Australian Securities Exchange Notice

ILUKA

21 February 2014

ILUKA FULL YEAR RESULTS TO 31 DECEMBER 2013

Summary of Financial Results

$ million	2013	2012	% Change
Mineral Sands Revenue	763.1	1,069.8	(28.7)
Mineral Sands EBITDA	249.0	726.0	(65.7)
Mineral Sands EBITDA Margin %	32.6	67.9	(52.0)
Group EBITDA	295.2	748.8	(60.6)
Group EBIT	73.5	545.7	(86.5)
Reported Earnings (NPAT)	18.5	363.2	(94.9)
Earnings per Share (cents)	4.4	87.1	(94.9)
Operating Cash Flow	124.0	368.7	(66.4)
Free Cash Flow[1]	(27.5)	81.2	n/a
Free Cash Flow per Share (cents)	(6.6)	19.4	n/a
Dividend (cps)	9.0	35.0	(74.3)
Net Debt	206.6	95.9	(115.4)
Gearing (Net Debt/Net Debt + Equity) (%)	11.8	5.8	(103.4)
Return on Capital (%)[2]	2.2	31.3	(93.0)
Return on Equity (%)[3]	1.2	23.2	(94.8)
Average AUD/USD	96.8	103.6	6.6

[1] Free Cash Flow is determined as cash flow before refinance costs, proceeds/repayment of borrowings and dividends paid in the year.
[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[1]

- Iluka's financial results in 2013 were impacted by low cycle business conditions, reflected in lower than usual demand for Iluka's zircon products and high grade titanium dioxide feedstocks. Competitive market dynamics in a sustained low demand environment led, as the year progressed, to significantly lower prices being received than at the beginning of the year and also on average across 2013, when compared with the previous corresponding period.

- Accordingly, Iluka recorded a markedly lower profit after tax for the year ended 31 December 2013 of $18.5 million, compared with $363.2 million for the previous corresponding period.

- The reported earnings year-on-year were also influenced by year end accounting (non-cash) adjustments totalling $41 million after tax (refer ASX Release of 11 February 2014).

- Mineral sands revenue of $763.1 million declined 28.7 per cent from 2012 levels of $1,069.8 million, with 19.5 per cent higher sales volumes of the main products of zircon, rutile and synthetic rutile (Z/R/SR), offset by a 41.1 per cent decline in the revenue per tonne of these products from $1,991/tonne in 2012 to $1,173/tonne in 2013.

- Cash costs of production were reduced by 35.5 per cent year-on-year, to $376.1 million (2012: $583.5 million). Reduced cash production costs resulted from lower utilisation of some assets, a reduction in employment levels and other cost saving initiatives offset partially by an increase in costs directly attributable to by-product revenue. Total cash costs of production exclude restructure and idle costs, which amounted to $69.6 million in 2013 (2012: $14.8 million).

- Unit cash production costs for 2013 were $798/tonne of Z/R/SR, compared with $719/tonne in 2012. Given the fixed cost component of the business some inefficiencies occur at low production rates. These inefficiencies can be expected to reverse as production reverts to more usual levels.

- Iluka's cost of goods sold (cash and non cash cost) was marginally higher year-on-year at $896/tonne of Z/R/SR (2012: $872/tonne of Z/R/SR).

- Mineral Sands EBITDA for the year was $249.0 million, compared with $726.0 million in 2012. The Minerals Sands EBITDA margin for 2013 was 32.6 per cent (2012: 67.9 per cent).

- Mineral Sands EBIT was $27.7 million (2012: $523.3 million), a decline of 94.7 per cent.

- Mining Area C (MAC) iron ore royalty earnings increased by 21.6 per cent to $87.9 million (2012: $72.3 million), reflecting higher iron ore sales volumes and prices, as well as slightly higher capacity payments of $4.0 million (2012: $3.0 million).

- Group EBITDA, including Mining Area C revenue, was $295.2 million (2012: $748.8 million), with a Group EBITDA margin of 34.7 per cent (2012: 65.5 per cent).

- Group EBIT was $73.5 million (2012: $545.7 million).

- Operating cash flow in the year of $124.0 million was significantly lower than the previous corresponding period (2012: $368.7 million), reflecting lower sales revenue. MAC cash flows of $82.7 million were $6.6 million higher than the previous corresponding period (2012: $76.1 million), reflecting higher MAC royalty income (up $14.0 million), offset partially by higher amounts receivable for the December quarter, payable in January of the subsequent year.

- Tax payments in the year of $140.1 million were $19.0 million lower than the previous corresponding period. Payments made during the year included $118.4 million in respect of 2012 earnings.

- Capital expenditure of $52.5 million in the year (2012: $167.3 million) is lower than guidance of ~$100 million and reflects Iluka's efforts to conserve cash while still continuing to advance its major projects and technical development activities.

- A free cash outflow of $27.5 million in 2013 compares to a free cash inflow of $81.2 million in 2012. Second half 2013 free cash inflow was $17.0 million.

- Net debt at 31 December 2013 was $206.6 million, with a corresponding gearing ratio (net debt/net debt + equity) of 11.8 per cent. This compares with net debt at 31 December 2012 of $95.9 million and a gearing ratio of 5.8 per cent.

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[1] Refer Iluka 4E ASX Preliminary final report – 31 December 2013 and the slide material associated with the results for more detailed information. All currency is Australian dollars unless otherwise indicated. Refer also to slide 42 in slide material associated with the results for reconciliation of non-IFRS financial information.

Undrawn facilities at 31 December 2013 were $579.6 million and cash at bank was $46.4 million. Free cash flow in January 2014 was $78.1 million (January 2013: $6.0 million) and net debt at 31 January 2014 was $130.5 million (31 January 2013: $98.0 million).

Dividend

- Directors have determined a fully franked dividend of 4 cents per share, payable on 3 April 2014 with a record date of 6 March 2014. Full year dividend payments for 2013 are 9 cents per share, 100 per cent franked. Iluka's payout ratio of free cash flow payout since the recommencement of dividends at the end of 2010 has been 76 per cent.

Other Features of the Results

- Lower overall annual production of zircon, rutile and synthetic rutile (Z/R/SR) of 471.1 thousand tonnes, compared with 811.8 thousand tonnes in 2012, was a 42.0 per cent decline and was in line with guidance. Reduced production was consistent with Iluka's preferred approach to a period of low market demand.

- Total sales volume of Z/R/SR of 584.4 thousand tonnes compared with 488.9 thousand tonnes in 2012 reflects a 19.5 per cent increase year-on-year, with zircon and rutile sales increasing 73.2 and 59.2 per cent respectively from 2012 levels, but with synthetic rutile sales declining by 72.8 per cent.

Mineral Sands Market Conditions

Demand patterns through the year and across zircon and titanium dioxide markets continued to reflect fragile business confidence levels and business owner/operator caution, which were in turn influenced by economic and political uncertainties. Encouragingly, various pre-conditions as well as certain lead indicators point to a progressive recovery in demand in 2014 (Iluka's December Quarterly Production Report, released on 16 January 2014 contains further market commentary relating to 2013 as well as a sample of lead indicator data).

Zircon demand recovered in 2013, but the recovery was uneven across geographical markets and end use sectors, with the result that overall sales are yet to return to levels seen in 2010 and 2011.

As Iluka noted in its December Quarterly Production Report, China, as the major global zircon consumer, imported higher volumes in 2013 than in 2012 and 2011 (according to China import data) and, even allowing for uncertainties associated with inventories held by producers and downstream customers in China, it appears that China's underlying zircon demand was comparatively robust in 2013.

The North American market was stable, while other markets were weak, notably Europe and its ceramic export markets in the Middle East, along with North Africa, Brazil, India, Japan and parts of South-East Asia.

In late 2013, Iluka completed its second proprietary ceramics survey, analysing a large sample of different ceramic tile types from eight countries, as well as similar tile types from different regions within individual countries (especially China). The results supplement industry analysis work undertaken by Iluka. The survey findings include the following:

- zircon loadings (measured as grams per square metre) in all tile types sampled displayeded increases year-on-year, with some results statistically significant, others not;
- China samples displayed overall increases in zircon loadings, especially for so-called crystal jade tiles which have a high zircon content and are increasingly popular; and
- the trend to 'designer' tiles, especially digitally printed tiles, appears favourable for zircon consumption as Iluka's analysis indicates that such tiles have significantly higher zircon loadings than both conventionally printed tiles and double charged porcelain tiles. Higher zircon loadings reflect the need for a white engobe (background) layer to optimise the efficacy of digital inks.

In simple terms, it appears Chinese consumers are migrating up the tile quality curve, a trend Iluka believes will be evident in other emerging markets.

These results are encouraging and support Iluka's confidence about zircon intensity of use variations and trends and therefore demand over time (Refer Full Year Results slides for more information).

In high grade titanium dioxide markets, typically encompassing Iluka's products of rutile and synthetic rutile, the major source of demand remained chloride pigment production. As has been widely canvassed, an excess production of pigment and associated inventory build by major pigment producers in 2012 led to the targeting of historically low levels of pigment plant yields, which continued through the first half of 2013.

In this context, there has been a preference for lower grade titanium dioxide feedstocks and/or those available under lower priced legacy contracts. This has meant that demand for Iluka's higher grade feedstocks remained subdued in 2013. Accordingly, pigment plant yields, which were as high as 90 per cent in 2011, declined to the mid 70 per cent level and, in some cases, to as low as 65 per cent by early 2013. Several pigment producers have indicated that pigment inventories are at or near "normal levels" and plant yields have now increased to more usual levels. With this, an improvement in demand for higher grade titanium products in the feed mix can be expected.

Iluka Weighted Average Prices

The following table provides weighted average received prices for Iluka's main products over varying periods in 2013, compared with weighted average 2012 received prices**.** Price outcomes are influenced by product specifications and quality, lot size sold, contractual and customer arrangements. As such, actual pricing for individual sales can vary markedly. Synthetic rutile pricing in 2013 was influenced by particular contractual arrangements distorting the typical synthetic rutile to natural rutile price relativity (with synthetic rutile generally being a slightly lower grade than natural rutile and therefore typically realising a slightly lower price). Iluka does not give price guidance, but believes that 'volumes lead prices'.' Until sales volume and therefore price dynamics in any given year become clear, current prices', for example, market prices realised late in a prior year, rather than prior year averages, could be argued to be the best guide to prices that might be realised in a following year.

	6 mth to Jun-13	Sep-13 Quarter	Dec-13 Quarter	6 mth to Dec-13	12 mth to Dec-12	12 mth to Dec-13
Weighted average prices US$/t FOB						
Zircon	1,173	1,174	1,083	1,119	2,080	1,150
Rutile	1,307	1,033	910	949	2,464	1,069
Synthetic rutile	1,200	1,074	1,121	1,111	1,771	1,150

Group Profit and Loss Summary

$ million	2013	2012	% change
Z/R/SR revenue	685.8	973.8	(29.6)
Ilmenite and other revenue	77.3	96.0	(19.5)
Mineral sands revenue	**763.1**	**1,069.8**	**(28.7)**
Cash costs of production	(376.1)	(583.5)	35.5
Inventory movement	14.0	346.9	(96.0)
Restructure and idle capacity charges	(69.6)	(14.8)	(370.3)
Rehabilitation and holding costs for closed sites	2.8	(9.8)	n/a
Government royalties	(15.2)	(19.6)	22.4
Marketing and selling costs	(28.2)	(30.2)	6.6
Asset sales and other income	3.1	10.3	(69.9)
Resources development	(44.9)	(43.1)	(4.2)
Mineral sands EBITDA	**249.0**	**726.0**	**(65.7)**
Depreciation and amortisation	(181.3)	(202.7)	10.6
Idle asset write downs	(40.0)	-	n/a
Mineral sands EBIT	**27.7**	**523.3**	**(94.7)**
Mining Area C	87.9	72.3	21.6
Corporate other costs	(41.2)	(45.7)	9.8
Foreign exchange loss	(0.9)	(4.2)	(78.6)
Group EBIT	**73.5**	**545.7**	**(86.5)**
Net interest and bank charges	(13.1)	(6.6)	98.5
Rehabilitation unwind and other finance costs	(36.4)	(26.9)	(35.3)
Profit before tax	**24.0**	**512.2**	**(95.3)**
Tax expense	(5.5)	(149.0)	96.3
Profit for the period (NPAT)	**18.5**	**363.2**	**(94.9)**
Average AUD/USD (cents)	**96.8**	**103.6**	**6.6**

Financial Ratios

	2013	2012	% change
Group EBITDA Revenue Margin (%)	34.7	65.5	(47.0)
Gearing (Net Debt/Net Debt + Equity) (%)	11.8	5.8	n/a
Interest Cover (EBITDA/Net Interest expense) (times)	25.4	197.1	(87.1)
Return on Equity (%)	1.2	23.2	(94.8)
Basic Earnings Per Share (cents)	4.4	87.1	(94.9)

Mineral Sands Production and Sales Volumes

	2013	2012	% change
Sales (kt)			
Zircon	370.2	213.8	73.2
Rutile	168.0	105.5	59.2
Synthetic rutile	46.2	169.6	(72.8)
Total Z/R/SR sales	**584.4**	**488.9**	**19.5**
Ilmenite - saleable	337.5	443.2	(23.8)
Total sales volumes	**921.9**	**932.1**	**(1.1)**
Z/R/SR revenue ($m)	685.8	973.8	(29.6)
Ilmenite and other revenue[1] ($m)	77.3	96.0	(19.5)
Total mineral sands revenue($m)	**763.1**	**1,069.8**	**(28.7)**
Revenue per tonne of Z/R/SR sold[2] ($/t)	1,173	1,991	(41.1)
Cost of goods sold per tonne of Z/R/SR sold[3] ($/t)	896	872	2.8
Production (kt)			
Zircon	285.1	343.2	(16.9)
Rutile	127.0	220.3	(42.4)
Synthetic rutile	59.0	248.3	(76.2)
Total Z/R/SR production	**471.1**	**811.8**	**(42.0)**
Ilmenite	584.5	674.1	(13.3)
Total saleable production volume	**1,055.6**	**1,485.9**	**(29.0)**

[1] Mineral sands revenues derived from other materials (by-products) not included in production volumes, including activated carbon products and iron oxide.
[2] Revenue from sale of zircon, rutile and synthetic rutile products.
[3] Cash production costs and non cash costs ascribed to the sale of mineral sands products.

Managing Director Commentary

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

"In reviewing 2013, I am very pleased to highlight the improvements in Iluka's environment, health and safety reporting, analysis and performance and in particular the step-change in safety performance that has been achieved since the implementation of a safe production leadership programme in 2011. Iluka's total recordable industry frequency rate in 2013 was 4.6, 56 per cent lower than in 2012, while the lost time injury frequency rate of 0.3, was 84 per cent lower.

Market conditions in 2013 reflected a cyclical low in business conditions influenced by factors which have been referred to by the company previously: global and country-specific economic performances and political uncertainties; fragile business confidence levels in many end markets; inventory drawdown dynamics; and also the final transition of the mineral sands sector away from legacy contract arrangements.

In these circumstances, Iluka's approach has been to flex production down to lower levels while balancing this objective with production efficiency considerations. Priority has been given to drawing down finished goods inventory progressively and to conserving cash through lowering overall production costs and reducing capital expenditure, while maintaining the capacity to respond quickly to market demand recovery. Iluka's robust balance sheet has enabled the company to protect its project development pipeline and also allowed the company to act in a counter-cyclical manner, as appropriate, to capture potential growth opportunities. Iluka's investment to re-acquire exploration tenements in Sri Lanka, and the associated material increase in the company's resource base, is a case in point, as is the investment in Metalysis Limited, and its potentially industry changing titanium powder production process.

Low earnings and return on equity in 2013 are a reflection of low cycle sales volumes and a material fall in prices, but the company has protected margins on product sold to the extent possible, generated positive free cash flow in the second half and has maintained its modest balance sheet gearing. The company is, therefore, positively leveraged to demand recovery, as volume growth brings with it significant margin and free cash flow and, over time, should also provide opportunities for margin expansion.

Iluka retains the ability to re-activate production capacity quickly, as required, including synthetic rutile production. Market turning points are generally best assessed in hindsight, but it is the company's view that factors indicative of, or precursors to, demand recovery over 2014 and 2015 are in place.

These include:

- expectations regarding global economic growth;
- trends in the United States housing sector, including housing starts, prices and house remodelling activity; as well as
- China floor space starts, tile production, real estate lending and housing sales.

Dividend

The Iluka Board determined to pay a final dividend of 4 cents per share, fully franked. This dividend level reflects the free cash flow generated in the second half of 2013. The full year 2013 dividend was 9 cents per share, fully franked. Since Iluka recommenced the payment of dividends at the end of 2010, 76 per cent of free cash flow has been returned to shareholders.

Financial Characteristics – 2014

Iluka has provided guidance of key physical and financial parameters for the business in 2014 in a separate ASX release (refer Key Physical and Financial Parameters, 2014, released on 21 February 2014).

Areas of Continued Focus

In entering 2014, Iluka's business approach, as always, targets the creation and delivery of value for shareholders. In the current environment that means:

- focusing on shareholder returns through the cycle;
- flexing asset operation in line with market demand;
- continuing market development;
- preserving/advancing mineral sands growth opportunities;
- maintaining a strong balance sheet;
- continuing to evaluate/pursue corporate growth opportunities; and
- acting counter-cyclically where appropriate."

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Refer Iluka's separate release – ASX Preliminary final report – 31 December 2013 for more detailed financial information and commentary.–
Iluka's website contains presentational material associated with the full year results – refer **www.iluka.com**