

Iluka Resources Limited

Responding to New Market Dynamics

Mike Folwell Managing Director & Chief Executive Officer

Industrial Minerals Conference

San Francisco, March 2006

The presentation provides Iluka's perspectives on the key dynamics of both the titanium dioxide and zircon markets. Both markets are changing dramatically, although in different ways. This presents challenges, and equally opportunities, to all suppliers of titanium mineral and zircon products.

As one of the leading industry participants in global mineral sands, Iluka is well placed to respond to these changing dynamics and to be a key participant in influencing the shape of the industry to the benefit of its shareholders and customers.

Iluka's ability to respond to and have some influence on the changing industry dynamics is based on a number of factors:

- Iluka's understanding of global mineral sands markets as well as ability to display market leadership in a number of areas. A key example is being instrumental in moving zircon supply and pricing from a relatively volatile spot pricing basis to a more stable longer term contractual basis.
- Iluka's commitment to the mineral sands markets, reflected in it being Iluka's core business, as well as the company's major investment in production capacity to satisfy market demand.
- Iluka's fashioning of clear, longer term strategies for participation in both the TiO₂ feedstock and zircon markets.

TiO₂ FEEDSTOCK MARKET

The TiO₂ feedstock market is highly competitive, generally displays lower profitability and can be expected to become more competitive over the next 5 years, in large part because of additional supply coming onto the market.

Iluka's response to this situation will be to continue to improve its market positioning in terms of the quality of its product portfolio, customer service, contractual arrangements, and continue to use the advantages of its low sovereign risk production locations to access growth markets, such as China.

Iluka is planning for production growth, in line with market demand for the next 10 years.

The TiO₂ pigment market comprises stable end markets. These comprise mature markets, such as the developed western markets of the United States, Europe and Japan, where demand is relatively static as shown in the following table.

TiO₂ Pigment Market Dynamics

• Pigment demand shifting to developing regions – China, Central and South America and the Asia-Pacific region

	2005 Consumption '000 tonnes	Growth 2006-2007
North America	1,390	1%
Western Europe	1,270	1%
Asia-Pacific	1,240	5%
China	640	5%
Japan	240	1%
Central & South America	240	5%
ME & Africa	160	3%
Eastern Europe	120	3%
Global		3%

Source: Company data



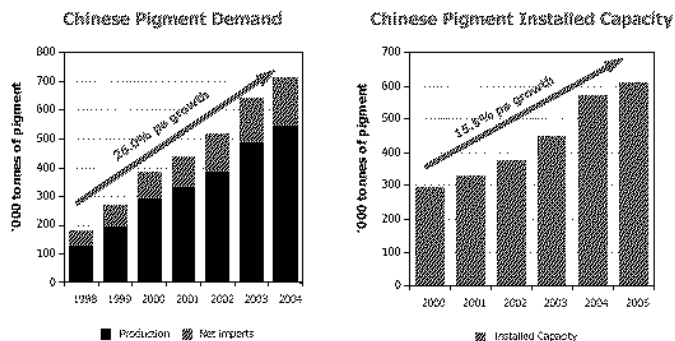
Growth in demand is coming from the developing regions, including China, South East Asia, South America, East Europe and the Former Soviet Union. It is in these regions that very strong pigment consumption rates are forecast.

Overall, global demand in 2005 was flat, after strong growth in 2004.

Iluka expects demand growth over the next few years to return to historical levels of around 3%, aided mainly by the growth economies.

Pigment production growth is occurring in those regions where there is growth in demand. In China, production growth has been dramatic over the last 6 years (average 26% pa). This growth has been in the sulphate process, although with investment expected in the chloride process by DuPont from around 2010. Iluka expects that other established pigment producers will follow, either through direct investment or joint ventures, where the pigment producers provide the technology and Chinese companies provide the capital.

Major Growth in Demand from Developing Regions



Source: TSM, Company data



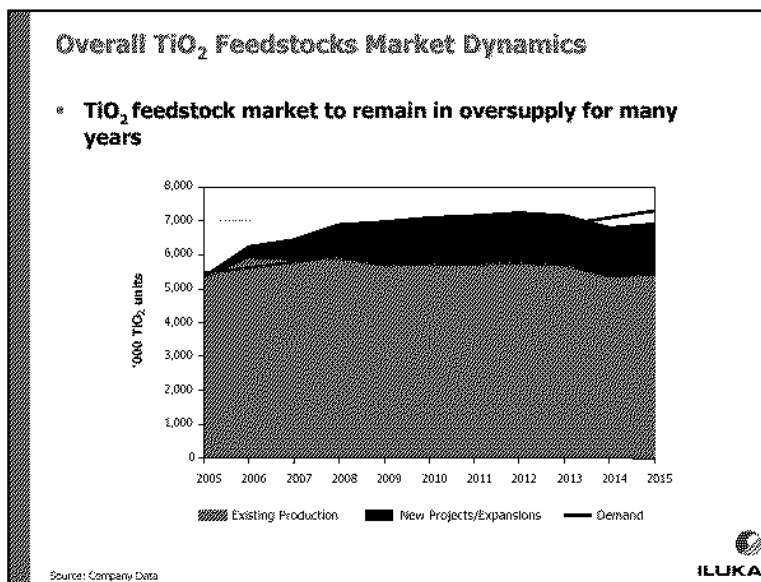
The growth of installed pigment capacity in China is running at over 15% per annum since 2000. Other areas of pigment production growth include the Middle East, for example, Cristal in Saudi Arabia, and other established producers in Eastern Europe and the Former Soviet Union.

Iluka expects that additional production capacity will prevent pigment prices from increasing dramatically. The threat is that an explosion in Chinese production may result in the lowering of pigment prices. This has occurred for other products, for example zirconium chemicals, rare earth elements and a host of manufactured goods.

The profitability of most pigment producers improved in 2005 compared to previous years, but is still well below acceptable levels. The benefit of modest increased pigment prices were largely off-set by higher input costs - fuel, gas, chemicals, moderate increases in feedstock prices.

Profitability of TiO_2 feedstock producers has not fared very well either, with rising energy and labour costs, together with strong local currencies, continuing to erode margins. Feedstock producers have been assisted by higher zircon and pig iron prices over last two years. Successful producers will therefore require strong co-product streams going forward.

Looking forward, Iluka sees the TiO_2 feedstock markets remaining in oversupply. This applies to both chloride and sulphate feedstocks. This is partly due to the expansion of production from existing producers, but also new entrants commencing production.



The number of new entrants and their success will remain to be seen and history shows that there have been few successful projects started up by new players in mineral sands. However, expansion plans by well-established producers indicates that even if some of the new projects are not as successful as proposed, there will still be continued oversupply of a variety of feedstocks.

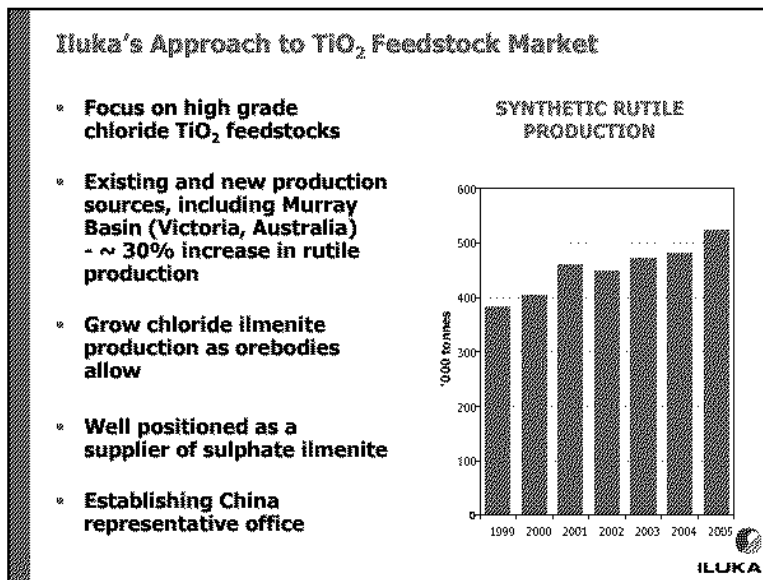
Industry leaders at previous conferences have lamented the loss of value from both feedstock and pigment producers to downstream users of TiO_2 pigment. Others have argued that the price of paint and coatings could rise significantly without a slow-down in demand. Where this is the case, then some of the lost value could be returned to the miners and pigment producers.

However, the reality of the supply-demand dynamics is that while there is excess capacity of both feedstocks and pigments, downward pricing pressure will remain.

Iluka has felt the effects of rising costs, particularly at its Florida/Georgia operations, where the company made the decision towards the end of last year to close these operations during the course of 2006.

However, as previously stated, Iluka's TiO_2 strategy is to focus on profitable growth of very high grade chloride TiO_2 feedstock products - synthetic rutile and rutile. Iluka is a world leader in these products and this strategy still remains relevant.

Iluka has been able to increase synthetic rutile production from its Western Australian operations by 30% over the last 5 years through maintenance and utilisation improvements. 2005 was a record year with production of 530 thousand tonnes.



Despite the age of Iluka's Western Australian ore bodies Iluka s has significant reserves and resources in this region and has plans to continue synthetic rutile production for well into the next decade from these ore bodies.

With the start up of the Douglas Project in the Murray Basin, in Victoria, Australia, later this year, Iluka will increase its rutile production by about 30%. This will be further increased when the Northern Murray Basin comes on line in late 2007. The expected life of the combined Murray Basin projects is over 20 years.

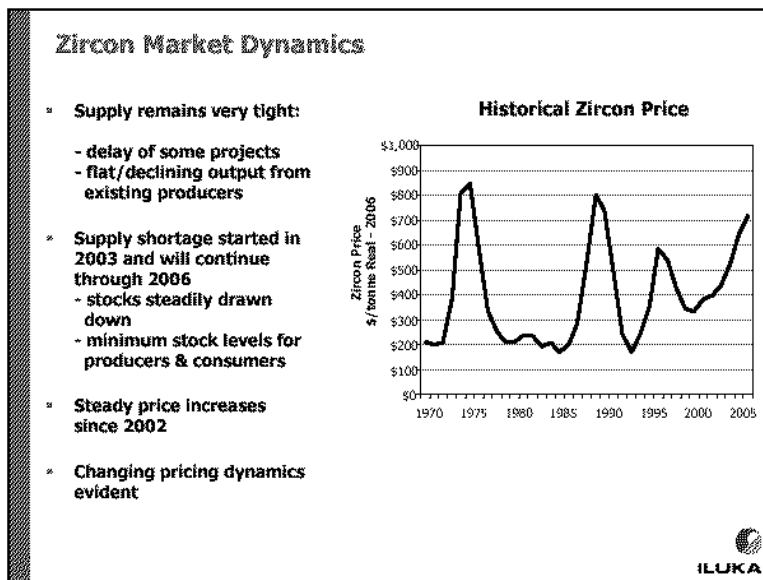
Chloride ilmenite remains an important product to Iluka and Iluka will continue to look at ways of increasing overall chloride ilmenite production from both existing and new projects. The growth of sulphate pigment capacity in China has allowed Iluka to build a strong position for its sulphate ilmenite in this country. However, the markets for this product remain very competitive. With additional domestic Chinese production, the proposed lifting of export restrictions on ilmenite from India, the continued supply of concentrates from Vietnam to China and a number of proposed new projects possibly coming on line in the next few years, the market for sulphate ilmenite will become more competitive. Iluka is fortunate in that sulphate ilmenite is not a major revenue contributor and having established a strong position with the market, it expects to remain a major supplier of sulphate ilmenite.

China is seen as a major growth market for titanium feedstocks and could potentially completely change the industry demand dynamics. As such, Iluka is establishing a representative office in China to take full advantage of the changing opportunities within this country. While China does have large reserves of sulphate ilmenite, it contains very little in the form of chloride grade feedstocks, or ilmenite which can be beneficiated to chloride slag. Once chloride pigment production gains momentum in China, producers will have to import feedstocks and Iluka, by virtue of its product mix and geographical location will be well positioned to serve this market.

ZIRCON MARKET DYNAMICS

The zircon market dynamics are different. Demand remains strong, especially in the developing economies. There is a real threat of a structural deficit developing. The pricing outlook has been robust since 2000, and this is expected to continue. Iluka would also expect the continuation of the trend of change in marketing and pricing arrangements, to longer term or at least annual volume and pricing negotiations.

Iluka's approach in the context of these market conditions is to continue to invest in new production capacity to increase zircon availability. Iluka has also sought to bring greater price stability to the market through its zircon marketing strategy, which is underpinned by attempting to provide security of volume to customers based on longer term pricing agreements.



Demand for zircon is largely driven by the ceramics market, which consumes just over 50% of zircon. Growth in ceramics demand has largely come from increased tile production in China, India, South America and Eastern Europe, while production from traditional countries like Italy and Spain has declined slightly.

Aside from ceramics, demand remains very strong from all sectors, particularly zirconium chemicals, zirconia and investment casting. Where there has been a decline in demand, such as in CRT glass production, any spare zircon has quickly found a home in other sectors.

Looking forward, strong demand growth is expected to continue in ceramics, zirconium chemicals/zirconia and zirconium metal – the latter based on the re-emergence of nuclear power.

Again much of the demand growth in these sectors has come from China, South East Asia and a re-invigorated Japanese economy.

Despite growing demand supply remains very tight due to delay of some projects and flat to declining output from existing producers.

The supply shortage started towards the end of 2003 and will continue in 2006. During this time stocks within the supply chain have been steadily drawn down so that today both producers and consumers are operating on minimum stock levels.

Historic pricing trends show that the price of zircon spiked dramatically during times of undersupply, or even during times of perceived undersupply. This was largely due to a far more fragmented market, where traders, with a short-term focus, sold a large percentage of zircon on a spot basis. The result was that zircon prices dropped just as quickly, and to very low levels, when the market became oversupplied.

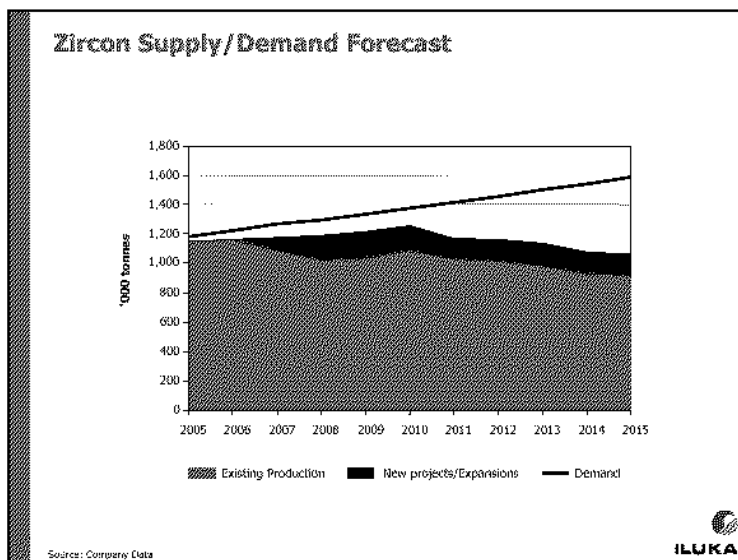
Since 2002 zircon prices have risen in a steady, uninterrupted trend as a result of the increasing tightness in the market.

The most asked questions in relation to zircon prices are:

- To what extent will prices continue to rise?
- When will the market turn, either through a drop in demand or through additional supply?
- How quickly and how far will prices drop when the market finally turns?

Iluka's view is that zircon sand prices will continue to rise while the shortage in the market remains.

The accompanying chart shows zircon production from existing projects and potential new projects and expansions, although not including Iluka's Eucla Basin project, South Australia. In Iluka's assessment, the supply gap will widen. This is largely due to flat or declining production of existing producers, plus the view that not all the new projects proposing to come on line will start-up in their planned timeframe. Some projects may not start-up at all, while others may not reach their planned production output due to technical or production related difficulties. It is Iluka's view that over 100,000 tonnes of zircon is required to refill the industry pipe line and return stock levels to their normal levels.



It should also be noted that many so-called zircon projects will still need to sell between 4 and 6 tonnes of titanium products into a very competitive market, for every tonne of zircon sold. This forecast is based on the assumption that there is no large scale substitution of zircon in one or more of the end market sectors. The threat of substitution is real and one only has to look at what happened when the Japanese steel industry substituted out zircon for alumina-silicates to see its effect. With the rise in zircon prices to their current day level, questions surrounding substitution have intensified.

It should also be recognized that respected industry commentators had previously forecast that substitution would start to occur when zircon prices reached around US\$430/t FOB in today's terms. Clearly zircon prices are well above this level and demand remains strong.

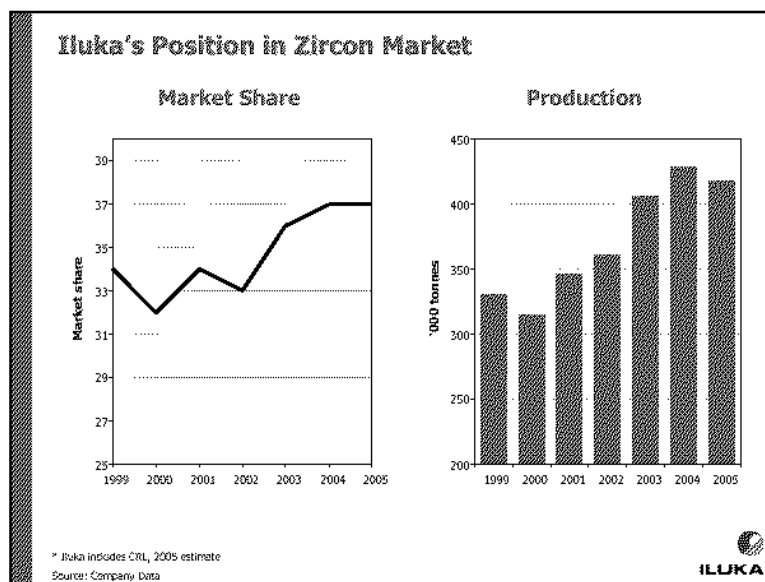
It is also worth noting that as prices for zircon sand has increased so too has the price of many end-use products. Zircon opacifier and flour prices have increased significantly in the last 3 years and zircon millers have enjoyed healthy margins since 2003.

All markets are cyclical and at some stage the zircon sand market will turn. The question then is how quickly and HOW far will prices fall?

In Iluka's view, we have entered a new era of zircon pricing since 2003, 2004. The zircon market has clearly demonstrated over the last few years that it can not only bear, but also prosper, at the new pricing levels.

It is also important to remember that the profitability of existing mineral sands producers and the high cost of developing new titanium/zircon mining projects, means that sustained high zircon prices will be required for new supply to come on-stream.

Iluka is the largest producer of zircon in the world, with an estimated market share of 37% in 2005. It has been able to increase zircon production by 27% over the last 6 years in response to increase market demand.



In 2006, Iluka's zircon production will again increase and this will partly off-set the global supply shortage currently being experienced.

It is Iluka's intention to profitably grow zircon production as market demand allows. This is occurring on three horizons.

First, producing more zircon from existing operations. This effort is focused upon the Western Australian and Queensland operations. The efforts include: improved recoveries and innovative processing methods, such as the use of a mobile tailing recovery plant at the Narngulu facility in Western Australia; as well as the development of brownfields opportunities close to existing mines and processing facilities. These efforts are expected to increase zircon production for Iluka from its Western Australian operations in 2006.

The second approach is by investing in new projects to increase zircon production. The major investment in the Murray Basin in south eastern Australia is testament to this commitment.

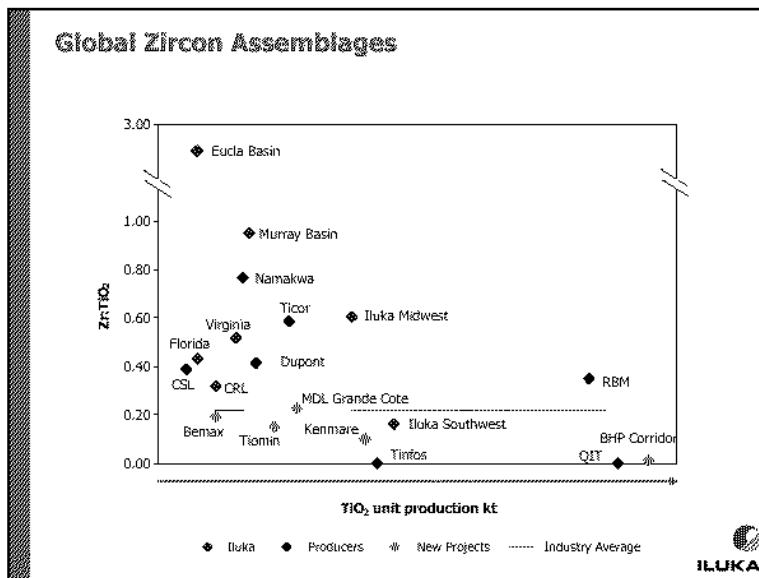
First production from the Murray Basin is likely in the third quarter of 2006, with the northern Murray Basin providing the potential for incremental production. In total, the Murray Basin should deliver over a 100 thousand tonnes of zircon from 2007. Overall, Iluka's zircon production is expected to increase by over 15% during the next few years.

The third means by which Iluka is seeking to increase zircon production is via investment in exploration activities. Iluka spends approximately A\$20 million on exploration annually, and believes that this is money well spent, when one considers the success of discoveries in the Eucla Basin in South Australia.

Iluka's discoveries in the Eucla Basin are the most significant zircon discoveries since the Eneabba ore field in Western Australia was found in the late 1960s/early 1970s. Potentially, these discoveries are the only resources which could fill the growing supply deficit towards the end of the decade. Iluka is currently undertaking a pre-feasibility study for the potential development of the Eucla Basin discoveries.

With only limited exploration activity to date, three discoveries have been made and 7.9 million tonnes of insitu Heavy Mineral classified as resources. The zircon assemblages are between 50% to 68%, over ten times the global average zircon assemblage.

The accompanying chart shows the relative position of Iluka's Murray Basin development and Eucla Basin discoveries in terms of zircon assemblages relative to TiO_2 . Both assets have a high zircon assemblage, with the Eucla Basin resource ranking as a superb zircon assemblage discovery. Clearly, this will allow Iluka to preferentially produce zircon without the same market challenges of selling associated titanium products, which is a feature of most mineral sand discoveries.



Iluka will continue to implement its existing marketing zircon strategy, which aims to move the market to a new era of more stable dynamics with appropriate commercial arrangements which recognize the importance and value of zircon to both supplier and customer. The underlying intent is to provide surety of supply to customers and to remove uncertainty and market volatility. This has been partly achieved over the last three years by moving from spot selling to longer term contractual arrangements and the move towards annual prices.

CONCLUSION

In conclusion, Iluka is confident that the strengths which will make it successful in the TiO_2 feedstock markets will also apply to the zircon market. These include its ability to supply a range of high quality products; Iluka's long history of reliable supply and excellent customer service and ability to develop and maintain contractual positions with major, long-term customers.

Iluka also believes its geographical location, and in particular Australia's geographic proximity to and understanding of some of the key growth markets in China and Asia position it strongly. Ultimately, these attributes have to be underpinned by a high quality and long-life resource base and the company is confident that its efforts over recent years have and will continue to build this fundamental basis of the business in both the titanium dioxide and zircon markets.

For further Information please contact:

Dr Robert Porter
 General Manager, Investor Relations
 Iluka Resources Limited
 Email: Robert.porter@iluka.com
 Phone: +61 8 9360-4751
 Fax: +61 8 9360-4336
www.iluka.com