



ILUKA



Robert Porter  
General Manager Investor Relations  
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# Disclaimer – Forward Looking Statements



## Forward Looking Statements

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## Non-IFRS Financial Information

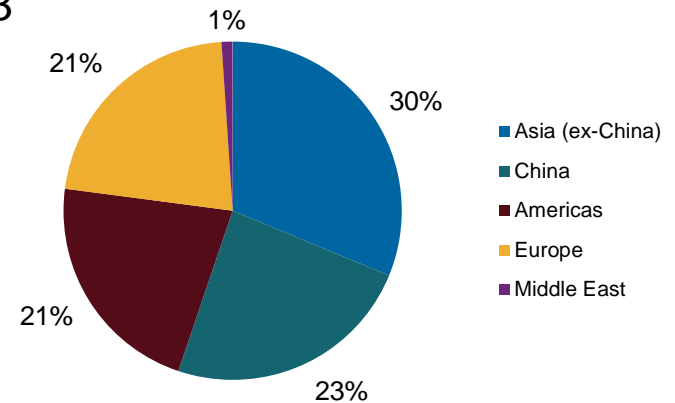
This presentation uses non-IFRS financial information including mineral sands EBITDA, mineral sands EBIT, Group EBITDA and Group EBIT which are used to measure both group and operational performance. A reconciliation of non-IFRS financial information to profit before tax is included in the supplementary slides. Non-IFRS measures have not been subject to audit or review.



# Company Overview

- Largest producer of zircon in the world
- 2nd largest producer of high grade titanium dioxide products (rutile and synthetic rutile)
- ~10 years reserve life; resources ~3 times reserves
- Royalty from BHP Billiton's Mining Area C in WA
- Strong balance sheet, 11.2% gearing as at 30 June 2013

Revenue Distribution

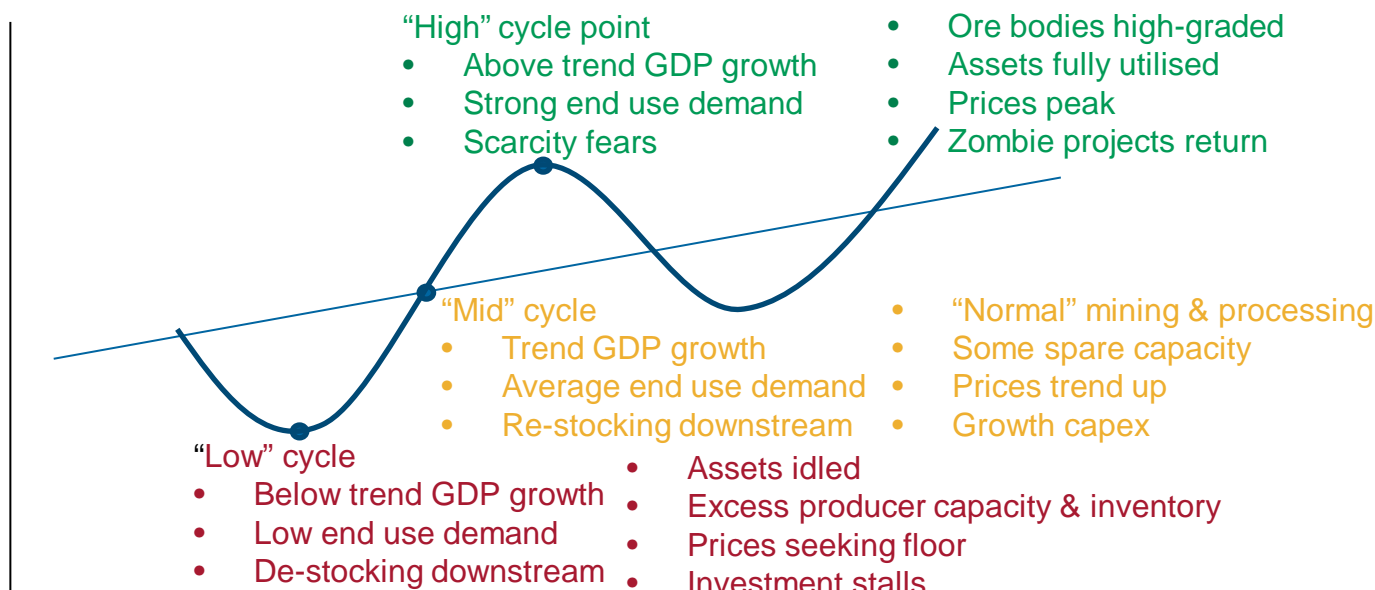


Note: Revenues include MAC royalty

(1) As of September 2013

(2) Reflects FY 2012 Revenue Distribution

# Mineral Sands Cycle Characteristics



# Mineral Sands Market Context – early 2013



- Cyclical low for demand
- Lack of transparency re demand recovery – trend or tenor
- High producer inventories
- Value chain inventories varied
  - direct zircon customers low
  - pigment customers historically elevated
  - China tile inventories high (although data hard to obtain)
- Producer supply flexibility of importance

# Iluka's Approach

- Focus on shareholder returns through the cycle
- Flex asset operation in line with market demand
- Continue market development through the cycle
- Preserve/advance mineral sands growth opportunities
- Cash and capital conservation
- Maintain strong balance sheet
- Continue to evaluate/pursue corporate growth opportunities
- Act counter-cyclically where appropriate

# Iluka's Business Response Activities



## **Production ~ 40% capacity utilisation**

- Minimised SR2 kiln feed rate to curtail production (2H 2012 – 1H 2013)
- Idled SR2 kiln (May 2013)
- Idled Tutunup mine South West
- Idled Eneabba (WA) and SR3 kiln
- Reduced Hamilton mineral separator plant utilisation
- 200 positions redundant 1Q 2013; 47 positions 4Q 2013 (~ 25% of workforce)

## **Cash and Capital Conservation**

- Cash cost of production ~ \$375m (~ 35% lower than 2010-2012 average)<sup>1</sup>
- Capital expenditure ~ \$100m (~30% lower than 2010-2012 average)

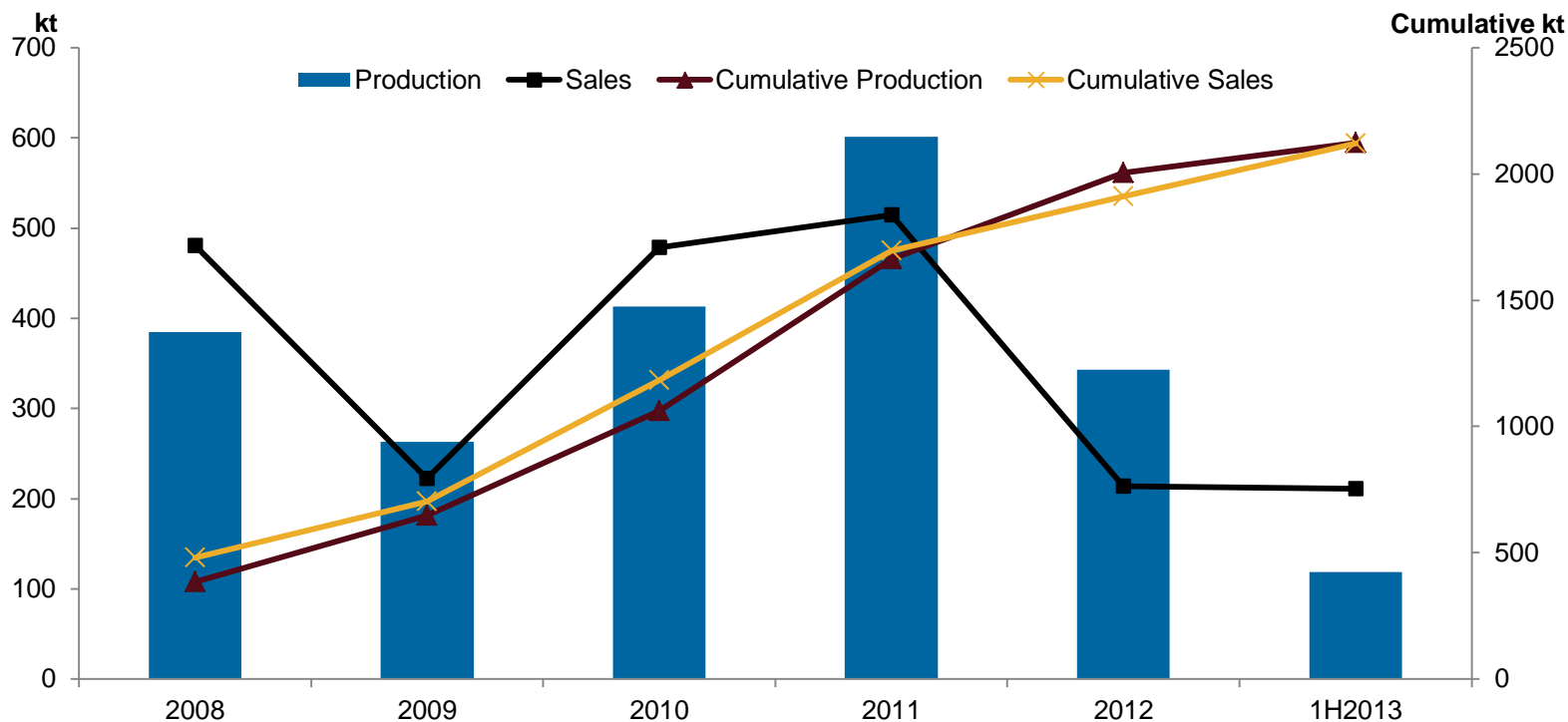
<sup>1</sup> \$30 million redundancy and restructure costs incurred in 1H 2013

# Iluka's Production Approach over the Cycle



- Annual variations, but production = sales over time

## Iluka Zircon Sales and Production Volumes

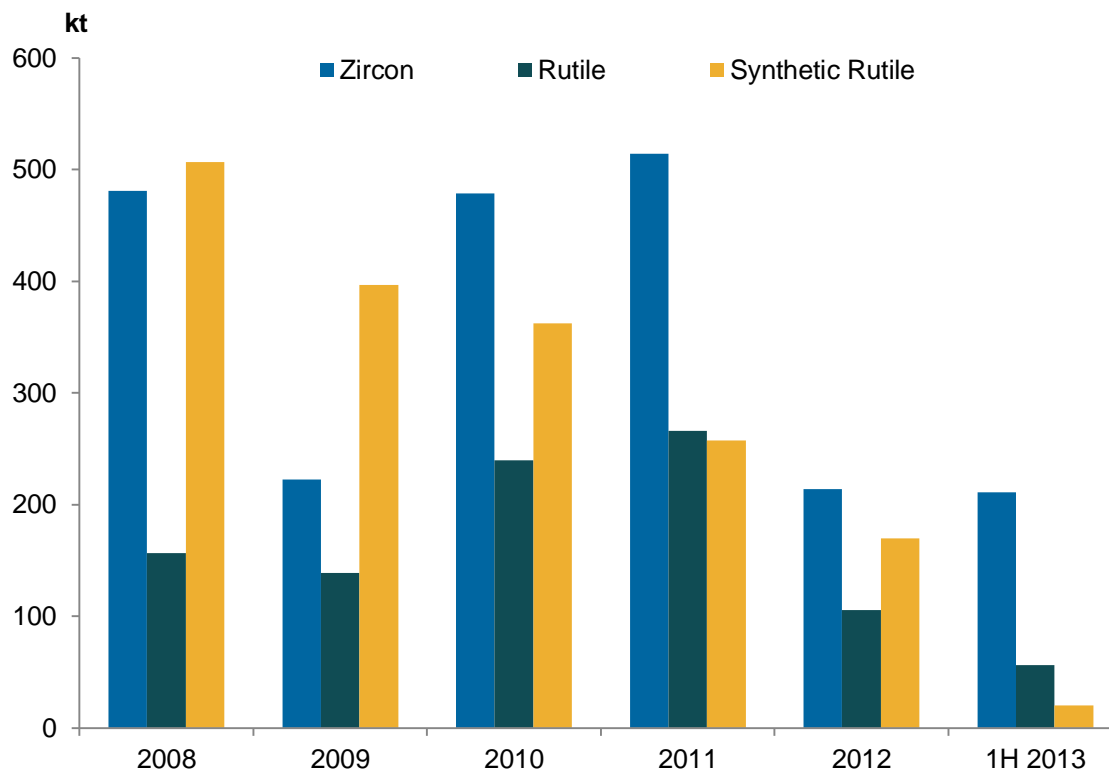




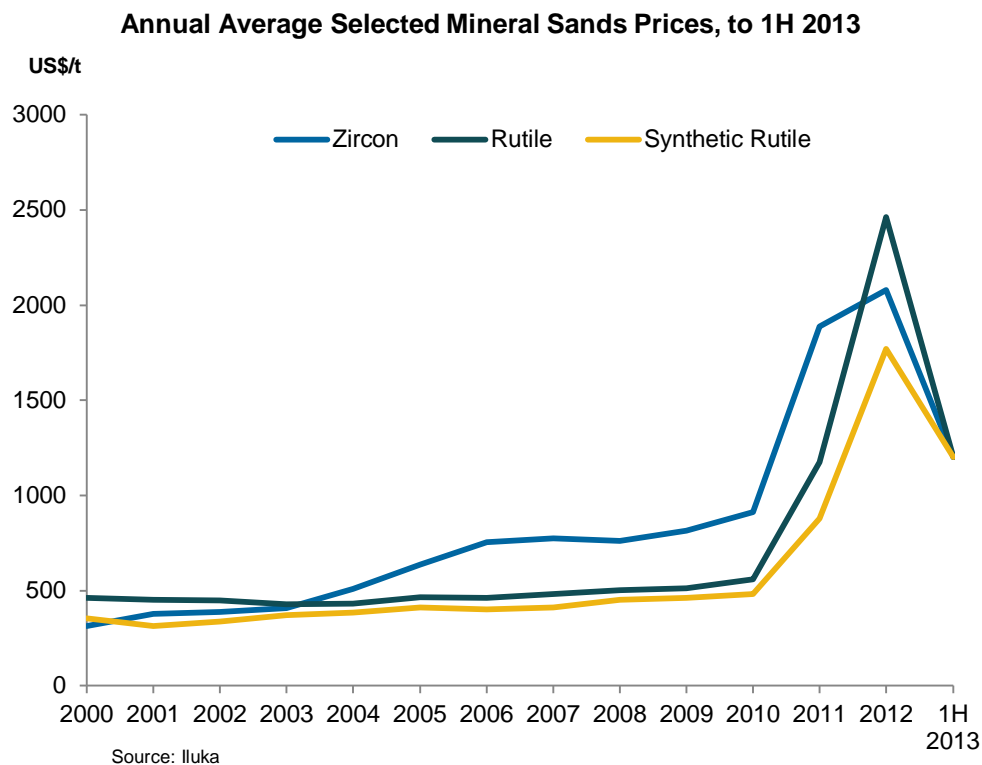
# Iluka Sales Volume Trends



Sales Volumes, 2008 to 1H 2013



# Pricing Trends as at Sept QPR



- Significant retracement in pricing since 2H 2012
- Recent (end 3Q 2013) decline in rutile pricing environment (~ 20% < \$1200 1H average) – as disclosed in Sept QPR in October

# Illustrative Summary Cycle Characteristics

|                    | “HIGH”                 | “MID”                    | “LOW”                  |
|--------------------|------------------------|--------------------------|------------------------|
| Production / Sales | 1.1 – 1.3 mt<br>Z/R/SR | 0.750 – 1.0 mt<br>Z/R/SR | 450 – 600 kt<br>Z/R/SR |
| 1H 2013            | Sales<br>Production    |                          | 286 kt<br>237 kt       |
| FY 2013            | Production<br>Guidance |                          | ~480 kt                |

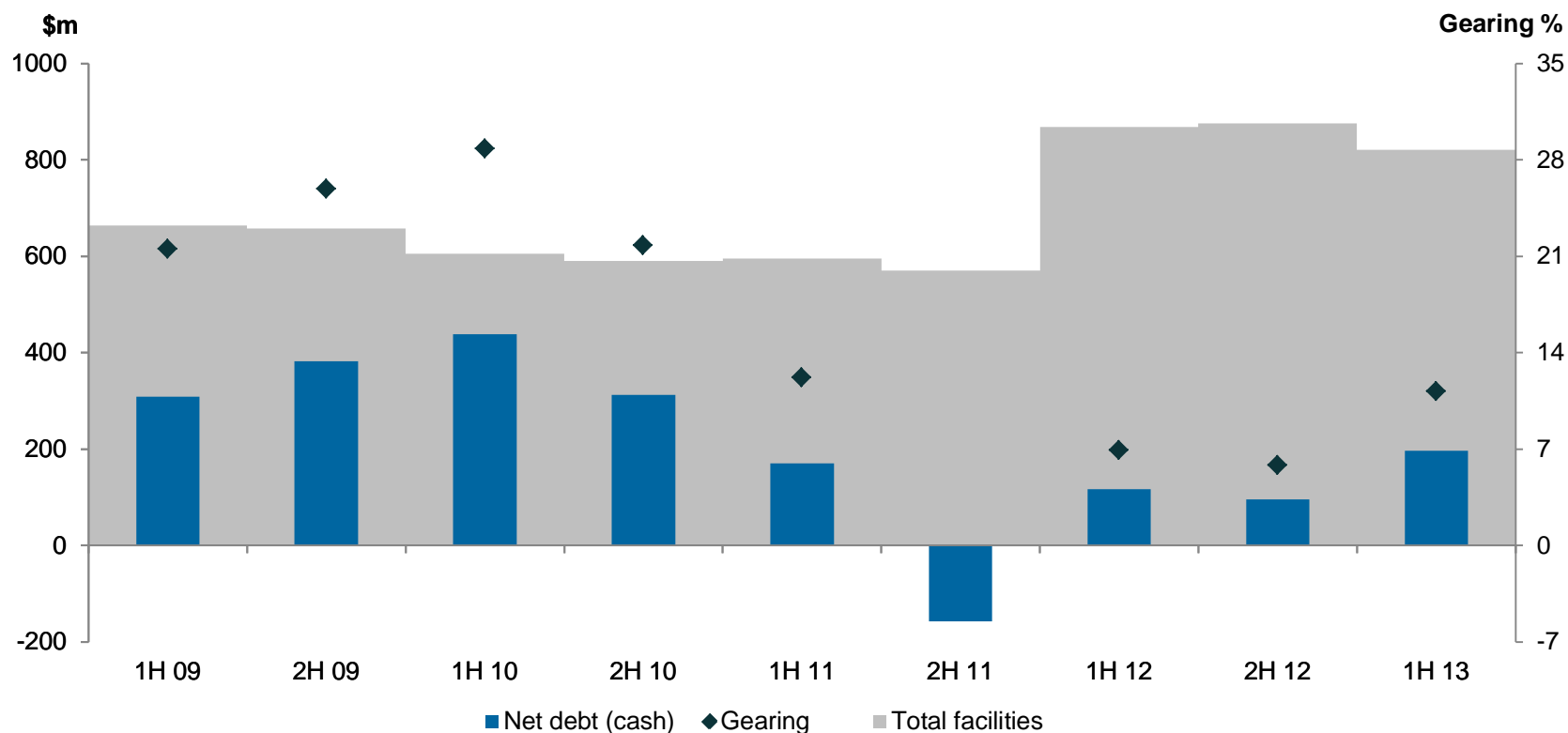
- 2013 displaying low cycle characteristics relative to recent historical trends

# Iluka's Financials Year-to-date 30 June



| <b>\$m</b>                                       | <b>1H 2013</b> |
|--|----------------|
| Cash Costs                                       | (201.9)        |
| Other Costs                                      | (61.0)         |
| Unit Cash Cost Production                        | 848            |
| Unit Revenue / tonnes sold Z/R/SR                | 1,178          |
| Capex  | (31.5)         |
| Free cash flow<br>(included \$18.4m tax payment) | (44.5)         |
| Net Debt   | (197.0)        |
| Gearing (net debt / net debt + equity) %         | 11.2           |
| EBITDA margin %                                  | 35.0           |
| Return on capital % (annualised)                 | 6.9            |
| Return on equity % (annualised)                  | 4.5            |

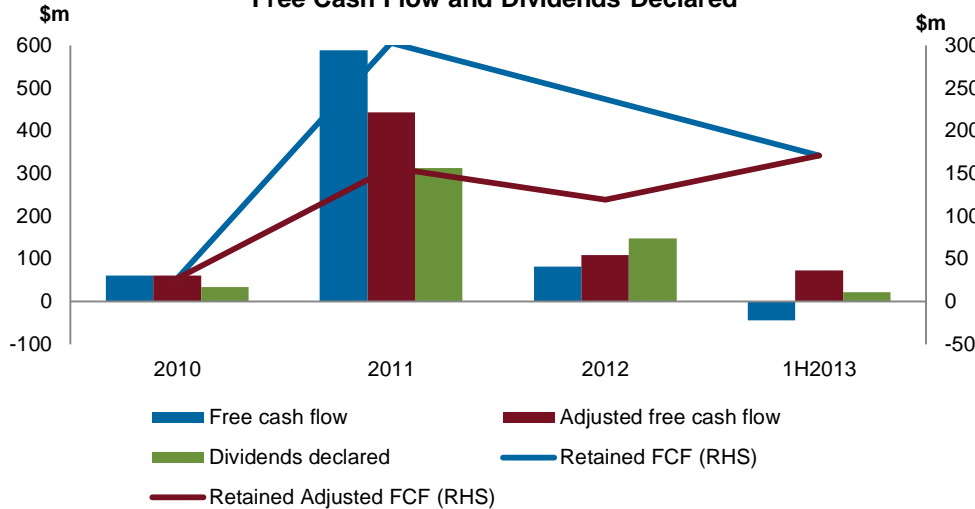
# Balance Sheet



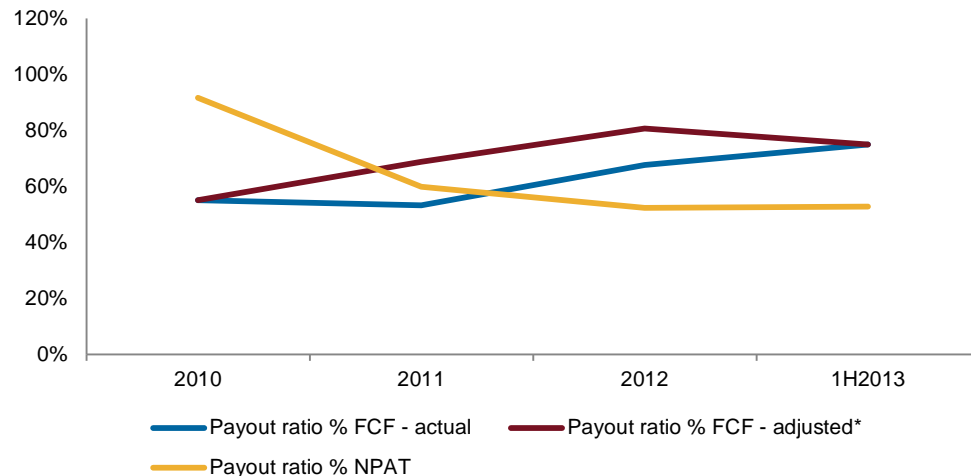
- Modest gearing
- >\$600 m of undrawn facilities (maturity April 2017) and cash at 30 June 2013

# Dividend History

Free Cash Flow and Dividends Declared



Cumulative Payout Ratio of NPAT & FCF



- Dividend framework – minimum of 40% of free cash flow paid as dividends
- Cumulative free cash flow payout ratio of 75% to 1H 2013
- Retained free cash flow \$171m
- Gearing reduced from 21.8% to 11.2% since end 2010

\* Free cash flow adjusted to align cash tax payments with corresponding earnings period.

- Industry response arrangements
  - lower utilisation and idling of capacity by both Iluka & other major players
- Price erosion in context of prolonged weak demand
- For zircon, modernisation, thrifting and substitution progress essentially complete 2011 / early 2012
  - structural change overplayed based on limited samples
  - quality and operational issue from use of substitutes
  - some reversal of substitution/reformulations



# Industry Context

- Industry activity
  - Huntsman/Rockwood
  - Lomon's MOU with WTR (subsequently rescinded)
  - DuPont spinoff
  - Iluka re-acquisition of Puttalam resources
- DuPont to proceed with Altamira chloride pigment capacity - ~200kt in 2015
- China advancement of chloride pigment capacity
  - multiple projects foreshadowed
  - Government policy settings supportive of move to chloride
- No new news on additional mineral sands ore supply

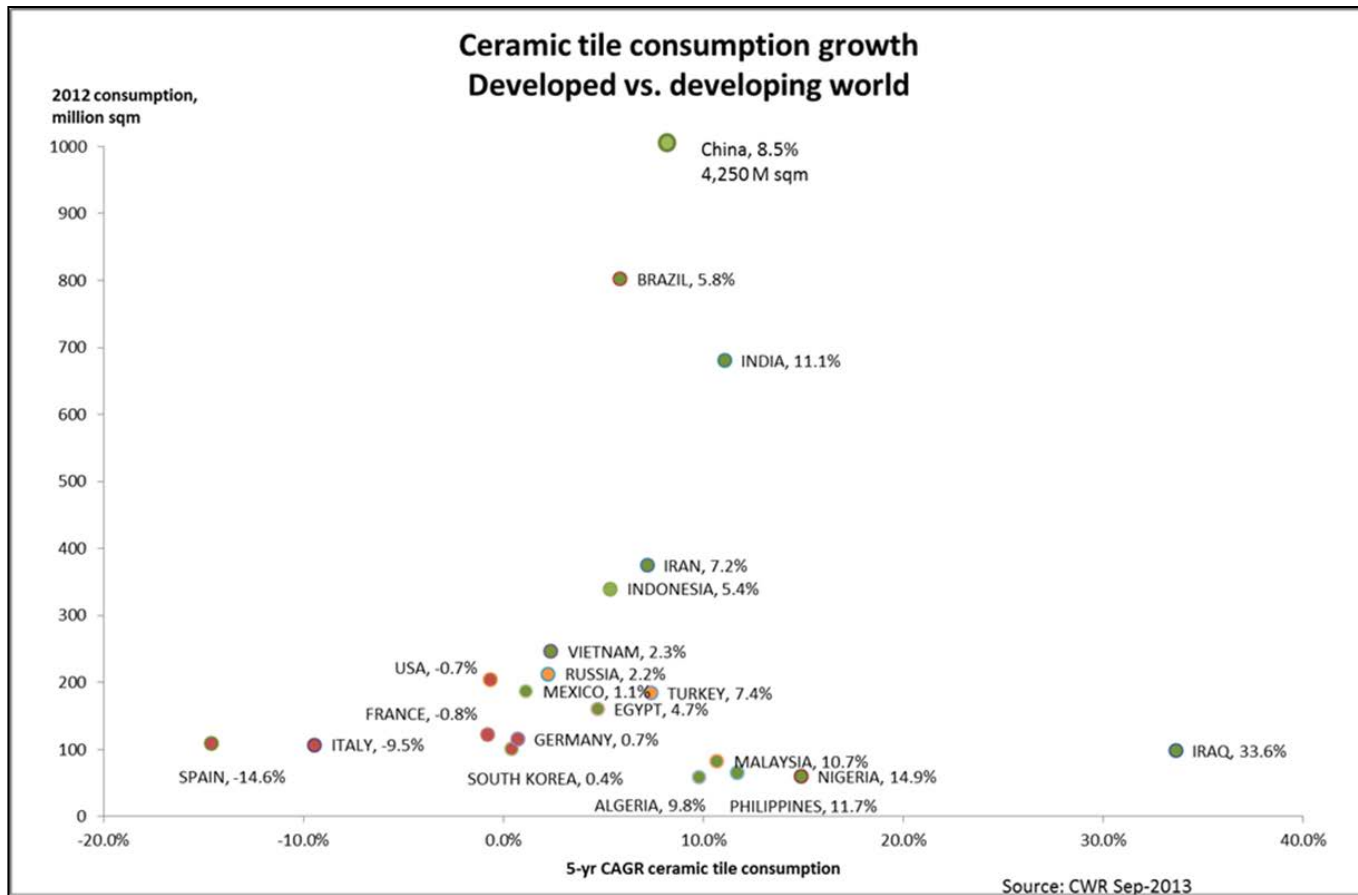




# Zircon and Ceramics in China

- Cost of zircon opacifier in China ceramics (selling costs)
  - polished porcelain ~1.1%
  - crystal jade tiles ~0.8%
  - glazed ceramics ~0.2%
- Zircon opacifier typically less than ~3% of tile production costs
- Zircon intensity varies for types of ceramics
  - polished porcelain ~ highest zircon content
  - crystal jade tiles ~ typically higher content than porcelain
  - glazed ceramics ~ lower zircon content (~1/3<sup>rd</sup> of polished porcelain)
- Digital printed tiles
  - require good white background
  - generally higher content on surface of non digitally printed porcelain tiles

# World Ceramic Tile Consumption 2012



## Zircon

- High producer inventories
  - progressive draw down 2013 / 2014
- Low direct customer inventories
- Price stabilisation in 1H 2013
  - 2012 average of ~US\$2080
  - February Iluka advice ~15% below Dec Q level of US\$1400/t
  - no material change from this level as at end September 2013



# Market Conditions - Zircon

- Patchy demand recovery
  - not even across geographies or end segments
- 3Q softening of demand in China
- 2013 Iluka sales ahead of initial budget expectations
- Medium term dearth of identified new supply

# High Grade Titanium Ores

- Pigment inventory levels highly elevated late 2012 / into 2013
  - eg Tronox >100 days in 3Q 2012
- Significant amount of lower priced legacy contract material available
- Continuation of tiered pricing market
- Historically low pigment utilisation rates through most of 2012/2013
  - global utilisation ~ 92% in 2011; mid 70% in 2012; ~65% levels in 2013
  - pigment pricing softened
  - recent price announcements not successful – but indication of possible price stabilisation?

# High Grade Titanium Ores

- Weak overall demand in 1H 2013
  - especially for higher grade ores
- Weakening in rutile pricing end of 3Q
  - 20% reduction from US\$1200/t in 1H (as Iluka advised previously)
- Pre-conditions for demand recovery
  - inventory levels ‘normalised’
  - pigment volumes up ~ 25% year-on-year (DuPont 3Q)
  - market stabilisation
  - capacity utilisation increasing from 65% to low-mid 80%?
  - increased levels of customer inquiries (Iluka 3Q)
- Currently lower demand period, before end 1Q / 2Q seasonal high

# Pigment Producer Recent Statements

| Company  | Results                                     | Key Points  |
|----------|---|---|
| Huntsman | 3Q 2013 (Sep) results announced 29 Oct 2013 | <ul style="list-style-type: none"> <li>• 3Q Sales volumes +20% YoY</li> <li>• 3Q Selling prices -24% (local currency terms)</li> <li>• <b>Utilisation rates 85-90% (vs low-to-mid 70%s in 2H 2012 and mid 80%s in 1H 2013)</b></li> <li>• Inventory ~45 days (normal for this time of year) vs 85 days this time last year</li> </ul> |
| DuPont   | 3Q 2013 (Sep) results announced 22 Oct 2013 | <ul style="list-style-type: none"> <li>• 3Q sales volumes +25% YoY</li> <li>• <b>Capacity utilisation increased slightly</b></li> </ul>   |
| Kronos   | 3Q 2013 (Sep) results announced 7 Nov 2013  | <ul style="list-style-type: none"> <li>• 3Q Sales volumes +4% YoY</li> <li>• 3Q selling price -18% YoY</li> <li>• Utilisation ~82% of practical capacity (vs 90% in 2Q 2013). Varennes operating at 15% capacity whilst collective bargaining agreement finalised.</li> </ul>   |
| Tronox   | 3Q 2013 (Sep) results announced 7 Nov 2013  | <ul style="list-style-type: none"> <li>• 3Q Volumes +33% YoY</li> <li>• 3Q Selling prices -20% YoY</li> <li>• Finished pigment inventory remained level relative to 2Q</li> <li>• <b>3Q operating rates in the 80%s</b></li> </ul>  |

# Iluka – Other Features

- Increased exploration commitment
  - > 80% greenfields
  - increasing international focus (13 countries)
- Advancement of potential mineral sand projects to commit-ready stage (progression to be based on market conditions)
  - Hickory (US)
  - Aurelian Springs (US)
  - Balranald (Murray Basin)
  - Cataby (Perth Basin)
  - Sonoran, Atacama, Typhoon (Eucla Basin)





# Iluka – Other Features

- International marketing presence – Wave 2
  - increased in-country presence
  - expansion of warehousing and distribution facilities
- Sri Lanka tenement grant and resource acquisition
  - large, long life, sulphate ilmenite potential
  - 46% increase in 2012 Mineral Resource
  - option re positioning in sulphate market
- Monitoring developments in nascent China chloride pigment sector



# Iluka Resources Limited

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

For more information, contact:

Robert Porter, General Manager Investor Relations

[robert.porter@iluka.com](mailto:robert.porter@iluka.com)

+61 3 9225 5008 / +61 (0) 407 391 829