22 August 2014

ILUKA HALF YEAR RESULTS
SIX MONTHS TO 30 JUNE 2014

Summary of Financial Results

$ million	1st Half 2014	1st Half 2013	% change
Mineral Sands Revenue	343.2	381.7	(10.1)
Mineral Sands EBITDA	107.9	136.6	(21.0)
Mineral Sands EBITDA/ revenue %	31.4	35.8	(12.3)
Group EBITDA	125.6	160.2	(21.6)
Group EBIT	31.5	61.2	(48.5)
Reported Earnings (NPAT)	11.7	34.3	(65.9)
Earnings per share - cents	2.8	8.2	(65.9)
Operating Cash Flow	101.9	92.4	10.3
Free Cash Flow[1]	63.9	(44.5)	243.6
FCF/share – cents	15.3	(10.6)	244.3
Dividend cps	6.0	5.0	20.0
Net Debt	(155.2)	(197.0)	21.2
Gearing (net debt/net debt + equity)%	9.2	11.2	(17.9)
Return on Capital % (annualised)[2]	3.1	5.9	(47.5)
Return on Equity % (annualised)[3]	1.5	4.5	(66.7)
Average AUD/USD	91.4	101.5	(10.0)

Key Features of Results

- Iluka reported a net profit after tax of $11.7 million for the half year ended 30 June 2014, compared with $34.3 million for the previous corresponding period.
- Compared with the previous corresponding period, the reduced earnings reflect, in the main, lower received prices for key products, as well as a lower contribution from the Mining Area C iron ore royalty.
- Free cash flow of $63.9 million was generated in the first half. This is $108.4 million higher than the previous corresponding period (2013: -$44.5 million), reflecting a $107.1 million reduction in tax payments. In 2013, tax payments of $118.4 million were paid in respect of 2012 earnings.

[1] Free Cash Flow is determined as cash flow before refinance costs, proceeds/repayment of borrowings and dividends paid in the year.
[2] Calculated as EBIT on an annualised basis as a percentage of average monthly capital employed for the year.
[3] Calculated as NPAT on an annualised basis as a percentage of the average monthly shareholders' equity.
All currency in Australian dollars unless otherwise stated.

- Mineral Sands revenue for the first half of 2014 was $343.2 million compared with $381.7 million in the previous corresponding period.

- Combined zircon, rutile and synthetic rutile (Z/R/SR) sales volumes in the first half of 2014 were 3.5 per cent lower at 277.1 thousand tonnes compared to 287.2 thousand tonnes in 2013.

- Key product prices received were 13.8 per cent lower period-on-period with first half revenue per tonne of Z/R/SR of $1,015 per tonne compared with $1,178 per tonne in the first half of 2013, reflecting materially lower high grade titanium dioxide prices received period on period.

- Cash costs of production of $200.7 million were in line with the previous corresponding period (2013: $201.9 million). Cash costs of production include $19.8 million of costs in relation to ilmenite concentrate and by-product costs (2013: $11.9 million). Iluka's year-to-date cash costs of production are trending in line with guidance of ~$430 million for the full year, of which ~$365 million relates to zircon and rutile production costs and ~$65 million relates to by-product costs (refer ASX Release, Key Physical & Financial Parameters, 21 February 2014).

- On a unit basis, cash costs of production were $796 per tonne of Z/R/SR, a 6.1 per cent decrease compared with the previous corresponding period, reflecting 5.9 per cent higher production of Z/R/SR. Excluding the costs for ilmenite concentrate and by-products, the unit cash cost of production was $718 per tonne of Z/R/SR, compared with $798 per tonne in the previous corresponding period.

- The reduction in underlying unit costs reflects the cost savings realised in 2014 from the operational adjustments that were undertaken in the previous corresponding period, including reductions in workforce and idling some assets.

- Mineral sands EBITDA for the first half of 2014 was $107.9 million, a 21.0 per cent decrease compared with the previous corresponding period. Mineral sands EBIT decreased by 63.5 per cent to $13.8 million (2013: $37.8 million).

- Mining Area C iron ore royalty earnings (MAC) decreased by 16.3 per cent to $38.0 million (2013: $45.4 million), including capacity payments of $1 million (2013: $4.0 million). This mainly reflects lower received iron ore prices period-on-period.

- Group EBIT was $31.5 million, a decrease of 48.5 per cent compared to $61.2 million in the previous corresponding period.

- Inventory of finished product decreased by $25.8 million to $376.2 million as sales of Z/R/SR during the period exceeded production by 25.0 thousand tonnes combined with a $3.5 million reduction in ilmenite inventory. Work in progress inventory increased by $47.4 million as heavy mineral concentrate (HMC) production of 676.3 thousand tonnes exceeded HMC processed of 480.2 thousand tonnes, consistent with the strategy of maintaining cost efficient mining operations at Jacinth-Ambrosia and Woornack, Rownack, Pirro (WRP) while restricting production of finished product.

- Capital expenditure of $42.2 million was incurred in the half year, of which $18.6 million was for an 18.3 per cent equity interest in Metalysis Limited. Other expenditure related to various major project evaluation work. Iluka's year-to-date capital expenditure compares to full year guidance of ~$110 million.

  Net debt at 30 June 2014 was $155.2 million, with a gearing ratio (net debt/net debt + equity) of 9.2 per cent. This compares with net debt at 31 December 2013 of $206.6 million and a gearing ratio of 11.8 per cent. During the period, Iluka has extended the maturity of $625.0 million of the $800.0 million credit facilities under the Multi Option Facility Agreement (MOFA) from April 2017 to April 2019 and also increased the size of the facilities by $50.0 million to $850.0 million through the addition of a new bilateral facility to April 2019. As a result, Iluka has facilities of $175.0 million maturing in April 2017 and $675.0 million maturing in April 2019.

- Undrawn facilities at 30 June 2014 were $676.0 million and cash at bank was $34.0 million. Net debt at 31 July 2014 was $139.1 million

Dividend

Directors have determined an interim dividend of 6.0 cents per share, fully franked. The dividend is payable on 3 October 2014 for shareholders on the register as at 5 September 2014. This dividend compares with a 2013 interim dividend of 5.0 cents (fully franked).

Market Conditions

Zircon

As commented on previously by the company, zircon market conditions vary across countries and end segments. North American and China demand has been relatively robust, with the major part of Iluka's year-to-date sales of 146 thousand tonnes being made in these two markets. China sentiment in the ceramics sector remained positive, while demand in the chemicals sector improved. North American zircon demand continues to be supported by industrial and manufacturing applications, where the trends and underlying data continue to be favourable.

Demand in Europe has been very subdued, although some emerging signs of recovery became apparent during the latter part of the June quarter, based on demand from the export markets, such as the Middle East and Brazil, supplied by European ceramics producers. Sales to other markets, including South East Asia, Japan and India continued to be subdued.

While sales year-to-date, including July sales, are trending in line with Iluka's expectations, first half sales in 2014 were lower than the previous corresponding period. As Iluka advised at the time of its May 2014 Annual General Meeting, in the first half of 2013 broad based zircon price increases were communicated to customers which prompted some increased ordering of zircon in that period. Iluka expects second half 2014 zircon sales volumes to be greater than the second half of 2013 (2H 2013: 160 thousand tonnes; full year 2013: 370 thousand tonnes).

There has been no material change in the previously advised weighted average zircon price received by the company from that advised as achieved in the December quarter 2013 of US$1,080/tonne FOB.

Titanium Dioxide

A recovery in high grade feedstock requirements, particularly in the chloride pigment sector, is apparent as downstream inventories and pigment plant utilisation rates appear to be normalising, based on generally healthy demand trends in North American and European pigment and paint markets.

Iluka's rutile sales reflect in part the company's continued margin optimization approach under current market conditions, as well as a view on longer term realised value considerations pertaining to the timing of sales through the current cyclical recovery. This is influenced by an expectation that global rutile supply will diminish in 2015 coinciding with Iluka completing mining at the Woornack, Rownack, Pirro mine in the Murray Basin, Victoria.

Under this situation of potentially constrained supply of rutile, the company will be seeking to support customers through allocated sales of finished goods inventory and via processing of heavy mineral concentrate built in the Murray Basin over the balance of 2014, resulting in the rutile sales profile in 2014 being first half weighted.

As noted previously, Iluka has observed a stabilisation in received weighted average rutile prices.

Iluka advised in its February 2014 guidance that it expects that total zircon/rutile/synthetic rutile sales may exceed production (~550 thousand tonnes) and also be above 2013 sales levels (584 thousand tonnes).

Projects

Iluka recommenced supply of synthetic rutile to some customers in the first half and expects a gradual recovery of demand for this product. Given product is being drawn from inventory in the absence of any synthetic rutile production in 2014, subject to suitable commercial arrangements, a basis for reactivation of a synthetic rutile kiln may be emerging.

Consistent with Iluka's overall approach to shareholder returns through the cycle, the company will determine the appropriateness of the timing for all its current projects – in Australia and in the United States of America – based on prevailing and forecast market demand conditions, timely and satisfactory completion of feasibility studies and resultant project economics.

Group Profit and Loss Summary

$ million	1st Half 2014	1st Half 2013	% change
Z/R/SR revenue	281.3	338.4	(16.9)
Ilmenite and other revenue	61.9	43.3	43.0
Mineral sands revenue	**343.2**	**381.7**	**(10.1)**
Cash costs of production	(200.7)	(201.9)	0.6
Inventory movement	24.7	38.4	(35.7)
Restructure and idle capacity charges	(19.2)	(43.6)	56.0
Rehabilitation and holding costs for closed sites	(1.7)	(1.1)	(54.5)
Government royalties	(6.9)	(6.6)	(4.5)
Marketing and selling costs	(14.1)	(13.1)	(7.6)
Asset sales and other income	1.4	1.3	7.7
Resources development	(18.8)	(18.5)	(1.6)
Mineral sands EBITDA	**107.9**	**136.6**	**(21.0)**
Depreciation and amortisation	(94.1)	(98.8)	4.8
Mineral sands EBIT	**13.8**	**37.8**	**(63.5)**
Mining Area C	38.0	45.4	(16.3)
Corporate and other costs	(21.9)	(21.6)	(1.4)
Foreign exchange	1.6	(0.4)	500.0
Group EBIT	**31.5**	**61.2**	**(48.5)**
Net interest and bank charges	(7.7)	(4.9)	(57.1)
Rehabilitation unwind and other finance costs	(6.6)	(9.1)	27.5
Profit before tax	**17.2**	**47.2**	**(63.6)**
Tax expense	(5.5)	(12.9)	57.4
Profit for the period (NPAT)	**11.7**	**34.3**	**(65.9)**
Average AUD/USD spot rate for the period (cents)	**91.4**	**101.5**	**(10.0)**

Mineral sands operational results

	Revenue		EBITDA		EBIT	
$ million	**1st Half 2014**	**1st Half 2013**	**1st Half 2014**	**1st Half 2013**	**1st Half 2014**	**1st Half 2013**
Australia	293.1	340.3	121.4	146.1	38.2	53.3
United States	50.1	41.4	9.8	15.1	(0.1)	10.3
Resource development and other	-	-	(23.3)	(24.6)	(24.3)	(25.8)
Total	**343.2**	**381.7**	**107.9**	**136.6**	**13.8**	**37.8**

Mineral Sands Production and Sales Volumes

	1st Half 2014	1st Half 2013	% change
Sales (kt)			
Zircon	146.3	210.9	(30.6)
Rutile	95.5	56.3	69.6
Synthetic rutile	35.3	20.0	76.5
Total Z/R/SR sales	**277.1**	**287.2**	**(3.5)**
Ilmenite - saleable and upgradeable	221.8	147.0	50.9
Total sales volumes	**498.9**	**434.2**	**14.9**
Z/R/SR revenue ($m)	281.3	338.4	(16.9)
Ilmenite and other revenue[1]($m)	61.9	43.3	42.3
Total mineral sands revenue($m)	343.2	381.7	(10.1)
Revenue per tonne of Z/R/SR sold($/t)	1,015	1,178	(13.8)
Production (kt)			
Zircon	174.0	118.5	46.8
Rutile	78.1	60.6	28.9
Synthetic rutile	-	59.0	(100.0)
Total Z/R/SR production	**252.1**	**238.1**	**5.9**
Ilmenite - saleable and upgradeable	226.8	333.9	(32.1)
Total Mineral Sands Production	**478.9**	**572.0**	**(16.3)**
HMC produced	676.3	880.4	(23.2)
HMC processed	480.2	534.8	(10.2)
Cash costs of production ($m)	200.7	201.9	(0.6)
Unit cash cost per tonne of Z/R/SR produced($/t)	796	848	(6.1)

[1]Include revenues derived from materials not included in production volumes, including activated carbon products and iron oxide.

Managing Director Commentary

David Robb, Iluka Resources' Managing Director, provided the following commentary in relation to the half year results:

"Iluka's first half earnings reflect, in the main, lower received prices for key products, as well as a lower contribution from the Mining Area C iron ore royalty, compared with the previous corresponding period.

The company's low production regime continues, with the inventory of finished goods overall expected to decrease over the course of 2014. This is being achieved while achieving material reductions in overall cash costs; lowering capital expenditure yet continuing necessary investment for the future; generating free cash flow; and maintaining balance sheet strength.

The ability to provide shareholders with a modest dividend in these circumstances is consistent with the company's positive free cash flow and its cash flow distribution framework.

Iluka is also prepared to act counter cyclically, in a disciplined manner. The re-acquisition of tenements in Sri Lanka and the work with Vale in relation to the Tapira deposit in Brazil are both staged, low capital exposure options to assess the potential commercialisation of large sulphate and chloride ilmenite mineralisations respectively. Both are consistent with positioning the company, through both direct supply and via upgrading capacity, to continue to grow the company's presence in chloride pigment markets long term – including the emerging China chloride market – and also to be a more meaningful supplier into global sulphate pigment markets, including the large established China production base. The company's investment in the UK technology company, Metalysis, is but one element of Iluka's focus on emerging technologies that may impact demand for, or production and processing of, mineral sands products.

Iluka has stated regularly that merger and acquisition opportunities are considered where financial merit and strategic rationale exists, that is, where strong commercial and financial logic can be demonstrated and where Iluka can bring technical, marketing or other attributes to bear which are capable of enhancing value from the opportunity. In other words, where we bring more than a cheque book."

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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
- environmental or social factors which may affect a licence to operate.

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