

ILUKA SALES DESK NOTE

To assist those who may not directly follow the company, it was thought that we would trial an occasional summary of some key company and industry matters. All information conveyed below is in the public domain.

MARCH QUARTER PRODUCTION REPORT

Key elements:

- Iluka successfully restarted its largest, previously idled synthetic rutile kiln in South West Western Australia. Recommencement is in large part underpinned by commercial arrangements and reflects demand recovery in the high grade titanium feedstocks market. Production recommenced efficiently, with minimal capital and other expenditure.
- Mining at the company's Tutunup South mine in WA restarted in advance of the kiln restart with full production reached within 12 hours. This mine provides ilmenite feedstock to the SR kiln.
- The Woornack, Rownack, Pirro mine in Murray Basin, Victoria was fully depleted, as expected. Concentrate from the mine will continue to be processed at the Hamilton mineral separation plant for conversion to finished products, including rutile. Lower levels of rutile will be available accordingly. Overall production guidance in 2015 for rutile and SR is ~280kt, compared with 177kt in 2014.

1st quarter revenue of \$115m was seasonally low, as usual, and also influenced by: deferral of shipments (23kt of SR and zircon combined) outside the quarter; scheduling of bulk SR shipments to align with the kiln restart and a hiatus in zircon sales in March as Iluka implemented a new zircon pricing and payments framework. Weighted average prices for Iluka products displayed no material change.

Full release at www.iluka.com

CERAMIC TILE STUDY

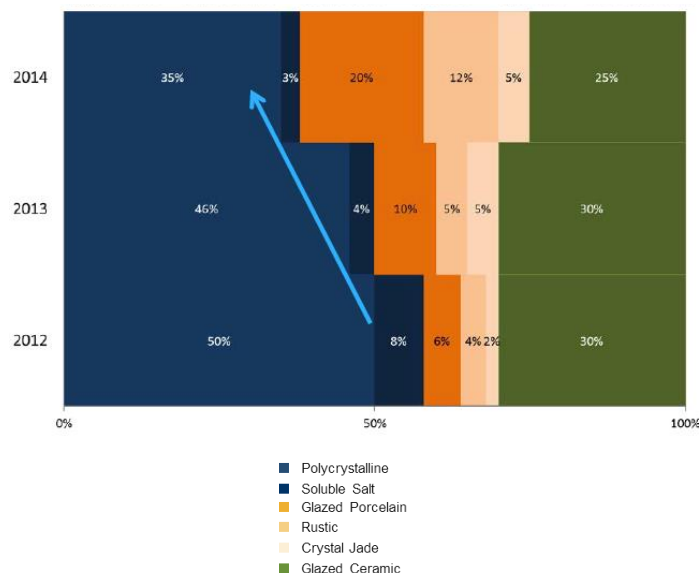
As part of Iluka's market analysis work, the company recently completed its third comprehensive study, designed to gain insight into zircon intensity of usage across ceramic tile products and regions.

Given the proprietary nature of this research, it is not Iluka's intention to publish detailed information on a regular basis. However, some of the findings include the following:

- China's top tile producers have an orientation to higher quality tiles and export markets. On average, these producers use greater levels of zircon in their tile formulations;
- Iluka observed an overall year-on-year increase in loading of zircon across Chinese tile product categories;
- digital printing of tiles is a rapidly expanding technique for tile production. In China, digitally printed tiles, such as crystal jade and glazed porcelain, show consistently higher median zircon loadings than conventionally-decorated double-charged, polished porcelain tiles;
- digitally printed tiles contain zircon in the decorative layers, such as engobes, glazes, frits and digital inks and, optionally, in the ceramic body;

- polished porcelain tiles have previously moved to adopt the double charging process (with lower zircon intensities). In Iluka's estimation, this process was completed in early 2013. It is also of note, (as illustrated below) that this category is losing market share in China while the other two categories, namely glazed porcelain and crystal jade (with higher average zircon loadings), are increasing driven by increasing popularity and wider adoption of digital printing;
- as Iluka has conveyed previously, indications are that substitution and thrifting activities appear to have run their course and, in many instances, seems to have reversed (due to the superior qualities, consistency and ease-of-use of zircon as a ceramic opacifier, as well as greater demand for higher-quality tiles). While any production process will aim for greater efficiencies, such actions are not considered a major factor of zircon use in ceramics; and
- the penetration of digital printing in Spain and Italy is widespread and mature, with many producers adopting more than one digital printer in each production line so as to deliver multi-layers of decorations, such as digital glazes, metallic effects and other special effects. In China penetration of digital printing is estimated at ~30 per cent and growing.

China Ceramic Tile Product Mix



Source: Ruidow/Iluka China Ceramic Market Study (2014)

ZIRCON SUPPLY

As part of Iluka's market analysis, it considers all sources of supply. A major feature of zircon supply over recent years has been the almost total removal of artisan based, and largely illegal, zircon concentrate supply from Indonesia.

It is noteworthy, in this context, that Iluka is now selling zircon into the Indonesian market, whereas in 2012, Indonesia exported the equivalent of 90 thousand tonnes of zircon, while 2014 exports were a third of this.

The reasons for the lower production output from Indonesia, include:

- on Iluka's assessment the current margins to a local miner are no more than the equivalent Kalimantan minimum wage. As such, current zircon prices (and in some cases associated gold prices) are not sufficient to incentivise this supply (Iluka has conducted its own assessment of a theoretical inducement price);
- Indonesia's export ban on unprocessed materials appears to be effective as the authorities have clamped down successfully on this, largely illegal, activity; and
- while domestic processing plants have been established, Iluka's assessment is that only a small number hold valid export licences.

MINERAL SANDS PRODUCER UPDATES

Several mineral sands producers have recently released their first quarter 2015 or full year 2014 results. See link to [Recent Mineral Sands Results](#). Some key elements include:

- major companies optimising production levels to align with market demand;
- some new projects struggling to meet stated production and recovery targets in ramp up phase;
- lower production levels contributing to higher unit costs; and
- some producers heavily geared and, in some cases, operating at cash negative levels.

Much of the market commentary is consistent with Iluka's as outlined in the quarterly production report and full year results.

CHINA HOUSING POLICY

Iluka zircon sales into China, dependent on overall global demand, are typically in the order of 50-60% of total zircon sales; of this roughly 50% is property related (e.g. tiles), of which a proportion is related to infrastructure and commercial developments. Residential housing is the major part of this and hence represents approximately 25-30% of total Iluka zircon demand. While a key market it is but one influence on zircon demand. Overall China zircon sales (all end uses, including ceramics) constitute in the order of ~40% of Iluka's revenues.

Zircon demand in property can be considered to be most closely linked to housing sales and completions. While property construction levels may ultimately affect end demand (tiles and pigment applications), this is a longer dated indicator of end demand.

Recently announced Chinese government initiatives are designed to support residential home sales, including changes to deposit requirements and property tax.

This are relevant to Iluka as, in China, paint (titanium dioxide end market) and tiles (zircon end market) are typically applied following the property sale, as opposed to during construction.

This document does not contain material not already publicly available or as disclosed by Iluka.

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