ILUKA

Iluka Resources Limited

ABN 34 008 675 018

Interim report for the half-year 30 June 2018

Iluka Resources Limited ABN 34 008 675 018
ASX Half-year information - 30 June 2018

Contents

Results for Announcement to the Market

Provided below are the results for announcement to the market in accordance with Australian Securities Exchange (ASX) Listing Rule 4.2A and Appendix 4D for the Consolidated Entity comprising Iluka Resources Limited (Iluka) and its controlled entities for the half year ended 30 June 2018 (the financial period) compared with the half year ended 30 June 2017 (previous corresponding period).

This report should be read in conjunction with the Annual Report for the year ended 31 December 2017, and public announcements made by Iluka during the half year ended 30 June 2018 in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the *ASX Listing Rules*.

All currencies shown in this report are Australian dollars unless otherwise indicated.

Half year ended 30 June 2018	
Revenue from ordinary activities	Up 23.8% to $662.3m
Profit from ordinary activities after tax attributable to members	Up 254.7% to $126.1m
Net profit for the period attributable to members	Up 254.7% to $126.1m

Key ratios	**1st Half 2018**	**1st Half 2017**
Basic and diluted earnings (loss) per share (cents)	30.0	(19.5)
Free cash flow per share[1] (cents)	53.4	43.0
Net tangible assets per share ($)	1.80	1.91

1. Free cash flow is determined as cash flow before refinance costs, proceeds/repayment of borrowings and dividends paid in the period.

The commentary on the consolidated results is set out in the Review of Results and Operations section of the Directors' Report.

Dividends

Since the end of the half-year, the Board of Directors has resolved to pay a fully franked interim dividend of 10 cents per share to be paid on 27 September 2018. The record date for entitlement to this dividend is 31 August 2018.

The details in relation to dividends announced or paid since 1 January 2017 are set out below:

Dividends
2018 interim: 10 cents per ordinary share (100% franked), paid in September 2018
2017 final: 25 cents per ordinary share (100% franked), paid in April 2018
2017 interim: 6 cents per ordinary share (100% franked), paid in September 2017

The Board of Directors approved a new Dividend Reinvestment Plan (DRP) effective from the 2017 final dividend. Under the plan, eligible shareholders can reinvest either all or part of their dividend payments into additional fully paid Iluka shares. The DRP remains active for the 2018 interim dividend.

The Directors have determined that no discount will apply for the DRP in respect of the 2018 interim dividend. Shares allocated to shareholders under the DRP for the 2018 interim dividend will be allocated at an amount equal to the average of the daily volume weighted average market price of ordinary shares of the Company traded on the ASX over the period of 10 trading days commencing on 7 September 2018. The last date for receipt of election notices for the DRP is 3 September 2018.

The new DRP came into effect from 28 March 2018, being the record date for the final dividend payable in respect of the period ended 31 December 2017. A discount of 1.5% applied to the allocation price for the 2017 final dividend under the DRP.

Review of Results and Operations

Review of Results

- Net profit after tax of $126.1 million
- Underlying Group EBITDA of $278.5 million
- Strong free cash flow of $225.5 million, reducing net debt to $34.4 million (3.5% gearing)
- Interim dividend of 10 cents per share, fully franked

Revenue

Mineral sands revenue increased by 21% to $606.9 million in the first half of 2018, reflecting positive mineral sands market conditions and sales price increases achieved across the product suite.

Zircon/rutile/synthetic rutile (Z/R/SR) sales volumes reduced marginally by 3% to 439 thousand tonnes from the previous corresponding period.

Iluka's weighted average zircon premium and standard price received in the first half 2018 was 47% higher than the first half of 2017, reflecting a further price increase of US$180 per tonne in the Zircon Reference Price to US$1,410 per tonne effective from 1 April 2018. This follows three zircon price increases throughout the course of 2017 (US$50 per tonne in February 2017; US$130 per tonne from 1 July 2017 and US$130 per tonne from 1 October 2017 for a six month period). Rutile prices, excluding HYTI, rose 20% on average from the first half 2017. Synthetic rutile sales are, in large part, underpinned by commercial off-take arrangements and the terms of these arrangements are commercial in confidence and as such cannot be disclosed.

Sales (kt)	1st Half 2018	1st Half 2017	% change
Zircon	189.6	197.4	(4.0)
Rutile	136.1	118.4	14.9
Synthetic rutile	112.9	138.0	(18.2)
Total Z/R/SR sales	**438.6**	**453.8**	(3.3)
Ilmenite – saleable	119.5	95.1	25.7
Total sales volumes	**558.1**	**548.9**	1.7
Z/R/SR revenue ($m)	566.6	470.0	20.6
Ilmenite and other revenue($m)	40.3	33.6	19.9
Total mineral sands revenue[1]($m)	**606.9**	**503.6**	20.5
Revenue per tonne of Z/R/SR sold[2]($/t)	1,292	1,036	24.7

[1] Mineral sands revenue includes revenue derived from other materials not included in production volumes, including activated carbon products and iron concentrate.
[2] Calculated as revenue from the sale of zircon, rutile and synthetic rutile (Z/R/SR) products divided by Z/R/SR sales volumes.

Earnings

Iluka recorded a profit after tax for the half-year ended 30 June 2018 of $126.1 million, compared with a loss of $81.5 million for the first half 2017, with the improvement in earnings reflecting stronger market conditions and better pricing environment, combined with 2017 recording a $105.6 million post-tax impairment charge in relation to idling of the Hamilton mineral separation plant.

Iluka's underlying mineral sands EBITDA more than doubled relative to 2017, increasing by 102% to $249.3 million. This result predominantly reflects strong revenue growth, combined with lower idle capacity charges with the restart of mining and concentrating activities at the world's largest zircon mine, Jacinth-Ambrosia in December 2017. Cash production costs increased by $24.8 million to $224.9 million with additional costs following the restart of Jacinth-Ambrosia and higher maintenance and commissioning costs at Sierra Rutile, offset by the conclusion of processing activities in the Murray Basin following the idling of the Hamilton mineral separation plant in October 2017.

Iluka's royalty income from Mining Area C reduced to $29.2 million, due to an 11% fall in the realised iron ore price, which was partially offset by a 1% increase in sales volumes and a $1 million capacity payment in H1 2018.

Earnings per share for the period were 30.0 cents compared to a loss per share of 19.5 cents in the previous corresponding period. The number of shares on issue at 30 June 2018 of 422.0 million increased from 418.7 million in 2017 due to the activation of the dividend reinvestment plan (DRP) for the 2017 final dividend paid in April 2018.

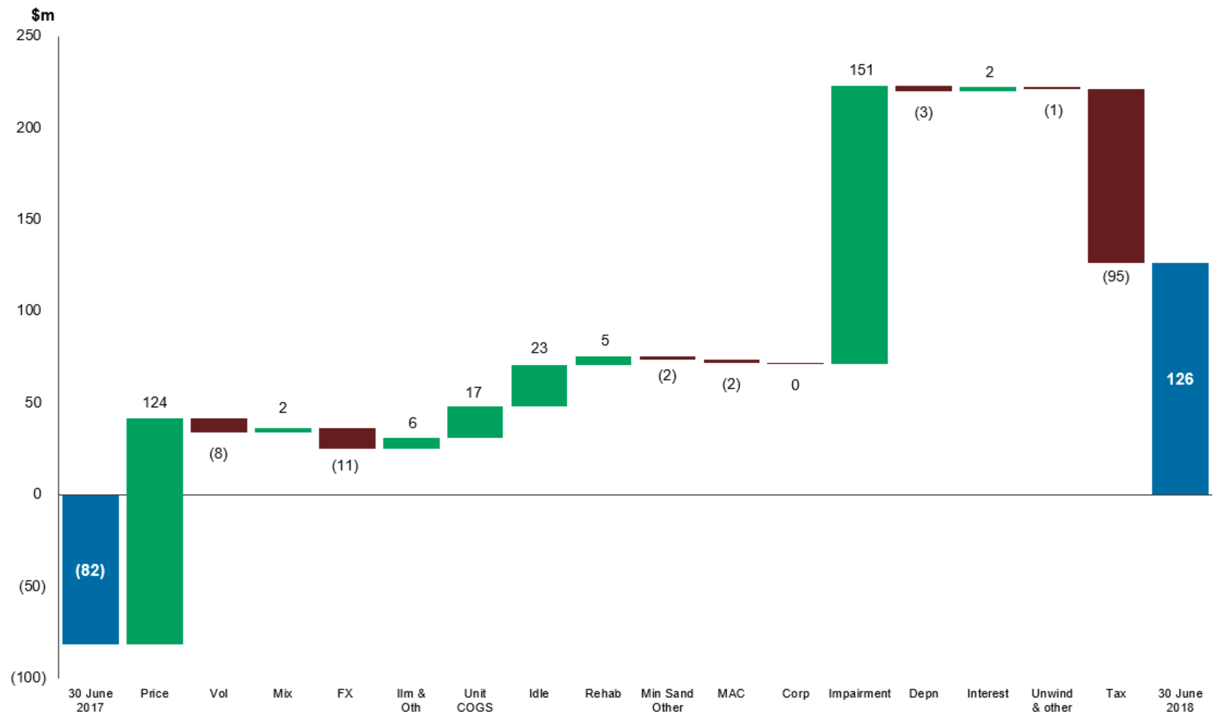
Income statement analysis

$ million	1st Half 2018	1st Half 2017	% change
Z/R/SR revenue	566.6	470.0	20.6
Ilmenite and other revenue	40.3	33.6	19.9
Mineral sands revenue	**606.9**	**503.6**	**20.5**
Cash costs of production	(224.9)	(200.1)	(12.4)
Inventory movement - cash costs of production	(49.8)	(78.6)	36.6
Restructure and idle capacity charges	(10.8)	(33.3)	67.6
Government royalties	(17.9)	(13.3)	(34.6)
Marketing and selling costs[1]	(18.0)	(18.5)	2.7
Asset sales and other income	1.0	0.4	150.0
Resource development	(12.5)	(14.0)	10.7
Corporate and other costs	(23.6)	(23.2)	(1.7)
Foreign exchange gain (loss)	(1.1)	0.5	n/a
Underlying mineral sands EBITDA[2]	**249.3**	**123.5**	**101.9**
Mining Area C EBITDA	29.2	31.1	(6.1)
Underlying Group EBITDA	**278.5**	**154.6**	**80.1**
Depreciation and amortisation	(42.6)	(58.5)	27.2
Inventory movement - non-cash production costs	(25.5)	(30.6)	16.7
Rehabilitation costs for closed sites	(0.5)	(5.4)	90.7
Share of Metalysis Ltd's losses (associate)	-	(1.7)	n/a
Impairment of assets	-	(151.4)	n/a
Group EBIT	**209.9**	**(93.0)**	**n/a**
Net interest and bank charges	(7.1)	(9.2)	22.8
Rehabilitation unwind and other finance costs	(9.2)	(6.5)	(41.5)
Profit (loss) before tax	**193.6**	**(108.7)**	**n/a**
Tax (expense) benefit	(67.5)	27.2	n/a
Profit (loss) for the period (NPAT)	**126.1**	**(81.5)**	**n/a**
Average AUD/USD rate for the period (cents)	**77.2**	**75.4**	**2.4**

[1] For comparative purposes, freight revenue and freight expenses are included as a net number in marketing and selling costs. However, with the adoption of AASB 15, freight revenue and freight expenses are reported separately in the statutory profit and loss statement.

[2] Underlying Group EBITDA excludes non-recurring adjustments including impairments and changes to rehabilitation provisions for closed sites which are non-cash in nature.

Movement in NPAT



The key drivers for the movement in NPAT from the 2017 half year were:

- improved sales prices across the product suite, with average zircon prices up 47% and rutile prices up 20%;
- marginally lower Z/R/SR sales volumes at 439 thousand tonnes (2017: 454 thousand tonnes), with the volume variance calculated using the average margin achieved for Z/R/SR product sales in the current period;
- the average Australian dollar foreign exchange rate was higher at 77 cents in the first half 2018 compared to 75 cents achieved on sales in the previous corresponding period;
- Ilmenite and other sales revenue was up $6.7 million predominantly associated with higher ilmenite sales volumes;
- favourable unit COGS movement, with a unit COGS of $753 per tonne in the first half of 2018 compared to $772 per tonne in the first half of 2017;
- lower idle costs due to the restart of mining and concentrating activities at Jacinth-Ambrosia mine in South Australia partially offset by the idling of the Hamilton mineral separation plant in October 2017;
- the decision to idle the Hamilton mineral separation plant in 2017 led to a pre-tax impairment charge of $151.4 million and an increase to the rehabilitation provision of $5 million recorded in 2017 with no such charges occurring in 2018; and
- higher earnings increased the tax charge period-on-period.

Cash flow and balance sheet

Operating cash flow for the 2018 half year was $306.5 million and free cash flow was $225.5 million, reflecting the strong underlying EBITDA result.

Capital expenditure was $93.6 million (2017: $24.7 million) with spending primarily on the Cataby (Western Australia) and Sierra Rutile projects.

Tax payments represent both income tax payments in Sierra Leone and Australia. Based on the *Sierra Rutile Act*, Sierra Rutile Limited's annual Sierra Leone income tax payments cannot fall below an amount equal to 3.5% of revenue. Tax instalments in Australia have been based on the instalment rate provided by the Australian Tax Office (ATO). The current tax liability for the half year 2018 includes the Australian tax payable in respect of 2018, due to the ATO in June 2019.

Iluka has a Multi Optional Facility Agreement (MOFA) which comprises a series of five year unsecured bilateral revolving credit facilities with several domestic and foreign institutions. As at 30 June 2018, Iluka had total debt facilities of $710.2 million and net debt of $34.4 million. Drawings under the MOFA at 30 June 2018 were $117.0 million (31 December 2017: $238.6 million). Iluka reduced the MOFA facility limits by $100.4 million in early July 2018 on the basis it has sufficient funding capacity available.

Net debt decreased by 81% from $182.5 million at 31 December 2017, with gearing (net debt / net debt + equity) reduced to 3.5% as at 30 June 2018 (31 December 2017: 17.1%).

Net debt at 31 July 2018 was $4.9 million.

Movement in net debt ($million)	**1st Half 2017**	**2nd Half 2017**	**1st Half 2018**
Opening net cash (debt)	**(506.3)**	**(304.6)**	**(182.5)**
Operating cash flow	193.9	197.8	306.5
MAC royalty	30.5	29.4	29.6
Exploration	(5.6)	(7.0)	(4.6)
Interest (net)	(8.8)	(6.5)	(4.7)
Tax	(6.4)	(3.6)	(2.4)
Capital expenditure	(24.6)	(65.9)	(93.6)
Sri Lanka investment	-	(2.6)	-
Payment for hedging option contracts	-	(2.3)	-
Asset sales	1.2	2.4	1.1
Share purchases	-	-	(6.4)
Free cash flow	**180.2**	**141.7**	**225.5**
Dividends	-	(25.1)	(69.2)
Net cash flow	**180.2**	**116.6**	**156.3**
Exchange revaluation of USD net debt	22.6	7.0	(7.3)
Amortisation of deferred borrowing costs	(1.1)	(1.5)	(0.9)
Decrease in net debt	**201.7**	**122.1**	**148.1**
Closing net debt	**(304.6)**	**(182.5)**	**(34.4)**

Dividends

Iluka's dividend framework is to pay a minimum of 40% of free cash flow not required for investing or balance sheet activity. The company also seeks to distribute the maximum practicable available franking credits.

Production

Production (kt)	1st Half 2018	1st Half 2017	% change
Zircon	158.9	203.7	(22.0)
Rutile	82.8	149.8	(44.7)
Synthetic rutile	109.3	99.6	9.7
Total Z/R/SR production	**351.0**	**453.1**	**(22.5)**
Ilmenite	210.8	228.1	(7.6)
Total Mineral Sands Production	**561.8**	**681.2**	**(17.5)**
HMC produced	469	314	49.2
HMC processed	529	713	(25.8)
Cash costs of production ($m)	**224.9**	**200.1**	**(12.4)**
Unit cash cost per tonne of Z/R/SR produced[1] ($/t)	641	442	(45.0)
Unit cash cost per tonne of Z/R/SR produced excluding by-products ($/t)	617	424	(45.5)
Unit cost of goods sold per tonne of Z/R/SR sold ($/t)	753	772	2.5

[1] Unit cash cost per tonne of Z/R/SR produced is determined as cash costs of production divided by total Z/R/SR production volumes.

First half Z/R/SR production was 351 thousand tonnes, 23% lower than first half 2017. Lower production for the first half was primarily due to the completion of processing of Murray Basin heavy mineral concentrate in October 2017. Other factors influencing the production outcome are outlined below.

Australia

The Jacinth-Ambrosia mine in South Australia operated at capacity, producing 329 thousand tonnes of heavy mineral concentrate in the first half of 2018, following the successful restart in December 2017. In order to optimise recoveries, the processing of heavy mineral concentrate was at a slightly reduced rate during the half. As a result, zircon production from Jacinth-Ambrosia was 135 thousand tonnes in the first half, down 13% from first half 2017.

The Tutunup South mine in South-West Western Australia completed mining, as planned, in early March. Heavy mineral concentrate material will continue to be processed from this mine for the remainder of the year.

The synthetic rutile kiln, SR2, operated at full capacity over the first half of 2018. The kiln is being fed by previously stockpiled and externally sourced ilmenite until the commencement of the Cataby mine in the first half of 2019. A major maintenance outage for the kiln is planned for the first quarter of 2019 ahead of the next four year kiln campaign.

Sierra Leone

Rutile production from Sierra Rutile was 61 thousand tonnes in the first half of 2018, down 23% from first half 2017. Production was affected by lower than expected mining rates.

Specifically, mining at the Lanti dredge was affected by downtime in March and April following the age-related failure of equipment in mid-March, as reported in the March Quarterly Review. The dredge was restarted in mid-April and operated at expected throughputs before further mechanical issues were experienced later in the quarter, which have now been rectified. The company continues to implement a maintenance plan for the dredge ahead of its planned decommissioning at the end of the year.

Run time at the Lanti dry mine was lower in the half, impacted by the commissioning of the in-pit mining unit and other operational issues.

Production at Gangama has benefited from higher than expected ore grades.

The mineral separation plant operated as planned and there has been some opportunistic processing of remnant stockpiles in the quarter, supplementing feed to the plant.

Australian Operations

		1st Half 2018	1st Half 2017	% change
Production volumes				
Zircon	kt	149.3	193.9	(23.0)
Rutile	kt	21.7	70.8	(69.4)
Synthetic rutile	kt	109.3	99.6	9.7
Total Z/R/SR production	**kt**	**280.3**	**364.3**	**(23.1)**
Ilmenite - saleable and upgradeable	kt	185.2	201.5	(8.1)
Total production volume	**kt**	**465.5**	**565.8**	**(17.7)**
HMC produced	kt	349	138	153.0
HMC processed	kt	411	539	(23.7)
Unit cash cost of production - Z/R/SR [1]	$/t	513	340	(50.9)
Mineral sands revenue	**$m**	**507.8**	**413.9**	**22.7**
Cash cost of production	$m	(143.7)	(123.7)	(16.2)
Inventory movements - cash costs of production	$m	(49.2)	(78.1)	37.0
Restructure and idle capacity charges	$m	(7.3)	(29.2)	75.0
Government royalties	$m	(14.9)	(10.4)	(43.3)
Marketing and selling costs [2]	$m	(11.3)	(9.5)	(18.9)
Asset sales and other income	$m	0.7	(0.3)	333.3
EBITDA	**$m**	**282.1**	**162.7**	**73.4**
Depreciation & amortisation	$m	(21.1)	(38.5)	45.2
Inventory movement - non-cash production costs	$m	(26.9)	(33.8)	20.4
Rehabilitation costs for closed sites	$m	(0.5)	(5.4)	90.7
Impairment expense	$m	-	(151.4)	n/a
EBIT	**$m**	**233.6**	**(66.4)**	**451.8**

[1] Calculated as cash costs of production, including by-product costs divided by Z/R/SR production.

[2] Freight revenue and expenses are included as a net number in marketing and selling costs.

Total Z/R/SR production decreased 23% from the previous corresponding period reflecting the depletion of Murray Basin heavy mineral concentrate (HMC) in October 2017 and the subsequent idling of the Hamilton mineral separation plant.

Mineral sands revenue increased 23% from the previous corresponding period to $507.8 million (2017: $413.9 million) reflecting higher achieved Z/R/SR prices, partially offset by lower sales volumes.

Cash costs of production were $20.0 million higher than the previous corresponding period. The change predominantly reflects the restart of mining and concentrating activities at Jacinth-Ambrosia in December 2017, partially offset by the cessation of processing Murray Basin HMC in October 2017.

The inventory movement predominantly reflects a draw-down of finished goods stocks, with finished goods inventory reducing by $69.2 million to $132.5 million at 30 June 2018.

Depreciation and amortisation charges have reduced 45% from the previous corresponding period following the impairment of the Hamilton separation plant in June 2017, with no depreciation incurred during 2018 on that asset, combined with the completion of mining at Tutunup South in early March 2018 as planned.

Restructure and idle capacity charges have decreased significantly from the previous corresponding period. The prior period included both costs associated with the suspension of mining and concentrating activities at Jacinth-Ambrosia, combined with restructure costs following the decision to idle the Hamilton mineral separation plant. The current year reflects costs associated with the cessation of mining at Tutunup South and idle costs for Hamilton mineral separation plant.

The previous corresponding period included a $151.4 million pre-tax impairment charge following the decision to idle the Hamilton mineral separation plant from October 2017. Iluka determined there was sufficient processing capacity at its main separation plant in Narngulu, Western Australia to accommodate future processing from the Australian mines.

Sierra Rutile Operations

		1st Half 2018	1st Half 2017	% change
Production volumes				
Zircon	kt	5.1	2.9	75.9
Rutile	kt	61.1	79.0	(22.7)
Total Z/R production volume	kt	66.2	81.9	(19.2)
Ilmenite	kt	25.6	26.6	(3.8)
Total production volume	**kt**	**91.8**	**108.5**	**(15.4)**
HMC produced	kt	119	176	(32.2)
HMC processed	kt	118	174	(32.4)
Unit cash cost of production - Z/R	$/t	1,162	816	(42.4)
Mineral sands revenue	**$m**	**88.5**	**66.9**	**32.3**
Cash cost of production	$m	(76.9)	(66.8)	(15.1)
Inventory movements - cash costs of production	$m	5.6	12.9	(56.6)
Government royalties	$m	(3.0)	(2.9)	(3.4)
Marketing and selling costs [1]	$m	(0.2)	(2.5)	92.0
EBITDA	**$m**	**14.0**	**7.6**	**84.2**
Depreciation & amortisation	$m	(19.7)	(18.2)	(8.2)
Inventory movement – non-cash costs of production	$m	1.4	3.2	(56.3)
EBIT	**$m**	**(4.3)**	**(7.4)**	**41.9**

[1] Freight revenue and expenses are included as a net number in marketing and selling costs.

Sierra Rutile's total Z/R production was 19% lower than the corresponding prior period as a result of lower than expected mining rates. Mining at the Lanti dredge was affected by downtime in March and April following age-related failure of equipment in mid-March and run time at the Lanti dry mine was impacted by the commissioning of the in-pit mining unit. Production at Gangama benefited from higher than expected ore grades.

Mineral sands revenue was $88.5 million derived from Z/R sales volumes of 72.5 thousand tonnes and 15.5 thousand tonnes of ilmenite sales.

Cash costs of production of $76.9 million increased from the previous corresponding period due to increased costs associated with the repair of the Lanti dredge and maintenance associated with the commissioning of the in-pit mining unit.

The inventory movement reflects an inventory build of finished goods stocks.

The Sierra Rutile operations generated positive operating cash inflow in the first half of 2018 of $24.4 million (2017: outflow $14.2 million).

Marketing

Zircon

First half zircon sales were 190 thousand tonnes (H1 2017: 197 thousand tonnes), relative to zircon production of 159 thousand tonnes (H1 2017: 204 thousand tonnes), with Iluka releasing inventory to help balance the market and support its customer base.

Zircon markets have remained tight in the first half of 2018. Iluka experienced solid demand across all major regions and sectors with only a limited supply side response observed to date. Iluka has witnessed an increase in exports from Indonesia, as was expected in the current pricing environment, and the company remains of the view that there is scope for further production from this region if required. Iluka estimates that Indonesian exports have increased from average levels of ~2,500 tonnes per month during 2017 to ~4,400 tonnes per month in May with increased mining activity in Kalimantan. Although June exports from Indonesia were only 2,700 tonnes, it is understood production was adversely impacted by Ramadan.

During the half, Iluka implemented its previously announced increase in the Zircon Reference Price of US$180 to US$1,410 per tonne. Reflecting this, average realised zircon prices (excluding ZIC) increased 21% to US$1,278 per tonne in the first half of 2018 relative to the second half of 2017. The Reference Price will be in effect until 30 September 2018.

Iluka has received positive feedback from customers for maintaining its Reference Price for a six month period which has provided the market some stability and customers time to adjust downstream prices. Feedback is that participants through the value chain have adjusted to the market environment and higher prices have been accepted by end users with no evidence of substitution, although thrifting has become more common in ceramics and foundry.

High Grade Titanium Feedstocks

High-grade titanium dioxide feedstock sales (rutile and synthetic rutile) were 249 thousand tonnes in the first half of 2018, comparable to the first and second halves of 2017.

Iluka continues to experience strong demand for its high-grade titanium feedstocks (rutile and synthetic rutile) with sales limited by production. Titanium dioxide pigment is the main end market for high grade feedstocks. The publicly disclosed production disruptions of other high-grade titanium feedstocks producers have impacted confidence in the market, but have not yet translated into shortages further down the value chain. It is likely the impact of these supply disruptions has been dampened by pigment producers reducing inventories of feedstocks and the pull forward of pigment plant maintenance. Whether these actions are sufficient to retain the supply-demand balance will become apparent in due course.

While market commentary suggests that the rate of increase in pigment demand is showing signs of moderating (which is, in turn, limiting the ability of pigment producers to maintain pricing momentum), the major producers in China have recently announced a new round of price increases for domestic and exported product in the range of US$60 to US$80 per tonne. Demand for Iluka's suite of high grade ores remains very strong.

Average rutile prices (excluding HYTI) were US$906 per tonne in the first half 2018. This is up ~10% from second half 2017, reflecting the previously announced price increase.

Weighted Average Received Prices (US$/t FOB)	**1st Half 2017**	**2nd Half 2017**	**1st Half 2018**
Zircon Premium and Standard	871	1,053	1,278
Zircon (all products including zircon in concentrate)[1]	850	1,037	1,240
Rutile (excluding HYTI)[2]	756	825	906
Synthetic rutile		Refer Note 3	

Note 1: Zircon prices reflect the weighted average price for zircon premium, zircon standard and zircon-in-concentrate. The prices for each product vary considerably, as does the mix of such products sold period to period. In the first half of 2018 the split of premium, standard and concentrate by zircon sand-equivalent was approximately: 51%:33%:15% (2017 full year: 56%;32%;12%).

Note 2: Included in rutile sales volumes reported elsewhere in this Report is a lower titanium dioxide product, HYTI that typically has a titanium dioxide content of 70 to 91%. This product sells at a lower price than rutile, which typically has a titanium dioxide content of 95%. In first half 2018, 19% of total sales in this category were of the lower grade HYTI material (2017 full year: 18%).

Note 3: Iluka's synthetic rutile sales are, in large part, underpinned by commercial offtake arrangements. The terms of these arrangements, including the pricing arrangements are commercial in confidence and as such not disclosed by Iluka. Synthetic rutile, due to its lower titanium dioxide content, is priced lower than natural rutile.

Capital and major projects

Cataby, Western Australia

Cataby is a large, chloride ilmenite-rich deposit 150 kilometres north of Perth. The mine development was approved in December 2017 with ilmenite from the mine to underpin the continued production of synthetic rutile at Capel, South-West Western Australia. The approval follows completion of the definitive feasibility study in 2016 and securing offtake agreements for synthetic rutile production from Cataby sourced ilmenite.

The estimated capital cost is $250-275 million and construction is expected to take around 18 months. First production is planned for first half 2019 with the mine producing approximately 200 thousand tonnes of synthetic rutile (from ilmenite feedstock), 50 thousand tonnes of zircon and 30 thousand tonnes of rutile on average over an 8.5 year mine life. Access to additional ore reserves could extend the mine life for a further 4 years.

The mine is a conventional mineral sands development utilising dozer push and truck and excavator mining to feed two in-pit mining units. Iluka's Newman concentrator has been relocated to site from Eneabba with other mining equipment also being redeployed from Murray Basin, Victoria. An onsite Wet High Intensity Magnetic Separation (WHIMS) plant will separate the magnetic (ilmenite) and non-magnetic product streams (zircon and rutile). Ilmenite will be transported to Capel for synthetic rutile production and the non-magnetic stream to Iluka's Narngulu mineral separation plant in Geraldton for final processing.

All works are progressing on schedule and costs are within the estimated range. The erection of accommodation villages is complete and work on high voltage power distribution is well advanced. The bulk earthworks package is approaching completion, as is site foundation work. Reassembly of the Newman concentrator is progressing and construction of mining unit equipment is well advanced. The mining contractor has commenced the removal of overburden.

Jacinth-Ambrosia mine move, South Australia

Iluka has been assessing options to smooth the production profile of Jacinth-Ambrosia – the world's largest zircon mine – to partially offset the impact of declining grade over its remaining operating life. Iluka plans to accelerate the mine move to the Ambrosia deposit to the second half 2019 (previously 2022).

The definitive feasibility study is underway and is expected to be completed in the third quarter, with project execution commencing thereafter, subject to Board approval, with production expected from the second half of 2019.

Balranald, Murray Basin, New South Wales

Balranald and Nepean are two rutile-rich deposits in the northern Murray Basin, New South Wales.

Work on the unconventional mining development at Balranald has continued. A drilling programme is planned for the second half of the year to provide more detailed mineralisation and understanding of the deposit, prior to progressing to a final field trial in 2019. The proposed final trial has been designed to demonstrate that the technical work packages advanced from the previous trial are effective in a continuous mining and processing environment.

Lanti dry and Gangama mine expansions, Sierra Leone

Iluka plans to double the capacity of both the Gangama and Lanti dry operations from 500-600 tonne per hour to 1,000-1,200 tonne per hour. Capital expenditure for these expansions received Board approval in December 2017.

The main engineering, procurement and construction (EPC) contract has been awarded and the contractor has mobilised to site with civil construction underway. Procurement is progressing with orders placed for all long lead items and the earth moving fleet. Delivery of the fleet is expected in the second half of 2018. Commissioning for Gangama and Lanti is scheduled for mid-2019.

Mineral separation plant upgrade, Sierra Leone

Mineral separation plant equipment and general site upgrades are necessary to meet the additional capacity that will be required when the planned mine expansions come online. The upgrade will also assist in improving safety, operational and metallurgical efficiencies. Assessment of the upgrade options and scope is continuing.

Sembehun mine, Sierra Leone

The Sembehun group of deposits are situated 20 to 30 kilometres north-west of the existing Sierra Rutile operations. Iluka plans to initially develop a new 1,000-1,200 tonne per hour mine at these deposits.

The definitive feasibility study commenced in March 2018 and is continuing with a focus on geotechnical field work. The geotechnical data will support the design of the early works scope which includes the bridge and road construction to access the deposits. The Environmental and Social Impact Assessment is progressing with submission planned for late 2018. Subject to Board approval, early works construction is expected to commence in 2019 with commissioning of the operation planned for 2021.

Puttalam (PQ), Sri Lanka

The potential for the development of the mineral sands deposit known as the Puttalam Quarry (PQ) continues to be assessed. The PQ deposit is a large sulphate ilmenite deposit, located approximately 30 kilometres north of the town of Puttalam in the North Western Province of Sri Lanka, approximately 170 kilometres from the capital Colombo.

PQ project work is focussed on legal and investment terms for the development and includes securing surface access rights, ministerial and other governmental approvals for any subsequent mining licence, and reaching agreement with the Sri Lankan Government regarding the fiscal and other arrangements that will apply to the project.

A pre-feasibility study is being undertaken on work packages relating to pre-mining or baseline conditions of the PQ deposit.

Sustainability

As Iluka reported at the Annual General Meeting, in March there was a fatality associated with the Cataby project, with the tragic death of a member of the BCE Surveying team, subcontracted by Watpac as part of the bulk earth works. The subcontractor suffered a severe reaction to what is believed to have been a bee sting and, despite the efforts of the people at site and medical professionals, passed away 14 days later. The safety and wellbeing of Iluka’s people, including the employees of our contractors and service providers, are paramount and Iluka is cooperating fully with an investigation by the Western Australian Department of Mines, Industry Regulation and Safety.

Reconciliation of non-IFRS financial information

A reconciliation of the statutory results to the segment and commentary presented in this 4D for the half year ended 30 June 2018 is presented below:

	Aus	US	SRL	Expl & Oth	Mineral Sands	MAC	Corp	Group
Mineral sands revenue	507.8	23.0	88.5	(12.4)	**606.9**			**606.9**
AASB 15 freight revenue	20.1	1.5	4.1		**25.7**			**25.7**
Expenses	(245.8)	(27.1)	(78.6)	(7.1)	**(358.6)**			**(333.8)**
Mining Area C					**-**	29.2		**29.2**
FX					**-**		(1.1)	**(1.1)**
Corporate costs					**-**		(23.6)	**(23.6)**
EBITDA	**282.1**	**(2.6)**	**14.0**	**(19.5)**	**274.0**	**29.2**	**(24.7)**	**278.5**
Depn & Amort	(21.1)		(19.7)	(1.6)	**(42.4)**	(0.2)		**(42.6)**
Inventory movement - non-cash	(26.9)		1.4		**(25.5)**			**(25.5)**
Rehabilitation for closed sites	(0.5)				**(0.5)**			**(0.5)**
EBIT	**233.6**	**(2.6)**	**(4.3)**	**(21.1)**	**205.6**	**29.0**	**(24.7)**	**209.9**
Net interest costs					**-**		(7.1)	**(7.1)**
Rehab unwind and other finance costs	(5.1)	(2.2)	(1.0)		**(8.3)**		(0.9)	**(9.2)**
Profit before tax	**228.5**	**(4.8)**	**(5.3)**	**(21.1)**	**197.3**	**29.0**	**(32.7)**	**193.6**
Segment result	***228.5***	***(4.8)***	***(5.3)***			***29.0***		***247.4***

Directors' Report

The Directors of Iluka Resources Limited present their report together with the financial statements of the Group for the half year ended 30 June 2018 and the auditor's review report thereon.

Board of Directors

G Martin (Chairman)
T O'Leary (Managing Director and CEO)
M Bastos
R Cole (appointed 1 March 2018)
X Liu
J Ranck
J Seabrook

Principal activities

The principal activities and operations of the Group during the half year were the exploration, project development, mining operations, processing and marketing of mineral sands. The Company also has a royalty over iron ore sales revenue from BHP's Mining Area C province in Western Australia.

Review of results and operations

The Review of Results and Operations is set out on pages 2 to 12, and forms part of the Directors' Report.

Dividends

Directors have determined a fully franked interim dividend of 10 cents per share, payable on 27 September 2018 with a record date of 31 August 2018.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 14 and forms part of this report.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191 (Rounding in Financial/Directors' Reports). Amounts in the financial statements and Directors' Report have been rounded off in accordance with that Rounding Instrument to the nearest million dollars to one decimal place, or in certain cases, to the nearest dollar. All amounts are in Australian dollars, unless otherwise stated.

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

G Martin	T O'Leary
Chairman	Managing Director and CEO

Perth, 16 August 2018

pwc

Auditor's Independence Declaration

As lead auditor for the review of Iluka Resources Limited for the half-year ended 30 June 2018, 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 review; and

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

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

Justin Carroll
Partner
PricewaterhouseCoopers

Perth
16 August 2018

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Financial Information for the half-year 30 June 2018

Iluka Resources Limited

Consolidated statement of profit or loss and other comprehensive income

For the half-year ended 30 June 2018

	Notes	**Half-year 2018 $m**	Half-year 2017 $m
Revenue	3	**662.3**	535.1
Other income		**1.5**	0.9
Expenses		**(453.5)**	(627.0)
Share of (loss) from associates		**-**	(1.7)
Interest and finance charges		**(8.4)**	(10.6)
Rehabilitation and mine closure provision discount unwind		**(8.3)**	(5.4)
Total finance costs	4	**(16.7)**	(16.0)
Profit (loss) before income tax		**193.6**	**(108.7)**
Income tax (expense) benefit		**(67.5)**	27.2
Profit (loss) for the half-year attributable to owners		**126.1**	**(81.5)**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Currency translation of foreign operations		**23.5**	(31.5)
Hedge of net investment in foreign operation, net of tax	6	**(2.2)**	12.5
Changes in fair value of foreign exchange cash flow hedges, net of tax	6	**(5.7)**	0.3
Total other comprehensive profit (loss) for the half-year, net of tax		**15.6**	**(18.7)**
Total profit (loss) for the half-year attributable to owners		**141.7**	**(100.2)**

	Cents	Cents
Profit (loss) per share attributable to ordinary equity holders		
Basic profit (loss) per share	**30.0**	(19.5)
Diluted profit (loss) per share	**30.0**	(19.5)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Iluka Resources Limited
Consolidated balance sheet
As at 30 June 2018

	Notes	30 June 2018 $m	31 December 2017 $m
ASSETS			
Current assets			
Cash and cash equivalents		**81.1**	53.6
Receivables		**132.2**	171.4
Inventories		**405.8**	469.6
Current tax receivable		**12.8**	20.0
Derivative financial instruments	6	**0.5**	0.2
Total current assets		**632.4**	714.8
Non-current assets			
Inventories		**4.5**	9.8
Property, plant and equipment		**1,145.9**	1,029.8
Intangible asset - MAC Royalty		**4.1**	4.3
Deferred tax assets		**198.7**	185.9
Derivative financial instruments		**1.7**	2.4
Total non-current assets		**1,354.9**	1,232.2
Total assets		**1,987.3**	1,947.0
LIABILITIES			
Current liabilities			
Payables		**145.9**	114.2
Provisions		**92.0**	83.8
Current tax payable		**62.7**	3.8
Derivative financial instruments		**6.8**	3.4
Total current liabilities		**307.4**	205.2
Non-current liabilities			
Provisions		**606.0**	620.2
Interest-bearing liabilities	7	**115.4**	236.1
Derivative financial instruments		**4.5**	-
Total non-current liabilities		**725.9**	856.3
Total liabilities		**1,033.3**	1,061.5
Net assets		**954.0**	885.5
EQUITY			
Contributed equity	8	**1,155.1**	1,119.7
Reserves		**21.7**	9.4
Accumulated losses		**(222.8)**	(243.6)
Total equity		**954.0**	885.5

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

Iluka Resources Limited

Consolidated statement of changes in equity

For the half-year ended 30 June 2018

		Attributable to owners of Iluka Resources Limited			
	Notes	Share capital $m	Other reserves $m	Retained profits $m	Total equity $m
Balance at 1 January 2017		**1,117.2**	**32.2**	**(46.4)**	**1,103.0**
Profit (loss) for the period		-	-	(81.5)	(81.5)
Other comprehensive income (loss)		-	(18.7)	-	(18.7)
Total comprehensive loss for the half-year		**-**	**(18.7)**	**(81.5)**	**(100.2)**
Transactions with owners in their capacity as owners:					
Transfer of shares to employees, net of tax		2.6	(2.6)	-	-
Share-based payments, net of tax		-	3.2	-	3.2
		2.6	0.6	-	3.2
Balance at 30 June 2017		**1,119.8**	**14.1**	**(127.9)**	**1,006.0**
Balance at 1 January 2018		**1,119.7**	**9.4**	**(243.6)**	**885.5**
Adjustment on adoption of AASB 15 (net of tax)		-	-	(0.6)	(0.6)
Restated total equity at the beginning of the financial period		**1,119.7**	**9.4**	**(244.2)**	**884.9**
Profit for the period		-	-	126.1	126.1
Other comprehensive profit		-	15.6	-	15.6
Total comprehensive profit for the half-year		**-**	**15.6**	**126.1**	**141.7**
Transactions with owners in their capacity as owners:					
Transfer of shares to employees, net of tax		4.6	(4.6)	-	-
Purchase of treasury shares, net of tax		(4.5)	-	-	(4.5)
Share-based payments, net of tax		-	1.3	-	1.3
Dividends provided for or paid	9	35.3	-	(104.7)	(69.4)
		35.4	(3.3)	(104.7)	(72.6)
Balance at 30 June 2018		**1,155.1**	**21.7**	**(222.8)**	**954.0**

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

Iluka Resources Limited

Consolidated statement of cash flows

For the half-year 30 June 2018

	Notes	**30 June 2018 $m**	30 June 2017 $m
Cash flows from operating activities			
Receipts from customers		**653.4**	493.3
Payments to suppliers and employees		**(346.9)**	(299.4)
Operating cash flow		**306.5**	193.9
Interest received		**0.4**	0.4
Interest paid		**(5.1)**	(9.3)
Income taxes paid		**(2.4)**	(6.4)
Exploration expenditure		**(4.6)**	(5.6)
Mining Area C royalty receipts		**29.6**	30.5
Net cash inflow from operating activities	12	**324.4**	203.5
Cash flows from investing activities			
Payments for property, plant and equipment		**(93.6)**	(24.7)
Sale of property, plant and equipment		**1.1**	1.2
Net cash outflow from investing activities		**(92.5)**	(23.5)
Cash flows from financing activities			
Repayment of borrowings		**(219.3)**	(264.3)
Proceeds from borrowings		**89.2**	53.6
Purchase of treasury shares		**(6.4)**	-
Dividends paid	9	**(69.2)**	-
Net cash outflow from financing activities		**(205.7)**	(210.7)
Net increase (decrease) in cash and cash equivalents		**26.2**	(30.7)
Cash and cash equivalents at 1 January		**53.6**	101.3
Effects of exchange rate changes on cash and cash equivalents		**1.3**	(1.4)
Cash and cash equivalents at end of half-year		**81.1**	69.2

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 Basis of Preparation

This general purpose financial report for the interim half-year reporting period ended 30 June 2018 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 31 December 2017 and any public announcements made by Iluka Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Where applicable, certain comparatives have been adjusted to conform to current year presentation.

(a) Accounting policies

Except as noted below, the same accounting policies and methods of computation have been applied by each entity in the consolidated Group and are consistent with those adopted and disclosed in the most recent Annual Report.

Adoption of AASB 15

The Group has adopted AASB 15 *Revenue from Contracts with Customers* from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. AASB 15 supersedes AASB 118 *Revenue*.

Adoption of the new standard has had neither an impact on the timing of recognition, nor on the measurement of revenue in respect of the sale of mineral sands. Similarly, there was no impact on royalty income and interest income. Certain freight revenue that was previously recognised in marketing and selling costs was identified as a separate performance obligation upon adopting the new standard.

In accordance with the transition provisions in the standard, the group has adopted AASB 15 using the cumulative effect method. Under this approach, comparatives are not restated, instead, the cumulative effect of adopting the new standard is recognised in the opening balance of retained earnings in the current reporting period. The new standard is only applied to contracts that remain in force as at the date of adoption.

Adoption adjustments to the opening balance of retained earnings

Certain freight revenue was identified at 31 December 2017 for which the related performance obligation was partially completed as at that date. This resulted in a decrease to the opening balance of retained earnings as follows:

	$'m
Opening retained earnings 1 January as previously reported	(243.6)
Decrease due to deferral of freight revenue	(0.9)
Deferred tax effect	0.3
Restated opening retained earnings	**(244.2)**

This adjustment is reflected in the statement of changes in equity, net of tax. The above deferred freight revenue (and related tax effect) has been fully recognised in the current reporting period, as detailed below.

1 Basis of Preparation (continued)

Adoption of AASB 15 (continued)

Impact of adoption on the current reporting period

Freight revenue that was previously presented net of the related expenses in marketing and selling costs is now required to be presented as revenue, resulting in a net increase to marketing and selling costs in expenses as well as revenue.

Freight revenue that was deferred at the beginning of the reporting period has been fully recognised in the current reporting period, along with related tax effects. The Group identified certain freight revenue as at 30 June 2018 for which the related performance obligation was partially completed as at that date, and has accordingly deferred $0.6 million, with the deferred revenue liability included in payables.

The impact on the financial statement line items is summarised as follows:

	Pre-adoption $'m	Adoption adjustments $'m	AASB 15 amounts $'m
Profit or loss impact			
Freight revenue			
Gross freight revenue for the half year	-	25.4	**25.4**
Deferred revenue at the beginning of the year	-	0.9	**0.9**
Revenue deferred as at 30 June 2018	-	(0.6)	**(0.6)**
Freight revenue for the half year	**-**	**25. 7**	**25.7**
Marketing and selling costs	18.9	24.8	**43.7**
Income tax expense	67.5	(0.2)	**67.3**
Balance sheet impact			
Payables[1]	145.2	0.6	**145.8**
Deferred tax asset	198.5	0.2	**198.7**

[1] Deferred revenue is included in payables.

1 Basis of Preparation (continued)

(b) Critical accounting estimates and judgements

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and future periods affected.

(i) Impairment of assets

In accordance with the Group's accounting policy, assets are assessed for impairment when there is an indication that their carrying amount may not be recoverable. The recoverable amount of each Cash Generating Unit (CGU) is determined as the higher of value-in-use and fair value less costs of disposal estimated on the basis of discounted present value of the future cash flows (a level 3 fair value estimation method). Assets that are not currently in use and not scheduled to be brought back into use (idle assets) are considered on a standalone basis.

The estimates of discounted 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 Group’s assessment of short and long term prices for each of the key products;
- future exchange rates using external forecasts by recognised economic forecasters;
- successful development and operation of new mines, consistent with latest forecasts;
- future cash costs of production, sustaining capital expenditure, rehabilitation and mine closure; and
- the asset specific discount rate applicable to the CGU.

Given the nature of the Group’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 the impairment charges recorded in prior years, or the recognition of new impairment charges in the future.

(ii) Rehabilitation and mine closure provisions

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 nature and extent of the work required, the future cost of performing the work required, the timing of the cash flows and the discount rate. Changes to one or more of these assumptions is likely to result in a change to the provision and the related asset (for open sites), or a charge to profit or loss (for closed sites) in accordance with the Group's accounting policy.

(iii) Net realisable value and classification of inventory

The Group’s assessment of the net realisable value and classification of its inventory holdings requires the use of estimates, including the estimation of the relevant future product price and the likely timing of the sale of the inventory.

Total inventory at 30 June 2018 was $410.3 million (31 December 2017: $479.4 million). Inventory write-downs of $1.2 million occurred for work in progress or finished goods during the period (31 December 2017: $5.2 million).

Inventory of $4.5 million (31 December 2017: $9.8 million) was classified as non-current as it is not expected to be sold within 12 months of the balance sheet date.

(iv) Deferred tax asset recognition

Deferred income tax assets are recognised for all deductible temporary differences, carried forward unused tax assets and unused tax losses. Deferred tax assets are based on tax laws (and tax rates) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets are not discounted and represent the face value of the losses expected to be utilised.

2 Segment information

(a) Description of segments

Operating segments are reported in a manner that is consistent with the internal reporting provided to the Managing Director. Cash, debt and tax balances are managed at a Group level and, together with resource development and other corporate activities, are not allocated to segments. The segments are unchanged from those reported at 31 December 2017.

Australia (AUS) comprises the integrated mineral sands mining and processing operations in Western Australia, South Australia, and Victoria. The processing activities in Western Australia also include the Group's synthetic rutile kilns.

Sierra Rutile (SRL) comprises the integrated mineral sands mining and processing operations in Sierra Leone.

United States (US) comprises mineral sands operations in Virginia and rehabilitation obligations in both Virginia and Florida. Mining and processing activities were substantially ceased in Virginia in December 2015.

Mining Area C (MAC) comprises a deferred consideration iron ore royalty interest over certain mining tenements in Australia 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 arm's length prices. During the 2018 half-year, $10.6 million of saleable material was transferred from the US to Australia (2017: nil) and $1.8 million was transferred from SRL to Australia (2017: nil). These transfers are excluded from the results below.

(b) Segment information

Half-year 2018	**AUS** $m	**US** $m	**SRL** $m	**MAC** $m	**Total** $m
Total segment sales to external customers[1]	507.8	12.4	86.7	-	606.9
Total segment freight revenue[1]	20.1	1.5	4.1	-	25.7
Total segment result	228.5	(4.8)	(5.3)	29.0	247.4
Segment assets at 30 June 2018	1,046.8	58.3	531.2	17.5	1,653.8
Segment liabilities at 30 June 2018	458.8	233.6	125.3	-	817.7

Half-year 2017	**AUS** $m	**US** $m	**SRL** $m	**MAC** $m	**Total** $m
Total segment sales to external customers	413.9	22.8	66.9	-	503.6
Total segment result[2]	(71.6)	(4.5)	(7.4)	30.9	(52.6)
Impairment of assets	(151.4)	-	-	-	(151.4)
Segment assets at 31 December 2017	1,073.3	73.2	487.9	18.1	1,652.5
Segment liabilities at 31 December 2017	458.5	225.9	108.5	-	792.9

[1] The Group has adopted AASB 15 during the current reporting period. Segment revenue is shown separately for the sale of mineral sands and freight revenue in accordance with the related amendment to AASB 134 *Interim Reporting*. Comparative segment revenue has not been disaggregated. Refer to note 1(a).

[2] For the half year ended 30 June 2017, the total segment result includes the impairment charge that is also separately reported.

2 Segment information (continued)

Segment result is reconciled to the profit (loss) before income tax as follows:

	Half-year 2018 $m	Half-year 2017 $m
Segment result	**247.4**	(52.6)
Interest income	**0.5**	0.3
Other income (expenses)	**(0.2)**	0.6
Marketing and selling	**(7.1)**	(6.5)
Corporate and other costs	**(23.4)**	(23.2)
Depreciation	**(1.6)**	(1.6)
Resource development	**(12.5)**	(14.0)
Interest and finance charges	**(8.4)**	(10.5)
Net foreign exchange gain (loss)	**(1.1)**	0.5
Equity accounted share of losses	**-**	(1.7)
Profit (loss) before income tax	**193.6**	(108.7

3 Revenue

	Half-year 2018 $m	Half-year 2017 $m
Sales revenue		
Sale of goods	**606.9**	503.6
Freight revenue	**25.7**	-
Other revenue		
Mining Area C royalty income	**29.2**	31.1
Interest	**0.5**	0.4
	29.7	31.5
	662.3	535.1

(a) Sale of mineral sands

The Group earns revenue by mining, processing, and subsequently selling mineral sands (including zircon, rutile, synthetic rutile and ilmenite) by export to customers based in the Americas, Europe, China, the rest of Asia, and other countries under a range of commercial terms.

Revenue from the sale of product is recognised when control has been transferred to the customer, generally being when the product has been dispatched and is no longer under the physical control of the Group. In cases where control of product is transferred to the customer before dispatch takes place, revenue is recognised when the customer has formally acknowledged their legal ownership of the product, which includes all inherent risks concomitant with control of the product. In these cases, product is clearly identified and immediately available to the customer.

Sales to customers are generally denominated in US Dollars, which are translated into the functional currency of the Group using the spot exchange rate applicable on the transaction date. The effect of variable consideration arising from rebates, discounts and other similar arrangements with customers is included in revenue to the extent that it is highly probable that there will be no significant reversal of the cumulative amount of revenue recognised when any pricing uncertainty is resolved. Revenue is recognised net of duties and other taxes.

A receivable is recognised at the earlier of dispatch or formal acknowledgement of legal ownership by a customer, as this is the point in time that the consideration is unconditional because only the passage of time is required before payment is due.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Accordingly, the group does not adjust transaction prices for the time value of money.

3 Revenue (continued)

(b) Freight revenue

The Group also earns revenue from freighting its products to customers in accordance with the incoterms in each particular sales contract. Freight revenue is recognised to the extent that the freight service has been delivered, specifically with reference to the proportion of completed freight distance to total freight distance, which is determined by the Group at each reporting date.

Freight revenue is allocated from the overall contract price at its standalone selling price (where observable) or otherwise at its estimated cost plus margin.

The Group adopted AASB 15 from the beginning of the period using the cumulative effect method, which does not require comparative information to be restated. Accordingly, freight revenue is not shown separately for the comparative half year. Refer to note 1(a).

(c) Mining Area C royalty income and amortisation of royalty asset

Iluka holds a royalty stream over BHP's Mining Area C (MAC) iron ore mine. The royalty stream is paid as 1.232% of Australian denominated revenue from the royalty area and a one-off payment of $1 million per million tonne increase in annual production capacity.

Royalty income is recognised on an accrual basis and is received on a quarterly basis in arrears. The royalty entitlement asset is an intangible asset and is amortised on a straight-line basis over its estimated useful life.

(d) Interest income

Interest income is recognised in profit or loss as it accrues, using the effective interest method.

4 Expenses

	Notes	Half-year 2018 $m	Half-year 2017 $m
Expenses			
Cash costs of production, excluding by-products	4(a)	**217.1**	192.2
Depreciation and amortisation		**39.7**	48.8
Inventory movement - cash costs of production		**49.8**	78.6
Inventory movement - non-cash production costs		**25.5**	30.6
Cost of goods sold	4(b)	**332.1**	350.2
Ilmenite concentrate and by-product costs	4(c)	**7.8**	7.9
Restructure and idle capacity charges	4(d)	**10.8**	33.3
Rehabilitation costs for closed sites		**0.5**	5.4
Government royalties		**17.9**	13.3
Marketing and selling costs[1]		**43.7**	18.5
Corporate and other costs		**24.2**	23.3
Resource development		**12.5**	14.0
Foreign exchange losses (net)		**1.1**	-
Impairment of assets		**-**	151.4
Depreciation (idle, corporate and other)		**2.9**	9.7
		453.5	627.0
Finance costs			
Interest charges		**4.9**	9.3
Bank fees and similar charges		**2.6**	0.2
Amortisation of deferred borrowing costs		**0.9**	1.1
Rehabilitation and mine closure provision discount unwind		**8.3**	5.4
		16.7	16.0

[1] Marketing and selling costs were presented net of freight revenue in the comparative period. As detailed in notes 1(a) and 3, revenue that was previously netted against marketing and selling costs is now presented separately as freight revenue.

(a) Cash costs of production

Cash costs of production include costs for mining and concentrating; transport of heavy mineral concentrate; mineral separation; synthetic rutile production; externally purchased ilmenite and production overheads. This category also includes landowner royalty payments, but excludes Australian State and Sierra Leone Government royalties which are reported separately.

(b) Cost of goods sold

Cost of goods sold is the inventory value of each tonne of finished product sold. All production is added to inventory at cost, which includes direct costs and an appropriate portion of fixed and variable overhead expenditure, including depreciation and amortisation, allocated on the basis of relative sales value. The inventory value recognised as cost of goods sold for each tonne of finished product sold is the weighted average value per tonne for the stockpile from which the product is sold.

Inventory movement represents the movement in balance sheet inventory of work in progress and finished goods, including the non-cash depreciation and amortisation components and movement in the net realisable value adjustments.

4 Expenses (continued)

(b) Cost of goods sold (continued)

Inventory movement non-cash costs of $25.5 million represents the depreciation and amortisation component included within the inventory drawdown during the half.

(c) Ilmenite concentrate and by-product costs

Ilmenite and by-product costs of $7.8 million (2017: $7.9 million) include by-product costs such as for iron concentrate processing, activated carbon and wet high intensity magnetic separation (WHIMS) ilmenite transport costs.

(d) Restructure and idle capacity charges

Idle capacity charges reflect ongoing costs incurred at operations during periods of no or restricted production.

Liabilities for employee termination benefits associated with the restructuring activities are recognised when the Group is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal and therefore no further service required. Where further service is required to be eligible for the benefit, the liability is recognised over the relevant service period.

5 Income tax

(a) Income tax expense (benefit)

	Half-year 2018 $m	Half-year 2017 $m
Current tax	**68.5**	32.9
Deferred tax	**(2.0)**	(60.9)
Under provided in prior years	**1.0**	0.8
	67.5	(27.2)

(b) Numerical reconciliation of income tax expense (benefit) to prima facie tax payable

Profit (loss) before income tax expense	**193.6**	(108.7)
Tax at the Australian tax rate of 30% (2017: 30%)	**58.1**	(32.6)
Tax effect of amounts not deductible (taxable) in calculating taxable income:		
Non-deductible expenses	**0.5**	0.8
Research and development credit	**-**	(0.4)
Current tax losses not recognised by overseas operations	**1.6**	2.9
SRL - income tax calculated at 3.5% of revenue[1]	**3.3**	2.3
Assessable Controlled Foreign Company income	**0.7**	-
Other items	**0.9**	(0.5)
Reduction in tax loss for SRL	**1.4**	-
	66.5	(27.5)
Under provision in prior years	**1.0**	0.3
Income tax (benefit) expense	**67.5**	(27.2)

[1] In accordance with the terms of the Sierra Rutile Agreement (Ratification) Act 2002 the amount of income tax payable by SRL shall not be less than an amount equal to 3.5% of revenue.

6 Hedging

The Group is exposed to risk from movements in foreign exchange in relation to its forecast US dollar denominated sales and as part of the risk management strategy has previously entered into foreign exchange forward contracts and foreign exchange collar contracts.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged and the type of hedge relationship designated.

Fair value of derivatives
Derivative financial instruments are the only assets and liabilities measured and recognised at fair value at 30 June 2018 and 31 December 2017. The fair value of these instruments is determined using valuation techniques with inputs that are observable market data (a level 2 measurement). The valuation of forward contracts is determined using forward exchange rates at the balance date. The valuation of the options making up the collars is determined using forward foreign exchange rates, volatilities and interest rates at the balance date. The only unobservable input used in the calculations is the credit default rate, movements in which would not have a material effect on the valuation.

Cash flow hedges
No additional derivative contracts were entered into during the period. Of the derivative contracts previously entered into, the following contracts remain open at the reporting date:

- foreign exchange forward contracts covering US$49 million at an average rate of 80.2 cents (31 December 2017: US$95 million at an average rate of 80.1 cents); and
- foreign exchange collar hedges covering US$259 million of expected USD revenue over the remaining period of 2018 to 31 December 2022. Over this period, the collars comprise US$259 million worth of purchased AUD call options with a weighted average strike price of 80.2 cents and US$259 million of AUD put options at a strike price of 70 cents. This period corresponds with the long-term sales contracts entered into in 2017 including those in support of the development of the Cataby project. However, the hedged USD revenues do not represent the full value of expected sales under these contracts over this period.

The foreign exchange forward contracts and foreign exchange collars Iluka holds are classified as cash flow hedges as they hedge a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions.

Net investment hedge
The Group also designates US denominated debt as a hedge against the Group's net investment in Sierra Leone, which has a US dollar functional currency. During the period the Group's net investment hedge resulted in the foreign currency translation reserve being reduced by $2.2 million (2017: $12.5 million reserve increase).

7 Interest-bearing liabilities

	30 June 2018 $m	31 December 2017 $m
Non-current interest-bearing liabilities (unsecured)		
Multi Optional Facility Agreement	**(117.0)**	(238.6)
Deferred borrowing costs	**1.6**	2.5
	(115.4)	(236.1)

Multi Optional Facility Agreement

The Multi Optional Facility Agreement (MOFA) comprises a series of five year unsecured bilateral revolving credit facilities with several domestic and foreign institutions. Changes in the US Dollar exchange rate resulted in the facility increasing to $710.2 million during the reporting period (31 December 2017: $695.1 million) with the following maturity profile:

- $100.4 million expiring in 2019,
- $75.1 million expiring in 2020, and
- $534.8 million expiring in 2022.

Undrawn MOFA facilities at 30 June 2018 were $593.3 million (31 December 2017: $456.5 million). Subsequent to the end of the reporting period, the Group cancelled $100.4 million in facilities effective from 4 July 2018.

8 Contributed equity

(a) Movements in ordinary share capital

On 23 April 2018, the Group issued 3,340,866 ordinary shares to shareholders at a price of $10.56 per share as part of the Dividend Reinvestment Plan, the terms of which are detailed in the ASX announcement dated 27 February 2018. As at 30 June 2018, 422,042,226 ordinary shares are on issue.

(b) Movements in treasury shares

During the period 624,010 treasury shares were transferred to employees (2017: 426,509) and 595,587 shares were purchased (2017: nil). Following the transfer, the total number of treasury shares on hand at 30 June 2018 was 24,795 (31 December 2017: 53,218).

9 Dividends

	Half-year 2018 $m	Half-year 2017 $m
Final dividend		
For 2017 of 25 cents per share, fully franked	**104.7**	-

Of the total $104.7 million final dividend declared for 2017, $35.3 million was taken up by shareholders as part of the Dividend Reinvestment Plan as detailed in the announcement to the ASX dated 23 April 2018.

In addition to the above dividend, since half-year end the Directors have determined an interim dividend of 10 cents per share, fully franked. The dividend is payable on 27 September 2018 for shareholders on the register as at 31 August 2018. The aggregate amount of the proposed dividend is $42.2 million.

(a) Franking credits

The balance of franking credits available for future years is $44.4 million (2017: $84.3 million). This balance is based on a tax rate of 30% (2017: 30%).

10 Contingent liability

On 24 March 2014 Iluka became aware that a litigation funder proposed to fund claims that current or former shareholders may have against Iluka Resources Limited (Iluka) in respect of alleged breaches of Iluka's continuous disclosure obligations and misleading and deceptive conduct in 2012.

On 23 April 2018, Iluka was served with an originating application and statement of claim in respect of a shareholder class action filed in the Federal Court of Australia. The proceedings have been brought by a group of Iluka shareholders for alleged breaches of Iluka's continuous disclosure obligations, and misleading and deceptive conduct in relation to disclosures made by Iluka to the market between April and July 2012. On 9 May 2018, Iluka was informed that the class action had received funding from the applicant's third party litigation funder, Harbour Fund II LP. Iluka denies liability in respect of the allegations and is defending the proceedings.

Previously no contingent liability was disclosed in the financial report given it was uncertain that any litigation would commence. As the class action has now commenced, a contingent liability has been disclosed. Given the status of the proceedings, Iluka is unable to reliably estimate the quantum of liability, if any, that Iluka may incur in respect of the class action.

11 Capital commitments

The Group has entered into new capital commitments as at 30 June 2018 of $178.0 million. All of the commitments relate to the purchase of property, plant and equipment and are payable within one year of the reporting date.

12 Reconciliation of profit (loss) after income tax to net cash flow from operating activities

	Half-year 2018 $m	Half-year 2017 $m
Profit (loss) for the period	**126.1**	(81.5)
Depreciation and amortisation	**42.6**	58.5
Net gain on disposal of property, plant and equipment	**(0.7)**	(0.1)
Net exchange differences	**3.6**	(7.2)
Rehabilitation and mine closure provision discount unwind	**8.3**	5.4
Non-cash share-based payments expense	**1.9**	4.4
Amortisation of deferred borrowing costs	**0.9**	1.1
Equity accounted share of losses	**-**	1.7
Impairment of assets	**-**	151.4
Inventory NRV write-down	**1.2**	5.2
Non-cash rehabilitation for closed sites	**-**	5.0
Change in operating assets and liabilities		
Decrease in receivables	**38.2**	0.6
Decrease in inventories	**75.3**	105.6
Increase in net current tax liability	**66.1**	(0.7)
Decrease (increase) in net deferred tax	**0.1**	(32.5)
Increase in payables	**(11.8)**	(2.8)
Decrease in provisions	**(27.4)**	(10.6)
Net cash inflow from operating activities	**324.4**	203.5

In the directors' opinion:

(a) the interim financial statements and notes set out on pages 15 to 30 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 consolidated entity's financial position as at 30 June 2018 and of its performance for the half-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.

This declaration is made in accordance with a resolution of directors.

G Martin
Chairman

T O'Leary
Managing Director

16 August 2018

Independent auditor's review report to the shareholders of Iluka Resources Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Iluka Resources Limited (the Company), which comprises the consolidated balance sheet as at 30 June 2018, the consolidated statement of changes in equity, consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Iluka Resources Limited. The group comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the group's financial position as at 30 June 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Iluka Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

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Independent auditor's review report to the shareholders of Iluka Resources Limited (continued)

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Iluka Resources Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the group's financial position as at 30 June 2018 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Justin Carroll

Justin Carroll
Partner

Perth
16 August 2018