Iluka
Resources
Limited

2011
Annual Report

CREATE AND DELIVER VALUE FOR SHAREHOLDERS

Iluka Resources Limited ABN 34 008 675 018
Annual Report - 31 December 2011

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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 2011.

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 except as noted below:

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

Mr Morley was a Director from the beginning of the financial year until his resignation on 25 May 2011.

PRINCIPAL ACTIVITIES

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

The company 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

Reported earnings

Iluka recorded a profit after tax for the year ended 31 December 2011 of $541.8 million, compared with $36.1 million for the previous corresponding period.

Mineral sands EBITDA (earnings before interest, tax, depreciation and amortisation) was $925.9 million, a 270.1 per cent increase compared with the previous corresponding period. Mineral sands EBIT increased to $737.3 million (2010: $31.6 million).

Mining Area C iron ore royalty earnings (MAC) increased by 16.1 per cent to $88.1 million as a result of a 3.2 per cent increase in sales volumes and an 18.9 per cent increase in the average realised AUD iron ore price, offset partially by capacity payments being $4.0 million lower than in the previous corresponding period.

Group EBIT (earnings before interest and tax) was $790.3 million, compared to $86.1 million in the previous corresponding period.

Profit before tax was $760.7 million (2010: $39.9 million). A net tax expense of $218.9 million was recognised in respect of the profit for the period, an effective tax rate of 28.8 per cent.

Basic earnings per share for the period were 130.1 cents compared to 8.6 cents in the previous corresponding period. The number of shares on issue at 31 December 2011 of 418.7 million was unchanged during the period.

Free cash flow of $589.6 million, compared to $60.7 million in the previous corresponding period reflects a combination of higher operating cash flows and lower capital expenditure. Operating cash flows increased to $706.2 million from $163.6 million in the previous corresponding period.

Net cash at 31 December 2011 was $156.7 million, compared to net debt at 31 December 2011 of $312.6 million and a gearing ratio (net debt/net debt + equity) of 21.8 per cent. Undrawn facilities at 31 December 2011 were $405.6 million and cash at bank was $320.7 million.

REVIEW OF OPERATIONS (continued)

Dividend

Directors have determined a fully franked final dividend of 55 cents per share, payable on 5 April 2012 with a record date of 9 March 2012.

Income statement analysis

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

Mineral sands operational results

	Revenue		**EBITDA**		**EBIT**	
$ million	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Eucla/Perth Basin	829.2	468.7	499.7	119.8	440.1	33.7
Murray Basin	571.6	281.4	408.2	113.9	292.0	0.9
Australia	1,400.8	750.1	907.9	233.7	732.1	34.6
United States	135.9	124.3	51.9	40.2	41.5	23.2
Exploration and other	-	-	(33.9)	(23.7)	(36.3)	(26.2)
Total	**1,536.7**	**874.4**	**925.9**	**250.2**	**737.3**	**31.6**

REVIEW OF OPERATIONS (continued)

Mineral sands production and sales volumes

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

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

Mineral sands production

Overall production volumes of zircon, rutile, synthetic rutile (Z/R/SR) were 158.0 thousand tonnes (15.6 per cent) higher than in the previous corresponding period. In addition to higher Z/R/SR overall tonnes, the increased proportion of zircon (51.5 per cent compared to 40.9 per cent in the previous corresponding period) reflects a full year of processing of zircon rich concentrate from the Jacinth deposit in South Australia.

Mineral sands revenue

Mineral sands revenue increased by $662.3 million (75.7 per cent) compared with the previous corresponding period due mainly to significantly higher prices for all Z/R/SR products, together with an increase in the proportion of zircon in the Z/R/SR sales mix. Australian dollar revenue was influenced adversely by a higher average AUD:USD exchange rate of 103.2 cents compared to 92.0 cents in previous corresponding period.

Cash costs of production

Cash costs of production of $628.9 million were 15.6 per cent higher than the previous corresponding period, however, the increase in cash costs was offset by increased production of Z/R/SR resulting in the unit cash cost of production per tonne of Z/R/SR being unchanged at $538 per tonne.

Inventory movement

Inventory of concentrate and finished product has increased due to a scheduled build of concentrate stockpiles in the Murray Basin prior to the planned transition to the Woornack, Rownack and Pirro (WRP) deposits in the first half of 2012, reduced processing of concentrate at Narngulu in the fourth quarter associated with Iluka's production response to an anticipated short term softening in zircon demand and an increase of finished goods stocks of $70.8 million which also includes the effect of slowing zircon sales volumes in the fourth quarter.

REVIEW OF OPERATIONS (continued)

Restructure and idle capacity cash charges

The charges relate to the impending change in operations in the Murray Basin (Victoria) from production at Douglas and Kulwin to the WRP operation and the reversal of prior period charges which are no longer required following the resumption of mining at Eneabba and continued production of synthetic rutile at Narngulu, both in the Mid-West of Western Australia.

Rehabilitiation and holding costs for closed sites

The majority of the charge relates to a $33.9 million increase in the rehabilitation provision for the former operation in Florida following a reassessment of the remaining work required. The balance of the charge relates mainly to maintenance and other costs for closed sites in Western Australia, including the Eneabba mining and the Narngulu synthetic rutile operations prior to their resumption in the fourth quarter. The charge in the previous corresponding period was mainly for increased closure costs in Florida.

Government royalties and marketing costs

Government royalties increased with higher sales volumes and prices. Marketing and selling costs, including fixed port charges, reflect higher sales volumes, increased marketing administration and transport costs for material in overseas warehouses.

Product, technical development and exploration

The increased costs reflect the commitment to new product development, including research and development activity in respect of new synthetic rutile products, and an increase in exploration activity in Australia and overseas.

Depreciation and amortisation

The increase of $5.6 million reflects a full period charge for the Jacinth-Ambrosia and Kulwin operations that were both commissioned during the previous corresponding period.

Impairment reversal

The amount relates to the depreciated value of impairment charges recognised in 2005 during development of the Murray Basin operation and also for the Cataby deposit. The reversal reflects significant increases in forecast product prices and an upgrade to the Cataby reserve announced in the fourth quarter.

Mining Area C

Iron ore sales volumes increased 3.2 per cent to 44.6 million dry metric tonnes. The average AUD realised price upon which the royalty is payable increased by 18.9 per cent from the previous corresponding period. The EBIT contribution of $88.1 million includes $1.0 million of annual capacity payments for production increases in the year to 30 June (2010: $5.0 million) as production was stable following the expansion of the Area C operation by BHP Billiton in early 2009 and the subsequent ramp-up in production volumes.

Currency hedging and foreign exchange

Currency hedging and foreign exchange reflects no hedge gains in the year, following the delivery of the final hedge contracts in the previous corresponding period.

Corporate and other

Corporate costs were $5.2 million higher than the previous corresponding period, due mainly to increases in remuneration incentive costs reflecting improved business performance and increased investment in human resources to support the development of the group.

Interest and rehabilitation unwind

The decrease in net interest costs reflects lower drawn debt than the previous corresponding period, lower margins payable on variable rate debt and a significant increase in cash held on deposit. Higher rehabilitation unwind costs reflect changes in the timing of rehabilitation expenditure in future years.

REVIEW OF OPERATIONS (continued)

Tax expense

The income tax expense of $218.9 million is at an effective tax rate of 28.8 per cent, as the significance of lower tax rates in the United States and additional tax deductions for research and development claims on the effective rate reduces given the significant increase in pre-tax profits.

Balance sheet, cash flow and net cash/net debt

31 December 2011	E/PB	MB	US	MAC	Corp	Group	2010
Receivables	116.3	101.9	14.1	18.9	4.9	256.1	164.8
Inventories	222.2	189.5	14.4	-	-	426.1	257.6
Payables and accruals	(49.6)	(58.1)	(9.0)	-	(9.7)	(126.4)	(94.5)
Employee and other provisions	(10.8)	(12.6)	(8.6)	-	(11.1)	(43.1)	(30.7)
Rehabilitation provisions	(293.4)	(79.7)	(53.8)	-	-	(426.9)	(347.4)
Property, plant & equipment	739.8	645.9	36.4	-	8.3	1,430.4	1,425.0
Intangibles	-	-	-	6.7	-	6.7	7.1
Capital employed	**724.5**	**786.9**	**(6.5)**	**25.6**	**(7.6)**	**1,522.9**	**1,381.9**
Net tax liability (asset)						144.9	(55.3)
Net debt (cash)						(156.7)	312.6
Total equity						1,534.7	1,124.6
Net funding						**1,552.9**	**1,381.9**

Higher receivables are associated mainly with the significant increases in product prices during 2012. Receivables from mineral sands sales of $213.2 million represents approximately 31 days sales, compared to 42 days for the previous corresponding period.

Higher inventories reflect an increase in stores (up $15.3 million to $43.0 million), concentrate stocks (up $82.5 million to $222.2 million) and finished product stocks (up $70.8 million to $160.9 million).

Higher stores inventory includes supplies of ilmenite from external sources that will be used for synthetic rutile production. The higher concentrate value is associated with the stockpile of material to maintain output at the Murray Basin operations during the transition to the Woornack, Rownack, Pirro (WRP) deposits in the first half of 2012.

Higher finished product stocks include the impact of lower zircon sales volumes in the fourth quarter combined with high production volumes in the second half of 2011.

Higher rehabilitation provisions reflect the reassessment of the remaining work associated with the closure of Florida and Kulwin and expansion at the new operations of WRP and Tutunup South

Property, plant and equipment values include the impact of the impairment reversals relating to Murray Basin assets and the Cataby ore body and increases associated with mine closure activities.

Net cash of $156.7 million at 31 December 2011 includes $320.7 million of cash on hand.

The net tax liability represents mainly tax payable in Australia of $145.7 million, due in the first half of 2012. The level of tax payable relative to the tax expense of $218.9 million reflects the utilisation of brought forward losses in Australia and the United States.

REVIEW OF OPERATIONS (continued)

Movement in net cash (debt)

$ million	2011	2010
Opening net cash (debt)	**(312.6)**	**(382.1)**
Operating cash flow	706.2	163.6
MAC royalty	90.3	63.9
Exploration	(23.6)	(17.9)
Interest (net)	(10.9)	(29.4)
Tax	(12.5)	(1.5)
Capital expenditure	(142.5)	(117.2)
Asset sales	3.9	9.0
Share purchases	(21.3)	(9.8)
Free cash flow	**589.6**	**60.7**
Dividends	(117.0)	-
Net cash flow	**472.6**	**60.7**
Exchange revaluation of USD net debt	(3.3)	8.8
(Decrease)/increase in net cash (debt)	**469.3**	**69.5**
Closing net cash (debt)	**156.7**	**(312.6)**

Operating cash flow

Operating cash flow in 2011 reflects the significant increase in realised prices of all major products in the period offset partially by a $226.1 million increase in working capital which in turn was due mainly to higher receivables, reflecting higher sales prices and the timing of sales in the fourth quarter, higher inventory levels due to a build in concentrate production in the Murray Basin in advance of the move to WRP deposits and lower zircon sales volumes in the fourth quarter.

Mining Area C royalty

MAC cash flows in 2011 were higher than the previous corresponding period due to higher realised prices for iron ore.

Capital expenditure

Capital expenditure of $142.5 million in the year was mainly for the development of the Tutunup South mine in Western Australia, commissioned in June 2011 and for the WRP development in Murray Basin. Payments for 2010 included $81.5 million associated with the completion of construction and commissioning of the Kulwin and Jacinth-Ambrosia projects.

Share purchases

On-market purchases associated with the group's equity based incentive plans.

Dividends

A 2010 final dividend of 8 cents per share and a 2011 interim dividend of 20 cents per share, both unfranked, were paid to shareholders on 6 April 2011 and 5 October 2011 respectively.

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 Chairman 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 a special advisor to Gresham Partners Limited. She is also a Director of Amcor Limited, Bank of Western Australia Limited, IRESS Market Technology Ltd and Export Finance and Insurance Corporation. Ms Seabrook is a member of the Takeovers Panel (term ending on 31 March 2012) and a member of ASIC's External Advisory Group. Ms Seabrook is Chairman of the Audit and Risk Committee and a member of the Remuneration and Nomination Committee.

Directorships of Listed Entities (last 3 years):

IRESS Market Technology Limited (appointed August 2008)
Amcor Limited (appointed December 2011)

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.

DIRECTORS' PROFILES (continued)

Stephen John Turner, BCom, ACA (continued)

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)

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 Limited. Mr Osborn is Chairman of Thiess Pty Limited (a wholly owned subsidiary of Leighton Holdings Limited), Chairman of the Australian Institute of Marine Science and a Trustee of the Western Australian Museum. He was formerly a Director of the Australian Business Arts Foundation and Vice President of the Chamber of Commerce and Industry, Western Australia.

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 commenced as Managing Director on 18 October 2006. Mr Robb was previously Managing Director, Wesfarmers Energy as well as executive director, Wesfarmers Limited. Prior to joining Wesfarmers he held senior positions with British Petroleum in Australia and overseas, including chief executive responsibilities for a national service business in the US; for oil, chemicals, consumer goods, marine and aviation businesses in Malaysia and as Director responsible for oil marketing throughout South East Asia.

Directorships of Listed Entities (last 3 years):

Consolidated Rutile Limited (appointed 26 October 2006, resigned May 2009)

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.

MEETINGS OF DIRECTORS

		Board of Directors' meetings		Audit and Risk Committee meetings		Remuneration & Nomination Committee meetings	
		Number attended	Number held	Number attended	Number held	Number attended	Number held
D Robb		9	9	-	-	-	-
G J Rezos		9	9	5	5	4	4
D M Morley	(i)	2	2	2	2	-	
J A Seabrook		9	9	5	5	4	4
S J Turner		9	9	5	5	4	4
G J Pizzey	(ii)	9	9	-	-	-	-
W G Osborn		9	9	-	-	4	4

(i) Mr Morley retired from the Board (and related committees) of Iluka Resources at the 2011 AGM.
(ii) Mr Pizzey attended the Audit & Risk Committee meetings by invitation only. He is not a member of the Committee.

DIRECTORS SHAREHOLDING

Directors shareholding is set out in note 21.

REMUNERATION REPORT

The Remuneration Report is set out on pages 13 to 34.

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 Director's 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 company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or 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 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 Company 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.*

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2011* is set out on page 35.

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

ENVIRONMENTAL REGULATIONS

The company'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, wast 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 Director's are aware, there have been no material breaches of the company'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

The Director's are not aware of any matter or circumstance not otherwise dealt with in the Directors' Report that has or may significantly affect the operations of the economic activity, the results of those operations or the state of affairs of the economic entity in subsequent financial years.

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 company and 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
22 March 2012

Remuneration Report

CONTENTS

The Remuneration Report is presented in the following sections:

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SECTION 5	MANAGING DIRECTOR REMUNERATION
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SECTION 8	DETAILS OF STATUTORY REMUNERATION DISCLOSURES

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

SECTION 1: SUMMARY (continued)

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.

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 2011 Overview

The following explains how remuneration and incentive outcomes reflect company performance in 2011.

Fixed Remuneration

After a period in which neither the Non-Executive Directors, the Managing Director nor the Executives received increases to base remuneration, the following increases occurred in 2011:

- Non-Executive Director fees were increased effective 1 March 2011 as follows:
  - Board Chairman's fees increased by 13.5 per cent; and
  - Board member fees increased by 25 per cent

  The previous increase was almost three years prior on 1 July 2008;

- the Managing Director's fixed remuneration was increased by 16.6 per cent effective 1 January 2011 (the previous increase was three years prior on 1 January 2008);

- Executive fixed remuneration was increased on average by 5.1 per cent effective 1 March 2011 (Executives did not receive salary increases in 2010); and

- overall, the 2011 salary review process for general staff increased fixed remuneration on average by 4.8 per cent.

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

Performance Based Reward

For the 2010 performance year, the EBIT target was replaced with EBTIDA to provide an increased focus on cash flow during a period of elevated company debt levels after the high capital expenditure in 2008 and 2009. Profitability targets for the 2011 STIP were reviewed with the EBIT target reinstated to align with Iluka's key financial metrics.

In 2011, more challenging sustainability targets for Total Recordable Injury Frequency Rate and Severity Rate were introduced in order to provide greater stretch in targeted safety performance.

Overall, Iluka's production, product pricing and revenue significantly exceeded initial expectations resulting in Iluka's 2011 profitability outcomes exceeding stretch targets. As a consequence, the 2011 STIP delivered above target awards to the Managing Director and Executives.

SECTION 1: SUMMARY (continued)

Overall, the 2011 STIP outcome equated to an average payment of 83 per cent of maximum opportunity for all executives (including the Managing Director) compared with an average payment of 92 per cent for the 2010 STIP.

Shareholder Alignment

The graph below shows Iluka's share price performance compared with the Materials and the Midcap 50 Indices over the corresponding four year period from 1 January 2008 to 31 December 2011.

2009 Long Term Incentive Plan

In respect of the TSR target for the 2009 LTIP (for which the performance period was 1 January 2009 to 31 December 2011), the company achieved a TSR of 286.3 per cent and a ranking at the 97th percentile of the Materials Index and MidCap 50 comparator groups. Accordingly, share rights granted in respect of this component of the 2009 LTIP vested in full.

ROE performance for the 2009 LTIP was 12.7 per cent against a Threshold target of 10 per cent and a Stretch target of 14 per cent. Accordingly, 83.8 per cent of share rights granted in respect to this component of the 2009 LTIP vested.

This is the first time since the ROE performance measure was introduced in 2007 that an award has been made in respect to the ROE component.

A total of 496,945 shares were awarded to participants under the 2009 LTIP.

Employee Share Plan

In 2011 the A$1,000 employee share plan was offered to eligible employees. Overall, a total of 573 (94 per cent) of 610 eligible employees accepted the offer to participate in the plan.

A total of 42,975 shares were awarded to participants of the 2011 Employee Share Plan.

Employees who participate in the STIP or LTIP are not eligible to participate in the Employee Share Plan.

SECTION 1: SUMMARY (continued)

Iluka Retention Plan

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.

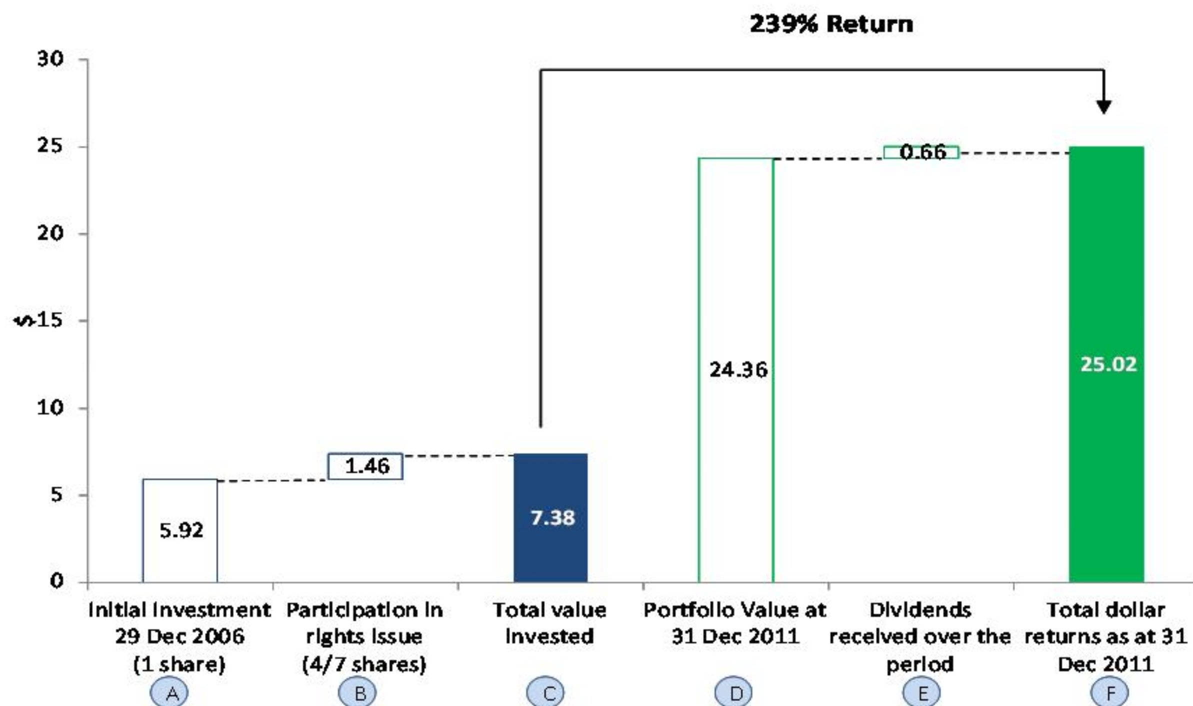
The Retention Plan offered participants a grant of share rights which vested in full at the conclusion of a three year retention period.

For all but one individual, the various retention periods concluded in 2011. A total of 477,000 shares vested to Executives on either 31 March 2011 or 31 May 2011. The market price for Iluka shares on 31 March 2008 and 31 May 2008 were $4.65 and $3.69 respectively.

1.4 Iluka's five year performance

Shareholder Returns

Assuming a holding period of five years to 31 December 2011, shareholders achieved total returns of 239 per cent over that period on a pre-tax basis. This is illustrated in the chart below.



Source: Bloomberg and company reports
Note: Share prices used were on an adjusted basis.

A. A shareholder invests $5.92 to acquire one share on the last day of trading in 2006.

B. In March 2008, the shareholder participates in the 4 for 7 rights issue at $2.55 per share. The shareholder is issued an additional 0.57 shares for an outlay of $1.46.

C. Total amount invested is $7.38 (A+B).

D. As at 31 December 2011, share prices were $15.50. On a portfolio of 1.57 shares, the total portfolio is valued at $24.36.

SECTION 1: SUMMARY (continued)

E. Over the five year holding period, the shareholder was paid $0.22 per share dividends over its 1 share portfolio during 2007, and $0.28 per share dividends over its 1.57 share portfolio in 2011 (totalling $0.44). Total dividends paid on the portfolio were $0.66.

F. Total dollar returns as at 31 December 2011 were $25.02 (D+E), indicating a return of 239% over the 5 year period.

Note in this example, the number of shares issued under the rights issue have not been rounded.

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

	31 Dec 07	31 Dec 08	31 Dec 09	31 Dec 10	31 Dec 11
Net profit after tax ($ million)	51.1	49.0	(82.4)	36.1	541.8
Earnings per share (cents)	21.6	14.2	(20.2)	8.6	130.1
Closing share price ($)	4.11	4.64	3.58	9.14	15.50
Dividends paid (cents)	22	N/A	N/A	N/A	28

1.5 Executive Total Earnings in 2011

Details of the remuneration received by the Managing Director and Executives prepared in accordance with statutory requirements and accounting standards are detailed on pages 30 to 34 of this Remuneration Report.

The table below sets out the total earnings for the Managing Director and Executives for 2011. 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 2011. The table does not include share based payments which reflect the accounting value for share rights granted in the current and prior years which may or may not be realised as they are dependent on the achievement of performance hurdles.

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 1: SUMMARY (continued)

1.6 Executive Total Earnings in 2010

The table below shows the total earnings for the Managing Director and Executives relating to the 2010 performance year for comparison purposes.

Name	Base $	Super-annuation $	Other[1] $	2010 STIP[2] $	2010 STIP[2] $	2008 LTIP[3] $	Retention Plan $	2010 Total Earnings $
				Cash	*Restricted Shares*	*Shares*	*Shares*	
D Robb[4]	1,451,941	48,059	38,206	836,386	836,386	653,542	10,660,000	14,524,520
P Beilby[5,6]	165,752	5,905	-	-	-	-	192,301	363,958
C Cobb	407,833	36,180	-	183,166	186,166	-	-	810,348
V Hugo	382,519	26,139	6,487	164,566	164,566	171,228	-	915,506
A Tate	462,423	28,514	-	205,435	205,435	206,955	-	1,108,765
H Umlauff	529,358	47,642	4,767	236,282	236,282	246,168	-	1,300,498
S Wickham	472,556	17,781	4,768	206,438	206,438	114,733	-	1,022,713
C Wilson	422,376	26,385	6,487	185,206	185,206	191,706	-	1,017,368

1 Includes non-monetary benefits.
2 Represents the value of the 2010 STIP which was awarded half in cash and half in deferred equity in March 2011.
3 Represents the value of the 2008-10 LTIP award for which the performance period concluded 31 December 2010 calculated at a share price of $10.66 being the volume weighted average price of shares traded over the five days following the release of the 2010 full year results.
4 Represents the value of the Managing Director's 2008-10 performance and retention plan award calculated at a share price of $10.66 being the volume weighted average price of shares traded over the five days following the release of the 2010 full year results.
5 Ceased employment on 1 March 2010.
6 Represents the value of the retention plan award (awarded 1 March 2010) calculated at a share price of $3.67 being the volume weighted average price of shares traded over the five days following the release of the 2009 full year results.

SECTION 2: BOARD OVERSIGHT OF REMUNERATION

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 was chaired by Mr Osborn in 2011.

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 key 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 by the Board.

SECTION 2: BOARD OVERSIGHT OF REMUNERATION (continued)

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 2011, 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, the design of the Managing Director's Long Term Incentive Deferred Plan and Iluka's employee share plans; and

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

SECTION 3: 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 20), the key performance measures underlying the incentive plans in 2011 were:

- STIP: Profitability (ROC, EBIT and NPAT), Sustainability (total recordable injury frequency rate, severity rate and level two and above 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.

For the 2011 performance year, the STIP delivered above target awards to the Managing Director and Executives reflecting, principally, the achievement of profitability objectives at stretch levels of performance.

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.

SECTION 3: REMUNERATION PRACTICES (continued)

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 of Executives. 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 ING Australia Limited as part of a master trust of which over 90 per cent of 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. All Executives participate in the Iluka Superannuation Plan or a fund of choice on an accumulation basis.

3.5 Remuneration Review

The company conducts a review of the remuneration of Executives and staff on an annual basis. Guidelines for reviews are considered by the Board following recommendation 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 Manager 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.

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

Only nominated Managers and Executives 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 2012, it is anticipated that 179 employees (representing 17 per cent of employees and including all Executives) will participate in the STIP, and 106 employees (representing 10 per cent of employees and including all Executives) will participate in the LTIP. In 2011, corresponding pecentages were 15 per cent and 9 per cent respectively.

SECTION 3: REMUNERATION PRACTICES (continued)

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

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 return on capital (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 in each 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 for the year.

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 Manager assessment and, for the Managing Director and Executives, assessment by the Board.

2011 STIP

The measures and weighting of objectives for the 2011 performance year were:

Profitability (ROC, EBIT and NPAT)	60 per cent
Sustainability (total recordable injury frequency rate, severity rate and level 2 and above environmental incidents)	10 per cent
Growth (individual objectives)	30 per cent

SECTION 3: REMUNERATION PRACTICES (continued)

STIP percentage payments to the Managing Director and Executives in 2011 were generally consistent with those paid in 2010 reflecting sustained improvement in profitability, a strong relative share price performance and the achievement of individual 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.

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 2011.

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 consisting of companies which in 2010 comprised the Materials Index and the ASX Mid Cap 50 Index at the commencement of the performance period (excluding property trusts and duplication). The two performance measures are applied as follows:

<u>Return on Equity component:</u>

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.

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 and 2011 LTIP are shown in the table below:

LTIP Grant	Threshold	Target
2011 – 2013	12%	20%
2010 – 2012	10%	14%

The targets above may be compared with a three year history for Iluka (to 2010) in which the average ROE was 0.7 per cent, or with a three year average for the ASX 200 (less property trusts) of 15.3 per cent.

SECTION 3: REMUNERATION PRACTICES (continued)

Total Shareholder Return component:

The TSR component of the LTIP grant vests based on TSR relative to a peer group of companies. In 2011, following a review of Iluka's combined Materials Index and Midcap 50 comparator group, a decision was made to remove the Midcap 50 index and measure performance solely against the ASX 200 Materials Index. The ASX 200 Materials Index comparator group was chosen as it better reflects the companies that operate within the same industry and with which Iluka competes for investment.

LTIP Vesting Schedule

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

LTIP Vesting Schedule			
Measure	Performnance Hurdle to be achieved	Percentage of total grant that will vest	Maximum percentage of total grant
ROE	Threshhold	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 33. 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.

2009 to 2011 LTIP

At the end of 2011, the 2009 LTIP grant completed its performance period (1 January 2009 to 31 December 2011). 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%	12.7%	83.8% of rights granted in respect to the ROE component will vest
Relative TSR (50%)	50th percentile for 50% vesting and 75th percentile for full vesting	97th percentile	Full vesting of the TSR component

SECTION 3: REMUNERATION PRACTICES (continued)

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 also 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.

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.

In 2011, the Employee Share Plan was reinstated for the 2010/2011 financial year and offers were made to eligible employees (permanent employees with a minimum of twelve months service, who do not participate in the STIP) in Australia and the United States to receive ordinary shares in Iluka Resources Limited to the value of A$1,000.

To satisfy the legislative requirements of both Australia and the United States, Australian employees received 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 were offered shares up to A$1,000 through a grant of restricted shares. The shares will be held under the Plan rules with a restriction period of three years. To enable US employees to receive a tax deferral, strict forfeiture conditions apply.

Of the 504 Australian employees eligible to participate, 482 (96 per cent) accepted the offer. In the US, 91 of 106 (86 per cent) employees participated. Overall, a total of 573 (94 per cent) of 610 eligible employees accepted the offer at a cost of $568,559.

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.

Directors have decided that employees who would have been eligible to participate if a share offer had been made for the 2009/2010 financial year wll be offered an award of 253 shares (being the equivalent of $1,000 worth of Iluka Shares based on the VWAP for March 2010) subject to a twelve month forfeiture and holding condition.

3.6.5 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.

SECTION 3: REMUNERATION PRACTICES (continued)

Retention Plan share rights awarded to Executives are included as rights granted in the table on page 29.

In August 2009, the Board closed the Retention Plan.

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 maximum amount of Non-Executive Directors' fees as approved by shareholders in May 2011 is $1.5 million. The total amount paid to Non-Executive Directors in 2011, including superannuation, was $1,053,912.

In response to the company's financial performance Non-Executive Directors elected in 2009 and 2010 to forgo any increase in their fees. A review of Iluka's Non-Executive Director fees was conducted by Ernst & Young in 2011. The review took into account the nature of the Director's work, their responsibilities and survey data on comparative companies. Details of Non-Executive Director fees in 2011 are as follows:

	1 March 2011 to 31 Dec 2011	1 Jul 2008 to 28 Feb 2011
	$ p.a	$ p.a
Non-executive director fees		
Board Chairman (inclusive of Committee fees)	312,000	275,000
Board Member	125,000	100,000
Board Member Committee Fees		
Audit and Risk Committee Chair	35,000	35,000
Remuneration and Nomination Committee Chair	25,000	25,000
Audit and Risk Committee Member	17,500	17,500
Remuneration and Nomination Committee Member	12,500	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, assuming no changes to the Board, is $932,000 per annum, excluding superannuation, or $1,003,575 including superannuation.

SECTION 5: MANAGING DIRECTOR REMUNERATION

Following are the employment terms and conditions for the Managing Director, David Robb.

Total Fixed Remuneration

$1,750,000 for the year ended 31 December 2011.

2011 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, level 2 and above notifications to government)	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.

2011 Long Term Incentive

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

Measure	Weighting
ROE	50 per cent
TSR	50 per cent

Managing Director Retention Plan (2008 to 2010)

Retention Offer and Outcome

The performance measure associated with the Managing Director's Retention Plan (MD Retention Plan), which was approved by shareholders at the 2008 Annual General Meeting, required TSR of a minimum of 45 per cent over the three year performance period from 1 January 2008. In terms of share price (i.e. absent any other contributor to TSR such as dividends) full vesting of the Plan shares over the three year period required Iluka's share price to reach a minimum of $5.32 (calculated on the volume weighted average price (VWAP) of shares traded over the five days following the release of the 2010 financial results). The VWAP was calculated for the five trading days from 25 February to 3 March 2011 inclusive. The resulting volume weighted average share price of $10.66 exceeded the target of $5.32 by 100 per cent and share price growth of 190 per cent for the performance period. Market capitalisation of the company increased from $0.9 billion to $4.5 billion over the relevant performance period.

Accordingly, Mr Robb was awarded 1,000,000 ordinary shares under the terms of the MD Retention Plan on 4 March 2011.

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.

SECTION 5: MANAGING DIRECTOR REMUNERATION (continued)

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 (ie 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).**
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 the 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.

SECTION 5: MANAGING DIRECTOR REMUNERATION (continued)

	* 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
H Umlauff	General Manager Project Management	3 months	3 months	12 months
S Wickham	General Manager Australian Operations	3 months	3 months	9 months
C Wilson	General Manager Corporate Services & Company Secretary	3 months	3 months	12 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.

SECTION 7: NON-EXECUTIVE DIRECTOR AND EXECUTIVE SHAREHOLDINGS

7.1 Shareholdings

	Number Of Shares				
Name	Balance held at 1/1/11	Vesting of share rights	Awarded as Restricted Shares	Other changes	Balance held at 31/12/11
Non-executive directors					
D M Morley[1]	40,876	-	-	(40,876)	-
W G Osborn	-	-	-	1,800	1,800
G J Pizzey	16,351	-	-	2,000	18,351
G J Rezos	63,602	-	-	6,398	70,000
J A Seabrook	19,314	-	-	-	19,314
S J Turner	50,000	-	-	-	50,000
Executive Director					
D Robb	663,215	1,061,308	78,460	(914,455)	888,528
Executives					
C Cobb	-	-	17,183	-	17,183
A Tate	59,760	121,414	19,272	(137,000)	63,446
H Umlauff	112,906	84,093	22,165	(61,000)	158,164
S Wickham	60,913	51,763	19,366	(46,973)	85,069
C Wilson	99,892	126,984	17,374	(148,650)	95,600

1 Shares and Share Rights are reversed to show a zero balance at 31 December on resignation as a director.

No shares were forfeited during the year

7.2 Share Rights

	Number Of Share Rights					
Name	Balance held at 1/1/11	Granted during 2011	Vested as shares during 2011	Lapsed during 2011	Balance held at 31/12/11[1]	Fair value of Share Rights granted in 2011 ($)[2]
Executive Director						
D Robb	1,285,300	799,250	(1,061,308)	(8,265)	1,014,977	9,126,193
Executives						
C Cobb	34,146	16,886	-	-	51,032	142,011
A Tate	195,182	17,448	(121,414)	(2,722)	88,494	146,738
H Umlauff	170,256	16,886	(84,093)	(3,180)	99,869	142,011
S Wickham	122,141	17,448	(51,763)	(2,408)	85,418	146,738
C Wilson	194,032	13,790	(126,984)	(2,474)	78,364	115,974

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

2 Includes the fair value of share rights granted in 2011 in respect to the 2011 LTIP and Managing Director's LTID.

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

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 and include the five highest paid employees required to be disclosed by the Corporations Act 2001.

KEY MANAGEMENT PERSONNEL – DIRECTORS

(i) Non-execuitve Directors

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

(ii) Managing Director and Chief Executive Officer

D Robb

All above persons were Director of Iluka Resources Limited for all of the financial year, as well as for the financial year ended 31 December 2010 except for Mr Osborn and Mr Turner who commenced on 26 March 2010 and Mr Morley retired on 25 May 2011.

2011 KEY MANAGEMENT PERSONNEL - EXECUTIVES

C Cobb	General Manager Sales and Marketing
A Tate	Chief Financial Officer
H Umlauff	General Manager Project Management
S Wickham	General Manager Australian Operations
C Wilson	General Manager Corporate Services and Company Secretary

In the tables below, 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.

SECTION 8: DETAILS OF STATUTORY REMUNERATION DISCLOSURES (continued)

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 M Morley	60,076	N/A	-	N/A	5,407	N/A	65,483
W G Osborn	145,833	N/A	2,783	N/A	13,125	N/A	161,741
G J Pizzey	305,833	N/A	-	N/A	16,306	N/A	322,139
G J Rezos	150,833	N/A	5,551	N/A	13,575	N/A	169,959
J A Seabrook	161,373	N/A	5,551	N/A	14,524	N/A	181,448
S J Turner	138,333	N/A	2,359	N/A	12,450	N/A	153,142
Total	962,281	N/A	16,244	N/A	75,387	N/A	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.

* 5 highest paid Executives of the Group, as required to be disclosed by the *Corporations Act 2001.*

** N/A denotes that Non-Executive Directors are not eligible for these arrangements.

SECTION 8: DETAILS OF STATUTORY REMUNERATION DISCLOSURES (continued)

2010 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]	2010 Statutory Total
	$	$	$	$	$	$	$
Non-executive directors							
R L Every[4]	106,944	N/A	7,794	N/A	5,421	N/A	120,159
D M Morley	136,237	N/A	6,076	N/A	12,150	N/A	154,463
W G Osborn[5]	90,456	N/A	-	N/A	8,141	N/A	98,597
G J Pizzey	217,262	N/A	-	N/A	13,123	N/A	230,385
G J Rezos	124,763	N/A	-	N/A	11,229	N/A	135,992
J A Seabrook	121,951	N/A	-	N/A	10,976	N/A	132,927
S J Turner[6]	89,828	N/A	-	N/A	8,085	N/A	97,913
Total	887,441	N/A	13,870	N/A	69,125	N/A	970,436
Executive Director							
D Robb	1,451,941	836,386	38,206	-	48,059	1,359,631	3,734,233
Executives							
P Beilby[3]	165,752	-	-	315,000	5,905	261,039	747,696
*P Benjamin	410,092	177,517	6,487	-	36,908	361,570	992,574
V Hugo	382,519	164,566	6,487	-	26,139	256,549	836,260
C Cobb	407,833	183,167	-	-	36,180	41,580	668,760
*A Tate	462,423	205,436	-	-	28,514	269,704	1,066,077
*H Umlauff	529,358	236,282	4,767	-	47,642	366,074	1,184,123
*S Wickham	472,556	206,438	4,768	-	17,781	242,164	943,707
*C Wilson	422,376	185,207	6,487	-	26,385	364,455	1,004,910
Total	3,252,909	1,358,613	28,996	315,000	225,454	2,263,135	7,444,107

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 2010 were made in March 2011.

3 Ceased employment 1 March 2010. "Other" relates to redundancy payment and statutory leave entitlements on cessation of employment.

4 Retired on 20 May 2010.

5 Appointed 26 March 2010. No payments were made to WG Osborn as consideration for his appointment.

6 Appointed 26 March 2010. No payments were made to SJ Turner as consideration for his appointment.

* 5 highest paid Executives of the Group, as required to be disclosed by the *Corporations Act 2001*.

** N/A denotes that Non-Executive Directors are not eligible for these arrangements.

SECTION 8: DETAILS OF STATUTORY REMUNERATION DISCLOSURES (continued)

SHARE-BASED COMPENSATION

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

				Awarded %[2]		
Name	2009 STIP[1]	2010 STIP[1]	2011 STIP[1]	2009	2010	2011
D Robb	70,689	78,460	52,331	29	93	83
C Cobb	-	17,183	24,319	-	97	90
A Tate	17,772	19,272	13,317	30	92	80
H Umlauff	24,722	22,165	12,645	35	91	78
S Wickham	19,718	19,366	25,129	37	92	90
C Wilson	16,153	17,374	11,516	30	92	87

1 STIP restricted share fair value determined independently using the Black-Scholes 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 2011 STIP Awards are made in March 2012).

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

Maximum value of 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	2012	2013	2014	2015
D Robb	3,105,863	2,655,692	2,226,744	363,042
C Cobb	347,042	205,058	22,536	-
A Tate	257,625	135,266	12,340	-
H Umlauff	263,373	129,333	11,718	-
S Wickham	367,799	211,887	23,286	-
C Wilson	222,588	113,335	10,671	-

SECTION 8: DETAILS OF STATUTORY REMUNERATION DISCLOSURES (continued)

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
2009 LTIP	January 2009	4.06	2012
*2009 STIP (Tranche 2)	January 2010	3.57	2011 & 2012
Retention Plan	2008	2.80	2011 & 2012
2010 LTIP	January 2010	3.09	2013
*2010 STIP	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

* 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*.

The fair value of restricted shares is determined to be the volume weighted average price 5 days after results are announced to the market. The fair value is recognised as an expense through the income statement 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 Black-Scholes share right pricing model 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 share rights at grant date of the Long Term Incentive Plan (LTIP) is independently determined using a Monte Carlo simulation to model Iluka share prices against the comparator group performance at vesting date. The Monte Carlo method is a procedure for repeatedly sampling random movements in a stock's price to estimate the average or mean share price.

Auditor's Independence Declaration

As lead auditor for the audit of Iluka Resources Limited for the year ended 31 December 2011, 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.

Nick Henry
Partner
PricewaterhouseCoopers

Perth
22 March 2012

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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 2010 (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, lead 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.

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 to day 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 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 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 2011, the Board met on nine occasions to conduct its duties. Eight were scheduled meetings and one was 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 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 10 of this report.

COMPANY SECRETARY

Mr Cameron 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 a recommendation 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 Wayne Osborn (Chairman), Ms Jenny Seabrook, Mr Gavin Rezos and Mr John Pizzey. Details of Directors attendance at Remuneration and Nomination Committee meetings are set out on page 10.

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 13 to 34 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: Mr Don Morley (Chairman to 25 May 2011), Mr Gavin Rezos, Ms Jenny Seabrook (Chair from 25 May 2011) and Mr Stephen Turner.

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 December 2011.

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 2011.

CORPORATE REPORTING

The Managing Director and Chief Financial Officer have made the following certifications to the Board with respect to the 2011 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 2011, 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 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 are located in the Governance section of the Iluka website.

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 Iluka during the period from the end of 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 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 2011

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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. It's 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 22 March 2012. 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

Iluka Resources Limited
Consolidated income statement
For the year ended 31 December 2011

	Notes	**2011 $m**	2010 $m
Revenue	5	**1,631.4**	964.1
Other income	6	**7.9**	9.0
Expenses	7	**(842.8)**	(885.8)
Interest and finance charges paid/payable		**(15.2)**	(33.0)
Rehabilitation and restoration unwind		**(20.6)**	(14.3)
Total finance costs	7	**(35.8)**	(47.3)
Profit before income tax		**760.7**	39.9
Income tax expense	8	**(218.9)**	(3.8)
Profit for the year attributable to owners		**541.8**	36.1
		Cents	Cents
Earnings per share attributable to ordinary equity holders			
Basic earnings per share	28	**130.1**	8.6
Diluted earnings per share	28	**129.4**	8.6

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

	Notes	**2011 $m**	2010 $m
Profit for the year		**541.8**	36.1
Other comprehensive income			
Currency translation of US operation	19(a)	**(0.2)**	(6.9)
Hedge of net investment in US operation, net of tax	19(a)	**0.4**	6.7
Actuarial (losses) gains on defined benefit plans, net of tax	19(b)	**(4.4)**	0.6
Changes in fair value of foreign exchange cash flow hedges, net of tax		**-**	(3.6)
Other comprehensive loss for the year		**(4.2)**	(3.2)
Total comprehensive income for the year attributable to owners		**537.6**	32.9

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

Iluka Resources Limited
Consolidated balance sheet
As at 31 December 2011

	Notes	**2011 $m**	2010 $m
ASSETS			
Current assets			
Cash and cash equivalents	9	**320.7**	30.1
Receivables	10	**256.1**	164.8
Inventories	11	**376.2**	201.0
Current tax receivable		**0.5**	-
Total current assets		**953.5**	395.9
Non-current assets			
Inventories	11	**49.9**	56.6
Property, plant and equipment	12	**1,430.4**	1,425.0
Intangible assets	13	**6.7**	7.1
Deferred tax assets	14	**13.3**	55.3
Total non-current assets		**1,500.3**	1,544.0
Total assets		**2,453.8**	1,939.9
LIABILITIES			
Current liabilities			
Payables	15	**136.7**	103.7
Interest-bearing liabilities	16	**-**	29.5
Provisions	17	**82.0**	54.9
Current tax liabilities		**145.7**	-
Total current liabilities		**364.4**	188.1
Non-current liabilities			
Interest-bearing liabilities	16	**164.0**	313.3
Provisions	17	**377.7**	313.9
Deferred tax liabilities	14	**13.0**	-
Total non-current liabilities		**554.7**	627.2
Total liabilities		**919.1**	815.3
Net assets		**1,534.7**	1,124.6
EQUITY			
Contributed equity	18	**1,102.0**	1,108.3
Reserves	19	**16.4**	20.4
Retained profits (losses)	19	**416.3**	(4.1)
Total equity		**1,534.7**	1,124.6

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

Iluka Resources Limited
Consolidated statement of changes in equity
For the year ended 31 December 2011

	Notes	Attributable to owners of Iluka Resources Limited			
		Contributed equity $m	Reserves $m	Retained earnings $m	Total equity $m
Balance at 1 January 2010		1,114.4	19.9	(39.0)	1,095.3
Adjustment on adoption of AASB 2008-8		-	2.1	(2.1)	-
Restated total equity at the beginning of the financial year		**1,114.4**	**22.0**	**(41.1)**	**1,095.3**
Profit for the year		-	-	36.1	36.1
Changes in fair value of foreign exchange hedges, net of tax	19	-	(3.6)	-	(3.6)
Currency translation of US operation	19	-	(6.9)	-	(6.9)
Hedge of net investment in US operation, net of tax	19	-	6.7	-	6.7
Actuarial gains on retirement benefit obligations, net of tax	19	-	-	0.6	0.6
Transfer of asset revaluation reserve	19	-	(0.3)	0.3	-
Other comprehensive income		-	(4.1)	0.9	(3.2)
Total comprehensive income		**-**	**(4.1)**	**37.0**	**32.9**
Transactions with owners in their capacity as owners:					
Transfer of shares to employees	18	1.1	(1.1)	-	-
Purchase of treasury shares, net of tax	18	(7.2)	-	-	(7.2)
Share-based payments, net of tax	19	-	3.6	-	3.6
		(6.1)	2.5	-	(3.6)
Balance at 31 December 2010		**1,108.3**	**20.4**	**(4.1)**	**1,124.6**
Profit for the year		-	-	541.8	541.8
Currency translation of US operation	19	-	(0.2)	-	(0.2)
Hedge of net investment in US operation, net of tax	19	-	0.4	-	0.4
Actuarial losses on retirement benefit obligations, net of tax	19	-	-	(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	8.5	(8.5)	-	-
Purchase of treasury shares, net of tax	18	(14.8)	-	-	(14.8)
Share-based payments, net of tax	19	-	4.3	-	4.3
Dividends paid	19	-	-	(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**

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

	Notes	**2011 $m**	2010 $m
Cash flows from operating activities			
Receipts from customers		**1,455.2**	940.4
Payments to suppliers and employees		**(749.0)**	(776.8)
		706.2	163.6
Interest received		**5.1**	1.1
Interest paid		**(16.0)**	(30.5)
Income taxes paid		**(12.5)**	(1.5)
Exploration expenditure		**(23.6)**	(17.9)
Mining Area C royalty receipts		**90.3**	63.9
Net cash inflow from operating activities	27	**749.5**	178.7
Cash flows from investing activities			
Payments for property, plant and equipment		**(142.5)**	(117.2)
Sale of property, plant and equipment		**3.9**	9.0
Net cash outflow from investing activities		**(138.6)**	(108.2)
Cash flows from financing activities			
Repayment of borrowings		**(312.7)**	(116.4)
Proceeds from borrowings		**130.7**	-
Purchase of treasury shares		**(21.3)**	(9.8)
Dividends paid		**(117.0)**	-
Net cash outflow from financing activities		**(320.3)**	(126.2)
Net increase (decrease) in cash and cash equivalents		**290.6**	(55.7)
Cash and cash equivalents at 1 January		**30.1**	86.3
Effects of exchange rate changes on cash and cash equivalents		**-**	(0.5)
Cash and cash equivalents at 31 December	9	**320.7**	30.1

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

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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*. 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 2011 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 (including special purpose 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 Iluka Resources Limited 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 despatched 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.

1 Summary of significant accounting policies (continued)

(d) Revenue recognition (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 17 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.

1 Summary of significant accounting policies (continued)

(f) Goods and Services Tax ("GST") (continued)

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.

(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 and other 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.

1 Summary of significant accounting policies (continued)

(j) Inventories (continued)

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 Iluka Resources Limited's functional and presentation currency.

(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.

(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.

(i) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast receipt that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) the gains and losses previously deferred in equity are included in the measurement of the initial cost or carrying amount of the asset.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

1 Summary of significant accounting policies (continued)

(l) Derivatives and hedging activities (continued)

(ii) Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow 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.

(iii) Derivatives that do not qualify for hedge accounting

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

(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 in accordance with AASB 6 *Exploration for and Evaluation of Mineral Resources*. 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.

1 Summary of significant accounting policies (continued)

(o) Property, plant and equipment (continued)

Depreciation and amortisation of mine buildings, reserves and development 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, reserves and development and other non-mine specific plant and equipment 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 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. 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	the applicable mine life
- 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).

1 Summary of significant accounting policies (continued)

(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.

(t) Borrowings

Borrowings are initially recognised at cost, 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 2011 or 2010.

(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 or for obligations arising from the production process, any adjustment is reflected directly in profit or loss.

1 Summary of significant accounting policies (continued)

(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.

(iii) Termination benefits

Liabilities for employee termination benefits associated with restructurings are brought to account when a detailed restructuring plan has been developed.

(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 Acquistion 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.

1 Summary of significant accounting policies (continued)

(w) Employee benefits (continued)

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

The fair value of shares is determined to be the volume weighted average price five days after results are announced to the market. 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 Black-Scholes share right pricing model 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) is independently determined using a Monte Carlo simulation to model Iluka Resources Limited'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-fulfilment of market vesting conditions.

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) 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. The group only has operating leases.

(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) 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.

1 Summary of significant accounting policies (continued)

(ab) 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.

(ac) 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.

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.

(ad) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2011 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. The group has not yet determined the extent of impact, if any, on the amounts recognised in the 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.

- AASB 10 introduces a new definition of control of an entity, which widens the scope of the standard. It also introduces new disclosure requirements for interests in other entities.
- AASB 11 classifies a joint arrangement as either a joint operation or a joint venture, based on the contractual rights and obligations of that joint arrangement. It also requires a joint venture to be accounted for using the equity method.
- AASB 12 includes all of the disclosures that are required related to an entity's involvement with other entities as reported under AASB 10 and AASB 11. Other entities would include subsidiaries, joint arrangements, associates and structured entities.
- AASB 127 now deals solely with separate financial statements.
- Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept.

1 Summary of significant accounting policies (continued)

(ad) New accounting standards and interpretations (continued)

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.

2 Critical accounting estimates and judgements

(a) Critical accounting estimates and assumptions

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 additional 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.

On the basis of the policy set out in note 1(r), prior year impairments of $35.6 million (2010: $nil) were reversed during the year (refer to note 7). The amount relates to the depreciated value of impairment charges recognised in 2005 during development of the Murray Basin operation and also for the Cataby deposit. The reversal reflects significant increases in forecast product prices and an upgrade to the Cataby reserve. The recoverable amount was determined using fair value less cost to sell (FVLCS).

Following these reversals, a total of $136.7 million (2010: $177.9 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.

2 Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and assumptions (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 discount rate applied to the future rehabilitation cash flows was 6.0 per cent (2010: 6.0 per cent).

The total rehabilitation and mine closure provision of $426.9 million (2010: $347.4 million) includes $243.1 million (2010: $192.4 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 $34.8 million (2010: $8.5 million). The charges are reported within rehabilitation and holding costs for closed sites in note 7. The majority of the charge relates to a $33.9 million increase in the rehabilitation provision for the former operation in Florida following a reassessment of the remaining work required. The balance of the charge relates mainly to maintenance and other costs for closed sites in Western Australia, including the Eneabba mining and the Narngulu synthetic rutile operations prior to their resumption in the fourth quarter of 2011.

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 when commercial transactions and recognised assets and liabilities are denominated in a currency other than Australian dollars.

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 table below summarises financial assets and liabilities denominated in foreign currencies that give rise to an accounting exposure in profit or loss that form part of the balance sheet carrying values, expressed in US dollars.

	31 December 2011 USD $m	31 December 2010 USD $m
Cash and cash equivalents	**1.2**	1.3
Receivables	**200.3**	123.1
Payables	**(6.6)**	(2.6)
Interest-bearing liabilities, net of swap	**(110.0)**	(115.0)
	84.9	6.8

3 Financial risk management (continued)

(a) Market risk (continued)

Group Sensitivity

The average US dollar exchange rate applied during the year was 1.0323 (2010: 0.9200). The US dollar spot rate at 31 December 2011 was 1.0152 (31 December 2010: 1.0176).

At 31 December 2011, if the foreign currency exchange rates strengthened/(weakened) against the functional currency by 10 per cent (2010: 10 per cent), with all other variables held constant, the group's post-tax profit for the year would have increased by $8.3 million/decreased by $6.7 million (2010: increased $4.2 million/decreased $3.4 million), mainly as a result of foreign exchange gains/losses on translation of US dollar denominated trade receivables, payables and borrowings.

Equity would have decreased $1.5 million/increased $1.3 million (2010: decreased $3.4 million/increased $2.8 million) if the foreign currency exchange rates strengthen/(weakened) against the functional currency by 10 per cent (2010: 10 per cent), arising mainly from US dollar debt designated as a net investment hedge of the US operation.

(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 2011 and 2010, the group's borrowings at variable rates were denominated in Australian dollars and US dollars.

As at 31 December 2011 all outstanding term deposits had a maturity of less than 90 days.

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.

The group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model.

At 31 December 2011, 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 $1.1million lower/higher (2010: $2.1 million higher/lower), as a result of moving from a net debt position to a net cash position. The sensitivity is based on net debt at 31 December 2011 assuming that the net debt balance stays constant throughout the year.

(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 receivables balance of $215.5 million, $156.2 million is covered by an insurance policy and $8.6 million by letters of credit. Of the amount covered by insurance, the maximum amount that can be claimed is $57.0 million. 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

Prudent liquidity risk management implies 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.

3 Financial risk management (continued)

(c) Liquidity risk (continued)

Maturities of financial liabilities
The tables below analyse 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 2011	**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	**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**	**-**
At 31 December 2010						
Non-derivatives						
Interest-bearing variable rate	4.8	11.5	11.5	241.1	264.1	238.9
Interest-bearing fixed rate	6.2	34.9	3.1	80.2	118.2	106.1
Total non-derivatives		46.4	14.6	321.3	382.3	345.0
Derivatives						
Interest rate swaps (net receivable)		1.2	1.2	0.5	2.9	-

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 are unchanged from those at 31 December 2010, except for the introduction of Australia (AUS), being an aggregate of Eucla/Perth Basin (E/PB) and Murray Basin (MB).

Eucla/Perth Basin (E/PB) comprises the integrated mineral sands mining and processing operations in 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) which was commissioned in 2010. The mined material is processed predominantly at facilities in the South West and Mid West of Western Australia to produce saleable products.

Murray Basin (MB) comprises the integrated mineral sands mining and processing operations in Victoria, including the Murray Basin Stage 2 development which was commissioned in 2010.

Australia (AUS) 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 segment.

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

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. No such transfers were made in 2011 or 2010. Any transfers of intermediate products between operating segments are made at cost.

(b) Segment information

2011	E/PB $m	MB $m	AUS $m	US $m	MAC $m	Total $m
Total segment sales to external customers	829.2	571.6	1,400.8	135.9	-	1,536.7
Total segment result	421.0	291.7	712.7	40.3	88.1	841.1
Segment assets	1,078.3	937.3	2,015.6	64.9	25.6	2,106.1
Segment liabilities	353.7	150.4	504.1	71.4	-	575.5
Additions to property, plant and equipment and other non-current segment assets	72.7	115.0	187.7	1.4	-	189.1
Depreciation and amortisation expense	64.0	147.4	211.4	10.4	0.4	222.2

4 Segment information (continued)

(b) Segment information (continued)

2010	**E/PB** $m	**MB** $m	**AUS** $m	**US** $m	**MAC** $m	**Total** $m
Total segment sales to external customers	468.7	281.4	750.1	124.3	-	874.4
Total segment result	21.8	(0.9)	20.9	22.7	75.9	119.5
Segment assets	981.4	771.8	1,753.2	63.3	27.7	1,844.2
Segment liabilities	343.1	71.8	414.9	37.4	-	452.3
Additions to property, plant and equipment and other non-current segment assets	45.9	23.3	69.2	10.9	-	80.1
Depreciation and amortisation expense	86.1	113.0	199.1	17.0	0.4	216.5

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:

	Notes	**2011** **$m**	2010 $m
Asia		**745.5**	386.3
Europe		**442.6**	178.2
North America		**327.1**	216.2
Australia		**2.0**	44.2
Other Countries		**19.5**	49.5
Segment sales to external customers		**1,536.7**	874.4
Hedging gains		**-**	12.2
Sale of goods	5	**1,536.7**	886.6

Revenue of $195.7 million is derived from one external customer from all mineral sands segments, which individually accounts for greater than 10 per cent of segment revenue (2010: revenues of $168.7 million was derived from one external customer from all mineral sands segments).

4 Segment information (continued)

(b) Segment information (continued)

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

	2011 $m	2010 $m
Segment result	**841.1**	119.5
Hedging gains	**-**	12.2
Interest income	**6.2**	1.1
Other income	**3.9**	1.8
Marketing and selling	**(6.9)**	(5.4)
Corporate and other costs	**(35.5)**	(30.3)
Depreciation	**(2.4)**	(2.5)
Product and technical development	**(11.9)**	(5.7)
Exploration and evaluation	**(19.0)**	(14.5)
Interest and finance charges	**(15.2)**	(33.0)
Net foreign exchange gains (losses)	**0.4**	(4.9)
Ineffective gains of changes in fair value of cash flow hedges	**-**	1.6
Profit before income tax	**760.7**	39.9

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

	2011 $m	2010 $m
Segment assets	**2,106.1**	1,844.2
Corporate assets	**13.2**	10.3
Cash and cash equivalents	**320.7**	30.1
Deferred tax assets	**13.3**	55.3
Current tax receivable	**0.5**	-
Total assets as per the balance sheet	**2,453.8**	1,939.9

	2011 $m	2010 $m
Segment liabilities	**575.5**	452.3
Corporate liabilities	**20.9**	20.3
Deferred tax liabilities	**13.0**	-
Current tax liabilities	**145.7**	-
Interest-bearing liabilities	**164.0**	342.7
Total liabilities as per the balance sheet	**919.1**	815.3

5 Revenue

	2011 $m	2010 $m
Sales revenue		
Sale of goods	**1,536.7**	886.6
Other revenue		
Mining Area C royalty income	**88.5**	76.3
Interest	**6.2**	1.1
	94.7	77.4
	1,631.4	964.1

6 Other income

	2011 $m	2010 $m
Net gain on sale of land	**1.9**	0.8
Net gain on disposal of property, plant and equipment	**1.0**	3.3
Sundry income	**4.6**	3.3
Net ineffective gains from changes in fair value of cash flow hedges	**-**	1.6
Foreign exchange gains	**0.4**	-
	7.9	9.0

7 Expenses

	Notes	**2011 $m**	2010 $m
Expenses			
Cash costs of production		**628.9**	543.8
Depreciation/amortisation		**224.6**	219.0
Inventory movement		**(147.7)**	2.9
Cost of sales of goods		**705.8**	765.7
Restructure and idle capacity charges		**8.5**	13.2
Rehabilitation and holding costs for closed sites		**36.2**	10.4
Impairment reversal	2(a)	**(35.6)**	-
Government royalties		**25.2**	17.1
Marketing and selling costs		**34.5**	24.1
Technical support, product development and major projects		**13.7**	5.6
Exploration expenditure		**19.0**	14.5
Corporate and other costs		**35.5**	30.3
Net foreign exchange losses		**-**	4.9
		842.8	885.8
Expenses include:			
Defined contribution superannuation		**8.4**	9.8
Defined benefits superannuation		**0.6**	0.6
Employee benefits (excluding share-based payments)		**115.8**	127.0
Writedown of year end stores inventory to net realisable value		**3.5**	0.4
Share-based payments		**7.7**	3.6
Operating leases		**9.1**	8.1
Finance Costs			
Interest charges		**12.1**	29.7
Bank fees and similar charges		**2.1**	2.3
Amortisation of deferred borrowing costs		**1.0**	1.0
Rehabilitation and restoration unwind		**20.6**	14.3
		35.8	47.3

8 Income tax

(a) Income tax expense

	Notes	**2011 $m**	2010 $m
Current tax		**156.6**	-
Deferred tax	14	**66.3**	7.6
Over-provided in prior years		**(4.0)**	(3.8)
		218.9	3.8

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

	2011 $m	2010 $m
Profit before income tax expense	**760.7**	39.9
Tax at the Australian tax rate of 30% (2010: 30%)	**228.2**	12.0
Tax effect of amounts not deductible (taxable) in calculating taxable income:		
Australian research and development and investment allowance	**(1.3)**	(2.7)
US tax concessions	**(1.6)**	-
Other items	**0.9**	0.2
	226.2	9.5
Difference in overseas tax rates	**(3.3)**	(1.9)
Over-provision in prior years	**(4.0)**	(3.8)
Income tax expense	**218.9**	3.8

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

	2011 $m	2010 $m
Changes in fair value of foreign exchange cash flow hedges	**-**	1.5
Currency translation of US operation	**0.1**	0.7
Actuarial gains/(losses) on retirement benefit obligation	**1.1**	-
	1.2	2.2

(d) Tax losses

Unused capital losses for which no deferred tax asset has been recognised are approximately $87.7 million (2010: $94.7 million) (tax at the Australian rate of 30%: $26.3 million (2010: $28.4 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

Franking credits available for future years based on a tax rate of 30 per cent are $145.7 million (2010: $nil based on a tax rate of 30 per cent). These amounts include franking credits that will arise from the payment of current income tax in Australia as provided for in these financial statements.

9 Cash and cash equivalents

	2011 $m	2010 $m
Cash at bank and in hand	**15.9**	28.2
Deposits at call	**304.8**	1.9
	320.7	30.1

Cash and deposits are at floating interest rates between 0.0 per cent and 5.93 per cent (2010: 0.0 per cent and 4.25 per cent) on US dollar and Australian dollar denominated deposits, at a weighted average interest rate of 5.66 per cent (2010: 2.49 per cent).

10 Receivables

	2011 $m	2010 $m
Trade receivables	**215.5**	130.9
Other receivables	**13.5**	6.5
Mining Area C royalty receivable	**18.8**	20.6
Prepayments	**8.3**	6.8
	256.1	164.8

No trade receivables are impaired. $13.1 million are overdue, of which $7.6 million are less than 28 days overdue. Due to the short term nature of these receivables, their carrying amount approximates fair value.

11 Inventories

	2011 $m	2010 $m
Current		
Consumable stores	**43.0**	27.8
Work in progress	**172.3**	83.1
Finished goods	**160.9**	90.1
Total current inventories	**376.2**	201.0
Non-current		
Work in progress	**49.9**	56.6

All inventories are held at cost.

12 Property, plant and equipment

	Notes	Land & Buildings $m	Plant, Machinery & Equipment $m	Mine Reserves & Development $m	Exploration & Evaluation $m	Major Project Developments $m	Total $m
At 1 January 2010							
Cost		85.0	1,439.4	754.7	20.4	585.1	2,884.6
Accumulated depreciation*		(9.2)	(815.4)	(493.4)	-	-	(1,318.0)
Opening written down value		75.8	624.0	261.3	20.4	585.1	1,566.6
Additions		2.1	27.6	37.4	6.9	13.2	87.2
Disposals		(4.8)	(0.3)	-	(1.4)	-	(6.5)
Depreciation/amortisation		(2.7)	(125.0)	(88.5)	-	-	(216.2)
Foreign exchange differences		(0.1)	(5.7)	(0.3)	-	-	(6.1)
Transfers/reclassifications		20.8	452.2	126.5	(1.2)	(598.3)	-
Closing written down value		91.1	972.8	336.4	24.7	-	1,425.0
At 31 December 2010							
Cost		103.1	1,729.9	642.0	24.7	-	2,499.7
Accumulated depreciation		(12.0)	(757.1)	(305.6)	-	-	(1,074.7)
Closing written down value		91.1	972.8	336.4	24.7	-	1,425.0
Year ended 31 December 2011							
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	7	2.6	21.8	11.2	-	-	35.6
Depreciation/amortisation		(2.8)	(105.4)	(115.8)	(0.2)	-	(224.2)
Foreign exchange differences		-	(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)	-	(1,278.7)
Closing written down value		92.3	982.3	331.3	24.5	-	1,430.4

* includes cumulative impairment charges

Assets in the course of construction

Included in property, machinery and equipment and mine reserves and development are amounts totalling $75.5 million and $22.7 million respectively (2010: $6.5 million and $12.1 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 $98.4 million (2010: $50.1 million) which have not been depreciated as mining of the related area of interest has not yet commenced.

12 Property, plant and equipment (continued)

Project development expenditure

This category was used to capture the costs relating to the Murray Basin Stage 2 and Jacinth-Ambrosia projects which involved significant levels of capital expenditure for the group at the time of their development. Both of these projects were commissioned during 2010. Expenditure on all other capital projects in 2010 and 2011 are classified within the other categories of property, plant and equipment and form part of additions; this approach is expected to be applied to future capital expenditure except in the instance of a significant project.

Rehabilitation

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

13 Intangible assets

	2011 $m	2010 $m
MAC royalty asset		
Cost	**10.0**	10.0
Accumulated amortisation	**(3.3)**	(2.9)
Net written down value	**6.7**	7.1

14 Deferred tax

	2011 $m	2010 $m
Deferred tax asset amounts recognised in profit or loss		
Employee benefits	**6.9**	6.3
Rehabilitation provisions	**126.8**	101.6
Tax revenue losses	**-**	62.4
Other	**3.9**	6.6
Gross deferred tax assets	**137.6**	176.9
Deferred tax asset amounts recognised directly in equity		
Share issue costs	**1.0**	1.7
Actuarial losses on retirement benefit obligations	**1.1**	-
	2.1	1.7
Amount offset to deferred tax liabilities pursuant to set-off provision	**(126.4)**	(123.3)
Net deferred tax assets	**13.3**	55.3
Deferred tax liability amounts in profit or loss		
Depreciation/amortisation	**(103.5)**	(103.7)
Foreign currency exchange	**(6.1)**	(3.6)
Receivables	**(6.2)**	(6.4)
Inventory	**(21.6)**	(7.2)
Other	**(2.0)**	(2.4)
Gross deferred tax liabilities	**(139.4)**	(123.3)
Amount offset to deferred tax assets pursuant to set-off provision	**126.4**	123.3
Net deferred tax liabilities	**(13.0)**	-

	2011 $m	2010 $m
Movements:		
Balance at 1 January	**55.3**	53.7
Credited to the income statement	**(66.3)**	(7.6)
Over provision in prior years	**3.7**	2.9
Charged directly to equity	**7.6**	4.8
Cash payment of franking deficits tax	**-**	1.5
Balance at 31 December	**0.3**	55.3

Deferred tax assets of $17.7 million (2010: $77.0 million) and deferred tax liabilties of $25.3 million (2010: $19.6 million) are expected to be recovered in less than 12 months.

15 Payables

	2011 $m	2010 $m
Trade payables	**47.1**	36.0
Accrued expenses	**59.5**	51.3
Employee benefits	**10.3**	9.1
Royalties payable	**19.8**	7.3
	136.7	103.7

16 Interest-bearing liabilities

	2011 $m	2010 $m
Current		
Senior Notes 1996	**-**	29.5
Non-current		
Syndicated Term Loan Facility	**88.7**	238.9
Senior Notes 2003	**76.6**	76.6
Deferred borrowing costs	**(1.3)**	(2.2)
	164.0	313.3

(a) Financing arrangements

	2011 $m	2010 $m
Total Facilities		
Senior Notes - 1996 (i)	**-**	29.5
Senior Note - 2003 (ii)	**76.6**	76.6
Syndicated Term Loan Facility (iii)	**445.0**	445.0
Working Capital Facility (iv)	**49.3**	39.3
	570.9	590.4
Used at balance date		
Senior Notes - 1996	**-**	29.5
Senior Notes - 2003	**76.6**	76.6
Syndicated Term Loan Facilitity	**88.7**	238.9
Working Capital Facility	**-**	-
	165.3	345.0
Unused at balance date		
Syndicated Term Loan Facility	**356.3**	206.1
Working Capital Facility	**49.3**	39.3
	405.6	245.4

16 Interest-bearing liabilities (continued)

(i) Senior Notes - 1996 Series

The final tranche of US$30.0 million matured in December 2011 and was repaid.

(ii) Senior Notes - 2003 Series

The remaining 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 2011, the cross currency swap bears a variable interest rate of 4.9 per cent (2010: 5.7 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.

(iii) Syndicated Term Loan Facility

The Syndicated Term Loan Facility matures in March 2013, with the facility reducing to $345 million in March 2012. As at 31 December 2011, $88.7 million was outstanding at an average interest rate of 1.3 per cent (2010: $238.9 million at 4.8 per cent).

(iv) Working Capital Facility

This is a multi currency facility which requires the company to have sufficient credit risk insurance to enable it to be drawn. The facility matured on 12 March 2012. Drawings under the facility are at the discretion of the working capital facility provider based on the acceptance of credit insured receivables.

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

			Fixed interest rate		
2011	Effective floating average interest rate %	Floating interest rate $m	1 year or less $m	1 to 5 years $m	Total $m
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**
2010					
Interest-bearing liabilities	4.8	238.9	29.5	76.6	345.0
Interest rate swaps (notional principal)	5.7	56.9	-	(56.9)	-
		295.8	29.5	19.7	345.0

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

17 Provisions

	Notes	2011 $m	2010 $m
Current			
Employee benefits (a)		**9.0**	7.4
Rehabilitation and mine closure		**60.7**	40.2
Other provisions (b)		**12.3**	7.3
		82.0	54.9
Non Current			
Employee benefits		**3.9**	3.3
Rehabilitation and mine closure		**366.2**	307.2
Retirement benefit obligations	23	**7.6**	3.4
		377.7	313.9

(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 relate mainly to costs for transition from existing to new operations, which includes redundancy costs.

Movements in provisions	Notes	Rehabilitation and mine closure $m	Other provisions $m
Balance at 1 January		**347.4**	**7.3**
Change in provisions - closed sites	7	**34.8**	**-**
Change in provisions - additions to property, plant & equipment	12	**51.1**	**-**
Foreign exchange rate movements		**(0.3)**	**-**
Rehabilitation and restoration unwind expense	7	**20.6**	**-**
Amounts used during the year		**(26.7)**	**-**
Additional provisions recognised		**-**	**9.9**
Unused amounts reversed		**-**	**(4.9)**
Balance at 31 December		**426.9**	**12.3**

18 Contributed equity

(a) Share capital

	2011 Shares	2010 Shares	**2011 $m**	2010 $m
Ordinary shares - fully paid	**418,701,360**	418,701,360	**1,120.0**	1,120.0
Treasury shares	**(2,269,590)**	(3,220,149)	**(18.0)**	(11.7)
	416,431,770	415,481,211	**1,102.0**	1,108.3

(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 held for the purpose of issuing shares under the Directors, Executives and Employees Share Acquisition Plan.

	Number of shares	**$m**
Balance at 1 January 2010	1,904,380	5.6
Acquisition of shares, net of tax	1,721,133	7.2
Employee share issues, net of tax	(405,364)	(1.1)
Balance at 31 December 2010	**3,220,149**	**11.7**
Acquisition of shares, net of tax	1,498,791	14.8
Employee share issue, net of tax	(2,449,350)	(8.5)
Balance at 31 December 2011	**2,269,590**	**18.0**

(d) Dividend reinvestment plan

The company has a dividend reinvestment plan (DRP). Under the plan, the Directors can invite eligible holders of ordinary shares to elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. In 2010, the DRP was suspended 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

	2011 $m	2010 $m
Asset revaluation reserve	**16.0**	16.0
Share-based payments reserve	**2.7**	6.9
Foreign currency translation reserve	**(2.3)**	(2.5)
	16.4	20.4

Movements:

	2011 $m	2010 $m
Asset revaluation reserve		
Balance at 1 January	**16.0**	16.3
Transfer to retained earnings on disposal	**-**	(0.4)
Deferred tax	**-**	0.1
Balance at 31 December	**16.0**	**16.0**
Share-based payments reserve		
Balance at 1 January	**6.9**	4.4
Transfer of shares to employees, net of tax	**(8.5)**	(1.1)
Share-based payments, net of tax	**4.3**	3.6
Balance at 31 December	**2.7**	**6.9**
Foreign currency translation		
Balance at 1 January	**(2.5)**	(2.3)
Translation differences of US operation	**(0.3)**	(7.6)
Hedge of net investment in US operation, net of tax	**0.4**	6.7
Deferred tax	**0.1**	0.7
Balance at 31 December	**(2.3)**	**(2.5)**

(b) Retained earnings

Movements in retained earnings were as follows:

	2011 $m	2010 $m
Balance at 1 January	**(4.1)**	(41.1)
Net profit for the year	**541.8**	36.1
Dividends paid	**(117.0)**	-
Actuarial (losses)/gains on retirement benefit obligation, net of tax	**(4.4)**	0.6
Transfer from asset revaluation reserve, net of tax	**-**	0.3
Balance at 31 December	**416.3**	**(4.1)**

19 Reserves (continued)

(c) 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 (2010: US$50.0 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.

20 Dividends

(a) Ordinary shares

	2011 $m	2010 $m
Final dividend		
for 2010 of 8 cents per share, unfranked	**33.5**	-
Interim dividend		
for 2011 of 20 cents per share, unfranked	**83.7**	-
	117.2	-

(b) 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 of 55 cents per share, fully franked (2010: 8 cents, unfranked). The dividend is payable on 5 April 2012 for shareholders on the register as at 9 March 2012. The aggregate amount of the proposed dividend is $230.3 million.

(c) Franked dividends

The impact on the franking account of the dividend recommended by the Directors since the end of the reporting period, but not recognised as a liability at the reporting date, will be a reduction in the franking account balance of $98.7 million (2010: $nil) from $145.7 million (refer note 8(e)) to $47.0 million.

21 Key Management Personnel

(a) Key Management Personnel

Key Management Personnel of the group comprise Director's 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 Robb

(ii) Non-execuitve Directors

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

All above persons were Director of Iluka Resources Limited for all of the financial year, as well as for the financial year ended 31 December 2010 except for Mr Osborn and Mr Turner who commenced on 26 March 2010 and Mr Morley retired on 25 May 2011.

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

C Cobb	General Manager Sales and Marketing
A Tate	Chief Financial Officer
H Umlauff	General Manager Project Management
S Wickham	General Manager Australian Operations
C Wilson	General Manager Corporate Services and Company Secretary

2011 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 on pages 13 to 34.

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

21 Key Management Personnel (continued)

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

	Short term benefits $	Post employment benefits $	Share-based Payments $	Termination benefits $	Total $
2010					
Non-executive Directors	901,311	69,125	-	-	970,436
Executive Director	2,326,533	48,059	1,359,631	-	3,734,223
Executives	4,640,518	225,454	2,263,135	315,000	7,444,107
Total	7,868,362	342,638	3,622,766	315,000	12,148,766

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 1/1/11	Vesting of share rights	Awarded as Restricted Shares	Other changes	Balance held at 31/12/11
Non-executive directors					
D M Morley[1]	40,876	-	-	(40,876)	-
W G Osborn	-	-	-	1,800	1,800
G J Pizzey	16,351	-	-	2,000	18,351
G J Rezos	63,602	-	-	6,398	70,000
J A Seabrook	19,314	-	-	-	19,314
S J Turner	50,000	-	-	-	50,000
Executive Director					
D Robb	663,215	1,061,308	78,460	(914,455)	888,528
Executives					
C Cobb	-	-	17,183	-	17,183
A Tate	59,760	121,414	19,272	(137,000)	63,446
H Umlauff	112,906	84,093	22,165	(61,000)	158,164
S Wickham	60,913	51,763	19,366	(46,973)	85,069
C Wilson	99,892	126,984	17,374	(148,650)	95,600

1 Shares and Share Rights are reversed to show a zero balance at 31 December on resignation as a director.

No shares were forfeited during the year

21 Key Management Personnel (continued)

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

	Number Of Share Rights					
Name	Balance held at 1/1/11	Granted during 2011	Vested as shares during 2011	Lapsed during 2011	Balance held at 31/12/11[1]	Fair value of Share Rights granted in 2011 ($)[2]
Executive Director						
D Robb	1,285,300	799,250	(1,061,308)	(8,265)	1,014,977	9,126,193
Executives						
C Cobb	34,146	16,886	-	-	51,032	142,011
A Tate	195,182	17,448	(121,414)	(2,722)	88,494	146,738
H Umlauff	170,256	16,886	(84,093)	(3,180)	99,869	142,011
S Wickham	122,141	17,448	(51,763)	(2,408)	85,418	146,738
C Wilson	194,032	13,790	(126,984)	(2,474)	78,364	115,974

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

2 Includes the fair value of share rights granted in 2011 in respect to the 2011 LTIP and Managing Director's LTID

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

(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

	2011 $000	2010 $000
(i) Audit and other assurance services		
Audit and review of financial statements	**548**	550
Other assurance services	**30**	107
Total remuneration for assurance services	**578**	657
(ii) Taxation services		
Tax compliance and advisory services	**68**	27
(iii) Other services		
Compliance and advisory services	**3**	61
Advice on accounting matters	**-**	4
Total remuneration for other services	**3**	65
Total remuneration of PwC Australia	**649**	749

(b) Related practices of PricewaterhouseCoopers Australia

	2011 $000	2010 $000
(i) Audit and other assurance services		
Audit and review of financial statements	**10**	50

23 Retirement benefit obligations

(a) Superannuation plan

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.

23 Retirement benefit obligations (continued)

USA

All employees of the United States (US) operations are entitled to benefits from the US operations' pension plans on retirement, disability or death. The US operations have two defined benefit plans and one defined contribution plan. One of the defined benefit plans provides a monthly benefit based on a set amount per month per year of service. The other 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.

(b) Balance sheet amounts

	2011 $m	2010 $m
Defined benefit plan obligation - present value	**22.6**	17.5
Defined benefit fund plan assets - fair value	**(15.0)**	(14.1)
Net liability in the balance sheet	**7.6**	3.4

	2011 $m	2010 $m
Present value of the defined benefit obligation, which is partly funded:		
Balance at 1 January	**17.5**	19.7
Current service cost	**0.4**	0.5
Interest cost	**0.9**	1.0
Contributions by plan participants	**0.1**	0.1
Actuarial losses/gains	**3.5**	(0.3)
Exchange rate changes	**1.4**	(1.7)
Benefits paid	**(1.2)**	(1.8)
Balance at 31 December	**22.6**	17.5
Fair value of plan assets:		
Balance at 1 January	**14.1**	15.0
Expected return on plan assets	**1.0**	0.9
Actuarial (gains)/losses	**(1.1)**	0.4
Exchange rate changes	**0.9**	(1.3)
Contributions by group companies	**1.2**	0.8
Contributions by plan participants	**0.1**	0.1
Benefits paid	**(1.2)**	(1.8)
Balance at 31 December	**15.0**	14.1

23 Retirement benefit obligations (continued)

(b) Balance sheet amounts (continued)

The major categories of plan assets are as follows:	**2011 $m**	2010 $m
Cash	**0.3**	0.4
Equity instruments	**8.3**	8.8
Debt instruments	**5.2**	3.7
Property	**0.1**	0.2
Other assets	**1.1**	1.0
	15.0	14.1

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

(c) Amounts recognised in profit or loss

	2011 $m	2010 $m
Current service cost	**0.4**	0.5
Interest cost	**0.9**	1.0
Expected return on plan assets	**(1.0)**	(0.9)
Total included in employee benefits expense	**0.3**	0.6
Actual return on plan assets	**(0.1)**	1.4

(d) Amounts recognised in other comprehensive income

	2011 $m	2010 $m
Actuarial (loss)/gain recognised in the year	**(4.4)**	0.6
Cumulative actuarial (losses)/gains recognised in other comprehensive income	**7.7**	12.1

(e) Principal actuarial assumptions

The principal actuarial assumptions used (expressed as weighted averages) were as follows:

23 Retirement benefit obligations (continued)

(e) Principal actuarial assumptions (continued)

	2011 **%**	2010 %
Australia		
Discount rate	**3.1**	4.7
Expected return on plan assets	**5.0**	5.0
Future salary increases	**3.5**	3.5
USA		
Discount rate	**4.5**	6.0
Expected return on plan assets	**6.9**	7.5
Future salary increases	**3.5**	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

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 (2010: 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 2011. 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 2011 valuation, is currently under way. The economic assumptions being used by the actuary to make funding recommendations are, for defined benefit members: a long term investment earning rate of 5.0 per cent (2010: 5.0 per cent) (net of fees and taxes), a salary increase rate of 3.5 per cent (2010: 3.5 per cent) and a pension indexation rate of 1.5 per cent (2010: 1.5 per cent). As at 31 December 2011 only 5 active members remain in the plan.

USA

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

23 Retirement benefit obligations (continued)

(f) Employer contributions (continued)

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.

Using the funding method described above and particular actuarial assumptions as to the defined benefits plans future experience, payments of US$0.8 million (2010: US$0.6 million) for the salaried defined benefit plan and US$0.2 million (2010: US$0.1 million) for the hourly defined benefit plan were made.

Total employer contributions expected to be paid by the group for the year ending 31 December 2012 are US$1.2 million.

(g) Net financial position of plans

The net financial position of the plans based on information supplied from the plans' actuarial advisiors are Australia deficit $0.4million (2010: surplus $0.4 million) and US deficit $7.2 million (2010: deficit $3.8m). A net deficit of $7.6 million (2010: deficit $3.4 million) is included in non-current provisions (refer note 17).

(h) Historic summary

	2011 **$m**	2010 $m	2009 $m	2008 $m	2007 $m
Defined benefit plan obligation	**22.6**	17.5	19.7	27.6	20.4
Defined benefit plan assets	**(15.0)**	(14.1)	(15.0)	(16.2)	(17.9)
Deficit	**7.6**	3.4	4.7	11.4	2.5

24 Contingent liabilities

Bank guarantees
The group has negotiated 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 2011, the total value of performance commitments and guarantees was $106.0 million (2010: $103.6 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.

25 Commitments

	2011 $m	2010 $m
(a) Capital commitments		
Amounts contracted for and payable within 1 year	**11.5**	9.9
(b) Exploration and mining lease commitments		
Commitments in relation to leases contracted for at reporting date but not recognised as liabilities payable:		
Within one year	**22.0**	22.9
Later than one year but not later than five years	**42.3**	42.2
Later than five years	**54.8**	59.1
	119.1	124.2

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

	2011 $m	2010 $m
(c) Lease commitments		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**13.6**	18.8
Later than one year but not later than five years	**16.4**	27.7
Later than five years	**0.6**	4.7
	30.6	51.2
(d) Other commitments		
Commitments for payments in relation to non-cancellable contracts are payable as follows:		
Within one year	**30.2**	41.3
Later than one year but not later than five years	**66.6**	122.4
Later than five years	**9.7**	20.0
	106.5	183.7

The commitments include $95.9 million (2010: $170.7 million) in respect of the group for term contracts for coal, gas, electricity and water used in the production process.

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 93.4 per cent) and Iluka International (Brazil) Pty Ltd (Iluka interest 100.0 per cent). The group's activities in the US are undertaken by Iluka Resources Inc, which is 100 per cent owned.

	2011 $m	2010 $m
Condensed income statement of Extended Closed Group		
Revenue from ordinary activities	**1,530.7**	840.4
Expenses from ordinary activities	**(741.2)**	(769.6)
Finance costs	**(34.6)**	(46.9)
Income tax (expense)/benefit	**(211.7)**	2.7
Profit for the year	**543.2**	26.6
Condensed statement of comprehensive income		
Profit for the year	**543.2**	26.6
Other comprehensive income		
Changes in fair value of foreign exchange cash flow hedges, net of tax	**-**	(3.6)
Actuarial gains/(losses) on defined benefit plans, net of tax	**(0.8)**	0.6
Total other comprehensive income	**(0.8)**	(3.0)
Total comprehensive income for the year	**542.4**	23.6
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	**14.7**	(11.9)
Profit for the year	**543.2**	26.6
Dividends paid	**(117.0)**	-
Retained earnings at the end of the financial year	**440.9**	14.7

26 Controlled entities and deed of cross guarantee (continued)

	2011 $m	2010 $m
Condensed balance sheet of Extended Closed Group		
Current assets		
Cash and cash equivalents	**303.9**	19.2
Receivables	**241.9**	156.0
Inventories	**361.9**	193.9
Total current assets	**907.7**	369.1
Non-current assets		
Receivables	**0.5**	15.3
Inventories	**49.9**	56.6
Other financial assets	**41.5**	42.4
Property, plant and equipment	**1,401.0**	1,389.1
Intangible assets	**6.7**	7.1
Deferred tax assets	**-**	44.8
Total non-current assets	**1,499.6**	1,555.3
Total assets	**2,407.3**	1,924.4
Current liabilities		
Payables	**118.0**	96.1
Interest-bearing liabilities	**-**	29.5
Provisions	**73.1**	41.7
Current tax liabilities	**145.7**	-
Total current liabilities	**336.8**	167.3
Non-current liabilities		
Interest-bearing liabilities	**164.0**	313.3
Provisions	**331.6**	297.9
Deferred tax liabilities	**13.3**	-
Total non-current liabilities	**508.9**	611.2
Total liabilities	**845.7**	778.5
Net assets	**1,561.6**	1,145.9
Equity		
Contributed equity	**1,102.0**	1,108.3
Reserves	**18.7**	22.9
Retained profits	**440.9**	14.7
Total equity	**1,561.6**	1,145.9

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

	2011 $m	2010 $m
Profit for the year	**541.8**	**36.1**
Depreciation and amortisation	**224.6**	219.0
Exploration capitalised	**(5.2)**	(4.3)
Net gain on disposal of property, plant and equipment	**(2.9)**	(4.1)
Net exchange differences and other	**2.7**	(5.2)
Rehabilitation and restoration unwind	**20.6**	14.3
Non-cash share-based payments expense	**6.0**	4.1
Amortisation of deferred borrowing costs	**1.0**	1.0
Impairment reversal	**(35.6)**	-
Non-cash rehabilitation expense for closed sites	**34.6**	-
Change in operating assets and liabilities		
Increase in receivables	**(92.4)**	(62.0)
(Increase) decrease in inventories	**(168.6)**	2.6
Decrease in derivatives	**-**	10.8
Decrease in net deferred tax	**59.5**	4.5
Increase (decrease) increase in payables	**9.9**	(38.7)
Increase in provisions	**6.7**	0.6
Increase in net current tax liability	**146.8**	-
Net cash inflow from operating activities	**749.5**	178.7

28 Earnings per share

(a) Basic and diluted earnings per share

	2011 Cents	2010 Cents
Basic earnings per share	**130.1**	8.6
Diluted earnings per share	**129.4**	8.6

(b) Reconciliation of earnings used in calculating earnings per share

	2011 $m	2010 $m
Profit attributable to owners used in calculating basic earnings per share	**541.8**	36.1
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**416,421,427**	418,701,360
Weighted average share rights outstanding	**2,352,602**	3,697,667
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**418,774,029**	422,399,027

29 Share-based payments

The share-based payment expense recognised in profit or loss of $7.7 million (2010: $3.6 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 11**	**Expense 2011 $m**	Shares / Rights at 31 Dec 10	Expense 2010 $m
2010 STIP (i)	Jan-11	Jan-12/13	9.14	**368,654**	**2.5**	-	-
2009 STIP (i)	Jan-10	Jan-11/12	3.58	**152,361**	**0.3**	310,979	0.9
2008 STIP (i)	Jan-09	Jan-10/11	4.66	**-**	**-**	337,690	0.8
2011 LTIP - TSR (ii)	Jan-11	Jan-14	7.37	**151,076**	**0.4**	-	-
2011 LTIP - ROE (ii)	Jan-11	Jan-14	9.44	**151,076**	**0.5**	-	-
2010 LTIP - TSR (ii)	Jan-10	Jan-13	2.59	**350,019**	**0.3**	376,509	0.3
2010 LTIP - ROE (ii)	Jan-10	Jan-13	3.58	**350,019**	**0.4**	376,509	0.4
2009 LTIP - TSR (ii)	Jan-09	Jan-12	3.49	**272,598**	**0.3**	276,459	0.2
2009 LTIP - ROE (ii)	Jan-09	Jan-12	4.64	**272,598**	**0.1**	276,459	0.3
2008 LTIP (iii)	Jan-08	Jan-11	2.93	**-**	**-**	583,112	(0.8)
Iluka Retention Plan (iv)	2008	2011	2.8	**11,000**	**0.4**	808,000	1.0
MD Retention Share Rights (v)	Jan-06	Mar-11	1.00	**-**	**0.1**	1,000,000	0.5
MD LTID (v)	Mar-11	Feb-15	11.62	**750,000**	**1.8**	-	-
$1,000 Employee Share Scheme (vi)	Oct-11	Oct-11	-	**-**	**0.6**	-	-
Total share-based payments					**7.7**		3.6

(i) The Short Term Incentive Plan (STIP) equity component comprises two equal tranches which vest one and two years respectively after grant date.

(ii) The Long Term Incentive Plan (LTIP) comprises two equal tranches which vest three years after grant date. 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 Return on Equity (ROE) tranche is based on internal performance measures. Non-vesting rights for this tranche are credited to the share-based payments expense. The expense for the 2009 LTIP ROE tranche includes a reversal for the portion of the share rights outstanding at 31 December 2011 that did not vest.

(iii) The 2008 LTIP expense was a net credit in 2010 as no share rights vested for the ROE and the reversal of prior period charges exceeded the 2010 expense for the TSR tranche.

(iv) 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 of $2.80 per share right relates to the outstanding rights at 31 December 2011.

(v) 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.

(vi) A total of 42,975 shares were issued under the plan to participating employees. Each participant was issued with shares worth $1,000 based on a volume weighted average market price of $13.23 for the five days prior to the start of the offer period.

30 Parent entity financial information

(a) Summary financial information

	2011 $m	2010 $m
Balance sheet		
Current assets	**383.6**	66.3
Non-current assets	**1,996.7**	2,267.1
Total assets	**2,380.3**	2,333.4
Current liabilities	**491.4**	68.3
Non-current liabilities	**642.3**	1,096.0
Total liabilities	**1,133.7**	1,164.3
Net assets	**1,246.6**	1,169.1
Shareholders' equity		
Contributed equity	**1,120.0**	1,120.0
Reserves	**17.6**	21.7
Retained earnings	**109.0**	27.4
	1,246.6	1,169.1
Profit or loss for the year	**199.7**	(12.2)
Total comprehensive income	**199.7**	(15.8)

(b) Profit for the year

Profit for the year inlcudes dividends received from controlled entities of $200.0 million (2010: $nil).

(c) Contingent liabilities of the parent entity

The parent had contingent liabilities for performance commitments and guarantees of $28.6 million as at 31 December 2011 (2010: $29.0 million).

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

As at 31 December 2011, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling $0.9 million (2010: $6.5 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 . 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.

In the Directors' opinion:

(a) the financial statements and notes set out on pages 47 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 2011 and of its performance for the financial year ended on that date, and

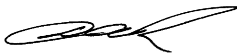
(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, and

(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.

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 Robb
Managing Director

Perth
22 March 2012

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 2011, 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.

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
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T: +61 8 9238 3000, F: +61 8 9238 3999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

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 2011 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 13 to 34 of the directors' report for the year ended 31 December 2011. 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 2011, complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of Iluka Resources Limited (the company) for the year ended 31 December 2011 included on Iluka Resources Limited web site. The company's directors are responsible for the integrity of the Iluka Resources Limited web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

Nick Henry
Partner

22 March 2012

Five Year Physical and Financial Information

	2011	2010	2009	2008	2007
Production volumes (kt)					
- Zircon	601.5	412.9	263.1	385.1	513.8
- Rutile	281.3	250.1	141.4	140.1	216.1
- Synthetic rutile	285.7	347.5	405.0	467.3	526.6
- Ilmenite saleable	459.7	469.0	342.1	586.2	931.7
- Ilmenite upgradable	201.9	215.9	496.7	641.0	702.5
Average AUD:USD spot exchange rate (cents)	103.2	92.0	79.3	85.4	83.9
AUD:USD range (cents)	110.29 / 95.31	81.23 / 101.76	62.91 / 93.68	60.38 / 98.05	76.98 / 93.25
Summary financials					
Revenue from operations (excluding hedging)	1,536.7	874.4	576.0	894.8	897.9
Group EBITDA	979.3	305.1	99.6	274.6	287.7
- Mineral Sands EBITDA	925.9	250.2	75.6	186.3	230.6
- Mining Area C EBITDA	88.5	76.3	50.2	56.8	19.9
- Other EBITDA	(35.1)	(21.4)	(9.5)	(47.0)	18.1
Depreciation and amortisation	(224.6)	(219.0)	(176.6)	(161.7)	(148.0)
Net interest and finance charges	(29.6)	(46.2)	(22.7)	(35.6)	(59.2)
Income tax (expense) benefit	(218.9)	(3.8)	61.5	7.7	(20.1)
NPAT	541.8	36.1	(82.4)	77.5	51.1
Operating cash flow	706.2	163.6	83.9	226.4	178.6
Capital expenditure	(142.5)	(117.2)	(521.6)	(198.4)	(118.2)
Net cash (debt)	156.7	(312.6)	(382.1)	(215.7)	(598.1)
Capital and dividends					
Ordinary shares on issue (millions)	418.7	418.7	418.7	380.7	242.2
Dividends per share (cents)	75.0	8.0	N/A	N/A	10.0
Franking level (per cent)	73.3	0	N/A	N/A	100.0
Opening year share price ($)	9.14	3.58	4.64	4.11	5.94
Closing year share price ($)	15.50	9.14	3.58	4.64	4.11
Financial Ratios					
Basic earnings per share (cents)	130.1	8.6	(8.7)	17.8	21.6
Free cash flow ($m)[1]	589.6	60.7	(209.8)	420.7	32.9
Free cash flow per share (cents)	140.6	14.5	(50.1)	110.5	13.6
Return on shareholders' equity (per cent)[2]	42.5	3.2	(7.5)	7.9	6.8
Return on capital (per cent)	54.9	5.0	(9.6)	7.9	7.6
Gearing (net debt/net debt + equity) (per cent)	N/A	21.8	25.9	17.4	44.3
Financial Position as at 31 December					
Total assets	2,453.8	1,939.9	2,098.4	2,058.1	1,868.0
Total liabilities	(919.1)	(815.3)	(1,003.1)	(1,020.1)	(1,116.4)
Net assets	1,534.7	1,124.6	1,095.3	1,038.0	751.6
Shareholders' equity attributable to members of Iluka Resources	1,534.7	1,124.6	1,095.3	979.8	683.6
Net tangible asset backing per share ($)	3.65	2.54	2.46	2.61	3.00

1 Free cash flow is determined as cash flow before dividends paid in the year

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

Statement of Shareholdings

as at 21 March 2012

Number of holders of shares	22,872
Number of shares on issue	418,701,360

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

Shareholding	Number of holders
1 - 1,000	13,352
1,001 - 5,000	8,762
5,001 - 10,000	704
10,001 - 100,000	39
100,001 and over	15
Number of shareholders holding less than a marketable parcel (less than $500)	746

Substantial Shareholders

Name	Number of share in which a relevant interest is held	% Holding
BlackRock Investment Management (Australia) Limited	44,369,327	10.60
M&G Investment Management Limited, London	36,765,206	8.78
FMR LLC & FIL	25,748,097	6.15
National Australia Bank Limited	21,622,548	5.16

Top 20 Shareholders (Nominee Company Holdings)

Name	Number of shares	% Holding
HSBC Custody Nominees (Australia) Limited	134,885,514	32.22
J P Morgan Nominees Australia Limited	94,035,443	22.46
National Nominees Limited	73,936,232	17.66
Citicorp Nominees Pty Limited	14,258,555	3.41
Cogent Nominees Pty Limited	11,994,554	2.86
J P Morgan Nominees Australia Limited	6,932,511	1.66
Citicorp Nominees Pty Limited	5,140,193	1.23
HSBC Custody Nominees (Australia) Limited	3,701,250	0.88
AMP Life Limited	3,239,132	0.77
HSBC Custody Nominees (Australia) Limited	3,134,779	0.75
Australian Reward Investment Alliance	2,092,886	0.50
Iluka Administration Limited	1,743,178	0.42
Australian Foundation Investment Company Limited	1,700,000	0.41
Argo Investments Limited	1,500,000	0.36
R O Henderson (Beehive) Pty Limited	1,116,000	0.27
Cogent Nominees Pty Limited	998,996	0.24
UBS Nominees Pty Ltd	918,578	0.22
Queensland Investment Corporation	844,004	0.20
UBS Nominees Pty Ltd	657,000	0.16
UBS Wealth Management Australia Nominees Pty Ltd	603,356	0.14

Iluka and Mineral Sands Information

For more information on Iluka Resources and the mineral sands sector, please refer to the Iluka website (www.iluka.com) and the following publications:

2011 Annual Report

- includes detailed financials, corporate governance statement and remuneration report,

Key Physical and Financial Parameters 2012

- Iluka provides information of expected financial and physical trends in the business

Mineral Sands Marketing Briefing Session (November 2011)

Minerals Sands Technical Information

Briefing Papers

Virtual Mine Site Tours

- Murray Basin, Victoria
- Jacinth-Ambrosia, South Australia

2012 Calendar

24 February	Announcement of Full Year Financial Results
9 March	Record date for Full Year Dividend
5 April	Full Year Dividend payment date
12 April	March Quarter Production Report
21 May 9:30am WST	Closure of acceptances of proxies for AGM
23 May 9:30am WST	Annual General Meeting – Perth
12 July	June Quarter Production Report
23 August	Announcement of Half Year Financial Results
11 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.

Corporate Information

Company Details

Ilua Resources Limited
ABN: 34 008 675 018

Registered Office

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

Postal Address:
GPO Box U1988
Perth WA 6845 Australia
Telephone: +61 8 9360 4700
Facsimile: +61 8 9360 4777

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.

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
Telephone: +61 3 9415 4801 or 1300 733 043
Facsimile: +61 8 9323 2033

Postal Address:
GPO Box D182
Perth WA 6840
Website: www.computershare.com

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

Dividends

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

Investor Relations Inquiries

For shareholder, potential investor and media inquiries of the company (non shareholding related), please contact:

Dr Robert Porter
General Manager, Investor Relations
robert.porter@iluka.com

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www.iluka.com