21 February 2019

Presenters/Speakers:

- **Tom O'Leary** - Managing Director and CEO
- **Adele Stratton** - Chief Financial Officer
- **Matthew Blackwell** - Head of Marketing and Procurement

2018 Full Year Results Teleconference Transcript

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Iluka Resources 2018 full year results conference call. At this time, all participants are in the listen only mode. There will be a presentation followed by a question and answer session, at which time, if you wish to ask a question, you will need to press star one on your telephone. I must advise you that this conference is being recorded today, 21 February 2019. I would now like to hand the call over to your first speaker today, Mr Tom O'Leary. Thank you, please go ahead.

Tom O'Leary: Thank you and good morning. Welcome everyone. With me today are Adele Stratton, CFO, Matt Blackwell, Head of Marketing and Melissa Roberts, General Manager Investor Relations and Commercial.

Today I'll cover the highlights of our 2018 financial results and provide an overview of our operations, our projects and the market conditions. I'll then hand over to Adele to provide more detail on the financials before finishing with our outlook for 2019. But before I do that, on health and safety, the environment and sustainability, generally, while we had some positive achievements in 2018, including two South Australian Premier awards for work by the team at Jacinth-Ambrosia, our total recordable injury frequency rate increased from 2.8 to 3.5 in 2018, with eight additional injuries recorded for the year.

While we regard any increase as unacceptable, many of our recordable injuries in 2018 were minor in nature and there has, in fact, been a material reduction in the number of incidents classified as having serious potential. Our lost time injury frequency rate remains steady, at one per million hours worked. Further on safety, there has been much focus in the industry in recent times, with good reason, on tailings dam safety. We've included a slide on our approach to tailings storage facilities to address any potential questions. The keys points are that across our operations in Australia and Sierra Leone, and even to former operations in the US, we have no upstream raised dams whatsoever. Second, we follow ANCOLD guidelines as to monitoring and maintenance of our tailings dams.

Turning to our financial result, as you'll have seen, Iluka has delivered a sound financial performance. The Company has achieved a 22% increase in mineral sands revenues to $1.2 billion and a 67% increase to underlying Group EBITDA to $600 million. Free cash flow generated during the year was strong at $304 million, allowing the business to eliminate its debt and return to a net cash position of $2 million. Overall, I'd characterise this as a pleasing result, particularly given debt levels peaked at $506 million post the acquisition of Sierra Rutile just over two years ago.

From an operations and projects perspective, it's been a year of intense activity across the portfolio. Our flagship zircon mine, Jacinth-Ambrosia in South Australia, continued to operate at full capacity throughout the year, producing 289,000 tonnes of zircon. All grades encountered at the mine and plant availability were higher than anticipated, allowing a build of concentrate inventory. And this, coupled with the planned move to Ambrosia in 2019, will assist in smoothing our zircon production profile in the years ahead.

In Western Australia, our synthetic rutile number 2 kiln produced a record 220,000 tonnes of synthetic rutile. The kiln is currently offline for the planned major maintenance outage, and during what's scheduled as a 51-day shut, the outage will be re-lined ahead of the next four-year campaign. Once back online, the kiln will be fed by ilmenite sourced from Cataby.

Operational performance in Sierra Leone was unacceptable in 2018. A number of issues affected production over the course of the year, though most concerning were the unlawful strike actions in October and November. As we've outlined in the December quarterly, the government of Sierra Leone formed a taskforce which found the strikes were illegal and that Iluka had taken appropriate measures to ensure the safety of our people and assets.
We regard the findings of the taskforce as an important step towards achieving long-term stability in Sierra Rutile's operating environment. We continue to work closely with government, which has expressed strong support for the Company's investment in Sierra Rutile, recognising that foreign direct investment is crucial to the development of Sierra Leone's economy.

In relation to Sierra Rutile's expansion project, pleasingly, works at both Lanti Dry and Gangama continue on time and budget, with commissioning expected in the second half of 2019.

I'm also pleased to advise that Iluka and the IFC, a member of the World Bank Group, have been in discussions to commence a strategic partnership in Sierra Leone. The IFC has today commenced a 60-day disclosure period in relation to its potential investment, which would see IFC acquiring an equity stake of up to 10% in Sierra Rutile for US$60 million. The investment remains subject to due diligence, finalisation of documentation on commercially acceptable terms and Board approvals by both Iluka and IFC. The rationale for potentially partnering with the IFC is that it should - it would provide benefits to Iluka, IFC and the people of Sierra Leone, by promoting the continued sustainable development of the Sierra Rutile operation. The World Bank Group has a large and longstanding presence in Sierra Leone and it has unparalleled expertise in community and stakeholder engagement, which would complement our own activities in these areas.

Turning to markets, sales of zircon over the past two years of around 380,000 tonnes per annum are reflective of the solid underlying demand conditions across the Company's major markets. Iluka successfully implemented two increases to its zircon reference price over the course of the year, achieving an average 41% increase on 2017. The Company's approach to the zircon market remains focused on supplying to satisfy genuine underlying consumption-based demand and on maintaining a pricing cadence which is directed at lessening the prospect of a repeat of historic volatility.

Through 2018, we maintained six monthly pricing periods for our zircon reference price and that's enabled us to better monitor market dynamics and price our products appropriately. We've recently communicated to customers that we'll hold the zircon reference price at its current level of US$1580 a tonne over the next six-monthly pricing period, commencing 1 April this year. Customer feedback has been positive, given it provides stability to customers and is consistent with Iluka's sustainable approach to pricing.

Turning now to high grade titanium feedstocks. Iluka sales in 2018 were production constrained and demand was strong throughout the year, as had been expected. The year also saw production outages across the feedstock industry, including at Sierra Rutile, and that resulted in a challenging set of circumstances for pigment producers who had been running at high levels of capacity utilisation. Tight market conditions prevailed throughout 2018, and Iluka's weighted average rutile price increased 21% on the 2017 average, and we've announced a further 8% to 11% price increase for contracted rutile and synthetic rutile volumes in the first half of 2019.

I'll now hand over to Adele to take you through the financials in more detail.

Adele Stratton: Thanks Tom and good morning everyone. As outlined, 2018 has delivered a strong financial result. Net profit after tax is $304 million, a stark turnaround to the loss of $172 million reported last year. As Tom has already mentioned, product prices were a strong driver for this turnaround, adding $186 million post-tax earnings to the result. The prior year was also impacted by an impairment charge of $185 million pre-tax for the Hamilton MSP and the write-down in the Metalysis investment, combined with $127 million increase to the US rehabilitation provision.
In 2018, idle costs were reduced by $49 million to $25 million, following the restart of mining and concentrating activities at Jacinth-Ambrosia in December 2017, combined with no restructure costs associated with the idling of the Hamilton Mineral Separation Plant last October, 2017.

Sales volumes of our core products of zircon, rutile and synthetic rutile decreased 7% to 827,000 tonnes, reflecting a production constrained environment. Inventories returned to normalised levels of 392 million at December 2018. The average Australian dollar exchange rate weakened to $0.748 from $0.767 in 2017. This had a favourable impact on revenue of $26 million, with the majority of sales contracted being US dollar denominated. Iluka has continued to utilise foreign exchange derivatives to manage the FX risk associated with contracted sales, which have fixed or floor prices, which is simple financial risk management.

Mining Area C continued its positive contribution to the Group's result, with an EBITDA of $56 million. As previously noted, BHP's South Flank expansion sits within the Mining Area C royalty and this expansion is expected to come online in 2021.

Turning to the operations performance. Australia had a very strong year, with an EBITDA margin of 60% compared to 43% in 2017. Cash cost of production increased, reflecting the restart of mining and concentrating at Jacinth-Ambrosia, with prior year sales drawn from inventory. Unit cost of goods sold increased marginally by 2% to $602 per tonne. Sierra Rutile, on the other hand, had a disappointing performance. EBITDA margin reduce to 15% from 21% in 2017, with sales volumes constrained by production. Production was impacted by maintenance and operational issues at both the Lanti dredge and dry mines, combined with the illegal strike actions, as mentioned by Tom. This resulted in an increase in cash cost of production, with unit cost to goods sold increasing 30% from prior year. The focus in 2019 will be on ensuring consistent performance from the operation and also managing the cost performance.

What has been pleasing is the cash generated by operations of $594 million, some of which has been generated by the $87 million reduction in inventory. Free cash flow of $304 million is after investing $312 million in capital expenditure, including $189 million on Cataby and $104 million at Sierra Rutile. Just to highlight, Iluka had minimal tax payments in 2018, with a large balancing tax payment due to the Australian Tax Office in June this year. We continue to focus on maintaining a strong balance sheet and January has been another positive month, with net cash increasing to $12 million, following a further $28 million of capital investment.

Finally, in relation to the dividend. As you know, our dividend framework is to pay a minimum of 40% of free cash flow not required for balance sheet or investing purposes, and that is exactly what we've delivered, with the $0.19 final dividend, fully franked, which will be paid in April.

With that, I'll hand back to Tom.

Tom O'Leary: Thanks Adele and turning to our outlook, which in 2019 will again be characterised by high levels of activity. At Cataby, we're commissioning at the moment and expect soon to begin operational ramp up. As noted, the major maintenance outage at our SR2 kiln is underway and so it'll be ready to receive the Cataby ilmenite for its next four-year campaign.

In South Australia, mining at Jacinth North will continue before the planned move to the Ambrosia deposit towards the end of the year. Expansion projects at Lanti and Gangama at Sierra Rutile are expected to commission from the middle of the year. There are also a number of other opportunities we continue to work on to deliver longer term growth, including Sembehun in Sierra Leone, Balranald in New South Wales and our fine minerals project in the Wimmera region of Victoria, to name a few.

Our guidance is the back of the presentation slides, but in terms of production, 2019 is expected to be broadly in line with 2018 and shows a fairly balanced mix across our portfolio of high-value product. 2019 zircon, rutile, synthetic rutile production is expected to be around 720,000 tonnes, and while we don't guide on sales, our current expectation is for sales to be broadly in line with production. Our synthetic rutile production is fully contracted for the year and first half rutile is fully committed. Due to the nature of our contracts, we also have good visibility on much of our high-grade feedstock pricing over the year. On zircon, you'll recall that we flagged in the quarterly that sales would be slower in the first quarter. We expect a pick up over the first half. Thus far in the quarter, we're seeing consistent enquiries from customers and sales are in line with expectations.

We're cognisant that there are risks to the outlook around China and global trade tensions. There's a higher level of uncertainty, generally. But based on the feedback from our customers, we continue to plan for pretty stable demands for zircon in 2019. We've guided rutile production from Sierra Rutile of 150,000 tonnes. That may be lower than expected by some so I'd just like to step through production settings for the year and what implications they have for production. First, by the end of this quarter, we'll have decommissioned the dredge, so we'll lose that contribution to our production. At the remaining Lanti and Gangama sites, we're focused on delivering production stability. As I noted earlier, the expansions at Lanti and Gangama are expected to be commissioned from the middle of the year, and to be specific, we're planning to move on Gangama first and then Lanti.

While we're confident we've learned from last year's issues, there's an inherent risk in delivery of any new project and the same is true of these. We've sought to provide prudent ramp up assumptions, with the full benefit to come in 2020. On balance, we've guided what should be an achievable level of production and I look forward to updating you on the progress we're making. Unit cash costs of production are guided at $750, slightly up on previous years, reflecting the commencement of operations at Cataby. As a result, unit cost of goods sold are slightly higher than 2018, expected to be around $765 a tonne.

Finally, capital expenditure is guided at $330 million for the year, which includes final capital to deliver Cataby and the kiln major maintenance outage, the Lanti and Gangama expansion, the Ambrosia mine move and early works at Sembehun which, while not yet approved, we're contemplating could occur late this year.

So, you'll see a continuing emphasis on delivery and execution across the portfolio in 2019. With that, I'd open up the line to questions.

Operator: Ladies and gentlemen, we'll now begin the question and answer session. If you wish to ask questions, please press star one and wait for your name to be announced. If you wish to cancel your request, please press the pound or hash key. Your first question is from Paul Young from Goldman Sachs, please ask.

Paul Young: (Goldman Sachs, Analyst) Yes, morning. Hi Tom, Adele and Matt. My first question is on the zircon market and your view that the market's effectively balanced this year. Just curious about what demand assumptions you're making on a global basis? So, China in percentage terms, this year? Also, on supply side, there are a few new mines started up - one in WA and one in Mozambique recently. Just curious about what supply additions in thousands of tonnes you're assuming?

Then, turning to Sierra Leone and the investor buyers, IFC, this certainly interests me - the 10% for US$60 million. Can you just maybe let us know how that price is determined and should we read through that your valuation on this asset is US$600 million? Thanks.

Tom O'Leary: Well, I'll hand over to Matt for your - to answer your question around zircon, Paul, and come back to the investment buyer.

Matthew Blackwell: Yes, good morning Paul. So, on demand, we anticipate - which is probably consistent with some other external industry commentators as well - that demand will be stable going into 2019, fairly consistent with 2018. As we alluded to in the - or articulated in the quarterly in the report where - there is not much inventory in the supply chain. And although buying was lower in the fourth quarter, as we anticipated and predicted a slower start to 2019, we are not seeing any reduction in requests for zircon from our customers over the full year at this time.
To your point on the two new mines starting, there's Image, obviously, in WA. Pretty small contribution to global supply. It sells concentrate so it can only sell to China. In Mozambique it is concentrate as well and I'm pretty sure it's a very small amount.

What I would say is that - counter that too. What you're also seeing is continual drop off in production from many other assets. For example, you have the Cristal mine in Brazil ceasing to operate this year. You have the rundown of the operation at our old CRL operation - Silbeco's operation on Stradbroke Island. So, in balance, when you add the puts and the takes, the estimate is that demand should be broadly in balance with supply, with supply continuing to decrease over the course of the year.

Paul Young: (Goldman Sachs, Analyst) Matt, just further to that, just to put a number on it. You're basically saying 0% demand growth, zero supply additions, in effect?

Matthew Blackwell: In effect, zero supply additions compared to last year. The balance of zircon supply, just like it was last year, will be our zircon in concentrate. So, supply down, absent that, and potentially demand slightly up. It will be either flat or slightly up.

Paul Young: (Goldman Sachs, Analyst) Okay. Now on demand, what gives you that confidence that you're going to see that recovery come through during the first half of this year?

Matthew Blackwell: Well, look, it's early days, but what I would point to is that China's - Chinese New Year has just ended. What we have seen from our customers is that a number of the - I think 75% of our customers in China have already restarted their operations and we expect that 100% of our customers will be operating by the end of this week. We - and to the point I made before, none of our customers are seeking any material change in allocation over the course of this year, compared to what they purchased last year.

Paul Young: (Goldman Sachs, Analyst) Okay, thanks Matt. Tom, on Sierra Rutile?

Tom O'Leary: Yes, sure. Look, first I'd say, just as in any potential transaction, Paul, the price here has been struck as an outcome of a long negotiation with the IFC. But what I would point out is that the IFC can potentially be of significant help and value in Sierra Leone. The rationale for us having the IFC invest in Sierra Rutile is clear. Even the World Bank have a very significant and active presence in Sierra Leone and they bring, as I said, unparalleled expertise and experience in community and stakeholder relations in developing countries generally, and Sierra Leone in particular. This is the perfect time, I think, to engage closely with them as we approach the point later in the year where the Sembehun investment will be considered. If that development goes ahead, then collaboration with the IFC on capacity building, on skills enhancement, infrastructure and community development, are all going to be very welcome. But the - going back to the price for a moment, I would not - I would certainly not say that we would be open to selling a stake to others at that price.

Paul Young: (Goldman Sachs, Analyst) Okay. Then just on the CapEx, while we're on Sierra Rutile, Tom. The 40% to 60% increase in capital overall budget versus the US$300 million which is a, I think, a 2015 real number - any update to that? Or more so, when can you give us an update on tightening up that range? Thanks.

Tom O'Leary: I don't have an update now, Paul, but later in the year, when the feasibility studies for Sembehun and associated works begin to finalise, I will certainly be updating the market as soon as practicable.

Paul Young: (Goldman Sachs, Analyst) Okay, thank you. I'll pass that on. Cheers.

Operator: Your next question is from Rahul Anand from Morgan Stanley, please ask.

Rahul Anand: (Morgan Stanley, Analyst) Hi Tom and team, thanks for the opportunity. First one is on the tile market consolidation that you mentioned in the presentation today. Just wanted to understand these sort of smaller players in the tile market in China, so to speak, is there a view in-house in terms of the zircon use, in the tiles they've been producing, whether that's in line with the bigger guys, lower or perhaps more because of inefficiencies?

Tom O'Leary: Rahul, our view or certainly Iluka's view, and that's formulated from our discussions on the ground in China, is that the smaller tile manufacturers are ones that produce the lower quality of tile. So, the lower quality of tile has a lower zircon content. There were a number of closures over the course of last year. There have been closures occurring since 2012 as the industry has consolidated. That accelerated over the course of last year because of the more stringent application of environmental restrictions.

Rahul Anand: (Morgan Stanley, Analyst) Okay and just moving on to the next one. In terms of that IFC deal, just wanted to understand so, if this does go ahead you get US$60 million in the bank and then in terms of any future investments related to, obviously, the efficiency gains and also the layout for the Sembehun development, that's all going to be funded in - the 10% of the CapEx would be made up by the IFC, is that right?

Tom O'Leary: Yes, look, we'll announce the precise terms of the deal as and when it closes. But the - but broadly, your conclusion is accurate to the extent that that funding is required beyond the Company's own resources that are self-generated, then that would be funded equally by the Company's shareholders - pro-rata their holdings.

Rahul Anand: (Morgan Stanley, Analyst) Okay, understood and just - got you, okay. Just finally, following on from Paul's question on CapEx. So, 2019 we obviously have the several projects underway, there's Cataby, there's the reline of the mill, there's also some spend on earthworks, how does 2020 look in terms of some of these projects? I mean, I know you can't give us exact ranges for next year yet, but in terms of stuff that's going to be underway, how should we think about the CapEx number going into so, perhaps the next year?

Tom O'Leary: Well, look, you're right in saying that we - we're not going to give the guidance beyond '19. But I think you really need to think about Sembehun, for example. If that's to go ahead, then that will be a significant piece of 2020. I've also touched on a few of our other projects we're developing internally and so we'll be updating over the course of the year on progress we make with those organic projects.

Rahul Anand: (Morgan Stanley, Analyst) Okay, understood. Look, I'll pass that on. Thank you.

Tom O'Leary: Thanks Rahul.

Operator: Your next question is from Hayden Bairstow from Macquarie, please ask.

Hayden Bairstow: (Macquarie, Analyst) Yes, thanks Tom. Just a question on the rutile market. You sort of talked about a stable zircon sort of price in the outlook and the customers are happy with that. I mean, with this declining supply outlook you've got for rutile, how do you think about managing pricing in that environment to sort of not encourage new supply or demand distraction or any of that sort of thing? I mean, is it more - or more - is it a market that can absorb high prices, do you think, unlike zircon?

Tom O'Leary: Yes, look, I'll hand that over to Matt, Hayden.

Matthew Blackwell: Yes, Hayden, there's some differences between the rutile and the zircon market that drive different pricing approaches. One would be the substitution of the products. In rutile, there's a significant portion which goes into welding and rutile is the best product for most of the welding applications. It makes it less substitutable in that sector. In pigment, the rutile competes with other TiO_2 feedstocks and it competes on a relative economic basis or relative economic value basis. We're always mindful of what might be charged for competitor products, like slag. That said, if you want - most chlorinators run at a TiO_2 head grade of between 88% and 92%. Most chloride slags are in the 86% to 88% range, so you need a high-grade feedstock to bring that head grade up, particularly when you're running hard like many of the pigment plants were last year, you want to get closer to 92. The only thing that can do that for you is either Rio's UGS product, which has limited production capacity, or synthetic - or rutile.

So, there's certainly a market there and a need for that product as people run their plants hard. We're - look, we're mindful of our customers' position in rutile as well. We'll continue to do that. But I would point out that over the last two years, pigment prices were up 55% from the base of the market and our rutile prices are not yet up that same amount.

Tom O'Leary: Hayden, the only other thing I'd add is that as you look around the world at the potential development of rutile deposits, it's a pretty short list and that's why Sierra Rutile was an attractive addition to Iluka's portfolio. Again, it's why the further development of that Company's deposits remains an attractive proposition.

Hayden Bairstow: (Macquarie, Analyst) Okay. Just on some of the inventories. I mean, I noticed your work in progress has basically been flat for 18 months, so do I assume that's just normalised levels? Given your guidance on rutile, that sales and production are pretty similar, that there's not really any sort of surplus inventory left that you could push into the market if that was something that you could do given - if demand was a bit better?

Adele Stratton: Hi Hayden, it's Adele. Yes, look, I'd agree. We've noted that our inventory is back to those normalised levels at 392. We always say it's sort of in the range of 350 to 400 is what we expect to be normalised. In terms of ability to put more product into the market, as Matt's already referred, zircon in concentrate is an option for us but in terms of where we've come from over that inventory drawdown, we don't have as much capacity as we have previously.

Hayden Bairstow: (Macquarie, Analyst) Okay, great. Thanks for that. I'll pass it on.

Operator: Your next question is from Paul McTaggart from Citi, please ask.

Paul McTaggart: (Citi, Analyst) Hi all. Sorry, it's a bit of a Dorothy Dixon from me given that I've had a hiatus of stock coverage for a little while, but I just wanted to understand the rationale for - behind bringing forward the move from J to A. Because as I understand it, Ambrosia has got lower zircon grades and yet, when I look at the quarterly, you were saying that bringing forward the shift - the move - was assessed as the best option to smooth production and offset the impact of declining grades. So, how does that work, because I would have thought you're bringing forward the lower-grade material?

Tom O'Leary: Yes, look, before we decided that that was the best course for us, we evaluated a number of different options. One was to expand capacity at Jacinth-Ambrosia by having a couple of mining units and approaching the Ambrosia deposit as well as depleting the remainder of Jacinth deposit at the same time, at a reasonably significant capital outlay. Ultimately, we decided that moving over to the higher-grade area of Ambrosia, and immediately setting about processing that ore and then in - when Ambrosia is exhausted coming back to Jacinth and mining out the remainder, was the most appropriate from a value perspective. It would also - will also see us be able to maintain our zircon production capacity, at broadly the rates we're seeing now, out to the end of 2021. So, it was regarded as being the best option.

Paul McTaggart: (Citi, Analyst) Okay. Maybe I'll come back to you. Thanks.

Tom O'Leary: Thank you.

Operator: Your next question is from Glyn Lawcock from UBS, please ask.

Glyn Lawcock: (UBS, Analyst) Good morning. Just wanting to circle back to the Sierra Rutile sell down. It sounds like - you obtain the IFC can be of help. Sort of just - is this an admission that you're finding it difficult to operate in Sierra Leone? In particular, just trying to understand more fully exactly where you're finding the difficulty? Then, what happens if the IFC do due diligence and don't play? Should I be concerned a little bit about you wanting to sell down, bring someone in and then they don't want to play? What - just trying to make sure I understand exactly what it is we're trying to mitigate here. Thanks.

Tom O'Leary: Yes, sure. I think it'd be wrong to see the potential transaction with the IFC as any sort of admission, as you outlined. The engagement that we've had with IFC goes a long way back. Iluka has long recognised that with depletion of quality deposits in Australia and the US, we'd likely need to engage in the world's developing regions. So, the dialogue with the IFC actually pre-dates the Sierra Rutile acquisition. I first met with representatives of the IFC in late 2016 and then with senior people in - at the IFC in 2017. So, it's been a long time coming so it's not at all a reaction to the events of late last year. As I've said, the IFC is very active in Sierra Leone. They're very - they have a lot of expertise and experience in community stakeholder relations and I think they're going to be of value to us, and be a lot of help to us, to work in collaboration with them, particularly as and when the Sembehun development goes ahead. That's the driver of the potential investment.

In terms of your other question about due diligence and the like, I guess it's a similar answer. We've been engaged with the IFC for a - in a more active way, on this potential investment, really for a couple of years now. So, there have been - there's been quite a bit of due diligence already but there's always a potential that it won't complete. But I think that's a risk that we've - we're - we can manage.

Glyn Lawcock: (UBS, Analyst) But Tom, I guess, the acquisition of SRL pre-dates you. It was done by your predecessor and you came in and inherited the deal somewhat. So, I'm - I guess I'm still a little confused. Is the IFC coming in now, after the previous CEO negated this transaction, it sounds like. I'm just trying to make sure, I would have thought they can provide funding. But what is it specifically on the ground that you think they can do other - because it's not for funding issue, I wouldn't have thought?

Tom O'Leary: No, no it's not. It's the reasons I've said. The IFC and the World Bank are very active in those countries. They have significant programs and quite obviously have a lot of expertise and influence in the country. So, that partnership with them, we believe, will add a lot of value.

Glyn Lawcock: (UBS, Analyst) Okay. Can I just change tack for a second, just switch back to rutile and just try - just trying to make sure I understand - small parcels of rutile are greater than 1300 and the vast quantity are greater than 1100. Just - how should I think about that delta in the small quantities at 1300? Is that a good lead indicator? Or is that just the welding market in a very niche outlook and I shouldn't sort of think of that as the lead indicator? Thanks.

Tom O'Leary: I think that's probably right, where you're going with that Glyn, but I'll hand over to Matthew.

Matthew Blackwell: No, that's - you know the industry well, Glyn. The welding market buys smaller parcels and the pricing is adjusted accordingly. You'll also see that it's an - that's a delivered basis so there's some freight and packaging in there, as opposed to the 1100, which is an FOB ex-works.

Glyn Lawcock: (UBS, Analyst) But that's quite a big delta, is it not, Matt - for - historically?

Matthew Blackwell: It's - I wouldn't say it's a big delta historically. Traditionally, when welding gets in - sorry, when markets are tight, rutile is in short supply, the gap between what pigment plays and what the smaller parcels pay increases. So, as I said, you've got to put in there shipping and packaging, so the gap might be not - it's not $200 tonne.

Glyn Lawcock: (UBS, Analyst) Okay. The feedback's been quite good? No one - you haven't lost anyone? Everyone's…

Matthew Blackwell: Oh, no. I can't meet our enquiries - I can't satisfy all the enquires we're getting for rutile at the moment.

Glyn Lawcock: (UBS, Analyst) All right, that's great. Thanks very much.

Tom O'Leary: Thanks Glyn.

Operator: We have another question from Paul Young from Goldman Sachs, please ask.

Paul Young: (Goldman Sachs, Analyst) Yes, back again, thanks guys. First question is on - just on the cash outflows, excluding production costs and CapEx. I'm just looking at rehab. So, rehab is stepping up to $70 million this year. Now, first question, does that go through to your operating cash flow, so payments to suppliers line? Also, how long do you think you'll be running at that level that $70 million mark going forward?

Adele Stratton: Yes, look, so in terms of where that flows through, you're exactly right, it goes through in a payments to suppliers in the operating cash flow line. In terms of - you think of our provision on the balance sheet, it's still very large for rehabilitation. We're looking, as Tom mentioned, to ensure that we approach that in a sustainable manner and return land to its former use. In terms of - certainly, with the US rehab I'd be saying rehab spend will be around that level. It will fluctuate a little bit, year on year, but for a couple of years we'll be up at that sort of $70 million mark.

Paul Young: (Goldman Sachs, Analyst) Okay. All right. Then the other one is idling charges, Adele, at $25 million. I mean, pretty steady going forward. How many years do you think you'll have to spend $25 million on Murray Basin and US, going forward?

Adele Stratton: Yes, look, that's always under assessment. The US, obviously until we have completed the rehab, those charges will remain and the US you can sort of see is around that $7 million mark. There's idle costs that occurred this year for some of the other plants like Tut South for example came off in 2018. There's always a mix in terms of when we're moving through operations. I'd - again, in terms of an outlook, certainly for what the US is online and we consider options around Hamilton, it will be consistent - is what I would say - for a couple of years.

Paul Young: (Goldman Sachs, Analyst) Okay. All right. Thanks. Then a few other questions about projects et cetera. First of all, just on the scoping study on the SR1 restart, just curious about - within that scoping study, what are you assuming on the ilmenite feed source? Are we talking from the [fines] project, from a - Balranald, are we talking about third-party purchases? How are we thinking about the ilmenite feed source?

Tom O'Leary: Yes, look, thanks Paul. We have several deposits in our own portfolio and we're also considering others' deposits as well. But I wouldn't want to be drawn more than that at this stage.

Paul Young: (Goldman Sachs, Analyst) Okay. Right, well, last question from me, maybe pulling Matt into this one. Just on the economics around the ZIC - so, zircon in concentrate. If I recall, your MSP costs - and would they be lower in this case? They're only maybe 20% of your total costs. So, are we - is the right way to think about your ZIC costs that they're about AU$150 a tonne?

Adele Stratton: Oh, Glynn - sorry, it's Adele. Look, one thing to mention is - on zircon in concentrate, it comes from a number of deposits across the Group. We highlighted that US also had some remnant stock piles which is zircon in concentrate so it really fluctuates and depends on where that material is coming from. That you…

Paul Young: (Goldman Sachs, Analyst) Right, so…

Adele Stratton: But for some operations it is a relatively low cost.

Paul Young: (Goldman Sachs, Analyst) Yes, okay so on the JA site visit you spoke about Narngulu having a lot of tailings that can be reprocessed and potentially producing up - I think - 60,000 tonnes of ZIC. Is - if that's the main source, what would you operating costs be?

Matthew Blackwell: I don't think…

Paul Young: (Goldman Sachs, Analyst) Your cash costs?

Matthew Blackwell: Yes, Paul we've never disclosed the operating cost on the ZIC. But what I would say, in addition to Adele, is that we're blending with these remnant stockpiles. So, given the price of concentrate in the market currently, it's translating into attractive margins.

Paul Young: (Goldman Sachs, Analyst) Okay, I'll make some assumptions. All right, thanks guys.
Tom O'Leary: Thank you Paul.

Operator: Again, if you have any other questions, please press star one and wait for your name to be announced.

Tom O'Leary: Okay, if there are - oh, there is one sorry.

Operator: Yes, we had one. It's from Rahul Anand from Morgan Stanley, please ask.

Rahul Anand: (Morgan Stanley, Analyst) Hi. Sorry for the last-minute change of mind on my behalf

Tom O'Leary: That's okay.

Rahul Anand: (Morgan Stanley, Analyst) Just wanted to get you to touch a bit on - in terms of the zircon markets, our channel checks have been telling us that India has been emerging as a strong market. Now, in your portfolio and your sort of presentation today in terms of EMEAI, it still seems like a relatively small proportion, albeit hasn't been split out. Any sort of visibility, views, comments, around how the market is developing there?

Matthew Blackwell: Rahul. It's Matt here. We're very - well, I'm more positive on India than I certainly have been in the past as it gets organised. The ceramics market in India has always been important, or a large producer of tiles. But it is moving rapidly up the cost curve and that's been allowed through digital printing, which has basically democratised the ability to produce a good quality tile. It is moving into export markets as well. So, our view, I think, is consistent - by the sounds of it - with your house view that it is an emerging market. It will continue to be an important market. Our sales to India grew strongly last year in zircon. India itself as a country, imports of zircon grew as well. We've grown our market share and we've taken steps over the course of last year to improve our - and strengthen our presence in India as well.

Rahul Anand: (Morgan Stanley, Analyst) Okay, thanks for that Matt. I'll pass it on. Thanks.

Tom O'Leary: Okay…

Operator: We don't have any other questions. Presenters, please continue.

Tom O'Leary: Okay, thanks very much. Look and thank you for taking the time this morning. In closing, I'd just like to reiterate that I think we've delivered a strong financial result and I feel we're well positioned to address what we expect will be a very busy year again in 2019. So, thank you and have a good day.

Operator: Ladies and gentlemen, that does conclude our call for today. Thank you for participating. You may all disconnect.

End of Transcript