22 May 2013

ILUKA RESOURCES
2013 ANNUAL GENERAL MEETING

Iluka Resources (Iluka) today held its 58th Annual General Meeting of shareholders in Perth, Western Australia.

Five resolutions were put to shareholders:

1. Re-election of Stephen Turner;

2. Re-election of Wayne Osborn;

3. Election of Greg Martin;

4. Election of Hutch Ranck; and

5. Adoption of Remuneration Report.

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

Following is an extract of the address given by Managing Director, David Robb. A full transcript of the addresses delivered by John Pizzey (Chairman) and David Robb is also provided.

"In relation to zircon, as the company indicated in its March Quarterly Production Report, Iluka has seen a higher level of customer inquiry and a pick-up in orders in all markets, except Europe. Through April and into May, I am pleased to say that this encouraging trend has continued and augurs well for a draw down in finished goods inventory as the year progresses.

In key markets such as China and the US, and even now in Europe, albeit from a very low base, sales exceed last year's levels. In fact in China, to date, sales are at a similar level to full year 2012 China sales.

Indications are that prices have stabilised, which if sustained, provides essential confidence to underpin volume recovery and represents a pre-condition for potential price increases.

I would emphasise that forecasting demand throughout 2013 and into 2014 remains challenging, due to factors such as the volatility of global and regional economic indicators and subsequent performance trajectories. Iluka will provide sales volumes, as it normally does, associated with its June Quarterly Production Report, to be issued in July.

As expected, demand for Iluka's high grade feedstocks has remained subdued for reasons already indicated. Commentary within the major market of Iluka's products – the chloride pigment sector – has of late reiterated themes which include a common expectation of a return to more usual pigment plant throughput levels in the second half of 2013, given a reduction of pigment inventory to historical levels and associated with a continued recovery in North American coatings markets, including seasonal construction and painting activities.

So demand, and hence sales volumes for rutile and synthetic rutile, will be dependent on the strength and timing of these downstream market developments. The next few months will be informative in this regard and therefore, as would be expected from my comments, the level of high grade titanium dioxide sales I expect to be significantly weighted to the second half.

In conclusion, let me outline the expected financial outcomes for Iluka this year. Based on lower weighted average prices, at least as they stand at the moment, and lower sales than could be expected to flow from more usual market conditions, earnings are expected to be materially lower than in 2012.

Cash flow will also be below 2012 levels and, as conveyed previously, the company does not expect to generate positive free cash flow in the first half. This expectation is associated, in part, with the requirement to make a taxation payment of $128 million in respect of 2012 earnings, as well as the final 2012 year dividend payment of $42 million.

Iluka would expect free cash flow to be positive in the second half.

We expect (based on the timing of the receipt of cash payments) only a moderate draw down of debt and moderate balance sheet gearing at the end of 2013.

I believe some modest utilisation of balance sheet capacity is a reasonable outcome if it positions the company well for both demand recovery and for the continued pursuit of growth options for its business."

Investment market and media inquiries

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CHAIRMAN'S ADDRESS (John Pizzey)

I referred in the Iluka review document to the challenging and tough market conditions the company experienced in 2012 and which remain a feature in the early part of 2013, albeit there are encouraging signs of a recovery in one of the company's main products – zircon, together with positive expectations for titanium dioxide markets as the year progresses.

As one who has worked in the resources sector for many decades, I can attest that cyclicality is part and parcel of resources investment. The measure of board and management in a cyclical low –- is how the business is managed to achieve or return in as short as time as possible to appropriate financial performance characteristics – usually associated with maintaining positive margins, generating free cash flow, if possible, and preserving a sound balance sheet position without closing off options for future growth.

Irrespective of market conditions, the company must be managed to achieve the highest environmental, occupational health and safety outcomes.

In this regard, the company's performance has shown continuous progress on a journey to be best in class. Through a concerted effort by management and our operational personnel, safety performance has shown significant improvement. I noted in the Iluka review a 50 per cent reduction in the lost time injury frequency rate since 2010, while the total recordable injury rate has declined by 38 per cent over the same period. There has been a progressive improvement on both measures, which is pleasing, while the level of what are categorised as serious environmental incidents also declined.

The Board is very pleased by these improvements; they reflect a concerted approach; defined processes and individual and team accountabilities. Board members visit Iluka's operations during the course of the year, and the focus on safety performance initiatives is a key aspect of our review.

I would like to highlight, in the context of the company's broader contribution to the communities in which it operates, an award the company received earlier this month from the Premier of South Australia. This was the Premier's Award for Excellence in Social Inclusion. This award recognised Iluka's commitment and contribution to indigenous employment, education and business training and development associated with the Far West Coast peoples, associated with our Jacinth-Ambrosia operation in South Australia. The efforts of our people in South Australia have contributed to a 23 per cent indigenous employment level at the operation, while mentoring and other programs, which have also involved Aboriginal families, have meant that an employment retention rate of 85 per cent has been achieved.

I do note that the activities in South Australia are not unique. Management commitment directed at employment diversity and community engagement are spread across the entire company. I would refer shareholders and other interested parties to access our website to get a fuller picture of Iluka's efforts.

The 2012 result was the second best in the company's history following the record 2011 results. Cash flow was strong and returns on both equity and capital were over 20 per cent and 30 per cent, respectively. However, what was of concern was the marked volatility in the Iluka business, reflected by materially lower sales of zircon and high grade titanium dioxide year-on-year. The market conditions will be expanded upon in the Managing Director's address. And 2013 is starting as a tough year as markets take time to recover to more normal levels of demand.

The Board remains confident that there are fundamental strengths held by Iluka in areas of its operational integration and flexibility, resource base, exploration potential and technical capability, and its capital structure to ensure value for shareholders will continue to be created and delivered through the cycle and for the long term.

There has not been any wavering by your Directors or by David Robb and his team from this prime objective: "to create and deliver value for shareholders". As David will outline, there was a clear course of action in 2012 to navigate through a period of lower demand and in an effort to protect margins the approach has continued in 2013 and involves lower production such that finished goods inventory can be drawn down.

I would like to make some brief comments on Iluka's capital management policy, as I realise this is an area of interest to shareholders. Iluka has enunciated and pursued a framework where direct cash returns to shareholders, via dividends, is a key part of the overall shareholder value delivery objective.

The company is focused upon investment in the business or in external opportunities for growth, a prudent balance sheet, and then to return remaining cash to shareholders. That said, I would emphasise that our principal goal is to invest in opportunities that provide appropriate returns, versus assessed risks, in the business we know best – mineral sands.

Since 2010, Iluka has returned to shareholders 68 per cent of free cash flow generated in the form of dividends.

In this same period, from the end of 2010 to the end of 2012, net debt reduced from the $312 million I mentioned to $96 million – or a gearing reduction from 22 per cent to just under six per cent. The company has also had the intent to return the maximum practicable level of franking credits, and the 2012 dividend payments were fully franked.

The Board believes this approach is consistent with a commitment to maximising shareholder returns through resources cycles.

I would stress, however, that it is critical for longer term shareholder value that the Board maintains a focus upon the company's main growth avenues which include: exploration; innovation and development activities; project evaluation and development and, if appropriate, merger and acquisition activity, conducted in accord with strict criteria.

In concluding my comments today, shareholders will be asked to re-elect two serving Directors and elect two new Directors – Greg Martin and Hutch Ranck. The new Directors bring a range of skills and experience to the Board and I have asked all Directors standing for election today to address the meeting during the specific resolutions. Including the new members, the Board is well placed to handle board succession. There are no specific plans but board composition and renewal are critical elements of governance for which I take a high degree of personal responsibility.

In concluding my remarks, I would like to acknowledge and thank my fellow Directors for their contribution during 2012. I would also like to acknowledge David Robb and his management team, as well as the Iluka workforce, for their efforts and commitment through what has been a challenging year and one where, due to business conditions, unfortunate reductions had to be made in employee numbers. Finally, I would like to thank shareholders for their continued support.

MANAGING DIRECTOR'S ADDRESS (David Robb)

The Chairman has described 2012's financial characteristics and more detail has been conveyed in our full year results and annual report documents so I am not going to repetitively cover familiar ground.

Instead I will focus on market conditions we have encountered, especially in the latter part of 2012 and, more importantly, how they are evolving in 2013.

And, consistent with our focus on the long term even while navigating a challenging short term environment, I will make some specific observations about shareholder value generation options we are working on.

The 2012 results reflect high unit margins flowing from the pricing successes we had in 2011, although with sales volumes for Iluka's main products of zircon, rutile and synthetic rutile markedly lower than 2011 levels.

In fact, sales volumes of the main products of zircon, rutile and synthetic rutile declined by 53 per cent, with a corresponding reduction in sales revenue from these products of 33 per cent compared with 2011, and overall mineral sands sales revenue declined 30 per cent.

Product prices, for reasons I will detail in a moment, declined over the course of 2012, particularly in the latter part of the year.

The above factors led to a 33 per cent decline in net profit after tax to $363 million. This is still the second highest profit that the company has ever recorded.

Return on capital was 32.8 per cent and return on equity 23.2 per cent. These are solid results, although mainly generated in the first half of 2012, before prices weakened.

The company ended 2012 with net debt of $96 million, or a gearing ratio (net debt to net debt plus book equity) of 5.8 per cent. The company successfully restructured and expanded its bank debt arrangements during 2012, negotiating very attractive new multi-lateral facilities totalling $800 million, all with a five year term.

So, financial performance in 2012 was respectable, but clearly the demand environment, and hence sales volumes and prices deteriorated as the year progressed, with implications for the first half at least of 2013.

It is my view that the second half of 2012 and the early part of 2013 reflects what could be described as a cyclical low in the mineral sands demand cycle. The issue of course is how long this period of lower demand might last. In this context, Iluka has sought to respond in three main ways.

First, as announced earlier this year, the company has reduced production, to better match a cyclical low sales environment and to allow finished goods inventories to be drawn down progressively.

Second, we are focused on lowering cash operating costs, non-production costs and capital expenditure, to ensure that Iluka generates the best operating cash flow in these market conditions, while ensuring the company maintains a strong balance sheet.

And third, we are determined to advance Iluka's various growth options, in recognition of the fact that current market circumstances are likely to be – short of another global economic stumble – transitory, with a recovery in demand to occur and with that a restoration of strong financial performance. In short, I believe we must "keep our feet on the ground but our eyes on the horizon".

Market Conditions

Returning now to the broader context – general market conditions for mineral sands.

As the company made clear in its communications during 2012 and again this year, Iluka has experienced what we have described as a coincident weakness in demand for zircon and for our high grade titanium products - rutile and synthetic rutile.

This was reflected in combined zircon, rutile and synthetic rutile sales volumes in 2012 of only 489 thousand tonnes, 53 per cent lower than in 2011, when the company sold one million and 38 thousand tonnes of these products.

Sales volumes in 2012 were also markedly weaker than in the GFC trough of 2009; a year when 758 thousand tonnes of zircon, rutile and synthetic rutile was sold.

The factors causing unusually low demand have been well canvassed by the company and other industry participants and included:

- unstable and generally weak global economic conditions;
- inventory destocking by ceramics manufacturers, particularly in china;
- historically high pigment inventories for chloride pigment manufacturers and their attendant need to work down such inventories resulting in materially lower demand for the high grade titanium feedstock products which Iluka typically provides; and
- fragile business confidence levels, which in the case of zircon in particular, led many customers to operate on a very cautious and "just in time" basis in terms of ordering patterns with the bare minimum of inventory held.

In addition, the industry grappled with an unusual, multi-tiered pricing environment, especially for high grade titanium dioxide feedstocks.

By that I mean, while Iluka was able to price its rutile and synthetic rutile products free of old style, "legacy" contract constraints, some other major producers operated in 2012 under such contracts which meant that at least some of their volume was priced at an appreciably lower level than what might have been achieved given prevailing market conditions.

This environment led to weak demand for Iluka's high grade titanium dioxide products in the second half of 2012 and into the first half of 2013.

As such, multiple factors throughout the industry value chains, most unrelated to actual end-user demand for, say, paint or for tiles, served to create what we believe is a mainly cyclical low in mineral sands.

In such an environment, a conventional approach is often to attempt to generate additional sales and revenues by reducing prices.

Iluka believes strongly that shareholders are better served by a less conventional approach.

Taking zircon pricing as the example, our view was that lower demand was due largely to the global, country and customer-specific factors to which I have referred. It was our assessment that lower pricing on its own would not generate material additional demand, and certainly not in our view sufficient additional sales volumes to offset lower prices.

Our preferred approach is to "flex" production –to reduce it and be prepared to hold inventory. In doing this, Iluka may surrender some market share but maintains the "best possible" unit margins, such that when demand recovers, profitable sales return and market share is regained.

But we operate in a competitive industry. Ultimately, competitor actions led to significantly lower prices and the need to respond to pricing dynamics then playing out.

This led to a reduction in zircon prices from approximately US$2,500 per tonne during the first eight months of 2012, to around US$1,400 per tonne in the last quarter, with then some further softening to around US$1,200 in the first part of 2013.

This is a regrettable and actually unnecessary surrendering of margin in my view – but it reflects a competitive market.

Clearly, the important consideration now is how demand for Iluka's products recovers in 2013 and beyond.

Iluka's Current Approach

So what are the main features of Iluka's approach to a soft, but hopefully recovering, market?

I would emphasise that actions in areas which are either central to the company's licence to operate or the welfare of our employees – such as the sustainability functions which encompass health, safety and environmental management – have not been affected.

In this regard, I acknowledge the committed and professional work done at an operating level to improve Iluka's safety performance, as the Chairman rightly highlighted, with a 50 per cent reduction in lost time injury frequency rate since 2010; a reduction in the total recordable injury frequency rate of 38 per cent and a reduction in the level of major environmental incidents. The focus in this area continues, as it must.

Beyond a continued and pro-active focus on sustainability, there are three main components to Iluka's approach to this low cycle period.

First, as I referred to, broad ranging production cuts.

This has been reflected in idling of specific assets and operations and in some cases, such as mineral separation plants, reducing utilisation or throughput rates.

Iluka has detailed these measures in its disclosures. And it is reflected in the guidance on production volumes provided for this year and which, in the case of zircon at approximately 220 thousand tonnes, is around 40 per cent of what full operating capacity could deliver. In the case of the high grade titanium dioxide products of rutile and synthetic rutile, the production guidance of 200 thousand tonnes combined also represents around 40 per cent of the typical production level.

We expect setting production at such a low level will allow finished product inventory to be drawn down progressively as demand recovers.

The company retains the physical and human capacity to meet any reasonable scenario of demand recovery.

Second, in an environment of both lower prices and conceivably continued soft volumes if demand is slow to recover, Iluka has sought to preserve cash by reducing costs and capital expenditure. In this regard, total cash costs, including restructuring and redundancy costs, are expected to reduce by approximately 20 per cent from $740 million in 2012 to $600 million in 2013. Prior to the one-off costs, this is a 30 per cent reduction.

I am pleased to say that Iluka has operated year-to-date in line with its cash cost guidance, and our expectation, again based on current indications, is that capital expenditure will come in at year end around the guided $100 million figure.

The production and cost reduction response has, as the company has previously announced, necessitated approximately 200 positions being made redundant. This is approximately 30 per cent of the operational workforce, and clearly a major and regrettable step to have had to take. We have done so professionally, and in a manner you would expect from a company with values centred on commitment, integrity and responsibility.

The third important component of our approach which reflects the fact that we believe we are in a cyclical low – not a permanent state of affairs – is to protect growth options for the company.

These include exploration, and a well-resourced global exploration program is in place, with the expansion of “search spaces”, as we refer to prospective new areas, reflected in Iluka now having exploration offices covering the Americas and Africa, and with a significant amount of early stage evaluative work being undertaken in multiple overseas jurisdictions. This activity supplements Iluka’s continued focus in Australia, including the Eucla and Murray Basins. Iluka will spend approximately $25 million on exploration in 2013.

Project evaluation and project development activities continue. Iluka currently has four projects at pre-feasibility stage, as well as a larger number at earlier stages.

Recently, a pre-feasibility study was commenced for the satellite deposit of Sonoran, the first of three potential developments adjacent to the Jacinth-Ambrosia mining operation in the Eucla Basin, South Australia.

Iluka is proceeding with a pre-feasibility study for the Cataby chloride ilmenite and zircon deposit in Western Australia, while a pre-feasibility study is progressing on the Aurelian Springs mineral sands deposit in Virginia, one of two options Iluka has to extend the economic life of its United States’ operations.

Given available finished goods inventory, some projects can be re-phased, for example, the definitive feasibility study for the large Balranald rutile deposit in New South Wales, which was to commence in 2013, has been deferred for 12 months. The company will use the intervening period to progress regulatory approvals but will also evaluate alternative, innovative technologies, which could improve project economics.

The company's Hickory project in North Carolina is undergoing final detailed engineering and various approvals before an expected project go-ahead later this year.

Work in the Product and Technical Development area, or as we have renamed it – Innovation, Technology and Sustainability, remains an important component of operational and project implementation efficiency, as well as product development and, ultimately, project completion and operational closure and rehabilitation. In this regard, work includes trials on a new product – Acid Soluble Synthetic Rutile – potentially suitable as a higher grade feedstock to the sulphate pigment industry, which will continue through the second half of this year.

Trial work during 2012 saw Virginia ilmenite used successfully in the Western Australian synthetic rutile kilns as a feedstock for the production of a new synthetic rutile with very high titanium dioxide content and low levels of impurities.

We also consider growth opportunities external to the existing portfolio, be they within mineral sands or in other minerals. This is nothing new in terms of our approach to growth, but during periods of lower commodity pricing, more cautious sentiment and possibly some challenges for resources companies with poor balance sheets, such opportunities may be more prevalent or more realistically priced.

Any review of opportunities whether inside or outside Iluka's current portfolio, occurs on the basis of clear, consistent criteria which focus on inherent value under a range of scenarios and also what additional value Iluka can unlock.

Investment in sales and marketing remains pivotally important to the improvement of Iluka's offer and service to customers, as well as towards expanding Iluka's market presence in new and emerging markets. Numerous initiatives are in train and further development and enhancement of Iluka's market presence, logistics and service offer will occur.

Mineral Sands Market Conditions

If I could now turn to some comments on mineral sands market conditions.

In relation to zircon, as the company indicated in its March Quarterly Production Report, Iluka has seen a higher level of customer inquiry and a pick-up in orders in all markets, except Europe. Through April and into May, I am pleased to say that this encouraging trend has continued and augurs well for a draw down in finished goods inventory as the year progresses.

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Financial Characteristics - 2013

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I believe some modest utilisation of balance sheet capacity is a reasonable outcome if it positions the company well for both demand recovery and for the continued pursuit of growth options for its business.

I would like to conclude by acknowledging my appreciation for the support and guidance of directors during a challenging year; for the commitment and professionalism of the entire Iluka workforce in coping with varying global market conditions and resultant changes in our business; for the mutually beneficial relationships we have with customers; and, of course, for the support of shareholders large and small.