

23 August 2012

ILUKA HALF YEAR RESULTS SIX MONTHS TO 30 JUNE 2012

Summary of Financial Results

\$ million	1 st Half 2012	1 st Half 2011	% change
Mineral Sands Revenue	662.8	570.2	16.2
Mineral Sands EBITDA	480.2	286.7	67.5
Group EBITDA	505.0	319.2	58.2
Group EBITDA/revenue %	71.0	51.8	37.1
Reported Earnings (NPAT)	274.4	145.9	88.1
Earnings per share - cents	66.1	35.0	88.6
Operating Cash Flow	207.2	212.7	(2.4)
Free Cash Flow ¹	(44.7)	167.7	n/a
FCF/share – cents	(10.7)	40.0	n/a
Dividend cps	25.0	20.0	25.0
Net (Debt)/Net Cash	(117.2)	(171.0)	31.5
Gearing (net debt/net debt + equity)%	6.9	12.2	43.4
Return on Capital % (annualised) ²	47.1	32.4	n/a
Return on Equity % (annualised) ³	36.9	25.3	n/a
Average AUD/USD	103.3	103.3	-

Key Features of Results⁴

- Iluka reported an 88.1 per cent increase in half year profit of \$274.4 million (2011: \$145.9 million), with higher sales revenue as a result of higher prices, more than offsetting a 35.1 per cent decrease in overall sales volumes. Lower sales volumes, especially for zircon, reflected softer global demand.

¹ Free Cash Flow is determined as cash flow before refinance costs and dividends paid in the year.

² Calculated as Earnings Before Interest and Tax (EBIT) on an annualised basis as a percentage of average monthly capital employed.

³ Calculated as Net Profit after Tax (NPAT) on an annualised basis as a percentage of the average monthly shareholders equity.

⁴ Refer Iluka 4D Commentary on Results for the Half Year Ended 30 June 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 34 in half year investment presentation slide material for reconciliation of non-IFRS financial information.

- Material price increases through 2011 and into the first half of 2012 resulted in the company recording an average revenue per tonne for its principal products of zircon, rutile and synthetic rutile (Z/R/SR) of \$2,255/tonne (2011: \$1,087/tonne).
- Total cash costs of production were flat at \$314.7 million compared with the six months to 30 June 2011 (\$311.8 million). Unit cash costs of production increased to \$709/tonne of Z/R/SR from \$542/tonne, reflecting lower production volumes as Iluka adjusted production in light of softer global demand, as well as lower rutile production associated with a planned mine move in the Murray Basin, Victoria.
- Sales volumes of Z/R/SR for the six months were 273.9 thousand tonnes (2011: 498.6 thousand tonnes), a 45.1 per cent decline. Lower sales volumes resulted in a \$320.9 negative EBITDA impact, which was more than offset by a \$601.6 million positive EBITDA impact from higher selling prices.
- Inventory of finished product increased by \$188.4 million to \$349.3 million due to lower sales volumes, especially of zircon, reflecting softer global demand. Heavy mineral concentrate inventory was partially drawn down in the half. Inventory is held at cost and is reversed when product is sold.
- Iluka's Mining Area C (MAC) iron ore royalty made an EBIT contribution of \$41.6 million (2011: \$44.3 million). This reflected a 21.3 per cent decrease in the average realised Australian dollar denominated iron ore price, partially offset by an 8.3 per cent increase in sales volumes. Capacity payments were \$3.0 million in the half (2011: \$1.0 million).
- Operating cash flow for the 6 months was \$207.2 million (2011: \$212.7 million).
- Free cash outflow of \$44.7 million (2011: \$167.7 million inflow) reflects a combination of higher capital expenditure of \$122.5 million (2011: \$48.7 million), due mainly to the transition of Murray Basin mining to the Woornack, Rownack, Pirro deposits, Group tax payment of \$156.1 million (2011: \$5.0 million), and an increase in receivables at the half of \$52.5 million (2011: \$1.1 million).
- The company had net debt as at 30 June of \$117.2 million (31 December 2011: net cash of \$156.7 million; 30 June 2011: net debt of \$171.0 million). By end July, a net cash position had been restored (\$2.7 million as at 31 July).

Pricing

- Weighted average Z/R/SR prices of US\$2300/tonne were achieved in the first half of 2012. This compares with a weighted average price for these products during the 2011 full year of US\$1050/tonne.
- These prices reflect the weighted average first half price for zircon of approximately US\$2,500/tonne and rutile of approximately US\$2,400/tonne. The weighted average synthetic rutile price in the first half was approximately US\$1,900/tonne. Pricing for products can vary depending on the product specifications of products sold and other factors.

Dividend

- Directors have determined an interim dividend of 25 cents per share, fully franked. The dividend is payable on 6 October for shareholders on the register as at 10 September 2012. This dividend compares with a 2011 interim dividend of 20 cents (unfranked). The full year 2011 Iluka dividend payments totalled 75 cents (73.3 per cent franked).

Market Conditions

- Weaker demand for zircon continued through the second quarter of 2012, influenced by deteriorating global economic conditions and policy settings in China for property construction, as well as high ceramic product inventory levels. While high grade titanium dioxide volumes were in line with expectations in the first half, lower demand from pigment customers for the second half has influenced full year sales volume expectations. Accordingly, Iluka provided revised sales volume forecasts for zircon and high grade titanium dioxide products in July (refer ASX Release, Forecast Sales Volumes – Update, 9 July 2012).

Production Response

- In the context of weaker demand as detailed in the 9 July ASX Release, Iluka has further adjusted its production profile to reflect current demand for zircon and, to a lesser extent, rutile and synthetic rutile.
- For zircon, measures implemented impact predominantly the Jacinth-Ambrosia operation, and include:
 - heavy mineral concentrate (HMC) production being reduced by extending operations within lower grade areas of the ore body;
 - HMC being stockpiled at site, rather than processed at maximum run rates at the Narngulu mineral separation plant in Western Australia; and
 - planned supplemental processing of Jacinth-Ambrosia HMC at the Hamilton separation plant in Victoria being deferred, reducing zircon output in the Murray Basin.
- On a Group basis, these and other initiatives equate to revised zircon production of approximately 330 thousand tonnes in 2012 (February 2012 guidance of 430 thousand tonnes for 2012). Zircon production in the first half of 2012 was 209 thousand tonnes.
- Iluka maintains operational flexibility to move to higher grade parts of the Jacinth-Ambrosia ore body as demand recovers; this process would take approximately four to six weeks to execute, with sufficient HMC now stockpiled to facilitate an uninterrupted return to previous peak production (approximately 550 – 600 thousand tonnes per annum).
- Measures will also be adopted to reduce high grade titanium dioxide production in light of weaker second half demand, and include:
 - deferral of the planned reactivation of Iluka's third synthetic rutile kiln (SR1) from the fourth quarter of 2012 until market conditions warrant; and
 - moderating run rates at Iluka's two operating kilns.

Cash Flow

- Iluka estimates that its full year 2012 total cash costs of production, incorporating these further response options, will be approximately \$615 million. This compares with the February 2012 full year cash cost of production guidance of \$670 million. A full year 2012 unit cash cost of production of approximately \$750/tonne is forecast. Correspondingly, second half cash costs of production for Z/R/SR are estimated at approximately \$790/tonne, compared with first half unit cash cost of \$709/tonne. Incurring a small increase in unit cash costs in the context of still very solid unit margins is believed to be the appropriate action in response to current market conditions.
- Following a review of capital expenditure commitments in light of lower sales volumes, Iluka has revised its estimated full year capital expenditure down from \$260 million to approximately \$185 million. This reduction has been achieved through a combination of deferral of some project related expenditures, and rescheduling and reducing other expenditures where flexibility to do so exists.

- Iluka therefore estimates that it will achieve combined capital and cash cost savings of at least \$130 million in 2012 relative to previous guidance which, together with Iluka's preferred dividend payment framework, supports the determination of a fully franked interim dividend of 25 cents. This represents a 25 per cent increase relative to the 2011 interim payment.

Other First Half Highlights

- Iluka continued to invest for future growth with over \$30 million invested in the areas of exploration, product and technical development, major projects and marketing activities. During the half, Iluka announced an Inferred Mineral Resource for the Sonoran deposit in the Eucla Basin, one of three potential tie-in deposits discovered in proximity to Jacinth-Ambrosia (refer ASX Release, Discovery of New Eucla Basin Heavy Mineral Brownfield Resource, 17 April 2012).
- Iluka successfully made the transition from the Kulwin to the Woornack, Rownack, Pirro mining and concentrating operation in the Murray Basin, Victoria and also reactivated and ramped up mining activities at Eneabba in the Mid West of Western Australia. Commercial sales of Iluka's new synthetic rutile product, SR 85 commenced in the half, while development work on two additional new synthetic rutile products continued.
- Feasibility study work continued on four potential new mineral sands operations: Cataby (Western Australia), Balranald and Nepean (New South Wales), Aurelian Springs (North Carolina) and Hickory (Virginia).
- Iluka also progressed planning activities in relation to twelve other deposits within its portfolio.
- During the first half, Iluka announced that it had finalised arrangements to secure a series of unsecured five-year bilateral revolving credit facilities with a number of domestic and foreign institutions, totalling \$800 million.

Group Profit and Loss Summary

\$ million	1 st Half 2012	1 st Half 2011	% change
Mineral sands revenue	662.8	570.2	16.2
Cash costs of production	(314.7)	(311.8)	(0.9)
Inventory movement	181.1	65.6	176.1
Rehabilitation and idle capacity costs	(9.9)	(1.3)	(661.5)
Government royalties	(12.0)	(7.9)	(51.9)
Marketing and selling	(11.1)	(15.0)	26.0
Asset sales and other income	3.2	1.7	88.2
Product, technical development and major projects	(6.0)	(6.2)	3.2
Exploration expenditure	(13.2)	(8.6)	(53.5)
Mineral sands EBITDA	480.2	286.7	67.5
Depreciation and amortisation	(105.0)	(94.6)	(11.0)
Mineral sands EBIT	375.2	192.1	95.3
Mining Area C	41.6	44.3	(6.1)
Corporate, foreign exchange and other costs	(16.8)	(11.8)	(42.4)
Group EBIT	400.0	224.6	78.1
Net interest and bank charges	2.0	(7.5)	126.7
Rehabilitation unwind and deferred borrowing costs	(13.4)	(10.8)	(24.1)
Profit (loss) before tax	388.6	206.3	88.4
Tax expense	(114.2)	(60.4)	(89.1)
Profit (loss) for the period (NPAT)	274.4	145.9	88.1
Average AUD/USD (cents)	103.3	103.3	-

Mineral Sands Operational Results⁵

\$ million	Revenue		EBITDA		EBIT	
	1 st Half 2012	1 st Half 2011	1 st Half 2012	1 st Half 2011	1 st Half 2012	1 st Half 2011
Australia	615.9	512.6	469.9	270.5	369.9	182.7
United States	46.9	57.6	30.4	34.2	26.8	29.0
Exploration & other	-	-	(20.1)	(18.0)	(21.5)	(19.6)
Total	662.8	570.2	480.2	286.7	375.2	192.1

⁵ Refer Iluka 4D. The Half Year slide presentation contains supplementary information on the Australian Operations, relating to Eucla/Perth Basin and Murray Basin Operations. Given Iluka's Australian operations have become increasingly integrated and are now managed as a single operation, statutory reporting is as a single entity.

Mineral Sands Production and Sales Volumes

	1 st Half 2012	1 st Half 2011	% change
Sales (kt)			
Zircon	87.4	252.5	(65.4)
Rutile	85.4	107.8	(20.8)
Synthetic rutile	101.1	138.3	(26.9)
Total Z/R/SR sales	273.9	498.6	(45.1)
Ilmenite – saleable	218.9	261.1	(16.2)
Total sales volume	492.8	759.7	(35.1)
Z/R/SR revenue (\$m)	618.0	538.1	14.8
Ilmenite revenue (\$m)	34.0	29.2	16.4
Total mineral sands revenue ⁶ (\$m)	662.8	570.2	16.2
Revenue per tonne of Z/R/SR sold ⁷ (\$/t)	2,255	1,087	107.5
Production (kt)			
Zircon	209.0	285.7	(26.8)
Rutile	103.6	136.8	(24.3)
Synthetic rutile	131.2	153.0	(14.2)
Total Z/R/SR production	443.8	575.5	(22.9)
Ilmenite – saleable	214.7	228.9	(6.2)
Total saleable production volume	658.5	804.4	(18.1)
Ilmenite – upgraded to synthetic rutile	148.2	87.9	68.6
HMC produced	710.7	1,024.3	(30.6)
HMC processed	789.2	951.7	(17.1)
Cash costs of production (\$m)	314.7	311.8	(0.9)
Unit cash cost per tonne of Z/R/SR produced (\$/t)	709	542	(30.8)

⁶ Mineral sands revenues included revenues derived from other materials not included in production volumes, including activated carbon products and iron oxide.

⁷ Revenue from the sale of zircon, rutile and synthetic rutile.

Managing Director Commentary

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

"Iluka produced a solid set of results despite markedly lower sales volumes in highly uncertain economic and market conditions, with margins, earnings and return on capital all higher than the previous corresponding period.

The company's confidence in its ability to manage through current volatility and its focus on shareholder returns is reflected in a 25.0 cents per share interim dividend, fully franked. The 2012 interim dividend is 25 per cent higher than that paid in 2011, which was unfranked.

The balance sheet returned to a net cash position subsequent to the half year (by 31 July) and the company's intent to reduce 2012 capital expenditure and cash production costs in total by approximately \$130 million, as well as other efforts to conserve cash, are designed to continue to place the company in the best position to deliver value for shareholders.

Market conditions for Iluka's products were detailed in early July. There has been no substantive change in market conditions for Iluka's products since that disclosure. Major factors remain low customer confidence, associated working down of ceramic tile and pigment inventories, plus some plant modernisation, raw material thrifting and substitution efforts in China which together with policy settings relating to the property sector have dampened zircon demand.

The company has further adjusted its production to reflect demand conditions but retains the flexibility to respond quickly to demand recovery.

Despite short term market uncertainties, Iluka has a continuing view of the attractive medium to longer term dynamics for the mineral sands sector.

Accordingly, Iluka will continue to focus on:

- managing the business for the optimum mix of efficiency and flexibility in a period of extreme global and industry uncertainty and associated volatility;
- positioning the company to benefit - as it did following the previous slowdown in demand in 2009 - from increases in sales volumes as demand recovery occurs; and
- progressing longer term growth options, including exploration, project studies and product and technical development activities".

Investment market enquiries

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Refer Attachment – Appendix 4D for detailed financial commentary of the results.

Iluka's website contains presentational material associated with the half year results – refer www.iluka.com

Iluka Resources

Iluka Resources (ASX: ILU) is involved in mineral sands exploration, project development, operations and marketing. With operations across Australia and in Virginia, USA, the company is the major producer of zircon globally and largest producer of the high grade titanium dioxide products of rutile and synthetic rutile. The company has a royalty associated with BHP Billiton's Mining Area C iron ore operations in Western Australia.

Iluka's objective is to create and deliver value for shareholders, through a shared understanding and focus on the Iluka Game Plan which is underpinned by three elements: shareholder return, employee achievement and customer value. For more information, visit www.iluka.com