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Tronox Call 10 October 2011 – Extracts

The call was in large part related to the Tronox-Exxaro combination. The following extracts related to titanium dioxide market conditions, as seen by Tronox (a major pigment producer) and assumedly Exxaro (as a major titanium ore supplier). Reference is made to a presentation document, which I sent last week and is on the Tronox website. A full copy of the transcript can be provided if required.

Tom Casey, Chairman and CEO

The demand for titanium dioxide globally is growing at an annual rate of 3% to 4%, according to some research, 5%, and that growth rate is predicted to continue for many years, for essentially as long as the forecasts extend. It's happening, even though the U.S. and Western Europe markets, at least other than Germany, are barely growing at all, and in fact, have still not recovered to their 2008 levels. **So, the growth, which is again largely driven out of China and the rest of Asia-Pacific, Latin America and the Middle East**, has already driven an approximately 40% increase in price in 2011 compared to 2010. In itself, 2010 was greater than 10% price increase over 2009. **These price increases are happening because of fundamental organizational structural issues in the industry and that is principally that the supply of TiO₂ pigment to meet this demand is inadequate today and is constrained by the availability of ore**, which is itself limited.

So we have two levels of structural limitations that support price [pigment] going forward. Most Western pigment production facilities are operating at their practical full capacity already and there are two factors limiting our ability to expand the supply of TiO₂ pigment. First, most of the production facilities that are in operation today have already accomplished their relatively easy and inexpensive enhancements to supply capability, like de-bottlenecking and measures like that.

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So we see then an **increasing demand on the customer side** on the end of the process, but **constrains that are fundamental and enduring** on both the processing's level and on the **feedstock supply level**. I think **this means that these the market characteristics of this market are going to remain intact for a long period of time**. We believe that and we have indicated to you in our presentation that we released last Thursday, some of that – our forecasted financial expectations regarding price and regarding margins, EBITDA margins, that come out of that sort of market structure.

Feedstocks are already limited and there is little or no supply foreseeable before 2015 at the earliest, and therefore, security of ore supply in today's market is important, in 2012 and '13 is important, and beyond 2013 in the longer term is also important.

We looked at this as both the defensive and an offensive transaction in the sense that by assuring security of supply in the short term and in the long term, we protect ourselves from the – **being the victim of any exercise of pricing power or other strategic power that ore manufacturers have in a limited supply industry**. We control our own fate to a much degree than we might if we didn't have that security. And we enable – importantly we enable our ability to make rational decisions about growth to the extent to that people are talking about enhancements to the production of TiO₂ pigment.

That necessarily means that those parties must have some assurance that they have the supply, the feedback supply necessary to make the new TiO₂ pigment. If they do not have that in this supply-constrained market, it's an open question obviously for anybody that needs to be asked. Then I think that anyone's growth prospects in this market have to be substantiated with assurance of supply. We have done that in this transaction and we think that's an extremely important differentiating characteristic of Tronox going forward.

Moving to page six, many of you have probably seen these charts. But the chart on the top left indicates the relationship between supply and demand where supply is being portrayed as simply what is in operation today and the -- plus the 440,000 TiO₂ units from Fairbreeze in -- that we will acquire through the transaction and the Moma mine expansion in Mozambique, both of which are approved and seen likely but are not yet in actual production. The chart below indicates that even if one adds all of the amounts 2,500,000 units of incremental capacity, the supply and demand essentially matched for the next several years, but even then in the longer term, supply is -- exceeds demand. **We think that there's significant doubt, significant risk associated with these 2.5 million new units of production. Many of them have not been commissioned. They have not been financed. Some of them have not even completed their technical feasibility studies. Many of them are in regions of the world in which the construction operation of the mine will require infrastructure investment, will require transport investment, will require some assessment of political risks.**

And so, we think this is not a realistic assessment in aggregate of the demand of the new supply that will be introduced into the market over this period of time. But we wanted to disclose it just to be transparent and then you all obviously will make your own judgments about the likelihood of any of this entering the markets. But in the absence of this new supply all coming in when it's forecast to arrive and at approximately the cost it's forecast to arrive, **you can see that the demand-supply relationship will remain in deficit. Supply will remain in deficit, essentially from now through 2020 according to the [indiscernible] (22:03).**

The final chart on this page is an index feedstock pricing chart, which is actually -- it's important to understand what's going on, on that chart because the pricing pattern does not appear to be consistent with an increasing shortage of supply over the same period as the prices are being forecast. And obviously, the price is at a peak today and the forecast, which is TZMI forecast from July of this year, assumes that some of this additional supply out of that 2.5 million I mentioned has come on line and therefore affects price.

Again, if you think that that 2.5 million is at risk to some or all degrees, **then you can make your own judgment about the degree to which pricing will actually decline in the market in which supply does not equal demand, in which there's a supply deficit.** Our view was that it was the more conservative approach to use these prices for our forecast and our calculations because if we believe that supply will not be as impactful as might have been assumed in this forecast then that will not injure us, in fact, it will be helpful for us.

I think that it's fair to say that the market for feedstock supply is -- while it's -- there are still longer-term supply commitments associated with the contracts between TiO₂ pigment producers and ore suppliers that the pricing is becoming more flexible, meaning it can be increased more frequently and more dramatically.

Moving to Page 9, we do the same sort of supply/demand analysis on TiO₂ pigment. The prior analysis was on ore. And we illustrate that again in the same kind of general way we did before. **Right now, the TiO₂ pigment market remains tight and essentially all of the major producers are producing at practically full capacity and have been for some time.** The supply you see increasing from the period of today through 2015 or 2016 reflects supply announced but not built. Most of product facilities that would contribute to that supply are in China. They produce sulfate and, historically, they have not achieved their nameplate productivity. And so again, we think that while this is the conservative way to estimate forecast supply, we think that it's likely that, at the very least, there's some considerable risk associated whether this supply is actually realized. But nevertheless, we think that the supply/demand dynamics in this market, therefore, are going to continue to favor the price power of suppliers and lead to improved economics over the long term.