

23 February 2012

ILUKA FULL YEAR RESULTS TO 31 DECEMBER 2011

Summary of Financial Results

\$ million	2011	2010	% change
Mineral Sands Revenue	1,536.7	874.4	75.7
Mineral Sands EBITDA	925.9	250.2	270.1
Group EBITDA	979.3	305.1	221.0
Group EBITDA/revenue %	64	35	82.9
Reported Earnings (NPAT)	541.8	36.1	1,400.8
Earnings per share - cents	130.1	8.6	(1,417.4)
Operating Cash Flow	706.2	163.6	331.7
Free Cash Flow	589.6	60.7	871.3
FCF/share - cents	140.6	14.5	869.7
Dividend cps	75.0	8.0	837.5
Net (Debt)/Net Cash	156.7	(312.6)	n/a
Return on Capital %	54.9	5.0	998
Return on Equity %	42.5	3.2	1228
Average AUD/USD	103.2	92.0	12.2

- Iluka reported a full year profit of \$541.8 million (2010: \$36.1 million).
- Return on shareholders' equity for 2011 was 42.5 per cent (2010: 3.2 per cent)
- Mineral Sands EBITDA for the year was \$925.9 million, a 270 per cent increase from 2010.
- Improved minerals sands profitability mainly reflects increased sales volumes of the higher value products of zircon and rutile and higher selling prices.
- Iluka's Mining Area C iron ore royalty made an EBIT contribution of \$88.1 million, as a result of iron ore sales volumes increasing by 3.2 per cent to 44.6 million dry metric tonnes. The average AUD realised price upon which the royalty is payable increased by 18.9 per cent from the previous corresponding period. A \$1.0 million capacity payment was made in 2011 (2010: \$5 million).
- Group EBITDA, including Mining Area C contribution, was \$979.3 million, with a Group EBITDA margin of 64 per cent.

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- Group EBIT was \$790.3 million, compared to \$86.1 million in the previous corresponding period.
- Operating cash flow for the 12 months was \$706.2 million, over four times higher than 2010 levels. The increase in cash flow reflects the significant increase in realised prices achieved by Iluka for its major products in the period, offset partially by: a \$226.1 million increase in working capital due mainly to higher receivables, reflecting the higher sales prices; the timing of sales in the fourth quarter, higher inventory levels due to a build in concentrate production in the Murray Basin in advance of the move to Woorneck, Rownack, Pirro deposits; and lower zircon sales in the fourth quarter.
- Free cash flow of \$589.6 million, compared to \$60.7 million in the previous corresponding period reflects a combination of higher operating cash flows and lower capital expenditure.
- Net cash at 31 December 2011 was \$156.7 million, compared to net debt of \$171.0 million at 30 June 2011 with a corresponding gearing ratio (net debt/net debt + equity) of 12.2 per cent and net debt at 31 December 2010 of \$312.6 million with a gearing ratio of 21.8 per cent. Undrawn facilities at 31 December 2011 were approximately \$406 million and cash at bank was \$320.7 million. Net cash at 31 January 2012 was \$259.3 million.

Dividend

- Directors have determined a final dividend of 55 cents per share, fully franked. The dividend is payable on 5 April for shareholders on the register as at 9 March 2012.
- Full year dividend payments for 2011 are 75 cents per share, 73.3 per cent franked.

Other Features of the Results

- Iluka's total cash costs of production for the year were \$628.9 million, compared with \$543.8 million in 2010. However, on a unit of production basis, cash costs of production per tonne of Z/R/SR were unchanged at \$538 per tonne, and lower than Iluka's guidance of \$560/tonne.
- Overall production volumes of zircon, rutile and synthetic rutile ("Z/R/SR") were 158.0 thousand tonnes (15.6 per cent) higher than in the previous corresponding period. In addition to higher Z/R/SR overall tonnes, the increased proportion of zircon (51.5 per cent compared to 40.9 per cent in the previous corresponding period) reflects a full year of processing of zircon rich concentrate from the Jacinth deposit in South Australia.
- Inventory of concentrate and finished product increased due to: a scheduled build of concentrate stockpiles in the Murray Basin prior to the planned transition to the Woorneck, Rownack and Pirro ("WRP") deposits in the first half of 2012; reduced processing of concentrate at Narngulu in the fourth quarter associated with Iluka's production response to an anticipated short term softening in zircon demand; and an increase of finished goods stocks of \$70.8 million which also includes the effect of slowing zircon sales volumes in the fourth quarter, as previously reported.
- An impairment reversal of \$35.6 million related to the depreciated value of impairment charges recognised in 2005 during the development of the Murray Basin operation and also for the Cataby deposit. The reversal reflects the significant increases in forecast product prices during the year and the upgrade to the Cataby reserve announced in November 2011.
- The impairment reversal was offset by rehabilitation and holding costs for closed sites of \$36.2 million, compared with \$10.4 million in 2010. The majority of the charge relates to an increase in the rehabilitation provision for the former operation in Florida following a reassessment of the remaining work required.

Sales Volumes

- As reported in Iluka's December Quarterly Production Report, year-on-year sales increases of 7.5 per cent and 10.8 per cent for zircon and rutile respectively exceed Iluka's "high demand" global demand growth scenario for zircon and high grade titanium dioxide.
- Synthetic rutile sales volumes for the 12 months were 257.7 thousand tonnes (2010: 362.5 thousand tonnes), a 28.9 per cent decrease and reflecting lower annual production associated with the decision to utilise a synthetic rutile kiln for product development purposes, including the testing of low grade ilmenites in new product development trials.
- A strong first nine months of zircon sales volumes was partially mitigated by a weaker fourth quarter. Fourth quarter zircon volumes were influenced by the impact of global economic conditions on customer confidence and on the availability of credit, together with the effect of measures by the Chinese government to control inflation and temper speculative activity in some parts of the Chinese property market. High grade titanium dioxide volumes remained robust through 2011, with only a slight moderation in fourth quarter demand.

Pricing

- The company achieved four zircon price increases in 2011, increasing weighted average prices from approximately US\$1,100/tonne in 2010 to approximately US\$1,890/tonne in 2011. Zircon weighted average prices at the end of 2011 were approximately US\$2,400/tonne. Iluka expects first quarter 2012 zircon prices to be approximately US\$100/tonne above the end 2011 pricing levels.
- The weighted average rutile price in 2011 was approximately US\$1,150/tonne compared with a 2010 weighted average price of approximately US\$550/tonne. Rutile prices ended 2011 at approximately US\$1,340/tonne. In line with its ASX announcement of 8 December 2011, Iluka expects first half 2012 weighted average rutile prices to be approximately US\$2,400/tonne.
- The weighted average synthetic rutile price in 2011 was approximately US\$880/tonne compared with a 2010 weighted average price of approximately US\$450/tonne. Synthetic rutile prices ended 2011 at approximately US\$1,075/tonne. In line with its ASX announcement of 8 December 2011, Iluka expects first half 2012 weighted average synthetic rutile prices to be approximately US\$2,050/tonne.

Group Profit and Loss Summary

\$ million	2011	2010	% change
Mineral sands revenue	1,536.7	874.4	75.7
Cash costs of production	(628.9)	(543.8)	(15.6)
Inventory movement	147.7	(2.9)	n/a
Restructure and idle capacity cash charges	(8.5)	(13.2)	35.6
Rehabilitation and holding costs for closed sites	(36.2)	(10.4)	(248.1)
Government royalties	(25.2)	(17.1)	(47.4)
Marketing and selling	(34.5)	(24.1)	(43.2)
Asset sales and other income	7.5	7.4	1.4
Product, technical development & major projects	(13.7)	(5.6)	(144.6)
Exploration	(19.0)	(14.5)	(31.0)
Mineral sands EBITDA	925.9	250.2	270.1
Depreciation and amortisation	(224.2)	(218.6)	2.6
Impairment reversal	35.6	-	n/a
Mineral sands EBIT	737.3	31.6	2,233.2
Mining Area C	88.1	75.9	16.1
Currency hedging and foreign exchange	0.4	8.9	(95.5)
Corporate and other	(35.5)	(30.3)	(17.2)
Group EBIT	790.3	86.1	817.9
Net interest costs	(8.0)	(30.9)	74.1
Rehabilitation unwind and other finance costs	(21.6)	(15.3)	(41.2)
Profit (loss) before tax	760.7	39.9	1,806.5
Tax expense	(218.9)	(3.8)	n/a
Profit (loss) for the period	541.8	36.1	1,400.8
Average AUD/USD (cents)	103.2	92.0	12.2

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 2012. This is available from Iluka's website www.iluka.com

Financial Ratios

	2011	2010	% change
EBITDA/revenue margin %	64	35	82.9
Gearing (net debt/debt + equity) %	n/a	21.8	n/a
Interest cover (EBITDA/net interest expense) times	125.1	11.7	969.1
Return on equity %	42.5	3.2	n/a
Basic earnings per share – cents	130.1	8.6	(1,417.4)

Mineral Sands Production and Sales

	2011	2010	% change
Production (kt)			
Zircon	601.5	412.9	45.7
Rutile	281.3	250.1	12.5
Synthetic rutile	285.7	347.5	(17.8)
Total Z/R/SR production	1,168.5	1,010.5	15.6
Ilmenite – saleable	459.7	469.0	(2.0)
Total saleable production volume	1,628.2	1,479.5	10.1
Ilmenite – upgraded to synthetic rutile	201.9	215.9	(6.5)
Cash costs of production (\$m)	628.9	543.8	(15.6)
Unit cash cost per tonne of Z/R/SR produced (\$/t)	538	538	-
Sales (kt)			
Zircon	514.5	478.7	7.5
Rutile	265.9	240.0	10.8
Synthetic rutile	257.7	362.5	(28.9)
Total Z/R/SR sales	1,038.1	1,081.2	(4.0)
Ilmenite – saleable	570.9	373.7	52.8
Total sales volume	1,609.0	1,454.9	10.6
Revenue (\$m)	1,536.7	874.4	75.7
Unit revenue per tonne of Z/R/SR sold (\$/t)	1,480	809	82.9

Managing Director Commentary

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

"Iluka's 2011 results reflect a number of factors, not least the decisions taken over the last five years which have transformed the company's operational base and marketing approach.

It is particularly pleasing that the company has in 2011 achieved its objective: to create and deliver value for shareholders. A return on equity in excess of 40 per cent with strong free cash flow generation and increased balance sheet flexibility has delivered significant value to shareholders through share price appreciation and higher dividend payments.

The past year was characterised by excellent operational and marketing performance; by pleasing progress in product and technical development and exploration activities; by the identification and evaluation of production growth opportunities within the existing portfolio; by enhanced systems and processes in corporate areas; and by an increasing investment in people.

2011 saw a pleasing net increase in our Ore Reserves and Mineral Resources. It also saw the completion of the initial phase of work assessing 11 potential enhanced production projects which would extend the life of existing operations or result in expanded overall Iluka production. The year was also marked by initial increases in international and domestic greenfields exploration activity, targeting new mineral sands provinces.

In the near term, Iluka must work to protect what has been achieved to date in navigating through volatility associated with challenging economic conditions and an unpredictable global outlook. However, Iluka is well positioned from an operational and balance sheet position to respond to variable market conditions by flexing production, sales and inventory.

As stated previously, it is likely to take some time for a clear profile of likely 2012 product demand to emerge, particularly for zircon. In this context, and given evidence of a softening in the near term zircon demand outlook, Iluka has the ability to moderate zircon production accordingly, while still retaining the ability to respond quickly to demand recovery and while preserving high grade titanium dioxide production.

This product flexibility is important, given that zircon price rises have moderated but high grade titanium dioxide sales volumes in the first half of 2012 will be delivered at prices appreciably higher (up 80 to 90 per cent) than in the second half of 2011. Furthermore, Iluka is now more evenly balanced from a revenue perspective across zircon and high grade titanium dioxide products than it has been for some years and is generating strong returns on capital employed in all areas of the business.

Iluka intends to manage its investment, production and sales decision making in the context of both global macro economic factors (for example, economic growth, consumer spending, business confidence and credit availability) and the favourable medium to longer term supply/demand characteristics of both zircon and high grade titanium dioxide. The company will therefore continue to focus on organic production growth opportunities; on reactivation of idled synthetic rutile capacity; and on product and technical development and new exploration areas.

Iluka will maintain a prudent balance sheet in light of volatile global economic conditions. This may entail holding a "cash buffer" until global economic conditions become more stable. It would not be the intent to hold significant cash on the balance sheet for an extended period under normal conditions, instead the preference would be to return cash to shareholders via dividends.

The payment of a fully franked final dividend of 55 cents per share, which together with the interim dividend of 20 cents per share equals a total dividend payment of 75 cents per share and a dividend yield of approximately 4.3 per cent, based on the closing share price of 22 February 2012, is a pleasing reflection of the priority given by the Board to regular distributions to shareholders and, where appropriate, to other forms of capital management.

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. The payout ratio in 2011 was 53 per cent of free cash flow.

Iluka has provided guidance on some of the key physical and financial features in 2012 in a separate ASX Release, 2012 Key Physical and Financial Parameters, available on the company's website. This supplements the company's guidance Key Physical and Financial Parameters 2012-2014, also available on Iluka's website under Mineral Sands Briefing papers.

Investment market and media inquiries

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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