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Iluka Resources Limited

ABN 34 008 675 018

**Interim report
for the half-year 30 June 2016**

Iluka Resources Limited ABN 34 008 675 018
ASX Half-year information - 30 June 2016

Lodged with the ASX under Listing Rule 4.2A.
This information should be read in conjunction with the
31 December 2015 Annual Report

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RESULTS FOR ANNOUNCEMENT TO THE MARKET

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

Revenue from ordinary activities	Down 7.6% to \$359.6m	
Loss from ordinary activities after tax attributable to members	Down 202.5% to (\$20.9)m	
Net loss for the period attributable to members	Down 202.5% to (\$20.9)m	
Dividends		
2016 interim: 3 cents per ordinary share (100% franked), to be paid in October 2016		
2015 final: 19 cents per ordinary share (100% franked), paid in April 2016		
2015 interim: 6 cents per ordinary share (100% franked), paid in September 2015		
Key ratios		
	1st Half	1st Half
	2016	2015
Basic and diluted (loss) / earnings per share (cents)	(5.2)	4.9
Free cash flow per share ¹ (cents)	(12.1)	9.3
Return on equity ² (% annualised)	(3.2)	2.9
Net tangible assets per share (\$)	3.10	3.27

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 Net (Loss) / Profit after Tax (NPAT) on an annualised basis as a percentage of the average monthly shareholders equity.

OVERVIEW OF FIRST HALF RESULTS

Iluka recorded a loss after tax for the half-year ended 30 June 2016 of \$20.9 million, compared with a profit of \$20.4 million for the previous corresponding period. The 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 with investment in trialling an innovative mineral sands mining technique. Other factors influencing the result included lower USD prices (mainly zircon), lower ilmenite sales and sales mix factors which were offset by: lower unit cost of goods sold; higher zircon, rutile and synthetic rutile (Z/R/SR) volumes; and favourable exchange rate movements.

Iluka's total higher value product sales of Z/R/SR represent a 14.7 per cent increase in volumes from the first half of 2015 at 316.4 thousand tonnes (2015: 275.9 thousand tonnes). Z/R/SR revenue was \$321.1 million, up 3.0 per cent compared with the previous corresponding period (2015: \$311.7 million) associated with higher sales volumes and favourable exchange rate movements (weighted average spot rate 2016: 74.0 cents compared to 2015: 77.5 cents), although largely offset by lower received US dollar prices for zircon period-on-period and a greater weighting in the sales mix to synthetic rutile.

Unit revenue per tonne of Z/R/SR was \$1,015 (2015: \$1,130). Ilmenite and other revenue was down 54.4 per cent to \$17.3 million (2015: \$37.9 million) associated with lower ilmenite sales volumes reflecting the use of internal ilmenite for upgrading to synthetic rutile and the phasing of planned ilmenite sales to the second half of 2016.

Total cash production costs, which include ilmenite concentrate and by-product costs, reduced by 19.8 per cent from the previous corresponding period to \$140.7 million (2015: \$175.5 million). The reduction in cash costs of production reflects the cessation of US mining and concentrating activities in December 2015 and the suspension of mining and concentrating activities at Jacinth-Ambrosia in April 2016, partially offset by a full half of synthetic rutile (SR2) kiln costs in Western Australia following the restart in March 2015.

On a unit basis, cash costs of production excluding ilmenite concentrate and by-products were \$402 per tonne of Z/R/SR (2015: \$616 per tonne), a 34.7 per cent decrease compared with the previous corresponding period, reflecting 20.8 per cent higher production of Z/R/SR combined with lower costs noted above.

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Restructure and idle capacity charges of \$26.8 million were comparable with the previous corresponding period (2015: \$27.4 million), with the idling of the US operations in December 2015 resulting in an increase in US restructure and idle costs (2016 H1: \$14.0 million; 2015 H1: \$5.5 million), which was offset by a reduction in Australian idled costs (2016 H1 \$12.8 million; 2015 H1: \$21.9 million), following the restart of SR2 in the South West. The US restructure and idle costs partly reflect the feasibility costs for re-treatment and potential recovery of zircon in concentrate from tailings stocks.

Resource development expenditure increased \$23.9 million to \$47.1 million (2015: \$23.2 million) mainly influenced by the expenditure previously referred to in relation to trialling an innovative mineral sands mining technique.

Mineral sands EBITDA for the first half of 2016 was \$43.6 million, a 61.9 per cent decrease compared with the previous corresponding period reflecting lower US dollar zircon prices together with higher resource development expenditure, partially offset by lower unit cost of goods sold. Mineral sands EBIT decreased by \$31.3 million (101.6 per cent) to a loss of \$0.5 million (2015: profit of \$30.8 million).

MAC earnings decreased by 46.7 per cent to \$20.8 million (2015: \$39.0 million). No capacity payments were received in 2016 (2015: \$3.0 million) and the previous corresponding period included a one-off receipt of US\$8.0 million (A\$10.4 million) following the modification to the royalty agreement with BHP Billiton and its joint venture partners. Royalty receipts were also lower period-on-period associated with the reduction in iron ore prices.

Group EBIT was a loss of \$5.7 million, a decrease of 113.1 per cent compared to a profit of \$43.5 million in the previous corresponding period.

Loss before tax was \$18.5 million (2015: profit of \$27.8 million). A net tax expense of \$2.4 million (2015: \$7.4 million) was recorded in respect of the loss for the period with no tax benefit recognised in respect of the US operating loss (\$17.5 million) nor for international exploration expenditure.

Loss per share for the period was 5.2 cents compared to an earnings per share of 4.9 cents in the previous corresponding period. The number of shares on issue at 30 June 2016 of 418.7 million was unchanged during the period.

Free cash outflow of \$50.6 million compared to an inflow of \$39.0 million in the previous corresponding period predominantly reflects \$106.8 million lower receipts due to the timing of sales combined with lower utilisation of the trade receivables purchase facility (refer page 10).

Capital expenditure of \$28.8 million related to major project expenditure including Balranald and Cataby, combined with an increased investment, announced on 18 February 2016, in Metalysis Limited, a UK company developing a new technology for titanium metal powder production.

Net debt at 30 June 2016 was \$124.1 million, with a corresponding gearing ratio (net debt/net debt + equity) of 8.7 per cent. This compares with net cash at 31 December 2015 of \$6.0 million. Undrawn facilities at 30 June 2016 were \$827.6 million and cash and cash equivalents of \$53.3 million. Net debt at 31 July 2016 was \$147.1 million.

Other matters

On 1 August 2016, Iluka announced to the ASX that it had made an all-cash offer to acquire the entire issued shares of Sierra Rutile Limited (SRL), being a rutile mining operation in Sierra Leone for a cost of approximately £215 million (A\$375 million). Iluka assumes SRL's debt of approximately US\$60 million (A\$80 million).

The acquisition is conditional on approval of the statutory merger by a simple majority of SRL shareholders being obtained at a duly convened meeting.

The Merger Circular was published in August 2016 and, subject to the satisfaction of all relevant conditions, the merger will become effective and the acquisition completed in September 2016 or before 30 November 2016 (or such other date as agreed between Iluka and SRL). The Company will keep shareholders informed as permitted in accordance with applicable regulatory requirements.

Iluka has become aware that the Sierra Leone Government has written to 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.

On 24 March 2014 Iluka became aware that a litigation funder proposed to fund claims that current or former shareholders may have against the Company in respect of continuous disclosure obligations in 2012. The potential applicants sought an order for pre-action discovery which was dismissed in July 2015 and which was subsequently appealed to the Full Federal Court. The Federal Court has not yet handed down its decision.

DIVIDEND

Directors have determined a fully franked interim dividend of 3 cents per share, payable on 6 October 2016 with a record date of 9 September 2016.

OVERVIEW OF SALES AND PRODUCTION

	1st Half 2016	1st Half 2015	% change
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(\$m)	17.3	37.9	(54.4)
Total mineral sands revenue ¹ (\$m)	338.4	349.6	(3.2)
Revenue per tonne of Z/R/SR sold ² (\$/t)	1,015	1,130	(10.2)
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
HMC produced	244	632	(61.4)
HMC processed	497	526	(5.5)
Cash costs of production (\$m)	140.7	175.5	19.8
Unit cash cost per tonne of Z/R/SR produced ³ (\$/t)	421	634	33.6
Unit cash cost per tonne of Z/R/SR produced excluding by-products (\$/t)	402	616	34.7
Unit cost of goods sold per tonne of Z/R/SR sold (\$/t)	717	821	12.7

¹ Mineral sands revenues include revenues derived from other materials not included in production volumes, including activated carbon products and iron concentrate.

² Revenue per tonne of Z/R/SR sold is determined as total Z/R/SR revenue divided by total Z/R/SR sales volumes.

³ 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.

Mineral sands sales volumes

Zircon sales volume for the half-year of 154.5 thousand tonnes was similar to the previous corresponding period sales volume of 153.4 thousand tonnes.

Sales of high grade titanium dioxide products (rutile and synthetic rutile) for the half-year were 32.2 per cent higher than the first half of 2015 at 161.9 thousand tonnes (2015: 122.5 thousand tonnes). The first half saw encouraging trends in terms of demand for high grade feedstock, including several customers bringing forward contracted volume. Rutile sales volumes were in line with 2015, reflecting Iluka's approach to allocating volumes to maximise the net present value (NPV) of the limited material the Company has available from concentrate and finished goods inventory, following cessation of mining at Woonack, Rownack, Pirro (WRP) in Victoria in the first quarter of 2015. Lower ilmenite sales volumes reflect the use of internal ilmenite for upgrading to synthetic rutile and the phasing of planned ilmenite sales to the second half of 2016.

Refer page 8 for details of the main product prices received.

Mineral sands production

Total Z/R/SR production for the half was 334.4 thousand tonnes, a 20.8 per cent increase from the previous corresponding period (2015: 276.9 thousand tonnes).

Synthetic rutile volumes increased by 78 per cent reflecting a full half of synthetic rutile production following the restart of the synthetic rutile SR2 kiln in March 2015. Production of rutile has been moderated in light of Iluka's approach to allocating volumes of this product, given the progressive draw down of rutile-rich heavy mineral concentrate (HMC) in the Murray Basin ahead of the next planned mine development, Balranald.

Higher zircon production in the first half of 2016 compared with 2015 reflects mineral separation plant (MSP) campaign timing which meant higher operational run rate for MSPs in the first half of 2016, compared with the first half of 2015. Both the Hamilton and Nargulu MSPs are running at ~50 to ~60 per cent of capacity.

As announced on 16 February 2016, mining and concentrating activities at Jacinth-Ambrosia were suspended on 15 April 2016 to allow the progressive draw down of HMC stockpiles held at site. Iluka expects the period of mining and concentrating suspension to be for 18 to 24 months from April 2016, dependent on market demand.

INCOME STATEMENT ANALYSIS

\$ million	1st Half 2016	1st Half 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 amortisation	(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)
Share of Metalysis Ltd's losses (associate)	(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
(Loss) profit before tax	(18.5)	27.8	(166.5)
Tax expense	(2.4)	(7.4)	67.6
(Loss) 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 operational results

\$ million	Revenue		EBITDA		EBIT	
	1st Half 2016	1st Half 2015	1st Half 2016	1st Half 2015	1st Half 2016	1st Half 2015
Australia	329.4	335.3	115.1	148.7	72.5	66.1
United States	9.0	14.3	(17.1)	(6.2)	(17.1)	(6.2)
Resource development and other	-	-	(54.4)	(28.1)	(55.9)	(29.1)
Total	338.4	349.6	43.6	114.4	(0.5)	30.8

An overview of performance for Australian operations and United States operations is provided later in this report. Commentary in respect of the income statement analysis is provided below.

Mineral sands revenue

Mineral sands sales revenue for the half-year was \$338.4 million, a decrease of 3.2 per cent compared with the previous corresponding period (2015: \$349.6 million), largely associated with lower ilmenite sales.

Revenue derived from Z/R/SR sales was 3.0 per cent higher at \$321.1 million based on a 14.7 per cent increase in sales volumes offset by lower received US dollar prices for zircon period-on-period and a greater weighting in the sales mix to the lower priced synthetic rutile. Ilmenite and by-product revenue was down 54.4 per cent to \$17.3 million given the greater use of internal ilmenite for upgrading to synthetic rutile and the phasing of planned ilmenite sales to the second half of 2016.

Cash costs of production

Cash costs of production were down \$34.8 million from the previous corresponding period to \$140.7 million (2015: \$175.5 million). Cash costs of production include \$6.2 million of costs in relation to ilmenite concentrate and by-products (2015: \$5.0 million). The reduction in cash costs of production is driven by a number of factors including:

- \$31 million reduction in cash production costs in the US operations following the cessation of mining and concentrating activities in December 2015;
- the suspension of mining and concentrating activities at Jacinth-Ambrosia from 15 April 2016;
- the cessation of mining and concentrating activities in the Murray Basin in March 2015 following the depletion of the Wornack, Rownack, Pirro deposit; partially offset by
- a full half of synthetic rutile operations in 2016 following the restart of SR2 in March 2015.

On a unit basis, cash costs of production, excluding ilmenite concentrate and by-products, were \$402 per tonne of Z/R/SR produced, a 34.7 per cent decrease compared with the previous corresponding period.

Inventory movement

Work-in-progress inventory decreased by \$43.6 million to \$357.6 million as HMC processed of 497 thousand tonnes exceeded HMC production of 244 thousand tonnes. This draw down in HMC inventory is consistent with Iluka's reduced production settings and demand-following approach, which are likely to see HMC and finished goods inventories return to pre-2012 levels within the next two years. Finished product inventory has decreased by \$13.3 million to \$363.8 million.

Restructure and idle capacity charges

Idle capacity charges are costs incurred during periods of no or restricted production. Restructure and idle capacity costs of \$26.8 million were comparable with the previous corresponding period (2015: \$27.4 million). The costs in 2016 include the idling of US operations, the suspension of mining and concentrating activities at Jacinth-Ambrosia and the Narngulu mineral separation plant being idled for one month in January 2016.

Rehabilitation and holding costs for closed sites

Rehabilitation and holding costs incurred in the first half of 2016 relate mainly to ongoing maintenance work at closed sites. There were no charges arising from the reassessment of rehabilitation provisions for closed sites.

Government royalties

Government royalties were higher than the previous corresponding period reflecting an increase in the royalty rate applied to production from the Jacinth-Ambrosia mine in South Australia after an initial period of lower royalty rate arrangements. The Jacinth-Ambrosia mine was granted 'new mine' status from the State Government which included a reduced royalty rate of 1.5 per cent for the first five years. This rate increased to 5 per cent in the first quarter of 2015 and will remain at that level for the remainder of the mine life.

Marketing and selling costs

Marketing and selling costs were comparable with the previous corresponding period at \$18.4 million (2015: \$17.2 million).

Resource development

Resource development costs were \$23.9 million higher than the previous corresponding period predominantly reflecting increased investment in trialling an innovative mineral sands mining technique. Resource development costs also include exploration and various other research and development expenditures, with first half expenditure higher, in line with guidance provided by the Company in its Key Physical and Financial Parameters ASX Release of 19 February 2016.

Depreciation and amortisation

The decrease of \$39.5 million compared to the previous corresponding period reflects no depreciation at WRP following cessation of mining in the first quarter of 2015. Depreciation has recommenced on mine specific equipment and mine reserves associated with the restart of mining operations at Tutunup South and the restart of the SR2 kiln in Western Australia during the first half of 2015. Depreciation has been suspended for mine specific equipment at Jacinth-Ambrosia following the suspension of mining and concentrating activities in April 2016.

Mining Area C

Iron ore sales volumes decreased 7.6 per cent to 25.4 million dry metric tonnes (DMT). The average AUD realised price upon which the royalty is payable decreased by 10.2 per cent from the previous corresponding period. The EBIT contribution of \$20.8 million includes no annual capacity payments for production increases in the year to 30 June (2015: \$3.0 million).

Corporate and other

Corporate costs were \$1.9 million higher than the previous corresponding period, associated with redundancy costs and Managing Director transition, partially offset by lower costs associated with the evaluation of the potential acquisition of Kenmare Resources Plc.

Foreign exchange

Net foreign exchange translation gains were \$0.9 million, compared to a net loss of \$2.7 million in the previous corresponding period.

Net Interest and bank charges

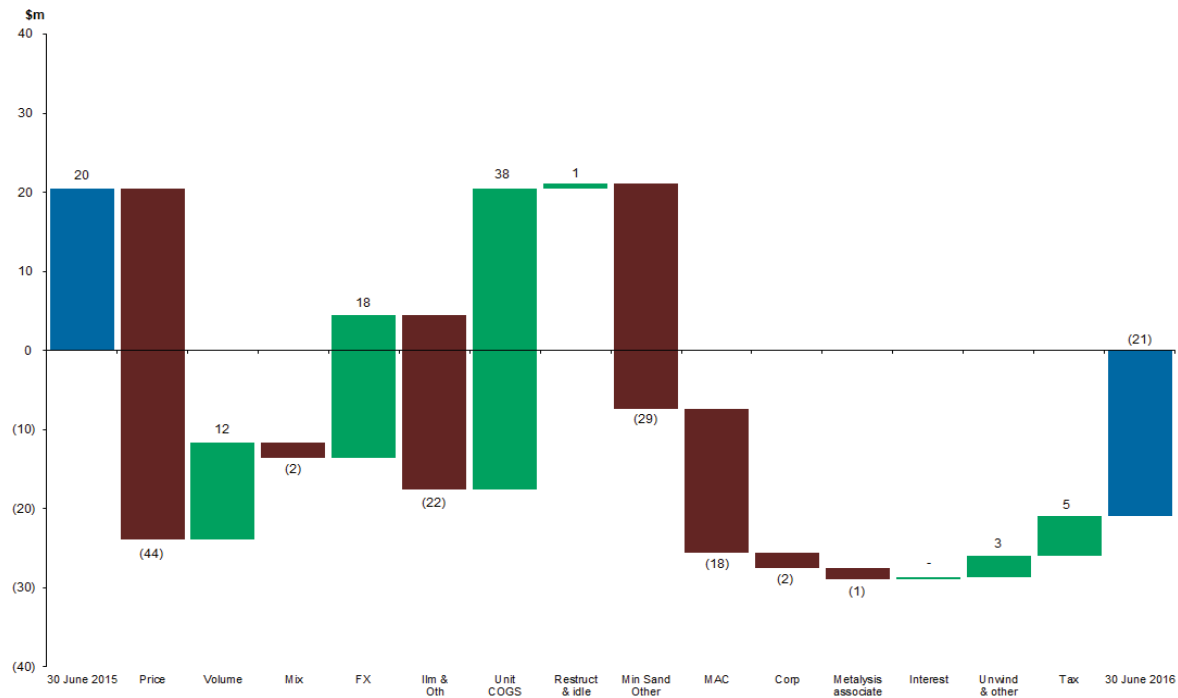
Net interest and bank charges are comparable to the previous corresponding period. Net debt at 31 December 2014 was \$59.0 million increasing to \$80.2 million at 30 June 2015. As at 31 December 2015, Iluka had a net cash position of \$6.0 million; as at 30 June 2016 net debt was \$124.1 million.

Tax expense

The income tax expense of \$2.4 million on an operating loss before tax of \$18.5 million reflects no tax benefit recognised in respect of the US operating loss and international exploration expenditure, partially offset by the benefit of research and development tax offsets.

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MOVEMENT IN NPAT



Commentary in respect of the NPAT waterfall above is provided below:

Z/R/SR sales price (-ve \$44 million)

Lower average USD sales prices, predominantly for zircon, compared to the previous corresponding period.

Average zircon prices were US\$787 per tonne in 2016, a reduction of 21 per cent from the average achieved in the first half of 2015 (2015: US\$1,000/t). Zircon prices reflect the weighted average price for zircon premium, zircon standard/universal, zircon in concentrate and zircon tailings. The prices for each product vary considerably, as does the mix of such products sold period to period. The sales mix in the first half was approximately 47 per cent premium product, 40 per cent standard/universal grade with the remainder of zircon sold contained in concentrate. This reflects a higher level of standard/universal grade product than in the first half of 2015, reflecting demand characteristics in various end sectors, as well as introduction of new zircon products.

Rutile prices averaged US\$712 per tonne, 5 per cent lower period-on-period (2015: US\$748/t). Weighted average prices are influenced by product mix with a higher proportion of the lower titanium dioxide product, HyTi, being sold in 2016 compared to 2015. Iluka's synthetic rutile sales are, in large part, underpinned by commercial off-take arrangements. The terms of these arrangements, including the pricing arrangements, are commercial in confidence and as such not disclosed by Iluka.

Z/R/SR sales volumes (+ve \$12 million)

The amount reflects the impact of higher Z/R/SR sales volumes, up 14.7 per cent on the previous corresponding period, using the average margin achieved for Z/R/SR product sales in the current period.

Z/R/SR sales mix (-ve \$2 million)

Z/R/SR sales volumes for the period include a lower proportion of higher priced zircon and a higher proportion of lower priced high grade titanium dioxide products than in the previous corresponding period.

Z/R/SR foreign exchange (+ve \$18 million)

The impact of a lower weighted average spot exchange rate of 74.0 cents applicable to Z/R/SR revenue compared with the rate in the previous corresponding period of 77.5 cents. Foreign exchange impacts on operating costs, mainly those relating to the US operations, are included in the overall movement in unit cost of sales. The variance also includes a foreign exchange translation gain of \$0.9 million as opposed to a translation loss of \$2.7 million in 2015.

Ilmenite and other revenue (-ve \$22 million)

Decreased volume of ilmenite sales and lower average realised prices as a result of changes in the ilmenite product mix.

Z/R/SR unit cost of sales (+ve \$38 million)

Lower unit cost of sales for Z/R/SR sold during the period reflects reducing unit cash costs of production combined with a change in sales mix to include lower cost material.

Restructure and idle capacity (+ve \$1 million)

The composition of these costs has changed with an increase in US idle costs following the cessation of mining and concentrating in December 2015 offset by a reduction in Western Australia following the recommencement of both mining and synthetic rutile production in March 2015.

Mineral sands other costs (-ve \$29 million)

The higher costs were due mainly to increased expenditure trialling innovative mineral sands mining techniques.

MAC (-ve \$18 million)

Underlying iron ore royalties decreased compared to the previous corresponding period due to a 7.6 per cent decrease in sales volumes, combined with a 10.2 per cent decrease in realised AUD iron ore prices. No MAC annual capacity payments were received in 2016 (2015: \$3.0 million). Royalty and capacity payments are payable on dry metric tonnes. The previous corresponding period also included a one-off receipt of US\$8.0 million (A\$10.4 million) as referenced previously.

Corporate costs (-ve \$2 million)

The higher corporate costs were due to increased costs related to redundancy costs and Managing Director transition, partially offset by lower costs associated with the evaluation of the potential acquisition of Kenmare Resources Plc.

Metalysis associate (-ve \$1 million)

Iluka's increased investment in Metalysis on 18 February 2016 has resulted in Iluka equity accounting from this date. Iluka has recognised its share of Metalysis losses for the period of \$1.4 million.

Interest (\$nil)

Interest costs are in line with the previous corresponding period.

Rehabilitation unwind and other finance charges (+ve \$3 million)

The reduction in rehabilitation unwind costs from the previous corresponding period reflects the reduction in the risk free discount rate used in the calculation of the net present value of the rehabilitation provisions from 4.7 per cent in the first half of 2015 to 3.0 per cent in the first half of 2016.

Tax (+ve \$5 million)

The variance reflects a decreased tax expense as a result of lower earnings and the benefit of higher research and development tax offsets compared to the previous corresponding period.

BALANCE SHEET, CASH FLOW AND NET DEBT

Balance sheet by operation - \$ million

30 June 2016	AUS	US	MAC	Corp	Group	31 Dec 2015
Receivables	151.5	4.6	12.8	9.8	178.7	108.9
Inventories	696.8	58.4	-	-	755.2	811.8
Payables and accruals	(60.0)	(13.5)	-	(19.4)	(92.9)	(93.6)
Employee and other provisions	(10.6)	(12.4)	-	(17.0)	(40.0)	(39.2)
Rehabilitation provisions	(391.8)	(67.3)	-	-	(459.1)	(487.0)
Property, plant & equipment	992.6	33.7	-	17.1	1,043.4	1,069.8
Investment in Metalysis Ltd	-	-	-	28.8	28.8	22.7
Intangibles	-	-	4.9	-	4.9	5.1
Capital employed	1,378.5	3.5	17.7	19.3	1,419.0	1,398.5
Net tax asset					(11.0)	(4.1)
Net debt					124.1	(6.0)
Total equity					1,305.9	1,408.6
Net funding					1,419.0	1,398.5

Receivables have increased \$69.8 million from 31 December 2015 influenced by both the timing of sales late in the period, the reduced use of the trade receivables purchase facility and amendments to customers' credit terms (as detailed in Note 7). Iluka has access to a trade receivables purchase facility which enabled the earlier collection of \$45.1 million of receivables at 30 June 2016 (31 December 2015: \$75.0 million).

Inventories decreased by \$56.6 million to \$755.2 million. Lower inventories reflect the drawdown of \$43.6 million in work in progress product (HMC) to \$357.6 million (December 2015: \$401.2 million) and a \$13.3 million decrease in finished product stocks to \$363.8 million. During the half, Iluka produced 244 thousand tonnes of HMC and processed 497 thousand tonnes. The draw down in HMC inventory is consistent with Iluka's production settings and demand-following approach, which are likely to see HMC and finished goods inventories reduce materially within the next two years. Inventories include \$312.6 million of predominantly HMC material classified as non-current (2015: \$317.9 million) and also \$33.8 million of consumable stores (December 2015: \$33.6 million).

Lower property, plant and equipment values reflect mainly the depreciation charge for the period of \$44.1 million being higher than capital expenditure of \$16.7 million.

During the period Iluka further increased its equity stake in Metalysis Limited to 26.0 per cent with a \$12.1 million investment in February 2016. Metalysis Limited is a private UK based entity that is developing a new technology for titanium metal powder production. The investment has resulted in Metalysis becoming an associate and Iluka has commenced equity accounting from 18 February 2016. During the period, Iluka's share of the Metalysis earnings was a loss of \$1.4 million and Iluka expects Metalysis to report losses during the development phase of the technology. As announced to the ASX on 18 February 2016, Iluka committed a further £4 million (A\$6.9 million) investment which was made on 13 July 2016.

Net debt increased from December 2015 by \$130.1 million due to free cash outflow for the period of \$50.6 million and the payment of \$79.5 million in respect of the 19 cent final dividend for 2015 in April 2016. Undrawn facilities at 30 June 2016 were \$827.6 million (December 2015: \$955.1 million) and cash and cash equivalents were \$53.3 million (December 2015: \$55.0 million).

Movement in net (debt) cash

\$ million	1st Half 2015	2nd Half 2015	1st Half 2016
Opening net cash (debt)	(59.0)	(80.2)	6.0
Operating cash flow	92.1	130.1	(15.5)
MAC royalty	26.7	37.3	18.3
Exploration	(11.5)	(16.2)	(10.7)
Interest (net)	(5.6)	(4.9)	(4.9)
Tax	(14.3)	(4.2)	(10.3)
Capital expenditure	(35.5)	(26.8)	(16.7)
Purchase of shares in Metalysis Limited	(4.1)	-	(12.1)
Asset sales	0.2	0.7	1.3
Share purchases for employee share schemes	(9.0)	-	-
Free cash flow	39.0	116.0	(50.6)
Dividends	(54.4)	(25.1)	(79.5)
Net cash flow	(15.4)	90.9	(130.1)
Exchange revaluation of USD net debt	(4.6)	(3.5)	1.4
Amortisation of deferred borrowing costs	(1.2)	(1.2)	(1.4)
(Decrease) increase in net cash (debt)	(21.2)	86.2	(130.1)
Closing net (debt) cash	(80.2)	6.0	(124.1)

During the period, operating cash flow was an outflow of \$15.5 million compared to an inflow of \$92.1 million in the previous corresponding period reflecting the timing of cash collections with receipts from customers down \$106.8 million due to an increase of \$102.9 million in trade receivables from 30 June 2015.

MAC royalty cash flows in the first half of 2016 were lower than the previous corresponding period reflecting lower iron ore prices and sales volumes.

Iluka continued monthly tax instalments in Australia during the period. Iluka's tax expense in the period was \$2.4 million in comparison to net tax payments of \$10.3 million, reflecting final Australian tax payments for the prior period and US tax refunds received.

Capital expenditure of \$16.7 million in the half-year related to major projects, including Cataby (Western Australia) and Balranald (New South Wales). In addition, Iluka increased its equity interest in Metalysis Limited for a cost of \$12.1 million in the period taking the equity holding to 26.0 per cent.

A 2015 final dividend of 19 cents per share was paid in April 2016. The prior period cash flows included a 13 cents per share 2014 final dividend, paid in March 2015 and a 6 cents per share 2015 interim dividend, paid in October 2015.

The exchange revaluation of USD net debt in the period predominantly reflects the re-translation of US dollar denominated debt from an exchange rate of 72.8 cents at 31 December 2015 to 74.5 cents at 30 June 2016.

REVIEW OF AUSTRALIAN OPERATIONS

		1st Half 2016	1st Half 2015	% change
Production volumes				
Zircon	kt	175.5	146.4	19.9
Rutile	kt	56.7	56.2	0.9
Synthetic rutile	kt	102.2	57.4	78.0
Total Z/R/SR production	kt	334.4	260.0	28.6
Ilmenite - saleable and upgradeable	kt	164.1	128.9	27.3
Total production volume	kt	498.5	388.9	28.2
HMC produced	kt	244	526	(53.5)
HMC processed	kt	497	413	20.2
Unit cash cost of production - Z/R/SR *	\$/t	416	549	24.3
Mineral sands revenue	\$m	329.4	335.3	(1.8)
Cash cost of production	\$m	(139.0)	(142.8)	2.7
Inventory movements	\$m	(41.4)	(2.9)	1,327.6
Restructure and idle capacity charges	\$m	(12.8)	(21.9)	41.6
Rehabilitation and holding costs for closed sites	\$m	(1.6)	(1.1)	(45.5)
Government royalties	\$m	(9.4)	(7.8)	(20.5)
Marketing and selling costs	\$m	(10.5)	(10.2)	(2.9)
Asset sales and other income	\$m	0.4	0.1	300.0
EBITDA	\$m	115.1	148.7	(22.6)
Depreciation & amortisation	\$m	(42.6)	(82.6)	48.4
EBIT	\$m	72.5	66.1	9.7

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

Total Z/R/SR production increased 28.6 per cent from the previous corresponding period reflecting a full half of synthetic rutile production, following the restart of SR2 kiln in Western Australia in March 2015.

Mineral sands revenue is marginally lower than the previous corresponding period at \$329.4 million (2015: \$335.3 million). The reduction predominantly reflects lower average received US dollar prices for zircon period-on-period, partially offset by higher sales volumes, especially for synthetic rutile with 104.5 thousand tonnes in 2016 compared to 63.4 thousand tonnes in the previous corresponding period.

Cash costs of production were \$3.8 million lower than the previous corresponding period. The change reflects a combination of factors including lower mining and concentrating costs due to the cessation of mining operations at WRP in the Murray Basin in March 2015; the suspension of mining and concentrating activities at Jacinth-Ambrosia in April 2016; partially offset by the re-start of mining at Tutunup South in Western Australia and increased synthetic rutile costs on reactivation of SR2 kiln in March 2015, with 2016 reflecting a full half of costs.

Unit cash costs of production per tonne Z/R/SR declined due to the increase in production and lower cash production costs associated with the reduction in mining and concentrating activities.

The inventory movement reflects a draw down of both HMC and finished goods stocks.

Restructure and idle capacity charges have decreased from the previous corresponding period due to the restart of mining and synthetic rutile operations in Western Australia in March 2015 no longer incurring idle capacity charges in 2016, partially offset by charges associated with the suspension of mining and concentrating at Jacinth-Ambrosia in April 2016.

The reduction in depreciation charges reflects no depreciation at WRP following cessation of mining in the first quarter of 2015 and the suspension of depreciation for mining and concentrating equipment at Jacinth-Ambrosia associated with idling of mining and concentrating activities in April 2016. This is partially offset by a full half of depreciation on mine specific equipment and mine reserves associated with the restart of mining operations at Tutunup South and the restart of the SR2 kiln in March 2015.

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REVIEW OF UNITED STATES OPERATIONS

		1st Half 2016	1st Half 2015	% change
Production volumes				
Zircon	kt	-	16.9	n/a
Ilmenite - saleable and upgradeable	kt	-	66.2	n/a
Total production volumes	kt	-	83.1	n/a
HMC produced	kt	-	106	n/a
HMC processed	kt	-	113	n/a
Unit cash cost of production - saleable product Z/I *	\$/t	-	394	n/a
Minerals sands revenue	\$m	9.0	14.3	(37.1)
Cash cost of production	\$m	(1.7)	(32.7)	94.8
Inventory movements	\$m	(10.3)	17.7	(158.2)
Restructure and idle capacity charges	\$m	(14.0)	(5.5)	(154.5)
Marketing and selling costs	\$m	(0.1)	-	n/a
Loss Before Interest and Tax	\$m	(17.1)	(6.2)	(175.8)

* Calculated as cash costs of production, including by-product costs divided by zircon and ilmenite production.

Zircon and ilmenite production ceased in December 2015 following the completion of mining at Brink and Concord deposits in the US.

Lower sales revenue was largely due to decreased sales volumes.

Cash costs of production largely reflect activities associated with finished goods transport as all mining and concentrating activities ceased in December 2015.

The inventory movement reflects the draw down in finished goods through sales and write-downs of certain inventory lines to their net realisable value.

Restructure and idle capacity charges reflect regional management, administration and holding costs, regional asset care and maintenance costs plus feasibility costs associated with planned re-treatment and recovery of zircon in concentrate from tailings stocks pre rehabilitation.

Directors' report

The directors present their report on the consolidated entity consisting of Iluka Resources Limited and the entities it controlled at the end of, or during, the half-year 30 June 2016.

Directors

The following individuals were directors of Iluka Resources Limited during the whole of the half-year and up to the date of this report, unless otherwise stated:

G Martin
M Bastos
W Osborn
J Ranck
G Rezos
D Robb
J Seabrook
X Liu

Dr X Liu joined the Board on 19 February 2016. Mr W Osborn retired from the Board on 18 May 2016.

Review of operations

Revenue for the half-year ended 30 June 2016 from operations was \$359.6 million (2015: \$389.0 million).

Loss before income tax expense for the half-year ended 30 June 2016 from operations was \$18.5 million (2015: \$27.8 million profit).

Loss for the half-year ended 30 June 2016 was \$20.9 million (2015: \$20.4 million profit).

Dividends

Directors have determined a fully franked interim dividend of 3 cents per share, payable on 6 October 2016 with a record date of 9 September 2016.

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 15.

Rounding of amounts

The Company is of a kind referred to in "ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191", issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the directors' report and accompanying financial report. Amounts in the directors' report have been rounded off in accordance with that Rounding Instrument to the nearest hundred thousand dollars, or in certain cases, to the nearest dollar.

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



G Martin
Chairman



D Robb
Managing Director

Perth
24 August 2016



Auditor's Independence Declaration

As lead auditor for the review of Iluka Resources Limited for the half-year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. 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.

A handwritten signature in black ink, appearing to read 'Justin Carroll', written in a cursive style.

Justin Carroll
Partner
PricewaterhouseCoopers

Perth
24 August 2016

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Iluka Resources Limited ABN 34 008 675 018
Interim report - 30 June 2016

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Iluka Resources Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 30 June 2016

	Notes	Half-year 2016 \$m	Half-year 2015 \$m
Revenue	3	359.6	389.0
Other income	4	1.8	2.2
Expenses	5	(365.5)	(347.4)
Share of losses of investments accounted for using the equity method	8	(1.4)	-
Interest and finance charges		(7.1)	(7.3)
Rehabilitation and mine closure provision discount unwind		(5.9)	(8.7)
Total finance costs	5	<u>(13.0)</u>	<u>(16.0)</u>
(Loss) profit before income tax		(18.5)	27.8
Income tax expense	6	(2.4)	(7.4)
(Loss) profit for the half-year attributable to owners		(20.9)	20.4
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Currency translation of foreign operations		(1.1)	0.8
Hedge of net investment in US operation, net of tax		-	(1.4)
<i>Items that will not be reclassified to profit or loss</i>			
Share of losses relating to previously held interests in an associate	8	<u>(4.5)</u>	-
Total other comprehensive loss for the half-year, net of tax		(5.6)	(0.6)
Total comprehensive (loss) income for the half-year attributable to owners		(26.5)	19.8
		Cents	Cents
<i>Earnings per share attributable to ordinary equity holders</i>			
Basic (loss) / earnings per share		(5.2)	4.9
Diluted (loss) / earnings per share		(5.2)	4.9

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 2016

	Notes	30 June 2016 \$m	31 December 2015 \$m
ASSETS			
Current assets			
Cash and cash equivalents		53.3	55.0
Receivables	7	178.7	108.9
Inventories		442.6	493.9
Current tax receivable		8.0	12.2
Total current assets		682.6	670.0
Non-current assets			
Inventories		312.6	317.9
Property, plant and equipment		1,043.4	1,069.8
Intangible asset - MAC Royalty		4.9	5.1
Deferred tax assets		11.6	17.8
Investments accounted for using the equity method	8	28.8	-
Available-for-sale financial assets		-	22.7
Total non-current assets		1,401.3	1,433.3
Total assets		2,083.9	2,103.3
LIABILITIES			
Current liabilities			
Payables		102.0	103.5
Provisions		59.4	57.4
Current tax payable		-	25.9
Total current liabilities		161.4	186.8
Non-current liabilities			
Provisions		430.6	458.9
Interest-bearing liabilities		177.4	49.0
Deferred tax liabilities		8.6	-
Total non-current liabilities		616.6	507.9
Total liabilities		778.0	694.7
Net assets		1,305.9	1,408.6
EQUITY			
Contributed equity	9	1,116.3	1,112.7
Reserves		21.7	23.1
Retained profits		167.9	272.8
Total equity		1,305.9	1,408.6

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

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Iluka Resources Limited
Consolidated statement of changes in equity
For the half-year ended 30 June 2016

	Attributable to owners of Iluka Resources Limited			Total equity \$m
	Contributed equity \$m	Other reserves \$m	Retained profits \$m	
Notes				
Balance at 1 January 2015	1,114.4	22.8	297.4	1,434.6
Profit (loss) for the period	-	-	20.4	20.4
Other comprehensive income	-	(0.6)	-	(0.6)
Total comprehensive income for the half-year	-	(0.6)	20.4	19.8
Transactions with owners in their capacity as owners:				
Transfer of shares to employees, net of tax	4.3	(4.3)	-	-
Purchase of treasury shares, net of tax	(6.3)	-	-	(6.3)
Share-based payments, net of tax	0.4	1.4	-	1.8
Dividends paid	-	-	(54.4)	(54.4)
10	(1.6)	(2.9)	(54.4)	(58.9)
Balance at 30 June 2015	1,112.8	19.3	263.4	1,395.5
Balance at 1 January 2016	1,112.7	23.1	272.8	1,408.6
Profit (loss) for the period	-	-	(20.9)	(20.9)
Other comprehensive income	-	(1.1)	(4.5)	(5.6)
Total comprehensive income for the half-year	-	(1.1)	(25.4)	(26.5)
Transactions with owners in their capacity as owners:				
Transfer of shares to employees, net of tax	3.6	(3.6)	-	-
Share-based payments, net of tax	-	3.3	-	3.3
Dividends paid	-	-	(79.5)	(79.5)
10	3.6	(0.3)	(79.5)	(76.2)
Balance at 30 June 2016	1,116.3	21.7	167.9	1,305.9

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 2016

	30 June 2016 \$m	30 June 2015 \$m
Notes		
Cash flows from operating activities		
Receipts from customers	271.1	377.9
Payments to suppliers and employees	<u>(286.6)</u>	<u>(285.8)</u>
Operating cash flow	(15.5)	92.1
Interest received	0.3	0.3
Interest paid	(5.2)	(5.9)
Income taxes paid	(10.3)	(14.3)
Exploration expenditure	(10.7)	(11.5)
Mining Area C royalty receipts	18.3	26.7
Net cash (outflow) inflow from operating activities	11 (23.1)	87.4
Cash flows from investing activities		
Payments for property, plant and equipment	(16.7)	(35.5)
Sale of property, plant and equipment	1.3	0.2
Purchase of shares in Metalysis Limited	<u>(12.1)</u>	<u>(4.1)</u>
Net cash outflow from investing activities	(27.5)	(39.4)
Cash flows from financing activities		
Repayment of borrowings	(20.0)	(67.4)
Proceeds from borrowings	149.3	60.0
Purchase of treasury shares	-	(9.0)
Dividends paid	(79.5)	(54.4)
Debt refinance costs	<u>(0.5)</u>	<u>(0.4)</u>
Net cash inflow (outflow) from financing activities	10 49.3	(71.2)
Net decrease in cash and cash equivalents	(1.3)	(23.2)
Cash and cash equivalents at 1 January	55.0	101.3
Effects of exchange rate changes on cash and cash equivalents	<u>(0.4)</u>	<u>1.2</u>
Cash and cash equivalents at end of half-year	53.3	79.3

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

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1 Basis of Preparation

This general purpose financial report for the interim half-year reporting period ended 30 June 2016 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 2015 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 with current year presentation.

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 financial report.

(a) Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future in applying its accounting policies. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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 non-current 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).

The estimates of 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 for the Australian dollar compared to the US dollar using external forecasts by recognised economic forecasters;
- successful development and operation of new mines in Australia, 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 impairment charges recorded in the current or 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 carrying value of the provision and the related asset or a charge to profit or loss in accordance with the Group's accounting policy.

1 Basis of Preparation (continued)

The total rehabilitation and mine closure provision of \$459.1 million (31 December 2015: \$487.0 million) includes \$343.9 million (31 December 2015: \$373.4 million) for assets no longer in use or for obligations arising from production process outputs. Changes to the provisions for assets or operations no longer in use are charged to profit or loss and are reported within *rehabilitation and holding costs for closed sites* in note 5.

(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 2016 was \$755.2 million (31 December 2015: \$811.8 million). Inventory of \$312.6 million (31 December 2015: \$317.9 million) was classified as non-current as it is not expected to be sold within 12 months of the balance sheet date.

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 2015.

Australia (AUS) comprises the integrated mineral sands mining and processing operations in Victoria, Western Australia and South Australia. Material is mined from various deposits in the South West and Mid West of Western Australia (Perth Basin), together with the Jacinth-Ambrosia deposit in South Australia (Eucla Basin) and several deposits in Victoria (Murray Basin). The mined material is processed predominantly at Mineral Separation Plants in Western Australia and the Murray Basin to produce saleable products. The processing activities in Western Australia also include the Group's synthetic rutile kilns.

Mining and processing activities in the South West of Western Australia, mining activities in the Mid West of Western Australia and the Group's synthetic rutile operations were idled during 2013. Mining and processing activities combined with synthetic rutile operations in the South West of Western Australia were re-started during the first half of 2015. Mining and concentrating activities were completed at the Woonack, Rownack, Pirro deposit in Murray Basin in March 2015. Mining of new deposits in Murray Basin are yet to restart. Mining and concentrating activities at Jacinth-Ambrosia were suspended in April 2016 for a period of 18 to 24 months.

United States (US) comprises the integrated mineral sands mining and processing operations in Virginia and rehabilitation obligations in Florida. Mining and processing activities were idled 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. Any transfers of intermediate products between operating segments are made at cost. During the first half of 2016, no finished product was transferred from the US to Australia (2015: Nil).

2 Segment information (continued)

(b) Segment information

<i>Half-year 2016</i>	AUS \$m	US \$m	MAC \$m	Total \$m
Total segment sales to external customers	329.4	9.0	-	338.4
Total segment result	67.1	(17.5)	20.8	70.4
Segment assets at 30 June 2016	1,840.8	96.7	16.7	1,954.2
Segment liabilities at 30 June 2016	462.4	93.1	-	555.5

<i>Half-year 2015</i>	AUS \$m	US \$m	MAC \$m	Total \$m
Total segment sales to external customers	335.3	14.3	-	349.6
Total segment result	57.9	(6.7)	39.0	90.2
Segment assets at 31 December 2015	1,837.8	119.0	15.3	1,972.1
Segment liabilities at 31 December 2015	476.2	111.5	-	587.7

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

	Half-year 2016 \$m	Half-year 2015 \$m
Segment result	70.4	90.2
Interest income	0.2	0.3
Other income	0.5	2.1
Marketing and selling	(7.8)	(7.0)
Corporate and other costs	(25.5)	(23.6)
Depreciation	(1.5)	(1.0)
Resource development	(47.1)	(23.2)
Interest and finance charges	(7.2)	(7.3)
Net foreign exchange gain/(loss)	0.9	(2.7)
Equity accounted share of losses	(1.4)	-
(Loss) profit before income tax	(18.5)	27.8

3 Revenue

	Half-year 2016 \$m	Half-year 2015 \$m
<i>Sales revenue</i>		
Sale of goods	338.4	349.6
<i>Other revenue</i>		
Mining Area C royalty income	21.0	39.1
Interest	0.2	0.3
	21.2	39.4
	359.6	389.0

Iluka Resources Limited
Notes to the consolidated financial statements
30 June 2016

4 Other income

	Half-year 2016 \$m	Half-year 2015 \$m
Sundry income	0.4	2.2
Net gain on disposal of property, plant and equipment	0.5	-
Foreign exchange gains (net)	0.9	-
	<u>1.8</u>	<u>2.2</u>

5 Expenses

	Half-year 2016 \$m	Half-year 2015 \$m
Expenses		
Cash costs of production	140.7	175.5
Depreciation and amortisation	44.3	83.7
Inventory movement	51.7	(14.8)
Cost of goods sold	<u>236.7</u>	<u>244.4</u>
Restructure and idle capacity charges	26.8	27.4
Rehabilitation and holding costs for closed sites	1.6	1.1
Government royalties	9.4	7.8
Marketing and selling costs	18.4	17.2
Corporate and other costs	25.5	23.6
Resource development	47.1	23.2
Foreign exchange losses (net)	-	2.7
	<u>365.5</u>	<u>347.4</u>
Finance costs		
Interest charges	5.2	5.8
Bank fees and similar charges	0.5	0.3
Amortisation of deferred borrowing costs	1.4	1.2
Rehabilitation and mine closure provision discount unwind	5.9	8.7
	<u>13.0</u>	<u>16.0</u>

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Iluka Resources Limited
Notes to the consolidated financial statements
30 June 2016

6 Income tax

(a) Income tax expense

	Half-Year 2016 \$m	Half-year 2015 \$m
Current tax	(2.3)	17.6
Deferred tax	2.7	(9.4)
Under (over) provided in prior years	2.0	(0.8)
	<u>2.4</u>	<u>7.4</u>

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

(Loss) profit before income tax expense	(18.5)	27.8
Tax at the Australian tax rate of 30% (2015: 30%)	(5.5)	8.3
Tax effect of amounts not deductible (taxable) in calculating taxable income:		
Non-deductible expenses	1.5	3.7
Non-assessable income	-	(3.1)
Research and development credit	(3.1)	(1.2)
Tax losses not recognised by overseas operations	7.5	0.5
	<u>0.4</u>	<u>8.2</u>
Under (over) provision in prior years	2.0	(0.8)
Income tax expense	<u>2.4</u>	<u>7.4</u>

7 Receivables

	Half-year 2016 \$m	31 December 2015 \$m
Trade receivables	147.0	79.5
Mining Area C royalty receivable	12.8	10.2
Other receivables	11.0	10.1
Prepayments	7.9	9.1
	<u>178.7</u>	<u>108.9</u>

Trade receivables are generally due for settlement within 45 days of the invoice being issued.

(a) Trade receivables purchase facilities

Iluka has a trade receivables purchase facility (31 December 2015: two facilities) for the sale of eligible trade receivables. Under the agreement Iluka transfers the majority of the risks and rewards of ownership, including both the credit risk (subject to a maximum loss) and late payment risk.

Iluka Resources Limited
Notes to the consolidated financial statements
30 June 2016

(a) Trade receivables purchase facilities (continued)

Iluka maintains an insurance policy to assist in managing the credit risk of its customers. The credit insurance policy is a separate instrument to the receivables and reduces the exposure to credit risk. The trade receivables balance of \$147.0 million excludes \$45.1 million (31 December 2015: excludes \$75.0 million) of receivables sold under the trade receivables purchase facility. Iluka has assigned a portion of the insurance policy to the supplier of the trade receivables purchase facility but retains credit risk up to a maximum loss of \$7.9 million (31 December 2015: \$3.3 million). An asset for the loss amount has been recognised within other receivables offset by a corresponding continuing involvement liability for the same amount in other payables.

(b) Credit risk

Of the total trade receivables balance of \$147.0 million, \$95.9 million is covered by an insurance policy and \$21.5 million by letters of credit.

The Group has a total uninsured exposure of \$29.6 million as at 30 June 2016 (31 December 2015: \$nil). The uninsured exposure is due to sales made in excess of some customers' individual credit insurance limit set within Iluka's trade credit insurance policy. This has arisen due to amendments in the customer's shipping schedule and credit terms. This exposure has reduced to \$10.8 million at the date of signing this report.

8 Investments in associates

The Company's increased investment in Metalysis Limited on 18 February 2016 has resulted in Iluka equity accounting from this date under the cost of each purchase method. A reconciliation of movements in the account is detailed below.

(a) Movements in carrying amounts

	30 June 2016 \$m	31 December 2015 \$m
Fair value of available for sale investment at 31 December 2015	-	22.7
Restatement of investment in associate at cost on 18 February 2016	22.7	-
Increased investment (commenced equity accounting)	12.1	-
Share of losses relating to previously held interest recognised in equity	(4.5)	-
Share of losses of investment accounted for using the equity method recognised in the consolidated statement of profit or loss and other comprehensive income	(1.4)	-
Carrying amount at the end of the financial period	28.8	22.7

9 Contributed equity

(a) Movements in ordinary share capital

There have been no movements in share capital since 7 May 2009.

(b) Movements in treasury shares

During the period 585,225 treasury shares were transferred to employees (2015: 685,202) and nil shares were purchased (2015: 1,044,355). Following the transfer and purchase the total number of treasury shares on hand at 30 June 2016 was 609,483 (31 December 2015: 1,194,708).

Iluka Resources Limited
Notes to the consolidated financial statements
30 June 2016

10 Dividends

	Half-year 2016 \$m	Half-year 2015 \$m
<i>Final dividend</i>		
For 2015 of 19 cents per share, fully franked	79.5	-
For 2014 of 13 cents per share, fully franked	-	54.4
	79.5	54.4

(a) Dividends not recognised at the end of the reporting period

In addition to the above dividends, since half-year end the directors have determined an interim dividend of 3 cents per share, fully franked (2015: 6 cents per share, fully franked). The dividend is payable on 6 October 2016 for shareholders on the register as at 9 September 2016. The aggregate amount of the proposed dividend is \$12.6 million.

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

	Half-year 2016 \$m	Half-year 2015 \$m
(Loss) profit for the year	(20.9)	20.4
Depreciation and amortisation	44.3	83.7
Exploration capitalised	0.1	(1.0)
Net gain on disposal of property, plant and equipment	(0.5)	-
Exchange translation differences on USD denominated debt	(1.8)	4.6
Rehabilitation and mine closure provision discount unwind	5.9	8.7
Non-cash share-based payments expense	4.0	1.2
Amortisation of deferred borrowing costs	1.4	1.2
Equity accounted share of losses	1.4	-
<i>Change in operating assets and liabilities</i>		
(Increase) / decrease in receivables	(69.4)	7.9
Decrease / (increase) in inventories	55.2	(15.4)
Increase in net current tax asset	(21.9)	(5.3)
Decrease / (increase) in net deferred tax	13.7	(1.7)
(Decrease) / increase in payables	(4.4)	0.7
Decrease in provisions	(30.2)	(17.6)
Net cash (outflow) inflow from operating activities	(23.1)	87.4

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12 Events occurring after the reporting period

On 1 August 2016, Iluka announced to the ASX that it had made an all-cash offer to acquire the entire issued shares of Sierra Rutile Limited, being a rutile mining operation in Sierra Leone for a cost of approximately £215 million (A\$375 million). Iluka assumes SRL's debt of approximately US\$60 million (A\$80 million).

The acquisition is conditional on approval of the statutory merger by a simple majority of SRL shareholders being obtained at a duly convened meeting.

The Merger Circular was published in August 2016 and, subject to the satisfaction of all relevant conditions, the merger will become effective and the acquisition completed in September 2016 or before 30 November 2016 (or such other date as agreed between Iluka and SRL). The Company will keep shareholders informed as permitted in accordance with applicable regulatory requirements.

Iluka has become aware that the Sierra Leone Government has written to 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.

DIRECTORS' DECLARATION

In the directors' opinion:

- (a) the interim financial statements and notes set out on pages 16 to 28 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 2016 and of its performance for the half-year 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



D Robb
Managing Director

Perth
24 August 2016



Independent auditor's review report to the members 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 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Iluka Resources Limited Group (the consolidated entity). The consolidated entity 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 consolidated entity's financial position as at 30 June 2016 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*.



Independent auditor's review report to the members of Iluka Resources Limited (cont'd)

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 consolidated entity's financial position as at 30 June 2016 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*.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', written in a cursive style.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Justin Carroll', written in a cursive style.

Justin Carroll
Partner

Perth
24 August 2016