

Iluka Resources

Recent Titanium Dioxide/Pigment Industry Dynamics

Prepared by Robert Porter – all based on publicly available information.

Some extracts from US Chemicals analyst reports, company announcements and TZMI commentary. I will do a more detail review and also listen to teleconference calls and send some further information. The basis theme I would discern from these and other releases on customers down stream from Iluka:

- Prices downstream of Iluka are increasing – margins are holding or improving
- Pigment pricing may be getting ahead of raw material costs
- Appreciation of ore supply tightness and implications for pricing dynamics

My impression is that the titanium dioxide dynamic is not well understood in the Australian market place and a few myths also seem to be emerging about inability of those downstream of Iluka to pass through higher raw material pricing. The evidence doesn't seem to support this view.

DuPont Half Year Results

DuPont reported 2Q:11 EPS from operations of \$1.37 versus \$1.17 in the year ago, and our forecast of \$1.39 (Bloomberg Consensus \$1.34).

Higher than expected sales and profits in Performance Chemicals (TiO₂) led to the EPS out-performance. DuPont's earnings were assisted by a \$0.80 benefit from better prices, \$0.06/sh from higher volumes, and \$0.08 from favourable currencies and other, which were partly offset by higher RM costs (\$0.46), higher fixed costs (\$0.19), a higher share count (\$0.04), and higher taxes and other (\$0.05).

Source: JP Morgan Nth American Chemicals Analyst

Rockwood Holdings (purchaser of titanium ores)

We raised our 2011 EPS estimate from \$3.60 to \$4.00 reflecting higher TiO₂ profitability in the 2Q:11 and for the second half of the year. TiO₂ prices in the first half of 2011 increased about 30% yoy while raw material cost increases were probably in the neighborhood of 5-10% leading to significant margin expansion. A \$500/mt price increase announced by the pigment producers may be implemented in the second half of 2011. We expect additional price increases in 2012 reflecting little additional capacity expansion and rising ore costs. We lifted our 2012 EPS projection from \$4.05 to 4.70

Source: JP Morgan Nth American Chemicals Analyst

Sherwin Williams results (major US paint manufacturer)

Sherwin-Williams Company announced its financial results for Q2 2011 and 1H 2011. Compared to the same periods in 2010, consolidated net sales increased US\$211.7 million, or 9.9%, to US\$2.36 billion in the quarter and increased \$501.8 million, or 13.5%, to US\$4.21 billion in six months due to selling price increases, acquisitions and strong organic sales growth by the Global Finishes Group. The company reported an increase in the Global Finishes Group's net sales of 39.5% to US\$678.9 million in the quarter and increased 44.2% to US\$1.31 billion in six months due primarily to acquisitions, selling price increases, higher paint sales volumes, and favourable currency translation rate changes. The Global Finishes Group segment profit in Q2 2011 increased to US\$46.1 million from US\$40.0 million and increased in 1H 2011 to US\$82.9 million from US\$63.0 million last year due primarily to increased paint sales volume and favourable foreign currency translation rate changes.

Source: TZMI

DuPont Pigment Pricing Increases – largest pigment producer

DuPont Titanium Technologies announced a price increase of €500 per tone for all DuPont™ Ti-Pure® titanium dioxide (TiO₂) grades for all countries in which invoicing is in euros. It also announced a price increase of US\$700 per tonne, for all countries in which invoicing is in U.S. dollar Eastern Europe, Middle East and the sub-Saharan African region. Both increases are effective 1 September 2011.

Source: TZMI

Kronos Price Increase - major pigment producer

Kronos Worldwide announces price increase for all titanium dioxide products sold outside of North America and Europe (\$29.14)

The company announced a price increase for all titanium dioxide products sold outside of North America and Europe including among other areas, Asia Pacific, Latin America, Middle East, Africa and Asia.

- Effective 1-Sep, prices for all Kronos titanium dioxide products sold outside North America and Europe will be increased by a minimum of \$500 per metric ton or equivalent in Japanese Yen
- StreetAccount notes the company announced a price increase for all titanium dioxide products sold in North America on 29-Jun

Source: TZMI

PPG extract from results announcement – US coatings business – owns Taubmans etc.

PPG Industries (NYSE:PPG) today reported sales for the second quarter 2011 of \$4.0 billion, an increase of 15 percent versus the prior year's second quarter. Each major region and reporting segment achieved volume and price gains. Net income for the quarter increased to \$340 million, or \$2.12 per diluted share. Second quarter 2010 sales were \$3.5 billion, and net income was \$272 million, or \$1.63 per diluted share.

"Our strong execution during the quarter enabled us to deliver excellent financial performance, including record earnings for any quarter," said Charles E. Bunch, PPG chairman and CEO. "We implemented further pricing initiatives and managed our businesses aggressively to overcome continued input cost inflation, a global economy that has only partially recovered and several transitory impacts to some businesses' volumes early in the quarter.

Our strong performance underscores the benefits of our broad end-use market reach and the global business portfolio we have built," Bunch said.

Bunch noted that April was the weakest month in the quarter, with negative year-over-year company volumes due to several issues including the full brunt of automotive OEM industry production curtailments due to supplier disruptions related to the March earthquake and tsunami in Japan, poor weather-related architectural painting conditions in the United States, and production downtime in the Commodity Chemicals segment. "Our sales volumes rebounded soundly after April, with most segments realizing mid-single-digit percentage volume gains in May and June versus last year," he said.

"Our coatings segments delivered excellent results. The Performance Coatings segment established a new all-time earnings record, and the Industrial Coatings segment earnings matched the previous record. This was done despite operating margins for these segments that dropped modestly versus last year as a result of the weakened April volumes and an architectural customer bankruptcy charge," Bunch said. He stated that coatings margins in May and June were consistent with the prior year, as volume growth resumed and prices were increased in all eight coatings businesses to counter inflationary pressures.

Source: Company Release

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