

## **Speakers**

Tom O'Leary, Managing Director

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

Matthew Blackwell, Head of Marketing

## **Start of Transcript**

Tom O'Leary: Good morning everyone and thanks for making the time to join the call today. Joining me this morning are Doug Warden Chief Financial Officer, Matthew Blackwell Head of Marketing and Procurement and Adele Stratton General Manager Finance and Investor Relations.

I'd like to start by saying I'm pleased with our financial performance during the period with significant increases in profitability and cash flow generation, a large reduction in net debt to around \$34 million, gearing down to 3.5% and an increase in the interim dividend to \$0.10 per share fully franked compared to \$0.06 in the first half last year.

In the mineral sands market we've continued to see a strong and we believe sustainable price environment across our product suite. Mineral sands revenue increased 21% over the same period last year despite sales volumes being marginally lower. As disclosed with our full year results back in February, we implemented a US\$180 per tonne increase to our zircon reference price effective for six months across the second and third quarters of 2018 and we've announced today a further US\$170 per tonne increase to the zircon reference price effective for six months from 1 October. We believe that our zircon reference price at US\$1580 per tonne reflects the current market price for zircon.

As I said before, we're seeking to achieve a sustainable pricing set of outcomes which benefit all of our shareholders, our customers and our industry long-term. Our approach in setting the reference price for a six-month period has received positive feedback and others in the industry have also started to adopt the approach. We've also continued to experience strong demand for our high-grade titanium dioxide feedstocks with all of our second half production contracted or allocated to customers. We've also seen some genuine price traction with first half prices up 20% on first half 2017 and we've implemented a 14% price increase for our second half natural rutile sales.

Slide four of the pack covers the key financials and Doug will speak to those shortly but I'd like to highlight the generation of \$226 million of free cash flow supporting the \$0.10 interim dividend. We're now debt free with net debt further reduced to \$5 million at the end of July.

I'll now turn to our operational performance and outlook but first to safety. I note the steady progress we're making in this regard with a small reduction in the total recordable injury frequency rate from 2.8 at 31 December 2017 to 2.7 at 30 June with those frequency rates now incorporating Sierra Rutile. Our focus remains the ongoing integration of Iluka's safety and risk mitigation framework to strengthen Sierra Rutile's sustainability and performance. More broadly, as I highlighted at the year end and at the AGM, the key focus for 2018 is delivery. We've successfully restarted mining and concentrating activities at Jacinth-Ambrosia and the team's been focused on assessing options to smooth the production profile to partially offset the impact of declining grade over its remaining operating life. It's likely we'll now approach this by moving to Ambrosia early in the second half of 2019 rather than in 2022.

Better production performance since the restart than we'd expected largely as a consequence of higher-grade ore resulting in increased heavy mineral concentrate inventory, together with further mine plan

optimisation and the expected timely contribution of Cataby zircon to bolster overall Group production has meant that the 30% increase in the concentrator capacity and the introduction of a new mining unit are no longer being contemplated. That allows us to avoid the reasonably significant capital cost associated with them.

A DFS on the Ambrosia mine move is close to completion and subject to Board approval. Execute will commence shortly. As we said before, our focus is on delivering sustainable value through disciplined capital deployment.

Good progress is being made on the Cataby development which is on time and within budget. We're in the midst of some of our biggest months of the project but I'm confident we're on track. Planning work is currently underway for the major maintenance outage (MMO) required at the synthetic rutile kiln in the first quarter of 2019 before we introduce the Cataby ilmenite. This MMO is required before each typically four-year kiln campaign.

As you'll have seen from our June quarterly review, operations in Sierra Rutile have been challenging. Production performance was disappointing in the first half with commissioning issues on the in-pit mining unit and age-related failures of equipment at the dredge resulting in rutile production of 61,000 tonnes, down 23% from first half 2017. One thing we probably over-estimated was the capacity of the workforce, particularly among trades and supervisory personnel, to adapt to the challenges that the introduction of new methods and technology brings with it. This has been a challenge and we're taking steps to address it with more experienced supervision as well as continuing to upskill the local workforce.

We've also incurred some one-off additional costs in the half year combined with increased maintenance costs for ageing equipment. These have resulted in an increase to the expected cash production costs for the full year of US\$13 million, now estimated at US\$115 million for Sierra Rutile. We estimate that about two-thirds of these additional costs are one-off with the remaining \$4 million expected to be recurring.

It's important to note though that while there have been some challenges with the introduction of new methods and technology, where Iluka has introduced differences in work practices that have led to increased productivity those changes have been sustained over the past 12 months. Examples of this are increased recoveries in the wet concentrator plant and increased valuable heavy mineral content in the concentrate produced. The core focus now is on ensuring appropriate run times are achieved to deliver consistent results.

In relation to Sierra Rutile mine expansions at both the Lanti dry and Gangama capacity expansions were approved by the Board in December and both projects are progressing on track and on budget with expected commissioning in 2019. As we've said before the acquisition case for Sierra Rutile depended on expanding the operation, increasing throughput and reducing unit cost and that remains the case.

The final phase of the Sierra Rutile expansion relates to the undeveloped Sembahun deposit which at the time of acquisition accounted for around 70% of the ore reserves in Sierra Leone. Initial capital estimates for Sembahun were based on PFS studies which were reviewed as part of the due diligence process. Although these have been prepared by external engineering firms it's now becoming clear that these underestimated costs. Iluka has been progressing definitive feasibility studies which we expect to complete this year end. Disappointing, preliminary estimates indicate a 40% to 60% increase in real terms to the US\$300 million total capital cost guided with the majority of the increase relating to the Sembahun development and associated mineral separation plant upgrade.

As part of the Sembahun DFS and separately the mineral separation plant upgrade DFS, we're continuing to assess options for reducing capital costs and maximising returns. Again, we're focused on disciplined capital deployment. The Sierra Rutile expansion provides access to a major global source of rutile with a

mine life of around 20 years. Current exploration and resource filling has identified a new mine exploration target which might extend current operations at Gangama and Lanti for 12 to 24 months.

Iluka plans to commit progressively to expansion opportunities that in aggregate could see a significant increase in rutile production and a material improvement in unit cash costs of production. Iluka will approach all capital allocation decisions with discipline to ensure sustainable value generation.

At this point I'll hand over to Doug to take you through the financial results in more detail.

Doug Warden: Thanks, Tom, and good morning everyone.

Iluka - just to start with a bit of an overview of the Group, Iluka reported a net profit after tax of \$126 million for the half which represented a significant turnaround on the \$82 million loss recorded in the first half of 2017. As can be seen on slide 13 the key factors contributing to the return to profitability were obviously improved prices as Tom said across the product suite with average zircon prices up 47% and rutile prices up 20% on first half 2017, the absence of any impairment charges with the first half of 2017 including an impairment charge of \$151 million relating to the idling of the Hamilton mineral separation plant. Also lower idle costs due to the restart of mining and concentrating activities at JA with these factors being partially offset by an increase in tax expense of \$95 million associated with the increase in profitability.

Turning now to free cash flow and net debt, higher prices and continued drawdown in inventory contributed to a strong first half free cash flow result of \$226 million. This was used to fund the 2017 final dividend with \$148 million being applied to the reduction of net debt during the half. Key factors influencing the first half free cash flow were the strong increase in underlying earnings driven by the higher prices that I referred to early and the substantial drawdown in inventory of \$75 million, which is now within normalised levels. I would also note that the cash tax in the first half of 2018 was only \$2.4 million which is considerably lower than the income tax expense of \$67.5 million. The cash tax for 2018 to be paid in mid-2019.

July was another very strong free cash flow month which together with the appreciation in the Aussie dollar resulted in net debt reducing to \$5 million at the end of the month.

Now for a few comments on operational performance and I refer you to page 7 and 8 of the half year accounts.

The Australian operations recorded an EBITDA contribution of \$282 million which represented a 73% improvement on the first half of 2017 due largely to positive and price volume impacts I referred to in the Group overview. Overall, unit cash cost to production of \$513 a tonne were 51% higher than 2017 with the first half of 2017 outcome benefiting from production from the Murray Basin together with considerably lower mining and concentrating costs as we process HMC stockpiles from both WRP and JA.

Turning to Sierra Rutile which generated an EBITDA for the half of \$14 million which represented an 84% improvement on the first half 2017 outcome. As a result of positive working capital movements SRL generated \$24 million in operating cash flow for the half. However, we are acutely aware that SRL generated an EBIT loss of \$4.3 million in the first half and Rob Hattingh and his team are working very hard to improve the production and cost performance of this business.

Turning now to the hedge book, as we previously said our hedging of the exchange rate only relates to US dollar revenues associated with the longer-term SR contracts, the philosophy being if you hedge one side of a transaction in our case price via the [TiO<sub>2</sub>] price contract then you need to address the other side being the FX exposure in the form of a relatively certain but not fixed US dollar revenue stream. As I said, the SR agreements do provide some level of certainty over US dollar receipt although there is upside to those contracts as we've explained previously.

There was no additional hedging undertaken during the half and at 30 June the following contracts remain open, foreign US dollar forward contracts covering US\$49 million at an average rate of \$0.802 which will be delivered in the second half and foreign exchange collars covering \$259 million of expected US dollars revenues over the period 2018 to 2022. These collars are comprised of \$259 million of purchased Aussie dollar call options with a weighted average strike price of \$0.802 and the same figure, \$259 million of Aussie dollar sold put options which have a strike price of \$0.70 with the effect being that you participate in a lower Aussie dollar down to \$0.70 and you're protected above \$0.802.

It's important to note that the hedged US dollar revenues do not represent the full value of the expected sales from these SR contracts and that we remain exposed to both price and FX risk associated with all zircon and rutile revenue.

As we said previously in respect of Sierra Rutile we see the largely US dollar driven cost base as a sufficient natural hedge to its US dollar revenues.

Finally, a few comments on capital management. The directors have declared a \$0.10 fully franked interim dividend. Whilst I note this represents only 19% versus our 40% framework of first half free cash flow, as Tom mentioned we have a significant CapEx program in the second half and therefore expect the 2018 free cash flow to be heavily first half weighted. You will note that whilst we have retained the dividend reinvestment plan there will be no discount applicable to the allocation price in respect of the interim dividend. Notwithstanding the significant capital investment required over 2018 and 2019 the interim dividend reflects the strong 2018 first half free cash flow, a positive outlook on market conditions whilst balancing our stated intention to maintain credit metrics in line with the investment grade.

With that I'll hand back to Tom.

Tom O'Leary: Thanks, Doug.

I'll close just by reiterating a few of the key points. We're focused on creating a sustainable business and on continuing to improve performance to ensure we can provide satisfactory returns to shareholders. It's been a really solid first half with strong profits and cash flows and while we acknowledge some challenges based at Sierra Rutile we're confident that we have the right team in place to deliver. We don't judge the success of that acquisition on the first 18 months. We've learned a lot and are confident about its future. We're making good progress on our active growth projects, the Sierra Rutile expansions and the Cataby development here in Australia, which are all on time and budget.

On the second half outlook, mineral sands markets remain strong. In zircon we continue to observe tight market conditions which we believe are largely driven by supply constraints and in titanium dioxide feedstocks market conditions remain favourable with pigment for customers continuing to run at or near full capacity which has driven strong demand for very high-grade feedstock such as rutile and synthetic rutile.

With that I thank you for your time this morning. I'll now open up the line for questions.

Your first question is from Clarke Wilkins from Citi.

Clarke Wilkins: (Citi, Analyst) Hi Tom. Two questions. Just firstly in regard to JA, not putting in that second mining unit and keeping the throughputs at 1000 tonne per hour, what does that mean for the production rates when you get beyond the - for Ambrosia beyond the guidance period? What sort of zircon annually can we expect from that asset?

Also, just in regard to the zircon price, your comment there about reflecting the current market conditions. I think one of your competitors put price at the \$1650 for the third quarter. Does that reflect the weakening in spot price which I think is around about where your price is or is it a reflection that you don't want to push prices too hard and encourage too much supply into the market from Indonesia I think which you flagged is where potential supply could come from?

Tom O'Leary: Yes, thanks, Clarke. Just first on the JA question, in the ASX release I think we've footnoted a reiteration of guidance that we made a while ago such that we're confident that with the Ambrosia mine movements and changes to the mine plan we're comfortable we're going to achieve rates of production similar to that which we guided a while ago when we were contemplating an increase to concentrator capacity as well as the introduction of a new mining unit. I'm not going to be guiding beyond the next several years so I think we'll leave that one there.

But on the question about zircon I'll hand that over to Matt. I guess the key point is that we're looking to create a sustainable pricing environment for the ongoing production of zircon for our shareholders, our customers and the industry in general.

Matthew, I'll hand over to you.

Matthew Blackwell: Thanks, Tom. Hi Clarke. You're probably right that there are some spot sales at \$1650 but we're not in the spot market today is the first thing I'd say. Secondly, the competitor I think you referred to actually lifted their price to \$1600, not \$1650, that relates to a very small portion of their production, we estimate about 23,000 tonnes over the course of the year. I don't think that really sets the market. We're confident with where our price is. We believe that what we're seeing in the market today is solid demand. We believe that in light of these dynamics that we're seeing that the price is appropriate and we think it's an action that rewards our shareholders and loyal customers and is good for the industry overall.

Clarke Wilkins: (Citi, Analyst) Matt, have you seen any change into buyer behaviour around potential products, export out of China being subject to the tariffs et cetera because of the trade wars? Has there been any change in buyer behaviour or are there still customers willing to take whatever they can get in the tight market?

Matthew Blackwell: Good question. In terms of the potential impact for the US trade dispute clearly as you would expect there's a degree of unease, a natural reaction to the uncertainty that's out there at the moment. Titanium and zircon products and products using these minerals are on the lists of products that could potentially be impacted at different stages. But to put it in context, just talking about zircon, we estimate if the US stopped importing zirconia, ZOC, ZBC, fused zirconia and ceramic tiles from China the impact to us if those sales went away totally and we couldn't place that zircon elsewhere would be 3300 tonnes, less than 1% of our sales. We don't see it as a big issue for us.

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

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

Rahul Anand: (Morgan Stanley, Analyst) Thank you. First one relates to JA, just following on from Clarke's question. Regarding the DFS currently underway and the flag that the \$60 million estimate's going to be revisited so to speak, just wanted to get a brief understanding. How's the scope of the project changed? I understand that you've got better grades coming out of Jacinth at the moment which you'll probably stockpile and then as Ambrosia comes in earlier you're able to have a higher production in the near-term without expanding production but going forward, is there a change to scope of the project at all in terms of the expansion?

Tom O'Leary: Rahul, we'll go through it stepwise. What we had thought we'd need to do to ameliorate grade decline over the next several years, we had thought we'd need to do three things. We'd need to accelerate the mine move to Ambrosia, we'd also need to introduce a new mining unit to continue mining at Jacinth and we thought we'd need to upgrade the 1000 tonne per hour concentrator to 1300 tonnes per hour. Now we've changed the scope of what we're planning quite dramatically such that we are only going to do the mine move to Ambrosia. We're not doing the introduction of the mining unit, the new mining unit, and we're not doing the upgrade to the concentrator. Changing the scope and reducing that scope quite significantly leads to a significant capital saving.

We hadn't previously guided on the cost of the mine move to Ambrosia and we've estimated in the release today that it's in the range of \$60 million. That's a cost that was on our mine plan in any event. We had needed to do the mine move in 2022 in any event. That's been brought forward to 2019. There is quite a significant change of scope, there is a capital saving and there are broadly the same tonne so it's pretty good news.

Rahul Anand: (Morgan Stanley, Analyst) Okay so, I understand and agree that it's good news in terms of CapEx but in terms of production and concentrating rates going forward, just like Clarke was saying is it fair to assume that they'll be lower and hence production would be impacted? Because the grade is at 4% at Ambrosia once you're out of Jacinth available for blending so to speak then we're actually getting into production rates that are lower unless you spend further CapEx and do the other option that we're deferring at this point.

Tom O'Leary: That's right but as we've said for the next - for the reasonable period, three years we've guided, it's broadly the same outcome.

Rahul Anand: (Morgan Stanley, Analyst) Okay, understood. Just circling into Sembehun, appreciate that the PFS estimates were probably early stage and done before time so to speak. Just wanted to understand is there a key change in the scope of works or the mine plans or the equipment that could also impact operating cost and not just CapEx.

Tom O'Leary: I'll hand that to Simon Hay our Head of Resource Development who I should have said actually has joined us for the Q&A.

Simon Hay: While the cost increase is across the board really, we are seeing higher costs of mobilisation of contractors to and from the region. In terms of the scope and in comparison to the pre-feasibility studies that we did review as part of due diligence additional scope items are things like earthmoving volumes we found were significant understated in regard to the construction of dams and roads. We've added extra equipment to the flow sheets around the plants. We've added thickeners because studies have shown that slimes management is best handled through thickeners. We've also - once we've laid out the mine plans and plant configurations we had to add additional tails and pump booster sets. There's a range of items that we can talk to around scope addition.

Rahul Anand: (Morgan Stanley, Analyst) Okay, understood, Simon, but these seem to be sort of front-ended items with limited impact on the operating cost so to speak in terms of the production costs going forward once the project is producing. Is that fair to assume that production costs don't really move much, there's only an incremental CapEx?

Tom O'Leary: Yes, I think that's probably fair. Yes, I think that's probably a fair assessment. We'll guide on operating costs as we get closer to an execute decision. I think just as another example of scope change the original plan had the haul road going through the middle of a village and our standards don't permit that so we've had to extend that haul road to go around the village. That's just an example of the sort of scope change that really, we ought to have factored in a higher level of contingency given the nature of the studies.

Rahul Anand: (Morgan Stanley, Analyst) Okay, great and just the last one from me relates to pigment prices. I notice that the pigment prices have started to slow in terms of the upswing momentum so to speak. I wanted to understand if you think that there are any factors that change that going into the current quarter and the following quarter for pigment prices. I assume that if there is a bit of momentum that potentially changes there they'll flow through to feedstocks as well.

Then the second one is related to potential sanctions on Chinese pigment export. Given that's mainly sulphate pigment export do you think that if those come in a net benefit for Iluka?

Tom O'Leary: Yes, that's a good point, Rahul. I'll pass those both on to Matthew Blackwell.

Matthew Blackwell: Good day, Rahul. Thanks for the questions. In terms of the pigment price momentum certainly we have seen and it's been talked about for a little bit of time now that there was an expectation that pigment demand might start to slow towards the end of this year, and pricing momentum would slow as well. What I would do is draw your attention to slide nine within our pack which shows rutile pricing as proxy for feedstock pricing and feedstock price and pigment prices. We've talked quite consistently for a number of years now about feedstock prices lagging pigment by nine to 12 months. You could draw what conclusions you may. I can't provide forward estimates of prices but if they're starting to slow now then one extension of that logic is there's nine to 12 months of feedstock appreciation possibly. I'll let you draw your own conclusion on that.

In terms of the pigment sanctions you're right. It's predominantly sulphate pigment that goes to the United States. I suspect that some of that might come out of Europe if it's replaced because as you know we predominantly sell to the chloride market or if it's replaced with chloride production well then yes, that augers well for a chloride pigment feedstock supplier like we are. It's a good observation.

Rahul Anand: (Morgan Stanley, Analyst) Okay, excellent. That's all from me, guys. Thank you very much.

Tom O'Leary: Thanks, Rahul.

Your next question is from Glyn Lawcock from UBS.

Glyn Lawcock: (UBS, Analyst) Good morning, gents. Just on the zircon production uplift you've said previously sales would be evenly split, which implies around 380,000 tonnes. Does the lift in production volume translate to a lift in sales or is it just inventory shift?

Then just following on the discussion just then on rutile pricing, looking at slide nine, the chart on the right regarding the premiums and you've now pushed premiums up against a competitor product by in fact almost double it looks like. Is that back to normal or is that you've extended that gap and therefore you need - how should I interpret that chart on the right, thanks?

Then the final question's just on inventory build at Sierra Rutile. It's been building now for 18 months and you've commented last year and then again in this half that it's finished goods. Is there a problem getting product out of that country?

Tom O'Leary: No, there's not, Glyn, but we'll come back to that one. The first question was around zircon, on zircon second half sales. We're not giving any guidance, Glyn, on zircon sales beyond that which we've given. Matthew I'm sure will have a lot to tell you about rutile so please go ahead.

Matthew Blackwell: Yes, good morning, Glyn. Yes, the premium for rutile has gapped away on a dollar per tonne basis versus some competitor products. That's a function of a couple of things, one of which is -

you're probably a bit bored of us talking about that people do use higher-grade feedstock products when they need to increase the pigment capacity out of their plant. It's a natural occurrence at this time of the cycle. Second is that we note that sulphate pigment prices are probably a bit constrained at the moment by some contracting. One of the producers of chloride pigment in the market we know fixed price for the year so, that's probably have a drag on the overall weighted price for them. And there have been some production difficulties at other facilities resulting in a number of force majeure events so we would think it difficult for companies to in the same breath issue a force majeure event and then stick in a price rise to their customers.

I think the confluence of those conditions has an impact on where those prices are.

Glyn Lawcock: (UBS, Analyst) Is the current gap representative of history or the 2015/2016 more representative of history?

Matthew Blackwell: Well it moves over time, Glyn. It cycles depending on where you are in terms of pigment demand and feedstock demand. There was also a period of 2011 where we saw rutile was at a - almost double what it would be historically because long-term contracts were in place. I think what you'll see over or going forward is less of those long-term arrangements that lock people in for longer terms in the cycle. But I don't think it's any different to where the price of rutile has been at this stage of the cycle in previous times when the plants are running hard.

Glyn Lawcock: (UBS, Analyst) Alright.

Doug Warden: Glyn, just to your comment about inventory build in SRL, as Tom said no issue in getting product out. It's really just timing of shipments. If we happen to miss a shipment at period end and then it sails the next month you might see an inventory build but we've certainly forecast for finished products and - well it's making their own finished product to be drawn down by year end. It's just really a timing issue.

Glyn Lawcock: (UBS, Analyst) But I mean timing doesn't seem to be going the other way. We built in June half last year and then built again in December half and then built again in the June half. When does this go back the other way?

Tom O'Leary: It's just timing of shipments. I know, Glyn, that you're very keen to get out to have a look but the Nitti Port is not a large port so if we can't get a ship in and the timing just doesn't work for us then product stays there but it's certainly not a gradual build in inventory. It's really just around timing of ships.

Matthew Blackwell: Glyn, perhaps I can just build on that. I could be selling more Sierra Rutile product if it was there, right? I can tell you it's not an issue in selling the product.

Glyn Lawcock: (UBS, Analyst) Alright, I'll take your word on the visit, Tom. Send me the photos.

Operator: Your next question is from Paul Young from Goldman Sachs.

Paul Young: (Goldman Sachs, Analyst) Hi Tom. Hi Doug and team. First question's on zircon. Looking at the additional zircon production for this year and looking at the fact that you're looking at selling additional zircon in concentrate, can you remind us of the dollar per tonne difference in margin between selling final concentrate or product I should say and then concentrate?

Tom O'Leary: I'll hand over to Doug, Paul, in a moment but we won't be able to remind you because we haven't gone down that path in the past. Zircon in concentrate is sourced from a range of sources and we don't disclose the cost of that historically.



Doug Warden: Yes, just to add, Paul, that as Tom said it's coming from I think three different sources at the moment that zircon in concentrate. Some has very low cost base, some quite high and some sort of in between. I think if you took the weighted average of our guided unit cost to goods sold it's probably not - from a P&L perspective at least that's probably not a bad guide. In almost all of those case the majority of costs has been sunk. There's some transport and logistics costs of moving that concentrate around to get it to a port. But from a unit cost perspective, from a P&L fully absorbed perspective the weighted average of our unit COGS it's not a bad starting point.

Paul Young: (Goldman Sachs, Analyst) Well maybe another way of asking, relative to - on pricing, relative to the \$1580 per tonne reference price what sort of discount would you achieve on the concentrate?

Tom O'Leary: That's an interesting question. Matthew.

Matthew Blackwell: Yes, Paul, I can answer that. In terms of our zircon in concentrate the market price for ZIC is currently in the range of \$18 to \$22 per 1% of ZrO<sub>2</sub> content. That corresponds to roughly \$1200 to \$1400 per tonne of the zircon in the concentrate and then our prices are in line with that.

Paul Young: (Goldman Sachs, Analyst) Alright, helpful. Then, Matt, while I've got you on the line, in that case and you've got the mike, just slide seven. You comment there about consumption in China showing signs of slowing. It's stable for - demand's stable for Iluka but consumption is slowing more broadly. Can you maybe add some additional context around that?

Matthew Blackwell: As we said in the slide consumption of zircon's down a little bit on the back of the environmental closures. There's been pressure on the ZOC producers and tile producers and there has been increasing competition on the exporters of tiles coming from places like India. We're not surprised to see that the industry has been under a bit of pressure on a number of fronts. We've, I think, talked about or people have brought up on the call actually government mandate to shift to natural gas as a fuel. It's impacting the smaller producers who just don't have the balance sheet to invest in fixing their tile plants. Some of the cyclical and the uncertainties in the domestic property market and this increased in the export markets so of those two pressure points that I mentioned, the first two have been felt most within the small producers and the producers of low-quality tiles. This flux in the Chinese property market will no doubt play a little bit on producer sentiments but overall, we don't see it as a structural issue, more as a - it's the growth or the development of the Chinese market as they become more focused on modernising their environmental policies and constraints.

Paul Young: (Goldman Sachs, Analyst) Okay, great and then moving on to Sierra Rutile. Looking at that CapEx increase, Tom, have you not seen any benefit from depreciation of the rand understanding that in most engineering studies a bunch of the fabrication is done out of South Africa?

Tom O'Leary: Yes, that's a really good point. Most of our work as you suggest is going to be done out of South Africa as well. In fact we have recently opened a South African office where we have engineering - our key engineering resources for these Sierra Leone projects but it's not only those definitive feasibility studies and so on that are largely being done in South Africa. It's also some of the fabrication works and so on that are likely to be sourced from there. In time we may well see a benefit but that hasn't been factored in at this stage.

Paul Young: (Goldman Sachs, Analyst) Okay and then looking at the options you're considering for reducing capital costs and maximising returns, what are these options? Are we talking about potentially a reduced production target for Sembehun?

Tom O'Leary: No, I don't think we're contemplating that. The increase in the Sembehun production is over a period and we're not winding back our overall targets. They remain as we've described. But in terms of some of the options I will hand over to Simon to shed some light on those.

Simon Hay: Yes, Paul, it's probably worth referring to slide 22 and you can see where - the red crosshatch regions where we have near mine potential at the existing mining region around Lanti and Gangama. We have some exploration success and some exploration drilling underway there and we intend to examine deferring Sembehun stage two and three and extending Lanti and Gangama in those regions through that exploration success. They're some of the key things we're looking at.

If we look at the Sembehun project in particular, Tom's mentioned the South African office that we've established. That team will now go through the studies that are underway and revisit those through value engineering steps, different contracting steps, seeing if we can combine projects and phase them together to get economies of scale with vendors and contractors. There's a real number of initiatives that we're pursuing over the next medium-term.

Paul Young: (Goldman Sachs, Analyst) Okay, thanks.

Tom O'Leary: Paul, it's not just in the Sembehun project. It's the mineral separation plant as well that we're upgrading and there is some higher CapEx associated with that. That's included in that range we've given. We're also exploring ways to minimise that MSP CapEx through different approaches to it.

Paul Young: (Goldman Sachs, Analyst) Okay, great. Just a final question for Simon. Just on those two mine moves and phase one and phase two of Sembehun, is any CapEx for the next two mine moves included in the US\$300 million multiplied by 1.5 capital estimate?

Simon Hay: No, they haven't been included. They're all still under study so yes, that's right.

Glyn Lawcock: (UBS, Analyst) Okay, good to know. Okay, thanks, gents and see you in a couple of weeks.

Tom O'Leary: Thanks, Paul.

Operator: Your next question is from Clarke Wilkins again from Citi.

Clarke Wilkins: (Citi, Analyst) Just a follow up question in regard to the Jacinth-Ambrosia mine. \$60 million seems quite a lot for a mine move that's not that far. Can you just go into a bit more detail what is the scope of that project? It's not new equipment, et cetera. What takes up the bulk of that CapEx for the mine move?

Simon Hay: Clarke, there's a lot of earthworks so it does include some pre-strip, it includes the road, services, trenches. It does include some extra pumping stations, some tails management equipment because it is - even though it's not that far it is further away and the further you go there's incremental increases in that equipment to pump the tailings. Yes, I think that covers it.

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

Operator: We don't have any other questions as of this moment.

Tom O'Leary: Okay, again thank you very much for your time today and look forward to seeing you in the coming weeks.

END OF CALL