ILUKA

KEY PHYSICAL & FINANCIAL PARAMETERS ILUKA 2011

FEBRUARY 2011

This document provides an indicative guide to key physical and financial parameters in the Iluka business in 2011, with commentary on 2012, as currently envisaged.

Market conditions, especially the current tightness of supply in zircon and high grade titanium dioxide products, relative to the mineral sands industry's ability and willingness to respond with higher production and/or the development of new deposits, present a very different industry environment to recent years and make forecasting physical and financial parameters beyond 2011 subject to considerable uncertainty. For example, Iluka has not yet determined its ability and willingness to debottleneck or expand zircon production or to restore synthetic rutile production capacity. In addition, continuing global economic and political volatility may impact industry performance and company decision making.

Iluka provided detailed mineral sands market commentary with its November 2010 Mineral Sands Market Briefing session (refer www.iluka.com). The company plans to update the market at mid year on prevailing market conditions.

The following guidance excludes the Mining Area C iron ore royalty which contributed $75.9 million in EBIT in 2010.

Iluka Physical Trends

	2010	2011 Guidance	2012 Commentary	Explanatory Notes – refer over page
Production (kt)				
Zircon	413	~500	Expected to be ~500kt	A
Rutile[1]	250	~250	Expected lower production (~200kt) due to transition to new deposits at WRP, following completion of mining at Douglas and Echo in early 2012	A
Synthetic rutile	347	~220	If 2nd kiln operational in early 2012, then ~320kt expected in that year	B
Ilmenite – saleable	469	~430	Impacted by internal requirements for synthetic rutile production; expected to be no higher than 2011	
Total	1,479	1,400		

[1] Rutile production volumes predominantly comprise a rutile product with a titanium content of 92 – 96 per cent together with a proportion of material with a titanium dioxide content below 92 per cent

Iluka Financial Trends

	2010	2011 Guidance	2012 Commentary	Explanatory Notes – refer over page
Cash Costs A$m				
Production costs	544	~540	Expected to be lower, but dependent on mine move and kiln operation, and cost inflation	C
Z/R/SR unit costs A$/tonne	538	~560	Expected to be lower, dependent on production cost factors above but offset by higher total Z/R/SR production	
Other cash costs	92	~115	Expected to be flat – refer explanatory comments over page	D
Restructure, rehab & idle costs	24	~5	2010 costs related to idling of mining operations and kilns	
Non cash costs				
Depreciation & amortisation	219	~195	Expected to reduce to ~$150m	E
Other	15	~15	Expected to be at a similar level	E
Capital Expenditure	117	~100	Expected to be at a similar level, dependent on project cost inflation, expansion decisions and investment opportunities	
Operating Cash Flow	164	↑		
Net Debt	313	↓		F
Gearing (nd/nd+e)%	22	↓		

Business Commentary – Explanatory Notes

Note A

Production in 2011 is expected to be influenced by the following factors:

- extension of Douglas and Echo mining operations in the Murray Basin from initial closure in fourth quarter 2011 to early 2012; and
- expected mine move from Kulwin to the Woornack, Rownack and Pirro deposits in the Murray Basin in the first quarter of 2012. As such there will be one mining operation in the Murray Basin in 2012 with a period in which mining activities will not occur, associated with the relocation of mining and concentrating equipment from Kulwin to the Woornack, Rownack, Pirro deposits.

Iluka may hold either finished or semi-finished product to accommodate the associated production interruption, especially in relation to rutile.

Mining is expected to commence from the Tutunup South deposit in the South West of Western Australia from mid 2011. Ilmenite produced will be used as a feed to the synthetic rutile operations in the South West. Ilmenite will be processed at the North Capel separation mill; non-magnetic materials (zircon and high grade titanium dioxide) will be processed at either the Narngulu mineral separation plant or the Hamilton mineral separation plant as and when processing capacity is available. These materials are not expected to make a material contribution to production as both the separation plants' capacity is committed to Jacinth-Ambrosia and Murray Basin heavy mineral concentrates.

Note B

Synthetic rutile ("SR") production estimate in 2011 reflects operation of one kiln (SR kiln 2) with SR kiln 3 primarily to operate on a research and development basis but with some commercial production. SR kiln 3 is currently planned to be idled at the end of the first half. Iluka is working to recommission SR kiln 1 in the South West of Western Australia, in 2012. If this were to occur in 2012, production capacity from these two kilns would be ~320 thousand tonnes. Reactivation of additional SR capacity will be dependent on market conditions.

Note C

Cash costs of production estimate includes the following main components:

- mining and concentrating costs; transport of heavy mineral concentrate; separation; synthetic rutile production and costs for eternally purchased ilmenite and production overheads. Also includes landowner royalty payments, but not State Government royalties.

Factors influencing cash cost of production estimate above for 2011 include the following:

- extension of mining operations at Douglas and Echo (as above) associated with mine optimisation;
- the build up of some HMC stockpiles in advance of the planned mine move from Kulwin to Woornack, Rownack and Pirro (hence an inventory build), scheduled for early 2012;
- commencement of mining at Tutunup South in the South West of Western Australia, with commissioning and ramp up activities expected from mid year; and
- operation of one SR kiln (SR kiln 2) for 12 months and operation of one other SR kiln (SR kiln 3) for several months on a R&D basis. Production guidance assumes saleable product from one kiln only.

Note D

Other cash costs include the following:

- Australian State Government royalties; major project evaluation costs; marketing and selling costs (including marketing overhead costs and port costs); product and technical development costs; exploration expenditure expensed; corporate and overhead support costs; and restructure costs/plant idling costs (where appropriate).

In 2011 total other cash costs expenditure is estimated at ~$120 million. The increase, relative to prior years, reflects a higher level of investment within the business, following the completion of the company's major capital expenditure phase. This increased investment will occur in the areas of: exploration, product and technical development, project development, as well as organisational development activities.

Marketing and selling costs (including marketing overheads and port and wharf costs) were $24 million in 2010 and are expected to be influenced, in 2011, by a higher level of sales volumes, as well as continued market development activities. In addition, State Government royalties are expected to increase in 2011, relative to 2010, associated with both higher production and higher received prices. 2010 royalties were $17.1 million.

Note E

Depreciation and amortisation in 2011 expected to be influenced by:

- commencement of Tutunup South mine depreciation in the 2nd half;
- extension of depreciation of Douglas and Echo mines in the Murray Basin, Victoria until early 2012.

D&A charges are expected to be materially lower in 2012 (at approximately $150 million).

Other non-cash costs include $15 million for the unwind of the discount on rehabilitation provisions which are recognised as a liability at net present value (the unwind is reported as a finance cost).

Note F

Iluka has an Australian denominated syndicated facility of $445m million and a working capital facility of US$40 million, as well as US private placement notes of US$90 million. Net debt at 31 December 2010 was $312.6 million, with undrawn facilities of approximately $250 million and cash at bank of $30 million.

Other – Pricing & Inventory Movements

Iluka does not provide price forecasts. As indicated, as part of its full year results announcement, Iluka achieved an approximate 20 per cent increase for 1st quarter 2011 weighted average zircon prices (from end 2010 levels which were over US$1,000/tonne); as well as an approximate 30 to 40 per cent increase for rutile and synthetic rutile weighted average prices (dependent on product specifications and markets supplied) for the first half of 2011, relative to the 2010 weighted average prices of US$550/t and US$450/t respectively.

Inventory movement – although Iluka does not guide on this component, it comprises the following elements: store stocks; work-in-progress and finished goods. To the extent that inventory of finished or semi-finished goods increases, this will have a positive P& L impact while costs are held on the balance sheet until the product is sold.

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