

ILUKA BRIEFING PAPER MARKETING AND MARKET DEVELOPMENT

May 2015

MARKETING AT ILUKA

Iluka is a significant global supplier of zircon and high grade chloride titanium dioxide minerals. The company has over 50 products with different technical specifications to meet specific end market applications, including 18 zircon products.

Mineral sands sales and purchasing is typically a technically-based decision, involving metallurgical specifications and product value-in-use considerations. Iluka's sales and marketing approach, as a result, is overwhelmingly direct to customers. Minimal amounts of Iluka's products are sold via agents and distributors and there is not a significant 'traded' component of mineral sands products.

Iluka's products are sold through an extensive network of warehouses, distribution facilities and regional offices located in international markets, including China, India, South East Asia, the Middle East, Europe and the US. Key elements of Iluka's marketing approach include meeting customer needs and technical specifications, differentiating the value of Iluka's products and technical collaboration with customers. Recent marketing initiatives include the establishment of dedicated product sales teams able to cater to specific technical requirements of customers, advancing internal research to develop products that improve customer outcomes, a new zircon pricing framework and expanding Iluka's presence in the China titanium feedstock market, including through the planned development of a China Technical Centre.

EVOLUTION OF ILUKA MARKETING

Iluka's marketing function has evolved markedly since 2008, with the recognition that a more sophisticated and differentiated approach is a key feature of Iluka's customer offer and ability to expand its market presence and, as such, consistent with creating and delivering shareholder value.

Iluka has, as a result, instituted wide ranging changes in its marketing and sales structure. The aim has been to improve Iluka's marketing capabilities and market understanding, develop new markets and better service existing ones and provide increased service to customers through product development. Initiatives to increase flexibility in contract and price setting have also given Iluka and its customers an increased ability to adapt to changing market conditions.

The evolution of Iluka's marketing function in recent years can be conveyed over three main stages.

Prior to 2008

- Titanium dioxide feedstocks were sold largely in bulk, typically container lots on the basis of multi-year 'cap and collar' contracts;
- sales were predominantly to developed, mature markets; and
- sales outside of developed markets typically utilised distributors or agents, with marketing offices centralised in Perth and the US.

Wave 1 (2008-12)

- Enhanced logistics capability, such as regional warehouses, allowing a greater range of lot size offers;
- greater contract flexibility, including shorter dated contractual terms to provide more flexibility to Iluka and customers;
- direct representation in China with the establishment of a local office and appointment of a senior Iluka marketing manager;
- an online sales portal including online auction;
- product development to better differentiate product and meet customer requirements;
- growing direct relationships with customers to facilitate a better understanding of their business needs and to tailor products to meet requirements;
- the creation of an Iluka Trading business to market and distribute third party products; and
- integration between Iluka operations and marketing to ensure flexibility to meet customer requirements and optimise operational/cost settings.

Wave 2 (2013 and beyond)

As well as continuing the initiatives from Wave 1, the current focus areas include:

- market growth through an expanded international marketing presence, with new offices established in Dubai, India, South East Asia and Europe;
- greater servicing of Chinese market, associated with the shift in regional production bases for customers and a focus on feedstock penetration into the China pigment sector, with new regional offices and distribution facilities established;
- increased automation of sales via use of online facilities;
- strengthened in-country market analysis; and
- detailed industry studies to enhance understanding of end markets, including tile and pigment markets.

ZIRCON PRICING FRAMEWORK

In 2015 Iluka introduced a new pricing and payments framework. This initiative reflects Iluka's significant position as a global supplier of zircon and also the desire to provide a fit for purpose set of pricing arrangements for customers, given different end markets and a range of zircon product offerings. The pricing framework has been established based on a range of analytical considerations including: the value-in-use of Iluka's products to customers; different regional requirements; considerations of inducement pricing for new supply; market share as well as return on capital considerations in order to support continuing investment in the mineral sands supply.

In broad terms, the pricing framework aims to facilitate price predictability and an understanding by customers of the reasons for differentiated pricing across zircon products. As such, the approach should continue to reduce price and volume volatility, hence facilitating better business planning for Iluka and its customers.

The approach entails distinct spot and contract pricing arrangements. In the spot market, Iluka will seek to maintain an absolute tonnage in order to react to short-term changes in the company's operations and/or to participate in the spot market as a price discovery mechanism.

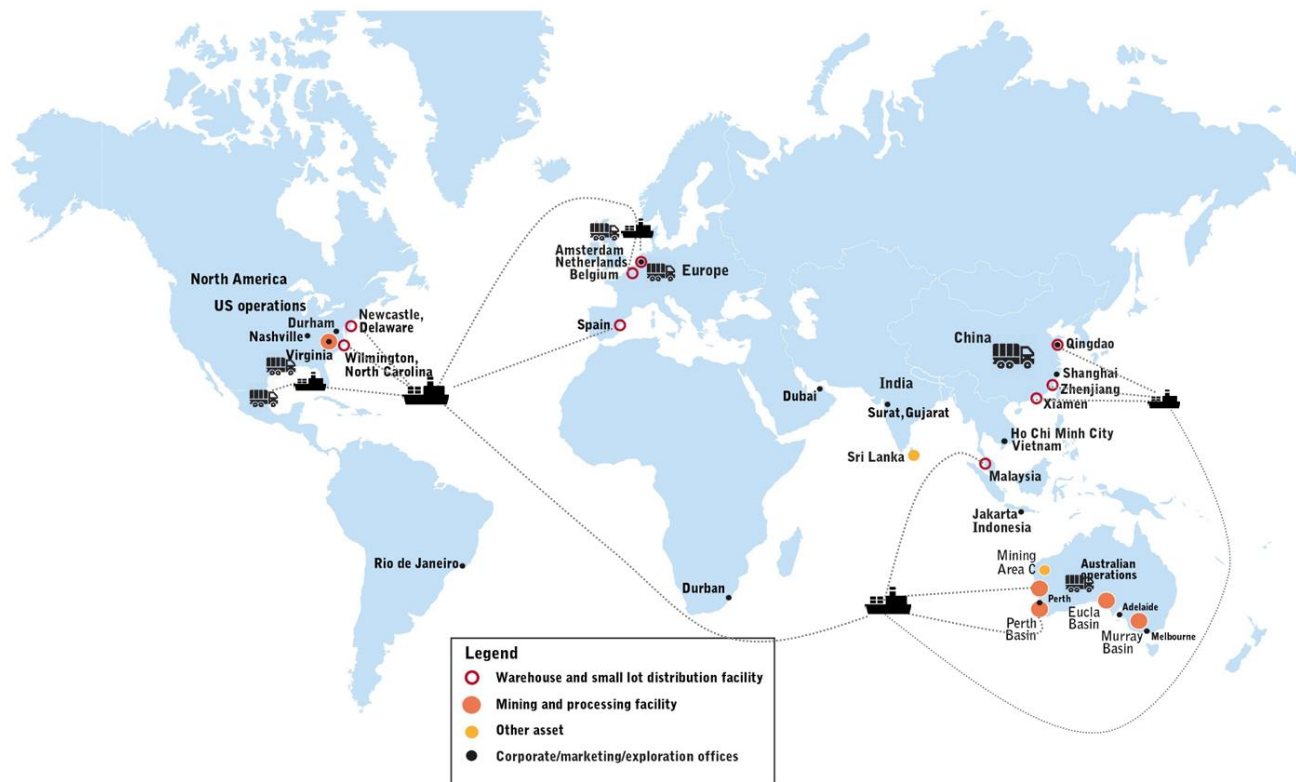
For customers purchasing zircon via contracts, the price model involves a regional reference or benchmark price and clear, pre-defined customer price logic for price variation. From an initial 'gross' price, Iluka will differentiate the 'net' price for our customers based on volume, share and cost-to-serve. The framework will also reward customers' loyalty and reflect payment and other commercial terms agreed with customers.

Price setting is expected remain on a quarterly basis.

MARKETING INITIATIVES AND CAPABILITIES

Hub and Spoke Distribution

Iluka's distribution system is evolving from a free-on-board (FOB) shipment arrangement to a more efficient hub and spoke distribution model. Iluka has an extensive international network of warehouses and distribution facilities. Product is able to be delivered to customers flexibly, both in terms of immediate or contracted delivery arrangements and in a range of product quantities.



Dedicated Product Sales Teams

In 2014, Iluka restructured its sales teams to better align to zircon and titanium customer businesses. Comprising marketing and industry experts, including from the milling, tile design and pigment industries, the two teams are able to cater for the specific requirements of these two markets.

China Pigment Potential

Iluka has considered the strategic opportunities of a greater presence in the China pigment market for a number of years. Currently, Iluka supplies only minimal quantities of titanium dioxide feedstock into China. This mainly reflects the overwhelming sulphate based pigment capacity in China and Iluka's overwhelmingly chloride based reserve base. Iluka's approach is two-fold:

- establishment of the potential to supply the existing sulphate pigment capacity in China via a number of means: sulphate ilmenite from the company's Murray Basin operation; the acquisition of sulphate feedstock resource (the acquisition of the Sri Lankan tenements is an example) and by product development of upgraded sulphate products (Acid Soluble Synthetic Rutile, being an example); and
- positioning the company as a potential supplier of high grade feedstocks (rutile, synthetic rutile and ilmenite for chloride slag production) to the emerging China chloride pigment capacity.

As one part of this activity, and supplementing the company's current presence within China, Iluka is planning to establish a China Technical Centre in-country. The centre will include a full service laboratory equipped with a small chlorinator to allow chloride pigment producers to test Iluka's titanium feedstocks on a small scale basis, as well as laboratory and analytical facilities for both zircon and titanium customers. The centre will be staffed by Chinese and international technical personnel experienced in zircon and titanium dioxide and downstream markets.

China Technical Centre



Artist's impression

Market Analysis

Iluka has an established capability in minerals and market analysis for both the titanium dioxide and zircon, and also utilizes external firms for specific industry work. As an example, Iluka has engaged various external parties over a number of years to conduct detailed analysis into the China pigment market, including likely industry trends as well as internal and external feedstock sources and requirements. This work has underpinned much of the company's activities to establish a greater presence in the China pigment market as a feedstock supplier. The company also undertakes an empirical ceramic tile study designed to generate objective and quantitative information on trends in ceramic tile usage, production processes and zircon intensity trends in various types of ceramic tile applications. For more information refer to Iluka's briefing paper - [Ceramics Tile Study, March 2014](#).

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