

13 December 2012

## MINERAL SANDS MARKET UPDATE

Iluka Resources Limited (Iluka) provides the following update in relation to mineral sands market conditions and resultant aspects of its business performance.

Updated full year sales volume estimates and November year-to-date product price outcomes are provided below. Iluka will issue 2012 sales volumes, revenue and cash cost data with its December Quarter Production Report, scheduled for release on 17 January 2013. Full year financials are planned to be released on 21 February 2013.

### Market Conditions

Market conditions for Iluka's mineral sands products remain challenging and, in line with previous Iluka commentary, are influenced currently by a combination of factors: lower demand associated with low global economic activity and fragile business confidence levels; inventory de-stocking, mainly of finished ceramics and pigment inventories; and lower levels of zircon usage in tile manufacturing in China, influenced mainly by the adoption of modern manufacturing techniques.

### Sales Volumes

Based on sales volumes realised to the end of November and anticipated (although not finalised) sales for December, Iluka expects to achieve total zircon/rutile/synthetic rutile (Z/R/SR) sales volumes at 31 December of approximately 475 thousand tonnes.

These estimated full year sales volumes comprise:

- zircon ~ 205 thousand tonnes;
- rutile ~ 100 thousand tonnes; and
- synthetic rutile ~170 thousand tonnes.

Zircon and synthetic rutile volumes are near the bottom end of previously guided ranges (July 2012 guidance range low for zircon, rutile and synthetic rutile of 200, 140 and 170 thousand tonnes respectively). The lower than expected rutile volumes have been influenced mainly by low pigment plant utilisation levels which resulted in weaker demand for rutile as the highest grade/yield feedstock.

In addition, ~425 thousand tonnes of ilmenite sales are anticipated, relative to guidance of ~350 thousand tonnes.

### Mineral Sands Pricing

It is not Iluka's typical practice to comment on prices outside of its half and full year reporting periods. The company does not provide price forecasts, nor a running commentary on transactions that often do not characterise the market as a whole.

However, some comment on prices in the context of this market disclosure is considered warranted given recent changes in industry pricing dynamics, for both zircon and higher grade titanium feedstocks, with the latter also influenced by product mix in any given period.

Iluka's weighted average revenue per tonne of Z/R/SR sold over various periods in 2012, as well as the weighted average pricing for individual product categories, are shown in the following table. Prices received in any period can vary depending on the specific nature of the product sold, for example grade and other quality-related aspects, and quantity and delivery parameters. This is especially the case for the high grade titanium dioxide products of rutile and synthetic rutile, where contractual obligations and value-in-use, and therefore price, can vary considerably.

2012 Period	Weighted Average Revenue per tonne of Z/R/SR (A\$)	Zircon (US\$/tonne)	Rutile (US\$/tonne)	Synthetic Rutile (US\$/tonne)
6 months to 30 June	2,255	2,490	2,505	1,950
1 July to 30 September	1,950	2,270	2,370	1,460
1 October to 30 November	1,660	1,885	1,990	1,290

As Iluka advised in its September Quarter Production Report, a major competitor's zircon auction influenced market pricing and volumes in the third quarter. A further such auction, with a starting price of US\$1,500/tonne – a level materially lower than prevailing prices – occurred at the end of November. Iluka has responded in order to remain competitive, resulting in a continuation of the above pricing trend.

In the case of high grade titanium ore feedstocks, the current low level of pigment plant utilisation and preference for lower grade titanium dioxide feedstocks and/or those available under legacy contractual arrangements, has maintained downward pressure on high grade titanium ore prices.

### **Iluka's Approach**

David Robb, Iluka's Managing Director stated:

"Iluka has since 2009 demonstrated its preparedness to flex its production levels in response to global volatility and cyclical market conditions.

That flexibility has included major reductions in operations in 2009 through to maximising production in 2011. It has been accompanied by defensive sales volume and pricing behaviour in weak demand/de-stocking (as in the current period) and opportunistic volume and price leadership in strong demand/re-stocking periods.

Naturally, the primary objective at all times is to achieve the best outcomes over the medium to long term. Production, sales, costs and capital expenditure targets are assessed and adjusted frequently to balance all stakeholder interests and optimise free cash flow through any cycles. A focus is maintained on the preservation of future growth options and on the ability to achieve the company's objective: the creation and delivery of value for shareholders.

The adoption of a low grade mining approach at Jacinth-Ambrosia during 2012 was a case in point, as are measures being taken currently to idle production over the Christmas period at most of the company's operations. Conversely, expenditure has continued (even as industry demand has slowed) on Iluka's exploration and research and development programs and its enhanced production projects.

Given global uncertainties, additional production, cash cost and capital expenditure adjustments have been and will continue to be assessed against various market demand scenarios and optimum production versus sales/inventory outcomes as part of Iluka's normal planning and budgetary processes. If required, these actions will include the further idling of assets.

In an environment where accurate forecasting of market conditions and business performance remains challenging, Iluka will, in pursuit of its objective, adjust its existing business to evolving market conditions; preserve its growth options; and maintain balance sheet flexibility."

### **Investment market and media inquiries**

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