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**Moderator: PJ Juvekar**  
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Operator: Welcome to Citigroup hosted titanium dioxides conference call. Your host for today's call is P.J. Juvekar. Sir you may begin.

P.J. Juvekar: Yes good morning everyone and a special good evening to our speakers. My name is P.J. Juvekar and I want to welcome all of you to a special call today about titanium dioxide ore industry. TiO<sub>2</sub> industry has been in the spotlight recently. Last year we hosted a call with Jim Fisher from IBMA in December and then attended a TiO<sub>2</sub> conference in Arizona in February. And the key finding from that conference for us was that yes TiO<sub>2</sub> is tight but the TiO<sub>2</sub> ore is even tighter.

Today we are fortunate to have Iluka Resources to speak with us. Iluka makes TiO<sub>2</sub> ore and zircon. It has shares of roughly 900 million Australian dollars in 2010 and a market cap of about 4.4 billion Australian dollars.

Representing Iluka today is Dr. Victor Hugo, general manager of product and technical development and Robert Porter, general manager of investor relations. I want to specially thank both of them. Victor is calling in from Perth where it is about 9:00 p.m. and Robert is calling from Melbourne where it's about midnight. So again we really appreciate your time today.

Just quickly on their backgrounds. Dr. Hugo originally joined Iluka in 1998. After leaving Iluka in 2001 and working with mineral sciences industry researching and consulting company TZMI he rejoined Iluka in 2003 as general manager of sales and marketing. In September 2009 Dr. Hugo was appointed general manager of product and technical development. This role

oversees research and development activities related to new product and improvement in Iluka's operational performance.

The role works closely with sales and marketing in offering technical and product services to customers. He has held several; he has held different positions with Richards Bay Minerals and Cable Sands in the past.

Dr. Porter joined Iluka in December 2005. He has worked in the investor relations area for 15 years in a variety of roles including BHP Billiton where he worked through the merger process of BHP and Billiton. Dr. Porter also has government relations roles at West Pack and BP Australia.

So with that introduction let me turn the call over to Robert. They have a slide presentation that we have emailed out to you and at the end of the presentation we'll take questions. So Robert, please go ahead.

Robert Porter: Thank you very much P.J. and good morning everybody. We appreciate your interest and also the opportunity to give you a fairly brief overview of Iluka Resources and our position in the mineral sands raw material supply space. Both Victor and I will speak.

Today I'll just make some very quick introductory comments which relate to slide three if people have the slide pack. A quick overview of Iluka and then I'll turn it over to Victor to talk about some of the technical aspects of titanium ore supply, particularly in the pigment part of the market, and then I'll come back and make some brief comments about market conditions, changes in contractual arrangements with our pigment customers and also pricing outcomes of late.

So, on slide three, Iluka is an Australian based mineral sands company classified as mid-tier in Australian context with about a A\$4.6 billion dollar market capitalization. Probably a little unusual in that we're one of the few dedicated mineral sands production companies in public hands and while there are a number of titanium and zircon producers they tend to be parts of larger conglomerates or a range of juniors who tend to be more on the exploration rather than production base. We are clearly in the production and exploration, production and marketing components of mineral sands.

The company has a strong focus on shareholder value creation and delivery. I won't dwell on that but it certainly has influenced some of the decisions we've made in terms of supply and which parts of our operating base that we run, or have decided in some cases to idle.

The Iluka story is in a large part about the transformation of our asset base bringing into production two new globally significant sources of supply. One is in South Australia called Jacinth-Ambrosia, a large zircon production base and Murray Basin in Victoria in Australia which is predominantly a rutile production base but also has a strong associated zircon production stream.

I think the company can point to supply discipline through the period of the global economic crisis, particularly in relation to zircon, where we reduced our supply into the market to protect pricing outcomes. And more recently in terms of our titanium side of our business, particularly ilmenite upgrading or synthetic rutile production, where the company was idled just under half of its production capacity because of inadequate financial returns.

I think the company is at the early stages of executing marketing and pricing outcomes in both zircon and more recently in high grade titanium dioxide. We'll talk about in a little bit more detail during this presentation. And clearly our focus, given we have invested over \$600 million dollars of shareholder funds over the last three to four years on the two new production assets, is to ensure that we now generate appropriate returns for our shareholders. So on that I'll pass it over to Victor to do the next part of the presentation.

Victor Hugo: Thanks Robert and good day to everybody on the line and thank you for your time. I'm going to give you a very brief overview of the titanium feedstock market so and really just to outline the key aspects of that market and where we fit into it and the advantages we see that Iluka has as a supplier into that feedstock market.

So if I could just direct your attention to slide number five which essentially outlines the end use demand for titanium as a whole and the driving force here is that about 90 percent or just over 90 percent of demand for titanium

feedstocks is driven by titanium pigment. The other applications of titanium metal run about 4 or 5 percent and then other uses which tend to be more industrial uses, and in particular the use of titanium minerals in flexible wire or welding uses.

And so the key point is pigment demand drives feedstock demand and will continue to do so going forward. And also on the slide there's a breakdown of the various applications of titanium dioxide and pigment and the predominant application there is in paint products. Essentially it's the ingredient that makes things white; so pretty much driven by construction and to a larger extent GDP growth.

The other important thing to note is that our sales of titanium feedstocks pretty much match the end sector demand. Roughly 90 percent of our feedstocks are sold into the pigment industry and the remaining 10 percent into combination of metal and other applications. So we've matched our sales to end market demand.

Turning to slide six it's a high level overview to give you some dimensions, an idea of the dimensions of the market. If you look at the average between 2007 and even 2009 and into 2010, the total market demand was just under 6 billion tonnes of feedstock. That has grown by about 3 percent historically and as I mentioned before it's pretty much driven by global GDP growth. And I'll talk a bit more about well what does that mean in the future.

There's been some forecasts with respect to demand going forward and they range from levels of between 5 and 10 percent. You know some of that growth was from the very low base of 2009 where there was a significant drop in demand as a result of the global financial crisis. But essentially what we're anticipating is that growth will be above the historical growth trend line and I'll explain why we think that going forward.

In terms of pricing Robert mentioned previously that you know about pricing and he'll talk a bit more about that. Historical pricing increases have been fairly modest and that's largely been a result of long term contracts and cap and collar pricing arrangements.

And to put that into context, some of those cap and collar contracts have come to an end or the majority of those have come to an end for Iluka, and the price increases that we achieved between 2010 and the first half of 2011 have been in the order of 30 to 40 percent for rutile and for some of our synthetic rutile. So we've seen a step change in pricing dynamics and we're anticipating that that will continue going forward.

So just moving to slide seven which outlines the various pigment production processes and this is an important thing to understand regarding the pigment industry in that there are two distinct ways of making titanium dioxide pigment. I guess the newer and the more technically advanced processes - the chloride process - where essentially you use chlorine gas to chlorinate the titanium feedstock.

It then goes through a process of distillation and at the end of that you end up with titanium tetrachloride and at that point you can choose whether you want to take some of that material and make titanium metal using the cold process, which is the way in which just about all titanium metal is produced today, or you take it forward to the pigment and then there's essentially the split which is called oxygenation where you add oxygen and burn the titanium tetrachloride and you produce titanium dioxide and the chlorine is recycled.

The important thing to understand is that this particular process, in terms of waste, because of the nature of the feedstock's that people use, there's only about somewhere between 5 and 30 percent of what you put into the process turns out to be waste and the rest of it goes forward to pigment.

The other process is the sulfate process and that is a much older process and if you had been on this call sort of 10 years ago, most people would have been saying that that process was dying out. But in reality what has happened is there's been a bit of a rejuvenation of the sulfate process mainly because of the capacity being built in China. So just about all the pigment production is coming out of China. What happens in China is the use of the sulfate process and that's essentially because technically it's the easier process to use.

And that process is an acid digestion using a sulfuric acid to dissolve the titanium feedstock. It then goes through a purification process and produces waste. And the point I would emphasize that that waste can in some cases be up to four times the amount of pigment that you produce. So in comparison to the chloride process, the sulfate process is a process which generates far more waste and you have to do something with that waste at the end of the day.

It then goes forward through a process of concentration and finishing and so at the end of that in terms of titanium pigment you end up with products that are pretty much interchangeable. There's only around about 10 percent of pigment that is produced by the chloride process. So it's unique in terms of its end use applications and likewise there's only about 10 percent of sulfate pigment that finds its way into unique application. It's in things like the automotive industry where the chloride pigment is used as it is more UV resistant, while sulfate pigment tends to wind up more in cosmetics and in fabrics.

So turning to slide eight, the important thing to recognize is that the titanium feedstocks that are used by these two different processes are very different and within each of those processes you can get a large range of titanium feedstocks being based on their titanium content. So there tends to be a highly segmented market and without too much ability to substitute one titanium feedstock for another. Certainly there's very few feedstocks that are used for both the sulfate process and the chloride process.

You often hear people talking about chloride feedstocks and sulfate feedstocks because they are distinct. The qualities that pigment producers look for in a chloride feedstock are very different to what they look for in a sulfate feedstock. And within the chloride process people can use anything from about a 60 percent TiO<sub>2</sub> (titanium dioxide) product all the way through to something that's around 95 to 96 percent and that continuum of feedstocks creates different values.

So often when you try and understand the pricing of titanium feedstocks at first it can be quite confusing because you have quite a large range of pricing.

But what you see is that as you move to the higher TiO<sub>2</sub> feedstocks you get an increase in pricing but it's not always on a linear basis.

And I explain why that is the case in slide nine, which really just highlights the value of the higher TiO<sub>2</sub> feedstocks. It's important also to highlight that Iluka's product portfolio tends to be heavily weighted towards the higher TiO<sub>2</sub> feedstock products. We produce probably the most rutile in the world. We are also the largest synthetic rutile producer in the world despite the fact that we have two kilns that are currently idle.

So we are operating in the top end of TiO<sub>2</sub> feedstocks, although we do produce by virtue of geology and geography, what we call chloride ilmenite which is around about 60 percent TiO<sub>2</sub> and we sell directly to one pigment producer.

In terms of why we are focused on the high end of the TiO<sub>2</sub> feedstocks, there's some clear advantages we see for pigment producers related to the amount of waste generated. The higher the TiO<sub>2</sub> the less waste there is. There's also less chlorine and other inputs cost that are incurred.

It also turns out there are less impurities that disadvantage pigment produces. So you're getting a purer feedstock and therefore it's easier in terms of processing. And I guess the thing that we're seeing is that there is not in recent years because status of the pigment industry and the fact that many pigment producers have struggled, not just through the global financial crisis but even through several years before, that there has not been a lot of investment in new capacity, particularly in the chloride sector.

We are seeing now a very strong demand for pigment. There's very strong demand for high quality pigment and the people that are producing this kind of pigment are operating pretty much at full capacity. And one of the easiest ways of increasing capacity is to move up the titanium feedstock TiO<sub>2</sub> curve so if you use a feedstock with higher TiO<sub>2</sub> you can probably do so more cost effectively and improve the capital efficiency of your outputs.

So at a time when demand is very strong and you need to produce more, the benefit of using a higher grade TiO<sub>2</sub> feedstock is more pronounced. We

certainly are seeing greater demand for the high end feedstock and what we have done over the course of quite a few years is ensure that we understand what we call the value in use of our products versus other products. We understand what value our high TiO<sub>2</sub> feedstocks bring to a pigment producer.

Moving to slide 10 because I just want to give our view of where supply and demand is heading. In terms of demand we spoke about GDP being the biggest driver of pigment demand and we certainly have seen that historically.

What we are seeing going forward is China has now become the second largest consumer of titanium pigment and the Chinese economy is growing the fastest in the world. So we're anticipating that there is going to be a kicker in demand going forward. And our conservative view is that demand growth will be around about 3.5 percent year on year and as we move forward to 2020 as you can see on slide 10.

Taking that demand and overlaying it with supply what we see - this is a supply demand graph for chloride feedstocks and we've used in that particular chart a more conservative forecast of 3.2 percent - the thing that is obvious is that demand is going to run away from supply unless new projects come on line fairly soon.

So we are anticipating that this tightness that we're seeing in the market right now is going to continue in the absence of a lot of new capacity coming online, in terms of new feedstock projects. And our experience has been that many projects, or historically projects, take a long time to go from discovery through to actually first production and there are a number of projects that have been around for well over 20 years before they started producing.

So the ability for new plants or even existing plants to turn on capacity in terms of titanium feedstocks is fairly limited. So we anticipate that we're going to see this supply dynamic increase as we go forward over the next few years. I'll hand back to Robert Porter.

Robert Porter: Thanks Victor. I'd just like to make some brief comments about how Iluka has seen the feedstock market conditions following on from what Victor had said, and then also some of the trends which are becoming evident in terms of



pricing. If I could just turn to slide 13, some contextual comments in terms of where Iluka sits in terms of its supply situation.

Our company, as I mentioned before, has invested over \$600 million dollars on bringing on two new operations, which came into operation over the last 12 months. Relative to our then market capitalization that was a big commitment of shareholder funds. And clearly there's now an expectation on the part of our shareholders and on the part of the board and management to generate an appropriate return for that capital which has been invested, particularly in the context of what has been a history of poor profitability within the mineral sands space and of which Iluka has been no exception.

If you look at our return on equity over the last five years it has averaged zero over that period of time so clearly an unacceptable situation in terms of financial performance. And I think it's well recognized the financial returns for raw material suppliers, such as Iluka, have to improve if there is to be further investment in new capacity in the industry.

I would like to make a couple of comments about our synthetic rutile product which Victor has referred to. We have four ilmenite upgrading kilns which in total have the capacity of about 500,000 tonnes. We would be roughly two thirds of the synthetic rutile supply market globally. What we have done as contractual arrangements have allowed is that we have idled two of our four synthetic rutile kilns. So effectively taken out nearly half of our capacity.

Now the reason for that is that we've been generating a cash margin and that was all on both kilns, and we were very clear that we would not run any asset which did not generate an appropriate return either on sunk capital or replacement capital. So we had taken significant amount of volume out of the market place. Clearly that has tightened the supply in terms of high grade titanium dioxide feedstocks.

We are running at effectively one and a half kilns this year with a base kiln which is about 200,000 tonnes and the second kiln we're running mainly on a research and development basis and we, at this stage, intend to idle that kiln in the middle part of this year. This is the guidance we've provided on about

220,000 tonnes of synthetic rutile production in 2011. We are considering reactivating a second kiln so that would mean two kilns running in 2012. That decision and of course to reactivate any further idled capacity will depend purely on economics.

Turn to page 14 and associated with that reduction in synthetic rutile capacity we have certainly seen a situation through 2010 and 2011 where the raw material supply situations for high grade titanium has tightened. There is a situation in the industry of low stock of high grade titanium ore. Iluka finished 2010 with minimal inventories and we expect to finish 2011 with minimal inventories of high grade products of rutile and synthetic rutile.

So there is evident tightness within the high grade titanium feedstock market influenced by lack of availability of new material production sources, perhaps reflecting inadequate returns over the last decade from mineral sands produces and a lack of incentive to invest in greenfields exploration to keep the project pipeline refreshed.

There have been delays in project ramp up from significant new projects, one in particular, and as I mentioned our actions in terms of reducing synthetic rutile capacity. I think it's clear to those of you who follow the pigment part of the market place that there is a concern from customers downstream of us in terms of the availability of high grade feedstocks and I think any of you who have looked at some of the recent results announcements and teleconferences by pigment producers would see that being reflected in some of the comments by the pigment producers.

Again as I think this audience would be aware there has also been significant pigment price increases through 2010 and through the first part of 2011 which, to us is a good indicator that the pigment producers clearly understand that raw material prices will need to increase and they have perhaps increased their prices in anticipation of that.

For Iluka, from a mineral supply point of view and after an extended period of time of poor returns, we believe we may be entering a more favorable set of market conditions which should generate higher raw material feedstock prices

and over time higher more appropriate returns, influenced by those sectors which Victor addressed, including China's demand for imported chloride pigment.

Slide 15 cap and collar contractual arrangements - this is really the fundamental change which is happening within the titanium raw material market in terms of contractual and pricing arrangements. And for those who are not familiar, Iluka and also the other major titanium feedstock suppliers have operated under contractual arrangements for an extended period of time - at least for a decade - where the majority of high grade materials have been sold under cap and collar contracts, which had two main components.

First, essentially volume commitments, often over more than one year to customers and then the situation where pricing increases are determined generally on an annual basis and for those pricing increases constrained to often no more than CPI or low percentage increases. Granted there's a been a floor on pricing and prices cannot go below zero, but if you look at Iluka's average annual rutile price increase over the last five years it's been 2.1 percent. Synthetic rutile has been 3.6 percent.

So clearly relative to other raw materials other commodities, mineral sands have not displayed anywhere near the type of pricing dynamics which would relate to a scarce raw material.

The change for Iluka is that all of our rutile cap and collar contracts ended in December 2010 and for all intents and purposes, all of our synthetic rutile cap and collar contracts ended at the end of December 2010. So we are now pricing products on the basis of unconstrained contractual conditions which have been the situation over a long period of time.

If you turn to slide 16, the approach Iluka adopted for the pricing and contractual arrangements for titanium raw materials feedstocks for the first half of 2011. Volume commitments to customers on the products we supply - rutile, synthetic rutile for example - all are typically for a maximum of one year. So again that's quite different from the historically norm.

Secondly we've been in a situation because of supply constraint where we haven't been able to meet the volume requirements of all of our customers. And so in effect they have not been able to gain the full volume requirement they need for the feedstock for their plants. And as Victor said, we have achieved what is a step change or material increase in rutile, synthetic rutile pricing. Relative to an average synthetic rutile price in 2010 of \$450 dollars U.S. a tonne and of rutile of around \$550 dollars U.S. a tonne, prices for the first half increased in the range of 30 to 40 percent.

It is our intent to determine pricing for the second half in May or June and we would, as Victor said, we would see that pricing dynamic playing out potentially for a period of time given the overall supply constraint of high grade materials. Clearly under this environment we're working cooperatively with customers in the constrained supply environment.

Just to finish up if I could, the final slide which is slide 17. I would like to remind you all that titanium raw materials - rutile, synthetic rutile- are one part of Iluka's product suite. We also supply a product called zircon. Iluka is the largest global supplier of zircon with just over a third of total market share.

The zircon market is also in a supply constrained situation; in fact it's in a deficit situation and has been since the beginning of 2010. In zircon, and in effect similar to what we've done in high grade titanium feedstock pricing, we have led the market. We think in zircon that's our role to play. Iluka is the largest market participant and in zircon we are resetting prices on a quarterly basis over the course of 2010 through pricing increases the magnitude of about 30 percent, with end 2010 zircon prices above \$1,000 dollars a tonne. A further 20 percent in price increase in the first quarter of 2011 and we are currently engaging with customers in the terms of prices for the second quarter.

It's been a very deliberate approach to ensure that our customers have notification at least a month in advance of what the price increase will be so they have the ability to then reset their prices with their customers. And we've been very deliberate not create a shock to the system, but an

arrangement where there can be a sustained of raw material cost increase and cost flow through the value chain; a similar approach we expect might be adopted in terms of high grade titanium feedstock pricing. So P.J. at that stage we'll complete the formal part of our presentation and I'll pass back to you.

P.J. Juvekar: Robert and Victor thank you. That was a great presentation and gives us a good understanding of the ore market. Before we go into Q&A let me start the Q&A by asking a couple of questions and then we'll see if there are questions on the line.

But in pricing terms you mentioned that you'd gone from annual to half yearly. Do you see that conduct going even shorter maybe to quarterly at some point and you know you talked about \$450 dollars per tonne synthetic rutile price what pricing do you need to bring those other two kilns into production?

Victor Hugo: Yes, so I guess to answer the second part first what sort of pricing do we need to bring those kilns on. It's really a function of a couple of things. One is ilmenite, as synthetic rutile is made from ilmenite and then the ilmenite is a high cost component of production cost of synthetic rutile.

So the price that we need for the synthetic rutile and for us to bring that additional capacity on is really determined by A, where can we source the ilmenite from and B, what is that price of the ilmenite. We obviously have in our own minds the amounts that we are looking at developing in the future to feed those kilns.

One reasons why I'm in the role that I'm in now as opposed to sales and marketing is looking at can we do more with the ilmenite that we currently produce and particularly the ilmenite from the Murray Basin which is in terms of quality is not the greatest ilmenite in the world but we do produce a fair amount of it.

So I guess depending on what ilmenite we ultimately use as feedstock for the kilns we're anticipating that prices getting close to the current price of rutile, so the \$800 dollars a tonne mark starts to look attractive to us depending on

what the cost and what's going to happen with the Australian dollar exchange rate versus U.S. because just about all of our products are sold in U.S. dollars.

So there's no clear cut answer, it's not a price that will push us over the line but we are certainly getting to a pricing regime which is starting to look interesting in terms of that idle capacity.

To answer the other question about the frequency of price changes I think it'd be quite a bold step to go from annual pricing to half yearly pricing. We've had to work really hard with our pigment customers to get them to accept that concept. So we would anticipate that we will continue with fixed quarterly pricing until people are comfortable with that before we decide whether we're going to do something more frequent. It also tends to be less of a dynamic market than the zircon market where we do a lot of our pricing on a quarterly basis now. So yes we could go to quarterly pricing but I don't anticipate we're going to do it within the next 12 months.

P.J. Juvekar: Great and you know we've seen this in other commodities as well that as end prices go up it seems that more and more value is being accreted to the upstream guys and it seems like that's the case in TiO<sub>2</sub>. Would you agree with that statement?

Robert Porter: Well you know I think the comments that I made in terms of the poor returns that Iluka has had on a historical basis for a range of reasons, partly perhaps contributed to by the constraints we've had on pricing and the ability to price to titanium feedstocks.

So it's our view that we're part of the value chain where we control the scarce resource in terms of the raw materials. And clearly you've seen dynamics play out in other commodities over a period of time where there's been quite appreciable increases in the cost of the raw material inputs. Given the scarcity factor which exists both for zircon and for high grade titanium feedstocks it's our intent to make sure that we generate appropriate margins and returns for our shareholders.

P.J. Juvekar: And last question for me is about China. They continue to add up to 100,000 tons of capacity per year in a 5 million ton market. You know what do you

think will happen to Chinese capacity after learning how to make chloride what are they in that process and how much of your feedstock goes to China. Thank you.

Victor Hugo: I'll probably answer that Robert.

Robert Porter: Yes Victor.

Victor Hugo: The Chinese are certainly building a lot of capacity and have done so over the last 10 years. You know I think the question that everybody asks is not if China producers will go to chloride technology but when. So in how many years time will we be in this migration from sulfate processes to chloride.

And then certainly there's a lot of Chinese producers and government agencies that are looking at that switch because as I mentioned before in terms of environmental impact the chloride process is far less impact than the sulfate process. And so you know ultimately it will happen; are we going to see a huge change in capacity over the next five years - I don't think so. But in the 10 year horizon I definitely think we'll start to see that happen and as we've seen in China once it happens, it gets replicated very quickly so it ultimately there will be a move to chloride.

In many cases there's probably an overcapacity of sulfate production in China. It has a huge number of producers in China of various scales. But probably the top four or five producers now have a majority of the market share and I think what we will see a consolidation and a rationalization of the industry within China just as we've seen with many other manufacturing, chemical manufacturing businesses. And a lot of the smaller, dirtier, less efficient businesses will just be shut down. So there will be ultimately some regulation of the amount of output that comes from China.

There is, by virtue of that we produce predominantly chloride feedstocks and the market in China is predominantly the sulfate process. We do not sell a lot of our TiO<sub>2</sub> products in China. We sell a lot of zircon because that's the largest zircon market in the world. One of the product development activities that we are looking at is to see whether we can produce a physical sulfate feedstock for the Chinese market.

So again coming back to utilizing what we consider byproducts or waste products and turning that into a product that could be used in the sulfate process, we see that as being a big market and a market. So it's clearly something that's on our radar in terms of market opportunity.

P.J. Juvekar: Great, thank you. Operator can we open the lines for Q&A please.

Question: Hi yes I was wondering you commented, you talked about pricing I think in the first half. You were seen up 30 to 40 percent. Are you saying that for the back half of the year you think that's what you're seeing or that's what you anticipate for 20, the second half of 2011?

Victor Hugo: Excuse me can we replicate that price increase?

Question: Yes.

Victor Hugo: Well I think to answer on behalf of our marketing guys I don't think we've made a decision just yet as to where we think prices may or may not go. We'll probably only make that decision around about May possibly June. But we'll be governed in terms of that increase and we're certainly anticipating that there will be an increase by the tightness in the market. So you know will it go another 30 to 40 percent, will it go higher or slightly less we haven't decided yet?

Question: OK and can you just explain what the difference is between rutile and synthetic rutile and what it can be?

Victor Hugo: Sure. Rutile is essentially a natural product. It contains about 95 percent TiO<sub>2</sub> and in essence that TiO<sub>2</sub> content is what is within the mineral grain. So if you mine it and process it and concentrate it you end up with a product with 95 percent TiO<sub>2</sub> and all you've really done is a variety of physical separations to purify that particular mineral. So it's not a chemical treatment or beneficiation.

Synthetic rutile, and I guess it's counterpart titanium slag, is essentially a beneficiated product where you start off with ilmenite and in the case of



synthetic rutile what we do is a reduction using coal and a process and that reduces the iron in the ilmenite to metallic iron and then we have a further process which effectively rusts out that iron so you're left with a TiO<sub>2</sub> product with anything between 87 or 88 percent TiO<sub>2</sub> all the way up to 95 percent TiO<sub>2</sub>. So it's a beneficiated product and hence the name synthetic rutile.

Question: OK and then could you guys just talk one less time about the capacity in your markets. You said you took off how much capacity do you have fully and how much is offline right now and you were saying that I think the price right now is about synthetic rutile I thought you said was, I think I had it at 550 per ton. You were saying you would need to get it at like 800 for you guys to consider bringing on the other capacity. Could you just review that?

Robert Porter: I can make a comment on the capacity if you'd like Victor.

Victor Hugo: Sure.

Robert Porter: We have four synthetic rutile kilns which have different capacities but in total there would be in the order of 500,000 tonnes of synthetic rutile. We have idled two of those four kilns. As I said this year we plan to run our largest kiln which has a capacity of about 200,000 tons and we'll run another kiln for part of the year.

So the guidance that we provided is about 220, 240,000 tonnes of synthetic rutile. So effectively if we go back to two kilns in 2012 which is our intent although our formal decision hasn't been made on that, we would have close to 300,000 tonnes of synthetic rutile capacity.

Victor Hugo: Do you want to comment on the price?

Robert Porter: Yes I think, one of the practices that we may be a bit opaque on is price I apologize for that in advance. So the...

Question: But you didn't say rutile was did you say 410 a ton at the end of 2010 and synthetic rutile was 550?

Robert Porter: I think if you work on the basis for the percentage increases we talked about the synthetic rutile averaged about \$450 dollars a tonne in 2010 and rutile \$550 dollars a tonne.

(Michael Shrekty): OK it was backwards.

Robert Porter: If you follow through the 40 percent increase on those base prices. Again we are being somewhat circumspect for reasons which you could probably understand about being specific levels of pricing we might require to reactivate idled capacity.

We are in a situation where we've taken out capacity for a very deliberate purpose; that is we weren't generating appropriate returns and now the market set of dynamics is that people obviously concerned about supply. We need to be confident about achieving sustained higher prices before we would make a commitment to reactivating idled capacity. So, clearly, the discussion on what price would be required is really one that we would have with our customer base rather than telegraphing it more widely.

Question: Do you think your competitors view it similarly as to their, as to what price they would consider bringing on, bringing back on capacity?

Robert Porter: I'm not able to speak to that. That's probably a hard one for us to have observation on.

Victor Hugo: Well I guess when I look at it there's not a lot of capacity, other capacity that's been idled around the world. Potentially through difficulty in production outputs there are a couple of cases where people are struggling on the mining side of things to fill up their kilns or upgrading facilities.

So it's not a case of everybody having a whole lot of idle capacity. And everybody else is running it as best as they can as it where. So certainly while we think in terms of meeting that forecast demand you need new projects basically or new mines to come on. One of the challenges is that there's very few projects in the pipeline that are going to be able to come on in the time horizon that this new capacity is required.

Question: And just lastly, do you think given the difference in technology it seems like the chloride process is more complex at least and more effective do you think there are Chinese companies that would want to acquire some of the other smaller titanium dioxide producers out there you know like a Tronox or a Kronos is sort of owned by one person but.

Victor Hugo: Yes that's a question and something that people have been discussing for some time and there was a lot of debate particularly during 2009 when Kronos was struggling, and whether China would buy them out at that point purely for the technology.

I think what appears to be the case is that the Chinese approach is more around developing the technology themselves through the use of a variety of consultants who have previously worked in the chloride industry over several sort of decades.

So my personal view is it's probably unlikely that a Chinese company would look at buying a Kronos or anybody else that could potentially be up for sale. It's going to be more organic development.

Question: And just last question I appreciate it. Why is it that the Chinese use the sulfate process more than the chloride process? Is it just more the complexity of the chloride or is it a resource availability issue. Could you just explain that?

Victor Hugo: I think it's been more the sulfate process; its far simpler and the intellectual properties is more loosely held so it's been easier for them to acquire that technology and once a number of companies in China got that technology it's one of the things that has blossomed in terms of almost copy cat construction approach.

Until recently the capital cost of building a sulfate plant in China was not that great and they didn't have to worry too much about the environmental issues that sulfate producers, say in Europe or Japan, had to be concerned about. So I think that's changing when you look at the cost of building plants now in China; it's certainly increasing and the amount of money and effort that

they're having to put into the waste disposal is increasing. So I think that it's going to be an impetus for them to get to a chloride process.

Question: OK great and just lastly is it roughly one pound of rutile that goes into you know one pound of TiO<sub>2</sub>?

Victor Hugo: Yes, pretty much. You do lose a small amount. It might be up to 5 percent. If you don't use 100 percent TiO<sub>2</sub> and rutile, then there is some recovery loss. So it's probably more like you know 1.04, 1.05 pounds of rutile to one pound of pigment.

Question: Hi thanks for taking the call. On the high grade titanium sponge you mentioned 4 percent growth to the metals. Is it same breakdown in terms of Ilmenite and rutile usage or where the metals that they use more rutile or more synthetic versus natural? Could you give me more color on that?

Victor Hugo: I'm sorry I was really struggling to hear everything you were saying. Could you just repeat that?

Question: Sure, on the metal side which is only 4 percent but for metal side is there any difference between the usage of the Ilmenite versus natural or synthetic rutile. Do they use more rutile versus Ilmenite or they use more natural versus synthetic?

Victor Hugo: It's really governed by geographical production. So places like the U.S. or Japan tend to use more of the rutile or high grade titanium feedstocks whereas production in China and former Soviet Union often will start with ilmenite and then produce a beneficiated product like a slag which then goes into production of the titanium metal.

So it's quite different, depending on the quality and the technology. But if you're looking at markets in U.S. and Japan it's certainly dominated by using feedstocks like rutile or upgraded slag or an upgraded synthetic rutile.

Question: And if I just can confirm the pricing you mentioned \$450 dollars per ton for natural in 2010 rutile. So should I assume 40 percent up from this pricing in 2011 first half?

Robert Porter: It was \$450 dollars a tonne weighted average for synthetic rutile and rutile was \$550 dollars a tonne, yes.

Question: And I should, so price is increasing about 40 percent from this number?

Robert Porter: Yes 30 to 40 percent is the range that we gave. I just didn't want to be too specific OK.

Question: And is that increase in price similar on the Ilmenite side?

Robert Porter: Victor can give you a view on this as well. But ilmenite is not a large part of our product suite. To the extent that we can we use ilmenite or upgrade ilmenite in our synthetic rutile kilns; we would prefer to do that. So it's not a major part of our value stream so we don't comment specifically on ilmenite pricing.

Question: And I have been hearing that many paint companies are working on cutting down products or cutting down the content of rutile TiO<sub>2</sub> within their paints through you know come up with substitution products or stuff like that. Do you see that impacting the demand going forward or have you heard from your customers on any push backs to pricing created or you know what if they're working on paints that doesn't use as much TiO<sub>2</sub> as before?

Victor Hugo: There has been some discussion and we've seen a couple of articles about the use of alternatives to titanium dioxide in paints. In our analysis and our discussion with customers, that's according to the pigment producers, is that in reality any of those whether you call them fillers or alternatives would only replace a very small percentage and necessarily only in specialized application.

So for your general paint if you want to have the paint that is going to be white you need to put in a certain percentage of titanium dioxide pigment and you just can't get away from that. So you know in reality there's no alternative to pigment.

So it certainly seems to be some posturing on the part of the paint producers because they now feel that after many years of being able to determine the contractual or pricing for pigment that dynamic has changed over the last 12 months. So you can understand why they try to look for alternatives or at the very least put on a brave face about their dependence on pigment. The reality is if you're going to make and sell paint you need to have a large percentage of that paint containing is titanium pigment.

Question: OK, I understand. And from my understanding on this industry is that it wasn't really profitable in the past because of some South African mines that came on line and it was government supported and stuff. Do you see them responding to this pricing in a massive way that it can you know destruct any pricing increases in the long term?

Victor Hugo: Well I mean essentially what happened is during the course of probably the last 15 years there has been a number of projects that have come on and done so just ahead of the demand curve. So we've had a situation where a number of people have either expanded or started new projects and it's always been just that too much supply in the market and it's been one of the reasons why we had these cap and collar contracts because people are more concerned about protecting volume than price.

So if you look at the entire example of the facilities that they put in from the around about beginning of 2000, they've struggled to make a return and really they are in a position now where they're having to invest fairly substantial capital simply to maintain output as opposed to them about expanding output.

So you know what we certainly think is that most companies like ourselves have had not made an adequate return for shareholders over the last 10 years or so are now very encouraged by the price increases we've seen except for those still bound by contracts.

So there's a lot of support certainly for what we are trying to do on pricing and in most cases people simply do not have the ability to expand. It's going to take some time for new supply to come onto the market.

Question OK understood. Thank you very much.

P.J. Juvekar: Operator can we get one more question. I want to be respectful of Robert and Victor's time. I know it's getting close to 1:00 a.m. in the morning for Robert. So can we take one more question and if there are any more questions please email them to us and we will forward them to Iluka to get them

Question: Hi thanks for taking the question. I had a few but I'll just ask a two part and depending on your time you can answer whatever you can. One was just you mentioned how at capacity is idled I just want to understand what would be like while you were sitting on idled capacity while some of your comments the rest of the world doesn't seem to be. And second as you tried to revamp this idled capacity what were the impact on the pricing and the sourcing of the Ilmenite that you would need to revamp it?

Robert Porter: Well shall I do the first part Victor and then you can...

Victor Hugo: Yes sure.

Robert Porter: If I understood the question correctly and interrupt me if I haven't. Is it essentially why have we idled this capacity while we seem to be in very tight market conditions? If that is the thrust of the question, the basic reason is that we operate a business which is very much focused on, as an external measure, a return on equity and where the internal proxy for that is a return on capital.

And we had a situation where we were running synthetic rutile kilns on no more than a fairly meager cash margin and we were required to do that because we were locked into these long term contracts and it was difficult for us to do other than operate according to those contracts. So the statement was made by our Managing Director quite clearly in public forum that we would not run any asset unless we generated an appropriate return.

I think there may have been some disbelief as to whether or not we would give a effect to that commitment given that this has been an industry which in large part has been very production oriented and has often been proud to stand up at the beginning of the financial year and say well "we're fully sold in terms of all of our volume", whether or not that is the best outcome in terms of shareholder interest may be another matter.

So as soon as we could practically do so we idled one and then we idled a second synthetic rutile kiln during the course of 2010. We did produce more synthetic rutile than we had budgeted and we sold that small volume into the market to existing customers at an appreciably higher level than the then contracted pricing arrangement. So we in effect got a lead indicator if you like on what spot volumes might sell for.

We were going to idle the third kiln and I think from memory Victor at the end of last calendar year we were paid a sufficient amount by a number of customers so that kiln could run longer - at actually it was in the middle of last year that we were paid enough to run that kiln through to the end of 2010 and we are still running it now for a period of time. So it purely and solely comes down to economics.

The kilns have pretty much been fully depreciated but it will be require an adequate return on what we assess to be the sunk capital or replacement capital. Then we will operate and if we don't get that then they will remain idled. It's as simple as that. We're not in the business to supply sub-optimal margin production into the market. We're in business to generate appropriate returns to shareholders. And we will maintain that discipline, I'm sure, until we do get confidence of adequate returns.

Victor Hugo: Just to answer I guess the other part of that question in terms of bringing on any new capacity with synthetic rutile or any other products you know we will only do so in a manner where we believe it's not going to impact on the current pricing dynamics. So it's certainly not in our interest to over supply the market simply because we want to start up idled capacity or bring on a new mine when we don't have to. So you know whatever we bring on will be done in a very disciplined way and ensure that we do not disrupt our own price as I mentioned.

In terms of the ilmenite and where is that going to come, from well I guess there's a variety of forces that we are looking at. As I mentioned before we do produce a significant amount of the ilmenite from operations in Victoria. The challenge that we have with that ilmenite is that it's not ideally suited for



synthetic rutile production and you know one of my objectives for this year is to look at changing our technology or what we can do with our technology in order to make that ilmenite a suitable feedstock and if we can do that there's a big price because right now that is a material with very low value and therefore if you can use it in a synthetic rutile it provides an ability to make better margins from that synthetic rutile.

So that's one avenue and we still have large resources and reserves of synthetic rutile ilmenite in West Australia that we haven't mined yet so we do have the option if we so choose to utilize that ilmenite through starting up a new mine.

And the third option, that we have been doing for many years, is to buy ilmenite from third parties and convert that into synthetic rutile. So at the end of the day if we choose to start up one or two of those idled it will be a combination of Ilmenite from those various sources.

P.J. Juvekar: Great well at this point we're going to end this call given the timing restraints that we have and the fact that it's in fact 1 o'clock in Perth. So I want to thank both Robert and Victor for taking part in this conference call. I think it was a fascinating call, lots of questions, lots of interest. If you have any further questions please email them to us and we'll get them to Iluka. We also emailed out our disclosures to all of you with the slides and if you haven't received them please give us a call. But again Robert and Victor thank you for your time and thank you all.

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