



## Iluka Resources Limited

UBS 10th Annual Australian Resources and Energy Conference  
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13 June 2012

# Disclaimer



## **Forward-looking Statements**

This presentation contains information that is based on projected and/or estimated expectations, assumptions and outcomes.

These forward-looking statements are subject to a range of risk factors associated, but not exclusive, with potential changes in:

- exchange rate assumptions
- product pricing assumptions
- mine plans and/or resources
- equipment life or capability
- current or new technical challenges
- market conditions
- management decisions

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All currency referred to is Australian denominated unless otherwise indicated.

## **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. Non-IFRS measures have not been subject to audit or review.

# Investment Proposition



- Earnings growth
  - 2011 \$541 million
  - “consensus” and higher revenue/tonne – suggests appreciably higher in 2012
- Balanced geographic and product mix
- Disciplined approach to production response in light of prevailing market conditions
- Increased distributions - attractive relative dividend yield in global resources sector
  - minimum of 40% of free cash flow
- Strong balance sheet and debt arrangements
- 2013/2014
  - sales volume growth based on global economic growth
  - continuing favourable supply/demand market conditions
  - future earnings and cash flow growth?
- Internal growth options
  - capital efficient and high degree of flexibility
  - lower risk and potentially quicker to market
  - synthetic rutile capacity – two idled kilns
- Exploration and product and technical development upside

# Key Features of 2011 Results

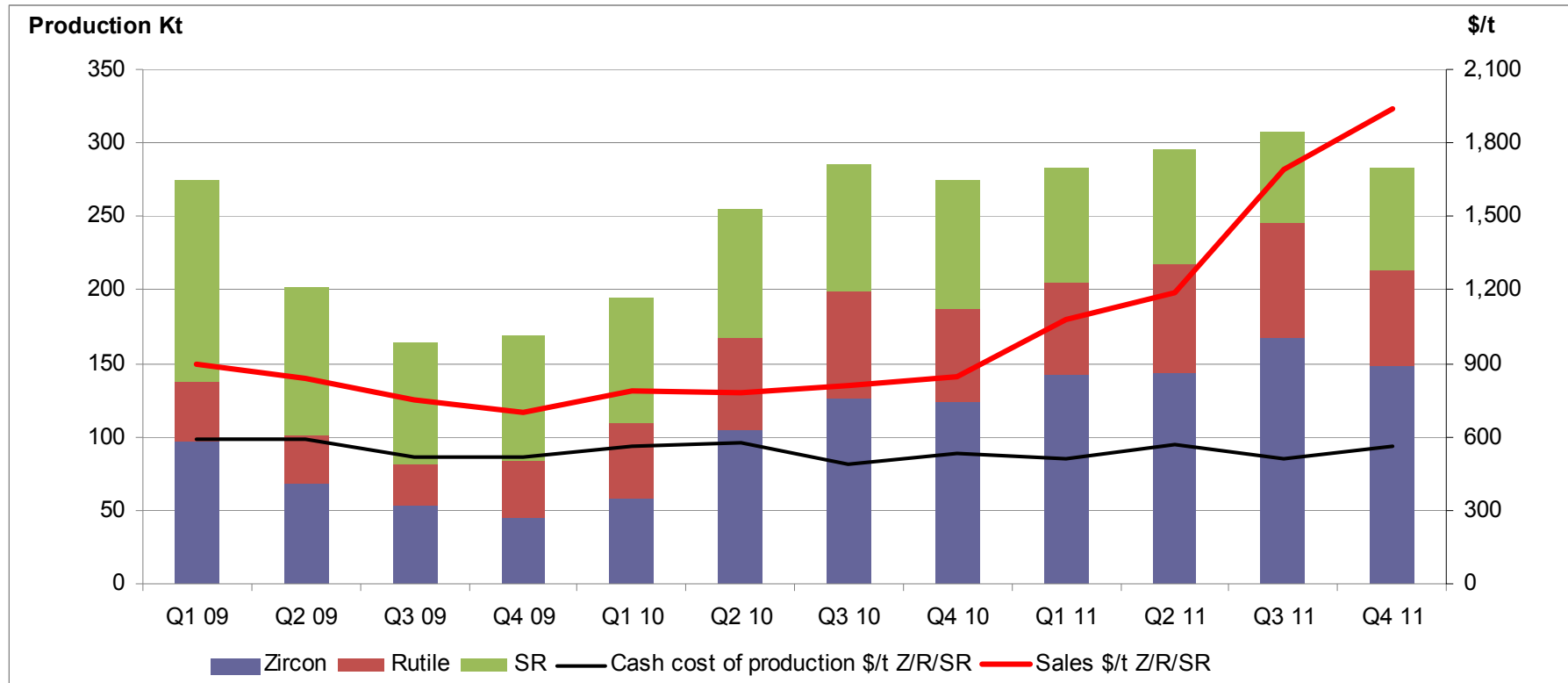


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EBITDA Margin	↑	Increased to 65%
Net Profit After Tax	↑	1400% to \$541.8 million
Operating Cash Flow	↑	330% to \$706 million
Free Cash Flow	↑	870% to \$589.6 million
Return on Capital	↑	54.9% versus 5.0%
Return on Equity	↑	42.5% versus 3.2%
Net Cash/Net Debt	↓	\$156.7 million (2010: net debt \$312.6 million)

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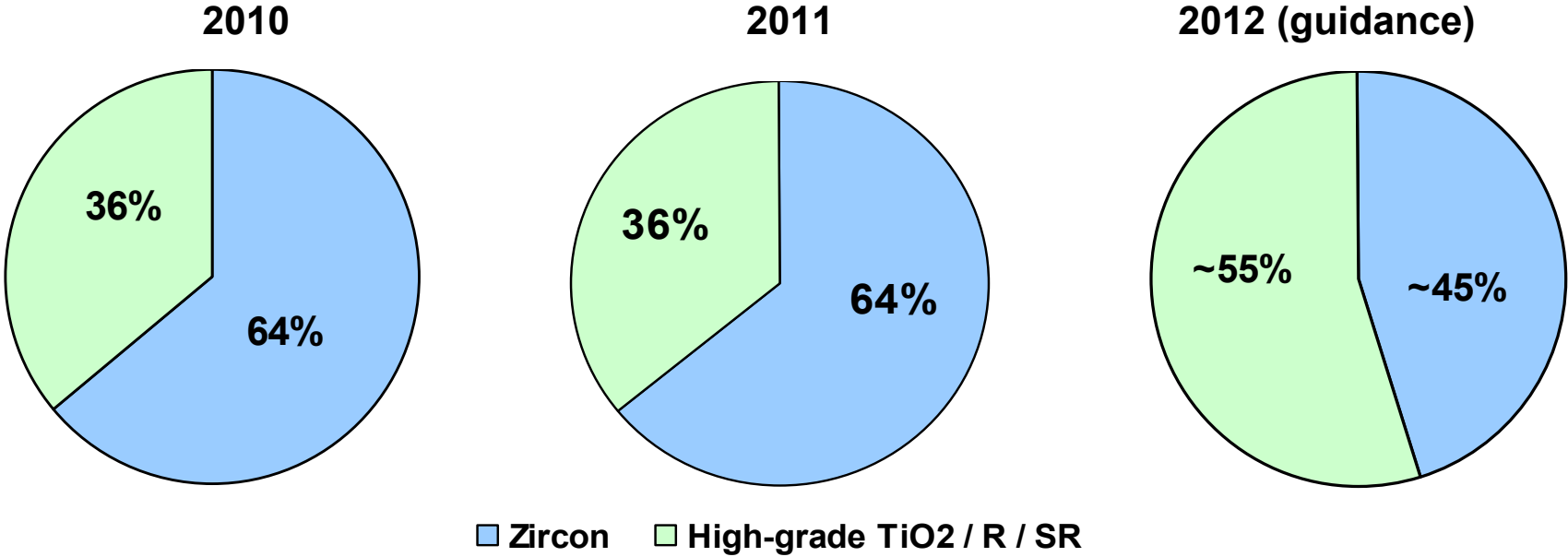
# Volume and Margin Trend



- 2011 EBITDA margin 65%
- 2011 unit revenue of \$1,480/t Z/R/SR
- 2012 guidance
  - revenue ~\$2300/t Z/R/SR
  - unit cash costs \$700/t Z/R/SR

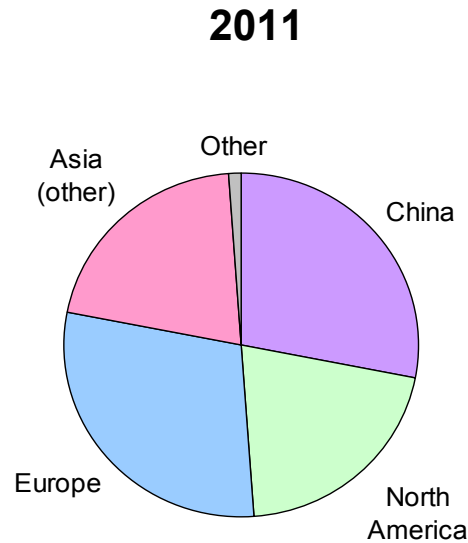
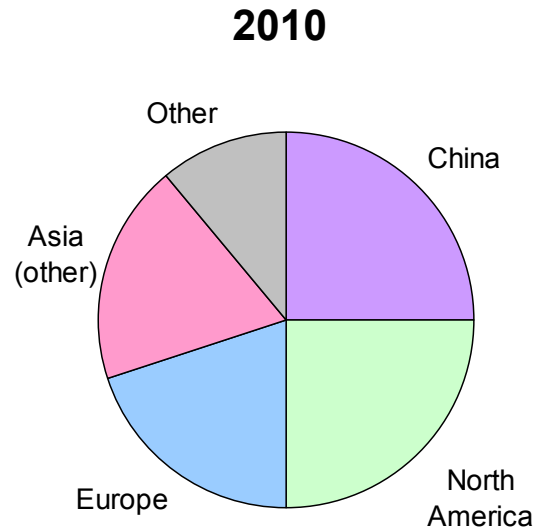
# Balanced Product Revenue Mix

## Zircon vs High Grade TiO<sub>2</sub> Revenues



- Based on received 2010 and 2011 prices, 2012 sales guidance
- Assumes 2012 beginning prices for full year 2012
- Excludes revenue from ilmenite, by-products and Mining Area C

# Balanced Geographic Revenue Mix



<b>Regional %</b>	<b>2010</b>	<b>2011</b>	<b>2012 Guidance</b>
China	25	28	22
North America	25	21	27
Europe	20	29	27
Asia (other)	19	21	23
Other	11	1	1

# Zircon Market Conditions



- Soft demand period
  - evidence of demand recovery across markets
  - Europe remains subdued but customer sand stocks almost exhausted
- Iluka has flexed production in line with demand and will hold inventory as needed
  - inventory held close to customers
- Pricing outcomes
  - end 2011 prices ~US\$2400/tonne
  - 1Q12 prices up ~US\$100/tonne
  - 2Q12 prices rolled over
  - minor supplier/spot prices have moved up
  - currently engaging with customers regarding Q3 arrangements
- Major customers supportive of Iluka's approach
  - direct customers now holding low inventory levels of opacifier
  - bulk order interest resuming
- Tile producers under inventory and margin pressure --> technology, thrifting
- Iluka remains confident about medium term demand fundamentals

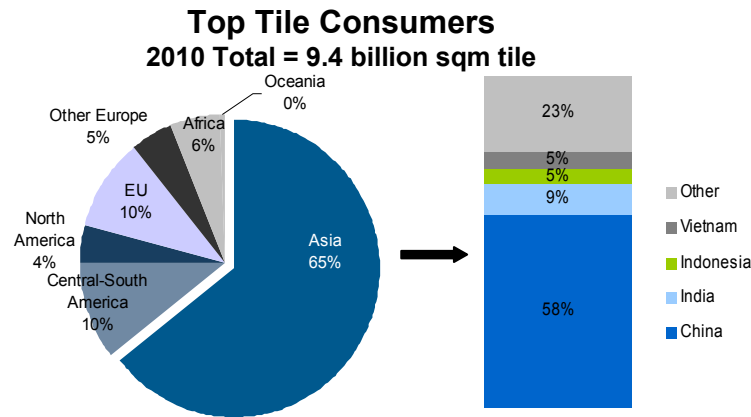


# Zircon - Favourable Long Term Dynamics

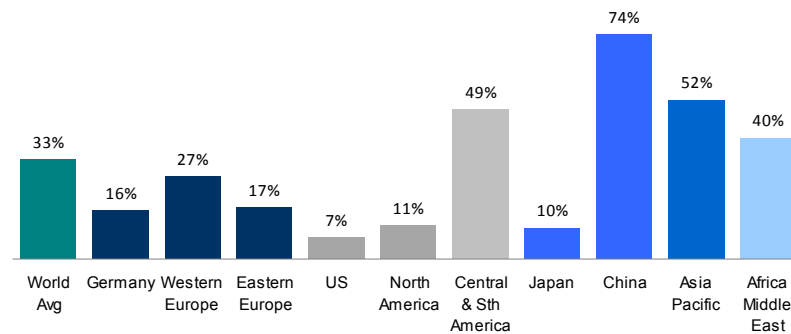


Developing Economies >80% of Tile Market

Developing Economies Higher Usage (Intensity) of Tiles



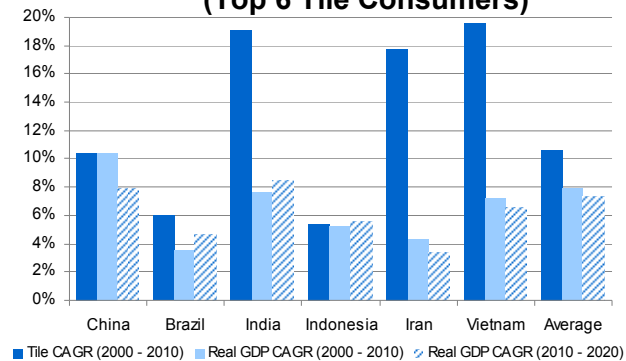
% Usage of Ceramics as Flooring Type vs other Flooring Types by Geography



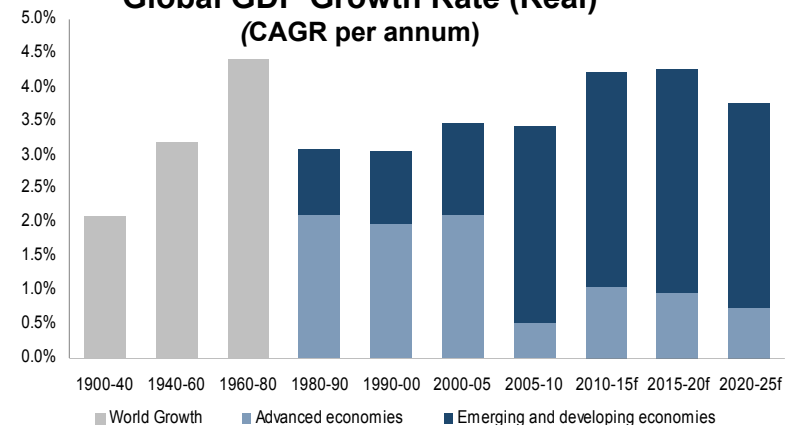
Developing Economies Higher GDP Growth

Developing Economies ↑ Proportion of Global GDP Growth

Tile Consumption and GDP Growth Rates (Top 6 Tile Consumers)



Global GDP Growth Rate (Real) (CAGR per annum)

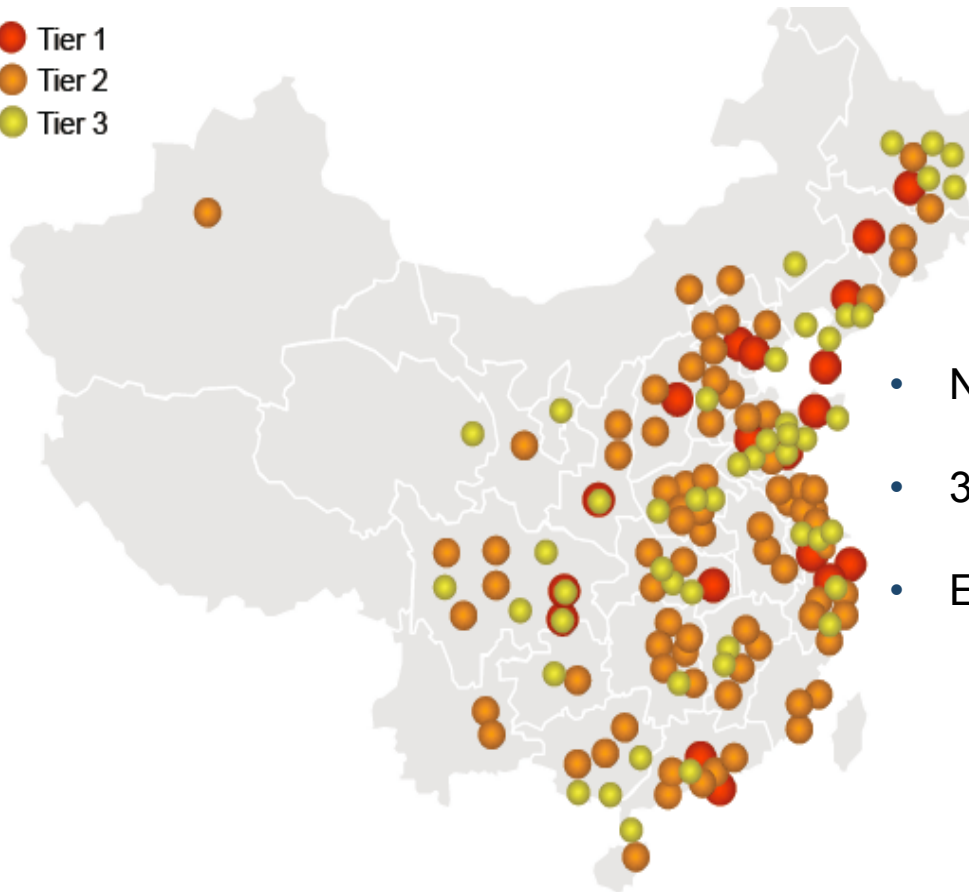


Source: Data for charts sourced from Maddison, IMF, Ceramic World Review, Global Insight

# China Urbanisation

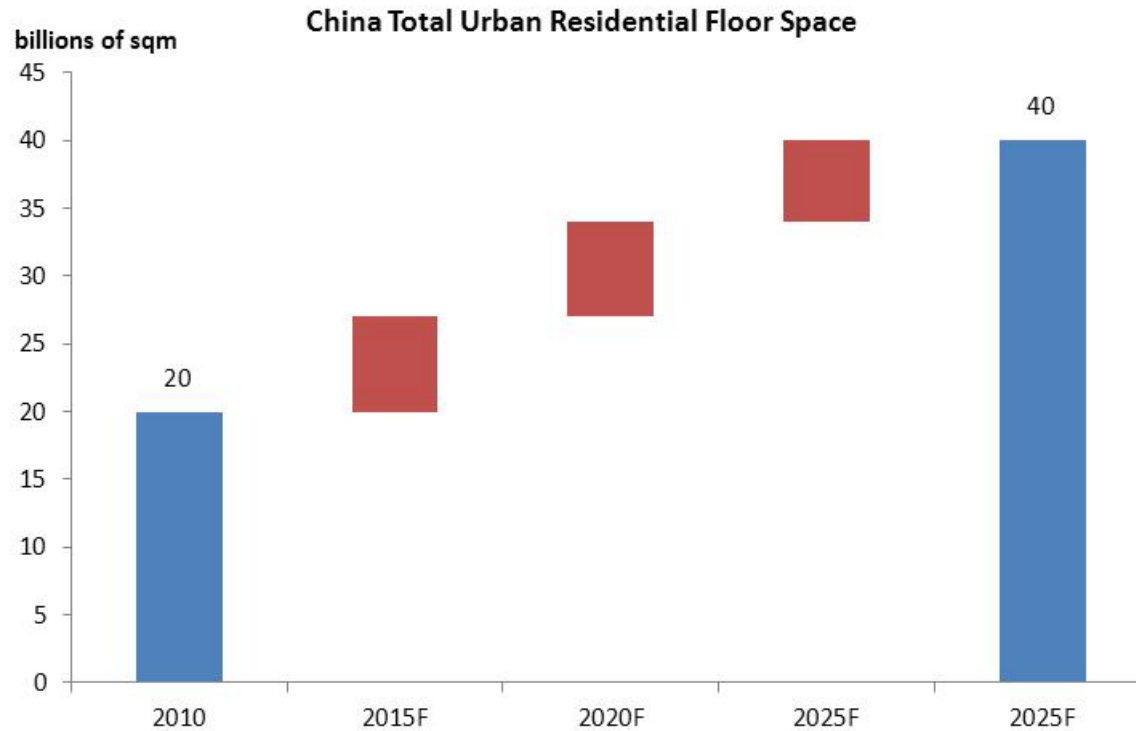
## China's tiered City Structure: 2005 - 2025

- Tier 1
- Tier 2
- Tier 3



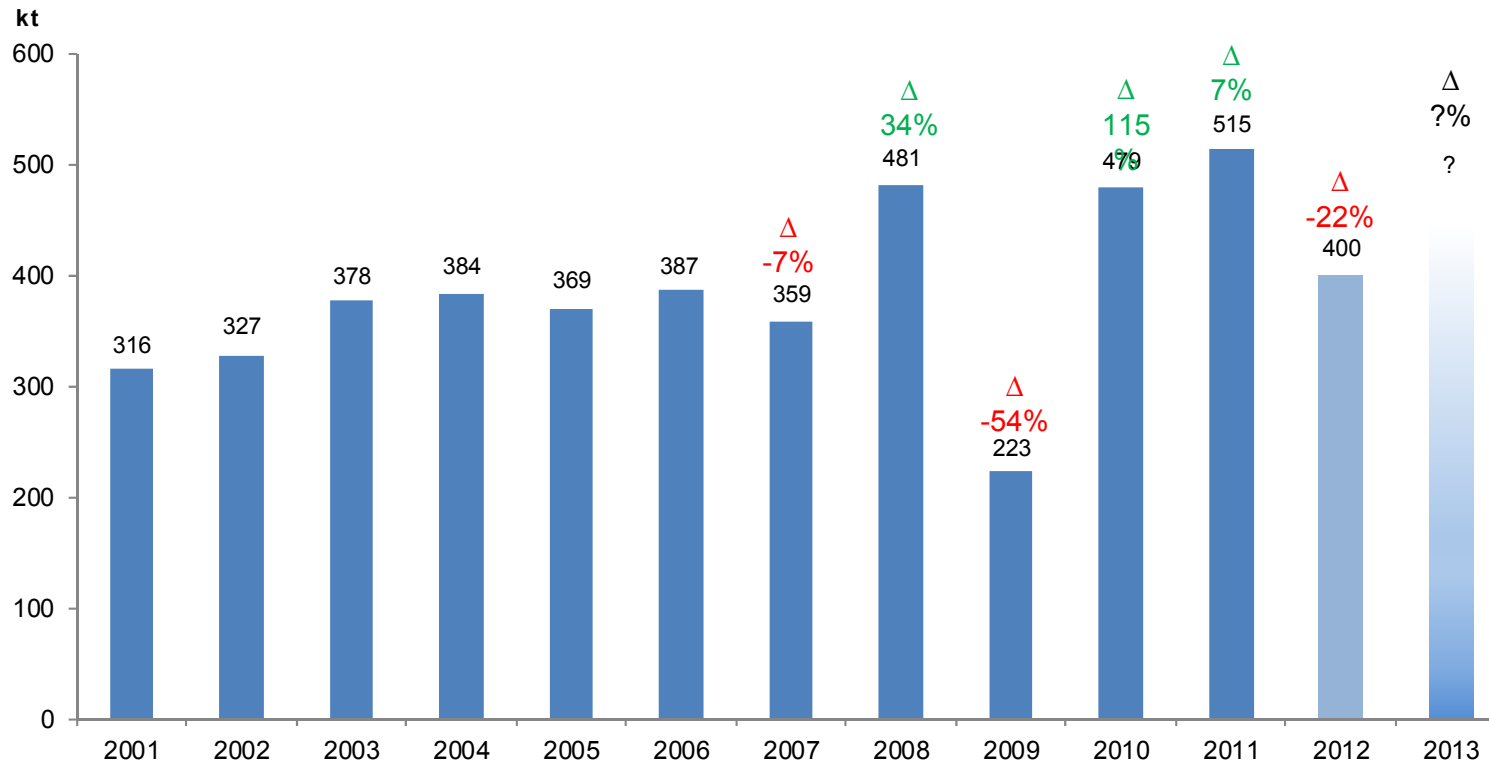
- Number of tier 1 – 3 cities increase from 45 to 147
- 352 million people relocate to urban areas
- Equivalent to the total population of:
  - Australia x 16 times
  - UK x 6 times
  - US

# China Total Floor Space



- By 2025, total urban residential floor space may double that of 2010 level
- Social housing is expected to account for 32% of the total floor space completed between 2011 to 2015

# Zircon Sales



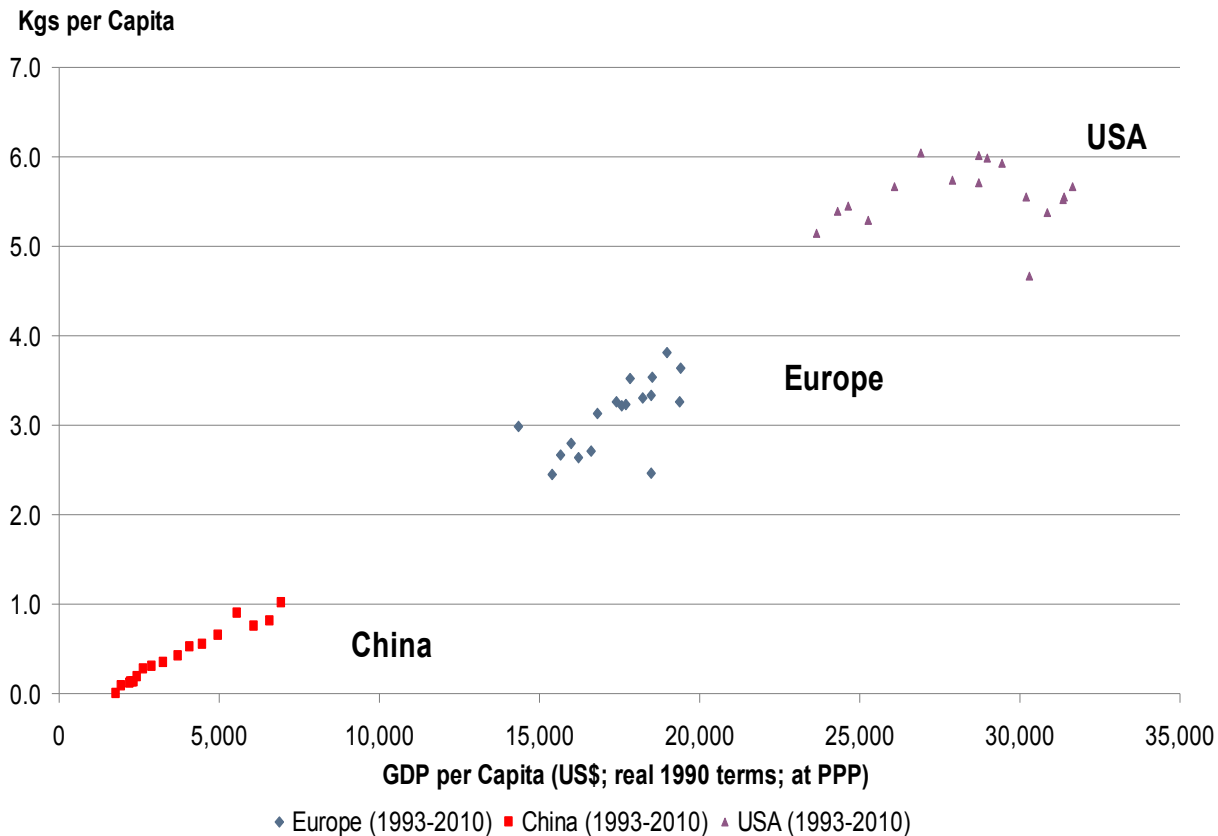
Source: TZMI, Iluka. Iluka sales exclude CRL.

# Titanium Dioxide Market Conditions



- Evidence of sustained feedstock cost flow through
  - next challenge further downstream (e.g. paint manufacturers/retailers)
  - painting season impact in 2Q/3Q 2012 of importance to pigment demand
- First half prices ~US\$2400/tonne for rutile, ~US\$2050/tonne for synthetic rutile
  - spot prices above these levels in niche markets
  - many competitor legacy/emergent contracts below these levels still
- Chloride vs sulphate margins shifting, dependent on supply position
  - strong ilmenite prices
  - new Iluka SR products + more on way = processing + marketing flexibility
  - balance between contract flexibility and supply/offtake security
- 2nd synthetic rutile kiln re-activated, 3rd planned for Q4 2012
  - options for 4<sup>th</sup> kiln reactivation under consideration

# Pigment Demand Intensity - Linked to GDP Growth



- Developing countries' intensity of pigment use (pigment per person) is expected to grow with rising living standards (GDP/capita)
- Developed countries show an intensity of pigment use ~1.5 – 4kg per person. This level of pigment use in China would be a significant increase from current levels – less than 1kg per person

Source: Goldman Sachs Research estimates

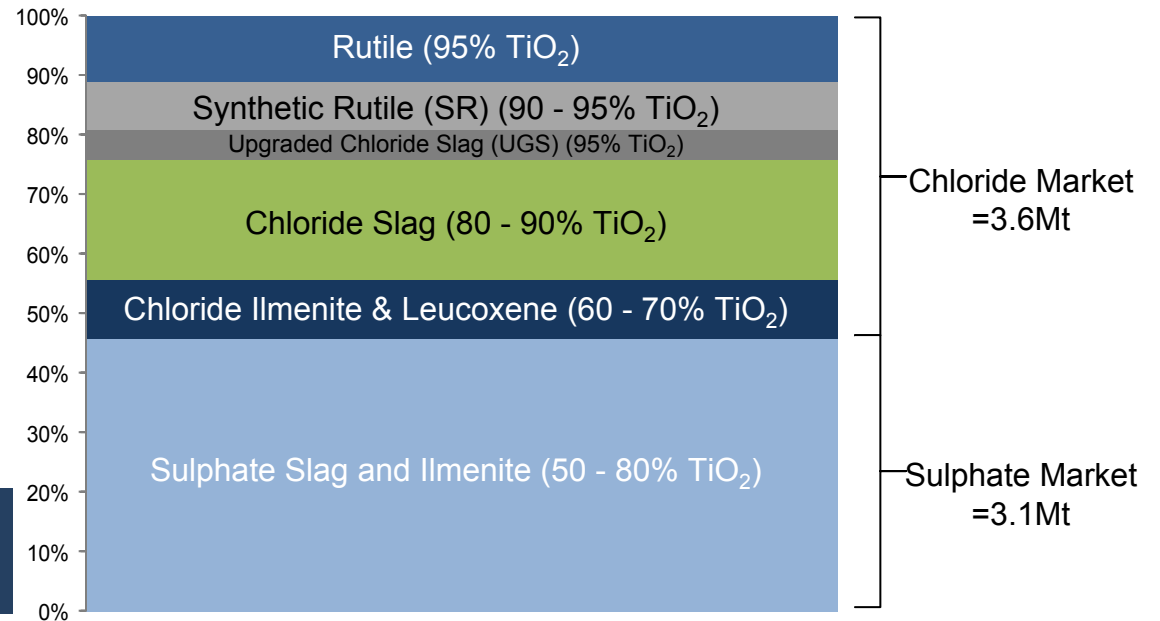
# Mineral Sands – Principal Product Streams

Iluka opportunity to supply into sulphate feedstock market

## Global Mineral Sands Market Demand (Mt)

### Titanium Feedstocks

2011 = 6.7Mt



### Zircon

2011 = 1.4Mt



Source: TZMI

# Mineral Sands Market Characteristics



- Favourable medium-term supply/demand characteristics for both zircon and  $\text{TiO}_2$
- Market characteristics not immune to global macro-economic factors
  - economic growth, consumer spending, business confidence, credit availability
- Physically small, volatile, direct supplied markets – inventory effects vs underlying demand
- Global supply flows – logistics and supply reliability/security are important
- No significant discoveries since 2004, no equivalent replacements for industry mainstays
- Few high-quality, capital-efficient, quick-response industry supply options
  - most projects in early feasibility phase rather than commitment stage
  - typically long lead times, increasing resource nationalism risks
  - technical risk in project execution, commissioning, ramp-up and product acceptability



# Exploration Commitment

- Increased exploration expenditure commitment ↑ 50% to >\$35 million
- International exploration programme
- Ore Reserves ↑ 13% after 2011 depletions
- Mineral Resources ↑ 6% after depletions and adjustments



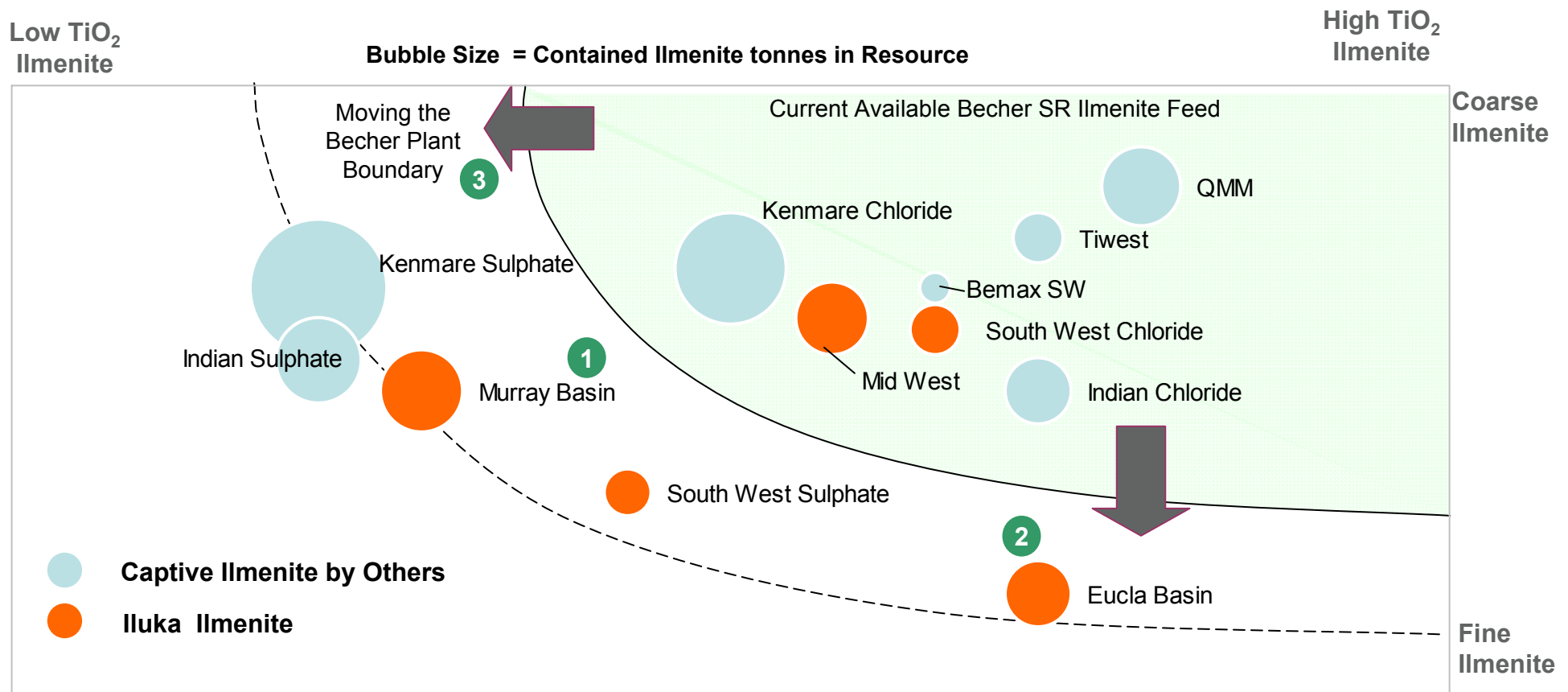
# Product and Technical Development

- 40 people within the team
- Senior 10 members have over 185 years of mineral sands experience
- Oversee technical development from exploration success to new products
- Fully integrated in-house pilot plant facilities



# Repositioned Ilmenites used in the Becher Process

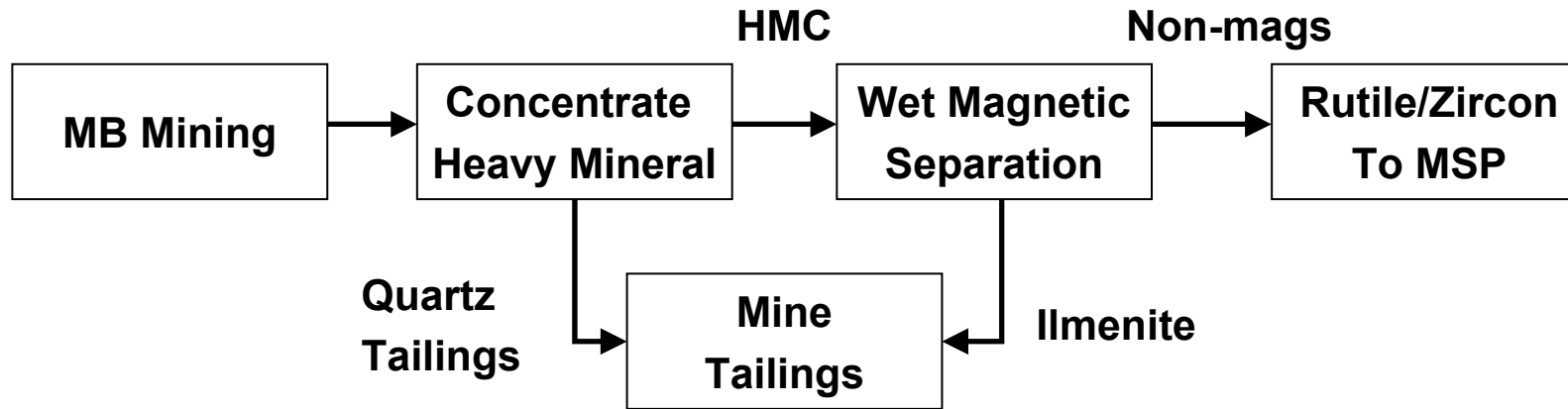
- 1 Production of lower grade chloride SR (SR85) from Murray Basin ilmenite
- 2 Use of finer grained ilmenites in premium grade or SREP SR
- 3 Production of acid-soluble SR from Murray Basin ilmenite



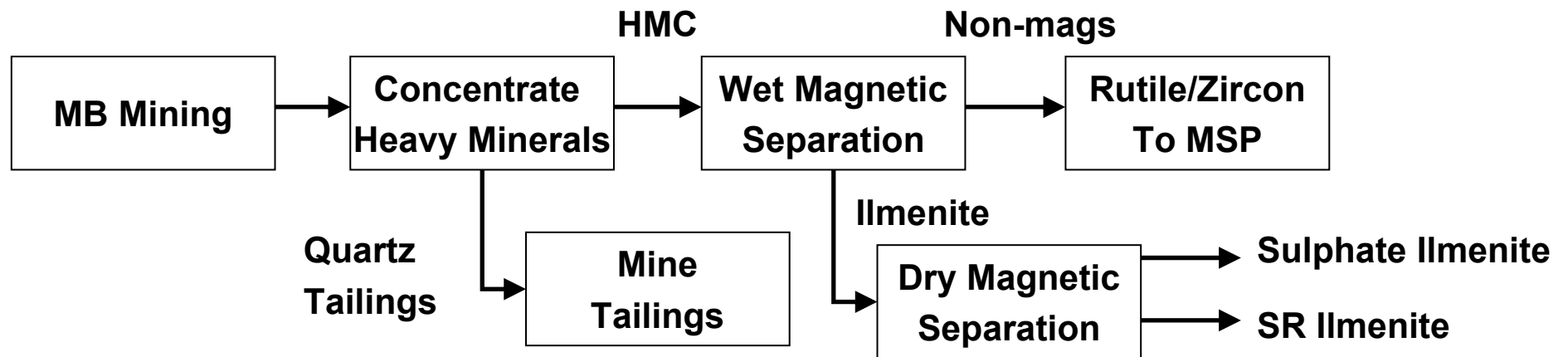
# Adding Value from Murray Basin Ilmenites



Until mid 2011 ~



2012 onwards



# TiO<sub>2</sub> Product Development – Plan



Use Virginia Ilmenite to expand product range

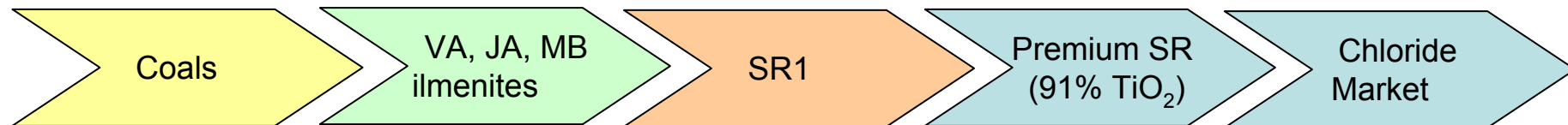
Address markets where high purity (low U, Th, Al, Mg) is required

SR3 plant trial in 2012

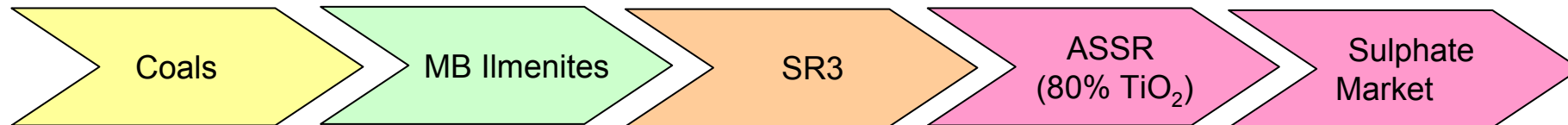


Enhance quality to pull through low value ilmenites into SR feedstock

Test work and validation in Q2/3 2012



Plant trials on SR3 during Q3/4 2012 and further trials on SR1 pending restart



# Enhanced Production Project



- Multiple organic production enhancement options
  - extensive and, in aggregate, significant
  - predominantly brownfield opportunities
  - all located in Australia or United States
- Several large projects in PFS/DFS progressing
  - Balranald (NSW), Cataby (WA), Aurelian (US)
- Scoping studies for Eucla Basin “hub” deposits
  - Atacama, Typhoon, Tripitaka (and now potentially Sonoran)
  - project to investigate the expansion of concentrator capacity for Eucla Basin
- Aurelian Springs project, near Virginia operations, in fast track PFS
  - chloride ilmenite project
  - potential economic life of ~10 years

# Implications for Ilmenite Production and Kiln Operation

- Subject to the economics of zircon/rutile expansion options, Iluka has the potential to produce sufficient ilmenite to support 4 kiln operation
- Additional chloride ilmenite available for expansion of upgrading capacity and sulphate ilmenite for external sales, if warranted
- SR production volume and product mix optionality available
- 1 or more kilns potentially devoted to producing high grade sulphate pigment feedstock



\* Production potential is predominantly based on a combination of Proved and Probable Ore Reserves and Measured and Indicated Mineral Resources that have been subjected to project studies (Enhanced Production Project) using Iluka's long term cost and pricing estimates and an assessment of risk including access, approval and development timing. A very small portion of the production potential is based on Inferred Mineral Resources totalling approximately zero to four per cent of the production potential.

# Ilmenite Upgrading Development



If Iluka were to consider a 5<sup>th</sup> upgrading plant what technology would we select?

## Development Path

- Comparison between upgrading technologies
- Support case for which technology would be most appropriate
- Less constrained by ilmenite source – transport cost low in relationship to value
  
- NewGenSR used hydrogen to reduce the ilmenite instead of coal
  - Lower capex than Becher SR
  - Lower opex
  - Lower carbon footprint



# Conclusions



- Strong medium-term market fundamentals for TiO<sub>2</sub> and zircon
- Iluka maximising opportunities this brings through:
  - Exploration spend
  - Array of internal growth projects (EPP)
  - Capital efficiency and speed of implementation
  - Maximising production flexibility
  - Product and technical development focus
- Aim for sustainable improvement in financial performance
- Growth and increased distribution/return opportunities



# Iluka Resources Limited

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