25 February 2011

ILUKA FULL YEAR RESULTS TO 31 DECEMBER 2010

Summary of Financial Results

$ million	2010	2009	% change
Mineral Sands Revenue	874.4	576.0	51.8
Mineral Sands EBITDA	250.2	75.6	230.9
Group EBITDA	304.7	99.6	205.9
Group EBITDA/revenue %	35	17	105.9
Reported Earnings (NPAT)	36.1	(82.4)	n/a
Operating Cash Flow	163.6	86.5	89.1
Net Debt	(312.6)	(382.1)	18.2
Average AUD/USD	92.0	79.3	(16.5)
Dividend cps	8	nil	n/a

- Iluka reported a full year profit of $36.1 million (representing a second half profit of $42.7 million), which reflects higher sales volumes, higher zircon prices and an increased contribution from the new, higher margin operations in the second half of the year.
- Mineral Sands EBITDA for the year was $250.2 million, more than a three-fold increase from 2009. Second half Mineral Sands EBITDA of $154.9 million was a 62.5 per cent increase relative to the first half figure of $95.3 million.
- Iluka's Mining Area C iron ore royalty made an EBIT contribution of $75.9 million, as a result of a 7.2 per cent increase in sales volumes and a 56 per cent increase in the average realised AUD iron ore price, offset partially by capacity payments being $3.0 million lower than the previous corresponding period.
- Group EBITDA, including Mining Area C contribution, was $304.7 million.
- Group EBIT was $86.1 million.
- Operating cash flow for the 12 months was $163.6 million, with second half operating cash flow of $119.7 million. The higher operating cash flow in the second half reflects higher zircon sales prices and increased sales volumes of zircon and rutile, offset partially by a further increase in working capital.

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- Iluka's net debt at 31 December was $312.6 million, with a gearing ratio (net debt/net debt + equity) of 21.8 per cent. This compares with a net debt at 31 December 2009 of $382.1 million and a gearing ratio of 25.9 per cent. During the second half net debt decreased by $126.4 million, as capital expenditure reduced to $22.3 million and operating cash flows reflected the transition to higher margin operations and the benefit of higher zircon prices. Undrawn facilities at 31 December were approximately $250 million and cash at bank was $30.1 million. As at 31 January 2011, Iluka's net debt was $260.1 million.

Dividend

- Directors have determined a final dividend of eight cents per share, unfranked. The dividend is unfranked as Iluka does not have franking credits currently available for distribution. The dividend is payable on 6 April 2011 for shareholders on the register as at 9 March 2011.

- Directors have decided to suspend the Dividend Reinvestment Plan until further notice.

Other Features of the Results

- Iluka's total cash costs of production for the year were $543.8 million, in line with Iluka's guidance and 19.9 per cent higher than 2009, reflecting higher production and the commencement of new mining and processing operations in the Murray Basin and at Jacinth-Ambrosia.

- Unit cash cost of production for the higher value products of zircon, rutile and synthetic rutile was lower at $538/tonne, relative to comparable 2009 unit cash cost of production of $560/tonne.

- Iluka incurred idling and restructuring charges of $13.2 million in 2010, associated with the final transformation of the operations, as well as a cost of $10.4 million, associated with updated rehabilitation provisions for previously closed sites.

- Depreciation and amortisation charges of $219.0 million increased by $42.4 million or 24.0 per cent versus the previous corresponding period, associated mainly with the commencement of commercial production from the Kulwin operation in the Murray Basin and Jacinth-Ambrosia in the Eucla Basin, partially offset by lower charges in the Perth Basin operations following the idling of the Eneabba mining operations in Western Australia.

- An income tax expense of $3.8 million, at an effective tax rate of 9.5 per cent, compares to a benefit in 2009 of $61.5 million reflecting the pre-tax loss for the year. The effective tax rate is influenced by benefits in respect of Investment Allowance and Research & Development concessions in Australia, together with the tax expense on earnings in the United States being at 20 per cent, compared with 30 per cent for Australian earnings.

Sales Volumes

- As reported in Iluka's December Quarterly Production Report, sales volumes during the year recovered from the very low levels experienced in 2009. Demand recovery for zircon reflected a strong rebound in China to above pre global economic crisis levels, a recovery in European demand and robust North American demand. Demand for high grade titanium dioxide products (rutile and synthetic rutile) also recovered during the year.

- Zircon sales volumes increased by 115 per cent to 478.7 thousand tonnes (2009: 222.6 thousand tonnes). Sale of Murray Basin Stage 2 and Jacinth-Ambrosia production commenced during the June quarter, with these two new operations constituting the majority of Australian product sales in the second half.

- Rutile sales volumes of 240 thousand tonnes represent a 73.0 per cent increase from 2009 (138.7 thousand tonnes).

- Synthetic rutile sales volumes of 362.5 thousand tonnes are 8.6 per cent lower than 2009 (396.7 thousand tonnes) but this reflects Iluka's decision to idle synthetic rutile capacity during 2009.

- Ilmenite sales of 373.7 thousand tonnes were similar to 2009 levels (376.4 thousand tonnes), with Iluka's focus, in terms of Australian ilmenite production, to provide the maximum practicable proportion of suitable ilmenite produced as a feed source for its synthetic rutile operations.

Pricing

- The company implemented three zircon price increases in 2010, increasing weighted average prices by approximately 30 per cent during the year to a year end average price of above US$1,000/tonne.

- Since year end, Iluka has achieved a weighted average increase in zircon prices of approximately 20 per cent effective from 1 January 2011.

- High grade titanium dioxide prices in 2010 were influenced by the final year of old-style contractual arrangements, which included prices being fixed for 12 months and year-on-year price constraints. As such, prices were relatively stable during the year. For 2011, in most cases, prices and volumes have been agreed for the six months from 1 January to 30 June only. Iluka has achieved a "step-change" in prices for that period, with weighted average rutile and synthetic rutile prices increasing by around 30 to 40 per cent respectively relative to 2010 average prices. Further negotiations will be required in the first half of 2011 to establish arrangements for the next pricing period.

Group Profit and Loss Summary

$ million	2010	2009	% change
Mineral sands revenue	**874.4**	**576.0**	**51.8**
Cash costs of production	(543.8)	(453.6)	(19.9)
Inventory movement	(2.9)	33.4	n/a
Restructure and idle capacity cash charges	(13.2)	(50.1)	73.6
Rehabilitation and holding costs for closed sites	(10.4)	-	n/a
Government royalties	(17.1)	(13.7)	(24.8)
Marketing and selling	(24.1)	(10.2)	(136.3)
Asset sales and other income	7.4	14.2	(47.9)
Product, technical development & major projects	(5.6)	(4.2)	(33.3)
Exploration	(14.5)	(16.2)	10.5
Mineral sands EBITDA	**250.2**	**75.6**	**230.9**
Depreciation and amortisation[1]	(218.6)	(176.2)	(24.1)
Mineral sands EBIT	**31.6**	**(100.6)**	**n/a**
Mining Area C	75.9	50.2	51.2
Currency hedging and foreign exchange	8.9	0.1	n/a
Corporate and other	(30.3)	(26.0)	(16.5)
Significant non-cash items	-	(67.6)	n/a
Group EBIT	**86.1**	**(144.1)**	**n/a**
Net interest costs	(30.9)	(18.4)	(67.9)
Interest capitalised (Jacinth-Ambrosia and Murray Basin)	-	12.5	n/a
Rehabilitation unwind and other finance costs	(15.3)	(16.8)	8.9
Profit (loss) before tax	**39.9**	**(166.8)**	**n/a**
Tax expense	(3.8)	61.5	n/a
Profit (loss) from continuing operations	**36.1**	**(105.3)**	**n/a**
Profit from discontinued operations (CRL)	-	22.9	n/a
Profit (loss) for the period	**36.1**	**(82.4)**	**n/a**
Average AUD/USD (cents)	**92.0**	**79.3**	**(16.5)**

For further information on Iluka's financial results, including detailed commentary on the main profit and loss line items, as well as mineral sands operational results, refer to Iluka's 4E Financial Statements.

Iluka has also prepared guidance on some of the main physical and financial characteristics for 2011. This is available from Iluka's website www.iluka.com

[1] Mineral Sands D&A. Group D&A (including Mining Area C) is $219.0 million.

Financial Ratios

	2010	2009	% change
EBITDA/revenue margin %	35	17	105.9
Gearing (net debt/debt + equity) %	21.8	25.9	15.8
Interest cover (EBITDA/net interest expense) times	11.7	5.8	101.7
Return on equity % - annualised	3.2	(7.5)	n/a
Basic and diluted earnings per share - cents	8.6	(20.2)	n/a

Mineral Sands Production and Sales

	2010	2009	% change
Production volumes (kt)			
Zircon	412.9	263.1	56.9
Rutile	250.1	141.4	76.9
Synthetic rutile	347.5	405.0	(14.2)
Ilmenite – saleable	469.0	342.1	37.1
Ilmenite – upgraded to synthetic rutile	215.9	496.7	(56.5)
Total saleable production	1,479.5	1,151.6	28.5
Cash costs of production $m	543.8	453.6	(19.9)
Unit cash cost – total saleable product $/t	367	394	6.9
Unit cash cost – zircon/rutile/synthetic rutile $/t	538	560	3.9
Sales volumes (kt)			
Zircon	478.7	222.6	115.0
Rutile	240.0	138.7	73.0
Synthetic rutile	362.5	396.7	(8.6)
Ilmenite – saleable	373.7	376.4	(0.7)
Total sales	1,454.9	1,134.4	28.3
Revenue $m	874.4	576.0	51.8
Unit revenue – total saleable product $/t	601	508	18.3
Unit revenue – zircon/rutile/synthetic rutile $/t	809	760	6.4

Managing Director Commentary

David Robb, Iluka's Managing Director, provided the following commentary in relation to the full year results:

Operations Transformation and Improved Financial Performance

"Murray Basin Stage 2 and Jacinth-Ambrosia operations were both commissioned and ramped up during the first half of 2010 and reached name plate capacity mid year.

Iluka's asset base has, as a result, been transformed from an old, fragmented set of operations to a new, tightly integrated, more productive group of operations.

Concurrently, the company's historical reliance on mining operations in Western Australia diminished as mining operations in Eneabba were idled.

Iluka' shareholders have seen initial evidence of the financial benefits of this new production base, with a markedly stronger revenue and cash flow performance in the second half of 2010. In addition, pricing momentum for zircon has largely offset an adverse Australian/United States currency movement and allowed a significant reduction in debt.

Successful ramp up of the new operations, improved margins and increased free cash flows have provided the opportunity for the Directors to determine a 2010 final dividend of eight cents a share unfranked.

Strong Demand and Limited Supply

Successful delivery of Iluka's new production base has coincided with a favourable supply and demand environment for the suppliers of high quality mineral sands products.

In 2010, customer demand for zircon exceeded Iluka's current supply capacity. Consequently, customers have been supplied only a portion of their requirements. Tight supply is, in Iluka's assessment, an industry-wide phenomenon, with inventory held by raw material suppliers and downstream by direct customers at extremely low levels.

Given this environment, the company successfully implemented three price increases in 2010, lifting weighted average prices by approximately 30 per cent to exit the year at above US$1,000/tonne.

Titanium dioxide markets have also recovered strongly. Demand from pigment manufacturers - the major users of titanium dioxide feedstock - has recovered, while other market segments, such as titanium sponge manufacture for use in titanium metal manufacture, are more robust than was evident over the preceding two years.

High grade titanium dioxide availability remained tight throughout 2010. While Iluka contracted its budgeted production at the beginning of the year, the company was able to produce some additional synthetic rutile during the year and this uncontracted volume was sold at spot prices significantly higher than the long term contracted prices.

The 2010 year was the last in which Iluka had the majority of its titanium dioxide production still under "old style" contractual arrangements, which included prices being fixed for 12 months and constraints on year-on-year price movements. Currently, only one such high grade titanium dioxide contract remains in place, and this only for a part of synthetic rutile volumes in 2011.

In the fourth quarter of 2010, Iluka negotiated with its major pigment customers regarding 2011 titanium feedstock volumes and prices. In relation to volume, Iluka will have insufficient high grade titanium feedstock available to meet all customer requirements and, as such, Iluka was unable to provide customers with their requested volumes in full. In most cases, prices and volumes have been agreed for the six months from 1 January to 30 June only. Iluka has achieved a "step-change" in prices for that period, with weighted average rutile and synthetic rutile prices increasing by around 30 to 40 per cent respectively relative to 2010 average prices. Further negotiations will be required in the first half of 2011 to establish arrangements for the next pricing period.

Priorities for the Future

Management's current priorities are to:

- operate the business safely and in a sustainable manner;
- maximise high margin production from existing operations;
- determine the best means to cost effectively supply additional zircon and high grade titanium dioxide products into supply constrained markets;
- achieve prices which reflect market supply and demand factors, while allowing the industry time to adjust;
- invest in product and technical development to enhance and expand Iluka's offering to customers while improving internal efficiencies;
- enhance Iluka's presence in growth markets;
- increase investment in exploration to add to the reserve and resource base; and
- to achieve and then sustain balance sheet flexibility sufficient to fund growth opportunities while providing shareholders with regular distributions.

Iluka has provided guidance on some of the key physical and financial features in 2011 in a separate ASX Release, 2011 Guidance, available on the company's website."

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Refer Attachment – Appendix 4E for detailed financial commentary of the results.
Also refer Iluka 2011 Guidance document available on the website.
Iluka's website contains presentational material associated with the full year results – refer **www.iluka.com**