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 f ows and the franking credit position the Board has decided not to pay a 2009 dividend.