



Iluka Resources Limited (ASX:ILU) 2016 Half Year Results 25 August 2016

Speakers

David Robb, Managing Director

Doug Warden, Chief Financial Officer and Head of Strategy and Planning

Matthew Blackwell, Head of Marketing, Mineral Sands

David Robb: Thank you and good morning everybody. Thanks for your time, which we understand may be limited for some due to another results call that's in about 45 minutes, so we'll try and get through the bulk of it in that time, including questions. Our focus will be on the questions. I think that's the most productive use of time.

With me is Doug Warden, the CFO and head of strategy and planning; Matt Blackwell, head of marketing; Adele Stratton, financial controller; and Rob Porter, GM investor relations and corporate affairs.

If we turn to slide 2, our disclaimer, please note it carefully. Slide 3, our half year profit and cash flow is again at a low ebb, and that's a huge disappointment to all of us at Iluka. But, volume trends we believe, and we've said before, are the best indicator of industry dynamics ahead, and they are positive, as are titanium dioxide signs in the half. Gross mineral sands margins, as Doug will cover, are stable.

The profit and cash flow impacts in the half are a result primarily of an increase in trade debtors, a drop in MAC [Mining Area C] receipts, and our decision to put our financial capacity to work in a number of areas by investing in traditional areas, in innovation and alternative project development pathways, and of course in M&A, as indicated at the bottom of the slide.

In the context of a negative cash flow half, the Board determined a lower interim dividend was appropriate, and Doug will cover that later. We're happy to take questions on SRL [Sierra Rutile Limited] later, including the release this morning.

Slide 4, we're focused on sustainability in all its aspects. I mentioned at the full year that 2015 saw an increase in minor injuries and first aid incidents, and in the associated total recordable injury frequency rate. Pleasingly, a redoubling of safety focus has turned that around. Our focus on net closure of areas disturbed and hand-backs to owners continue.

Note, this is an area where, for example, we could save money if we chose to short-term. It's an area where we are instead taking the long-term view.

Slide 5, not the big number of green arrows you would script for your last set of results, but our actions have been exactly in line with our words. We've done what we said we'd do, flexed production, target lower unit costs and gross margin preservation, and continued to invest. I think the comments on this slide are self-explanatory, or at least I hope so. So in the interest of time I'll move one, but we're happy to return to this if there are any questions.

Slide 6, business characteristics, this is actually a reprise of what we put out at the start of the year, and I thought it was just worth returning to that characteristics description that we outlined back then. A reasonable conclusion, I believe, is that 2016 so far is unfolding in line with these expectations that we had entering the year.

I'll now hand over to Doug.

Doug Warden: Thanks David. Turning to slide 7, this is just a presentation of the full year 2016 key physical and financial parameters that were provided as guidance in February, together with the first half performance against each of those metrics. On the basis of the first half results and our outlook for the remainder of the year, there is no change to any of the guided parameters.

Turning to slide 8, the summary of the Group results, as is highlighted in subsequent slides and already mentioned by David, gross margins have been largely maintained, with the key reasons for the fall in after-tax profit from H1 2015 being lower MAC receipts of \$18.2 million and higher resource development costs of \$23.9 million. I'll deal with those matters in more detail in subsequent slides.

The negative free cash flow for the half of \$50.6 million was due largely to sales that occurred late in the period, combined with lower utilisation of trade receivables purchases similarly which saw a combined sort of build in debtors for the half, as well as the increased spend on resource development costs and lower MAC, as mentioned above.

Net debt of \$124.1 million at 30 June represents an increase of \$130 million from the \$6 million net cash position at 31 December 2015, which together with the negative free cash flow of \$50 million and the \$79.5 million final 2015 dividend paid in April, is how you reconcile from that net cash to the net debt position for the half.

Turning to slide 9, the interim dividend as David mentioned, a \$0.03 fully franked interim dividend has been declared by the Board. This reduction in interim dividend from the \$0.06 paid in 2015 and also 2014 reflects the negative free cash flow in the half that I've already mentioned. Also take into account that free cash flow will be second half weighted as we've previously guided.

Turning to slide 10, which provides a bridge between the 30 June, 2015 NPAT of \$20 million and the 30 June, 2016, impact result of negative \$21 million, with the key drivers noted on the following slide, slide 11. So turning to that one, as I've mentioned the Mining Area C contribution was \$18.2 million lower than first half 2015 due to lower iron ore prices, no capacity payments in the first half of this year, and obviously the one-off settlement of \$10.4 million AUD in H1 2015 was not repeated in H1 2016.

Resource development costs were \$23.9 million higher, reflecting a significant investment made in assessing an innovative mineral sands mining technique. Importantly, as we've mentioned already product margins have been maintained with lower - slightly lower US dollar prices mainly due to zircon and some product mix issues, offset by lower unit costs of goods sold, higher volume and favourable FX.

Restructure and idle costs at a Group level were largely unchanged half-on-half, but I note that an increase in US idle costs following the idling of operations in December 2015 and a commencement of a feasibility study into a potential tailings retreatment project was offset by a reduction in idle costs in Australia, with the restart of SR2 in March 2015.

Lastly, notwithstanding the accounting loss before tax of \$18.5 million, I note the tax expense of \$2.4 million for the half. As was the case in last year's results, there is no tax benefit from either the US losses or the international exploration expenditure.

Turning to slide 12, just provides a comparison of the profit per tonne of Z/R/SR and the associated gross margin. As you can see, our gross margin has actually increased from 27% on a Z/R/SR basis in H1, 15% to 29% in the half just gone, which reflects a slight reduction in unit revenue which was more than offset by a reduction in unit cost of goods sold.

As mentioned earlier the reduction in unit revenue reflects lower US dollar zircon prices and mix factors, partially offset by more favourable FX movements.

The lower unit cost of goods sold of \$717 a tonne per tonne of Z/R/SR largely reflects the increase in the proportion of lower cost zircon products in the sales mix, together with a reduction in the unit cost of SR associated with lower ilmenite costs and higher production rates.

Turning to slide 13, just an expansion of the previous slide. Provides a breakdown of the mineral sands EBIT, and a comparison to the first half of 2015. As you can see the key variance again is the \$24 million increase in resource development costs associated with the new innovative new mining technique.

I would also note the lower gross profit in absolute dollar terms reflects a \$20 million reduction ilmenite revenue half-on-half which is not reflected in the revenue per tonne of Z/R/SR on the previous slide.

Turning to slide 14, shows a reduction in the unit cash cost which has been an ongoing trend as production has been curtailed to match demands. It is largely reflected in the cessation of mining and concentrating activities in the Murray Basin, Jacinth-Ambrosia, and Virginia. Unit costs of goods sold obviously reflects what is coming through the P&L importantly and is also trending down which, as I've said, reflects the mix of products sold in the half.

Turning to slide 15, just provides a bridge between first half 2015, and first half 2016, free cash flow movement. The big ticket item as you can see is the \$108 million reduction in operating cash flow half-on-half. This is largely due to the increase in trade receivables half-on-half as opposed to December 31, 2015. This is compared to June 30, 2015. I just emphasise, associated with some large sales that occurred late in June as I mentioned which were not able to be factored before June 30, and together with some amendments to certain customer credit terms, and finally an inability to factor some receivables as they exceeded their individual insurance limits due to the late timing of some of those shipments.

Other factors impacting the drop in operating cash flow broadly offset, but just for completeness, higher resource development expenditure as I've talked about, an increase in rehab spend half-on-half. Both of which were largely offset by lower cash cost production associated with the closure of WRP [Woornack, Rownack, Pirro, Murray Basin], US operations, and idling of Jacinth-Ambrosia.

Turning to slide 16, net debt movement really just showed the pre cash flow impact from December 31, 2015, where we had net cash of \$6 million to a net debt position of \$124 million at June 30, plus importantly the \$79 million final 2015 dividend that I already mentioned that was paid in the half.

Slide 17, just our normal balance sheet representation which shows the modest gearing levels and I note that \$828 million in undrawn facilities at June 30, and as you can see there's more than enough headroom to accommodate the \$465 million required for the SRL acquisition should it proceed.

Slide 18, highlights that with the idling of Jacinth-Ambrosia and a continued draw down of WRP inventory levels, the inventory on a dollar basis on the balance sheet is starting to reduce from the \$812 million we had at December 31, 2015, to \$755 million at June 30, 2016. As we've said on that slide we expect inventory levels to reduce further to pre-2012 levels over the next two years.

Finally, turning to slide 19, the Mining Area C result which I've already touched on shows the drop in contribution from Mining Area C half-on-half of \$18.2 million. The factors contributing to that, as you can see, is the absence of the one off settlement which I've already mentioned of \$10 million. The absence of any capacity payments in the first half of 2016 which is \$3 million of the difference, and lower royalty payments due to the lower volumes, and a 10% drop in the Australian dollar iron ore price, is the final reason for that difference.

With that I will now hand over to Matthew Blackwell who will provide an overview of market conditions for the half.

Matthew Blackwell: Thanks Doug. So after a soft start in 1Q, we had a very solid second quarter. This pattern was particularly evident in China where 1Q sales were impacted by firstly the delay to restarting of factories post Chinese New Year, and competitive price announcements that curtailed buying.

What I would draw your attention to is the large reduction in producer held inventory in China which we have estimated has reduced by approximately 50% over the course of the first half.

Slide 21, it is well documented that the first half is characterised by what we believe were unnecessary pricing actions, and it's our assessment that this did not stimulate any increase in any demand. Our assets to list the price by \$60 per tonne have not been fully successful, and we have moderated our implemented price increase in support of our customers.

Turning to slide 22, we are very pleased with the volume and margin outcomes for our high grade ore sales in the first half. We have noted on the slide Asia is a smaller end market for us given the predominance of sulphate root plants in that region. Finally, in the high grade feedstock market the continued recovery in the pigment sector in the supply chain bodes well for our customers, and the industry in general. The increases in demand they are seeing is flowing through as feedstock demand and we have been able to support our customers through earlier shipments of contracted tonnages in the first half.

Thanks David. I'll hand back.

David Robb: Thanks Matt. Turn to slide 24, this slide is my articulation of the investment options, the decision space if you like that we face currently. I think it's too complex for me to talk through every element of it. We're happy to take questions on it later. The key point to make is that we have flexibility across the portfolio right now as to both production decisions and capital allocation decisions, and you know we are rigorous and disciplined in making those decisions and that will not change, but happy to return to this. I think there's plenty of optionality for us in how we go forward.

Slide 25, look I'll do a lightening page turn of these so we can get to questions. These are the basic elements of the proposed transaction involving SRL, and obviously I would draw your attention to the last bullet point in relation to the ASX release of today's date.

Slide 26, that's just a restatement of the fact that the two tests of strategic rationale and financial merit are passed in our view.

Slide 27, we have heard the calls for more information and so within the limits of what we can disclose pre-completion, this slide has some actual history, some SRL 2016 guidance, so I would emphasise that that's their guidance. And some initial commentary from us about how we see the first three years. Now in providing this commentary, I must emphasise that the numbers are indicative and subject to modifications following conclusion of the transaction and our initial review and confirmatory activities once we're actually operating the business.

Slide 28, as we've said, we believe we can improve the business.

Slide 29, Cataby. Look, it's essentially ready to go. As I noted in the ASX release we think industry conditions may be aligning for a potential development decision around the end of the year.

Slide 30, we've largely completed a DFS for an economically viable conventional development of Balranald, but we have been working in parallel on assessing what we've described here as an alternative, innovative, less capital intensive, scalable, flexible development path. Field trials continue to validate our approach. Given intellectual property, commercial and strategic concerns, we are not at a point currently where we can say much more than that.

Slide 31, we're satisfied with the commercial and technical progress of Metalysis as shown on this slide and the next.

Then slide 33, to finish before questions. As I said previously, 2016 is evolving largely in line with our expectations as articulated in February. The two new elements I guess versus what we said back then, obviously the announcement of Tom O'Leary as my successor, and the focus that I have had on ensuring a smooth transition to him which is occurring. And the SRL acquisition where we have backed our countercyclical approach and plan to put some of our balance sheet to work in that direction.

With that, I think we'll leave it and take questions. I know that's been a high speed run through but we do want to allow enough time for questions and for people to get to other calls that are out there.

Operator: Thank you David. Ladies and gentlemen we will now begin the question and answer session. If you wish to ask a question, please press star one on your telephone 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 comes from the line of Clarke Wilkins from Citi. Please ask your question.

Clarke Wilkins: (Citi, Analyst) Good morning everyone. Two questions. First off, on the Sierra Rutile. In terms of, obviously it sounds like a bit of a fluid situation, but is there any scope at all for them to - the Board to change their approval based on the price if there is that capital gains tax liability found to be payable. Just secondly in terms of these Balranald trials, how long is it that we're looking it in terms of these steel trials to demonstrate an economic, sort of in terms of this alternative approach, and what would that potentially mean for the timeline of the development?

David Robb: Clarke look, I understand why you're asking both those questions. In relation to the first one, as you would know, in transactions such as this there are all manner of confidentiality agreements in place. Merger implementation agreements that both parties are bound by and so on. I'm just not in a position to divulge more details than we have. The advice we've received previously is that CGT may apply, and to the extent that it is payable it's a liability which rests personally with the relevant SRL shareholders.

So that's the position as we understand it. We just can't confirm at this stage the extent to which these government concerns, and we are dealing with a sovereign government here, in relation to CGT may affect

SRL, the proposed timetable. Or the likelihood ultimately of them proceeding as we've said. It's not appropriate for me to comment on discussions that will need to take place on this matter.

On the Balranald, look the trials have been underway for some time as we've said. The trials to date validate our approach. I'm sorry Clarke, but I can't put a timeframe on it. I don't believe that's prudent or is it in our commercial interests to do so.

We are very enthusiastic about this solution and we just have to keep our light hidden under a bushel a bit longer, I'm sorry.

Clarke Wilkins: (Citi, Analyst) Even just maybe the extension to that, the conventional mining method that - no work's ongoing on that. Effectively that work's been done and completed.

David Robb: Essentially - yes, essentially parked up other than there continues to be some environmental approvals and other work that may well apply to both, Clarke, but we're at the end of the DFS for it. So it's now essentially on the shelf and the attention is focused primarily on this alternative pathway. The words there, I'd just encourage everybody to have a look at the words, because if you think about how Iluka likes to operate its business, those words like flexible, and scaleable, I think that they are the words that people should focus on, particularly when paired with the acquisition of SRL.

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

Operator: Your next question comes from the line of Paul Young from Deutsche Bank. Please ask your question.

Paul Young: (Deutsche Bank, Analyst) Yes good morning gentlemen. First question on the zircon...

David Robb: Paul, you're very hard to hear. Could you speak up a little please?

Paul Young: (Deutsche Bank, Analyst) Yes I'll try again. Can you hear me now?

David Robb: Barely, but we'll try.

Paul Young: (Deutsche Bank, Analyst) Okay. All right, the first question's on the zircon market. You mentioned that not all of the proposed \$60 a tonne price increase was successful. Can you actually tell us how much of it was successful, and in dollars a tonne?

Secondly, David, if I look at the Chinese markets specifically, I see your sales volumes were weaker first half - the first half last year. Of course it was because of I presume just price variation and customer - and competitor positioning. But I look at that market, just at the Chinese market, and the casting industry has been pretty good, fused zirconia has been pretty good, but tile, demand from tile factories, has been pretty weak. We know that tile inventories are relatively high. We know the utilisation rates are coming under a bit of pressure there. Is there a risk in your view that demand for zircon from ceramics in China actually declines in the second half - that's the first question - rather than actually increases?

Secondly, just on Sierra Rutile now, I understand that you can't give too much more than what you've - and thanks for giving that additional information, but there's a lot of work to do there, on that asset, over the next four years to double production. Obviously it's a very isolated country. I'm just really interested in how you stack this up particularly against Cataby. Can you tell us which of those projects has the highest return, on your assumption? Thanks.

David Robb: Paul, I'll deal with the last one before handing over to Matt on the zircon China question. No, I cannot tell you which one has the highest return. As you know, I've said before, that we've never disclosed target returns or target IRRs, you name it. These are projects that are an important part of the supply picture for the industry and discussions with customers that we have around them really necessitate that we be a bit coy about those things.

We test returns also across the whole range of scenarios, so it's just not really possible to answer that question categorically because it depends on relative price movements, for example, between TiO₂ and zircon. If a mine has a higher zircon production, it's more leveraged to zircon outcomes et cetera. So what I can assure you of is that we only put money to work where we are confident that across a range of scenarios that we think, pretty exhaustive, we can achieve a return for our shareholders, an acceptable return.

On the question of SRL, yes there is work to do, yes it's a country that's a long way away. But it has improved its performance. We think we can do more. We have detailed integration planning that is underway. We have the human talent that is committed and ready to go. So no, I have no doubts about our ability to successfully improve that business.

Obviously, as you would appreciate, there are relationship issues, there are poverty issues, there are infrastructure - these - operating in a developing country is very different. I've had plenty of experience of it, and so have many others of my management team. So we've gone into it with our eyes wide open, Paul.

Matt, on the zircon?

Matthew Blackwell: Yes, David, hi Paul. Look how much was successful? We'll advise the outcomes of our zircon prices at the end of the year like we normally will. What I would say is that I am pleased that we have been successful in getting the first price rise in zircon for many years. So that's I guess all I can say on that.

You talked about tile demand being low, will zircon demand drop in the second half. There's a lot of talk about the tile inventories. We can't reconcile our view of tile inventories to some of the large numbers that have been talked about in the marketplace. Our customers are continuing to buy from us. We - I don't know exactly what will happen in demand in China in the second half, I can't predict that. What I can say is that as we look forward to our sales, our guidance remains intact and we're comfortable with where we are positioned.

Paul Young: (Deutsche Bank, Analyst) Okay. Thanks. Dave, can I just go back to the comment on the returns? I'm sorry, but I don't see how this is sensitive. Do you mind just...

Paul Young: (Deutsche Bank, Analyst) Yes. So just back on your comment about not being able to disclose returns. So I'm not asking you to disclose a target return. I'm not asking you to disclose the actual return. If you look at Sierra Rutile versus Cataby, it's obviously predominantly a rutile stream versus a synthetic rutile stream, right? So as far as the products are concerned, yes I understand that Cataby produces a bit of zircon, but ultimately it's a call on the high grade TiO₂ market.

What I'm interested in, and certainly shareholders would be - I would think would be interested in this, is that of those two, which is the most attractive?

David Robb: Right. I have said previously that it is not a case of either/or, right? That our view is we do both. Remember too that Cataby has flexibility that Sierra Rutile does not, in that it can either send its ilmenite to make SR or it can sell its ilmenite direct. Remember too that SR and rutile are not 100% fungible across all customers. Some customers have a preference for one, and some have a preference for the other. So you really are asking me to compare in, I think, an unrealistic way, two operations which serve different market needs.

Craig Sainsbury: (Goldman Sachs, Analyst) Thanks. Good morning David. Look, I was just wondering if we can draw you a little bit more on this innovative mining technique, the \$24 million that got spent in the half. Can you talk us through what - is that around Balranald, is it not, how much more is to come? In a period of, as you say, first half, first to second half bias, why do we see such a strong spend have to occur in the first half? So just explore that a little bit more for me.

The second question, just on the feedstock market, you're talking about volumes being brought forward under contract for some customers. You're not upgrading any of your guidance yet in terms of volume or sales. Are we only looking at a slight raise or are you just keeping a bit of powder dry for - in terms of the higher sales and some guidance in the second half of the year?

David Robb: Well I'm not going to create a rod for my successor's back, so that's all I'll say on that, but I'll ask Matt to comment on that. Why is the spend what it is in the half? As you move from early stage assessment, as you move from early stage testing at small scale, to trials in the real world, obviously the cost of that rises significantly. The cost of a DFS is also significant. So we are - the heart of the answer to your question about Balranald is we are excited about the merit of this alternative. We have been for some time. We've been coy about it, we know that. There are reasons for that. We are now in real world field trials, and they are more expensive to run than early stage work. I have no qualms at all, notwithstanding the cash flow in the business currently, that these are the right things for us to do. They are...

Craig Sainsbury: (Goldman Sachs, Analyst) So all that \$24 million is to do with Balranald?

David Robb: Pretty much.

Craig Sainsbury: (Goldman Sachs, Analyst) Then - sorry, forgive my accounting incompetency here, but why does that go through the P&L statement rather than just be capitalised as feasibility study project expenditure et cetera?

Doug Warden: Yes, look it's just - it's Doug Warden here. It's essentially the stage that that work is at, as to the level of confidence that you have to capitalise it. So that's essentially the reason.

Craig Sainsbury: (Goldman Sachs, Analyst) Okay. Then is that still ongoing? Are we going to get another \$24 million next half?

Doug Warden: I think we guided it in the February key financial and physical parameters \$35 million for the full year in other cash costs, in the commentary. So I'll just point you to that.

Craig Sainsbury: (Goldman Sachs, Analyst) Okay.

Doug Warden: Total full year, \$35 million.

David Robb: You need to think about it as an investment in a more - well as we've said actually, less capital-intensive. So conservatively you expense it now, it could back the other way obviously and be capitalised subsequently, but it's all about what we see as a capital reduction price. We think that's absolutely in shareholder's interests.

Craig Sainsbury: (Goldman Sachs, Analyst) Okay thanks.

Matthew Blackwell: To the pull forward of volumes, look we entered - we guided that we entered 2016, or mentioned, that with the majority of our high grade ore contracted, what we have seen is - we predicted that Q1 would be stronger, and that's played out. We have seen increased demand, re-stocking, and as a result of that demand - in the pigment sector, an increase demand for feedstocks.

In terms of timing of our sales, customers have brought their volumes forward and then it's a logical outcome that if they've brought material forward that they plan to consume later in the year, they may need some material to fill that gap, because they brought it forward. Not saying that we'll get all of that, but that's what you would expect to happen in the normal course of events.

David Robb: Yes, maybe - Craig, just to go back to a number of those questions. If you have a look at that investment landscape slide, slide 24, if you think about what Sierra Rutile is best suited to, and our plans to increase its production, and obviously local expectations around growth in that business, investment in it and so on, I think it's logical to conclude that you will run that as hard as you possibly can, and you need an ability to flex. If you're going to pursue our business model, you need an ability to flex elsewhere. Obviously it's harder to flex an asset in a developing economy where it is the single biggest economic asset in the country.

So the reason why I am so excited about the Balranald alternative development pathway is because it provides that flexibility perfectly in line with our overall production mix including a Sierra Rutile Limited running as hard as we can get it to run. So the two go together obviously, we think, quite elegantly.

Craig Sainsbury: (Goldman Sachs, Analyst) Okay, thank you.

Operator: Your next question comes from the line of Paul McTaggart from Credit Suisse. Please ask your question.

Paul McTaggart: (Credit Suisse, Analyst) Hi gents, I just wanted to follow up on an earlier comment about amendment to credit terms. So I mean obviously -

David Robb: Paul, can you speak up a little, we're struggling on this line. I'm not sure what's going on.

Paul McTaggart: (Credit Suisse, Analyst) Just earlier I heard mention of an amendment to credit terms and so I wanted to understand was that part of the reason we saw those debtors blow out as straight receivables and if so, was that because we kind of needed to buy some market share, other than just price related? What was going on with that amendment to the credit terms.

Doug Warden: Paul, it's Doug here. It's really related to a couple of customers and shipments that were made to them late in the half, meaning that we were unable to factor those debtors late in the piece. Yes, there were some credit terms offered there, that we referred to, for some of those customers. But look, we're not in a position to talk in specific terms about individual customers, obviously, that's pretty much what I can say on that matter.

David Robb: Well I can just add, Paul, that we're not changing credit terms to buy share.

Paul McTaggart: (Credit Suisse, Analyst) Okay, right.

David Robb: These things ebb and flow, Paul. They normalise themselves over time, so does the factoring, that can be a positive then unwind slightly depending on what's available in the market at the time. I'd emphasise to you again, have a look at the gross margin, it's stable or slight increase. So we're not in the business of buying share and in fact I think anyone who has followed us over the years would know our approach is the exact opposite of that.

I would try and point people to the fundamental which is the volume increase and gross margins that are stable; that's a good picture. It's everything below the line, if you like, that we're doing corporately and strategically, that has knocked our first half around. But the other things in relation to the market, there are period-to-period variations and they'll normalise over time, as I say.

Paul McTaggart: (Credit Suisse, Analyst) Thanks guys.

Operator: Your next question comes from the line of Hugh Stackpool from JP Morgan. Please ask your question.

Hugh Stackpool: (JP Morgan, Analyst) Hi guys, just wondering in the current zircon market, is the zircon price environment changing any buyer appetite for the various products in regards to the split they might have between standard and premium or wanting more concentrate versus standard or premium? Is there kind of a shift either in the industries that are going well and aren't going well downstream and/or pricing wise?

Matthew Blackwell: I can answer that, it's Matthew here. First of all, downstream they don't generally buy concentrate. What happens is in China you have concentrate processors who import the material and then they on-sell that zircon that they extract from these by-product streams, tailing streams, that are normally at a market price. Normally it's when prices are higher that concentrate sales are greater because these are by-products, they're a bit harder for people to process and cost a bit more to get into the market, that's the first thing.

Second, there's a bit of movement around times, difficult times. People try to do the best they can with the least amount and so we have seen a shift in the split and that's not inconsistent with what has happened previously, but there is still demand for premium product because it has opacifying qualities or colour rendering qualities in zircon that just cannot be matched or met by inferior grade products.

So for example, sanitary wear in China, which is growing at 3% per annum and is a solid market, can only use premium grade zircons and so we're comfortable that that market will continue and will rebound over time.

David Robb: Hugh the other thing is that we're quite opportunistic in the short time at how we look at this. We might choose to place some tailings material that has been a bit of a problem for us on our books for a while, we might choose to place that into the market when there's an appetite for it. It's a good way of clearing it out. So there are motives on the producer side as well as to what is supplied, it's not just a buyer decision.

So I'd just make that observation that there are times when we prefer to deal in particular product qualities, particular channels and through all of that, we know we extract a better margin for our zircon overall than do our competitors.

Matthew Blackwell: I guess that's the other point though, we don't disclose margin on these products, that just because it is a standard grade product, you shouldn't assume that the margin is less than a premium grade product.

Hugh Stackpool: (JP Morgan, Analyst) The variance between the standard and premium pricing, has that been moving much?

Matthew Blackwell: I think the delta between the two remains fairly constant over time. It's a value in use, the relative economic value factor more than anything, Hugh.

David Robb: Typically, what happens in boom times is margins for premium products expand rather more than those for lower grade product, because you get better performance, you get better efficiency and so on in using those products, certainly we see that in TiO₂.

Be assured that what we do is we think about it in a long term basis and if we think we can get a better margin today and clear something out of the cupboard, well we do that and we keep the better stuff for a later date when we can sell it hopefully for a higher price. So think of it in NPV terms, if you like, rather than meeting any kind of short term target.

Hugh Stackpool: (JP Morgan, Analyst) Just on the receivables, was I catching on that there were some sales late in the period that probably some would have been factored, but just didn't make it by the cut-off date, so to speak? Is that the kind of gist of it and that's why there was less put into that facility this half?

Matthew Blackwell: That's correct.

Hugh Stackpool: (JP Morgan, Analyst) Yes, so it might reverse next half by that amount then.

Matthew Blackwell: Yes.

Hugh Stackpool: (JP Morgan, Analyst) Okay, good. Thanks guys.

David Robb: Any more questions?

Operator: Your next question comes from the line of Glyn Lawcock from UBS. Please ask your question.

Glyn Lawcock: (UBS, Analyst) Good morning. I just wanted to ask, David, two things, quickly just the original Balranald study which you put on the shelf and you finished the DFS, can you give any parameters around what that's yielded in terms of CapEx and what it would look like as a project?

The secondly, quickly, I just wanted to make sure, so you've been factoring, does that mean, if we look at debtors being down at around about \$100 million, pretty steady for the last 18 months, prior to that it was about \$150 million, is the factoring - have you've actually got the money in now from those customers, so you're actually back down to what you've been at for the last 18 months, it's just the money is already in the door? Thanks.

David Robb: Yes, Glyn I'll deal with the first one and again, I'm sorry, I'm not going to put any numbers on the table that I think are now probably less likely to be relevant, but I think people know that Balranald is deep. It involved conventionally, anyway, the movement of a lot of overburden in the mineral sands context. It was therefore a significant capital sum in order to get the right operating costs, i.e. the right efficiency in moving all that overburden, to get to what is an incredibly rich ore body.

The innovative pathway that we are trialling and are happy with the trials, is a significantly lower capital burden and it has significant advantage in terms of flexibility. The issue with big capital plants is you then need to run it flat out all the time to get the right unit costs and that doesn't - it's alright if it's your only asset, but in the context of our portfolio, having a big capital investment in Balranald and needing to drive it hard to get the unit costs we want, didn't ideally fit our model, whereas this alternative approach does, Glyn.

So there's quite a difference, but I would see the prize more in the area of flexibility, scalability and so on, that's the way people should think about it and think about it in the context of a possible executed decision in relation to Cataby and obviously the SRL transaction, then both the timing and the nature of the development of Balranald, ideally we want flexibility and that looks like that's what we have.

On the other...

Doug Warden: On the factoring, Glyn, look debtors are reducing. I just point you and I point everyone to note 7 in the 4D where there's some more fulsome disclosure on the receivables that you can read. I'd just point out that in there we referenced an uninsured component of \$29.6 million at June 30 in that receivable balance and just to highlight that we don't factor debtors that are uninsured. So there's an element of that as well, but if you just have a read of Note 7 in the 4D, it will hopefully answer the questions you've got.

David Robb: Look yes, negative cash flow for the half and we're investing in both conventional and unconventional ways, but remember how much value is tied up in that inventory, that it's now turned the corner and will return to pre-2012 levels. Interesting observation that I think one investor made to us, Rob, was think about the value of that and it comfortably takes care of the SRL acquisition, or indeed go to shareholders in other ways. That's my final comment.

Glyn Lawcock: (UBS, Analyst) Sorry David, can I ask a follow-up question if I could?

David Robb: Sure, Glyn.

Glyn Lawcock: (UBS, Analyst) Just going back to Cataby, I thought you might have approved it at the Board meeting around the result, the timing of that? You're leaving it obviously for Tom to approve, but just in terms of when you need to see that up so that we get the smooth transition into the mine and no loss of SR?

David Robb: Yes, I think people would be aware that we need ilmenite to feed the kiln. We've got some months up our sleeve, Glyn. First half of next year still works, there's ilmenite on the market that you can buy that we know works in our kilns if we wanted to take advantage of that and push the decision on Cataby out even further, if we thought that was the right thing to do.

You may recall that we got the government to agree to a significant extension in our development timeline and the regulatory approval validity period, so we've got another five years, I think, on top of what we already had, within which we can rely on the existing approvals to do the project. But yes, I think leave it to the new guy to get his feet under the desk and he can decide what he wants to do.

Glyn Lawcock: (UBS, Analyst) The CapEx number, \$250 million to \$275 million, I don't know, to me felt a bit on the high side of expectations.

David Robb: Well yes, look let's wait and see. You may recall that we developed Jacinth-Ambrosia which was more challenging at less than the number we guided. Again, I don't want to make a rod for my successor's back, he can take over and have a look at decide what he wants to communicate ultimately post the Board decision on it, Glyn.

Glyn Lawcock: (UBS, Analyst) No worries, no I appreciate that.

David Robb: Look, it's a disappointing note for me, obviously, but we are doing the right things for shareholders. Nothing, I believe, that we have done in the half was in the medium to long term anything other than the very best thing for our shareholders. There are pressures and there are things that we could have done to stop spending, cut costs, defer progress on projects, batten down the hatches, do all of that kind of stuff, to create better optics in the half. It's not the way we run this business and you see that in the first half outcomes.

It is a half where the right decisions for the long term are being funded and I have said that I think what we're entering into is a period similar to where we went after the 2007/2008 commitments we made. The only difference is last time we had to go to debt and equity markets to fund them, this time we don't. But shareholders will see their reward in due course.

Glyn Lawcock: (UBS, Analyst) No, I agree David; you've got to spend a dollar to make two, hopefully.

David Robb: Yes, well I don't know, that's pretty low expectation, Glyn, two. I'm sure Tom can do very much better than that ratio.

Glyn Lawcock: (UBS, Analyst) That's doubling your money.

David Robb: Yes, that's pretty good, you're right.

Glyn Lawcock: (UBS, Analyst) Alright, all the best David for your next phase of your life.

David Robb: Okay, thank you, Glyn. Are there any other questions? Well, look thank you, thank you for your interest in this Company over the journey that I've been here. You should have absolute confidence in the team that will take you forward. Thank you.

End of Transcript