



2009 AGM SHAREHOLDER QUESTIONS & ANSWERS

Iluka Resources Limited ("Iluka") would like to thank shareholders for responding to its invitation to submit questions prior to the 2009 Annual General Meeting.

Whilst it is not always possible to respond to each question individually, this summary sets out the answers to the most frequently asked questions received from shareholders. A number of areas of questioning are addressed in the Chairman's and Managing Director's AGM addresses, which are available on Iluka's website. Questions have been abbreviated in many cases to convey the main theme of the question; in some cases the company received a number of questions on similar subjects. In a number of cases, the company has responded direct to questioners.

These questions and answers have been placed on the company's website www.iluka.com

Disclaimer & Important Notice

This document may contain forward-looking statements that are subject to risk factors associated with exploring for, developing, mining, processing and sale of minerals. Forward-looking statements include those containing such words as anticipate, estimates, should, will, expects, plans or similar expressions. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a range of variables and changes in underlying assumptions which could cause actual results or trends to differ materially. These include, but are not limited to: price and currency fluctuations, actual supply versus demand, production results, reserve and resource estimates, loss of market, industry competition, environmental risks, physical risks, legislative and regulatory developments, economic and financial market conditions in various countries and regions, political risks, project delay or advancement, approvals and cost estimates.

Specific Risks & Sensitivities

The information contained in this presentation is subject to, but not exclusively to, the following:

- Changes in exchange rate assumptions
- Changes in product pricing assumptions
- Major changes in mine plans and/or resources
- Changes in capital expenditure estimates
- Changes in equipment life or capability
- Emergence of previously underestimated technical challenges
- Environmental or social pressures which impact license to operate.

All currency referred to is Australian denominated unless otherwise indicated.



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I REMUNERATION REPORT MATTERS

1. **Basis of and justification for remuneration packages of executives and directors, particularly in light of recent performance of the business (8 questions received)**

Iluka's short term incentive plan ("STIP") arrangements and long term incentive plan ("LTIP") arrangements are detailed in the Remuneration Report section of the Annual Report.

To briefly summarise the main components and principles of the company's incentive plans, the following comments are appropriate:

- at target levels of performance, the STIP represents two thirds of potential variable remuneration and the LTI represents one third;
- the STIP aims to incentivise executives while promoting equity ownership; and
- the STIP is paid on the following criteria:
 - profitability (return on capital, EBIT, NPAT) – 60%
 - sustainability measures (all injury frequency rate, severity rate, etc.) – 30%
 - individual growth objectives – 10%

Iluka's remuneration policy specifically states: "The process [for determining and assessing short term incentive objectives] is designed to ensure close alignment between the STIP and the company's objective of creating and delivering value for shareholders."

Half of the STIP is paid in cash and the other half in restricted shares which vest over two years.

The rationale for this plan is as follows:

- short term objectives are aligned closely with and are consistent with the longer term shareholder value objectives of the company, which in the LTIP are linked to ROE targets (10 per cent threshold and 14 per cent target) as well as relative TSR performance. In other words, the profitability and growth objectives are considered contributory to the achievement of longer term shareholder value creation and delivery; and
- half of the STI payment has a longer term component in that it is provided in the form of restricted shares, which are not accessible in full for two years. The value of these share rights is dependent upon the share price performance of the company over the period. As such, executives have part of their short term incentive linked to continued actions which contribute to sustainable TSR growth. If an executive leaves the company before the elapse of the retention periods, he or she forfeits those restricted shares.

- Incentive payments to executives were significantly higher in 2008 than 2007 reflecting the assessed performance of selected executives relative to both financial and non-financial objectives set for the year.

Before any incentive is payable, the company's performance must exceed 90 per cent of profitability and sustainability targets plus the individual must achieve, at "stretch" levels, growth objectives that are aligned with key business growth and improvement outcomes. Growth objectives achieved during the year include the successful recapitalisation of the company, targeted progress on the two major new projects (Murray Basin and Jacinth-Ambrosia) and positive marketing outcomes.

2. Non-executive Director Fees

In 2008, Iluka applied a 5.26 per cent increase to director retainer fees.

Non-executive directors are remunerated via fees and statutory employer superannuation contributions. Independent external advice was sought by the Remuneration & Nomination Committee with respect to setting fees. Research received by Iluka's remuneration adviser indicated that non-executive directors' fees have moved in the order of 8 per cent to 10 per cent per annum in the last decade. This increase is, in part, reflective of the increase in workload, both on committees and in meeting obligations in an environment of increasing global complexity, as well as increased regulatory and legislative requirements.

In context with comparative companies, the Iluka non executive director fee levels are within the median range.

II CAPITAL RAISING

1. Iluka's intention to undertake a Share Placement Plan (7 questions received)

The Board does intend to proceed with an SPP.

On 1 May 2009, Iluka completed an institutional share placement raising \$114 million. This was a selective placement, targeted directly at a number of Iluka's larger and generally longer term institutional shareholders.

The Board supported management's decision to approach a small and select group of institutional holders – so that the company could expeditiously raise the required level of funds to provide a greater level of funding headroom in what, as the Managing Director has described, as highly uncertain economic conditions.

This was done directly to avoid broker and investment banking fees.

It is recognised that there has been some moderate dilution to those shareholders who did not participate

It is hoped that there is a recognition that the benefits to all shareholders of this additional funding headroom is much greater certainty in relation to delivering the

transformation of the business – in what are an exceptional set of economic and market circumstances.

III DIVIDENDS

1. Reasons for non payment of a final 2008 dividend (5 questions received)

Given current Group capital requirements to develop the Jacinth-Ambrosia and Murray Basin Stage 2 projects, available franking credits and uncertainty associated with global economic conditions, Directors decided not to pay a final 2008 dividend. The payment of dividends is reviewed by Directors at each financial reporting event.

2. Timing for reinstatement of dividends (4 questions received)

The company cannot give a specific undertaking as to when dividends will be reinstated, as this will be dependent on future earnings and cash flows which are influenced by a range of factors, including market demand, product pricing outcomes and currency movements. The company's focus is upon improving earnings and returns through the delivery of two new growth projects - the second stage of the Murray Basin development from early 2009 and the Jacinth-Ambrosia project in the Eucla Basin, from the first half of 2010.

The Board has a clear appreciation of the value ascribed to dividend payments and their importance in terms of total shareholder returns. As such, the company's capacity to reinstate dividend payments will be reviewed regularly, including at each reporting period.

IV MISCELLANEOUS

1. Balance restored between debt, performance and value

Iluka expects 2009 to be the company's peak year of debt as it commits capital to the development of the Murray Basin Stage 2 and Jacinth-Ambrosia projects. These projects are expected to underpin the production and financial base of the company for many years and provide higher margin and higher return portfolio characteristics. The cash flows from these projects are also expected to enable debt to be significantly reduced over the years following their commencement. In effect, the company's transition from its maturing, low margin Western Australian assets to the assets, is expected to be a major part in the creation and delivery of shareholder value.

2. Status of the Jacinth-Ambrosia project

The Jacinth-Ambrosia project in South Australia is progressing well. The project is tracking ahead of schedule and is within its approved capital budget of \$420 million.

Some examples of recent developments include:

- construction of the water pipeline (32 kilometres) from the bore field to the processing plant is now complete;
- site offices are finished with construction progressing on the permanent village to house a maximum of 157 people;
- the wet concentrator plant, relocated from Iluka's Georgia operations in the USA, has been refurbished and is being installed on site;
- construction at Port Thevenard for infrastructure required to store and transport heavy mineral concentrate to Iluka's Narngulu processing facilities located near Geraldton in Western Australia, is well underway;
- the upgrade of the Narngulu processing facilities at Geraldton has commenced. This facility will process the Jacinth-Ambrosia heavy mineral concentrate which will be transported by ship; and
- the final key regulatory approval, the Operations Mining and Rehabilitation Plan, which covers the mining and processing operations of the project, has been received from the South Australian Government.

The project is trending ahead of schedule and is within budget. On the basis of current progress, Iluka is increasingly confident about the prospect of first production of heavy mineral concentrate being achieved in early 2010, ahead of the initial schedule of mid 2010.

3. Location of Iluka's head office

The company is not considering relocating its head office. The priorities of the Board and management remain focussed on the execution of the two growth projects and management of the business in a period of global economic uncertainty.

4. Additional disclosure information – cash flow information

The Full Financial Statements (contained in the Annual Report) include a detailed cash flow statement. However, Iluka will look to the inclusion of cash flow information in the Shareholder Review, as requested.

5. Acquisition by Iluka of smaller industry participants in the mineral sands sector.

Iluka is of the view that with its Murray Basin Stage 2 and Jacinth-Ambrosia projects, it is bringing into production two of the highest quality and longest life new mineral sands projects globally. While Iluka reviews a range of opportunities within the mineral sands industry it would not participate in such activities if they served to dilute the value of the Iluka portfolio.

6. CRL takeover – reason for Iluka’s acceptance of Unimin offer

Iluka, along with other CRL shareholders, received a takeover Offer by Unimin Australia Limited on 17 April 2009. Iluka indicated at that stage its intention to accept the offer in the absence of a superior proposal.

On 27 May 2009, Iluka advised that it had formally accepted the Unimin offer for its holding of 187 million CRL shares. Iluka has sold its CRL shares to Unimin for 45 cents per share and will receive approximately A\$84 million.

With the imminent commencement of Murray Basin Stage 2 and Jacinth-Ambrosia, Iluka’s holding in CRL has become less material to the company. Iluka consider the Unimin offer as an attractive opportunity to dispose of its shares in CRL.

The Board of CRL advised on 18 May 2009 that it had unanimously recommended acceptance of the revised Unimin offer, in the absence of superior proposal. An Independent Expert’s Report also concluded that the Unimin offer was both “fair and reasonable.”

7. CRL Mineral resources and reserves

Refer CRL’s Annual Report for details of this company’s reserves and resources. Iluka’s Annual Report (pages 90 - 93) also contains information on Group Resources and Reserves, inclusive of CRL. Shareholders are also directed to the CRL Target Statement (available on the CRL website) for further information on the CRL operations.

8. “Group Sensitivity” to the AUD/USD exchange rate which is discussed in Note 3 (a)(i) of the 2008 Annual Report

Forward Exchange Contracts

The fair value of forward exchange contracts is determined based on the forward exchange rates that apply at balance date for every contract expiry date. Forward exchange rates are based on the spot rate adjusted for a forward margin. The forward margin reflects the differing interest rates applying in the two currencies being quoted.

For the equity sensitivity in Note 3(a)(i), the spot rate applying at balance date is adjusted by +/-10%, with the forward margin applicable for each contract expiry date unchanged.

Collar Options

The fair value of the collar options is calculated using the Garman and Kohlhagen valuation model. The major inputs into this pricing model are the spot rate, strike price, interest rate differentials, time to expiry and volatility.

For the equity sensitivity in Note 3(a)(i), only the spot rate at balance date is adjusted by +/- 10%. All other inputs are unchanged.

V INFORMATION PROVIDED TO AUSTRALIAN SHAREHOLDERS' ASSOCIATION

Iluka's 2008 reported earnings significantly exceeded the initial guidance which was based on 2008 budgeted performance set in early 2008 and approved by the Board. Iluka's advice to the market on 2008 earnings was as follows:

- initial 2008 earnings advised in February 2008 of \$10 million - \$20 million inclusive of \$30 million NPAT contribution from the sale of Iluka's 50 per cent interest in Narama Coal asset;
- reported NPAT (exclusive of net contribution from asset impairment changes) of \$61.7 million;
- NPAT was significantly higher than initial guidance influenced mainly by stronger than initially expected mineral sands performance, despite a number of adverse factors influencing the Western Australian business (most notably, the loss of production and additional costs associated with the Western Australian gas supply disruption during the month of June and part of July). Excluding the NPAT contribution of the Narama asset sale Iluka's reported earnings were approximately \$40 million - \$50 million above initial budget.

As indicated above, Iluka's 2008 financial performance was significantly impacted by several factors outside of management control. These included the Western Australian gas supply disruption associated with the explosion on Varanus Island, with consequences including:

- \$12.6 million in costs expensed, with Iluka receiving insurance payments of \$2.5 million;
- higher costs associated with sourcing third party gas;
- loss of revenue associated with over one month's lost production (approximately 130 thousand tonnes) - see table below.

Western Australian Production k tonnes	1H 2007	1H 2008	Gas Impact June 2008	Estimated Full Year Gas Impact
Zircon	139	89	(15)	(20)
Rutile	40	40	(5)	(6)
Synthetic Rutile	261	198	(41)	(44)
Ilmenite	631	524	(31)	(58)
Other	14	6	(2)	(4)
Total	1,085	857	(94)	(132)

In comparing the 2008 Minerals Sands result with that in 2007, the following factors also need to be considered:

- in 2007 Iluka's currency hedging result was significantly impacted by a one-off benefit of \$26.6 million associated with the closing of currency contracts in late 2006. For purposes of comparison, this is in effect a "non recurring item" which should be excluded when comparing underlying performance with 2008, and
- a marginally higher average US\$/A\$ spot rate of 85.35 cents compared with 83.90 cents in 2007, which adversely impacts translated US denominated revenues into Australian dollars.

In addition, the 2008 Mineral Sands result is also inclusive of costs incurred in the accelerated closure of two South West mining operations, as well as the decision to idle one of the four Western Australian synthetic rutile kilns from mid 2009. These are deliberate management decisions to cease or suspend low margin production which did generate additional costs (closure costs, including redundancy payments).

In relation to the ASA's comments on operating costs: *"Apart from a 24% increase in marketing, exploration, project and technical costs, Corporate and other costs increased by 40%"* the following is relevant to understanding the structure and influences on Iluka's cost base.

Refer Note 7 in the Financial Accounts (page 50).

Over two thirds (68 per cent) of the increase in the Marketing Exploration and Technical Costs line in the ASX Results release relates to higher Government royalties associated with higher sales revenues. The main components of this item include:

- marketing and selling costs increased by 6.2 per cent to \$25.7 million. There was a deliberate decision made to increase investment in Iluka's marketing capabilities to, amongst other things, improve Iluka's presence in major markets, such as China, and its logistic capabilities, including the ability to deliver small lot product sales;
- State Government royalties increased by 46 per cent to \$26.3 million as a consequence of higher sales;
- research, technical services increased by 3 per cent to \$10.2 million; and
- exploration directly expensed was 22 per cent higher at \$16.9 million. This is on a similar level of gross exploration expenditure and reflects that Iluka expensed a greater proportion of this expenditure.

Corporate and Other costs increased 31.8 per cent. This increase predominantly reflects:

- further investment in Iluka's business development and evaluation capabilities; and

- higher charges associated with the company's equity based incentive and retention arrangements.

It should also be noted that total cash production costs of \$656.0 million were similar to those in 2007 (\$650.3 million), notwithstanding a full year of production from Murray Basin and significant cost pressures which have prevailed in the resources sector. It is also important to note that these cash costs are inclusive of \$12.6 million of costs incurred in Western Australia associated with the gas supply disruption to production in June and July.

Non cash costs increased by \$16.8 million in 2008 relative to 2007, mainly associated with higher depreciation charges for shorter life deposits, including Cloverdale and Waroona in the South West of Western Australia.