Australian Securities Exchange Notice

16 August 2018 ASX: ILU

Half Year Results to 30 June 2018

Key features

- Underlying Group EBITDA increased 80% to $279 million
- Strong free cash flow of $226 million and net debt reduced to $34 million (3.5% gearing)
- Mineral sands revenue up 21% on first half 2017 to $607 million
- Continued strong price environment across all mineral sands products
- Reported net profit after tax of $126 million
- Interim dividend of 10 cents per share fully franked
- Jacinth-Ambrosia successfully operating for the full six months following the restart in December 2017
- Delays in commissioning in-pit mining unit and dredge downtime reduced production at Sierra Rutile

Iluka Resources Limited (Iluka) has reported its financial results for the six months ended 30 June 2018, with a strong mineral sands market underpinning positive free cash flow of $226 million and Underlying Group EBITDA of $279 million.

Mineral sands revenue increased by 21% over the first half of 2017 to $607 million, driven by sales price growth across the suite of Iluka's mineral sands products. Sales volumes of zircon, rutile and synthetic rutile (Z/R/SR) over the period equated to 439 thousand tonnes, 3% lower than the first half of 2017. Despite marginally lower sales volumes, the weighted average price received for Zircon Premium and Standard products grew 47% from the first half of 2017. This reflects a price increase in Iluka's Zircon Reference Price of US$180 per tonne to US$1,410 per tonne, effective from 1 April 2018 for a six month period. Iluka has announced a further increase of US$170 per tonne in the Zircon Reference Price to US$1,580 per tonne, effective from 1 October 2018 for a six month period. Rutile prices, excluding HYTI, were 20% higher than the first half 2017, with a 14% increase applied for the second half of 2018, reflecting strong demand for Iluka's high-grade titanium dioxide feedstocks.

Positive market conditions contributed to a first half Underlying Mineral Sands EBITDA of $249 million, an increase of 102% year on year (1H 2017: $123.5 million). This performance, coupled with Mining Area C royalty payments of $29 million, provided an 80% uplift in Underlying Group EBITDA to $279 million (H1 2017: $155 million). Strong operating cash flow of $307 million and free cash flow of $226 million facilitated an 81% reduction in Iluka's net debt to $34 million, with a gearing level of 3.5% (net debt / net debt + equity). The combined result has supported an interim dividend of 10 cents per share, fully franked.

Iluka's Managing Director, Tom O'Leary, said "We are pleased to see continued strength in mineral sands markets. Iluka has delivered a strong financial performance in the first half. While our balance sheet is in a strong position, disciplined capital allocation remains foremost in our thinking as we move forward with the execution of the Cataby mine development in Western Australia and the Lanti and Gangama expansions in Sierra Leone, as well as with the definitive feasibility studies at Jacinth-Ambrosia, Sembehun and other projects in Sierra Leone to support production of additional tonnages."

"Operationally, we have seen a disappointing production performance from Sierra Rutile over the past six months, with commissioning issues on the in-pit mining unit and age-related failures of equipment at the dredge. This has been accompanied by increased costs in addressing the operational issues encountered. Our Australian assets have performed well, with mining completed, as planned, at the Tutunup South mine in advance of commissioning the Cataby development, scheduled for early 2019; and, following a successful restart in December, Jacinth-Ambrosia has produced more heavy mineral concentrate than expected."

"We are also focused on maintaining a sustainable pricing environment for our core products of zircon, rutile and synthetic rutile and have announced a 14% increase in rutile prices for the second half and a 12%

increase in the Zircon Reference Price, effective from 1 October 2018 for a six month period."

"To ease potential zircon shortfalls, we are also planning to sell additional zircon in concentrate (ZIC). Accordingly, we have increased zircon production guidance from 300 thousand tonnes to 330 thousand tonnes."

Summary

$ million	H1 2018	H1 2017	% Change
Mineral Sands Revenue	606.9	503.6	20.5
Underlying Mineral Sands EBITDA	249.3	123.5	101.9
MAC EBITDA	29.2	31.1	(6.1)
Underlying Group EBITDA[1]	278.5	154.6	80.1
Profit (loss) for the period (NPAT)	126.1	(81.5)	n/a
Operating Cash Flow	306.5	193.9	58.1
Free Cash Flow[2]	225.5	180.2	25.1
Dividend - interim (cps)	10	6	66.7

$ million	At 30 June 2018	At 31 Dec 2017	% Change
Net Debt	34.4	182.5	81
Net Gearing ratio	3.5%	17.1%	13.6 ppts

Guidance and outlook

Delivery is Iluka's focus for 2018. This includes:

- delivering the Cataby project on time and within budget;
- mining at Jacinth-Ambrosia to continue at capacity and advancing plans for mine optimisation; and
- progressing the Sierra Rutile expansion projects.

Cataby

Good progress has been made at Cataby during the period. All works are progressing on track and within budget. The bulk earthworks package is approaching completion and the site foundation works have commenced. Construction of the mining unit equipment is well advanced and the mining contractor has commenced the removal of overburden.

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[1] Underlying Group EBITDA excludes adjustments including impairments and changes to rehabilitation provisions for closed sites. There were no adjustments between Underlying Group EBITDA and Group EBITDA for H1 2018.
[2] Free Cash Flow is determined as cash flow before refinance costs, proceeds/repayment of borrowings and dividends paid in the year.

Jacinth Ambrosia

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. Subject to Board approval, Iluka plans to accelerate the mine move to the Ambrosia deposit to the second half 2019 (previously 2022).

Production performance at Jacinth-Ambrosia since restart has been better than expected, largely as a consequence of higher grade ore than had been anticipated in the mine plan. This has resulted in an increase in Heavy Mineral Concentrate (HMC) inventory. Current expectations are that this build in HMC inventory, together with the acceleration of the mine move to Ambrosia, as well as zircon production from Cataby, will enable Iluka's zircon production levels to be maintained broadly at previously guided levels[1] without incurring the capital cost associated with introducing a second mining unit to Jacinth Ambrosia and increasing the concentrator capacity as had been contemplated.

A definitive feasibility study (DFS) for the Ambrosia mine move is close to completion and Iluka will provide further guidance on capital estimates following the study, with current estimates of ~$60 million.

Sierra Rutile

Iluka is currently undertaking an expansion program including doubling capacity at both the Lanti and Gangama dry mines from ~500-600 tonne per hour to 1,000-1,200 tonne per hour, with commissioning scheduled for mid-2019. These projects are progressing on track and on budget, with total capital expenditure estimated at US$75 to US$80 million.

Sembehun is an undeveloped deposit, which accounts for more than 70% of the remaining Sierra Rutile ore reserves[2]. Expected commissioning of Sembehun was deferred one year to 2021 to allow further time to undertake financial and operational evaluation and develop estimates of project costs based on the outcome of the DFS, which is expected to be completed in December 2018.

Iluka has previously provided a total capital expenditure estimate in respect of Sierra Rutile of US$300 million[3], to be spent over the period from 2017 to 2020, to deliver the three expansion projects (Lanti, Gangama and Sembehun) and to address safety and operational improvements and sustaining capital. While the DFS for Sembehun and studies for the associated mineral separation plant upgrade are not yet complete, preliminary estimates indicate that capital costs may increase by 40% to 60% from the initial US$300 million estimate in real terms[3]. The increase largely relates to the Sembehun project and associated mineral separation plant upgrade. As part of the continuing DFS, Iluka is considering options for reducing capital costs and for maximising returns on disciplined capital deployment.

As part of further exploration and resource drilling in Sierra Leone, Iluka has identified:

- the Pejebu Exploration target[4] in close proximity to the Lanti active mine, which along with minor resource increases in close proximity to Gangama, could add a further 180 to 275 thousand tonne of in-situ rutile (grade 0.9% to 1.1%), with potential to extend existing operations by 12 to 24 months; and

- an increase to the Indicated and Inferred Mineral Resources at the Sembehun project[4] of ~620 thousand tonnes of in-situ rutile.

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[1] Iluka Investor Day 10 November 2017, noted average Jacinth-Ambrosia zircon production of 225ktpa for 2018-2020, with a 20% increase in production possible from this level if mine sequencing options were activated, increasing average Jacinth-Ambrosia production to 275ktpa. This results in average annual Group zircon production of 335ktpa over the period 2018-2020.

[2] As published in *2016 Updated Mineral Resource and Ore Reserve Statement (21 February 2017)*

[3] US$300 million capital expenditure disclosed in Sierra Rutile Acquisition presentation (9 December 2016) in 2015 real dollars.

[4] Refer to ASX Release 'Sembehun Mineral Resource Increase and Pejebu Exploration Target, Sierra Rutile' 15 August 2018

Mineral Resource estimation for the Pejebu Exploration Target and near mine opportunities is expected to be complete in Q4 2018. Resource development at Sembehun will continue with 75,000 meters of drilling planned through to 2021. Both developments may add to Iluka's production optionality in Sierra Leone.

As noted in the June Quarterly Review, Iluka has decreased 2018 full year production guidance following the first half performance at Sierra Rutile, which was impacted by commissioning issues and dredge outages, with rutile production now expected to be 145 thousand tonnes at Sierra Rutile (previously 160 thousand tonnes).

Operating costs at Sierra Rutile are also expected to be higher in 2018, with a full year increase to US$115 million (from $102 million previously guided) following higher maintenance costs on the dredge, higher fuel costs and commissioning issues with the in-pit mining unit.

Capital management

Significant capital expenditure is in progress in 2018, with initial guidance of $410 million, mainly reflecting the Cataby development and Gangama and Lanti Dry mine expansion projects at Sierra Rutile. The deferral of the Balranald field trial to 2019 (as noted in the June Quarterly Review) has reduced 2018 capital guidance by $28 million to ~$385 million, with ~$290 million to be incurred in the second half.

Iluka also expects a significant capital program in 2019, including the completion of Cataby, the major maintenance outage at the SR2 kiln in preparation for Cataby ilmenite, the Ambrosia mine move, the Balranald field trial, the completion of the Gangama and Lanti expansions and, subject to completion of the DFS and optimisation analysis noted above and Board approval, early works for the Sembehun development.

In addition, significant tax payments are expected in 2019. Australian tax payments are based on the instalment rate provided by the Australian Tax Office (ATO), which reflects historic payment trends. As a consequence, tax paid in 2018 will be considerably lower than the tax expense incurred during the year while, in 2019, tax paid will be comprised of a balancing payment for the 2018 tax year, and instalments for tax payable in respect of the 2019 tax year.

Iluka remains committed to its disciplined capital management approach.

-ENDS-

2018 half year results teleconference

An investment conference call will take place at 11.00am (AEST) on 16 August 2018. Dial in numbers are listed below. Please quote passcode ID: **7382349.**

For locations within **Australia** dial toll-free **1800 123 296,** or toll +61 (0)2 8038 5221.
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Other Iluka Disclosures:

The half year results briefing pack follows this announcement and will be referred to during the conference call.

The Iluka 2018 Appendix 4D has been released to the Australian Securities Exchange on 16 August 2018 and should be referred to for detailed financial commentary of the results.

All information about the half year results is also included on Iluka's website – refer **www.iluka.com**