ISLA PERTTULA CORPORATION

2013

Annual Report

Advanced Materials · Chemicals · Energy & Storage · Logistics

1 Channel Plaza, Perttula, Texas 77436

Financial Highlights

(in millions, except per share and employees)	2013	2012
Revenue	3,720	3,490
Adjusted EBITDA	660	590
Operating income	429	374
Net income (loss)	190	180
Diluted earnings (loss) per share	$1.15	$1.09
Dividends declared per share	$0.60	$0.60
Capital expenditures	216	202
Cash from operating activities	406	382
Total assets	5,744	5,468
Total debt	4,250	4,250
Employees at year end	9,400	9,100

To Our Shareholders

2013 was a year in which your Company grew. Revenue was $3,720 million, compared with $3,490 million in 2012, and net income was $190 million. Adjusted EBITDA was $660 million.

Energy & Storage contributed most to the year's result, with revenue up $90 million. The balance of our portfolio is deliberate: when chemicals are weak, power and storage are usually not, and the port earns in both.

Among the year's milestones: perttula Power Station Expansion Enters Service.

We invested $216 million in capital projects and returned $99 million to shareholders in dividends, which we have now paid without interruption since 1989. Our first call on capital remains the integrity of the Perttula site: the levee, the jetties, the cell house and the caverns.

Nothing we report matters more than that number. We employed 9,400 people at year end, a great many of them in a town this Company laid out in 1919 and still serves with power, water and housing.

Thank you for your continued confidence in Isla Perttula Corporation.

Walter H. Cardwell III
Chairman and Chief Executive Officer

Review of Operations

Revenue by segment	2013	2012
Advanced Materials	140	100
Chemicals	1,660	1,640
Energy & Storage	580	490
Logistics	1,260	1,190
Corporate & Community	80	70
Total revenue	**3,720**	**3,490**

Advanced Materials

Advanced Materials comprised the Company's early-stage rare-earth interests and development spending in advance of the Perttula Separation Facility. Segment revenue was 140 million.

Chemicals

Chemicals produces chlorine, caustic soda and ethylene dichloride at Perttula Works, drawing brine from the Perttula Dome and power and steam from Perttula Power Station, together with Gulf Crescent Chlorine at Lake Charles, Louisiana, barite through Sabine Barytes Company and oilfield chemicals through Borealis Oilfield Chemicals.

Segment revenue was 1,660 million.

Energy & Storage

Energy & Storage comprises merchant power sales from Perttula Power Station, a 1,140-megawatt gas-fired cogeneration facility, and hydrocarbon storage in solution-mined caverns in the Perttula Dome. Segment revenue was 580 million.

Logistics

Logistics comprises the Port of Perttula, a private deepwater terminal on the 36-foot Perttula Ship Channel; Perttula Marine Towing; Cardwell Field; and Isla Perttula Air, Inc. Isla Perttula Air has operated continuously since 1947, when the Company's Aviation Department began scheduled service to Perttula Shoal. Segment revenue was 1,260 million.

Corporate & Community

Corporate & Community comprises Perttula Community Services LLC, Perttula Realty Holdings LLC and IPC Health Services LLC, which together provide electric, water, wastewater and solid waste service, housing and primary health care to the approximately 4,100 residents of our Perttula community. Segment revenue was 80 million.

Five-Year Selected Financial Data

(in millions, except per share)	2011	2012	2013
Revenue	3,440	3,490	3,720
Adjusted EBITDA	620	590	660
Net income (loss)	210	180	190
Diluted EPS	$1.28	$1.09	$1.15
Dividends per share	$0.60	$0.60	$0.60
Total assets	5,408	5,468	5,744
Employees	8,900	9,100	9,400

Management's Discussion and Analysis

Results of Operations

Revenue of 3,720 million increased 230 million, or 6.6 percent, from 3,490 million in 2012. The change was driven principally by Energy & Storage (+90 million) and Logistics (+70 million). Adjusted EBITDA was 660 million, compared with 590 million in the prior year, and net income was 190 million, or $1.15 per diluted share.

Depreciation and amortization was 231 million, reflecting the capital intensity of the Perttula site. Interest expense was 183 million on average total debt of 4,250 million. The effective tax rate was 23.0 percent.

Liquidity and Capital Resources

Cash provided by operating activities was 406 million. Capital expenditures of 216 million were directed principally to sustaining capital at Perttula Works, the Perttula Separation Facility construction program, and dock and channel maintenance at the Port of Perttula. The Company paid dividends of 99 million. At year end, cash and equivalents were 347 million and total debt was 4,250 million.

Critical Accounting Estimates

The Company's most significant estimates relate to asset retirement and environmental remediation obligations, the useful lives of long-lived assets, and the recoverability of capitalized development costs at mineral properties. Changes in regulatory requirements or in the expected timing of remediation could materially affect the recorded liability.

Consolidated Statements of Operations

(in millions, except per share)	2013	2012
Revenue	3,720	3,490
Cost of sales	2,837	2,691
Selling, general and administrative	223	209
Depreciation and amortization	231	216
Operating income (loss)	**429**	**374**
Interest expense, net	183	140
Income (loss) before income taxes	247	234
Income tax expense (benefit)	57	54
Net income (loss)	**190**	**180**

Consolidated Balance Sheets

(in millions)	2013	2012
Cash and cash equivalents	347	345
Accounts receivable, net	402	377
Inventories	491	461
Property, plant and equipment, net	3,534	3,315
Goodwill and intangible assets	620	620
Other assets	350	350
Total assets	**5,744**	**5,468**
Accounts payable	342	321
Accrued liabilities	153	143
Current portion of long-term debt	250	250
Long-term debt	4,000	4,000
Asset retirement and environmental obligations	310	310
Pension and other long-term liabilities	440	440
Total liabilities	**5,495**	**5,464**
Total shareholders' equity	**249**	**4**

Consolidated Statements of Cash Flows

(in millions)	2013	2012
Net income (loss)	190	180
Depreciation and amortization	231	216
Changes in working capital	(15)	(14)
Cash provided by operating activities	**406**	**382**
Capital expenditures	(216)	(202)
Cash used in investing activities	**(216)**	**(202)**
Dividends paid	(99)	(99)
Cash used in financing activities	**(149)**	**(149)**

Notes to Consolidated Financial Statements

1. Basis of Presentation

The consolidated financial statements include the accounts of Isla Perttula Corporation and its majority-owned subsidiaries. Intercompany accounts and transactions have been eliminated. Amounts are stated in millions of United States dollars unless otherwise noted, and may not sum due to rounding.

2. Segment Information

The Company manages its operations through five reportable segments. Substantially all long-lived assets are located in the United States, other than the Company's interest in the Gamkarab project in Namibia.

3. Aircraft

At December 31, 2013, Isla Perttula Air operated the following aircraft:

Type	Owned	Leased	Total
Airbus A319	10	4	14
Airbus A320	4	6	10

4. Asset Retirement and Environmental Obligations

The Company records obligations for the retirement of long-lived assets and for environmental remediation where a liability is probable and reasonably estimable. The recorded obligation at year end was 310 million.

5. Related Party Transactions

Perttula Community Services LLC, a wholly owned subsidiary, provides electric, water, wastewater and solid waste service to the City of Perttula and its residents under franchise, and provides payroll and information technology services to the City under a shared services agreement. Perttula Realty Holdings LLC leases residential property to employees of the Company and to other residents of the community. Amounts transacted with the City were not material to the consolidated financial statements.

6. Debt

Total debt at year end was 4,250 million, consisting principally of senior notes and a revolving credit facility. The Company was in compliance with all financial covenants.

7. Commitments and Contingencies

The Company is party to various legal proceedings arising in the ordinary course of business. In the opinion of management, the outcome of these matters will not have a material adverse effect on the consolidated financial position of the Company.

Selected Items from the Annual Report on Form 10-K

Item 2. Properties

The Company's principal operations are located on approximately 14,200 acres at Perttula, Matagorda County, Texas, including Perttula Works, Perttula Power Station, Perttula Dome Storage and the Port of Perttula. Cardwell Field, a private airport owned and operated by Cardwell Field Airport Company, a wholly owned subsidiary, serves the Company's aviation operations. The Company also owns or leases approximately 1,020 residential units in the Perttula community through Perttula Realty Holdings LLC.

Item 1A. Risk Factors (summary)

- The Company's operations are concentrated at a single site on the Texas Gulf Coast and are exposed to hurricanes and storm surge.
- Demand and pricing for the Company's products are cyclical and outside its control.
- Rare-earth separation depends on concentrate supplied from a limited number of sources, including projects in Namibia and Greenland subject to foreign regulation.
- The Company's residue management activities are subject to extensive environmental and radiological regulation.
- The Company provides utilities, housing and health care to a community in which it is the principal employer and landowner, which exposes it to reputational and regulatory risk.
- Holders of Class B Common Stock control the election of three of nine directors.

Directors and Officers

Name	Position
Walter H. Cardwell III	Executive Chairman
Carolyn M. Strand	President and Chief Executive Officer
Peter J. Halvorsen	Executive Vice President and Chief Financial Officer
Anil Raghunathan	Executive Vice President; President, Advanced Materials
Lorena Villarreal Moss	Executive Vice President, General Counsel and Corporate Secretary
Chester R. Barrow	Senior Vice President, Logistics; Chairman, Isla Perttula Air, Inc.
Deborah A. Kline	Vice President, Community Services; President, Perttula Community Services LLC
Mara Teague	President and Chief Executive Officer, Isla Perttula Air, Inc.

Shareholder Information

Class A Common Stock is listed on the New York Stock Exchange under the symbol IPC. Class B Common Stock, which carries ten votes per share, is not listed. Transfer agent: Southwestern Stock Transfer Co., Dallas, Texas. Independent registered public accounting firm: Pruett Lyle LLP, Houston, Texas. Investor inquiries: investor.relations@islaperttula.com, (713) 555-0142.

Amounts in this report may not sum due to rounding. Figures for prior periods have been recast to conform to the current segment presentation.