

# Zircon Market Update



ZIA Conference

Christian Barbier – General Manager Zircon Sales, ILUKA RESOURCES

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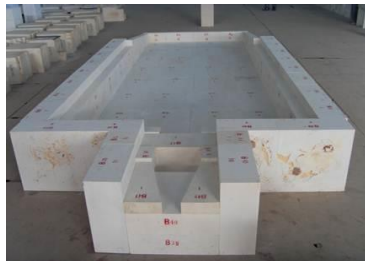
## Non-IFRS Financial Information

This presentation uses non-IFRS financial information including mineral sands EBITDA, mineral sands EBIT, Group EBITDA and Group EBIT which are used to measure both group and operational performance. A reconciliation of non-IFRS financial information to profit before tax is included in the supplementary slides. Non-IFRS measures have not been subject to audit or review.

This presentation constitutes a summary of Iluka’s financial performance and should be read in conjunction with the Iluka Resources Limited ASX Preliminary Final Report – 31 December 2014, which contains financial statements and consolidated financial statements of the group.

- **Zircon Markets in 2017**
- **Supply & Demand Balance**
- **Commodity vs Industrial Mineral**

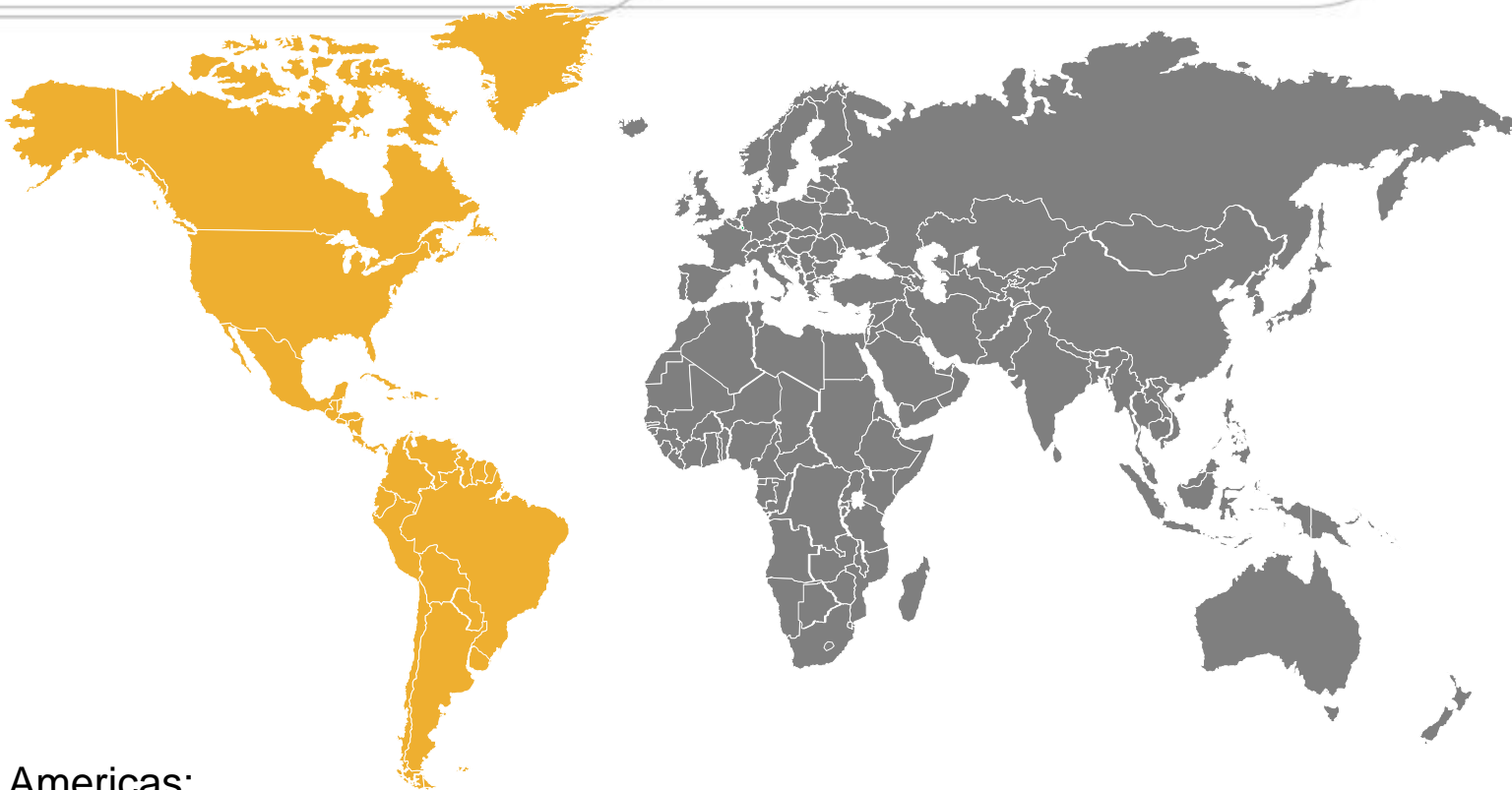
# Zircon Markets in 2017



## General observations:

- Low overall growth over the last few years.
- Ceramics continues to grow moderately.
- Steel and glass overcapacity has weighed on refractories.
- Global infrastructure needs.
- China hasn't hard landed.
- New forecasts: light at the end of the tunnel?

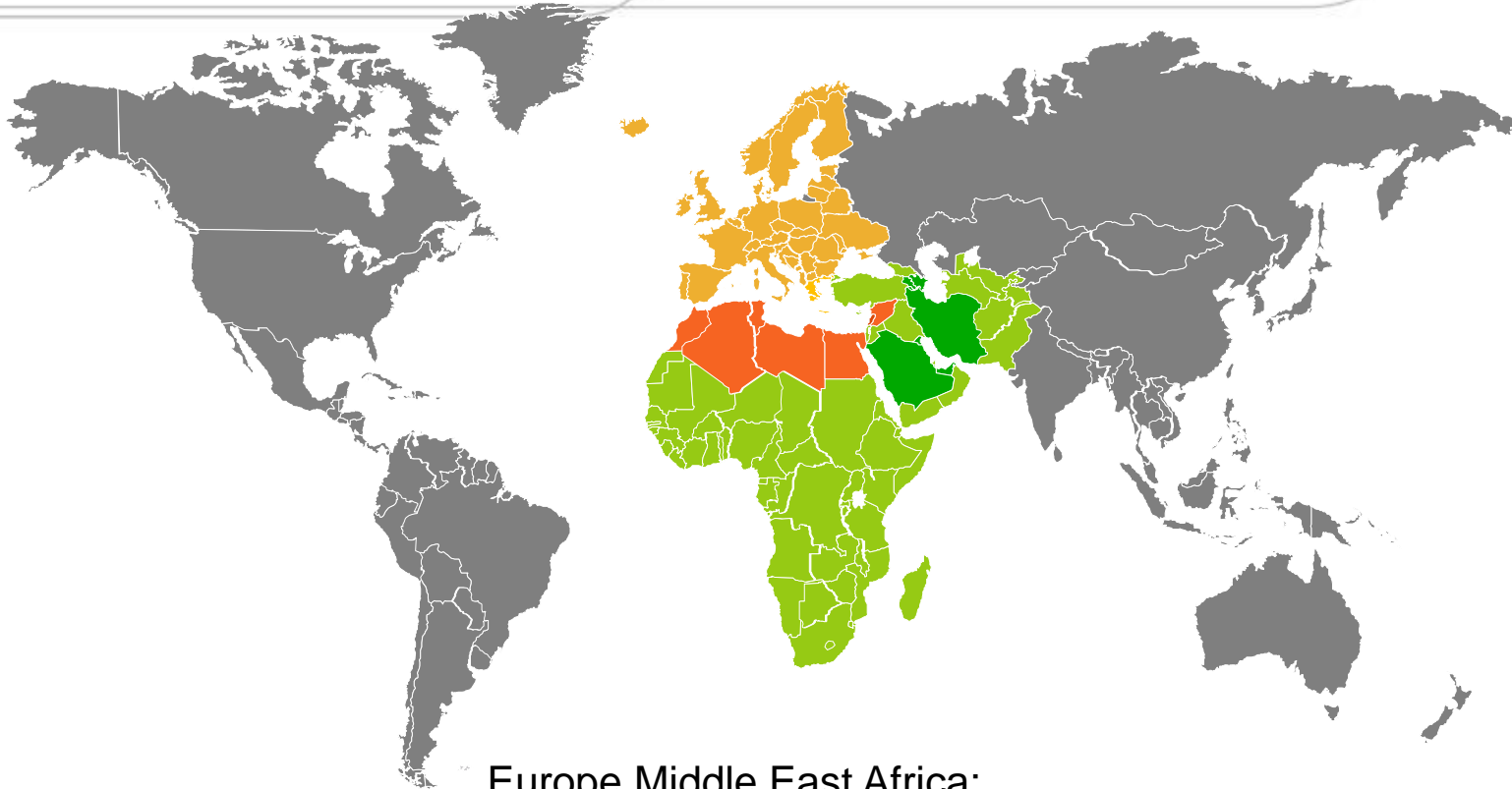
# Zircon Markets in 2017



## Americas:

- Stable demand in North America.
- ✗ Infrastructure projects.
- ✗ No increase yet in Oil & Gas .
- ✓ Aerospace and automotive are faring well.

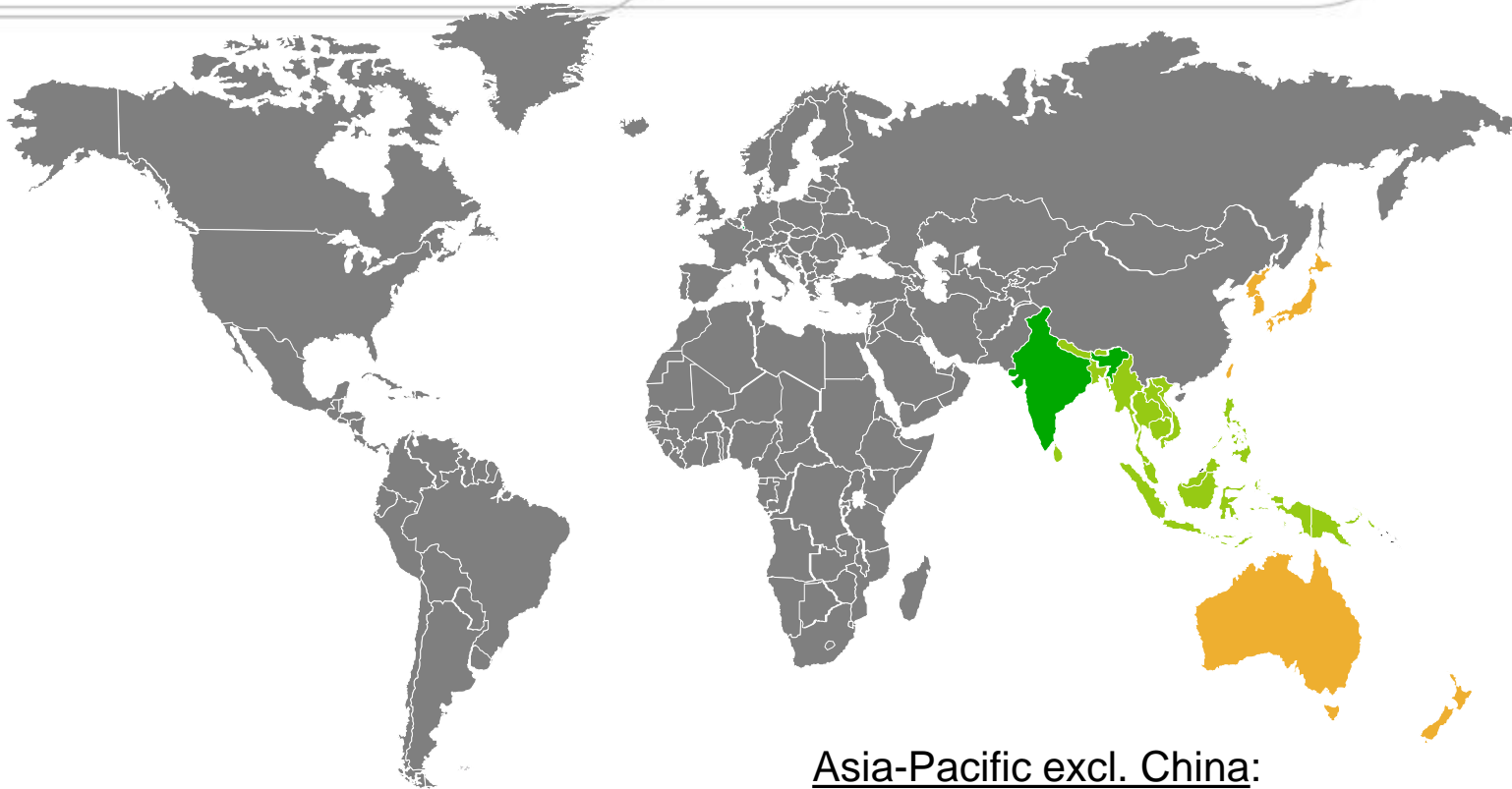
# Zircon Markets in 2017



## Europe Middle East Africa:

- Europe in line with seasonal trend.
- ✓ Spanish and Italian ceramic markets.
- ✓ Middle East demand improving.
- ✗ North Africa still facing difficulties.

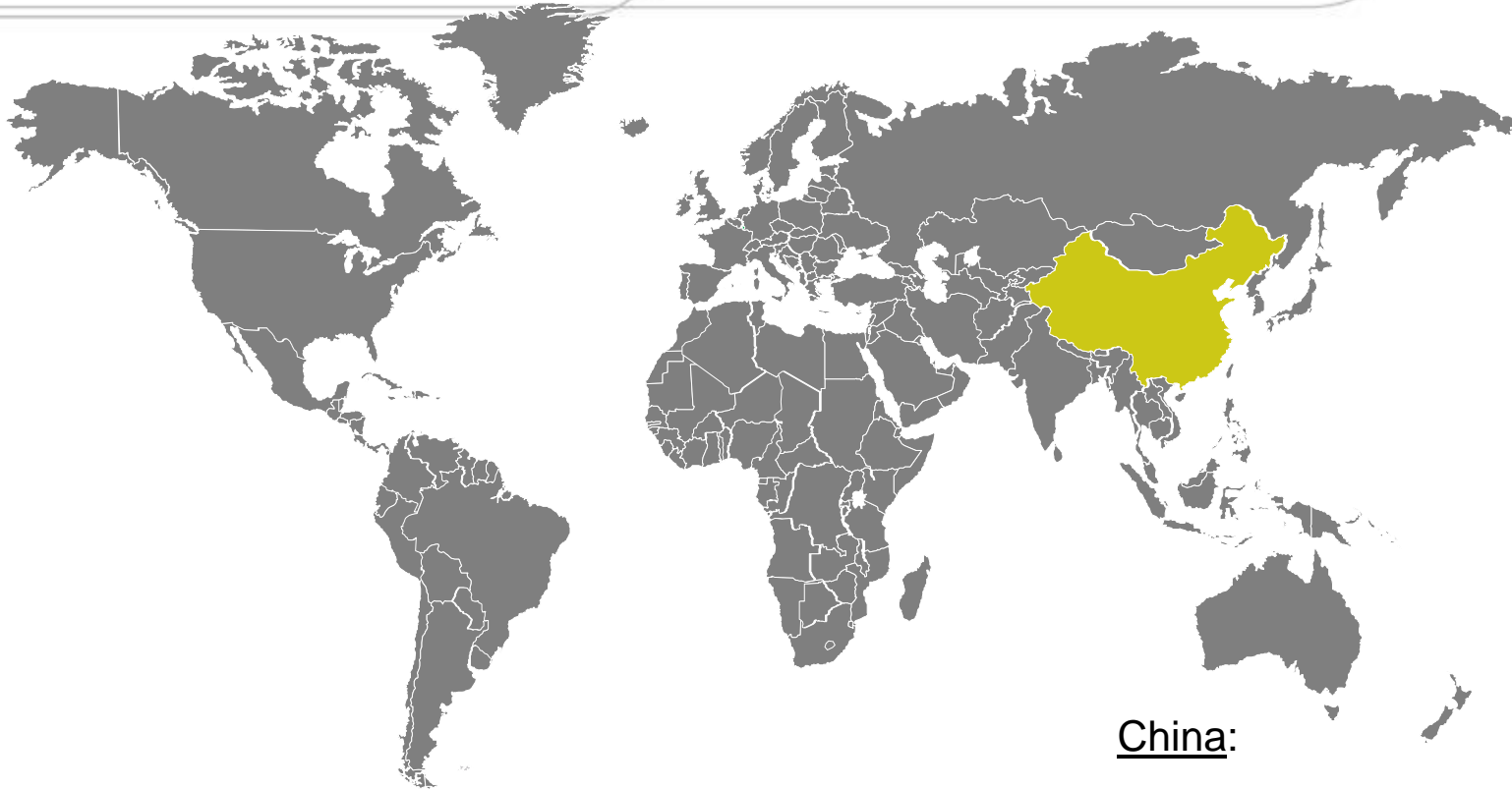
# Zircon Markets in 2017



## Asia-Pacific excl. China:

- ✓ India: strong growth, infrastructure & reforms
- Asean: stable but highly competitive
- Japan/Korea/Taiwan: wait-and-see, positive signs

# Zircon Markets in 2017



## China:

- Overall stable, low level of stocks.
- ✓ Real estate still positive.
- ✗ Environmental closures (from North to South).
- ✓ Industry consolidation.



- **Zircon Markets in 2017**
- **Supply & Demand Balance**
- **Commodity vs Industrial Mineral**

# Supply & Demand Balance

## Tightness has arrived

Recovery in prices  
since 2H 2016



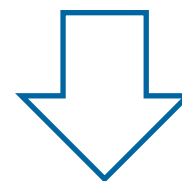
Downstream  
restocking  
movement



Buyers can't  
stock up much



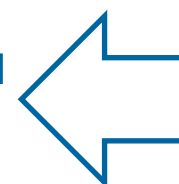
Reduction in producer-  
held inventories



- No inventory build up and some demand can't be met.
- However underlying demand shows very modest growth overall.



Mix of denial and  
active buying



Iluka balances supply  
when some miners  
reduce deliveries

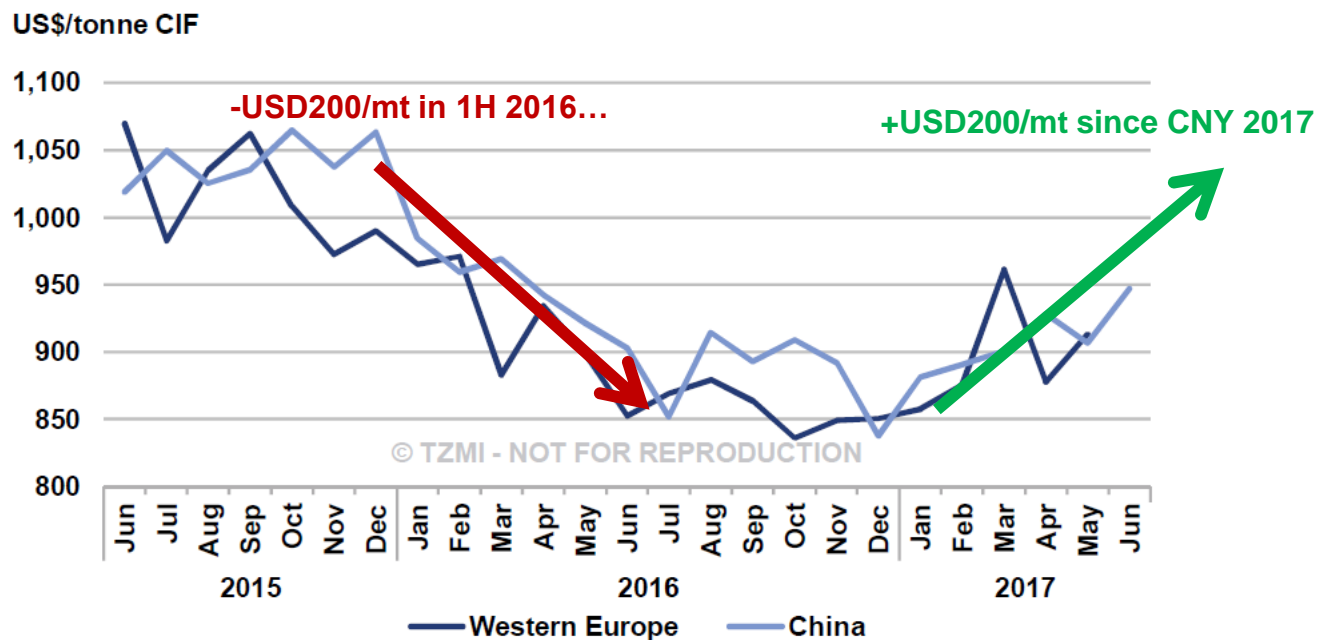
# Supply & Demand Balance

Tightness has arrived

The change was very quick

AVERAGE CIF PRICES FOR BULK ZIRCON INTO CHINA AND WESTERN EUROPE: JUNE 2015 – JUNE 2017

Unsustainable  
prices don't last.

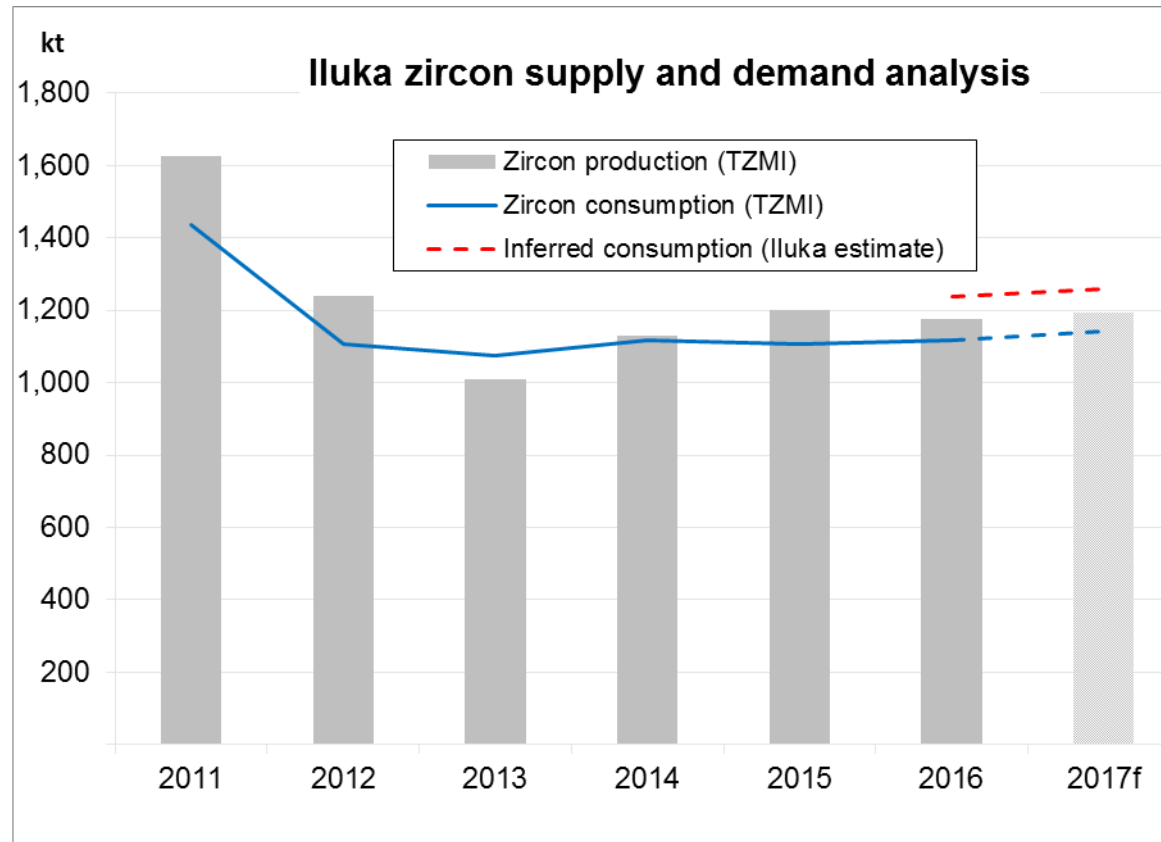


# Supply & Demand Balance

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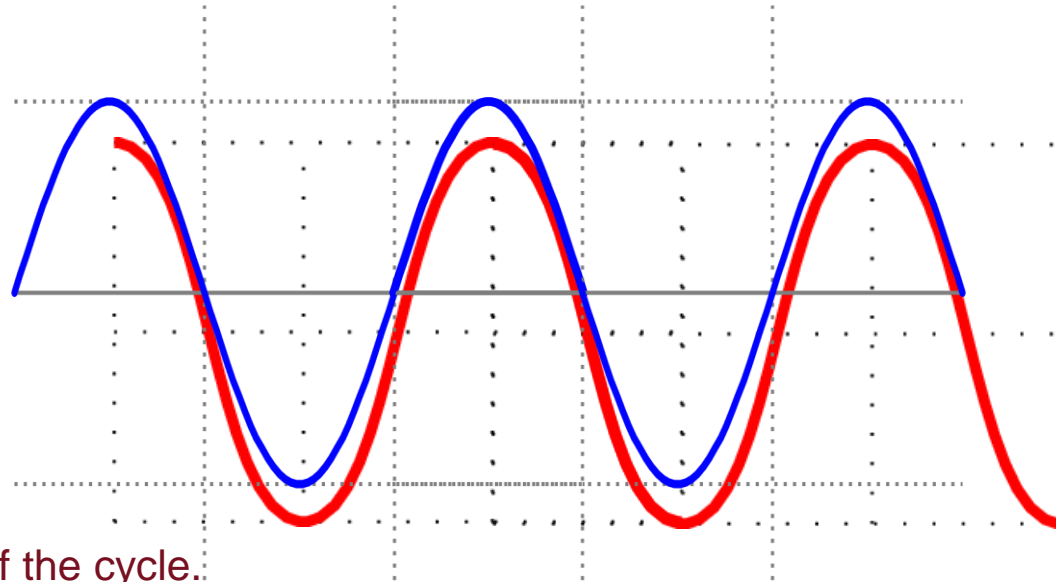
Many were surprised



- Zircon Markets in 2017
- Supply & Demand Balance
- Commodity vs Industrial Mineral

# Commodity vs Industrial Mineral

## The “Commodity Curse”



- Taking advantage of the cycle.
- Not focusing on product value.
- Insufficient margin throughout the cycle.
- Behaviour reproduces the cycle.

### ILUKA

- prefers LT sustainable pricing based on value-in-use,
- won't engage in opportunistic pricing and fuel a short peak.

# Commodity vs Industrial Mineral

**Zircon is a better product... but there are lower quality substitutes**



- ✓ Opacity – whiteness
- ✓ Hardness
- ✓ Low thermal expansion
- ✓ High melting point
- ✓ Thermal conductivity
- ✓ Chemically inert
- ✓ Low neutron absorption



# Commodity vs Industrial Mineral

## What the industry should focus on

### DEVELOPING VALUE:

- Protects from Substitution
- Environmental Impact
- Better rather than More
- Technology in Processing

### INDUSTRIAL MINERALS:

- Technical Development
- Commercial Initiative
- Sustainable Practices
- Financial Discipline

**2017-2019 isn't 2010-2012**

Responsible behaviour to ensure long term prosperity of all in our industry.



Christian Barbier, General Manager Zircon Sales  
christian.barbier@iluka.com

