23 May 2012

ILUKA RESOURCES
2012 ANNUAL GENERAL MEETING

Iluka Resources Limited (Iluka) today held its 57th Annual General Meeting of shareholders in Perth, Australia.

Three resolutions were put to shareholders:

1. Re-election of George John Pizzey;
2. Re-election of Gavin John Rezos; and
3. Adoption of the Remuneration Report.

The outcome of the resolutions of the AGM will be subject to a separate ASX release.

The following is the transcript of the addresses delivered by John Pizzey (Chairman) and David Robb (Managing Director) at the meeting.

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ILUKA RESOURCES LIMITED
2012 ANNUAL GENERAL MEETING
23 MAY 2012, PERTH, WESTERN AUSTRALIA

CHAIRMAN'S AND MANAGING DIRECTOR'S ADDRESSES

CHAIRMAN'S ADDRESS (John Pizzey)

Iluka's financial results in 2011 were the strongest in the company's history.

This slide encapsulates some of the key features:

- Revenues of $1.6 billion.
- A net profit after tax of $541.8 million.
- Operating cash flow of $706 million and free cash flow of $589 million.
- Return on capital was 54.9 per cent and return on shareholders' equity was 42.5 per cent.

The company ended the year debt free and with $156.7 million, net, in cash.

In relation to the key shareholder value metrics for the company, performance was, as a result, strong.

Accordingly, Iluka was able to reward shareholders not only via a rising share price, but by a total dividend payment of 75 cents, with the final dividend of 55 cents fully franked.

David Robb will speak in more detail about some of the contributing factors to this excellent set of results.

From my perspective and that of my fellow Directors, these results reflect the culmination of work undertaken by everyone associated with Iluka, but particularly all employees, over the last five years in effecting a major corporate transformation.

From a Board perspective, it is particularly satisfying to see benefits flow to shareholders who were asked to support the company through a particularly challenging period.

The transformation may be seen not only in the production base of the company, following successful delivery of the Jacinth-Ambrosia operation and the first of the northern Victorian Murray Basin deposits, but also in changes in the mineral sands industry's sales contracting practices which now better reflect contemporary market dynamics.

In part, this has been reflected in higher prices and, with them, a material lift in revenues and margins for the business. It has also been reflected in significant growth in customer numbers and in a greater geographic diversity of the customer base.

I do not want to dwell on history, but a few points are very pertinent, in my view, to the situation we are now reporting upon.

During 2009, Iluka's revenues and cash flow were seriously affected by the global financial crisis.

2009 was also a year of peak capital expenditure for the company, with two new projects being executed. Over $500 million was committed that year; a year when the company's market capitalisation was less than two billion dollars and when the company commenced the year with a reasonable level of new debt.

Conditions were challenging.

There were many things that had to be accomplished but two things stand out as major achievements for the management team led by David Robb.

Firstly, the two new projects were kept on track and delivered fully the following year.

Secondly, Iluka's long term approach to the challenges presented by weak short term demand meant that a bold approach to the marketing of our products was needed to avoid a collapse in prices.

Throughout the period of transformation the Board needed to take a long term view to ensure Iluka retained a team that was capable of achieving difficult goals and were motivated to excel.

From the Board's perspective, David Robb and his team met this challenge.

Having improved Iluka's financial performance, the Board's attention must now be directed towards sustaining that performance and looking at other ways to create and deliver value for shareholders.

Clearly, risks remain on the global economic scene. Iluka's business is not immune from slowing global economic growth or further shocks to major economies.

The policy setting for the resources sector in Australia has been variable to say the least and, while no calamitous impacts to date have resulted for Iluka, uncertainty persists, as does the risk of populist measures aimed against the resources sector.

And of course, Iluka's own outstanding performance will, in all likelihood, cause others to seek to become involved as competitors in the mineral sands sector.

Nothing in business stands still for long.

The Directors believe that the strength and sustainability of Iluka's performance is aided by a number of factors.

Capability and flexibility of management is one of those factors. The Board has engaged extensively with David Robb as he works with his team to reach new heights. The level of investment in training, in professional development, in identifying and supporting the careers of high performing individuals, as well as enhancing and retaining skills and competencies across the organisation, are proceeding in a planned and measured manner.

Another factor is Iluka's strong industry position in its two main products – number one globally in zircon and with a major position in the high grade titanium products of rutile and synthetic rutile.

The balance sheet and cash flow position of the company is healthy and provides a solid foundation for growth.

Iluka possesses a number of production growth options within its portfolio. Many of the opportunities would have the ability to link into existing infrastructure.

The approach of the Board and management incorporates an emphasis on three stakeholder groups – shareholders, employees and customers. We believe achieving good shareholder returns require a focus on profitability, obviously, but also on both sustainability and growth.

The Board realises that a sustainable business goes hand-in-hand with achieving high levels of environmental, health, and safety performance.

The company has made meaningful improvements in all of these areas over recent years but they remain a major point of focus. The Board was pleased to endorse the major initiative on safety, called *Safe Production Leadership*, that David Robb and his team initiated in April last year. There have been improvements in safety and environmental outcomes during 2011 and in 2012 and it is pleasing that there is a total alignment on these areas between Board and management.

A commitment to greater diversity in our workforce is being actively pursued by David and his staff and this goal is endorsed by the Board and regularly monitored via the Remuneration and Nomination Committee. As is well understood, once a commitment is established then the gathering of data facilitates the reaching of goals.

A greater investment in exploration and in product and technical development are also important features of not only sustaining performance, but generating organic growth opportunities.

The balance sheet, cash flow and debt arrangements the company has in place also allows the consideration of appropriate growth opportunities outside of the existing portfolio and outside of mineral sands.

I am confident that Iluka's performance is sustainable and that the company has organic options to grow, plus the ability to identify and assess other growth opportunities while still maintaining a focus on near term returns to shareholders.

Your Directors are clearly disappointed at recent share price weakness. In the context of the strength of the company and the company's articulated approach, I feel confident that the current situation will be seen as an over reaction. Despite this, the relative share price performance since the beginning of 2011 has been competitive with the broader indices, supplemented now by dividends.

I will address briefly Executive and Board remuneration matters when I deal with the Remuneration Report later in today's proceedings.

Before closing, I would like to acknowledge my fellow Directors. I refer here to both current and past colleagues on the Board who have made a valuable contribution to Iluka's success.

Finally, I wish to state that without the men and women working at Iluka our past successes would not have been achieved and future aspirations would go unfulfilled. David Robb and his team have created the opportunity for a great future for Iluka.

MANAGING DIRECTOR'S ADDRESS (David Robb)

We have been talking about the significant changes within Iluka and our industry for some time now and more recently have referred to the emergence of a "new Iluka".

As the Chairman has indicated, the new Iluka delivered much improved financial performance last year – in fact, the best results produced by the company since the merger of Westralian Sands and RGC in 1998.

Everyone associated with Iluka should be pleased that the company can now rightly claim to have delivered a first instalment on its objective: to create and deliver value for shareholders.

The financial figures the Chairman referred to are measures of our progress. Other measures include a 70 per cent share price appreciation and a dividend of 75 cents in 2011.

But we appreciate these 'better days' have been a long time in coming and we know we have more to do. We also appreciate that global markets can be very volatile and investors can be skittish and very short term, and perhaps the recent cent decline in the share price this year reflects such skittishness.

Management's task in these circumstances is to remain focussed on our strategies while being prepared to adjust as necessary to an ever changing business environment. As an example, we believe our actions to curtail zircon production in a period of market softness, are the right ones for both our customers and our shareholders.

A key task now for Iluka is to achieve a balance between: protecting current profitability; improving the sustainability of our business in terms of environmental, health and safety performance; pursuing growth in a disciplined way; and rewarding shareholders along the way through dividends or other forms of capital management.

And to do those things we must engage with and deliver for our employees and our customers.

We seek to do all these things in a manner consistent with our values of commitment, integrity and responsibility.

Achieving the balance to which I referred will entail a new set of challenges. In addition, continuing global economic, political and social turmoil is creating a shifting landscape with which we must deal. As John said, "nothing in business stands still for long".

I would like to cover three main things in my comments today:

- first, the main features of the past financial year;
- second, current market conditions; and finally
- a perspective on Iluka's priorities.

Features of the 2011 financial year

Operationally, Iluka had a particularly good year in 2011.

The company exceeded its production targets, with all operations performing well on throughputs, recoveries, tonnes produced, product quality parameters and unit cash costs.

This table indicates overall production against guidance for the three main products and you can see why I was pleased with our operating performance last year.

Shown in the right hand column are sales for the year. As can be seen, 2011 zircon sales were below production. To have a slight imbalance one way or the other from year to year is not unusual and it balances out over time, but I will come back to this when I talk about market conditions.

Total and unit cash costs of production are shown here, relative to both 2011 guidance as provided in February 2011, and 2010 actuals.

The Jacinth-Ambrosia and Narngulu operations together achieved total zircon production of 323 thousand tonnes, while the Murray Basin operations achieved rutile production of 225 tonnes and zircon production of 218 tonnes. The Virginia operations also performed well, producing 288 thousand tonnes of chloride ilmenite and 60 thousand tonnes of zircon.

Our Western Australian operations commissioned on time and on budget a new mining operation at Tutunup South, reactivated another at Eneabba near Geraldton, maximised commercial production from our largest synthetic rutile kiln and re-started, another which was used mainly for Iluka's new product test work.

Our marketing team secured further substantial price rises for our key products. Zircon prices have increased from roughly US$800 per tonne in 2010 to a weighted average US$2,500 per tonne, with this chart showing the stepped quarterly price increases.

For Iluka's high grade titanium dioxide products, the pricing story has been as favourable, as shown here. Rutile prices increased from an average of US$550 per tonne in 2010 to US$2,500 per tonne. This chart shows the synthetic rutile price movement, from a weighted average in 2010 of approximately US$450 per tonne to US$2,050.

If we combine the information on production, sales and unit cash costs of production, this chart illustrates Iluka's cash cost performance over the last five years, shown in the black line, with the orange coloured line highlighting the revenue per tonne increase over the same period. The difference between the two is, of course, our cash margin per tonne, which has expanded significantly.

This improved profitability reflects good operational performance combined with marketing success and these are evident again in 2012 – particularly given the weighted average zircon price in the first quarter of 2012 was 30 per cent higher than the 2011 average, and that both rutile and synthetic rutile prices for the first half are expected to average between 105 and 130 per cent higher than the 2011 average price. Unit margins should, therefore, be higher in 2012 than in 2011.

The sustainability of these margins is a function of industry demand and supply and of competitive forces within the industry - both demand and supply are influenced by economic growth, consumer behaviour, technological change and business confidence and investment.

The path of economic growth and the effects of business confidence swings and technological change on both demand and supply are notoriously difficult to predict with precision.

We know that demand is often more volatile than supply, particularly in physically small, direct supplied markets with global product flows – like mineral sands. However, in terms of supply, we believe that low returns led to low investment in many parts of the value chain and we are currently in a period where few high quality, capital-efficient, quick-response industry supply options exist.

The industry has seen no major discoveries since 2004 and certainly nothing comparable to the mainstay provinces in Australia and South Africa on which the industry has relied for so many years. Where such options do exist, they typically face long lead times, increased resource nationalism risks and technical risks in project execution and commissioning.

As shown in this chart, Iluka's net profit after tax in 2011 increased markedly from 2010 levels. While price rises have played a large part in the profit improvement, our goal is to add a volume growth lever to this mix.

Iluka's balance sheet has been transformed from a net debt situation of $312 million at the end of 2010 to a net cash position at the end of 2011. Improved and stronger cash flows in 2011 enabled the company to pay a 20 cent interim dividend, which was unfranked, and a 55 cents final dividend, fully franked. This represents a 53 per cent payout of free cash flow generated during the year and a dividend yield at year end of 4.8 per cent.

Iluka has indicated that its framework for dividend determination includes an intention to pay out at least 40 per cent of free cash flow (that is, cash flow after investing activities) in dividends. As indicated, the level in 2011 was 53 per cent.

The Iluka Board, management and employees recognise that acceptable and sustainable business performance includes high environmental, health and safety standards. Improving Iluka's performance in these areas remains a focus throughout the company.

It was recognised during 2011 that Iluka's safety performance improvements appeared to have plateaued and so a major initiative, called *Safe Production Leadership*, commenced in April 2011 involving all sites and the corporate office.

Since the launch we have seen positive signs of improved safety performance, including in lost time injuries and total recordable injuries, as well as the severity rate. These charts are a very pleasing outcome of the *Safe Production Leadership* initiative and the focus continues not only for Iluka, but also for the company's contractors.

In 2011, Iluka appointed a senior manager to a new group-wide role of Manager, Sustainability. This role brings together health, safety and environmental areas throughout the company and will coordinate actions and seek to enhance governance standards across the group. Put simply, our aspiration is to be more pro-active and set our sights higher. We are challenging ourselves to be better in terms of our ability to address legacy issues and to minimise environmental, health and safety risks associated with our activities - in line with changing scientific knowledge and community expectations.

Iluka invested more in its exploration activity in 2011, spending $24 million compared with $18 million in 2010. The 2012 budget is $35 million.

The company has expanded exploration activity designed to identify new mineral sands provinces, with exploratory drilling underway in North and South America, and reconnaissance visits underway in a number of other locations.

But we are also mindful about the more immediate returns available from exploration that is ‘close to home’ – that is near to existing operations and infrastructure. For example, Iluka now has identified and characterised three deposits in proximity to Jacinth-Ambrosia in South Australia, which we believe could be developed to capitalise on the existing processing facilities.

As we do every year, at the end of 2011 the company reviewed its reserve and resource base. These reviews incorporate updated operating and economic parameters, including on this occasion expectations of higher longer term industry prices.

A combination of exploration success and these updated parameters meant that, after depletions and other adjustments, Iluka increased its reserves by 13 per cent and its resources by 6 per cent.

In the case of the Jacinth-Ambrosia deposits, as an example, the changes in reserves are shown in this chart. Originally an economic life of around ten years was expected. Two years of production later, we still expect production to last ten years, albeit at lower grades – such is the nature of many of our operations.

In related work, under what we refer to as the Enhanced Production Project, the company has prioritised 11 project development options from over 30 opportunities within its current resource base. The important thing about these options is that we assess them to be relatively low risk, capital-efficient and quick to develop versus many other industry developments. These options are being resourced through the establishment of project management teams and appropriate funding for scoping studies through to feasibility studies. The intent is to be able, as market conditions determine, either increase production and/or extend the economic life of deposits.

For example, the four current opportunities available to the company in the Eucla Basin – the three deposits near Jacinth-Ambrosia and Tripitaka - could extend the economic life of the Jacinth-Ambrosia facilities by up to ten years, for a total life from today of around 20 years rather than the previously envisaged ten years.

Another example is in Virginia, where two opportunities - one at pre-feasibility stage for Aurelian Springs and one at a definitive feasibility stage for Hickory - could extend the economic life of the United States’ operations by at least ten years.

I am pleased to report that the next mineral sands deposit in the Murray Basin, Woornack, Rownack, Pirro has been producing heavy mineral concentrate from 3 May. This is 22 days ahead of schedule for a major mine move which was scheduled to take 103 days. This is an excellent outcome and production ramp up has been progressing very well. These images show the extent of the logistics exercise to move equipment from the previous Kulwin mining operation to the new deposits.

In relation to Iluka’s product and technical development, there were several pleasing advances. For example, Iluka successfully developed a new synthetic rutile product, SR85; a chloride pigment feedstock which is being produced from Iluka’s mid west synthetic rutile kiln.

Progress was also made towards the commercialisation of a sulphate pigment feedstock product that is referred to as acid soluble synthetic rutile, or “ASSR”. We are excited about the opportunity to target the roughly half of the pigment making market which we currently do not supply – the sulphate market – as shown in this slide.

Trial work is being undertaken with customers and Iluka expects to undertake further product development work as substantial kiln capacity becomes available over and above that required to service existing customer commitments. Such capacity will be available as Iluka recommences production from its currently idle kilns in the south west and the mid west.

Both SR85 and ASSR are expected to be able to use Murray Basin ilmenites; ilmenites previously considered to have no commercial value. With a potential ilmenite supply of 300 to 400 thousand tonnes per annum from the new Woornack, Rownack, Pirro deposits in the Murray Basin, and over a million tonnes of ilmenite stored at the Kulwin mine site, this is a major opportunity for the company.

Iluka is also about to test Virginia ilmenite through its kilns and the company is confident about its ability to use this feedstock to produce a new, very high quality titanium dioxide feedstock (for pigment making) which we are referring to as "SR ultra".

These and other more operationally focussed technical efforts attest to the potential value from this expanding investment in the company's mineral sands capabilities.

With an experienced and engaged workforce, and a commitment to continuing to invest in our mineral sands knowledge and skills, I believe we have a competitive advantage when it comes to future mineral sands growth.

Mineral sands market conditions

Before turning to some of the priorities for 2012 and the medium term, I will make some comments on mineral sands market conditions.

Since late last year, we have stated that we expected a soft quarter or two of zircon demand. The factors contributing to this related to: global economic settings; efforts by the Chinese authorities to limit speculative activity in parts of the Chinese property market; and generally low global business and consumer confidence levels.

While Iluka does not disclose sales until its June quarter report, revenues in the first quarter reflected that "soft quarter" in terms of zircon sales. In addition, some shipment timing issues for titanium dioxide products meant that a substantial part of product produced in the first quarter was not shipped.

While there is some evidence of improved economic traction in major economies such as the US and China, European demand remains subdued and could deteriorate if sovereign debt issues in the EU overwhelm attempts to rectify them. However, a positive sign is that European customer zircon sand stocks are almost exhausted which should now require replenishment.

As stated in our ASX disclosure of 8 May, Iluka is prepared to flex production in line with demand, and to hold inventory.

Lower pricing will not, in our assessment, generate additional demand.

Zircon prices are holding, with second quarter pricing rolled over at the first quarter level of approximately US$2,400/ tonne. Minor supplier and spot prices have, after drifting lower, moved back up close to Iluka's contracted prices. We wait to see if they will move above contract levels, which would be a positive development.

Importantly, major customers' inventory holdings are low and we are seeing bulk order interest resuming, which is again a positive indicator.

Turning to the high grade titanium dioxide market, there is evidence of sustained feedstock cost flow through the chain. Inevitably, when an industry is undergoing the change this one is, there are challenges in adaptation at some levels of the chain. We see this now, for example, between paint makers and paint retailers which slows the flow through of supply and demand impacts on price to consumers.

Our titanium dioxide pricing is as indicated – approximately US$2,400/tonne for rutile and US$2,050/tonne for synthetic rutile. Pricing in niche markets is well in advance of these levels, but we believe legacy or transition contracts also exist at lower prices, resulting in an industry with multiple, and very different, pricing levels for similar products.

Iluka is continuing with plans to re-start the third of its four kilns, subject to market developments, and is also investigating reactivation options for the fourth kiln.

Iluka's priorities

I will now turn briefly to priorities for 2012 and beyond.

In the Iluka review I referred to three priorities that reflect the drivers of shareholder value: profitability, sustainability and growth.

First, from a profitability perspective, Iluka must endeavour to protect what has been achieved to date by navigating through challenging global economic conditions and resultant uncertainties about demand for our products.

However, Iluka is generating a strong return on capital employed in all areas of the business and is well positioned from an operational, balance sheet and capital program position to respond flexibly to these circumstances.

Furthermore, and although often overlooked, Iluka is now more evenly balanced from a revenue perspective than it has been for some years. This balance exists across zircon and high grade titanium dioxide products, as well as across geographies.

This slide shows Iluka's revenue composition by geography, referencing 2010 and 2011 actuals and the company's guidance for 2012.

This slide shows that the zircon and high grade titanium dioxide revenues are relatively well balanced.

Market dynamics are rarely uniform in nature, so a balanced revenue position is a positive attribute that Iluka has when compared with many of our competitors.

In these challenging times globally, we still expect a material increase in earnings and free cash flow in 2012. Moreover, our focus is also on the medium to long term and on improving our financial performance and shareholder returns over time.

As we have noted previously, Iluka will maintain a prudent balance sheet. This may entail a "cash buffer" until the level of global turmoil recedes. it would not be the intent to hold significant cash on the balance sheet for an extended period under normal conditions, instead returning cash to shareholders via dividends and other forms of capital management the Board deems appropriate – being as mindful as is practicable of the diverse preferences of different classes of shareholders and different benefits available to them under different capital management approaches.

Iluka's first half weighted capital expenditure profile, the payment of the 2011 final dividend of $230 million, a full tax payment of $150 million and the expected strongly second half weighted profile of Iluka's sales volumes, means that cash held on the balance sheet is not expected to build significantly in the first half. But the expectation is that this situation will reverse in the second half of the year and cash holdings will again build.

I would also remark that Iluka has successfully expanded the capacity and increased the flexibility of its available (but in recent times unutilised) debt facilities. The new package involves $800 million of revolving credit facilities with a maturity profile of five years, adding to the company's flexibility in relation to potential investment decisions and their funding mix.

Investing to sustain the existing business and for growth in a disciplined manner are critical elements of creating value for shareholders. The inherent variability in market conditions - and in the timing and scale of growth opportunities - means that Iluka does not subscribe to overly prescriptive capital management policies. However, as a guide Iluka will normally, and where practicable, seek to pay out a minimum of 40 per cent of free cash flow.

Iluka has a number of operational sites, some still in use, some closed, which have an operating history spanning decades. These can present particular challenges in addressing legacy environmental issues, some of which only are appreciated with the knowledge we have today and which were not appreciated during the operating life of the asset.

As I mentioned earlier, put simply, our aspiration is to be more pro-active and set our sights higher in terms of our ability to address legacy issues and to minimise environmental, health and safety risks associated with our activities - in line with changing scientific knowledge and community expectations.

If Iluka is to achieve sustainable success we must build on current efforts to engage with our customers in achieving growth in demand for our products to our mutual advantage.

And, to maximise the pool of talent available to the company, to maximise our prospects of success, we must respect and encourage diversity in our workforce.

Finally, we seek to deliver a profitable, sustainable, growing business which benefits all stakeholders. The strengthened balance sheet and cash flow of the company enhance Iluka's opportunities in this regard.

A primary focus will continue to be on opportunities within the Iluka portfolio to which I have referred.

But whether within the existing portfolio or outside it, Iluka will consider all opportunities in a disciplined and rigorous manner but also with the recognition that innovation and prudent risk taking is a necessary component of growth and value creation.

I would like to thank shareholders for their continuing support and, at times, patience.

Finally, I acknowledge and truly appreciate the alignment, commitment and professionalism of my fellow Directors, my Iluka management team colleagues and the entire Iluka workforce.

The progress of this company has truly been a team effort.

I thank everyone in that team for their advice and support.