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Iluka
Resources
Limited

2012
Annual Report

CREATE AND DELIVER VALUE FOR SHAREHOLDERS

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Iluka Resources Limited ABN 34 008 675 018
Annual Report - 31 December 2012

Contents

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Directors' Report

The Directors present their report on the group consisting of Iluka Resources Limited and the entities it controlled at the end of, or during, the year ended 31 December 2012.

DIRECTORS

The following individuals were Directors of Iluka Resources Limited during the whole of the financial year and up to the date of this report:

G J Pizzey
G J Rezos
J A Seabrook
S J Turner
W G Osborn
D A Robb

On 20 December 2012, Mr J H Ranck and Mr G J W Martin were appointed as Directors, with effect from 1 January 2013.

PRINCIPAL ACTIVITIES

The group is a major producer of zircon globally and one of the largest producers of the high-grade titanium dioxide products of rutile and synthetic rutile, with operations in Australia and Virginia, USA.

The group has a royalty associated with a tier one iron ore operation - BHP Billiton's Mining Area C province in Western Australia.

SIGNIFICANT CHANGES

There were no significant changes in the state of affairs of the group during the financial year.

REVIEW OF OPERATIONS[1]

Overview of results

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.

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

Revenue per tonne of Z/R/SR sold during 2012 of $1,991 was 41.6 per cent higher than the corresponding 2011 figure of $1,406 per tonne. There was a weakening in prices received, especially in the latter part of the third quarter and into the fourth quarter.

In response to a period of weak sales and low mineral sands product demand, exacerbated by large price disparities existing in the market for the same or similar Ti02 products in 2012/13 as remaining legacy contracts unwind, Iluka reduced production. The actions were aimed at more closely matching supply with demand and resulted in the group operating its largest kiln, SR2, at lower throughput rates from mid year and mining Jacinth-Ambrosia through a lower grade part of the ore body from the second quarter. Further production responses have been announced since the end of the year as outlined later in this report.

1 The Directors' Report uses non-IFRS financial information including mineral sands EBITDA, mineral sands EBIT, Group EBITDA and Group EBIT which are used to measure both group and operational performance. Non-IFRS measures are unaudited but derived from audited accounts. A reconciliation of non-IFRS financial information to the audited Profit before income tax in the Consolidated Income Statement is included in the Iluka 2012 Full Year Results Presentation Slide Pack located in the Investors and Media section of the Iluka website.

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Mineral sands EBITDA was $726.0 million, a 21.6 per cent decrease compared with the previous corresponding period. Mineral sands EBIT decreased by 29.0 per cent to $523.3 million (2011: $737.3 million).

Mining Area C (MAC) iron ore royalty earnings reduced by 17.9 per cent to $72.3 million, including capacity payments of $3.0 million (2011: $1.0 million) driven by a weakening in the iron ore prices over 2012 combined with a strengthening of the Australian Dollar.

Group EBIT was $545.7 million, compared to $790.3 million in the previous corresponding period.

Profit before tax was $512.2 million (2011: $760.7 million). A net tax expense of $149.0 million was recognised in respect of the profit for the period, at an effective tax rate of 29.1 per cent.

Basic earnings per share for the period were 87.1 cents compared to 130.1 cents in the previous corresponding period. The number of shares on issue at 31 December 2012 of 418.7 million was unchanged during the period.

Free cash flow of $81.2 million compared to $589.6 million in the previous corresponding period decreased mainly due to the impact of lower mineral sands revenues. The reduction in free cash flow is also a result of higher tax payments of $159.1 million (2011: $12.5 million) due to payment of tax in Australia after utilisation of remaining 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 $718.7 million and cash at bank was $54.3 million.

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.

Overview of sales and production

	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 volumes	**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 volume	**1,197.4**	**1,628.2**	**(26.5)**
Ilmenite - upgraded to synthetic rutile	288.5	201.9	42.9
HMC produced	1,529.7	2,121.6	(27.9)
HMC processed	1,468.1	1,937.6	(24.2)
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 Mineral 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

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Mineral sands sales volumes

Sales volumes for zircon for the full year were 213.8 thousand tonnes (2011: 514.5 thousand tonnes), a 58.4 per cent decline, with sales of 87.4 thousand tonnes in the first half and 126.4 thousand tonnes in the second half of 2012.

Sales volumes for rutile for the full year were 105.5 thousand tonnes (2011: 265.9 thousand tonnes), a 60.3 per cent decline, with sales of 85.4 thousand tonnes in the first half and 20.1 thousand tonnes in the second half of 2012.

Sales volumes for synthetic rutile for the full year were 169.6 thousand tonnes (2011: 257.7 thousand tonnes), a 34.2 per cent decline, with 2012 sales of 101.1 thousand tonnes in the first half and of 68.5 thousand tonnes in the second half of 2012.

The lower second half sales volumes for rutile and synthetic rutile reflect the preference by pigment producers for lower grade feedstocks, as they sought to work down pigment inventories as well as take advantage of lower priced, lower titanium grade feedstocks priced under "legacy" contracts from other feedstock producers.

The group sold 443.2 thousand tonnes of ilmenite in 2012 (2011: 570.9 thousand tonnes), with the level of ilmenite available for sale dependent on production levels of other products and internal requirements for synthetic rutile production.

Mineral sands production

Overall production volumes of Z/R/SR were 356.7 thousand tonnes (30.5 per cent) lower than in the previous corresponding period. As noted above, the group reduced production during a period of low demand for mineral sands products.

Jacinth-Ambrosia was mined in a lower grade part of the ore body from the second quarter of 2012 and the associated processing of less heavy mineral concentrate through Narngulu mineral separation plant in Western Australia resulted in reduced zircon production.

Reduced synthetic rutile production was a result of the decision to operate the largest of the two kilns, SR2, at lower throughput rates from mid year.

The planned move during the first half of the year from three mining operations in the Murray Basin in 2011 (Douglas, Echo and Kulwin) to one mining operation in 2012 (Kulwin and then Woornack, Rownack, Pirro) resulted in reduced rutile production for the year.

The group 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.

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Income statement analysis

$ 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)**

Mineral sands operational results

	Revenue		**EBITDA**		**EBIT**	
$ million	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Australia	958.2	1,400.8	706.3	907.9	513.7	732.1
United States	111.6	135.9	70.0	51.9	63.0	41.5
Exploration and other	-	-	(50.3)	(33.9)	(53.4)	(36.3)
Total	**1,069.8**	**1,536.7**	**726.0**	**925.9**	**523.3**	**737.3**

An overview of performance for Australian operations and United States operations is provided later in this report.

Commentary in respect of the income statement analysis is provided below.

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Mineral sands revenue

Mineral sands sales revenue decreased 30.4 per cent to $1,069.8 million from the previous corresponding period. The significant reduction in revenue has been driven by a reduction in combined Z/R/SR sales volumes of 52.9 per cent (549.2 thousand tonnes) offset partially by an increase in average realised Z/R/SR sales revenue per tonne to $1,991, which was 41.6 per cent higher than the previous corresponding 2011 figure of $1,406 per tonne. There was a weakening of prices received, especially from the latter part of the third quarter to the end of the year, with average revenue per tonne of Z/R/SR in the second half of 2012 of $1,654 being lower than the first half average revenue per tonne of $2,255.

Cash costs of production

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

Inventory movement

Inventory of finished product has increased by $323.7 million to $484.6 million due to the low sales volumes experienced during 2012. The production of Z/R/SR exceeded sales by 322.9 thousand tonnes during the year.

Restructure and idle capacity cash charges

The charges reflect costs incurred during the transition of operations in the Murray Basin to the new WRP deposit, during which time there was no HMC production, together with costs incurred during the scheduled major maintenance outage for the SR2 kiln during the period. The charges also include fixed costs for operations during periods of no production during the period.

Rehabilitation and holding costs for closed sites

The charge relates mainly to increased cost assumptions based on work completed on closed sites.

Government royalties and marketing costs

Government royalties decreased with lower sales revenues. Marketing and selling costs, including fixed port charges, reflect lower sales activity during the year partially offset by an increase in global sales locations.

Product and technical development

Costs are comparable with the previous corresponding period.

Exploration

Expenditure on exploration activities has increased by $10.5 million compared to the previous corresponding period with an increased focus on overseas “greenfields” activities.

Depreciation and amortisation

The reduction from the previous corresponding period reflects the transition to the single mine in the Murray Basin, including a cessation of depreciation during the three month transition, partially offset by a full year charge for the Tutunup South operation that was commissioned at the end of the previous corresponding period.

Impairment reversal

The amount in the previous corresponding period relates to the reversal of the depreciated value of impairment charges recognised in 2005 during development of the Murray Basin operation and also for the Cataby deposit, based on revised economic assumptions and an upgrade of the Cataby reserve.

Mining Area C

Iron ore sales volumes increased 6.4 per cent to 47.4 million dry metric tonnes. The average AUD realised price of $118 per tonne (2011: $156 per tonne) upon which the royalty is payable decreased by 24.4 per cent from the previous corresponding period driven by a weakening in the iron ore prices over 2012 combined with a strengthening of the Australian Dollar. The EBIT contribution of $72.3 million includes $3.0 million of annual capacity payments for production increases in the year to 30 June (2011: $1.0 million).

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Corporate and other

Corporate costs were $6.8 million higher than the previous corresponding period reflecting increased investment in sustainability initiatives (environment, health and safety) and business evaluation activities. Other costs of $2.7 million were $3.4 million higher, including charges relating to now closed pension schemes.

Foreign exchange

Foreign exchange translation losses were $4.2 million compared to a gain of $0.4 million in the previous corresponding period.

Interest and rehabilitation unwind

Higher rehabilitation unwind costs reflect changes in the timing of rehabilitation expenditure in future years and amounts related to new mines such as WRP. Finance costs are comparable to the previous corresponding period.

Tax expense

The income tax expense of $149.0 million is at an effective tax rate of 29.1 per cent compared to 28.8 per cent in the previous corresponding period.

Balance sheet, cash flow and net cash/net debt

31 December 2012	AUS	US	MAC	Corp	Group	31 Dec 2011
Receivables	99.8	16.8	15.5	7.4	**139.5**	256.1
Inventories	744.7	32.7	-	3.1	**780.5**	426.1
Payables and accruals	(52.1)	(9.2)	-	(14.8)	**(76.1)**	(126.4)
Employee and other provisions	(15.8)	(8.7)	-	(13.7)	**(38.2)**	(43.1)
Rehabilitation provisions	(394.9)	(49.6)	-	-	**(444.5)**	(426.9)
Property, plant & equipment	1,373.0	48.6	-	8.7	**1,430.3**	1,430.4
Intangibles	-	-	6.3	-	**6.3**	6.7
Capital employed	**1,754.7**	**30.6**	**21.8**	**(9.3)**	**1,797.8**	1,522.9
Net tax liability					**134.8**	144.9
Net debt (cash)					**95.9**	(156.7)
Total equity					**1,567.1**	1,534.7
Net funding					**1,797.8**	1,522.9

Lower receivables are mainly associated with the reduction in sales volumes. Receivables from mineral sands sales of $111.9 million represents approximately 32 days sales, comparable to those in the previous corresponding period of 31 days.

Higher inventories reflect mainly increased finished product stocks, up $323.7 million from the previous corresponding period to $484.6 million. Inventories include $257.9 million of predominantly concentrate material classified as non-current.

Lower payables and accruals reflect the completion of the major capital projects that were in existence at the end of the previous corresponding period, including the major maintenance outage on both of Iluka's operational kilns and works undertaken in regards to the mine move in the Murray Basin.

Higher rehabilitation provisions reflect mainly the expansion of footprint at new operations such as WRP and the unwind of the discount on the liability, offset partially by payments of $49.4 million.

Property, plant and equipment reflects the completion of construction and successful commissioning of operations at WRP as well as the expanding rehabilitation footprints at new operations noted above, offset by the current year depreciation charge of $202.7 million.

The net tax liability represents mainly tax payable in Australia, due for payment in the first half of 2013.

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Movement in net (debt) cash

$ million	2012	2011
Opening net cash (debt)	**156.7**	**(312.6)**
Operating cash flow	368.7	706.2
MAC royalty	76.1	90.3
Exploration	(34.4)	(23.6)
Interest (net)	(0.7)	(10.9)
Tax	(159.1)	(12.5)
Capital expenditure	(167.3)	(142.5)
Asset sales	1.4	3.9
Share purchases	(3.5)	(21.3)
Free cash flow	**81.2**	**589.6**
Dividends	(333.7)	(117.0)
Net cash flow	**(252.5)**	**472.6**
Exchange revaluation of USD net debt	(0.1)	(3.3)
(Decrease)/increase in net cash (debt)	**(252.6)**	**469.3**
Closing net (debt) cash	**(95.9)**	**156.7**

Lower operating cash flow reflects lower sales revenue in the second half of 2012. Lower second half sales volumes for rutile and synthetic rutile reflect the preference by pigment producers for lower grade feedstocks, as they sought to work down pigment inventories as well as take advantage of lower priced, lower titanium grade feedstocks priced under legacy contracts. Total operating cash flow includes $49.4 million for rehabilitation payments (2011: $26.7 million).

MAC royalty cash flows in 2012 were lower than the previous corresponding period due to lower realised prices for iron ore.

The increase in tax outflows reflects payment in the second half of 2012 of tax in Australia in respect of 2011, after utilisation of tax losses.

Capital expenditure of $167.3 million in 2012 was mainly for the development of the WRP mine in Murray Basin, commissioned in May 2012 and for the major maintenance outage on the SR 2 kiln, also in the first half of 2012.

Share purchases represent on-market purchases associated with the group’s equity based incentive plans.

Dividend payments in 2012 of $333.7 million represent the 55 cent fully franked final dividend for 2011 and the 25 cent fully franked interim dividend for 2012. Dividend payments in 2011 of $117.0 million represent the 8 cent unfranked final dividend for 2010 and the 20 cent unfranked interim dividend for 2011.

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Review of Australian operations

		2012	2011	% change
Production volumes				
Zircon	kt	293.8	541.2	(45.7)
Rutile	kt	220.3	281.3	(21.7)
Synthetic rutile	kt	248.3	285.7	(13.1)
Total Z/R/SR production	**kt**	**762.4**	**1,108.2**	**(31.2)**
Ilmenite - saleable	kt	183.1	171.6	6.7
Total saleable production volume	**kt**	**945.5**	**1,279.8**	**(26.1)**
Ilmenite - upgradeable to synthetic rutile	kt	276.3	201.9	36.8
HMC produced	kt	1,206.6	1,683.8	(28.3)
Unit cash cost of production - zircon/rutile/SR	$/t	687.0	518.0	(32.5)
Mineral sands revenue	**$m**	**958.2**	**1,400.8**	**(31.6)**
Cash cost of production	$m	(523.6)	(574.5)	8.9
Inventory movements	$m	328.3	140.4	(133.8)
Restructure and idle capacity charges	$m	(12.8)	(8.5)	(50.6)
Rehabilitation and holding costs for closed sites	$m	(9.1)	(1.4)	(550.0)
Government royalties	$m	(19.6)	(25.2)	22.2
Marketing and selling costs	$m	(18.1)	(27.3)	33.7
Asset sales and other income	$m	3.0	3.6	(16.7)
EBITDA	**$m**	**706.3**	**907.9**	**(22.2)**
Depreciation & amortisation	$m	(192.6)	(211.4)	8.9
Impairment reversal	$m	-	35.6	(100.0)
EBIT	**$m**	**513.7**	**732.1**	**(29.8)**

Total saleable production decreased from the previous corresponding period reflecting a number of factors including initial production responses to softer demand, decreased rutile production during the transition of operations to the WRP deposit in Murray Basin and a scheduled major maintenance outage on the largest synthetic rutile kiln in early 2012.

Cash costs of production are lower than the previous corresponding period primarily due to initiatives to reduce production due to the lower global demand conditions.

Higher unit cash costs of production reflect lower Z/R/SR production resulting from initiatives to reduce production due to global demand conditions.

Rehabilitation and idle capacity costs include holding and maintenance costs during periods of no production at both the SR2 kiln during the scheduled major maintenance outage and during the transition of operations to WRP in Murray Basin.

Lower government royalties reflect lower revenues driven by lower sales volumes partially offset by higher sales prices across the product range.

Lower marketing and technical costs reflect lower sales volumes.

Lower depreciation and amortisation charges are due mainly to the changes in the mix of the operating mine sites including the transition from Kulwin and Douglas to WRP.

The inventory movement reflects mainly the increased finished goods stocks reflecting the impacts of a softening in demand.

Review of United States operations

		2012	2011	% change
Production volumes				
Zircon	kt	49.4	60.3	(18.1)
Ilmenite - saleable	kt	202.5	288.1	(29.7)
Total saleable production volume	**kt**	**251.9**	**348.4**	**(27.7)**
Ilmenite - upgradeable to synthetic rutile	kt	12.2	-	n/a
HMC produced	kt	323.1	437.8	(26.2)
Unit cash cost of production - saleable product	$/t	238.0	156.0	52.4
Mineral sands revenue	**$m**	**111.6**	**135.9**	**(17.9)**
Cash cost of production	$m	(59.9)	(54.4)	10.1
Inventory movements	$m	18.6	7.3	154.8
Rehabilitation costs for closed sites	$m	(0.7)	(34.8)	(98.0)
Marketing and selling costs	$m	0.4	(2.1)	(119.0)
EBITDA	**$m**	**70.0**	**51.9**	**34.9**
Depreciation & amortisation	$m	(7.0)	(10.4)	(32.7)
EBIT	**$m**	**63.0**	**41.5**	**51.8**

Lower saleable production reflects lower grades associated with a revised mine schedule which was adopted in mid-2011 following re-optimisation of ore reserves for a longer life operation.

Lower sales revenue is due to lower sales volumes, partially offset by higher prices. The inventory increase reflects lower zircon sales.

Costs for rehabilitation in the previous corresponding period are mainly associated with costs for the former Florida operation.

Lower depreciation and amortisation results from an increase in mine lives compared to the previous corresponding period following the adoption of the revised mine schedule.

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DIRECTORS' PROFILES

George John Pizzey, BE(Chem), FellDip(Management), FTSE, FAICD, FAIM, Chairman

Mr Pizzey was appointed to the Board in November 2005. He has extensive experience in mining and mineral processing. Mr Pizzey was Chairman of Alcoa of Australia and held a number of senior executive positions with Alcoa Inc (USA). He is Chairman of Alumina Limited and a director of Amcor Limited. He was formerly a director of St Vincent's Medical Research Institute (retired November 2011) and of the London Metal Exchange UK from 1997 to 2003.

Directorships of Listed Entities (last 3 years):

Alumina Limited (appointed June 2007)
Amcor Limited (appointed September 2003)

Gavin John Rezos, BA, LLB, B.Juris, MAICD

Mr Rezos was appointed to the Board in June 2006. He has extensive Australian and international investment banking experience and is a former Investment Banking Director of the HSBC Group with regional roles during his HSBC career based in London, Sydney and Dubai. Mr Rezos has held chief executive positions and executive directorships of companies in the technology, energy and resources areas in the UK, US and Singapore and was formerly a director of Amity Oil NL (Antares). He is Chairman of Alexium International Group Limited, a principal of Viaticus Capital Pty Ltd and a director of Rowing Australia. Mr Rezos is a member of the Audit and Risk Committee and the Remuneration and Nomination Committee.

Directorships of Listed Entities (last 3 years):

Alexium International Group Limited (appointed March 2010)
Niuminco Group Limited, formerly DSF International Holdings Limited (appointed November 2008, resigned 30 August 2011)

Jennifer Anne Seabrook, BCom, ACA, FAICD, Chairman of the Audit and Risk Committee

Ms Seabrook was appointed to the Board in May 2009. She is also a non-executive director of IRESS Ltd and Export Finance and Insurance Corporation. Ms Seabrook is a member of ASIC's External Advisory Group and a Special Advisor to Gresham Partners Limited. She was formerly a member of the Takeovers Panel (2000 to 2012), and previous directorships include being a non-executive director of Amcor Limited, Bank of Western Australia Limited, West Australian Newspapers Holdings Limited, Australian Postal Corporation, Alinta Gas and Western Power. Ms Seabrook is Chairman of the Audit and Risk Committee and a member of the Remuneration and Nomination Committee. In her executive career Jenny worked at senior levels in chartered accounting, capital markets and investment banking businesses.

Directorships of Listed Entities (last 3 years):

IRESS Limited (appointed August 2008)
Amcor Limited (appointed December 2011, resigned July 2012)

Stephen John Turner, BCom, ACA

Mr Turner was appointed to the Board in March 2010. He is a founder of the London Stock Exchange listed company, International Ferro Metals Limited. He was the Chief Executive Officer of International Ferro Metals Limited from 2002 to 2009 and continues as a director of that company. He is also a director of South American Ferro Metals Limited and Chairman of Vantage Goldfields Limited. Mr Turner has had responsibility for resource projects in Australia, Africa and the Pacific Islands. He was a founding director of the Australian subsidiary of PSG Investment Group, a South African investment bank. He is an Australian Chartered Accountant. Mr Turner is a member of the Audit and Risk Committee.

Directorships of Listed Entities (last 3 years):

International Ferro Metals Limited (appointed January 2002)
South American Ferro Metals Limited (appointed November 2010)
Vantage Goldfields Limited (appointed October 2009)
Timpetra Resources Limited (appointed May 2010)

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Wayne Geoffrey Osborn, DipEng, MBA, FTSE, MIE(Aust), FAICD, Chairman of the Remuneration and Nomination Committee

Mr Osborn was appointed to the Board in March 2010. He is a former Managing Director of Alcoa of Australia Limited. He is a director of Leighton Holdings Limited, Wesfarmers Limited and Alinta Holdings. Mr Osborn is Chairman of the Australian Institute of Marine Science. He was formerly a director of the Australian Business Arts Foundation and Vice President of the Chamber of Commerce and Industry, Western Australia. Mr Osborn is Chairman of the Remuneration and Nomination Committee.

Directorships of Listed Entities (last 3 years):

Leighton Holdings Limited (appointed 6 November 2008)
Wesfarmers Limited (appointed 24 March 2010)

David Alexander Robb, BSc, GradDip (Personnel Administration), FAIM, FAICD, Managing Director

Mr Robb was appointed to the Board in October 2006 after his appointment as Managing Director and CEO of Iluka Resources Limited. After graduating from the University of Western Australia, Mr Robb worked in the downstream oil industry with BP in Australia, the UK, the USA and Asia. He joined Wesfarmers in Perth in 1995 and was appointed General Manager, Business Development for the Wesfarmers Group in 1996 and subsequently as Managing Director of Wesfarmers Energy in 1999. In 2004 he was appointed an Executive Director of Wesfarmers Limited, a role relinquished in 2006 on joining Iluka. Other previous roles include Chairman of Consolidated Rutile Limited and Deputy Chair of Methodist Ladies College, Perth.

Gregory John Walton Martin, BEc, LLB, FAIM, MAICD

Mr Martin was appointed to the Board with effect from 1 January 2013. He has over 30 years' experience in the energy, utility and infrastructure sectors, having spent 25 years with The Australian Gas Light Company, (AGL), including five years as Managing Director and CEO. After leaving AGL, Mr Martin was Chief Executive of the infrastructure division of Challenger Financial Services Group and, subsequently, Managing Director and CEO of Murchison Metals Limited. He is currently Chairman of Prostar Capital and a non-executive Director of Santos Limited, Energy Developments Limited and the Australian Energy Market Operator. Mr Martin is a member of the Audit and Risk Committee.

Directorships of Listed Entities (last 3 years):

Energy Developments Limited (appointed May 2006)
Santos Limited (appointed October 2009)
Murchison Metals Limited (appointed May 2011, ceased November 2012)

James Hutchison Ranck, BSE (Econ), FAICD

Mr Ranck was appointed to the Board with effect from 1 January 2013. He has held senior management positions with DuPont, both in Australia and internationally in finance, chemicals, pharmaceuticals and agriculture for over 30 years. He also served as a Director of DuPont's Hong Kong based subsidiary, Titanium Technologies, for seven years. Mr Ranck retired as Managing Director of DuPont Australia and New Zealand and Group Managing Director of DuPont ASEAN in May 2010. He is currently a non-executive Director of Elders Limited and the CSIRO. Mr Ranck is a member of the Remuneration and Nomination Committee.

Directorships of Listed Entities (last 3 years):

Elders Limited (appointed June 2008)

COMPANY SECRETARY

The Company Secretary is Mr C Wilson LLB. Mr Wilson was appointed to the position of Company Secretary in 2004. Before joining Iluka Mr Wilson held a range of legal and commercial roles at WMC Resources Limited and prior to that worked as a solicitor with a major legal practice.

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MEETINGS OF DIRECTORS

	Board of Directors' meetings		Audit and Risk Committee meetings		Remuneration and Nomination Committee meetings	
	Number attended	Number held	Number attended	Number held	Number attended	Number held
D A Robb	14	14	-	-	-	-
G J Pizzey	14	14	6	6	4	4
G J Rezos	13	14	5	6	3	4
J A Seabrook	14	14	6	6	4	4
W G Osborn	13	14	2	6	4	4
S J Turner	14	14	6	6	3	4

Although not members of the respective committees, Mr Pizzey attended six Audit and Risk Committee meetings, Mr Osborn attended two Audit and Risk Committee meetings and Mr Turner attended three Remuneration and Nomination Committee meetings.

DIRECTORS SHAREHOLDING

Directors shareholding is set out in note 21.

REMUNERATION REPORT

The Remuneration Report is set out on pages 16 to 36.

INDEMNIFICATION AND INSURANCE OF OFFICERS

The company indemnifies all Directors of the company named in this report and current and former executive officers of the company and its controlled entities against all liabilities to persons (other than the company or the related body corporate) which arise out of the performance of their normal duties as Director or Executive Officer unless the liability relates to conduct involving bad faith. The company also has a policy to indemnify the Directors and Executive Officers against all costs and expenses incurred in defending an action that falls within the scope of the indemnity and any resulting payments.

The terms of engagement of Iluka's external auditor includes an indemnity in favour of the external auditor. This indemnity is in accordance with PricewaterhouseCoopers' standard Terms of Business and is conditional upon PricewaterhouseCoopers acting as external auditor. Iluka has not otherwise indemnified or agreed to indemnify the external auditors of Iluka at any time during the financial year.

During the year the company has paid a premium in respect of Directors' and Executive Officers' insurance. The contract contains a prohibition on disclosure of the amount of the premium and the nature of the liabilities under the policy.

NON-AUDIT SERVICES

The group may decide to employ the external auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the group are important.

The Board of Directors has considered the position and, in accordance with advice received from the Audit and Risk Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the external auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- fees paid to external auditors for non-audit services for the 2011 year were within the group policy; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants.*

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A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2011* is set out on page 37.

Fees that were paid or payable during the year for non-audit services provided by the auditor of the parent entity, its network firms and non-related audit firms is set out in note 22 on page 81 of the financial report.

ENVIRONMENTAL REGULATIONS

The group's Australian operations are subject to various Commonwealth and State laws governing the protection of the environment in areas such as air and water quality, waste emission and disposal, environmental impact assessments, mine rehabilitation and access to, and use of, ground water. In particular, some operations are required to be licensed to conduct certain activities under the environmental protection legislation of the state in which they operate and such licenses include requirements specific to the subject site.

So far as the Directors are aware, there have been no material breaches of the group's licences and all mining and exploration activities have been undertaken in compliance with the relevant environmental regulations.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 17 January 2013, Iluka announced its intention to idle the Eneabba mining operation (Mid West, Western Australia) in March 2013. On 21 February 2013, Iluka announced a continued idling of synthetic rutile kiln 3 at Narngulu, Western Australia and other production changes and cost reduction initiatives to reduce production and fixed costs that will include a total of approximately 200 positions being made redundant. Total costs of implementing the announced production cuts and cost reductions of approximately $50 million, including redundancy costs, are expected to be incurred and expensed during 2013.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

In the opinion of the Directors, likely developments in and expected results of the operations of the group have been disclosed. Disclosure of further material relating to those matters could result in unreasonable prejudice to the interests of the group.

ROUNDING OF AMOUNTS

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest hundred thousand dollars, or in certain cases, to the nearest thousand dollars.

This report is made in accordance with a resolution of the Directors.

G J Pizzey
Chairman
Perth
20 March 2013

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Remuneration Report

CONTENTS

The Remuneration Report is presented in the following sections:

Details of the remuneration of the directors and other Key Management Personnel (as defined in AASB 124 *Related Party Disclosures*) of Iluka Resources Limited and the Iluka Resources Limited Group (together 'the group') are set out in the following tables. Other key management personnel of the company and the group are the executives who have authority for planning, directing and controlling the activities of the company and the group.

KEY MANAGEMENT PERSONNEL – DIRECTORS

(i) Non-execuitve Directors

W G Osborn
G J Pizzey *(Chairman)*
G J Rezos
J A Seabrook
S J Turner

(ii) Managing Director and Chief Executive Officer

D A Robb

All above persons were directors of Iluka Resources Limited for all of the financial year, as well as for the financial year ended 31 December 2011, except for Mr D M Morley who retired on 25 May 2011.

On 20 December 2012, Mr J H Ranck and Mr G J W Martin were appointed as Directors, with effect from 1 January 2013.

KEY MANAGEMENT PERSONNEL - EXECUTIVES

C Cobb	General Manager Sales and Marketing
A Tate	Chief Financial Officer
S Wickham	General Manager Australian Operations

H Umlauff and C Wilson were included as key management personnel in the prior year under the requirement of the Corporations Act 2001 to disclose the five most highly remunerated officers, which is no longer required due to a change in the Corporations Act 2011.

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SECTION 1: SUMMARY

1.1 Remuneration Principles

Iluka's remuneration practices are designed to support the company's objective - to create and deliver value for shareholders. Iluka operates in a highly competitive market place for skilled people in the globally buoyant resource industry. Accordingly, Iluka's remuneration approach is focussed on attracting, retaining and motivating employees and ensuring shareholder value creation and delivery over the medium term. As such, Iluka's remuneration policies are designed to achieve remuneration which is:

Market Competitive

- fixed remuneration which reflects skills, experience and performance and which is comparable and competitive within the resources sector
- an appropriate balance between fixed and variable (at risk) components of remuneration

Performance Based

- focused on both short and long term business performance
- reward for achievement aligned to company and individual performance

Aligned to Shareholder Returns

- objectives set that support business profitability, sustainability and growth and, thus, improved shareholder returns
- share ownership, including trailing exposure to company performance

Transparent

- clear and concise disclosure that takes account of market practice
- compliant with relevant legislative frameworks

1.2 Components of Executive Remuneration

Executive remuneration is made up of fixed (TFR) and at risk (STIP and LTIP) components. A significant portion of total remuneration is at risk. The components of executive remuneration are as follows:

Total Fixed Remuneration (TFR)	Competitively positioned to support attraction and retention strategies.
Short Term Incentive Plan (STIP)	Strong link to financial performance and delivery of results requiring the achievement of individual growth objectives and regional or group profitability and sustainability targets before any award is payable. The STIP is designed to incentivise applicable employees whilst promoting equity ownership through an award partly in deferred equity.
Long Term Incentive Plan (LTIP)	Provides alignment with shareholder interests with incentives based on Return on Equity (ROE) and Total Shareholder Return (TSR) over a three year period.

1.3 2012 Overview

The following explains how remuneration and incentive outcomes reflect company performance in 2012.

Fixed Remuneration

- Non-executive director fees were not increased in 2012 (last increase effective 1 March 2011)
- Managing Director's fixed remuneration was not increased in 2012 (last increase effective 1 January 2011)
- Executive fixed remuneration (other than for the Managing Director) was increased on average by 5.15 per cent, effective 1 March 2012
- Overall, the 2012 salary review process for general staff increased fixed remuneration on average by 5.2 per cent

Fixed remuneration increases were based on individual performance and market alignment.

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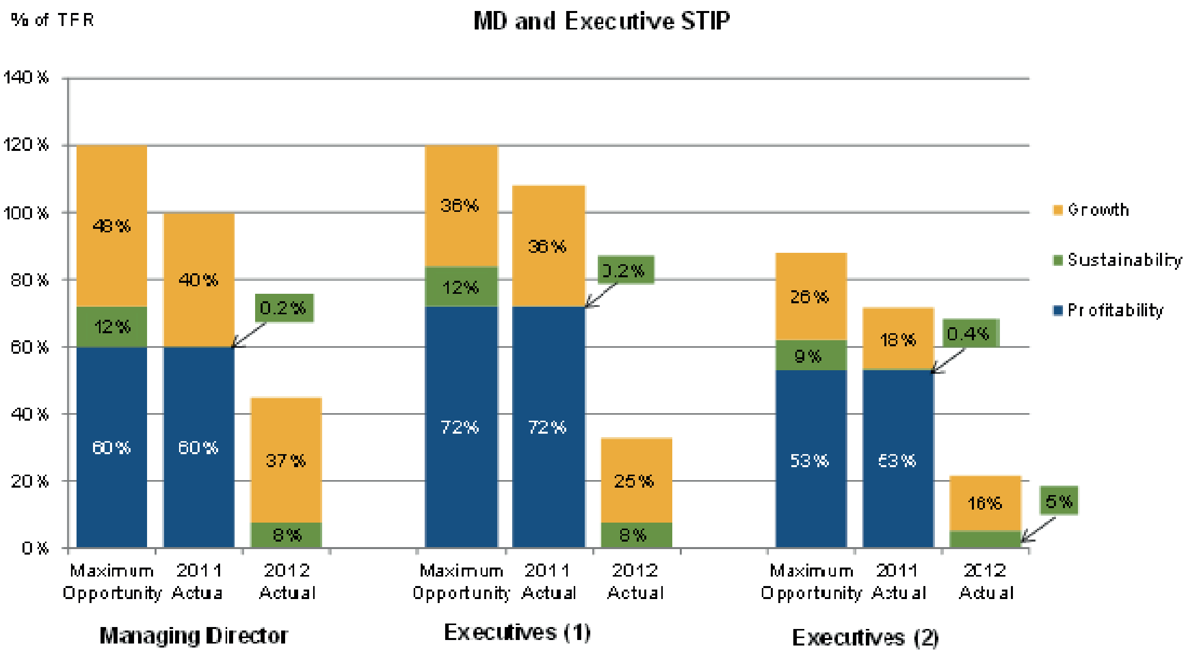
Performance Based Reward

Profitability targets for the 2012 STIP were set at the commencement of the performance year in line with global economic, market and company performance expectations at that time. Iluka's full year financial results did not meet threshold targets and accordingly, no payments were awarded in respect to the profitability component of the 2012 STIP (which typically accounts for 60 per cent of total opportunity).

Awards made in relation to the 2012 STIP relate to group sustainability objectives (accounting for 10 per cent of total opportunity) and individual business growth related objectives (which typically account for 30 per cent of total opportunity).

Overall, the 2012 STIP outcome equated to an average payment of 26 per cent of maximum opportunity for all executives (including the Managing Director) compared with an average payment of 83 per cent for the 2011 STIP.

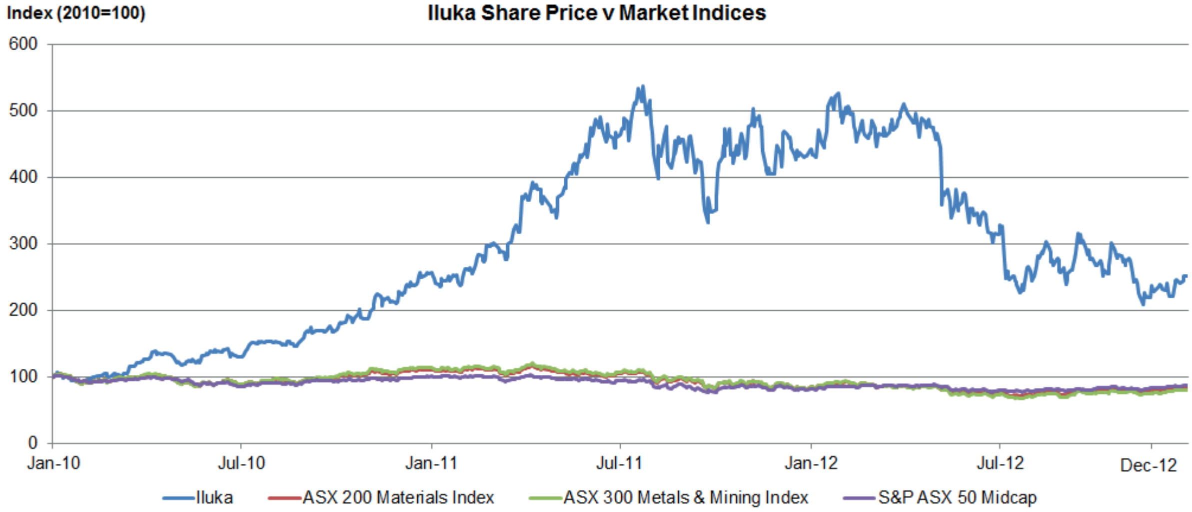
The table below shows a comparison between maximum STIP opportunity for the Managing Director and executives as a percentage of TFR and what was actually awarded in 2011 and 2012.



- Executives (1) – those executives who's maximum STIP opportunity is 90 per cent of TFR.
- Executives (2) – those executives who's maximum STIP opportunity is 50 to 60 per cent of TFR.

Shareholder Alignment

The graph below shows Iluka's share price performance compared with the Materials and the Midcap 50 Indices over the corresponding three year period from 1 January 2010 to 31 December 2012.



2010 Long Term Incentive Plan

In respect of the TSR target for the 2010 LTIP (for which the performance period was 1 January 2010 to 31 December 2012), the company achieved a TSR of 170.97 per cent and ranked at the 100th percentile of the Materials Index and MidCap 50 comparator groups. Accordingly, share rights granted in respect of this component of the 2010 LTIP vested in full.

ROE performance for the 2010 LTIP was 22.97 per cent against a Threshold target of 10 per cent and a Stretch target of 14 per cent. Accordingly, share rights granted in respect of this component of the 2010 LTIP vested in full.

675,558 shares in total were awarded to participants under the 2010 LTIP.

2012 Employee Share Plan

In 2012, the A$1,000 employee share plan was offered to eligible employees. Overall, a total of 616 of 620 eligible employees accepted the offer to participate in the plan for which 46,200 shares in total were awarded.

Employees who participated in the STIP or LTIP were not eligible to participate in the 2012 Employee Share Plan.

2012 Restricted Employee Share Plan

In 2012, an additional award of shares was offered to eligible employees in the form of restricted shares in lieu of the cancelled 2009/2010 Employee Share Plan. The offer was made to employees who would have been eligible for the employee share plan had it been offered in 2009/2010 for which 125,488 restricted shares in total were was awarded.

Iluka Retention Plan

In March 2008, the Board approved the introduction of a Retention Plan for certain individuals, including executives, identified as critical to business outcomes over the following three years. The aim of the Retention Plan was to ensure continuity of management and retention of critical technical and functional expertise to support the delivery of major projects and other growth strategies while the company had high debt levels and was experiencing difficult market conditions for its products.

The Retention Plan offered participants a grant of share rights which vested in full at the conclusion of a three year retention period. Retention offers were made to a number of key executives during 2008 and early 2009. The retention periods for all but two of the participants concluded in 2011 with the retention periods for the two remaining participants concluding in 2012 for which a total of 29,000 shares was awarded.

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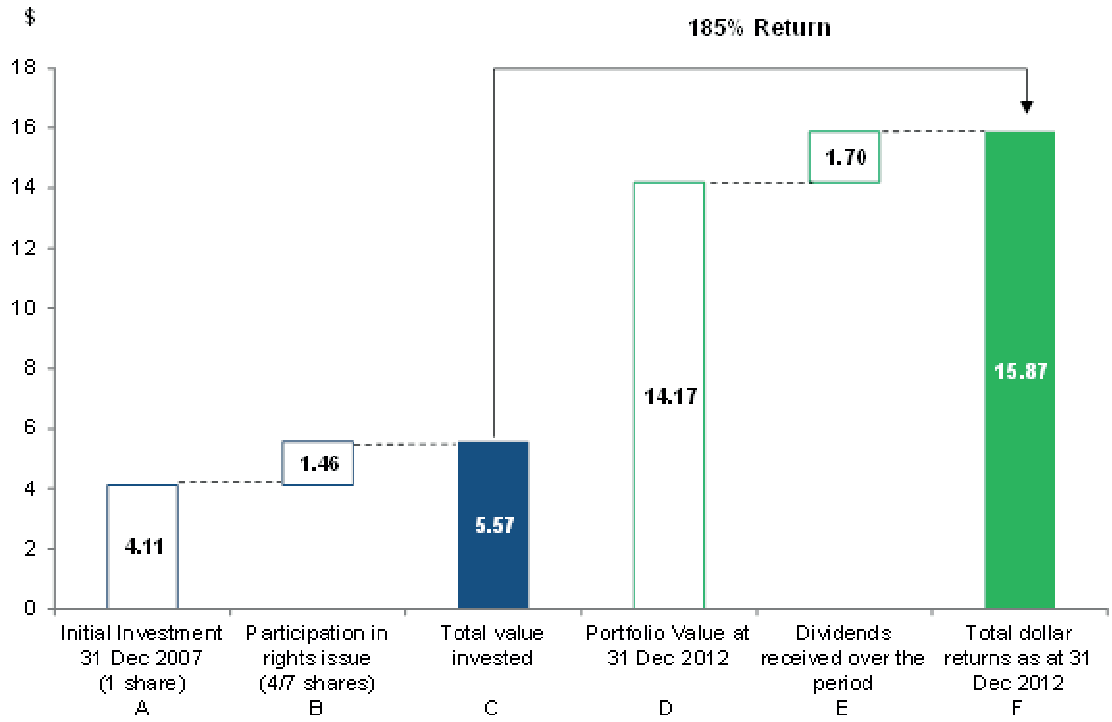
The retention plan was closed to new offers in early 2009 and no further shares will be awarded under this plan.

1.4 Iluka's five year performance

Shareholder Returns

For the five years to 31 December 2012, assuming full participation in the rights issue in March 2008, shareholders achieved total returns of 185% (before franking credits and tax). This is illustrated in the below chart.



Source: S&P Capital IQ

A. A shareholder invests $4.11 to acquire one share on the last day of trading in 2007.
B. In March 2008, the shareholder participates in the 4 for 7 rights issue at $2.55 per share. For each share held, the shareholder purchases 0.57 shares[1] for $1.46.
C. Total amount invested was $5.57 (A+B).
D. As at 31 December 2012, share price was $9.02. The shareholder's 1.57 shares is valued at $14.17.
E. Aggregate dividends paid over the five year period were $1.08 per share (before franking credits)[2] which amounts to $1.70 on the shareholder's 1.57 shares.
F. Total value of shares plus dividends received as at 31 December 2012 was $15.87 (D+E), amounting to a return of 185% over the five year period.

1 In this example, the number of shares issued under the rights issue have not been rounded.
2 Comprised of 2010 final dividend (8 cps unfranked), 2011 interim dividend (20 cps unfranked), 2011 final dividend (55 cps franked) and 2012 interim dividend (25 cps franked).

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Earnings over the same five year period are set out in the table below:

	31 Dec 08	31 Dec 09	31 Dec 10	31 Dec 11	31 Dec 12
Net profit after tax ($ million)	49.0	(82.4)	36.1	541.8	363.2
Earnings per share (cents)	14.2	(20.2)	8.6	130.1	87.1
Closing share price ($)	4.64	3.58	9.14	15.50	9.02
Dividends paid (cents)	-	-	-	28	80

1.5 Executive Total Earnings in 2012

Details of the remuneration received by the Managing Director and executives prepared in accordance with statutory requirements and accounting standards are detailed on pages 33 to 36 of this Remuneration Report.

The table below sets out the total earnings for the Managing Director and executives for 2012 - sometimes referred to as "actual" or "take-home" pay. These earnings include cash salary and fees, superannuation, non-cash benefits received during the year and the full value of incentive payments earned for which the performance period concluded in 2012. The table does not include the accounting value of share based payments consisting of share rights granted in the current and prior years. This is because those share based payments are dependent on the achievement of performance hurdles and so may or may not be realised.

Name	Base $	Super-annuation $	Other[1] $	2012 STIP[2] $	 $	2010 LTIP[3] $	2012 Total Earnings $
				Cash	*Restricted Shares*	*Shares*	
D Robb	1,727,189	22,811	53,146	391,965	391,965	1,235,366	3,822,442
C Cobb	620,338	46,503	46,298	78,434	132,450	345,902	1,269,925
A Tate	604,012	20,208	-	74,904	74,903	406,847	1,180,874
S Wickham	631,725	16,123	6,600	79,653	134,511	411,789	1,280,401

1 Includes non-monetary benefits.
2 Represents the value of the 2012 STIP which was awarded partly in cash and partly in deferred equity in March 2013.
3 Represents the value of the 2010-12 LTIP award for which the performance period concluded 31 December 2012 calculated at the closing share price of $10.13 at the date of award (1 March 2013).

1.6 Executive Total Earnings in 2011

The table below shows the total earnings for the Managing Director and executives relating to the 2011 performance year for comparison purposes.

Name	Base $	Super-annuation $	Other[1] $	2011 STIP[2] $		2009 LTIP[3] $	Retention Plan[4] $	2011 Total Earnings $
				Cash	*Restricted Shares*	*Shares*	*Shares*	
D Robb	1,703,271	46,202	46,364	872,890	872,889	1,566,501	-	5,108,117
C Cobb	585,458	49,541	36,020	243,318	405,635	-	-	1,319,972
A Tate[5]	588,402	19,832	-	222,133	222,133	515,753	1,595,280	3,163,533
H Umlauff	546,942	49,225	4,741	210,918	210,917	602,408	844,240	2,469,391
S Wickham	604,882	15,487	4,741	251,428	419,156	456,243	567,440	2,319,377
C Wilson	454,660	24,718	6,833	192,095	192,094	468,771	1,508,560	2,847,731

1 Includes non-monetary benefits.
2 Represents the value of the 2011 STIP which was awarded partly in cash and partly in deferred equity in March 2012.
3 Represents the value of the 2009-11 LTIP award for which the performance period concluded 31 December 2011 calculated at the closing share price of $16.70 at the date of award (1 March 2012).
4 Represents the value of the Iluka Retention Plan award calculated at the closing share price of $13.84 at the date of award (13 April 2011).
5 Represents the value of the Iluka Retention Plan award calculated at the closing share price of $15.64 at the date of award (31 May 2011).

SECTION 2: BOARD OVERSIGHT OF REMUNERATION

2.1 Board Oversight

The Remuneration and Nomination Committee (Committee) operates in accordance with its charter as approved by the Board. The Committee is comprised solely of independent non-executive directors and is chaired by Mr Osborn.

The Committee's responsibility is to provide assistance and recommendations to the Board in support of the company's objective of creating and delivering value for shareholders and in fulfilling its corporate governance responsibilities relating to the following:

- overall remuneration strategy of the company;
- remuneration of non-executive directors;
- performance and remuneration of the Managing Director and executives;
- selection and appointment of, and succession planning for, non-executive directors;
- selection and appointment of, and succession planning for, the Managing Director;
- succession planning for key roles; and
- diversity strategy, policies and practices of the company.

The Committee also makes decisions on behalf of the Board where such authority has been expressly delegated.

2.2 Use of Remuneration Consultants

The Committee has the resources and authority appropriate to discharge its duties and responsibilities, including the authority to engage external professionals on terms it determines to be appropriate. During 2012, external advisers were engaged by the Committee and provided input on several matters relating to remuneration. These advisers were:

- Ernst & Young - were engaged to provide assistance in relation to executive remuneration including market benchmarking data for non-executive director and Managing Director Remuneration, executive remuneration market trends and Iluka's employee share plans; and

- Jackson McDonald - were engaged to provide legal advice in respect of share plans and executive contracts.

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During the year ended 31 December 2012 no remuneration recommendations, as defined by the Corporations Act, were provided by Ernst & Young or Jackson McDonald.

SECTION 3: EXECUTIVE REMUNERATION PRACTICES

The remuneration of an executive is linked to both annual business and individual performance outcomes and to the company's ability to create and deliver competitive levels of shareholder value, as defined by total shareholder return (TSR) and return on equity (ROE), on a longer term basis.

In the interest of transparent reporting, Iluka discloses its ROE target range measure which forms part of the LTIP.

Directors and executives are prohibited from trading in financial products issued or created over the company's securities by third parties, and from trading in associated products and entering into transactions which operate to limit the economic risk of their security holdings in the company. This prohibition extends to directors and executives taking out margin loans on their holdings of Iluka securities.

3.1 Relationship between reward and performance

As discussed in detail in the "Performance and Incentive" section of this report (see page 24), the key performance measures underlying the incentive plans in 2012 were:

- STIP: Profitability (Return on Capital (ROC), Earnings Before Interest and Tax (EBIT) and Net Profit After Tax (NPAT)), Sustainability (total recordable injury frequency rate, severity rate and environmental incidents) and Growth (individual stretch objectives).
- LTIP: ROE and relative TSR.

Performance against each of the above measures determines the quantum of STIP and LTIP awards.

3.2 Remuneration Structure

Remuneration for executives comprises two components:

- total fixed remuneration (TFR) which is made up of base salary and superannuation, together with other salary sacrifice items such as novated leases and car parking (employees are required to meet any fringe benefits tax obligations applicable to salary sacrificed items); and
- variable remuneration, being the STIP and LTIP, which is linked directly to performance of both the company and the individual executive and, as such, is deemed to be "at risk".

The remuneration structure is designed to reflect an appropriate balance between fixed and variable remuneration to ensure that executive reward is aligned with the performance of the business.

3.3 Total Fixed Remuneration

Iluka's TFR structure is assessed against the median level of the market as defined by a comparator group of Australian companies within the resources market. Individual TFR is determined within an appropriate range centred at the market median by referencing job evaluation data and individual experience and performance levels. Allowance is also made for the competitive nature of the market for talent in the resources sector.

3.4 Superannuation Benefits

Iluka has appropriate superannuation and pension arrangements in countries where it operates. In Australia, the company contributes superannuation at the minimum required rate to each executive's nominated eligible fund. Individuals may elect to make further voluntary contributions from pre-tax salary.

All Australian based employees (including executives) are entitled to contribute to the Iluka Superannuation Plan. The plan is administered by OnePath as part of a master trust of which approximately 86 per cent of Australian employees are members. The plan is primarily an accumulation style plan. A small number of employees have retained membership in a defined benefit sub-plan, a legacy from the 1999 merger of Westralian Sands Limited with RGC Limited. The defined benefit sub-plan is closed to new members.

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3.5 Remuneration Review

The company conducts a review of the remuneration of executives and staff on an annual basis. Guidelines for reviews are approved by the Remuneration and Nomination Committee. Review guidelines are based upon the outcomes of direct and related market review data and external advice from the company's remuneration advisers. All employees and executives participate in an objective setting and performance review process which is used in conjunction with market data to determine appropriate remuneration recommendations.

Individual progress against objectives is reviewed throughout the performance year with formal reviews occurring at half year and at the conclusion of the performance year.

Recommendations by the Managing Director for STIP and LTIP award outcomes and remuneration for executives are submitted to the Remuneration and Nomination Committee in February of each year. In respect of all other eligible participants, a one up approval process applies with final Managing Director approval prior to any remuneration review being implemented.

3.6 Performance and Incentives

The current performance and incentive arrangements were introduced for the 2007 performance year. The incentive arrangements comprise a Short Term Incentive Plan (STIP) and a Long Term Incentive Plan (LTIP). These distinct plans balance the short and long term aspects of business performance, reflect market practice and support business needs.

The incentive plans ensure a strong alignment between the incentive arrangements of executives and the creation and delivery of shareholder value and support Iluka's aim of attracting, retaining and motivating experienced employees.

The STIP and LTIP operate within the existing rules of the Directors, Executives and Employees Share Acquisition Plan (DEESAP), as approved by shareholders at the company's Annual General Meeting in May 1999. Subject to satisfaction of vesting conditions and performance criteria, share rights issued under the DEESAP entitle the recipient to acquire fully paid ordinary shares in the company. No amount is payable by a recipient for the grant of any shares or share rights under the DEESAP.

A summary of the DEESAP is contained in Schedule 2 of the company's 2011 notice of annual general meeting released to ASX on 12 April 2011 [and can also be found on the Remuneration section of Iluka's website (www.iluka.com)].

At target levels of performance, the STIP generally represents two-thirds of potential variable remuneration, and the LTIP generally represents one-third.

Only nominated employees participate in the STIP and LTIP. The level of award opportunity is determined by an individual's role within the business and capacity to impact the results of the company. In 2013, it is anticipated that 203 employees (representing 18 per cent of employees and including all executives) will participate in the STIP, and 114 employees (representing 10 per cent of employees and including all executives) will participate in the LTIP. In 2012, the corresponding percentages were 17 per cent and 10 per cent, respectively.

Objectives, measures and targets for both the STIP and the LTIP are set on an annual basis and are subject to the approval of the Board.

Executive Incentive Opportunity

Plan	Target (% of TFR)	Stretch (% of TFR)
STIP*	60% to 90%	90% to 120%
LTIP	30%	N/A

*Varies for individuals according to job size and impact

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3.6.1 The Short-Term Incentive Plan (STIP)

The STIP aims to provide an incentive to participants whilst also promoting equity ownership by providing awards partly in cash and partly in deferred equity.

The STIP is linked to group and regional financial and operational performance and has a focus on ROC as a key metric. A combination of financial and non-financial targets (including safety, environmental and individual growth specific targets) are used to measure performance and determine outcomes including:

- Profitability - ROC and EBIT metrics reflect the organisational unit within which the individual is located (for example, regional versus corporate roles) and are measured independently. All participants are measured against group NPAT;
- Sustainability - metrics are group targets except where best practice has been achieved by an individual business unit in the prior year; and
- Growth Targets - individual specific targets (eg delivery of a major project).

The weighting of the growth measure is typically set at 30 per cent. However, the Board has discretion for a performance year to vary the growth weighting for any individual within a range from 20 per cent to 40 per cent in line with the company's priorities.

The process for the development and assessment of individual objectives is a rigorous one. Objectives are linked to major business opportunities and risks as typically identified in Iluka's Corporate Plan and to the priorities for the relevant year. Specific and measurable deliverables and the timeframe for achievement are defined for each objective. The deliverables and the timeframes are set at a stretch level of performance. Objectives are set in conjunction with the Managing Director for all executives, followed by review and approval by the Remuneration and Nomination Committee. The process is designed to ensure a close alignment between the STIP and the company's objective of creating and delivering value for shareholders.

The STIP award is determined after the year-end. Profitability and sustainability performance must exceed the threshold target before any award is made for these measures. Growth outcomes are based on an assessment of the extent to which the individual's objectives have been achieved. Outcomes are subject to rigorous one up assessment and, for the Managing Director and executives, assessment by the Board.

2012 STIP

The measures and weighting of objectives for the 2012 performance year were:

Profitability (ROC, EBIT and NPAT)	60 per cent
Sustainability (total recordable injury frequency rate, severity rate and level 3 and above environmental incidents)	10 per cent
Growth (individual objectives)	30 per cent

STIP payments to the Managing Director and executives in 2012 were lower than those paid in 2011 due to profitability targets for the 2012 performance year not being achieved. Accordingly, no payments were made in respect to this component of the 2012 STIP. Awards made to the Managing Director and executives under the 2012 STIP reflect the achievement of sustainability and growth objectives.

The STIP award is typically paid half in cash and half on a deferred basis in the form of ordinary restricted shares. The Board has discretion to increase the proportion of deferred equity (reducing the cash component). Fifty per cent of the restricted shares do not vest until one year after the end of the performance period, while the remaining fifty per cent does not vest until two years after the end of the performance period. The mandatory deferral also requires executives to remain with the company and to continue to perform satisfactorily for the shares to vest. As a consequence, executives have a significant trailing exposure to their own and company performance subsequent to the award. The deferred amount also supports executive focus on both annual and multi-year performance, as well as providing a retention element.

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The process for determining the number of restricted shares to be awarded to each participant is determined by dividing the dollar value of the deferred component by the Volume Weighted Average Price (VWAP) of Iluka shares traded on the ASX over the five trading days following release of the company's full year results for 2012.

3.6.2 The Long-Term Incentive Plan (LTIP)

The LTIP provides a grant of equity in the form of share rights for Iluka shares that vest after three years subject to performance over a three year period.

The grant is split into two separate components, with one component (50 per cent) being assessed based on ROE relative to an internal target and the other (50 per cent) based on TSR performance relative to a comparator group of companies. The two performance measures are applied as follows:

Return on Equity component:

The ROE component of the LTIP grant vests based on a prospective three year average ROE performance measure. Vesting occurs on a straight line basis for performance between Threshold and Target. Targets are set giving consideration to:

- the company's ROE performance history;
- planned strategic and business plan activity throughout the performance period; and
- the performance of comparable companies in the ASX 200 Materials Index.

Targets are reviewed annually and set for a forward three year period. It can be expected that as sustainable performance improves, targets will be increased - within the bounds of feasible achievement - creating a "staircase" effect over time. Similarly, because performance is measured over the three years as an average, a failure to achieve targeted levels of performance in any one year increases the hurdle in the remaining years.

ROE targets for the 2010, 2011 and 2012 LTIP are shown in the table below:

LTIP grant	Threshold	Target
2012 – 2014	40%	50%
2011 – 2013	12%	20%
2010 – 2012	10%	14%

The targets above may be compared with a three year history for Iluka (to 2011) in which the average ROE was 12.7 per cent, or with a three year average for the ASX 100 (less property trusts) of 16.29 per cent.

Total Shareholder Return component:

The TSR component of the LTIP grant vests based on TSR relative to a comparator group of companies. The comparator group consists of the companies which for the 2010 LTIP comprised the Materials Index and the ASX Mid Cap 50 Index at the commencement of the performance period (excluding property trusts and duplication).

In 2011, following a review of Iluka's combined Materials Index and Midcap 50 Index comparator group, a decision was made to remove the Midcap 50 Index and measure performance solely against the ASX 200 Materials Index as it better reflects the companies that operate within the same industry and with which Iluka competes for investment. The ASX 200 Materials Index comparator group has been applied to the 2011 and 2012 LTIPs.

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LTIP Vesting Schedule

The table below outlines the LTIP vesting schedule for the TSR and ROE component:

LTIP Vesting Schedule			
Measure	Performance Hurdle to be achieved	Percentage of total grant that will vest	Maximum percentage of total grant
ROE	Threshold	25%	50%
	Target	50%	
TSR	50th percentile	25%	50%
	75th percentile	50%	
Total Grant			100%

Vesting occurs on a straight-line basis for performance between threshold and target for both measures.

All offers and details of the maximum allocation for the Managing Director and executives are shown on page 36. It should be noted that the maximum allocations listed are subject to the respective performance criteria. If at the end of the performance period the performance criteria have not been met there will be no entitlement to shares.

2010 LTIP

At the end of 2012, the 2010 LTIP grant completed its performance period (1 January 2010 to 31 December 2012). Performance was measured against both the ROE and relative TSR hurdles. Performance and resulting vesting was as follows:

Component	Performance target	Actual performance	Implication for vesting
ROE (50%)	50% vesting for Threshold of 10% with full vesting at target of 14%	22.97 per cent	Full vesting of the ROE component
Relative TSR (50%)	50% vesting for 50th percentile and full vesting for 75th percentile	100th percentile	Full vesting of the TSR component

3.6.3 Securities Trading

Iluka's policy in relation to employees holding Iluka securities is set out in the company's Securities Trading Policy, which can be found on the company's website at www.iluka.com. The policy sets out the circumstances in which employees may trade in company securities.

3.6.4 Employee Share Plan

The Board believes that strong employee alignment with shareholder outcomes is a vital element of high performing companies that create and deliver value for shareholders. Put simply, the company wants all employees to identify with shareholder returns. Accordingly, the company operates an Employee Share Plan under the rules of the Iluka Resources Limited Employee Share Plan ("Employee Share Plan or Plan"). The Board may, from time to time, at its discretion, make written offers to participate in the Plan.

To satisfy the legislative requirements of both Australia and the United States, Australian employees receive the shares under a tax-exempt plan, with a three year sale restriction period (a holding lock is applied during the restriction period). As US employees do not have access to a tax exemption plan, they are offered shares up to A$1,000 through a grant of restricted shares. The shares are held under the Plan with a restriction period of three years. To enable US employees to receive a tax deferral, strict forfeiture conditions apply.

The Employee Share Plan was offered in respect to the 2007/2008 and 2008/2009 financial years but was suspended for the 2009/2010 financial year as part of the company's response to the global economic crisis.

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In 2011, the Employee Share Plan was reinstated in respect to the 2010/2011 financial year. Of the 504 Australian employees eligible to participate, 482 (96 per cent) accepted the offer. In the US, 91 of 106 (86 per cent) eligible employees participated. Overall, a total of 573 (94 per cent) of 610 eligible employees accepted the offer.

In 2012, of the 497 Australian employees eligible to participate in the Employee Share Plan, 493 (99 per cent) accepted the offer. In the US, all 123 eligible employees participated. Overall, a total of 616 of 620 eligible employees accepted the offer.

Shares acquired under the Employee Share Plan are not subject to performance conditions as the primary objective of the Plan is to encourage share ownership by all employees.

3.6.5 2012 Restricted Employee Share Plan

In 2012, an additional award of shares was offered to eligible employees in the form of restricted shares in lieu of the cancelled 2009/2010 Employee Share Plan.

Each eligible employee was offered 253 restricted shares which was the estimated number of shares a participant would have received had the 2009/2010 employee share plan been offered. The estimated number of shares was based on the volume weighted average share price (VWAP) of shares traded during the month of March 2010, being $3.94. The value of the shares to each participant at the time of the offer would have been approximately $997 (i.e. 253 shares multiplied by a share price of $3.94).

The offer was made to 500 eligible employees of which 496 accepted the offer. This resulted in a total of 125,488 restricted shares being awarded. Shares awarded under this offer have a 12 month non-disposal and forfeiture condition.

3.6.6 Iluka Retention Plan

During 2007 and 2008, the resources sector experienced very high levels of competition for management and technical talent, with resulting skill shortages and upward pressures on remuneration. These pressures were particularly prevalent at the senior management level and for highly skilled professionals critical to business operation.

The Board recognises that continuity of management and retention of key talent is critical to achieving the successful delivery of major projects and other strategies in order to enhance shareholder returns. In that context, the Board regularly reviews the market competitiveness of senior management remuneration and its ability to retain senior management to achieve long term business objectives.

Consequently, in March 2008 the Board approved the introduction of a Retention Plan limited to certain individuals identified as critical to business outcomes over the medium term.

The Retention Plan offered participants a grant of share rights to ordinary shares in Iluka Resources Limited which vest in full at the conclusion of a three year retention period. The grant of share rights rather than a cash payment provides a strong alignment of the interests of participants with those of shareholders.

Where a participant voluntarily ceases employment during the retention period, all share rights awarded under the Retention Plan are forfeited.

Retention Plan share rights awarded to executives are included as rights granted in the table on page 32.

In August 2009, the Board closed the Retention Plan and no further grants have been made.

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SECTION 4: NON-EXECUTIVE DIRECTOR REMUNERATION

The remuneration of the non-executive directors is determined by the Board on recommendation from the Remuneration and Nomination Committee within a maximum aggregate amount approved by shareholders at an Annual General Meeting. The current cap on non-executive directors' fees (including superannuation) as approved by shareholders in May 2011 is $1.5 million. The total amount paid to non-executive directors in 2012 (including superannuation) was $1,004,475.

The Board decided not to increase non-executive director fees in 2012. Details of non-executive director fees in 2012 are as follows:

	1 Mar 2011 to 31 Dec 2012 $ p.a
Non-Executive Director Fees	
Board Chairman (inclusive of Committee fees)	312,000
Board Member	125,000
Board Member Committee Fees	
Audit and Risk Committee Chair	35,000
Remuneration and Nomination Committee Chair	25,000
Audit and Risk Committee Member	17,500
Remuneration and Nomination Committee Member	12,500

The minimum required employer superannuation contribution up to the statutory maximum is paid into each Director's nominated eligible fund and is in addition to the above fees. Based on the above fee structure, the current total non-executive director remuneration for Iluka's seven directors, assuming no further changes in 2013, is $1,199,500 per annum, excluding superannuation, or $1,295,845 including superannuation.

SECTION 5: MANAGING DIRECTOR REMUNERATION

The employment terms and conditions for the Managing Director, David Robb, are set out below.

Total Fixed Remuneration	$1,750,000 for the year ended 31 December 2012.
2012 Short Term Incentive	90 per cent of TFR at target with up to 120 per cent of TFR for stretch performance awarded 50 per cent as cash and 50 per cent as deferred equity.

Measure	Weighting
Profitability (ROC, EBIT, NPAT)	50 per cent
Sustainability (total recordable injury frequency rate, severity rate and environmental incidents	10 per cent
Growth (individual objectives)	40 per cent

Individual objectives and related deliverables are set each year by the Board at what is assessed to be a stretch level of performance. These objectives typically vary from year to year in line with the company's objective of creating and delivering value for shareholders.

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2012 Long Term Incentive	A grant of equity in the form of share rights of up to 30 per cent of TFR measured over a three year performance period.

Measure	Weighting
ROE	50 per cent
TSR	50 per cent

Long Term Incentive Deferred Plan (2011 to 2013)

	At the 2011 AGM, shareholders approved the following retention arrangements for Mr Robb (referred to as the Long Term Incentive Deferred Plan or LTID Plan).
Retention Offer	750,000 share rights offered in three tranches over a 3 year retention period with each tranche being subject to performance criteria referable to Iluka's TSR.
Performance Period	
Year 1	2011 Financial Year – performance measured from 4 March 2011 to the date 5 business days after announcement of the 2011 annual financial results.
Year 2	2012 Financial Year – performance measured from the end of the Year 1 Performance Period to the date 5 business days after announcement of the 2012 annual financial results.
Year 3	2013 Financial Year – performance measured from the end of the Year 2 Performance Period to the date 5 business days after announcement of the 2013 annual financial results.
Performance Hurdles	For each tranche of share rights there are TSR performance hurdles referable to each performance period as detailed below.
- Tranche 1 450,000 Share Rights	A base tranche of 150,000 share rights each year that requires an absolute TSR of 12.5 per cent compounding over the three years.
- Tranche 2 150,000 Share Rights	A base tranche of 50,000 share rights each year that requires an absolute TSR of 15 per cent compounding over the three years.
- Tranche 3 150,000 Share Rights	A base tranche of 50,000 share rights each year that requires an absolute TSR of 17.5 per cent compounding over the three years.
Vesting Conditions	A tranche of share rights will vest on the Vesting Date if the absolute TSR performance hurdle calculated over the Performance Period for that tranche is achieved. The share rights applicable to a Performance Period will also vest if the TSR performance hurdle is not satisfied at the end of that Performance Period, but the compound TSR performance hurdle for the subsequent Performance Period is satisfied.
Vesting Date	Subject to the performance criteria of each tranche being satisfied, share rights will vest 12 months after the last day of the third Performance Period (i.e. February / March 2015).
Forfeiture	All entitlements under the LTID Plan are forfeited if Mr Robb resigns prior to the end of the three year retention period.
	Full details of the Managing Director's LTID Plan can be found on the Remuneration section of Iluka's website (www.iluka.com).

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Termination Arrangements	At the 2011 AGM, shareholders approved the following termination payments which may become payable to Mr Robb under the terms of the Executive Employment Agreement entered into between Mr Robb and the company on 11 April 2011.
With Notice	Employment can be terminated by the company during the contract period by giving 12 months notice or pay in lieu of notice plus the total incentive for performance at target under the STIP and LTIP, pro-rata up to the end of the 12 month notice period. All shares to which Mr Robb is entitled under the DEESAP will vest within three months of termination.
Without Notice	In the case of misconduct and in certain other circumstances, employment can be terminated without notice and with no entitlement to pro-rata long service leave or any payment under any relevant incentive plan.
Voluntary Termination	Employment may be terminated by giving six months notice. Any pro-rata award under any relevant incentive plan will be at the discretion of the Board.
Termination for other reasons	* By Iluka on the ground of redundancy or by Mr Robb if, at the instigation of the Board he suffers a material diminution in his status as Managing Director, by giving 12 months notice or shall pay an equivalent amount of TFR in lieu of notice. * By Iluka if Mr Robb suffers illness, accident or other cause which renders him unable to perform his duties, by giving Mr Robb 12 months notice or pay an equivalent amount of TFR in lieu of notice. * In the circumstances described above, Mr Robb will receive the total incentive for performance at target under the STIP and LTIP, pro-rata up to the end of the 12 month notice period. All shares to which Mr Robb is entitled under the DEESAP will vest within three months of termination.
Protection of Interests	Mr Robb is restrained from engaging in certain activities during his employment, and for a period following termination of his employment, in order to protect Iluka's interests. The Executive Employment Agreement contains provisions relating to the protection of confidential information and intellectual property.

SECTION 6: EXECUTIVE EMPLOYMENT AGREEMENTS

Remuneration and other terms of employment for the Managing Director and executives are formalised in service agreements. The Managing Director and executives are employed on a rolling basis with no specified fixed terms. The Managing Director and executives are remunerated on a total fixed remuneration (TFR) basis, inclusive of superannuation.

6.1 Executive Service Agreements

Major provisions of the agreements relating to executives included in this Remuneration Report are set out below.

Executive	Position	Termination Notice Period by Iluka	Termination Notice Period by Employee	Termination Payments[1]
C Cobb	General Manager Sales & Marketing	3 months	3 months	9 months
A Tate	Chief Financial Officer	3 months	3 months	9 months
S Wickham	General Manager Australian Operations	3 months	3 months	9 months

1 Termination payments (other than for gross misconduct) are calculated on current total fixed remuneration at date of termination and are inclusive of the notice period. These termination payments have not changed in the previous two years.

SECTION 7: NON-EXECUTIVE DIRECTOR AND EXECUTIVE SHAREHOLDINGS

7.1 Shareholdings

	Number Of Shares				
Name	Balance held at 1/1/12	Vesting of share rights	Awarded as Restricted Shares	Other changes	Balance held at 31/12/12
Non-Executive Directors					
W Osborn	1,800	n/a	n/a	-	1,800
G Pizzey	18,351	n/a	n/a	3,000	21,351
G Rezos	70,000	n/a	n/a	5,000	75,000
J Seabrook	19,314	n/a	n/a	-	19,314
S Turner	50,000	n/a	n/a	-	50,000
Executive Director					
D Robb	888,528	93,776	52,332	(293,776)	740,860
Executives					
C Cobb	17,183	-	24,319	-	41,502
A Tate	63,446	30,883	13,317	(30,883)	76,763
S Wickham	85,069	27,320	25,129	(14,000)	123,518

No shares were forfeited during the year

7.2 Share Rights

	Number Of Share Rights					
Name	Balance held at 1/1/12	Granted during 2012	Vested as shares during 2012	Lapsed during 2012	Balance held at 31/12/12[1]	Fair value of Share Rights granted in 2012 ($)[2]
Executive Director						
D Robb	1,014,977	31,475	(93,776)	-	952,676	405,083
Executives						
C Cobb	51,032	11,565	-	-	62,597	148,842
A Tate	88,494	11,691	(30,883)	-	69,302	150,463
S Wickham	85,418	11,745	(27,320)	-	69,843	151,158

1 Rights granted in respect to the 2012 LTIP which forms part of share based payments for 2012 to 2014 inclusive.

Non-Executive Directors do not have any entitlement to share rights.

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SECTION 8: DETAILS OF STATUTORY REMUNERATION DISCLOSURES

Details of the remuneration of the directors and other Key Management Personnel (as defined in AASB 124 *Related Party Disclosures*) of Iluka Resources Limited and the Iluka Resources Limited Group are set out in the following tables. Other key management personnel of the company and the group are the executives who have authority for planning, directing and controlling the activities of the company and the group.

KEY MANAGEMENT PERSONNEL – DIRECTORS

(i) Non-execuitve Directors

W G Osborn
G J Pizzey *(Chairman)*
G J Rezos
J A Seabrook
S J Turner

(ii) Managing Director and Chief Executive Officer

D A Robb

All above persons were directors of Iluka Resources Limited for all of the financial year, as well as for the financial year ended 31 December 2011. G J Martin and R H Ranck were appointed as Directors on 1 January 2013.

2012 KEY MANAGEMENT PERSONNEL - EXECUTIVES

C Cobb	General Manager Sales and Marketing
A Tate	Chief Financial Officer
S Wickham	General Manager Australian Operations

H Umlauff and C Wilson were included as key management personnel in the prior year under the requirement of the Corporations Act 2001 to disclose the five most highly remunerated officers, which is no longer required due to a change in the Corporations Act 2011.

In the tables on the following page, which set out short term employment benefits, the amounts in the ”STIP cash” column are dependent on the satisfaction of performance conditions as set out in the section headed “Short Term Incentive Plan” above. Amounts in the ”Share Based Payments” column relate to the component of the fair value of awards from prior years made under the various incentive plans attributable to the year measured in accordance with AASB 2 *Share Based Payments*. All other elements of remuneration are not directly related to performance.

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2012 Short Term Employee Benefits

Name	Base, Committee, Cash, Salary & Fees[1]	*STIP Cash[2]	Non-monetary Benefits	Other	Super-annuation	*Share-based Payments[2]	2012 Statutory Total
	$	$	$	$	$	$	$
Non-Executive Directors							
W Osborn	150,000	n/a	-	n/a	13,500	n/a	163,500
G Pizzey	312,000	n/a	-	n/a	16,675	n/a	328,675
G Rezos	155,000	n/a	-	n/a	13,950	n/a	168,950
J Seabrook	172,500	n/a	-	n/a	15,525	n/a	188,025
S Turner	142,500	n/a	-	n/a	12,825	n/a	155,325
Total	932,000				72,475		1,004,475
Executive Director							
D Robb	1,727,189	391,965	53,146	-	22,811	3,294,351	5,489,462
Executives							
C Cobb	620,338	78,434	46,298	-	46,503	422,191	1,213,764
A Tate	604,012	74,904	-	-	20,208	320,031	1,019,155
S Wickham	631,725	79,653	6,600	-	16,123	444,617	1,178,718
Total	1,856,075	232,991	52,898		82,834	1,186,839	3,411,637

1 STIP Cash includes cash that is sacrificed for the purchase of shares during the year up to the statutory maximum of $5,000.

2 STIP Cash and share-based awards for 2012 were made in March 2013.

* n/a denotes that non-executive directors are not eligible for these arrangements.

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2011 Short Term Employee Benefits

Name	Base, Committee, Cash, Salary & Fees[1]	**STIP Cash[2]	Non-monetary Benefits	Other	Super-annuation	**Share-based Payments[2,3]	2011 Statutory Total
	$	$	$	$	$	$	$
Non-executive directors							
D Morley*	60,076	n/a	-	n/a	5,407	n/a	65,483
W Osborn	145,833	n/a	2,783	n/a	13,125	n/a	161,741
G Pizzey	305,833	n/a	-	n/a	16,306	n/a	322,139
G Rezos	150,833	n/a	5,551	n/a	13,575	n/a	169,959
J Seabrook	161,373	n/a	5,551	n/a	14,524	n/a	181,448
S Turner	138,333	n/a	2,359	n/a	12,450	n/a	153,142
Total	962,281		16,244		75,387		1,053,912
Executive Director							
D Robb	1,703,271	872,890	46,364	-	46,202	2,638,048	5,306,775
Executives							
C Cobb	585,458	243,318	36,020	-	49,541	193,745	1,108,082
A Tate	588,402	222,133	-	-	19,832	220,675	1,051,042
H Umlauff	546,942	210,918	4,741	-	49,225	235,818	1,047,644
S Wickham	604,882	251,428	4,741	-	15,487	242,911	1,119,449
C Wilson	454,660	192,095	6,833	-	24,718	204,351	882,657
Total	2,780,344	1,119,892	52,335	-	158,803	1,097,500	5,208,874

1 STIP Cash includes cash that is sacrificed for the purchase of shares during the year up to the statutory maximum of $5,000.
2 STIP Cash and share-based awards for 2011 were made in March 2012.
3 Includes negative amounts for the reversal of prior year charges for the ROE component of the 2008 and 2009 LTIP which did not vest

* D Morley was a director from the beginning of the 2011 financial year until his resignation on 25 May 2011.
** n/a denotes that non-executive directors are not eligible for these arrangements.

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SHARE-BASED COMPENSATION

STIP Restricted Shares awarded to the Managing Director and Executives yet to vest

Name	2010 STIP[1]	2011 STIP[1]	2012 STIP[1]	Awarded %[2]		
				2010	2011	2012
D Robb	39,230	52,332	38,428	93	83	37
C Cobb	8,592	24,319	12,985	97	90	27
A Tate	9,636	13,317	7,343	92	80	26
S Wickham	9,683	25,129	13,187	92	90	27

1 STIP restricted share fair value determined independently using the Monte Carlo model that takes into account the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk free discount rate for the vesting period. STIP restricted shares are awarded in March of the following year (eg 2012 STIP Awards are made in March 2013).

2 The percentage achieved of the STIP maximum available incentive opportunity awarded for the financial year.

Maximum value of unvested restricted shares and share rights

The maximum value of restricted shares and/or share rights that will be recognised as share based payments in future years is set out below. The maximum value of those restricted shares and/or rights yet to vest has been determined as the amount of the grant date fair value of the share rights and/or shares that is yet to be expensed. No share and/or share rights will vest if the conditions are not satisfied, hence the minimum value of the options yet to vest is nil.

	Maximum Value ($)		
	Vesting Year		
Name	2013	2014	2015
D Robb	1,171,840	1,046,624	9,458,566
C Cobb	386,854	411,069	215,060
A Tate	323,232	295,264	187,907
S Wickham	423,679	423,581	218,407

Fair Value

The fair value of each restricted share or share right and the vesting year for each incentive plan is set out below.

Incentive Plan	Grant Date	Fair Value per Share or Right at Grant Date	Vesting Year
2010 LTIP	January 2010	3.09	2013
2010 STIP (Tranche 2)*	January 2011	9.14	2012 & 2013
LTID (Tranche 1)	March 2011	11.81	2015
LTID (Tranche 2)	March 2011	11.49	2015
LTID (Tranche 3)	March 2011	11.16	2015
2011 LTIP	January 2011	8.41	2014
2011 STIP*	March 2012	16.68	2013 & 2014
2012 LTIP	January 2012	12.87	2015
2012 STIP*	March 2013	10.20	2014 & 2015

* Awards under these plans are restricted shares, all other plans grant share rights.

The fair value is calculated in accordance with the measurement criteria of Accounting Standard AASB 2 *Share Based Payments* as set out in accounting policy 1(w)(v) on page 57 and note 29 on page 90 of the Notes to the Consolidated Financial Statements.

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Auditor's Independence Declaration

As lead auditor for the audit of Iluka Resources Limited for the year ended 31 December 2012, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Iluka Resources Limited and the entities it controlled during the period.

NHenry.

Nick Henry
Partner
PricewaterhouseCoopers

Perth
20 March 2013

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Corporate Governance Statement

APPROACH TO CORPORATE GOVERNANCE

Iluka believes that the highest standards of corporate governance are essential in order to create and deliver value for shareholders.

ASX CORPORATE GOVERNANCE RECOMMENDATIONS

Iluka considers that it meets each of the requirements of the Australian Securities Exchange (ASX) Corporate Governance Council's (Council) Corporate Principles and Recommendations (Second Edition) (Corporate Principles).

The Governance section of the Iluka website www.iluka.com contains Iluka's key corporate governance policy documents. These include the:

- Board Charter
- Directors' Code of Conduct
- Audit and Risk Committee Charter
- Remuneration and Nomination Committee Charter
- Employee Code of Conduct
- Securities Trading Policy
- Continuous Disclosure Policy
- Whistleblower Policy

DIVERSITY

Iluka acknowledges the Council's amendments to the Corporate Principles released on 30 June 2012 (Diversity Principles). Iluka reports on compliance with the Diversity principles in the Iluka Sustainability Report, which forms part of the Iluka Review, under the heading People.

Iluka seeks to attract and retain the best people while building and maintaining a diverse, sustainable and high achieving workforce. Iluka will continue to develop and implement programmes which foster workforce and Board diversity.

ROLE AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The Board operates in accordance with the broad principles set out in the Board Charter. The primary roles of the Board are:

- appointing and removing the Managing Director;
- monitoring the performance of the Managing Director and the senior management group;
- determining the strategic direction and financial objectives of Iluka and ensuring appropriate resources are available to management;
- monitoring the implementation and achievement of strategic and financial objectives; and
- reporting to shareholders and the investment community on the performance of the company.

The Board delegates the implementation of corporate strategy and day to day management to senior management, led by the Managing Director.

BOARD MEMBERSHIP

Details of the members of the Board, their date of appointment, qualifications and experience are set out in the Directors' Report under the heading Directors. The Remuneration and Nomination Committee considers and recommends potential directors to the Board based on the skills and experience they are able to bring to the Board. The Board seeks to ensure that its size and the blend of skills of the Directors are conducive to effective discussion and efficient decision-making.

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Iluka's Constitution requires Directors to retire from office no later than the third Annual General Meeting following their election or re-election. The Directors have adopted an internal guideline that the maximum preferred length of service is ten years.

DIRECTOR INDEPENDENCE

The Board recognises the importance of independent judgement in the decision-making process. The Board's Charter expressly requires that the majority of the Board be comprised of independent Directors and that the Chairman is an independent Director.

The Board Charter sets out the criteria for determining whether a non-executive Director is independent. The Board considers that all non-executive directors are independent.

The Board assesses the independence of new Directors upon appointment and reviews the independence of other Directors as appropriate.

MANAGING DIRECTOR

The Managing Director recommends policy, strategic direction and business plans for the Board's approval and is responsible for managing Iluka's day-today activities.

The Managing Director is selected and appointed by the Board and is subject to an annual performance review by the non-executive Directors.

CONFLICTS OF INTEREST

Each Director has an ongoing responsibility to:

- disclose to the Board details of transactions or interests, actual or potential that may create a conflict of interest; and
- if requested by the Board, within a reasonable period, take such necessary and reasonable steps to remove any conflict of interest.

If a Director cannot or will not remove a conflict of interest then the Director must, in accordance with the Corporations Act 2001, absent himself or herself from the room when discussion and/or voting occurs on matters about which the conflict relates.

DIRECTOR EDUCATION

Directors undergo an induction process upon appointment which includes a detailed briefing on Iluka, meeting key executives and touring operational sites. Thereafter, Directors undertake operational site visits and are provided with regular updates and briefings on current and emerging issues relating to the company and the industry.

Directors are encouraged to undertake continuing education relevant to the discharge of their duties. Iluka meets all reasonable costs of continuing Director education.

DIRECTORS' ACCESS TO INDEPENDENT ADVICE

A Director may, with prior written approval of the Chairman, obtain independent professional advice to assist the Director in fulfilling their responsibilities. Iluka meets reasonable expenses incurred in obtaining that advice.

BOARD MEETINGS

In 2012, the Board met on 14 occasions to conduct its duties. Ten were scheduled meetings and five were called on an ad hoc basis to deal with specific business matters. One of the scheduled meetings was dedicated primarily to strategic planning. The Chairman chaired all the meetings.

The non-executive Directors periodically meet independent of management to discuss relevant issues.

Directors' attendance at Board and Committee meetings are detailed on page 14 of this report.

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COMPANY SECRETARY

Mr Wilson is Iluka's Company Secretary. The Company Secretary is responsible for:

- advising the Board on corporate governance matters;
- management of the company secretarial function;
- attending all Board and Board committee meetings and taking minutes; and
- communication with the ASX.

COMMITTEES OF THE BOARD

The Board has established two committees: the Remuneration and Nomination Committee and the Audit and Risk Committee. Each committee functions under a specific charter and is comprised wholly of independent, non-executive Directors. The structure and membership of these committees are reviewed periodically. Each committee reviews its charter on an annual basis. Unless expressly delegated by the Board to a committee, a committee submits all decisions of that committee to the full Board as recommendations to the Board.

REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee is responsible for providing assistance and recommendations to the Board in relation to:

- development, review and implementation of the remuneration strategy of Iluka;
- remuneration of executives and non-executive Directors;
- performance of the Managing Director and senior executives;
- succession planning for key roles to ensure a diverse range of candidates; and
- assessment, composition and succession of the Board.

The Remuneration and Nomination Committee's consists of the following independent, non-executive Directors: Mr Osborn (Chairman), Ms Seabrook, Mr Rezos, Mr Ranck and Mr Pizzey. Details of Directors attendance at Remuneration and Nomination Committee meetings in 2012 are set out on page 14 of the Annual Report.

Comprehensive details of the processes and principles underlying the work of the Remuneration and Nomination Committee are discussed in the Remuneration Report appearing on pages 16 to 36 of this Report.

For further information on the scope and responsibilities of the Remuneration and Nomination Committee, please refer to the copy of the Remuneration and Nomination Committee Charter available in the Governance section of the Iluka website.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee's role is to assist the Board to fulfil its responsibilities in relation to Iluka's accounts, external reporting and risk. This is achieved by ensuring that appropriate processes are in place in relation to:

- the integrity of financial reporting;
- the adequacy of the control environment;
- the process for the management of risk;
- the scope and performance of the internal audit function; and
- the independence and performance of the external audit function.

The Audit and Risk Committee consists of the following independent, non-executive Directors: Ms Seabrook (Chair), Mr Rezos, Mr Turner and Mr Martin. Details of Directors attendance at Audit and Risk Committee meetings in 2012 are set out on page 14 of the Annual Report.

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For further information on the scope and responsibilities of the Audit and Risk Committee, please refer to the copy of the Audit and Risk Committee Charter available in the Governance section of the Iluka website.

BOARD AND COMMITTEE PERFORMANCE EVALUATION

The Board carries out an annual review of its performance in meeting key responsibilities. This review process, which is periodically facilitated by external consultants, serves to identify any issues and initiatives for improving the functioning and performance of the Board. This annual review was last undertaken in December 2012.

Each of the Board's committees also conducts an annual self-assessment of their performance in meeting their key responsibilities. These reviews serve to identify strengths, weaknesses and areas for improvement. The Remuneration and Nomination Committee and the Audit and Risk Committee completed their respective self-assessments in December 2012.

CORPORATE REPORTING

The Managing Director and Chief Financial Officer have made the following certifications to the Board with respect to the 2012 accounts:

- that Iluka's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of Iluka and group and are in accordance with relevant accounting standards; and
- that the above statement is founded on a sound system of risk management and internal compliance and control, which implements the policies adopted by the Board, and that Iluka's risk management and internal control is operating efficiently and effectively in all material respects.

AUDIT FUNCTIONS

PricewaterhouseCoopers (PwC) is Iluka's external audit provider. During 2012, Iluka complied with its internal guidelines, which require the fees paid to external auditors for non-audit-related work to remain below 50 per cent of the audit-related fees without pre-approval by the Audit and Risk Committee.

The external auditor will attend the Annual General Meeting and will be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

Iluka has an internal audit function that assists the Board by undertaking an objective evaluation of the Iluka's internal control framework. The Audit and Risk Committee is responsible for approving the programme and scope of internal audit reviews to be conducted each financial year. An assessment of the quality and focus of the internal audit function is undertaken periodically as part of the review of Audit and Risk Committee effectiveness.

ETHICAL STANDARDS AND CONDUCT

Iluka has an Employee Code of Conduct, which identifies the standard of ethical conduct expected of Iluka employees. In addition, the Board has specifically adopted a Director's Code of Conduct, which establishes guidelines for their conduct in carrying out their duties.

Iluka has also established a Whistleblower Policy to provide for the confidential reporting of issues of unacceptable or undesirable conduct. The policy provides protection against reprisal to the whistleblower.

Copies of the Employee Code of Conduct, Director's Code of Conduct and the Whistleblower Policy can be found in the corporate governance section of the Iluka website.

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SECURITIES TRADING POLICY

Iluka has a policy on the trading of Iluka's securities (shares, options, warrants, etc.) by Directors and employees. The Board believes it is in the best interests of shareholders for Directors and employees to own shares in Iluka, subject to strict controls and guidelines on share trading.

The Securities Trading Policy prohibits Directors and employees from trading in Iluka's securities if they are in possession of price-sensitive information, which is not generally available to the market. In addition to this general prohibition, senior management and those employees involved in preparing Iluka's statutory financial information (Restricted Employees) and Directors are prohibited from trading in securities in the company during the period from the end of the half or full financial year and the release of the results for the relevant period.

Prior to trading in Iluka's securities, Directors must seek approval from the Chairman and Restricted Employees must seek approval from the Company Secretary.

A copy of Iluka's Securities Trading Policy is located in the Governance section of the Iluka website.

CONTINUOUS DISCLOSURE

Iluka has developed a comprehensive Continuous Disclosure Policy to ensure compliance with the disclosure obligations under the Corporations Act and the ASX Listing Rules and to providing accurate information to all shareholders and market participants. Iluka has established a Disclosure Committee comprising the Company Secretary, Chief Financial Officer and the General Manager, Investor Relations. The Committee reports to the Managing Director. The Committee's responsibilities include determining if disclosure is required, ensuring the Managing Director is advised of and approves all information disclosed to the market and ensuring the Board is kept fully informed of the Disclosure Committee's determinations and all information subsequently disclosed to the market. The Company Secretary is convenor of the Disclosure Committee and has primary responsibility for administration of the Continuous Disclosure Policy. The Company Secretary's responsibilities include ensuring compliance with Iluka's continuous disclosure obligations and overseeing and co-ordinating information disclosure to the ASX.

A copy of Iluka's Continuous Disclosure Policy is available in the Governance section of the Iluka website.

SHAREHOLDER COMMUNICATION

Iluka is committed to providing accurate information to all shareholders and the market. Iluka communicates with shareholders through releases to the ASX, Iluka's website, information distributed direct to shareholders and the general meetings of Iluka.

At the Annual General Meeting, shareholders elect the Directors and have the opportunity to express their views, ask questions about company business and vote on items of business for resolution by shareholders.

More information on shareholder communication is contained in Iluka's Continuous Disclosure Policy available in the Governance section of the Iluka website.

Iluka Resources Limited ABN 34 008 675 018
Financial Report - 31 December 2012

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Contents

These financial statements are the consolidated financial statements of the group consisting of Iluka Resources Limited and its subsidiaries. The financial statements are presented in the Australian currency.

Iluka Resources Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Iluka Resources Limited
Level 23
140 St George's Terrace
Perth WA 6000

A description of the nature of the group's operations and its principal activities is included in the review of operations and activities in the Directors' Report, both of which are not part of these financial statements.

The financial statements were authorised for issue by the Directors on 20 March 2013. The Directors have the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial reports and other information are available at www.iluka.com

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	Notes	**2012 $m**	2011 $m
Revenue	5	**1,150.2**	1,631.4
Other income	6	**10.3**	7.9
Expenses	7	**(607.1)**	(842.8)
Interest and finance charges paid/payable		**(16.6)**	(15.2)
Rehabilitation and restoration unwind		**(24.6)**	(20.6)
Total finance costs	7	**(41.2)**	(35.8)
Profit before income tax		**512.2**	760.7
Income tax expense	8	**(149.0)**	(218.9)
Profit for the year attributable to owners		**363.2**	541.8
		Cents	Cents
Earnings per share attributable to ordinary equity holders			
Basic earnings per share	28	**87.1**	130.1
Diluted earnings per share	28	**86.7**	129.4

The above consolidated income statement should be read in conjunction with the accompanying notes.

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	Notes	**2012 $m**	2011 $m
Profit for the year		**363.2**	541.8
Other comprehensive income			
Currency translation of US operation	19(a)	**(0.4)**	(0.2)
Hedge of net investment in US operation, net of tax	19(a)	**0.5**	0.4
Actuarial losses on defined benefit plans, net of tax	19(c)	**(1.7)**	(4.4)
Other comprehensive loss for the year		**(1.6)**	(4.2)
Total comprehensive income for the year attributable to owners		**361.6**	537.6

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

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	Notes	**2012 $m**	2011 $m
ASSETS			
Current assets			
Cash and cash equivalents	9	**54.3**	320.7
Receivables	10	**139.5**	256.1
Inventories	11	**522.6**	376.2
Current tax receivable		**-**	0.5
Total current assets		**716.4**	953.5
Non-current assets			
Inventories	11	**257.9**	49.9
Property, plant and equipment	12	**1,430.3**	1,430.4
Intangible assets	13	**6.3**	6.7
Deferred tax assets	14	**15.7**	13.3
Total non-current assets		**1,710.2**	1,500.3
Total assets		**2,426.6**	2,453.8
LIABILITIES			
Current liabilities			
Payables	15	**87.3**	136.7
Interest-bearing liabilities	16	**56.9**	-
Provisions	17	**64.1**	82.0
Current tax payable		**128.4**	145.7
Total current liabilities		**336.7**	364.4
Non-current liabilities			
Interest-bearing liabilities	16	**93.3**	164.0
Provisions	17	**407.3**	377.7
Deferred tax liabilities	14	**22.2**	13.0
Total non-current liabilities		**522.8**	554.7
Total liabilities		**859.5**	919.1
Net assets		**1,567.1**	1,534.7
EQUITY			
Contributed equity	18	**1,104.8**	1,102.0
Reserves	19	**18.1**	16.4
Retained profits	19	**444.2**	416.3
Total equity		**1,567.1**	1,534.7

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

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	Notes	Attributable to owners of Iluka Resources Limited			
		Contributed equity $m	**Reserves $m**	**Retained earnings $m**	**Total equity $m**
Balance at 1 January 2011		**1,108.3**	**20.4**	**(4.1)**	**1,124.6**
Profit for the year		-	-	541.8	541.8
Currency translation of US operation	19(a)	-	(0.2)	-	(0.2)
Hedge of net investment in US operation, net of tax	19(a)	-	0.4	-	0.4
Actuarial gains on retirement benefit obligations, net of tax	19(c)	-	-	(4.4)	(4.4)
Other comprehensive income		-	0.2	(4.4)	(4.2)
Total comprehensive income		**-**	**0.2**	**537.4**	**537.6**
Transactions with owners in their capacity as owners:					
Transfer of shares to employees, net of tax	18(c)	8.5	(8.5)	-	-
Purchase of treasury shares, net of tax	18(c)	(14.8)	-	-	(14.8)
Share-based payments, net of tax	19(a)	-	4.3	-	4.3
Dividends paid	19(c)	-	-	(117.0)	(117.0)
		(6.3)	(4.2)	(117.0)	(127.5)
Balance at 31 December 2011		**1,102.0**	**16.4**	**416.3**	**1,534.7**
Profit for the year		-	-	363.2	363.2
Currency translation of US operation	19(a)	-	(0.4)	-	(0.4)
Hedge of net investment in US operation, net of tax	19(a)	-	0.5	-	0.5
Actuarial losses on retirement benefit obligations, net of tax	19(c)	-	-	(1.7)	(1.7)
Transfer of asset revaluation reserve	19(a)	-	(0.1)	0.1	-
Other comprehensive income		-	-	(1.6)	(1.6)
Total comprehensive income		**-**	**-**	**361.6**	**361.6**
Transactions with owners in their capacity as owners:					
Transfer of shares to employees, net of tax	18(c)	5.3	(5.3)	-	-
Purchase of treasury shares, net of tax	18(c)	(2.5)	-	-	(2.5)
Share-based payments, net of tax	19(a)	-	7.0	-	7.0
Dividends paid	19(c)	-	-	(333.7)	(333.7)
		2.8	1.7	(333.7)	(329.2)
Balance at 31 December 2012		**1,104.8**	**18.1**	**444.2**	**1,567.1**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

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	Notes	**2012 $m**	2011 $m
Cash flows from operating activities			
Receipts from customers		**1,170.6**	1,455.2
Payments to suppliers and employees		**(801.9)**	(749.0)
		368.7	706.2
Interest received		**7.8**	5.1
Interest paid		**(8.5)**	(16.0)
Income taxes paid		**(159.1)**	(12.5)
Exploration expenditure		**(34.4)**	(23.6)
Mining Area C royalty receipts		**76.1**	90.3
Net cash inflow from operating activities	27	**250.6**	749.5
Cash flows from investing activities			
Payments for property, plant and equipment		**(167.3)**	(142.5)
Sale of property, plant and equipment		**1.4**	3.9
Net cash outflow from investing activities		**(165.9)**	(138.6)
Cash flows from financing activities			
Repayment of borrowings		**(86.7)**	(312.7)
Proceeds from borrowings		**81.7**	130.7
Purchase of treasury shares		**(3.5)**	(21.3)
Dividends paid		**(333.7)**	(117.0)
Debt refinance costs		**(8.8)**	-
Net cash outflow from financing activities		**(351.0)**	(320.3)
Net (decrease) increase in cash and cash equivalents		**(266.3)**	290.6
Cash and cash equivalents at 1 January		**320.7**	30.1
Effects of exchange rate changes on cash and cash equivalents		**(0.1)**	-
Cash and cash equivalents at 31 December	9	**54.3**	320.7

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

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Contents of the notes to the financial statements

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1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the group consisting of Iluka Resources Limited and its subsidiaries.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), Urgent Issues Group Interpretations and the *Corporations Act 2001*. Iluka Resources Limited is a for-profit entity for the purpose of preparing the financial statements. The consolidated financial statements of Iluka Resources Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These financial statements have been prepared under the historical cost convention except for financial assets and liabilities which are required to be measured at fair value.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Iluka Resources Limited (company or parent entity) as at 31 December 2012 and the results of all subsidiaries for the year then ended. Iluka Resources Limited and its subsidiaries together are referred to in this financial report as the group.

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

The group's Employee Share Schemes are administered through a trust. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the group. Shares in the company held by the trust are disclosed as treasury shares in the consolidated financial statements and deducted from contributed equity.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Managing Director.

(d) Revenue recognition

Mineral sands

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, duties and taxes paid.

Product sales are recognised as revenue when there has been a passing of risk to a customer, and;

- the product is in a form suitable for delivery and no further processing is required by, or on behalf of, the group;
- the quantity, quality and selling price of the product can be determined with reasonable accuracy; and
- the product has been dispatched to the customer and is no longer under the physical control of the group, or the customer has formally acknowledged legal ownership of the product including all inherent risks, albeit that the product may be stored in facilities the group controls. These products are clearly identifiable and ready for delivery to the buyer at the time the sale is recognised.

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1 Summary of significant accounting policies (continued)

Gains and losses, including premiums paid or received, in respect of forward sales, options and other deferred delivery arrangements which hedge anticipated revenues from future production, are deferred and included in sales revenue in accordance with note 1(l).

Mining Area C royalty income and amortisation of royalty asset

Royalty income is recognised on an accrual basis. Royalty income is received on a quarterly basis and any under or over accrual applicable to previously recognised royalty income is adjusted for based on the receipt of the royalty income entitlement. The royalty entitlement asset is an intangible asset and is amortised on a straight-line basis over its estimated useful life of 25 years, of which 16 years is remaining.

Interest income

Interest income is recognised in the income statement as it accrues, using the effective interest method.

(e) Income tax

Current income tax

Current tax assets and liabilities for the current and prior year are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current year's taxable income. The tax rates and tax laws used are those that are enacted or substantively enacted by the reporting date in the countries where the group operates and generates taxable income.

Deferred income tax

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them:

- arise from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting nor taxable profit or loss;
- are associated with investments and loans in controlled entities and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability settled, based on tax rates (and laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity and not in the income statement.

Deferred tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxation authority.

(f) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

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1 Summary of significant accounting policies (continued)

(g) Business combinations

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange. Acquisition related costs are expensed as incurred.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Costs relating to the acquisition of new areas of interest are capitalised as either exploration and evaluation expenditure, development properties or mine properties depending on the stage of development reached at the date of acquisition. Refer to note 1(n) for more information.

(h) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within interest-bearing liabilities in current liabilities on the balance sheet.

(i) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are generally due for settlement no more than 90 days from the date of recognition.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement.

(j) Inventories

Inventories are valued at the lower of weighted average cost and estimated net realisable value.

Weighted average cost includes direct costs and an appropriate portion of fixed and variable overhead expenditure, including depreciation and amortisation.

Net realisable value is the amount estimated to be obtained from sale in the normal course of business, less any anticipated costs of completion and the estimated costs necessary to make the sale.

Consumable stores include ilmenite acquired from third parties, coal and other inputs to the synthetic rutile process.

A regular and ongoing review is undertaken to establish the extent of surplus obsolete or damaged stores, which are then valued at estimated net realisable value.

Inventories expected to be sold within twelve months after the balance sheet date are classified as current assets, all other inventories are classified as non-current assets.

(k) Foreign currency translation

(i) Functional and presentation currency

The consolidated financial statements are presented in Australian dollars, which is the company's functional and presentation currency.

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1 Summary of significant accounting policies (continued)

(ii) Transactions and balances

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses, including those from the translation at balance date of foreign currency denominated monetary assets and liabilities, are recognised in profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

The fair value of any forward exchange contracts entered into is determined using forward exchange market rates at the balance sheet date.

(iii) Group companies

The results and financial position of the United States (US) entities that have a US dollar functional currency are translated into AUD as follows:

- assets and liabilities are translated at the exchange rate at balance date;
- income and expenses for each month are translated at average exchange rates; and
- all resulting exchange differences are recognised in the foreign currency translation reserve within other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

(l) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at balance date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); (2) hedges of highly probable forecast transactions (cash flow hedges); or (3) hedges of a net investment in a foreign operation (investment hedges).

At the inception of the transaction, the group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The group also documents its assessment, both at transaction inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

For fair value hedges, changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in profit or loss within finance costs, together with changes in fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in profit or loss within other income or other expenses. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

No derivatives were designated as cash flow hedges in the current or prior years.

For net investment hedges, any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as other income. Gains and losses accumulated in equity are reclassified to profit or loss on disposal of the foreign operation.

For derivatives that do not qualify for hedge accounting, changes in the fair value are recognised immediately in profit or loss.

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1 Summary of significant accounting policies (continued)

(m) Loans and receivables

Loans and receivables are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets.

(n) Exploration, evaluation and development expenditure

Exploration and evaluation expenditure is accumulated separately for each area of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure.

Expenditure is carried forward when incurred in areas for which the group has rights of tenure and where economic mineralisation is indicated, but activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable ore reserves and active and significant operations in relation to the area are continuing. Each such project is regularly reviewed. If the project is abandoned or if it is considered unlikely the project will proceed to development, accumulated costs to that point are written off immediately.

Each area of interest is limited to a size related to a known mineral resource capable of supporting a mining operation.

Identifiable exploration assets acquired from another mining company are recognised as assets at their cost of acquisition.

Projects are advanced to development status when it is expected that accumulated and future expenditure on development can be recouped through project development or sale. Capitalised exploration is transferred to Mine Reserves once the related ore body achieved JORC reserve status (reported in accordance with JORC, 2004) and has been included in the life of mine plan.

All of the above expenditure is carried forward up to commencement of operations at which time it is amortised in accordance with the policy stated in note 1(o).

(o) Property, plant and equipment

Land and buildings are shown at historical cost, less subsequent depreciation for buildings. Land is not depreciated. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The cost also includes the present value of the estimated costs of dismantling and removing the asset and restoring the site on which it is located.

Direct costs associated with the commissioning of plant and equipment are capitalised and included in property, plant and equipment. Pre-commissioning costs in testing the processing plant are also capitalised.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. As set out in note 1(v), in the case of provisions for assets which remain in use, adjustments to the carrying value of the provision are offset by a change in the carrying value of the related asset.

Depreciation and amortisation of mine buildings and mine specific machinery and equipment is provided for over the life of the relevant mine or asset, whichever is the shorter. Mine specific machinery and equipment refers to machinery and equipment for which the economic useful life cannot extend beyond the life of its host mine. Depreciation and amortisation of mine buildings and other non-mine specific plant and equipment and reserves and development is determined on a straight-line basis as the consumption of economic benefits is not expected to vary over the operational life of the asset. Depreciation of mine specific plant and reserves and development is determined on a unit of production basis to more appropriately match depreciation charges with expected pattern of consumption of economic benefit of the asset.

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1 Summary of significant accounting policies (continued)

The basis of depreciation of each asset is reviewed annually and changes to the basis of depreciation are made if the straight line or units of production basis is no longer considered to represent the expected pattern of consumption of economic benefits. The expected useful lives are as follows:

- Mine buildings	the shorter of applicable mine life and 25 years
- Mine specific machinery and equipment	the applicable mine life
- Mine specific plant	units of production
- Reserves and development	units of production
- Other non-mine specific plant and equipment	3-25 years

The reserves and life of each mine and the remaining useful life of each class of asset are reassessed at regular intervals and the depreciation rates adjusted accordingly.

(p) Maintenance and repairs

Certain items of plant used in the primary extraction, separation and secondary processing of extracted minerals are subject to a major overhaul on a cyclical basis. Costs incurred during such overhauls are characterised as either in the nature of capital or in the nature of repairs and maintenance. Work performed may involve:

(i) the replacement of a discrete sub-component asset, in which case an asset addition is recognised and the book value of the replaced item is written off; and

(ii) demonstrably extending the useful life or functionality of an existing asset, in which case the relevant cost is added to the capitalised cost of the asset in question.

Costs incurred during a major cyclical overhaul which do not constitute (i) or (ii) above, are written off as repairs and maintenance as incurred. Costs qualifying for capitalisation under (i) or (ii) above are subsequently depreciated in accordance with note 1(o).

General repairs and maintenance which are not characterised as part of a major cyclical overhaul are expensed as incurred.

(q) Non-current assets constructed by the group

The cost of non-current assets constructed by the group includes the cost of all materials used in construction, direct labour on the project, project management costs, borrowing costs incurred during construction of assets with a construction period greater than twelve months and an appropriate proportion of variable and fixed overheads.

Borrowing costs included in the cost of non-current assets are those costs that would have been avoided if the expenditure on the construction of the assets had not been made and are capitalised in accordance with the policy stated in note 1(u).

(r) Recoverable amount of non-current assets

Depreciable assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell (FVLCS) and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash Generating Units (refer note 2)). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(s) Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

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1 Summary of significant accounting policies (continued)

(t) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred and are subsequently measured at amortised cost. Any difference between the net proceeds and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(u) Borrowing costs

Borrowing costs include interest on borrowings, including amounts paid or received on interest rate swaps, amortisation of deferred borrowing costs, and finance lease charges.

Borrowing costs are recognised as expenses in the period in which they are incurred, except where they are included in the costs of qualifying assets which take more than 12 months to prepare for their intended use.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year. No borrowing costs were capitalised in 2012 or 2011.

(v) Rehabilitation and mine closure costs

The group has obligations to dismantle, remove, restore and rehabilitate certain items of property, plant and equipment.

The cost of an asset includes the present value of the estimated costs of dismantling and removing the asset and restoring the site on which it is located.

A provision is raised for the present value of the estimated cost of settling the rehabilitation and restoration obligations existing at balance date. Those costs that relate to rehabilitation and restoration obligations arising from the production process are recognised in production costs.

As the value of the provision represents the discounted value of the present obligation to restore, dismantle and rehabilitate, the increase in the provision due to passage of time is recognised as a finance cost.

The provisions are reassessed at least annually. A change in any of the assumptions used to determine the provisions could have a material impact on the carrying value of the provision. In the case of provisions for assets which remain in use, adjustments to the carrying value of the provision are offset by a change in the carrying value of the related asset. Where the provisions are for assets no longer in use, any adjustment is reflected directly in profit or loss.

(w) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised as current payables. Non-accumulating sick leave, parental leave and other ex-gratia leave is recognised as an expense when taken.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

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1 Summary of significant accounting policies (continued)

(iii) Termination benefits

Liabilities for employee termination benefits associated with restructurings are brought to account when the group is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal.

(iv) Retirement benefit obligations

The group has a defined benefit section and an accumulation type benefits section of the ING Master Trust in Australia, as well as separate defined benefit plans for US employees. The defined benefit plans provide defined lump sum benefits based on years of service and final average salary. The accumulation type benefits section receives fixed contributions from group companies and the group's legal or constructive obligation is limited to these contributions.

A liability or asset in respect of defined benefit superannuation plans is recognised in the balance sheet and is measured as the present value of the defined benefit obligation at the reporting date, plus actuarial gains (less actuarial losses), less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they occur.

Past service costs are recognised immediately in profit or loss, unless the changes to the superannuation fund are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Future taxes that are funded by the group and are part of the provision of the existing benefit obligation (e.g. taxes on investment income and employer contributions) are taken into account in measuring the net liability or asset.

Contributions to the accumulation fund are recognised as an expense as they become payable.

(v) Share-based payments

Share-based compensation benefits are provided to employees via incentive plans, the Directors', Executives and Employees Share Acquisition Plan and the Employee Share Ownership scheme. Information relating to these schemes is set out in note 29 with additional information in the Remuneration Report.

The fair value of entitlements offered has been determined in accordance with the measurement criteria of AASB 2 *Share-based Payment*.

The fair value of shares is determined based on market prices at grant date, taking into account the terms and conditions upon which those equity instruments were granted. The fair value is recognised as an expense through profit or loss on a straight-line basis between the grant date and the vesting date for each respective plan.

The fair value of share rights is independently determined using a Monte Carlo simulation that takes into account the exercise price, the term of the share right, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate of the term of the share right. The fair value of the Long Term Incentive Plan (LTIP - TSR tranche) also takes into account the company's predicted share prices against the comparator group performance at vesting date.

A credit to the share-based payments expense arises where unvested entitlements lapse on resignation or the non-fulfillment of market vesting conditions.

Payroll tax payable on the grant of restricted shares or share rights is recognised as a component of the share-based payments expense when paid.

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1 Summary of significant accounting policies (continued)

Shares provided to employees under the Employee Share Ownership scheme are purchased on-market, with the purchase cost being recognised as an employee benefits expense.

(x) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases (refer to note 25). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(y) Contributed equity

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands, every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(z) Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at the balance sheet date.

(aa) Carbon emissions

Carbon emission units granted by the Australian Government are recognised at nil value. Carbon emission units purchased for compliance purposes under the Australian Carbon Pricing Mechanism are recognised at cost.

An emissions liability is recognised as a liability when actual emissions exceed the emission units granted by the Australian Government. Any liability recognised is measured at the value of the purchased units held, with any excess liability measured at the current market value of carbon units at the reporting date. The movement in the liability is recognised in the income statement.

(ab) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares including share rights, and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(ac) Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest hundred thousand dollars, or in certain cases, the nearest thousand dollars and the nearest dollar.

(ad) Parent entity financial information

The financial information for the parent entity, Iluka Resources Limited, disclosed in note 30 has been prepared on the same basis as the consolidated financial statements, except as set out below.

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1 Summary of significant accounting policies (continued)

Investments in subsidiaries

Investments in subsidiaries are accounted for at cost.

Tax consolidation legislation

Iluka Resources Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 January 2004. On adoption of the tax consolidation legislation, the entities in the tax consolidation group entered into a tax sharing agreement which limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Iluka Resources Limited.

(ae) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2012 reporting periods. The group's assessment of the impact of those new standards and interpretations considered relevant to the group is set out below. The group does not intend to early adopt any of the new standards or interpretations.

(i) AASB Interpretation 20 *Stripping Costs in the Production Phase of Surface Mine* and AASB 2011-12 *Amendments to Australian Standards arising from Interpretation 20* (effective 1 January 2013)

Interpretation 20 sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. It states that these costs can only be recognised as an asset if they can be attributed to an identifiable component of the ore body, can be measured reliably and it is probable that future economic benefits will flow to the entity. The costs will be amortised over the life of the identified ore body. Application of the interpretation is not expected to have a material impact on group's financial statements.

(ii) AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (effective 1 January 2013)

This suite of five new and amended standards addresses the accounting for joint arrangements, consolidated financial statements and associated disclosures.

Application of AASB 10, AASB 11, AASB 127 and AASB 128 are not expected to have a material impact on the entity's financial statements. Application of AASB 12 will not affect any of the amounts recognised in the financial statements but may impact the type of information disclosed.

(iii) AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective from 1 January 2015)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The group has not yet determined the extent of the impact, if any.

(iv) AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013)

AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. It includes guidance on how to determine fair value and expands the disclosure requirements for all assets and liabilities carried at fair value. The new standard it not expected to have a material affect on the entity's financial statements.

(v) AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013)

These amendments remove the individual key management personnel disclosure requirements from AASB 124 *Related Party Disclosures*. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements.

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1 Summary of significant accounting policies (continued)

(vi) AASB 2011-9 *Amendments to Australian Accounting Standards - Presentation of Items in Other Comprehensive Income* (effective 1 July 2012)

In September 2011, the AASB made an amendment to AASB 101 *Presentation of Financial Statements* which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any amounts recognised in the financial statements but will impact the type of information disclosed.

2 Critical accounting estimates and judgements

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(i) Impairment of assets

The recoverable amount of each Cash Generating Unit (CGU) is determined as the higher of value-in-use and fair value less costs to sell. Where there is no binding sale agreement, fair value less costs to sell is based on the best information available to reflect the amount the group could receive for the CGU in an arms length transaction and has been estimated on the basis of discounted present value of the future cash flows.

The estimates of future cash flows for each CGU are based on significant assumptions including:

- estimates of the quantities of mineral reserves and ore resources for which there is a high degree of confidence of economic extraction and the timing of access to these reserves and ore resources;
- future production levels and the ability to sell that production;
- future product prices based on the group's assessment of short and long term prices for each of the key products;
- future exchange rates for the Australian dollar compared to the US dollar using external forecasts by recognised economic forecasters;
- future cash costs of production, sustaining capital expenditure, rehabilitation and mine closure; and
- the asset specific discount rate applicable to the CGU.

Given the nature of the group's mining activities, future changes in assumptions upon which these estimates are based may give rise to material adjustments to the current or prior years. This could lead to a reversal of part, or all, of impairment charges recorded in the current or prior years, or the recognition of new impairment charges in the future.

Due to the nature of the assumptions and their significance to the assessment of the recoverable amount of each CGU, relatively modest changes in one or more assumptions could require a material adjustment (negative or positive) to the carrying value of the related non-current assets within the next reporting period.

The inter-relationships of the significant assumptions upon which estimated future cash flows are based, however, are such that it is impracticable to disclose the extent of the possible effects of a change in a key assumption in isolation.

A total of $136.7 million (2011: $136.7 million) of impairments from prior periods remain, all of which are attributable to the Mine Reserves and Development component of Property Plant and Equipment. The prior impairments may be subject to reversal in the event of the ore bodies to which they relate being re-instated in the group's mine plans.

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2 Critical accounting estimates and judgements (continued)

(ii) Rehabilitation and mine closure provisions

These provisions represent the discounted value of the present obligation to restore, dismantle and rehabilitate certain items of property, plant and equipment. The discounted value reflects a combination of management's assessment of the nature and extent of the work required, the future cost of performing the work required, the timing of the cash flows and the discount rate.

The total rehabilitation and mine closure provision of $444.5 million (2011: $426.9 million) includes $312.6 million (2011: $243.1 million) for assets no longer in use or for obligations arising from production process outputs. Changes to the provisions for assets no longer in use are charged to profit or loss and amounted to $8.3 million (2011: $34.8 million). The charges are reported within rehabilitation and holding costs for closed sites in note 7.

3 Financial risk management

The group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the group.

Financial risk management is managed by a central treasury department under policies approved by the Board of Directors.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency.

The group operates internationally and is exposed to foreign exchange risk arising predominantly from currency exposures to the US dollar. Balance sheet translation risk is managed by borrowing in US dollars to provide a hedge for the net US dollar investment in the US operation and the US dollar receivables from Australian sales.

The group's exposure to USD foreign currency risk at the end of the reporting period, expressed in Australian dollars, was as follows:

	31 December 2012 $m	31 December 2011 $m
Cash and cash equivalents	**16.7**	1.2
Receivables	**93.2**	198.0
Payables	**(5.3)**	(6.6)
Interest-bearing liabilities, net of swap	**(81.8)**	(88.7)
	22.8	103.9

3 Financial risk management (continued)

Group Sensitivity

The average US dollar exchange rate applied during the year was 1.0358 (2011: 1.0323). The US dollar spot rate at 31 December 2012 was 1.0403 (31 December 2011: 1.0152).

At 31 December 2012, if the foreign currency exchange rates strengthened/(weakened) against the functional currency by 10 per cent (2011: 10 per cent), with all other variables held constant, the group's post-tax profit for the year and equity would have moved as per the table below.

	-10%		+10%	
	Strengthen		Weaken	
	Profit $m	Equity $m	Profit $m	Equity $m
31 December 2012	1.8	(1.5)	(1.5)	1.2
31 December 2011	8.3	(1.5)	(6.7)	1.3

(ii) Interest rate risk

Interest rate risk arises from the group's borrowings and cash deposits. When managing interest rate risk the group seeks to mitigate the interest rate exposure attributable to borrowings by utilising a blend of floating and fixed rate debt. During 2012 and 2011, the group's borrowings at variable rates were denominated in Australian dollars and US dollars.

As at 31 December 2012 there were no outstanding term deposits.

Borrowings at variable rates expose the group to cash flow interest rate risk, while borrowings at fixed rates expose the group to fair value interest rate risk.

At 31 December 2012, if interest rates for the full year were -/+ 1 per cent from the year-end rate with all other variables held constant, post-tax profit for the year would have been $1.7 million lower/ $1.5 million higher (2011: $1.1 million higher/lower). The sensitivity is based on net debt at 31 December 2012 assuming that the net debt balance was constant throughout the year. The interest charges in note 7 of $11.5 million (2011: $12.1 million) reflect interest-bearing liabilities in 2012 and 2011 that range between $67.5 million and $356.1 million.

(b) Credit risk

Credit risk arises from cash and cash equivalents, as well as credit exposure to customers.

The group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The group also maintains an insurance policy to assist in managing the credit risk of its customers and therefore has no significant concentrations of credit risk. Of the total trade receivables balance of $111.9 million, $58.0 million is covered by an insurance policy and $12.0 million by letters of credit. These receivables are considered low risk. Derivative counterparties and cash transactions are limited to high credit quality financial institutions and policies limit the amount of credit exposure to any one financial institution.

The group has policies in place to ensure that cash deposits are held with counterparties with an appropriate credit rating. Credit exposure limits are approved by the Board based on credit and sovereign ratings.

(c) Liquidity risk

Liquidity risk management involves maintaining sufficient cash or undrawn credit facilities to meet the operating requirements of the business. This is managed through committed undrawn facilities as shown in note 16 and prudent cash flow management.

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3 Financial risk management (continued)

Maturities of financial liabilities

The tables below analyses the group financial liabilities and net settled derivative financial instruments into maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

At 31 December 2012	**Weighted average rate**	**Less than 1 year $m**	**Between 1 and 2 years $m**	**Between 2 and 5 years $m**	**Total contractual cash flows $m**	**Carrying amount liabilities $m**
	%					
Non-derivatives						
Interest-bearing variable rate	**2.3**	**-**	**-**	**82.2**	**82.2**	**81.8**
Interest-bearing fixed rate	**4.3**	**58.9**	**1.0**	**19.7**	**79.6**	**76.1**
Total non-derivatives		**58.9**	**1.0**	**101.9**	**161.8**	**157.9**
Derivatives						
Interest rate swaps (net receivable)		**0.1**	**-**	**-**	**0.1**	**-**
At 31 December 2011						
Non-derivatives						
Interest-bearing variable rate	1.3	1.1	88.9	-	90.0	88.7
Interest-bearing fixed rate	5.0	3.1	58.9	21.3	83.3	76.6
Total non-derivatives		4.2	147.8	21.3	173.3	165.3
Derivatives						
Interest rate swaps (net receivable)		0.7	0.3	-	1.0	-

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4 Segment information

(a) Description of segments

Operating segments are reported in a manner that is consistent with the internal reporting provided to the Managing Director, who is considered the chief operating decision maker, for the purpose of making decisions regarding the allocation of resources and the monitoring of performance. Cash, debt and tax balances are managed at a group level together with exploration and other corporate activities and are not allocated to segments.

The segments have changed from those reported at 31 December 2011. The mineral sands operations in Australia have become increasingly integrated over the past two years and are now managed as a single operation. Accordingly, operational performance of the Eucla/Perth Basin and Murray Basin operations are reported as a combined Australia (AUS) segment whereas in the 2011 financial statements they were reported separately. Comparative information has been presented in accordance with the 2012 classifications.

Australia (AUS) comprises the integrated mineral sands mining and processing operations in Victoria, Western Australia and South Australia. Material is mined from various deposits in the South West and Mid West of Western Australia (Perth Basin), together with the Jacinth-Ambrosia deposit in South Australia (Eucla Basin) and several deposits in Victoria (Murray Basin). The mined material is processed predominantly at facilities in the South West and Mid West of Western Australia and the Murray Basin to produce saleable products.

United States (US) comprises the integrated mineral sands mining and processing operations in Virginia and rehabilitation obligations in Florida.

Mining Area C (MAC) comprises a deferred consideration iron ore royalty interest over certain mining tenements in Australia operated by BHP Billiton Iron Ore.

Where finished product capable of sale to a third party is transferred between operating segments, the transfers are made at arms length prices. Any transfers of intermediate products between operating segments are made at cost. During 2012, $3.0 million of saleable material was transferred from the US to Australia at arms length prices. This transfer is included within the results below. No such transfers were made during 2011.

(b) Segment information

2012	**AUS** $m	**US** $m	**MAC** $m	**Total** $m
Total segment sales	958.2	111.6	-	1,069.8
Total segment result	492.0	60.1	72.3	624.4
Segment assets	2,217.6	98.1	21.8	2,337.5
Segment liabilities	462.9	67.5	-	530.4
Depreciation and amortisation expense	192.6	7.0	0.4	200.0
Additions to non-current segment assets	388.3	20.2	-	408.5

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4 Segment information (continued)

2011	**AUS** $m	**US** $m	**MAC** $m	**Total** $m
Total segment sales to external customers	1,400.8	135.9	-	1,536.7
Total segment result	712.7	40.3	88.1	841.1
Segment assets	2,015.6	64.9	25.6	2,106.1
Segment liabilities	504.1	71.4	-	575.5
Depreciation and amortisation expense	211.4	10.4	0.4	222.2
Additions to non-current segment assets	187.7	1.4	-	189.1

Segment revenue is derived from sales to external customers domiciled in various geographical regions. Details of segment revenue by location of customers are as follows:

	2012 **$m**	2011 $m
Asia	**555.2**	745.5
Europe	**247.9**	442.6
North America	**251.5**	327.1
Australia	**0.6**	2.0
Other countries	**14.6**	19.5
Sale of goods	**1,069.8**	1,536.7

Revenue of $181.3 million and $135.9 million was derived from two external customers from mineral sands segments, which individually accounts for greater than 10 per cent of segment revenue (2011: revenues of $195.7 million was derived from one external customer from mineral sands segments).

Segment result is reconciled to the profit before income tax as follows:

	2012 **$m**	2011 $m
Segment result	**624.4**	841.1
Interest income	**7.7**	6.2
Other income	**7.3**	3.9
Restructure charges	**(2.0)**	-
Marketing and selling	**(12.5)**	(6.9)
Corporate and other costs	**(45.7)**	(35.5)
Depreciation	**(3.1)**	(2.4)
Technical support, product development and major projects	**(13.6)**	(11.9)
Exploration expenditure	**(29.5)**	(19.0)
Net foreign exchange losses	**(4.2)**	0.4
Interest and finance charges	**(16.6)**	(15.2)
Profit before income tax	**512.2**	760.7

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4 Segment information (continued)

Total segment assets and total segment liabilities are reconciled to the balance sheet as follows:

Segment assets	**2,337.5**	2,106.1
Corporate assets	**19.1**	13.2
Cash and cash equivalents	**54.3**	320.7
Deferred tax assets	**15.7**	13.3
Current tax receivable	**-**	0.5
Total assets as per the balance sheet	**2,426.6**	2,453.8

Segment liabilities	**530.4**	575.5
Corporate liabilities	**28.3**	20.9
Deferred tax liabilities	**22.2**	13.0
Current tax payable	**128.4**	145.7
Interest-bearing liabilities	**150.2**	164.0
Total liabilities as per the balance sheet	**859.5**	919.1

5 Revenue

	2012 $m	2011 $m
Sales revenue		
Sale of goods	**1,069.8**	1,536.7
Other revenue		
Mining Area C royalty income	**72.7**	88.5
Interest	**7.7**	6.2
	80.4	94.7
	1,150.2	1,631.4

6 Other income

	2012 $m	2011 $m
Net gain on disposal of property, plant and equipment	**1.3**	2.9
Sundry income	**9.0**	4.6
Foreign exchange gains	**-**	0.4
	10.3	7.9

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7 Expenses

	2012 $m	2011 $m
Expenses		
Cash costs of production	**583.5**	628.9
Depreciation/amortisation	**203.1**	224.6
Inventory movement	**(346.9)**	(147.7)
Cost of goods sold	**439.7**	705.8
Restructure and idle capacity charges	**14.8**	8.5
Rehabilitation and holding costs for closed sites	**9.8**	36.2
Impairment reversal	**-**	(35.6)
Government royalties	**19.6**	25.2
Marketing and selling costs	**30.2**	34.5
Corporate and other costs	**45.7**	35.5
Technical support, product development and major projects	**13.6**	13.7
Exploration expenditure	**29.5**	19.0
Foreign exchange losses	**4.2**	-
	607.1	842.8

	2012 $m	2011 $m
Expenses include:		
Defined contribution superannuation	**11.9**	8.9
Defined benefits superannuation	**1.1**	0.3
Employee benefits (excluding share-based payments)	**135.6**	115.8
Consumable stores written off	**0.8**	3.5
Share-based payments	**9.7**	7.7
Operating leases	**10.1**	9.1
Finance Costs		
Interest and finance charges paid/payable	**11.5**	12.1
Bank fees and similar charges	**2.8**	2.1
Amortisation of deferred borrowing costs	**2.3**	1.0
Rehabilitation and mine closure unwind	**24.6**	20.6
	41.2	35.8

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8 Income tax

(a) Income tax expense

	Notes	2012 $m	2011 $m
Current tax		**131.9**	156.6
Deferred tax	14	**16.2**	66.3
Under/(over) provided in prior years		**0.9**	(4.0)
		149.0	218.9

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2012 $m	2011 $m
Profit before income tax expense	**512.2**	760.7
Tax at the Australian tax rate of 30% (2011: 30%)	**153.7**	228.2
Tax effect of amounts not deductible (taxable) in calculating taxable income:		
Research and development credit	**(1.6)**	(1.3)
US tax concessions	**(0.6)**	(1.6)
Tax losses recognised for overseas operations	**(3.3)**	-
Other items	**2.0**	0.9
	150.2	226.2
Difference in overseas tax rates	**(2.1)**	(3.3)
Under/(over) provision in prior years	**0.9**	(4.0)
Income tax expense	**149.0**	218.9

(c) Tax expense relating to items of other comprehensive income

	2012 $m	2011 $m
Currency translation of US operation	**-**	0.1
Actuarial (losses)/gains on retirement benefit obligation	**0.6**	1.1
	0.6	1.2

(d) Tax losses

Unused capital losses for which no deferred tax asset has been recognised are approximately $87.7 million (2011: $87.7 million) (tax at the Australian rate of 30%: $26.3 million (2011: $26.3 million)). The benefit of these unused capital losses will only be obtained if sufficient future capital gains are made and the losses remain available under tax legislation.

(e) Franking Credits

	2012 $m	2011 $m
Franking credits available for future years	**133.5**	145.7

Franking credits for future years are based on a tax rate of 30 per cent (2011: 30 per cent). These amounts include franking credits of $126.7 million (2011: $145.7 million) that will arise from the payment of current income tax in Australia as provided for in these financial statements. The balance of the franking account at 31 December was $6.8 million (2011: nil).

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9 Cash and cash equivalents

	2012 $m	2011 $m
Cash at bank and in hand	**54.3**	15.9
Deposits at call	**-**	304.8
	54.3	320.7

Cash and deposits are at floating interest rates between 0.0 per cent and 3.45 per cent (2011: 0.0 per cent and 5.93 per cent) on US dollar and Australian dollar denominated deposits, at a weighted average interest rate of 2.03 per cent (2011: 5.66 per cent).

10 Receivables

	2012 $m	2011 $m
Trade receivables	**111.9**	215.5
Mining Area C royalty receivable	**15.5**	18.8
Other receivables	**7.8**	13.5
Prepayments	**4.3**	8.3
	139.5	256.1

No trade receivables are impaired. There is $0.9 million overdue (2011: $13.1 million), all of which is less than 28 days overdue (2011: $7.6 million). Due to the short term nature of these receivables, their carrying amount approximates fair value.

11 Inventories

	2012 $m	2011 $m
Current		
Consumable stores	**38.0**	43.0
Work in progress	**44.0**	172.3
Finished goods	**440.6**	160.9
Total current inventories	**522.6**	376.2
Non-current		
Work in progress	**213.9**	49.9
Finished goods	**44.0**	-
Total non-current inventories	**257.9**	49.9

All inventories are held at cost.

12 Property, plant and equipment

	Land & Buildings $m	Plant, Machinery & Equipment $m	Mine Reserves & Development $m	Exploration & Evaluation $m	Total $m
At 1 January 2011					
Cost	103.1	1,729.9	642.0	24.7	2,499.7
Accumulated depreciation*	(12.0)	(757.1)	(305.6)	-	(1,074.7)
Opening written down value	91.1	972.8	336.4	24.7	1,425.0
Additions	2.4	84.8	103.7	5.8	196.7
Disposals	(1.0)	(1.6)	-	-	(2.6)
Impairment reversal	2.6	21.8	11.2	-	35.6
Depreciation/amortisation	(2.8)	(105.4)	(115.8)	(0.2)	(224.2)
Foreign exchange	-	(0.1)	-	-	(0.1)
Transfers/reclassifications	-	10.0	(4.2)	(5.8)	-
Closing written down value	92.3	982.3	331.3	24.5	1,430.4
At 31 December 2011					
Cost	107.0	1,836.5	741.0	24.7	2,709.2
Accumulated depreciation*	(14.7)	(854.2)	(409.7)	(0.2)	(1,278.8)
Closing written down value	92.3	982.3	331.3	24.5	1,430.4
Year ended 31 December 2012					
Opening written down value	92.3	982.3	331.3	24.5	1,430.4
Additions	5.3	61.7	131.7	4.9	203.6
Disposals	(0.1)	-	-	-	(0.1)
Depreciation/amortisation	(3.3)	(107.8)	(91.6)	-	(202.7)
Foreign exchange	-	(0.8)	(0.1)	-	(0.9)
Transfers/reclassifications	-	-	0.4	(0.4)	-
Closing written down value	94.2	935.4	371.7	29.0	1,430.3
At 31 December 2012					
Cost	121.1	1,914.1	836.6	30.2	2,902.0
Accumulated depreciation*	(26.9)	(978.7)	(464.9)	(1.2)	(1,471.7)
Closing written down value	94.2	935.4	371.7	29.0	1,430.3

* Accumulated depreciation for Mine Reserves and Development includes cumulative impairment charges

Assets in the course of construction

Included in property, machinery and equipment and mine reserves and development are amounts totalling $26.3 million and $0.6 million respectively (2011: $75.5 million and $22.7 million respectively) relating to assets under construction which are currently not being depreciated as the assets are not ready for use.

Assets not being depreciated

Included in mine reserves and development are amounts totalling $58.9 million (2011: $98.4 million) which have not been depreciated as mining of the related area of interest has not yet commenced.

Rehabilitation

Additions in plant, machinery and equipment and mine reserves and development include changes in the provision for rehabilitation and mine closure totalling $34.9 million (2011: $51.1 million) (refer to note 17).

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13 Intangible assets

	2012 $m	2011 $m
MAC royalty asset		
Cost	**10.0**	10.0
Accumulated amortisation	**(3.7)**	(3.3)
Net written down value	**6.3**	6.7

14 Deferred tax

	2012 $m	2011 $m
Deferred tax asset:		
Deferred tax asset amounts recognised in profit or loss		
Employee benefits	**8.2**	6.9
Rehabilitation provisions	**129.5**	126.8
Tax revenue losses	**3.3**	-
Other	**4.6**	3.9
Gross deferred tax assets	**145.6**	137.6
Deferred tax asset amounts recognised directly in equity		
Share issue costs	**0.2**	1.0
Actuarial losses on retirement benefit obligations	**1.8**	1.1
	2.0	2.1
Amount offset to deferred tax liabilities pursuant to set-off provision	**(131.9)**	(126.4)
Net deferred tax assets	**15.7**	13.3
Deferred tax liability:		
Deferred tax liability amounts in profit or loss		
Depreciation/amortisation	**(123.0)**	(103.5)
Foreign currency exchange	**(5.1)**	(6.1)
Receivables	**(5.0)**	(6.2)
Inventory	**(19.6)**	(21.6)
Other	**(1.4)**	(2.0)
Gross deferred tax liabilities	**(154.1)**	(139.4)
Amount offset to deferred tax assets pursuant to set-off provision	**131.9**	126.4
Net deferred tax liabilities	**(22.2)**	(13.0)

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14 Deferred tax (continued)

	2012 $m	2011 $m
Movements in net deferred tax balance:		
Balance at 1 January	**0.3**	55.3
Credited to the income statement	**(16.2)**	(66.3)
Over provision in prior years	**7.6**	3.7
Charged directly to equity	**1.8**	7.6
Balance at 31 December	**(6.5)**	0.3

Deferred tax assets of $20.8 million (2011: $17.7 million) and deferred tax liabilities of $26.6 million (2011: $25.3 million) are expected to be recovered in less than 12 months.

15 Payables

	2012 $m	2011 $m
Trade payables	**25.4**	47.1
Accrued expenses	**46.0**	63.6
Annual leave payable	**11.2**	10.3
Government royalties payable	**4.7**	15.7
	87.3	136.7

16 Interest-bearing liabilities

Unsecured	**2012 $m**	2011 $m
Current		
Senior Notes 2003 (ii)	**56.9**	-
Non-current		
Multi Optional Facility Agreement (i)	**81.8**	-
Senior Notes 2003 (ii)	**19.2**	76.6
Syndicated Term Loan Facility (i)	**-**	88.7
Deferred borrowing costs	**(7.7)**	(1.3)
	93.3	164.0

(a) Financing arrangements

Total Facilities		
Multi Optional Facility Agreement	**800.0**	-
Senior Notes 2003	**76.1**	76.6
Syndicated Term Loan Facility	**-**	445.0
Working Capital Facility	**-**	49.3
	876.1	570.9
Used at balance date		
Multi Optional Facility Agreement	**81.8**	-
Senior Notes 2003	**76.1**	76.6
Syndicated Term Loan Facility	**-**	88.7
Working Capital Facility	**-**	-
	157.9	165.3
Unused at balance date		
Multi Optional Facility Agreement	**718.2**	-
Syndicated Term Loan Facility	**-**	356.3
Working Capital Facility	**-**	49.3
	718.2	405.6

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16 Interest-bearing liabilities (continued)

(i) Multi Optional Facility Agreement

In April 2012, the group entered into a Multi Optional Facility Agreement (MOFA) comprising a series of unsecured five year bilateral revolving credit facilities with several domestic and foreign institutions, totalling $800 million. The MOFA replaced the Syndicated Term Loan Facility of $445 million, of which $100 million matured in March 2012 and $345 million was due to mature in March 2013, along with a US$50 million Working Capital Facility which matured in March 2012. As at 31 December 2012, the MOFA bears a weighted average variable interest rate of 2.3 per cent.

(ii) Senior Notes - 2003 Series

The notes have an average fixed interest rate of 5.3 per cent and mature in two tranches; being June 2013 US$40.0 million and June 2015 US$20.0 million.

The translation exposure on the June 2013 US$40 million notes has been eliminated through a cross currency swap at AUD/USD 0.7025. The cross currency swap also converts the fixed USD interest payments of 5.25 per cent to an AUD variable interest rate exposure. As at 31 December 2012, the cross currency swap bears a variable interest rate of 3.9 per cent (2011: 4.9 per cent). The swap requires settlement of interest receivable and payable on a semi-annual basis on dates which coincide with the interest payable dates on the underlying notes.

(b) Interest rate exposure and maturities of interest-bearing liabilities

			Fixed interest rate		
2012	Effective floating average interest rate %	Floating interest rate $m	1 year or less $m	1 to 5 years $m	Total $m
Interest-bearing liabilities	**2.3**	**81.8**	**56.9**	**19.2**	**157.9**
Interest rate swaps (notional principal)	**3.9**	**56.9**	**(56.9)**	**-**	**-**
		138.7	-	**19.2**	**157.9**
2011					
Interest-bearing liabilities	1.3	88.7	-	76.6	165.3
Interest rate swaps (notional principal)	4.9	56.9	-	(56.9)	-
		145.6	-	19.7	165.3

The contractual repricing date of the floating rate interest-bearing liabilities at the balance dates will be reset within one year.

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17 Provisions

	Notes	**2012 $m**	2011 $m
Current			
Employee benefits (a)		**10.2**	9.0
Rehabilitation and mine closure		**50.0**	60.7
Other provisions (b)		**3.9**	12.3
		64.1	82.0

	Notes	**2012 $m**	2011 $m
Non-current			
Employee benefits		**4.2**	3.9
Rehabilitation and mine closure		**394.5**	366.2
Retirement benefit obligations	23	**8.6**	7.6
		407.3	377.7

(a) The current provision for employee benefits represents amounts for which the group does not have an unconditional right to defer settlement. The group does not expect a significant amount of the provision will be paid in the next 12 months.

(b) Other provisions include restructure and redundancy.

	Notes	**Rehabilitation and mine closure $m**	**Other provisions $m**
Movements in provisions			
Balance at 1 January		**426.9**	**12.3**
Change in provisions - expense for closed sites	7	**8.3**	**-**
Change in provisions - other		**-**	**2.7**
Change in provisions - additions to property, plant & equipment	12	**34.9**	**-**
Foreign exchange rate movements		**(0.8)**	**-**
Unwind expense	7	**24.6**	**-**
Amounts spent during the year		**(49.4)**	**(10.0)**
Unused amounts reversed		**-**	**(1.1)**
Balance at 31 December		**444.5**	**3.9**

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18 Contributed equity

(a) Share capital

	2012 Shares	2011 Shares	2012 $m	2011 $m
Ordinary shares - fully paid	**418,701,360**	418,701,360	**1,120.0**	1,120.0
Treasury shares	**(1,630,066)**	(2,269,590)	**(15.2)**	(18.0)
	417,071,294	416,431,770	**1,104.8**	1,102.0

(b) Movements in ordinary share capital

There have been no movements in share capital since 7 May 2009.

(c) Treasury shares

Treasury shares are shares in Iluka Resources Limited acquired on market and held for the purpose of issuing shares under the Directors, Executives and Employees Share Acquisition Plan.

	Number of shares	$m
Opening balance at 1 January 2011	3,220,149	11.7
Acquisition of shares, net of tax	1,498,791	14.8
Employee share issues, net of tax	(2,449,350)	(8.5)
Balance at 31 December 2011	**2,269,590**	**18.0**
Acquisition of shares, net of tax	341,621	2.5
Employee share issues, net of tax	(981,145)	(5.3)
Balance at 31 December 2012	**1,630,066**	**15.2**

(d) Dividend reinvestment plan

The company has a dividend reinvestment plan (DRP) which was suspended in 2010 until further notice.

(e) Capital risk management

The group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders and to maintain an efficient capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The group monitors capital on the basis of the level of return on capital and also the level of net cash/debt and compliance with bank covenants, including the gearing ratio. The group manages funds on a group basis with all funds being drawn by the parent entity.

19 Reserves

(a) Reserves

	2012 $m	2011 $m
Asset revaluation reserve	**15.9**	16.0
Share-based payments reserve	**4.4**	2.7
Foreign currency translation reserve	**(2.2)**	(2.3)
	18.1	16.4

Movements:

	2012 $m	2011 $m
Asset revaluation reserve		
Balance at 1 January	**16.0**	16.0
Transfer to retained earnings on disposal	**(0.1)**	-
Balance at 31 December	**15.9**	**16.0**
Share-based payments reserve		
Balance at 1 January	**2.7**	6.9
Transfer of shares to employees, net of tax	**(5.3)**	(8.5)
Share-based payments, net of tax	**7.0**	4.3
Balance at 31 December	**4.4**	**2.7**
Foreign currency translation		
Balance at 1 January	**(2.3)**	(2.5)
Currency translation of US operation	**(0.5)**	(0.3)
Hedge of net investment in US operation, net of tax	**0.5**	0.4
Deferred tax	**0.1**	0.1
Balance at 31 December	**(2.2)**	**(2.3)**

(b) Nature and purpose of reserves

(i) Asset revaluation reserve

The asset revaluation reserve records revaluations of non-current assets prior to the adoption of AIFRS. Transfers are made to retained earnings on disposal of previously revalued assets.

(ii) Share-based payments reserve

The employee share-based payments reserve is used to recognise the fair value of equity instruments granted but not yet issued to employees under the group's various equity-based incentive schemes.

(iii) Foreign currency translation reserve

Exchange differences arising on translation of the net investment in foreign operations, including US dollar denominated debt used as a hedge of the net investment, are taken into the foreign currency translation reserve net of applicable income tax, as described in Note 1(k). US$20.0 million of debt (2011: US$20.0 million) is designated as a hedge of the net investment in the US operations at balance date. The reserve is recognised in profit or loss when the net investment is disposed of.

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19 Reserves (continued)

(c) Retained earnings

	2012 $m	2011 $m
Balance at 1 January	**416.3**	(4.1)
Net profit for the year	**363.2**	541.8
Dividends paid	**(333.7)**	(117.0)
Transfer from asset revaluation reserve, net of tax	**0.1**	-
Actuarial losses on retirement benefit obligation, net of tax	**(1.7)**	(4.4)
Balance at 31 December	**444.2**	416.3

20 Dividends

	2012 $m	2011 $m
Final dividend		
for 2011 of 55 cents per share, franked	**229.4**	-
for 2010 of 8 cents per share, unfranked	**-**	33.5
	229.4	33.5
Interim dividend		
for 2012 of 25 cents per share, franked	**104.3**	-
for 2011 of 20 cents per share, unfranked	**-**	83.7
	104.3	83.7
Total dividends paid for or provided	**333.7**	117.2

(a) Dividends not recognised at the end of the reporting period

In addition to the above dividends, since year end the Directors have determined a final dividend for 2012 of 10 cents per share, fully franked (2011: 55 cents, fully franked). The dividend is payable on 4 April 2013 for shareholders on the register as at 7 March 2013. The aggregate amount of the proposed dividend is $41.9 million.

(b) Franked dividends

The impact on the franking account of the final dividend for 2012 will be a reduction in the franking account balance of $17.9 million (2011: reduction of $98.7 million) from $133.5 million (refer note 8(e)) to $115.6 million.

21 Key Management Personnel

(a) Key Management Personnel

Key Management Personnel of the group comprise Directors of Iluka Resources Limited as well as other specific employees of the group who met the following criteria: "personnel who have authority and responsibility for planning, directing and controlling the activities of the group, either directly or indirectly."

Key Management Personnel - Directors

The following persons were Directors of Iluka Resources Limited during the financial year:

(i) Managing Director and Chief Executive Officer

D A Robb

(ii) Non-execuitve Directors

W G Osborn
G J Pizzey *(Chairman)*
G J Rezos
J A Seabrook
S J Turner

All above persons were Directors of Iluka Resources Limited for all of the financial year, as well as for the financial year ended 31 December 2011, except for Mr D M Morley who retired on 25 May 2011.

On 20 December 2012, Mr J H Ranck and Mr G J W Martin were appointed as Directors, with effect from 1 January 2013.

(b) Key Management Personnel - Employees other than Directors (The Executives)

C Cobb	General Manager Sales and Marketing
A Tate	Chief Financial Officer
S Wickham	General Manager Australian Operations

2012 Key Management Personnel Compensation

The company has taken advantage of the relief provided by the Corporations Regulation 2M.6.04 and has transferred the detailed remuneration disclosures to the Remuneration Report. The relevant information can be found in the Remuneration Report of pages on pages 16 to 36.

2012	Short term benefits $	Post employment benefits $	Share-based Payments $	Termination benefits $	Total $
Non-executive Directors	932,000	72,475	-	-	1,004,475
Executive Director	2,172,300	22,811	3,294,351	-	5,489,462
Executives	2,141,964	82,834	1,186,839	-	3,411,637
Total	5,246,264	178,120	4,481,190	-	9,905,574

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21 Key Management Personnel (continued)

2011	Short term benefits $	Post employment benefits $	Share-based Payments $	Termination benefits $	Total $
Non-executive Directors	978,525	75,387	-	-	1,053,912
Executive Director	2,622,525	46,202	2,638,048	-	5,306,775
Executives	3,952,571	158,803	1,097,500	-	5,208,874
Total	7,553,621	280,392	3,735,548	-	11,569,561

The numbers of shares in the company and share rights for ordinary shares in the company are set out below for each Key Management Personnel, including their personally related entities. No shares were granted as compensation during the reporting period.

Share rights and shareholdings of Key Management Personnel

	Number Of Shares				
Name	Balance held at 1/1/12	Vesting of share rights	Awarded as Restricted Shares	Other changes	Balance held at 31/12/12
Non-executive directors					
W Osborn	1,800	n/a	n/a	-	1,800
G Pizzey	18,351	n/a	n/a	3,000	21,351
G Rezos	70,000	n/a	n/a	5,000	75,000
J Seabrook	19,314	n/a	n/a	-	19,314
S Turner	50,000	n/a	n/a	-	50,000
Executive Director					
D Robb	888,528	93,776	52,332	(293,776)	740,860
Executives					
C Cobb	17,183	-	24,319	-	41,502
A Tate	63,446	30,883	13,317	(30,883)	76,763
S Wickham	85,069	27,320	25,129	(14,000)	123,518

No shares were forfeited during the year

	Number Of Share Rights					
Name	Balance held at 1/1/12	Granted during 2012	Vested as shares during 2012	Lapsed during 2012	Balance held at 31/12/12[1]	Fair value of Share Rights granted in 2012 ($)[2]
Executive Director						
D Robb	1,014,977	31,475	(93,776)	-	952,676	405,083
Executives						
C Cobb	51,032	11,565	-	-	62,597	148,842
A Tate	88,494	11,691	(30,883)	-	69,302	150,463
S Wickham	85,418	11,745	(27,320)	-	69,843	151,158

1 Balances for the Executive Director and the Executives include restricted shares which will vest in future periods subject to legislative requirements.

2 Rights granted in respect to the 2012 LTIP which forms part of share based payments for 2012 to 2014 inclusive.

Non-Executive Directors do not have any entitlement to share rights.

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21 Key Management Personnel (continued)

(c) Transactions with Key Management Personnel

There were no transactions that were required to be disclosed which occurred between the group and Key Management Personnel that were outside of the nature described below:

(a) occurrence was within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those it is reasonable to expect the group would have adopted if dealing at arms length with an unrelated individual;

(b) information about these transactions does not have the potential to adversely affect the decisions about the allocation of scarce resources made by users of the financial report, or the discharge of accountability by the Key Management personnel; and

(c) the transactions are trivial or domestic in nature.

Therefore, specific details of other transactions with Key Management Personnel are not disclosed.

22 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

(a) PricewaterhouseCoopers Australia	**2012 $000**	2011 $000
Audit and other assurance services		
Audit and review of financial statements	**551**	548
Other assurance services	**46**	30
	597	578
Tax and other services		
Tax compliance and advisory services	**-**	68
Other compliance and advisory services	**-**	3
	-	71
Total remuneration	**597**	649

(b) Network firms of PricewaterhouseCoopers Australia	**2012 $000**	2011 $000
Audit and review of financial statements	**10**	10

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23 Retirement benefit obligations

(a) Superannuation plan

(i) Australia

All employees of the group who do not elect an alternate fund under the Superannuation Fund Choice Legislation are entitled to benefits on leaving service, retirement, disability or death from the Iluka Section of the ING Master Trust, a sub-plan of the ING Masterfund. Within the Iluka Plan (the plan) the vast majority of members are entitled to accumulation (that is, defined contribution) benefits only. The plan also provides defined lump sum and pension benefits based on years of service and final average salary for a small number of members. The accumulation contribution section receives fixed contributions from group companies. The group's legal or constructive obligation is limited to these contributions.

(ii) USA

All employees of the United States (US) operations are entitled to benefits from the US operations' pension plans on retirement, disability or death. During the year, the US operations closed one of its defined benefit plans. This plan provided a monthly benefit based on a set amount per month per year of service. The US operations have one remaining defined benefit plan and one defined contribution plan. The defined benefit plan provides a monthly benefit based on average salary and years of service. The defined contribution plan receives an employee's elected contribution and an employer's match-up to a fixed percentage. The entity's legal or construction obligation is limited to these contributions.

The following sets out details in respect of the defined benefit sections only of the Australian and US plans. The expense recognised in relation to the defined contribution plans is disclosed in note 7 and is a related party transaction.

(b) Balance sheet amounts

	2012 $m	2011 $m
Defined benefit plan obligation - present value	**22.8**	22.6
Defined benefit fund plan assets - fair value	**(14.2)**	(15.0)
Net liability in the balance sheet	**8.6**	7.6

	2012 $m	2011 $m
Present value of the defined benefit obligation, which is partly funded:		
Balance at 1 January	**22.6**	17.5
Current service cost	**0.6**	0.4
Interest cost	**0.9**	0.9
Contributions by plan participants	**0.1**	0.1
Actuarial losses/gains	**3.6**	3.5
Exchange rate changes	**-**	1.4
Benefits paid	**(1.2)**	(1.2)
Closure of plan	**(3.8)**	-
Balance at 31 December	**22.8**	22.6

23 Retirement benefit obligations (continued)

	2012 $m	2011 $m
Fair value of plan assets:		
Balance at 1 January	**15.0**	14.1
Expected return on plan assets	**0.9**	1.0
Actuarial losses/(gains)	**0.6**	(1.1)
Exchange rate changes	**(0.4)**	0.9
Contributions by group companies	**3.0**	1.2
Contributions by plan participants	**0.1**	0.1
Benefits paid	**(1.2)**	(1.2)
Closure of plan	**(3.8)**	-
Balance at 31 December	**14.2**	15.0

The major categories of plan assets are as follows:

Cash	**0.2**	0.3
Equity instruments	**9.0**	8.3
Debt instruments	**3.7**	5.2
Property	**0.2**	0.1
Other assets	**1.1**	1.1
	14.2	15.0

The assets are invested with professional investment managers. The number of shares, if any, of the company held by the managers is decided solely by the investment managers.

(c) Amounts recognised in profit or loss

	2012 $m	2011 $m
Current service cost	**0.6**	0.4
Interest cost	**0.9**	0.9
Expected return on plan assets	**(0.9)**	(1.0)
Closure of plan	**0.5**	-
Total included in employee benefits expense	**1.1**	0.3
Actual return on plan assets	**1.6**	(0.1)

(d) Amounts recognised in other comprehensive income

Actuarial loss recognised in the year	**(1.7)**	(4.4)
Cumulative actuarial losses recognised in other comprehensive income	**(7.6)**	(5.9)

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23 Retirement benefit obligations (continued)

(e) Principal actuarial assumptions

The principal actuarial assumptions used by the fund actuaries (expressed as weighted averages) were as follows:

	2012 %	2011 %
Australia		
Discount rate	**3.1**	3.1
Expected return on plan assets	**3.3**	5.0
Future salary increases	**3.5**	3.5
USA		
Discount rate	**4.0**	4.5
Expected return on plan assets	**7.5**	6.9
Future salary increases	**3.0**	3.5

The expected rate of return on plan assets has been based on historical and future expectations of returns for each of the major categories of asset classes as well as the expected and actual allocation of plan assets to these major categories.

(f) Employer contributions

(i) Australia

Employer contributions to the defined benefit section of the Plan are based on recommendations by the Plan's actuary.

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. To achieve this objective, the actuary has adopted a method of funding benefits known as the aggregate funding method. This funding method seeks to have benefits funded by means of a total contribution which is expected to be a constant percentage of members' salaries over their working lifetimes.

Using the funding method described above and particular actuarial assumptions as to the defined benefits plan's future experience, the actuary recommended payment of employer contributions ranging between 12.5 per cent and 12.9 per cent (2011: 12.5 per cent to 12.9 per cent) of salaries, dependent of the defined benefit category of membership.

An actuarial valuation of the Plan for financial statement disclosure purposes has been performed as at 31 December 2012. The funding valuation for regulatory purposes is performed annually on 30 June, coinciding with the Fund's annual review date. The Plan has 12 months to finalise the valuation and as such the 30 June 2012 valuation is currently under way. As at 31 December 2012 only 5 active members remain in the plan.

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23 Retirement benefit obligations (continued)

(ii) USA

Employer contributions to the defined benefit section of the plan are based on recommendations by the plan's actuary.

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. To achieve this objective, the actuary has adopted a method of funding benefits known as the Projected Unit Credit (PUC) method. Under the PUC method, unfunded past service is amortised over 10 years and future benefit accruals are funded during participants' working lifetime with cost varying based on the age of participants. Actuarial gains/losses are amortised over 5 years.

Total employer contributions for both the Australian and US plans that are expected to be paid by the group for the year ending 31 December 2013 are $0.9 million.

(g) Net financial position of plans

The net financial position of the plans based on information supplied from the plans' actuarial advisors are Australia deficit $0.4million (2011: deficit $0.4 million) and US deficit $8.2 million (2011: deficit $7.2m). A net deficit of $8.6 million (2011: deficit $7.6 million) is included in non-current provisions (refer note 17).

(h) Historic summary

	2012 $m	2011 $m	2010 $m	2009 $m	2008 $m
Defined benefit plan obligation	**22.8**	22.6	17.5	19.7	27.6
Plan assets	**(14.2)**	(15.0)	(14.1)	(15.0)	(16.2)
Deficit	**8.6**	7.6	3.4	4.7	11.4

24 Contingent liabilities

Bank guarantees
The group has a number of bank guarantees in favour of various government authorities and service providers to meet its obligations under exploration and mining tenements. At 31 December 2012, the total value of performance commitments and guarantees was $115.0 million (2011: $106.0 million).

Native title
There is some risk that native title, as established by the High Court of Australia's decision in the Mabo case, exists over some of the land over which the group holds tenements or over land required for access purposes. It is impossible at this stage to quantify the impact, if any, which these developments may have on the operations of the group.

Other claims
In the course of its normal business, the group occasionally receives claims arising from its operating activities. In the opinion of the Directors, all such matters are covered by insurance or, if not covered, are without merit or are of such a kind or involve such amounts that would not have a material adverse effect on the operating results or financial position of the group if settled unfavourably.

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25 Commitments

(a) Capital commitments	2012 $m	2011 $m
Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:		
Amounts contracted for and payable within 1 year	**8.2**	11.5

All of the commitments relate to the purchase of property, plant and equipment.

(b) Exploration and mining lease commitments	2012 $m	2011 $m
Commitments in relation to leases contracted for at reporting date but not recognised as liabilities payable:		
Within one year	**21.3**	22.0
Later than one year but not later than five years	**39.4**	42.3
Later than five years	**50.1**	54.8
	110.8	119.1

These costs are discretionary. If the expenditure commitments are not met then the associated exploration and mining leases may be relinquished.

(c) Lease commitments	2012 $m	2011 $m
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**12.5**	13.6
Later than one year but not later than five years	**16.1**	16.4
Later than five years	**0.4**	0.6
	29.0	30.6

(d) Other commitments	2012 $m	2011 $m
Commitments for payments in relation to non-cancellable contracts	**92.4**	106.5

The commitments include $61.2 million (2011: $95.9 million) in respect of the group for term contracts for coal, gas, electricity and water used in the production process.

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26 Controlled entities and deed of cross guarantee

The following companies are all incorporated in Australia and are parties to a Deed of Cross Guarantee (the Deed) under which each company guarantees the debts of the others: Iluka Resources Limited, Westlime (WA) Limited, Ilmenite Pty Limited, Southwest Properties Pty Limited, Western Mineral Sands Pty Limited, Yoganup Pty Limited, Iluka Corporation Limited, Associated Minerals Consolidated Limited, Iluka Administration Limited, Iluka Consolidated Pty Limited, Iluka Exploration Pty Limited, Gold Fields Asia Limited, Iluka International Limited, NGG Holdings Limited, Iluka Midwest Limited, Western Titanium Limited, The Mount Lyell Mining and Railway Company Limited, Renison Limited, Iluka Finance Limited, The Nardell Colliey Pty Limited, Glendell Coal Limited, Lion Properties Pty Limited, Basin Minerals Limited, Basin Minerals Holdings Pty Limited, Basin Properties Pty Limited, Swansands Pty Limited and Iluka (Eucla Basin) Pty Limited.

By entering into the Deed, the wholly-owned entities represent a closed group and have been relieved from the requirements to prepare a Financial Report and Directors' Report under Class Order 98/1418 (as amended by Class Order 98/2017) issued by the Australian Securities and Investments Commission. The closed group is also the extended closed group.

In addition to the members of the extended closed group, the Iluka group also includes the following Australian companies: Ashton Coal Interests Pty Ltd (Iluka interest 95.8 per cent), Iluka International (Brazil) Pty Ltd (Iluka interest 100.0 per cent), Iluka International UAE Pty Ltd (Iluka interest 100.0 per cent), Iluka International Lanka Pty Ltd (Iluka interest 100.0 per cent), Iluka International China Pty Ltd (Iluka interest 100.0 per cent) and Iluka Share Plan Holdings Pty Ltd. The group's activities in the US are undertaken by Iluka Resources Inc, which is 100 per cent owned.

Condensed income statement of Extended Closed Group	**2012 $m**	2011 $m
Revenue from ordinary activities	**1,041.1**	1,530.7
Expenses from ordinary activities	**(542.8)**	(741.2)
Finance costs	**(38.2)**	(34.6)
Income tax (expense)/benefit	**(139.3)**	(211.7)
Profit for the year	**320.8**	543.2

Condensed statement of comprehensive income	**2012 $m**	2011 $m
Profit for the year	**320.8**	543.2
Other comprehensive income		
Actuarial gains/(losses) on defined benefit plans, net of tax	**-**	(0.8)
Total other comprehensive income	**-**	(0.8)
Total comprehensive income for the year	**320.8**	542.4

Summary of movements in consolidated retained earnings	**2012 $m**	2011 $m
Retained earnings at the beginning of the financial year	**440.9**	14.7
Profit for the year	**320.8**	543.2
Dividends paid	**(333.7)**	(117.0)
Retained earnings at the end of the financial year	**428.0**	440.9

26 Controlled entities and deed of cross guarantee (continued)

Condensed balance sheet of Extended Closed Group	**2012 $m**	2011 $m
Current assets		
Cash and cash equivalents	**35.4**	303.9
Receivables	**122.1**	241.9
Inventories	**490.0**	361.9
Total current assets	**647.5**	907.7
Non-current assets		
Receivables	**2.3**	0.5
Inventories	**257.9**	49.9
Other financial assets	**41.6**	41.5
Property, plant and equipment	**1,389.6**	1,401.0
Intangible assets	**6.3**	6.7
Total non-current assets	**1,697.7**	1,499.6
Total assets	**2,345.2**	2,407.3
Current liabilities		
Payables	**77.7**	118.0
Interest-bearing liabilities	**56.9**	-
Provisions	**54.1**	73.1
Current tax payable	**126.7**	145.7
Total current liabilities	**315.4**	336.8
Non-current liabilities		
Interest-bearing liabilities	**93.3**	164.0
Provisions	**359.1**	331.6
Deferred tax liabilities	**22.2**	13.3
Total non-current liabilities	**474.6**	508.9
Total liabilities	**790.0**	845.7
Net assets	**1,555.2**	1,561.6
Equity		
Contributed equity	**1,104.8**	1,102.0
Reserves	**22.4**	18.7
Retained profits	**428.0**	440.9
Total equity	**1,555.2**	1,561.6

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27 Reconciliation of profit after income tax to net cash inflow from operating activities

	2012 $m	2011 $m
Profit for the year	**363.2**	541.8
Depreciation and amortisation	**203.1**	224.6
Exploration capitalised	**(4.9)**	(5.2)
Net gain on disposal of property, plant and equipment	**(1.3)**	(2.9)
Net exchange differences and other	**(2.7)**	2.7
Rehabilitation and restoration unwind	**24.6**	20.6
Non-cash share-based payments expense	**9.7**	7.7
Amortisation of deferred borrowing costs	**2.3**	1.0
Impairment reversal	**-**	(35.6)
Non-cash rehabilitation expense for closed sites	**8.3**	34.6
Change in operating assets and liabilities		
Decrease (increase) in receivables	**116.3**	(92.4)
Increase in inventories	**(354.9)**	(168.6)
(Increase) decrease in net deferred tax	**4.9**	59.5
(Decrease) increase in payables	**(95.9)**	8.2
(Decrease) increase in provisions	**(5.1)**	6.7
(Decrease) increase in net current tax liability	**(17.0)**	146.8
Net cash inflow from operating activities	**250.6**	749.5

28 Earnings per share

(a) Basic and diluted earnings per share

	2012 Cents	2011 Cents
Basic earnings per share (cents)	**87.1**	130.1
Diluted earnings per share (cents)	**86.7**	129.4

(b) Weighted average number of shares used as denominator

	2012 Number	2011 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**417,041,967**	416,421,427
Weighted average share rights outstanding	**2,025,870**	2,352,602
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**419,067,837**	418,774,029

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29 Share-based payments

The share-based payment expense recognised in profit or loss of $9.7 million (2011: $7.7 million) results from several schemes summarised below. Further information on each scheme is contained in the Remuneration Report.

Schemes	Grant date	Vesting date	Fair value $	**Shares / Rights at 31 Dec 12**	**Expense 2012 $m**	Shares / Rights at 31 Dec 11	Expense 2011 $m
2011 STIP (i)	Mar-12	Mar-13/14	16.68	**276,056**	**3.1**	-	-
2010 STIP (i)	Jan-11	Jan-12/13	9.14	**175,001**	**0.8**	368,654	2.6
2009 STIP (i)	Jan-10	Jan-11/12	3.58	**-**	**-**	152,361	0.3
2012 LTIP - TSR (ii)	Jan-12	Jan-15	11.07	**113,970**	**0.5**	-	-
2012 LTIP - ROE (ii)	Jan-12	Jan-15	14.66	**113,970**	**0.6**	-	-
2011 LTIP - TSR (ii)	Jan-11	Jan-14	7.37	**146,665**	**0.4**	151,076	0.4
2011 LTIP - ROE (ii)	Jan-11	Jan-14	9.44	**146,665**	**0.4**	151,076	0.5
2010 LTIP - TSR (ii)	Jan-10	Jan-13	2.59	**335,846**	**0.3**	350,019	0.3
2010 LTIP - ROE (ii)	Jan-10	Jan-13	3.58	**335,846**	**0.3**	350,019	0.4
2009 LTIP - TSR (ii)	Jan-09	Jan-12	3.49	**-**	**-**	272,598	0.3
2009 LTIP - ROE (ii)	Jan-09	Jan-12	4.64	**-**	**-**	272,598	0.1
Iluka Retention Plan (iii)	2008	2011	2.80	**-**	**-**	29,000	0.4
MD LTID (iv)	Mar-11	Feb-15	11.62	**750,000**	**2.2**	750,000	1.8
Employee Share Plan (v)					**0.6**		0.6
Restricted Employee Share Plan (vi)			-	**-**	**0.5**	-	-
Total share-based payments					**9.7**		7.7

(i) The Short Term Incentive Plan (STIP) equity component comprises two equal tranches of restricted shares which vest one and two years respectively after grant date. The fair value of the 2011 STIP is determined as the volume weighted average price of ordinary shares over the five trading days following the release of the company's annual results.

(ii) The Long Term Incentive Plan (LTIP) comprises two equal tranches of share rights which vest three years after grant date subject to performance criteria. The Total Shareholder Return (TSR) tranche is based on market performance and no adjustments are made for share rights that do not vest due to the non-fulfilment of vesting conditions. The fair value at grant date for the 2012 LTIP Plan takes into account the exercise price of $nil, the share price at grant date of $15.50, the expected price volatility of the share price (based on historical volatility), the expected dividend yield of 1.81% and the risk free rate of return of 3.14%.

The Return on Equity (ROE) tranche is based on internal performance measures and prior year expenses for rights that do not vest for this tranche are credited to the share-based payments expense. The 2011 expense for the 2009 LTIP - ROE includes a reversal for the portion of the share rights outstanding at 31 December 2011 that did not vest.

(iii) The Iluka Retention Plan share rights were offered on various dates with the majority offered in March 2008 at $4.09 per share, with a vesting date of March 2011. The fair value relates to the final shares that vested in 2012.

(iv) Full details of the Managing Director's Retention Share Rights that vested in March 2011 and the Managing Director's Long Term Incentive Deferred (LTID) share rights granted in March 2011 and approved by shareholders at the 2011 AGM are set out in the Remuneration Report. The fair value of $11.62 per right is the weighted average for all share rights in the LTID.

(v) A total of 46,200 (2011: 42,975) shares were issued to eligible employees who participated in the plan. Each participant was issued with shares worth $1,000 based on a volume weighted average market price of $13.33 (2011: $13.23) for the five days prior to the start of the offer period.

(vi) In 2012, a total of 125,488 restricted shares were awarded to eligible employees who would have been entitled to participate in the Employee Share Plan for 2009/10 that was cancelled.

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30 Parent entity financial information

(a) Summary financial information

	2012 $m	2011 $m
Balance sheet		
Current assets	**129.7**	383.6
Non-current assets	**1,933.8**	1,996.7
Total assets	**2,063.5**	2,380.3
Current liabilities	**90.6**	491.4
Non-current liabilities	**567.2**	642.3
Total liabilities	**657.8**	1,133.7
Net assets	**1,405.7**	1,246.6
Shareholders' equity		
Contributed equity	**1,120.0**	1,120.0
Reserves	**17.8**	17.6
Retained earnings	**267.9**	109.0
	1,405.7	1,246.6
Profit or loss for the year	**492.6**	199.7
Total comprehensive income	**492.6**	199.7

(b) Profit for the year

Profit for the year includes dividends received from controlled entities of $475.0 million (2011: $200.0).

(c) Contingent liabilities of the parent entity

The parent had contingent liabilities for performance commitments and guarantees of $28.9 million as at 31 December 2012 (2011: $28.6 million).

(d) Contractual commitments for the acquisition of property, plant or equipment

As at 31 December 2012, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling $7.0 million (2011: $0.9 million).

31 Related party transactions

Disclosures relating to related party transactions are set out in the notes to which they relate. For disclosures relating to Directors and Key Management Personnel refer to Note 21. Details of material controlled entities are set out in Note 26. The ultimate Australian controlling entity and the ultimate parent entity in the wholly-owned group is Iluka Resources Limited.

32 Events occurring after the reporting period

On 17 January 2013, Iluka announced its intention to idle the Eneabba mining operation (Mid West, Western Australia) in March 2013. On 21 February 2013, Iluka announced a continued idling of synthetic rutile kiln 3 at Narngulu, Western Australia and other production changes and cost reduction initiatives to reduce production and fixed costs that will include a total of approximately 200 positions being made redundant. Total costs of implementing the announced production cuts and cost reductions of approximately $50 million, including redundancy costs, are expected to be incurred and expensed during 2013.

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In the Directors' opinion:

(a) the financial statements and notes set out on pages 43 to 92 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards and other mandatory professional reporting requirements as detailed above, and the *Corporations Regulations 2001*; and

(ii) giving a true and fair view of the group's financial position as at 31 December 2012 and of its performance for the financial year ended on that date, and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 26 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 26.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

G J Pizzey
Chairman

D A Robb
Managing Director

Perth
20 March 2013

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Independent auditor's report to the members of Iluka Resources Limited

Report on the financial report

We have audited the accompanying financial report of Iluka Resources Limited (the company), which comprises the balance sheet as at 31 December 2012, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Iluka Resources Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Independent auditor's report to the members of Iluka Resources Limited (cont'd)

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of Iluka Resources Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 16 to 36 of the directors' report for the year ended 31 December 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Iluka Resources Limited for the year ended 31 December 2012, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

N Henry

Nick Henry
Partner

20 March 2013

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Five Year Physical and Financial Information

	2012	2011	2010	2009	2008
Production volumes (kt)					
- Zircon	343.2	601.5	412.9	263.1	385.1
- Rutile	220.3	281.3	250.1	141.4	140.1
- Synthetic rutile	248.3	285.7	347.5	405.0	467.3
- Ilmenite saleable	385.6	459.7	469.0	342.1	586.2
- Ilmenite upgradable	288.5	201.9	215.9	496.7	641.0
Sales volumes (kt)					
- Zircon	213.8	514.5	478.7	222.6	481.0
- Rutile	105.5	265.9	240.0	138.7	156.4
- Synthetic rutile	169.6	257.7	362.5	396.7	507.0
- Ilmenite saleable	443.2	570.9	373.7	376.4	643.1
Weighted average annual prices (US$/t)					
- Zircon	2,080	1,886	913	815	760
- Rutile	2,464	1,174	560	511	502
- Synthetic rutile	1,771	878	481	461	452
AUD:USD range (cents)	96.8 / 108.1	95.3 / 110.3	81.2 / 101.8	62.9 / 93.7	60.4 / 98.1
Average AUD:USD spot exchange rate (cents)	103.6	103.2	92.0	79.3	85.4
Summary financials ($m)					
Revenue from operations[1]	1,069.8	1,536.7	874.4	576.0	894.8
Group EBITDA	748.8	979.3	305.1	99.6	274.6
- Mineral Sands EBITDA	726.0	925.9	250.2	75.6	186.3
- Mining Area C EBITDA	72.7	88.5	76.3	50.2	56.8
- Other EBITDA	(49.9)	(35.1)	(21.4)	(9.5)	(47.0)
Depreciation and amortisation	(203.1)	(224.6)	(219.0)	(176.6)	(161.7)
Net interest and finance charges	(33.5)	(29.6)	(46.2)	(22.7)	(35.6)
Income tax (expense) benefit	(149.0)	(218.9)	(3.8)	61.5	7.7
NPAT	363.2	541.8	36.1	(82.4)	77.5
Operating cash flow	368.7	706.2	163.6	83.9	226.4
Capital expenditure	(167.3)	(142.5)	(117.2)	(521.6)	(198.4)
Free cash flow[2]	81.2	589.6	60.7	(209.8)	420.7
Net (debt) cash	(95.9)	156.7	(312.6)	(382.1)	(215.7)
Capital and dividends					
Ordinary shares on issue (millions)	418.7	418.7	418.7	418.7	380.7
Dividends per share in respect of year (cents)	35.0	75.0	8.0	n/a	n/a
Franking level (per cent)	100.0	73.3	0.0	n/a	n/a
Opening year share price ($)	15.50	9.14	3.58	4.64	4.11
Closing year share price ($)	9.02	15.50	9.14	3.58	4.64
Financial ratios					
Basic earnings per share (cents)	87.1	130.1	8.6	(8.7)	17.8
Free cash flow per share (cents)	19.4	140.6	14.5	(50.1)	110.5
Return on shareholders' equity (per cent)[3]	23.2	42.5	3.2	(7.5)	7.9
Return on capital (per cent)[4]	32.8	54.9	5.0	(9.6)	7.9
Gearing (net debt/net debt + equity) (per cent)	5.8	n/a	21.8	25.9	17.4
Financial position as at 31 December ($m)					
Total assets	2,426.6	2,453.8	1,939.9	2,098.4	2,058.1
Total liabilities	859.5	(919.1)	(815.3)	(1,003.1)	(1,020.1)
Net assets	1,567.1	1,534.7	1,124.6	1,095.3	1,038.0
Shareholders' equity	1,567.1	1,534.7	1,124.6	1,095.3	979.8
Net tangible asset backing per share ($)	3.74	3.65	2.54	2.46	2.61

[1]2010 to 2008 excludes hedging gains/(losses).

[2]Free cash flow is determined as cash flow before any debt refinance costs and dividends paid in the year.

[3]Calculated as Net Profit After Tax (NPAT) for the year as a percentage of the average monthly shareholders equity over the year.

[4]Calculated as Earnings Before Interest and Tax (EBIT) for the year as a percentage of average monthly capital employed for the year.

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Shareholder Information

as at 18 March 2013

Stock exchange listing

Iluka's shares are listed exclusively on the Australian Securities Exchange (ASX). The company is listed as "Iluka" with an ASX code of ILU. The company does not operate a sponsored American Depositary Receipts (ADR) programme.

Number of shares on issue

The company had 418,701,360 shares on issue.

Number of shareholdings

There were 29,689 shareholders. Voting rights, on a show of hands, are one vote for every registered holder and on a poll, are one vote for each share held by registered holders.

Distribution of Shareholdings

Size of shareholding	Number of holders
1 - 1,000	16,705
1,001 - 10,000	12,056
10,001 - 100,000	861
100,001 - 1,000,000	52
1,000,001 and over	15
Unmarketable parcel (less than $500)	1,351

Substantial Shareholders (as provided in disclosed Substantial Shareholder Notices to the company)

Shareholder	Size of shareholding	% of issued capital
M&G Investment Management Limited, London	42,755,825	10.21
BlackRock Investment Management (Australia) Limited	40,111,686	9.58
Schroder Investment Management Australia	27,386,364	6.54
MFS Investment Management	25,446,567	6.08
RS Investment Management Co. LLC	21,799,163	5.03

Top 20 Shareholders (Nominee Company Holdings)

Shareholder	Number of shares	% of issued capital
HSBC Custody Nominees (Australia) Limited	134,987,967	32.24
J P Morgan Nominees Australia Limited	106,867,531	25.52
National Nominees Limited	57,164,559	13.65
Citicorp Nominees Pty Limited	12,510,747	2.99
BNP Paribas Nominees Pty Ltd	8,219,911	1.96
Citicorp Nominees Pty Limited	4,839,856	1.16
J P Morgan Nominees Australia Limited	3,745,146	0.89
Australian Foundation Investment Company Limited	2,367,000	0.57
AMP Life Limited	2,301,013	0.55
HSBC Custody Nominees (Australia) Limited	2,168,323	0.52
BNP Paribas Nominees Pty Ltd	1,718,777	0.41
Argo Investments Limited	1,500,000	0.36
HSBC Custody Nominees (Australia) Limited	1,320,633	0.32
Merrill Lynch (Australia) Nominees Pty Limited	1,209,115	0.29
R O Henderson (Beehive) Pty Limited	1,125,000	0.27
UBS Wealth Management Australia Nominees Pty Ltd	887,278	0.21
Iluka Share Plan Holdings Pty Ltd	773,834	0.18
CS Fourth Nominees Pty Ltd	769,754	0.18
RBC Investor Services Australia Nominees Pty Limited	618,167	0.15
UBS Nominees Pty Ltd	584,322	0.14

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Share Registry Inquiries

Shareholders who require information about their shareholdings, dividend payments or related administrative matters should contact the company's share registry:

Computershare Investor Services Pty Limited
Level 2, 45 St Georges Terrace
Perth WA 6000 Australia
Telephone: +61 3 9415 5000 (Head Office) or 1300 850 505
Facsimile: +61 3 9473 2500 (Head Office)

Postal Address:
GPO Box 2975
Melbourne VIC 3000

Website: www.computershare.com

Each inquiry should refer to the shareholder number which is shown on issuer-sponsored holding statements and dividend statements.

Annual General Meeting

The 2013 Annual General Meeting (AGM) of Iluka Resources Limited will be held at 9:30am (AWST) on 22 May 2013, at the Perth Convention and Exhibition Centre, Perth Western Australia. Details of the business to be conducted at the AGM are provided in the Notice of Annual General Meeting.

Dividends

Iluka recommenced dividend payments with the 2010 full year results. The company has suspended its dividend reinvestment plan.

Dividend Payment History

Dividend type	Record date	Payment date	Cents per share	DRP pricing $	Franking %
Final	07/03/13	04/04/13	10	n/a	100
Interim	10/09/12	05/10/12	25	n/a	100
Final	09/03/12	05/04/12	55	n/a	100
Interim	09/09/11	05/10/11	20	n/a	0
Final	09/03/11	06/04/11	8	n/a	0

2013 Calendar

21 February	Announcement of Full Year Financial Results
17 April	March Quarter Production Report
20 May 9:30am WST	Closure of acceptances of proxies for AGM
22 May 9:30am WST	Annual General Meeting – Perth
17 July	June Quarter Production Report
23 August	Announcement of Half Year Financial Results
16 October	September Quarter Production Report
31 December	Financial Year End

All dates are indicative and subject to change. Shareholders are advised to check with the company to confirm timings.

Investor Relations Inquiries

Dr Robert Porter
General Manager, Investor Relations and Corporate Affairs

Email: robert.porter@iluka.com
Telephone: +61 3 9225 5008
Mobile: +61 (0) 407 391 829

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Corporate Information

Company Details

Iluka Resources Limited
ABN: 34 008 675 018

Registered Office

Level 23, 140 St George's Terrace
Perth WA 6000 Australia

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Perth WA 6845 Australia
Telephone: +61 8 9360 4700
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Website: www.iluka.com
This site contains information on Iluka's products, marketing, operations, ASX releases, financial and quarterly reports. It also contains links to other sites, including the share registry.

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www.iluka.com