Speakers
Tom O'Leary, Managing Director
Doug Warden, Chief Financial Officer and Head of Strategy and Planning
Matthew Blackwell, Head of Marketing

Tom O'Leary: Good morning and thank you for joining me on the call. With me today are Doug Warden, Chief Financial Officer and Head of Strategy and Planning; Matthew Blackwell, Head of Sales and Marketing; and Adele Stratton, General Manager Finance and Investor Relations.

I'd like to begin by extending my deepest sympathies and those of all us here at Iluka to the families of those who have lost their lives in the tragic mudslide and flooding around Freetown over the last couple of days. I can report that, as you'd expect, we've offered our support to government, but I can also report that our employees are safe. Although, given the extent of the tragedy, it will inevitably impact on the lives of some of our employees in Sierra Leone.

Before I turn to the results though, let me address the article in this morning's *Fin Review* regarding Sierra Rutile. First, if I draw your attention to our ASX release issued this morning, there are external investigations underway and so I can't and won't be commenting on the detail beyond the observations we've made in the release.

Our Chairman reported at our AGM earlier in the year though following completion of the acquisition we carried out as planned a review of the operations using external accountants and lawyers to identify any conduct inconsistent with our code of conduct; and that we did identify some matters and they were reported to the appropriate authorities.

At the time, the Chairman noted that the matters were not materially financially and related to the period before we acquired the company. I can report that our leadership in Sierra Rutile has put in place a range of initiatives and measures to ensure that all within the company, as well as all that we deal with externally are aware that that sort of conduct is not tolerated within Sierra Rutile.

Now, I'll now turn to the detail of the results in a moment, but by way of overview first, I'm pleased with what's been delivered in terms of cash generation and underlying earnings. Sales and volumes are up and we've announced further price momentum going into the second half. I'd also say we're sufficiently positive about our financial position and outlook that notwithstanding the CapEx likely to come on Cataby and elsewhere, the Board's declared a $0.06 per share dividend. With that, I'll go to the results and first to safety.

I note the steady progress we're making with a reduction in the total recordable injury frequency rate or TRIFR, from 4.4 to 3.4. This figure doesn't include Sierra Rutile. The focus there this year is to improve the reporting environment to ensure that we capture and record all of the safety incidents and hazards, to allow effective integration into Iluka's safety and risk mitigation framework and to ensure that we have 12 months of reliable data with which to compare performance next year. Sierra Rutile's current TRIFR is 2.5 based on the seven months we've owned it.

Slide 4 of the ASX presentation highlights the key features for the half year. In summary, strengthening market conditions across both the zircon and titanium dioxide markets have resulted in a 49% increase in mineral sands revenue. As I mentioned, this increase has been both volume and price driven.

Sales of our high value product of zircon, rutile and synthetic rutile have increased 137,000 tonnes or 43% with 65,000 tonnes attributable to Sierra Rutile, which as you know we acquired in December last year. Weighted average of zircon prices are up 8% with a further increase of 13% on the reference price announced for the third quarter. Rutile prices are up 4% and, as noted previously, this is despite 40% of Sierra Rutile 2017 production having been contracted at fixed prices before we took control.

We've also announced a further $70 to $100 per tonne increase for uncontracted rutile volumes across the Group in the second half. We expect moderate market growth in zircon across 2017 and '18 reflecting underlying market conditions combined with customers restocking from depleted levels.

I've said before, we believe Iluka is the only supplier with significant inventory holdings to respond to increased demand. Market conditions for pigment, the main end use for our high-grade titanium dioxide feedstock, improved significantly in 2016 and that improvement's continued in 2017.
In slide 7, we've tried to illustrate the price correlation between pigment and feedstock. You can see that in the past there's typically been a lag of six to 12 months and we are seeing a firming of these markets now. Improving market fundamentals have led to improved underlying financial performance, which Doug will touch on shortly.

A key highlight was the strong free cash flow generation of $180 million, which allowed us to reduce net debt to $305 million. This reduction has continued post the half, with net debt down to $222 million as at 31 July leaving gearing at 18%. With that, I'll hand over to Doug.

Doug Warden: Thanks, Tom. Good morning, everyone. Whilst the $151 million impairment we disclosed in June of the Hamilton MSP and the resulting net after-tax loss of $81.5 million were disappointing, the following aspects of the half year results were pleasing, some of which Tom's already touched on.

Firstly, EBITDA for the six months of $155 million represent 147% improvement on the prior period. As shown on slide 11, $78 million of this EBITDA improvement was due to a combination of a 5% increase in US dollar Z/R/SR prices and a 43% increase in Z/R/SR sales volume. In addition, there was a $33 million reduction in resource development cost reflecting the reduced activity levels in this area and I note that the $29 million green bar on the waterfall on slide 11 also includes as offset to the lower resource development costs, which is in the form of higher royalty costs associated with increased sales volume. There was also a $10 million increase in Mining Area C encountered due to a 39% increase in iron ore prices received and a 6% increase in volumes.

These factors were partially offset by an 8% higher unit cost of goods sold to $772 from $717 a tonne from the prior period. This was associated with the inclusion of Sierra Rutile, as well as the sale of some relatively high cost US zircon inventory and zircon in concentrate produced in the US as part of our rehabilitation activities there that occurred in the half and won't be continuing. In addition, the slightly higher Aussie dollar with the average exchange rate for the half being $0.754 versus $0.734 in the prior period.

Turning to free cash flow and the net debt reduction, I'll just make the following observations. Obviously free cash flow of $180 million contributed to the reduction in net debt and a $231 million improvement from the prior period. As well as this strong free cash flow, a $0.045 appreciation in the Aussie dollar from 31 January to 30 June reduced the Aussie dollar value of our US denominated debt by $22 million. These two factors, as Tom has said, reduced the net debt from $506 million at 31 December '16 to A$305 million at the half.

The key drivers of strong free cash flow for the half were a $92 million improvement in the underlying EBITDA that I just referred to, a substantial drawdown in inventory during the half of $116 million, inventory now stands at $578 million on the balance sheet, a reduction in non-production cash costs of $31 million and the 50% in the Mining Area C receipts that I referred to earlier.

Turning now to Sierra Rutile, which generated EBITDA for the half of AU$7.6 million and whilst headline EBIT loss of $7.4 million was disappointing, we are encouraged by the significant improvement in production and resultant unit cash cost improvement over the period. This is illustrated by the chart shown on slide 17 which shows unit cash cost of production reducing from US$664 per ton in January to US$615 per ton in June.

As we explained in the March quarterly production report, Sierra Rutile's performance in the first quarter was disappointing due to lower than expected grades caused by the high grading of the deposit prior to Iluka taking control, together with the lower availability of the Lanti dredge, resulting from some mechanical issues, as well as a 32-day shut at the Lanti dry mine over December/January to rectify the tailings dam issue that delayed settlement of the transaction.

Since then, Rob Hattingh and his team have done a terrific job in turning around the production and unit cost performance with the second quarter rutile production up 21% on the first quarter to 43,000 tonnes which reflects higher throughputs and runtimes at both the Lanti and Gangama dry mining operations, as well as improved valuable heavy mineral recovery and higher HMC grades and MSP recoveries. We also undertook some opportunistic processing of some rutile rich reject stockpiles, which is forecast to be completed by year end.

I would also point out that the half year results for Sierra Rutile was also negatively impacted by the fact that 40% of SRLs 2017 sales were contracted prior to Iluka taking control and that will impact the second half as well. Tom will cover off on Sierra Rutile guidance for the remainder of 2017 shortly.

Finally, in relation to the dividend, a reminder that our dividend framework is to pay a minimum of 40% of free cash flow, not required for balance sheet or investing purposes. Whilst we recognise that $0.06 only represents 14% of first half free cash flow, we believe the $0.06 dividend is prudent, taking into account the impending CapEx decisions associated with Cataby and the SRL expansions, together with a desire to pay down debt as market conditions improve, following the bottom of the cycle acquisition of Sierra Rutile in December last year. This is all consistent with our counter-cyclical approach.

With that, I'll hand back to Tom.

Tom O'Leary: Okay, thanks Doug. As Doug mentioned, the reported earnings result reflects the decision to consolidate Iluka's Australian processing operations and idle the Hamilton mineral separation plant from October 2017. This decision has also had the unfortunate impact of making 60 roles redundant.

We're focused on creating sustainable business and on continuing to improve performance to ensure that we can provide satisfactory returns to shareholders. Activities are on track to recommence mining and processing at Jacinth-Ambrosia in December this year and following the Port of Thevenard outage earlier this year, Flinders Ports now expects to have the port open again in the first week of October.

At Sierra Rutile, I was with the team at the mine site at the beginning of this month and I'm pleased with the momentum that's building there in terms of operational improvements and Doug's touched on some of those. The work on a range of projects and improvements is proceeding well and we're looking forward to getting on with those expansions.

On Cataby, as we've said before, we're ready to proceed with the project to ensure continuity of synthetic rutile production beyond 2018. We spent $11 million in the first half of 2017 and as I mentioned at the AGM, we intended to spend $20 million across 2017 on detailed engineering and land access works.

We've also said that we're looking to put in place contractual arrangements to underpin a level of offtake for synthetic rutile volumes and discussions with existing and new customers are continuing. We're encouraged by the progress being made in those discussions and we expect to spend more funds in the second half to maintain schedule so that the Cataby CapEx in the second half might now be $30 million to $35 million, provided we continue to make satisfactory progress on customer contracts.

As a result of these operational updates, we've updated our guidance and you can see that on slide 29. Production guidance for zircon, rutile and synthetic rutile has increased to 795,000 tonnes, from 720,000 tonnes and we estimate this will increase cash product cost to $360 million. We also expect total zircon, rutile and synthetic rutile sales to be evenly weighted across the first and second halves.

Capital expenditure guidance is reduced to $135 million and that figure assumes we spend the $30 million to $35 million I mentioned on Cataby in 2017. With that, I thank you for your time and I will now open up the line for questions.

Operator: Thank you very much. As a reminder, if you wish to queue for a question, please press zero followed by one on your telephone and wait for your name to be announced. Once again, that is zero followed by one on your telephone and wait for your name to be announced.

Your first question comes from the line of Clarke Wilkins of Citi. Your line is open, please ask your question.

Clarke Wilkins: (Citi, Analyst) Good morning Tom. Just a question in regards to Cataby, the timing like in terms of the approval and the lead time to construction, when does it become critical for continuity for that SR production that you need to make a decision on that and how much inventory or third-party purchase of ilmenite can - is there actually available in the market to sort of extend the operation, given delays I suppose to approving that Cataby project?

Tom O'Leary: Look, Clarke, I haven't really been specific on that, but safe to say it's later this year. What we're doing today is flagging that we're prepared to spend further CapEx this year to maintain schedule, to be up and running in 2019 in time to maintain continuity of synthetic rutile production, provided we continue to make satisfactory progress on those Cataby contracts. I've said and I'll say again, we're encouraged by the progress we're making and I think that preparedness to spend further sums to maintain schedule evidences the progress we're making.

It's not surprising, I guess, that we're seeing a positive response from our customers. They continue to have a need for high-grade feedstock. It's not as if it's new capacity to the market, it's just a continuation of the existing supply. We've actually had very strong interest from new quarters as well, not just existing customers. I think it's securing a supply from a reliable producer based here in Australia, which is a relatively benign political environment, is also a pretty attractive proposition at the moment.

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

Operator: Thank you very much. Your next question comes from the line of Paul Young of Deutsche Bank. Your line is open, please ask your question.

Paul Young: (Deutsche Bank, Analyst) Thank you, good morning everyone. Tom, a question on Sierra Leone, Sierra Rutile, just looking at the operation during the half, yes it improved, but I guess it only just washed its face during the half; if you look at EBITDA, less CapEx.

I'm just looking at your revised guidance for the operation, cash costs of close to US$100 million for the year. When you guys made this - announced this acquisition and you put out your presentation to the market, you were expecting cash costs of production to average between US$75 million and US$85 million per annum – hopefully I'm getting everything like-for-like here.

Just curious about the transition into the wet mining, when that will happen again, if you could just update us; also, are you confident you can actually get the cash cost of production back into that US$75 million to US$85 million band?

The second question is on the Sembehun - if that pronunciation's correct - expansion which gets you to the 240,000-tonne mark. You've actually said here, you're saying post 2020, that you could potentially get it greater than 240,000 tonnes. In your presentation, at the time of the acquisition, you said that you were aiming to get to 240,000 tonnes in 2020. It appears there's a small delay there, maybe you can just clarify that, thanks.

Tom O'Leary: Look on the first, I'm pleased with the way our cash costs have tracked over the second quarter in particular and we've managed to improve production, decrease costs and get better recovery, as Doug alluded to. I still think we're going to meet our cost guidance that we made at acquisition, but that cost guidance is very much dependent and always has been on increase in production through the efforts we make on the expansion. So they will flow through in time subject to those expansions going ahead and I remain confident they will.

Turning to Sembehun, no I'm not seeing a delay in Sembehun. It's early days, I guess, in the process of Sembehun. We're looking at the pre-feas for that at the moment. But I still see that going ahead in 2020, so we'll need to spend capital early on Sembehun.

I've mentioned before, it's 25 to 30 kilometres from the main mine site. When I was there earlier this month, I visited the local area and clearly we're going to need to spend capital on getting access to that area for 2020. So we'll be able to update on how we're tracking with Sembehun as time goes on.

But no, I'm not seeing delays to any of the expansion projects at the moment. But I'll hand over to Doug to…

Doug Warden: Yes well I might just add, on the cash cost issue, just for clarity, in the January guidance and it's footnoted on slide 30, on the SRL updated guidance, but in the January guidance, which is given in Aussie dollars, so you've just got to use $0.75 to convert it to - we had a split of cash cost production A$115 million which equates to US$86 million and other cash costs of A$20 million which equates to US$15 million.

As the footnote in the slide 30 highlights, we've shifted actually some of the other cash costs up into cash cost of production during the half. So that's contributed to why the cash cost of production was higher and is certainly higher than what was provided at the time of acquisition.

So I'd just guide you to that and to look at the total cash costs perhaps in making those comparisons. But I can assure you, yes, whilst the costs are higher than what was referenced in the December guidance, it's really just a reclassification of other cash costs up into cash cost of production. So just have a look at that.

Paul Young: (Deutsche Bank, Analyst) Yeah, I have, that's helpful. Tom, just back on the wet mining, just really curious about Lanti and Gangama, when you're going to push in and actually put the sumps in the pumps and actually push ahead with these projects, just to give a sense of when you're actually going to execute, actually start spending on the wet mining. Thanks.

Tom O'Leary: Yeah, I think you're probably referring to in-pit mining at Lanti. Is that what you're referring to?

Paul Young: (Deutsche Bank, Analyst) That's right.

Tom O'Leary: Yeah, okay. Look, we've approved that project. I thought I might have mentioned that in February actually, but we've approved that project. The equipment is currently being constructed, will come onto site later in the year and it's due to be commissioned in December. So we expect that to be up and running by year end.

Paul Young: (Deutsche Bank, Analyst) Okay, perfect. Thanks.

Doug Warden: Then Paul, the expansions of Gangama and Lanti, is that what you're referring to as well, going from 500 tonne an hour to 1000?

Paul Young: (Deutsche Bank, Analyst) Yes. The whole premise of - a big part of you guys, underpinning this acquisition, one of the attractions of course was implementing the - I call it African-style tailings retreatment, mining, wet mining into Sierra Leone. So yes, that's a big part of it, right. So again just the timing on just converting effectively the whole mine site, excluding the dredge [to] wet mining.

Tom O'Leary: Just going through them, the first thing we've done is get that in-pit mining in Lanti to improve efficiency there and that will be up and running by the end of this calendar year, as scheduled. The next two expansions off the rank is like doubling the throughputs of both Gangama and Lanti dry, and they are - again, the definitive feasibility studies for those are very much underway, scheduled to be approved by the Board this year, late this year, and be implemented next year, next calendar year. So they're very much on track. Again, I saw what was going on and the preparations for those early this month.

On the dredge, we have previously expected that the dredge would be likely complete and out of service sometime in mid-2018. In the presentation I think we've mentioned that we now - there's a possibility that that will be continued through to the end of 2018 as we've found that there are adequate reserves to pursue there.

Also, the condition of the dredge itself, the mechanical condition, is far improved from when I was on board last August just before I joined Iluka, it was pretty apparent at that point that it was in a I think a pretty sorry state and so it wasn’t expected to last too much longer. But with the five-day shut that occurred in June a number of moving bearings have been replaced and the condition of that dredge is vastly improved. So subject to it making the journey, I expect it may run for the full year of 2018.

Paul Young: (Deutsche Bank, Analyst) Yes, thank you. All right, I'll pass it on.

Operator: Thank you very much. Once again, if you wish to queue for a question, please press zero followed by one on your telephone and wait for your name to be announced. That is zero followed by a one on your telephone and wait for your name to be announced.

Your next question comes from the line of Rahul Anand of Morgan Stanley. Your line is open, please ask your question.

Rahul Anand: (Morgan Stanley, Analyst) Thank you. A couple of questions from me; I'll ask the first one and then wait for the answer and then come back to the second.

Just looking at a comment in the commentary, it was said that first half and second half sales are expected to be flat period on period. Now, if I look at history, usually you find the second half sales to be somewhat stronger than first half, typically 55%/45% split. I did however notice that the synthetic rutile volumes have been supplied to about two-thirds for the full year in the first half already.

I just wanted to clarify what happens if you have delivered the full 205,000 tonnes before time in the second half this year. Are you going to bring some of calendar year '18 volumes into the second half, if you have the ability to produce, or are they fixed to calendar year '18 and can't be brought into calendar year '17?

Matthew Blackwell: It's Matthew here. I think two things I'd note. The reason that the sales are more evenly weighted this year is because of the pace at which this year started. So we had a much better start to the year than we have experienced previously. Look at the volumes first half, Z/R/SR volumes were almost in line with first half of 2011, just slightly less and certainly the best since that period.

Rahul Anand: (Morgan Stanley, Analyst) Yes, we remember that.

Matthew Blackwell: Second, in terms of SR, because it's a manufacturing facility there's not the ability to bring forward tonnes from 2018. It is a function of how much we produce at asset, it's circa 200,000 tonnes, 205,000 tonnes a year.

So once we've sold those tonnes - now we have a small amount of stock but we see continued pricing traction and so the decision that we make whether we bring material forward will be based on meeting customers' underlying demands but also what's the best value for that product that we can achieve in terms of timing.

Rahul Anand: (Morgan Stanley, Analyst) Right. My understanding was that pricing was also fixed for the entire synthetic rutile production volumes. Is that right, even for calendar year '18, or is there a change in…

Matthew Blackwell: No. What we've said is consistent that we have a number of different contracts in place currently for synthetic rutile. There are a mixture of pricing mechanisms today. We sell some at spot, we sell some tonnes under escalating-type pricing mechanisms and others that are based on market. So the price of synthetic rutile moves with the market.

In terms of 2018, those tonnes are still - there's a variety of tonnes that are under contract and others that remain at spot, so we're certainly not fixed for what we will sell those tonnes for next year, and in fact we're more exposed to the market next year than we are currently, which we're very happy about.

Rahul Anand: (Morgan Stanley, Analyst) Yes. Just coming back to your earlier point about the manufacturing facility, we'd done 140,000 tonnes in the first half so that would suggest the second half run rate would be less than half of that at 205,000 tonnes. So is that - is the bottleneck there the manufacturing itself or is that ilmenite, or what's the key reason for that?

Matthew Blackwell: No. Well, there's some inventory carryover from last year. It's not going to be 280,000 tonnes this year, but you would expect some carryover from last year. If the facility produced 205,000 tonnes then that's - it's a function of how big the pipe is, right, is how much you get out of that asset. We have sales of synthetic rutile likely to be above this year's production output. We haven’t exactly said what that number is but it will be more than what the asset would produce this year.

Rahul Anand: (Morgan Stanley, Analyst) Got you, okay. The second one, I was just looking at the Cataby delay again. Just wanted to clarify, have you seen any momentum more towards - given the improving pigment plant utilisation rates across the world, have you seen a move by your customers to more natural rutile product as opposed to synthetic rutile to be able to achieve higher capacities and produce more? Is that in any way impacting you getting the offtakes required for Cataby?

Matthew Blackwell: There's two parts to that question, and the first is have we seen a move to higher-grade feedstocks and the answer is yes. Our view and the view of the market would be that synthetic rutile falls into that higher-grade portfolio. If you think about the average feed grade for a chlorinator, which varies from 88% to 92% TiO_2 units into the front, chloride slag is normally around 86%.

So if you want to achieve that head grade you have to add either natural rutile or synthetic rutile to it, and synthetic rutile is used by our customers to increase their head grades to that unit, to their chlorinators to increase their output. So we feel comfortable that we're leveraged to the upside on that. It's not inefficient at all.

Rahul Anand: (Morgan Stanley, Analyst) Okay, is that in any way reason for delay, or - because you have product that's 95% as well.

Matthew Blackwell: We have a certain amount of product that's 95%, obviously the natural rutile, but the world consumes a lot of high-grade TiO_2 units and a shift to higher consumptions in TiO_2 feedstock is a positive of placing the synthetic rutile in the market, not an imposition.

Rahul Anand: (Morgan Stanley, Analyst) Okay, that's clear. I'll pass it on, thanks.

Operator: Thank you very much. Your next question comes from the line of Peter O'Connor. Please announce your company name. Your line is open, thank you.

Peter O'Connor: (Shaw and Partners, Analyst) Thanks, Tom. Firstly, congratulations and kudos to you for your timing. Kicking the uptrend after five years' downtrend is pretty good.

Your comments about the balance sheet really piqued my interest, Tom, when you talked about what you'd paid down during the first half and then you made the comment about July. Can you just run those numbers by me again because they were potentially fascinating, and just what happened during July to release that amount of cash to do that? Then I have some follow-ups for Matt.

Tom O'Leary: Okay. Yes, what we said was that we generated - what I said was we generated free cash flow of $180 million in the half to reduce net debt to $305 million. I also mentioned, which is in the 4D that we had - that strong cash flow generation continued post the half into July and net debt at 31 July was down to $222 million, leaving gearing at 18%.

Peter O'Connor: (Shaw and Partners, Analyst) Tom, is that just operating cash that you've liberated in that month that's effectively $80 million?

Tom O'Leary: Yes.

Peter O'Connor: (Shaw and Partners, Analyst) Or annualised…

Doug Warden: Sorry, what was the question?

Tom O'Leary: Whether it's just operating cash driving that reduction.

Peter O'Connor: (Shaw and Partners, Analyst) Yeah.

Doug Warden: Peter, it's Doug here. Obviously the drawdown of the inventory is a big factor. So a lot of the cash costs have already been sunk into that, JA and still WRP, HMC and so when - there are cash costs associated with transporting it to MSPs of course, but it's as you would expect a big kick to free cash flow as we process that and draw down that inventory.

Peter O'Connor: (Shaw and Partners, Analyst) Yes, okay. So thinking about that over the next six or 12 months when you've talked about liberating that inventory into the market, is that month typical? Is that an unusual month; were there particular shipments that you did that released that amount of cash? Should I think about it as a one-off or is that some form of a cash liberation trend I should be thinking about…

Doug Warden: Are you talking about July or the half, or both?

Peter O'Connor: (Shaw and Partners, Analyst) Yes. Well, I guess both but July in particular because it's such a strong number for a month.

Doug Warden: Yes, I wouldn't extrapolate nearly $70 million of free cash flow. It's really timing of receipts, a key factor, and CapEx is obviously the big one as we go forward as well, that needs to be borne in mind.

I think obviously the inventory drawdown, once we get to what we've always referred to as pre-2012 levels of $300 million to $400 million depending on which assets we're running. Go back to - that kicker will be if we've finished that drawdown in inventory. So you will get a closer reflection of EBITDA to new operating cashflow when you don’t have that big draw of inventory.

Peter O'Connor: (Shaw and Partners, Analyst) Okay, great. Look, I have three questions for Matt. Matt, firstly just to make sure we're on the same page, could you just give us a sense for what the current spot prices are for each of the products from zircon through rutile through SR through ilmenite, if they're on the same page. I guess I've got two follow-ups.

Matthew Blackwell: Peter, I notice that you never give up asking. Look, various people have different views on what the spot prices are. TZMI, I'd probably have to direct you there. We've made a comment on our reference price.

If you want to get a bit of an idea of how things are tracking I'd draw you to slide 5 that shows the gap between the sort of the, if you like, the reference price and the realised price is getting smaller as our - as the value of the standard and premium grade products rise and selling costs decrease. That would be one thing.

In rutile and synthetic rutile, well, I can't talk about synthetic rutile, we really set the spot market and that's got a lot of contracts in place there. Rutile, we're selling it, it's a healthy 8. Does that help?

Peter O'Connor: (Shaw and Partners, Analyst) Yes, that helps. Look, just on the next part, thinking about capacity of the industry or inventory that's available, and I think - I'm not sure of Tom's exact comments. But you're the only people that are holding inventory that can be fed into the market. How do I think about the likes of capacity that's available in your competitor Rio?

Is that - should I think about that as not an overhang, but potentially available to the market, and not as quick as your inventory to market but it's still there? Or is that - am I not looking at it the right way?

Matthew Blackwell: So if we divide the market into two Peter, zircon and TiO2, first in zircon. Tom's reference to us holding the majority of the inventory was certainly of finished goods was in regard to zircon.

As we saw competitors and others sell down their stocks last year we held the line. Our observation based on what we're selling and requests and what we're not selling - as in refusing to sell - is that it seems that we are the ones that hold the bulk of the inventory in zircon at the moment. We're being deliberate in our language saying that we're releasing that into the market to support underlying demand. We have no ambitions to fill traders.

On the TiO2 we see some tightness in the feedstock market. Clearly there is not the same level of inventory around the world for this balance in inventory held between different suppliers. We continue to sell to meet our requirements, and the earlier question from Rahul goes to that in terms of SR, and we're not sitting on a big pile of SR.

The idle capacity which I think you're referring to at Rio, they have one furnace at Richards Bay which is about 200,000 tonnes, then another 50,000 tonnes at QIT. That's certainly the theoretical idle capacity. The practice idle capacity, which is really what matters, is a function of what ilmenite is available to feed those furnaces.

As I understand it, and what they seem to have made comment on, is there's more opportunity to bring on say the QIT furnace than there is the RBM furnace, based on ilmenite feedstock. But that's the 50,000-tonne furnace, not the 200,000-tonne. That's absent investment in Zulti South.
Peter O'Connor: (Shaw and Partners, Analyst) Look lastly, all the commentary from your peers and also from the pigment chain has been positive over the last month and quarters, in fact probably a year. Just one comment I noted in Tronox the other day, which was probably the only time I've seen a negative take, was about feedstock prices would be lower for them in the current quarter. It sounds like they're referring to ilmenite, if that the right read on that, not…

Matthew Blackwell: Is that Tronox?

Peter O'Connor: (Shaw and Partners, Analyst) Tronox, yeah.

Matthew Blackwell: The Tronox statement, their feedstock. Well, they - I mean they do some internal transfer pricing I guess. I'm not exactly sure how they calculate all their feedstock prices, because they are one of the more vertically integrated. Ilmenite prices certainly - sulphate ilmenite prices are now - they're back ticking up again after a bit of a slow-down in June and July.

I don’t know why they would be forming the view that feedstock prices have reduced, unless it's some legacy arrangement or something that pre-empts an arrangement with Cristal for their merger in the future, acquisition in the future. But that's not a consistent message that I've heard from anyone in the industry.

Peter O'Connor: (Shaw and Partners, Analyst) Okay, great. Thanks very much Matt.

Operator: Thank you. Your next question comes from the line of Brenton of BT Investments. Your line is open, please ask your question.

Brenton Saunders: (BT Investments, Analyst) Good morning everyone. Sorry if I missed this. I'm just trying to figure out, so Sierra Leone there was a big inventory built there that actually didn’t make any money. But existing level of sales, what was that about, and can we expect that to clear out in the second half?

Tom O'Leary: Thanks Brenton, I'll ask Doug to take that.

Doug Warden: Yeah, there was an inventory build, Brenton, it's nothing untoward. It's really just timing of shipments. So we would expect that there would be an unwind of that in the second half.

Brenton Saunders: (BT Investments, Analyst) Is that - are the shipments there particularly lumpy or - I mean it's a big amount, right?

Doug Warden: Yeah, look, it's - I think it was something like 17,000 tonnes of rutile, maybe 30,000 tonnes of ilmenite built during the half. Now that's a bit over a month's production, so if the shipment doesn’t go at the back end of June for rutile then you get that sort of build. But I don’t think it's - to get too concerned about. Matt's just said that the ilmenite has already gone.

Brenton Saunders: (BT Investments, Analyst) All right, thanks.

Operator: Does that answer your question Brenton?

Brenton Saunders: (BT Investments, Analyst) Yes, thank you.

Operator: Okay, thank you very much. We have no further questions in the queue. Mr O'Leary, please continue.

Tom O'Leary: Oh terrific. Look, thank you all again for joining the call. Have a good day, cheers.

End of Transcript