

20 May 2021

TRANSCRIPT OF PRESENTATION BY TOM O'LEARY TO BANK OF AMERICA, GLOBAL METALS, MINING & STEEL CONFERENCE

Introduction

- Good morning. Iluka has a proud history of being a major global mineral sands producer. More recently, we're also developing an emerging position in rare earths and I'll cover both aspects today.

Disclaimer

- I'll take our usual disclaimer slide as read.

Delivering sustainable value

- Our approach to delivering sustainable value, which is our objective – is demonstrated by the actions we took in 2020 following the onset of the pandemic; the resultant position we find ourselves in this year; and how that relates to our future, which contains a range of promising developments.
- When COVID-19 struck, we saw a significant decline in demand for our zircon products in particular. Iluka responded with market and operational discipline, reducing global zircon supply by around 10%. This enabled us to reduce costs and maintain margins, while preserving the flexibility to boost production as and when demand recovered.
- That recovery commenced in Q4 and accelerated in Q1, for which we reported a strong sales result. We commenced the year in a very sound position, including from the perspective of having no debt on our balance sheet. The company has returned to full production settings and, importantly, continues to make progress throughout our major project pipeline.

Sustainable development

- Central to that disciplined performance in 2020 was our approach to sustainable development. Safety and environmental stewardship are a perennial focus for Iluka and we delivered some important outcomes on both of these fronts.
- The year also saw us approach 30% indigenous employment at our Jacinth Ambrosia operation. This is both a source of pride for the company and an example in terms of future operations, underpinned by our strong working relationship with the Far West Coast people of South Australia.

Mineral sands and rare earths - critical minerals, part of everyday life

- The mineral sands and rare earths produced by Iluka are used in a vast array of applications that are part of our everyday life.

- Titanium is used predominantly in the manufacture of pigment; and zircon in ceramics. But there are also mineral sands in your phone, water filter and solar panels, among many other consumer and industrial applications.
- The high value rare earths neodymium and praseodymium are essential for the permanent magnets that will electrify the planet via electric vehicles, wind turbines and other related technologies.
- It is perhaps also worth noting that Iluka's products are increasingly regarded as so called 'critical minerals' by governments, which are eager to ensure supply chain security in a post pandemic world.

Disciplined performance in 2020

- Iluka delivered a disciplined financial performance in 2020.
- Mineral sands EBITDA was \$342 million; underlying net profit was \$151 million; free cash flow was \$36 million; and we were in a net cash position of \$50 million as at 31 December.
- These were solid achievements in a very difficult year.
- The company also delivered the demerger of its royalty business in November to create Deterra Royalties, in which we retain a 20% stake.

Zircon market update

- In the zircon market, our Q1 sales volumes of 87 thousand tonnes were very strong in what is traditionally a seasonally slower part of the calendar year.
- Our zircon price was stable in Q1; and we announced a US\$70 per tonne increase in premium and standard zircon prices from 1 April.
- Fundamentally, the zircon market is expected to remain tight for the medium to longer term, with declining grades from existing operations and a limited number of new projects with meaningful zircon supply.

Global zircon use

- We have in the past talked a lot about China and its ceramics and other markets. While these are important and large markets for Iluka, it's worth noting that demand for zircon is diverse across industries and across the globe.
- Italy and Spain are also major ceramics producers, with Vietnam, Indonesia and Malaysia the other large tile producers in Asia.
- In the US, Japan and parts of Europe, zircon use is geared more toward industrial and manufacturing applications such as automotive and machinery part casting, glass and steel refractories.
- Iluka supplies to all these markets; and we optimise the products we produce and the markets we supply to.

High grade titanium dioxide feedstock market update

- The high grade titanium market performed well over the second half of 2020. This strength has continued into 2021, with a number of price increases announced by pigment producers.
- In these market conditions, Iluka's high grade feedstocks are sought after for their ability to increase pigment plant utilisation rates and increase pigment output.
- Other end markets are also strong, including welding used in construction.
- In 2021, Iluka has 295 thousand tonnes of high grade feedstock subject to take or pay contracts, plus an additional 30 thousand tonnes contracted to date. The company also sells product under spot arrangements.
- The price setting mechanism in Iluka's take or pay contracts varies; but is broadly based on a basket of traded feedstocks, with the price movements typically flowing through in the subsequent half. As a result, our price outlook for the second half is moderated somewhat by recent easing in global chloride slag feedstock prices. This easing in slag prices is somewhat counter-intuitive given that pigment and feedstock demand was pretty strong through the second half last year when prices for these chloride slag volumes would ordinarily have been set.
- Nonetheless, absent any global disruption, that is not envisaged at this point, the outlook for pigment demand and prices is strong, and those factors will drive high grade feedstocks demand in the period ahead.

Operational flexibility

- Following production adjustments we made during 2020 and early 2021, our Australian assets returned to full operating rates in April.
- This includes our synthetic rutile kiln, which was idled in early 2021, ultimately only for two months, to manage inventory levels following a decline in sales as a result of a contractual dispute with a major customer, Chemours. Sales to Chemours recommenced in early 2021; and the kiln has now restarted ahead of schedule, given declining inventory levels and broader market conditions.
- In Sierra Leone, due to the sustained operational underperformance I have talked about for some time, yesterday we gave a six month notice of temporary suspension. This will take effect from November 2021 – unless we're able to identify and implement reductions to Sierra Rutile's cost base and attract new investors to pursue the Sembehun development.
- This potential suspension of course follows the substantial write down of the carrying value of Sierra Rutile in 2019. While this development is unfortunate, I believe it is in the best long term interest of shareholders.
- Given we've just begun engaging on the suspension notice with Government, as well as with the various entities which had already expressed interest in investing in the future development of Sierra Rutile and Sembehun, I'm not in a position to provide you an update on those processes. We will obviously update the market on these matters, and the hydraulic mining trial for Sembehun which is currently underway, when there are material developments. But, for the moment, I do not plan to speculate as to the range of potential outcomes.

Rare earths diversification

- Turning to rare earths, this is an important and logical diversification opportunity for Iluka.
- For those not aware of the background, the foundation of this opportunity is a strategic stockpile of around one million tonnes of the rare earth bearing mineral monazite, located at Eneabba in Western Australia.
- Iluka produces monazite as a by-product of mineral sands processing activities at our Narngulu mineral separation plant. For the last 30 years or so, we have stored this material directly at a former mining void at Eneabba – itself once a prodigious mineral sands province – on the basis that the rare earths contained in the monazite would one day be valuable. Needless to say, that time is upon us; and Eneabba is now the highest grade rare earths operation globally.
- Iluka is taking a phased approach to our entry into the rare earth market. We believe this is prudent.
- Phase 1 is the production and sale of a simple zircon-monazite concentrate. This is underpinned by a two year fixed price offtake agreement entered into back in 2019.
- Phase 2 is under construction and will produce a direct feed for a rare earths refinery; and I'll come to the production and financial parameters of that investment in a moment.
- And Phase 3, a fully integrated rare earths refinery, is the subject of a feasibility study which is under way. We plan to have the main components of this study completed this year, with the results finalised early 2022.
- The attractiveness of our Phase 2 business means that we will not be pursuing Phase 3 at any cost; and shareholders can be assured we are progressing this part of our business with the same discipline we apply elsewhere.
- On that front, I note that our development plans align closely with the policy objectives of the Australian Government regarding critical minerals and modern manufacturing; and we recently received a letter of support from Commonwealth ministers in this regard, which we released to the market last week.

Rare earths diversification (value chain)

- There are several steps in the rare earths value chain, from ore to final products. While Iluka is currently in the early stages of the value chain, we are, as I've said, progressing and studying plans for further development.

Rare earths markets overview

- For those new to the industry, rare earths is a collective term for 17 elements. They are broadly grouped into light and heavy rare earths; and are used in varying quantities across a range of applications from permanent magnets, to electronics, appliances and industrial robotics.
- Each rare earth element is priced differently based on its individual supply-demand characteristics.
- Looking at the volume of rare earths used globally, permanent magnets account for around 40% of demand.

- However, by value, rare earth demand is dominated by permanent magnets, owing to the high value of elements used in their production – Neodymium, Praseodymium, Terbium and Dysprosium.

Eneabba deposit assemblage

- In addition to its high grade and simplicity, Eneabba has a high assemblage of these four key rare earths. Neodymium, Praseodymium, Terbium and Dysprosium account for around 90% of the asset's value.

Rare earth market outlook

- There are obviously many forecasts for take up of electric vehicles and we aren't claiming unique insight here; but even with modest assumptions for growth in demand for permanent magnets, there are appealing industry dynamics for NdPr.
- Recently rare earths and monazite prices have experienced strong growth, with monazite reaching around US\$6000/t in April.
- And you can see the strong correlation between monazite prices and theoretical pricing of the basket of rare earths from Eneabba, based on the assemblage set out on the previous slide.
- With the strong demand for permanent magnets and rare earth elements, and the projected supply deficit, commentators are expecting continued strength in rare earth price levels out to 2030.
- This also reinforces the value of our Phase 2 monazite business, independent of the exciting opportunity we have with Phase 3.

Eneabba production and financial parameters

- Here we've set out the production and financial parameters for Phases 1 and 2 at Eneabba.
- Phase 2 commissioning is scheduled for H1 2022. With no mining associated with the Eneabba stockpile, Phase 2 represents a development that is low cost (both in terms of capital and operating expenditure), low risk and high return, with an anticipated life of around 10 years.
- Phase 2 material is not yet under contract; and as I've just noted the reference prices available for monazite are currently in the order of \$6000 per tonne. Quite obviously, Phase 2 is a very attractive business in its own right.
- That said, we may choose not to sell a material quantity of Phase 2 product, subject to determining our own plans to move downstream.
- Phase 3 represents an exciting and potentially defining opportunity for Iluka, consistent with our longstanding plans. As I mentioned, we're in discussions with the Australian Government on potential risk sharing arrangements; and we're pleased with the progress being made, as evidenced in the letter we released last week.

Project pipeline

- Moving to our broader development pipeline, we have a range of projects at various stages of evaluation.

And just on some of those:

- Balranald and Wimmera are each focussed on overcoming long known technical challenges. Both the mining technology we're developing at Balranald and the zircon processing technology we're developing for Wimmera have potential applications beyond these respective deposits, both within and outside Iluka.
- At Balranald the third field trial of our innovative underground mining technology was completed in late 2020. We're analysing the significant amount of data this produced and scoping a DFS.
- Wimmera project work is focussed on a processing solution to enable its zircon, which is high in uranium and thorium, to be suitable for the ceramics market – these impurities are a challenge shared by all of the fine grained mineral sands deposits in Western Victoria, one that Iluka has applied considerable effort in conquering. Once again, I'm encouraged by the progress we're making in this regard.

Deterra Royalties holding

- And just as a reminder, last November we demerged Iluka's royalty business to create the ASX's largest resource based royalty company, Deterra Royalties.
- Iluka retains a 20% stake in the new company as a further source of financial strength.
- Deterra's cornerstone asset pays a 1.232% revenue royalty from BHP's Mining Area C iron ore hub in Western Australia.
- Sales volumes from Mining Area C in 2020 were 54 mt and generated \$95 million in royalty payments. Looking forward, BHP's South Flank expansion will increase production from the royalty area to around 140 mt. In fact BHP today announced first production from South Flank. The uptick in royalty payments will obviously depend on iron ore prices of the day but, even with modest price assumptions, this is a significant source of cash generation.

Closing comments

- I'll just make a few observations in closing.
- I've noted before that the choice facing mineral sands producers, indeed most mineral commodity producers, in developing new projects is to either:
 1. Develop challenging projects, whether from a technical, cost or other perspective, in mature jurisdictions; or
 2. Progress more conventional style developments in emerging economies.

On the latter – conventional deposits in emerging economies - Sierra Rutile has the Sembehun opportunity, a more traditional mineral sands development but in a country where we have struggled to deliver the results we expect of ourselves.

With respect to our announcement regarding Sierra Rutile, I acknowledged earlier that it is with regret we announced the potential suspension of operations, notwithstanding our efforts over an extended period. So we'll now be working with Government and others to deliver the optimal outcome for Sierra Rutile and the development of the Sembehun opportunity.

And on the former – challenging projects in mature jurisdictions – we have developments like Wimmera and Balranald, and Phase 3 at Eneabba. Each of these projects are potential game changers for the industry. We're approaching them with in-house technical expertise; collaborating with appropriate external resources; and in the case of Eneabba Phase 3, through risk sharing arrangements which we're progressing with the Australian Government.

End of transcript