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Speakers:

David Robb, Manager Director

Chris Cobb, General Manager Sales and Marketing

Alan Tate, Chief Financial Officer

Simon Green, General Manager Finance and Commercial

David Robb:

Thank you and good morning everybody, we do appreciate you devoting your time to us at the end of what is, I know, a very busy period for you all. There is a quite a lot to get through in the half an hour before we throw it open for questions, so I will have to move through a pretty comprehensive pack quickly. With me I have: Alan Tate, CFO; Simon Green, GM Finance and Commercial; Rob Porter, GM Investor Relations and Corporate Affairs; Chris Cobb who is our new GM of Sales and Marketing, known to some of you from his previous role as MD of Consolidated Rutile Limited, and Victor Hugo, who was predecessor in that role, that's just to make sure that Chris can't say too many bad things about Victor in the course of the conference. It's also true obviously that this is a big pack. I think there's a lot of very useful information in it for you. I hope you find it useful. It's also proof I guess that sometimes quality of the pack is inversely proportional to the quality of the results.

The ground we are going to cover is an overview of 2009, the market conditions that we experienced and our response, where we are with the portfolio transformation in terms of the major projects and a look forward to 2010 and beyond. As I say I hope to get through all of that in half an hour, leaving a full half an hour, or perhaps a bit more for questions.

So there is a slide pack and I will be working through it in order, slide 2, the usual disclaimer and given the volatility of the world that we see today, I must draw your attention to it.

Turning now to slide 4, the **2009 characteristics**, well obviously it was a very poor year financially. Any demand was hard to find, particularly in the mature economies and was, particularly towards the end of the year, competed for by suppliers not surprisingly. We had an aggressive Iluka restructuring through the year, partly it has to be said with an eye on prices that we wanted to protect in the course of the down turn, and we also wanted to protect projects which are our near term future.

If I turn to the detail on slide 5, I would draw your attention to the extraordinary drop in zircon demand, a 55% reduction in our sales. Also draw your attention to the restructuring impacts which we saw some of in the first half and that continued in the second half with a number of one-offs around restructuring idle capacity, impairment and so on with a consequent effect in the short term on unit costs, but equally the fact that prices were supported through the period in part through our actions. We have in my view reset the company on a lower cost base going forward.

Slide 6, this flows from the previous slide. You can see in mineral sands terms no volume in the first half when we had good exchange rates, i.e. around the long run

average. We had volume in the second half but exchange rates were much higher and margins were lower due to the impact of the restructuring on our unit costs that I mentioned earlier. D&A was up and I will talk to that a bit more later, and in the case of Mining Area C, although there were volume increases we saw price decreases particularly late in the year which offset that benefit. Corporate costs look flat on these numbers, but 2009 numbers include Roche dispute costs and corporate restructuring costs in aggregate of \$7.7 million. So the underlying drop in corporate costs is actually there.

Turning to slide 7 in terms of cash flow and net debt, first half receipts from customers were protected by our strong second half '08 sales to some extent. There are some timing effects, but second half operating payments I believe show some of the benefits of our restructuring, being lower obviously, and also the line PP and E our major projects I would draw your attention to the fact that despite \$287 million in capex outflow in the second half, net debt was up only \$72 million in that period, albeit there are the usual timing pluses and minuses as at the end of periods at work in that.

The 2009 balance sheet, I think it was very inconsiderate of the global economy to deliver an unprecedented crisis when we were spending half a billion dollars. As I said at the half, I think the storm struck when our new house was only half built, but we survived.

Slide 9, I think I've covered most of this, happy to take questions on it later, it does provide a little bit more detail and some commentary on the key cost elements in the business, both cash and non cash.

Turning now to perhaps the broader story of **market conditions and our response**, slide 11, some of the indicators we track we do now have, as a result of getting caught out a bit at the beginning of '09, we have a sharper focus on lead indicators of demand that are independent of what our customers are telling us and the like. It is clear that there are signs of recovery in the second half, but it's a mixed bag isn't it? If you think about the National Activity Index in the US, which was reported on in The Australian Financial Review yesterday, one of the most accurate predictors of economic performance going back to 1967, it says the US is now above trend growth and on past history a strong V is confidently predicted, a V-shaped recovery. On the other hand it's easy to find converse data if you look for it. However, our experience matched these indicators of recovery, although patchy, in the second half.

In terms of zircon demand, I really wanted here to use an analogy. The US refers to this as a whiplash effect. If you think about a freight train, the engine, end-user demand, the person who buys the tile and puts it in their bathroom, the train slows dramatically, by the time all the little slacks - that is, all the inventory stored throughout the value chain gets used up first - the effect on the caboose that is, us, the feedstock supplier, is much more dramatic than what you see at the front of the train, and that is I think an accurate analogy for what we saw in zircon. China and Europe demand essentially disappeared for the first half and the full year respectively, and together those two amount to about two thirds of global zircon demand and sales. So it was a big drop. And the inventory effect as I mentioned, you need to think about that in the context of it working through the full value chain, all the way from finished tiles and pigment back to us.

The next slide 13, you will recall some of you that at the half we had a similar chart and it had a question mark over the trajectory that we thought we might see in the second half. We had seen first signs of an up turn, but obviously the balance of the year was yet to play out. We are pleased now with the second half trend in China, and by year end

demand there was above pre-GEC run rates in terms of demand. So China has come back strongly.

Next slide 14, in terms of what the industry did, it does fall to major players in these circumstances I believe, to protect future market dynamics and that happened and there was no price free fall. 2009, while painful, has decreased the propensity for there to be a long-lasting inventory overhang, and has increased the probability of future supply shortfalls and I will come back to that.

In terms of market conditions for high grade TiO₂, we saw a less severe dislocation here, driven by a slow down in construction and consumer related demand in terms of consumer durable goods. Major pigment producers are indicating that they have ramped up and they will be rebuilding inventories in 2010, which is good news for us.

Looking at the supply of high grade TiO₂, slide 16, again the majors acted to minimise inventory overhangs. We believe that high TiO₂ markets are now tight again, and as with zircon we do not see supply keeping up with demand as it returns certainly in our case, in terms of rutile and synthetic rutile.

Our own **reconfiguration activities**, slide 17, we acted as quickly as possible, given the need to fulfil some key contracts, protect people and assets, so what we did we needed to do safely and we did that, and obviously we have relationships with all kinds of stakeholders, including governments, that we have to deal with in the context of major reconfiguration. Essentially in WA we steepened the pre-global economic crisis glide path that we were on, it got steeper, we reduced output elsewhere, we reduced our workforce and that's a permanent cost reduction, and we reduced our overheads in line with that. Second half sales were greater than production and, in my view, there is an argument that people should look through these reconfiguration one-offs in thinking about the business.

Turning to slide 18, production and sales, details are provided here. As I've said previously I think we have avoided through our actions, particularly in zircon, but also others across the board, the prospect of a multi-year inventory overhang, or indeed capacity overhang in the industry. I guess the question for investors is will the gain now follow the pain? And I will return to that in a minute.

Slide 19, some information about where our zircon sales go, and the trends through the last four halves. You can see that the world disappeared on us in the first half, and that China returned strongly in the second. You can see also that other markets, although early days, are now following that trend, and you can also see I think why there was some price pressure for example in China, as the volume returned there, but sluggishly elsewhere.

Slide 20, same slide but dealing with rutile and synthetic rutile, again you can see as I've said before, slightly more steady with the exception really I guess of Europe in the first half continuing to recover more slowly in the second, but other markets coming back quite strongly in the second half of '09, hence my comment about tightness that we see.

The next slide 21... The fact is that there is a very low current intensity of use in China in both zircon and both pigment versus other markets. As GDP per capita grows, so too will consumption, and it is not just in my view the way people think about 'well if per capita income goes from \$2,000 to \$2,500 per annum, that's a 25% increase in their disposable income', for many people in China or hundreds of millions of people in China, it's actually that they have this disposable income of any kind for the first time. So

wealth is the driver and urbanisation the turbo-charger of what we see happening in China.

Slide 22, **pricing trends**, we have provided some historic information now on how we went in 2009. As I mentioned earlier, prices did not collapse despite a demand collapse, and it was no surprise though that you would see some softening as real volume returned to the market and to some extent as everyone tried to get into the same Chinese honey pot.

Slide 23, similar commentary around rutile and SR, prices are firm obviously, they are contracted typically in that side of our business. There was underneath though a lot of volume and product shifting exchanges that we had to manage as we reconfigured - swapping customers from one product to another and timing shuffles together with our customers. So pleasing cooperation I think on the TiO₂ (titanium dioxide) side from our customers as we worked through it all, and perhaps indicative of how they see the medium term and the need to align themselves with suppliers who have volume growth ahead of them. The market is now tight.

Slide 24, **portfolio transformation**. Now sometimes I think I shouldn't have been so impatient to deliver better value for shareholders, maybe if I had said 'oh this will be a five year journey 2007 to 2011, because that's the project timeline', expectations would have been set differently. However, we are an impatient management bunch, we did obviously as you know enter into the commitment and secure the funding in '08 for the projects. 2009 was all about constructing them, 2010 is all about ramping them up and getting the sales well established and in 2011 you see the new Iluka for the first full year.

Moving to slide 25, specifically **Murray Basin Stage 2**, you may recall that right at the front end we had some very disappointing approvals delays, things that are difficult for us to manage. We set a target for rapid construction and ramp up here because we had to given the approvals delays, given what we saw as market demand trends for high grade TIO₂, and given the margin pressures we were under in WA and the need to get Murray Basin up and running. So I would say to you that the target set for Murray Basin Stage 2 in terms of ramp up, was a tough one. We have undoubtedly fallen short of that tough target, and 2010 production as a result will be slightly below our previous expectations. There was also a moderate capex overrun as you know, proof of the fact that typically in large projects, if you are over time you will be over budget, and that was the case in the Murray Basin.

Next slide, a picture for those of you who haven't been there, the kit you see on the left is a mobile mining unit. We have a narrow pit here and a rapid advance across the ground. It is a simple operation in terms of mining in that it's a dozer push into that mining unit, and obviously, well not obviously but we are starting a long way away from our concentrator, we have very long pumping distances early on but they reduce as we go, and grades also increase as we go in this operation. So we expect confidently better results going forward.

Next slide 27, simply a photo of the processing facilities and process water pond. Water quality is crucial to our concentrator performance, and we did have some initial issues there, but they are now resolved.

Turning to slide 28, **Jacinth-Ambrosia**, conversely here we are ahead of our construction schedule and therefore below budget. Now we knew we had more time here given we had zircon, good zircon from WA and the USA. We have a complex supply chain to bed down, from South Australia transporting HMC (heavy mineral concentrate) around to WA for processing. So we planned approximately a six month

ramp up, we are very happy with the mining and concentrate start up, the first processing trial in Narngulu (mineral processing plant, Western Australia), which was on low grade HMC, not our normal run of mine HMC. The efficiency was lower than we would have liked, on the other hand quality was higher than we wanted to promise to customers as representative, so we have still got some things to do around the customer acceptance phase, but broadly everything remains on track with Jacinth-Ambrosia.

Next slide 29, similar photo to the Murray Basin one, similar style of operation, mobile mining unit, dozer push, a much wider pit here, so the advance is slower. This photo was actually just before a move of the mining unit, hence the distance of the mining unit on the left from the ore face on the right of the picture. Normally they would be closer.

Next slide 30, just an aerial of the final stages of construction phase on the main processing plant, the wet concentrator.

Now turning to **2010, key factors** to summarise on slide 32, we have seen a progressive restoration in demand, but I guess we would acknowledge that further shocks are possible, we have done a lot in the west and there's a little bit more to do and some further restructuring costs likely this year. We expect the Jacinth-Ambrosia ramp up to go OK, but the major sales contribution is as planned in the second half. Murray Basin I have covered. The first half we are selling some inventory that was produced through the period of turmoil, and therefore it's in higher cost in our inventory and that will have an effect on EBIT. Obviously there's higher D&A with the new production facilities commencing. Pricing, whilst you know that I am loathe to talk in a forward sense about pricing as we sit here today, we felt it appropriate to give you an indication for where we see things right now, and that is, and all I'm prepared to say, is above 800. We will continue to price our zircon essentially on a spot basis, so there is flexibility as the year unfolds. We have negotiated, and they are locked in, higher rutile and SR prices, some for the last year in relation to rutile subject to cap and collar arrangements, that roll off over the next couple of years across the industry generally, I'll come back to that. Capital expenditure of about \$100 million which is mainly just the final cash capital expenditure associated with Jacinth-Ambrosia and Murray Basin, and obviously we expect stronger cash flows.

Slide 33, I felt a need to put the disclaimer in again before we got to the next set of materials, and we are now going into Iluka's crystal ball.

Slide 34, we do **inducement analysis** on everything in the known universe in mineral sands, so this is our view of project inducement dynamics. It is important that people sort the wheat from the chaff in terms of project viability. To explain the graph, the three coloured lines are real projects, the black square at the centre is what we believe a reasonable investor would expect as a target IRR in this case, and the axes represent how far we believe zircon, or rutile in this case, prices would have to move in percentage terms or a combination of the two for the project to make sense, and you can see that in these three projects and they are quite well known, they do not, across the axes either at the square or to the bottom left, which would mean they make sense, the fact they crossed the axes in the top right square means that significant price moves, in our view, would be required to make these projects viable.

The same is true when you look at the prospect of any additional upgrading capacity in the industry, for example, our SR kilns or additional slag furnace construction. Plus you have got the normal long lead times, remembering that Jacinth-Ambrosia, a record time line, still took six years. So we think there's a supply problem.

The next slide 35, is another way of looking at it. Remember that the zircon story historically is driven in a large part by titanium dioxide decision-making as to develop new TiO₂ sources, bringing with it an accompanying by-product stream of zircon. In our view, the world excluding Iluka, in terms of the geology that we know about, is getting leaner as to the zircon to titanium ratio which has historically been around .2. So more titanium in future does not necessarily equal more zircon in the same way as it has in the past. Also zircon demand growth historically has been greater than titanium. So the relative demand and supply paths, if you like the historic relationship between demand and supply, versus zircon, they are diverging and in our view even with a 50% price increase, zircon supply to 2015 increases only marginally relative to 2011. So we think there is a very interesting supply picture emerging in this industry based on our supply analysis.

Same analysis for titanium. Now high grade TiO₂ does cover a number of products, in our case typically rutile and synthetic rutile, but the conclusions are similar to those for zircon. Significant price increases required and even then, supply growth may not meet historical demand growth. There are also in this case particularly, the very significant cost pressures on upgrading economics in South Africa, which we think will inevitably flow through into the pricing dynamic for our high grade TiO₂ material.

Slide 37. Really all I can say about this one is not surprisingly the absence of half a billion of capex going out the door transforms the free cash flow of the business, even if everything else stays the same.

Slide 38, a health warning here, this is Iluka's view, but it's a considered view, this is a revenue to **cash cost curve** for the industry, it is as I say internally generated, although similar analyses are available from industry consultants. We believe we are well placed relatively post these projects, compared with the rest of the industry. Note also that there is a tail to the industry whose survival must surely be in question, given on our view, even in the fairly benign conditions beyond 2010, relative to '09, they have a revenue to cash cost ratio of less than one.

Slide 39, **China is transforming global zircon demand**, as it has with steel. A similar percentage as you will note, but a smaller physical effect in terms of year on year change so far, because China started on a much smaller physical base in the case of zircon. So in my view we have not yet seen the physical demand in terms of tonnes, playing out in zircon in the same way as you've seen in some other materials, but in my view it will happen.

Turning to slide 40, in the future our production is based 80 to 90% on Murray Basin and Eucla Basin, and the revenue to cash cost curves highlight our relative advantages versus the industry and versus the old Iluka.

Now the **emerging characteristics**, slide 41 and the last slide, I won't talk to the supplementaries, the company asset base transformation is largely complete, or we are past year three out of five, depending on how you want to perhaps characterise that. The shape of 2010, well we are stating the bleeding obvious, that it is dependent upon what happens in the world. Our project execution risk clearly in terms of construction is reducing, we are now in the operation and ramp up phase, you know, we are not yet through that, but we are confident that we will manage the inevitable issues that arise. Further shocks can't be ruled out, you would all know better than me that there is a significant public sector deleveraging phase the world has to go through. We have seen a swap of private debt for sovereign debt, that needs to be delevered in the same way as the private debt has. So we have got a ways to go globally yet. We think the financial characteristics of the company should improve markedly as go forward and

although battered perhaps by 2009, we continue to look forward with a belief that these assets, Iluka, this industry can deliver for shareholders, and with that I'll stop and we will hand over for questions.

Question:

Good morning David, just a couple of questions. One, that chart 38 showing the relative revenue positions, can you give us some indication of what the price assumptions were in that, and particularly the price assumption for pig iron?

David Robb:

No, our view of pig iron is you wouldn't be surprised to know, gleaned from available sources. We have no insight into that that you couldn't equally have, so we don't assume anything there different from what others who know that market assume. We have our own view on prices in terms of our materials. Clearly you are identifying that the ratio is highly dependent on absolute prices, and on their relativity, i.e. your product mix, but I'm not prepared to divulge what they are. We have not changed our view around price trends materially over the time that I've been here. We have a view of forecasting which is based essentially on a combination of long run history and our view of supply and demand going forward. I don't believe there is anything in there that is heroic, but I am not prepared to give you the details.

Question:

The second question is, in relation to your ability to respond to higher market demand, obviously the list from my perspective would be the volumes of sales out of J-A that you are forecasting for 2010 are disappointing, can you just sort of talk about both the ability to ramp up or increase production if the market were to be stronger than your expectation? And also, could you touch on how, what sort of standing are you keeping the synthetic rutile capacity in WA? In other words, are you keeping both the asset and the human capital, the technologists are available to be able to restart those kilns if the titanium demand improves?

David Robb:

Again good questions. I think the first one, we clearly have zircon capacity, we are running reduced rosters in the US for example, there are further zircon resources in the west if we chose to access them both in the form of deposits, or extensions to existing deposits and also HMC that we've already produced and non-mags materials that we have sitting in the southwest that would easily be processed quickly. So there is latent capacity. I hear your comment about Jacinth-Ambrosia, there's latent capacity there to do better than what we are currently banking on. So let me just leave it there. In relation to the SR kilns, they physically are being kept in good condition. The human resource challenge is the correct one to identify there, that and suitably priced feedstock. We certainly have retained all the technical skills and will continue to do so as long as we operate any kilns. Physically getting enough hot bodies, that would take a little bit of time, but we continue to explore, given what we see as the tightness, ways in which kilns can be brought back on, and there are discussions that are occurring with customers as well, who we believe sense a similar pattern emerging to what we do in relation to the availability of high grade materials. So this is, we have been saying this for a while now, and we think it is just getting more and more evident to people more generally that there's a tightness and potentially a dislocation in terms of supply, starting with high grade TiO₂ and moving into zircon.

Question:

Just a quick couple of questions, one, how long are facilities maturing at the first half of the year, is there any other maturities in the second half or early next year we sort of need to be aware of? And secondly, just in terms of the skew of the zircon sales, is

there any sort of [indecipherable] for around how big the skew is this year relative to say last year in terms of how much material is contracted for the first half of the year? Or is it really just going to depend on those sort of spot sales in terms of zircon for the first half of the year?

David Robb:

In relation to the first question, no there's nothing in the second half. The next due date, is for the working capital facility as a typical 364 days revolver, so it will come up again in the first half of next year typically. US private placement money, we have got US\$30 million at the end of '11, and then there's A\$100 million in 2012 under our core facility, and then the balance the following year. So nothing in the second half to answer that question.

Question:

Just in terms of the zircon skew of sales to the second half of the year, it's not going to be as marked I suppose 2009 was, but certainly is it a 40/60 skew, or 30/70 skew between the first half and second half in terms of sales?

David Robb:

I'll ask Chris to comment on that. We certainly are not seeing, it's fair to say, the normal Chinese New Year drop off for a quieter period in China, so that's encouraging in relation to first half versus second half split. We've got quite a lot of ordering activity in relation to Europe which was different from last year. This time last year when there was virtually nothing happening, so no I think that the signs are that the skew won't be as great I guess from where I sit, but Chris would you like to comment?

Chris Cobb:

Yes I endorse what David said. The normal hiatus around Chinese New Year, which can be as much as a month, isn't occurring. It's obvious that the factories have run on very low final finished stocks and they are coming back early, so we are seeing early signs of renewed demand in China in the first half. The second half of the year will basically, assuming there's no change in the economic up turn, will obviously produce more demand looking forward and especially in Europe where we see a gradually improving situation, and in the US where things are again returning to something like normal.

Question:

Good morning, just a couple of fairly simple questions. I think this is the first time you've got some of your inventories in your non current assets, I'm wondering the timeframe and the reason why you've reclassified it to that? And that other question is some guidance on Area C royalties for 2010.

David Robb:

I'll deal with the second one and then hand over to Alan or Simon for the first around inventory classifications. You know MAC, it's fair to say we are a little disappointed with the fourth quarter in particular where I guess the royalty result is slightly at odds with the commentary around iron ore spot price and so on that we have been hearing from the suppliers. So we don't get a lot of visibility on that as we said previously, they are not obliged to provide us with any detail on their produce mix or their pricing strategies or whatever. Who knows if they have got regulatory approval for a big joint venture to get and whether that's colouring the short term behaviour I don't know, but yes it was softer than we thought it would be right at the end of the year, Mining Area C. The volume was there but not the price.

Looking forward to '10, well we know what you know in the sense of we now appear to have not only BHP banging the spot drum and that that is the market, you have got Vale very definitely saying that's their view, unlike previous years and Rio also saying similar things. So I think it could well be the case that 2010 is a very strong year for, a rebound year if you like for Mining Area C, where we'll get prices back to where they were before 2009, or before the drop, and on higher volume.

Question:

And the inventories?

David Robb:

Alan?

Alan Tate:

Part of the reconfiguration that we put in place in WA related to the South West, and previously we would be processing the non-magnetic component of our South West production. Our plan going forward is that we will be able to process that through Narngulu or Hamilton (mineral processing plants), but in the short term the process in both plants will be concentrated on Jacinth-Ambrosia and Narngulu and also the Kulwin in the Murray Basin. So our view is those non-mags which we have produced in 2009, we won't expect to be processing until 2011, probably about mid-2011, but again that's part of our potential increase supply that we bring on to the market because it's very rich in zircon and also rutile.

Question:

And it will build up over 2010 as well that non-current inventory?

David Robb:

No it's pretty much a fixed quantity now. We are not mining in the southwest any more, so if you think about it the ilmenite has gone into our kilns, we are left with the non-mag material, the rutile and zircon and that was part of my answer about extra capacity to supply extra demand. It is very rich material that we could take through I think earlier than the accountants have classified it, if the market is there. We will have, in my view, some upside capacity in both Murray Basin and Jacinth-Ambrosia as the operations stabilise.

Question:

Thanks for this David, very comprehensive. I'm referring to page 25, the lower guidance, by the very small reduction in zircon and much higher in rutile, are you going to a different area, or what's happening there?

David Robb:

It's really that the difficulties, or the disappointing earlier performance has been centred around Kulwin. As we've said before as we move north the deposits become more rutile rich and less zircon, so hence the disproportionate effect in rutile. We are also able to offset some of the zircon shortfall we believe with an acceleration of bringing on the Echo deposit, which is a satellite deposit near Douglas, which is conversely zircon rich. So we have got a lever to pull if you like that offsets the zircon shortfall from Kulwin that we do not have in the rutile side.

Question:

That's fine. Now Jacinth-Ambrosia, that guidance, just remind me, the 2010 is that new or different or not?

David Robb:

That's a new disclosure, we've not previously put a number on '10, all we've said previously is that the first full year would be 300 and we have said consistently that the ramp up of Jacinth-Ambrosia, or indeed its construction, would finish later and we really wouldn't get much happening until mid-'10. Now I understand that people may have allowed a higher tonnage, but ramping up big projects and a big logistics change and so on, we've always, with J-A because it is such a cornerstone of our future, we are wanting to do it right.

Question:

And the other one was, the current half loss projected by yourselves, I'm reading it's the inventory and the low returns on it, therefore low EBIT etc., but is there any risk to that on the upside? In other words, is it locked in almost?

David Robb:

Sorry, is the loss locked in?

Question:

Yes, in other words, how do I put it? You are talking about selling inventories at a low margin that sort of thing, where's the upside in that forecast?

David Robb:

I don't know whether we are now a bit shell-shocked after '09. You go through what we went through in '09 particularly in the second half, and it has some lingering effects. In our case that's a lingering effect around the material that we were able to produce in '09 compared with the fresh material, if you like, that we will produce out of Murray Basin and Jacinth-Ambrosia in 2010. You will see that in the second half much more than the first half, and hence our commentary around the earnings potential of the first half being skinny. Now is there upside? I think there is, particularly around the tightness in markets to which I referred, so in price.

Question:

Thank you. I was looking through the various packs out today for some update on the total zircon stocks still held. I saw one reference to the Murray Basin stockpiles being down a little on the previous year. Is there a number across the suite of assets that you are able to provide on zircon stockpiles?

David Robb:

Yes, I think I've explained before that we, because of our role in zircon in actually balancing the world, we choose not to provide really explicit information around our inventory levels and in particular going forward frankly, where it is held, because it won't be held in Australia very much it will be held in various parts of the world given changes to our logistics approach, and we think that's a strategic advantage for us. What it should be clear to everybody is that sales were greater than production in the second half, and I have said previously that I'm quiet comfortable with the level of zircon inventory that we are holding relative to past years, and I think it's also fair to say that we would now expect the draw on that through Ken, as a combination of both the slightly slower start in Murray Basin, and the demand that we are seeing, the lack of a Chinese drop off, that Chris mentioned, it may well come down quicker than we would have thought six months or so ago.

Question:

Perhaps I'll just ask the question in a slightly different way, on slide 32 the reference was first half sales coming from the higher cost inventory, can we take the read through there

that maybe in six months' time you've cleared out any excess and you will have a balance in the market, which no longer..?

David Robb:

Well to start with we've got nothing in terms of TiO₂, so there's nothing to clear there basically and in terms of zircon, look I think by certainly the end of the year we will be running on pretty much our sustaining levels. The shape through the course of 2010 we will wait and see, but this is not a multi year issue for us, and even if there was, it gives me no concern given what we see as the benefits of managing that inventory strategically and tactically and getting the price outcomes we want. It doesn't cost us anything really other than a bit of working capital to hold.

Question:

The six month shut down on the, I guess what I would call the third SR kiln over in WA, can you remind me what drives the shut down or the idling for the back half of 2010 and then the resumption thereafter?

David Robb:

It's a combination of a number of things. One is economics of the business at today's combination of prices, exchange rates, feedstock costs etc., end of contracts which give us the ability to make a purely financial decision, sending a message to the industry that we are only going to run stuff that makes a buck, all of the above but it's not a permanent state of affairs necessarily.

Question:

The question I have relates to the ramp up of the zircon project in South Australia and also Murray Basin Stage 2, my read is that those projects won't contribute to the P&L until the second half of this year, could you just confirm if that is the correct assumption to be making or if, in fact, there would be some contribution in the current half? And that's the only question I have.

David Robb:

Yes I think that's a fair characterisation. I don't know about second half of '09 versus latter part of the first half, depending on how we got, but ramp up periods do not produce, typically, your target or not target because you expect it, but they do not produce the kind of efficiencies and unit cost structures which you get when you are running and producing your design tonnages, you know? It's just a volume, it's just a denominator problem if you like that you don't get all of the efficiencies through the plants until you are running them flat chat. I think we have got a pretty cautious view, but we shall see. Alan, assuming..?

Alan Tate:

No I think I agree with you David, it probably is the latter part of first half into the second half that we will see those efficiencies coming through.

David Robb:

But we have really got a raised eyebrow I guess, about what's going on in the industry and how our customers are getting nervous, so we shall see.

Question:

Good morning David, look I just want to dwell on something you said at start of the call, because last year you said all producers had been quite disciplined, but then you said demand is being competed for by supplies at the end of '09, does that mean to say that you are starting to see a breakdown in discipline and people are getting a little bit more aggressive to price product?

David Robb:

Yes I did say that and I say that and I stand by that. I think in the context of what happened in 2009 to this industry, the reaction of the three majors was all that I could have hoped for across the year. Towards the end did we see a bit of fraying? You know a price posture is a bit of an academic thing when you are not selling any volume. Price posture actually has dollars attached to it as demand returns, and I think I referred to that at the half. So yes, at the edges I think we were a bit disappointed in some behaviour but it's a competitive world, people can march to the beat of their own drum, we do the same.

Question:

Yes, is the fraying continuing then, or is it still continuing to fray, to use your words?

David Robb:

We believe not, and we believe indeed that there are already indications and communications with customers from other people flagging price increases.

Question:

And secondly, your charts on slide 19 shows Europe as about, over a third of your business and obviously the one that hasn't bounced back. Are there particular countries within Europe that are dominant consumers of zircon for you?

David Robb:

Well yes you guys would know well the troubles of the PIGS and certainly Italy and Spain are two cradles of ceramics and zircon demand. We have big customers domiciled largely in those countries. They are having to reinvent themselves a bit, but they are doing that to focus more on exports than on domestic demand, we are quite pleased Chris I think it's fair to say, with how they are travelling? But yes, Europe's being overtaken by other parts of the world in our industry the same as it is in many.

Question:

But it's still a third of your business? Well was.

David Robb:

Well yes, but it's coming back, perhaps Chris can comment on the most recent discussions he's had and how we are seeing things?

Chris Cobb:

Yes fine, Chris here. First of all Europe's a much more important component to the businesses from South Africa due to its proximity geographically. So the impact has probably been greater on them and that's triggered their increased presence in China. In terms of Spain as David touched on, it is reinventing itself, the old, they produced 10% of the world's tiles prior to the GEC, I don't anticipate that they will return to anything like that. However they have focused on frits and glazes which are partial finished products which they can export around the world and they have changed from a 70% local usage of zircon products to 70% is now exported. So a different Spain to what it was 18 months ago. In Italy, that market has probably stood up a little bit better due to the quality they produce, porcelain tiles, and we are seeing encouraging signs that Italy is growing again.

David Robb:

I think you do the maths on a third of the world's zircon demand being China, give or take probably more, growing at 15% per annum. It doesn't take long to overcome any restructuring effects in other markets, and that's before we replicate what we've

achieved in China in other emerging markets, which we are now very clearly focused on in terms of Latin America, the Middle East and so on, and we think we can do as good a job there as we've done in China over the last couple of years.

Question:

Dave, customer acceptance of the new product you are producing at Narngulu, or trials from J-A, what is the issue with that? Is it the quality, did it degrade the grind, the size? Where's the push back?

David Robb:

There is no push back issue, we just haven't given it to them yet. We made a mistake with Murray Basin Stage 1 in that the initial material that was supplied was actually too good, and we created expectations that we were not able to meet subsequently, and we are just making mighty sure that we don't do that again. No it's simply that we are not yet running the separation plant in its full production mode, and we don't want to create expectations that we can't meet. So the issue around acceptance is simply that in accordance with our schedule, we haven't given them any yet.

Question:

Secondly China, can you maybe map us out how you are marketing in China now? Has that changed from where you were 12 months ago and given your recent comments about people incarcerated, has that changed the way you market? And do you have a better feel for the market then?

David Robb:

Victor initiated a transformation of our marketing in China, certainly he and I discussed it a lot about how we could get closer to customers there. We have reinvented our logistics in terms of just in time material in warehouses in China, ability to supply in small lots, direct marketers, our own people there that we are augmenting, Chris can talk to that now, a model that we are replicating elsewhere. So Chris do you just want to talk about where we are at today and where we are going?

Chris Cobb:

Yes, basically the changes we made at the end of 2009 was to make Shanghai a regional hub for our businesses in Asia, so that incorporates moving the Sales and Marketing Manager for Southeast Asia to Shanghai at the beginning of March this year and we are expanding, well we are moving office and expanding the back office capabilities, so that we are more nimble, so we can meet customers' demands quickly. We have got the material on the ground, and we have a variety of materials, so we can meet different markets, whether it be for chemical grade zircon, or for premium grades for ceramics, and we are looking at the opportunities to go further than that and use it as a distribution hub for the rest of Asia. So taking bulk products up there and bagging them and redistributing them around Asia. So we see Shanghai as a very rapidly growing part of our global distribution network, and becoming more autonomous in the way it operates.

David Robb:

Obviously, the task for us, and we think we can achieve it, is to stay one step ahead of the competition.

Question:

Is it fragmented David, or is it consolidating? Are you dealing with more customers you can possibly hope to satisfy properly, or is the supply chain with the hub in Shanghai enough? Or do you have to do more to penetrate?

David Robb:

Chris can answer that, there is clearly, a highly diverse market in China. I did give all of my marketers under Victor a copy of a book that I would commend to all of you called The Long Tail, and it reminds everybody the massive amount of volume that exists under the curve, which is the distribution curve of customer size, and tends to be not focused on enough by people. So my question is if we are only 35% of global zircon supply, 35, 40 whatever, why aren't we getting more of the balance? And that often sits within the long tail particularly in China. I think we can manage that appropriately, Chris do you want to say anything?

Chris Cobb:

Yes, the tail gets longer in China as the opportunities exist and it is low barrier to entry, especially in the milling for flour part of the industry, but we've seen some of the bigger players grow quite dramatically over the last couple of years, and one particular customer now is, was in 2009, albeit an unusual year was actually, I think this customer was Chinese for zircon. So there is new investment in latest technology there, and the quality of their products is improving dramatically, especially from the bigger producers.

David Robb:

Just to mention in passing, remember that zircon intensity of use in China, last time we sort of looked at it, we estimated it at about 0.2 per square metre of tile versus a European average of, Victor, 0.8? So what you will see in China is not only the fundamentals of floor space population, wealth, whatever, driving the square metres, but the quality will go up as well and therefore the intensity of zircon within a tile could go up also, and particularly as they target penetrating export markets, but from a quality they can't access yet. So if all of the world becomes more dependent on Chinese tiles, given our freight advantages into that market, that's no bad thing for Iluka relative to other suppliers.

Question:

Lastly Dave, you mentioned, one of your final comments was 'Iluka and the industry are poised to deliver', how should we measure the delivery?

David Robb:

No I said, what I said was that we have a belief that our assets in this industry can deliver, I'm not so bold as to predict that everybody else in the industry can deliver for the reasons I think I covered off on in our earlier inducement analysis for example, or indeed in that revenue to cash cost curve. But for Iluka, yes, I've never put a number on it, we have got an objective which is to create and deliver value for shareholders and there's lots of ways to assess...

Question:

I don't want a number but is it growing into your NPV? Is it returning cash to shareholders? Is it getting a suitable margin on your assets? What's the metrics we should look for?

David Robb:

Well we drive, you wouldn't be surprised to know given my background, certainly we measure our performance in terms of TSR. We measure our return on equity, the standard measurements if you like of performance in shareholders' eyes, and value for shareholders would be measured in those things. I guess in the near terms it is clearly, we expect much better margin structures, better free cash flow and options therefore to distribute that to shareholders or reinvest. So debt we would like to think will fall away quickly and options will open up about how we deal with the cash flows that result from

the investments we have made. I'm not going to paint myself into too small a box about just what and when.

Question:

Just a quick one for Alan, D&A 2010 coming out of Murray Basin 2 and J-A, given they are both ramping up, do you have some guidance as to what the D&A should be either first half, second half or both?

Alan Tate:

Yes we have, there's a supplementary disclosure.

On cash costs, so D&A next year we mentioned \$220million, and also in the pack there's a split of Jacinth-Ambrosia and Murray Basin indicative D&A for 2011/2013.

David Robb:

Which is slide 40.

Question:

Hi Dave, can you just give me a feel for where you are spending your business development dollars and exploration dollars going forward, given finishing up at J-A and Murray Basin Stage 2? And if you can provide a comment to that in context to the sort of slide 34 where you don't see, I guess, new projects being economic in the current pricing industry?

David Robb:

Well obviously none of the lines on that slide 34 relate to us. Our exploration dollars are increasing in absolute terms significantly from roughly 20 million a year to nearer to 30 over the next year or so. The bulk of that goes in the Eucla Basin, then Murray Basin, then worldwide. We see real opportunity to provide future growth options through our exploration dollars. I have said previously that what I think people miss a bit is that although I've been spending, let's say over the last couple of year maybe 20 million a year or thereabouts, a very large proportion of that has actually been on resource definition and characterisation work associated with the projects. So the actual greenfields percentage of that number was quite low, whereas that will not be the case going forward, that the bulk of the 30 million will be green fields. We are confident given our tenement holdings, 90,000 square kilometres in Australia, including some ground that we acquired from Rio recently because they exited, we've got some, we believe some value for shareholders embedded in that acreage and in that spend and in our expertise, that is afforded zero value by the market and I don't believe it should be.

Question:

And David, just to take that a step further, given the latent capacity you see yourself having in WA, are you purely focusing on those tenements on sort of high zircon rich deposits, or high TiO2 style deposits?

David Robb:

Well, typically in this industry deposits are either very large and low grade, if you think of a Corridor or a Richards Bay or something, or they are much smaller and rich, like Murray Basin and J-A. The holy grail is at the top right where you get both and maybe that was Eneabba originally. We think we can build a province in both the Murray Basin and Eucla Basin that leverages existing assets, that extends the life of the investments we have made to date, and obviously that is very leveraging for shareholders if we can do that, and the inducement curves that you see there relate to other people. We will be going through a process based on how the world recovers and what we see in terms of price trends, of re-optimising some of our existing deposits and just making sure that we have a current view about whether that makes sense or not.

Question:

Thanks, and just one more on the market. If I look at slide 12 on zircon and slide 15 on TiO₂, you sort of comment that on zircon you have seen a bit of a drawdown in inventory, but you don't mention to any sort of view of inventory restocking in China or elsewhere. I guess demand hasn't returned in parts of the developed world, but you mentioned that you do refer to a rebuilding of inventories in TiO₂, so can we take that as TiO₂'s, sort of 12 to 15 months ahead of zircon in a lot of ways?

David Robb:

Not necessarily. Obviously in a way the visibility we get on the chain in zircon is a bit less. It is ramping up, we don't think we have yet seen any significant restocking or rebuilding of inventories, I think the industry is still pretty much running on the smell of an oily rag in terms of zircon. Really those comments just reflect that there have been some very explicit statements by, in the major pigment space, of people saying that they are going to rebuild inventories. Chris, do you want to..?

Chris Cobb:

Just dealing with pigment first, the major pigment producers have really run their stocks down to suboptimal levels during late '08/'09, and they've openly said that their production will exceed their sales in '10 as they rebuild those inventories, so that they have efficiency of operations, and that's leading to the tightness in titanium products, and for us in rutile and SR, of no stocks. In terms of zircon, it's a much more dynamic market, it's a spot market and in China historically inventories have been used as a hedge against price increases and therefore where prices are stable or soft, they tend not to rebuild those inventories. That position is changing rapidly and once the turnaround comes on pricing, then those inventories will be rebuilt very rapidly as that future hedge again cost of production.

David Robb:

And our challenge, I think, I a bit different from, or given the lessons of late '08 and why we have put our inventory closer to customers, is so that we can manage customers' ability to store product in anticipation of future price increases, so that we get the margin on the price increase quicken than would otherwise be the case. I hope that's clear. Also on the pigment side, just think of an analogy around a steel mill who may well run their steel operations on a mixture of hard coking coal, or semi hard, semi soft you name it, to try and optimise both quality and price. The same is true for pigment makers who tend to run in most of their plants a blend of feed stocks, but they need the blend. So they can't, if part of the blend gets tight, it's not like technically they can simply flick a switch and say 'oh well, we are not going to run the blend, we are going to go all the way to the low quality end.' In the same way as a steel-maker can't simply say 'I'm going to run 100% semi-soft' technically they can't do it even if commercially they thought it was a good idea.

Same thing in pigment, so even if there is enough ilmenite in the world for example, there's plenty of customers out there for whom that's not enough, hence our focus on the high grade end.

Question:

Good day Dave, firstly as you ramp up your two new projects, I'm just wondering what part of the production goes to stock piles of rutile, and secondly what's the plan for hedging into 2011 and beyond and also just looking at Chinese imports of SR and rutile, they are still very low. I was wondering if you showed imports of pigment, would that be a different chart?

David Robb:

Rutile to stocks will be zero. We are producing everything we can as fast as we can, because we know we can sell it tomorrow. So that's answered that question. In answer to the hedging, well there was a negative \$49 million impact in 2009. I have said consistently that our goal is to build a business with a margin structure that once we are running fully on the new assets, is our best defence and with frequent and uncapped pricing environments, then that is how we will manage the currency risk. We did take out a significant dollar amount of options for 2009/'10 in relation to currency. So we've capped the downside of the higher dollar, but we have left ourselves open to the fact that if it goes the other way I mean, the divergence of views about what the currency is going to do is as big as it always is, but my thrust is to get us to a point where we don't hedge, and nothing has changed in that regard. We continue to assess it through 2010, if we think it would still make sense to roll that forward we would probably look at it, we'd probably do it again through options rather than fixed contracts.

David Robb:

Yes you've yet to see China's impact on that market on titanium feed stocks and I guess it's because they are big on the sulphate ilmenite, but I understand that you can never get the same quality pigment from sulphate ilmenite and so I was wondering if you looked at pigment imports into China would that show a marked increase just as you are seeing in zircon and other commodities?

Chris Cobb:

The Chinese have continued to improve the product they produce from the sulphate process. They source ilmenite both locally and from around the world and their industry is dominated by the sulphate process for making pigment, and the quality of many of those companies is improving rapidly. There is a segment in the market demand in China that needs a chloride pigment base and that material is imported, and of course comes from the same customers we supply synthetic rutile and rutile to. In China, rutile is predominantly used in the flux-cored wire market and isn't at all...

David Robb:

So common.

Chris Cobb:

Yes and welding, therefore isn't at all common in the pigment market. They tend to use the ilmenite and upgraded ilmenite, which is a sulphate slag.

David Robb:

So other than that import component, you have not, we have not seen the effect on Iluka of China in the TiO₂ space in the way that we have seen it in zircon given we supply the high grade materials and therefore are more aligned to chloride pigment production, but we have a view, and I think it's a commonly held view, that China will eventually either buy the technology, or acquire it by some other means, or figure it out for themselves and when that happens and China goes chloride as well as sulphate, that will be a very interesting factor in demand for high grade TiO₂ where we are strong.

Question:

Hi David, just a very quick one. I noticed today that Royal Gold completed their takeover of International Royalty Company in the States. I think they paid \$650 million for \$29 million of revenue during the last 12 months. I guess in the context of that, where do you see the future of your royalty which I think generated a fair bit more than that?

David Robb:

Clearly if you look at the PEs or the transaction multiples associated with the royalty space generally, you guys have far too low a number on MAC. We have made a very conscious decision to date to keep MAC, we think it's a good asset. We've also, and that has lead us of course to rely on shareholder funding for the projects, and through the global crisis last year. So that's a conscious decision because I think it is a truly unique asset. It has growth profiles almost in perpetuity that are hard to find in any other royalty, let alone international royalty, which as you know is largely a basket of potential royalty streams. We keep under review all the time, ways in which we could prove to the market that it is undervaluing MAC, but it's a great asset and it's very, has been very important to us over this period, because it's no surprise to you that it's an important piece of our bank funding, not structurally, but it's a low risk cash flow that any banker obviously likes having in the mix. It's a superb asset and if you apply those kinds of multiples that are out there and I know International Royalty Company and its people, and we think a lot about what we could do with MAC, do we add other royalty streams to it? Do we demerge it? Do we find some other way of demonstrating unequivocally its value without selling it? They are all things we think about regularly.

Question:

Are there any tax considerations if you actually dividend it to the shareholders, or listed it in another company which allowed you to keep on consolidating it?

David Robb:

Well again, as I've said, clearly previously to others that you do an in specie distribution, you pass the tax consideration to the individual shareholder, it's in our books for virtually nothing, so an outright sale would crystallise the tax leakage, so that's not a very effective way to go and it's also the kind of decision frankly that in hindsight will probably tell you is an absolutely dumb thing to do, irrespective of the tax because I guarantee that whatever we do with MAC will probably be seen later as the wrong thing, that's the way the world works.

No the tax considerations are very important in anything that we would chose to do. As the mineral sands business grows and as it demonstrates its own resilience, then you know you can think perhaps more readily about demergers and in species and so on, or some other mechanisms, you know? There are other ways to convince the market I think that it is affording it far too low a value.

Question:

Given you review a lot of the assets on the balance sheet, just in the results and previous results, why don't you have to revalue that upwards?

David Robb:

Sorry?

Question:

You were saying that assets have been, you've taken write downs on those assets, why don't you have to write up the value of the royalty, given it's on your books as zero?

David Robb:

I think you can only reverse previous write downs, you can't, is that right Simon or Alan?

Simon Green:

I mean we carry out assets at the lower of historic costs and where we need to write that historic cost down to a lower level, then we have to do that through the...

Alan Tate:

We don't apply fair value accounting for all our assets.

David Robb:

So it's a one-way street, typical in accounting, you know? You only get the bad effect, never the good effect in accounting. It is an extraordinary asset, it is a unique asset and in my clear view, it is undervalued and frankly, most of the market when they look at Iluka, they have a trailing effect. So they get, they update the view about iron ore generally and what that means for pure iron ore plays, it takes quite a while for that to feed into how people think about MAC, because it's coupled obviously with a business that is thought of in a different way, and we are conscious of the fact that that can lead to some disconnects in how we would see the value versus the market, but it's somewhat tricky to find a really good way that is in shareholders' interests to prove that unequivocally, but we are certainly, we keep a really close eye on how we might do that.

And I think on that we have gone pretty well over time. I thank all of you for your patience today, it sounds like everyone was hanging up. So thanks everybody we will call it a day, further detailed questions obviously to anyone that's on this call at our end.

END OF TRANSCRIPT