

KEY PHYSICAL AND FINANCIAL PARAMETERS ILUKA 2011 (July Update)

14 July 2011

This document provides an update on Iluka's main expected physical parameters for 2011, versus similar guidance provided in February 2011.

Strong year to date production performance has led to an increase in expected full year production figures, which in turn has influenced the total cash costs estimate for the full year (but not the unit cash cost estimate). First half production has been influenced by favourable grade characteristics in the Murray Basin, by improved plant performance and product yields across the operations, and by higher than anticipated synthetic rutile production as Iluka has extended the operation of synthetic rutile kiln 3, both for research and development work and to enable further commercial sales.

While it can be expected that sales volumes track production volumes over time, as Iluka advised in February, some 2011 production may be held over to cover sales, especially of rutile, during the expected production interruption associated with the mine move from Kulwin to the Wornack, Rownack and Pirro deposits in the Murray Basin in the first quarter of 2012. Iluka zircon sales volumes could therefore be at least five percent lower than production in 2011 and rutile sales volumes up to 15 per cent lower.

Higher production and sales outcomes, including the decision to run synthetic rutile kiln 3 longer, is logically reflected in higher total cash costs of production, although unit cash costs of production are expected to be in line with initial guidance. Higher capital expenditure relative to initial guidance reflects, in part, planned initiatives to increase production from Iluka's existing reserve and resource inventory.

All outcomes conveyed in this document remain subject to variation based on operational outcomes including plant performance, grade and assemblage characteristics for ore bodies, changes to sales forecasts and shipment schedules, as well as changes in market conditions brought about by macro economic conditions.

Iluka does not provide guidance on potential pricing outcomes. The company's most recent announcement on pricing outcomes can be referred to in the ASX Release dated 6 June 2011 (refer www.iluka.com)

This document excludes any comment on the contribution of the Mining Area C iron ore royalty.

Iluka intends to provide further commentary at the half year results in August in relation to the outlook for the business and what are assessed as continuing favourable market conditions, notwithstanding volatility in global confidence levels regarding macro-economic issues.

Disclaimer – Forward Looking Statements

This briefing paper contains information which is based on projected and/or estimated expectations, assumptions and outcomes.

These forward-looking statements are not guarantees or predictions of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the company's control, and which may cause actual results to differ from those expressed in the statements contained in this release. Factors that could cause actual results or performance to differ materially from those expressed or implied in the forward-looking statements include, but are not limited to 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

While Iluka has prepared this information based on its current knowledge and understanding and in good faith, there are risks and uncertainties involved which could cause results to differ from projections. Iluka shall not be liable for the correctness and/or accuracy of the information nor any differences between the information provided and actual outcomes, and furthermore reserves the right to change its projections from time to time. Iluka does not undertake to update the projections provided in this document on a regular basis.

All currency is in nominal Australian dollar terms unless stated differently

Iluka Physical Trends

	2010	2011 Guidance (February)	2011 Guidance (July)	2011 Commentary
Production kt				
Zircon	413	~500	~550	Higher production influenced by favourable Murray Basin grades and strong operational performance. Iluka zircon sales volumes could be ~5 percent lower than production in 2011.
Rutile ¹	250	~250	~275	Higher production influenced by favourable Murray Basin grades and strong operational performance. Iluka rutile sales volumes could be ~10-15 per cent lower than production in 2011, in part related to a planned interruption to production in the Murray Basin in 2012 associated with a mine move.
Synthetic rutile	347	~220	~260	Higher production associated with extension of the operation of SR kiln 3. Synthetic rutile sales volumes could be ~5 per cent lower than production volumes.
Ilmenite – saleable	469	~430	~460	As previously indicated, Iluka determines external sales vs internal ilmenite consumption for SR process based on a relative economic evaluation.
Total	1,479	1,400	1,545	Overall production of Z/R/SR potentially >110kt higher than initial guidance.

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 titanium dioxide content between 90 and 92 per cent.

Iluka Financial Trends (refer comments above – subject to change)

	2010	2011 Guidance (February)	Updated 2011 Guidance (July)	2011 Commentary	Explanatory notes (refer over page)
Cash Costs A\$m					
Production costs	544	~540	~620	Higher total cash costs (as opposed to unit cash costs) reflect a significant increase in 2011 planned production (>110kt of Z/R/SR) relative to initial guidance, including running SR3 kiln longer, as well as some anticipated expenditure related to initiatives to increase production.	A
Z/R/SR unit costs A\$/tonne	538	~560	~560	Unit cash cost of production for the full year expected to be similar to initial guidance.	
Other cash costs	92	~115	~115	Similar to guidance, although higher pricing and sales outcomes may influence level of royalty payments and marketing costs.	B
Restructure, rehab & idle costs	24	~5	~5		
Non cash costs					
Depreciation & amortisation	219	~195	~195		C
Other	15	~15	~15		D
Capital Expenditure	117	~100	~170	Additional expenditure associated with Woorack, Rownack Pirro project (including expenditure to lower mine move and operational risk), Murray Basin; road sealing at Jacinth-Ambrosia operation; Victorian HMC rail transport investment; additional infill drilling. In addition, capital committed to planned initiatives in progress to increase production, reflected in land acquisition, equipment refurbishment etc.	
Operating Cash Flow	164	↑	↑		
Net Debt	313	↓	↓		
Gearing (nd/nd+e)%	22	↓	↓		

Business Commentary – Explanatory Notes

Note A

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 externally purchased ilmenite and production overheads. Also includes landowner royalty payments, but not State Government royalties.

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

- extension of mining operations at Douglas and Echo associated with mine re-optimisation;
- the build up of some HMC stockpiles (hence an inventory build) in advance of the planned mine move from Kulwin to Woorack, Rownack and Pirro, scheduled for early 2012;
- commencement of mining during June at Tutunup South in the South West of Western Australia; and
- extension of SR3 kiln operation beyond originally planned period, to the third quarter of 2011.

Note B

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 expected to increase, relative to prior years, reflecting increased investment in exploration, product and technical development, project development and human resources and organisational development.

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 C

Depreciation and amortisation in 2011 is 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.

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).

Other – Inventory Movements

Inventory movement represents movement in balance sheet inventory, including the D&A component. 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*. Given the production and sales volume information described above a material positive inventory movement is expected at year end.

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