TRANSCRIPTION

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Moderator / Speaker: **David Robb, Managing Director**

David Robb: Thank you and good morning everybody. My apologies for the slight delay. We understand that some people were having a bit of trouble getting through the queue to join the call and hence we decided to wait for a few minutes to allow that to happen. With me on the call today although we are in difference places Simon Green, General Manager of Finance and Risk who's standing in for our CFO Alan Tate. Chris Cobb, General Manager of Sales and Marketing. Steve Wickham, General Manager of Australian Operations and Rob Porter General Manager Investor Relations and Corporate Affairs.

We will go through the slides in a page turn fashion and I'll identify from time to time which slide I'm on. Slide 2 - the usual disclaimer in particular about forward looking statements.

Slide 3, in terms of sustainability we pursue high levels of environmental health and safety performance. We have been unhappy with the lack of improvement in safety. We certainly drive to be better every year in this regard. A major initiative was launched last year, Safe Production Leadership, and very pleasingly we have seen reductions in total recordable injury frequency rate and in particular in lost time injury frequency rate over the past 12 months.

In terms of the half year and its key features slide 4 - I think I would describe the first half as a very reasonable performance in a tough environment. Yes lower than our original expectations as the world slowed dramatically but in absolute terms significant increases in our key measures, particularly return on capital. Cash flows lower than expected in the first half but positive inflows in July saw a return to a net cash position.

We have flexed our business to reflect the global circumstances we see including lowering production and reducing capital expenditure and costs where we are able to do so and in one sense those savings cover an increased interim dividend which is now fully franked. The main features slide 5, I would just highlight that clearly our sales volumes are down reflecting lower demand globally. Unit cash production costs are up circa 30% as we have reduced production.

But importantly, this need to be seen in the context of revenues per tonne which are up over 100% resulting in very healthy margins, a strong return on equity, a cash outflow in the first half which was influenced by some lumpy capital expenditure associated with the WRP [Woornack, Rownack, Pirro, Murray Basin]

project in Victoria and also some cash tax payments for tax catch-up. The balance sheet, therefore, perhaps not as flush with cash as we might have liked but still very strong.

The interim dividend and just our thinking there - the dividend decision I believe is consistent with our objective which is to create and deliver value for shareholders. We therefore focus on total shareholder return and as part of that distribution of available cash and franking credits not to some predetermined formula or pathway but as and when it is possible and sensible to do so. The decision is consistent with the framework that I have articulated over time of distributing a minimum of 40% of free cash flow and not holding on to franking credits that have a value only in the hands of some shareholders rather than in our franking account balance.

In fact, performance since resuming dividend payments at the end of 2010 I think has been very disciplined with not 40% but approximately 75% in aggregate returned to shareholders. With that brief introduction I'll now just hand over to Simon Green who will go through the results in a little bit more detail. Simon.

Simon Green, General Manager, Finance and Risk: Thanks David and morning to everyone on the call. So picking up on slide 7 which is just gives some sort of colour to David's comment there about the 75% in effect of the cash that we've generated since the beginning of 2010 that we've allocated to distributions leading to 25% being retained in the business.

I think the recap point is going back to the beginning of the 2010 year when we recommenced dividends. Debt at the beginning of that year was some $382 million and so that the 25% cash that we've retained, the $153 million, in effect has reduced the inherent net debt number whilst at the same time recognising that earlier this year we refinanced our borrowing lines. So we sit with an $800 million facility compared to one that was in the order of $445 million at the beginning of this dividend period.

As you see on the chart at the bottom right of page 7 there was a small net cash position at the end of July as we collected receivables that built up on the balance sheet at June.

Turning to slide 8 and just looking at the free cash flow and particularly highlighting a couple of features as to why we've got a free cash outflow this period compared to the inflow in the previous corresponding half. You see taxation payments of $156 million and capital expenditure of $122 million. So the tax and capital expenditure movements combined of some $225 million is at a slightly greater level than the overall delta in the free cash flows for the period. Tax is a timing issue. The government effectively set the timings of when that tax gets paid.

The capital expenditure step up in the first half this year associated with successful completion of the WRP project as previously announced and also the planned major maintenance of the largest synthetic rutile kiln in the south west of Western Australia. In the first half of 2011 the majority of the capital expenditure was the development of the Tutunup South Mine in the south west of Western Australia, which has been operating well for the last 14 months or so.

Group results on slide 9 - you'll see that the second half 2011 included as well as the first half as much to give a trend associated with the fact that prices rose significantly during 2011. Revenue in the first half of

'12 versus the first half '11 - lower volumes and higher prices as communicated previously flowing through to EBITDA improvement. So the margin improvement on what we sell coming from much higher pricing rather than big changes in the cost of sales that have been realised.

Depreciation - the composition of depreciation has changed quite a lot this period compared to the prior period in 2011. I mentioned the commissioning of Tutunup South. We also recommenced activities at Eneabba [Western Australia] towards the end of last year and we've also transitioned our operations in the Murray Basin as you'd be aware from the Kulwin and Douglas operations to WRP - Woornack, Rownack and Pirro during this half so different asset bases, different levels of capital expenditure and hence different levels of depreciation.

The interest expense that is shown for the period is fundamentally the unwind of the rehabilitation in terms of cash debt, if you will, our net interest number is effectively zero as you see from holding cash over the period. Tax expense is constant in terms of effective rates at around 29% and a relatively healthy return on equity on an annualised basis some 37%.

Slide 10 which is the waterfall showing our EBITDA movement first half to first half up from $319 million to $505 million. Clearly the most significant factor is the pricing increase. The average dollar per tonne for the zircon, rutile and synthetic rutile sold is up around $1200 per tonne period-on-period, some 110%.

Obviously volumes are lower and you see with the red volume bar and a very - a slight impact on mix that is negative. That is reflecting the fact that in this period we sold relatively more rutile and synthetic rutile than zircon but with rutile, synthetic rutile and zircon prices having all risen to comparable levels that is why we see not much of an impact on mix compared to what we would have seen running this waterfall in previous periods, when there was a big divergence in prices between each of those products.

Modest foreign exchange bar. Although the average rate across the period - was flat at 103 cents, that actually reflects differences in the rates ruling on the day we make sales. The unit cost bar; you'd be familiar from what we've reported previously at the quarterlies that our costs for what we are producing is higher period-on-period that's what we see flowing through there.

"Mineral Sands Other", the red bar of $11.7 million. That is associated with increased investment in exploration and other development activities as well as some of the costs that we have to carry during transitions for change of the operations in Murray Basin and also during the major maintenance outage for the synthetic rutile kiln. But overall an EBITDA picture dominated by higher prices on lower volumes and slightly higher costs coming through in the cost of sales.

Mining Area C on page 11 - the slide pretty well speaks for itself. Stable production on a 12 month period slightly up and that's given us the capacity payments - remember we get those once a year. Royalties accrue on a quarterly basis but based on production to each 30 June for every incremental million tonnes of production the royalty provides us a one-off $1 million payment. Iron ore sales volumes are realised Australian dollar prices are down and that's clearly no surprise with what's being experienced in iron ore at the moment.

Going on to 12 which is the net profit after tax waterfall, in essence that's the same as the EBITDA one on the left hand side of the chart. The new or the supplementary bars that come in, depreciation up slightly. I talked about the change in mix of operations and that's really the key factor there.

Lower interest due to cash on hand and tax is obviously a reflection of higher earnings with a constant effective rate at around 29%. Effectively it's 30% in Australia and 20% for our US operations subject to the usual minor differences for permanent deductions. Operating cash flow, looking at three halves on slide 13, receipts between first half '11 and first half '12, receipts and payments are comparable in both periods and really as we've noted, that half '12 cash flows of $207 million influenced by or depressed in some way by a greater than $50 million increase in receivables at June. That's simply down to the timing of when the sales get away. With very strong cash collections in July that's reversed the net debt position that we see on the balance sheet of $117 million to a very slight net cash position at July.

This leads into the net debt slide, the last one that I'll talk to on slide 14. Most of these points I've covered. Probably the most significant point to highlight that we haven't played out is the dividend payment, $229 million paid out from the Group on the $0.55 final dividend in the half. With that, David, I'll hand back to you to take us on from slide 15.

David Robb: Thank you, Simon. Yes, slide 15, zircon markets, it's fair to say global confidence continued to slide in Q2. In China the ground level of activity of the businesses we supply seemed lower to us than perhaps official government figures would suggest. There has also been some adoption of modern tile manufacturing technology which has had an impact. We think most of that adoption has occurred already; it's behind us. EU exports declined as demand in their traditional export markets of South America and the Middle East fell away. The US is okay. In terms of our production we have the flexibility to adjust and are doing so. I will explain how in a little more detail shortly.

Slide 16, if you look at global zircon consumption - now this is zircon consumption rather than zircon sand sales, but I think it's a very positive trend over time. The dip that you see or the rise and then the dip in the late '80s and early '90s reflects zircon consumption in steelmaking in refractories in Japan which dropped in the early '90s. More recently, of course, the GFC in 2009 followed by rapid recovery in '10 and '11 and now a lower consumption expected in 2012. The table below, you can see that over long periods zircon consumption growth slightly exceeds GDP growth on an annual basis so we remain confident about the medium term dynamics in the industry.

Slide 17. Interestingly, perhaps, Iluka can and has flexed more than the global year-on-year demand change and therefore in terms of market share.

Now, I'd caution a little bit about the accuracy of the global numbers but it's clear that Iluka can move in either direction more than our 30% plus market share would indicate. Sometimes we move in entirely the opposite direction to what appears to be happening in the world. I think that's called competition. In '09, if you have a look specifically, Iluka actually dropped more than the apparent industry consumption drop

whereas in '10 we got circa 60% to 70% of the recovery back and restored market share. Probably we would have actually got more if we'd had more product to sell in that period.

Slide 18, the inventory question. I think the best way to visualise this is like a vertical barbell. Producers with high heavy mineral concentrate and zircon sand inventory, major producers, that is, and at the other end of the value chain, tile manufacturers and distributors with relatively high finished product stocks and in between lots of just-in-time behaviour, even some people who are running only where they can be assured of back-to-back financial arrangements for the costs they are incurring; so an unusual distribution, therefore, of inventory. As I say, think of it as a vertical barbell.

Slide 19, in terms of our production response, we are responding to the global conditions we see but as we have done before, we are retaining the capacity to respond in both short and medium term periods to demand recovery. We are determined to keep our growth options on track, again, as we have done previously.

Slide 20, just to highlight the margin position, we are firmly of the view that adjusting production and incurring slightly higher unit costs is the right approach for Iluka and indeed should be the approach both across the industry and down the industry value chain.

So how do we flex production? If you look at the next slide titled zircon production response and the picture, the aerial photo, that is, in fact, Jacinth and our mining operations. The J-A [Jacinth-Ambrosia, South Australia] mining operation is uniquely flexible. Shown here in the little coloured segments is a mine path that throttles back zircon production from J-A to as low as120,000 tonnes in the 2012 to '14 period. If we needed to carry it that far we could then return to normal, if you like, or indeed we have a mine plan which would back-end higher grade sections of the ore body, see us producing circa 250,000 tonnes a year in the mid-2020s or beyond or we could turn around and go the other way and we could run flat-out and produce in excess of 400,000 tonnes of zircon in a single year.

So this is a hugely flexible operation and the more we think about it the more we realise we can do and the more we understand and are confident in how we can sustain what we do at J-A. But the flexibility I've outlined makes no allowance for satellite deposit tie-ins which we plan to do and the additional mining variance that they would bring. So we have a very unique, we think, ability to flex production by virtue of the nature of J-A.

In high grade TiO_2 market conditions, slide 22, pigment producers we supply in particular, have swung from tactically building inventories to meet anticipated demand to concern about those same inventories and therefore pulling what levers they have to reduce production. That typically involves slowing plants down, lower utilisation rates and driving for lower grade feed stocks which also reduces production.

Now, that adjustment is taking place in an environment of very unusual feedstock price spreads as the industry's major producers transition away from legacy contracts. So you have a disparity in prices for similar value in use materials in the industry at the moment; that is very unusual and is driving a particular behaviour. Also you have China pigment exports up as their domestic demand has fallen.

Slide 23, just to highlight this point about the chloride pigment industry in this case, their plant utilisation has varied year-on-year from less than 80% to more than 90%. We think suppliers to the pigment industry such at Iluka need to learn to flex their production also to protect margins rather than locking in low returns by doing deals when conditions favour buyers and not sellers.

So we think if the industry has a point in it which likes to flex it's very sensible that those of us who are upstream can do likewise and we certainly can. In terms of TiO_2 flexibility and our production response, slide 24, we have reduced feed rates so we've done the equivalent to what a pigment plant might do to lower production from our big kiln, synthetic rutile kiln number two. That actually has the effect of increasing grade or it gives us the capacity to use cheaper ilmenite to reduce the unit cost impact of the lower tonnes. It also means we can utilise capacity for new product trial work, test new feed blends and additives that we might choose to vary or change and I'll talk a little bit more about that technology work later but it's a very exciting time for us having this opportunity to experiment.

Of course we can quickly go to three kilns by reactivating synthetic rutile kiln number one which we have deferred, a three to four month lead time given the preparatory work we've already done and pretty modest capital involved. Cash costs and capital expenditure, slide 25, versus our guidance of May we are targeting significant reductions in both costs and capital expenditure as mentioned earlier.

Slide 26, just to stand back for a minute from the turmoil of the present, what drives zircon use? Well, emerging economies dominate global tile consumption and indeed manufacture. As they grow, their cultural preference for tiled flooring I believe will leverage zircon consumption upwards in relation to its traditional relationship with global GDP growth. So you might expect that spread between zircon consumption and global GDP growth to grow, reflecting the source of the growth, and their preference for tiles as flooring medium.

So what are we doing more broadly therefore - slide 27. We believe the zircon industry as a whole can be more proactive and needs to be in driving global zircon demand. A new industry association will be operating shortly, in the second half of this year, and it will be open to all users and producers once it is launched. With Iluka as an instigator initially it will be an independent body run by a board representing a cross section of the industry, and its purpose is to find new uses for zircon and zircon based products. Internally building on our recent initiative we will also increase our focus on enhancing our customer offer and tailoring the products that we supply.

TiO2 - big picture, slide 28, notwithstanding short term volatility the long term outlook for pigment demand is very sound. It's fuelled by GDP growth, it's fuelled by urban population in emerging economies and the fastest growth is occurring in countries with low per capita use currently.

In terms of product development, given that outlook, slide 29, this is the most active period in my time in Iluka in terms of how we think about technology and product development. It is really exciting, I have to say, right now and our contractual flexibility, the opportunity to push the envelope that I referred to earlier in

relation to synthetic rutile kiln 2 in terms of not only what we can produce but what we can potentially utilise to generate value for shareholders. It's a wonderful opportunity that we see at the moment.

We are also reviewing and updating our thinking on the global requirement for upgrading and where are the new technologies come from to facilitate that activity.

Slide 30, exploration. We believe in the role of exploration as a game changer for both companies and industries and we are upping the ante in that regard.

Slide 31, enhanced production, we've referred to this previously as EPP. We have 16 firm opportunities in this EPP group, of which four are in detailed feasibility study. They're relatively low risk, capital efficient, quick to deliver, they form part of a conservatively assessed resource base and I would remind you that we have invested in a disciplined and efficient and counter cyclical way. If you think about what we achieve in late '08, '09 into early '10 with the Murray Basin stage two and J-A, during the GFC when no one else was spending money, we may soon have a wonderful opportunity to do so again.

So, in summary, slide 32. We will manage the business for what we believe is the optimum mix of efficiency and flexibility. We'll position the company to benefit from the increased sales volume opportunity as demand recovers, as we did through the GFC retreat and through the demand recovery in '10 and '11. We'll keep our longer term growth options on track and invest in those, and we will continue to focus on shareholder returns as we have always done. Thank you. With that, I think we'll throw it open to questions.

Chris Terry: (Deutsche Bank, Analyst) Hi guys. I've got a couple of questions. I'll just start on the financials. I know you've gone through your dividend policy, your 40% free cash flow as a minimum but just looking at where your cash position is currently and you'll obviously save on bringing back your CapEx and operating costs in the second half, that my calculations would suggest you're going to have to draw down some debt to actually pay that dividend initially. So what is your I guess gearing policy and what's - I guess can you put some tighter bounds around what your dividend will likely be over the next 12 months?

David Robb: No. We have deliberately and I think very rationally outlined a framework. It has a minimum rather than a minimum and a maximum. We've never articulated a gearing range or similar. We look through any short term periods. I don't think dividend decision making is based on a single period and we're certainly not in the business of giving dividend forecasts, we don't even give profit forecasts. So we have a framework, we have been consistent in how we've articulated it in recent times and we have delivered against it and I think you need to look at the track record over time in that regard.

Chris Terry: (Deutsche Bank, Analyst) Okay, and then on your operations you've gone through there around your strategy, around your Jacinth-Ambrosia, I've got sort of two parts. First of all are you looking at any of your other operations such as say Virginia where your mine life is a bit shorter and looking to do anything other than Jacinth-Ambrosia?

Then also, as you I guess take points in time and decide on what your strategy will be, what sort of period are you breaking that down to, to decide on what you will do with your operations? Is it a three month, a six month or even shorter than that that you're looking at?

David Robb: Well, to the last point first, I think your crystal ball might be better than mine, Chris, but I think it's a pretty hazardous occupation trying to predict the future path of the world at the moment. What we do have is flexibility to adjust up and down and we're exercising that now. In relation to the other operations we've identified in this pack that we're not taking J-A HMC to the Murray Basin to process through the zircon circuits at Hamilton so we've already adjusted a bit at Hamilton. Murray Basin, mainly a high grade TiO2 producer and therefore unlikely that we would throttle it back much.

Virginia, you are mistaken in your view about its mine life, I think that's a view that's been overtaken by our thinking on new deposit development there. It's mainly an ilmenite producer which certain customers value and certain value the location of that production, being in a very stable country. And the zircon market in the US slightly different and less dependent on ceramics, more on refractories and foundries and travelling okay. The US is a very clean and efficient operation also, so at the moment we haven't made any big adjustments there.

Chris Terry: (Deutsche Bank, Analyst) All right, thanks David.

David Robb: Thanks, Chris. Next question?

Operator: Your next question comes from the line of Ian Preston from Goldman Sachs. Please ask your question.

Ian Preston: (Goldman Sachs, Analyst) Morning, David. My question really relates around adjusting your production levels to sales levels and what sort of inventory levels would you be comfortable in holding? Have you sort of got to those levels now and therefore if we don't see demand picking up in the shorter term you'd do more production cuts or would you be comfortable to carry a little bit more inventory? I guess coupled with that, more particularly on the high grade feedstock side, do you believe if you changed your pricing strategy on rutile that you might win back some of that volume which has gone to perhaps other high grade feedstocks like slag?

David Robb: Yes, Ian, thank you for both questions. No, we actually have further inventory holding capacity if we choose to use it, both as the finished product and intermediate material like heavy mineral concentrate so I think we have all the options open to us there. In relation to the second question about pricing, well maybe, but equally we know that some of these big legacy contracts are rolling off and there'll be an opportunity for some of that lower priced material to be re-priced upwards. So in theory do you want to chance your arm in the belief you might get some additional volume, which maybe you will and maybe you won't in the current environment?

I have to say that what we are seeing in demand is not really price-related, it's a function of how the world is travelling and people's confidence levels and lower prices would not necessarily get you significant volume, and it's a timing question. Can I just say on pricing more generally, and how I think about it anyway, is that I think smart industry participants if they are shareholder focused and not size or boom time or monetisation of rubbish oriented, the conventional wisdom is that pricing in surplus markets gets driven by cash costs.

Well, that might be true unless an industry is small enough and concentrated enough that action can be taken to reduce supply in those periods.

Then if you have markets grow over time and where investment is reasonably disciplined you get long periods of time with pricing driven by inducement economics and obviously the lead times for greenfields project and new supply, if they are available. Occasionally you even get leads and lags in supply and demand where you can see market deficits and pricing moves up sharply, reflecting scarcity.

So I've thought about our approach a lot and Chris Cobb and I discuss it a lot and we try and stress test our thinking and I'm confident that with our shareholder-focussed hats on and we're playing our cards appropriately, Ian. And in doing that we also think about disruptors around technology or new discoveries and so on as well, we're not blind to the impact of those things and in fact in some ways we're trying to create them ourselves. But I think our approach to pricing is entirely appropriate for both the short and medium long term and it is very clearly in our shareholders' interests that we seek to operate in the way we are.

Ian Preston: (Goldman Sachs, Analyst) That's great. Just one last one, how long are you deferring SR 1 for?

David Robb: I would think it's at this stage until the second half of next year at the earliest, Ian. It is - I mean, we could get it up and running as I said in about four months but indicatively back end of next year rather than back end of this.

Ian Preston: (Goldman Sachs, Analyst) Thanks very much.

Clarke Wilkins: (Citigroup, Analyst) Morning David, how are you?

David Robb: Good. Thanks, Clarke.

Clarke Wilkins: (Citigroup, Analyst) Listen, just on the pricing side, the - I suppose in terms of the outcomes for second half of the year, is not - you're not willing to disclose what the outcomes are or have they actually still not even been agreed in terms of the pricing for the feed stock? Just also, in regards to the SR price of the first half of the year, I think that was a bit lower than what was previously suggested where the settlements were. Is that reflecting just a lower quality grade or is that actually adjustments to pricings that went through that first half?

David Robb: Yes. Look, as to the second half, I think what you are seeing is a drive in both sides of our business, zircon and TiO2 to much more shorter dated arrangements to a just in time supply situation in the case of zircon, so virtually everything that is happening in zircon at the moment is spot based. I don't have a problem with that. Directionally, that's where we've been heading and we've geared our logistics around that.

On the TiO2 pricing outlook, well, when we have something material to say around anything, then you know that we would say it, so you can read into that what you will. The first half SR pricing, there's some contractual distortion in the outcomes Clarke that results in the numbers you see.

If I read the commentary of at least one of our major competitors, it appears the market is evolving towards shorter dated, more flexible pricing periods in the TiO2 space. That's a direction that we'd be quite comfortable with.

Clarke Wilkins: (Citigroup, Analyst) Just on that, I suppose, is there - the comment you made earlier that SR1 second half next year in terms of being restarted, is that a reflection of the - partly a roll off the [unclear] legacy contracts, such that the re-pricing of those slags is done by the end of next year and that's when the value in [unclear] various products becomes more apparent?

David Robb: Well, I think - I think it's not like a cliff at the end of next year, Clarke. I think it's a progressive feature that we are keen to watch play out. It's fair to say, I think, that Iluka has played a leadership role over the last couple of years in how the industry has evolved and I detect that there's a possibility that that baton may be carried by more than just Iluka. It's prudent for us to just watch and see how that evolves.

Clarke Wilkins: (Citigroup, Analyst) Great, thank you.

David Robb: Next question?

Glynn Lawcock: (UBS, Analyst) Good morning, David. I just wanted - two questions, if I could. Firstly, just on pricing a little bit more for the second half. So you said earlier this year that if you dropped your price, it wouldn't stimulate volume, so I guess I'm just - is that still your stance? Therefore, do I read from that, if it is, that you're still holding firm on price relative to first half?

Then, secondly, a lot of the commentary about the market seems to be as at June 30. I'm just wondering if you could shed some light a little bit on what the first two months has been like of the second half? Has it deteriorated from what we saw at June 30 or has it stabilised or picked up? Thanks.

David Robb: Thanks, Glynn. Look, I think, in essence, the answer to both questions is similar. That we don't give a running commentary on what's happening every month. I don't think you reasonably expect us to do that. In relation to the pricing, nothing has changed. We always seek to have a dialogue with our customers. If there's a win-win outcome that makes sense for our shareholders, we're happy to entertain it. We've never been pig headedly inflexible, I don't believe. We've been strong in our conviction about what we should be doing. That hasn't changed. Fundamentally, what you've got at the moment is a global economy. You've got businesses within that economy, all of which are looking no further than the nose in front of its face. That is driving a lot of behaviour that is geared around what do I want today?

What do I want tomorrow? What am I prepared to pay for that now? Don't talk to me about arrangements that are about months from now, let alone years from now, so it's just not possible, I believe, to provide outlook commentary or estimates of how the world is going to travel, Glynn. I'm sorry, but that's just the way it is. We haven't changed our approach, and if there was a fundamental shift that was material to our shareholders, either in outcomes or in approach, we would disclose it.

Glynn Lawcock: (UBS, Analyst) Can I ask a follow up, David?

David Robb: Sure, Glynn.

Glynn Lawcock: (UBS, Analyst) Just then, I guess, you talked a little bit about the zircon marketing. You've seen technology change in manufacturing. Do you have a sense of when the world does equilibrate back to normality, hopefully, some stage in the future, do you have a sense for what shift there has been in zircon consumption? Has it been anything structural in the market that - as well as cyclical or is it all cyclical? Can you split it out at all?

David Robb: Well, we're close, I think. Not yet to a point where I could give you precise numbers today. We have been doing, as you would expect us to do, an awful lot of work on this detailed analysis. As I said earlier, we think most of the adoption of that technology has occurred. It's mainly in porcelain tiles. It's mainly in China. It's not new technology. It's simply the adoption of more modern techniques, so we think the bulk of that structural adjustment has actually occurred progressively over the last couple of years, so - and we've seen most of it. The inventory piece, I am firmly of the view that it is historically and continues to be underestimated as to its effect, because it is so deep and pervasive in this industry. There's a long value change.

You think about more than 2000 tile manufacturers in China alone, all of them holding finished tile inventory with zircon to greater or lesser extent in each one. All of them now thinking, well, it's prudent for me to clear a bit of that before I buy some more ingredients to make more tiles or before I fire up extra tile lines. So I don't think we will detail our conclusions in the way you've asked ever, actually. The reason I say that is that I'm becoming quite excited about the competitive advantage that our research, I think, will provide us and the understanding it may give us about how we set our business and the approaches to the market that we take. Until we've implemented those strategies, I don't propose to give any hints.

Michael Orphanides: (RBC, Analyst) Good morning, David. I have three questions. My first question is do you have any thoughts on the Kronos price increase recently, which was $200 a tonne? The second question is if economic conditions don't improve around the world, can we expect a similar level of zircon production next year as what you're targeting this year around 30,000 tonnes? Thirdly is which market does zircon or rutile or titanium dioxide do you - most worries you at the moment, if it worries you at all?

David Robb: Sorry, what was it? Rutile or zircon, did you say?

Michael Orphanides: (RBC, Analyst) Yes. Sorry. The feed stock or zircon markets.

David Robb: Markets, yes. First one. Kronos' price increase is obviously a matter for them. Interesting timing, I would have to say, but I don't think it's my place to comment on what a pigment maker chooses to do. They are a customer of ours, so I don't think I would hazard a guess at their motives. In terms of economic conditions and zircon run rates, I think I've explained that we can sustain the second half levels that we've outlined for a long time and that is a level that we think is appropriate for the worst of what we've seen so far, so I think you would assume more of the same, if the world delivers up more of the same, but at still healthy margins, so return on equity of 37% is not to be sneezed at. In the case of which one worries me most, look, I worry about a lot of things, but I'm actually, as I've tried to indicate, I think this is a fantastic time.

This is what management gets paid to do. This great opportunity in times like these for companies that can think clearly that have financial capacity to have flexibility in their operations, to have a really strong management team, which I know we do and that is close to their customers, as we are increasingly, I think, positioned to be, so our in depth knowledge and understanding of the market circumstances have forced us to do a lot of hard thinking with the volatility that we've seen and I actually think that we can put that to our shareholders' advantage, so I don't actually think about them differently in the way that your question proposed. I think about it more in the sense of overall opportunity and threat and I think it's a really good time to be running a company like Iluka.

David Robb: Thank you. Okay. Let's try and speed them up a little bit, perhaps, but we'll certainly try and get all - we will get through all questions, so next question please.

Operator: Certainly. We have your next question from the line of Brendan Fitzpatrick for Morgan Stanley. Please ask your question.

Brendan Fitzpatrick: (Morgan Stanley, Analyst) Thanks very much. Just two quick ones. The thrifting that was discussed earlier, could you give us a sense for what amount of zircon changes with that shift in the processes? The Chinese have moved to that modern process technology. The second one, on the reduced operating cost base, are these permanent reductions that we should assume carry forward or is it short term in response to the current market conditions?

David Robb: The thrifting one, I'm not prepared to put a number on yet, Brendan, if ever, for the reasons I mentioned earlier. I think the way in which it is occurring, the extent of it, the fact that we think most of it is behind us anyway, separating it out from inventory effects, I think, needs a little bit more time. I'm firmly of the view that people are still confusing the two and it is hard, frankly, to model industry inventory, but we're working hard in that direction, so putting a hard number on it, I won't do. Clearly, some is structural. Some is cyclical as we've seen and attempted to illustrate to you in some of the charts previously. This is a cyclical industry. On the - the other thing I would say, of course, is that the world is never a unidirectional. In the ways in which technology and creativity and whatever work to reduce demand, you must always remember that there's an equal number of people out there figuring out new ways to produce things, new ways to use your product and our job is to help them to offset the negatives that you inevitably see. It's no different to what you see in energy markets or many markets. There's always forces that are working in the direction of efficiency and reduced use and there are always forces in the direction of new and innovative applications for increase demands. So we are really thinking long and hard about both to get a comprehensive picture and as I said I think that will give us competitive advantage.

On the operating cost reduction permanency it's really just a function of what run rate we choose to operate out and how much material we choose to move. Quite a lot of the savings are in reduced transport costs which are a big part of our cost structure. There's clearly a fixed cost component in the business as well when you think about a lot of the labour, some of the mining and processing costs - some of our contractual arrangements that can't be unwound in very short term.

But on the cost front - cash costs essentially linked to the production rates that we choose to operate at. On the capital expenditure, I would characterise it more as time shifting and taking advantage of deferrals and rephrasing of feasibility spends that we can do without jeopardising our overall timeframes. The more structural saving in capital expenditure would come if you chose for some reason not to do the projects that we're working on then you would have a true cancellation of capital expenditure - a permanent saving. It's more a case of flexing the timing in the case of the capital expenditure.

Brendan Fitzpatrick: (Morgan Stanley, Analyst) Okay thanks very much.

Fred Truong: (Bell Potter, Analyst) Hi Dave. Look just two quick questions. Just wanting to understand your strategy around your TiO2 feedstock products and whether you're looking to substantially increase your sulphate exposure through time due to the development of these new TiO2 feedstock products as you mentioned previously such as [unclear], rutile, [unclear] and ultra synthetic rutile?

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David Robb: Hi Fred, sorry. Yes look you have a - we have always had a business model that was oriented towards half roughly of the pigment market, ie. the chloride high grade half. I think we can be much more oriented towards all of the pigment market.

I think we can produce products which may be attractive to sulphate pigment makers and certainly if you look at sulphate pigment capacity addition in China it's a big force in the market and we want to be able to serve that demand as well as our more traditional ones. So yes you are right - we are certainly looking to be able to offer not necessarily the traditional products to sulphate markets but hopefully some new and interesting things that they will see as highly valuable.

Fred Truong: (Bell Potter, Analyst) That's great Dave. Just a follow up question - how is the customer acceptability been to date on your acid soluble synthetic rutile products?

David Robb: It's early days. We haven't had anything negative yet. It's more a case of us continuing to optimise - minerals sands products are subject to typically very, very comprehensive specifications not only around the core components but also around all kinds of contaminants, by-products, wastes et cetera. So we have quite a bit of work to do yet with our customers and with some further commercial scale testing just to make sure we can create something different and that we can optimise some of these contaminant issues to help our customers be more efficient.

If we can do that in our plant at a cost and the customer is willing to pay for it well then we should reformulate to do that. So this is an evolution as all new product developments are. It's an iterative process that you go through with customers where you say well how about this? Do you like that? Yes but we'd like it even better if it had less of x, y and z.

So as I said earlier and I really hope I have conveyed - I think perhaps necessity being the mother of invention but this is a really exciting time for us as we really push the envelope into areas that have lain dormant for us as a company for some time.

Fred Truong: (Bell Potter, Analyst) Great thanks Dave.

Peter O'Connor: (Bank of America Merrill Lynch (BAML), Analyst) Dave firstly by way of feedback. All the emails I've got from shareholders and potential shareholders, whilst we have been on the call have all been querying how inventory has been managed for the half year. So maybe I'll leave this with Rob and Simon but you may want to circle back and give us some more colour on how that's been handled because there's a lot of confusion out there and what it means now and going forward.

David Robb: From the point of view of your physicals or from the point of view of...

Peter O'Connor: (BAML Analyst) Accounting.

David Robb: Accounting - well whenever I venture into accounting area Peter...

Peter O'Connor: (BAML, Analyst) Yeah exactly.

David Robb: …I get into trouble. So I'll leave that...

Peter O'Connor: (BAML, Analyst) No I understand, but just take it on notice [to note probably] following up...

David Robb: Yes thank you.

Peter O'Connor: (BAML, Analyst) Look secondly on pricing for TiO2 products, is it a potential dynamic where you could have prices for different products moving in different directions such as rutile synthetic rutile going one way and slag another direction?

David Robb: It is - there are sub supply demand dynamics - you are quite right Peter. There are different capacity additions and different dynamics in different grade points we think. Yes you could have that occur over time I believe. More importantly at the moment though I think are these contractual distortions which are in the process of going away.

Peter O'Connor: (BAML, Analyst) So if we're hearing noise about moves in say slag in a certain direction we shouldn't necessarily extrapolate that to rutile and synthetic rutile?

David Robb: Well you know it's all part of the landscape so obviously customers will use any movement if it suits their argument to argue why yours should move similarly. I think there are some pretty unusual disparities between different product categories at the moment. Now how they regularise themselves over time - whether the low point comes up to the high point or the high point goes down a bit we don't know yet.

Peter O'Connor: (BAML, Analyst) I'd just like you to clarify your comment on thrifting. You said it's behind us. Obviously as you said you can't give a number for what that actually means but when you say behind do you mean whatever's lost is lost or do you mean behind us in that it's bounced back?

David Robb: No what I mean is that we think it has been a progressive factor - not one that has simply occurred with the flicking of the switch. So it has been a dampening effect over the last couple of years rather than something that has happened overnight. That's the point that I made. To the extent that it has happened with people adopting more efficient technologies, it is unlikely that they would reverse that. It's

the same way as if you buy a more energy efficient air conditioner you don't rip it out when electricity prices change in the future.

So no there'll be a component of it that is structural but overwhelmingly I think the volatility that we are seeing is all around absolute end-use demand dropping as people's confidence levels have plummeted and activity has slowed. In that environment the time taken to work through inventory.

Peter O'Connor: (BAML, Analyst) Thanks David.

David Robb: Thanks Peter.

Robert Porter: David just before you take the next call just on Peter's question about accounting for inventory movements. This matter was addressed on a number of occasions including post full year results when we had a call with Simon to run through the methodology and I've also flagged it with people and been happy to run through that. But we're happy to set up another call involving Simon where he can walk through how people can think about the methodology for inventory movement on the balance sheet.

Matthew Hope: (Credit Suisse, Analyst) Hi David. I just don't know whether I missed it today in the stuff that's come out but have you announced any updated production for the TiO2 products? Obviously you've dropped zircon. Has TiO2 come down as well?

David Robb: We provided revised sales volume outlooks for all products in May obviously and production will be adjusted as appropriate. We've never provided period-to-period outlooks in terms of production. Production will flex according to sales over time. That's why you would expect as you normally manage inventory to reasonable levels. So that's what you would see.

The SR2 slow down to perhaps characterise that - it would normally produce above 200,000 tonnes a year of SR. We still don't know the sort of technical limits of how slow you can run it but certainly we know we can get below 150,000 tonnes a year. It's the big production component of SR that kiln. So that's a more than 50,000 tonne reduction.

But I have to say, everyone worries about how much inventory we have and whether it's going up, down or sideways and I really don't. It evens itself out over time. We've got a balance sheet to pursue the strategies that we're pursuing. We think it's an extremely dynamic industry and there are very clear signs that other major producers are thinking about their options as contracts roll off. So we need to just be a bit patient and see what happens.

David Robb: Thank you. Well look obviously despite having the experts on the line in Chris Cobb on Sales and Marketing and Steve Wickham in Ops I've chosen to answer the questions myself but if there is anything that I have done an inadequate job on then please feel free to follow up through Rob Porter and we can certainly make available the experts who are running the business day-to-day.

I would just conclude by saying it's a turbulent time in the world and I think our industry is no different from many and in fact better placed than many. We've got flexibility in our operations that we learn more about everyday and where we believe we can be more and more flexible than we might once have thought. I

think that puts us in a very good position to not only tailor our production and our marketing strategies to the circumstances of today.

But I am very confident in the medium term outlook for this industry in the dynamics that we have been able to engender within it and that may well be followed up by others in periods ahead. We are therefore as we've done previously - we are keeping our options on track about how we grow our production levels as demand recovers.

To that extent I think we have been disciplined, we have been a bit counter-cyclical, we have spent money when it was relatively cheap to do so and we'll continue to do that because we are shareholder focused company and we have always been, at least in my time. We also are very excited about the learnings and the insights we have into how our markets and our industry is evolving and I think we're a bit ahead of the curve perhaps in that regard and we can put that to good use for the benefit of our shareholders.

So thank you for your time. I realise as always that it's very busy and you've got plenty of other people to listen to and to think about. So thank you for your interest in our company. Follow up questions or calls we are happy to take. Please direct them to Rob Porter. Thank you.

End of Transcript