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Operator: Thank you all for standing by and welcome to the Iluka Resources half year 2022 results conference call. At this time all participants are in a listen only mode. After the speakers' presentation, there will be a question and answer session. To ask a question at that time, you will need to press star then one-one on your telephone keypad. Please be advised that today's conference is being recorded.

I'd now like to hand the conference over to your first speaker, Tom O'Leary, Managing Director and Chief Executive Officer. Thank you, please go ahead.

Tom O'Leary: Hello and welcome, thanks for joining the call. Adele Stratton and Luke Woodgate are with me here in Sydney this morning to discuss Iluka's half year results. We also have Matt Blackwell on the line from Perth. It's been a busy period for the Company. We've successfully completed the demerger of Sierra Rutile; we've made good progress on our diversification into rare earths and we continue to progress our internal growth pipeline.

The half year results demonstrate the strength in our business with pleasing operational and financial performance. We've continued to deliver pricing traction across our product suite with expanding margins despite the inflationary backdrop. On safety, our serious potential injury frequency rate has fallen, which is pleasing, but our increased total recordable injury frequency rate is an area of focus going forward.

Against a backdrop of global macroeconomic and geopolitical uncertainty, mineral sands markets continue to be characterised by tight supply. Reflecting these conditions, Iluka's operational portfolio is configured at maximum settings. Both producer and customer inventories are low and industry production, which has been experiencing long-term grade depletion for some time, has been further tested by the war in Ukraine and challenges in South Africa.

With few sources of new production coming online, these factors are driving customers to prioritise security of supply and demand for Iluka's products continues to be strong. Adele will now cover how these factors have translated to financial performance. Over to you, Adele.

Adele Stratton: Thanks Tom and good morning all. We've delivered a pleasing financial scorecard. Iluka achieved material increases in NPAT, revenue, EBITDA and free cash flow relative to last year. In fact many of these metrics are record H1 results for the Company. Most pleasing was the growth in our margins, with the benefit of our sustainable approach to pricing clearly observable.

NPAT was $369 million for the half, which actually exceeded the full year earnings from last year. However we're not immune to the inflationary environment, especially increasing costs of fuel, consumables and labour and as we said at the quarterly in July, full year guidance on cash costs of production for the Group is expected to increase for the full year by $55 million.

Slide 6 and 7 in our presentation highlight the further strengthening of Iluka's balance sheet. We recorded a net cash position of $600 million at 30 June and this includes the cash we contributed to Sierra Rutile on demerger, which was a total of $106 million and that's inclusive of a US$45 million contribution to a rehab trust. We also have significant funding capacity for our development pipeline over coming years, both on multi-option facility agreements and the separate non-recourse loan we have in place with Export Finance Australia to fund our rare earths business.

Our stake in Deterra contributed $20 million to earnings and we have received a $12 million dividend during the half. Given the timing differences between when a dividend is declared and paid, we are expecting to receive cash of $23 million representing the H2 dividend just declared by Deterra in the second half thanks to BHP's continued ramp up of the South Flank development. These will be passed through in full to our shareholders.

And while on dividends, we've declared a $0.25 per share fully franked dividend in line with our framework. That represents payment of 100% of cash flows received from Deterra, delivering $0.03 of those $0.25. We're also paying 40% of free cash flow from the mineral sands business, excluding the $106 million contributed to Sierra Rutile as part of the demerger. So overall a very pleasing financial result for the half. And with that, back to you, Tom.

Tom O'Leary: Thanks Adele. In parallel to delivering the result Adele's just outlined, we've also made substantial progress on our strategic priorities. As you're aware in April, we announced a final investment decision for the rare earth refinery at Eneabba in Western Australia, underpinned by a risk sharing arrangement with the Australian Government, including that $1.25 billion non-recourse loan. This positions us at the forefront of the global shift to electrification and a low-carbon economy with the partnership we've agreed with the Commonwealth mitigating risk in a way that recognises the substantial contributions of both parties.

We awarded Fluor the EPCM contract in June and groundworks are set to commence shortly. We acknowledge this is a significant project for Iluka and have recently appointed a new project director, Kerrie Matthews, to Iluka's executive. I look forward to working with Kerrie who joins us from BHP where she was the deputy project director for the South Flank project and where she also worked with Fluor.

In addition to our rare earths diversification, we're progressing a number of mineral sands developments and these are covered on slides 18 to 21. By way of overview, synthetic rutile kiln 1 at Capel is scheduled to restart production in the fourth quarter, having been idle since 2009. This will deliver around 110,000 tonnes per annum of additional synthetic rutile into a tight market. The definitive feasibility study for Balranald is scheduled for completion by year end. This development is focused on a new internally developed mining technology designed to access a high-grade ore body at a depth of around 50 metres with lower environmental impact.

Also scheduled for completion by year end are the preliminary feasibility studies for the Wimmera and Atacama projects. Wimmera is a large, potentially long-life zircon and rare earths development in Western Victoria, with its rare earths being an attractive supplementary feed source for the Eneabba refinery. Atacama represents a potential extension to our existing Jacinth/Ambrosia operation in South Australia and the material source of zircon and ilmenite.

So as you can see, it's been a busy and productive period for Iluka, one that I think sets the scene for the Company to evolve considerably over coming years. And with that, I'll open up the lines for questions.

Operator: Thank you. We will now begin the question and answer session. If you wish to ask a question, please press star then one-one on your telephone keypad and wait for your name to be announced. Please stand by while we compile the Q&A roster. Our first question comes from Paul Young at Goldman Sachs. Please go ahead.

Paul Young: (Goldman Sachs, Analyst) Thanks for that. Morning Tom, Adele, Matt and Luke, hope you are all well. First question, Tom, is on the market. Firstly to start with zircon, you've noted that maybe some of the smaller producers out there selling to China such as the Indonesians and a few of the Africa producers have seen a bit of a moderation in pricing recently around maybe the China property piece and demand outlook.

Just curious around sustainability of your pricing or maybe leading into the fourth quarter. I guess the sense I get is that you didn't push prices up as much as others so therefore you're in a better position, but just curious around how you're seeing China at the moment and any comments you have on those price retracement from other producers.

Tom O'Leary: Yes, thanks Paul. I might let Matt talk to some of the sectoral and regional dimensions, like Indonesia you've touched on and so on and perhaps our approach to sustainability of pricing generally. But I thought before going into that, it might just be worth providing a bit of context around our perspective on the outlook more generally.

We're not oblivious to the fact that the world is an uncertain place at the moment, both from a macroeconomic and geopolitical perspective and there's a lot of talk around the uncertainty as you mentioned in China and there's also uncertainties in Europe and the US. What we've emphasised in our material and I think is really important to note is the supply side, both in terms of grade decline but also in terms of inventory levels and we've put a lot of material in the pack around inventory, as well as disruptions to the supply chain. And that's the key theme I think I'd like to leave you with today.

We've had a really strong half and that was despite China property market concerns which have really been a focus for the last year. While there could be some softening from time to time, as zircon sold out, as we've said, in the third quarter and in the titanium side, high-grade feedstock production is also pretty much sold out for the half, in terms of what guidance we can provide at a high level, we can really only talk to what we're observing with our customers. And the key thing that we're observing is that they're seeking security of supply. That's the key thematic.

On China and the property sector, you mentioned China is continuing to push stimulus and quite obviously the property sector is a really significant component of the Chinese economy. In turn, the strength of that economy is mission critical for China. But coming back a bit to where I started, the overwhelming theme in mineral sands continues to be around supply as we've emphasised for a long time. It's not about demand and in recent times, that supply side has been exacerbated by the war in Ukraine and the issues in South Africa. That's I think where our focus should be.

South Africa is the largest supplier into the mineral sands sector and across the world we're seeing genuine concern around the stability there. And that in particular is driving an enormous focus on security of supply for all of our products with customers no longer prepared to accept that level of insecurity in their supply chains. They're really turning to look to reliable production from a reliable jurisdiction.

But Matt, I hope I haven't stolen all the key points – certainly I think it would be really, I think, useful for you to touch on Indonesia in particular, what you're seeing there and maybe also, I know you asked about China, Paul, but I think there's some interesting dynamics playing out in Europe as well at the moment. Matt?

Matthew Blackwell: Yes, sure Tom. G'day Paul. Turning to the matter of prices, you observed correctly some of the pricing has softened from record highs on the Indonesian volumes - they were selling about US$3000 at the peak per tonne and on very small volumes, mind you. And those volumes have been curtailed this year by COVID. It's impacted the Indonesian supplies quite significantly. So they've come off and they might be around $2400, $2500 at the moment.

But the bulk of zircon that's being sold into China from the multinationals with the more consistent supply chains is in the range of $2150 to $2250, is probably the range where people are selling and that hasn't come off and in fact customers are seeking stability in pricing as they enter the year.

What I would also say and to I guess echo a bit what Tom is saying, is that all of our customers are still asking for more product and so whilst there is this uncertainty and Tom talked about the property market in China, we are seeing continued demand for our product, particularly the premium zircon market.

And maybe one other thing that I'd just point out, just on China – Tom mentioned Europe and a couple of other places, but we have far less exposure today to the pure ceramic sector in China than we did previously. So for example, in 2020 50% of our zircon sand went through the pacifying process into ceramics in China. That's now 42%, deliberately. So I think certainly less exposed to that sector if there was a concern about that and the fused zirconia and refractory sectors continue to be quite stable, if not robust in China.

Paul Young: (Goldman Sachs, Analyst) Thanks Matt. That's a really good wrap actually, I think probably answers a lot of people's questions around the market. Can I just switch to the feedstock market please? Just two things on this, one can I just confirm that the low double-digit price increase for second half for rutile is referencing the first half rather than a year-on-year change?

Matthew Blackwell: Yes.

Paul Young: (Goldman Sachs, Analyst) Okay, excellent. That's great. Then the second part, before I move it on, lots of questions on the projects, but I'll just keep it to the market for now and round back, but on synthetic rutile, can you maybe just talk through the contracting strategy there, but more so around SR2 and SR1, is SR2 up for recontracting all those volumes at the end of the year? And what are your thoughts around potentially pushing price parity between SR and rutile this time around?

Tom O'Leary: Before I hand over to Matt for an update there, what we're seeing, Paul, is really strong interest from all of our suite of existing synthetic rutile customers, as well as new synthetic rutile customers. Not all of the existing synthetic rutile contracts expire at the end of this year. There's a significant one that goes for many years yet.

Matt's working with customers around the extent to which we see it as appropriate to put in place extensions or new contracts for remaining, uncommitted synthetic rutile volumes in total, recognising the aggregate of SR1 and 2. But given the circumstances, there's a lot of benefit in staying merchant, as I touched on earlier, given security of supply issues. But nonetheless, we are engaging genuinely with our key and new customers. Matt, I don't know if you want to add to that.

Matthew Blackwell: Yes Tom, maybe just back to Paul's question on SR price parity with rutile, we sell – we try and maintain and we look at the relative economic value when we sell and we run REV models across all of our products and what value they can create for our customers by individual asset that they own. So we're very mindful when we're selling SR to capitalise, I guess, on that knowledge and also make sure that we're getting what we think is a fair price for the value that they are receiving.

So it's not just against rutile, but it's also against competitors' offerings as well and I'm very confident that we are achieving a premium to REV on our SR and rutile sales when you have a look at what else is out in the market, so on the pricing, Paul. I don't know if that answers your question.

Paul Young: (Goldman Sachs, Analyst) Yes, that's helpful. That's a lot on the market, so I really appreciate it and yes, I'll pass the call on.

Operator: Our next question comes from Rahul Anand at Morgan Stanley. Please go ahead.

Rahul Anand: (Morgan Stanley, Analyst) Hi team, good morning. Look first one's on the rutile side of things, so firstly congrats on successfully demerging SRL. But I did note that the price increase on the rutile side was more than 2X of synthetic rutile and obviously with the business now heavily tilted to a synthetic rutile as opposed to natural, I wanted to perhaps touch on the project pipeline.

The one thing that I noted on Balranald was that previously you were saying FID by the end of this year and now it says DFS, is there a change here that we should be aware of, Tom?

Matthew Blackwell: Tom, do you want me to…

Tom O'Leary: No, I wouldn't – yes, go ahead Matt, by all means.

Matthew Blackwell: Yes, Rahul, I wouldn't – I think Tom was going to say I wouldn't read too much into that. If you actually read the 4D, I think the language is pretty consistent with what we've said previously about the fourth quarter. We've always said fourth quarter.

And in terms of the tilt between rutile and SR, or more weighting to SR, I think what you can see a little bit of in the rutile contracts, first of all there was a renegotiation or the rutile contract, I think people would know, came to an end at the end of last year. We had more rutile on spot this year out of Australia. We don't generally sell rutile on long term contracts.

The other thing, which is a positive I believe is that under the SR agreements, most of our volume is sold under these longer term contracts, which have market mechanisms in them which tend to lag the market.

So whilst it may not have been prima facie, as big an increase in the first half of this year, those mechanisms will continue to operate and as I said, lag the market a little, providing more runway going forward regardless of what happened in rutile or the market in general.

Rahul Anand: (Morgan Stanley, Analyst) Okay, no that's really helpful. Just keeping with the projects and rutile, I mean Euston is obviously another project where you have rutile and ilmenite rich ore body. Can you perhaps remind us of the potential challenges there and why it sits behind Balranald, which is a new mining technology?

Tom O'Leary: It's not so much the challenges Rahul, it's more where we're at in terms of the feasibility studies. We're at an earlier stage for Euston. It's not scheduled to finish I think, Adele until '23.

Adele Stratton: Yes.

Tom O'Leary: Sometime in '23.

Adele Stratton: Yes.

Rahul Anand: (Morgan Stanley, Analyst) Okay, perfect. Look, for the second one perhaps if we talk rare earths. We saw China increasing the quota a bit recently. I just wanted to touch upon and get your views on - I mean whether you're starting to see any market participation in terms of diversifying supply away from China and people being willing to pay extra for it ex-China supply?

Have you had any initial conversations perhaps in the market and do you think a bifurcation is possible in terms of the price perhaps being different to what the China price might be for supply security perhaps?

Tom O'Leary: That's an interesting area of discussion Rahul. We are as you'd expect, having a range of conversations with potential end users and intermediaries. So look, it's an open question. What I would emphasise is that there's certainly a high level of interest around diversification of supply and again security of supply for different reasons.

Nonetheless, customers looking for diversification. The extent to which customers are prepared to pay a premium, I think it's quite likely. We're seeing an interest in that. I think customers inevitably want to understand what they're getting for that and they'll want to see for example some ESG certification in respect of the benefits they get from a Western supplier like ourselves.

So it's a pretty nascent area at the moment but it will develop over coming years. I mean given that we're fully funded for the refinery, the key point is that we're not in a major rush to put those contracts in place. We don't need to put contracts in place to get the project done, which is what many hopefuls do, giving away value and - in a sense not giving away value because the project may never eventuate.

We're not in that position and so we'll be prudent about the steps we take in contracting our product.

Rahul Anand: (Morgan Stanley, Analyst) No absolutely and I think the government regulations perhaps similar to the US perhaps another reason for that supply bifurcation. Anyway, thank you very much. That's my two. I'll pass it on.

Tom O'Leary: Thanks Rahul.

Operator: Our next question comes from Hayden Bairstow at Macquarie. Please go ahead.

Hayden Bairstow: (Macquarie Group, Analyst) Yes, morning Tom and Adele. Just a question on the growth projects. Obviously there's a lot of capital risks in Western Australia and we're getting close to some decisions on these key projects.

Just keen to understand your confidence in what capital assumptions you'll be able to put out later this year, just given where the inflationary environments are. Is the locations that you're potentially building these things in not as acute as what we're seeing in Western Australia?

Tom O'Leary: Yes, thanks Hayden. Adele, do you want to take…

Adele Stratton: Yes, I was just going to say obviously Hayden, going through those definitive feasibility studies at present and hence they factor in the market conditions at present as well.

So that gives us a degree of confidence in terms of when we come out with the guidance for that capital that it's a fresh number, unlike some other projects that have had the result out there for a while.

As you note obviously, different locations; Balranald for example is not in Western Australia. So that will come into play as well. Matt, I don't know if there's anything else you wanted to add there?

Matthew Blackwell: I think Adele the key point you've made and it's important for people to take away is that as these studies are live today, we've got the benefit of and the people who we're partnering with to do the studies are building assets around Australia, well in every jurisdiction at the moment.

So we're getting live feedback on material costs, labour costs and availability of both of those resources. So as Adele said, it's a live number and when we do go to the Board with investment decisions, we're able to do so with really up to date and relevant information.

Hayden Bairstow: (Macquarie Group, Analyst) Okay great and the second one is just on the rutile market. I just noted your commentary around the low level of inventories of some of the key customers.

Given, particularly one of them, the behaviour in the last couple of years, I mean are you expecting to see a big inventory build or are you more comfortable now that we are going to see - well, these lower level of inventories may well be how those customers continue to operate going forward?

Matthew Blackwell: Yes, look on the high grade feedstock, there's a couple of things to note. One - and it's in our slide pack - is the low level of inventory that we have and I think that's pretty characteristic across the sector on the titanium feedstock side. Particularly on the high grade feedstock.

So starting at the mine, the miners don't have much material. Moving downstream to the pigment producers, again not significant amounts of feedstock. They're probably not as lean as they were at the beginning of the year or at the end of last year but still inventories are very low and you'll see Kronos' inventory of day sales is quite low compared to historic periods of high demand.

What I'm hearing from customers as recently as yesterday is that the demand for high grade feedstocks will continue to be strong. That's driven by a couple of things. One, the pigment market has changed significantly over the last decade and more importantly over the last three years.

There's been this introduction of let's call them value stabilisation contracts. Each pigment producer calls it something different. As we understand, some of the big multinationals who have up to 7% of their volumes under these types of contracts.

These contracts are a quid pro quo. They guarantee to supply during difficult times like we've had and then there's an offtake and there's the other side of that coin that they will continue to buy from these people who we sell to through the cycle.

So the market is much - it's moved away from this ridiculous 90-day pricing options that characterise the pigment market with no volume commitments 10 years ago.

These multinationals I think are far more disciplined than in the past. They've got strong balance sheets. Most of them have enjoyed the benefits of good margins, so they're stronger than where they were. So you don't need to have Christmas sales for example.

They're also, most of them are listed now. So they're investor focused. Their investors are focused on their earnings and earnings multiples.

So all those contribute to a more disciplined and I think more stable industry in the pigment market. The other thing I think that's important to note, particularly in our sector and where we play, which is in the high grade chloride market, there's two interesting - or a couple of interesting dynamics at the moment.

One is you will have heard about high chlorine costs, particularly in the US. When chlorine costs are high that pushes you towards using high grade feedstocks because you lose less chlorine through waste. So that's one thing.

When people want to continue to produce at the lowest cost at the moment, they're going to want high grade feedstocks.

In the chloride market more generally, Tom mentioned some of the uncertainties in Europe. I'm sure everyone on this call knows well that gas prices are up in Europe. That means electricity prices are up.

A sulphate pigment plant consumes between I think three and four times the amount of electricity per tonne of pigment produced than a chloride plant. So if you're chloride only you're in a pretty good position.

If you've got chloride and pigment plants in that environment, well you're going to run your chloride plant. That augers well for Illuka I think because of what we supply and our high grade SR and rutile.

Hayden Bairstow: (Macquarie Group, Analyst) Okay, terrific. Thanks for that. I'll leave it there.

Operator: Thank you. Our next question will come from Peter O'Connor at Shaw and Partners. Please go ahead.

Peter O'Connor: (Shaw and Partners, Analyst) Tom, Adele and Matt good morning. Matt, you left your last answer with a question. European mix, sulphate/chloride, what is that in terms of tonnes or per cent?

Matthew Blackwell: Good question Peter. Off the top of my head, I estimate it's about 50/50 but I don't have the exact number.

I mean you've got - so Venator have a mix of sulphate. They've got a couple of sulphate plants in Europe, including one in Italy which is partially shut down at the moment. They've got their main chloride plant at Greatham, which is a customer of ours.

Then Tronox have a mixture of plants in Europe and/or across the globe and Kronos also a European based customer, two chloride plants, one sulphate. That's probably about 50/50.

Peter O'Connor: (Shaw and Partners, Analyst) That's the proportion of European pigment production versus rest of the world?

Matthew Blackwell: Well, pigment consumption is about one third Europe, one third China, one third Americas. Pigment production Peter I'd have to come back to you on that. I just can't remember off the top of my head and I don't want to give you the wrong number.

Peter O'Connor: (Shaw and Partners, Analyst) Because it goes to the point you're trying to make about that split between the European gas prices. That's a fairly important takeaway if you could that would be great.

Adele, to Hayden's question about CapEx, totally get you guys are so focused and prudent and disciplined and do your maths right, so the numbers you will come out with end of the year will be perfect. But I think what Hayden's question is, what is the pricing differential you're seeing period on period from when you started looking. You're across the industry in WA, 20%, 30%, 40%, is that ballpark you're in?

Adele Stratton: Yes, really good question Peter. It depends on what starting point you're talking to. All I can really talk to is some of the recent cost increases that we've experienced so you can see in terms of the cash production costs. A lot of that is driven by fuel. So fuel into projects getting stuff delivered et cetera. I think in terms of that general consensus of what the market is seeing; that 20% to 30% for some projects wouldn't be out of the ballpark. We haven't guided previously some of those capital numbers, so there's no starting point on which people should really determine the change.

Peter O'Connor: (Shaw and Partners, Analyst) Okay, to dividends Adele, just you talked specifically about the timing of the Deterra dividends. Sounded like that was very nuanced. So the dividend that you just announced or declared, that will include just the dividend received during the period. Is that what you were trying to [say at this] point?

Adele Stratton: Yes, that's exactly right. We got in 12, so we'll pass out 12. There's just a timing difference. Deterra obviously just announced in their results last week. They've had stellar results as a result of BHP's ramp up of South Flank, which means they've declared a much stronger dividend.

Again, that will flow through to us, so it in essence doubles in the second half. So we've got line of sight of what cash is coming in. Hence shareholders have got line of sight of what that component of the dividend will be for the second half.

Peter O'Connor: (Shaw and Partners, Analyst) Perfect. Lastly, Matt, there's probably one person on this call who doesn't get the acronym, REV. Do you mind explaining that to them?

Matthew Blackwell: Sorry. Relative Economic Value. So when we assess our products and the value that it can create for us and our customers, we look at things like TO2 content, impurities and we look at our customers, for example, the thermodynamics of their plant waste disposal. All those sorts of things.

If you look at slag, it's got a lot more waste than say SR. So there's a cost to dispose of that. There's a cost to chlorinate it first. So when we price our products, we consider all those factors when we engage with people. As I said, we do that on an individual plant basis to make sure that we're capturing the appropriate amount of value for our product.

Peter O'Connor: (Shaw and Partners, Analyst) Tom, just lastly on security of supply and the commentary you talked about in the first questions, the answers. You've heard about Africa. I guess you were specifically referring to South Africa. Where does Sierra Rutile fit within the African construct of risk and that global need for security of supply versus a country like Australia?

Tom O'Leary: Yes, look Peter I think where Sierra Leone sits is probably a question best directed at Sierra Leone management but you know our experience there has been relatively predictable.

It was relatively predictable in terms of a range of things, a range of factors which have become completely unpredictable in South Africa from government administration to importation, export logistics. From a range of perspectives, it's in my opinion, a far more attractive jurisdiction. It's really a question best directed at the Sierra Rutile management I think.

Peter O'Connor: (Shaw and Partners, Analyst) Thank you Tom.

Tom O'Leary: Pleasure.

Operator: Thank you. Our next question comes from the line of Al Harvey at JP Morgan. Please go ahead.

Al Harvey: (JP Morgan, Analyst) Yes, morning team. Just one from me. I just wanted to get a bit of clarity on the synthetic rutile kiln mine restart. You've noted that you'll be taking both internal and external ilmenite feed. I was wondering if you'd be able to break down for us the relative split and if you're able to speak to the terms of the external feed? Then maybe just a follow up; will that shift to all Illuka feed beyond the initial 18 to 24 month campaign?

Adele Stratton: Yes, hi Al it's Adele. So look, I'm not going to provide any further clarity in terms of what that split is. We've got a number of sources that feed that. So really the focus is on the 18 to 24 month period.

As you correctly note in terms of post that period, the focus will most definitely be in terms of securing further supply. We've got a pipeline of projects that have got ilmenite in them and hence you should expect that will be a focus.

Operator: Our final question comes from the line of Paul Young at Goldman Sachs. Please go ahead.

Paul Young: (Goldman Sachs, Analyst) Yes, thanks again. A follow-up question, Tom, on the rare earths refinery and just the feed strategy around the rare earths refinery. You have a fair bit of time to work through project studies with respect to your own feed versus third party, et cetera.

But to start with I'm just curious around any of the Phase 2, production of concentrate and what the strategy will be there as a starting point. Have you made a decision whether you will produce it at a full run rate during the construction period, stockpiling material, with the aim of filling the refinery to full capacity from day one?

Tom O'Leary: Yes we have Paul. I guess - we didn't talk much about it but EP2 has been fully commissioned and can produce product on spec - has produced product on spec and at required rates. So we're very pleased with that. It's been a really smooth process and the team has done a great job.

But the question then arises as you point out, what do you do with that facility? Do you build a stockpile or what? At the moment, given we've got plenty of time, we're not planning on building a stockpile.

Instead what we have done is we're using that facility to process a range of what would otherwise be waste to eke out a little bit of ilmenite and zircon for the time being. So we might do that for the next couple of years. But at any time we could change course and start building a stockpile. But we're not planning on doing that at this stage. There's no need.

Paul Young: (Goldman Sachs, Analyst) Got it. Okay, that makes sense. Then just on the decision time and studies around Wimmera versus third party feed. Again you've got a fair bit of time to make these decisions and whether to push ahead with a feasibility study on Wimmera, et cetera. But when you do these studies, what are you trying to solve for here?

Is it maximising NPV for Iluka? Or is it maximising returns? I'm just trying to think about how you think about a decision on Wimmera with obviously a significant capital decision on that project if it proceeded versus say topping up the refinery at some point with third party feed. The approach to that would be interesting. Thanks.

Tom O'Leary: Yes, look it's an interesting question. I think we're looking at both overall NPV and nearer term returns. We don't see those as necessarily mutually exclusive in almost all circumstances. So what I'd say is that we remain very confident about where we're at with Wimmera and we're also as you know exploring more carefully the rare earth credits that come with our internal project portfolio because we can now put a value on the rare earth monazite, xenotime credits that come from all of our internal minerals sands projects.

But we're also - and it's part of the NPV discussion you touched on - but we're also looking at procuring feedstock for the long term. We want to have this refinery going at maximum capacity for many decades to come. So we're interested in a range of third-party feeds and deposits. So we're exploring that as well. But we'll make any material announcements in due course Paul.

Paul Young: (Goldman Sachs, Analyst) Thanks Tom. Just a final one, maybe for Adele, when you start spending on the refinery do you start drawing down on the government debt?

Adele Stratton: Yes Paul, that's exactly right. There will be little bits of money that we'd deploy without drawing down just through that process. But yes when you're starting to draw down it's in that ratio that we talked about in terms of the one for three if you like.

So we put in $200 million of equity and they put in the $600 million. Then after that it all comes up to 100% from the EFA. So yes.

Paul Young: (Goldman Sachs, Analyst) Great. Thanks very much again.

Tom O'Leary: Thank you Paul.

Operator: We will just take one final question from Glyn Lawcock at Barrenjoey. Please go ahead.

Glyn Lawcock: (Barrenjoey, Analyst) Good morning Tom. I know you've said you're not oblivious to the world issues and supply is tight. But I'm just wondering maybe if you could share some thoughts. We are starting to see paint producers talk about DIY being perhaps a bit lower now in the US. Tronox called out on their call, they're seeing pigment demand weakness across Europe and China.

I understand supply is tight, but just trying to appreciate your customers want your product today because their customers want it today. But it does feel like things are starting to soften downstream. When does it start to come back to bite us? What is the lag? Because when demand goes down it always seems to hurt no matter how tight the supply side is. So it just feels like Matt maybe has some more comments to share if he could. Thanks.

Tom O'Leary: Yes, look he may do. We'll come back - I'll pass you onto Matt in a moment. But Glyn, for all the commentary that you draw on for example the paint players and talking about DIY, at the same time they're saying that professional painters are experiencing a backlog.

So even at the pigment end and the paint end, right at that end of the supply chain, there's a shortfall in product. Our customers in the US have actually had to reduce production of pigment at a time when pigment prices are extraordinarily strong because they could not procure adequate feedstock.

Matt has talked about chlorine issues and so on. Glyn it's about supply and demand. What we're seeing is a supply crunch. I've talked about that ad infinitum. Really what we're seeing very clearly from our customers is a focus on security of supply. The overwhelming majority of feedstocks come out of South Africa.

That's a position that our customers are no longer prepared to expose their shareholders to. So I don't know Matthew. Do you want to add anything to that? But I'd just say that the outlook for high grade feedstock producers like Iluka in Australia continues to be pretty robust.

Matthew Blackwell: Yes Tom. I think you're right. The commercial and Pro Paint in Europe is certainly - I heard a figure the other day - there's a nine-month backlog on Pro Paint. But I think the other sector to think about is welding. When infrastructure kicks in and stimulus drives infrastructure, you have a demand for welding consumables. So that I think augers well for demand for rutile.

Titanium slag - there is a significant uptick in the demand for titanium metal on a backlog of aircraft orders. Small sector, granted, but an important sector and one that almost exclusively uses high grade feedstocks. So we're getting enquiries from producers of titanium slag for our SR that haven't bought it before. Because again as Tom said, they want security of supply. That's on the feedstock side.

Tom O'Leary: Titanium metal.

Matthew Blackwell: Sorry, titanium - yes titanium metal - to produce - correct. So we're seeing that continued pull forward. We've got significant interest in our SR and SR1 as Tom said. I think reflecting both a genuine underlying demand which is supported by these multinationals having built up a far more stable contracting base and demand base for their products.

The zircon industry is going well - as we said we're being asked to pull forward shipments. I mean for the first time that I've run marketing, I think one of our warehouses is empty. So it's a pretty interesting dynamic at the moment.

Just while I've got you - I know you didn't ask the question. But [Rocky] Europe is about 1.2 million tonnes of 7 million tonnes of global pigment supply. If you look at that in a western context, that's 1.2 million tonnes of about 4 million tonnes of western supply in total. So just over a third of western supply that's traded. I don't know if that answers your question there Glyn.

Glyn Lawcock: (Barrenjoey, Analyst) It does. It's just an interesting debate I guess when demand starts to fall versus supply. Maybe just two quick follow-ups. Do you have a sense or could you help me understand how much of your feedstock goes into say, the pigment market now versus the metal markets?

Tom O'Leary: Yes, look I don't think we've actually gone and shared the split.

Adele Stratton: So that's right, I think, post the SRL demerger Glyn, that composition will change and with the SR1 restock coming on - so we haven't got an updated perspective there. We can come back on that.

Glyn Lawcock: (Barrenjoey, Analyst) That's fine. Then maybe just a final one. If you then look at the relativity say of your rutile pricing versus what's happening on the pigment pricing side, do you feel you've extracted everything you can now versus where the pigment price is? Or is there more to extract even if pigment prices were to stay flat?

Tom O'Leary: Yes, again Matt may have a comment. But Glyn it's a matter of supply and demand. We've talked about rutile pricing and SR pricing outlook for the second half and we will continue to provide intermittent updates on that. But I think that's probably it. But thank you for your interest Glyn. I look forward to reading about your thoughts.

Glyn Lawcock: (Barrenjoey, Analyst) Thanks very much.

Tom O'Leary: Okay. I think there are no more questions. So thank you all for joining the call. A strong first half for Iluka. Appreciate your interest. Bye for now.

Operator: Thank you so much. This does conclude today's conference call. Thank you all for joining. You may now disconnect.

**End of Transcript**