

9 July 2012

FORECAST SALES VOLUMES - UPDATE

Iluka Resources Limited (Iluka), in accordance with its continuous disclosure obligations, provides the following update on general market conditions and sales volume expectations for the full year.

Lower sales volumes now forecast reflect second quarter sales below expectations, but also and more significantly, deteriorating economic outlooks, discussions (which in many cases are ongoing) with customers in relation to second half volume requirements, and completion of the initial stages of the company's usual mid year reforecast process.

Market Conditions and Revised Guidance

A marked deterioration in major regional economies, more pessimistic official forward outlooks and commentary and the absence of anticipated or effective policy responses since the company's previous disclosure in early May¹, have had a flow on impact on mineral sands customer confidence levels and future business performance expectations, which is likely to influence sales volumes materially over the remainder of 2012.

On a year-to-date basis, Iluka's product prices have been in line with the previous commentary provided by the company².

The volatility in factors which materially influence demand and which are beyond the company's direct control, as well as the company's move in recent years to shorter period sales contracts, have increased the difficulty in providing specific company performance guidance, particularly over extended periods.

As a result, and given the incomplete nature of discussions with both zircon and pigment customers for second half volume requirements, this revised guidance incorporates forecast sales volume ranges rather than single point forecasts. In addition, due to the continuing uncertainty associated with economic and business conditions, Iluka's Key Physical and Financial Parameters, 2012-2014 guidance (issued in November 2011) is now redundant. A reinstatement of such guidance will be dependent on market, commercial and other considerations, including reaching a period in terms of global economic performance when multiple year forecasts can be made with an appropriate degree of confidence.

The company's revised 2012 full year sales volume expectations for zircon and high grade titanium dioxide products (rutile and synthetic rutile) are detailed below. Saleable ilmenite expectations are at this stage unchanged at 350 thousand tonnes for the full year, with 219 thousand tonnes sold in the first half.

¹ ASX Release, 8 May, Key Physical and Financial Parameters - Update

² Refer Iluka AGM Addresses, page 6 and Iluka Full Year Results to 31 December 2011, 23 February 2012, page 3. Iluka's approach to pricing commentary was outlined on 12 October 2011, namely that Iluka's disclosures, including product price changes, will be in line with its ASX disclosure obligations and in the ordinary course pricing commentary will be restricted to its half and full year financial statements. Iluka also emphasises that it does not provide price forecasts.

Sales Volumes – 1st Half Actuals and Revised Full Year Guidance Ranges

kt	2012 1 st Half Actuals	2012 Full Year Sales Guidance Ranges
Zircon	87	200 - 300
Rutile	85	140 - 200
Synthetic rutile	101	170 - 220
Total Z/R/SR	273	510 - 720

Production Flexibility, Cash Costs, Revenue Per Tonne, Capital Expenditure

Iluka has demonstrated its preparedness to reduce production in periods of market demand softness, and conversely the ability to rapidly increase production as demand recovers.

Production response options to lower demand and high levels of inventory, such as reducing zircon production further and deferring the re-start of a synthetic rutile kiln originally envisaged for the fourth quarter of 2012 are, as would be expected, under consideration. Further details on any such measures will be advised as appropriate.

Notwithstanding these near term options, Iluka will continue to advance its longer term oriented exploration activities and its evaluation of internal production growth options which are capital efficient, low risk and quick to implement relative to other industry supply options. Should current market conditions persist, flexibility exists in relation to project capital expenditure timing, as all are still in the planning stage.

Total cash costs previously advised were \$670 million or approximately \$700 per tonne of Z/R/SR. As no decision about modifying production levels has been taken at this stage, this cost estimate has not changed. Unit cash costs of production for the first half were approximately \$710 per tonne of Z/R/SR.

Iluka's revenue per tonne of Z/R/SR sold for the first half was \$2,255 per tonne of Z/R/SR. This compares with \$1,087 per tonne in the first half of 2011.

Iluka is reviewing project timing and capital expenditure levels for both this year and into 2013. First half 2012 capital expenditure was ~\$120 million.

Managing Director Commentary

David Robb, Iluka's Managing Director stated:

Iluka's objective is to create and deliver value for shareholders. Iluka believes this is best achieved over the medium term by adopting a flexible sales and production approach in the short term in line with prevailing market conditions. The company, therefore, does not seek to maximise production or achieve particular sales volumes outcomes versus production in any given year, if such outcomes do not reflect demand characteristics in markets. As the company has stated on previous occasions, a focus of its approach is attempting to protect unit margins, to the extent it is possible and practicable to do so, by varying production in line with demand. A logical consequence of such an approach is that Iluka may sacrifice some market share in the short term.

Iluka's operating strategy is to build flexibility, inventory capacity and its logistics chains, together with project development options and production surge capabilities, to best enable the company to respond to both short term and medium term market conditions.

Iluka's marketing approach over recent years has involved changing sales contract periods from multi-year or annual arrangements to much shorter periods – quarterly or spot in the case of zircon and six-monthly, quarterly or spot in the case of titanium dioxide products.

This approach has served the company well, given the level of price increases achieved during periods of strong demand. However, in times of global and regional economic uncertainty and turmoil, and with weakened business confidence levels, this can result in volatility in sales levels from period to period, an effect compounded by de-stocking and re-stocking behaviour through the value chain. Unpredictable economic conditions and markets can also lead some customers to make purchase commitments and then seek to reschedule or reduce those commitments.

Clearly, the performance of major regional economies has deteriorated recently and outlooks are more pessimistic, as evidenced by changed commentary by central bankers in the past couple of months. Iluka's revised sales volume forecasts reflect this deterioration.

On a year-to-date basis, Iluka's product prices have been in line with the previous commentary provided by the company. Iluka will seek to maintain pricing stability for the remainder of the year, although this remains dependent on economic, market and competitive considerations.

Unlike 2009, Iluka's positive margins on volumes sold, discretionary capital expenditure programmes and strong balance sheet, provide the company with flexibility as to the manner of delivering value to shareholders during a period of global turmoil.

Investment market and media inquiries

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Appendix – Market Commentary

Iluka provides the following market commentary which would normally be provided with its Quarterly Production Report, scheduled for release on 12 July. The Quarterly Production Report will replicate this commentary.

Zircon

Iluka sold 87 thousand tonnes of zircon in the first half of 2012. A large scheduled shipment was deferred in June associated with port delays and current forecasts assume this volume will not be recovered. Zircon sold in the first half has achieved weighted average prices in line with previous commentary.

Market conditions in specific markets and end applications affecting second half demand can be summarised as follows:

- in China, the absence of direct policy adjustments to boost the property sector, with attendant implications for property construction, completions and sales, has been compounded by high finished ceramics inventory level in-country. These factors have led to a continuation of subdued customer confidence levels beyond that expected earlier in the year, albeit China's zircon demand has shown the strongest regional recovery in the second quarter. Iluka has seen the continuation of "just in time" ordering patterns which, from recent discussions with customers, (despite some encouraging factors in relation to increased demand, higher spot

pricing and monetary policy easing, as well as zircon sand inventories at historically low levels) are not assumed to change materially in the second half;

- continuing and more pronounced economic weakness and policy uncertainty into the second quarter in the eurozone;
- continuing weakness in the main ceramics export markets for Spain and Italy, such as the fourth largest tile manufacturer, Iran, which has been impacted by sanctions; and Turkey and Egypt, both within the top 10 tile manufacturers, which have been impacted by the aborted “Arab Spring”, have flowed through to continued fragile business confidence levels. From recent discussions with customers this is forestalling expected bulk re-ordering patterns, including inventory replenishment, into the second half despite low zircon sand inventories;
- while demand for zircon in North America has remained relatively constant, there is new evidence of softening manufacturing output and export growth, particularly in June. This has influenced customer sentiment (a major part of Iluka’s zircon sales in North America are into the manufacturing sector) and it is considered prudent to factor this into expected sales volumes estimates over the coming half;
- in other developing markets, such as South East Asia and India, demand has also been negatively impacted by the macro economic settings. This has been especially significant in India (the world’s third largest tile producer), where the Rupee has weakened by 15 per cent since March, making zircon sand imports (and other tile making raw materials) significantly more expensive; and
- some level of thrifting, substitution and application of technology to ceramics manufacturing (difficult to forecast with confidence until ceramics inventories are worked down) which has compounded the effect of the weak economic and business conditions on customer demand.

Zircon demand in non ceramic markets, namely zirconium chemicals, has been relatively stable while in foundry applications, as expected, use of alternative materials where feasible has subdued demand. A lower demand pattern in the second half appears likely in these applications, depending on economic and market conditions.

Global and regional zircon demand recovery remains problematical to predict given current global economic conditions.

High Grade Titanium Dioxide – Rutile and Synthetic Rutile

Global economic settings referred to previously have had an impact on this sector, as the half has evolved. Iluka sold 186 thousand tonnes of high grade titanium dioxide products (rutile and synthetic rutile) in the first half of 2012. Approximately 8 thousand tonnes has been contracted but was not shipped due to shipment scheduling delays. This volume is scheduled to ship during July. Volumes sold or committed in the first half are roughly in line with previous commentary on first half expected sales trends. Weighted average rutile and synthetic rutile prices have been in line with previous disclosed information.

As the second quarter progressed, softer demand for pigment and pigment inventory build began to be reported, reflecting lower European demand and weaker global export flows of pigment. In recent second half volume discussions with pigment customers it is clear that such factors are affecting some pigment producers’ planned production levels, and therefore, in some cases, their high grade ore requirements. Given customer adjustments to their production base are under consideration in some cases, and in the context of existing inventories of pigment by some producers, determination of second half high grade titanium dioxide volumes is expected to take longer than in more normal market conditions. Demand in the smaller niche markets (titanium sponge and welding electrodes) has remained relatively stable but, particularly in the welding market, some weakening in second half demand has been factored into expectations.