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## TRANSCRIPTION

**Company:** Iluka Resources Limited  
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**Moderator / Speaker:** David Robb, Managing Director

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David Robb (Managing Director)

Thank you and good morning everybody and thank you for joining us. I know it's a busy day for many of you. With me I have Alan Tate CFO, Simon Green, GM Commercial and Finance and Victor Hugo GM of Sales and Marketing together with Rob Porter, well known to all of you.

We're going to cover through the slides as quickly as we can to allow maximum time for questions and so I'll start straight away.

First off we are positioned to deliver, in my view, the transition is over. Our mineral sands performance is improving, we've got a strong balance sheet such that we have room, in my view, for capital management options to emerge in the future. Our projects, importantly, are on track. Well will talk a lot in the presentation about the industry picture and how we expect a slow start but overall demand for our products particularly being robust and that view is supported by our price outcomes to date which are above the average of broker forecasts.

Quickly on highlights before I hand over to Alan, obviously the profit, excluding significant items which we will cover in some detail, is in line with guidance a reported NPAT above that and as I say Alan will cover all of that, most of it relating to things we're obliged to do at the end of each period around asset valuations, positive in this case.

Mineral Sands EBITDA of \$166 million in the second half is a pleasing trend. We not only have maintained, in my view our strong reserves position but have the best exploration upsides in our industry and a very pleasing cost performance in a year in which we coped with gas outages in WA and all of the prevailing cost pressures in the resources' industry.

So I think a year of some considerable progress hence my reference to the fact that the transition is over and we are positioned to deliver. I will now hand over to Alan Tate.



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Alan Tate (Chief Financial Officer)

: Thank you, David. I draw your attention to slide number 7. We have the key comparisons to the 2007 results. You'll note that overall our mineral sands sales volumes are similar to that of 2007 but within that we've had a significant inventory drawdown recognising the continuing strong demand in the market especially for zircon.

On the currency side very similar spot rates across the year, slightly up in 2008 at 85.3 versus 83.9 and significantly our revenue is up 17.8% and that's contributed by the mix of our volumes with high zircon sales in 2008 again underpinning that strong market demand.

On the currency hedging side in 2007 we had a benefit of \$34 million and that related to close out of the hedging book of 2006 which was recognised in 2007 and in 2008 we had a hedging loss of 29.6, so gross change of 63.6, I will refer to that in a moment.

Overall unit cash production costs are up 6.5%. Our cash costs are similar but we have been impacted on the production side especially in WA with the gas outage and planned kiln major maintenance in the South West. Our NPAT is \$61.7 million and we had significant items of \$15.8 million relating to current value adjustments and recognition of tax benefits which again I'll refer to in the coming slides. Our reported NPAT for the year was \$77.5 million up 51.7% from 2007.

Turning to the next slide showing our overall group results, you'll see revenue up significantly from 2007 at just over a billion dollars. Also within the components you'll see two significant items. The first one is \$5.5 and that relates to the current value adjustments which occurred at the end of the year and also you'll see tax benefit 10.3 million. The 10.3 million relates to a benefit arising from the closure of the Florida Georgia operations in the USA. When we incurred those losses future income was uncertain in the US and subsequently we've announced the Brink deposit and expansion we are doing there and our future US cashflows are much more certain so we recognise that tax loss and that's contributed to a tax benefit of 10.3.

Overall if I draw your attention to the financial ratios what is pleasing is our earnings per share has increased from 21.6 to 22.5, that's on the higher NPAT offset by the increase in shares on issue from the successful capital raising earlier this year. And most importantly you will see our gearing ratio at 17.4% relative to 2007 of 44.3 again that recognises the successful capital raising but also the strong cashflow earnings for the year.

Turning to slide number 9, you will see the waterfall which compares NPAT of 2007 51.1% on the left to our NPAT for the year of 77.5 on the right. Overall prices, positive impact especially in TiO<sub>2</sub> relative to 07. Zircon was relatively the same as 2007 but stronger in the second half.

The hedging impact you will see as I mentioned on the previous slide the NPAT impact of that was 42.9 and the volume and mix had an NPAT



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impact of 89. So just note from the previous our volumes are very similar but the mix has been improved greatly especially on the zircon side where our zircon inventories have drawn down considerably.

Our cash costs have remained roughly similar a decrease in WA offset by an increase in Murray Basin which is now in full year production and within that we've absorbed the other increases in input costs that have occurred.

D&A is up \$11.6 million, we've had WA operations, new mine deposits flowing through there. Inventory drawdown to \$93 million reflecting the drawdown in stocks I mentioned earlier. A positive impact from MAC which I will touch on, other related to high royalty payments associated with the higher sales. Tax and interest due to our lower debt, our interest costs are lower. Exchange translation benefits of \$11.9million on our balance sheet the positive impact of our Narama sales giving us Before Significant Items \$61.7million. Significant items as I mentioned, \$15.8million, taking us to an NPAT of \$71.5million.

Turning to slide 10 the EBITDA remains strong for the mineral sands at \$222.3million. The decline in West Australia as we expected has been offset by improvement in the Murray Basin. You will see the depreciation and amortisation which increased which relates to our mines in the WA - Waroona and Cloverdale - that's given mineral sands EBIT of \$61 million versus 2007 of \$86 million.

On slide number 11 we have our cash cost of production. They are up 6.5% from \$305 to \$325/tonne of saleable product produced and that has been impacted by the decline in production in WA associated with the gas outage and also we had two kiln relines earlier in the South West, but overall our total cash cost increased \$6million.

Turning to slide number 12 and the Mining Area C iron ore royalty. We've got two components here the first component is capacity payments which for the year were \$ million that relates to the increased annual production coming from mining area C which were up from 23.9 to 29.3 million metric tonnes at 30 June 2008, as well the second component is our royalty income. We receive a 1.25% of FOB revenue that BHP Billiton achieves from selling the product from mining area C. So the increase in price that BHP has achieved coupled with the increase in sales volumes which improved from 23.2 MDMT tonnes to 36.8 MDMT has resulted in an increase in royalty income from \$17.9 million to \$50.8 million.

Turning to slide number 13. We've had significant items relating to our year valuation charges of \$5.5 million. At the end of each balance sheet we do a carrying value, assessment of all known current assets to ensure that no assets are in excess of their recoverable amounts and where there are in excess we are required to make an impairment charge. Also we need to review previously impaired assets to determine whether any factors have changed such that previous impairment charges need to be reversed. So at



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the end of this calendar year, our financial year we had two reversals of impairment charges previously made.

In 2005 we had impairment charges in the Mid West and in 2006 we had impairment charges in the South West. Our review of carrying values at 31 December 2008 has resulted in a reversal of our impairment charges in the South West, our \$45.6 million which is a full reversal of the previously made impairment charges adjusted for depreciation. As well we've reversed impairment charges in the Mid West relating to our Narngulu facility, that's resulted in the present extended life of that facility following our decision to process Jacinth Ambrosia material, or the Eucla Basin material, through that facility.

As well we've reviewed various deposits that we have in the Murray Basin and in the Mid West and we've made impairment charges against those of \$37.7 million and we've also made assessments of previous study costs relating to \$11.9 million adjustments, a net change of \$5.5 million.

So looking at slide 14, hey there you see at the bottom our net debt position has improved dramatically from 2007 where we had net debt approaching \$600 million, we're now in a position of net debt of \$215 million. Strong operating cash flow improvement from 2007 to \$223 million and you can see the flow through of the MAC payments. We've also increased our capital payments and that's associated with our Murray Basin Stage 2 project and our Jacinth-Ambrosia project and also Brink [Virginia] and also you'll note coming through the proceeds from equity raising of \$339.9 million which was a successful raising earlier this year. So overall a very significant improvement in our net debt position.

Turning to slide 15. An improvement is reflected as you will see in 2008 where we have a gearing ratio of 17.4% that I referred to earlier in the net debt of just under \$216 million. This profile shows where we see our net debt profile and balance capacity over the coming years. Our overall facilities are roughly A\$680 million made up of US\$130 million in private placements, syndicated finance of A\$445 million and we also have a 364 day working capital facility of A\$55 million. We see 2009 net debt peaking at between \$350 million to \$450 million and a maximum gearing ratio of around 30 for the financial year.

I will now turn over to Victor who will take you through the mineral sands market.

Victor Hugo, General Manager, Sales and Marketing

Thank you, Alan. I'd like to give you an overview of our markets and how we are approaching these markets both in the short term and the longer term. So if we go to slide 17, I think the issue that's probably on everybody's minds at the moment and so what we will address first up is the issue of pricing. This table shows the estimates of pricing made by TZMI in 2008



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versus broker forecasts in 2009. Really what I want to highlight is the fact that contracts that we have done to date all the pricing is higher than those of the broker forecasts for our key products being rutile, zircon and synthetic rutile.

So if we go to the next slide, I think it is important that at this time we also retain some perspective of the market over the longer term and I think it is important to say we retain a very positive view of the market dynamics for Iluka over the longer term. We say that because we still see in the medium to long term very strong demand growth driven predominantly through GDP growth in developing nations and in particular China. There's been a lot of discussion and analysis on Chinese growth but even at the lower estimates of Chinese growth that people are making, the important thing is that China is now our biggest market for zircon and will be the biggest market for titanium dioxides over the next ten years and hence even at the slow growth rates this is still going to result in large amounts of growth and demand for our products given that you've got high growth in your highest volume markets.

I think the other important thing that we see is that there will be continued supply constraints going forward and in our forecasts we've already factored in the expansion of [unclear]'s operations but we anticipate that it will be harder for new entrants to come into this market as we've seen in recent times just how difficult it is for new entrants to survive.

So we still believe that the fundamental supply and demand dynamics are in our favour over the longer term.

If we go to slide 19 what I would like to highlight is how we've approached the market in the longer term and the success that we've had in achieving our marketing objectives for the longer term and in particular our ability to rebalance our sales across the various regions and in particular the focus, or the success that we've had with sales in China of zircon.

The other things that we've done in recent times is the broadening of our delivery options and our logistics and the fact that we're selling more product now directly to customers across a wide range of markets.

In terms of the shorter term, slide 20 I will talk about TiO<sub>2</sub> and zircon separately. For TiO<sub>2</sub> we saw ourselves hold up during the fourth quarter, it's fair to say that end use demand did slow down in the fourth quarter and it's slowing in the first quarter so what we had anticipated and what we are seeing is a slowdown in demand for our products during quarter one, pretty much in line with our expectations and we anticipate that what we think has happened is there has been an element of de-stocking through the industry chain which during quarter two will have run its course and we are anticipating that demand will pick up from this time. So we are already seeing some evidence of ourselves picking up in quarter two, the only, I guess, area where we are - and that's why our high grade TiO<sub>2</sub> and for



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zircon the area where we are seeing a very competitive market would be for sulphate ilmenite which in our case is not that critical because we are not that reliant on that product for both our revenue and for our profit.

Turning to zircon, we see a somewhat different supply and demand dynamic at play. I think it's important to say that in 2008 zircon demand far outstripped zircon supply and that the difference was made up through a drawdown in inventory and as both Alan and David have highlighted, much of that inventory came from ourselves. So the situation in 2009 is that production will probably be less than 2008 again, there is some uncertainty about supply particularly from new projects and I guess areas such as Indonesia but in our analysis will be less than 2008. So in effect demand has to drop down significantly before it even gets close to the current supply capacity and hence that is what we believe is driving the pricing outcomes that we are achieving and in fact the prices will go up in 2009.

So, just to summarise all of that, slide 22. Clearly there is a lot of uncertainty in the market, not just our markets but across a wide range of markets and it is at this point difficult to forecast exactly when demand is going to rebound and by how much it's going to rebound. However, we believe that we are well positioned in this uncertain time. We have very low inventory levels starting the year and we effectively are protected to some extent through in TiO<sub>2</sub> through our contractual commitments that we have for customers to the point that over 70% of our retail and synthetic retail are under long term contracts in 2009 and those have been locked in. And I guess we're quietly confident about achieving our zircon pricing targets and we're moving fairly close with some of our major customers to agreeing prices in a range that we expect the prices to be for 2009.

So with that I'll hand over to David.

David Robb:

Thanks, Victor. Just before I sum up with a few final slides - just on this point of market demand. I make a couple of points: one - our customers know their markets best and our sales outlook reflects their judgment, and ours, obviously about their demands. So we are not flying in the face of their opinion, if you like. We are in fact aligned to their judgment about their markets and the recovery timetables and so on that Victor referred to. We are largely contracted in the case of our TiO<sub>2</sub> material, largely serving pigment markets as Victor mentioned and our view is also based, obviously on discussions and agreements that we have of our volume even as prices are finalised. I may remind you that we were considering rationing and flagging that to our customers well before the depths of this economic crisis were in people's minds.

Turning now to slide 24, just to talk about this transition being complete. I'm very pleased with our strengthened planning and evaluation capabilities. To be a successful business you need to make good decisions consistently and to do that you need to have the right disciplines around how you go about taking those decisions and I think we've got a very good capability



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there now and importantly, most of it driven off making sure we get the right return on capital outcomes.

Our balance sheet is in good shape. We took the tough decision to suspend the dividend. We did introduce some hedging to provide some balance sheet protection at the toughest time as we saw it and obviously the recapitalisation was a success.

To slide 25 - Capex. The return on capital measure drives a lot of behaviour and certainly we have seen a lower capital appetite in this business than previously.

We've also I think reflected that in the way we are developing the projects with two examples mentioned there. In terms of reconfiguring the business you would all know that we are using available capacity in the form of the Nangulu processing plant to process J-A concentrate. We have significantly truncated South West mining plans but as reflected in the revaluation in the write up of a previous impairment as we said previously, closure of the South West would be value destructive and this accounting outcome proves that assessment. In terms of - and we've indicated, I think, to ourselves and to the market that we're prepared to take assets out and capacity out that we don't see, in the reasonable period anyway, generating a suitable return. That's obviously how we've hydrated the West and things like the decision to idle the kiln.

In terms of our role in the industry in the next slide. However you define leadership I think part of it is capital efficient development of pivotal new sources of supply and we are doing that. We have targeted strong sales growth and believe we can achieve it. We are prepared to attempt within our ability to do so balance slot supply and demand, obviously that relates to how we manage our inventories from year to year, we saw that at the end of 2007 and monetised in 2008. We've adjusted, slightly, our zircon sales target in the medium term. It takes a bit of pressure off people's expectations I think but we have the option to run harder if that's what the market warrants. We've done a terrific job I think in accessing new markets and increasing our penetration in the most important one of all, of China and I think we have our major customers on board with us in terms of what we are trying to do.

In terms of our projects, you know it is a big achievement I think to have them both on track and on budget. And for Murray Basin we're still looking at first production in the second quarter. We've got all our approvals. Work has commenced, the major pieces of kit are either finished and on their way or undertaking pre-commissioning and we are confident that that project will be delivered within the original budget of \$209 million.

In terms of J-A which is I guess to some extent the jewel in the crown. We've got our major regulatory approvals around the construction and we expect the approval for operations in the next quarter and most of the key



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contracts have been awarded. The construction is going well. The wet concentrator plant - the one we brought back from the US - its refurbishment is nearing completion, It's already in South Australia as most of you know. the upgrade in Geraldton at Narngulu has commenced and that is going very well and again I am very confident that that project will be delivered within the budgeted amount of \$420 million.

So what are the emerging characteristics of our ability to drive value for shareholders? We will have both those new projects operating within 18 months, they are higher margin operations and that drives the group in that direction and obviously our capital appetite drops away. We see strong cashflow and earning's growth and we see a much greater resilience through the market cycles which probably leads us in the direction of a reduced requirement around currency hedging and we will rely on the quality of our assets and the strength of our marketing approach to maintain our margins.

In terms of shape of the portfolio, the next couple of slides I'll just skip over they really show the transition from now through to when we commission these new projects which is all around, obviously as you know, growth in the Murray Basin and bringing on South Australia and backing off in the West. That's true also when you look at product split where we become more weighted to zircon and rutile which are as you know premium priced products in our industry.

Overall and you know we are a bit coy about how we talk about this but on our assessment, anyway, when we look at our revenue to cash cost ratio which is one that is looked at in the industry and there are various analyses published that you can see about this, this is our view a 40% increase in that ratio from an index of 100 at where we sit today, obviously driven by J-A and Murray Basin.

So what are our priorities? We need to navigate the current crisis, we are not sitting here thinking we are in an impenetrable bubble, we have contingency plans in place. We have stress tested our decision making and we've stress tested our thoughts on how the year will unfold.

We have flexibility in any event. There are ways, if it became absolutely necessary, if this crisis became so dire and for so long that we have very cost efficient ways to start J-A up with a slightly different production profile. It saves a lot of costs in the early years, lowers the production a little bit and that's an option available to us, depending on how the market is going.

Importantly, I might mention for both our projects as we assess the returns today they are considerably stronger than when we approved them.

I think the marketing outcomes we clearly have something to deliver yet particularly around the zircon piece. But I'd remind you that was pretty much the same at this time last year where we were holding out for what we



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thought was the right price outcome and over the course of the year I think that stance was vindicated.

We have work to do on our projects, we know that we are not there yet but we are confident. We realise that we have to maintain and in fact increase our focus on costs and I believe there is still some low hanging fruit there for us given that we have had other priorities through the course of 2008.

There are still some things to do about how the industry is set up in WA I think in relation to capacity that was in a very mature province and how it shared and operated most efficiently. We will stay as capital efficient in our decision making as we can. We will continue with our market development opportunities. We think we've got big parts of the globe where we have not been as historically active as in some other places so we think we can replicate the China story in some other places.

We clearly, I guess as we complete all of the above we hopefully earn the right to think about what lies beyond Murray Basin and J-A and we certainly are confident that our investment proposition is a good one from a shareholder perspective.

I'd like to conclude very briefly- just why is Iluka different? It's the dinner table conversation question - why are you guys feeling different to everything else we read and everybody else we talk to?

Well in a nutshell. We have been doing things differently to most resources companies and most "wannabes" over the past two years.

We have been high grading our activities not chasing marginal production increases.

We've been focused on capital efficiency and return on capital, not a rush to grow. We've been truncating our existing mining and production activities in WA so that they could survive high exchange rates. It shouldn't be surprising to you that they do better, obviously as those pressures come off and we end up with a write up of the south West in line with what we said when we made the decision not to close it a couple of years ago.

We recapitalised early and I have to say, fairly, to all shareholders. We've developed new markets rather than filling up the stockpiles of existing customers. We are developing what in our industry are world class projects and not trying to monetise things that need everything in their favour to generate cash. We've kept those projects on track. We have a low risk royalty stream that is nice to have, it's relatively insulated from margin pressures as you all know and notwithstanding everything else it has volume growth and it's an A dollar price royalty stream therefore benefits from the currency drop that we've seen. We've demonstrated we're willing and it would appear able in zircon to balance markets. If prices go up, as we believe they have and are, in the worst global market many can remember



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that is a powerful signal and very positive for the years ahead as global confidence and economic activity grows.

We have been conservative and not expansionist, it's why we feel we are in good shape, it's why we are confident about 2009 and it's why, frankly, we are excited about what lies beyond 2009.

With that we'll open it up for questions. If you just let us know name and organisation and fire away.

Question: Yes just probably a question more for Victor. Just in terms of the duration of the contracts, you know the pricing outcomes to date seem to be better than what the market is expecting. Are they on shorter term contracts so you could prices potentially get lower in the second half of the year as things deteriorate further?

Victor Hugo: Yes, thanks for that. What I can say is that for the TiO<sub>2</sub> products our pricing tends to be done on an annual basis so the pricing we have locked in is for the full year.

David Robb: And in the case of zircon it's no different to last year. We've actually offered prices only for the six months in the main because we are confident about the price trend.

Question: Right, thank you.

Question: Good morning. Just want to go through some of the detail of cost guidance and while it might be a bit tough for the telephone you'll probably save yourself lots of phone calls to the rest of us. You've given us a cash cost base of \$651 million for 2008 and I just want to be clear about what that is in terms of the reported financial result. In your note 5, you've got cost of production of \$36.7 million. You can do the inventory change of \$70.2 million, you end up with \$666 million versus your \$551 million that you are talking about as your cost base. I assume the difference is the one off Varanus Island outages, is that how we get to the \$651 million?

David Robb: Alan, or Simon are you going to call on that?

Simon Green: It is stripping out those Varanus type costs where we were incurring it but weren't producing anything.

Question: Okay. Now could you provide us with a little bit of colour then on the other costs which would be the corporate marketing, R&D and exploration write-offs. Taking one at a time, I guess corporate was \$25.7 million this year, how do you see that panning out next year?

David Robb: I think just before I again hand over to the other guys. You need to be aware that in that line typically in relation to marketing that's where we capture royalties and given what has happened with prices and volumes through 2008 particularly for zircon a big chunk of that line now is represented by royalties. I think it's actually a thing that in our industry people don't look at as much as they do in coal or whatever. It's actually



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becoming a reasonably significant item. But Alan, or Simon, do you want to make any other comments?

David Robb: On the pure corporate costs in terms of, you now if you look at our corporate head count and all those kinds of things that drive those costs there's no significant change. I think, Simon, that's also the place where we get the incentive.

You know we have plans, Mike equity based in the main with all the features that governance people like to see in terms of deferral and clawbacks and goodness knows what and they have increased year on year.

Question: Okay. R&D and exploration, do you expect those to be running at a combined \$27 million going forward or more or less?

David Robb: Yes, pretty much. You know our pure exploration activity and spend is pretty stable now. We are able to achieve what we want to in focus on Murray Basin and Eucla by simply rebalancing between there and the West so that the exploration number of around \$20 million is pretty steady. R&D you know it's really a function of what we can get through the tax office year to year but again it's pretty stable.

Question: And on slide 15 of the pack you have capex plans which finish up with a \$60 million 2011 to 2013, I assume that \$60 million per annum of capex, so that's like your sustaining level?

David Robb: Yes, we think so.

Question: Yes \$8 Forex hedging, it might have been before your time, David, I'm not sure but the company has gone down the track of hedging. It pulled out for a while and then it's gone down the track. Can you remind me why you've done the recent hedging and what you're going to do from here?

David Robb: We haven't done anything recently. We introduced a hedging policy which had I guess two lenses on our position. One was around balance sheet protection. Because if you recall back when we introduced it, it was late 2007 we thought we would be able to squeeze through the funding hump without a need to raise equity, we turned the dividend off, etc. At that time it seemed prudent to me and the board to introduce some hedging to de-risk the balance sheet. So the initial surge of currency hedging was all about balance sheet protection. The only other reason that we could see to continue it was that if there was from an earnings point of view if we were giving explicit earnings' guidance and there was an ability to lock in a currency to support that guidance, you know there's a school of thought that says you should do that. Of course you're only locking a piece of the picture, so directionally I am trying to build a business that as I said earlier is based on high margin, high return on capital assets with some pricing influence in the market and that's how I'll manage to protect both earnings and balance sheet which would suggest that the need to continue to do currency hedging will drop away and we'll end up as a business that doesn't



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do it. We've got what we've got now but we haven't added to it in the last couple of meetings that the board has had.

Question: The other question, David, as Victor says zircon is very much the focus. I guess you haven't gone away from your endorsement of TZ's 9 in the number, you've just given it a little bit more cryptically, is that fair.

David Robb: We don't endorse anybody's number! I know it's hard for you guys but I also know the success we had in 2008 and what we believe is the success we will have in 2009 which means we are not going to be as explicit about price and we are not going to give commentary about price in a way which disadvantages me relative to others in the market place who don't do that. So I know one of the Australian producers made a comment the other day about prices they were achieving which were in line with TZMI as I recall it but we're not going to make any comment because I don't think it's in my shareholders' interest to do so. I've given you the best indication I can and I think in looking at us people should, obviously, as managers or whatever then, I'm a conservative person, I would expect the people that look at us would be a bit conservative too. The world is a bit uncertain at the moment.

Question: That's fine, David, no I understand.

David Robb: We're very happy, as I said earlier, you need to think, in my view, about if prices go up and in any meaningful way in the current climate what does that say about this industry and about feedstock producer margins going forward.

Question: I guess the cynics would say, David, I'm not saying I'm one because I'm not, but the cynics would say well it's only short term, it's a lag or something.

David Robb: Well we don't believe so and structurally, if you recall back to our prospectus, Jeff, we put out a lot of information about the fundamental long run trends of this industry around its growth pattern and particularly in zircon real growth, year on year and for the 30year look. This is a good industry that in my view properly managed and with the right investment decision-making can be a damn good industry.

Question: I just want to round that out you know you're going from 400,000 odd up to 650,000 you've tweaked that down just a touch out to 2011. You know where does supply and demand fit into that, in other words you don't see a whole lot more supply up in QIT coming in there.

David Robb: Yes well QIT is ilmenite so you know it doesn't really impact our zircon, Victor may care to comment. We've just updated and Alan and Victor have driven a really fundamental review of how we see supply and demand in the industry. I am very comfortable with the quality of that view and it makes me very comfortable about the issue that you raise. Bear in mind we have demonstrated that we will, if you like, cherry pick our own production to make sure we drive margins as high as we can. So I believe it is available to me and I mentioned another one today which was that there is actually a



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plan B for JA if you like that brings it on in a slightly slower fashion, doesn't damage value at all in fact given the cost deferral, we haven't finished yet, but it may well be that that's actually a better solution anyway. So no, look we try and anticipate these things, Geoff.

Question: Yes, thanks, David, I liked your summary on why is Iluka different, that's the question we always get asked.

David Robb: Yes, well get asked it too, so does everyone around this table, let me assure you.

Question: Good morning, David. I don't know how far you can go in trying to answer this. But can you give us an idea about what you think your split in terms of sales will be first half, second half. And I note you did give some guidance that you've got 70% of your TiO<sub>2</sub> already locked in price. Can you give us an idea about how far you are down the line on the zircon contracts in terms of your percentage of off take?

David Robb: Yes, well as to the first question. We have said that we are second half weighted and we would expect that to be greater this year. So second half weighted means, and I don't mean to be cute but I'm not going to give you a precise number that you then beat me up with. Second half weighted billing means that it is more than 50 and clearly that it's more this year than normal means it's more than 50 whatever that means. In the context of zircon, you know I think you need to recognise too that we have - last year found it very effective for ourselves to actually do a bit more of supply on the basis of shipment by shipment. We found we are now selling a lot more given the China growth in container or in bags or containers out of warehouses in China so it's a different dynamic now in terms of locking in our price for a year. We think that's probably sub optimal in the case of zircon. Am I confident that we're far enough advanced with enough of our customers, including the big ones to be confident about that outlook that we're describing, absolutely yes. You know, I think we referred to it, what's a logical customer going to do, if I was a customer I'd be trying to consume every piece of inventory I had which is at a lower price, given prices are going up in the hope that I can get right to the wire and something will have changed and I won't have to pay higher prices. It's like an option they have at the moment that it's not illogical for them to delay to the last minute. We're not fussed by that and in fact it's not hugely different to what we experienced last year for different reasons. Because if anything I think the price perception disparity between buyer and seller was at least as great last year as it is this year. But this year I think it is more people being a little nervous about their off take, not the price that they're paying.

Is there anything else.

Question: No, I think you summarised it quite well, David.



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Question: Hi guys, David, just one question. With regard to the reversal of the asset impairment, what exchange rate did you use and if you can just remind us, what exchange rate you used previously?

David Robb: Thank you for the question. I think I can remind you that we didn't tell you last time you asked the question. No, it's a commercially sensitive issue our view about exchange rates and how we value assets. Someone might say oh well okay we now know what exchange rate they have in we can, I don't know go and talk to them about some deal and we've got that piece of information squirreled away. So we don't disclose it. We clearly go through it with our auditors, we go through all of the fundamental assumptions with our auditors. I think given our last two years of practice we are best practice when it comes to impairment testing. I know that from our auditors they've been into some companies who are - impairment testing, what's that, that's the kind of thing you say over a cup of coffee, we don't have a trigger event so let's move on. Our modelling is first class in this area. We test it across a range of assumptions. We don't have a single point view of it so we have, not only do we do our base valuation if you like we then do a raft of sensitivities around price, currency, capital on the projects obviously, all of that to make sure that whichever way we look at it the valuation stacks up.

Question: Would you say then that the currency wasn't particularly relevant to the reversal?

David Robb: Oh, no it's a factor, I wouldn't say it was particularly relevant but it's really I think what confidence we have around pricing is a bigger issue. And particularly in the case of the South West that's the sort of front ended benefit given the South West life is now much shorter than we had contemplated previously and it's all about high grading. It's all about getting into mines and processing and upgrading that generate the best cash return rather than trying to eke out a pitiful existence to meet contracts which we don't do any more.

Question: Okay thanks for that and just one final question. You mentioned in your introduction and you've come through the transition phase and you did mention the possibility of capital management initiatives in the longer term, I don't think you said the short term. But it can now be on the horizon. Any implications for the dividend in the year ahead?

David Robb: Well that's obviously one of the most obvious capital management things you would think about. I think all of you would know that whenever I talk to people about total shareholder returns you know I see dividends as part of that story. The problem is if you lock yourself into a particular timetable, along comes an opportunity or something else which means that dividend resumption is not appropriate. All I've said consistently and all I'll say again is I see that clearly as part and parcel of the way in which shareholders get their returns and we also know, we are also cognisant of the fact that there is a portion of the investment community for whom that would be a



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very positive trigger in terms of how they'd look at Iluka and that its absence at the moment is a bit problematic. So we're aware of that. I guess your best guide to it is if you look at that balance sheet chart and if you look at your own profit and cashflow modelling you can hypothesise about timing.

**Question:** Good morning. Just three quick questions and following on from the last one then, just where do you think is an appropriate gearing level for Iluka then through the cycle given your mix of products you know the long dated contracts. Secondly, just on the guidance you've given us on volume and pricing. You said it's above consensus. Is it materially above or is it not and then the final question, just on the costs. Obviously costs will go up because you are bringing on Murray Basin stage 2, but you know the industry is experiencing reductions in consumable costs. I was just wondering if you had, you might have mentioned it, but any thoughts on where the cost base goes from the 650 you've mentioned currently.

**David Robb:** If I start with the last one. We've given some percentage increase guidance in the commentary, 10 to 15 up. I would hope we can do a bit better than that. As I mentioned earlier if I'm honest I think we've probably expected the regions to drive their cost outcomes. We've now got a tougher process in place in terms of how we review their performance in that regard monthly and it is clear to us that there is some easing of a lot of the pressures that we've been facing around energy costs, contractor profitability etc. So I don't believe all of that is yet worked into our view of 2009 but equally I know that there is usually something comes along that you didn't think about which soaks up those kinds of benefits. In the context of the gearing question - your first one. It's actually interrelated I think with our decision on currency hedging. Clearly we drop I think below 30 we're saying and 30 is the max that we get to debt plus equity this year [unclear]. I don't have a particular view because I think it's a reasonable range and it's a function of what your margin performance looks like and therefore that revenue to cash cost graph. What you've done on hedging on anything and what opportunity you see and what faith your shareholders have in you, you know, lots of those things. We're prudent and we'll have a conservative target internally. But the extent to which we share that, I think I'd beg off from that question, for a minute, Glyn. There's issues of distribution that we covered earlier on too that is a means to make sure you don't get lazy. I'm sorry that's a poor answer but I'd like to just beg off that question until we folk have time, frankly, to look at the complete mix in slightly clearer air. Your second question, remind me was - prices are they materially above. They're appreciably above last year, Glyn.

**Question:** Oh okay. And sorry, just a final question ...

**David Robb:** But my thought is that you know we are reasonably confident, as I think I said earlier about our broader line with our customers around the price. Some of them they are wanting to get down to their last tonne of stock



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before they sign on the dotted line. So if the world - I mean if China stops, let's face it if China stops or goes into reverse then you would have to assume there is volume risk. The reality is I can't do anything about end use demand with price, so the volume is where the swing will be because I could cut my prices in half and it wouldn't make the slightest bit of difference.

Question: All right and one final quick question, just the tax paid through the cashflow statement. Going forward would we expect that to be more in line with your tax expense now?

David Robb: I'm very cautious about answering a tax question given I jumped in last year and got it wrong, so this year I've learnt my lesson, I won't jump in and I'll hand over to either Alan or Simon.

Simon Green: The tax paid would be more in line with the tax expense. The only point I would highlight is that we do have the losses in the US so we wouldn't be expecting to be paying tax on our US earnings for at least a couple of years but out of the Australian businesses it will be pretty much in line with the tax experts.

Question: Thank you so much.

Question: Hi David. David, can you please just remind me of the definition of what Iluka calls appreciable, I think you gave a definition last year.

David Robb: No, we didn't. It's just appreciable. No look I'm sorry, I think I've explained why we feel it is right for us to be less than specific in this area. It worked for us in 2008 it's working for us in 2009, we are not going to assess ready targets that could damage our competitiveness, perhaps in key markets because customers then feel you know that they need to go to talk to someone else rather than us because we've got this headline number that we're going to die in the ditch about. I just ask you to understand, frustrating though it is that this is right for Iluka. We are and we do have plans, we're prepared just to give you something in encouragement to create some form of a spot market, it would be an internal spot market. I think I've mentioned this previously in briefings, I recognise the need for the industry to have some kind of market price and so you know, as and when circumstances merit such a thing, we're ready to move down that path too as a company and that would be a price outcome that would be, in our assessment at the moment anyway, we would publish retrospectively, quarterly or something like that. So I'm conscious of the unease but I don't think telling you exactly where my contracted prices are is in my shareholders' interests.

Question: Yes, David, I understand. Perhaps thinking about it another way though, can you - and long term pricing outcomes, are you able to provide a range of hurdle returns that you're looking at in terms of return on capital?

David Robb: Yes, good question, but an equally unsatisfactory answer one that I've been giving for at least 15 years probably. I don't have a single hurdle rate. I have a very different risk perception about different investments in different



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geographies or whatever. Clearly we start with our cost of capital and we view that on a long run basis not reflecting current market gyrations. Most of you have got in your models a whack of around 10 I think and it's all pretty standard stuff. Would I expect a return well north of that for project risk for country risk for example if that applied, absolutely. I think I've said before about the projects we think about whack, we think about project specific risk that lifts the required hurdle. We layer in some more just to be sure and as I mentioned earlier both of the recent investment decisions not only passed that test they are actually much stronger as we would re-assess them today driven by price. I would refer you to our prospectus treatment of long run price history and where we saw the long run price cumulative growth rates and so on based on GDP growth. So we do have a view that whilst you get a cycle around that long run trend that history is probably the best guide to the future.

Question: And if I can just try one more. Just in terms of capital management and maybe for acquisitions that might come up in the current environment. Can you just talk about what your ultimate volumes you are targeting. I mean let's say you've push back from 700 to 650 and you mentioned JA kind of a potentially a slower ramp up. Is there an ideal, I guess, volume or market share position you are looking for.

David Robb: No, well I don't chase market share. The volume is what loads my capital properly and gives me the most efficient cost structure. So 650, if you remember when we aimed off from the 700 the 650 [thousand tonnes per annum of zircon] was for exactly that reason. It was because as we finalised all of our integration assessment the optimum volume that minimised the capital spend to expand was more like 650 than 700. We have the opportunity to go back to 700 because the concentrator is sized for it and I wouldn't over emphasise slower ramp up, that's certainly not our base case. I'm just conscious of the fact that if we're having this same conversation in a year's time and the world is as gloomy as it is today then we need a plan B and we've got one. It's certainly not our base plan at this stage at all. I truly believe that the future is hard to predict. We try and have a range of levers to pull and we try and put the minimum amount of capital on the ground to service the growth because that's the best prediction. The people who are in trouble now are the people who did the exact opposite.

Question: Okay, thanks, David.

David Robb: Well we're obviously about an hour in, if we've got one or two more perhaps we could take them, then we'll probably have to wrap up.

Question: Good morning, David. Just looking at the production guidance commentary for 2009. I guess the one significant drop in production and presumably sales in 2009 is for ilmenite and I note your comments in relation to sulphatable ilmenite. But could you put some colour around the significance of ilmenite to the company from an earnings' perspective, please?



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David Robb: It's not material at all. We upgrade all the ilmenite that is suitable into SR and that's where we make our margin not on the ilmenite. Obviously there are some higher quality ilmenites that find higher priced homes, but a lot of the pigment capacity additions in recent years have been in China, have been sulphate ilmenite based many of them, as is the norm in China, you know build the factory and then wonder what you are going to do with it and clearly quite a lot of that has come under pressure with the current slow down. But Victor may care to comment. It is not a material part of our earnings at all. Obviously we upgrade it into SR and that is but in its raw form no. Victor, do you want to comment on just what is happening in ilmenite markets?

Victor Hugo: Look, David, I think you've summarised it pretty much as it is. We don't have a high degree of reliance on Ilmenite particularly the sulphate ilmenite. Obviously our US operation produces ilmenite which we sell directly but that's fairly secure in terms of off take. And we think that in general the sulphate ilmenite market, of all the markets is going to be the one that is going to be under the most pressure during the course of 2009. Having said that we will still remain competitive within that market but the one element that will be different from our other products is that of pricing.

David Robb: Yes, that's right. For example, as you would know, CRL has a bigger dependence on that than does Iluka. Fortunately it also has a very, very good cost structure and is therefore able to remain competitive and has great advantages etc. into those markets. So I think that is an area that if I was a sulphate ilmenite producer and that was my main income source I'd be a little bit concerned frankly, particularly if I didn't have a rock bottom cost structure to weather the storm. It is fair to say we are really tight on ilmenite to supply the kilns. As we've high-graded the mines and as we've really worked hard on getting the right return out of that whole chain, you know we don't have a lot of ilmenite suitable for making SR to spare at all. In fact that was a consideration in the decision to idle the kiln in the Mid West.

Question: Okay. Are you able to give us an idea of how much of that 788,000 of production is split between the two types of ilmenite?

David Robb: We don't normally disclose that, I don't think. Yes, we do, if you have a look in the 4(e) on page 15 there is a split about ilmenite that is saleable and ilmenite of our own at least that is upgraded to SR.

Yes, I'm not sure but this is a product that sells, give or take, you know, over time at \$100 a ton compared with zircon at a big number, and an appreciatively bigger number. It's really not relevant.

Question: Okay.

David Robb: One more and then we'd better close.

Question: Hi. You just said that you may have a problem in zircon if China stopped or reversed. Now it did in the fourth quarter last year, so how do I read that?



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Do I read it you've been through the worst and you've come out very well or you haven't seen the impact of that yet?

David Robb: I am in the camp, that China will not record through the course of 2009 zero GDP growth.

Question: It had sequential negative GDP growth in the fourth quarter which is why I'm intrigued by your comment.

David Robb: I think we can talk ourselves into anything we like. I believe that China will record growth, but bear in mind even if it is zero, I mean I probably shouldn't have said zero, I mean negative as in go backwards permanently over the year and beyond. If you remember that China has, you know the math that China has grown at 15% per annum, so it now needs 160 tonnes, whereas a few years ago it needed 100 just to stand still, so just to match zero and there is a lot less zircon available next year than there was this year. So it's all about the supply drop, Peter and we can't conceive of a demand situation which would not support our view of price. But the acid test is that we are actually achieving these prices. This is not us sitting talking about a plan, this is the actual now.

Question: So what did happen during the fourth quarter, assuming, only for a quarter the window on Chinese GDP was negative, you didn't see any ...?

David Robb: No, our sales held up really well. Why did they hold up because people knew prices were going up this year, so you know, stock up.

Question: So is my takeaway a favourable one that you've seen the worst quarter and you've managed to move through that reasonably well?

David Robb: Well what we've said is we would expect a very slow start to the year and that is what we are seeing, so you know it's pretty much situation normal as we see it at the moment.

Question: (Is that getting back to your skew about first half second half sales?)

David Robb: Yes.

Question: You know where you're saying slow start and that is zircon specific or that's all products?

David Robb: Well no we said we expect to be second half weighted, more so than in the past but we always are and we expected that within that first half we expected a very slow first quarter. Because you know customers do have scrapings in their yards. You know I've been through this situation or in coal and so on. People run around trying to dig up berms and do all kinds of things to use stuff that is actually cheaper than taking a delivery from us. But there is a defined limit, that is a finite activity and we've done all of our assessment about when that works through and we've factored that in to our view of 2009 and we've factored that into our commentary frankly. I'm confident in our assessment, that's all I can say and our assessment is based on the facts as we are seeing them in the deals we are doing.



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Question: Sounds very good, thank you, David.

David Robb: Thanks. So I think we will wrap it up there, obviously follow up questions feel free to contact Rob. I know you've got a busy day and certainly we'll be seeing many of you next week, hopefully. But in a nutshell, to conclude, when I'm asked the question, how can it be so, why is Iluka different, I am confident about why we are different. So, thank you.

[END OF TRANSCRIPT]