

FINANCIAL STATEMENTS EXPLANATORY SUMMARY

OCTOBER 2013

OVERVIEW

This paper outlines some aspects of the financial reporting of Iluka Resources with the intent of providing those seeking to evaluate or model the company further insight into key reporting parameters. For context, reference is made to aspects of the 1st half 2013 results, with full year 2012 outcomes also provided in some instances. Summary historical physical and financial parameters, including pricing outcomes can be accessed at http://www.iluka.com/investors-media/key-shareholder-information.

PROFIT AND LOSS STATEMENT

Iluka's latest profit and loss summary is given below for reference. Explanatory commentary is provided below.

Group Physicals and Profit and Loss Summary

\$ million	Notes	1 st Half 2013	Full Year 2012
Zircon/Rutile/Synthetic rutile (Z/R/SR) revenue		338.4	973.8
Ilmenite and other revenue		43.3	96.0
Mineral sands revenue		381.7	1,069.8
Cash costs of production	1	(201.9)	(583.5)
Inventory movement	2	38.4	346.9
Restructure and idle capacity charges	3	(43.6)	(14.8)
Rehabilitation and holding costs for closed sites	4	(1.1)	(9.8)
Government royalties	5	(6.6)	(19.6)
Marketing and selling costs	6	(13.1)	(30.2)
Asset sales and other income		1.3	10.3
Exploration and resources development	7	(18.5)	(43.1)
Mineral sands EBITDA		136.6	726.0
Depreciation and amortisation	8	(98.8)	(202.7)
Mineral sands EBIT		37.8	523.3
Mining Area C	9	45.4	72.3
Corporate and other costs	10	(21.6)	(45.7)
Foreign exchange		(0.4)	(4.2)

Group EBIT		61.2	545.7
Net interest and bank charges		(4.9)	(6.6)
Rehabilitation unwind and other finance costs	4	(9.1)	(26.9)
Profit before tax		47.2	512.2
Tax expense	11	(12.9)	(149.0)
Profit for the period (NPAT)		34.3	363.2
Average AUD/USD (cents)		101.5	103.6

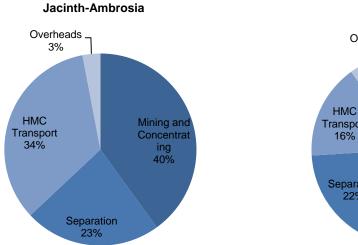
1. Cash costs of production

Includes the following main components:

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

The respective weighting of each of these components varies by region and by factors including grade, mining rate, throughput, processing location and other factors.

A breakdown of cash costs of production for two of Iluka's production regions are given below. These cost breakdowns, compiled in 2012, are subject to change and should be viewed as indicative.



Overheads 10% HMC Transport 16% Mining and Concentrat ing 52% Separation 22%

Murray Basin

2. Inventory Movement

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 (cash and non-cash costs) of each tonne of finished product sold. All production is added to inventory at cost with separate inventory stockpile values for each product (including heavy mineral concentrate (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. In first half 2013, Iluka reported cost of goods sold of \$262.5 million (cash and non-cash production costs), which when expressed simply per tonne of zircon, rutile and synthetic rutile (Z/R/SR) sold equals \$913 per tonne (the respective amounts for 2012 were cost of goods sold of \$439.7 million for \$900 per tonne of Z/R/SR sold).

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.

Iluka typically 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 proxy for cost of goods sold.

Finished goods production guidance for 2013 and operational settings included in the *Production Cuts and Cost Reductions* ASX release of 21 February 2013 indicate that HMC production is expected to exceed the amount required to be processed to produce finished goods; this will result in an increase in HMC volumes. The inventory movement component of cost of goods sold in 2013, therefore, is expected to comprise a draw down in finished goods and an increase in HMC based on 21 February 2013 guidance.

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.

3. Restructure and idle capacity charges

Restructure costs/plant idling costs will be incurred in 2013 associated with changes in asset configuration and costs during the year, including those associated with assets previously idled. While subject to finalisation, these costs are estimated at \$70 million, of which \$30 million relates to idling of production assets and redundancy and other costs associated with production response measures implemented and incurred in the first half of 2013.

4. Rehabilitation

The company 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 cash costs of production.

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 the 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, adjustment 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, any adjustment is reflected directly in profit or loss.

Rehabilitation and holding costs for closed sites were \$9.8 million in 2012.

5. Government royalties

This includes royalties paid to Australian State Governments. Royalties are levied as per cent of revenues generated from the sale of mineral sands products, and in the case of South Australia, with Jacinth-Ambrosia HMC (which is not processed in South Australia), by a determination arrived at with the South Australian Government.

The royalty rates for Western Australia and Victoria (Murray Basin operations) are 5.0 per cent and 2.75 per cent, respectively. However, revenues derived from synthetic rutile production are not subject to Western Australian State Government royalty as this is classed as a value adding beneficiation process.

Australian State Government royalties were \$19.6 million in 2012.

6. Marketing and selling costs

This includes marketing overhead costs associated with Iluka's global marketing operations, as well as port costs. In 2012 these costs were \$30.2 million.

7. Exploration and Resources Development

Exploration and evaluation expenditure is accumulated separately for each area of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure. Each area of interest is limited to a size related to a known mineral resource, capable of supporting a mining operation.

Expenditure is carried forward (capitalised) when incurred in areas for which the group has rights of tenure and where economic mineralisation is indicated, but where 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.

Exploration expenditure expensed was \$29.5 million in 2012. While the level of exploration expenditure expensed and capitalised varies, typically about two thirds is expensed.

This category also includes product and technical and major development costs, which includes expenditure associated with new product development and trials as well as other mineral sands related research and development costs. These costs, as opposed to those directly related to new project expenditure (including feasibility studies) are typically expensed. These costs in 2012 were \$13.6 million. Iluka has indicated a commitment to increased investment in this area, and such costs may increase.

8. Depreciation and Amortisation

Depreciation and amortisation of mine buildings 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 and other non-mine specific plant and equipment and reserves and development 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 and reserves and development is determined on a unit of production basis to more appropriately match depreciation 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 typically as follows:

- Mine buildings the shorter of applicable mine life and 25 years
- Mine specific machinery and equipment the applicable mine life
- Mine specific plan units of production
- Reserves and development units of production
- Other non-mine specific plant and equipment 3 to 25 years

Iluka has guided on a D&A cost in 2013 of ~\$175 million.

9. Mining Area C (MAC) Iron Ore Royalty

The key elements of this royalty relating to specific areas of BHP Billiton's Area C tenements in the Pilbara, Western Australia, include:

- the greater of (1) ongoing quarterly royalty payments of 1.25% of free-on-board Australian denominated sales revenue from the MAC royalty area (less all export duties and export taxes), or (2) A\$0.25 per dry metric tonne of all ore produced from the MAC royalty area in that quarter; and
- when applicable, annual capacity payments of A\$1 million per dry metric million tonne increase in the annual production level from the MAC royalty area during any 12 month period ending 30 June above the previous highest annual production level, paid within 30 days of the relevant amount of production being produced.

This royalty contributed \$72.3 million EBIT in 2012.

10. Corporate and Other Costs

This includes all non-operating costs not separately disclosed, including finance department, payroll, IT and other office services and Managing Director's office. Corporate and overhead support costs were \$45.7 million in 2012.

11. Taxation

The majority of Iluka's revenue is Australian based with a prevailing corporate tax of 30%; a small proportion is from the US with a prevailing corporate tax of 23%.

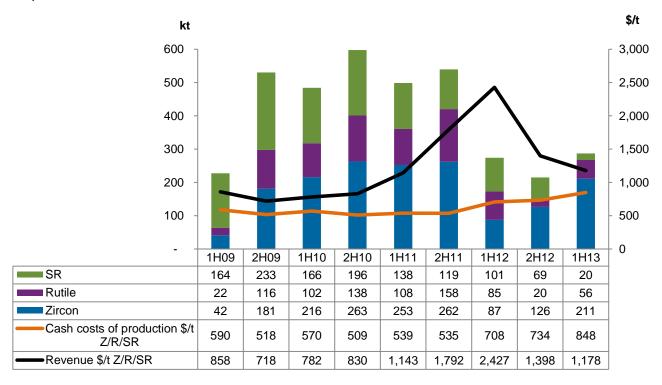
Iluka is in a fully tax paying position and as such generating franking credits. Franking credits post the 2012 final dividend payment were \$115.6 million. Note 8 (e) and 20 (b) of the 2012 Annual Report provide further information.

UNIT CASH COSTS AND UNIT REVENUE

Most mineral sands mines produce several product streams (including zircon, rutile, ilmenite and other products) and often include titanium dioxide upgrading facilities (producing synthetic rutile or slag). Each of these products is priced differently and some require additional processing (and costs) to produce. As a result, their respective weighting (or assemblage and incurring of any upgrading costs) has a strong influence on the economics of mineral sands projects.

Comparing unit cash costs of production and unit revenue takes into account both the higher costs associated with producing certain mineral products and the pricing regime related to the varying product suite. Unit margins, as opposed to relative unit costs, is a more appropriate measure for reviewing relative profitability and competitiveness.

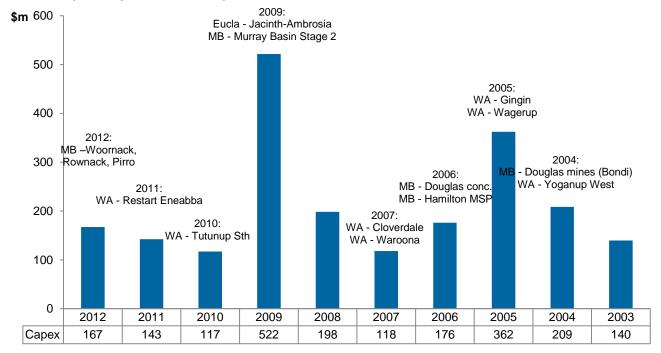
Sales, Unit Cash Costs and Unit Revenue



CAPITAL EXPENDITURE

Iluka's capital expenditure can vary dependent on the timing and scale of commitment to new projects, as well as other expenditures, including kiln refurbishment. Annual expenditure over the last ten years is shown below. During this time Iluka has developed a number of relatively large-scale projects including the Jacinth-Ambrosia and Murray Basin operations. The projects commencing production in each period are shown on the chart. Generally, capital expenditure occurs in the year or the previous year of each given project commencing.

Annual Capital Expenditure and Operations Commenced¹



On average annual capital expenditure has been:

- 5 year average \$230 million
- 10 year average \$220 million

Iluka's guidance for 2013 capital expenditure is ~\$100 million.

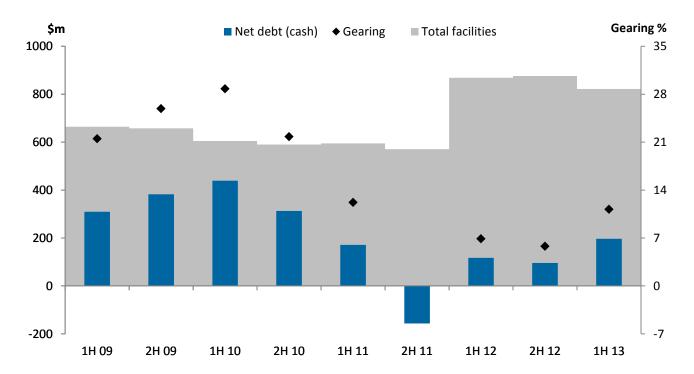
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MB – Murray Basin; WA – Western Australia; MSP – Mineral separation plant

DEBT, GEARING AND LOAN FACILITIES

Iluka's net debt, gearing and loan facilities are shown below. Iluka has maintained a modest gearing level over the cycle and has significant head room in terms of total loan facilities available.

Net Debt, Gearing (Net Debt / Net Debt + Equity) and Total Loan Facilities



Iluka has an \$800 million revolving debt and a further \$200m in guarantee facilities. This is supported by a mix of international and domestic banks. It is based on a strong but flexible structure of bilateral agreements around a Common Terms Deed. The facility is for five years and was signed in April 2012.

As at 30 June 2013, Iluka had more than \$600 million of undrawn facilities and cash and a gearing level of 11.2 per cent (net debt / net debt + book equity).

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These forward-looking statements are subject to a range of risk factors associated, but not exclusive, with potential changes in:

- Exchange rate assumptions
- product pricing assumptions
- mine plans and/or resources
- equipment life or capability
- current or new technical challenges
- market conditions
- management decisions

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