page 32 a few weeks ago, Brett. But the US$5 million upfront and then a further US$2 million on the granting of a mining lease which is effectively a pre-payment of the future royalties should mining commence. Then a third payment on Iluka board approving the development of the mine over the PQ]asset of US$8 million. So the trailing royalty payment that I referred to is 1% of the gross sale proceeds and the US$2 million that I mentioned would be netted off that - it'd represent the first US$2 million of the royalty if you like.

Doug Warden: The fiscal regime to be discussed but there are some significant tax holidays available if the project could become - and granted strategic importance by the government.

Brenton Saunders: (BT Investment, Analyst) Thanks. I guess it makes no sense trying to flesh out the $100 million capital expenditure guidance within the context of the $150 to $200 million comment or not? It's…

David Robb: That spend is not just in 2013.

Brenton Saunders: (BT Investment, Analyst) I guess that's what we're trying to understand.

David Robb: Well, we haven't given our year guidance on capital expenditure yet. In the past, we've said guidance was more like a couple of hundred million or thereabouts a year on average. So it's a bit lumpy and, clearly, this year we've been very conscious of cash flows and adjusting capital expenditure in line with cash flow maximisation. So we haven't yet finalised our latest corporate plan which deals with the medium term horizon nor have we finalised a 2014 budget, obviously. That's 6 months or more away and at that time - and you might expect that there'd be renewed guidance.

Brendan Fitzpatrick: (Morgan Stanley, Analyst) Thank you. Good morning. Slide 13 was the inventory. I think the comment was it's now a significant asset and can potentially be highly cash flow accretive. In the context of the re-structuring that's taken place in the business; are we dependent on the demand pick-up coming through to realise that cash flow accretion or is there still some optionality or efficiency flexibility being targeted between inventory draw down and production rates?

David Robb: Okay, I'm not really sure I understand the question, Brendan. But we are - I mean obviously, what you try and achieve is the right balance between production and sales. Depending on where you are in the cycle, you either build or draw or inventory around that balance. There's merit, usually, in clearing inventory rather than leaving it sit there and producing more to sell directly into a market. But Alan or Simon, do you want to make any other specific comments on that question?

Simon: Brendan, it's Simon. I'll just give one illustration. Clearly at end June we've got a volume of synthetic rutile that's sitting in that finished goods inventory. As you know, we've got kilns idled so we're no longer producing - certainly in the second half, not producing any synthetic rutile but we expect to sell some. So naturally, that's a monetisation of that inventory as David alluded to.

Brendan Fitzpatrick: (Morgan Stanley, Analyst) Yep.

Simon: I mean that a fairly extreme example of balancing production and sales but the rest is - and the other example would be the fact that we've increased or announced the - our upgrade to zircon production in the second half which is from processing more of the concentrate material but our mining operations which is where the bulk of our cash is spent, is unchanged.

Brendan Fitzpatrick: (Morgan Stanley, Analyst) Okay.

David Robb: It's all about having flexibility - the word has been used earlier on and optionality in terms of the way we operate. You should think of them as almost 2 separate decisions, Brendan, around how are we mining and producing concentrate. Then secondly, in addition, how are we transport - how much of that concentrate are we transporting to mineral separation plants and, in turn, how much of that are we putting through the mineral separation plants to produce a finished product. So there's a number of stages at which that decision making occurs. Does that answer your question, Brendan?

Brendan Fitzpatrick: (Morgan Stanley, Analyst) I think it does. I guess that in essence I was asking is there any ability to slow production further, accelerate the inventory draw down or are we already at the optimal ratio between workforce capacity, utilisation of the workforce and equipment and maintaining operations at a - an effective usage of assets as well as inventory draw down.

David Robb: Well, no. We're not as slow as we could go. I've said that before, we can still adjust. We could go back to the low grade strategy that we had at Jacinth-Ambrosia, for example. Whereas we're not there now. We're just mining J-A normally. Equally, we've demonstrated in '10 or '11, how quickly we can ramp up. Lead-times to restart kilns are fairly modest, providing we retain the people. Obviously, J-A can flex very quickly from prioritising low grade material to prioritising high grade material or operating as it is at the moment which is in the middle of those two strategies and basically just working across the full face of the deposit, and taking whatever comes. So we could go up or down from where we are today.

Valerina Changarathil: (News Corporation, Journalist) Hello gentleman, thanks for the option to ask questions, and I think David you referred to -A in your past answer, so I think you've answered some of this but I'll still ask you anyway.

Your comments overall have been quite optimistic, but you have had a massive fall, and coming as they are after a period of big prices and losses of more than 200 jobs. I'm just wondering if we will see some of that optimism on the ground at the operations in terms of any production upgrades or jobs in the next half. How are you planning for this optimism?

David Robb: I don't think it will translate into a big hiring program quickly Valerina, we are certainly taking advantage of a labour market that is hungrier than it was a little while ago, so particularly around some of our technical and project related recruitment. We are you know certainly willing to add people and skills in that area. Do I see a big operational rehiring campaign anytime soon? No, the priority will be to service or to supply early stage returning demand with the inventory that we have, and progressively feeding in more production as confidence builds.

Valerina Changarathil: (News Corporation, Journalist) Thank you.

David Robb: I think that's all the questions everybody, thank you for your time, I do appreciate it and please feel free to follow up with myself or with other members of my team should you have any follow up questions. Thanks very much.

End of Transcript