

**ILUKA**

Australian Securities Exchange Notice

25 August 2016

ILUKA HALF YEAR RESULTS SIX MONTHS TO 30 JUNE 2016

Summary of Financial Results

\$ million	1H 2016	1H 2015	% change
Mineral Sands Revenue	338.4	349.6	(3.2)
Mineral Sands EBITDA	43.6	114.4	(61.9)
Group EBITDA	38.6	127.2	(69.7)
Group EBIT	(5.7)	43.5	n/a
Reported (Loss) / Earnings After Tax	(20.9)	20.4	n/a
Operating Cash Flow	(15.5)	92.1	n/a
Free Cash Flow ¹	(50.6)	39.0	n/a
Dividend per share (cents)	3.0	6.0	(50.0)
Net Cash (Debt)	(124.1)	(80.2)	(54.7)

Key Features of Results

- Iluka reported a net loss after tax of \$20.9 million, compared with a \$20.4 million profit in the first half of 2015. Key factors influencing the result included lower income received from the Mining Area C iron ore royalty (MAC), down \$18.2 million period-on-period, and higher first half non production cash costs associated in particular with a significant investment in trialling an innovative mineral sands mining technique. Other factors influencing the result included lower USD prices (mainly for zircon), lower ilmenite sales and sales mix factors which were offset by: lower unit cost of goods sold; higher zircon/rutile/synthetic rutile (Z/R/SR) volumes; and favourable exchange rate movements.
- Z/R/SR sales volumes increased by 14.7 per cent (to 316.4 thousand tonnes) with a full half of synthetic rutile sales volumes. Combined rutile and synthetic rutile sales increased 32.2 per cent period-on-period. Zircon sales volumes of 154.5 thousand tonnes were similar to the first half of 2015.
- Z/R/SR revenue was \$321.1 million, up by 3.0 per cent from first half 2015. Higher sales volumes were partially offset by a lower realised weighted average USD zircon price in the period and a higher proportion of synthetic rutile in the sales mix. Unit revenue per tonne of Z/R/SR was \$1,015 (down 10.2 per cent from the first half of 2015). Lower ilmenite sales and other revenue in the first half of 2016 reflects the internal use of ilmenite for synthetic rutile production and the phasing of planned ilmenite sales to the second half of 2016.
- Cash production costs of \$140.7 million were \$34.8 million or 19.8 per cent lower than the first half of 2015, reflecting the cessation of US operations (in December 2015); the suspension of mining and concentrating at Jacinth-Ambrosia (from 15 April 2016) and the completion of mining of the Woorneck, Rownack, Pirro deposits in the Murray Basin (in March 2015). Partially offsetting the reduction were costs associated with a full six months of synthetic rutile production. Cash production costs, year-to-date,

¹ Free cash flow is determined as cash flow before refinance costs, proceeds/repayment of borrowings and dividends paid in the year.
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are trending lower than Iluka's full year guidance of ~\$300 million (refer ASX Release, Key Physical and Financial Parameters, 19 February 2016).

- Unit cost of goods sold decreased by 12.7 per cent to \$717 per tonne of Z/R/SR sold, relative to the first half of 2015. In periods of large inventory movements, unit cost of goods sold (which includes cash costs, inventory movements and non-cash costs), rather than unit cash costs of production, provides a more accurate reflection of current year production costs for product sold.
- Work-in-progress inventory decreased by \$43.6 million to \$357.6 million as heavy mineral concentrate (HMC) processed of 497 thousand tonnes exceeded heavy mineral concentrate production of 244 thousand tonnes. Finished product inventory decreased by \$13.3 million to \$363.8 million. This drawdown in inventory is consistent with Iluka's reduced production and demand following approach, which are likely to see HMC and finished goods inventories return to pre-2012 levels within the next two years.
- Mining Area C (MAC) royalty earnings were \$20.9 million, compared with \$39.0 million in the first half of 2015. Iron ore sales volumes decreased 7.6 per cent and the average AUD realised price decreased by 10.2 per cent. There were no capacity payments in the first half of 2016 (2015 H1: \$3.0 million). 2015 included a one-off \$10.4 million payment associated with the finalisation of revised royalty arrangements.
- Restructure and idle capacity charges of \$26.8 million were in line with the previous corresponding period (1H 2015: \$27.4 million), with the idling of the US operations in December 2015 resulting in an increase in US restructure and idle costs (1H 2016: \$14 million; 1H 2015: \$5.5 million), which was offset by a reduction in Australian idled costs (1H 2016: \$12.8 million; 1H 2015: \$21.9 million), following the restart of SR2 in the South West. The US restructure and idle costs partly reflect feasibility costs associated with the planned re-treatment and recovery of zircon in concentrate from tailings stocks.
- Group EBITDA margin was 10.7 per cent compared with 32.7 per cent in the first half of 2015, largely reflecting lower MAC earnings and increased resource development costs (up \$23.9 million) associated in particular with a significant investment in assessing an innovative mineral sands mining technique.
- During the half operating cash flow was an outflow of \$15.5 million with receipts from customers down \$106.8 million, partly reflecting sales made late in the half and associated later cash collection; lower MAC royalty cash flows, \$23.9 million higher resource development expenditure referred to above and other factors referred to in the 4D (page 11). Associated with the above, free cash outflow was \$50.6 million, compared with an inflow of \$39.0 million in the first half of 2015.
- Capital expenditure of \$28.8 million (1H 2015: \$39.6 million) includes \$16.7 million for the further development of major projects of Cataby (Western Australia), Balranald (New South Wales) and \$12.1 million associated with an increased equity stake in the UK technology company Metalysis Limited. This investment brings Iluka's equity position in Metalysis to 26.0 per cent at 30 June 2016.
- Net debt increased to \$124.1 million (net debt was \$80.2 million at 30 June 2015 and \$6.0 million net cash as at 31 December 2015), reflecting free cash outflow in the half. Gearing (net debt / net debt plus equity) was 8.7 per cent. Iluka has \$828 million of undrawn facilities from total facilities of \$1,010 million and cash and cash equivalents of \$53 million.

Dividend

Directors have determined an interim dividend of 3.0 cents per share, fully franked. The dividend is payable on 6 October 2016 for shareholders on the register as at 9 September 2016. This dividend compares with a 2015 interim dividend of 6.0 cents (fully franked).

Market Conditions

Zircon

Zircon sales volumes for the first half were 154.5 thousand tonnes, similar to the first half of 2015 (153.4 thousand tonnes). Sales volumes in March were adversely affected by a rumoured price decrease by a major competitor, which caused some customers to defer ordering. Following confirmation of a ~US\$100/tonne price decrease by a major competitor, Iluka announced a ~10 per cent reduction in its Zircon Reference Price² to US\$950 per tonne on 16 April, effective for the second quarter. In May Iluka advised customers that it planned to increase its Zircon Reference Price by US\$60 per tonne effective 1 July. After observing a number of other suppliers implement a range of price variations, across different geographies, Iluka has moderated its third quarter Reference Price increase and will advise the weighted average received price for the third quarter in accordance with its usual disclosure of price outcomes with future financial results.

Iluka's weighted average received price varies from the Reference Price, reflecting product and customer mix as well as commercial arrangements for specific customers. Iluka's weighted average zircon price for all zircon products, as well as its premium and standard products, are shown in the table below. Premium and Standard grade accounted for 47 per cent and 40 per cent of sales in the period, respectively, relative to 60 per cent and 27 per cent, respectively, in full year 2015. Sales of zircon concentrate in the first half reflect the priority given to monetisation of this material, which is expected to be largely complete in 2016.

Weighted Average Zircon Prices (US\$/tonne FOB)

	1H 2015	2H 2015	1H 2016
Premium and standard grade	1,014	962	812
All products, including concentrate and tailings material	1,000	928	787

Regional zircon demand conditions are characterised as follows:

- China: While ceramics market demand was stable, led by positive sanitary ware volumes, demand remained low in the Chinese zirconium oxy chloride (ZOC) market. As a result, there was some evidence of traditional zircon suppliers to the ZOC market competing for a share of ceramics segment sales. Zircon inventories held in China by producers were down to historically low levels at the end of the first half.
- Europe, Middle East and India: Spanish and Italian ceramic markets grew solidly as domestic and export markets continued to strengthen. Zircon demand in India was strong, albeit off a low base. India is emerging as an important ceramic producing area with positive underlying market dynamics (including a growing urban population, a developing economy and a climate and culture preferencing tiled flooring).
- North America: weak conditions in the North American steel, oil and gas industries affected zircon demand. Iluka sought to protect its premium price position as new producers sought market share. There has been a focus on the introduction of new products targeting specialty markets, such as additive manufacturing, with Iluka volume benefits expected in 2017.

High Grade Titanium Dioxide

The recovery in the chloride pigment market continued in the first half of 2016. This was evidenced by end use demand growth resulting in higher plant utilisation rates, restocking by paint and pigment producers, along with price increases announced and implemented by major pigment producers, including in China.

² Iluka's Zircon Reference Price is the benchmark against which all Iluka zircon products are priced and is based on the company's most commonly sold product - Premium Zircon ex China.

These dynamics have, in turn, resulted in favourable conditions for high grade feedstocks, and, in Iluka's case, some contracted volumes being brought forward.

Stronger demand in the welding sector has led to Iluka securing a US\$50-90 per tonne increase for rutile supplied to this niche market.

Income Statement

\$ million	1H 2016	1H 2015	% change
Z/R/SR revenue	321.1	311.7	3.0
Ilmenite and other revenue	17.3	37.9	(54.4)
Mineral sands revenue	338.4	349.6	(3.2)
Cash costs of production	(140.7)	(175.5)	19.8
Inventory movement	(51.7)	14.8	(449.3)
Restructure and idle capacity charges	(26.8)	(27.4)	2.2
Rehabilitation and holding costs for closed sites	(1.6)	(1.1)	(45.5)
Government royalties	(9.4)	(7.8)	(20.5)
Marketing and selling costs	(18.4)	(17.2)	(7.0)
Asset sales and other income	0.9	2.2	(59.1)
Resource development	(47.1)	(23.2)	(103.0)
Mineral sands EBITDA	43.6	114.4	(61.9)
Depreciation and amortization	(44.1)	(83.6)	47.2
Mineral sands EBIT	(0.5)	30.8	(101.6)
Mining Area C	20.8	39.0	(46.7)
Corporate and other costs	(25.5)	(23.6)	(8.1)
Metalysis loss	(1.4)	-	n/a
Foreign exchange	0.9	(2.7)	133.3
Group EBIT	(5.7)	43.5	(113.1)
Net interest and bank charges	(5.5)	(5.8)	5.2
Rehabilitation unwind and other finance costs	(7.3)	(9.9)	26.3
Profit before tax	(18.5)	27.8	(166.5)
Tax expense	(2.4)	(7.4)	67.6
Profit for the period (NPAT)	(20.9)	20.4	(202.5)
Average AUD/USD rate for the period (cents)	73.4	78.3	6.3

Mineral Sands Production and Sales Volumes

	1H 2016	1H 2015	% change
Production (kt)			
Zircon	175.5	163.3	7.5
Rutile	56.7	56.2	0.9
Synthetic rutile	102.2	57.4	78.0
Total Z/R/SR production	334.4	276.9	20.8
Ilmenite	164.1	195.1	(15.9)
Total Mineral Sands Production	498.5	472.0	5.6
Heavy mineral concentrate produced	244	632	(61.3)
Heavy mineral concentrate processed	497	526	(5.6)
Sales (kt)			
Zircon	154.5	153.4	0.7
Rutile	57.4	59.1	(2.9)
Synthetic rutile	104.5	63.4	64.8
Total Z/R/SR sales	316.4	275.9	14.7
Ilmenite	17.7	159.5	(88.9)
Total sales volumes	334.1	435.4	(23.3)
Z/R/SR revenue (\$m)	321.1	311.7	3.0
Ilmenite and other revenue ³ (\$m)	17.3	37.9	(54.4)
Total mineral sands revenue (\$m)	338.4	349.6	(3.2)
Z/R/SR cash costs of production (\$m)	134.5	170.5	(21.1)
Ilmenite concentrate and by-products cash costs of production (\$m)	6.2	5.0	24.0
Total cash costs of production (\$m)	140.7	175.5	(19.8)
Unit cash production costs per tonne of Z/R/SR produced (excluding ilmenite & by-products) (\$/t)	402	616	(34.7)
Unit cash production cost per tonne of Z/R/SR produced (including ilmenite & by products) (\$/t)	421	634	(33.6)
Unit cost of goods sold per tonne of Z/R/SR sold (\$/t)	717	821	(12.7)
Revenue per tonne of Z/R/SR sold (\$/t)	1,015	1,130	(10.2)

Managing Director Commentary

Iluka's Managing Director, David Robb, stated:

"The poor half year financial results reflect a lack of overall revenue growth, despite 15 per cent higher zircon/rutile/synthetic rutile sales volumes. Lower prices prevailed, especially for zircon, as Iluka responded to competitor price positioning, but gross margins were protected through reductions in unit costs of goods sold. Sales mix factors, including a higher proportion of both synthetic rutile and zircon concentrate sales, also influenced revenue outcomes, as did a lower Mining Area C royalty contribution. Earnings and free cash flow generation were adversely affected, influenced in part by the timing of sales towards the end of the half and therefore lower collections occurring within the half. As the company has indicated previously free cash flow is expected to be second half weighted.

In this context, Iluka's approach has been consistent with our objective: to create and deliver value for shareholders, with the following elements of that approach evident in the first half:

- constrained production to match the company's assessment of demand and allow the progressive draw down of inventory;

³ Ilmenite and other revenue include revenues derived from other materials not included in production volumes, including activated carbon products and iron concentrate. Iluka receives a royalty payment from its Mining Area C iron ore royalty. This is reported separately in the income statement.

- a continued focus on operational efficiency and unit cash cost improvement, with a meaningful reduction in unit cash cost of production of 34.7 per cent and a 12.7 per cent reduction in the unit cost of goods sold; and
- a continued investment in the future, especially in terms of mineral resource addition, resource to reserve conversion and innovative means to deliver value from technology-related opportunities. In this regard, the first half saw a significant investment in trialling an innovative mineral sands mining technique together with continued support for other research and development work in mineral sands mining and processing, plus an additional equity investment in Metalysis.

The company's establishment of a strong balance sheet was to underpin its flexible response to variable market conditions and also so that the company could take advantage of opportunities by investing in a counter-cyclical manner. An example of this counter-cyclical focus is the company's recently announced all-cash offer to acquire Sierra Rutile Limited (SRL) and therefore its rutile mining operation in Sierra Leone.

As we indicated with the announcement, SRL is a long life operation, with an established position in high grade chloride feedstock markets. Iluka is confident the application of its industry-specific technical expertise, together with its market access and reach will enhance the SRL business.

The combination provides Iluka with additional, long life (20 years plus) resources of proven quality, with further potential through resource additions, reserve optimisation and exploration. The combination enhances Iluka's rutile portfolio position and this enhancement sits alongside Iluka's existing position as the largest global zircon producer.

Iluka believes the offer represents an attractive risk/return profile for shareholders across a range of scenarios. The transaction is expected to be earnings per share (EPS) accretive in the first full year (2017).

Iluka issued the following SRL Merger Update release today:

Iluka Resources Limited (Iluka) has become aware that the Sierra Leone Government has written to Sierra Rutile Limited (SRL) and outlined its concerns in relation to the timing, liability for and payment of, any capital gains tax (CGT) that may be payable in Sierra Leone by certain shareholders of SRL in connection with the proposed merger by Iluka with SRL (Merger).

Iluka has previously received advice to the effect that Sierra Leone CGT may apply to the Merger and, to the extent that CGT is payable, it is a liability which rests personally with the relevant SRL shareholders. At this time, it is not possible to confirm the extent to which these Sierra Leone Government concerns in relation to any CGT that may be payable by certain shareholders of SRL may affect SRL, the proposed timetable for the merger or the likelihood of the merger proceeding.

Iluka will update the market in due course as appropriate.

Investing counter-cyclically by its nature involves investing at a time when current cash flows are depressed. To do otherwise is to fall into the resources industry trap of investing pro-cyclically. The timing of investment, as well as the nature of investment, is central to the creation of value in mineral resources, as is a through-the-cycle commitment to exploration, innovation and technology. In this regard, I am confident that the positioning investments we have made and will continue to make can create and deliver value for shareholders.

Current options include:

- the Cataby project, where industry conditions are aligning for a potential development decision around the end of the year;
- a largely completed definitive feasibility study for an economically viable conventional development of the large Balranald deposit in New South Wales;
- the trialling of an alternative, innovative, less capital intensive and more flexible development path for Balranald;

- a pre-feasibility programme for the development of a large sulphate ilmenite deposit in Sri Lanka (Puttalam); and
- the Metalysis investment.”

Investment market and media enquiries

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Refer Attachment – Appendix 4D for detailed financial commentary of the results.
Iluka’s website contains presentational material associated with the half year results – refer www.iluka.com

Forward Looking Statements

This announcement contains certain statements which constitute “forward-looking statements”. These statements include, without limitation, estimates of future production and production potential; estimates of future capital expenditure and cash costs; estimates of future product supply, demand and consumption; statements regarding future product prices; and statements regarding the expectation of future Mineral Resources and Ore Reserves.

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- changes in exchange rate assumptions;
- changes in product pricing assumptions;
- major changes in mine plans and/or resources;
- changes in equipment life or capability;
- emergence of previously underestimated technical challenges; and
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