Iluka Resources Limited ABN 34 008 675 018
ASX Preliminary final report - 31 December 2013

Lodged with the ASX under Listing Rule 4.3A

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The preliminary report is based on Financial Statements which are in the process of being audited.

RESULTS FOR ANNOUNCEMENT TO THE MARKET

All currencies shown in this report are Australian dollars unless otherwise indicated.

Revenue from ordinary activities	Down 25.8% to $853.2m	
Profit from ordinary activities after tax attributable to members	Down 94.9% to $18.5m	
Net profit for the period attributable to members	Down 94.9% to $18.5m	
Dividends		
2013 final: 4 cents per ordinary share (100% franked), to be paid in April 2014		
2013 interim: 5 cents per ordinary share (100% franked), paid in October 2013		
2012 final: 10 cents per ordinary share (100% franked), paid in April 2013		
2012 interim: 25 cents per share (100% franked), paid in October 2012		
Key ratios	**2013**	**2012**
Basic earnings per share (cents)	4.4	87.1
Free cash flow per share[1] (cents)	(6.6)	19.4
Return on Equity[2]	1.2	23.2
Net tangible assets per share ($)	3.65	3.74

[1] Free cash flow is determined as cash flow before refinance costs, proceeds/repayment of borrowings and dividends paid in the year.
[2] Calculated as Net Profit after Tax (NPAT) for the year as a percentage of average monthly shareholders equity over the year.

OVERVIEW OF RESULTS

Iluka recorded a profit after tax for the year of $18.5 million, compared with $363.2 million for the previous corresponding period.

Sales volumes of zircon, rutile and synthetic rutile (Z/R/SR) increased 19.5 per cent year-on-year finishing 2013 at 584.4 thousand tonnes compared to 488.9 thousand tonnes in 2012. Mineral sands sales revenue for the year ended 31 December 2013 was $763.1 million (2012: $1,069.8 million). Revenue per tonne of Z/R/SR sold during 2013 declined by 41.1 per cent to $1,173 per tonne, compared with $1,991 per tonne in 2012.

Total cash production costs in 2013 were reduced by 35.5 per cent from 2012 levels to $376.1 million (2012: $583.5 million). The lower total cash production costs arose from lower utilisation of some assets, a reduction in employment levels and other cost saving initiatives.

Given the fixed cost component of the business, unit cash costs of production of $798 per tonne of Z/R/SR reflected some inefficiencies at low production levels when compared with 2012 (2012: $719 per tonne of Z/R/SR). These inefficiencies can be expected to reverse as production reverts to more usual levels. Unit cash costs declined in the second half of 2013 to $748 per tonne of Z/R/SR (1st half 2013: $848 per tonne), reflecting 13.7 per cent lower cash production costs in the second half, following the idling of the Tutunup South mine and synthetic rutile (SR) kiln 2 in Western Australia in the first half.

Total cash production costs exclude restructure and idle costs, which amounted to $69.6 million in 2013 (2012: $14.8 million). Restructure costs amounted to $33.5 million, which compares to $50 million of expected restructure costs disclosed in the 2012 Annual Report, the lower outcome reflecting better than anticipated commercial outcomes.

Mineral sands EBITDA for 2013 was $249.0million, a 65.7 per cent decrease compared with the previous corresponding period. Mineral sands EBIT decreased by 94.7 per cent to $27.7 million (2012: $523.3 million) including idle asset write downs of $40.0 million (2012: $nil).

Mining Area C iron ore royalty earnings (MAC) increased by 21.6 per cent to $87.9 million (2012: $72.3 million), reflecting higher iron ore sales volumes and price and higher capacity payments of $4.0 million (2012: $3.0 million).

Group EBIT was $73.5 million, a decrease of 86.5 per cent compared to $545.7 million in the previous corresponding period.

Profit before tax was $24.0 million (2012: $512.2 million). A net tax expense of $5.5 million (2012: $149.0 million) was recognised in respect of the profit for the period, at an effective tax rate of 22.9 per cent (2012: 29.1 per cent).

Earnings per share for the period were 4.4 cents compared to 87.1 cents in the previous corresponding period. The number of fully paid ordinary shares on issue at 31 December 2013 of 418.7 million was unchanged during the period.

Free cash outflow of $27.5 million compares to a free cash inflow of $81.2 million in the previous corresponding period. Operating cash flow remained positive at $124.0 million although at reduced levels from the previous corresponding period (2012:$368.7 million). Tax payments of $140.1 million compare to a tax expense of $19.7 million. Payments in the year include $118.4 million in respect of earnings in 2012.

Net debt at 31 December 2013 was $206.6 million, with a corresponding gearing ratio (net debt/net debt + equity) of 11.8 per cent. This compares with net debt at 31 December 2012 of $95.9 million and a gearing ratio of 5.8 per cent. Undrawn facilities at 31 December 2013 were $579.6 million (2012: $718.2 million) and cash at bank was $46.4 million (2012: $54.3 million). Free cash flow in January 2014 was $78.1 million (January 2013: $6.0 million) and net debt at 31 January 2014 was $130.5 million (31 January 2013: $98.0 million).

DIVIDEND

Directors have determined a fully franked dividend of 4 cents per share, payable on 3 April 2014 with a record date of 6 March 2014.

OVERVIEW OF SALES AND PRODUCTION

	2013	2012	% change
Sales (kt)			
Zircon	370.2	213.8	73.2
Rutile	168.0	105.5	59.2
Synthetic rutile	46.2	169.6	(72.8)
Total Z/R/SR sales	**584.4**	**488.9**	**19.5**
Ilmenite - saleable	337.5	443.2	(23.8)
Total sales volumes	**921.9**	**932.1**	**(1.1)**
Z/R/SR revenue ($m)	685.8	973.8	(29.6)
Ilmenite and other revenue ($m)	77.3	96.0	(19.5)
Total mineral sands revenue[1] ($m)	**763.1**	**1,069.8**	**(28.7)**
Revenue per tonne of Z/R/SR sold[2] ($/t)	1,173	1,991	(41.1)
Production (kt)			
Zircon	285.1	343.2	(16.9)
Rutile	127.0	220.3	(42.4)
Synthetic rutile	59.0	248.3	(76.2)
Total Z/R/SR production	**471.1**	**811.8**	**(42.0)**
Ilmenite	584.5	674.1	(13.3)
Total saleable production volume	**1,055.6**	**1,485.9**	**(29.0)**
HMC produced	1,538.3	1,529.7	0.6
HMC processed	1,044.2	1,468.1	(28.9)
Cash costs of production ($m)	376.1	583.5	35.5
Unit cash cost per tonne of Z/R/SR produced ($/t)	798	719	(11.0)

[1] Mineral sands revenues include revenues derived from other materials not included in production volumes, including activated carbon products and iron oxide.

[2] Revenue from the sale of zircon, rutile and synthetic rutile products

Mineral sands sales volumes

Sales volumes for zircon for the full year were 370.2 thousand tonnes (2012: 213.8 thousand tonnes), a 73.2 per cent increase, with sales of 210.9 thousand tonnes in the first half and 159.3 thousand tonnes in the second half of 2013.

Zircon demand overall recovered in 2013, but the recovery was uneven across geographical markets, end use sectors, as well quarter to quarter and sales remain below the levels seen in 2010 and 2011.

Combined sales volumes for the high grade titanium dioxide products of rutile and synthetic rutile for the full year were 214.2 thousand tonnes (2012: 275.1 thousand tonnes), a 22.1 per cent decrease reflecting higher rutile sales (up 59.2 per cent) offset by lower synthetic rutile volumes (down 72.8 per cent). Sales of rutile and synthetic rutile combined in the second half were 137.9 thousand tonnes, compared with 76.3 thousand tonnes in the first half. A decline in aggregate high grade titanium dioxide (rutile/synthetic rutile) sales, despite a stronger second half, reflected lower demand for high grade feedstocks from the pigment sector during a period when alternate feedstocks, particularly those available under legacy contracts, were preferred.

Iluka sold 337.5 thousand tonnes of ilmenite in 2013 (2012: 443.2 thousand tonnes), with lower sales to both chloride pigment and sulphate slag segments.

Mineral sands production

Overall production volumes of Z/R/SR were 471.1 thousand tonnes, representing a 42.0 per cent decline from the previous corresponding period (2012: 811.8 thousand tonnes). Lower annual production in 2013 reflects production constraints consistent with Iluka's preferred approach to a period of low market demand, facilitating a progressive draw down of finished goods inventory.

INCOME STATEMENT ANALYSIS

$ million	**2013**	**2012**	**% change**
Z/R/SR revenue	685.8	973.8	(29.6)
Ilmenite and other revenue	77.3	96.0	(19.5)
Mineral sands revenue	**763.1**	**1,069.8**	**(28.7)**
Cash costs of production	(376.1)	(583.5)	35.5
Inventory movement	14.0	346.9	(96.0)
Restructure and idle capacity charges	(69.6)	(14.8)	(370.3)
Rehabilitation and holding costs for closed sites	2.8	(9.8)	n/a
Government royalties	(15.2)	(19.6)	22.4
Marketing and selling costs	(28.2)	(30.2)	6.6
Asset sales and other income	3.1	10.3	(69.9)
Resources development	(44.9)	(43.1)	(4.2)
Mineral sands EBITDA	**249.0**	**726.0**	**(65.7)**
Depreciation and amortisation	(181.3)	(202.7)	10.6
Idle asset write downs	(40.0)	-	n/a
Mineral sands EBIT	**27.7**	**523.3**	**(94.7)**
Mining Area C	87.9	72.3	21.6
Corporate other costs	(41.2)	(45.7)	9.8
Foreign exchange loss	(0.9)	(4.2)	(78.6)
Group EBIT	**73.5**	**545.7**	**(86.5)**
Net interest and bank charges	(13.1)	(6.6)	98.5
Rehabilitation unwind, discount rate change and other finance costs	(36.4)	(26.9)	(35.3)
Profit before tax	**24.0**	**512.2**	**(95.3)**
Tax expense	(5.5)	(149.0)	96.3
Profit for the period (NPAT)	**18.5**	**363.2**	**(94.9)**
Average AUD/USD (cents)	**96.8**	**103.6**	**6.6**

Mineral sands operational results

	Revenue		**EBITDA**		**EBIT**	
$ million	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Australia	676.5	958.2	274.6	706.3	67.7	513.7
United States	86.6	111.6	30.1	70.0	19.1	63.0
Exploration and other	-	-	(55.7)	(50.3)	(59.1)	(53.4)
Total	**763.1**	**1,069.8**	**249.0**	**726.0**	**27.7**	**523.3**

An overview of performance for Australian operations and United States operations is provided later in this report.

Commentary in respect of the income statement analysis is provided below:

Mineral sands revenue

Mineral sands sales revenue for the year was $763.1 million representing a decrease of 28.7 per cent compared with previous corresponding period (2012: $1,069.8 million) despite Z/R/SR sales volumes increasing 19.5 per cent.

Lower revenue reflects a material reduction in sales prices, with average Z/R/SR revenue per tonne declining from $1,991 in 2012 to $1,173 in 2013. Zircon prices commenced 2013 materially lower than 2012 levels and remained stable for much of the year before softening slightly in the fourth quarter, with a resultant weighted average annual zircon price for 2013 of US$1,150 per tonne, a reduction of approximately 45 per cent year-on-year. Weighted average rutile pricing declined during 2013 by approximately 56 per cent to US$1,069 per tonne, associated with the weak demand for high grade titanium products.

Cash costs of production

Cash costs of production were $376.1 million, a 35.5 per cent decline relative to the previous corresponding period (2012: $583.5 million) associated with operational adjustments implemented in the period, which included plant idling and reductions in workforce levels.

As a result of lower Z/R/SR production, partially offset by the decline in cash costs of production, the unit cash costs of production for 2013 were $798 per tonne of Z/R/SR, compared with $719 per tonne of Z/R/SR in 2012.

Inventory movement

Inventory of finished product decreased by $82.6 million to $402.0 million due to sales of Z/R/SR exceeding production by 113.3 thousand tonnes during the year, offset partially by an increase in ilmenite stocks. Work in progress (WIP) inventory has increased by $100.5 million in light of reduced processing of material through the mineral separation plants at Narngulu (Western Australia) and Hamilton (Victoria) and maintaining production at the Jacinth-Ambrosia, South Australia and Woornack Rownack Pirro (WRP) Victoria mines.

Restructure and idle capacity cash charges

In response to weak market conditions, Iluka took measures to curtail production and reduce production costs in late 2012 and into 2013, including plant idling and reductions in workforce levels. This has resulted in higher restructure and idle capacity costs compared with the previous corresponding period. Restructure costs incurred in the year amounted to $33.5 million, of which $31.1 million was in the first half, with the remaining cost relating to idle capacity charges incurred during periods of no production.

Rehabilitation and holding costs for closed sites

Rehabilitation and holding costs for closed sites have a net credit of $2.8 million in 2013. Changes in cost estimates for rehabilitation work associated with closed sites in Australia and the US reduced the rehabilitation provision by $5.5 million (2012: increase of $8.3 million), resulting in a release of these costs to the profit and loss account. This credit is offset partially by costs incurred relating to ongoing maintenance work completed on closed sites.

Government royalties

Government royalties decreased with lower sales revenue.

Marketing and selling costs

Lower marketing and selling costs are mainly due to improved freight cost management with a move to bulk freight transfers, partially offset by an expanded global marketing presence and changes in selling arrangements in some locations, including increased direct sales arrangements.

Resources development

Costs are higher than the previous corresponding period at $44.9 million (2012: $43.1 million) reflecting increased expenditure related to new product development, offset partially by reduced exploration activity, especially within Australia. Exploration expenses, which form part of the overall resource development expense, reduced to $21.5 million from $29.5 million in 2012.

Depreciation and amortisation

The decrease of $21.4 million compared to the previous corresponding period reflects the idling of plant during the period, including the mining operations at Eneabba and Tutunup South in Western Australia and the SR 2 and SR 3 synthetic rutile kilns in Western Australia.

Idle asset write downs

The write down in the carrying value of idle assets of $40.0 million relates to equipment in Western Australia that is likely to remain idle as a result of changes in mine plans and successful technical developments.

Mining Area C

Iron ore sales volumes increased 10.8 per cent to 52.5 million dry metric tonnes (DMT). The average AUD realised price upon which the royalty is payable increased by 8.9 per cent from the previous corresponding period. The EBIT contribution of $87.9 million includes $4.0 million of annual capacity payments for production increases in the year to 30 June (2012: $3.0 million).

Corporate and other

Corporate and other costs are $2.7 million lower than previous corresponding period, including lower charges for the group's equity remuneration schemes.

Foreign exchange

Foreign exchange translation losses were $4.2 million compared to a gain of $0.4 million in the previous corresponding period.

Rehabilitation unwind and discount rate change

Rehabilitation unwind costs have increased 10.0 million from 2012 mainly associated with a reduction in the risk free discount rates used in the calculation of the net present value of the rehabilitation provisions in Australia and the US. The change in discount rate resulted in a $38.5 million increase to the rehabilitation provisions, of which $18.0 million was charged to profit and loss in respect of closed sites.

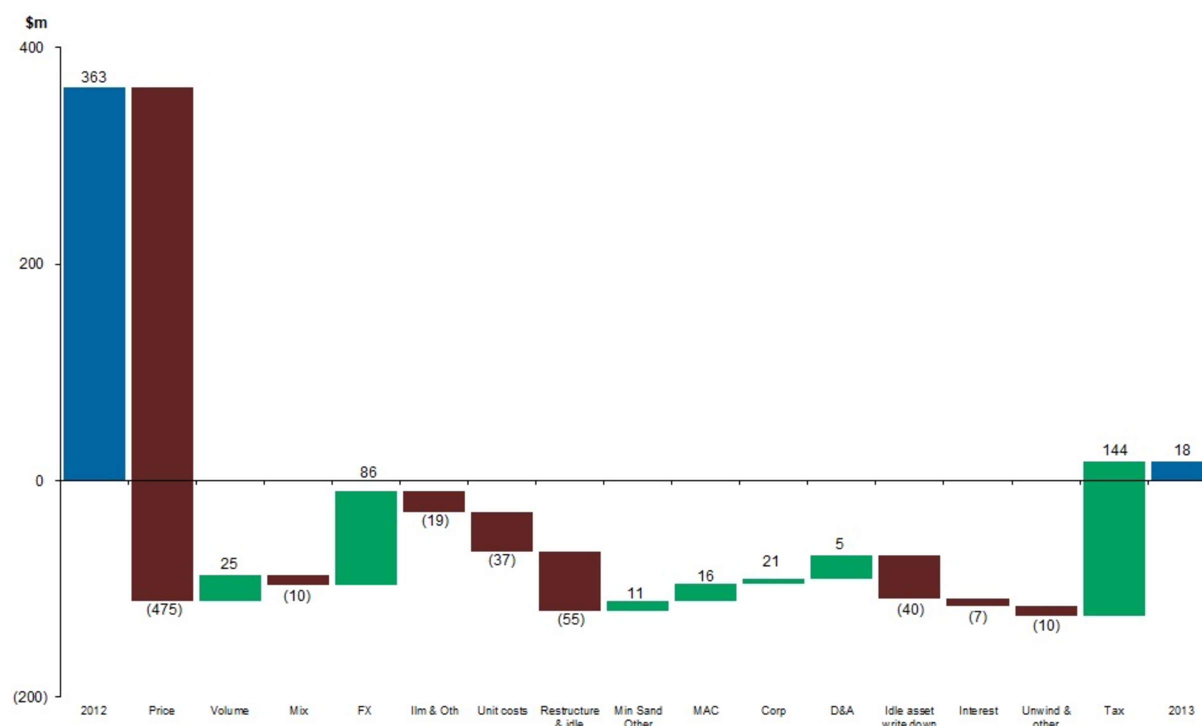
Interest

The increase in net interest costs reflects an increase in borrowings during the year, with net debt increasing to $206.6 million from $95.9 million at 31 December 2012.

Tax expense

The income tax expense of $5.5 million is at an effective tax rate of 22.9 per cent compared to 29.1 per cent in the previous corresponding period.

MOVEMENT IN NPAT



Commentary in respect of each bar in the NPAT waterfall above is provided below:

Z/R/SR sales price (-ve $475 million)

Lower average prices than the previous corresponding period for all products. Average annual zircon prices were US$1,050 per tonne, a reduction of 45 per cent year-on-year. Softening demand in the high grade titanium market resulted in rutile prices achieving an average US$1,069 per tonne, 57 per cent lower year-on-year and synthetic rutile was 35 per cent lower year-on-year with an average annual price of US$1,150 per tonne.

Z/R/SR sales volumes (+ve $25 million)

The amount reflects the impact of higher Z/R/SR sales volumes (up 19.5 per on the previous corresponding period) using the average margin achieved for Z/R/SR product sales in the current period.

Z/R/SR sales mix (-ve $10 million)

Z/R/SR sales volumes for the period include a higher proportion of lower priced zircon and a lower proportion of higher priced synthetic rutile products than in the previous corresponding period.

Z/R/SR foreign exchange (+ve $86 million)

The impact of a lower weighted average spot exchange rate of 95.0 cents applicable to Z/R/SR revenue compared with the rate in the previous corresponding period of 103.0 cents. Foreign exchange impacts on operating costs, mainly those relating to the US operations, are included in the overall movement in unit costs.

Ilmenite and other products (-ve $19 million)

Decreased volume of ilmenite sales combined with lower prices.

Z/R/SR unit cost of sales (-ve $37 million)

Higher unit cash costs of sales for Z/R/SR sold during the period reflects higher cost of goods sold and a change in sales mix to higher cost material.

Restructure and idle capacity (-ve $55 million)

The increase in costs is predominantly the result of $33.5 million of restructure costs in the year as a result of operational adjustments, including contract terminations for idled plant and reductions in workforce levels. The remaining increase is due to more operations being idle compared to the previous corresponding period.

Mineral sands other costs (+ve $11 million)

The lower costs are due mainly to revisions in cost estimates for rehabilitation on closed sites in Australia and lower royalty costs as a result of lower sales revenue.

Mining Area C (+ve $16 million)

Iron ore royalties increased compared to the previous corresponding period due to a 10.8 per cent increase in sales volumes to 52.5 million dry metric tonnes, combined with an 8.9 per cent decrease in realised AUD iron ore prices. MAC capacity payments of $4.0 million, before tax, were $1.0 million higher than in the previous corresponding period. Production from MAC for the royalty year ended 30 June 2013 amounted to 54.1 million wet metric tonnes. Royalty and capacity payments are payable on dry metric tonnes.

Depreciation and amortisation (+ve $21 million)

The lower charges compared to the previous corresponding period are due mainly to the idling of plant and operations during the year, including Eneabba and Tutunup South mining operations and the SR 2 and SR 3 kilns.

Idle asset write downs (-ve $40 million)

The write down in the carrying value of idle assets of $40.0 million relates to equipment in Western Australia that is likely to remain idle as a result of changes in mine plans and successful technical developments.

Corporate (+ve $5 million)

Lower corporate costs reflect lower charges for the group’s equity remuneration schemes, combined with continuing focus on cost minimisation.

Interest and bank charges (-ve $7 million)

Net interest costs increased due to lower cash holdings, with interest income for cash on deposit reducing by $5.9 million from the previous corresponding period.

Rehabilitation unwind and other finance charges (-ve $10 million)

The increase from the previous corresponding period reflects the charge to profit and loss in respect of the increase to provisions for closed sites resulted from a reduction in the discount rate used in the determination of the liabilities.

Tax (+ve $144 million)

The variance reflects the decreased tax expense as a result of the declining earnings compared to the previous corresponding period. The effective tax rate applicable to pre-tax profits is comparable with the previous corresponding period.

BALANCE SHEET, CASH FLOW AND NET DEBT

Balance sheet by operation - $ million

31 December 2013	AUS	US	MAC	Corp	Group	31 Dec 2012
Receivables	151.5	15.1	21.1	3.8	**191.5**	139.5
Inventories	751.0	44.1	-	-	**795.1**	780.5
Payables and accruals	(48.1)	(12.6)	-	(10.7)	**(71.4)**	(76.1)
Employee and other provisions	(10.7)	(4.7)	-	(11.3)	**(26.7)**	(38.2)
Rehabilitation provisions	(409.3)	(56.6)	-	-	**(465.9)**	(444.5)
Property, plant & equipment	1,222.7	76.9	-	14.9	**1,314.5**	1,430.3
Intangibles	-	-	5.9	-	**5.9**	6.3
Capital employed	**1,657.1**	**62.2**	**27.0**	**(3.4)**	**1,743.0**	**1,797.8**
Net tax (asset) liability					**(1.7)**	134.8
Net debt (cash)					**206.6**	95.9
Total equity					**1,538.1**	1,567.1
Net funding					**1,743.0**	**1,797.8**

Higher receivables are associated mainly with additional sales in December compared to the previous corresponding period.

Higher inventories mainly reflect an increase of $100.5 million in work in progress product to $358.4 million (2012: $257.9 million), partially offset by an $82.6 million decrease in finished product stocks to $402.0 million. Higher work in progress values reflects increased heavy mineral concentrate (HMC) due to HMC produced of 1,538.3 thousand tonnes exceeding the HMC processed of 1,044.2 thousand tonnes. The drawdown in finished goods is due mainly to sales of Z/R/SR exceeding production by 113.3 thousand tonnes. Inventories include $271.0 million of predominantly concentrate material classified as non-current (2012: $257.9 million) and $34.7 million of consumable stores (2012: $38.0 million).

Lower property, plant and equipment values reflect mainly the depreciation charge for the period of $181.3 million and idle asset write downs of $40.0 million being higher than capital expenditure of $52.5 million, offset partially by currency retranslation effects on US balances and increases related to adjustments to rehabilitation obligations.

The reduction in the net tax liability is a result of reduced earnings combined with final settlement in the year of the 2012 Australian tax liabilities following return to a tax paying position in the previous corresponding period. The net tax asset includes $1.8 million of tax payable in respect of 2013 and prior years, with the balance being deferred tax amounts due to timing differences between tax and accounting treatments.

Net debt increased $110.7 million compared to the previous corresponding period due to free cash outflow for the year of $27.5 million, payments of $62.8 million in respect of the 10 cent 2012 final dividend in April 2013 and the 5 cent 2013 interim dividend in September 2013 and currency translation impacts of $18.6 million on the USD component of net debt. In June 2013, a US$40.0 million tranche of the US Private Placement Notes was repaid in accordance with its maturity; this debt was subject to an interest rate and cross currency swap to AUD with the effective repayment of $56.9 million being matched by debt drawn under the group’s existing bank facilities. The final US$20.0 million tranche of the US Private Placement Notes is due for repayment in June 2015. The group has $800.0 million of bank facilities which expire in April 2017.

Movement in net (debt) cash

$ million	Full Year 2012	1st Half 2013	2nd Half 2013	Full Year 2013
Opening net cash (debt)	**156.7**	**(95.9)**	**(197.0)**	**(95.9)**
Operating cash flow	368.7	92.4	31.6	124.0
MAC royalty	76.1	36.1	46.6	82.7
Exploration	(34.4)	(9.8)	(13.3)	(23.1)
Interest (net)	(0.7)	(6.6)	(7.1)	(13.7)
Tax	(159.1)	(124.0)	(16.1)	(140.1)
Capital expenditure	(167.3)	(31.5)	(21.0)	(52.5)
Purchase of Sri Lanka deposits	-	-	(4.6)	(4.6)
Asset sales	1.4	0.7	1.3	2.0
Share purchases for employee share schemes	(3.5)	(1.8)	(0.4)	(2.2)
Free cash flow	**81.2**	**(44.5)**	**17.0**	**(27.5)**
Dividends	(333.7)	(41.9)	(20.9)	(62.8)
Net cash flow	**(252.5)**	**(86.4)**	**(3.9)**	**(90.3)**
Exchange revaluation of USD net debt	2.2	(13.8)	(4.8)	(18.6)
Amortisation of deferred borrowing costs	(2.3)	(0.9)	(0.9)	(1.8)
Increase in net debt	**(252.6)**	**(101.1)**	**(9.6)**	**(110.7)**
Closing net debt	**(95.9)**	**(197.0)**	**(206.6)**	**(206.6)**

Operating cash flow in the year of $124.0 million is significantly lower than the previous corresponding period, reflecting lower sales revenue.

MAC cash flows were $6.6 million higher than the previous corresponding period reflecting higher MAC royalty income of $14.0 million, offset partially by higher amounts receivable for the December quarter, payable in January of the subsequent year.

Tax payments in the year of $140.1 million were $19.0 million lower than the previous corresponding period due mainly to lower payments in respect of prior years (2013 included $118.4 million in respect of 2012 and 2012 included $152.3 million in respect of 2011). Iluka resumed quarterly tax payments in Australia during the year.

Capital expenditure of $52.5 million in the year related to mainly to various major projects, including Cataby (Western Australia), West Balranald (New South Wales) and Hickory (Virginia), as well as the construction of additional product storage facilities.

Share purchases are on-market purchases associated with the group's equity based incentive plans.

A 2013 interim dividend of 5 cents per share was paid in October 2013 and a 2012 final dividend of 10 cents per share was paid in April 2013. 2012 cash flows included the 2012 interim dividend of 25 cents per share paid in the second half of 2012 and the 2011 final dividend of 55 cents per share paid in the first half of 2012.

The exchange revaluation of USD net debt in the year of $18.6 million period predominantly reflects the retranslation of US$105.0 million of debt from an exchange rate of 104.0 cents at 31 December 2012 to 89.1 cents at 31 December 2013. The exchange impacts in previous periods reflect more stable exchange rates and lower levels of USD denominated net debt.

REVIEW OF AUSTRALIAN OPERATIONS

		2013	2012	% change
Production volumes				
Zircon	kt	245.5	293.8	(16.4)
Rutile	kt	127.0	220.3	(42.4)
Synthetic rutile	kt	59.0	248.3	(76.2)
Total Z/R/SR production	**kt**	**431.5**	**762.4**	**(43.4)**
Ilmenite	kt	394.9	459.4	(14.0)
Total production volume	**kt**	**826.4**	**1,221.8**	**(32.4)**
HMC produced	kt	1,223.5	1,206.6	1.4
HMC processed	kt	736.4	1,117.5	(34.1)
Unit cash cost of production - zircon/rutile/SR	$/t	708.0	687.0	(3.1)
Mineral sands revenue	**$m**	**676.5**	**958.2**	**(29.4)**
Cash costs of production	$m	(305.4)	(523.6)	41.7
Inventory movements	$m	(0.6)	328.3	n/a
Restructure and idle capacity charges	$m	(69.6)	(12.8)	(443.8)
Rehabilitation and holding costs for closed sites	$m	3.2	(9.1)	n/a
Government royalties	$m	(15.2)	(19.6)	22.4
Marketing and selling costs	$m	(14.8)	(18.1)	18.2
Asset sales and other income	$m	0.5	3.0	(83.3)
EBITDA	**$m**	**274.6**	**706.3**	**(61.1)**
Depreciation & amortisation	$m	(166.9)	(192.6)	13.3
Idle asset write downs	$m	(40.0)	-	n/a
EBIT	**$m**	**67.7**	**513.7**	**(86.8)**

Total Z/R/SR production decreased from the previous corresponding period reflecting completion of operating adjustments commenced in late 2012 to curtail output in response to lower demand, to facilitate a progressive draw down of finished goods inventory, as well as to reduce total operating costs.

Cash costs of production are $218.2 million lower than the previous corresponding period as a result of the idling of mining at Eneabba and Tutunup South during the year and curtailed production of finished goods due to lower processing of HMC and the idling of both synthetic rutile kilns. Whilst Z/R/SR production has reduced by 43.4 per cent compared to the previous corresponding period, HMC production remains constant across the periods reflecting normal mining activities at Jacinth Ambrosia and WRP. The increase in reported unit cash cost reflects the calculation of this measure based on cash costs of production and Z/R/SR production.

The inventory movement reflects increased WIP offset by a drawdown in finished goods products as a result of sales of Z/R/SR exceeding production during the year. In the previous corresponding period the increase related mainly to a build of finished goods.

Restructure and idle capacity charges have increased significantly compared to the previous corresponding period due to the decisions taken in the year to curtail production. Of the total balance, $33.5 million relates to restructure costs most of which were incurred in the first half of 2013.

Lower government royalties reflect decreased mineral sands revenues associated with lower sales prices.

Lower marketing and selling costs reflect improved freight cost management with a move to bulk freight.

Lower depreciation and amortisation charges are a result of idling operations, including the SR 2 and SR 3 kilns in Western Australia, with no depreciation being charged on idle assets.

The idle assets write downs relate to old equipment in Western Australia; three wet concentrator plants, two mining unit plants and capitalised expenditure associated with restarting synthetic rutile kiln 3 which was idled in the first half of 2013.

REVIEW OF UNITED STATES OPERATIONS

		2013	2012	% change
Production volumes				
Zircon	kt	39.6	49.4	(19.8)
Ilmenite	kt	189.6	214.7	(11.7)
Total saleable production volume	**kt**	**229.2**	**264.1**	**(13.2)**
HMC produced	kt	314.8	323.1	(2.6)
HMC processed	kt	307.8	350.6	(12.2)
Unit cash cost of production - saleable product	$/t	308.0	238.0	(29.4)
Mineral sands revenue	**$m**	**86.6**	**111.6**	**(22.4)**
Cash cost of production	$m	(70.7)	(59.9)	18.0
Inventory movements	$m	14.6	18.6	(21.5)
Rehabilitation costs for closed sites	$m	(0.4)	(0.7)	(42.9)
Marketing and selling costs	$m	-	0.4	(100.0)
EBITDA	**$m**	**30.1**	**70.0**	**(57.0)**
Depreciation & amortisation	$m	(11.0)	(7.0)	(57.1)
EBIT	**$m**	**19.1**	**63.0**	**(69.7)**

Zircon and ilmenite production is 13.2 per cent lower than the previous corresponding period as production was reduced based on the availability of HMC for processing from the Concord and Brink mines in the United States.

Higher unit cash cost of production reflect lower finished goods production volumes, higher local cash costs and an unfavourable exchange rate movements.

Lower sales revenue is due to lower realised zircon prices and lower ilmenite sales volumes, partially offset by increased zircon sales volumes.

The inventory movement for the year predominantly reflects a build in ilmenite inventory, representing 31% of the annual production.

Higher depreciation and amortization charges are due to higher capital spend at the end of 2012 and in 2013 resulting primarily from mining unit relocations at both mine sites which have short economic lives.

Iluka Resources Limited
Preliminary consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2013

	Notes	**2013 $m**	2012 $m
Revenue	2	**853.2**	1,150.2
Other income	3	**3.1**	10.3
Expenses	4	**(781.0)**	(607.1)
Interest and finance charges		**(16.7)**	(16.6)
Rehabilitation and mine closure unwind		**(34.6)**	(24.6)
Total finance costs	4	**(51.3)**	(41.2)
Profit before income tax		**24.0**	512.2
Income tax expense		**(5.5)**	(149.0)
Profit for the period attributable to owners		**18.5**	363.2
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Currency translation of US operation		**11.6**	(0.4)
Hedge of net investment in US operation, net of tax		**(3.2)**	0.5
Items that will not be reclassified to profit or loss			
Actuarial gains/(losses) on defined benefit plans, net of tax		**5.0**	(1.7)
Total other comprehensive (loss)/income for the year, net of tax		**13.4**	(1.6)
Total comprehensive income for the year attributable to owners		**31.9**	361.6
		Cents	Cents
Earnings per share attributable to ordinary equity holders			
Basic earnings per share		**4.4**	87.1
Diluted earnings per share		**4.4**	86.7

The above preliminary statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

	Notes	**31 December 2013 $m**	31 December 2012 $m
ASSETS			
Current assets			
Cash and cash equivalents		**46.4**	54.3
Receivables		**191.5**	139.5
Inventories		**524.1**	522.6
Current tax receivable		**2.1**	-
Total current assets		**764.1**	716.4
Non-current assets			
Inventories		**271.0**	257.9
Property, plant and equipment		**1,314.5**	1,430.3
Intangible asset - MAC Royalty		**5.9**	6.3
Deferred tax assets		**13.2**	15.7
Total non-current assets		**1,604.6**	1,710.2
Total assets		**2,368.7**	2,426.6
LIABILITIES			
Current liabilities			
Payables		**80.2**	87.3
Interest-bearing liabilities	5	**11.1**	56.9
Provisions		**49.7**	64.1
Current tax payable		**3.9**	128.4
Total current liabilities		**144.9**	336.7
Non-current liabilities			
Interest-bearing liabilities	5	**241.9**	93.3
Provisions		**434.2**	407.3
Deferred tax liabilities		**9.6**	22.2
Total non-current liabilities		**685.7**	522.8
Total liabilities		**830.6**	859.5
Net assets		**1,538.1**	1,567.1
EQUITY			
Contributed equity	6	**1,112.1**	1,104.8
Reserves		**19.0**	18.1
Retained profits		**407.0**	444.2
Total equity		**1,538.1**	1,567.1

The above preliminary consolidated balance sheet should be read in conjunction with the accompanying notes.

Iluka Resources Limited
Preliminary consolidated statement of changes in equity
For the year ended 31 December 2013

	Notes	Attributable to owners of Iluka Resources Limited			
		Contributed equity $m	**Reserves $m**	**Retained earnings $m**	**Total equity $m**
Balance at 1 January 2012		**1,102.0**	**16.4**	**416.3**	**1,534.7**
Profit for the year		-	-	363.2	363.2
Currency translation of US operation		-	(0.4)	-	(0.4)
Hedge of net investment in US operation, net of tax		-	0.5	-	0.5
Actuarial gains on retirement benefit obligations, net of tax		-	-	(1.7)	(1.7)
Transfer of asset revaluation reserve		-	(0.1)	0.1	-
Other comprehensive income		-	-	(1.6)	(1.6)
Total comprehensive income		**-**	**-**	**361.6**	**361.6**
Transactions with owners in their capacity as owners:					
Transfer of shares to employees, net of tax	6	5.3	(5.3)	-	-
Purchase of treasury shares, net of tax	6	(2.5)	-	-	(2.5)
Share-based payments, net of tax		-	7.0	-	7.0
Dividends paid		-	-	(333.7)	(333.7)
		2.8	1.7	(333.7)	(329.2)
Balance at 31 December 2012		**1,104.8**	**18.1**	**444.2**	**1,567.1**
Profit for the year		-	-	18.5	18.5
Currency translation of US operation		-	11.6	-	11.6
Hedge of net investment in US operation, net of tax		-	(3.2)	-	(3.2)
Actuarial losses on retirement benefit obligations, net of tax		-	-	5.0	5.0
Transfer of asset revaluation reserve		-	(2.2)	2.2	-
Other comprehensive income		-	6.2	7.2	13.4
Total comprehensive income		**-**	**6.2**	**25.7**	**31.9**
Transactions with owners in their capacity as owners:					
Transfer of shares to employees, net of tax	6	8.8	(8.8)	-	-
Purchase of treasury shares, net of tax	6	(1.5)	-	-	(1.5)
Share-based payments, net of tax		-	3.5	-	3.5
Dividends paid		-	-	(62.9)	(62.9)
		7.3	(5.3)	(62.9)	(60.9)
Balance at 31 December 2013		**1,112.1**	**19.0**	**407.0**	**1,538.1**

The above preliminary consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Iluka Resources Limited
Preliminary consolidated statement of cash flows
For the year ended 31 December 2013

	Notes	**2013 $m**	2012 $m
Cash flows from operating activities			
Receipts from customers		**727.2**	1,170.6
Payments to suppliers and employees		**(603.2)**	(801.9)
		124.0	368.7
Interest received		**3.1**	7.8
Interest paid		**(16.8)**	(8.5)
Income taxes paid		**(140.1)**	(159.1)
Exploration expenditure		**(23.1)**	(34.4)
Mining Area C royalty receipts		**82.7**	76.1
Net cash inflow from operating activities	8	**29.8**	250.6
Cash flows from investing activities			
Payments for property, plant and equipment		**(52.5)**	(167.3)
Sale of property, plant and equipment		**2.0**	1.4
Acquisition of Sri Lanka deposits		**(4.6)**	-
Net cash outflow from investing activities		**(55.1)**	(165.9)
Cash flows from financing activities			
Repayment of borrowings		**(56.9)**	(86.7)
Proceeds from borrowings		**141.1**	81.7
Purchase of treasury shares		**(2.2)**	(3.5)
Dividends paid		**(62.8)**	(333.7)
Debt refinance costs		**-**	(8.8)
Net cash outflow from financing activities		**19.2**	(351.0)
Net (decrease) increase in cash and cash equivalents		**(6.1)**	(266.3)
Cash and cash equivalents at 1 January		**54.3**	320.7
Effects of exchange rate changes on cash and cash equivalents		**(1.8)**	(0.1)
Cash and cash equivalents at 31 December		**46.4**	54.3

The above preliminary consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 Segment information

(a) Description of segments

Operating segments are reported in a manner that is consistent with the internal reporting provided to the Managing Director, who is considered the chief operating decision maker, for the purpose of making decisions regarding the allocation of resources and the monitoring of performance. Cash, debt and tax balances are managed at a group level together with exploration and other corporate activities and are not allocated to segments. The segments are unchanged from those reported at 31 December 2012.

Australia (AUS) comprises the integrated mineral sands mining and processing operations in Victoria, Western Australia and South Australia. Material is mined from various deposits in the South West and Mid West of Western Australia (Perth Basin), together with the Jacinth-Ambrosia deposit in South Australia (Eucla Basin) and several deposits in Victoria (Murray Basin). The mined material is processed predominantly at facilities in the South West and Mid West of Western Australia and the Murray Basin to produce saleable products.

United States (US) comprises the integrated mineral sands mining and processing operations in Virginia and rehabilitation obligations in Florida.

Mining Area C (MAC) comprises a deferred consideration iron ore royalty interest over certain mining tenements in Australia operated by BHP Billiton Iron Ore.

Where finished product capable of sale to a third party is transferred between operating segments, the transfers are made at arms length prices. Any transfers of intermediate products between operating segments are made at cost. During 2013, $10.2 million of saleable material was transferred from the US to Australia at arms length prices (2012: $3.0 million). This transfer is excluded from the results below, revenue from the sale of finished product to third party customers is included in Total segment sales for Australia.

(b) Segment information

2013	**AUS** $m	**US** $m	**MAC** $m	**Total** $m
Total segment sales	676.5	86.6	-	763.1
Total segment result	36.0	16.3	87.9	140.2
Segment assets	2,124.6	136.1	27.0	2,287.7
Segment liabilities	468.1	73.7	-	541.8
Depreciation and amortisation expense	166.9	11.0	0.4	178.3

2012	**AUS** $m	**US** $m	**MAC** $m	**Total** $m
Total segment sales to external customers	958.2	111.6	-	1,069.8
Total segment result	492.0	60.1	72.3	624.4
Segment assets	2,140.5	98.1	21.8	2,260.4
Segment liabilities	462.9	67.5	-	530.4
Depreciation and amortisation expense	192.6	7.0	0.4	200.0

Segment revenue is derived from sales to external customers domiciled in various geographical regions. Details of segment revenue by location of customers are as follows:

	2013 **$m**	2012 $m
China	**303.9**	255.9
Asia excluding China	**151.5**	299.3
Europe	**159.0**	247.9
Americas	**137.6**	251.5
Other countries	**11.1**	15.2
Sale of goods	**763.1**	1,069.8

Revenue of $101.3 million and $96.2 million was derived from two external customers from mineral sands segments, which individually accounts for greater than 10 per cent of segment revenue (2012: revenues of $181.3 million and $135.9 million from two external customers).

Segment result is reconciled to the profit before income tax as follows:

	2013 **$m**	2012 $m
Segment result	**140.2**	624.4
Interest income	**1.8**	7.7
Other income	**2.6**	7.3
Marketing and selling	**(13.5)**	(12.5)
Corporate and other costs	**(41.2)**	(45.7)
Depreciation	**(3.4)**	(3.1)
Resources development	**(44.9)**	(43.1)
Interest and finance charges	**(16.7)**	(16.6)
Net foreign exchange losses	**(0.9)**	(4.2)
Corporate restructure charges	**-**	(2.0)
Profit before income tax	**24.0**	512.2

Total segment assets and total segment liabilities are reconciled to the balance sheet as follows:

Segment assets	**2,287.7**	2,260.4
Corporate assets	**19.3**	19.1
Cash and cash equivalents	**46.4**	54.3
Deferred tax assets	**13.2**	15.7
Current tax receivable	**2.1**	-
Total assets as per the balance sheet	**2,368.7**	2,349.5

Segment liabilities	**541.8**	530.4
Corporate liabilities	**22.3**	28.3
Deferred tax liabilities	**9.6**	22.2
Current tax payable	**3.9**	128.4
Interest-bearing liabilities	**253.0**	150.2
Total liabilities as per the balance sheet	**830.6**	859.5

2 Revenue

	2013 $m	2012 $m
Sales revenue		
Sale of goods	**763.1**	1,069.8
Other revenue		
Mining Area C royalty income	**88.3**	72.7
Interest	**1.8**	7.7
	90.1	80.4
	853.2	1,150.2

3 Other income

	2013 $m	2012 $m
Net gain on disposal of property, plant and equipment	**0.6**	1.3
Sundry income	**2.5**	9.0
	3.1	10.3

4 Expenses

	2013 $m	2012 $m
Expenses		
Cash costs of production	**376.1**	583.5
Depreciation/amortisation	**181.7**	203.1
Inventory movement	**(14.0)**	(346.9)
Cost of goods sold	**543.8**	439.7
Idle asset write downs	**40.0**	-
Restructure and idle capacity charges	**69.6**	14.8
Rehabilitation and holding costs for closed sites	**(2.8)**	9.8
Government royalties	**15.2**	19.6
Marketing and selling costs	**28.2**	30.2
Corporate and other costs	**41.2**	45.7
Resources development	**44.9**	43.1
Foreign exchange losses	**0.9**	4.2
	781.0	607.1

	2013 $m	2012 $m
Finance Costs		
Interest charges	**13.4**	11.5
Bank fees and similar charges	**1.5**	2.8
Amortisation of deferred borrowing costs	**1.8**	2.3
Rehabilitation and mine closure unwind	**16.6**	24.6
Rehabilitation discount rate changes	**18.0**	-
	51.3	41.2

5 Interest-bearing liabilities

	2013 $m	2012 $m
Current		
Trade advance facility (i)	**11.1**	-
Senior Notes 2003 (ii)	**-**	56.9
	11.1	56.9
Non-current		
Multi Optional Facility Agreement (iii)	**225.4**	81.8
Senior Notes 2003 (ii)	**22.4**	19.2
Deferred borrowing costs	**(5.9)**	(7.7)
	241.9	93.3

(i) Trade advance facility

In December 2013 Iluka entered into a US$9.9 million Trade advance facility. Drawings under the facility are at the discretion of the facility provider based on the acceptance of credit insured receivables. The facility is fully drawn and matures in May 2014.

(ii) Senior Notes - 2003 Series

In June 2013, the US$40.0 million tranche was repaid in accordance with its maturity; this debt was subject to an interest rate and cross currency swap to AUD with the effective repayment of $56.9 million being matched by AUD debt drawn under the group's existing bank facilities. The final US$20.0 million tranche is due for repayment in June 2015.

(iii) Multi Optional Facility Agreement

The Multi Optional Facility Agreement (MOFA) comprises a series of unsecured five year bilateral revolving credit facilities with several domestic and foreign institutions, totalling $800 million which expire in April 2017. Drawings under the MOFA at 31 December 2013 are $130.0 million and US$85.0 million (2012: US$85.0 million).

6 Contributed equity

(a) Share capital

	2013 Shares	2012 Shares	**2013 $m**	2012 $m
Ordinary shares - fully paid	**418,701,360**	418,701,360	**1,120.0**	1,120.0
Treasury shares	**(937,719)**	(1,630,066)	**(7.9)**	(15.2)
	417,763,641	417,071,294	**1,112.1**	1,104.8

(b) Movements in ordinary share capital

There have been no movements in fully paid ordinary share capital since 7 May 2009.

(c) Treasury shares

Treasury shares are shares in Iluka Resources Limited acquired on market and held in Trust for the purpose of issuing shares under the Directors, Executives and Employees Share Acquisition Plan.

	Number of shares	**$m**
Opening balance at 1 January 2012	2,269,590	18.0
Acquisition of shares, net of tax	341,621	2.5
Employee share scheme issue	(981,145)	(5.3)
Balance at 31 December 2012	**1,630,066**	**15.2**
Acquisition of shares, net of tax	217,819	1.5
Employee share scheme issue	(910,166)	(8.8)
Balance at 31 December 2013	**937,719**	**7.9**

7 Dividends

	2013 $m	2012 $m
Final dividend		
for 2012 of 10 cents per share, franked	**41.9**	-
for 2011 of 55 cents per share, franked	**-**	229.4
	41.9	229.4
Interim dividend		
for 2013 of 5 cents per share, franked	**21.0**	-
for 2012 of 25 cents per share, franked	**-**	104.3
	21.0	104.3
	62.9	333.7

Dividends not recognised at the end of the reporting period

In addition to the above dividends, since period end the Directors have determined a final dividend of 4 cents per share, fully franked (2012: 10 cents, fully franked). The dividend is payable on 3 April 2014 for shareholders on the register as at 6 March 2014. The aggregate amount of the proposed dividend is $16.7 million.

8 Reconciliation of profit after income tax to net cash inflow from operating activities

	2013 $m	2012 $m
Profit for the year	**18.5**	363.2
Depreciation and amortisation	**181.7**	203.1
Exploration capitalised	**(2.9)**	(4.9)
Net gain on disposal of property, plant and equipment	**(0.6)**	(1.3)
Exchange translation differences on USD denominated debt	**13.6**	(2.7)
Rehabilitation and mine closure unwind	**16.6**	24.6
Rehabilitation discount rate change	**18.0**	-
Non-cash share-based payments expense	**4.9**	9.7
Amortisation of deferred borrowing costs	**1.8**	2.3
Idle asset write downs	**40.0**	-
Non-cash rehabilitation expense for closed sites	**(5.0)**	8.3
Change in operating assets and liabilities		
Increase (decrease) in receivables	**(47.2)**	116.3
Increase in inventories	**(13.7)**	(354.9)
Decrease in net current tax liability	**(126.5)**	(17.0)
Decrease in net deferred tax	**1.4**	4.9
Increase in payables	**(64.8)**	(95.9)
Increase in provisions	**(6.0)**	(5.1)
Net cash inflow from operating activities	**29.8**	250.6

9 Contingent liabilities

Bank guarantees
The group has a number of bank guarantees in favour of various government authorities and service providers to meet its obligations under exploration and mining tenements. At 31 December 2013, the total value of performance commitments and guarantees was $135.6 million (2012: $115.0 million).

Native title
There is some risk that native title, as established by the High Court of Australia's decision in the Mabo case, exists over some of the land over which the group holds tenements or over land required for access purposes. It is impossible at this stage to quantify the impact, if any, which these developments may have on the operations of the group.

Other claims
In the course of its normal business, the group occasionally receives claims arising from its operating activities. In the opinion of the Directors, all such matters are covered by insurance or, if not covered, are without merit or are of such a kind or involve such amounts that would not have a material adverse effect on the operating results or financial position of the group if settled unfavourably.

10 Summary of significant accounting policies

(a) Accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except as set out below.

Iluka Resources Limited had to change some of its accounting policies as the result of new or revised accounting standards which became effective for the annual reporting period commencing on 1 January 2013. The affected policies and standards are:

- Principles of consolidation - new standard AASB 10 *Consolidated Financial Statements;* and
- AASB Interpretation 20 *Stripping Costs in the Production Phase of Surface Mine*

One other new standard that is applicable for the first time for the 2013 report is AASB 13 *Fair Value Measurement*. This standard introduced new disclosures for the full financial statements but did not affect the entity's accounting policies or any of the amounts recognised in the financial statements.

(i) AASB 10 Consolidated Financial Statements

AASB 10 was issued in August 2011 and replaces the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements* and in Interpretation 112 *Consolidation - Special Purpose Entities*. Under the new principles, the group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The group has reviewed its investments in other entities to assess whether the consolidation conclusion in relation to these entities is different under AASB 10 than under AASB 127. No differences were found and therefore no adjustments to any of the carrying amounts in the financial statements are required as a result of the adoption of AASB 10.

(ii) Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine

Interpretation 20 sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. It states that these costs can only be recognised as an asset if they can be attributed to an identifiable component of the ore body, can be measured reliably and it is probable that future economic benefits will flow to the entity. The costs form part of Mine Reserves and Development and are charged to profit or loss as amortisation over the life of the identified ore body.

Previously, the Group's accounting policy has been to defer expenditure associated with the removal of mine overburden after the initial development of a mine and charge it to profit or loss as a cash cost of production over its useful life, which typically does not exceed one year.

The group has reviewed its operations and determined that no material deferred stripping undertaken at any producing mine met the asset recognition criteria set out in IFRIC 20, therefore no adjustments to any of the carrying amounts in the financial statements are required as a result of the adoption of Interpretation 20.

(b) Critical accounting estimates and judgements

The group makes estimates and assumptions concerning the future in applying its accounting policies. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment of assets

The recoverable amount of each Cash Generating Unit (CGU) is determined as the higher of value-in-use and fair value less costs to sell estimated on the basis of discounted present value of the future cash flows.

The estimates of future cash flows for each CGU are based on significant assumptions including:

- estimates of the quantities of mineral reserves and ore resources for which there is a high degree of confidence of economic extraction and the timing of access to these reserves and ore resources
- future production levels and the ability to sell that production;
- future product prices based on the group's assessment of short and long term prices for each of the key products;
- future exchange rates for the Australian dollar compared to the US dollar using external forecasts by recognised economic forecasters;
- successful development and operation of new mines in Australia and the US, consistent with latest forecasts;
- future cash costs of production, sustaining capital expenditure, rehabilitation and mine closure; and
- the asset specific discount rate applicable to the CGU.

Given the nature of the group's mining activities, future changes in assumptions upon which these estimates are based may give rise to material adjustments to the current or prior years. This could lead to a reversal of part, or all, of impairment charges recorded in the current or prior years, or the recognition of new impairment charges in the future such as the idle asset write downs of $40.0 million made in the year.

(ii) Rehabilitation and mine closure provisions

These provisions represent the discounted value of the present obligation to restore, dismantle and rehabilitate certain items of property, plant and equipment. The discounted value reflects a combination of management's assessment of the nature and extent of the work required, the future cost of performing the work required, the timing of the cash flows and the discount rate. Changes to one or more of these assumptions is likely to result in a change to the carrying value of the provision and the related asset or a change to the profit or loss account in accordance with the group's accounting policy. In 2013, changes to the discount rates in Australia and the US have resulted in increases to the rehabilitation provisions of $38.4 million, of which $18.0 million was charged to the profit and loss account in respect of closed sites.

The total rehabilitation and mine closure provision of $465.9 million (31 December 2012: $444.5 million) includes $302.0 million (31 December 2012: $312.6 million) for assets no longer in use or for obligations arising from production process outputs. Changes to the provisions for assets or operations no longer in use are charged to profit or loss and are reported within rehabilitation and holding costs for closed sites in note 4. The changes to the provisions for closed sites, excluding the aforementioned impact of the change in discount rates, was a reduction of $5.5 million (2012: increase of $8.3 million).