21 February 2013

ILUKA FULL YEAR RESULTS
TO 31 DECEMBER 2012

Summary of Financial Results

$ million	2012	2011	% Change
Mineral Sands Revenue	1,069.8	1,536.7	(30.4)
Mineral Sands EBITDA	726.0	925.9	(21.6)
Mineral Sands EBITDA/Revenue (%)	67.9	60.2	12.8
Group EBITDA	748.8	979.3	(23.5)
Group EBIT	545.7	790.3	(31.0)
Reported Earnings (NPAT)	363.2	541.8	(33.0)
Earnings per Share (cents)	87.1	130.1	(33.1)
Operating Cash Flow	368.7	706.2	(47.8)
Free Cash Flow[1]	81.2	589.6	(86.2)
Free Cash Flow per Share (cents)	19.4	140.6	(86.2)
Dividend (cps)	35.0	75.0	(53.3)
Net (Debt)/Net Cash	(95.9)	156.7	(161.2)
Gearing (Net Debt/Net Debt + Equity) (%)	5.8	n/a	n/a
Return on Capital (%)[2]	27.3	54.9	(50.3)
Return on Equity (%)[3]	23.2	42.5	(45.4)
Average AUD/USD	103.6	103.2	(0.4)

[1] Free Cash Flow is after capital expenditure and before dividends paid in the year and before costs for the 2012 debt refinance.
[2] Calculated as EBIT for the year as a percentage of average monthly capital employed for the year.
[3] Calculated as NPAT for the year as a percentage of the average monthly shareholders equity over the year.

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Key Features of Results[4]

- Iluka recorded a profit after tax for the year ended 31 December 2012 of $363.2 million, compared with $541.8 million for the previous corresponding period.

- Return on shareholders' equity for 2012 was 23.2 per cent (2011: 42.5 per cent).

- Mineral Sands EBITDA for the year was $726.0 million (2011: $925.9 million).

- Mineral Sands EBIT was $523.3 million (2011: $737.3 million), a decline of 29.0 per cent, with an EBIT margin of 48.9 per cent (2011: 48.0 per cent).

- Group EBITDA, including Mining Area C revenue, was $748.8 million (2011: $979.3 million), with a Group EBITDA margin of 70.0 per cent (2011: 63.7 per cent).

- Group EBIT was $545.7 million (2011: $790.3 million) with a Group EBIT margin of 51.0 per cent (2011: 51.4 per cent).

- Lower mineral sands profitability reflected significantly lower sales volumes year-on-year, with combined zircon, rutile and synthetic rutile (Z/R/SR) sales volumes down 52.9 per cent to 488.9 thousand tonnes compared to 1,038.1 thousand tonnes in 2011. As the company has commented upon on previous occasions, lower sales volumes were influenced by a combination of external factors, including: low demand associated with weak global economic conditions and fragile business confidence levels; inventory de-stocking; and lower levels of zircon usage in tile manufacturing in China.

- Higher average product prices year-on-year, despite a significant fall in prices received in the latter part of the third quarter and into the fourth quarter, resulted in revenue per tonne of Z/R/SR sold during 2012 of $1,991 per tonne, 41.6 per cent higher than the corresponding 2011 figure of $1,406 per tonne.

- Mining Area C (MAC) iron ore royalty earnings were $72.3 million (2011: $88.1 million), including capacity payments of $3.0 million (2011: $1 million). The average AUD realised price of $118 per tonne (2011: $156 per tonne) upon which the royalty is payable decreased by 24.4% from the previous corresponding period, driven by a weakening in the iron ore price in 2012 combined with a strengthening of the Australian dollar.

- Operating cash flow for the year was $368.7 million (2011: $706.2 million), reflecting lower second half sales revenue associated with lower sales volumes for rutile and synthetic rutile, which reflected the preference by pigment producers to use lower grade and low priced legacy contract feedstocks as they sought to work down pigment inventories.

- Capital expenditure of $167.3 million (2011: $142.5 million) was mainly for the development of the Woornack, Rownack and Pirro mine in Murray Basin, commissioned in May 2012, and for a major maintenance outage on the SR 2 kiln, also in the first half of 2012.

- Free cash flow of $81.2 million was well down on the record $589.6 million generated in the previous corresponding period, due mainly to lower mineral sands revenues and an increase in working capital due mainly to higher finished goods inventories. Finished goods at 31 December 2012 are carried at a cost (including depreciation and amortisation) of $484.6 million and represent a potentially significant source of free cash inflow on sale. The reduction in free cash flow is also a result of higher tax payments of $159.1 million (2011: $12.5 million) due to utilisation of remaining Australian tax losses in the prior year.

- Net debt at 31 December 2012 was $95.9 million with a gearing ratio (net debt/net debt + equity) of 5.8 per cent, compared to net cash of $156.7 million at 31 December 2011. Undrawn facilities at 31 December 2012 were $718.2 million and cash at bank was $54.3 million. Net debt at 31 January 2013 was $90.0 million.

Dividend

- Directors have determined a fully franked dividend of 10 cents per share, payable on 4 April 2013 with a record date of 7 March 2013. Full year dividend payments for 2012 are 35 cents per share, 100 per cent franked.

[4] Refer Iluka 4E Commentary on Results for the Year Ended 31 December 2012, and the slide material associated with the results for more detailed information. All currency is Australian dollars unless otherwise indicated. Refer also to slide 46 in half year investment presentation slide material for reconciliation of non-IFRS financial information.

Other Features of the Results

- Iluka's total cash costs of production for the full year of $583.5 million were 7.2 per cent lower than 2011 (2011: $628.9 million). Unit cash costs of production of $719 per tonne of Z/R/SR increased by 33.6 per cent relative to the 2011 level of $538 per tonne, reflecting materially lower production in 2012.

- Overall production volumes of Z/R/SR were 811.8 thousand tonnes, 30.5 per cent lower than in the previous corresponding period. As noted above, Iluka reduced production during a period of low demand for minerals sands products.

- Iluka further reduced production via the temporary suspension of a major part of the operational base during the Christmas and New Year period. This included idling the Virginia mining and processing operations, the Hamilton and Narngulu mineral separation plants, the mining operations at Eneabba in the Mid West of Western Australia and the Tutunup South mine in the South West of Western Australia. Further production response measures were announced by the company on 21 February 2013.

Pricing

The following table provides weighted average pricing for Iluka's main products over varying periods.

	6 mth to Jun-12	Dec-12 Quarter	6 mth to Dec-12	12 mth to Dec-11	12 mth to Dec-12
Weighted average pricing US$/t FOB					
Zircon	2,490	1,449	1,856	1,886	2,080
Rutile	2,505	2,094	2,305	1,174	2,464
Synthetic rutile	1,950	1,463	1,465	878	1,771
Average Z/R/SR price received US$/t FOB	2,296	1,478	1,772	1,453	2,056

Iluka average zircon prices started 2013 approximately 15 per cent below December quarter 2012 levels, while rutile prices were approximately 30 per cent below December quarter 2012 levels.

Market Conditions

Market conditions in 2012 for Iluka's products were influenced by a combination of the following factors:

- global economic performance, including low growth in major markets of North America and Europe, as well as volatile economic and political conditions in developing economies in Asia, North Africa, the Middle East and South America;

- while minimal inventories of zircon were held directly downstream of Iluka, a destocking and working capital adjustment phase has been evident in the ceramics manufacturing sector. This, in combination with the adoption of modern tile making techniques in China, as well as some level of thrifting and substitution, had an impact on global zircon demand;

- in the case of high grade titanium dioxide, appreciably lower second half demand for rutile and synthetic rutile was associated with pigment producers working down pigment inventories, which had built to high levels during the first half of the year, and efforts to maximize purchase and consumption of remaining low priced legacy contract, or other cheaper, material; and

- overall fragile business confidence levels which, in the case of zircon in particular, led customers to operate on a "just in time basis" in ordering patterns, often only running plants when back-to-back commercial arrangements were available to secure processing margins.

The combination of these factors had a more serious overall impact on market demand for Iluka's products than was the case in 2009.

Group Profit and Loss Summary

$ million	2012	2011	% change
Z/R/SR Revenue	973.8	1,461.2	(33.4)
Ilmenite and Other Revenue	96.0	75.5	27.2
Mineral Sands Revenue	**1,069.8**	**1,536.7**	**(30.4)**
Cash Costs of Production	(583.5)	(628.9)	7.2
Inventory Movement	346.9	147.7	134.9
Restructure and Idle Capacity Charges	(14.8)	(8.5)	(74.1)
Rehabilitation and Holding Costs for Closed Sites	(9.8)	(36.2)	72.9
Government Royalties	(19.6)	(25.2)	22.2
Marketing and Selling Costs	(30.2)	(34.5)	12.5
Asset Sales and Other Income	10.3	7.5	37.3
Product, Technical Development and Major Projects	(13.6)	(13.7)	0.7
Exploration Expenditure	(29.5)	(19.0)	(55.3)
Mineral Sands EBITDA	**726.0**	**925.9**	**(21.6)**
Depreciation and Amortisation	(202.7)	(224.2)	9.6
Impairment Reversal	-	35.6	(100.0)
Mineral Sands EBIT	**523.3**	**737.3**	**(29.0)**
Mining Area C	72.3	88.1	(17.9)
Corporate and Other Costs	(45.7)	(35.5)	(28.7)
Foreign Exchange	(4.2)	0.4	n/a
Group EBIT	**545.7**	**790.3**	**(31.0)**
Net Interest and Bank Charges	(6.6)	(8.0)	17.5
Rehabilitation Unwind and Other Finance Costs	(26.9)	(21.6)	(24.5)
Profit before Tax	**512.2**	**760.7**	**(32.7)**
Tax Expense	(149.0)	(218.9)	31.9
Profit for the Period (NPAT)	**363.2**	**541.8**	**(33.0)**
Average AUD/USD (cents)	**103.6**	**103.2**	**(0.4)**

Financial Ratios

	2012	2011	% change
Group EBITDA/Revenue Margin (%)	70.0	63.7	9.9
Gearing (Net Debt/Net Debt + Equity) (%)	5.8	n/a	n/a
Interest Cover (EBITDA/Net Interest expense) (times)	197.1	125.1	57.6
Return on Equity (%)	23.2	42.5	(45.4)
Basic Earnings Per Share (cents)	87.1	130.1	(33.1)

Mineral Sands Production and Sales Volumes

	2012	2011	% change
Sales (kt)			
Zircon	213.8	514.5	(58.4)
Rutile	105.5	265.9	(60.3)
Synthetic rutile	169.6	257.7	(34.2)
Total Z/R/SR sales	**488.9**	**1,038.1**	**(52.9)**
Ilmenite - saleable	443.2	570.9	(22.4)
Total Sales	**932.1**	**1,609.0**	**(42.1)**
Z/R/SR revenue ($m)	973.8	1,461.2	(33.4)
Ilmenite and other revenue ($m)	96.0	75.5	27.2
Total Mineral Sands Revenue[1] ($m)	**1,069.8**	**1,536.7**	**(30.4)**
Revenue per tonne of Z/R/SR sold[2]($/t)	1,991	1,406	41.6
Production (kt)			
Zircon	343.2	601.5	(42.9)
Rutile	220.3	281.3	(21.7)
Synthetic rutile	248.3	285.7	(13.1)
Total Z/R/SR production	**811.8**	**1,168.5**	**(30.5)**
Ilmenite - saleable	385.6	459.7	(16.1)
Total Saleable Production	**1,197.4**	**1,628.2**	**(26.5)**
Ilmenite - upgraded to synthetic rutile	288.5	201.9	42.9
Cash Costs of Production ($m)	583.5	628.9	7.2
Unit Cash Cost per tonne of Z/R/SR produced ($/t)	719	538	(33.6)

[1] Minerals 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.

Managing Director Commentary

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

"Despite very challenging market conditions, Iluka generated a return on capital of 27.3 per cent in its business, a return on equity of 23.2 per cent and provided a total dividend of 35 cents to shareholders. Over the last three years, Iluka has paid out 82 per cent of adjusted free cash flow in dividends and had a total shareholder return over that period of 173 per cent.

The company is of the view that it is in a low period in terms of the business cycle for mineral sands. Furthermore, in 2012, unlike the previous low period in 2009, the company experienced a severe coincident reduction in demand for both its zircon and high grade titanium dioxide products.

Avoidance at the end of last year of the US fiscal cliff, the smooth transition of the Chinese leadership and a more sanguine view about events in Europe, combined with increasingly positive lead indicators, such as property-related activity in China and the US and actions in the mineral sands industry to address high inventory levels, may indicate a turning point in the current mineral sands business cycle is near and that product demand environments are likely to become progressively more positive over 2013.

There are also several specific, positive, early indications for improved demand in 2013 for Iluka's main products.

For zircon, Iluka's January and early February customer inquiries globally were the strongest in all main markets, except Europe, for many months. In Iluka's view, significant production adjustments, plus early signs of improved demand, mean that preconditions for a period of zircon price stability and potentially price recovery appear to be in place.

In the case of high grade titanium dioxide, demand in the first half of the year is still likely to be sluggish, as customers continue with low plant utilisation regimes while also working through remaining lower-priced, long term contract materials. However, commentary from several North American pigment and paint producers indicates that they expect more normal demand and operating conditions to emerge as the year progresses, underpinned by a continued recovery in the United States housing market, which, together with reduced market availability of low priced legacy contract supply, would be a positive for demand for Iluka's high grade titanium products.

Notably also, recent industry announcements regarding production cuts are a positive for market dynamics. In Iluka's assessment, these could amount, on an annualised basis, to a zircon production reduction of approximately 35 per cent compared to industry production in 2011. In the case of high grade titanium dioxide, it could represent an approximate 20 per cent reduction.

Despite positive indications generally, risks remain in terms of both global economic performance and specific business conditions for the mineral sands sector and Iluka's planning seeks to take account of such risks and uncertainties. The company's further production cuts and cost reduction measures (announced separately today) are focussed upon maintaining the lowest possible unit cost given reduced operational activity levels, targeting finished inventory draw down, reducing overheads and capital expenditure, while maintaining the flexibility to respond to market recovery. The measures announced are significant and include: a reduction in combined zircon, rutile and synthetic rutile production in 2013 to approximately 420 thousand tonnes, compared with 812 thousand tonnes in 2012. 2013 production will be at a level approximately 30 to 40 per cent of production capacity typically operated under more usual market demand conditions.

Iluka will deliver a substantial reduction in total cash production costs, of approximately $200 million from 2012 levels, while 2013 capital expenditure has been reduced to approximately $100 million from $167 million in 2012. As a result of the announced changes, Iluka will incur restructure and idle capacity costs of approximately $90 million.

Directors have determined a final dividend of 10 cents per share, fully franked. This represents full year dividend payment of 35 cents, fully franked, and a simple yield (excluding ignoring franking credits) on the basis of yesterday's share price of 3.4 per cent.

With the payment of this dividend, Iluka has distributed, on a cumulative basis, 68 per cent of free cash flow (after capital expenditure) since the resumption of dividend payments at the end of 2010, well above its dividend distribution framework minimum of 40 per cent of free cash flow. After adjusting reported free cash flow (again after capital expenditure) to align tax payment timing with related profit generation periods, from 2010-2012 inclusive, Iuka has generated a total cumulative adjusted free cash flow of $603 million of which it has distributed $493 million in the form of dividends, a payout ratio on that basis of 82 per cent. In addition Iluka has distributed all available franking credits to end 2012, but with large tax payments due in 2013 expects further substantial generation of franking credits by the end of 2013.

As indicated, Iluka considers that a turning point in the current mineral sands business cycle may be near.

Financially, negative free cash flows are assumed in the first half, associated with a modest, gradual recovery in demand, as well as a result of first half taxation payment of $125 - $130 million, relating to 2012 earnings, before an expected return to positive cash flow in the second half. Despite a progressive improvement in conditions that is expected, a firm basis for an interim dividend payment in 2013 is, therefore, unclear at this stage.

Iluka has a continuing focus on finding attractive opportunities to create value through growth and delivering value through distributions to shareholders. Iluka expects its balance sheet situation to remain solid, with moderate gearing at year-end and capacity to fund growth maintained in 2013.

Iluka remains well positioned to take advantage of positive medium to longer term demand dynamics for its products influenced by economic growth in developing economies and by the transformational trends of urbanisation and increasing personal consumption levels, as well as new uses for zircon and titanium dioxide products. The company will also continue to evaluate and, where appropriate, pursue, value accretive opportunities both within and beyond the mineral sands sector."

Investment market and media enquiries

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