2013 COST OF GOODS SOLD

MARCH 2013

The following highlights some points made during Iluka's 2012 Full Year Results material with regards to inventory movements and their impact on reported earnings.

As previously guided, Iluka expects sales to be above production levels for 2013, but full year outcomes will be determined by the pace and strength of global demand recovery through the year. This implies that Iluka will be drawing on finished goods inventory to meet sales volumes in 2013.

Finished goods inventory increased by $323.7 million during 2012 with Z/R/SR production volumes exceeding sales by 322.9 kt, a simple average of $1,002.5 per tonne (cash and non-cash) for the Z/R/SR added to the finished goods inventory in the year. Over 2011 and 2012 the increase in finished goods inventory is $395 million at an average of $870 per tonne.

Earnings reflect the difference between revenue and cost of goods sold, rather than the cash costs of production and depreciation incurred in a period. Cost of goods sold is the inventory value of each tonne of finished product sold. All production is added to inventory at cost with separate inventory stockpile values for each product (including HMC at mine sites) and location. The inventory value used for each tonne of finished product sold is the weighted average value per tonne for the stockpile from which the product is sold. Iluka's sales in 2013 will be predominantly from inventory on hand at 31 December 2012.

Iluka provides guidance on cash and non-cash costs of production, as well as finished goods production volumes, which in periods of low and stable inventory levels will be a surrogate for cost of goods sold. Finished goods production guidance for 2013 and operational settings included in the *Production Cuts and Cost Reductions* release of 21 February 2013 indicate that HMC production will exceed the amount required to be processed to produce finished goods; this will result in an increase in HMC and other concentrate volumes. The inventory movement component of cost of goods sold in 2013 will therefore comprise a draw down in finished goods and an increase in work in progress based on 21 February 2013 guidance.

Iluka reported cost of goods sold for 2012 of $439.7 million, being cash and non-cash production costs of $786.6 million less an inventory increase of $346.9 million. Cost of goods sold includes costs relating to the sale of ilmenite and other products (revenue $96.0 million) but when expressed simply in terms of sales of zircon, rutile and synthetic rutile (Z/R/SR) equals $900 per tonne (cash and non-cash costs).

Cost of goods sold reported in 2013 will reflect the actual mix of finished goods sold as, for example, zircon produced from Jacinth-Ambrosia has a different cost structure to that from Murray Basin or Virginia. As noted above, reported cost of sales also includes production costs attributable to ilmenite and other products sold in the year such as iron oxide, these costs form part of Iluka's 2013 cash cost of production guidance of $375 million. The costs associated with the sale of Ilmenite from the Murray Basin mean that when cost of goods sold is expressed simply in terms of per tonne of Z/R/SR, a small increase on the 2012 number of $900 per tonne can be expected.

In the ASX 4E commentary (page 9) Iluka noted that inventories include $257.9 million of predominantly concentrate material classified as non-current. The classification of inventory is based on the expectation of material being sold within twelve months (ie by 31 December 2013) and is reviewed at each balance date based on projections for the subsequent twelve month period.

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