



**ILUKA**

# Australian Securities Exchange Notice

19 February 2015

## 2015 KEY PHYSICAL AND FINANCIAL PARAMETERS

Iluka Resources Limited (Iluka) issues guidance parameters related to elements of Iluka's expected 2015 physical and financial characteristics. This disclosure follows today's announcement of the company's intention to re-commence synthetic rutile production from April this year from its synthetic rutile kiln 2 (SR 2).

Also provided are updated versions of two charts used in the full year results slides, issued on 17 February 2015, to now incorporate guidance parameters – slide 13 and 14, Unit Cash Cost Trend and Production Reflects Market Conditions, respectively.

David Robb, Iluka's Managing Director: "The slight delay in issuing this guidance was a cautious decision reflecting the final stages of planning and negotiations to support a re-start of SR 2.

As I indicated in my full year results commentary, the business characteristics for 2015, as outlined in the Key Physical and Financial Parameters disclosure, dependent on volume and price outcomes, include:

- expected top line (revenue) growth associated with higher production and sales;
- lower unit cash costs, thereby potential for margin expansion;
- monetisation of some inventory, a positive for cash flow;
- a year of moderate organic capital expenditure, before an increase associated with new project developments in subsequent years;
- free cash flow generation, expected to be second half weighted; and
- continuing strong balance sheet with associated investment capacity."

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ILUKA RESOURCES  
KEY PHYSICAL & FINANCIAL PARAMETERS  
2015

19 February 2015

This document provides an indicative guide to key physical and financial parameters expected for the Iluka business in the 2015 financial year.

The information is provided to assist sophisticated investors with the modelling of the company, but should not be relied upon as a predictor of future performance.

This information is based on Iluka forecasts and as such is subject to variation related to, but not restricted to, economic, market demand/supply and competitive factors.

Iluka does not undertake to update this information regularly in part or whole, but can be expected to comment on any material variations. Iluka does not provide price forecasts.

The following excludes the Mining Area C iron ore royalty. In 2014, Mining Area C contributed \$66.4 million EBIT.

The current guidance parameters supersede all previous key physical and financial parameters.

[Disclaimer – Forward Looking Statements](#)

This briefing paper contains information which is based on projected and/or estimated expectations, assumptions and outcomes.

These forward-looking statements are not guarantees or predictions of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the company's control, and which may cause actual results to differ from those expressed in the statements contained in this release. Factors that could cause actual results or performance to differ materially from those expressed or implied in the forward-looking statements include, but are not limited to potential changes in:

- exchange rate assumptions
- product pricing assumptions
- mine plans and/or resources
- equipment life or capability
- current or new technical challenges
- market conditions
- management decisions

While Iluka has prepared this information based on its current knowledge and understanding and in good faith, there are risks and uncertainties involved which could cause results to differ from projections. Iluka shall not be liable for the correctness and/or accuracy of the information nor any differences between the information provided and actual outcomes, and furthermore reserves the right to change its projections from time to time. Iluka does not undertake to update the projections provided in this document on a regular basis.

All currency is in nominal Australian dollar terms unless stated differently.

## Iluka Physical Trends

| Production (kt)       | 2011-2013<br>Average p.a. | 2014       | 2015<br>Guidance | Commentary 2015 vs 2014  |
|-----------------------|---------------------------|------------|------------------|--|
| Zircon                | 410                       | 357        | ~ 400            | Higher planned production in 2015.   |
| Rutile                | 210                       | 177        | ~140             | In the Murray Basin, heavy mineral concentrate (HMC) inventory will continue to be built until March, when mining will be completed at the Wornack, Rownack and Pirro mine. HMC will then progressively be drawn down. |
| Synthetic rutile (SR) | 197                       | 0          | ~140             | Partial year production associated with kiln re-start in April.  |
| <b>Total Z/R/SR</b>   | <b>817</b>                | <b>534</b> | <b>~680</b>      |  |
| Ilmenite              | 640                       | 365        | Not guided       | Ilmenite produced can be sold directly, and some can be used as a feed source for synthetic rutile production.   |

Production and cash cost estimates are based on a full year wind down of the Virginia, US operations. In the event that an earlier idling is implemented, Iluka will advise any change in physical production and/or cash cost guidance, if material.

| Sales Volumes (kt)  | 2011-2013<br>Average p.a. | 2014       | 2015<br>Guidance | Commentary 2015 vs 2014   |
|---------------------|---------------------------|------------|------------------|---|
| Zircon              | 366                       | 352        | Not guided       | Iluka expects that aggregate Z/R/SR sales may exceed 2015 production as it did in 2014 and also be above 2014 total Z/R/SR sales. |
| Rutile              | 180                       | 182        |                  |   |
| Synthetic rutile    | 158                       | 82         |                  |   |
| <b>Total Z/R/SR</b> | <b>704</b>                | <b>616</b> |                  |   |
| Ilmenite            | 451                       | 317        |                  |   |

In addition to its main mineral sands products of zircon, rutile and synthetic rutile, Iluka also generates revenue from, and incurs production costs related to, ilmenite and by-product streams, including iron concentrate and activated carbon. In 2014, this other ilmenite and other revenue was \$90.1 million.

## Five Year Historical Iluka Production Volumes

| Annual Volume (kt)  | 2010         | 2011         | 2012       | 2013       | 2014       |
|---------------------|--------------|--------------|------------|------------|------------|
| Zircon              | 413          | 601          | 343        | 285        | 357        |
| Rutile              | 250          | 281          | 220        | 127        | 177        |
| Synthetic rutile    | 347          | 285          | 248        | 59         | -          |
| <b>Total Z/R/SR</b> | <b>1,010</b> | <b>1,167</b> | <b>811</b> | <b>471</b> | <b>534</b> |
| Ilmenite            | 685          | 660          | 674        | 584        | 365        |

## Five Year Historical Iluka Sales Volumes

| Annual Volume (kt)  | 2010         | 2011         | 2012       | 2013       | 2014       |
|---------------------|--------------|--------------|------------|------------|------------|
| Zircon              | 479          | 514          | 213        | 370        | 352        |
| Rutile              | 240          | 266          | 105        | 168        | 182        |
| Synthetic rutile    | 363          | 258          | 170        | 46         | 82         |
| <b>Total Z/R/SR</b> | <b>1,082</b> | <b>1,038</b> | <b>488</b> | <b>584</b> | <b>616</b> |
| Ilmenite            | 373          | 570          | 443        | 337        | 317        |

## Iluka Financial Trends

|   | 2011 – 2013<br>Average p.a. | 2014       | 2015<br>Guidance | Commentary 2015 vs 2014  |
|---|-----------------------------|------------|------------------|--|
| <b>Cash Costs A\$m</b>  |                             |            |                  |  |
| Production cash costs<br>Z/R/SR<br>(excluding ilmenite<br>concentrate and by-<br>products)  | 520                         | 357        | ~410             | Cash costs of production increase ~15% (Z/R/SR production up ~28% including reactivation of a SR kiln). Higher total cost associated with higher processing costs, offset in part by lower mining costs associated with end of mining at WRP in the Murray Basin. Refer to Note 1. |
| Ilmenite concentrate<br>and by-product costs  | 10                          | 25         | ~20              | Slightly lower volumes expected.   |
| <b>Total Cash Costs of<br/>Production</b>   | <b>530</b>                  | <b>382</b> | <b>~430</b>      |  |
| Other cash costs  | 132                         | 135        | ~160             | The figure includes ~\$40 million of cash non-production costs (mainly higher royalties and port costs) and ~\$120 million of other costs (exploration, marketing, innovation and technology, major projects and corporate costs).<br>Refer Note 2 for elements of this item.      |
| Restructure, idle<br>capacity, rehabilitation<br>& holding costs                            | 45                          | 40         | ~40              | Similar to 2014 levels, as end of mining at WRP is offset by reactivation of mining at Tutunup South and SR kiln reactivation. Refer Notes 3 & 4.  |
| <b>Total Cash Costs</b>   | <b>680</b>                  | <b>557</b> | <b>~620</b>      |  |
| <b>Unit Cash Costs (A\$/t)<br/>(of Z/R/SR produced,<br/>excluding by-product<br/>costs)</b> | 668                         | 668        | ~605             | Lower unit costs reflecting continuing cost control and higher Z/R/SR production.  |
| <b>Unit Cash Costs (A\$/t)<br/>(of Z/R/SR produced,<br/>including by-product<br/>costs)</b> | 685                         | 714        | ~635             |  |
| <b>Non Cash Costs</b>   |                             |            |                  |  |
| Depreciation &<br>amortisation  | 203                         | 192        | ~130             | Mainly associated with lower mining activity in 2015, as well as impairment of US assets, partially offset by restart of mining at Tutunup South and of SR2. Refer Note 6  |
| Other   | 28                          | 18         | ~20              | Rehabilitation provision discount – refer Note 7.  |
| <b>Capital Expenditure</b>  | 121                         | 64         | ~120             | Iluka's corporate plan (2015-2019) indicates an average ~\$250 million per annum level of capital expenditure, depending on final project scope decisions, approvals and the phasing of expenditure.   |

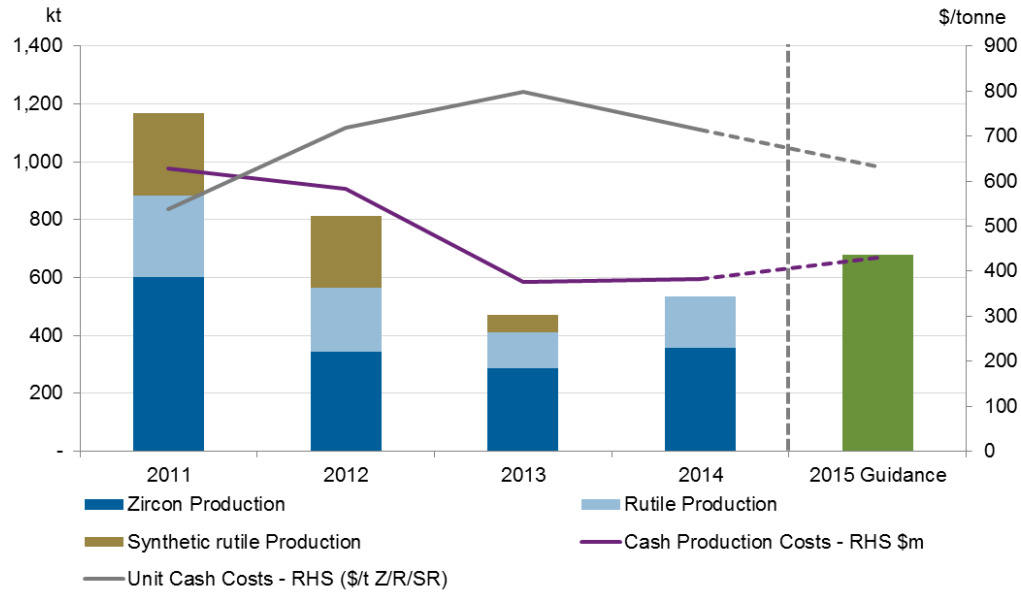
While free cash flow is not guided, free cash flow generation in 2015 is expected to be second half weighted, due to:

- capital expenditure being 1<sup>st</sup> half weighted; and
- sales revenue expected to be second half weighted.

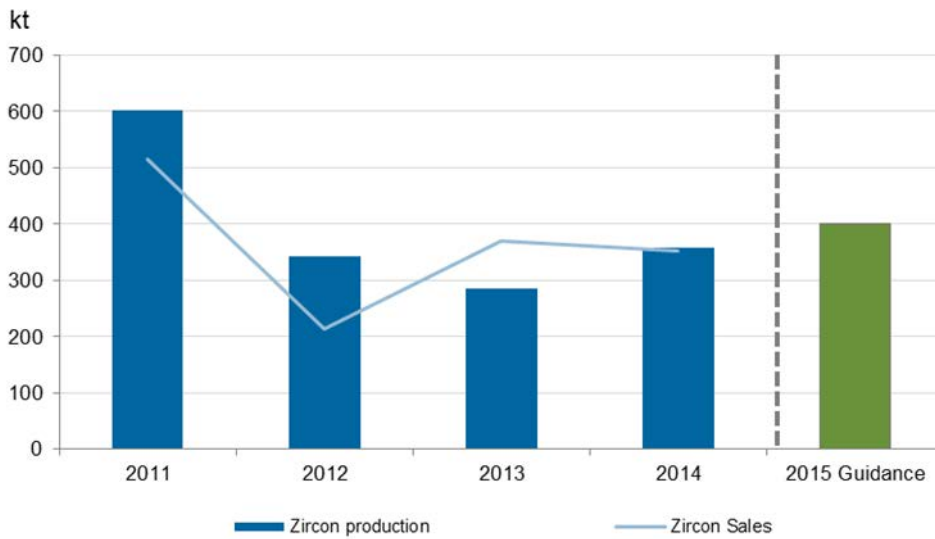
The actual cash flow profile will be dependent upon timing of operating receipts and product pricing throughout the year.

The charts below illustrate historical production, total cash costs of production and unit cash costs, with indicative 2015 trends based on guidance parameters provided above.

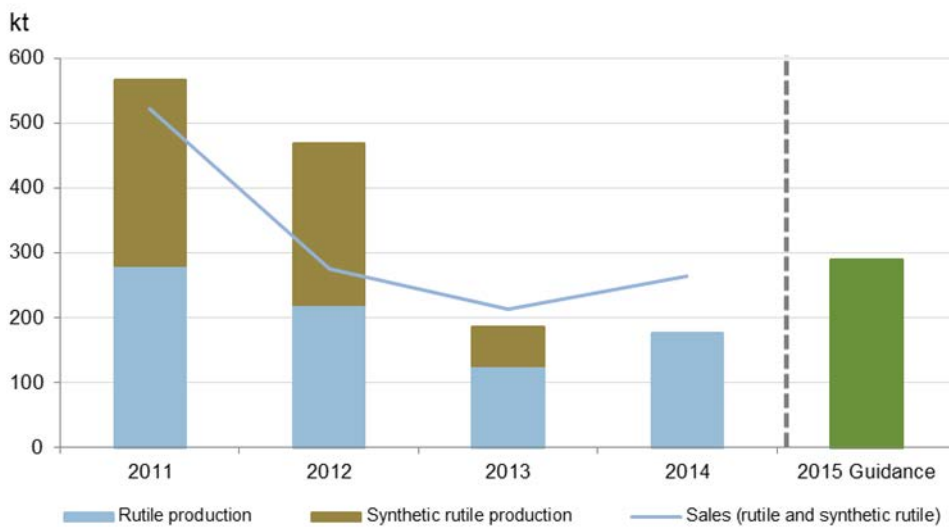
**Figure 1. Cash Production Costs and Unit Cash Costs – Z/R/SR (Update of Full Year Results Slide 13)**



**Figure 2. Zircon Production (Update of Full Year Results Slide 14)**



**Figure 3. Rutile and Synthetic Rutile (Update of Full Year Results Slide 14)**



## Iluka Weighted Average Prices

The following table provides weighted average received prices for Iluka's main products in 2014, compared with weighted average received prices in previous years. Prices are influenced by product specifications and quality, lot size sold, contractual and customer arrangements.

| <b>Iluka Price US\$/tonne FOB</b> | <b>12 mth to Dec-10</b> | <b>12 mth to Dec-11</b> | <b>12 mth to Dec-12</b> | <b>12 mth to Dec-13</b> | <b>12 mth to Dec-14</b> |
|-----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Zircon                            | 880                     | 1,886                   | 2,080                   | 1,150                   | 1,033                   |
| Rutile                            | 550                     | 1,174                   | 2,464                   | 1,069                   | 777                     |
| Synthetic rutile                  | 450                     | 878                     | 1,771                   | 1,150                   | 750                     |
| Average AUD/USD (cents)           | 92.0                    | 103.2                   | 103.6                   | 96.8                    | 90.3                    |

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## Notes

**Note 1 – Product cash costs of production** include the following main components:

- mining and concentrating costs; transport of heavy mineral concentrate; mineral separation; synthetic rutile production and costs for externally purchased ilmenite and production overheads. This category also includes landowner royalty payments, but excludes Australian State Government royalties.
- cost of goods sold (COGS) per tonne is not guided, however, in 2014, COGS per tonne of Z/R/SR was \$862, down from \$890 per tonne in 2013. COGS comprise the cash costs of production, plus depreciation and amortisation (D&A), plus or minus inventory movement. Given cash costs of production are expected to increase only marginally in 2015, while production increases and D&A is guided lower, this should be reflected in the expected COGS trend.

**Note 2 - Other cash costs** include:

- Australian State Government royalties - \$10.6 million in 2014. In 2015, royalty payments are expected to increase materially, associated with an increase in the royalty rate applicable to Jacinth-Ambrosia under the State Agreement, as well as higher royalties associated with increased sales.
- marketing and selling costs - including marketing overhead costs and port costs - \$30.1 million in 2014;
- exploration expenditure expensed and resources development expenditure - \$45.3 million in 2014; and
- corporate and support - \$48.4 million in 2014.

**Note 3 - Restructure costs/plant idling costs**

- 2014 costs of \$40.1 million relating to ongoing costs for operations and assets that have been idled.
- Of the assets that were idled in 2014, three of the synthetic rutile kilns are expected to remain idle throughout 2015, while the largest synthetic rutile kiln, SR2, will restart in April. Mining recommenced at Tutunup South in February 2015. Iluka's WRP mine in the Murray Basin will be idled in the first quarter of 2015, with concentrate processed after this period.

**Note 4 - Rehabilitation and holding costs for closed sites**

- \$1 million credit in 2014 as adjustments to the rehabilitation provisions for closed sites exceeded the ongoing holding costs for those sites.

**Note 5 – Interest and Tax**

- net interest expenses of \$13.9 million in 2014.
- the majority of Iluka's taxable income is Australian based with a prevailing corporate tax rate of 30 per cent:
- Iluka is in a tax paying position in Australia and as such generates franking credits from the payment of tax.

**Note 6 – Depreciation and Amortisation**

- depreciation and amortisation of most assets is charged over the life of the relevant mine or asset, whichever is the shorter.

**Note 7 - Other non-cash costs**

- includes the unwind of the discount on rehabilitation provisions which are recognised as a liability at net present value which is reported as a finance cost. In 2014, other non-cash costs were \$17.9 million.

## Other Matters

### Mining Area C Iron Ore Royalty

The Key Physical and Financial Parameters information relates to Iluka's mineral sands business. It does not include the royalty from Iluka's ownership of BHP Billiton's Mining Area C iron ore royalty. This royalty contributed \$66.4 million EBIT in 2014.

### For clarification, please contact:

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