21 February 2013

PRODUCTION CUTS AND COST REDUCTIONS

Iluka Resources Limited (Iluka) today announced further measures to curtail production and reduce both production and non production costs in 2013. These measures are being taken to facilitate the draw down of inventory progressively and reduce costs in a low sales period, therefore seeking to optimise cash flow and ensure a modest drawn down in debt and the maintenance of appropriate gearing levels at a low point of the business cycle.

The measures planned are outlined over the page (refer Appendix) and have the following physical and financial implications:

- combined production of zircon, rutile and synthetic rutile of ~420 thousand tonnes, around half the 2012 production levels and in the order of 30 to 40 per cent of Iluka's total production capacity under more usual market demand conditions. Sales volumes are expected to be higher than production as Iluka draws down on its inventory of finished goods;
- a reduction in total cash production costs to ~$375 million from $583 million in 2012 through idling operations, reducing employment levels and other actions;
- ~$50 million restructure and redundancy costs, indicatively 70 per cent first half and 30 per cent second half weighted;
- total estimated 2013 cash costs of $600 million compared with $741 million in 2012; and
- 2013 estimated capital expenditure of ~$100 million compared with the 2012 level of $167 million.

Iluka has provided guidance for 2013 on key physical and financial parameters (refer Iluka ASX Release 21 February 2013).

As part of the measures outlined, approximately 200 positions within Australian operations will be made redundant, with additional actions in train to reduce costs in corporate, support and contracting areas.

David Robb, Iluka's Managing Director, commented:

"The actions to curtail production are being implemented as a consequence of the weak market conditions which prevailed in 2012 and resulted in Iluka production volumes exceeding sales for the year. While measures were taken to curtail production in 2012, prudent planning for a gradual recovery in demand through 2013 means that further actions to reduce production and lower costs are necessary. Iluka has the ability to draw down finished product inventory, or to process existing concentrate stocks, and this provides the company with the ability to meet most, if not all, market demand recovery scenarios in 2013 from a combination of inventory and the planned lower production.

As commented upon in Iluka's full year results materials, there are also several specific, positive, early indications for improved demand in 2013 for Iluka's main products and some key lead indicators of market demand are also more positive, suggesting a turning point in the current mineral sands business cycle may be near.

While sales volumes in 2013 are, as a result, expected to be stronger than 2012, prioritising cash flow and balance sheet conservatism has meant that fixed costs have had to be reduced. A significant proportion of these costs relate to direct and indirect employees and so, regrettably, a significant number of Iluka employees, as well as contracting staff, will lose their jobs. Employees have been briefed associated with this disclosure and will be offered a comprehensive range of employee assistance arrangements."

Iluka Resources Limited • ABN 34 008 675 018 • Level 23 140 St Georges Terrace Perth WA 6000
GPO Box U1988 Perth WA 6845 • T: +61 8 9360 4700 • F: +61 8 9360 4777 • www.iluka.com

Appendix – Summary of Iluka Production Cuts and Cost Reductions

The measures being taken, a number of which were referred to in Iluka's December Quarterly Production Report in January 2013, include:

- the idling of the Eneabba mining operation (ilmenite, zircon and rutile production), Western Australia, from April 2013;
- the continued idling of synthetic rutile kiln 3 in Narngulu, Western Australia. Synthetic rutile kiln 3 was expected to be re-started in April 2013;
- the idling of synthetic rutile kiln 2 in Capel, Western Australia, from the end of the second quarter;
- the idling of the Tutunup South mine (ilmenite production for SR feed) in the South West of Western Australia at the end of the second quarter;
- at the Narngulu mineral separation plant zircon production will be curtailed by more than 60 per cent through idling plant 1 from April 2013 and reducing plant 2 utilisation to below 50 per cent;
- utilisation at the Hamilton mineral separation plant, Victoria will be reduced by 55 per cent by operating the plant on a one month on, one month off basis; and
- the return to full face (normal grade) mining at Jacinth-Ambrosia, South Australia. This measure will increase concentrate production at site but reduce the unit cash cost of this production. Iluka has received regulatory approval to store larger amounts of concentrate on site.

Iluka has the option to idle the Jacinth-Ambrosia mining operation in South Australia, but has yet made no decision to undertake this action.

The summary physical and financial parameters associated with Iluka's production cuts and cost reduction measures are summarised below.

Summary of Key Physical and Financial Implications

	2012 Actual	2013 Estimate
Zircon production (kt)	343	~220
Rutile production (kt)	200	~200
Synthetic rutile production (kt)	248	
Cash cost of production ($m)	583	~375
Other cash costs ($m)	133	~135
Restructure, idle capacity, rehabilitation & holding costs ($m)	25	~90[1]
Total cash costs ($m)	741	600
Capital expenditure ($m)	167	~100

[1] ~$50 million of this estimate relates to restructure and redundancy costs associated with Iluka's production curtailment measures announced on 21 February 2013. Refer to Iluka's ASX release, 2013 Key Physical and Financial Parameters, 21 February 2013.

Investment market and media inquiries
Dr Robert Porter
General Manager, Investor Relations
Phone: + 61 8 9225 5008 – please note in Perth on 21 February – please call mobile or 08 9360 4700
Mobile: +61 (0) 407 391 829
Email: robert.porter@iluka.com

Media inquiries
Carly France, Manager, Corporate Affairs
Phone +61 8 9360 4751
Mobile +61 (0) 438 900 445