

INITIAL ASSESSMENT OF IMPACT OF FEDERAL GOVERNMENT'S PROPOSED CARBON TAX

The following provides an initial assessment of the potential implications of the Federal Government's proposed Carbon Tax on Iluka's business operations. The following comments are based on information available to date and may be subject to change based on further assessment and/or the receipt of further details associated with the legislative package supporting the proposed tax.

- Iluka's Australian carbon dioxide equivalent ("CO₂e") emissions for 2009/10 reported under the National Greenhouse and Energy Report requirements ("NGERs") was 878 thousand tonnes, these amounts exclude emissions by Iluka's road haulage contractors and domestic shipping suppliers who report separately under NGERs.
- Of the 878 thousand tonnes of CO₂e, the major components were approximately 500 thousand tonnes for coal (57 per cent), approximately 245 thousand tonnes for electricity (28 per cent) and approximately 86 thousand tonnes for diesel (10 per cent). Over 60 per cent of Iluka's Australian CO₂e emissions were for the production of synthetic rutile.

Synthetic rutile involves the beneficiation of ilmenite, at Iluka's operational sites in Western Australia, to a higher value product. This product is sold predominantly in non Australian markets and competes with similar products produced mainly in South Africa and Canada. Iluka is a major global producer of synthetic rutile, with this operation underpinning ilmenite mining operations at various locations in Australia.

- Assistance under the Government's proposed Carbon Tax is to be provided consistent with the process, criteria and requirements currently used for Partial Exemption Certificate assistance under the Renewable Energy Target. Furthermore, activity assessments and activity definitions that have already taken place will remain valid.
- Iluka was advised by the Minister for Climate Change and Energy Efficiency (The Hon Greg Combet) on 5 October 2010 that: "...the activity of synthetic rutile will be eligible for Emissions-Intensive Trade Exposed (EITE) assistance in the highly emissions-intensive category."
- Iluka's synthetic rutile production for year ended June 2010 was 340 thousand tonnes with an estimated entitlement of approximately 600 thousand permits (based on the 94.5 per cent assistance level)¹. Iluka's synthetic rutile emissions for the same period were 608 thousand tonnes of CO₂e. The higher effective assistance rate reflects a reduction in energy intensity per tonne of synthetic rutile produced in the period, compared to the industry average during the assistance setting period.

¹ The amount of permits re the electricity use for synthetic rutile is per MWh and then depends on energy used in generation so is variable.

- Based on Iluka's submitted energy emissions for the year ended 30 June 2010 and the assistance level outlined above, Iluka's post tax liability at \$23/tonne would have been approx \$4.5million.
- Iluka's emissions for the year ended 30 June 2011 are being compiled at present and are due for submission to the Greenhouse and Energy Reporting Office by the end of October.
- Fuel used in road transport is excluded from the proposed Carbon Tax regime until at least 2014, entailing that contractor fuel costs are also excluded over this period. The impact on shipping costs for the transport of Jacinth-Ambrosia Heavy Mineral Concentrate from Thevenard (South Australia) to Geraldton (Western Australia) and Portland (Victoria), together with Murray Basin ilmenite from Portland to Geraldton and Bunbury (Western Australia) is still to be quantified.

The Carbon Tax is due to commence on 1 July 2012, the impact on Iluka will therefore be based on the level of synthetic rutile operations at this stage and any changes in the mining production base which may occur over the period, and subsequently.

Iluka has undertaken all of its financial modelling in the past couple of years on the basis of a carbon tax.

Iluka operates in a competitive global context for the production and sale of mineral sands products, including synthetic rutile. Market supply/demand forces have the major influence on the economics of the sector and these can change quickly. As such, low operating and regulatory costs are always a critical part of competing effectively, particularly in commodity industries, given pricing dynamics can vary over economic cycles.

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