

# **Iluka Resources Limited**

## **Company and Mineral Sands Sector Overview**

**Australian Shareholders' Association**  
**South Australian Branch**  
**Adelaide 20 April 2011**

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# Disclaimer – Forward Looking Statements

This presentation contains forward-looking statements that are subject to risk factors associated with exploring for, developing, mining, processing and sale of minerals. Forward-looking statements include those containing such words as anticipate, estimates, should, will, expects, plans or similar expressions. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a range of variables and changes in underlying assumptions which could cause actual results or trends to differ materially. These include, but are not limited to: price and currency fluctuations, actual supply versus demand, production results, reserve and resource estimates, loss of market, industry competition, environmental risks, physical risks, legislative and regulatory developments, economic and financial market conditions in various countries and regions, political risks, project delay or advancement, approvals and cost estimates.

## Specific Risks & Sensitivities

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- Changes in exchange rate assumptions
- Changes in product pricing assumptions
- Major changes in mine plans and/or resources
- Changes in equipment life or capability
- Emergence of previously underestimated technical challenges
- Environmental or social pressures which impact licence to operate

**All currency referred to is Australian denominated unless otherwise indicated.**

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Favourable Market Dynamics

# 1. Iluka Overview and Investment Proposition

# Iluka Resources

## Overview and Investment Proposition



**Market capitalisation** ~A\$5.5 billion (418.7 million shares on issue)

**Industry Sector** Materials (minerals sands exploration, project development, operations and marketing; iron ore royalty deriving from BHP Billiton's Mining Area C, Western Australia)

**Objective** To create and deliver shareholder value

**Key Deliverables** Capital efficient transformation of the asset base  
Marketing and pricing outcomes in zircon and high grade titanium dioxide markets

### **Investment Proposition: Improved Financial Characteristics (2011 - 2013 vs 2006 - 2008)**

Significantly lower capital expenditure → cash flow generation and balance sheet flexibility  
Higher production / sales of higher value products (rutile and zircon)  
Higher EBITDA / revenue margin and return on capital  
Increased contribution from low risk Mining Area C royalty stream

# Shareholder Alignment



Objective: creation and delivery of shareholder value

Key internal focus: profitability; sustainability; and growth

Financial performance and incentives linked to shareholder value creation

- return on capital the internal proxy for return on equity

## **Short term incentives**

- linked to ROC, EBIT and profitability (60%); sustainability measures (10%) and defined growth objectives (30%)
- any awards 50% in cash and 50% in share rights (full entitlement deferred for 2 years)
  - any share rights lapse if individual leaves the company

## **Long term Incentives**

- linked to relative TSR against two comparator groups and ROE (10% threshold and 14% target)

\$1,000 share grant to employees (three occasions) not eligible for short or long term incentives

# Iluka Investment Proposition

## Confluence of Positive Factors



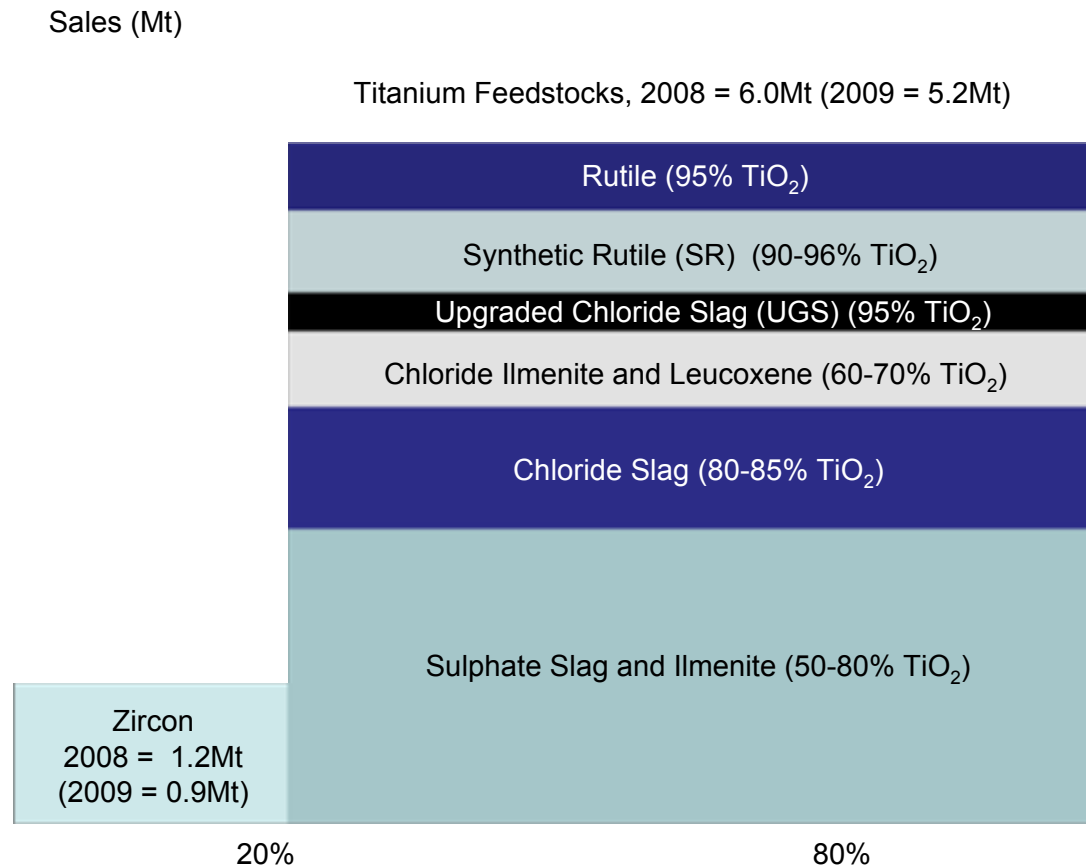
1. Transition to high quality long life production operations
2. Higher margin zircon and rutile production over the next 3 years+
3. Positive pricing dynamic playing out in both main product suites
4. Growing contribution from low risk Mining Area C (BHP Billiton) iron ore royalty stream
5. Significantly improved financial characteristics expected from 2011

# Key Characteristics of the Mineral Sands Market

## Overview of Principal Product Streams



### Global Mineral Sands Market \*



Typical industry zircon to titanium dioxide units in mineral sands deposits - 20:80

\* 2008 Global Sands Mineral market is more representative than 2009 due to GEC impact in 2009  
Source: TZMI and Iluka



# Zircon: Attributes and Applications



## Opacity (whiteness)

high refractive index (zircon refracts and reflects white light well)

## Resistant

water, chemical and abrasion resistance of glazes due to hardness of zircon



## OPACIFIER IN CERAMICS

floor & wall tiles | sanitary ware  
table ware

## Temperature stable

low thermal expansion coefficient, high thermal conductivity, high melting point

## Non-wetability

against molten metals



## REFRACTORY & FOUNDRY

steel / glass production  
casting of jet turbine engines

## Low thermal neutron absorption

increases nuclear reactor efficiency

## Inert

corrosion resistant



## ZIRCONIUM METAL

nuclear reactor cores / rods  
heat exchangers

## Unique properties

compound derivatives of zircon suitable for diverse industrial and chemical applications



## ZIRCONIA & ZIRCONIUM BASED CHEMICALS

refractories | pigments | abrasives  
electronics | catalysts | fibre optics

# Titanium Dioxide: Attributes and Applications

## **Opaque, white and bright**

high refractive index (refracts & reflects white light)

## **UV protection**

absorbs UV light energy (transfers to heat) – prevents fading, peeling, cracking

## **Non toxic / inert**

safe for use in foods, cosmetics and pharmaceuticals



## **PIGMENT**

paints & coatings | plastics | paper

## **High strength-to-weight ratio**

strong as steel but 45 per cent lighter, twice the strength of aluminium; important fuel efficiency benefit in aerospace applications

## **Corrosion resistant**

forms an inert protective oxide coating  
self repairs when mechanically damaged



## **TITANIUM METAL**

aircraft engines & airframes  
military | chemical processing & desalination plants | medical sporting equipment

## **Slag formation**

important constituent of welding to shape, hold and protect the weld pool from atmospheric conditions



## **WELDING FLUX AGENT**

ship building | fabrication

## **Nanoparticles**

significant research into nanotechnology shows promising new applications for titanium dioxide



## **NANOMATERIALS**

Dye-sensitised solar cells | arsenic removal in water treatment | cancer treatments | noise absorption

# Industry Structure and Participants

## Relative Industry and Geography Supply Consolidation

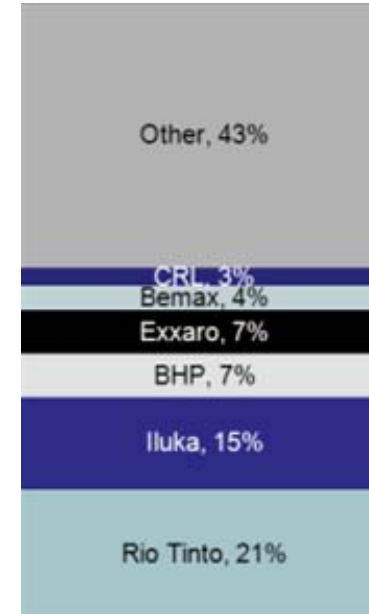
Major Producers

Zircon



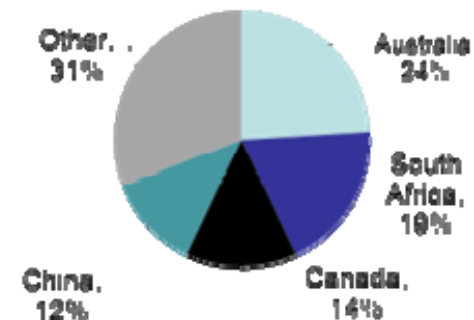
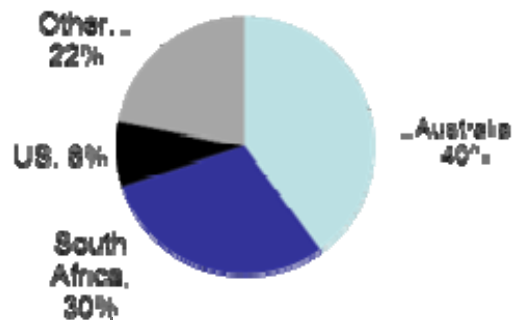
Including:  
Indonesia, 6%  
China, 5%  
Vietnam, 3%  
India, 2%

Titanium



Including:  
China, 12%  
Norway, 7%  
Ukraine, 7%  
India, 4%  
Vietnam, 4%

Major Producing Countries



Source: TZMI and Iluka

# Iluka Customer Structure

## Consolidated Titanium, More Fragmented Zircon

### Iluka Customer Industries

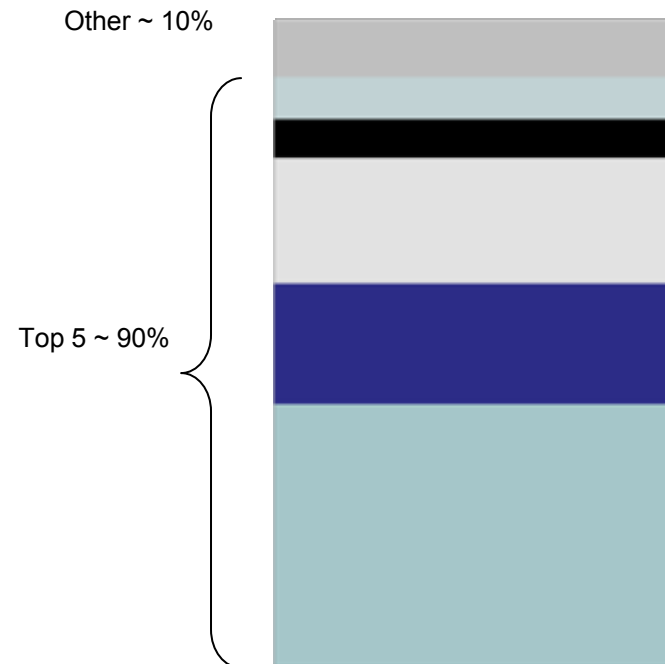
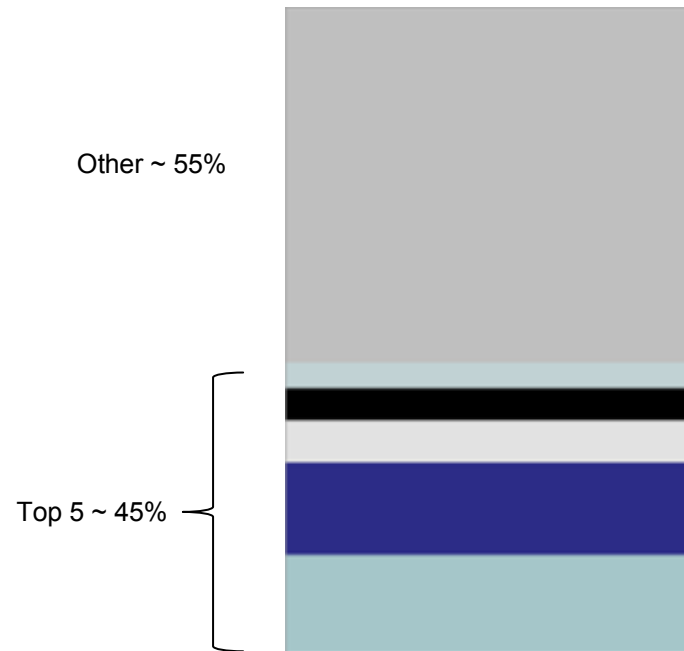
#### Zircon

- Zircon flour millers (ceramics), 60%
- Casting material manufacturers (refractories and foundry), 18%
- Fused zirconia, 10%
- ZOC chemical manufacturers, 7%
- Other, 5%

#### Titanium

- Pigment producers, 90%
- Titanium sponge producers, 5%
- Welding rod manufacturers, 3%
- Other, 2%

### Iluka Customer Segmentation



Note: Data based on 2008 sales

## **2. Iluka's Evolution**

# Iluka's Evolution

Following Appointment of David Robb as CEO in late 2006



## **2007 - Alignment**

- Performance management objectives aligned to shareholder objectives
- Short and long term incentives aligned to shareholder value creation
- Integrated business planning and decision making processes

## **2008 - Growth Commitments**

- Balance sheet recapitalisation – debt and equity
- Commitment to new growth projects in capital-efficient manner
- Re-focussed marketing / pricing disciplines

## **2009 – Global Economic Crisis**

- Business re-configuration accelerated
- Projects kept on track
- Zircon supply response to protect pricing outcomes
- Further balance sheet funding headroom initiatives

# Iluka's Evolution

## Current and Prospective Phases



### **2010 - Recovery**

- Demand recovery – continued global volatility likely
- End of major project capex outflows
- Project ramp up in 1H and sustained performance at target in 2H
- Zircon prices increase ~30%
- Uncontracted titanium dioxide products sell >20% above contract prices
- Dividend re-introduced

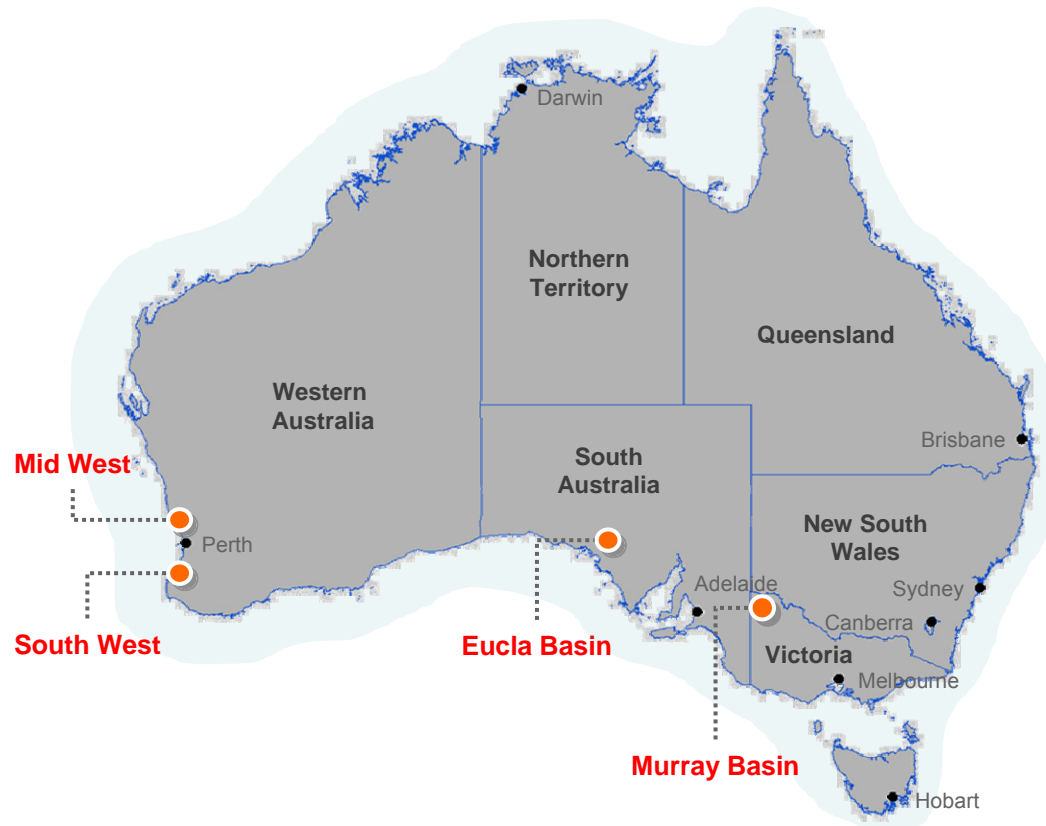
### **2011 - New Iluka**

- First year of unconstrained titanium dioxide prices/contracts
- Two zircon price increases to date
- Higher margins and stronger free cash flows
- Zircon and high titanium dioxide markets tight
- First instalment of objective – create and deliver value for shareholders

### **2012 - New Industry**

- Demand based on more broadly based global growth
- Supply an acknowledged problem – contractual flexibility
- New growth horizons – for shareholders, employees and customers

# Iluka's Operations



## Murray Basin, Victoria / NSW

- major rutile and zircon production province
- mineral separation plant - Hamilton
- economic life to 2023+

## Eucla Basin, South Australia

- globally significant zircon production source
- mine life 10 years+

## Western Australia

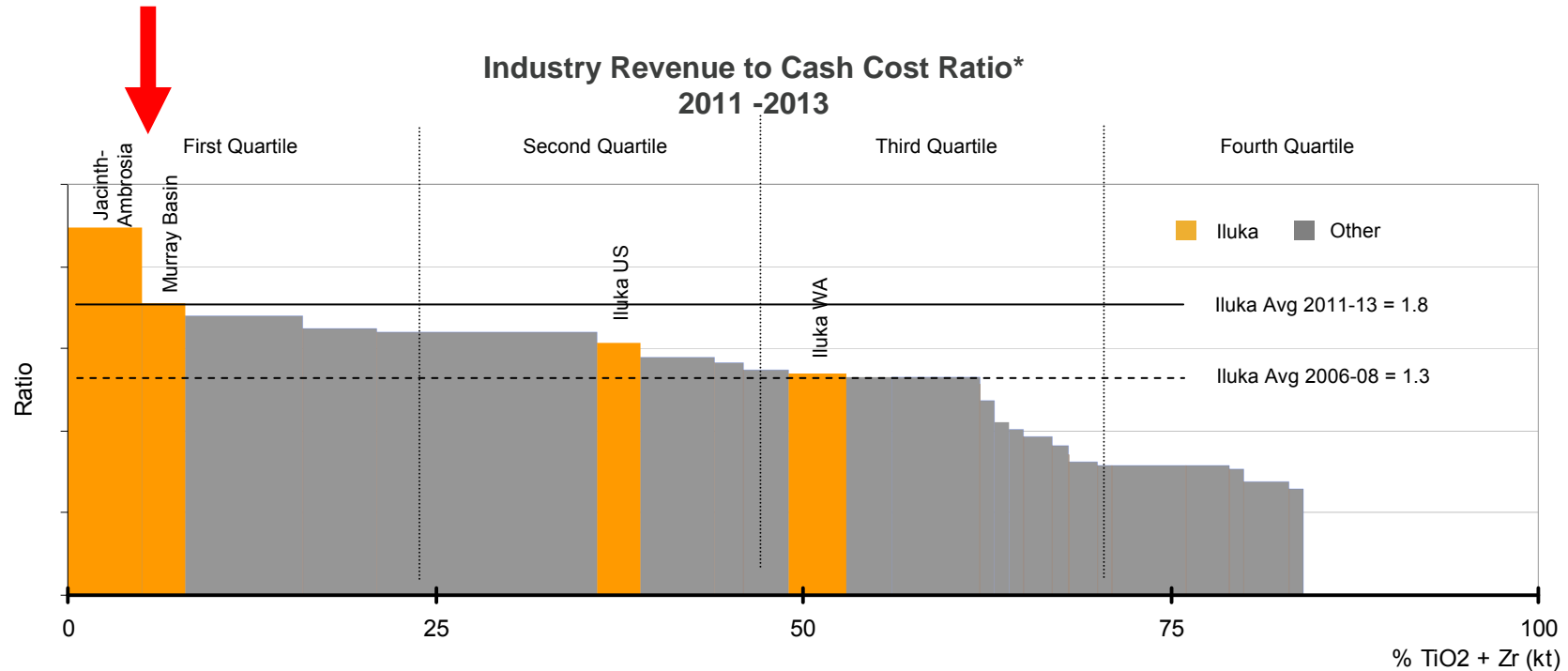
- processing facilities for South Australian heavy mineral concentrate
- 4 synthetic rutile kilns (2 idled)

## Virginia, United States

- High quality zircon and ilmenite production serving domestic US market



# Competitive Revenue:Cash Cost Position

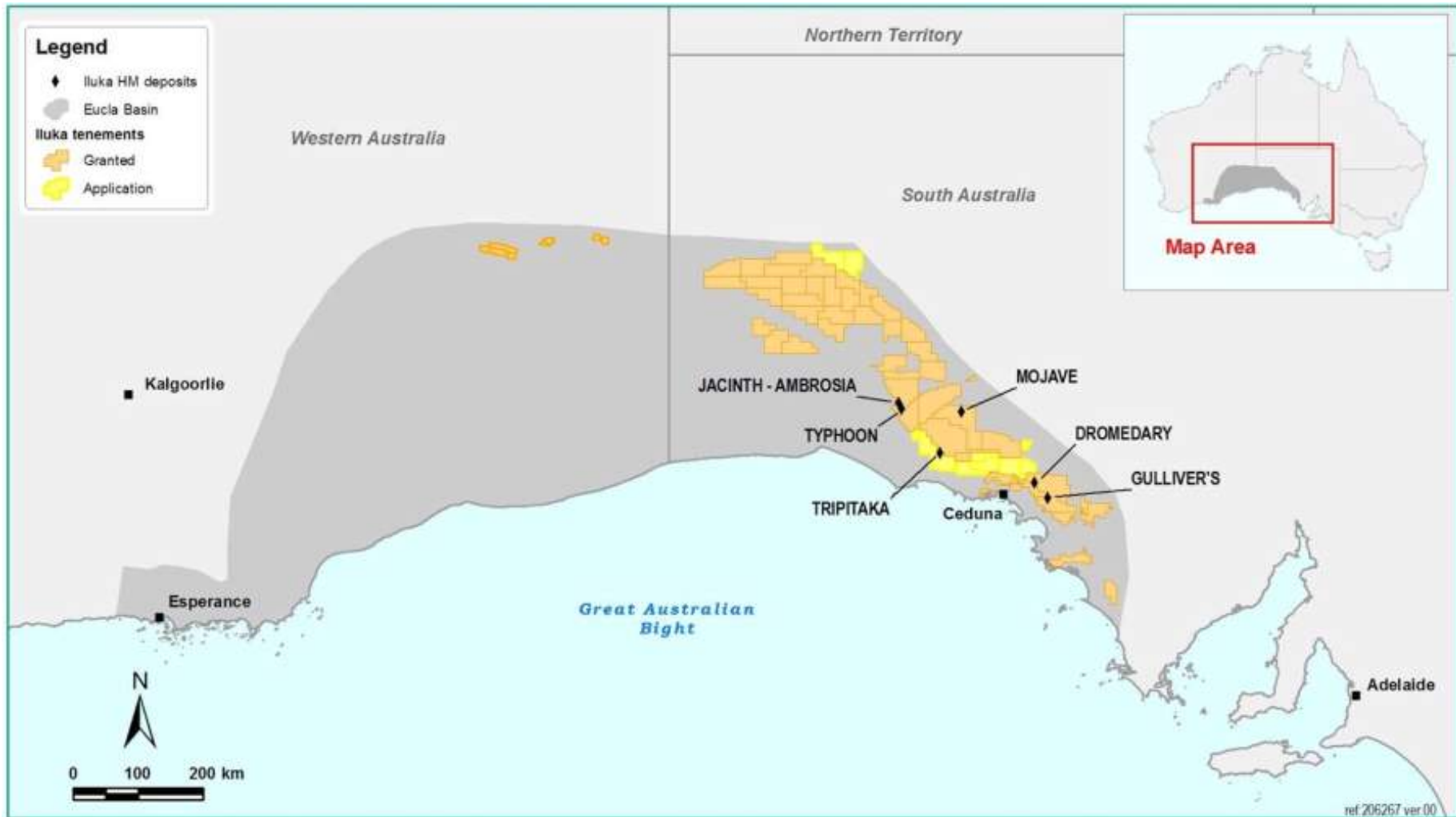


- Revenue to cash cost ratio is key measure of competitiveness
- Ratio highly dependent on product price relativities
- Iluka well placed - Jacinth-Ambrosia and Murray Basin operations forecast to be in first quartile
- A significant number of existing operations forecast to have negative cash margin positions

\* Based on constant exchange rates; Iluka pricing, production and industry cost forecasts

# Jacinth-Ambrosia

Capable of Supplying ~25% of Global Zircon Demand



# Jacinth-Ambrosia, South Australia

Name plate production reached July 2010



# Murray Basin Stage 2, Victoria

## Major Rutile and Zircon Production Province



# Murray Basin Stage 2, Victoria

## Long Life Rutile and Associated Zircon Production



# Mining Area C Iron Ore Royalty

## In-perpetuity Tier 1 Iron Ore Exposure

### Background

- Mining Area C (MAC) covers a part of BHP Billiton's iron ore mining operations in WA's Pilbara region, operated by BHP (85%) under a JV with Itochu and Mistui

Royalty based on:

- 1.25% of FOB sales less export duties and taxes; and
- \$1m one-off payment per 1Mt increase in annual production

### BHP Billiton Pilbara Iron Ore Operations

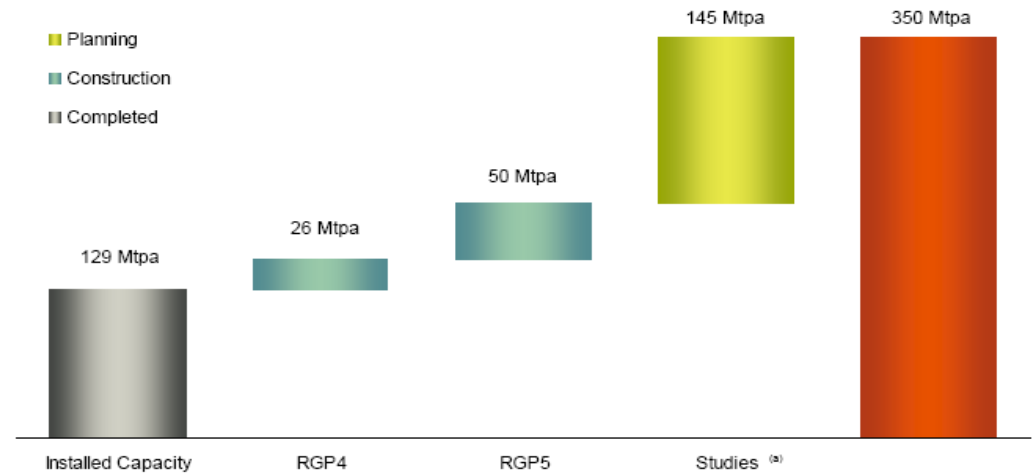


Source: BHP

### Outlook

- BHP has stated intentions to increase total iron ore output from WA to 240-250 by 2015, with expansion capacity to >300mtpa beyond this. MAC production at end of 2000 was ~40 million tonnes and is expected to be a significant proportion of this total increase

Western Australia Iron Ore Growth Path (mtpa, 100% basis)



Source: BHP

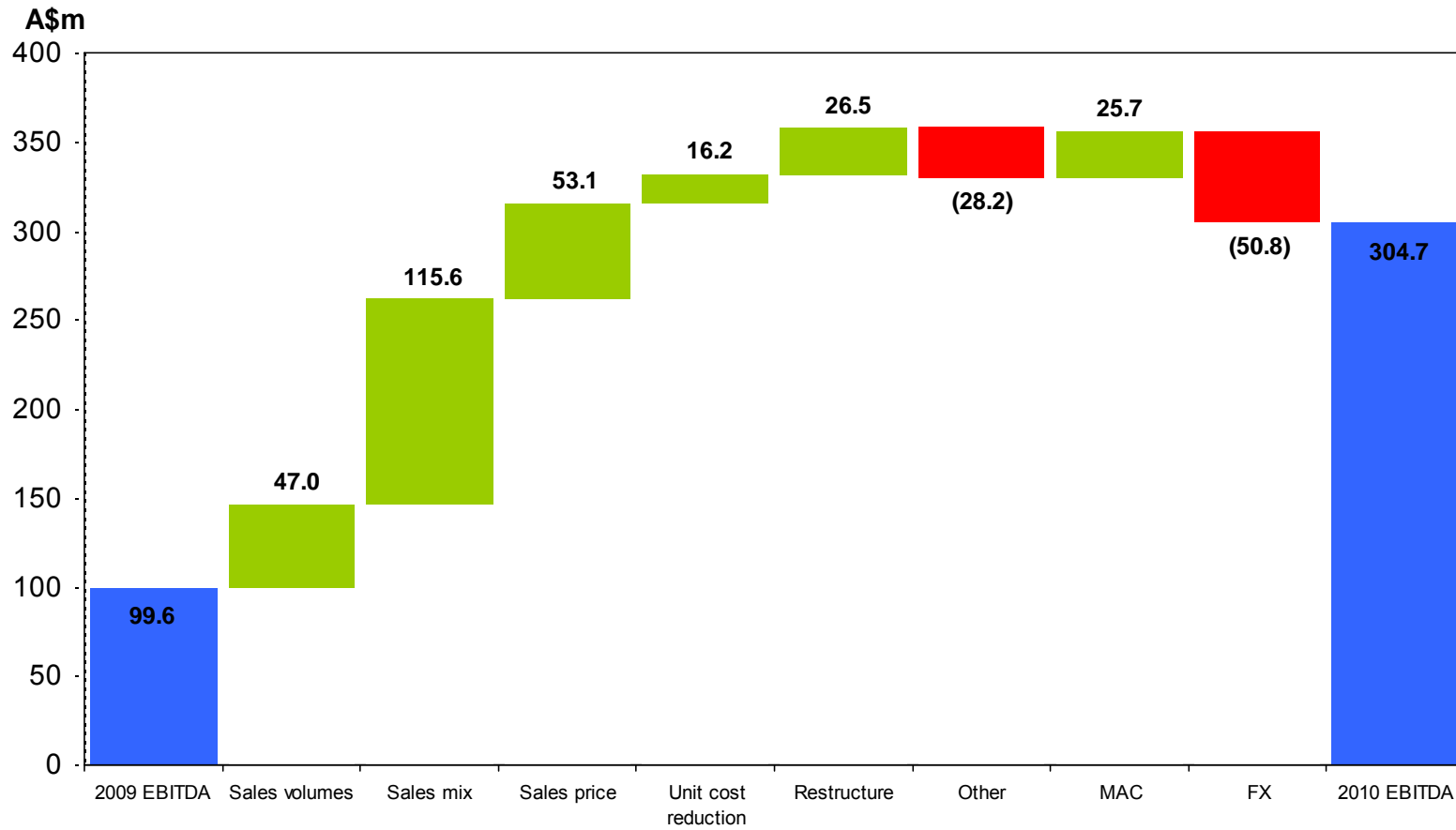
### **3. Improving Financial Results**

# EBITDA

## 2010 versus 2009



ILUKA GROUP EBITDA 2010 vs 2009



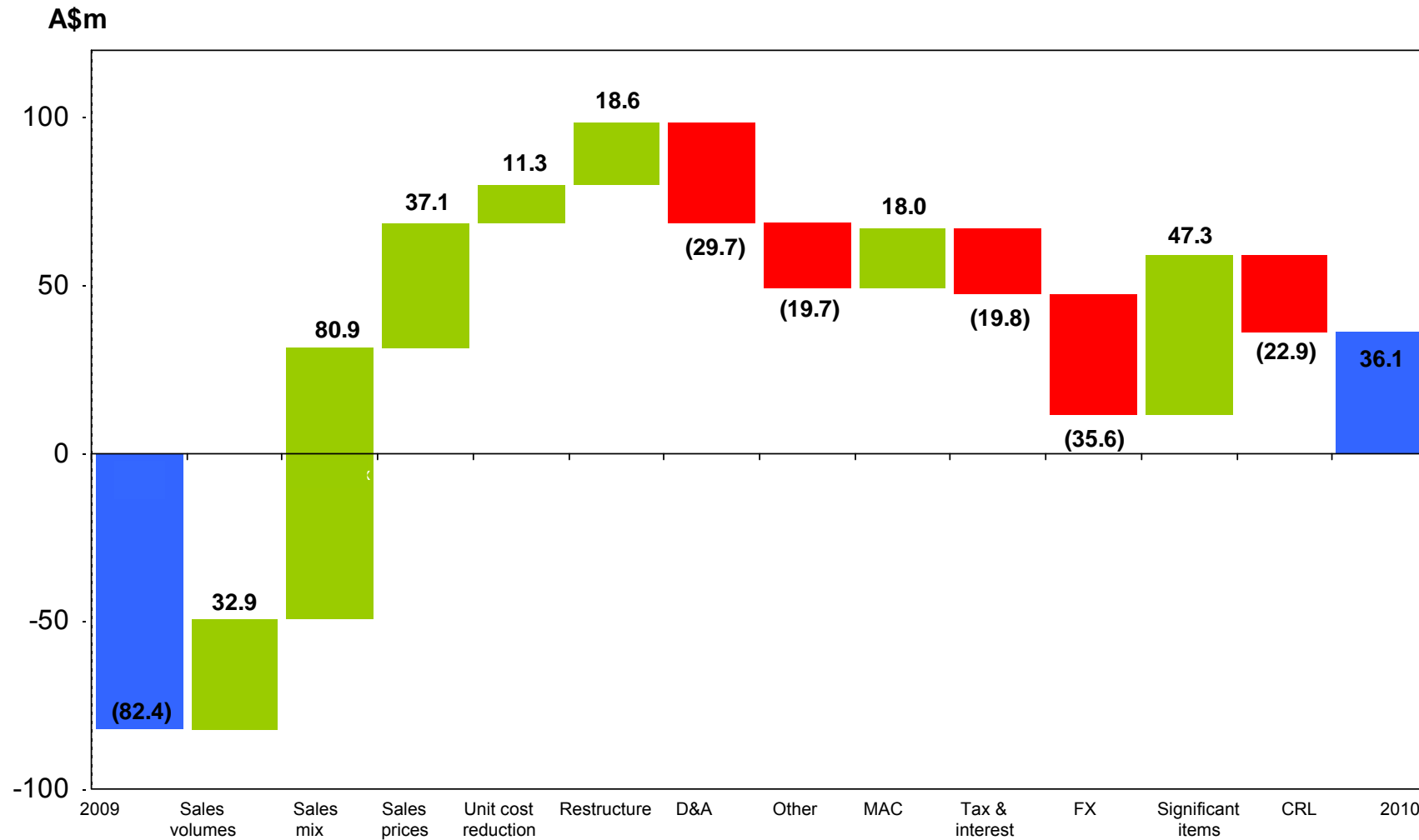


# Net Profit After Tax

## 2010 versus 2009



ILUKA GROUP NPAT 2010 vs 2009



# Mining Area C Royalty

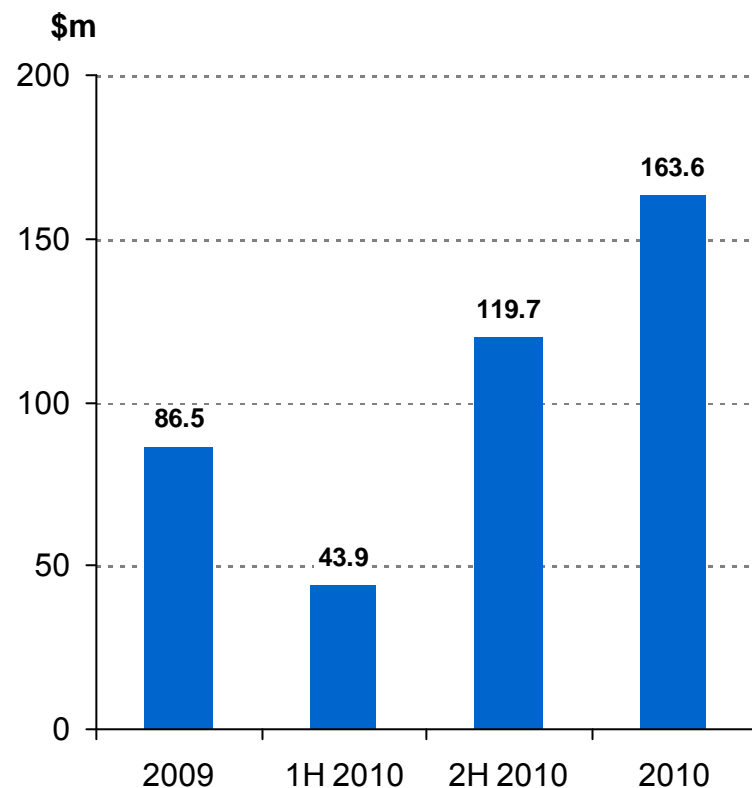
## 2010 vs 2009



	2010	2009	% change
Annual Production to 30 Jun MDMT	42.5	37.8	12.4
Sales Volume to 31 Dec MDMT	43.2	40.3	7.2
Royalty Income \$m	71.3	42.6	67.4
Capacity Payments \$m	5.0	8.0	(37.5)
<b>Iluka EBIT \$m</b>	<b>75.9</b>	<b>50.2</b>	<b>51.2</b>

- Higher iron ore sales volumes
- Average AUD realised price increased by 56% from pcp
  - 60 per cent higher Q2 2010 versus Q1 2010
  - reflects greater proportion of spot sales
- Royalty income: 1<sup>st</sup> half - \$30.7 million; 2<sup>nd</sup> half \$40.6 million
- \$5.0 million of annual capacity payments to 30 June 2010 (2009: \$8.0 million)

# Mineral Sands Operating Cash Flow

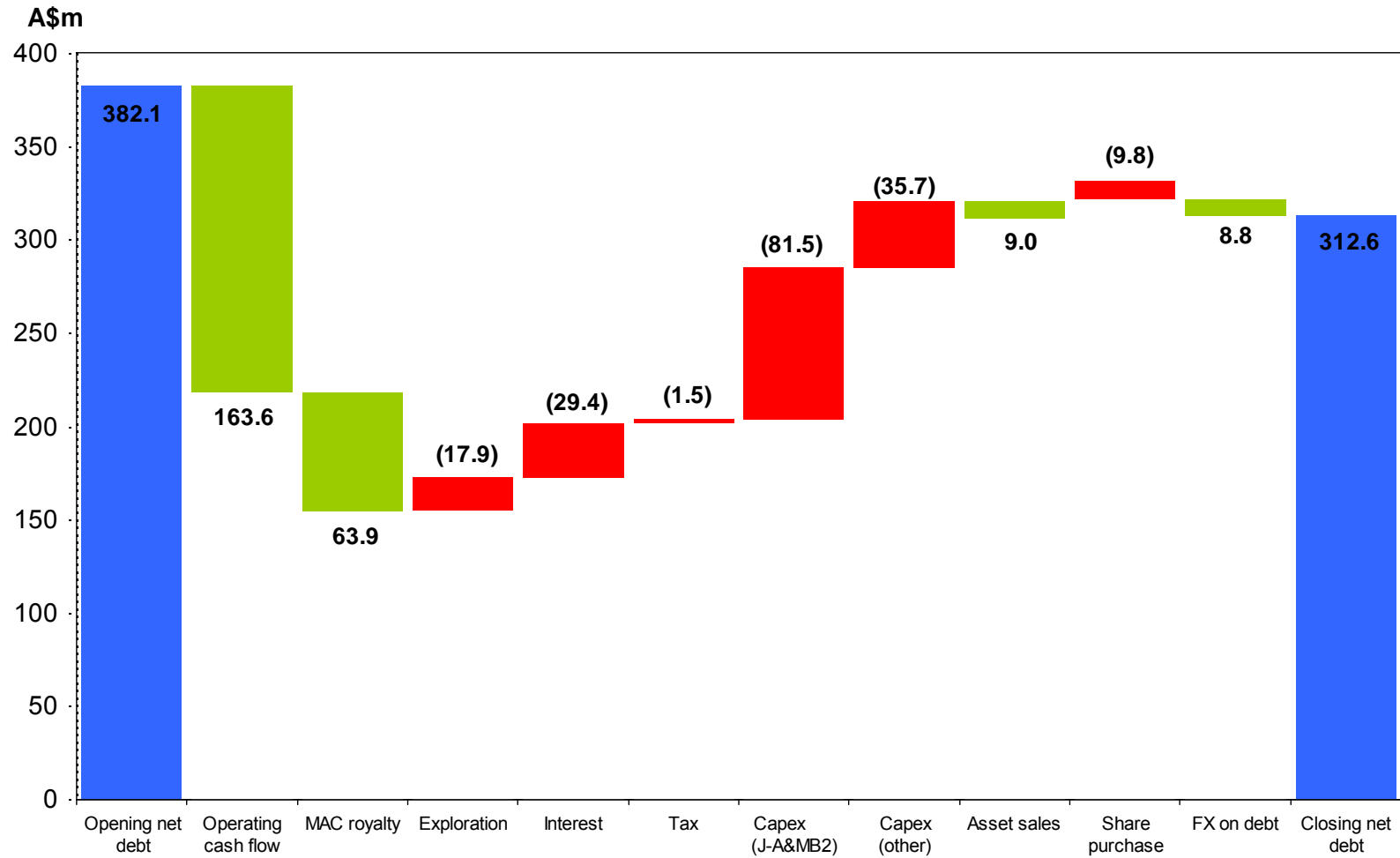


- Stronger operating cash flow
  - up 89.1%
- 1<sup>st</sup> half 2010 operating cash flow reflects:
  - increase in J-A concentrate stocks
  - increased debtors (shipment timing)
- 2<sup>nd</sup> half 2010 operating cash flow reflects:
  - increased Z and R sales volumes
  - further increase in working capital

# Net Debt Movement

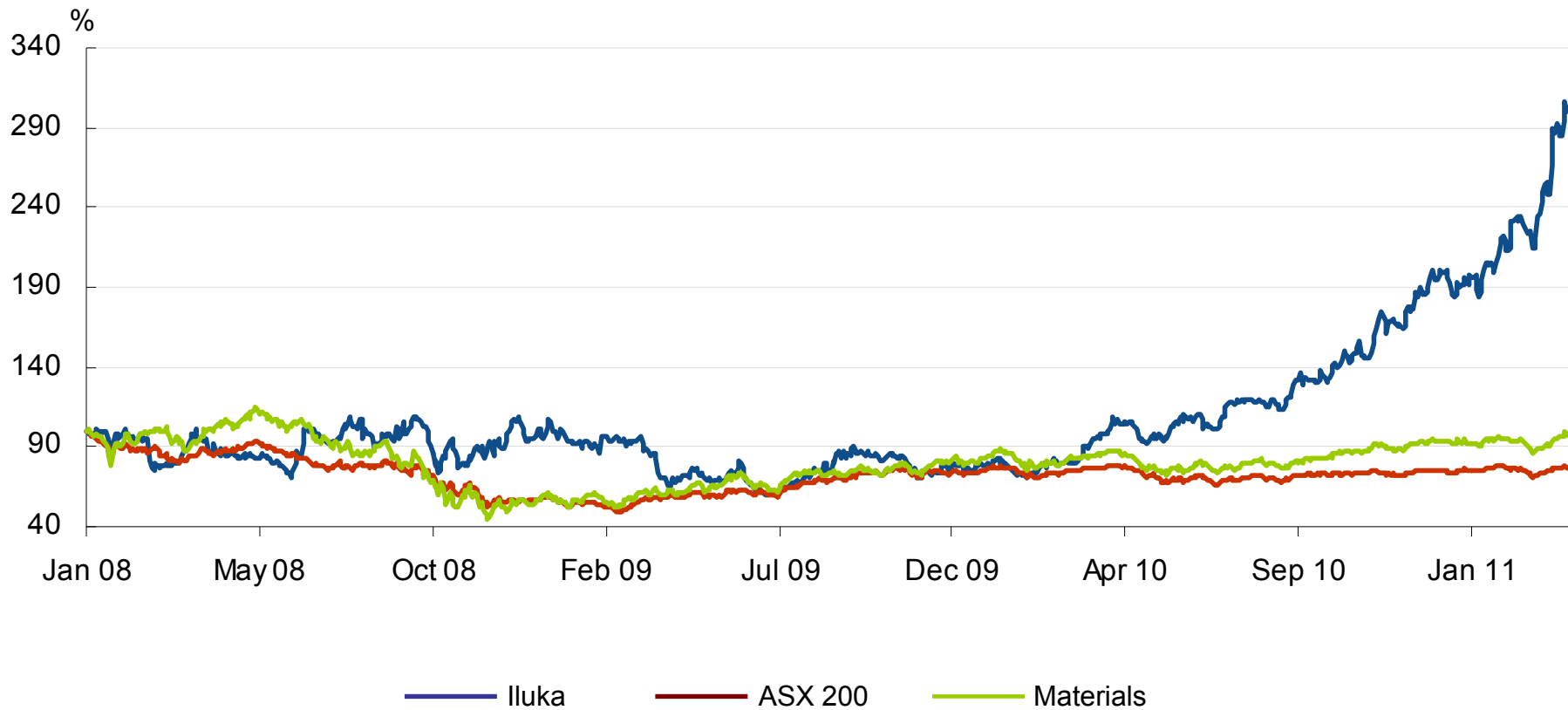


ILUKA GROUP NET DEBT - 2010



# Share Price Performance

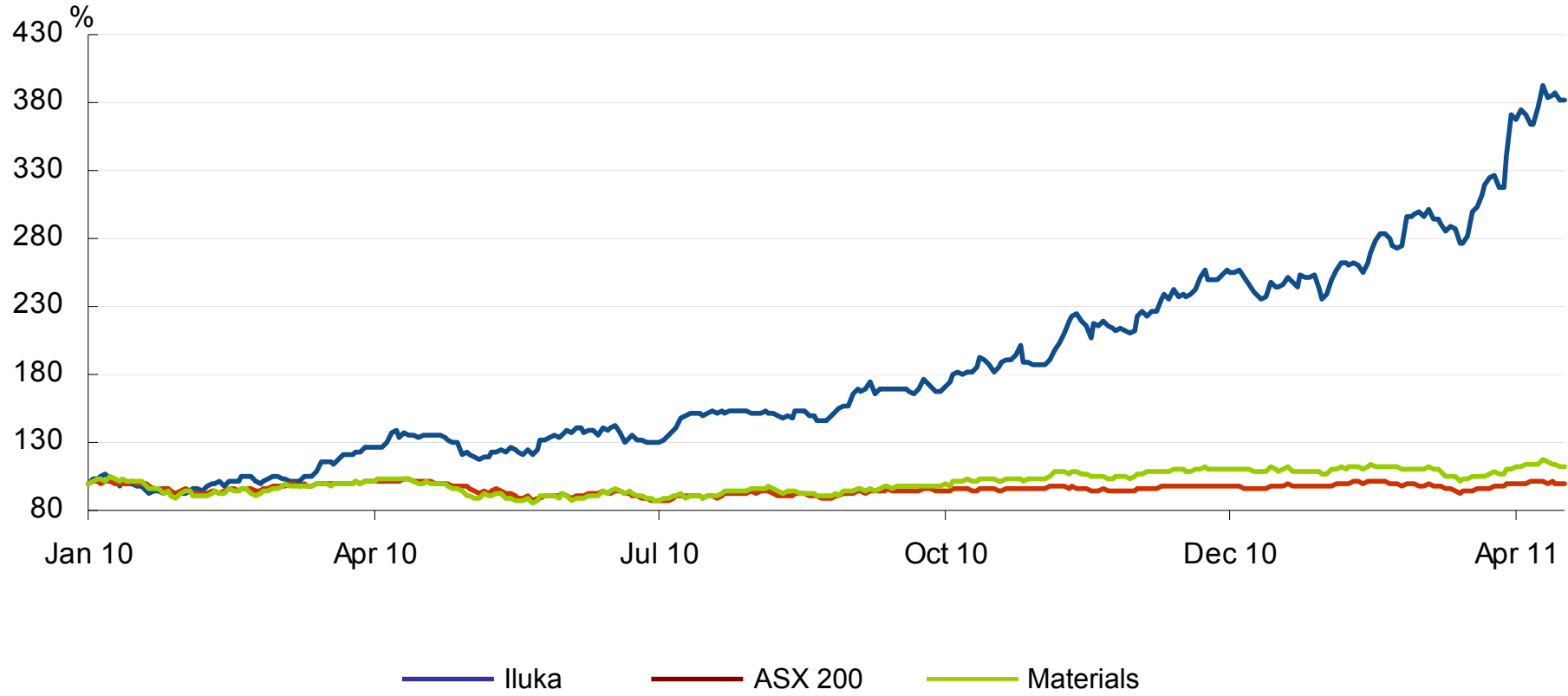
Jan 2008 – Apr 2011



2008 = 100

# Share Price Performance

Jan 2010 – Apr 2011



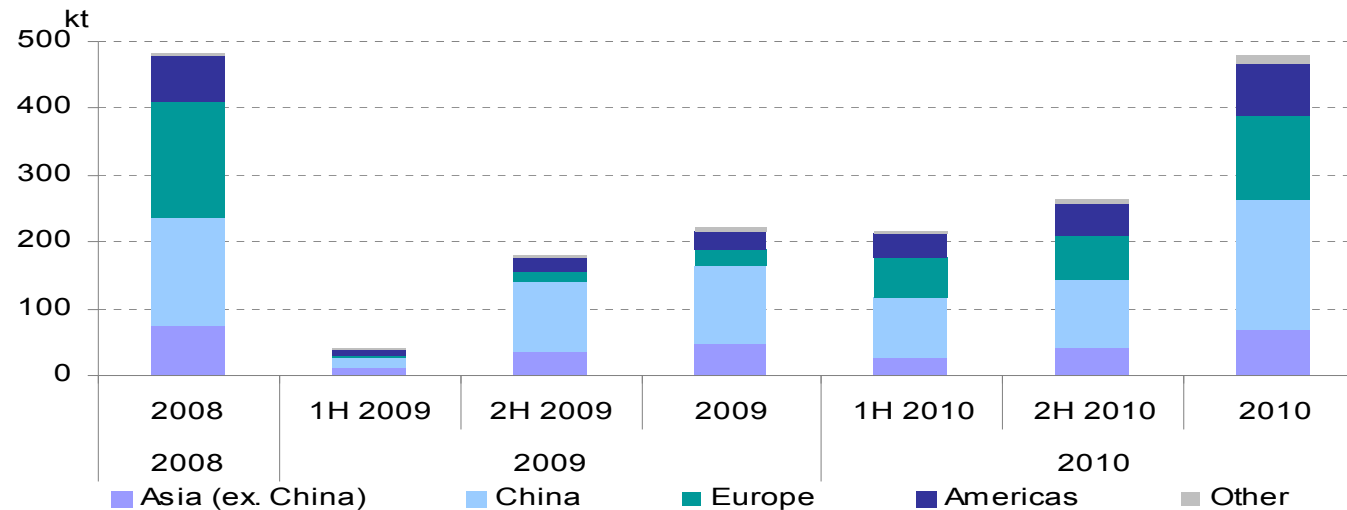
2010 = 100

## **4. Favourable Market Dynamics**

# Iluka Sales – Zircon



Zircon Sales



- Sales back to 2008 levels
- China above 2008 levels
  - 47% of Iluka’s 2010 sales
- Recovery in Europe and North America
- Customer requirements exceed supply



# Zircon

## Market Conditions



- Strong recovery in demand in all main markets
- Global consumption estimated at 1.3 million tonnes
  - unmet demand
- China imports running at above pre GEC levels
  - estimated 2010 imports of ~595k tonnes
- Since Q2, Iluka unable to satisfy customers' full demand
  - allocating volumes
- Global ceramics and zirconium chemicals capacity not fully utilised
- Industry inventories through the supply chain at historically low levels

# Zircon

## Price and Supply Trends



- Iluka actions:
  - 3 price increases in 2010 – year end exit price above US\$1,000/tonne (FOB)
  - 1 January price increase of ~20%; 1 April price increase ~20%
- Market deficit will moderate but tight conditions expected to persist for some years
- 2011 likely to be impacted by low raw material inventories despite some higher production
- Market conditions support further price increases

# Warehouse Alternative - Internet Sales and Auction Site



## Key Terms

- Purchase or auction site as required
- Minimum purchase 26mt, a full container load
- Product bagged in 2mt Bulk Bags
- Payment terms are L/C or T/T
- No requirement to accept any offer

## Easily adapted to other products

- Now offering both zircon and rutile
- Ilmenite

[www.ios.iluka.com](http://www.ios.iluka.com)

**ILUKA ONLINE SALES**

Home | IOS | Contact Us | Terms & Conditions

### Iluka Online Sales

Welcome to Iluka's Online Sales (IOS) portal. Iluka is the world's No.1 producer of high quality zircon and titanium minerals with major mining operations in Australia and the United States.

IOS is open to all businesses worldwide. Products are offered on a limited basis and all sales are conducted via this web portal. Products offered may include:

- Zircon

To enquire about other products please contact one of the Sales & Marketing Managers listed on the Contact us page.

How To **make an offer** for an online purchase:

1. Review the tonnage and quality on offer.
2. Click "Place Order", review details and fill in the order.
3. You will then receive an email confirming the details of your offer.

Offers are limited to a **maximum order of 100mt** and Iluka reserves the right to accept or refuse any offer.

Please note that all products are delivered on a CF or CFR basis to Main Sea Ports and payment terms are T/T or LC only.

Product Name	Quantity	Available till
Eucla Basin Premium, 2mt bags	500 Metric Tonnes	Mon, 15 November 2010
Murray Basin Rutile 92, 2mt bags	200 Metric Tonnes	Mon, 15 November 2010

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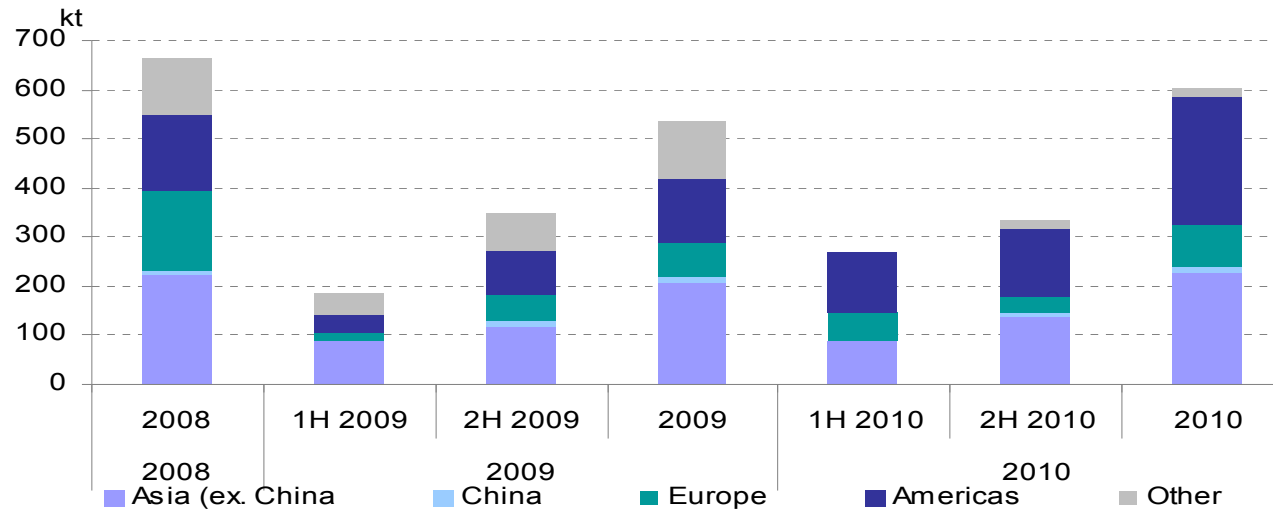
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# Iluka Sales – Rutile and Synthetic Rutile



Rutile and Synthetic Rutile Sales



- Strong recovery in North American pigment demand
- Minimal sales of high grade titanium dioxide to China, given sulphate-orientated nature of pigment market

# High Grade Titanium Dioxide

## Market Dynamics



- Demand recovery for high grade titanium dioxide feedstocks
- Most chloride pigment producers restored operations to full or near full capacity
  - demand for high grade feedstocks as replacement for lower grade feedstocks
  - hence increased demand for rutile and synthetic rutile
- Evidence of industry insufficient high quality supply
- Major pigment producers increased their pricing by an average of 10% in 2010
  - one indication this month of a further ~10% price increase (~ US\$200/t)
- Iluka ended 2010 with minimal rutile and SR inventories

# High Grade Titanium Dioxide

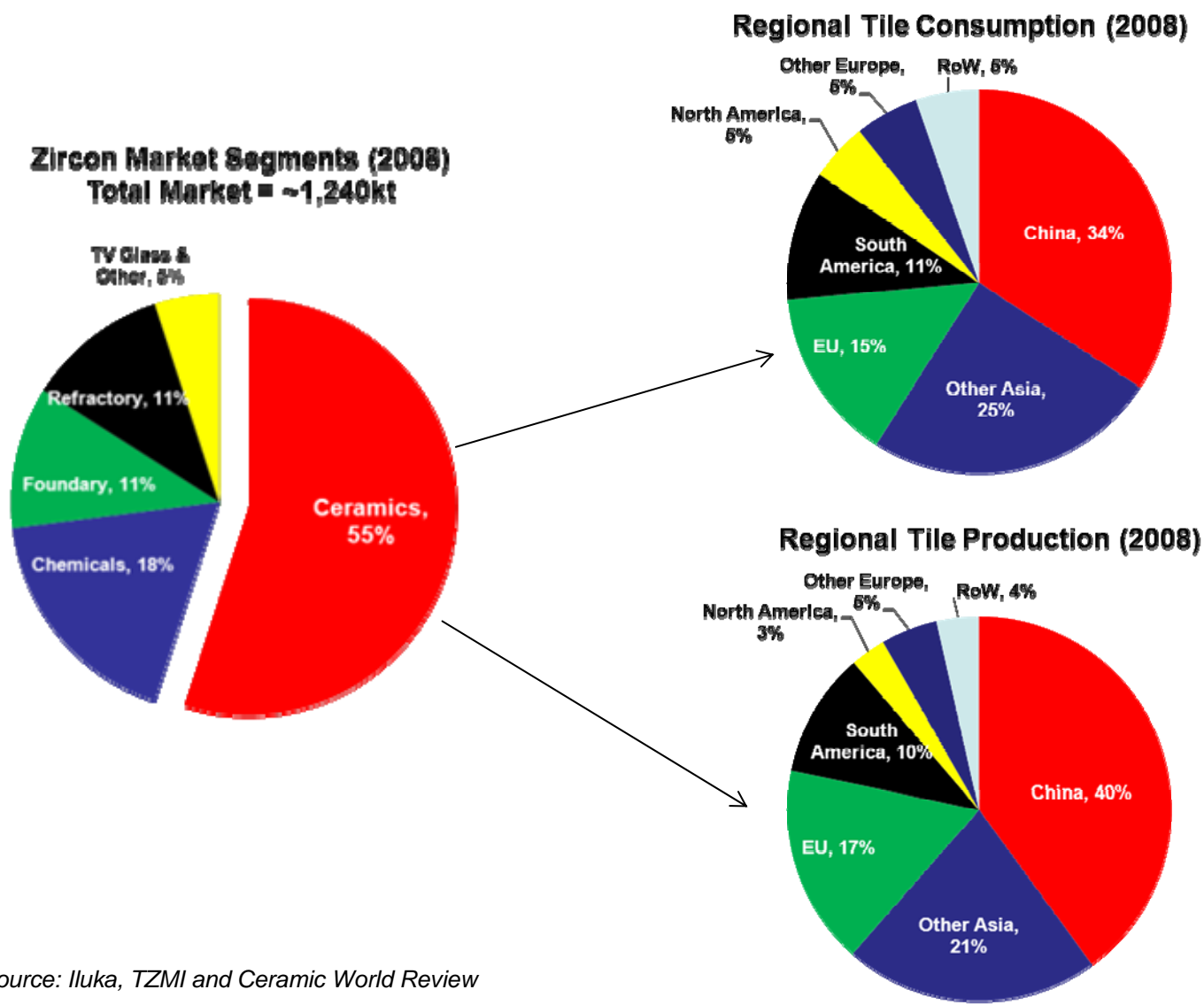
## Trends



- 2011 1<sup>st</sup> year of unconstrained contract price negotiations
  - small proportion of SR volume still affected by residual “cap and collar” contract
  - unable to fully meet all customer requirements
  - rutile and SR pricing set for 6 months period only
  - volume arrangements for 12 months, subject to 2H price agreement
  - weighted average rutile and SR pricing up ~30% to 40% in 1<sup>st</sup> half (versus 2010)
- Iluka working with customers in constrained market conditions
  - supply point and product quality flexibility
- Expectations of improved profitability for raw material suppliers and customers downstream
- Potential to reactivate idled capacity (SR)
  - 2011 assumes SR2 kiln operating for full year and SR3 for part year (R&D)
  - kiln feedstock optimisation
  - timing linked to feedstock decisions and pricing environment

# Zircon Demand

## End Use Demand and Regional Tile Consumption / Production

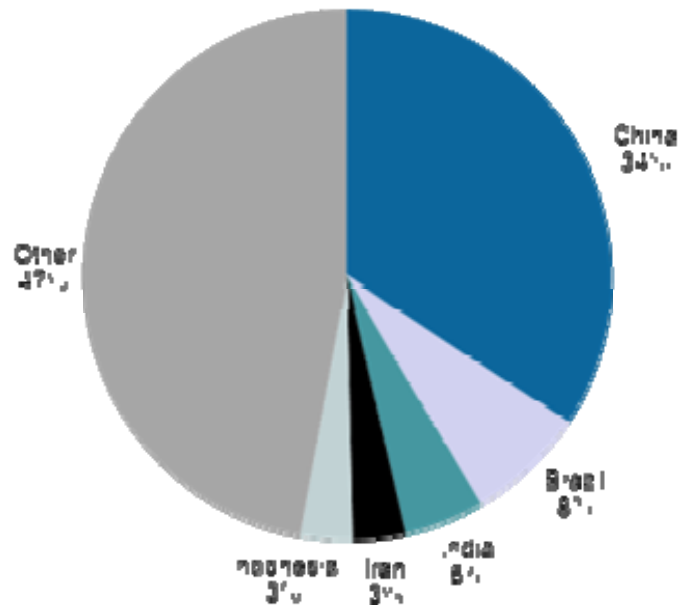


Source: Iluka, TZMI and Ceramic World Review

# Tile Consumption

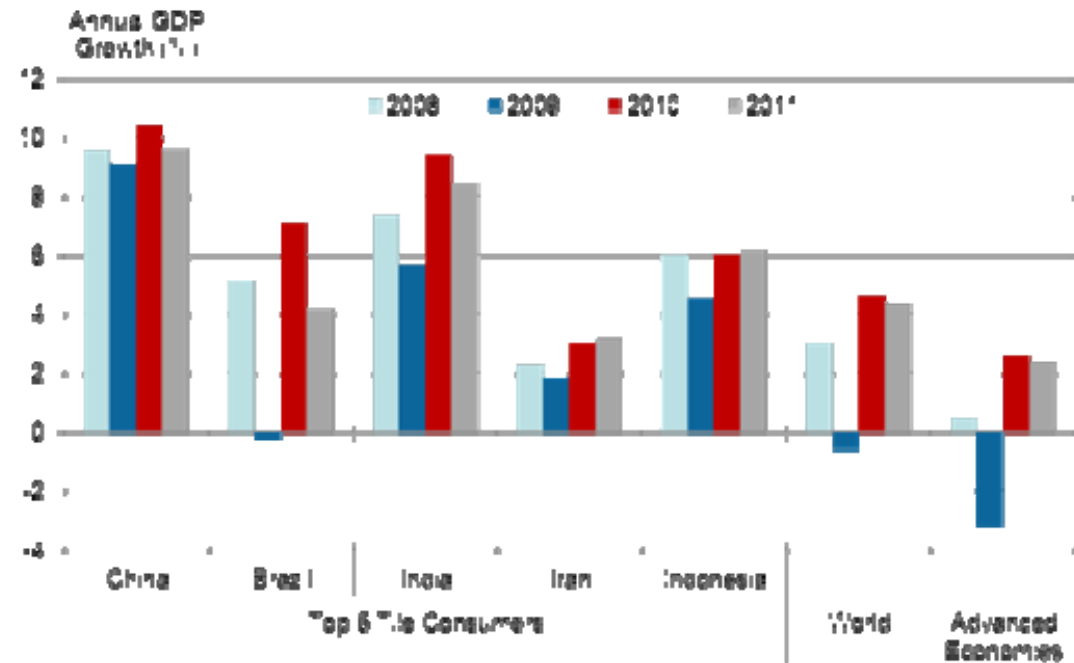
## Developing Economies Constitute Major Demand

**Top Tile Consumers**  
2008 Total = 8.3 billion sqm tile



Source: Ceramic World Review

**GDP Growth**



Source: IMF

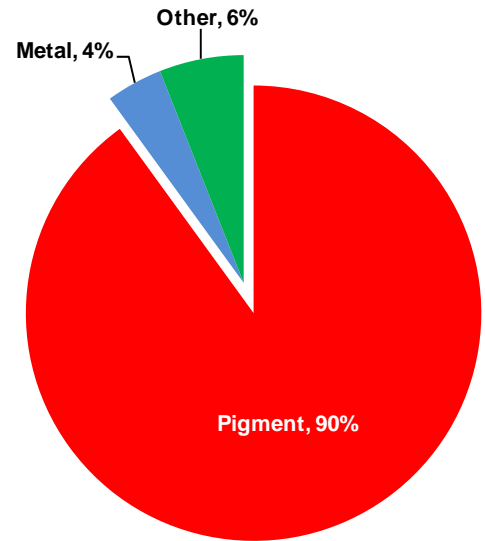
- China, Brazil, India, Iran and Indonesia consume over half of the world's tiles
- Zircon intensity of use in these economies remains well below developed economies
- These economies were relatively immune from 2009 GEC impacts
- Resilient demand indicated even if further global economic slowdown



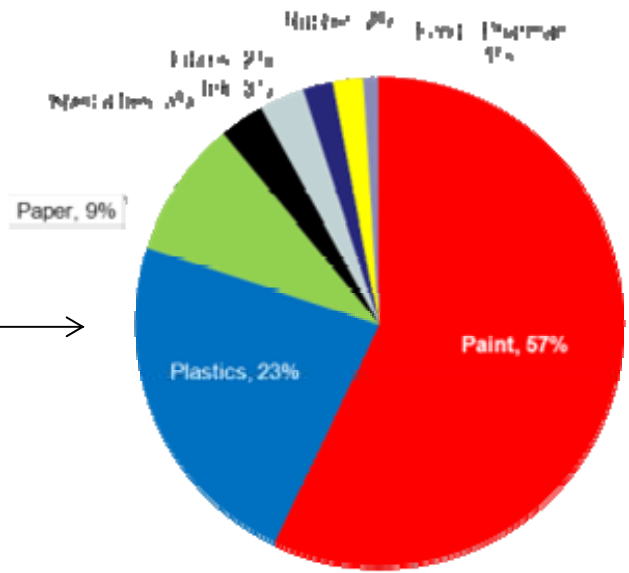
# Titanium Dioxide

## End Use Demand

**Titanium Market Segments**  
~6,050kt (2008)



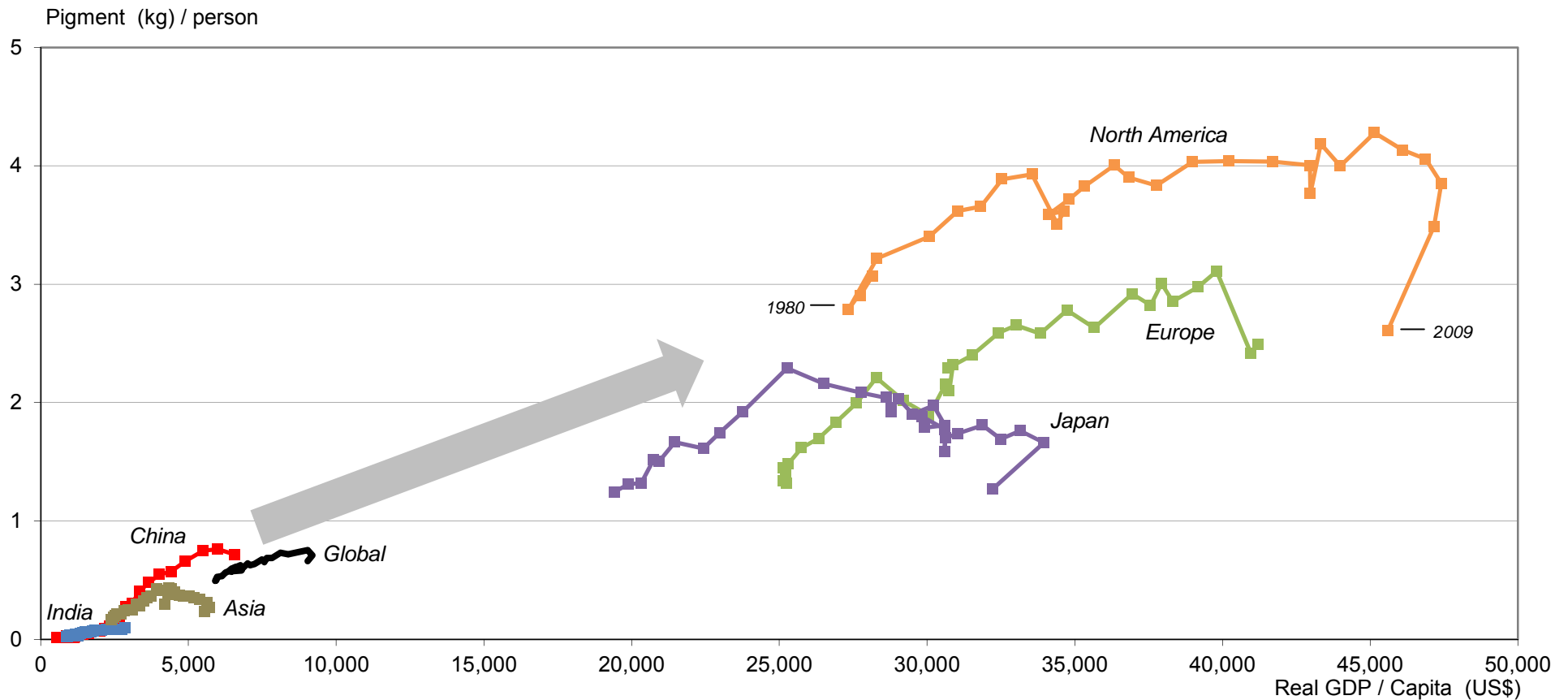
**Pigment End Use (2009)**



Source: Iluka and TZMI

# Pigment Demand by Region, 1980 to 2009

Developing countries pigment use growing with GDP



- Developing countries intensity of pigment use (pigment per person) expected to grow with living standards (rising GDP/capita)
- Developed countries show an intensity of pigment use ~2-4 kg per person. This level of pigment use in China would be a significant increase from current levels.

Note: Conversion factor for US\$ based on Purchasing Power Parity (PPP). Real 2008 Australian dollars.  
 Source: TZMI and IMF

# 2011 Areas of Focus



- Operate the business safely and in a sustainable manner
- Maximise high margin production from existing operations
- Determine best means to cost-effectively increase production
- Support pricing momentum as market conditions allow
- Invest in product and technical development
- Increase investment in exploration in existing and new provinces
- Continue market and business development activities
- Balance sheet
  - debt expected to reduce rapidly
  - capital management
  - flexibility to pursue opportunities

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# Key Physical & Financial Parameters

## 2011 Financial Trends



	2010	2011 Guidance	2012 Commentary
<b>Cash Costs A\$m</b>			
Production costs	544	~540	Expected to be lower, but dependent on mine move and kiln operation, and cost inflation
Z/R/SR unit costs A\$/tonne	538	~560	Expected to be lower, dependent on production cost factors above but offset by higher total Z/R/SR production
Other cash costs	92	~115	Expected to be flat – refer explanatory comments over page
Restructure, rehab & idle costs	24	~5	2010 costs related to idling of mining operations and kilns
<b>Non cash costs</b>			
Depreciation & amortisation	219	~195	Expected to reduce to ~\$150m
Other	15	~15	Expected to be at a similar level
<b>Capital Expenditure</b>	117	~100	Expected to be at a similar level, dependent on project cost inflation, expansion decisions and investment opportunities
<b>Operating Cash Flow</b>	164	↑	
<b>Net Debt</b>	313	↓	
<b>Gearing (nd/nd+e)%</b>	22	↓	

# Key Physical & Financial Parameters

## 2011 Physical Trends

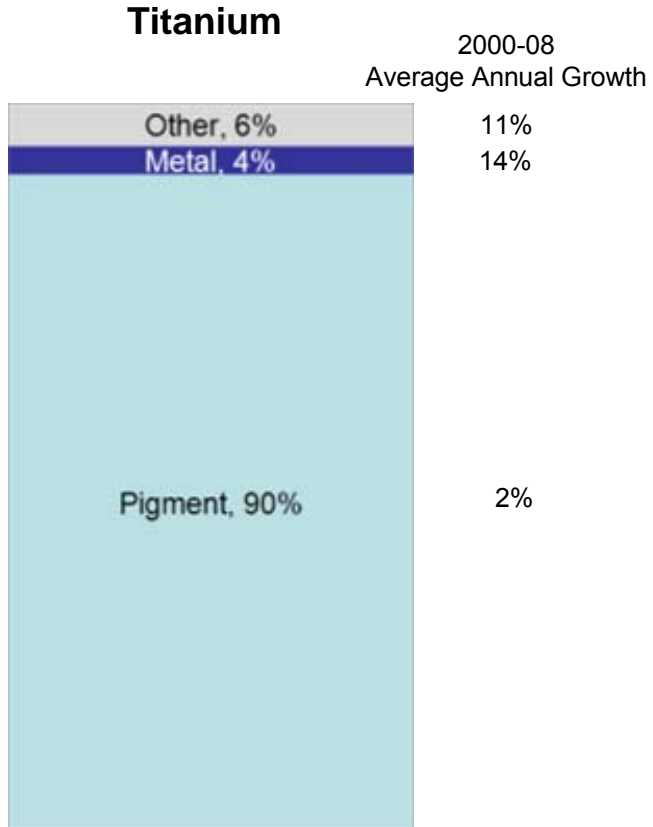
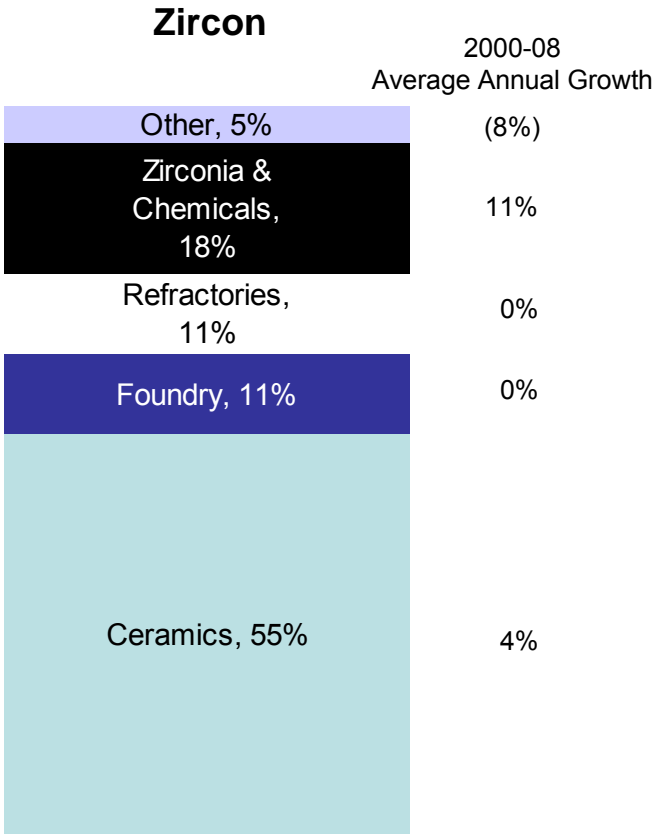


	2010	2011 Guidance	2012 Commentary
<b>Production (kt)</b>			
Zircon	413	~500	Expected to be ~500kt
Rutile <sup>1</sup>	250	~250	Expected lower production (~200kt) due to transition to new deposits at WRP, following completion of mining at Douglas and Echo in early 2012
Synthetic rutile	347	~220	Assuming 2 <sup>nd</sup> kiln activated in early 2012, then ~320kt expected in that year
Ilmenite – saleable	469	~430	Impacted by internal requirements for synthetic rutile production; expected to be no higher than 2011
<b>Total</b>	<b>1,479</b>	<b>1,400</b>	

<sup>1</sup> Rutile production volumes predominantly comprise a rutile product with a titanium content of 92 – 96 per cent together with a proportion of material with a titanium dioxide content below 92 per cent

# Main Product Usages and Applications

## Predominant End Consumer Applications - 2008



Main Attributes:

- Opacity, whiteness, abrasion resistance, temperature resistance and inertness

Potential Substitutes:

- White clays, kaolin and feldspar (in ceramics)

Value in Final Product

- Tiles ~5% to 10% (dependent on tile type, quality and colour)

Source: TZMI and Iluka

Main Attributes:

- Opacity, whiteness, UV absorption (pigments)
- Strong, lightweight, corrosion resistant (metals)

Substitutes:

- No major substitutes

Value in Final Product

- Paint ~5% (dependent on paint application, quality and colour)

# Mineral Sands Price Relativities

## Historical Prices to 2009

