8 May 2012

KEY PHYSICAL AND FINANCIAL PARAMETERS - UPDATE

Iluka Resources Limited (Iluka) today advises a number of changes to its 2012 Key Physical and Financial Parameters document, issued on 23 February 2012.

Iluka has stated on several occasions that it expected a soft quarter or two of zircon demand associated with the impact of global economic conditions on customer confidence and business conditions in various markets, together with the effect of various government policy measures globally and the need for a destocking period, especially for ceramics manufacturers.

Iluka has also stated previously that it expected it would take some time for a clear view on overall 2012 zircon demand and the phasing of that demand to emerge.

After a low first quarter, zircon sales volumes improved in April. While there is some evidence of improved economic traction in major economies such as the US and China, contra-indicators also exist and large eurozone countries are exhibiting increased weakness in the face of prevailing austerity measures. The global economic outlook therefore remains far from clear.

Accordingly, Iluka has decided to reduce its zircon production in 2012, from the previously advised ~500 thousand tonnes to ~430 thousand tonnes, while maintaining its high grade titanium dioxide production. The zircon production adjustment will be achieved mainly via mining lower grade ore at Iluka’s Jacinth-Ambrosia operation in South Australia and processing less zircon-rich concentrate at its Narngulu and Hamilton mineral separation plants. This approach provides the maximum operating flexibility, as well as rapid response capability to return to full production throughputs at the mineral separation plants.

Iluka now forecasts its zircon sales for the full year to be ~400 thousand tonnes compared with the previously forecast ~450 thousand tonnes.

Zircon pricing year to date is in line with Iluka's expectations and previous pricing commentary provided by the company.

Lower zircon production is likely to mean some increase in unit cash costs of production from the initial guidance of ~A$650 per tonne of zircon/rutile/synthetic rutile (Z/R/SR). The impact of fixed costs and some operating inefficiencies mean that unit cash costs of production are expected to increase to ~A$700 per tonne of Z/R/SR, an increase of approximately eight per cent. Unit cash cost variances at this level should be viewed in the context of estimated revenues per tonne of approximately US$2,300/tonne of Z/R/SR, based on prevailing prices and therefore a still material increase in margins when compared with 2011.

There is no change to guidance for titanium dioxide production and sales from that issued at the beginning of the year, with market conditions and sales forecasts in line with expectations.

Overall, Iluka expects its zircon/rutile/synthetic rutile sales volumes to be approximately one third/two thirds weighted between the first half and second half of 2012. Based on the revised zircon sales and assuming current pricing, Iluka's total revenue mix is expected to be approximately 50-55 per cent titanium dioxide with the remainder zircon and by-products.

Capital expenditure is also planned to increase from $220 million to approximately $260 million in 2012, associated with the bringing forward of expenditure related to the Cataby project in Western Australia in areas such as the accommodation camp, power infrastructure and land purchases; plus additional expenditure for the Balranald project in New South Wales, mainly related to the timing of hydrology work.

Iluka has updated its Key Physical and Financial Parameters document to reflect these changes and is available on the link below.

Key Physical and Financial Parameters Iluka 2012 May Update

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