ILUKA

# 2009 ILUKA RESOURCES LIMITED
## ANNUAL REPORT

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## Explanation of Structure of Annual Report Documents

The 2009 Annual Report provides shareholders with detailed information in relation to the financial statements, Directors' Report (including remuneration report), ore reserves and mineral resources and sustainable development. The Annual Shareholder Review provides a summary of Iluka's 2009 financial year and is available on Iluka's website www.iluka.com

Australian currency is shown in this report unless otherwise indicated.

## Notice of Annual General Meeting

The 55th Annual General Meeting of Iluka Resources Limited will be held at the Swan Room at the Parmelia Hilton Hotel, 14 Mill Street, Perth, Western Australia on 20 May 2010.

A separate Notice of Meeting and Proxy Form have been sent to registered shareholders. The Notice of Meeting is available on Iluka's website.


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# DIRECTORS' REPORT

The Directors present their report on the consolidated entity consisting of Iluka Resources Limited and the entities it controlled at the end of, or during, the year ended 31 December 2009.

## DIRECTORS

The following individuals were Directors of Iluka Resources Limited during the whole of the financial year and up to the date of this report:

Robert Lindsay Every (Chairman)
Donald Marshall Morley
George John Pizzey (Deputy Chairman)
Gavin John Rezos
David Alexander Robb
Jenny Seabrook
Wayne Geoffrey Osborn (was appointed as Director on 26 March 2010)
Stephen John Turner (was appointed as Director on 26 March 2010)

## PRINCIPAL ACTIVITIES

The activities of the consolidated entity consist of exploration, mining, concentration and separation of mineral sands, production of ilmenite, rutile, synthetic rutile and other titaniferous concentrates and zircon, and sales of these products throughout the world.

## SIGNIFICANT CHANGES

During the year the following significant changes occurred:

(a) $114.0 million in new equity funds raised through a share placement.

(b) Settlement was reached with Downer Mining for $9.0 million in relation to the long running dispute over the construction by Downer Mining of the first stage of Iluka's Murray Basin operations, completed in 2007.

(c) The business service interruption insurance claim in respect of the pipeline explosion at Apache Energy's Varanus Island facility was finalised.

(d) Disposed of shares in Consolidated Rutile Limited ("CRL") on 27th May 2009 to Unimin Australia Limited for 45 cents per share.

(e) In response to an unprecedented reduction in short term demand for mineral sands products, particularly zircon, associated with the global economic crisis, Iluka took a number of actions to reduce production and ongoing cash costs at it's existing operations, further detail is outlined in the review of operations.

There were no other significant changes in the state of affairs of the Group during the financial year.

## REVIEW OF OPERATIONS

### Reported earnings

Iluka recorded a net loss after tax and minority interests for the year of $108.6 million, compared with a net profit of $77.5 million for the previous corresponding period.

The result includes a significant non-cash charge of $67.6 million, before tax, and a contribution of $23.3 million from the sale of Iluka's interest in Consolidated Rutile Limited ("CRL").

Sales volumes declined by 37 per cent from 2008, including a 55 per cent reduction in zircon sales volumes. Sales revenue, including hedge losses, declined by 38.1 per cent to $533.1 million (2008: $862.4 million).

In response to an unprecedented reduction in short term demand for mineral sands products, particularly zircon, associated with the global economic crisis, Iluka took a number of actions to reduce production and ongoing cash costs at its existing operations. The actions were aimed at more closely matching supply with demand and resulted in restructure and idle capacity cash costs of $57.8 million, directly expensed depreciation on idled assets of $32.8 million and a non-cash charge of $67.6 million to write off the fair value ascribed to deposits acquired in 1998 and 2002 which are now unlikely to be mined. In the previous corresponding period $12.6 million of cash costs and depreciation of $6.1 million were directly expensed due to production curtailments as a result of the Western Australia gas supply disruption.

Total cash costs of production of $453.6 million were 19.6 per cent lower than 2008 due to the changes in production made during the year. Unit cash costs of production of saleable product increased by 12.2 per cent to $396/t due to a 27.8 per cent reduction in production volumes associated with the production curtailments and the cessation of lower value ilmenite mining operations in Western Australia as they reached the end of their economic lives.

Total group EBIT, before impairment charges and reversals, was a loss of $114.3 million (2008 profit: $50.6 million), with Mining Area C ("MAC") making an EBIT contribution of $50.2 million (2008 $56.4 million). MAC capacity payments were $2 million higher than the prior year but royalty payments reduced, despite a 10 per cent increase in sales volumes, due to lower iron ore prices received for MAC product.

The loss before tax from continuing operations of $204.6 million compares to a profit of $21.9 million in 2008. A net tax benefit of $72.9 million was recognised for the year.

The sale of Iluka's investment in CRL in the first half of 2009 generated a profit of $23.3 million. No tax expense arises on the profit as the sale generated a capital loss for income tax purposes.

Earnings per share for the year were (26.8) cents compared to 22.4 cents in 2008. Total shares on issue at 31 December 2009 were 418.7 million compared with 380.7 million at 31 December 2008 following an institutional share placement during the period.

### Gearing and net debt

Gearing (net debt/net debt + equity) was 25.9 per cent at 31 December 2009, compared with 17.4 per cent at 31 December 2008. Net debt of $382.1 million increased by $166.4 million during the period due to the significant capital expenditure on Murray Basin Stage 2 and Jacinth Ambrosia. The increase was partially offset by the proceeds from the sale of CRL and the share placement amounting to approximately $200 million.

### Dividend

In the context of current Group earnings, cash flows and the franking credit position the Board has decided not to pay a 2009 dividend.

## Income statement analysis

| $ million | 2009 | 2008 | Variance% |
|---|---|---|---|
| Mineral sands revenue | 576.0 | 894.8 | (35.6) |
| Cash costs of production | (453.6) | (564.3) | (19.6) |
| Inventory and overburden movement | 33.4 | (77.2) | n/a |
| Restructure and idle capacity cash charges | (50.1) | (12.6) | (297.6) |
| Government royalties | (13.7) | (20.0) | 31.5 |
| Marketing and selling | (10.2) | (11.2) | 8.9 |
| Asset sales and other income | 14.2 | 3.9 | 264.1 |
| Product and technical development | (4.2) | (10.2) | 58.8 |
| Exploration | (16.2) | (16.9) | 4.1 |
| Mineral sands EBITDA | 75.6 | 186.3 | (59.4) |
| Depreciation and amortisation | (176.2) | (145.2) | (21.3) |
| Mineral sands EBIT | (100.6) | 41.1 | n/a |
| Currency hedging | (42.9) | (32.4) | (32.4) |
| Mining Area C | 50.2 | 56.4 | (11.0) |
| Foreign exchange gains | 5.0 | 10.6 | (52.8) |
| Corporate and other | (26.0) | (25.1) | (3.6) |
| Group EBIT before impairment charges and reversals | (114.3) | 50.6 | n/a |
| Impairment charges and reversals | (67.6) | 5.5 | n/a |
| Net interest costs | (17.1) | (23.2) | 26.3 |
| Interest capitalisation (Jacinth Ambrosia and Murray Basin) | 12.5 | 4.0 | 212.5 |
| Rehabilitation accretion and other finance costs | (18.1) | (15.0) | (20.7) |
| (Loss) profit before tax | (204.6) | 21.9 | n/a |
| Tax benefit | 72.9 | 15.8 | 361.4 |
| (Loss) profit from continuing operations | (131.7) | 37.7 | n/a |
| Profit from discontinued operations (CRL & Narama) | 22.9 | 47.3 | (51.6) |
| (Loss) profit for the period | (108.8) | 85.0 | n/a |
| CRL Minority Interests | 0.2 | (7.5) | n/a |
| Net (Loss) Profit After Tax | (108.6) | 77.5 | n/a |

### Mineral sands revenue

Mineral sands revenue reduced due to a 37 per cent reduction in total sales volumes, including a 55 per cent reduction in sales volumes for zircon, the highest value product. Higher prices were achieved for all products. The timing of sales and movements in exchange rates during 2008 and 2009 was such that the effect of currency movements on 2009 mineral sands revenue compared with 2008 was not significant.

Iluka sold 60 per cent of its volumes, including 80 per cent of its zircon volumes, in the second half of 2009.

### Cash costs of production

Total cash costs of production reduced by 19.6 per cent, or $110.7 million, due to actions taken to reduce production in Western Australia and the United States, together with a range of initiatives to reduce operating and business support costs. Production of finished product was 27.8 per cent lower than in 2008, including a significant reduction in low value saleable ilmenite. As a consequence of the focus on higher value products, the allocation of fixed costs over lower volumes has contributed to an increased unit cash cost of production for the group of 12.2 per cent to $396 per tonne.

### Inventory movement

The increase in inventory is due to stockpiled intermediate product that will be processed at Narngulu in future years as capacity allows. This material is classified as non-current inventory in the balance sheet.

### Restructure and idle capacity cash charges

In response to the severe reduction in demand, particularly in the first half of 2009, associated with global economic conditions, Iluka implemented a range of initiatives to reduce production volumes and cash operating costs in future periods. The reduced volumes and associated cost reduction actions resulted in mineral sands restructure and idle capacity cash costs of $50.1 million. Approximately half of these costs relate to redundancy charges in the Western Australian operations where approximately 50 per cent of the productive capacity was idled.

### Depreciation and amortisation

The increased charges are due to higher charges on Western Australian assets associated with shorter operating lives following the production changes made during 2009. The commissioning of the Brink mine in Virginia in the first half of 2009 resulted in increased charges for the US operation. No Murray Basin Stage 2 or Jacinth Ambrosia assets were depreciated in 2009 as commissioning of both operations was incomplete at year end.

### Currency hedging

Losses of $42.9 million were realised mainly in the first half of 2009. Average spot exchange rates in the second half of 2009 were comparable to hedge contract rates.

### Mining Area C

Iron ore sales volumes increased 10 per cent to 40.3 million dry metric tonnes but lower royalty payments were received due to lower iron ore prices achieved by BHP Billiton for the product upon which the MAC royalty is payable. Capacity payments for the year were $8.0 million (2008: $6.0 million) due to higher annual production to 30 June 2009 following the completion of an expansion of the Area C operation by BHP Billiton.

### Corporate and other costs

Corporate costs were $0.9 million lower than the prior year after including restructure and other non-recurring costs of $7.7 million. These costs include $3.7 million of legal and other costs associated with the Roche dispute that were expensed in the first half, prior to settlement of the matter.

### Impairment charges

This represents the write off of fair values for deposits in Western Australia ($38.5 million) and Murray Basin ($29.1 million) from acquisitions in 1998 and 2002 that are now considered unlikely to be mined.

### Interest

The reduction in net interest costs, before capitalisation associated with funding for the Jacinth Ambrosia and Murray Basin Stage 2 developments, reflects lower interest rates and a greater proportion of US dollar denominated debt.

### Tax benefit

An income tax benefit of $72.9 million, at an effective tax benefit rate of 35.6 per cent, is influenced by the tax expense on earnings in the United States being 20 per cent and benefits associated with the Australian Government's Investment Allowance on eligible capital expenditure increasing the Australian tax loss position. The 2008 tax benefit of $15.8 million included a benefit for the recognition of prior year losses in the United States.

### Discontinued operations - CRL and Narama

The 2009 balance represents the operating results of CRL to the date of sale and the gain on sale of CRL, net of tax. The 2008 balance comprises the $30 million post tax gain on the sale of Iluka's 50 per cent share of the Narama coal joint venture, recognised in January 2008, and the post tax operating result of CRL for the year.

## DIRECTORS' PROFILES

### Robert Lindsay Every, BSc, PhD, FTSE, FIE Aust, CP Eng, FAICD, Chairman

Dr Every was appointed to the Board in March 2004. He is the Chairman of Wesfarmers Limited, the Deputy Chairman of Boral Limited and a Director of the charity Redkite. Dr Every was formerly the Managing Director and Chief Executive Officer of OneSteel Limited, a position from which he retired in May 2005. He was also the Chairman of the New Zealand based listed company Steel and Tube Holdings Limited and Managing Director of Tubemakers of Australia and President of BHP Steel Limited. He was formerly a Director of Sims Group Limited. Dr Every is a member of the Remuneration and Nomination Committee.

Directorships of Listed Entities (last 3 years)
Wesfarmers Limited (appointed February 2006)
Boral Limited (appointed September 2007)
Sims Group Limited (appointed October 2005 resigned November 2007)

### David Alexander Robb, BSc, GradDip(Personnel Administration), FAIM, FAICD, Managing Director

Mr Robb commenced as Managing Director on 18 October 2006. Mr Robb was previously Managing Director, Wesfarmers Energy as well as executive Director, Wesfarmers Limited. Prior to joining Wesfarmers he held senior positions with British Petroleum in Australia and overseas, including chief executive responsibilities for a national service business in the US; for oil, chemicals, consumer goods, marine and aviation businesses in Malaysia and as director responsible for oil marketing throughout South East Asia.

Directorships of Listed Entities (last 3 years)
Consolidated Rutile Limited (appointed October 2006 resigned May 2009)

### George John Pizzey, BE (Chem), FellDip (Management), FTSE, FAICD, FAIM, Deputy Chairman and Chairman of the Remuneration and Nomination Committee

Mr Pizzey was appointed to the Board in November 2005. He has extensive experience in mining and mineral processing. Mr Pizzey was Chairman of Alcoa of Australia and held a number of senior executive positions with Alcoa Inc (USA). He is a Director of Alumina Limited, Amcor Limited and St Vincent's Medical Research Institute. He was formerly the Chairman of ION Limited (in administration), Range River Gold and the London Metal Exchange UK and a Director of WMC Resources Ltd and Ivanhoe Grammar School.

Directorships of Listed Entities (last 3 years)
Alumina Limited (appointed June 2007)
Amcor Limited (appointed September 2003)

### Donald Marshall Morley, BSc, MBA, Hon. FAusIMM, Chairman of the Audit and Risk Committee

Mr Morley was appointed to the Board in December 2002. He was formerly the Chief Financial Officer and a Director of WMC Limited from which he retired in October 2002. He is Chairman of Alumina Limited and a Director of Spark Infrastructure Limited.

Directorships of Listed Entities (last 3 years)
Alumina Limited (appointed 11 December 2002)
Spark Infrastructure Ltd (appointed November 2005)

### Gavin Rezos, BA, LLB, B.JURIS, MAICD

Mr Rezos was appointed to the Board in June 2006. He has extensive Australian and international investment banking experience and is a former Investment Banking Director of the HSBC Group with regional roles during his HSBC career based in London, Sydney and Dubai. Mr Rezos has held Chief Executive Office positions and executive directorships of companies in the healthcare and technology areas in the UK, US and Singapore and was formerly a non-executive Director of Amity Oil NL (Antares). He is Chairman of Alexium International Group Limited, a principal of Albion Capital Partners and a Director of Rowing Australia. Mr Rezos is a member of the Remuneration and Nomination Committee.

Directorships of Listed Entities (last 3 years)
Alexium International Group Limited (appointed March 2010)

### Jennifer Anne Seabrook, BCom, ACA, FAICD

Ms Seabrook was appointed in May 2008. She is a Special Advisor to Gresham Partners Limited. She is also a non-executive Director of the Bank of Western Australia Limited, M G Kailis Holdings Pty Limited and IRESS Market Technology Ltd. Ms Seabrook is a member of the Takeovers Panel and Financial Advisory Group of the Financial Services Institute of Australia (FINSIA) and a member of ASIC's External Advisory Group. She was formerly a Director of West Australian Newspapers Holdings Limited, BWA Managed Investments Limited, St Andrew's Superannuation Services Ltd and Western Power. Ms Seabrook is a member of the Audit and Risk Committee.

Directorships of Listed Entities (last 3 years)
IRESS Market Technology Limited (appointed August 2008)
West Australian Newspaper Holdings Limited (appointed February 2006 resigned December 2008)

### Wayne Geoffrey Osborn, DipEng, MBA, FTSE, MIE(Aust), MAICD

Mr Osborn is a former Managing Director of Alcoa of Australia Limited. He is a non-executive Director of Leighton Holdings Limited and Wesfarmers Limited, Chairman of Thiess Pty Limited, Chairman of the Australian Institute of Marine Science, a Director of the International Centre for Radio Astronomy Research and a Trustee of the Western Australian Museum. He was formerly a Director of the Australian Business Arts Foundation and Vice President of the Chamber of Commerce and Industry, Western Australia. Mr Osborn is a member of the Remuneration and Nomination Committee.

Directorships of Listed Entities (last 3 years)
Leighton Holdings Limited (appointed 6 November 2008)

Stephen John Turner BCom, ACA

Mr Turner is a founder of the London Stock Exchange listed company, International Ferro Metals Limited. He was the Chief Executive Officer of International Ferro Metals Limited from 2002 to 2009 and continues as a non-executive Director of that company. Mr Turner has had responsibility for resource projects in Australia, Africa, and the Pacific Islands. He was a founding Director of the Australian subsidiary of PSG Investment Group, a South African investment bank. He is an Australian Chartered Accountant. Mr Turner is a member of the Audit and Risk Committee.

## COMPANY SECRETARY

The Company Secretary is Mr Cameron Wilson LLB. Mr Wilson was appointed to the position of Company Secretary in 2004. Before joining Iluka Mr Wilson held a range of legal and commercial roles at WMC Resources Limited and prior to that worked as a solicitor with a major legal practice.

## MEETINGS OF DIRECTORS

The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 31 December 2009, and the numbers of meetings attended by each Director were:

| | Board of Directors' meetings | | Audit and Risk Committee meetings | | Remuneration and Nomination Committee meetings | |
|---|---|---|---|---|---|---|
| Director | Number attended | Number held | Number attended | Number held | Number attended | Number held |
| D A Robb | 11 | 11 | - | - | - | - |
| R L Every | 11 | 11 | 6[1] | 7 | 5 | 5 |
| D M Morley | 10 | 11 | 7 | 7 | - | - |
| G J Pizzey | 11 | 11 | - | - | 5 | 5 |
| G J Rezos | 11 | 11 | 7 | 7 | 5 | 5 |
| J A Seabrook | 11 | 11 | 7 | 7 | - | - |

1 Dr Every attended the Audit & Risk Committee meeting by invitation but was not a member of the Committee.

## DIRECTORS' SHAREHOLDING

Directors' shareholding is set out in note 21.

## REMUNERATION REPORT

The remuneration report is set out on pages 6 to 17.

## INDEMNIFICATION AND INSURANCE OF OFFICERS

The Company indemnifies all Directors of the Company named in this report and current and former executive officers of the Company and its controlled entities against all liabilities to persons (other than the Company or a related body corporate) which arise out of the performance of their normal duties as Director or executive officer unless the liability relates to conduct involving bad faith. The Company also has a policy to indemnify the Directors and executive officers against all costs and expenses incurred in defending an action that falls within the scope of the indemnity and any resulting payments.

The terms of engagement of Iluka's external auditor includes an indemnity in favour of the external auditor. This indemnity is in accordance with PricewaterhouseCoopers' standard Terms of business and is conditional upon PricewaterhouseCoopers' acting as external auditor. Iluka has not otherwise indemnified or agreed to indemnify the external auditors of Iluka at any time during the financial year.

During the year the Company has paid a premium in respect of Directors' and executive officers' insurance. The contract contains a prohibition on disclosure of the amount of the premium and the nature of the liabilities under the policy.

## NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the consolidated entity are important.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit and Risk Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- fees paid to external auditors for non-audit services for the 2009 year were within the Company policy; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 18.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

| | Consolidated | |
|---|---|---|
| | **2009** | 2008 |
| | **$000** | $000 |
| **(a) Assurance services** | | |
| Audit services | | |
| PricewaterhouseCoopers Australian firm: | | |
| Audit and review of financial reports and other audit work under the *Corporations Act 2001* | **562** | 772 |
| Related practices of PricewaterhouseCoopers Australian firm | **52** | 73 |
| **Total remuneration for audit services** | **614** | 845 |
| Other assurance services | | |
| Other | **65** | 445 |
| **Total remuneration for other assurance services** | **65** | 445 |
| **(b) Taxation services** | | |
| PricewaterhouseCoopers Australian firm: | | |
| Tax compliance services, including review of income tax returns | **67** | 87 |
| Related practices of PricewaterhouseCoopers Australian firm | **-** | 12 |
| **Total remuneration for taxation services** | **67** | 99 |
| **(c) Other services** | | |
| PricewaterhouseCoopers Australian firm: | | |
| Other services | **50** | 57 |
| Related practices of PricewaterhouseCoopers Australian firm | **34** | - |
| **Total remuneration for other services** | **84** | 57 |

## ENVIRONMENTAL REGULATIONS

The Company's Australian operations are subject to various Commonwealth and State laws governing the protection of the environment in areas such as air and water quality, waste emission and disposal, environmental impact assessments, mine rehabilitation and access to, and use of, ground water. In particular, some operations are required to be licensed to conduct certain activities under the environmental protection legislation of the state in which they operate and such licenses include requirements specific to the subject site.

So far as the Directors are aware, there have been no material breaches of the Company's licenses and all mining and exploration activities have been undertaken in compliance with the relevant environmental regulations.

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

The Directors are not aware of any matter or circumstance not otherwise dealt with in the Directors' Report that has or may significantly affect the operations of the economic entity, the results of those operations or the state of affairs of the economic entity in subsequent financial years.

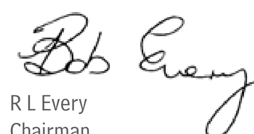
## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

In the opinion of the Directors, likely developments in and expected results of the operations of the consolidated entity have been disclosed in significant events after balance date, disclosure of further material relating to those matters could result in unreasonable prejudice to the interests of the company and the consolidated entity. That material has therefore been omitted from the Directors' report.

## ROUNDING OF AMOUNTS

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the 'rounding off' of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest hundred thousand dollars, or in certain cases, to the nearest thousand dollars.

This report is made in accordance with a resolution of the Directors.



R L Every
Chairman

Perth
31 March 2010

## REMUNERATION PRINCIPLES

Iluka's remuneration practices are designed to support the company's objective – to create and deliver value for shareholders. Accordingly, Iluka's remuneration policy is designed to attract, retain and motivate experienced executives and to ensure a focus by executives on shareholder value creation and delivery. This policy is based on the following principles:

### Market Competitive

- fixed remuneration positioned at the market median of the resources sector to support the company's need to attract and retain key executive talent
- executive rewards competitive within the sector in which Iluka operates
- an appropriate balance between fixed and variable components of executive remuneration

### Performance Based

- executives focused on both short and long term business performance
- reward for achievement aligned to company performance

### Shareholder Aligned

- performance objectives that support business growth and improved shareholder returns
- alignment of executive and shareholder interests supported by executive share ownership

### Transparent Practices

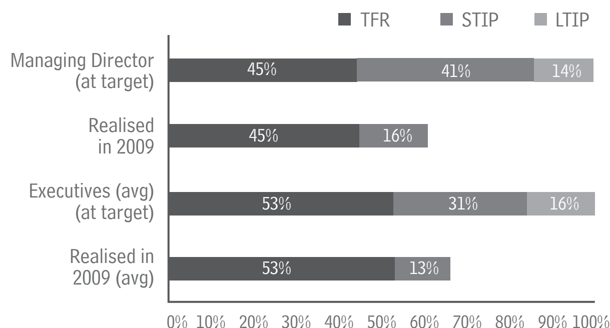
- all aspects of executive remuneration should be transparent in terms of disclosure, comply with relevant legislative requirements and take account of market practice

## COMPONENTS OF EXECUTIVE REMUNERATION

| | |
|---|---|
| Total Fixed Remuneration ("TFR") | Competitively positioned at the market median of the resources sector to support attraction and retention strategies. |
| Short Term Incentive Plan ("STIP") | Strong link to financial performance and delivery of results requiring profitability and sustainability performance exceeding 90 per cent of target before any award is payable for these measures.<br>The STIP is designed to incentivise executives whilst promoting equity ownership through an award partly in cash and partly in deferred equity. |
| Long Term Incentive Plan ("LTIP") | Provides alignment with shareholder interests through Return on Equity (ROE) and Total Shareholder Return (TSR) measured over a three year period. |

## TARGET REMUNERATION MIX

Executive Remuneration is made up of fixed (TFR) and at risk (STIP & LTIP) components. A significant portion of total remuneration is at risk. The graph below shows the at target remuneration mix compared with what was actually achieved in 2009.




## ACTUAL EXECUTIVE PAY IN 2009

Details of the remuneration received by the Managing Director and Key Executives prepared in accordance with statutory requirements and accounting standards are detailed on page 16 of the Remuneration Report.

The table below sets out the actual earnings realised by the Managing Director and Key Executives for 2009. Actual earnings include cash salary and fees, superannuation, non cash benefits received during the year and the full value of incentive payments received relating to the 2009 performance year. The table does not include share based payments which reflect the accounting value for share rights granted in the current and prior years which may or may not be realised as they are dependent on the achievement of performance hurdles.

## ACTUAL EXECUTIVE PAY IN 2009

| Name | Base | Super | Other[2] | 2009 STIP[3] | 2007 LTIP[4] | 2009 Total Actual Earnings |
|---|---|---|---|---|---|---|
| D Robb | 1,431,078 | 68,922 | 51,489 | 521,685 | - | 2,073,174 |
| P Beilby | 382,263 | 34,404 | - | 46,532 | - | 463,199 |
| P Benjamin | 408,716 | 36,784 | 5,495 | 46,472 | - | 497,467 |
| C Cobb[1] | 83,194 | 7,488 | - | - | - | 90,682 |
| V Hugo | 374,950 | 28,823 | 5,495 | 80,982 | - | 490,250 |
| A Tate | 450,306 | 40,528 | - | 131,157 | - | 621,991 |
| H Umlauff | 531,968 | 47,477 | 4,632 | 182,447 | - | 766,524 |
| S Wickham | 413,485 | 14,103 | 1,280 | 145,521 | - | 574,389 |
| C Wilson | 414,857 | 30,407 | 5,495 | 119,210 | - | 569,969 |

1 Appointed 12 October 2009, formerly Managing Director of Consolidated Rutile Limited.
2 Includes non-monetary benefits.
3 Represents total value of 2009 STIP which is awarded half in cash and half in deferred equity.
4 Represents the outcome of the 2007 LTIP for which the performance period concluded 31 December 2009.

## ACTUAL EXECUTIVE PAY IN 2008

| Name | Base | Super | Other[2] | 2008 STIP[3] | LTIP[4] | 2008 Total Actual Earnings |
|---|---|---|---|---|---|---|
| D Robb | 1,402,793 | 97,207 | 31,189 | 1,634,994 | - | 3,166,183 |
| P Beilby | 336,544 | 32,502 | - | 295,596 | - | 664,642 |
| P Benjamin | 387,920 | 37,316 | 5,316 | 319,130 | - | 749,682 |
| C Cobb[1] | - | - | - | - | - | - |
| V Hugo | 355,963 | 34,293 | 5,316 | 311,714 | - | 707,286 |
| A Tate | 290,520 | 24,958 | - | 370,342 | - | 685,820 |
| H Umlauff | 513,456 | 46,211 | 4,074 | 448,138 | - | 1,011,879 |
| S Wickham | 397,171 | 13,437 | - | 206,530 | - | 617,138 |
| C Wilson | 397,554 | 38,284 | 5,316 | 378,692 | - | 819,846 |

1 Appointed 12 October 2009, formerly Managing Director of Consolidated Rutile Limited.
2 Includes non-monetary benefits.
3 Represents total value of 2008 STIP which is awarded half in cash and half in deferred equity.
4 There were no LTIP plans due to vest in the 2008 reporting year.

## 2009 OVERVIEW

The company's responses to the effects of the unprecedented global economic conditions in 2009 are detailed in the Shareholder Annual Review. In regard to remuneration policy and practices, the company responded by implementing a number of actions affecting Board, executive and general employee remuneration, including:

- the Managing Director's fixed remuneration was not increased in 2009 (last increase effective 1 January 2008);
- Director fees were not increased in 2009 (last increase effective 1 July 2008);
- a recruitment freeze was established for the 2009 calendar year (with the exception of critical roles) and will continue into 2010;
- employees participating in the 2009 short term incentive plan did not receive an increase to their fixed remuneration for the 2010 annual salary review;
- no awards were made in relation to the profitability component of the 2009 short term incentive plan (which accounts for 60 per cent of total opportunity) with awards limited to the achievement of group and regional sustainability (10 per cent) objectives and individual business growth objectives (30 per cent);
- the employee share plan was suspended for 2009; and
- the Iluka Retention Plan was closed in August 2009.

In addition, no awards were made in respect to the 2007 long term incentive plan due to TSR and ROE performance not achieving minimum targets.

Iluka continually reviews its incentive plans to ensure that performance metrics are appropriately linked to short and long term business requirements and shareholder value. Accordingly, an additional performance hurdle has been introduced for the TSR component of the long term incentive plan that absolute TSR must be positive for any award to be made in relation to this measure. This new performance hurdle will apply from 2010.

## BOARD OVERSIGHT OF REMUNERATION – REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee (Committee) operates in accordance with its charter as approved by the Board. The Committee is comprised solely of independent non-executive Directors and was chaired by Mr Pizzey in 2009.

The Committee's responsibility is to provide assistance and recommendations to the Board in support of the company's objective of creating and delivering value for shareholders and in fulfilling its corporate governance responsibilities relating to the following:

- overall remuneration strategy of the company;
- remuneration of non-executive Directors;
- performance and remuneration of the Managing Director and key executives;
- selection and appointment of, and succession planning for, non-executive Directors;
- selection and appointment of, and succession planning for, the Managing Director; and
- succession planning for key roles.

The Committee will also make decisions on behalf of the Board where such authority has been expressly delegated by the Board.

The Committee has the resources and authority appropriate to discharge its duties and responsibilities, including the authority to engage external professionals on terms it determines appropriate. During the 2009 year, external advisers mandated by the Committee provided input on several matters relating to remuneration. These advisers were:

- Ernst and Young, which provided advice in relation to Iluka's management and employee share plans;
- Egan Associates, which provided advice in respect to general remuneration trends and other related issues;
- McKenzie Moncrieff, which provided legal advice in respect to share plans and executive remuneration.

In November and December 2009 the Remuneration and Nomination Committee conducted an evaluation of its performance.

The remuneration policies and practices of CRL, a subsidiary of Iluka until May 2009, were developed by the CRL Board and not by the Board or Remuneration and Nomination Committee of Iluka.

## REMUNERATION PRACTICES

The remuneration of an executive or manager is linked to both annual business and individual performance outcomes and to the company's ability to generate competitive levels of shareholder value, as defined by total shareholder return ("TSR") and return on equity ("ROE"), on a longer term basis.

In accordance with the interests of transparent practices, Iluka discloses its current return on equity target range measure which forms part of the long term incentive scheme.

Directors and key executives are prohibited from trading in financial products issued or created over the company's securities by third parties, or trading in associated products and entering into transactions which operate to limit the economic risk of their security holdings in the company. This prohibition extends to Directors and key executives taking out margin loans on their holdings of Iluka securities.

## RELATIONSHIP BETWEEN REWARD AND PERFORMANCE

As discussed in detail in the "Variable Incentives" section of this report, the key performance measures underlying the incentive plans in 2009 were:

- STIP: Profitability (ROC, EBIT and NPAT), Sustainability (all injury frequency rate, severity rate and notifications of environmental incidents or licence breaches to government) and Growth (individual objectives).
- LTIP: ROE and relative TSR

Performance against each of the above measures determines the quantum of STIP awards paid to executives and the portion of LTIP awards that vest to executives.

For the 2009 performance year, due to the financial performance targets not being achieved, no STIP awards were made in relation to the Profitability component of the plan. Awards were limited to the Sustainability and Growth components only.

At the end of 2009, the 2007 LTIP grant completed its performance period (1 January 2007 to 31 December 2009). Performance was measured against both the ROE and relative TSR hurdles. Performance and resulting vesting was as follows:

| Component | Performance target | Actual performance | Implication for vesting |
|---|---|---|---|
| ROE tranche (50%) | 50% vesting for Threshold of 10% with full vesting at target of 14% | 2.18% (before adjustments) | Nil vesting and awards lapse |
| Relative TSR tranche (50%) | 50th percentile for 50% vesting and 75th percentile for full vesting | 31.5th percentile | |

For statutory reporting purposes the company is also required to show the five year total shareholder return and five years of earnings. In summary:

- During the period 1 January 2005 to 31 December 2009 the company completed a 4 for 7 renounceable share rights entitlement at $2.55 per share in March 2008. Assuming a shareholder participated in the rights issue, a share purchased at the prevailing market price of $6.29 (closing price on 31 December 2004) has since generated negative shareholder returns of $2.12, over the five year period, excluding dividends (a -27.4 per cent return). With aggregate dividend payments of $0.66 per share, the total shareholder return was -18.9 per cent over the five year period.

- Earnings over the same five year period are set out in the table below:

| | 31 Dec 05 | 31 Dec 06 | 31 Dec 07 | 31 Dec 08 | 31 Dec 09 |
|---|---|---|---|---|---|
| Net profit after tax ($ million) | (85.9) | 21 | 51.1 | 77.5 | (108.6) |
| Earnings per share (cents) | (36.9) | 9.1 | 21.6 | 22.4 | (26.8) |
| Closing share price ($) | 7.00 | 5.94 | 4.11 | 4.64 | 3.58 |
| Dividends paid and declared (cents) | 22 | 22 | 22 | N/A | N/A |

## REMUNERATION STRUCTURE

This Remuneration Report discloses remuneration details for the Managing Director, non-executive Directors and Key Management Personnel of the company and the Iluka group in 2009.

Remuneration for executives comprises two components:

- total fixed remuneration which is made up of base salary and superannuation, together with other salary sacrifice items such as novated leases and car parking. Employees are required to meet any fringe benefits tax obligations applicable to benefits; and
- variable remuneration which is linked directly to performance of both the company and the individual executive and, as such, is deemed to be "at risk".

The remuneration structure is designed to reflect an appropriate balance between fixed and variable remuneration to ensure that executive reward is aligned with the performance of the business.

## TOTAL FIXED REMUNERATION

Iluka positions TFR at median levels of the market as defined by a comparator group of Australian companies within the resources market, as well as referencing job evaluation data and individual competence levels of executives. Allowance is also made for the competitive nature of the market for talent in the resources sector.

## SUPERANNUATION BENEFITS

Iluka has appropriate superannuation and pension arrangements in countries where it operates. In Australia, the company contributes superannuation at the minimum required rate to each executive's nominated eligible fund. Individuals may elect to make further voluntary contributions from pre-tax salary.

All Australian based executives are entitled to contribute to the Iluka Superannuation Plan. The plan is administered by ING Australia Limited as part of a master trust of which over 90 per cent of employees are members. The plan is primarily an accumulation style plan. A small number of employees have retained membership in a defined benefit sub-plan, a legacy from the 1999 merger of Westralian Sands Limited with RGC Limited. The defined benefit sub-plan is closed to new members. All executives (as detailed on page 12) participate in the Iluka Superannuation Plan or a fund of choice on an accumulation basis.

## VARIABLE REMUNERATION

### PERFORMANCE AND INCENTIVES

The current performance and incentive arrangements were introduced for the 2007 performance year. The incentive arrangements comprise a Short Term Incentive Plan ("STIP") and a Long Term Incentive Plan ("LTIP"). These distinct plans balance the short and long term aspects of business performance, reflect market practice and support business needs.

The incentive plans ensure a strong alignment between the incentive arrangements of executives and the creation and delivery of shareholder value and support Iluka's aim of attracting, retaining and motivating experienced executives.

The STIP and LTIP operate within the existing rules of the Directors, Executives and Employees Share Acquisition Plan ("DEESAP"), as approved by shareholders at the company's Annual General Meeting in May 1999.

At target levels of performance, the STIP represents two-thirds of potential variable remuneration, and the LTIP represents one-third.

Only nominated managers and executives participate in the STIP and LTIP. The level of award opportunity is determined by an individual's role within the business and capacity to impact the results of the company. In 2010, it is anticipated that approximately 87 employees (representing 8.7 per cent of employees and including all executives) will participate in the LTIP, and approximately 153 employees (representing 15.3 per cent of employees and including all executives) will participate in the STIP.

Objectives, measures and targets for both the STIP and the LTIP are set on an annual basis and are subject to the approval of the Board.

The target incentive opportunity for key executives under the STIP is 60 per cent of TFR and under the LTIP is 30 per cent of TFR. At stretch levels of performance the incentive opportunity under the STIP increases to a maximum of 90 per cent of TFR.

### THE SHORT TERM INCENTIVE PLAN

The STIP aims to provide an incentive to executives whilst also promoting equity ownership, providing awards partly in cash and partly in deferred equity.

The STIP is linked to group and regional financial and operational performance and has a focus on return on capital ("ROC") as a key metric. A combination of financial and non-financial targets, including safety and individual growth specific targets, are used to measure performance and determine outcomes. Each metric reflects the organisational unit within which the individual is located (for example, regional versus corporate roles) and is measured independently.

The measures and weighting of objectives for the 2009 performance year were:

- Profitability (ROC, EBIT and NPAT) 60 per cent
- Sustainability (all injury frequency rate, severity rate and notifications to government) 10 per cent
- Growth (individual objectives) 30 per cent

The weighting of the growth measure is typically set at 30 per cent, however the Board (on the recommendation of the Managing Director) has discretion at any time to vary the growth weighting for any individual within a range from 20 per cent to 40 per cent in line with the process of objective setting and performance assessment.

The process for the development and assessment of individual objectives is a rigorous one. Objectives are linked to major business opportunities and risks as typically identified in Iluka's Corporate Plan and to the priorities for the relevant year. Specific and measurable deliverables and the timeframe for achievement are defined for each objective. The deliverables and the timeframes are set at a level of performance that is assessed to be achievable at a stretch level of performance. Objectives are set in conjunction with the Managing Director for all key executives, followed by review and approval by the Remuneration and Nomination Committee. The process is designed to ensure a close alignment between the STIP and the company's objective of creating and delivering value for shareholders.

The STIP award is determined after the year-end based on an assessment of the extent to which the individual's objectives have been achieved. The STIP requires profitability and sustainability performance exceeding 90 per cent of target before any award is payable for these measures. Outcomes are subject to rigorous one-up manager assessment and, for the Managing Director and key executives, by the Board.

Consistent with this approach, no STIP payments were made to the Managing Director or key executives in respect to the profitability component in 2009 (which represent 60 per cent of total opportunity), reflecting the company's failure to achieve 2009 financial targets. STIP awards made are reflective of the achievement of group / regional sustainability targets (which represent 10 per cent of total opportunity) and individual growth objectives (which represent 30 per cent of total opportunity)

Half of the STIP award is paid in cash and half must be taken on a deferred basis in the form of ordinary restricted shares in Iluka. Fifty per cent of the restricted shares do not vest until one year after the end of the performance period, while the remaining fifty per cent does not vest until two years after the end of the performance period. This mandatory deferral results in a significant portion of the annual incentive becoming "medium term" in nature. An employee must remain with the company and continue to perform satisfactorily for the shares to vest and, therefore, there is a significant trailing exposure to the value of the company's shares.

The process for determining the number of restricted shares to be awarded to each participant is determined by dividing the dollar value of the deferral component by the Volume Weighted Average Price ("VWAP") of Iluka shares traded on the ASX over the five trading days following release of the company's full year results.

The deferred amount supports executive focus on both annual and multi-year performance, as well as representing a tangible retention factor.

## THE LONG TERM INCENTIVE PLAN

The LTIP provides a grant of equity in the form of share rights for Iluka shares that vest after three years subject to performance over a three year period.

The grant is split into two separate tranches, with one tranche (50 per cent) being assessed based on return on equity relative to an internal target and the other (50 per cent) based on total shareholder return performance relative to a comparator group consisting of companies which comprise the Materials Index and the ASX Mid Cap 50 Index at the commencement of the performance period (excluding property trusts and duplication). The two performance measures are applied as follows:

### Return on Equity Tranche:

The ROE tranche of the LTIP grant vests based on a prospective three year average ROE performance measure. Vesting occurs on a straight line basis for performance between Threshold and Target. Targets are set giving consideration to:

- the company's ROE performance history;
- planned strategic and business plan activity throughout the performance period; and
- comparable company performance.

Current ROE targets are 10 per cent for Threshold and 14 per cent for Target. These targets may be compared with a 10 year history for Iluka (to 2008) in which the average ROE was 6.3, or with a 10 year average for the ASX 200 (less property trusts) of 13.9.

Targets are reviewed annually and set for a forward three year period. It can be expected that, as sustainable performance improves, targets will be increased - within the bounds of feasible achievement - creating a "staircase" effect over time. Similarly, because performance is measured over the three years as an average, a failure to achieve targeted levels of performance in any one year increases the hurdle in the remaining years.

ROE performance assessment is also subject to maintenance of an acceptable level of gearing.

### Total Shareholder Return Tranche:

The TSR tranche of the LTIP grant vests based on TSR relative to a peer group of companies. The comparator group consists of the companies which comprise the Materials Index and the ASX Mid Cap 50 Index at the commencement of the performance period (excluding property trusts and duplication). This comparator group was chosen to provide a combination of companies from Iluka's defined industry sector and companies of a similar market capitalisation to Iluka.

The combined group also ensures a sufficiently large peer group for performance measurement, and provides less likelihood of TSR performance being skewed to specific sub industry sectors or specific stocks.

| Measure | Performance Hurdle to be achieved | Percentage of total grant that will vest | Maximum percentage of total grant |
|---|---|---|---|
| | LTIP Vesting Schedule | | |
| TSR | 50th percentile | 25% | 50% |
| | 75th percentile | 50% | |
| ROE | Threshold | 25% | 50% |
| | Target | 50% | |
| Total Grant | | | 100% |

Vesting occurs on a straight-line basis for performance between threshold and target for both measures.

All offers and details of the maximum allocation for the Managing Director and key executives are shown on page 17. It should be noted that the maximum allocations listed are subject to the respective performance criteria. If at the end of the performance period the performance criteria have not been met there will be no entitlement to shares.

## PREVIOUS PERFORMANCE INCENTIVE PROGRAMMES: 2005 AND 2006

During 2005 and 2006, Iluka operated the Performance Incentive Programme ("PIP") which has since been superseded by the STIP and LTIP plans introduced in 2007.

For the 2005 PIP, at the end of the performance period in December 2005, performance criteria were assessed for each executive and an incentive award determined based on the level of achievement. Half of the incentive award was paid in cash in March 2006. Executives received the remaining half of the award as rights to fully paid ordinary shares in Iluka Resources Limited in annual instalments of 25 per cent over four years with each tranche of shares being subject to a ten year holding lock. Tranche one of the 2005 PIP vested in January 2007 with tranche two vesting January 2008. Tranche three of the 2005 PIP vested in January 2009 with the final tranche vesting in January 2010.

For the 2006 PIP, at the end of the performance period in December 2006, performance criteria were assessed for each executive and an incentive award determined based on the level of achievement. Half of the incentive award was paid in cash in March 2007. Executives received the remaining half as rights to fully paid ordinary shares in Iluka Resources Limited over three years in one third instalments which commenced in January 2007. The four year holding period on vested share rights applicable for the 2005 PIP was replaced by a 50 per cent minimum holding requirement once all shares have vested in the 2006 plan. Tranche one of the 2006 PIP vested in January 2007 with tranche two vesting January 2008. The final tranche of the 2006 PIP vested in January 2009.

## SECURITIES TRADING

Iluka's policy in relation to employees holding Iluka securities is set out in the company's Securities Trading Policy, which can be found on the company's website at www.iluka.com. The policy sets out the circumstances in which employees may trade in company securities.

## REMUNERATION REVIEW

The company conducts a review of the remuneration of executives and staff on an annual basis. Guidelines for reviews are considered by the Board following recommendation by the Remuneration and Nomination Committee. Review guidelines are based upon the outcomes of direct and related market review data and external advice from the company's remuneration advisers. All employees and executives participate in a performance review process which is used in conjunction with market data to determine appropriate remuneration recommendations.

Individual progress against objectives is reviewed throughout the performance year with formal reviews occurring at half year and at the conclusion of the performance year.

Recommendations by the Managing Director for STIP and LTIP award outcomes and remuneration for key executives are submitted to the Remuneration and Nomination Committee in February of each year. In respect of all other eligible participants, a one up manager approval process applies with final Managing Director approval prior to any award or remuneration review being implemented.

## EMPLOYEE SHARE PLAN

The Board believes that strong employee alignment with shareholder outcomes is a vital element of high performing companies which create and deliver value for shareholders. Put simply, the company wants all employees to identify with shareholder returns. Accordingly, the company also operates an employee share plan under the rules of the Iluka Resources Limited Employee Share Plan. The Board may, from time to time, at its discretion, make written offers to participate in the plan.

In 2007 and 2008, offers were made to eligible employees (permanent employees with a minimum of twelve months service) in Australia and the United States to receive ordinary shares in Iluka Resources Limited to the value of $1,000.

To satisfy the legislative requirements of both Australia and the United States, Australian employees received the shares under a tax-exempt plan, with a three year sale restriction period (a holding lock is applied during the restriction period). As US employees do not have access to a tax exemption plan, they were offered shares up to A$1,000 through a grant of restricted shares. The shares will be held under the plan rules with a restriction period of three years. To enable US employees to receive a tax deferral, strict forfeiture conditions apply.

In 2007, of the 762 Australian employees eligible to participate, 608 (80 per cent) accepted the offer. In the US, 81 of 159 (51 per cent) employees participated. Overall, a total of 689 of 921 (75 per cent) eligible employees accepted the offer at a cost of $609,000.

In 2008, of the 708 Australian employees eligible to participate, 614 (87 per cent) accepted the offer. In the US, all 103 eligible employees (100 per cent) employees participated in the offer. Overall, a total of 717 of 811 (88 per cent) eligible employees participated in the offer at a cost of $716,680.

Consistent with usual industry practice, shares acquired under the Employee Share Plan are not subject to performance conditions as the primary objective of the plan is to encourage share ownership by all employees and, thereby, increase the alignment of employee attitudes and actions with shareholder value creation and delivery.

As noted earlier, the employee share plan was not offered to employees in 2009.

## ILUKA RETENTION PLAN

During 2007 and 2008, the resources sector experienced very high levels of competition for management and technical talent, with resulting skill shortages and upward pressures on remuneration. These pressures were particularly prevalent at the executive level and for highly skilled professionals critical to business operation.

The Board recognises that continuity of management and retention of key talent is critical to achieving the successful delivery of major projects and other strategies in order to enhance shareholder returns. In that context, the Board regularly reviews the market competitiveness of executive remuneration and its ability to retain key executives to achieve long term business objectives.

Consequently, in March 2008, the Board approved the introduction of a Retention Plan limited to certain individuals identified as critical to business outcomes over the medium term.

The Retention Plan offers participants a grant of share rights to ordinary shares in Iluka Resources Limited which vest in full at the conclusion of a three year retention period, subject to continued satisfactory individual performance and approval by the Board, at its discretion. The grant of share rights rather than a cash payment provides a strong alignment of the interests of participants with those of shareholders.

Where a participant voluntarily ceases employment during the retention period, all share rights awarded under the Retention Plan are forfeited.

Retention Plan share rights awarded to executives and Key Management Personnel are included as rights granted in the table on page 14.

In August 2009, the Board closed the Retention Plan.

## NON-EXECUTIVE DIRECTORS' REMUNERATION

The remuneration of the non-executive Directors is determined by the Board on recommendation from the Remuneration and Nomination Committee within a maximum aggregate amount approved by shareholders at an Annual General Meeting. The current maximum amount of non-executive Directors' fees as approved by shareholders is $1.1 million. The total amount paid in 2009, including superannuation, was $842,278.

In 2009, the Board decided not to increase their fees and, as a result, the fees (excluding superannuation) detailed below have been in place since 1 July 2008:

- Non-executive Director Fees

| | |
|---|---|
| Board Chairman (inclusive of Committee fees) | $275,000 per annum |
| Board Member | $100,000 per annum |

- Board Member Committee Fees

| | |
|---|---|
| Audit and Risk Committee Chair | $35,000 per annum |
| Remuneration and Nomination Committee Chair | $25,000 per annum |
| Audit and Risk Committee Member | $17,500 per annum |
| Remuneration and Nomination Committee Member | $12,500 per annum |

The minimum required employer superannuation contribution up to the statutory maximum is paid into each Director's nominated eligible fund and is in addition to the above fees. Based on the above fee structure, the current total non-executive Director remuneration is $782,500 per annum, excluding superannuation, or $842,636 including superannuation.

Non-executive Directors are able to purchase company shares under the DEESAP utilising the funds that would otherwise be payable to Directors as fees. These shares are acquired on market and all transaction costs are borne by the relevant Director. Details of Directors' share purchases are listed on page 14 of the Report. No performance conditions are attached to these shares as they are purchased using sacrificed fees.

## EXECUTIVE EMPLOYMENT AGREEMENTS

Remuneration and other terms of employment for the Managing Director and key executives are formalised in service agreements. The Managing Director and key executives are employed on a rolling basis with no specified fixed terms. The Managing Director and relevant executives are on total fixed remuneration arrangements, inclusive of superannuation.

## DAVID ROBB - MANAGING DIRECTOR

| | |
|---|---|
| Total Fixed Remuneration | $1,500,000 for the year ended 31 December 2009.<br>$1,500,000 from 1 January 2010. |
| 2009 Short Term Incentive | 90 per cent of TFR at target with up to 120 per cent of TFR for stretch performance awarded 50 per cent as cash and 50 per cent as deferred equity.<br>**Measure** — **Weighting**<br>Profitability (ROC, EBIT, NPAT) — 50 per cent<br>Sustainability (all injury frequency rate, severity rate, notifications to government) — 10 per cent<br>Growth (individual objectives) — 40 per cent<br>Individual objectives and related deliverables are set each year by the Board at what is assessed to be a stretch level of performance. These objectives typically vary from year to year and in 2009 related to the company's response to the global economic crisis, major project development and certain industry related and other initiatives. |
| 2009 Long Term Incentive | A grant of equity in the form of share rights of up to 30 per cent of TFR measured over of a three year performance period.<br>**Measure** — **Weighting**<br>ROE — 50 per cent<br>TSR — 50 per cent |
| Share Rights | As disclosed previously, Mr Robb purchased approximately $500,000 of Iluka shares prior to commencing employment which were matched with an equivalent award of share rights (71,851), due to vest on 1 July 2008. The number of share rights were increased by 8,911 to address the dilutionary impact of the accelerated renounceable entitlement offer and 80,762 shares vested to Mr Robb on 1 July 2008. |
| **Retention Arrangements** | At the 2008 AGM, shareholders approved the following retention arrangements for Mr Robb. |
| Retention Offer | 1,000,000 Share Rights offered in three equal tranches over a 3 year retention period. |
| Performance Period | |
| - Tranche 1<br>333,333 Share Rights | The 12 month period commencing from the date which is 5 Business days after the announcement of the full year results for the year ending 31 December 2007 (ie. Tranche 1 performance period is 27 February 2008 to 25 February 2009).<br>The performance hurdle for tranche 1 of Mr Robb's retention plan was achieved with 333,333 share rights granted accordingly. |
| - Tranche 2<br>333,333 Share Rights | The 12 month period commencing from the date which is 5 Business days after the announcement of the full year results for the year ending 31 December 2008 (ie. Tranche 2 performance period is 25 February 2009 to 3 March 2010).<br>The performance hurdle of tranche 2 of Mr Robb's retention plan was not achieved and therefore, share rights relating to tranche 2 of the plan have not been awarded. |
| - Tranche 3<br>333,334 Share Rights | The 12 month period commencing from the date which is 5 Business days after the announcement of the full year results for the year ending 31 December 2009 (ie. Tranche 3 performance period is 3 March 2010 to 2 March 2011). |
| Vesting Conditions | A tranche of Retention Incentive Share Rights will vest on the Vesting Date if the TSR of the company calculated over the Performance Period for that tranche is 15 per cent (Annual Hurdle); or<br>30 per cent TSR for the First and Second or Second and Third performance periods; or<br>45 per cent TSR measured over the First, Second and Third performance periods. |
| Vesting Date | Subject to the performance criteria of each tranche being satisfied, each tranche will vest the day after the last day of the Tranche 3 performance period. |
| Forfeiture | All entitlements under the retention plan are forfeited if Mr Robb resigns prior to the end of the three year retention period. |
| **Termination Arrangements** | At the 2007 AGM, shareholders approved the following termination payments which may become payable to Mr Robb under the terms of the Executive Employment Agreement entered into between Mr Robb and the company on 18 October 2006. |
| With Notice | Employment can be terminated during the contract period by giving 12 months notice or pay in lieu of notice plus a pro-rata short term incentive component. All shares to which Mr Robb is entitled under the DEESAP will vest within three months of termination. |
| Without Notice | In the case of misconduct and in certain other circumstances, employment can be terminated without notice and with no entitlement to any payment under the executive incentive plan. |
| Voluntary Termination | Employment may be terminated by giving six months notice. Any pro-rata award under the executive incentive plan will be at the discretion of the Board. |
| Termination for other reasons | • By Iluka on the ground of redundancy or by Mr Robb if, at the instigation of the Board he suffers a material diminution in his status as Chief Executive Officer and Managing Director, by giving 24 months notice (if given in the first three years of employment) or 12 months notice (thereafter) provided that Iluka may elect, or Mr Robb may require Iluka, to pay Mr Robb an equivalent amount of TFR in lieu of notice.<br>• By Iluka if Mr Robb suffers illness, accident or other cause which renders him unable to perform his duties, by giving Mr Robb six months TFR.<br>• In the circumstances described above, a termination payment equal to the total incentive target for which there would have been an entitlement under the executive incentive plan for the relevant year calculated on a pro-rata basis for the relevant notice period given by the company. |
| Protection of Interests | Mr Robb is restrained from engaging in certain activities during his employment, and for a period following termination of his employment, in order to protect Iluka's interests. The Executive Employment Agreement contains provisions relating to the protection of confidential information and intellectual property. |

## EXECUTIVE SERVICE AGREEMENTS

Major provisions of the agreements relating to key executives included in this Remuneration Report are set out below.

| Executive | Position | Termination Notice Period by Iluka | Termination Notice Period by Employee | Termination Payments* |
|---|---|---|---|---|
| P Beilby | General Manager Murray Basin | 3 months | 3 months | 9 months |
| P Benjamin | General Manager Exploration | 3 months | 3 months | 12 months |
| C Cobb | General Manager Sales and Marketing | 3 months | 3 months | 9 months |
| V Hugo | General Manager Product and Technical Development | 3 months | 3 months | 12 months |
| A Tate | Chief Financial Officer | 3 months | 3 months | 9 months |
| H Umlauff | General Manager SA Development and Project Management | 3 months | 3 months | 12 months |
| S Wickham | General Manager Eastern and Western Operations | 3 months | 3 months | 9 months |
| C Wilson | General Manager Corporate Services and Company Secretary | 3 months | 3 months | 12 months |

* Termination payments (other than for gross misconduct) are calculated on current total fixed remuneration at date of termination.

## SHARE RIGHTS AND SHAREHOLDINGS OF KEY MANAGEMENT PERSONNEL

| | Number Of Shares | | | | | Number Of Share Rights | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Name | Balance held at 1/1/09 | Vesting of share rights | Awarded as Restricted Shares | Other changes | Balance held at 31/12/09* | Balance held at 1/1/09 | Granted during 2009* | Vested as shares during 2009 | Lapsed during 2009 | Balance held at 31/12/09 |
| **Non-Executive Directors** | | | | | | | | | | |
| R Every | 28,679 | - | - | | 28,679 | - | - | - | - | - |
| D Morley | 40,876 | - | - | - | 40,876 | - | - | - | - | - |
| G Pizzey | 16,351 | - | - | - | 16,351 | - | - | - | - | - |
| G Rezos | 63,602 | - | - | - | 63,602 | - | - | - | - | - |
| J Seabrook | 17,612 | - | - | 1,702 | 19,314 | - | - | - | - | - |
| **Executive Director** | | | | | | | | | | |
| D Robb | 405,798 | - | 185,373 | - | 591,171 | 1,175,586 | 102,041 | - | (52,970) | 1,224,657 |
| **Executives** | | | | | | | | | | |
| P Beilby | 86,203 | 6,858 | 33,514 | - | 126,575 | 134,992 | 28,571 | (6,858) | (14,735) | 141,970 |
| P Benjamin | 67,542 | 5,378 | 36,182 | - | 109,102 | 167,340 | 30,544 | (5,378) | (17,335) | 175,171 |
| C Cobb | - | - | - | - | - | - | - | - | - | - |
| V Hugo | 77,077 | 8,786 | 35,341 | - | 121,204 | 116,337 | 27,823 | (8,786) | (17,480) | 117,894 |
| A Tate | - | - | 41,988 | - | 41,988 | 140,828 | 33,605 | - | - | 174,433 |
| H Umlauff | 54,525 | 2,724 | 50,809 | - | 108,058 | 135,575 | 39,252 | (2,724) | (25,666) | 146,437 |
| S Wickham | 16,425 | - | 23,415 | - | 39,840 | 74,565 | 29,728 | - | (12,039) | 92,254 |
| C Wilson | 43,741 | 9,286 | 42,935 | (14,913) | 81,049 | 174,279 | 30,544 | (9,286) | (17,335) | 178,202 |

* Balances for the Executive Director and the Executives include restricted shares which will vest in future periods subject to legislative requirements.

## DETAILS OF REMUNERATION

Details of the remuneration of the directors and other Key Management Personnel (as defined in AASB 124 *Related Party Disclosures*) of Iluka Resources Limited and the Iluka Resources Limited group are set out in the following tables. Other key management personnel of the company and the group are the following executives who have authority for planning, directing and controlling the activities of the company and the group.

### Key Management Personnel – Directors

(i) Non-executive Directors

R L Every (Chairman)
D M Morley
G J Pizzey
G J Rezos
J A Seabrook

(ii) Managing Director and Chief Executive Officer

D Robb

All above persons were Directors of Iluka Resources Limited for all of the financial year, as well as for the financial year ended 31 December 2008, except J A Seabrook who was appointed as a Director on 1 May 2008. G C Campbell, V A Davies and I C Mackenzie were Directors in the prior year and retired on 21 May 2008.

### Key Management Personnel - Employees Other Than Directors ('The Executives')

In addition to the Directors of the consolidated entity, the following employees met the definition of Key Management Personnel for the year ended 31 December 2009 and are referred to as Executives:

| | |
|---|---|
| P Beilby[3] | General Manager Murray Basin |
| P Benjamin | General Manager Exploration |
| C Cobb[1] | General Manager Sales and Marketing |
| V Hugo[2] | General Manager Product and Technical Development |
| A Tate | Chief Financial Officer |
| H Umlauff | General Manager SA Development and Project Management |
| S Wickham | General Manager Eastern and Western Operations |
| C Wilson | General Manager Corporate Services and Company Secretary |

1 Appointed 12 October 2009, formerly Managing Director of Consolidated Rutile Limited.
2 Formerly General Manager Sales and Marketing, appointed to current role 12 October 2009.
3 Ceased employment 1 March 2010.

The above persons were also Executives in the prior year, except A Tate, appointed as Executive 13 May 2008 and S Wickham, appointed as an Executive 1 September 2008.

S Green, Acting Chief Financial Officer between 18 January 2008 and 12 May 2008 and D McMahon, Chief Financial Officer to 17 January 2008 were Executives in the prior year.

Amounts in the 'STIP cash' column are dependent on the satisfaction of performance conditions as set out in the section headed "Short Term Incentive Plan" above. Amounts in the 'Share Based Payments' column relate to the component of the fair value of awards from prior years made under the various incentive plans attributable to the year measured in accordance with AASB 2 *Share Based Payments*. All other elements of remuneration are not directly related to performance.

| 2009 | Short Term Employee Benefits | | | | | | |
|---|---|---|---|---|---|---|---|
| Name | Cash Salary & fees[1] $ | STIP Cash[4]** $ | Non-Monetary Benefits** $ | Other** $ | Superannuation $ | Share Based Payments[2,3,4]** $ | Total $ |
| **Non-executive Directors** | | | | | | | |
| R Every | 275,000 | n/a | n/a | n/a | 14,103 | n/a | 289,103 |
| D Morley | 135,000 | n/a | n/a | n/a | 12,150 | n/a | 147,150 |
| G Pizzey | 125,000 | n/a | n/a | n/a | 11,250 | n/a | 136,250 |
| G Rezos | 130,000 | n/a | n/a | n/a | 11,700 | n/a | 141,700 |
| J Seabrook | 117,500 | n/a | n/a | n/a | 10,575 | n/a | 128,075 |
| **Executive Director** | | | | | | | |
| D Robb | 1,431,078 | 260,843 | 51,489 | - | 68,922 | 1,383,517 | 3,195,849 |
| **Executives** | | | | | | | |
| P Beilby* | 382,263 | 23,266 | - | - | 34,404 | 398,088 | 838,021 |
| P Benjamin* | 408,716 | 23,236 | 5,495 | - | 36,784 | 454,572 | 928,803 |
| C Cobb[5] | 83,194 | - | - | - | 7,488 | - | 90,682 |
| V Hugo | 374,950 | 40,491 | 5,495 | - | 28,823 | 325,980 | 775,739 |
| A Tate* | 450,306 | 65,579 | - | - | 40,528 | 564,725 | 1,121,137 |
| H Umlauff* | 531,968 | 91,224 | 4,632 | - | 47,477 | 473,032 | 1,148,333 |
| S Wickham | 413,485 | 72,761 | 1,280 | - | 14,103 | 255,266 | 756,895 |
| C Wilson* | 414,857 | 59,605 | 5,495 | - | 30,407 | 474,605 | 984,969 |

1. Cash salary includes salary that is sacrificed for the purchase of shares during the year.
2. Includes negative amounts for the reversal of prior year charges for the ROE component of the 2007 LTIP which did not vest.
3. The higher level of share based payments in 2009 compared with 2008 reflects the deferred equity component of the 2008 STIP which is charged as remuneration in 2009 and 2010 together with the full year charge for the Iluka Retention Plan share rights granted in March 2008 which vest in March 2011.
4. STIP Cash and share-based awards for 2009 were made in March 2010.
5. Appointed 12 October 2009. C Cobb was formerly Managing Director of Consolidated Rutile Limited. No payments were made to C Cobb as consideration for his joining Iluka.

* 5 highest paid executives of the group, as required to be disclosed under the *Corporations Act 2001*.
** n/a denotes that Non-executive Directors are not eligible for these arrangements.

| 2008 | Short Term Employee Benefits | | | | | | |
|---|---|---|---|---|---|---|---|
| Name | Cash Salary & fees[1] $ | STIP Cash** $ | Non-Monetary Benefits** $ | Other** $ | Superannuation $ | Share Based Payments[2] $ | Total $ |
| **Non-executive Directors** | | | | | | | |
| G Campbell[3] | 43,892 | n/a | n/a | n/a | 3,950 | n/a | 47,842 |
| V Davies[3] | 46,818 | n/a | n/a | n/a | 4,500 | n/a | 51,318 |
| R Every | 209,588 | n/a | n/a | n/a | 15,195 | n/a | 224,783 |
| I Mackenzie[3] | 98,267 | n/a | n/a | n/a | 5,471 | n/a | 103,738 |
| D Morley | 132,500 | n/a | n/a | n/a | 11,925 | n/a | 144,425 |
| G Pizzey | 117,670 | n/a | n/a | n/a | 10,590 | n/a | 128,260 |
| G Rezos | 120,739 | n/a | n/a | n/a | 10,866 | n/a | 131,605 |
| J Seabrook[4] | 77,500 | n/a | n/a | n/a | 6,975 | n/a | 84,475 |
| **Executive Director** | | | | | | | |
| D Robb | 1,402,793 | 817,497 | 31,189 | - | 97,207 | 713,310 | 3,061,996 |
| **Executives** | | | | | | | |
| M Adams[5] | 293,578 | - | - | 41,618 | 26,422 | (292,901) | 68,717 |
| P Beilby* | 336,544 | 147,798 | - | - | 32,502 | 252,921 | 769,765 |
| P Benjamin* | 387,920 | 159,565 | 5,316 | - | 37,316 | 285,641 | 875,758 |
| S Green[6] | 128,805 | 32,514 | - | - | 9,119 | 32,346 | 202,784 |
| V Hugo* | 355,963 | 155,857 | 5,316 | - | 34,293 | 226,056 | 777,485 |
| D McMahon[7] | 19,446 | - | - | 24,446 | 1,750 | - | 45,642 |
| A Tate[8] | 290,520 | 185,171 | - | - | 24,958 | 118,976 | 619,625 |
| H Umlauff* | 513,456 | 224,069 | 4,074 | - | 46,211 | 295,392 | 1,083,202 |
| S Wickham | 397,171 | 103,265 | - | - | 13,437 | 133,067 | 646,940 |
| C Wilson* | 397,554 | 189,346 | 5,316 | - | 38,284 | 298,025 | 928,525 |

1. Cash salary includes salary that is sacrificed for the purchase of shares during the year.
2. Negative share based payments arise where amounts recognised as remuneration in prior years are reversed due to performance conditions associated with restricted shares and share rights are not being met prior to vesting.
3. Retired 21 May 2008.
4. Appointed 1 May 2008.
5. Ceased employment 26 September 2008. Other relates to payment of statutory leave entitlements.
6. Represents pro-rata remuneration as an Executive between 18 January 2008 and 12 May 2008.
7. Ceased employment 17 January 2008. Other relates to payment of statutory leave entitlements.
8. Appointed 13 May 2008.

* 5 highest paid executives of the group, as required to be disclosed under the *Corporations Act 2001*.
** n/a denotes that Non-executive Directors are not eligible for these arrangements.

## SHARE-BASED COMPENSATION

PIP Share Rights and STIP Restricted Shares awarded to the Managing Director and Executives yet to vest

| Name | PIP 2005 | 2007 STIP | 2008 STIP | 2009 STIP | Awarded % 2007 | Awarded % 2008 | Awarded % 2009 |
|---|---|---|---|---|---|---|---|
| D Robb | - | 33,502 | 185,373 | 70,689 | 37 | 91 | 29 |
| P Beilby | 2,216 | 3,940 | 33,514 | 6,305 | 39 | 92 | 12 |
| P Benjamin | 968 | 6,913 | 36,182 | 6,297 | 40 | 84 | 12 |
| C Cobb | - | - | - | - | - | - | - |
| V Hugo | 2,946 | 6,080 | 35,341 | 10,973 | 34 | 88 | 22 |
| A Tate | - | - | 41,988 | 17,772 | - | 87 | 30 |
| H Umlauff | - | 9,678 | 50,809 | 24,722 | 38 | 88 | 35 |
| S Wickham | - | 3,523 | 23,415 | 19,718 | 29 | 87 | 37 |
| C Wilson | 2,691 | 7,189 | 42,935 | 16,153 | 41 | 96 | 30 |

a) The fair value of PIP share rights determined using an option pricing model. STIP restricted share fair value determined independently using the Black-Scholes model that takes into account the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk free discount rate for the vesting period.

b) The percentage achieved of the STIP maximum available incentive opportunity awarded for the financial year.

c) The performance period for the 2007 LTIP ended on 31 December 2009, no awards were made under the plan

d) No awards have been made in respect to the 2008 and 2009 LTIPs or the retention plan. The performance period for the schemes end on 31 December 2010, 31 December 2011 and 31 March 2011 respectively.

## MAXIMUM VALUE OF RESTRICTED SHARES AND SHARE RIGHTS

The maximum number of restricted shares and/or share rights that may vest in future years, together with the maximum value of these shares/rights that will be recognised as share based payments in future years is set out below. The maximum value for a year relates to the value of those restricted shares/rights that vest in that year. The amount to be reported as share based payments in future years will be determined in accordance with AASB 2 *Share Based Payments* over the vesting period.

| | Maximum Number | | | Maximum Value | | |
|---|---|---|---|---|---|---|
| | Vesting Year | | | Vesting Year | | |
| Name | 2010 | 2011 | 2012 | 2010 | 2011 | 2012 |
| D Robb | 126,188 | 1,215,303 | 102,041 | 568,940 | 1,787,853 | 414,286 |
| P Beilby | 22,913 | 127,940 | 28,571 | 108,761 | 498,974 | 115,998 |
| P Benjamin | 25,972 | 161,750 | 30,544 | 118,938 | 631,665 | 124,009 |
| C Cobb | - | - | - | - | - | - |
| V Hugo | 26,696 | 104,796 | 27,823 | 126,565 | 401,423 | 112,961 |
| A Tate | 20,994 | 161,822 | 33,605 | 97,832 | 628,778 | 136,436 |
| H Umlauff | 35,172 | 132,590 | 39,252 | 158,334 | 503,199 | 159,363 |
| S Wickham | 15,230 | 74,234 | 29,728 | 68,964 | 285,320 | 120,696 |
| C Wilson | 31,347 | 166,435 | 30,544 | 147,119 | 651,234 | 124,009 |

## FAIR VALUE

The fair value of each restricted share or share right and the vesting year for each incentive plan is set out below.

| Incentive Plan | Fair Value per Share $ | Vesting Year |
|---|---|---|
| 2005 PIP (Tranche 4) | 6.57 | 2010 |
| 2007 STIP (Tranche 2)* | 4.09 | 2010 |
| 2008 LTIP | 2.93 | 2011 |
| 2008 STIP* | 4.66 | 2010 & 2011 |
| 2009 LTIP | 4.06 | 2012 |
| 2009 STIP* | 3.57 | 2011 & 2012 |
| Retention Plan | 4.09 | 2011 |
| Retention Plan MD 1 | 0.90 | 2011 |
| Retention Plan MD 2 | 1.19 | 2011 |
| Retention Plan MD 3 | 0.90 | 2011 |

* Awards under these plans are restricted shares, all other plans grant share rights.

# AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Iluka Resources Limited for the year ended 31 December 2009, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Iluka Resources Limited and the entities it controlled during the period.

David Smith
Partner
PricewaterhouseCoopers

Perth
31 March 2010

Liability limited by a scheme approved under Professional Standards Legislation.

## APPROACH TO CORPORATE GOVERNANCE

Iluka and its Board of Directors believe that the highest standards of corporate governance are essential in order to create and deliver sustainable value for shareholders. The main elements of Iluka's corporate governance practices are detailed in this statement. The Board of Directors are committed to acting honestly, ethically, diligently and in accordance with the law in serving the interests of Iluka's shareholders, employees, customers and the communities in which Iluka operates.

## ASX CORPORATE GOVERNANCE RECOMMENDATIONS

Iluka considers that it meets each of the requirements of the Australian Securities Exchange ("ASX") Corporate Governance Council's Corporate Principles and Recommendations (Second Edition).

The Corporate Governance section of the Iluka website www.iluka.com contains the company's key governance policy documents. These include the:

- Board Charter
- Directors' Code of Conduct
- Audit and Risk Committee Charter
- Remuneration and Nomination Committee Charter
- Employee Code of Conduct
- Securities Trading Policy
- Continuous Disclosure Policy
- Whistleblower Policy

## ROLE AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The Board operates in accordance with the broad principles set out in the Board Charter. The primary roles of the Board are:

- appointing and removing the Managing Director;
- monitoring the performance of the Managing Director and the senior management group;
- determining the strategic direction and financial objectives of the company and ensuring appropriate resources are available to management;
- monitoring the implementation and achievement of strategic and financial objectives; and
- reporting to shareholders and the investment community on the performance of the company.

The implementation of corporate strategy and day-to-day management of Iluka's affairs are delegated to senior management. The roles, duties and responsibilities of the Board and delegation to senior management are defined in the Board Charter which is available on Iluka's website.

## BOARD COMPOSITION

Details of the members of the Board, their date of appointment, qualifications and experience are set out in the Directors' Report under the heading 'Directors'. Directors are considered and recommended to the Board by the Remuneration and Nomination Committee based on the skills and experience they are able to bring to the Board. The Board seeks to ensure that the size of the Board and the blend of skills within its membership are conducive to effective discussion and efficient decision-making. In recent years, the services of external search consultants have been used to assist with recruiting new Directors.

Iluka's Constitution requires Directors to retire from office no later than the third Annual General Meeting following their election or re-election. The Directors have adopted an internal guideline that the preferred length of service is ten years, unless otherwise requested by the Board to continue.

## DIRECTOR INDEPENDENCE

The Board recognises the importance of independent judgement in the decision-making process. The Board's Charter expressly requires that the majority of the Board be comprised of independent Directors and that the Chairman is an independent Director.

The Board Charter sets out the criteria for determining whether a non-executive director is independent. Applying this criteria, the Board considers that all non-executive Directors are independent.

The Board assesses the independence of new Directors upon appointment and reviews the independence of other Directors as appropriate.

## MANAGING DIRECTOR

The Managing Director, Iluka's most senior employee, recommends policy, strategic direction and business plans for the Board's approval and is responsible for managing the company's day-today activities.

The Managing Director is selected and appointed by the Board and is subject to an annual performance review by the non-executive Directors.

## CONFLICTS OF INTEREST

Each Director has an ongoing responsibility to:

- disclose to the Board details of transactions or interests, actual or potential that may create a conflict of interest; and
- if requested by the Board, within a reasonable period, take such necessary and reasonable steps to remove any conflict of interest.

If a Director cannot or is unwilling to remove a conflict of interest then the Director must, in accordance with the Corporations Act 2001, absent himself or herself from the room when discussion and/or voting occurs on matters about which the conflict relates.

## DIRECTOR EDUCATION

Directors undergo an induction process upon appointment during which they are given a detailed briefing on the company, meet key executives and tour operational sites. Thereafter, Directors undertake operational site visits and are provided with regular updates and briefings on current and emerging issues.

Directors are encouraged to undertake continuing education relevant to the discharge of their duties. All reasonable costs of continuing Director education are met by the company.

## DIRECTORS' ACCESS TO INDEPENDENT ADVICE

Each Director may, with prior written approval of the Chairman, obtain independent professional advice to assist the Director in fulfilling their responsibilities. Any reasonable expenses incurred in obtaining that advice will be met by the company.

## BOARD MEETINGS

The Board convenes on average for nine formal meetings per year including one meeting dedicated primarily to strategic planning. The Chairman chairs these meetings. Ad hoc Board and committee meetings may be convened to consider particular matters.

The non-executive Directors periodically meet independent of management to discuss relevant issues.

Directors' attendance at Board and Committee meetings is detailed on page 4 of this report.

## COMPANY SECRETARY

Mr Cameron Wilson is Iluka's Company Secretary. The position of Company Secretary is responsible for:

- advising the Board on corporate governance;
- management of the company secretarial function;
- attending all Board and Board committee meetings and taking minutes; and
- communication with the ASX.

## COMMITTEES OF THE BOARD

The Board has established two committees: the Remuneration and Nomination Committee and the Audit and Risk Committee. Each committee functions under a specific charter and is comprised wholly of independent, non-executive Directors. The structure and membership of these committees are reviewed periodically. The charters are reviewed by the respective committees on an annual basis. Unless expressly delegated by the Board to one of its committees, all matters determined by committees are submitted to the full Board as recommendations for Board decision.

## REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee is responsible for providing assistance and recommendations to the Board in relation to:

- development, review and implementation of the remuneration strategy of the company;
- remuneration of executives and non-executive Directors;
- performance of the Managing Director and senior executives;
- succession planning for key roles; and
- assessment, composition and succession of the Board.

The Remuneration and Nomination Committee's consists of the following independent, non-executive Directors: Mr John Pizzey (Chairman), Mr Gavin Rezos, Mr Wayne Osborn and Dr Robert Every. Details of Directors attendance at Remuneration and Nomination Committee meetings are set out on page 4.

Comprehensive details of the processes and principles underlying the work of the Remuneration and Nomination Committee are discussed in the Remuneration Report appearing on page 6 to 17 of this report.

For further information on the scope and responsibilities of the Remuneration and Nomination Committee, please refer to Iluka's website.

## AUDIT AND RISK COMMITTEE

The Audit and Risk Committee's role is to assist the Board to fulfil its responsibilities in relation to the company's accounts, external reporting and risk. This is achieved by ensuring that appropriate processes are in place in relation to:

- the integrity of financial reporting;
- the adequacy of the control environment;
- the process for the management of risk; and
- the internal and external audit functions.

The Committee regularly reviews the appropriateness of its composition in light of the skills and experiences of its members and the responsibilities of the Committee. At all times the Audit and Risk Committee is required under its charter to ensure that all members are financially literate and have an appropriate understanding of the industries in which the company operates.

The responsibilities of the Audit and Risk Committee include assisting the Board to fulfil its responsibilities by:

- considering the effectiveness of the accounting and internal control systems and management reporting, which are designed to safeguard company assets;
- serving as an independent and objective party to review financial information prior to release to shareholders;
- reviewing the accounting policies adopted within the group;
- reviewing the performance of the internal and external audit functions;

- evaluating the independence of the external auditor and ensuring that the provision of non-audit services by the external auditor does not adversely impact upon auditor independence;
- reviewing and approving internal audit plans including identified risk areas;
- gaining assurance as to the adequacy of the company's policies and processes for identifying, documenting and addressing risks;
- reviewing other key financial processes including tax, insurance, treasury operations and superannuation arrangements to ensure legal compliance and prudent management practices; and
- reviewing processes and internal controls in place to ensure compliance with laws and regulations.

The Audit and Risk Committee consists of the following independent, non-executive Directors: Mr Don Morley (Chairman), Ms Jenny Seabrook and Mr Stephen Turner.

For further information on the scope and responsibilities of the Audit and Risk Committee, please refer to Iluka's website.

## BOARD AND COMMITTEE PERFORMANCE EVALUATION

The Board carries out an annual review of its performance in meeting key responsibilities. This review process, which is periodically facilitated by external consultants, serves to identify any issues and initiatives for improving the functioning and performance of individual Directors and the Board as a whole. This annual review was last undertaken December 2009.

Each of the Board's committees also conducts an annual self-assessment of their performance in meeting their key responsibilities. These reviews serve to identify strengths, weaknesses and areas for improvement. The assessment for both committees was last undertaken in December 2009.

## CORPORATE REPORTING

The Managing Director and Chief Financial Officer have made the following certifications to the Board with respect to the 2009 accounts:

- that the company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the company and group and are in accordance with relevant accounting standards; and
- that the above statement is founded on a sound system of risk management and internal compliance and control and which implements the policies adopted by the Board and that the company's risk management and internal control is operating efficiently and effectively in all material respects.

## AUDIT FUNCTIONS

PricewaterhouseCoopers ("PwC") is the company's external audit provider. During 2009, the company complied with its internal guidelines, which require the fees paid to external auditors for non-audit-related work to remain below 50 per cent of the audit-related fees without pre-approval by the Audit and Risk Committee.

The external auditor will attend the Annual General Meeting and will be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

Iluka has an internal audit function that assists the Board by undertaking an objective evaluation of the company's internal control framework. The Audit and Risk Committee is responsible for approving the programme and scope of internal audit reviews to be conducted each financial year. An assessment of the quality and focus of the internal audit function is undertaken periodically as part of the review of Audit and Risk Committee effectiveness.

## ETHICAL STANDARDS AND CONDUCT

The company has an Employee Code of Conduct, which identifies the standard of ethical conduct expected of Iluka employees. In addition, the Board has specifically adopted a Director's Code of Conduct, which establishes guidelines for their conduct in carrying out their duties.

Iluka has also established a Whistleblower Policy to provide for the confidential reporting of issues of unacceptable or undesirable conduct. The policy provides protection against reprisal to the whistleblower.

Copies of the Employee Code of Conduct, Director's Code of Conduct and the Whistleblower Policy can be found in the corporate governance section of Iluka's website.

## SECURITIES TRADING POLICY

The company has a policy on the trading of the company's securities (shares, options, warrants, etc.) by Directors and employees. The Board believes it is in the best interests of shareholders for Directors and employees to own shares in the company, subject to strict controls and guidelines on share trading.

The Securities Trading Policy prohibits Directors and employees from trading in the company's securities if they are in possession of price-sensitive information, which is not generally available to the market. In addition to this general prohibition, senior management and those employees involved in preparing the company's statutory financial information (Restricted Employees) and Directors are prohibited from trading in securities in the company during the period from the end of half or full financial year and the release of the results for the relevant period.

Prior to trading in the company's securities, Directors must seek approval from the Chairman and Restricted Employees must seek approval from Company Secretary.

A copy of Iluka's Securities Trading Policy can be found in the corporate governance section of Iluka's website.

## CONTINUOUS DISCLOSURE

The company is committed to providing best practice continuous disclosure and has developed a comprehensive Continuous Disclosure Policy to ensure compliance with the continuous and periodic disclosure obligations under the Corporations Act and the ASX listing rules and to providing accurate information to all shareholders and market participants. The company has established a Disclosure Committee comprising the Company Secretary, Chief Financial Officer and the General Manager, Investor Relations. The Committee reports to the Managing Director. The Committee's responsibilities include determining if disclosure is required, ensuring the Managing Director is advised of and approves all information disclosed to the market and ensuring the Board is kept fully informed of the Disclosure Committee's determinations and all information subsequently disclosed to the market. The Company Secretary is convenor of the Disclosure Committee and has primary responsibility for administration of the Continuous Disclosure Policy. The Company Secretary's responsibilities include ensuring compliance with the company's continuous disclosure obligations and overseeing and co-ordinating information disclosure to the ASX.

The company's Continuous Disclosure Policy is available in the corporate governance section of Iluka's website.

## SHAREHOLDER COMMUNICATION

The company is committed to providing accurate information to all shareholders and the market and follows a yearly programme of regular disclosure to the market on its financial and operational results and discloses events to the ASX during the year as they occur.

At the Annual General Meeting, shareholders elect the Directors and have the opportunity to express their views, ask questions about company business and vote on items of business for resolution by shareholders. The company communicates with shareholders through releases to the ASX, the company's website, information distributed direct to shareholders and the general meetings of the company.

More information on shareholder communication is contained in the company's Continuous Disclosure Policy.

## COMPARISON TO ASX CORPORATE GOVERNANCE COUNCIL'S CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS (2ND EDITION)

| | Recommendation | Compliance |
|---|---|---|
| Principle 1 | Lay solid foundations for management and oversight | |
| 1.1 | Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions. | Comply |
| 1.2 | Companies should disclose the process for evaluating the performance of senior executives. | Comply |
| 1.3 | Companies should provide the information indicated in the Guide to reporting on Principle 1. | Comply |
| Principle 2 | Structure the board to add value | |
| 2.1 | A majority of the board should be independent directors. | Comply |
| 2.2 | The Chairman should be an independent director. | Comply |
| 2.3 | The roles of Chairman and Chief Executive Officer should not be exercised by the same individual. | Comply |
| 2.4 | The board should establish a nomination committee. | Comply |
| 2.5 | Companies should disclose the process for evaluating the performance of the board, its committees and individual directors. | Comply |
| 2.6 | Companies should provide the information indicated in the Guide to reporting on Principle 2. | Comply |
| Principle 3 | Promote ethical and responsible decision-making | |
| 3.1 | Companies should establish a code of conduct and disclose the code or a summary of the code as to: | Comply |
| | • the practices necessary to maintain confidence in the company's integrity; | Comply |
| | • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; | Comply |
| | • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | Comply |
| 3.2 | Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of the policy. | Comply |
| 3.3 | Companies should provide the information indicated in the Guide to reporting on Principle 3. | Comply |
| Principle 4 | Safeguard integrity in financial reporting | |
| 4.1 | The board should establish an audit committee. | Comply |
| 4.3 | The audit committee should be structured so that it: | Comply |
| | • consists only of non-executive directors | |
| | • consists of a majority of independent directors | |
| | • is chaired by an independent chair, who is not Chairman of the board | |
| | • has at least three members. | |
| 4.4 | The audit committee should have a formal charter. | Comply |
| 4.5 | Companies should provide the information indicated in the Guide to reporting on Principle 4. | Comply |
| Principle 5 | Make timely and balanced disclosure | |
| 5.1 | Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions. | Comply |
| 5.2 | Companies should provide the information indicated in the Guide to reporting on Principle 5. | Comply |
| Principle 6 | Respect the rights of shareholders | |
| 6.1 | Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy. | Comply |
| 6.2 | Companies should provide the information indicated in the Guide to reporting on Principle 6. | Comply |

| | Recommendation | Compliance |
|---|---|---|
| Principle 7 | Recognise and manage risk | |
| 7.1 | Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies. | Comply |
| 7.2 | The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks. | Comply |
| 7.3 | The board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. | Comply |
| 7.4 | Companies should provide the information indicated in the Guide to reporting on Principle 7. | Comply |
| Principle 8 | Remunerate fairly and responsibly | |
| 8.1 | The board should establish a remuneration committee. | Comply |
| 8.2 | Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives. | Comply |
| 8.3 | Companies should provide the information indicated in the Guide to reporting on Principle 8. | Comply |

# FINANCIAL REPORT

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Financial report

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This financial report covers both the separate financial statements of Iluka Resources Limited as an individual entity and the consolidated financial statements for the consolidated entity consisting of Iluka Resources Limited and its subsidiaries. The financial report is presented in the Australian currency.

Iluka Resources Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Iluka Resources Limited
Level 23, 140 St George's Terrace
Perth WA 6000

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations in the directors' report.

The financial report was authorised for issue by the directors on 31 March 2010. The company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial reports and other information are available at www.iluka.com

# INCOME STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2009

| | Notes | Consolidated 2009 $M | Consolidated 2008 $M | Parent entity 2009 $M | Parent entity 2008 $M |
|---|---|---|---|---|---|
| **Revenue from continuing operations** | 5 | **586.0** | 926.1 | **176.3** | 227.7 |
| Other income | 6 | **18.3** | 13.7 | **55.1** | 16.4 |
| Expenses | 7 | **(717.2)** | (883.1) | **(243.6)** | (293.3) |
| Interest and finance charges | | **(8.4)** | (26.1) | **(20.4)** | (29.6) |
| Rehabilitation and restoration unwind | | **(15.7)** | (14.2) | **(5.7)** | (6.2) |
| Total finance costs | 7 | **(24.1)** | (40.3) | **(26.1)** | (35.8) |
| Impairment charges and reversals | 7 | **(67.6)** | 5.5 | **-** | 45.6 |
| **(Loss) profit before income tax from continuing operations** | | **(204.6)** | 21.9 | **(38.3)** | (39.4) |
| Income tax benefit | 8 | **72.9** | 15.8 | **22.3** | 21.0 |
| **(Loss) profit from continuing operations** | | **(131.7)** | 37.7 | **(16.0)** | (18.4) |
| Profit from discontinued operations | 9 | **22.9** | 47.3 | **-** | - |
| **(Loss) profit for the year** | | **(108.8)** | 85.0 | **(16.0)** | (18.4) |
| Profit attributable to non-controlling interest | | **0.2** | (7.5) | **-** | - |
| **(Loss) profit attributable to owners of Iluka Resources Limited** | | **(108.6)** | 77.5 | **(16.0)** | (18.4) |

| | Notes | **Cents** | Cents |
|---|---|---|---|
| **Basic and diluted earnings per share** | | | |
| Earnings per share from continuing operations attributable to owners | 29 | **(32.5)** | 13.8 |
| Earnings per share attributable to owners | 29 | **(26.8)** | 22.4 |

The above income statements should be read in conjunction with the accompanying notes.

# STATEMENTS OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 31 DECEMBER 2009

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2009 $M** | 2008 $M | **2009 $M** | 2008 $M |
| **(Loss) profit for the year** | **(108.8)** | 85.0 | **(16.0)** | (18.4) |
| **Other comprehensive income** | | | | |
| Changes in fair value of foreign exchange cash flow hedges, net of tax | **109.9** | (113.5) | **99.3** | (99.7) |
| Currency translation of US operation | **(22.8)** | 13.2 | **-** | - |
| Hedge of net investment in US operation, net of tax | **23.6** | (18.0) | **-** | - |
| Actuarial gains (losses) on defined benefit plans, net of tax | **2.4** | (8.5) | **-** | - |
| **Other comprehensive income for the year** | **113.1** | (126.8) | **99.3** | (99.7) |
| **Total comprehensive income for the year** | **4.3** | (41.8) | **83.3** | (118.1) |
| Total comprehensive income for the year is attributable to: | | | | |
| Owners of Iluka Resources Limited | **(1.1)** | (42.5) | **83.3** | (118.1) |
| Non-controlling interest | **5.4** | 0.7 | **-** | - |
| | **4.3** | (41.8) | **83.3** | (118.1) |

The above statements of comprehensive income should be read in conjunction with the accompanying notes.

# BALANCE SHEETS

AS AT 31 DECEMBER 2009

| | Notes | Consolidated 2009 $M | Consolidated 2008 $M | Parent entity 2009 $M | Parent entity 2008 $M |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | 10 | **86.3** | 97.6 | **75.7** | 65.0 |
| Receivables | 11 | **103.9** | 243.2 | **27.0** | 63.7 |
| Inventories | 12 | **205.5** | 249.7 | **29.0** | 72.5 |
| Derivative financial instruments | 3 | **15.9** | - | **15.9** | - |
| Deferred overburden | | **-** | 8.5 | **-** | - |
| Total current assets | | **411.6** | 599.0 | **147.6** | 201.2 |
| **Non-current assets** | | | | | |
| Loans to subsidiaries | | **-** | - | **930.4** | 241.4 |
| Inventories | 12 | **56.6** | - | **56.6** | - |
| Investments in subsidiaries | | **-** | - | **849.2** | 849.2 |
| Property, plant and equipment | 13 | **1,566.6** | 1,414.6 | **221.5** | 283.4 |
| Deferred tax assets | 14 | **53.7** | 31.0 | **37.8** | 41.9 |
| Intangible assets | 15 | **9.9** | 13.5 | **-** | - |
| Total non-current assets | | **1,686.8** | 1,459.1 | **2,095.5** | 1,415.9 |
| **Total assets** | | **2,098.4** | 2,058.1 | **2,243.1** | 1,617.1 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Payables | 16 | **183.7** | 164.1 | **52.2** | 29.4 |
| Interest-bearing liabilities | 17 | **44.7** | 36.8 | **44.7** | 36.8 |
| Current tax liabilities | | **-** | 5.0 | **-** | 1.1 |
| Provisions | 18 | **28.1** | 61.4 | **10.4** | 21.8 |
| Derivative financial instruments | 3 | **-** | 104.0 | **-** | 93.0 |
| Total current liabilities | | **256.5** | 371.3 | **107.3** | 182.1 |
| **Non-current liabilities** | | | | | |
| Interest-bearing liabilities | 17 | **423.7** | 276.5 | **423.7** | 276.6 |
| Loans from subsidiaries | | **-** | - | **406.5** | - |
| Provisions | 18 | **322.9** | 322.7 | **123.1** | 125.7 |
| Derivative financial instruments | 3 | **-** | 49.6 | **-** | 46.7 |
| Total non-current liabilities | | **746.6** | 648.8 | **953.3** | 449.0 |
| **Total liabilities** | | **1,003.1** | 1,020.1 | **1,060.6** | 631.1 |
| **Net assets** | | **1,095.3** | 1,038.0 | **1,182.5** | 986.0 |
| **EQUITY** | | | | | |
| Contributed equity | 19 | **1,114.4** | 998.1 | **1,120.0** | 1,006.5 |
| Reserves | 20(a) | **19.9** | (84.3) | **21.1** | (74.6) |
| Retained (losses) profits | 20(b) | **(39.0)** | 66.0 | **41.4** | 54.1 |
| Owners interest | | **1,095.3** | 979.8 | **1,182.5** | 986.0 |
| Non-controlling interest | | **-** | 58.2 | **-** | - |
| **Total equity** | | **1,095.3** | 1,038.0 | **1,182.5** | 986.0 |

The above balance sheets should be read in conjunction with the accompanying notes.

## FOR THE YEAR ENDED 31 DECEMBER 2009

| | | Attributable to owners of Iluka Resources Limited | | | | | |
|---|---|---|---|---|---|---|---|
| **Consolidated** | Notes | Contributed equity $M | Reserves $M | Retained earnings $M | **Total $M** | Non-controlling interest $M | **Total equity $M** |
| **Balance at 1 January 2008** | | 661.6 | 25.1 | (3.1) | **683.6** | 68.0 | **751.6** |
| Profit for the year | | - | - | 77.5 | **77.5** | 7.5 | **85.0** |
| Changes in fair value of foreign exchange cash flow hedges, net of tax | 20 | - | (106.7) | - | **(106.7)** | (6.8) | **(113.5)** |
| Currency translation of US operation | 20 | - | 13.2 | - | **13.2** | - | **13.2** |
| Hedge of net investment in US operation, net of tax | 20 | - | (18.0) | - | **(18.0)** | - | **(18.0)** |
| Actuarial losses on retirement benefit obligations, net of tax | 20 | - | - | (8.5) | **(8.5)** | - | **(8.5)** |
| Transfer of asset revaluation reserve | | - | (0.1) | 0.1 | **-** | - | **-** |
| **Total comprehensive income** | | **-** | **(111.6)** | **69.1** | **(42.5)** | **0.7** | **(41.8)** |
| **Transactions with owners in their capacity as owners:** | | | | | | | |
| Share issue, net of transaction costs | 19 | 343.9 | - | - | **343.9** | - | **343.9** |
| Transfer of shares to employees | 20 | 3.3 | (3.3) | - | **-** | - | **-** |
| Share based payments, net of tax | | - | 5.5 | - | **5.5** | - | **5.5** |
| Purchase of treasury shares | 20 | (10.7) | - | - | **(10.7)** | - | **(10.7)** |
| Dividends paid to CRL minorities | | - | - | - | **-** | (10.5) | **(10.5)** |
| | | 336.5 | 2.2 | - | **338.7** | (10.5) | **328.2** |
| **Balance at 1 January 2009** | | 998.1 | (84.3) | 66.0 | **979.8** | 58.2 | **1,038.0** |
| Loss for the year | | - | - | (108.6) | **(108.6)** | (0.2) | **(108.8)** |
| Changes in fair value of foreign exchange cash flow hedges, net of tax | 20 | - | 104.3 | - | **104.3** | 5.6 | **109.9** |
| Currency translation of US operation | 20 | - | (22.8) | - | **(22.8)** | - | **(22.8)** |
| Hedge of net investment in US operation, net of tax | 20 | - | 23.6 | - | **23.6** | - | **23.6** |
| Actuarial gains on retirement benefit obligations, net of tax | 20 | - | - | 2.4 | **2.4** | - | **2.4** |
| Transfer of asset revaluation reserve | 20 | - | (1.2) | 1.2 | **-** | - | **-** |
| **Total comprehensive income** | | **-** | **103.9** | **(105.0)** | **(1.1)** | **5.4** | **4.3** |
| **Transactions with owners in their capacity as owners:** | | | | | | | |
| Share placement, net of costs | 19 | 113.5 | - | - | **113.5** | - | **113.5** |
| Transfer of shares to employees | 19 | 2.8 | (2.8) | - | **-** | - | **-** |
| Share based payments, net of tax | | - | 3.1 | - | **3.1** | - | **3.1** |
| Dividends paid to CRL minorities | | - | - | - | **-** | (1.8) | **(1.8)** |
| Disposal of subsidiary | | - | - | - | **-** | (61.8) | **(61.8)** |
| | | 116.3 | 0.3 | - | **116.6** | (63.6) | **53.0** |
| **Balance at 31 December 2009** | | 1,114.4 | 19.9 | (39.0) | **1,095.3** | - | **1,095.3** |

# STATEMENTS OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 31 DECEMBER 2009

| Parent entity | Notes | Contributed equity $M | Reserves $M | Retained earnings $M | **Total equity $M** |
|---|---|---|---|---|---|
| **Balance at 1 January 2008** | | 662.6 | 21.0 | 72.5 | **756.1** |
| Loss for the year | | - | - | (18.4) | **(18.4)** |
| Changes in fair value of foreign exchange cash flow hedges, net of tax | 20 | - | (99.7) | - | **(99.7)** |
| **Total comprehensive income for the year** | | **-** | **(99.7)** | **(18.4)** | **(118.1)** |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Share issue, net of transaction costs | 19 | 343.9 | - | - | **343.9** |
| Share based payments, net of tax | 20 | - | 4.1 | - | **4.1** |
| | | 343.9 | 4.1 | - | **348.0** |
| **Balance at 1 January 2009** | | 1,006.5 | (74.6) | 54.1 | **986.0** |
| Loss for the year | | - | - | (16.0) | **(16.0)** |
| Changes in fair value of foreign exchange cash flow hedges, net of tax | 20 | - | 99.3 | - | **99.3** |
| Transfer of asset revaluation reserve | 20 | - | (3.3) | 3.3 | **-** |
| **Total comprehensive income for the year** | | **-** | **96.0** | **(12.7)** | **83.3** |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Share placement, net of transaction costs | 19 | 113.5 | - | - | **113.5** |
| Share based payments, net of tax | | - | (0.3) | - | **(0.3)** |
| | | 113.5 | (0.3) | - | **113.2** |
| **Balance at 31 December 2009** | | 1,120.0 | 21.1 | 41.4 | **1,182.5** |

The above statements of changes in equity should be read in conjunction with the accompanying notes.

# CASH FLOW STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2009

| | Notes | Consolidated | | Parent entity | |
|---|---|---|---|---|---|
| | | **2009 $M** | 2008 $M | **2009 $M** | 2008 $M |
| **Cash flows from operating activities** | | | | | |
| Receipts from customers | | **744.8** | 1,017.4 | **194.3** | 200.2 |
| Payments to suppliers and employees | | **(663.0)** | (794.4) | **(226.6)** | (174.4) |
| | | **81.8** | 223.0 | **(32.3)** | 25.8 |
| Interest received | | **1.5** | 6.3 | **1.2** | 5.4 |
| Interest paid | | **(14.0)** | (32.2) | **(13.9)** | (33.1) |
| Income tax (net) | | **(4.4)** | 4.1 | **0.8** | 18.9 |
| Exploration expenditure | | **(20.0)** | (20.9) | **-** | - |
| Royalty receipts | | **55.2** | 49.3 | **-** | - |
| Other | | **2.1** | 3.4 | **2.9** | 1.5 |
| **Net cash inflow (outflow) from operating activities** | 28 | **102.2** | 233.0 | **(41.3)** | 18.5 |
| **Cash flows from investing activities** | | | | | |
| Payments for property, plant and equipment | | **(521.6)** | (198.4) | **(9.6)** | (30.8) |
| Sale of property, plant and equipment | | **9.9** | 7.6 | **8.6** | 2.3 |
| Sale of Narama | 9(c) | **-** | 53.4 | **-** | - |
| Sale of CRL | 9(c) | **84.2** | - | **-** | - |
| Loans (to) from controlled entities | | **-** | - | **(255.3)** | 65.9 |
| **Net cash (outflow) inflow from investing activities** | | **(427.5)** | (137.4) | **(256.3)** | 37.4 |
| **Cash flows from financing activities** | | | | | |
| Proceeds from borrowings | | **309.8** | 83.9 | **300.4** | 83.9 |
| Repayment of borrowings | | **(105.6)** | (414.5) | **(105.6)** | (414.4) |
| Dividends paid to CRL minority interests | | **(1.8)** | (10.5) | **-** | - |
| Issue of ordinary shares | 19(b) | **114.0** | 353.1 | **114.0** | 357.1 |
| Share issue costs | 19(b) | **(0.5)** | (13.2) | **(0.5)** | (13.2) |
| Purchase of treasury shares | | **-** | (14.3) | **-** | - |
| Debt refinance costs | | **-** | (4.3) | **-** | (4.3) |
| **Net cash (outflow) inflow from financing activities** | | **315.9** | (19.8) | **308.3** | 9.1 |
| **Net (decrease) increase in cash and cash equivalents** | | **(9.4)** | 75.8 | **10.7** | 65.0 |
| Cash and cash equivalents at 1 January | | **97.6** | 19.9 | **65.0** | - |
| Exchange rate changes on cash and cash equivalents | | **(1.9)** | 1.9 | **-** | - |
| **Cash and cash equivalents at 31 December** | 10 | **86.3** | 97.6 | **75.7** | 65.0 |
| Financing arrangements | 17 | | | | |

The above cash flow statements should be read in conjunction with the accompanying notes.

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## Note 1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the Financial Report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The Financial Report includes separate financial statements for Iluka Resources Limited as an individual entity and the consolidated entity consisting of Iluka Resources Limited and its subsidiaries.

### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001* which, together, ensure that the consolidated financial statements and notes of Iluka Resources Limited comply with International Financial Reporting Standards ("IFRS"). These financial statements have been prepared under the historical cost convention.

### (b) Principles of consolidation

#### (i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Iluka Resources Limited ("Company" or "parent entity") as at 31 December 2009 and the results of all subsidiaries for the year then ended. Iluka Resources Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Investments in subsidiaries are accounted for at cost. Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

#### (ii) Joint ventures

The consolidated entity had a coal operation (sold effective 1 January 2008) and has titanium minerals and zircon exploration activities which are conducted through joint ventures with other parties.

The proportionate interests in the assets, liabilities and expenses of the joint venture operations have been incorporated in the financial statements under the appropriate headings and are not material in 2009 and 2008.

### (c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Managing Director.

The group has adopted AASB 8 Operating Segments from 1 January 2009 which replaces AASB 114 Segment Reporting. The new standard requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. In addition, the segments are reported in a manner that is consistent with the internal reporting provided to the Managing Director. Comparatives for 2008 have been restated.

### (d) Revenue recognition

#### Mineral Sands

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid.

Product sales are recognised as revenue when there has been a passing of risk to a customer, and:

- the product is in a form suitable for delivery and no further processing is required by, or on behalf of, the consolidated entity;
- the quantity, quality and selling price of the product can be determined with reasonable accuracy; and
- the product has been despatched to the customer and is no longer under the physical control of the consolidated entity, or the customer has formally acknowledged legal ownership of the product including all inherent risks, albeit that the product may be stored in facilities the consolidated entity controls.

Gains and losses, including premiums paid or received, in respect of forward sales, options and other deferred delivery arrangements which hedge anticipated revenues from future production, are deferred and included in sales revenue in accordance with accounting policy 1(m).

#### Mining Area C royalty income and amortisation of royalty asset

Royalty income is recognised on an accrual basis. Royalty income is received on a quarterly basis and any under or over accrual applicable to previously recognised royalty income is adjusted for based on the receipt of the royalty income entitlement.

The royalty entitlement asset is an intangible asset and is amortised on a straight-line basis over its estimated useful life of 25 years of which 19 years is remaining.

## Note 1. Summary of significant accounting policies (continued)

### (e) Interest and other

Interest income is recognised in the income statement as it accrues, using the effective interest method.

### (f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or loss or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments and loans in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are recognised directly in equity.

#### Tax consolidation legislation

Iluka Resources Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 January 2004.

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Iluka Resources Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities' fully compensate Iluka Resources Limited for any current tax payable assumed and are compensated by Iluka Resources Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Iluka Resources Limited under the tax consolidation legislation.

The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables.

### (g) Acquisitions of assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Costs relating to the acquisition of new areas of interest are capitalised as either exploration and evaluation expenditure, development properties or mine properties depending on the stage of development reached at the date of acquisition. Refer Note 1(p) for more information.

A liability for restructuring costs is recognised as at the date of acquisition of an entity or part thereof when there is a demonstrable commitment to the restructuring of the acquired entity and a reliable estimate of the amount of the liability can be made.

### (h) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within interest-bearing liabilities in current liabilities on the balance sheet.

### (i) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade and other receivables are generally due for settlement no more than 90 days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of receivables.

## Note 1. Summary of significant accounting policies (continued)

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement.

### (j) Inventories

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 to be incurred prior to sale.

A regular and ongoing review is undertaken to establish the extent of surplus obsolete or damaged stores, which are then valued at estimated net realisable value.

### (k) Overburden Costs

Expenditure associated with the removal of mine overburden after the initial development of a mine is deferred and charged to the income statement over its useful life, which typically does not exceed one year.

### (l) Foreign currency translation

#### (i) Functional and presentation currency

The consolidated financial statements are presented in Australian dollars, which is Iluka Resources Limited's functional and presentation currency.

#### (ii) Transactions and balances

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses including those from the translation at balance date of foreign currency denominated monetary assets and liabilities are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

#### (iii) Group companies

The results and financial position of the US entities that have a US dollar functional currency are translated into AUD as follows:

- assets and liabilities are translated at the exchange rate at balance date;
- income and expenses for each month are translated at average exchange rates; and
- all resulting exchange differences are recognised in the foreign currency translation reserve.

### (m) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at balance date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The consolidated entity designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

At the inception of the transaction, the consolidated entity documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The consolidated entity also documents its assessment, both at transaction inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 3. Movements in the hedging reserve in shareholders' equity are shown in Note 20.

#### (i) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast receipt that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example inventory), the gains and losses previously deferred in equity are included in the measurement of the initial cost or carrying amount of the asset.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

#### (ii) Derivatives that do not qualify for hedge accounting

For derivatives that do not qualify for hedge accounting changes in the fair value are recognised immediately in the income statement.

## Note 1. Summary of significant accounting policies (continued)

### (n) Non-current assets (or disposal groups) held for resale

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

### (o) Loans and receivables

Loans and receivables including amounts due from Group entities are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

### (p) Exploration, evaluation and development expenditure

Exploration and evaluation expenditure is accumulated separately for each area of interest in accordance with AASB 6 *Exploration for and Evaluation of Mineral Resources*. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure.

Expenditure is carried forward when incurred in areas for which the consolidated entity has rights of tenure and where economic mineralisation is indicated, but 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.

Each area of interest is limited to a size related to a known mineral resource capable of supporting a mining operation.

Identifiable exploration assets acquired from another mining company are recognised as assets at their cost of acquisition, as determined by the requirements of AASB 3 *Business Combinations*.

Projects are advanced to development status when it is expected that accumulated and future expenditure on development can be recouped through project development or sale. Capitalised exploration is transferred to Mine Reserves once the related ore body achieves JORC reserve status (reported in accordance with JORC, 2004) and has been included in the life of mine plan.

Direct costs associated with the commissioning of plant and equipment are capitalised and included in property, plant and equipment. Pre-commissioning costs in testing the processing plant are also capitalised.

All the above expenditure is carried forward up to commencement of operations at which time it is amortised in accordance with the policy stated in Note 1(q).

### (q) Property, plant and equipment

Land and buildings are shown at historical cost, less subsequent depreciation for buildings. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Land is not depreciated.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation and amortisation of mine buildings, reserves and development and mine specific plant, machinery and equipment is provided for over the life of the relevant mine or asset, whichever is the shorter. Mine specific plant, machinery and equipment refers to plant, machinery and equipment for which the economic useful life cannot extend beyond the life of its host mine. Depreciation and amortisation 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. The basis of depreciation of each asset is reviewed annually and changes to the basis of depreciation are made if the straight-line basis is no longer considered to represent the expected pattern of consumption of economic benefits. The expected useful lives are as follows:

| | |
|---|---|
| • Mine buildings | the shorter of applicable mine life and 25 years |
| • Mine specific plant, machinery and equipment | the shorter of applicable mine or asset life and 25 years, depending on the nature of the asset |
| • Reserves and development | the applicable mine life |
| • Other non-mine specific plant and equipment | 3-25 years |

The reserves and life of each mine and the remaining useful life of each class of asset are reassessed at regular intervals and the depreciation rates adjusted accordingly.

#### Revision of useful lives

During the year, the estimated useful lives of various items of plant and equipment were shortened to reflect revised operating conditions in Western Australia. As a result of the revisions, an additional depreciation expense of $14.5 million was incurred in the year. At 31 December 2009 the carrying value of the assets to which the additional depreciation relates was $6.6 million and the impact of the shorter lives on depreciation in future years is not material.

## Note 1. Summary of significant accounting policies (continued)

**Revision of depreciation methods effective 1 January 2010**

The depreciation method for mine specific plant, machinery and equipment will be revised effective 1 January 2010 from "straight line" to "units of production" so as to more appropriately match depreciation charges with the expected pattern of consumption of economic benefit of the asset. The change in method reflects an increase in the expected future re-deployment of assets between mine sites and periods of inactivity for certain assets.

Assets depreciated on a straight line basis in 2009 with a carrying value at 31 December 2009 of $551.5 million (parent $145.7 million) are subject to the change in method. The change is expected to result in a decrease in depreciation in 2010 for those assets of $18.0 million compared to the straight line charge incurred in 2009.

### (r) Maintenance and repairs

Certain items of plant used in the primary extraction, separation and secondary processing of extracted minerals are subject to major overhaul on a cyclical basis. Costs incurred during such overhauls are characterised as either in the nature of capital or in the nature of repairs and maintenance. Work performed may involve:

(i) the replacement of a discrete sub-component asset, in which case an asset addition is recognised and the book value of the replaced item is written off; and

(ii) demonstrably extending the useful life or functionality of an existing asset, in which case the relevant cost is added to the capitalised cost of the asset in question.

Costs incurred during a major cyclical overhaul which do not constitute (i) or (ii) above, are written off as repairs and maintenance as incurred. Costs qualifying for capitalisation under (i) or (ii) above are subsequently depreciated in accordance with Note 1(q).

General repairs and maintenance which are not characterised as part of a major cyclical overhaul are expensed as incurred.

### (s) Non-current assets constructed by the consolidated entity

The cost of non-current assets constructed by the consolidated entity includes the cost of all materials used in construction, direct labour on the project, project management costs, borrowing costs incurred during construction and an appropriate proportion of variable and fixed overheads.

Borrowing costs included in the cost of non-current assets are those costs that would have been avoided if the expenditure on the construction of the assets had not been made and are capitalised in accordance with the policy stated in Note 1(w). Borrowing costs are not capitalised whilst assets are being commissioned.

### (t) Intangible assets

Significant costs associated with patents and trademarks are deferred and amortised over the periods of expected benefit. This period was revised during the year with an associated increase in amortisation expense of $1.9 million. The carrying value at 31 December 2009 of $2.4 million will be amortised in 2010.

### (u) Recoverable amount of non-current assets

AASB 136 Impairment of Assets requires that depreciable assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell (FVLCS) and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash Generating Units (refer note 2)). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### (v) Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

### (w) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred and are subsequently measured at amortised cost. Any difference between the net proceeds and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the consolidated entity has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### (x) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred, except where they are included in the costs of qualifying assets which take more than 12 months to prepare for their intended use.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year. $12.5 million interest at a weighted average interest rate of 3.2 per cent was capitalised in 2009, (2008: $4.0 million at a rate of 7.0 per cent).

Borrowing costs include:

- interest on borrowings, including amounts paid or received on interest rate swaps; amortisation of deferred borrowing costs; and
- finance lease charges.

Note 1. Summary of significant accounting policies (continued)

(y) Provisions for legal claims

Provisions for legal claims are recognised when there is a present legal obligation as a result of past events and it is more likely than not that a settlement will be made, and the amount can be estimated reliably.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(z) Rehabilitation and mine closure costs

The consolidated entity has obligations to dismantle, remove, restore and rehabilitate certain items of property, plant and equipment.

Under AASB 116 *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.

AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* requires a provision to be 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 production costs. A pre tax nominal discount rate of 6.0 per cent (2008: 6.0 per cent) has been used in calculating the rehabilitation and restoration provisions of the consolidated entity. This rate does not reflect risks for which future cash flow estimates have been adjusted.

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.

(aa) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised as current payables. Non-accumulating sick leave, parental leave and other ex-gratia leave is recognised as an expense when taken.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Termination Benefits

Liabilities for employee termination benefits associated with restructurings are brought to account when a detailed restructuring plan has been developed.

(iv) Retirement benefit obligations

All employees of the consolidated entity are entitled to benefits on retirement, disability or death from the consolidated entity's superannuation plans. The consolidated entity has defined benefit section and an accumulation type benefits section within its plans. The defined benefit section provides defined lump sum benefits based on years of service and final average salary. The accumulation type benefits section receives fixed contributions from consolidated entity companies and the consolidated entity's legal or constructive obligation is limited to these contributions.

A liability or asset in respect of defined benefit superannuation plans is recognised in the balance sheet, and is measured as the present value of the defined benefit obligation at the reporting date plus actuarial gains (less actuarial losses) less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the period in which they occur.

Past service costs are recognised immediately in income, unless the changes to the superannuation fund are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Future taxes that are funded by the consolidated entity and are part of the provision of the existing benefit obligation (eg taxes on investment income and employer contributions) are taken into account in measuring the net liability or asset.

Contributions to the accumulation fund are recognised as an expense as they become payable.

Note 1. Summary of significant accounting policies (continued)

(v) Share-based payments

Share-based compensation benefits are provided to employees via incentive plans, the Directors, Executives and Employees Share Acquisition Plan and the Employee Share Ownership scheme. Information relating to these schemes is set out in Note 30 with additional information in the Remuneration Report.

The fair value of entitlements offered has been determined by the Directors, in accordance with the measurement criteria of Accounting Standard AASB 2 Share-based Payment. The fair value of restricted shares is determined to be the volume weighted average price 5 days after results are announced to the market. The fair value is recognised as an expense through the income statement on a straight-line basis between the grant date and the vesting date for each respective plan.

The fair value of share rights is independently determined using a Black-Scholes share right pricing model that takes into account the exercise price, the term of the share right, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate of the term of the share right.

The fair value of share rights at grant date of the Long Term Incentive Plan (LTIP) is independently determined using a Monte Carlo simulation to model Iluka share prices against the comparator group performance at vesting date. The Monte Carlo method is a procedure for repeatedly sampling random movements in a stock's price to estimate the average or mean share price.

Shares provided under the Employee Share Ownership scheme are purchased on-market, with the purchase cost being recognised as an employee benefits expense. A credit to the share based payments expense arises where unvested entitlements lapse on resignation or the non fulfilment of market vesting conditions.

(vi) Cash settled incentive arrangements

The consolidated entity recognises a liability and an expense for cash settled components of incentive plans based on the conditions of the particular plans.

(ab) Contributed equity

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business, are not included in the cost of the acquisition as part of the purchase consideration.

(ac) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(ad) Rounding of amounts

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the ''rounding off'' of amounts in the Financial Report. Amounts in the Financial Report have been rounded off in accordance with that Class Order to the nearest hundred thousand dollars, or in certain cases, the nearest thousand dollars and the nearest dollar.

(ae) New accounting standards and UIG interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2009 reporting periods. The consolidated entity's assessment of the impact of relevant new standards and interpretations is set out below.

*Revised AASB 3 Business Combinations, AASB 127 Consolidated and Separate Financial Statements and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127*

The revised accounting standards for business combinations and consolidated financial statements are operative for annual reporting periods beginning on or after 1 July 2009 and will be applied by the group from 1 January 2010. The new rules generally apply only prospectively to transactions that occur after the application date of the standard. Their impact will therefore depend on whether the Group enters into any business combinations or other transactions that affect the level of ownership held in the controlled entities in the year of initial application.

## Note 1. Summary of significant accounting policies (continued)

*AASB 2008-8 Amendment to Australian Accounting Standards-Eligible Hedged Items*

AASB 2008-8 was issued in August 2008. It is effective for accounting periods beginning on or after 1 July 2009 and must be applied retrospectively in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. The amendment prohibits designating inflation as a hedgeable component of a fixed rate debt and also prohibits including time value in the one-sided hedged risk when designating options as hedges. The Group will apply the amended standard from 1 January 2010. The impact on the financial report is being determined.

*AASB Interpretation 17 Distribution of Non-Cash Assets to Owners and AASB 2008-13 Amendments to Australian Accounting Standards arising from AASB Interpretation 17 (effective 1 July 2009)*

AASB-I 17 applies to situations where an entity pays dividends by distributing non-cash assets to its shareholders. These distributions will need to be measured at fair value and the entity will need to recognise the difference between the fair value and the carrying amount of the distributed assets in the income statement on distribution rather than measuring distributions of non-cash assets at their carrying amounts. The interpretation further clarifies when a liability for the dividend must be recognised and that it is also measured at fair value. The Group will apply the interpretation prospectively from 1 January 2010.

*AASB 2009-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective for annual periods beginning on or after 1 July 2009)*

The AASB has made amendments to AASB 2 Share-based payment, AASB 138 Intangible Assets and AASB-I 9 Reassessment of Embedded Derivatives and AASB Interpretation 16 Hedges of a Net Investment in a Foreign Operation as a result to the IASB's annual improvements project. The Group will apply the amendments from 1 January 2010. The Group does not expect that any adjustments will be necessary as a result of applying the revised rules.

*AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2013)*

AASB 9 Financial Instruments addresses the classification and measurement of financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The group is yet to assess its full impact.

*AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement (effective from 1 January 2011)*

In December 2009, the AASB made an amendment to Interpretation 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The amendment removes an unintended consequence of the interpretation related to voluntary prepayments when there is a minimum funding requirement in regard to the entity's defined benefit scheme. It permits entities to recognise an asset for a prepayment of contributions made to cover minimum funding requirements. The group does not make any such prepayments. The amendment is therefore not expected to have any impact on the group's or the parent entity's financial statements. The group intends to apply the amendment from 1 January 2011.

## Note 2. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### (a) Critical accounting estimates and assumptions

The consolidated entity makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### (i) Impairment of assets

The recoverable amount of each Cash Generating Unit (CGU) is determined as the higher of value-in-use and fair value less costs to sell. The group uses fair value less costs to sell. Where there is no binding sale agreement, fair value less costs to sell is based on the best information available to reflect the amount the consolidated entity could receive for the CGU in an arms length transaction and has been estimated on the basis of discounted present value of the future cashflows.

The estimates of future cash flows for each CGU are based on significant assumptions including:

- estimates of the quantities of mineral reserves and ore resources for which there is a high degree of confidence of economic extraction and the timing of access to these reserves and ore resources;
- future production levels and the ability to sell that production;
- future product prices based on the consolidated entity's assessment of short and long term prices for each of the key products;
- future exchange rates for the Australian dollar compared to the US dollar using external forecasts by recognised economic forecasters;
- future cash costs of production, sustaining capital expenditure, rehabilitation and mine closure; and
- the asset specific discount rate applicable to the CGU.

## Note 2. Critical accounting estimates and judgements (continued)

Given the nature of the consolidated entity's mining activities, future changes in assumptions upon which these estimates are based, may give rise to material adjustments to the current or prior years. This could lead to a reversal of part, or all, of impairment charges recorded in the current or prior years, or the recognition of additional impairment charges in the future.

Due to the nature of the assumptions and their significance to the assessment of the recoverable amount of each CGU, relatively modest changes in one or more assumptions could require a material adjustment (negative or positive) to the carrying value of the related non-current assets within the next reporting period.

The inter-relationships of the significant assumptions upon which estimated future cash flows are based, however, are such that it is impracticable to disclose the extent of the possible effects of a change in a key assumption in isolation.

In addition, the Australian Federal Government has proposed introducing a Carbon Pollution Reduction Scheme (CPRS) by 2011. The introduction of a CPRS has the potential to significantly impact the assumptions used to determine the future cash flows generated from the continuing use of the group's assets for the purpose of impairment testing. The group has not yet incorporated the impact of a CPRS into its assumptions at 31 December 2009 as insufficient market information exists.

Uncertainties exist around the following areas:

- the nature and timing of the proposed legislation
- the level of emissions the group is expected to emit
- abatement opportunities
- the price or range of prices of emission permits
- the number of permits required to be purchased
- the impact on costs charged by suppliers
- the ability to pass on the cost of the permits
- government assistance.

(ii) Exploration and evaluation expenditure

Expenditure with a value of $20.4 million (2008: $17.0 million) which does not form part of the CGU assessed for impairment has been carried forward in accordance with Note 1(p) on the basis that exploration and evaluation 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. In the event that significant operations cease and/or economically recoverable reserves are not assessed as being present, this expenditure will be expensed to the Income Statement.

(iii) Rehabilitation and mine closure provisions

As set out in Note 1(z), these provisions represent the discounted value of the present obligation to restore, dismantle and rehabilitate certain items of property, plant and equipment. The discounted value reflects a combination of management's assessment of the cost of performing the work required, the timing of the cash flows and the discount rate of 6.0 per cent (2008 6.0 per cent).

A change in any, or a combination, of the three key assumptions used to determine the provisions could have a material impact to the carrying value of the provision. In the case of provisions for assets which remain in use, adjustments 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 or for obligations arising from the production process, any adjustment is reflected directly in the Income Statement.

(iv) Income tax

The consolidated entity is subject to income taxes in Australia and the United States (US). Significant judgement is required in determining the provision for income taxes in each jurisdiction. There are many transactions and calculations for which the ultimate determination is not finalised until statutory tax returns are lodged with the appropriate authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact upon the current and deferred tax provisions in the period in which such determination is made which is usually the subsequent financial year.

A key assumption made regarding the income tax expense for the current year is the level of investment allowance and research and development expenditure that will qualify for concessional tax deductions and the level of capital gains on asset disposals that can be offset by available capital losses not previously recognised. The tax effect of these amounts is $7.5 million and $1.1 million respectively, (2008 $3.4million and $10.2 million).

### (b) Critical judgements in applying the entity's accounting policies

Recovery of deferred tax assets

Net deferred tax assets of $53.7 million (2008: $19.5 million) are carried in respect of the Australian and US operations, including $50.7 million (2008: $11.9 million) attributable to tax losses. Management has assessed that it is probable that these tax losses will be recoverable against future taxable profits to be generated in the relevant jurisdiction.

## Note 3. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity.

Financial risk management is managed by a central treasury department (Group Treasury) under policies approved by the Board of Directors (The Board).

### (a) Market risk

#### (i) Foreign exchange risk

Foreign exchange risk arises when commercial transactions and recognised assets and liabilities are denominated in a currency that is not Australian dollars.

The Group operates internationally and is exposed to foreign exchange risk arising predominantly from currency exposures to the US dollar. The consolidated balance sheet translation risk is managed by borrowing in US dollars to provide a hedge for the net US dollar investment in the US operation and the US dollar receivables from Australian sales. The income statement exposure is hedged through the use of derivative instruments in accordance with policies approved by the Board.

The table below summarises financial assets and liabilities denominated in foreign currencies that form part of the balance sheet carrying values.

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2009 US$M** | 2008 US$M | **2009 US$M** | 2008 US$M |
| Cash and cash equivalents | **17.1** | 10.1 | **7.8** | - |
| Receivables | **77.0** | 136.9 | **21.7** | 26.1 |
| Payables | **(13.7)** | (9.8) | **(0.5)** | (2.4) |
| Interest bearing liabilities | **(165.0)** | (180.5) | **(165.0)** | (180.5) |
| | **(84.6)** | (43.3) | **(136.0)** | (156.8) |

#### Group sensitivity

At 31 December 2009, had the Australian dollar weakened/strengthened by 10 per cent against the US dollar compared to the exchange rate at that date of 89.41 cents with all other variables held constant, the consolidated entity's post-tax profit for the year would have been $0.9 million higher/$0.8 million lower (2008: $1.1 million higher/$1.0 million lower), mainly as a result of foreign exchange gains/losses on translation of US dollar denominated trade receivables and payables and US dollar denominated borrowings.

Equity would have been $34.4 million lower/$34.6 million higher (2008: $99.2 million lower/$86.7 million higher) had the Australian dollar weakened/strengthened by 10 per cent against the US dollar, arising mainly from currency hedging contracts designated as cash flow hedges.

#### Parent entity sensitivity

At 31 December 2009, had the Australian dollar weakened/strengthened by 10 per cent against the US dollar compared to the exchange rate at that date of 89.41 cents with all other variables held constant, the parent entity's post-tax profit for the year would have been $11.8 million lower/$9.7 million higher (2008: $25.1 million lower/$20.5 million higher). This is as a result of foreign exchange gains/losses on the translation of US dollar denominated borrowings.

The parent entity's equity would have been $26.3 million lower/$28.0 million higher (2008: $75.0 million lower/$66.5 million higher) had the Australian dollar weakened/strengthened by 10 per cent against the US dollar, mainly as a result of foreign forward exchange contracts designated as cash flow hedges.

#### (ii) Cash flow and fair value interest rate risk

Interest rate risk arises from the consolidated entity's borrowings. When managing interest rate risk the consolidated entity seeks to minimise its overall cost of funds with a preference for variable interest rate exposures. During 2009 and 2008, the consolidated entity's borrowings at variable rates were denominated in Australian dollars and US dollars.

Borrowings at variable rates expose the consolidated entity to cash flow interest rate risk while borrowings at fixed rates expose the consolidated entity to fair value interest rate risk.

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model.

At 31 December 2009, if interest rates had changed by -/+1% from the year-end rate with all other variables held constant, post-tax profit for the year would have been $2.3 million higher/lower (2008: $0.6 million higher/lower), mainly as a result of lower/higher interest expense from net debt.

Note 3. Financial risk management (continued)

(b) Credit risk

The Group has no significant concentrations of credit risk and has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The Group also maintains an insurance policy to assist in managing the credit risk of its customers. Derivative counterparties and cash transactions are limited to high credit quality financial institutions and policies limit the amount of credit exposure to any one financial institution.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash or credit facilities to meet the operating requirements of the business. This is managed through committed undrawn facilities and prudent cash flow management.

### Maturities of financial liabilities

The tables below analyse the group and parent financial liabilities and net settled derivative financial instruments into maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, except for interest rate swaps which are stated as net receivable amounts. The carrying value of payables balances per the balance sheet have been excluded from the tables below as these balances for both the group and parent at 31 December 2009 and 31 December 2008 are due within 12 months. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| **Group and Parent - At 31 December 2009** | Weighted average rate % | Less than 1 year $M | Between 1 and 2 years $M | Between 2 and 5 years $M | Over 5 years $M | Total contractual cash flows $M | Carrying Amount (assets)/ liabilities $M |
|---|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | | |
| Interest bearing Variable rate | 5.60 | 13.9 | 13.9 | 326.7 | - | 354.5 | 314.1 |
| Interest bearing Fixed rate | 4.40 | 52.5 | 40.3 | 65.1 | 23.0 | 180.9 | 157.6 |
| **Total non-derivatives** | | 66.4 | 54.2 | 391.8 | 23.0 | 535.4 | 471.7 |
| **Derivatives** | | | | | | | |
| Interest rate swaps (net receivable) | - | 0.1 | 0.1 | 0.2 | - | 0.4 | - |
| **Total derivatives** | | 0.1 | 0.1 | 0.2 | - | 0.4 | - |
| **Group and Parent - At 31 December 2008** | | | | | | | |
| **Non-derivatives** | | | | | | | |
| Interest bearing Variable rate | 5.65 | 10.6 | 111.8 | 66.1 | 29.7 | 218.2 | 187.1 |
| Interest bearing Fixed rate | 3.05 | 40.1 | 3.0 | 97.8 | - | 140.9 | 130.8 |
| **Total non-derivatives** | | 50.7 | 114.8 | 163.9 | 29.7 | 359.1 | 317.9 |
| **Derivatives** | | | | | | | |
| Interest rate swaps | - | 0.5 | 0.5 | 0.7 | - | 1.7 | - |
| **Total derivatives** | | 0.5 | 0.5 | 0.7 | - | 1.7 | - |

Sales revenue of the consolidated entity is mainly denominated in US dollars. Given the predominately Australian dollar cost base of the business, these US dollar sales create a foreign exchange exposure in terms of earnings and cash flow. In order to protect against this exposure, the consolidated entity has entered into forward exchange contracts and foreign currency options to forward sell US dollars.

The forward exchange contracts and foreign currency options hedge highly probable forecast sales over a period of up to a two and a half year timeframe. The contracts are timed to mature when receipts from customers are expected to be received.

## Note 3. Financial risk management (continued)

| Consolidated and Parent - At 31 December 2009 | Less than 1 year $M | Between 1 and 2 years $M |
|---|---|---|
| Forward foreign exchange contracts - cash flow hedges | | |
| - inflow (A$M) | **179.4** | - |
| - outflow (US$M) | **153.5** | - |
| Options - cash flow hedges | | |
| - inflow (A$M) | **261.1** | - |
| - outflow (US$M) | **235.0** | - |
| Balance sheet fair value of derivative financial instruments (A$M) | **15.9** | - |
| **Consolidated Entity - At 31 December 2008** | | |
| Forward foreign exchange contracts - cash flow hedges | | |
| - inflow (A$M) | **281.2** | 214.2 |
| - outflow (US$M) | **236.3** | 178.9 |
| Collar Options - cash flow hedges | | |
| - inflow (A$M) | **218.0** | - |
| - outflow (US$M) | **176.0** | - |
| Balance sheet fair value of derivative financial instruments (A$M) | **(104.0)** | (49.6) |
| **Parent Entity - At 31 December 2008** | | |
| Forward foreign exchange contracts - cash flow hedges | | |
| - inflow (A$M) | **199.8** | 179.5 |
| - outflow (US$M) | **173.0** | 153.5 |
| Collar Options - cash flow hedges | | |
| - inflow (A$M) | **218.0** | - |
| - outflow (US$M) | **176.0** | - |
| Balance sheet fair value of derivative financial instruments (A$M) | **(93.0)** | (46.7) |

The above derivatives are likely to affect the income statement in line with the above maturity profile.

### (d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the consolidated entity for similar financial instruments.

At 31 December 2009, the financial assets or liabilities that have been measured and recognised at fair value in both the Group and Parent entity are the derivative financial instruments. The fair value of the call options is determined using the Garman and Kohlhagen Formula at the end of the reporting period. The derivative financial instruments were valued at $15.9 million at 31 December 2009. (Level 2 per AASB 7:27A)

## Note 4. Segment information

### (a) Description of segments

Operating segments are now reported in a manner that is consistent with the internal reporting provided to the Managing Director, who is considered the chief operating decision maker, for the purpose of making decisions regarding the allocation of resources and the monitoring of performance.

Eucla/Perth Basin ("E/PB") comprises the integrated mineral sands mining and processing operations in Western Australia and South Australia. Material is mined from various deposits in the South West and Mid West of Western Australia (Perth Basin), together with the Jacinth-Ambrosia deposit in South Australia (Eucla Basin) which was being commissioned at 31 December 2009. The mined material is processed at facilities in the South West and Mid West of Western Australia to produce saleable products.

Murray Basin ("MB") comprises the integrated mineral sands mining and processing operations in Victoria, including the Murray Basin Stage 2 development which was being commissioned at 31 December 2009.

United States ("US") comprises the integrated mineral sands mining and processing operations in Virginia, together with a zircon retreatment operation in Florida which ceased in 2009.

## Note 4. Segment information (continued)

**Mining Area C ("MAC")** comprises an iron ore royalty interest over certain mining tenements operated by BHP Billiton Iron Ore.

Where finished product capable of sale to a third party is transferred between operating segments, the transfers are made at arms length prices. Any transfers of intermediate products between operating segments are made at cost.

The group's investment in Consolidated Rutile Limited ("CRL") was sold effective from 27 May 2009. CRL was a separate operating segment and information about this discontinued segment is provided in note 9.

### (b) Segment information

| 2009 | E/PB $M | MB $M | US $M | MAC $M | Total $M |
|---|---|---|---|---|---|
| Total segment sales | **397.1** | **124.8** | **65.5** | **-** | **587.4** |
| Inter segment sales | **(11.4)** | **-** | **-** | **-** | **(11.4)** |
| Total segment sales to external customers | **385.7** | **124.8** | **65.5** | **-** | **576.0** |
| Total segment result | **(93.5)** | **(19.4)** | **12.8** | **50.2** | **(49.9)** |
| Segment assets | **1,022.6** | **785.4** | **107.3** | **15.8** | **1,931.1** |
| Segment liabilities | **377.7** | **86.2** | **33.7** | **-** | **497.6** |
| Acquisition of property, plant and equipment and other non-current segment assets | **316.7** | **211.2** | **19.5** | **-** | **547.4** |
| Depreciation and amortisation expense | **124.2** | **31.9** | **17.3** | **0.4** | **173.8** |
| Impairment charges | **38.5** | **29.1** | **-** | **-** | **67.6** |
| **2008** | | | | | |
| Total segment sales | 587.3 | 199.9 | 107.6 | - | 894.8 |
| Inter segment sales | - | - | - | - | - |
| Total segment sales to external customers | 587.3 | 199.9 | 107.6 | - | 894.8 |
| Total segment result | (1.1) | 24.7 | 20.3 | 56.4 | 100.3 |
| Segment assets | 938.2 | 666.6 | 123.8 | 20.8 | 1,749.4 |
| Segment liabilities | 359.8 | 75.1 | 46.7 | - | 481.6 |
| Acquisition of property, plant and equipment and other non-current segment assets | 156.5 | 126.3 | 22.2 | - | 305.0 |
| Depreciation and amortisation expense | 103.3 | 28.3 | 13.6 | 0.4 | 145.6 |
| Impairment (reversals) charges | (24.6) | 19.1 | - | - | (5.5) |

Segment revenue is derived from sales to external customers domiciled in various geographical regions. Details of segment revenue by location of customers are as follows:

| | Consolidated | |
|---|---|---|
| | **2009 $M** | 2008 $M |
| **Continuing operations** | | |
| Asia | **269.9** | 335.9 |
| Europe | **134.8** | 327.8 |
| North America | **85.7** | 151.9 |
| Australia | **36.3** | 38.9 |
| Other Countries | **49.3** | 40.3 |
| **Segment sales to external customers** | **576.0** | 894.8 |

Revenues of $136.7 million and $96.9 million are derived from 2 external customers from all mineral sands segments which individually account for greater than 10 per cent of segment revenue, (2008: revenues of $128.6 million is derived from 1 customer from all mineral sands segments).

## Note 4. Segment information (continued)

| | Consolidated 2009 $M | Consolidated 2008 $M |
|---|---|---|
| Segment sales to external customers is reconciled to total sale of goods as follows: | | |
| **Segment sales to external customers** | **576.0** | 894.8 |
| Less hedging losses | **(42.9)** | (32.4) |
| **Sale of goods** | **533.1** | 862.4 |
| Segment result is reconciled to the (loss) profit before income tax from continuing operations as follows: | | |
| **Segment result** | **(49.9)** | 100.3 |
| Hedging losses | **(42.9)** | (32.4) |
| Interest income | **1.4** | 6.1 |
| Net foreign exchange gains | **5.0** | 10.6 |
| Exploration and evaluation | **(16.2)** | (16.9) |
| Corporate and other costs | **(18.3)** | (25.2) |
| Exploration and corporate restructure and non-recurring costs | **(7.7)** | - |
| Interest and finance charges | **(8.4)** | (26.1) |
| Impairment charges | **(67.6)** | 5.5 |
| **(Loss) profit before income tax from continuing operations** | **(204.6)** | 21.9 |
| Total segment assets and total segment liabilities are reconciled to the balance sheet as follows: | | |
| **Segment assets** | **1,931.1** | 1,749.4 |
| Derivative financial instruments | **15.9** | - |
| Corporate assets | **11.4** | 12.9 |
| Discontinued operations (CRL) | **-** | 167.2 |
| Cash and cash equivalents | **86.3** | 97.6 |
| Deferred tax assets | **53.7** | 31.0 |
| **Total assets as per the balance sheet** | **2,098.4** | 2,058.1 |
| **Segment liabilities** | **497.6** | 481.6 |
| Derivative financial instruments | **-** | 153.6 |
| Corporate liabilities | **37.0** | 21.0 |
| Discontinued operations (CRL) | **-** | 45.6 |
| Income tax payable | **-** | 5.0 |
| Interest bearing liabilities | **468.5** | 313.3 |
| **Total liabilities as per the balance sheet** | **1,003.1** | 1,020.1 |

## Note 5. Revenue from continuing operations

| | Consolidated 2009 $M | Consolidated 2008 $M | Parent entity 2009 $M | Parent entity 2008 $M |
|---|---|---|---|---|
| *Sales revenue* | | | | |
| Sale of goods | **533.1** | 862.4 | **154.5** | 205.7 |
| *Other revenue* | | | | |
| Interest | **1.4** | 6.1 | **20.1** | 20.4 |
| Royalty income | **50.6** | 56.8 | **-** | - |
| Other | **0.9** | 0.8 | **1.7** | 1.6 |
| | **52.9** | 63.7 | **21.8** | 22.0 |
| Revenue from continuing operations | **586.0** | 926.1 | **176.3** | 227.7 |

## Note 6. Other Income

| | Consolidated 2009 $M | Consolidated 2008 $M | Parent entity 2009 $M | Parent entity 2008 $M |
|---|---|---|---|---|
| Net gain on sale of land | **5.6** | - | **5.4** | - |
| Net gain on disposal of property, plant and equipment | **0.8** | 0.6 | **-** | - |
| Insurance receipt in respect of WA gas outage | **5.7** | 2.5 | **-** | - |
| Sundry income | **1.2** | - | **1.1** | - |
| Net foreign exchange gains | **5.0** | 10.6 | **36.1** | 12.4 |
| External interest recharged to controlled entities | **-** | - | **12.5** | 4.0 |
| | **18.3** | 13.7 | **55.1** | 16.4 |

## Note 7. Expenses

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **$M** | $M | **$M** | $M |
| **From continuing operations** | | | | |
| Cash cost of production | **453.6** | 564.3 | **124.5** | 148.0 |
| Depreciation | **109.1** | 103.5 | **40.2** | 39.4 |
| Amortisation | **34.7** | 36.0 | **9.5** | 13.7 |
| Inventory movement | **(33.4)** | 77.2 | **13.1** | 4.9 |
| **Cost of sales of goods** | **564.0** | 781.0 | **187.3** | 206.0 |
| Restructure, idle capacity and other non-recurring cash costs | **57.8** | 12.6 | **15.9** | 6.8 |
| Depreciation of non productive assets | **32.8** | 6.1 | **7.9** | - |
| Government royalties | **13.7** | 20.0 | **2.9** | 2.6 |
| Marketing and selling | **10.2** | 11.2 | **6.8** | 6.4 |
| Corporate and other | **18.3** | 25.1 | **18.6** | 26.0 |
| Technical support and major projects | **4.2** | 10.2 | **4.2** | 5.9 |
| Exploration and evaluation | **16.2** | 16.9 | **-** | - |
| Foreign exchange losses | **-** | - | **-** | 39.6 |
| **Expenses, from continuing operations** | **717.2** | 883.1 | **243.6** | 293.3 |
| **Impairment charges (reversals) on property, plant and equipment (refer note 13)** | | | | |
| South West - reversal of prior impairment | **-** | (45.6) | **-** | (45.6) |
| Mid West Processing - reversal of prior impairment | **-** | (9.5) | **-** | - |
| Mid West Mining - ore body fair value write-offs | **38.5** | 30.5 | **-** | - |
| Murray Basin - ore body fair value write-offs | **29.1** | 19.1 | **-** | - |
| | **67.6** | (5.5) | **-** | (45.6) |
| **Finance costs from continuing operations** | | | | |
| Interest and finance charges paid/payable | **19.8** | 29.3 | **19.4** | 28.8 |
| Rehabilitation and restoration accretion expense | **15.7** | 14.2 | **5.7** | 6.2 |
| Amortisation of deferred borrowing costs | **1.1** | 0.8 | **1.1** | 0.8 |
| Interest capitalised | **(12.5)** | (4.0) | **-** | - |
| | **24.1** | 40.3 | **26.1** | 35.8 |
| **Foreign exchange gains and losses** | | | | |
| Net foreign exchange gains included in other income | **5.0** | 10.6 | **36.1** | 12.4 |
| Net foreign exchange losses on foreign currency borrowings included in corporate costs | **-** | - | **-** | (39.6) |
| | **5.0** | 10.6 | **36.1** | (27.2) |
| **Expenses from continuing operations include** | | | | |
| Defined contribution superannuation | **12.9** | 15.5 | **12.9** | 7.5 |
| Defined benefits superannuation | **1.9** | 1.4 | **-** | - |
| Employee benefits (excluding share-based payments) | **176.5** | 174.2 | **63.2** | 64.9 |
| Writedown of year end inventory to net realisable value | **10.6** | 0.3 | **7.3** | 0.3 |
| Share-based payments (note 30) | **6.2** | 4.6 | **6.2** | 3.7 |
| Operating lease | **8.6** | 8.3 | **3.3** | 3.3 |

## Note 8. Income tax

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2009 $M** | 2008 $M | **2009 $M** | 2008 $M |
| **(a) Income tax benefit** | | | | |
| Current tax | **(4.6)** | 13.7 | **1.4** | (14.1) |
| Deferred tax (note 14) | **(65.6)** | (20.1) | **(20.0)** | (4.2) |
| Over provided in prior years | **(2.6)** | (1.3) | **(0.9)** | (2.7) |
| | **(72.8)** | (7.7) | **(22.3)** | (21.0) |
| Income tax is attributable to: | | | | |
| Profit from continuing operations | **(72.9)** | (15.8) | **(22.3)** | (21.0) |
| Profit from discontinued operations | **0.1** | 8.1 | **-** | - |
| Aggregate income tax (benefit) | **(72.8)** | (7.7) | **(22.3)** | (21.0) |
| **(b) Numerical reconciliation of income tax benefit to prima facie tax payable** | | | | |
| (Loss) profit from continuing operations before income tax expense | **(204.6)** | 21.9 | **(38.3)** | (39.4) |
| Profit from discontinued operation before income tax expense | **23.0** | 55.4 | **-** | - |
| | **(181.6)** | 77.3 | **(38.3)** | (39.4) |
| Tax at the Australian tax rate of 30% (2008: 30%) | **(54.5)** | 23.2 | **(11.5)** | (11.8) |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | | | |
| Net foreign exchange gains / losses | **-** | - | **(2.9)** | 6.1 |
| Benefits of capital losses utilised | **(1.1)** | (10.2) | **(1.1)** | (10.2) |
| Research and development and investment allowance | **(7.5)** | (3.4) | **(7.5)** | (3.4) |
| Gain on sale of CRL not assessable for tax (note 9c) | **(6.7)** | - | **-** | - |
| Other items | **0.8** | 1.5 | **1.6** | 1.0 |
| Benefit of US tax losses utilised in the year not previously recognised | **(0.6)** | (22.0) | **-** | - |
| | **(69.6)** | (10.9) | **(21.4)** | (18.3) |
| Difference in overseas tax rates | **(0.6)** | 4.5 | **-** | - |
| Over provision in prior years | **(2.6)** | (1.3) | **(0.9)** | (2.7) |
| Income tax (benefit) | **(72.8)** | (7.7) | **(22.3)** | (21.0) |

### (c) Tax losses

Unused capital losses for which no deferred tax asset has been recognised relating to the wholly owned Australian controlled entities are approximately $95.6 million (2008: $76.9 million) (tax at the Australian tax rate of 30%: $28.7 million (2008: $23.0 million)). The benefit of these unused capital losses will only be obtained if these entities derive future capital gains sufficient to enable the benefit to be realised and these entities continue to comply with the conditions for deductability imposed by tax legislation and no changes in tax legislation adversely effect these entities in realising the benefit from the deduction for the losses.

### (d) Franking Credits

| | **2009 $M** | 2008 $M | **2009 $M** | 2008 $M |
|---|---|---|---|---|
| Franking credits available for future years based on a tax rate of 30 per cent (2008: 30 per cent) | **(1.6)** | 8.3 | **(1.6)** | (0.5) |

The above amounts include adjustments that will arise from the payment of current income tax or receipt of income tax receivable. The franking credits available to the consolidated entity in 2008 included $8.8 million for Consolidated Rutile Limited which was sold on 27 May 2009.

## Note 9. Discontinued operations

### (a) Description

On 27th May 2009 Iluka disposed of its shares in Consolidated Rutile Limited ("CRL") to Unimin Australia Limited for 45 cents per share. CRL is reported in this financial report as a discontinued operation, together with the interest in the Narama coal joint venture that was sold on 15 January 2008 with effect from 1 January 2008.

### (b) Financial performance and cash flow information

| | Consolidated | |
|---|---|---|
| | **2009** | 2008 |
| | **$M** | $M |
| **CRL** | | |
| Revenue - sale of goods | **21.8** | 129.3 |
| Cash expenses | **(16.6)** | (87.4) |
| Depreciation and amortisation | **(4.7)** | (16.1) |
| Finance costs | **(0.8)** | (2.1) |
| Profit before income tax | **(0.3)** | 23.7 |
| Profit on sale | **23.3** | - |
| Income tax expense (note 8) | **(0.1)** | (6.4) |
| Profit after income tax | **22.9** | 17.3 |
| **Narama** | | |
| Profit on sale | **-** | 31.7 |
| Income tax expense (note 8) | **-** | (1.7) |
| Profit after income tax | **-** | 30.0 |
| **Profit from discontinued operations** | **22.9** | 47.3 |
| Net cash (outflow) inflow from operating activities | **(13.4)** | 3.0 |
| Net cash inflow from investing activities | **81.7** | 53.4 |
| Net cash inflow from financing activities | **7.5** | - |
| **Net increase in cash generated by the discontinued operations** | **75.8** | 56.4 |

### (c) Details of the sale of discontinued operations

| | 2009 | 2008 |
|---|---|---|
| Cash consideration received | **84.2** | 53.4 |
| Carrying amount of net assets sold | **(122.7)** | (21.7) |
| Non controlling interest at date of disposal | **61.8** | - |
| **Gain on sale before income tax** | **23.3** | 31.7 |

The sale of the shares in CRL results in a capital loss for income tax purposes. No benefit has been recognised for the capital losses which are available for use against future capital gains, subject to the satisfaction of eligibility tests at the time of their use. These losses are included in the capital losses disclosed in note 8.

## Note 9. Discontinued operations (continued)

### (d) Sale of CRL

The carrying amounts of assets and liabilities at the date of sale and 31 December 2008 were:

| | 27 May 2009 $M | 31 Dec 2008 $M |
|---|---|---|
| Cash | - | 14.5 |
| Receivables | 6.8 | 14.0 |
| Inventories | 40.5 | 22.7 |
| Property, plant and equipment | 128.2 | 130.5 |
| Deferred tax asset | - | 2.7 |
| Derivative financial instruments | 2.7 | - |
| **Total assets** | 178.2 | 184.4 |
| Trade creditors | (6.7) | (12.0) |
| Current tax liabilities | (1.8) | (3.6) |
| Provisions | (37.6) | (33.5) |
| Derivative financial instruments | - | (13.9) |
| Interest bearing liabilities | (9.4) | - |
| **Total liabilities** | (55.5) | (63.0) |
| **Net assets** | 122.7 | 121.4 |

### (e) Sale of Narama

The carrying amounts of assets and liabilities at the date of sale were:

| | 15 Jan 2008 $M |
|---|---|
| Receivables | 3.0 |
| Inventories | 1.7 |
| Property, plant and equipment | 26.9 |
| **Total assets** | 31.6 |
| Provisions | (6.8) |
| **Total liabilities** | (6.8) |
| **Net assets** | 24.8 |

## Note 10. Cash and cash equivalents

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | 2009 $M | 2008 $M | 2009 $M | 2008 $M |
| Cash at bank and in hand | 84.4 | 18.2 | 75.7 | - |
| Deposits at call | 1.9 | 79.4 | - | 65.0 |
| | 86.3 | 97.6 | 75.7 | 65.0 |

### Interest rates

Cash and deposits are at floating interest rates between 0.0 per cent and 3.75 per cent (2008: 0.0 per cent and 4.7 per cent) on US dollar and Australian dollar denominated deposits, and a weighted average interest rate of 2.87 per cent (2008: 3.65 per cent).

## Note 11. Receivables

| | Consolidated 2009 $M | Consolidated 2008 $M | Parent entity 2009 $M | Parent entity 2008 $M |
|---|---|---|---|---|
| Trade receivables | 85.8 | 206.3 | 24.7 | 55.1 |
| Other debtors | 9.5 | 14.5 | 0.3 | 1.3 |
| Prepayments | 3.9 | 9.3 | 1.2 | 5.0 |
| Goods and services tax (GST) | 4.7 | 13.1 | 0.8 | 2.3 |
| | 103.9 | 243.2 | 27.0 | 63.7 |

None of the receivables are impaired or past due and due to the short-term nature of these receivables, their carrying amount approximates fair value.

## Note 12. Inventories

| | Consolidated 2009 $M | Consolidated 2008 $M | Parent entity 2009 $M | Parent entity 2008 $M |
|---|---|---|---|---|
| **Current** | | | | |
| Consumable stores | | | | |
| - at cost | **30.2** | 35.4 | **9.0** | 9.0 |
| Work in progress | | | | |
| - at cost | **44.1** | 100.6 | **7.7** | 45.6 |
| Finished goods | | | | |
| - at cost | **95.1** | 104.6 | **1.4** | 8.8 |
| - at net realisable value | **36.1** | 9.1 | **10.9** | 9.1 |
| | **131.2** | 113.7 | **12.3** | 17.9 |
| Total current inventories | **205.5** | 249.7 | **29.0** | 72.5 |
| **Non-current** | | | | |
| Work in progress | | | | |
| - at cost* | **56.6** | - | **56.6** | - |

* Represents material not scheduled to be processed to finished product during 2010.

## Note 13. Property, plant and equipment

| **Consolidated** | Land & Buildings $M | Plant, Machinery & Equipment $M | Mine Reserves & Development $M | Exploration & Evaluation $M | Project Development Expenditure $M | Total $M |
|---|---|---|---|---|---|---|
| **At 1 January 2008** | | | | | | |
| Cost | 88.9 | 1,539.9 | 774.6 | 26.7 | 38.9 | 2,469.0 |
| Accumulated depreciation* | (14.8) | (785.7) | (421.4) | - | - | (1,221.9) |
| Opening written down value* | 74.1 | 754.2 | 353.2 | 26.7 | 38.9 | 1,247.1 |
| Additions | 3.2 | 81.5 | 89.7 | 10.0 | 133.2 | 317.6 |
| Disposals | (0.5) | (8.7) | (1.8) | - | - | (11.0) |
| Impairment reversals | 6.6 | 47.0 | (46.6) | (1.5) | - | 5.5 |
| Depreciation/amortisation | (3.4) | (102.3) | (52.7) | - | (1.7) | (160.1) |
| Foreign exchange differences | - | 13.4 | 2.1 | - | - | 15.5 |
| Transfers/reclassifications | (1.3) | (0.6) | 14.9 | (18.0) | 5.0 | - |
| Closing written down value* | 78.7 | 784.5 | 358.8 | 17.2 | 175.4 | 1,414.6 |
| **At 31 December 2008** | | | | | | |
| Cost | 89.1 | 1,586.8 | 783.3 | 17.2 | 175.4 | 2,651.8 |
| Accumulated depreciation* | (10.4) | (802.3) | (424.5) | - | - | (1,237.2) |
| Net written down value | 78.7 | 784.5 | 358.8 | 17.2 | 175.4 | 1,414.6 |
| Additions | 9.0 | 59.9 | 60.4 | 4.7 | 421.8 | 555.8 |
| Disposals | (11.1) | (78.4) | (52.4) | - | - | (141.9) |
| Write-offs and impairment charges | - | - | (67.6) | - | - | (67.6) |
| Depreciation/amortisation | 0.7 | (129.9) | (47.4) | - | - | (176.6) |
| Foreign exchange differences | (0.1) | (16.3) | (1.3) | - | - | (17.7) |
| Transfers/reclassifications | (1.4) | 4.2 | 10.8 | (1.5) | (12.1) | - |
| Closing written down value | 75.8 | 624.0 | 261.3 | 20.4 | 585.1 | 1,566.6 |
| **At 31 December 2009** | | | | | | |
| Cost | 85.0 | 1,379.6 | 754.7 | 20.4 | 585.1 | 2,824.8 |
| Accumulated depreciation* | (9.2) | (755.6) | (493.4) | - | - | (1,258.2) |
| Net written down value | 75.8 | 624.0 | 261.3 | 20.4 | 585.1 | 1,566.6 |

*Includes cumulative impairment (reversals) charges (refer Note 7).

Note 13. Property, plant and equipment (continued)

| Parent entity | Land & Buildings $M | Plant, Machinery & Equipment $M | Mine Reserves & Development $M | Total $M |
|---|---|---|---|---|
| **At 1 January 2008** | | | | |
| Cost | 41.2 | 455.5 | 140.1 | 636.8 |
| Accumulated depreciation | (4.8) | (284.0) | (101.8) | (390.6) |
| Opening written down value | 36.4 | 171.5 | 38.3 | 246.2 |
| Additions | 2.3 | 24.3 | 20.4 | 47.0 |
| Disposals | (0.3) | (0.2) | (1.7) | (2.2) |
| Impairment reversal | 6.6 | 37.5 | 1.5 | 45.6 |
| Depreciation/amortisation | (2.4) | (27.0) | (23.8) | (53.2) |
| Transfers/reclassifications | (0.8) | (0.4) | 1.2 | - |
| Closing written down value | 41.8 | 205.7 | 35.9 | 283.4 |
| **At 31 December 2008** | | | | |
| Cost | 46.6 | 477.7 | 161.9 | 686.2 |
| Accumulated depreciation | (4.8) | (272.0) | (126.0) | (402.8) |
| Net written down value | 41.8 | 205.7 | 35.9 | 283.4 |
| Additions | 2.4 | 2.9 | 4.5 | 9.8 |
| Disposals | (2.4) | (2.6) | (9.1) | (14.1) |
| Depreciation/amortisation | (0.5) | (43.7) | (13.4) | (57.6) |
| Transfers/reclassifications | (1.8) | 1.5 | 0.3 | - |
| Closing written down value | 39.5 | 163.8 | 18.2 | 221.5 |
| **At 31 December 2009** | | | | |
| Cost | 44.4 | 460.3 | 83.5 | 588.2 |
| Accumulated depreciation | (4.9) | (296.5) | (65.3) | (366.7) |
| Net written down value | 39.5 | 163.8 | 18.2 | 221.5 |

## Mine reserves and development

Included in mine reserves and development are amounts totalling $223.2 million for the consolidated entity (2008: $236.0 million) and $12.0 million for the parent entity (2008: $7.2 million) which have not been depreciated as mining of the related area of interest has not yet commenced.

## Plant, machinery and equipment

Included in plant, machinery and equipment are amounts totalling $3.9 million for the consolidated entity (2008: $17.0 million) and $2.4 million for the parent entity (2008: $5.3 million) which relate to assets under construction. These amounts are not currently being depreciated as the assets are not ready for use.

## Project development expenditure

Project development expenditure at 31 December 2009 comprises $585.1 million (2008: $175.4 million) relating to Murray Basin Stage 2 and Jacinth-Ambrosia projects. These amounts were not depreciated as these projects were not commissioned at 31 December 2009.

| Impairment reversals (charges)<br>**2008** | Land & Buildings $M | Plant, Machinery & Equipment $M | Mine Reserves & Development $M | Exploration & Evaluation $M | Total $M |
|---|---|---|---|---|---|
| South West impairment reversal | 6.6 | 37.5 | 1.5 | - | 45.6 |
| Mid West impairment reversal | - | 9.5 | - | - | 9.5 |
| Mid West ore body fair value write off | - | - | (29.0) | (1.5) | (30.5) |
| Murray Basin ore body fair value write off | - | - | (19.1) | - | (19.1) |
| Total | 6.6 | 47.0 | (46.6) | (1.5) | 5.5 |
| **2009** | | | | | |
| Mid West ore body fair value write off | - | - | (38.5) | - | (38.5) |
| Murray Basin ore body fair value write off | - | - | (29.1) | - | (29.1) |
| Total | **-** | **-** | **(67.6)** | **-** | **(67.6)** |

The impairment charge in 2009 represents the write-off of fair values for deposits from acquisitions in 1998 (Mid West) and 2002 (Murray Basin) that are now considered unlikely to be mined.

## Note 14. Deferred tax assets

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **$M** | $M | **$M** | $M |
| *Deferred tax asset amounts recognised in profit or loss* | | | | |
| Employee benefits | **6.8** | 10.1 | **2.5** | 3.2 |
| Rehabilitation provisions | **97.9** | 102.2 | **37.9** | 40.9 |
| Other provisions | **1.1** | 2.6 | **0.9** | 1.9 |
| Accruals | **-** | 2.8 | **-** | 1.9 |
| Tax revenue losses | **50.7** | 11.9 | **41.6** | - |
| Foreign exchange | **-** | 0.3 | **-** | 0.9 |
| Other | **3.8** | 1.0 | **0.2** | 0.6 |
| *Deferred tax liability amounts in profit or loss off-set in accordance with AASB 112* | | | | |
| Depreciation/amortisation | **(97.5)** | (128.2) | **(32.7)** | (44.9) |
| Mining capital expenditure | **(3.3)** | (7.8) | **(3.0)** | (4.5) |
| Foreign currency exchange | **(4.7)** | - | **(9.0)** | - |
| Receivables | **(2.6)** | (3.9) | **(0.1)** | - |
| Inventory | **-** | (10.0) | **-** | (2.8) |
| Other | **(0.3)** | (0.7) | **(2.5)** | (0.3) |
| *Net amount recognised in profit or loss* | **51.9** | (19.7) | **35.8** | (3.1) |
| *Deferred tax asset amounts recognised directly in equity* | | | | |
| Cash flow hedges | **(0.6)** | 46.1 | **(0.6)** | 41.9 |
| Share issue costs | **2.6** | 3.1 | **2.6** | 3.1 |
| Actuarial gains/losses on retirement benefit obligations | **(0.2)** | 1.5 | **-** | - |
| | **1.8** | 50.7 | **2.0** | 45.0 |
| Net deferred tax assets | **53.7** | 31.0 | **37.8** | 41.9 |
| **Movements:** | | | | |
| Balance at 1 January | **31.0** | (34.8) | **41.9** | (9.0) |
| Credited (charged) to the income statement (Note 8) | **65.6** | 20.1 | **20.0** | 4.2 |
| Assumption of tax losses from tax consolidated entities | **-** | - | **17.8** | - |
| Over (under) provision in prior years | **1.0** | (7.7) | **0.4** | - |
| Credited (charged) directly to equity (Note 20) | **(43.9)** | 53.4 | **(42.3)** | 46.7 |
| Balance at 31 December | **53.7** | 31.0 | **37.8** | 41.9 |

## Note 15. Intangible assets

| **Consolidated** | Patent $M | Royalty entitlement asset $M | Total $M |
|---|---|---|---|
| **At 1 January 2008** | | | |
| Cost | 17.2 | 10.0 | 27.2 |
| Accumulated amortisation | (10.3) | (1.7) | (12.0) |
| Net written down value | 6.9 | 8.3 | 15.2 |
| Amortisation charge 2008 | (1.3) | (0.4) | (1.7) |
| Closing written down value | 5.6 | 7.9 | 13.5 |
| **At 31 December 2008** | | | |
| Cost | 17.2 | 10.0 | 27.2 |
| Accumulated amortisation | (11.6) | (2.1) | (13.7) |
| Net written down value | 5.6 | 7.9 | 13.5 |
| Amortisation charge 2009 | **(3.2)** | **(0.4)** | **(3.6)** |
| Closing written down value | **2.4** | **7.5** | **9.9** |
| **At 31 December 2009** | | | |
| Cost | **17.2** | **10.0** | **27.2** |
| Accumulated amortisation | **(14.8)** | **(2.5)** | **(17.3)** |
| Net written down value | **2.4** | **7.5** | **9.9** |

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| **Note 16. Payables** | **$M** | $M | **$M** | $M |
| Trade payables | **102.6** | 40.5 | **34.8** | 5.4 |
| Accrued expenses | **71.3** | 109.3 | **13.6** | 18.7 |
| Employee benefits | **9.8** | 14.3 | **3.8** | 5.3 |
| | **183.7** | 164.1 | **52.2** | 29.4 |

## Note 17. Interest bearing liabilities

| | | | | |
|---|---|---|---|---|
| **Current** | | | | |
| Senior Notes 2003 | **44.7** | 36.8 | **44.7** | 36.8 |
| | **44.7** | 36.8 | **44.7** | 36.8 |
| **Non-current** | | | | |
| Syndicated Term Loan Facility | **314.1** | 93.9 | **314.1** | 94.0 |
| Senior Notes 1996 | **33.6** | 43.4 | **33.6** | 43.4 |
| Senior Notes 2003 | **79.3** | 143.7 | **79.3** | 143.7 |
| Deferred borrowing costs | **(3.3)** | (4.5) | **(3.3)** | (4.5) |
| | **423.7** | 276.5 | **423.7** | 276.6 |

### (a) Financing arrangements

| | | | | |
|---|---|---|---|---|
| Total facilities | | | | |
| Senior Notes - 1996 (i) | **33.6** | 43.4 | **33.6** | 43.4 |
| Senior Notes - 2003 (ii) | **124.0** | 143.7 | **124.0** | 143.7 |
| Working Capital Facility (iii) | **55.0** | 55.0 | **55.0** | 55.0 |
| Syndicated Term Loan Facility (iv) | **445.0** | 445.0 | **445.0** | 445.0 |
| | **657.6** | 687.1 | **657.6** | 687.1 |
| Used at balance date | | | | |
| Senior Notes - 1996 (i) | **33.6** | 43.4 | **33.6** | 43.4 |
| Senior Notes - 2003 (ii) | **124.0** | 143.7 | **124.0** | 143.7 |
| Working Capital Facility (iii) | **-** | 36.8 | **-** | 36.8 |
| Syndicated Term Loan Facility (iv) | **314.1** | 94.0 | **314.1** | 94.0 |
| | **471.7** | 317.9 | **471.7** | 317.9 |
| Unused at balance date | | | | |
| Working Capital Facility (iii) | **55.0** | 18.2 | **55.0** | 18.2 |
| Syndicated Term Loan Facility (iv) | **130.9** | 351.0 | **130.9** | 351.0 |
| | **185.9** | 369.2 | **185.9** | 369.2 |

#### (i) Senior Notes - 1996 Series

The remaining tranche of US$30.0 million matures in December 2011 and carries a fixed interest rate of 7.6%.

#### (ii) Senior Notes - 2003 Series

The notes have an average fixed interest rate of 5.1% and mature in three tranches; being June 2010 US$40.0 million, June 2013 US$40.0 million and June 2015 US$20.0 million.

The translation exposure on the June 2013 US$40 million notes has been eliminated through a cross currency swap at AUD/USD 0.7025. The cross currency swap also converts the fixed USD interest payments of 5.25% to an AUD variable interest rate exposure. As at 31 December 2009, the cross currency swap bears an average variable interest rate of 5.1% (2008: 4.4%). The swap requires settlement of interest receivable and payable on a semi-annual basis on dates which coincide with the interest payable dates on the underlying notes.

## Note 17. Interest bearing liabilities (continued)

### (iii) Working Capital Facility

This is a multi currency facility which requires the company to have sufficient credit risk insurance to enable it to be drawn. The facility matured on 12 March 2010 and subsequent to year end has been extended to 12 March 2011 with a limit of US$40.0 million. As part of the extension, acceptance of credit insured receivables for drawings under the facility is at the discretion of the working capital facility provider.

### (iv) Syndicated Term Loan Facility

The Syndicated Term Loan Facility has maturity dates of March 2012 (A$100 million) and March 2013 (A$345 million). As at 31 December 2009, A$314.1 million was outstanding at an average interest rate of 4.4% (2008: $94.0 million at 3.22%)

### (v) CRL Facilities

CRL had facilities of $30.5 million which were all undrawn at 31 December 2008. The facilities were drawn to $9.4 million at the date of disposal (note 9(d))

### (b) Interest rate risk exposure and maturities of interest bearing liabilities

| | | | Fixed interest rate | | | |
|---|---|---|---|---|---|---|
| **2009 Group and Parent** | Effective floating average interest rate % | Floating interest rate $M | 1 year or less $M | 1 to 5 years $M | More than 5 years $M | Total $M |
| Interest-bearing liabilities | **4.44** | **314.1** | **44.7** | **90.5** | **22.4** | **471.7** |
| Interest rate swaps (notional principal) | **5.07** | **56.9** | **-** | **(56.9)** | **-** | **-** |
| | | **371.0** | **44.7** | **33.6** | **22.4** | **471.7** |
| **2008 Group and Parent** | | | | | | |
| Interest-bearing liabilities | 3.05 | 130.8 | - | 158.6 | 28.5 | 317.9 |
| Interest rate swaps (notional principal) | 4.44 | 56.9 | - | (56.9) | - | - |
| | | 187.7 | - | 101.7 | 28.5 | 317.9 |

The contractual repricing dates of the floating rate interest bearing liabilities at the balance dates are as follows:

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2009 $M** | 2008 $M | **2009 $M** | 2008 $M |
| Less than 1 year | **371.1** | 36.8 | **371.1** | 36.8 |
| Between 1 and 2 years | **-** | - | **-** | - |
| Between 2 and 5 years | **-** | 150.9 | **-** | 150.9 |
| | **371.1** | 187.7 | **371.1** | 187.7 |

## Note 18. Provisions

| | | | | |
|---|---|---|---|---|
| **Current** | | | | |
| Employee benefits | **7.9** | 16.0 | **3.4** | 5.5 |
| Rehabilitation and mine closure | **17.6** | 40.1 | **4.6** | 11.1 |
| Other provisions | **2.6** | 5.3 | **2.4** | 5.2 |
| | **28.1** | 61.4 | **10.4** | 21.8 |
| **Non Current** | | | | |
| Employee benefits | **3.3** | 2.7 | **1.3** | 0.9 |
| Rehabilitation and mine closure | **314.9** | 309.4 | **121.8** | 124.8 |
| Retirement benefit obligations | **4.7** | 10.6 | **-** | - |
| | **322.9** | 322.7 | **123.1** | 125.7 |

The current provision for employee benefits represents amounts for which the Group does not have an unconditional right to defer settlement. The Group does not expect a significant amount of the provision will be paid in the next 12 months.

## Note 18. Provisions (continued)

### (a) Movements in provisions

Movements in rehabilitation and mine closure and other provisions during the financial year, are set out below:

| | Rehabilitation and mine closure $M | Other provisions $M |
|---|---|---|
| **Consolidated - 2009** | | |
| Balance at 1 January | **349.5** | 5.3 |
| Change in provisions* | **15.2** | 0.7 |
| Foreign exchange rate movements | **(5.6)** | - |
| Unused amounts reversed | **-** | (1.1) |
| Disposal of subsidiary | **(29.6)** | (0.3) |
| Rehabilitation and restoration accretion expense | **15.7** | - |
| Amounts used during the year | **(12.7)** | (2.0) |
| Balance at 31 December | **332.5** | 2.6 |
| **Parent entity - 2009** | | |
| Balance at 1 January | **135.9** | 5.2 |
| Change in provisions* | **(9.0)** | 0.3 |
| Unused amounts reversed | **-** | (1.1) |
| Rehabilitation and restoration accretion expense | **5.7** | - |
| Amounts used during the year | **(6.3)** | (2.0) |
| Balance at 31 December | **126.3** | 2.4 |

* Changes in provision for rehabilitation and mine closure form part of additions and disposals in note 13.

Movement in retirement benefit obligations during the financial year is set out in note 23 (b).

## Note 19. Contributed equity

| | **2009 Number of shares** | 2008 Number of shares | **2009 Paid up value $M** | 2008 Paid up value $M |
|---|---|---|---|---|
| **(a) Share capital** | | | | |
| Ordinary shares Issued and paid up | **418,700,517** | 380,700,517 | **1,120.0** | 1,006.5 |
| **Total contributed equity - parent entity** | | | **1,120.0** | 1,006.5 |
| Treasury shares | **(1,904,380)** | (2,812,532) | **(5.6)** | (8.4) |
| **Total contributed equity - consolidated** | | | **1,114.4** | 998.1 |

### (b) Movements in ordinary share capital

| Date | Details | Number of shares | Issue price | $M |
|---|---|---|---|---|
| 1 January 2008 | Opening balance | 242,237,328 | | 662.6 |
| 22 March 2008 | Rights Issue | 101,124,750 | $2.55 | 257.9 |
| 22 April 2008 | Rights Issue | 37,338,439 | $2.55 | 95.2 |
| | Transaction costs on rights issue net of tax | | | (9.2) |
| 31 December 2008 | Balance | 380,700,517 | | 1,006.5 |
| 7 May 2009 | Share placement | 38,000,000 | $3.00 | 114.0 |
| | Transaction costs on share placement net of tax | | | (0.5) |
| 31 December 2009 | Balance | **418,700,517** | | **1,120.0** |

## Note 19. Contributed equity (continued)

### (c) Treasury shares

Treasury shares are shares in Iluka Resources Limited held by Iluka Administration Limited for the purpose of issuing shares under the Directors, Executives and Employees Share Acquisition Plan (see Note 30 for further information).

| Details | Number of shares | $M |
|---|---|---|
| Balance at 1 January 2008 | - | - |
| Transfer from share based payments reserve | 286,572 | 1.0 |
| Acquisition of shares net of tax | 3,495,483 | 10.7 |
| Employee share issues | (969,523) | (3.3) |
| Balance at 31 December 2008 | 2,812,532 | 8.4 |
| Employee share issues | (908,152) | (2.8) |
| Balance at 31 December 2009 | **1,904,380** | **5.6** |

### (d) Dividend reinvestment plan

The Company has a dividend reinvestment plan (DRP). Under the plan, the directors can invite eligible holders of ordinary shares to elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash.

### (e) Capital risk management

The group and parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity monitors capital on the basis of the level of net debt and compliance with bank covenants, including the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'interest-bearing liabilities' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as total equity as shown in the balance sheet, excluding hedge reserve and foreign currency translation reserve plus net debt. The consolidated entity manages net debt on a group basis with all debt being drawn by the parent entity. All debt has the same covenants. Net debt and gearing for the parent entity are therefore not considered applicable measures and therefore not reported.

## Note 20. Reserves and retained profits

### (a) Reserves

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2009 $M** | 2008 $M | **2009 $M** | 2008 $M |
| Asset revaluation reserve | **16.3** | 17.5 | **15.2** | 18.5 |
| Hedging reserve | **1.5** | (102.6) | **1.5** | (97.8) |
| Foreign currency translation reserve | **(2.3)** | (3.1) | **-** | - |
| Share-based payments reserve | **4.4** | 3.9 | **4.4** | 4.7 |
| | **19.9** | (84.3) | **21.1** | (74.6) |
| **Movements:** | | | | |
| *Asset revaluation reserve* | | | | |
| Balance at 1 January | **17.5** | 17.6 | **18.5** | 18.6 |
| Transfer to retained earnings on disposal | **(1.7)** | (0.1) | **(4.7)** | (0.1) |
| Deferred tax | **0.5** | - | **1.4** | - |
| Balance at 31 December | **16.3** | 17.5 | **15.2** | 18.5 |
| *Hedging reserve* | | | | |
| Balance 1 January | **(102.6)** | 4.1 | **(97.8)** | 1.9 |
| Revaluation | **105.9** | (191.7) | **129.6** | (148.1) |
| Transfer to profit or loss | **(42.9)** | 39.3 | **12.3** | 5.7 |
| Deferred tax | **(44.7)** | 45.7 | **(42.6)** | 42.7 |
| Balance at 31 December | **1.5** | (102.6) | **1.5** | (97.8) |
| *Foreign currency translation reserve* | | | | |
| Balance at 1 January | **(3.1)** | 1.7 | **-** | - |
| Translation differences of US operation | **(27.1)** | 18.9 | **-** | - |
| Hedge of net investment in US operation | **23.6** | (25.7) | **-** | - |
| Deferred tax | **(4.3)** | 2.0 | **-** | - |
| Balance at 31 December | **(2.3)** | (3.1) | **-** | - |
| *Share based payments reserve* | | | | |
| Balance at 1 January | **3.9** | 1.7 | **4.7** | 0.5 |
| Transfer of shares to employees | **(3.9)** | (1.0) | **(4.7)** | - |
| Share based payments | **6.2** | 4.6 | **6.2** | 4.6 |
| Deferred tax | **(1.8)** | (1.4) | **(1.8)** | (0.4) |
| Balance at 31 December | **4.4** | 3.9 | **4.4** | 4.7 |

### (b) Retained profits

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2009 $M** | 2008 $M | **2009 $M** | 2008 $M |
| Movements in retained profits were as follows: | | | | |
| Balance at 1 January | **66.0** | (3.1) | **54.1** | 72.5 |
| Net (loss) profit for the year | **(108.6)** | 77.5 | **(16.0)** | (18.4) |
| Actuarial gains / (losses) on retirement benefit obligation, net of tax | **2.4** | (8.5) | **-** | - |
| Transfer from asset revaluation reserve | **1.2** | 0.1 | **3.3** | - |
| Balance 31 December | **(39.0)** | 66.0 | **41.4** | 54.1 |

### (c) Nature and purpose of reserves

#### (i) Asset revaluation reserve

The asset revaluation reserve records revaluations of non-current assets prior to the adoption of AIFRS. Transfers are made to retained earnings on disposal of previously revalued assets. The balance standing to the credit of the reserve may be used to satisfy the distribution of bonus shares to shareholders and is only available for the payment of cash dividends in limited circumstances as permitted by law.

## Note 20. Reserves and retained profits (continued)

### (ii) Hedging reserve - foreign exchange cash flow hedges

The hedging reserve is used to record gains or losses (net of tax) on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in Note 1(m). Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

### (iii) Foreign currency translation reserve

Exchange differences arising on translation of the net investment in foreign operations, including US dollar denominated debt used as a hedge of the net investment, are taken to the foreign currency translation reserve net of applicable income tax, as described in Note 1(l). US$80.0 million of debt (2008: US$65.0 million) is designated as a hedge of the net investment in the US operations. The reserve is recognised in profit and loss when the net investment is disposed of.

### (iv) Share-based payments reserve

The employee share-based payments reserve is used to recognise the fair value of equity instruments granted but not yet issued to employees under the group's various equity based incentive schemes.

## Note 21. Key management personnel

### (a) Key Management Personnel

Key Management Personnel of the consolidated entity comprise Directors of Iluka Resources Limited as well as other specific employees of the consolidated entity who met the following criteria: 'personnel who have authority and responsibility for planning, directing and controlling the activities of the consolidated entity, either directly or indirectly.'

The Key Management Personnel for the parent entity are the same as for the consolidated entity. Therefore, disclosure and balances in this Note relate to both the parent entity and the consolidated entity.

#### Key Management Personnel - Directors

The following persons were Directors of Iluka Resources Limited during the financial year:

(i) **Managing Director and Chief Executive Officer**

D A Robb

(ii) **Non-executive Directors**

R L Every
D M Morley
G J Pizzey
G J Rezos
J A Seabrook

All above persons were Directors of Iluka Resources Limited for all of the financial year, as well as for the financial year ended 31 December 2008, except J A Seabrook who was appointed as a Director on 1 May 2008. G C Campbell, V A Davies and I C Mackenzie were Directors in the prior year and retired on 21 May 2008.

### (b) Key Management Personnel - Employees Other Than Directors ('the Executives')

In addition to the Directors of the consolidated entity, the following employees met the definition of Key Management Personnel for the year ended 31 December 2009 and are referred to as Executives:

| | |
|---|---|
| P Beilby[1] | General Manager Murray Basin |
| P Benjamin | General Manager Exploration |
| C Cobb[2] | General Manager Sales and Marketing |
| V Hugo[3] | General Manager Project and Technical Development |
| A Tate | Chief Financial Officer |
| H Umlauff | General Manager SA Development and Project Management |
| S Wickham | General Manager Eastern and Western Operations |
| C Wilson | General Manager Corporate Services and Company Secretary |

1 Ceased employment on 1 March 2010.
2 Appointed 12 October 2009, formerly Managing Director of Consolidated Rutile Limited.
3 Formerly General Manager Sales and Marketing, appointed to current role 12 October 2009.

## Note 21. Key management personnel (continued)

The above persons were also Executives during the prior year ended 31 December 2008, except A Tate, appointed as Executive 13 May 2008 and S Wickham, appointed as an Executive 1 September 2008.

S Green, Acting Chief Financial Officer, between 18 January 2008 and 12 May 2008 and D McMahon, Chief Financial Officer to 17 January 2008 were Executives in the prior year.

### Key Management Personnel Compensation (Consolidated and Parent Entity)

| | Short-term Benefits $ | Post Employment Benefits $ | Share Based Payments $ | Termination Benefits $ | TOTAL $ |
|---|---|---|---|---|---|
| **2009** | | | | | |
| Non-Executive Directors | **782,500** | **59,778** | **-** | **-** | **842,278** |
| Executive Director | **1,743,410** | **68,922** | **1,383,517** | **-** | **3,195,849** |
| Executives | **3,458,297** | **240,013** | **2,946,268** | **-** | **6,644,578** |
| Total | **5,984,207** | **368,713** | **4,329,785** | **-** | **10,682,705** |
| **2008** | | | | | |
| Non-Executive Directors | 846,974 | 69,472 | - | - | 916,446 |
| Executive Director | 2,251,479 | 97,207 | 713,310 | - | 3,061,996 |
| Executives | 4,404,628 | 264,292 | 1,349,523 | - | 6,018,443 |
| Total | 7,503,081 | 430,971 | 2,062,833 | - | 9,996,885 |

The company has taken advantage of the relief provided by the Corporations Regulation 2M.6.04 and has transferred the detailed remuneration disclosures to the remuneration report. The relevant information can be found on pages 6 to 17 of the remuneration report.

### Share rights and shareholdings of Key Management Personnel

The numbers of shares in the company and share rights for ordinary shares in the company are set out below for each key management personnel, including their personally related entities. No shares were granted as compensation during the reporting period.

| | Number Of Shares | | | | | Number Of Share Rights | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Name | Balance held at January 2009* | Vesting of share rights | Awarded as Restricted Shares | Other changes | Balance held at 31 December 2009* | Balance held at 1 January 2009 | Granted during 2009 | Vested as shares during 2009 | Lapsed during 2009 | Balance held at 31 December 2009 |
| **Non-Executive Directors** | | | | | | | | | | |
| R Every | 28,679 | - | - | - | 28,679 | - | - | - | - | - |
| D Morley | 40,876 | - | - | - | 40,876 | - | - | - | - | - |
| G Pizzey | 16,351 | - | - | - | 16,351 | - | - | - | - | - |
| G Rezos | 63,602 | - | - | - | 63,602 | - | - | - | - | - |
| J Seabrook | 17,612 | - | - | 1,702 | 19,314 | - | - | - | - | - |
| **Executive Director** | | | | | | | | | | |
| D Robb | 405,798 | - | 185,373 | - | 591,171 | 1,175,586 | 102,041 | - | (52,970) | 1,224,657 |
| **Executives** | | | | | | | | | | |
| P Beilby | 86,203 | 6,858 | 33,514 | - | 126,575 | 134,992 | 28,571 | (6,858) | (14,735) | 141,970 |
| P Benjamin | 67,542 | 5,378 | 36,182 | - | 109,102 | 167,340 | 30,544 | (5,378) | (17,335) | 175,171 |
| C Cobb | - | - | - | - | - | - | - | - | - | - |
| V Hugo | 77,077 | 8,786 | 35,341 | - | 121,204 | 116,337 | 27,823 | (8,786) | (17,480) | 117,894 |
| A Tate | - | - | 41,988 | - | 41,988 | 140,828 | 33,605 | - | - | 174,433 |
| H Umlauff | 54,525 | 2,724 | 50,809 | - | 108,058 | 135,575 | 39,252 | (2,724) | (25,666) | 146,437 |
| S Wickham | 16,425 | - | 23,415 | - | 39,840 | 74,565 | 29,728 | - | (12,039) | 92,254 |
| C Wilson | 43,741 | 9,286 | 42,935 | (14,913) | 81,049 | 174,279 | 30,544 | (9,286) | (17,335) | 178,202 |

* Balances for the Executive Director and the Executives include restricted shares which will vest in future periods subject to legislative requirements.

## Note 21. Key management personnel (continued)

### (c) Transactions with Key Management Personnel

No loans existed at the commencement of the year and no loans were made during the year ended 31 December 2009.

Ms Seabrook is a Special Advisor to Gresham Partners Limited, a company associated with Gresham Advisory Partners Limited. Services provided by Gresham Advisory Partners Limited during the year of $745,000 were provided under normal commercial terms and conditions. Services in the prior year of $1,659,000 were provided prior to the appointment of Ms Seabrook as a director and were in connection with the sale of the Narama Joint Venture and the equity raising.

There were no other transactions that were required to be disclosed which occurred between the consolidated entity and Key Management Personnel that were outside of the nature described below:

(a) Occurrence was within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those it is reasonable to expect the consolidated entity would have adopted if dealing at arms length with an unrelated individual;

(b) Information about these transactions does not have the potential to adversely affect decisions about the allocation of scarce resources made by users of the financial report, or the discharge of accountability by the Key Management Personnel; and

(c) The transactions are trivial or domestic in nature.

Therefore, specific details of other transactions with Key Management Personnel are not disclosed.

## Note 22. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2009 $'000** | 2008 $'000 | **2009 $'000** | 2008 $'000 |
| **(a) Assurance services** | | | | |
| *Audit and audit related services* | | | | |
| Fees paid to PricewaterhouseCoopers: | | | | |
| PwC Australia | **562** | 772 | **562** | 625 |
| Other PwC firms | **52** | 73 | **-** | - |
| Total remuneration for audit services | **614** | 845 | **562** | 625 |
| *Other assurance services* | | | | |
| PwC Australia | **65** | 445 | **65** | 445 |
| Total remuneration for assurance services | **679** | 1,290 | **627** | 1,070 |
| **(b) Taxation services** | | | | |
| Fees paid to PricewaterhouseCoopers: | | | | |
| PwC Australia | **67** | 87 | **57** | 87 |
| Other PwC firms | **-** | 12 | **-** | - |
| Total remuneration for taxation services | **67** | 99 | **57** | 87 |
| **(c) Other services** | | | | |
| Fees paid to PricewaterhouseCoopers: | | | | |
| PwC Australia | **50** | 57 | **49** | 57 |
| Other PwC firms | **34** | - | **-** | - |
| Total remuneration for other services | **84** | 57 | **49** | 57 |

## Note 23. Retirement benefit obligations

### (a) Superannuation plans

#### Australia

All employees of the consolidated entity who do not elect an alternate fund under the Superannuation Fund Choice Legislation are entitled to benefits on leaving service, retirement, disability or death from the Iluka Section of the ING Master Trust ("Master Trust") a sub plan of the ING Masterfund. Within the Iluka Plan, the vast majority of members are entitled to accumulation (ie defined contribution) benefits only. The plan also provides defined lump sum and pension benefits based on years of service and final average salary for a small number of members. The accumulation contribution section receives fixed contributions from consolidated entity companies and the consolidated entity's legal or constructive obligation is limited to these contributions. No balances are attributable to the parent entity.

#### USA

All employees of the US operations are entitled to benefits from the US operations' pension plans on retirement, disability or death. The US operations have two defined benefit plans and one defined contribution plan. One of the defined benefits plans provides a monthly benefit based on a set amount per month per year of service. The other defined benefit plan provides a monthly benefit based on average salary and years of service. The defined contribution plan receives an employee's elected contribution and an employer's match-up to a fixed percentage and the entity's legal or constructive obligation is limited to these contributions.

The following sets out details in respect of the defined benefit sections only of the Australian and US plans.

### (b) Balance sheets amounts

| | Consolidated | |
|---|---|---|
| | **2009** | 2008 |
| | **$M** | $M |
| Defined benefit plan obligation - present value | **19.7** | 27.6 |
| Defined benefit fund plan assets - fair value | **(15.0)** | (16.2) |
| Deficiency of plan assets or obligations | **4.7** | 11.4 |
| Unrecognised past service costs | **-** | (0.8) |
| Net liability in the balance sheet | **4.7** | 10.6 |
| *Present value of the defined benefit obligation, which is partly funded:* | | |
| Balance at 1 January | **27.6** | 20.4 |
| Current service cost | **0.7** | 0.7 |
| Interest cost | **1.2** | 1.2 |
| Contributions by plan participants | **0.1** | 0.1 |
| Actuarial gains and losses | **(1.3)** | 2.8 |
| Exchange rate changes | **(4.0)** | 3.5 |
| Benefits paid | **(4.6)** | (1.1) |
| Balance at 31 December | **19.7** | 27.6 |
| *Fair value of plan assets:* | | |
| Balance at 1 January | **16.2** | 17.9 |
| Expected return on plan assets | **0.8** | 1.3 |
| Actuarial gains and losses | **1.7** | (6.1) |
| Exchange rate changes | **(2.4)** | 2.2 |
| Contributions by group companies | **3.2** | 1.9 |
| Contributions by plan participants | **0.1** | 0.1 |
| Benefits paid | **(4.6)** | (1.1) |
| Balance at 31 December | **15.0** | 16.2 |
| The major categories of plan assets are as follows: | | |
| Cash | **0.5** | 0.8 |
| Equity instruments | **8.7** | 9.4 |
| Debt instruments | **4.4** | 4.5 |
| Property | **0.6** | 0.4 |
| Other assets | **0.8** | 1.1 |
| Total | **15.0** | 16.2 |

The assets are invested with professional investment managers. The number of shares (if any) of Iluka Resources Limited held by the managers is decided solely by the investment managers.

## Note 23. Retirement benefit obligations (continued)

### (c) Amounts recognised in income statements

| | Consolidated | |
|---|---|---|
| | **2009** | 2008 |
| | **$M** | $M |
| Current service cost | **0.8** | 0.7 |
| Interest cost | **1.2** | 1.2 |
| Expected return on plan assets | **(0.9)** | (1.3) |
| Past service cost | **0.8** | 0.8 |
| Total included in employee benefits expense | **1.9** | 1.4 |
| Actual return on plan assets | **3.0** | (4.8) |

### (d) Principal actuarial assumptions

The principal actuarial assumptions used (expressed as weighted averages) were as follows:

| | Consolidated | |
|---|---|---|
| | **2009** | 2008 |
| | **%** | % |
| Australia | | |
| Discount rate | **5.7** | 3.5 |
| Expected return on plan assets | **5.0** | 5.0 |
| Future salary increases | **3.5** | 3.5 |
| Expected rate of inflation | **1.5** | 2.0 |
| USA | | |
| Discount rate | **6.0** | 6.0 |
| Expected return on plan assets | **7.5** | 5.0 |
| Future salary increases | **3.5** | 3.5 |
| Expected rate of inflation | **3.0** | 3.0 |

The expected rate of return on plan assets has been based on historical and future expectations of returns for each of the major categories of asset classes as well as the expected and actual allocation of plan assets to these major categories.

### (e) Employer contributions

#### Australia

Employer contributions to the defined benefits section of the plan are based on recommendations by the section's actuary.

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. To achieve this objective, the actuary has adopted a method of funding benefits known as the aggregate funding method. This funding method seeks to have benefits funded by means of a total contribution which is expected to be a constant percentage of members' salaries over their working lifetimes.

Using the funding method described above and particular actuarial assumptions as to the defined benefits plan's future experience, the actuary recommended payment of employer contributions ranging between 12.5 per cent and 12.9 per cent (2008: 8.7 per cent to 24.6 per cent) of salaries, dependent on the defined benefit category of membership. Because of the Plan's deficiency, arising from substantially negative investment returns (the defined benefit obligation exceeded Plan assets by $4.2 million at 31 December 2008), the actuary also recommended a programme of additional contributions designed to restore the Plan's financial position to surplus. In accordance with actuarial recommendations, the employer has contributed an additional $2.4 million (2008: nil) to the defined benefit section of the Plan during 2009.

An actuarial valuation of the Plan as at 30 June 2009 is currently underway. The actuary has indicated that further additional contributions may be required during 2010.

## Note 23. Retirement benefit obligations (continued)

### USA

Employer contributions to the plans are based on recommendations by the plan's actuary.

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. To achieve this objective, the actuary has adopted a method of funding benefits known as the Projected Unit Credit (PUC). Under the PUC method, unfunded past service is amortised over 10 years and future benefit accruals are funded during participants' working lifetime with cost varying based on the age of participants. Actuarial gains/losses are amortised over 5 years.

Using the funding method described above and particular actuarial assumptions as to the defined benefits plan's future experience the actuary recommended in the Actuarial review, the payment of US$0.7 million (2008: US$1.1 million) for the salaried defined benefit plan and US$0.1 million (2008: US$0.3 million) for the hourly defined benefit plan.

Total employer contributions expected to be paid by the consolidated entity for the year ending 31 December 2010 are US$0.6 million.

### (f) Net financial position of plans

In accordance with AAS 25 Financial Reporting by Superannuation Funds the plans' net financial position is determined as the difference between the present value of the accrued benefits and the net market value of plan assets.

### Australia

The net financial position of the plan determined from information supplied by the Master Trust at 31 December 2009 was a surplus of $0.6 million (2008: deficit $4.1 million).

### USA

The net financial position of the US plans has been determined as at the date of the most recent financial report of the superannuation fund (31 December 2009) and in accordance with IAS 19 Employee Entitlements, and a deficit of $5.2 million as at 31 December 2009 (2008: Deficit $6.5 million) was reported.

### (g) Historic summary

| | **2009 $M** | 2008 $M | 2007 $M | 2006 $M | 2005 $M |
|---|---|---|---|---|---|
| Defined benefit plan obligation | **19.7** | 27.6 | 20.4 | 21.5 | 21.2 |
| Defined benefit fund plan assets | **(15.0)** | (16.2) | (17.9) | (17.4) | (15.4) |
| Deficiency of net market value of assets over the present value of employees' accrued benefit payments | **4.7** | 11.4 | 2.5 | 4.1 | 5.8 |
| Experience adjustments arising on plan liabilities | **-** | - | - | - | (0.3) |
| Experience adjustments arising on plan assets | **-** | - | - | - | 0.3 |

## Note 24. Contingent liabilities

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2009 $M** | 2008 $M | **2009 $M** | 2008 $M |
| Performance commitments and guarantees (a) | **84.6** | 109.5 | **31.1** | 29.5 |

(a) The consolidated entity has negotiated a number of bank guarantees in favour of various government authorities and service providers to meet its obligations under exploration and mining tenements.

(b) There is some risk that native title, as established by the High Court of Australia's decision in the Mabo case, exists over some of the land over which the consolidated entity holds tenements or over land required for access purposes. It is impossible at this stage to quantify the impact (if any) which these developments may have on the operations of the consolidated entity.

(c) In the course of its normal business, the consolidated entity occasionally receives claims arising from its operating activities. In the opinion of the Directors, all such matters are covered by insurance, or, if not covered, are without merit or are of such a kind or involve such amounts that would not have a material adverse effect on the operating results or financial position of the consolidated entity if settled unfavourably.

## Note 25. Commitments

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **$M** | $M | **$M** | $M |
| **(a) Capital commitments** | | | | |
| Amounts contracted for and payable within 1 year | **25.3** | 142.9 | **2.2** | 1.7 |

Includes amounts in relation to the Murray Basin stage 2 development of $1.7 million (2008: $56.7 million), and Jacinth Ambrosia development of $10.0 million (2008: $64.6 million).

### (b) Exploration and mining lease commitments

| | Consolidated 2009 $M | Consolidated 2008 $M | Parent entity 2009 $M | Parent entity 2008 $M |
|---|---|---|---|---|
| Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable: | | | | |
| Within one year | **24.9** | 19.9 | **11.3** | 10.8 |
| Later than one year but not later than five years | **36.7** | 43.6 | **13.4** | 19.7 |
| Later than five years | **56.6** | 51.4 | **11.2** | 11.0 |
| | **118.2** | 114.9 | **35.9** | 41.5 |

These costs are discretionary. If the expenditure commitments are not met then the associated exploration and mining leases may be relinquished.

### (c) Lease commitments

| | Consolidated 2009 $M | Consolidated 2008 $M | Parent entity 2009 $M | Parent entity 2008 $M |
|---|---|---|---|---|
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | | | |
| Within one year | **10.5** | 14.1 | **4.5** | 3.8 |
| Later than one year but not later than five years | **28.9** | 33.8 | **10.4** | 11.0 |
| Later than five years | **8.8** | 13.1 | **1.1** | 1.5 |
| | **48.2** | 61.0 | **16.0** | 16.3 |

### (d) Other commitments

| | Consolidated 2009 $M | Consolidated 2008 $M | Parent entity 2009 $M | Parent entity 2008 $M |
|---|---|---|---|---|
| Commitments for payments in relation to non-cancellable contracts are payable as follows: | | | | |
| Within one year | **77.4** | 56.9 | **32.2** | 36.5 |
| Later than one year but not later than five years | **134.9** | 107.5 | **106.8** | 86.3 |
| Later than five years | **41.7** | 41.8 | **26.7** | 40.0 |
| | **254.0** | 206.2 | **165.7** | 162.8 |

The commitments include $189.3 million (2008: $163.2 million) in respect of the consolidated entity and $165.7 million (2008: $162.8 million) in respect of the parent entity for term contracts for coal, gas, electricity and water used in the production process.

## Note 26. Related party transactions

### (a) Directors and specified executives

Disclosures relating to Directors and Key Management Personnel are set out in Note 21.

### (b) Controlled entities and controlling entities

Details of material controlled entities are set out in Note 27. The ultimate Australian controlling entity and the ultimate parent entity in the wholly-owned group is Iluka Resources Limited.

Management fees applicable to the provision of services to CRL prior to it's disposal on 27 May 2009 was based on commercial rates and amounted to $409,000 (2008: $982,000).

Amounts due from CRL at 31 December 2008 of $4,237,000 plus amounts due from management fees in 2009 were repaid prior to the sale of CRL.

## Note 26. Related party transactions (continued)

### (c) Wholly owned group

Transactions between Iluka Resources Limited and it's wholly owned controlled entities (together with "wholly owned group") during the years ended 31 December 2009 and 31 December 2008 consisted of:

(i) loans advanced by Iluka Resources Limited;
(ii) loans repaid to Iluka Resources Limited;
(iii) the payment of interest on the above loans; and
(iv) recharge of external interest on borrowings attributable to the construction of qualifying assets.

Loans are made between Iluka Resources Limited and certain entities in the wholly-owned group. Where interest is levied it is payable/receivable on the amount outstanding at commercial rates. There were no borrowings by the parent entity in 2009 or 2008. The average lending rate for the year for loans advanced by the parent entity was 4.81 per cent (2008: 5.0 per cent). There are no fixed terms for the repayment of principal on loans.

| | Parent Entity | |
|---|---|---|
| | **2009** | 2008 |
| Amounts included in the Income Statement and Balance Sheet are: | **$'000** | $'000 |
| Interest revenue | **19,000** | 15,025 |
| Aggregate amounts receivable from/payable to entities in the wholly owned group at balance date: | | |
| Non current receivables (loans) | **930,432** | 237,179 |
| Non current payables (loans) | **(406,540)** | - |
| External interest recharged to controlled entities | **12,518** | 3,990 |

Iluka Resources Limited has taken out insurance policies on behalf of certain controlled entities as part of a group wide insurance risk management programme. The Company has a policy of insuring against risks which might materially affect the consolidated entity's cash flow. Risks covered include property damage, business interruption, public and product liability, fidelity, and Directors and officers' liability.

### (d) Transactions and balances with related parties

| | 2009 | 2008 |
|---|---|---|
| Current tax payable assumed from wholly-owned entities | **22,732** | 27,123 |
| Tax losses assumed from wholly-owned entities | **40,504** | 16,009 |
| Sales of finished goods to subsidiary | **11,376** | 9,962 |
| Current receivable (tax funding arrangement) | | |
| Wholly-owned tax consolidated entities | **22,732** | 27,123 |
| Current payables (tax funding agreement) | | |
| Wholly-owned tax consolidated entities | **40,504** | 16,009 |

## Note 27. Controlled entities and deed of cross guarantee

The following companies are all incorporated in Australia and are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the others: Iluka Resources Limited, Westlime (WA) Limited, Ilmenite Pty Limited, Southwest Properties Pty Limited, Western Mineral Sands Pty Limited and Yoganup Pty Limited, Iluka Corporation Limited, Associated Minerals Consolidated Limited, Iluka Administration Limited, Iluka (NSW) Limited; Iluka Consolidated Pty Limited, Iluka Exploration Pty Limited, Gold Fields Asia Limited, Iluka International Limited, NGG Holdings Limited, Caroda Pty Limited, Iluka Midwest Limited, Western Titanium Limited, The Mount Lyell Mining and Railway Company Limited, Colinas Pty Limited, Renison Limited, Iluka Finance Limited, The Nardell Colliery Pty Limited, Glendell Coal Limited and Lion Properties Pty Limited.

By entering into the Deed, the wholly-owned entities represent a closed group and have been relieved from the requirements to prepare a Financial Report and Directors' Report under Class Order 98/1418 (as amended by Class Order 98/2017) issued by the Australian Securities and Investments Commission ("ASIC"). As there are no other parties to the Deed of Cross Guarantee that are controlled by Iluka Resources Limited, they also represent the extended Closed Group.

In addition to the members of the extended closed group, the Iluka Group also includes the following Australian companies: Consolidated Rutile Limited (sold 27 May 2009, Iluka interest prior to sale 51.04%) and Aston Coal Interests Pty Ltd (Iluka interest 93.4%). The group's activities in the United States are undertaken by Iluka Resources Inc which is 100% owned.

## Note 27. Controlled entities and deed of cross guarantee

| | Consolidated 2009 $M | 2008 $M |
|---|---|---|
| **Condensed statement of comprehensive income of Extended Closed Group** | | |
| Revenue from ordinary activities | **522.3** | 897.5 |
| Other expenses from ordinary activities | **(657.5)** | (795.4) |
| Finance costs | **(23.3)** | (38.6) |
| Impairment charges | **(67.6)** | 5.5 |
| Income tax benefit (expense) | **76.4** | (1.8) |
| **(Loss) profit for the year** | **(149.7)** | 67.2 |
| **Other comprehensive income** | | |
| Changes in fair value of foreign exchange cash flow hedges, net of tax | **99.3** | (99.7) |
| Actuarial gains (losses) on defined benefit plans, net of tax | **(2.0)** | 3.5 |
| **Total other comprehensive income** | **97.3** | (96.2) |
| **Total comprehensive income for the year** | **(52.4)** | (29.0) |
| **Summary of movements in consolidated retained profits** | | |
| Retained profits at the beginning of the financial year | **139.9** | 73.0 |
| Transfer from asset revaluation/asset realisation reserve | **-** | 0.1 |
| (Loss) profit for the year | **(149.7)** | 66.8 |
| **Retained (losses) profits at the end of the financial year** | **(9.8)** | 139.9 |
| **Condensed balance sheet of Extended Closed Group** | | |
| **Current assets** | | |
| Cash and cash equivalents | **75.7** | 76.6 |
| Receivables | **90.7** | 206.2 |
| Inventories | **171.2** | 205.5 |
| Derivative financial instruments | **15.9** | - |
| Deferred overburden | **-** | 4.9 |
| Total current assets | **353.5** | 493.2 |
| **Non current assets** | | |
| Receivables | **80.7** | 93.8 |
| Inventories | **56.6** | - |
| Other financial assets | **42.6** | 144.5 |
| Property, plant and equipment | **1,517.3** | 1,219.4 |
| Deferred tax assets | **36.4** | 5.7 |
| Intangible assets | **9.9** | 13.5 |
| Total non current assets | **1,743.5** | 1,476.9 |
| **Total assets** | **2,097.0** | 1,970.1 |
| **Current liabilities** | | |
| Payables | **174.1** | 138.4 |
| Interest bearing liabilities | **44.7** | 36.8 |
| Current tax liabilities | **-** | 1.1 |
| Provisions | **20.1** | 37.7 |
| Derivative financial instruments | **-** | 93.0 |
| Total current liabilities | **238.9** | 307.0 |
| **Non current liabilities** | | |
| Interest bearing liabilities | **423.7** | 276.5 |
| Provisions | **307.6** | 276.0 |
| Derivative financial instruments | **-** | 46.7 |
| Total non current liabilities | **731.3** | 599.2 |
| **Total liabilities** | **970.2** | 906.2 |
| **Net assets** | **1,126.8** | 1,063.9 |
| **Equity** | | |
| Contributed equity | **1,114.4** | 998.1 |
| Reserves | **22.2** | (74.1) |
| Retained profits | **(9.8)** | 139.9 |
| **Total equity** | **1,126.8** | 1,063.9 |

## Note 28. Reconciliation of profit after income tax to net cash inflow from operating activities

| | Consolidated | | Parent entity | |
|---|---|---|---|---|
| | **2009 $M** | 2008 $M | **2009 $M** | 2008 $M |
| (Loss) profit for the year | **(108.8)** | 85.0 | **(16.0)** | (18.4) |
| Depreciation and amortisation | **176.6** | 161.7 | **57.6** | 53.1 |
| Exploration capitalised | **(3.3)** | (4.0) | **-** | - |
| Interest capitalised | **(12.5)** | (4.0) | **-** | - |
| External interest recharged to controlled entities | **-** | - | **(12.5)** | (4.0) |
| Net gain on disposal of property, plant and equipment | **(6.8)** | (2.3) | **(5.4)** | - |
| Net gain on disposal of CRL/Narama | **(22.9)** | (30.0) | **-** | - |
| Net exchange differences on borrowings | **(17.5)** | 11.2 | **(40.9)** | 29.4 |
| Rehabilitation and restoration accretion expense | **15.7** | 15.9 | **5.7** | 8.5 |
| Non cash share based payments expense | **6.2** | 4.6 | **6.2** | 3.7 |
| Intercompany interest | **-** | - | **(18.9)** | (15.0) |
| Amortisation of deferred borrowing costs | **1.1** | 0.8 | **1.1** | 0.8 |
| Other | **(0.6)** | - | **(0.6)** | 0.5 |
| Impairment charges (reversals) | **67.6** | (5.5) | **-** | (45.6) |
| Change in operating assets and liabilities | | | | |
| Decrease (increase) in receivables | **121.7** | (51.1) | **36.8** | (19.0) |
| Decrease (increase) in inventories | **(59.5)** | 74.2 | **(13.1)** | (1.8) |
| Decrease (increase) in current tax assets | **-** | 12.7 | **-** | 13.3 |
| Decrease (increase) in deferred tax assets | **(68.5)** | (12.3) | **(42.9)** | (8.2) |
| Decrease (increase) in other assets | **7.4** | 3.4 | **-** | 7.1 |
| Increase (decrease) in payables | **43.5** | (3.6) | **14.7** | (4.3) |
| Increase (decrease) in current tax liabilities | **(5.9)** | (3.3) | **(1.1)** | 1.1 |
| Increase (decrease) in provisions | **(31.3)** | (20.4) | **(12.0)** | 17.3 |
| Net cash inflow from operating activities | **102.2** | 233.0 | **(41.3)** | 18.5 |

## Note 29. Earnings per share

### (a) Basic and diluted earnings per share

| | Consolidated | |
|---|---|---|
| | **2009 Cents** | 2008 Cents |
| (Loss) profit from continuing operations attributable to owners | **(32.5)** | 13.8 |
| Profit from discontinued operation | **5.7** | 8.6 |
| (Loss) profit attributable to owners | **(26.8)** | 22.4 |

### Reconciliations of earnings used in calculating earnings per share

| | 2009 | 2008 |
|---|---|---|
| (Loss) profit for the year from continuing operations | **(131.7)** | 37.7 |
| Net (loss) profit attributable to non-controlling interests | **0.2** | (7.5) |
| (Loss) profit from continuing operations attributable to owners | **(131.5)** | 30.2 |
| Profit from discontinued operation | **22.9** | 47.3 |
| (Loss) profit attributable to owners used in calculating basic earnings per share | **(108.6)** | 77.5 |
| Weighted average number of shares used in calculating basic and diluted earnings per share | **405,582,708** | 345,621,183 |

## Note 30. Share-based payments

The Share Based Payment expense in the profit and loss account of $6,245,000 (2008: $4,620,000) results from several schemes summarised below. Further information on each scheme is contained in the Remuneration Report on pages 9 to 12.

| Schemes | Grant date | Vesting date | Fair value | Share rights at 31 Dec 09 | Expense 2009 $M | Share rights at 31 Dec 08 | Expense 2008 $M |
|---|---|---|---|---|---|---|---|
| 2008 STIP (i) | Jan-09 | Jan-11 Jan-12 | 4.66 | 856,314 | 2.7 | - | - |
| 2007 STIP (i) | Jan-08 | Jan-09 Jan-10 | 4.09 | 296,435 | 0.5 | 490,143 | 1.0 |
| 2009 LTIP (ii) | Jan-09 | Jan-12 | 4.06 | 734,743 | 0.9 | - | - |
| 2008 LTIP (ii) | Jan-08 | Jan-11 | 2.93 | 767,633 | 0.8 | 882,678 | 0.7 |
| 2007 LTIP (ii) | Jan-07 | Jan-10 | 4.32 | 318,878 | (0.5) | 380,369 | 0.8 |
| Retention Share Rights (i) (iv) | Mar-08 | Mar-11 | 4.09 | 1,060,000 | 1.4 | 1,140,000 | 1.0 |
| MD Retention Share Rights (ii) (iii) | Oct-06 | Feb-11 | 1.00 | 1,000,000 | 0.3 | 1,000,000 | 0.1 |
| MD Share Rights (iii) | Oct-06 | Jul-08 | 7.08 | - | - | 80,762 | 0.2 |
| Employee Share Scheme | Oct-08 | Oct-08 | 3.67 | - | - | 195,024 | 0.7 |
| 2006 PIP and prior plans (i) (v) | various | various | | 41,763 | 0.1 | 67,869 | 0.1 |
| **Total share based payments** | | | | | 6.2 | | 4.6 |

(i) The fair value at grant date is independently determined using the Black-Scholes model that takes into account the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk free discount rate for the term of the right.

(ii) The fair value at grant date is independently determined using the Monte-Carlo simulation to model share prices at vesting date by repeatedly sampling random movements in a share's price. This repeated random sample in conjunction with certain known and historical data (e.g. rates, dividend yields and volatility) makes it possible to form a complete probability distribution of a share's price at a particular time in the future and hence estimate the average or mean share price at this time.

(iii) Information on the Managing Director's Share Rights and Retention Share Rights is disclosed in the remuneration report on page 14.

(iv) The Iluka Retention Plan share rights were offered on various dates with the majority offered in March 2008 at $4.09 per share. The fair value per share disclosed in the table is the weighted average value for all outstanding rights.

(v) Prior to the introduction of the PIP in 2005, the company operated Long term Incentive Plans pursuant to the terms of the Directors', Executives' and Employees' Share Acquisition Plan (Plan). The Plan was approved by shareholders at the Annual General Meeting of the company in May 1999. From year to year the Board invited the Managing Director and other employees determined by the Board to hold an executive position, to participate in the Plan as a means of providing those employees with an incentive to enhance the performance of the company. The terms of the annual offer included an allocated maximum number of shares (maximum allocation) that will be acquired or retained under the Plan on behalf of the employee if certain performance criteria, as determined by the Board, are satisfied.

# DIRECTORS' DECLARATION

31 DECEMBER 2009

In the Directors' opinion:

(a) the financial statements and notes to the financial statements are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

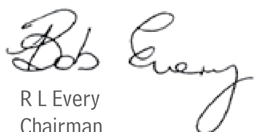
  (ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2009 and of their performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in Note 27 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee described in Note 27.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.



R L Every
Chairman

D A Robb
Managing Director

Perth
31 March 2010

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ILUKA RESOURCES LIMITED

## Report on the financial report

We have audited the accompanying financial report of Iluka Resources Limited (the company), which comprises the balance sheet as at 31 December 2009, and the income statement, the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Iluka Resources Limited and the Iluka Resources Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

### *Auditor's opinion*

In our opinion:

(a) the financial report of Iluka Resources Limited is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2009 and of their performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Liability limited by a scheme approved under Professional Standards Legislation.

## Report on the Remuneration Report

We have audited the remuneration report included in pages 6 to 17 of the directors' report for the year ended 31 December 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Auditor's opinion*

In our opinion, the remuneration report of Iluka Resources Limited for the year ended 31 December 2009, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

David Smith
Partner

Perth
31 March 2010

# ORE RESERVES AND MINERAL RESOURCES

The statement of Mineral Resources and Ore Reserves presented in this report has been produced in accordance with the Australasian Code for Reporting of Mineral Resources and Ore Reserves, December 2004 (JORC Code).

The information relating to Mineral Resources and Ore Reserves is based on information compiled by Competent Persons (as defined in the JORC Code). Each of the Competent Persons for deposits located outside Australia are members of Recognised Overseas Professional Organisations ("ROPOs") as listed by the ASX. Each of the Competent Persons have, at the time of reporting, sufficient experience relevant to the style of mineralisation and type of deposit under consideration, and to the activity they are undertaking, to qualify as a Competent Person as defined by the JORC Code. At the reporting date, each Competent Person listed in this Report is a full-time employee of Iluka Resource Limited. Each Competent Person consents to the inclusion in this Report of the matters based on their information in the form and context in which it appears.

All of the Mineral Resource and Ore Reserve figures reported represent estimates at 31 December 2009. All tonnes and grade information has been rounded, hence small differences may be present in the totals. All of the Mineral Resources information is inclusive of Ore Reserves (that is, Ore Reserves are a sub-set of Mineral Resources and are not additive).

## ORE RESERVES

Ore Reserves are estimated using all available geological and relevant drill hole and assay data, including mineralogical sampling and test work on mineral recoveries and final product qualities. Ore Reserve estimates are determined by the consideration of all of the modifying factors in accordance with the JORC Code 2004, and for example, may include but are not limited to, product prices, mining costs, metallurgical recoveries, environmental consideration, access and approvals. These factors may vary significantly between deposits.

# ILUKA ORE RESERVE BREAKDOWN BY COUNTRY, REGION AND JORC CATEGORY AT 31 DECEMBER 2009

Summary of Ore Reserves[1,2,3] for Iluka

| | | | | | | HM Assemblage[4] | | | |
|---|---|---|---|---|---|---|---|---|---|
| Country | Region | Ore Reserve Category | Ore Tonnes Millions | In Situ HM Tonnes Millions | HM Grade (%) | Ilmenite Grade (%) | Zircon Grade (%) | Rutile Grade (%) | Change HM Tonnes Millions |
| Australia | CRL North Stradbroke Island | Proved | - | - | - | - | - | - | |
| | CRL North Stradbroke Island | Probable | - | - | - | - | - | - | |
| Total | CRL North Stradbroke Island[5] | | - | - | - | - | - | - | (3.20) |
| | Eucla Basin | Proved | 93.2 | 6.25 | 6.7 | 29 | 50 | 5 | |
| | Eucla Basin | Probable | 4.5 | 0.12 | 2.5 | 20 | 53 | 5 | |
| Total | Eucla Basin | | 97.7 | 6.37 | 6.5 | 28 | 50 | 5 | (0.05) |
| | Murray Basin | Proved | 21.7 | 5.11 | 23.6 | 52 | 10 | 16 | |
| | Murray Basin | Probable | 15.0 | 2.94 | 19.5 | 51 | 13 | 14 | |
| Total | Murray Basin[6] | | 36.7 | 8.05 | 21.9 | 51 | 12 | 15 | (0.66) |
| | Perth Basin | Proved | 12.4 | 1.18 | 9.5 | 62 | 13 | 2 | |
| | Perth Basin | Probable | 149.4 | 10.91 | 7.3 | 63 | 11 | 5 | |
| Total | Perth Basin[7,8] | | 161.8 | 12.09 | 7.5 | 63 | 11 | 4 | (0.73) |
| USA | Virginia | Proved | 19.2 | 1.52 | 7.9 | 72 | 15 | - | |
| | Virginia | Probable | 1.1 | 0.06 | 5.2 | 64 | 20 | - | |
| Total | Virginia[9] | | 20.3 | 1.58 | 7.8 | 72 | 16 | - | (0.43) |
| Total | Proved | | 146.4 | 14.07 | 9.6 | 44 | 29 | 8 | |
| Total | Probable | | 170.1 | 14.02 | 8.2 | 60 | 12 | 7 | |
| | Grand Total | | 316.5 | 28.09 | 8.9 | 52 | 20 | 7 | (5.07) |

Notes:

(1) Competent Persons - Ore Reserves
Eucla Basin: A Whatham (MAusIMM)
Perth Basin and Murray Basin: C Lee (MAusIMM)
Virginia: C Stilson (SME)

(2) Ore Reserves are a sub-set of Mineral Resources

(3) Rounding may generate differences in last decimal place

(4) Mineral assemblage is reported as a percentage of in situ HM content

(5) Sale of CRL to Unimin Resources resulted in removal of CRL Ore Reserves from the Iluka inventory

(6) Ilmenite currently has had no value ascribed in the reserve optimisation process for the Murray Basin
Metallurgical testwork and marketing studies are presently underway; the outcomes of which may see a revision of the Ore Reserves

(7) Rutile component in Perth Basin South West operations is sold as a leucoxene product

(8) Western Australia Mid West and South West regions were reported separately in 2008 and have been consolidated into Perth Basin for 2009 reporting

(9) Rutile is included in ilmenite for the Virginia region

# ILUKA ORE RESERVES MINED AND ADJUSTED BY COUNTRY AND REGION AT 31 DECEMBER 2009

Summary of Ore Reserve Depletion[1]

| Country | Region | Category | In Situ HM Tonnes Millions 2008 | In Situ HM Tonnes Millions Mined 2009 | In Situ HM Tonnes[2] Millions Adjusted 2009 | In Situ HM Tonnes Millions 2009 | In Situ HM Tonnes[3] Millions Net Change |
|---|---|---|---|---|---|---|---|
| Australia | CRL Stradbroke Island[4] | Active Mines | 3.20 | - | (3.20) | - | (3.20) |
| | CRL Stradbroke Island | Non-Active Sites | - | - | - | - | - |
| Total | CRL Stradbroke Island | | 3.20 | - | (3.20) | - | (3.20) |
| | Eucla Basin | Active Mines | 4.97 | (0.05) | - | 4.91 | (0.05) |
| | Eucla Basin | Non-Active Sites | 1.45 | - | - | 1.45 | - |
| Total | Eucla Basin | | 6.42 | (0.05) | - | 6.37 | (0.05) |
| | Murray Basin | Active Mines | 3.34 | (0.82) | 0.19 | 2.70 | (0.63) |
| | Murray Basin | Non-Active Sites | 5.38 | - | (0.03) | 5.35 | (0.03) |
| Total | Murray Basin | | 8.71 | (0.82) | 0.16 | 8.05 | (0.66) |
| | Perth Basin | Active Mines | 1.32 | (1.25) | 0.74 | 0.81 | (0.51) |
| | Perth Basin | Non-Active Sites | 11.50 | - | (0.22) | 11.28 | (0.22) |
| Total | Perth Basin[5] | | 12.82 | (1.25) | 0.52 | 12.09 | (0.73) |
| USA | Virginia | Active Mines | 2.01 | (0.25) | (0.18) | 1.58 | (0.43) |
| | Virginia | Non-Active Sites | - | - | - | - | - |
| Total | Virginia | | 2.01 | (0.25) | (0.18) | 1.58 | (0.43) |
| Total | Active Mines | | 14.83 | (2.37) | (2.44) | 10.01 | (4.81) |
| Total | Non-Active Sites | | 18.33 | - | (0.25) | 18.08 | (0.25) |
| Total | Ore Reserves | | 33.15 | (2.37) | (2.69) | 28.09 | (5.07) |

Notes:

(1) Rounding may generate differences in last decimal place

(2) Adjusted figure includes write-downs and modifications in mine design

(3) Net change includes depletion by mining and adjustments

(4) Write-down of CRL Ore Reserves from sale to Unimin during the 2009 reporting year

(5) Western Australia Mid West and South West regions were reported separately in 2008 and have been consolidated into Perth Basin for 2009 reporting

## MINERAL RESOURCES

Mineral Resources are estimated using all available and relevant geological, drill hole and assay data, including mineralogical sampling and test work on mineral and final product qualities. Resource estimates are determined by consideration of geology, HM cut-off grades, mineralisation thickness versus overburden ratios and consideration of the potential mining and extraction methodology. These factors may vary significantly between deposits.

## ILUKA MINERAL RESOURCE BREAKDOWN BY COUNTRY, REGION AND JORC CATEGORY AT 31 DECEMBER 2009

Summary of Mineral Resources[1,2,3] for Iluka

| | | | | | | HM Assemblage[4] | | | |
|---|---|---|---|---|---|---|---|---|---|
| Country | Region | Mineral Resource Category | Material Tonnes Millions | In Situ HM Tonnes Millions | HM Grade (%) | Ilmenite Grade (%) | Zircon Grade (%) | Rutile Grade (%) | Change HM Tonnes Millions |
| Australia | CRL North Stradbroke Island | Measured | - | - | - | - | - | - | |
| | CRL North Stradbroke Island | Indicated | - | - | - | - | - | - | |
| | CRL North Stradbroke Island | Inferred | - | - | - | - | - | - | |
| Total | CRL North Stradbroke Island[5] | | - | - | - | - | - | - | (5.29) |
| | Eucla Basin | Measured | 186.3 | 8.52 | 4.6 | 29 | 49 | 5 | |
| | Eucla Basin | Indicated | 53.1 | 1.23 | 2.3 | 12 | 62 | 5 | |
| | Eucla Basin | Inferred | 14.3 | 0.30 | 2.1 | 18 | 53 | 5 | |
| Total | Eucla Basin | | 253.6 | 10.05 | 4.0 | 27 | 51 | 5 | (0.35) |
| | Murray Basin | Measured | 42.5 | 7.58 | 17.8 | 51 | 11 | 15 | |
| | Murray Basin | Indicated | 94.3 | 12.16 | 12.9 | 47 | 10 | 13 | |
| | Murray Basin | Inferred | 128.4 | 23.18 | 18.0 | 55 | 11 | 14 | |
| Total | Murray Basin | | 265.2 | 42.92 | 16.2 | 52 | 10 | 14 | (4.90) |
| | Perth Basin | Measured | 506.4 | 31.78 | 6.3 | 60 | 11 | 5 | |
| | Perth Basin | Indicated | 266.8 | 15.10 | 5.7 | 52 | 10 | 5 | |
| | Perth Basin | Inferred | 195.5 | 8.99 | 4.6 | 50 | 8 | 6 | |
| Total | Perth Basin[6,7,8] | | 968.7 | 55.88 | 5.8 | 56 | 10 | 5 | (19.19) |
| USA | Virginia | Measured | 23.8 | 1.77 | 7.4 | 71 | 16 | - | |
| | Virginia | Indicated | - | - | - | - | - | - | |
| | Virginia | Inferred | - | - | - | - | - | - | |
| Total | Virginia[9] | | 23.8 | 1.77 | 7.4 | 71 | 16 | - | (0.73) |
| Total | Measured | | 758.9 | 49.66 | 6.5 | 54 | 17 | 6 | |
| Total | Indicated | | 414.2 | 28.50 | 6.9 | 49 | 12 | 8 | |
| Total | Inferred | | 338.2 | 32.46 | 9.6 | 54 | 10 | 12 | |
| | Grand Total | | 1,511.3 | 110.62 | 7.3 | 52 | 14 | 8 | (30.46) |

Notes:

(1) Competent Persons - Mineral Resources
Eucla Basin: I Warland (MAusIMM)
Perth Basin: B Gibson (MAIG), R Stockwell (MAIG)
Murray Basin: V O'Brien (MAusIMM)
Virginia: C Stilson (SME)

(2) Mineral Resources are inclusive of Ore Reserves

(3) Rounding may generate differences in last decimal place

(4) Mineral assemblage is reported as a percentage of in situ HM content

(5) Sale of CRL to Unimin Resources resulted in removal of CRL Mineral Resources from the Iluka inventory

(6) Divestment and write-down of resources in the Perth Basin due to rationalisation of operations

(7) Rutile component in Perth Basin South West operations is sold as a leucoxene product

(8) Western Australia Mid West and South West regions were reported separately in 2008 and have been consolidated into Perth Basin for 2009 reporting

(9) Rutile is included in ilmenite for the Virginia region

Iluka is committed to operating in a sustainable matter. The company believes that targeting high levels of performance and pursuing best practice in the areas of environment, health and safety reflects Iluka's values of: Commitment, Integrity and Responsibility.

During 2009, external audits of Iluka's Environmental Health and Safety Management System were conducted at the: South West and Mid West, Western Australian mining operations; Hamilton processing operations and Kulwin mine site in the Murray Basin (Victoria); USA operations; and for the exploration function. The average compliance score was 87 per cent, in line with the 2008 compliance score of 86 per cent.

The company's Group Major Risk Procedures were also audited at all sites during the year. The average compliance score was 91 per cent, an improvement on the 2008 compliance score of 87 per cent.

## HEALTH AND SAFETY

Iluka's all injury frequency rate ("AIFR") for 2009 was 27.9, representing a 10.3 per cent increase from 25.3 in 2008. The AIFR target for 2009 was 22.9. Iluka's severity rate ("SR") was 58.7 and represents a 32.8 per cent reduction from 87.3 in 2008. The SR target for 2009 was 81.2. The lost time injury frequency rate ("LTIFR") in 2009 was 3.0, an increase of 7 per cent from 2.8 in 2008. There was no change in the total number of lost time injuries incurred from 2008 and this remained at 15 in 2009. The LTIFR in the first half of the year was disappointing and a renewed effort was put into safety measures and culture in all regions in the second half of the year. This resulted in the LTIFR reducing by 46 per cent from 3.7 in the first half to 2.0 in the second half. The medically treated injury frequency rate ("MTIFR") reduced in 2009 to 7.6, down 2.5 per cent compared to the 2008.

Iluka's health and safety management focus during the year recognised the fact that the company was executing two major new projects, while undertaking a significant restructuring of its existing operational base. As indicated previously, the LTIFR increased relative to 2008, notwithstanding that many reported occurrences were minor soft tissue injuries. A refocussed effort by the company's regional operational management, including shared assessments of risks and means to improve performance, has been implemented to address the decline in safety performance.

The Jacinth-Ambrosia project (South Australia) was successfully delivered without a lost time injury. Integral to this achievement was appointing contractors with health and safety values aligned with Iluka's values and conducting team risk workshops prior to mobilisation onto site.

During 2009, Iluka started to measure the frequency rate of safety inputs; made up of workplace inspections, hazards identified and recorded safety interactions. This rate increased by 78 per cent during the year. This input based indicator was used in conjunction with the lag indicators to closely monitor areas with adverse performance trends.

To ensure all employees are fit and fully capable of executing their work responsibilities, Iluka maintains a "fitness for work programme" to reduce risks associated with employees and contractors who cannot fulfil their work responsibilities to the highest physical standards due to impairment by alcohol and/or drugs. During 2009, 8,000 drug and alcohol tests were completed with a compliance rate of 98.9 per cent, which was similar to the 2008 level.

Health and safety highlights for the year included:

- the South West, Western Australian operations achieved one year without a lost time injury ("LTI");
- the Jacinth-Ambrosia project was completed LTI free;
- the Murray Basin operations completed significant mine moves injury free; and
- the Murray Basin Douglas mine site risk assessments have been selected by the Victorian Mines Inspectorate as exemplars for the mining industry in Victoria.

## ENVIRONMENT

Iluka is committed to operating in a responsible manner to minimise the impact of mining and processing operations on the environment and facilitate the rehabilitation of areas mined. A feature of Iluka's mineral sands mining activities is that land disturbed is typically returned to a rehabilitated state which is similar to its original usage, whether farming land or native vegetation.

All environmental incidents recorded at sites are classified according to the severity of their impact[1]. In 2009, a consultative process was undertaken to standardise the classification of environmental incidents across the company. A comprehensive list of examples that better define each level of environmental incident was developed and introduced in January 2009. This standardisation resulted in an increased focus on the improved classification of incidents and as a result, 92 fewer Level 1 incidents and 89 more Level 2 incidents were recorded.

Three Level 3 incidents were recorded in 2009, up from zero in 2008, reflecting:

- two incidents at the Murray Basin relating to the failure of a slurry pumping system which resulted in an overflow of site water over its retaining structure; and
- an incident at the Mid West, Western Australian operations which related to a failed iron oxide tailings liner which led to the release of iron oxide, later contained and recovered.

For the seventh consecutive year, no Level 4 or 5 incidents were recorded.

In accordance with Iluka's environmental management plans, 11 environmental incidents were reported directly to Government regulators during 2009, a 59 per cent reduction compared to 27 environmental incidents reported in 2008.

Note: Health, safety and environmental statistical data for 2009 includes data from Consolidated Rutile Limited's ("CRL") operations until its divestment by the company on 27 May 2009. Previous years include CRL data on a 100 per cent basis.

[1] Level 1 - 5 rating system; Level 5 referring to the most serious environmental impact.

The main environmental issues identified at Iluka's operations continued to include carbon dioxide and other gas emissions, energy management, water management, dust control, noise emissions, and rehabilitation and biodiversity. Operational management plans are implemented at each site to address these areas.

## CARBON DIOXIDE EMISSIONS & ENERGY EFFICIENCY

Iluka undertook detailed internal analysis to be in a position to submit its assessment of potential liability under the Federal Government's proposed Carbon Pollution Reduction Scheme, or Emissions Trading Scheme, as it has been now defined. On the basis of this assessment, and in the context of current legislation before Parliament, Iluka is eligible for the export intensive, trade exposed status for its ilmenite upgrading or synthetic rutile activities. Iluka has not received a determination in relation to the level of concession for its Australian mining and processing activities. Iluka remains concerned about the potential adverse impacts of an emissions trading scheme on the Australian mineral sands sector, in advance of any such similar legislative arrangements being applied to its main competitors in other jurisdictions.

Iluka has been reporting publicly on carbon dioxide gas emissions since 1999.

The company:

- is a signatory to the Federal Government Energy Efficiency Opportunities ("EEO") Act which requires reduction programmes to be identified and implemented;
- has a continuous improvement programme where employees are encouraged to contribute greenhouse/ energy reduction ideas;
- has a greenhouse gas emissions working group, composed of senior management from across the company, which reports to the Managing Director and Board on programmes and initiatives to manage carbon dioxide emissions;
- has a dedicated EEO Manager to develop energy optimisation strategies; and
- has implemented changes to its business structure based on commercial considerations, such as the idling of two of its four synthetic rutile kilns, which will result in a reduction in carbon dioxide gas emission levels from this activity.

Iluka commenced EEO assessments on its business units in 2008. As at 31 December 2009, assessments of 98.5 per cent of Iluka's total energy consumption has been undertaken, which is ahead of the 80 per cent completion schedule within five years as prescribed by regulations. During 2009, energy efficiency assessments were conducted at the South West and Mid West operations in Western Australia. Opportunities identified to decrease coal, natural gas and electricity usage have the potential to reduce energy consumption by 4 per cent at the South West operations and 3.7 per cent at the Mid West operations.

Iluka's carbon dioxide equivalent emissions reduced by 27 per cent to 1,078 thousand tonnes during 2009, relative to 1,480 in 2008. The amount of energy used at Iluka's operations decreased by 15 per cent year-on-year. These reductions are mainly due to the idling of two synthetic rutile kilns in Western Australia and the divestment of the Consolidated Rutile Limited ("CRL") operations in Queensland, effective May 2009. Carbon dioxide emissions, excluding CRL, decreased by 25 per cent across Iluka's operations due to lower production rates in 2009.

On a unit of production basis, carbon dioxide emissions intensity increased by 8 per cent in 2009, compared to 2008, due to reduced operational efficiencies associated with lower production rates in 2009. The increase was despite the group's total carbon dioxide emissions reducing by 27 per cent. Carbon dioxide emissions intensity of synthetic rutile production from Iluka's South West operation reduced by 11 per cent in 2009. This improvement was achieved through higher feed intake coupled with a waste heat recovery plant and implementation of a number of energy efficiency opportunities.

## WATER MANAGEMENT

Water management continues to be a key focus across all operations. Overall water usage decreased from 49,617 mega litres in 2008 to 36,478 mega litres in 2009 which is a reduction of 26.5 per cent. Taking into account the change in ownership of CRL the adjusted overall water saving for Iluka was 7.3 per cent in 2009.

The Western Australian operations recorded a 15 per cent decrease and the US operation recorded a 45 per cent reduction in water consumption. The South Australian operations recorded a 1,092 mega litre increase as construction and production activities increased throughout the year. The Jacinth-Ambrosia operation will be reliant on the use of hyper-saline water drawn from a paleochannel, with a reverse osmosis plant providing potable water.

## AIR EMISSIONS

Iluka monitors a range of air emission data including oxides of sulphur, carbon dioxide, oxides of nitrogen, particulates and water. Over all the level of particulates generated by Iluka in 2009 decreased from 3,196 tonnes in 2008 to 2,077 tonnes in 2009, a reduction of 35 per cent. A significant proportion of that reduction was due to the exclusion of CRL data. A 13 per cent decrease in oxides of sulphur and an increase of 7 per cent of oxides of nitrogen was recorded across all sites.

The Narngulu Synthetic Rutile Air Quality Working Group was established in January 2009 to address the quality of stack emissions at the Narngulu processing plant in the Mid West of Western Australia. Since the group's inception, 32 individual improvement actions have been identified, trialled and implemented and the group will continue to meet monthly to review air emission incidents and undertake actions to minimise poor quality emissions.

## DUST CONTROL

Dust control, at both mine and processing sites, continues to be a focus for the company. Earth moving activities at mine sites has the potential to generate dust, as do stockpiles of topsoil, overburden and waste. At processing sites dust is primarily caused by the movement of waste and trucking movements of product.

To minimise airborne dust, Iluka continued its practice of stabilising areas using a combination of water, commercial suppressants and clay fines sourced from the mineral concentration process. To minimise dust generation from truck movement of product, trucks use tarpaulins to cover loaded trailers.

Operational management of dust at sites is supported by the use of real time dust monitors and regulatory monitors which are also used for compliance measurement purposes.

In 2009 there were two regulatory dust exceedences compared to 10 in 2008, representing an 80 per cent decrease.

## NOISE EMISSIONS

At some operations, Iluka's mining and processing facilities are in close proximity to residential areas. The company seeks to minimise the impact of noise on surrounding neighbours. As an example, the operation of an extensive network of real time, directional noise monitors at the Waroona mine site in Western Australia has enabled operations to minimise environmental noise both by restricting activities under certain environmental conditions and by a range of noise mitigation and suppression measures associated with mining equipment. The contractual documents prepared for the Tutunup South mine site in Western Australia were prepared and awarded on the basis of sound attenuated equipment to ensure compliance with the approved Noise Management Plan.

## REHABILITATION

Iluka undertakes measures to minimise land disturbance during mining and to re-establish disturbed areas upon the completion of mining as sustainable ecosystems and community assets. In 2009, the amount of land disturbed was 27 per cent higher than the area of land rehabilitated. This is primarily due to the opening of new mining areas in the Murray Basin and South Australia.

In 2009, Iluka's Virginia operation in the United States, was awarded "Best Overall Reclamation" by the Interstate Mining Compact Commission. The national award recognises commitment to the rehabilitation of mined lands and best management practices for environmental stewardship.

At Iluka's Jacinth-Ambrosia operation in South Australia, a three year research partnership, established in 2006 with the University of Adelaide and the Department for Environment and Heritage through the Adelaide Botanic Gardens, has supported Doctoral and Post Doctoral research into seed dormancy and germination of native plant species in the Yellabinna Regional Reserve. The research was completed in November 2009 and the published results will be utilised by Iluka for its rehabilitation plans at the Jacinth-Ambrosia mine site.

## BIODIVERSITY

Critical to protecting biodiversity is an understanding of the flora and fauna present within and around any potential disturbance areas. When significant species or ecosystems are identified during pre-mining environmental assessments, specific research and management plans are implemented. In 2009, Iluka's Exploration team liaised with the Department of Environment, Water, Heritage and the Arts to undertake surveys for the Sandhill Dunnart, an endangered species found in South Australia's Yellabinna Regional Reserve. The survey results added 19 new Sandhill Dunnart records to the State Biological Database (a 30 per cent increase on previous records) and significantly extended the animals' area of occupancy.

## EMPLOYEES

Iluka recognises that a partnership with its employees based on communication, alignment, and engagement, is vital to the achievement of its business objectives. The company's values centre on Commitment, Integrity and Responsibility. Iluka's organisational culture focusses on profitability, sustainability and growth, and also includes a commitment to the highest standards of health and safety performance, as well as providing opportunities for professional development.

Iluka values the health and safety of employees and has continued in 2009 with a range of integrated programmes to improve employee awareness of, and accountability for, safety.

In 2009 the company made significant structural changes to its existing operations in response to weak demand for mineral sands products. These included the acceleration of the reconfiguration of the Western Australian operational base of the company, which resulted in a significant reduction in the workforce. As part of this, it was a focus of the company to mitigate the impact on affected employees through measures such as:

- redeployment to other operations, which while limited in terms of the number of employees affected, occurred in a number of cases;
- providing employment transition and career planning advice;
- financial planning assistance; and
- personal and family counselling where sought.

While the reduction in the company's Western Australian workforce was significant, the commencement of operations in South Australia and Victoria has provided the ability to relocate some employees and generated employment in the regional areas concerned.

Iluka employed approximately 1,000 people at the end of 2009, compared to 1,400 people at the end of 2008.

As part of native title agreements in Western Australia, South Australia and Victoria, Iluka has developed pre-employment and on-the-job training to assist Indigenous people gain employment across the company's operations. As an example, at 31 December 2009 the Jacinth-Ambrosia operation in South Australia had 14 indigenous employees in a variety of positions, including equipment operators, administration officers, shift coordinator and an indigenous relations advisor. This level of indigenous employment matches the achievement of the internal goal for the Jacinth-Ambrosia operation to reach and retain a 20 per cent indigenous workforce.

## STAKEHOLDER ENGAGEMENT

Iluka's engagement and consultation with stakeholders is integral to the establishment, operation, rehabilitation and eventual closure of its mining and processing operations.

For example, at its South Australian operation, Iluka delivered a Road Train Safety Awareness programme to address community concerns regarding educating children about road trains. Iluka also signed a native title agreement with the Robinvale native title claim group in Victoria and engaged with the Gnaala Karla Booja claim group to receive approval for a project at its North Capel processing facility in the South West of Western Australia.

Iluka also continued to support a range of organisations in 2009, including the Wakakirri Festival which provided over 800 students from Ceduna and surrounding areas in South Australia with the opportunity to participate in performing and visual arts programmes. Iluka continued its support for other community events such as the Geraldton Sunshine Festival and Capelfest in Western Australia. Iluka completed the third of a three year partnership with LandCare Australia.

Iluka recorded 101 complaints in 2009 compared to 296 complaints in 2008 which represented a 66 per cent decrease. The majority of these complaints related to noise and dust issues, mainly associated with the mining operations in the South West (ceased in 2009 following exhaustion of the resource base).

## SUPPLEMENTARY EHS STATISTICAL DATA 2005 - 2009

Table 1: Iluka Safety Performance
Injuries and Frequency Rates 2005 - 2009

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Fatality | 0 | 0 | 0 | 0 | 0 |
| LTI | 11 | 17 | 9 | 14 | 15 |
| LTIFR | 1.9 | 2.6 | 1.7 | 2.8 | 3.0 |
| MTI | 34 | 43 | 44 | 40 | 38 |
| MTIFR | 5.7 | 6.6 | 8.3 | 7.8 | 7.6 |
| First Aid | 191 | 152 | 91 | 80 | 87 |
| FAIFR | 27.6 | 24.7 | 17.1 | 14.7 | 17.3 |
| AIFR | 39.7 | 32.5 | 27.0 | 25.3 | 27.9 |
| Minor | 435 | 572 | 563 | 550 | 505 |

LTIFR reported for 1 million hours worked

Table 2: Site Safety Performance - Injuries 2009

| | Fatality | LTI | MTI | FAI | Minor |
|---|---|---|---|---|---|
| South West | 0 | 2 | 5 | 14 | 73 |
| Mid West | 0 | 2 | 17 | 46 | 80 |
| NUP | 0 | 0 | 1 | 3 | 9 |
| Murray Basin | 0 | 3 | 3 | 8 | 158 |
| CRL | 0 | 3 | 1 | 2 | 87 |
| USA | 0 | 2 | 4 | 2 | 29 |
| SA | 0 | 0 | 7 | 9 | 53 |
| Exploration | 0 | 3 | 0 | 1 | 15 |
| Corporate | 0 | 0 | 0 | 2 | 1 |
| Total | 0 | 15 | 38 | 87 | 505 |

Table 3: Site Safety Performance - Frequency Rates 2005 - 2009

| | 2005 | | | 2006 | | | | 2007 | | | | 2008 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | LTIFR | MTIFR | AIFR | LTIFR | MTIFR | FAIFR | AIFR | LTIFR | MTIFR | FAIFR | AIFR | LTIFR | MTIFR | FAIFR | AIFR | LTIFR | MTIFR | FAIFR | AIFR |
| South West | 2.4 | 5.6 | 43.7 | 2.9 | 4.4 | 16.7 | 24.0 | 3.3 | 6.7 | 17.5 | 27.5 | 0.9 | 11.0 | 20.1 | 32.0 | 3.7 | 9.2 | 25.8 | 38.7 |
| Mid West | 3.0 | 9.8 | 65.3 | 4.3 | 13.5 | 43.3 | 61.1 | 2.5 | 13.5 | 30.2 | 46.2 | 3.2 | 12.9 | 27.7 | 43.8 | 1.7 | 14.5 | 39.2 | 55.4 |
| Murray Basin | 4.3 | 4.3 | 19.9 | 0.0 | 5.2 | 31.9 | 37.1 | 2.3 | 4.6 | 11.4 | 18.3 | 6.6 | 3.3 | 6.6 | 16.5 | 2.9 | 2.9 | 7.6 | 13.4 |
| CRL | 0.0 | 4.3 | 50.5 | 5.4 | 6.7 | 13.5 | 25.6 | 0.0 | 7.9 | 7.9 | 15.8 | 4.5 | 3.0 | 5.9 | 13.4 | 11.4 | 3.8 | 7.6 | 22.8 |
| USA | 0.9 | 2.8 | 21.8 | 1.1 | 1.1 | 4.4 | 5.5 | 0.0 | 5.3 | 7.9 | 13.2 | 1.4 | 4.3 | 4.3 | 10.0 | 3.1 | 6.2 | 3.1 | 12.4 |
| SA | NM | NM | NM | NM | NM | NM | NM | 0.0 | 17.0 | 0.0 | 17.0 | 0.0 | 0.0 | 12.8 | 12.8 | 0.0 | 9.0 | 11.5 | 20.5 |
| Exploration | 0.0 | 15.4 | 46.3 | 0.0 | 0.0 | 11.0 | 11.0 | 0.0 | 0.0 | 32.9 | 32.9 | 0.0 | 6.0 | 12.0 | 18.0 | 24.9 | 0.0 | 0.0 | 24.9 |
| Corporate | 0.0 | 2.2 | 2.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 5.2 | 5.2 |
| Group Total | 1.9 | 5.7 | 39.7 | 2.6 | 6.6 | 24.7 | 32.5 | 1.7 | 8.3 | 17.1 | 27.0 | 2.8 | 7.8 | 14.7 | 25.3 | 3.0 | 7.6 | 17.3 | 27.9 |

Table Key

| | | |
|---|---|---|
| AIFR | = | All Injury Frequency Rate (includes LTI, MTI and FAI) |
| FAI | = | First Aid Injury |
| FAIFR | = | First Aid Injury Frequency Rate |
| LTI | = | Lost Time Injury |
| LTIFR | = | Lost Time Injury Frequency Rate |
| MTI | = | Medical Treatment Injury |
| MTIFR | = | Medical Treatment Injury Frequency Rate |
| NA | = | Not Available |
| NM | = | Not Measured |

Table 4: Iluka Group Major Risk Procedures

Average Compliance (%) 2005 - 2009

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Iluka Group | NM | 72.3 | 81.6 | 86.7 | 90.9 |

The audit process includes: general vehicles; isolation; safe work at heights; surface mobile equipment; and tailings

Table 5: Site Drug Tests 2005 - 2009

| | 2005 | | 2006 | | 2007 | | 2008 | | 2009 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | # Tests | % Detect | # Tests | % Detect | # Tests | % Detect | # Tests | % Detect | # Tests | % Detect |
| South West | NM | NM | 0 | 0.0 | 201 | 1.5 | 150 | 2.0 | 24 | 8.3 |
| Mid West | NM | NM | 558 | 3.2 | 199 | 0.5 | 866 | 1.7 | 631 | 1.6 |
| Murray Basin | NM | NM | 81 | 7.4 | 385 | 0.3 | 532 | 0.4 | 229 | 0.4 |
| CRL | NM | NM | 265 | 2.2 | 188 | 1.1 | 313 | 0.3 | 0 | 0.0 |
| USA | NM | NM | 32 | 0.0 | 92 | 4.3 | 120 | 1.7 | 112 | 0.0 |
| SA | NM | NM | 0 | 0.0 | NM | NM | 54 | 0.0 | 361 | 0.0 |
| Exploration | NM | NM | 49 | 4.1 | 76 | 2.6 | 53 | 0.0 | 53 | 0.0 |
| Corporate | NM | NM | 0 | 0.0 | 67 | 0.0 | 69 | 0.0 | 0 | 0.0 |
| Group Total | NM | NM | 985 | 3.3 | 1,208 | 1.1 | 2,157 | 1.1 | 1,410 | 0.9 |

Notes:
South West refers to South West, Western Australia
Mid West refers to Mid West, Western Australia
NUP refers to Narngulu Upgrade Project, Western Australia
Murray Basin refers to Murray Basin, Victoria
CRL refers to Consolidated Rutile Limited, Queensland – part of year only
SA refers to South Australia
Corporate refers to Head Office, Perth

Table 6: Site Alcohol Tests 2005 - 2009

| | 2005 | | 2006 | | 2007 | | 2008 | | 2009 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | # Tests | % Detect | # Tests | % Detect | # Tests | % Detect | # Tests | % Detect | # Tests | % Detect |
| South West | NM | NM | NM | NM | NM | NM | 334 | 1.5 | 64 | 0.0 |
| Mid West | NM | NM | NM | NM | NM | NM | 1,023 | 0.0 | 655 | 0.5 |
| Murray Basin | NM | NM | NM | NM | NM | NM | 992 | 0.2 | 496 | 0.2 |
| CRL | NM | NM | NM | NM | NM | NM | 477 | 0.2 | 210 | 0.5 |
| USA | NM | NM | NM | NM | NM | NM | 120 | 0.0 | 112 | 0.0 |
| SA | NM | NM | NM | NM | NM | NM | 1,892 | 0.3 | 2,634 | 0.4 |
| Exploration | NM | NM | NM | NM | NM | NM | 2,406 | 0.0 | 2,418 | 0.0 |
| Corporate | NM | NM | NM | NM | NM | NM | 106 | 0.0 | 0 | 0.0 |
| Group Total | NM | NM | NM | NM | NM | NM | 7,350 | 0.2 | 6,589 | 0.2 |

Table 7: Iluka Environment Performance
Environment Incidents 2005 - 2009

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Level 1 | 1,085 | 846 | 1,055 | 679 | 587 |
| Level 2 | 58 | 16 | 8 | 7 | 96 |
| Level 3 | 3 | 1 | 1 | 0 | 3 |
| Level 4 | 0 | 0 | 0 | 0 | 0 |
| Level 5 | 0 | 0 | 0 | 0 | 0 |
| Group Total | 1,146 | 863 | 1,064 | 686 | 686 |

Table 8: Site Environment Performance - Incidents 2009

| | Level 1 | Level 2 | Level 3 | Level 4 | Level 5 |
|---|---|---|---|---|---|
| South West | 74 | 6 | 0 | 0 | 0 |
| Mid West | 194 | 68 | 1 | 0 | 0 |
| Murray Basin | 140 | 3 | 2 | 0 | 0 |
| CRL | 7 | 0 | 0 | 0 | 0 |
| USA | 23 | 3 | 0 | 0 | 0 |
| SA | 135 | 16 | 0 | 0 | 0 |
| Exploration | 14 | 0 | 0 | 0 | 0 |
| Corporate | 0 | 0 | 0 | 0 | 0 |
| Group Total | 587 | 96 | 3 | 0 | 0 |

Table 9: Site Energy Use (terajoules) 2005 - 2009

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| South West | 6,663 | 6,441 | 6,518 | 5,402 | 3,800 |
| Mid West | 6,019 | 6,206 | 6,047 | 5,496 | 4,120 |
| Murray Basin | 112 | 249 | 591 | 695 | 740 |
| CRL | 579 | 793 | 884 | 620 | 352 |
| USA | 1,192 | 881 | 651 | 586 | 1,368 |
| SA | NA | 4 | 11 | 13 | 251 |
| Exploration | NM | NM | NM | 11 | 314 |
| Corporate | NM | NM | NM | 0 | 0 |
| Group Total | 14,565 | 14,574 | 14,702 | 12,823 | 10,945 |

Table 10: Site Energy Resources Used (%) 2005 - 2009

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| Coal | 59.7 | 61.1 | 54.8 | 57.8 | 50.1 |
| Electricity | 19.2 | 15.8 | 14.9 | 17.8 | 13.8 |
| Natural Gas | 9.8 | 7.4 | 10.3 | 11.2 | 9.6 |
| LPG | 0.1 | 0.0 | 0.0 | 0.1 | 1.9 |
| Diesel | 9.4 | 15.0 | 19.6 | 12.8 | 21.4 |
| Petrol | 0.1 | 0.0 | 0.1 | 0.1 | 2.9 |
| Fuel, Oil & Greases | 1.7 | 0.7 | 0.3 | 0.2 | 0.2 |
| Total | 100 | 100 | 100 | 100 | 100 |

Table 11: Site Carbon Dioxide Gas Emissions (kt$CO_2$e) 2005 - 2009

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| South West | 665 | 651 | 584 | 532 | 362 |
| Mid West | 691 | 713 | 649 | 607 | 462 |
| Murray Basin | 17 | 46 | 98 | 115 | 112 |
| CRL | 192 | 240 | 209 | 134 | 74 |
| USA | 476 | 115 | 107 | 90 | 48 |
| SA | NA | NA | 1 | 1 | 19 |
| Exploration | NM | NM | NM | 1 | 1 |
| Corporate | NM | NM | NM | 0 | 0 |
| Group Total | 2,041 | 1,765 | 1,648 | 1,480 | 1,078 |

Table 12: Site Particulates (tonnes) 2005 - 2009

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| South West | 138 | 78 | 191 | 243 | 61 |
| Mid West | 274 | 235 | 309 | 345 | 216 |
| Murray Basin | 0 | 0 | 187 | 435 | 826 |
| CRL | 486 | 642 | 897 | 2,161 | 968 |
| USA | 66 | 24 | 13 | 13 | 7 |
| SA | NA | NA | NA | 0 | 0 |
| Exploration | NA | NA | NA | NA | NA |
| Corporate | NA | NA | NA | NA | NA |
| Group Total | 964 | 979 | 1,597 | 3,196 | 2,077 |

Table 13: Site Oxides of Sulphur (tonnes) 2005 - 2009

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| South West | 7,446 | 7,405 | 7,200 | 2,850 | 2,482 |
| Mid West | 535 | 275 | 151 | 60 | 61 |
| Murray Basin | 5 | 0 | 0 | 0 | 6 |
| CRL | 5 | 3 | 0 | 3 | 2 |
| USA | 64 | 36 | 34 | 30 | 21 |
| SA | NA | NA | NA | 0 | 0 |
| Exploration | NA | NA | NA | NA | NA |
| Corporate | NA | NA | NA | NA | NA |
| Group Total | 8,055 | 7,719 | 7,385 | 2,943 | 2,571 |

Table 14: Site Oxides of Nitrogen (tonnes) 2005 - 2009

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| South West | NM | NM | 147 | 112 | 73 |
| Mid West | NM | NM | 0 | 0 | 97 |
| Murray Basin | NM | NM | 24 | 10 | 203 |
| CRL | NM | NM | 443 | 170 | 70 |
| USA | NM | NM | 205 | 166 | 142 |
| SA | NA | NA | NA | 0 | 0 |
| Exploration | NA | NA | NA | NA | NA |
| Corporate | NA | NA | NA | NA | NA |
| Group Total | 0 | 0 | 819 | 458 | 585 |

Table 15: Site Water Use (megalitres) 2005 - 2009

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| South West | 5,152 | 5,781 | 4,880 | 3,656 | 3,190 |
| Mid West | 15,359 | 14,320 | 17,558 | 18,790 | 15,536 |
| Murray Basin | 1,553 | 1,122 | 2,392 | 2,826 | 3,012 |
| CRL | 26,196 | 23,711 | 27,272 | 21,710 | 12,198 |
| USA | 5,232 | 2,487 | 2,877 | 2,607 | 1,422 |
| SA | NA | 11 | 1 | 27 | 1,119 |
| Exploration | NM | NM | NM | 1 | 1 |
| Corporate | NA | NA | NA | 0 | 0 |
| Group Total | 53,492 | 47,432 | 54,980 | 49,617 | 36,478 |

Table 16: Site Water Discharge (megalitres) 2005 - 2009

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| South West | 6,961 | 3,981 | 6,509 | 5,331 | 3,137 |
| Mid West | 0 | 0 | 36 | 29 | 608 |
| Murray Basin | 0 | 6 | 26 | 26 | 26 |
| CRL | 0 | 0 | 1,422 | 4,160 | 1,735 |
| USA | 1,101 | 424 | 1,575 | 945 | 1,515 |
| SA | NA | 6 | 0 | 0 | 0 |
| Exploration | NM | NM | NM | 1 | 1 |
| Corporate | NA | NA | NA | 0 | 0 |
| Group Total | 8,062 | 4,417 | 9,567 | 10,491 | 7,022 |

Table 17: Site Water Recycled (megalitres) 2005 - 2009

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| South West | NM | NM | 0 | 0 | 0 |
| Mid West | NM | NM | 0 | 0 | 0 |
| Murray Basin | NM | NM | 1 | 2 | 1 |
| CRL | NM | NM | 25,865 | 21,758 | 11,584 |
| USA | NM | NM | 1,701 | 1,341 | 1,120 |
| SA | NM | NM | NM | 0 | 1,008 |
| Exploration | NM | NM | NM | 1 | 0 |
| Corporate | NA | NA | NA | 0 | 0 |
| Group Total | 0 | 0 | 27,567 | 23,101 | 13,713 |

Table 18: Site Land Use - Disturbed, Rehabilitated, Open (hectares) 2005 - 2009

| | 2005 | | | 2006 | | | 2007 | | | 2008 | | | 2009 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Disturbed | Rehab | Open | Disturbed | Rehab | Open | Disturbed | Rehab | Open | Disturbed | Rehab | Open | Disturbed | Rehab | Open |
| South West | 135 | 133 | 1,864 | 172 | 134 | 1,902 | 172 | 264 | 2,205 | 35 | 114 | 2,126 | 5 | 161 | 1,970 |
| Mid West | 101 | 268 | 1,763 | 164 | 146 | 1,781 | 131 | 54 | 1,858 | 311 | 120 | 2,049 | 315 | 111 | 2,253 |
| Murray Basin | 306 | 0 | 410 | 73 | 0 | 483 | 50 | 58 | 475 | 195 | 0 | 670 | 624 | 58 | 1,236 |
| CRL | 127 | 76 | 542 | 140 | 79 | 607 | 101 | 36 | 672 | 85 | 42 | 715 | 78 | 49 | 744 |
| USA | 455 | 374 | 2,648 | 113 | 655 | 2,105 | 83 | 1,015 | 1,146 | 136 | 668 | 614 | 58 | 170 | 502 |
| SA | NA | NA | NA | 75 | 2 | 74 | 49 | 59 | 64 | 207 | 2 | 269 | 720 | 0 | 989 |
| Exploration | NM | NM | NM | NM | NM | NM | NM | NM | 35 | 79 | 20 | 94 | 512 | 35 | 571 |
| Corporate | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| Group Total | 1,124 | 851 | 7,227 | 737 | 1,016 | 6,952 | 586 | 1,486 | 6,455 | 1,048 | 966 | 6,537 | 2,312 | 584 | 8,265 |

Open area calculation:

Open area + (disturbed area - rehabilitated area proceeding year) = open proceeding year

Table 19: Site Waste Management Practices 2009

| | Chemical & Lab Waste | Hydrocarbons | Tyres | Paper & Cardboard | Scrap Metal | Grease & Oil | Batteries |
|---|---|---|---|---|---|---|---|
| South West | NA | NA | NA | RE | RE/C | RU | RE |
| Mid West | L/T | L | NA | RE | RE | RE | NA |
| Murray Basin | NA | NA | RE | RE | RE | NA | NA |
| CRL | NA | NA | NA | NA | NA | NA | NA |
| USA | C | RE/C | L | RE | RE | RE/T | RE |
| SA | NA | NA | L/RE | RE | L/RE | RE | L/RE |
| Exploration | L | C | RE | RE/C | RU/RE | RE/C | RE/C |
| Corporate | NA | NA | NA | RE | NA | NA | NA |

Table Key

| | | | | | |
|---|---|---|---|---|---|
| L | = | Disposal to Land Fill | C | = | Collected by licensed contractor for a range of uses |
| RU | = | Re-Use | NA | = | Not Applicable |
| RE | = | Recycling | NM | = | Not Measured |
| T | = | Treatment off-site | | | |

Table 20: Site Waste Management (tonnes) 2009

| | Chemical & Lab Waste | Hydrocarbons | Tyres | Paper & Cardboard | Scrap Metal | Grease & Oil | Batteries |
|---|---|---|---|---|---|---|---|
| South West | NA | NA | NA | NM | 131 | 106 | NM |
| Mid West | 1 | 16 | NM | 8 | 248 | 281 | NM |
| Murray Basin | NM | NM | 98 | 9 | 66 | 63 | 1 |
| CRL | NM | NM | NM | NM | NM | NM | NM |
| USA | 1 | 2 | NM | 7 | 73 | 5 | NM |
| SA | NM | NM | 11 | 22 | 119 | 16 | 1 |
| Exploration | 225 | NM | 2 | 3 | 11 | NM | NM |
| Corporate | NM | NM | NM | NM | NM | NM | NM |

## LEADERSHIP TEAM

Iluka's senior management team is led by Managing Director, David Robb.

The Remuneration Report contains details of remuneration arrangements.

### Peter Benjamin B AppSc (Hons), Grad Dip (Exploration), (Bus Admin), GAICD, MAusIMM, AFAIM
### General Manager, Exploration

Mr Benjamin joined Iluka in 2001 as Group Manager Exploration and was appointed General Manager Exploration in June 2006. During 2008 and 2009, his role included the management of Technical Services. Mr Benjamin has operations, project and exploration experience, having held roles with Australian Resources, Gold Mines of Australia and Mt Lyell Mining.

### Matthew Blackwell B Eng (Mech), Grad Dip (Tech Mgt), MBA, MAICD, MIEAust
### General Manager, USA

Mr Blackwell joined Iluka in 2004 as President US Operations. From 2007 he was responsible for Land Management before returning to lead the USA region in May 2009. Prior to joining Iluka he was Executive Vice President of TSX listed Asia Pacific Resources based in Thailand. Mr Blackwell has a background in mining and processing having held senior positions in project management, maintenance, production and business development.

### Chris Cobb Dip CSM, FIQ
### General Manager, Sales and Marketing

Mr Cobb has 31 years of resource and manufacturing experience in Africa, Europe, Asia and Australia. Previous roles include 5 years as Managing Director of Consolidated Rutile Ltd, an ASX listed Queensland mineral sands company, 12 years in copper/cobalt mining in Zambia, and 4 years as Chief Executive Officer of the largest construction materials company in Malaysia.

### Simon Green BA (Hons), ACA, MAICD
### General Manager, Finance and Commercial

Mr Green joined Iluka in 2006 as General Manager Finance after a twenty year career in audit and assurance with PricewaterhouseCoopers in Australia and the UK, specialising in the Energy and Resources sector.

### Victor Hugo BSc, MSc, PhD
### General Manager, Product and Technical Development

Dr Hugo originally joined Iluka in 1998. After leaving Iluka in 2001 and working with the minerals sands industry research and consulting company TZMI, he re-joined Iluka in 2003 as General Manager, Sales and Marketing. In September 2009, Dr Hugo was appointed General Manager Product and Technical Development. He has also held positions with Richards Bay Minerals and Cable Sands.

### Robert Porter BA (Hons), MSc (Econ), PhD
### General Manager, Investor Relations and Corporate Affairs

Dr Porter joined Iluka in December 2005. He has worked in the investor relations area for over 15 years with roles at BHP Billiton, Foster's, Southcorp and Ampolex. Dr Porter has also held government relations roles at Westpac and BP Australia.

### Alan Tate BCom, CA, AICD
### Chief Financial Officer

Mr Tate joined Iluka in May 2008. He was previously Chief Financial Officer for Jabiru Metals. Prior to joining Jabiru, he held senior planning, finance and accounting roles with BHP Billiton and WMC Resources. He commenced his career with Peat Marwick.

### Hans Umlauff B MEng (Hons), FIEAust
### General Manager, South Australian Development and Project Management

Mr Umlauff joined Iluka in June 2006 as Executive General Manager, Capital Projects. He has had a career in various Australian and International engineering, operational, project management and capital management roles with BHP Steel, BHP, Normandy Mining and Newmont Australia.

### Doug Warden BCom, CA, MBA
### General Manager, Business Development

Mr Warden originally joined Iluka in 2003. After leaving Iluka in 2007, Mr Warden gained experience in the uranium and base metals industries as Chief Financial Officer of both Summit Resources Ltd and Jabiru Metals Ltd. Prior to joining Iluka, he worked in corporate finance and insolvency areas with Ernst & Young and KPMG.

### Steve Wickham Assoc Dip Mechanical Engineering
### General Manager, Eastern and Western Operations

Mr Wickham is a mechanical engineer with experience in senior and executive roles in Australia and South Africa in the manufacturing and mining sectors. Prior to joining Iluka in 2007, he was Chief Executive Officer of Ticor South Africa and Managing Director of Australian Zircon.

### Cameron Wilson LLB
### General Manager, Corporate Services

Mr Wilson joined Iluka in late 2004 after seven years in a range of legal and commercial roles with WMC Resources Limited. He has specialised in mining, corporate and general commercial law for most of his professional career.

Mr Allan Sale, General Manager USA Operations, retired during 2009.

Mr Philip Nillsen, General Manager Business Development, took extended leave during the course of 2009.

Ms Christine Truscott, General Manager Land Management, commenced maternity leave in 2009.

Mr Peter Beilby left Iluka in 2010, associated with an organisational change in which Mr Steve Wickham was appointed General Manager, Eastern and Western Operations (the former encompassing Murray Basin).

# FIVE YEAR FINANCIAL PERFORMANCE HISTORY

All figures are in A$ million

| Production | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Production Volumes (k tonnes) | | | | | |
| - Zircon | 263.0 | 385.1 | 513.8 | 445.7 | 418.2 |
| - Rutile | 127.1 | 140.1 | 216.1 | 172.8 | 174.1 |
| - Synthetic Rutile | 405.0 | 467.3 | 526.6 | 506.6 | 529.6 |
| - Ilmenite (saleable) | 342.0 | 586.2 | 931.7 | 934.9 | 781.7 |
| - Ilmenite | 496.7 | 641.0 | 702.5 | 752.5 | 810.5 |
| Average AUD:USD exchange rate (cents) | 79.34 | 85.35 | 83.90 | 75.35 | 76.24 |
| AUD:USD range (cents) | 62.91/93.68 | 60.38/98.05 | 76.98/93.25 | 70.54/79.08 | 72.51/79.75 |
| **Summary Financials** | | | | | |
| Mineral sands revenue | 576.0 | 988.5 | 938.6 | 1,003.2 | 921.0 |
| Earnings before depreciation, net interest and tax (excluding asset impairments / write-downs) | 62.3 | 274.6 | 287.7 | 199.2 | 46.6 |
| - Mineral Sands EBITDA | 75.6 | 186.3 | 230.6 | 257.3 | 222.3 |
| - Mining Area C EBITDA | 50.6 | 56.8 | 19.9 | 19.1 | 23.5 |
| - Other | (63.9) | (47.0) | 18.1 | 4.5 | 76.2 |
| Depreciation and amortisation | (176.6) | (161.7) | (148.0) | (112.7) | (125.4) |
| Net interest and finance charges | (22.7) | (35.6) | (59.2) | (40.8) | 34.0 |
| Income tax (expense) benefit | 72.9 | 7.7 | (20.1) | (14.2) | 41.3 |
| Profit from discontinued operations | 22.9[1] | 30.0[2] | N/A | N/A | N/A |
| NPAT (excluding asset impairments / write-downs) | (61.3) | 73.7 | 51.1 | 66.2 | 131.9 |
| NPAT (inclusive of asset impairments / write-downs) | (108.6) | 77.5 | 51.1 | 21.0 | (85.9) |
| Operating cash flow | 111.6 | 233.0 | 95.5 | 142.2 | 227.0 |
| Capital expenditure | (521.6) | (198.4) | (118.2) | (172.7) | (341.9) |
| Net debt | 382.1 | 215.7 | 598.1 | 596.5 | 554.2 |
| **Capital and Dividends** | | | | | |
| Ordinary shares on issue (millions) | 418.7 | 380.7 | 242.2 | 232.9 | 232.9 |
| Dividends in respect of the year | N/A | N/A | (51.7) | (51.2) | (51.2) |
| Dividends per share (cents) | N/A | N/A | 10 | 22 | 22 |
| Franking level (per cent) | N/A | N/A | 100 | 100 | 66.4 |
| **Financial Ratios** | | | | | |
| EPS, excluding asset impairments/ write-downs (cents) | (15.1) | 17.8 | 21.6 | 50.2 | 58.5 |
| Cash Flow per Share (cents) | (2.2) | 19.9 | 1.5 | (0.2) | 2.0 |
| Return on shareholders' equity (per cent), excluding asset impairments / write-downs | (5.6) | 7.9 | 6.8 | 3.3 | (12.5) |
| Gearing (net debt/(net debt + equity) (per cent) | 25.9 | 17.4 | 44.3 | 45.4 | 42.3 |
| **Financial Position as at 31 December** | | | | | |
| Total assets | 2,098.4 | 2,058.1 | 1,868.0 | 1,864.5 | 1864.5 |
| Total liabilities | (1,003.1) | (1,020.1) | (1,116.4) | (1,148.0) | (1,107.4) |
| Net Assets | 1,095.3 | 1,038.0 | 751.6 | 716.5 | 757.1 |
| Shareholders' equity attributable to members of Iluka Resources | 1,095.3 | 979.8 | 683.6 | 647.2 | 688.8 |
| Net tangible asset backing per share (dollars) | 2.58 | 2.69 | 3.04 | 3.00 | 3.17 |

[1] This table includes the contribution from Consolidated Rutile Limited on a 100% basis in years 2005 - 2008. Iluka divested its interest in CRL in May 2009 with the CRL trading activity included in the profit from discontinued operations.

[2] Iluka divested its 50% interest in the Narama Coal Joint Venture in January 2008. Trading activity is included in the profit from discontinued operations in 2008.

## STATEMENT OF SHAREHOLDINGS AS AT 9 MARCH 2010

| | | |
|---|---|---|
| i. | Number of holders of shares | 18,054 |
| ii | Number of shares on issue | 418,701,360 |
| iii. | Voting rights, on a show of hands, are one vote for every registered holder and on a poll, are one vote for each share held by registered holders | |
| iv. | Distribution of Shareholdings | |

| Shareholding | Number of holders |
|---|---|
| 1 - 1,000 | 9,265 |
| 1,000 - 5,000 | 6,621 |
| 5,001 - 10,000 | 1,261 |
| 10,001 - 100,000 | 851 |
| 100,001 and over | 56 |
| Number of shareholders holding less than a marketable parcel (less than $500): | 1,995 |

v. Substantial Shareholders

| Name | Number of shares in which a relevant interest is held | % Holding |
|---|---|---|
| M&G Investment Management Limited, London | 79,634,439 | 19.01 |
| Schroder Investment Management Group, Sydney | 41,636,612 | 9.94 |
| BlackRock Group | 23,506,347 | 5.61 |
| Lazard Asset Managements Pacific Co | 21,565,414 | 5.15 |
| Orbis Investment Management (Australia) Pty Ltd | 21,497,235 | 5.13 |
| MFS Investment Management | 21,122,417 | 5.04 |
| National Australia Bank Limited | 21,029,080 | 5.02 |

vi. Top 20 Shareholders (Nominee Company Holdings)

| Name | Number of Shares | % Holding |
|---|---|---|
| J P Morgan Nominees Australia Limited | 120,324,700 | 28.74 |
| HSBC Custody Nominees (Australia) Limited | 106,036,433 | 25.33 |
| National Nominees Limited | 61,961,382 | 14.80 |
| Citicorp Nominees Pty Limited | 23,999,833 | 5.73 |
| RBC Dexia Investor Services Australia Nominees Pty Limited | 9,632,710 | 2.30 |
| Queensland Investment Corporation | 4,489,879 | 1.07 |
| Cogent Nominees Pty Limited | 4,208,012 | 1.01 |
| ANZ Nominees Limited | 4,179,380 | 1.00 |
| UBS Nominees Pty Ltd | 3,479,481 | 0.83 |
| RBC Dexia Investor Services Australia Nominees Pty Limited | 3,041,536 | 0.73 |
| Cogent Nominees Pty Limited | 2,498,803 | 0.60 |
| AMP Life Limited | 2,200,260 | 0.53 |
| Citicorp Nominees Pty Limited | 2,200,000 | 0.53 |
| HSBC Custody Nominees (Australia) Limited | 2,136,740 | 0.51 |
| Iluka Administration Limited | 1,904,380 | 0.45 |
| Argo Investments Limited | 1,700,927 | 0.41 |
| Mirrabooka Investments Limited | 1,500,000 | 0.36 |
| Australian Foundation Investment Company Limited | 1,390,000 | 0.33 |
| R O Henderson (Beehive) Pty Limited | 1,105,000 | 0.26 |
| RBC Dexia Investor Services Australia Nominees Pty Limited | 952,698 | 0.23 |

# CORPORATE INFORMATION

### Company Details

Iluka Resources Limited
ABN: 34 008 675 018

Registered Office:
Level 23, 140 St George's Terrace
PERTH WA 6000
Postal Address:
GPO Box U1988,
PERTH WA 6845 Australia

Telephone: +61 8 9360 4700
Facsimile: +61 8 9360 4777
Website: www.iluka.com

This site contains information on Iluka's products, marketing, operations, ASX releases, financial and quarterly reports. It also contains links to other sites, including the share registry.

### Share Registry Inquiries

Shareholders who require information about their shareholdings, dividend payments or related administrative matters should contact the company's share registry:

Computershare Investor Services Pty Limited

Level 2, Reserve Bank Building
45 St Georges Terrace
PERTH WA 6000

Postal Address:
GPO Box D182
PERTH WA 6840

Telephone: +61 3 9415 4801 or 1300 733 043
Facsimile: +61 8 9323 2033
Website: www.computershare.com

Each inquiry should refer to the shareholder number which is shown on issuer-sponsored holding statements and dividend statements.

### Stock Exchange Listing

Iluka's shares are listed on the Australian Securities Exchange Limited. The company is listed as "Iluka" with an ASX code of ILU.

### Change of Address

Shareholders who have changed their address should give written advice of the change, quoting the relevant shareholder number, to the company's share registry.

### Uncertificated Shareholders

The share register was converted on 27 April, 1998. Information regarding the Company's issuer-sponsored holdings is available from the company's share registry.

### Shareholder Review and Annual Report Mailing List

All shareholders are entitled to receive a Shareholder Review and/or an Annual Report. Shareholders wishing to receive one or both of these documents should write to the share registry and quote their shareholder number. For new shareholders an election form is available to receive a copy of the Shareholder Review and Annual Report. By registering with the share registry, shareholders can be provided with email notification of the availability of the Shareholder Review and Annual Report online.

Copies of the reports are available on Iluka's website www.iluka.com

### Payment of Dividends

The Board of Directors announced its decision not to pay a final dividend for 2009.

### Tax File Numbers (TFN)

The company is obliged to deduct tax from dividend payments, other than those which are fully franked, to shareholders registered in Australia who have not quoted their TFN to the company. Forms for notifying TFNs are sent to all new shareholders of the company. For shareholders who have not already quoted a TFN, they may do so by contacting the company's share registry.

### 2010 Calendar

| | |
|---|---|
| 20 January | December Quarter Production and Exploration Report |
| 25 February | Announcement of Full Year Financial Results |
| 22 April | March Quarter Production and Exploration Report |
| 18 May 9.30am WST | Closure of acceptances of proxies for AGM |
| 20 May 9.30am WST | Annual General Meeting - Parmelia Hilton, Perth, Western Australia |
| 20 July | June Quarter Production and Exploration Report |
| 26 August | Announcement of Half Year Financial Results |
| 21 October | September Quarter Production and Exploration Report |
| 31 December | Financial Year End |

All dates are indicative and subject to change. Shareholders are advised to check with the company to confirm timings.

WST refers to Western Australian Standard time.