Iluka Resources Limited

ABN 34 008 675 018

Interim report for the half-year 30 June 2017

Iluka Resources Limited ABN 34 008 675 018
ASX Half-year information - 30 June 2017

Lodged with the ASX under Listing Rule 4.2A.
This information should be read in conjunction with the
31 December 2016 Annual Report

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RESULTS FOR ANNOUNCEMENT TO THE MARKET

All currencies shown in this report are Australian dollars unless otherwise indicated.
All non-IFRS measures including mineral sands EBITDA, underlying Group EBITDA and Group EBIT, which are used to measure both Group and operational performance in the results for announcement to the market have not been subject to audit.

Revenue from ordinary activities	Up 48.8% to $535.1m
Loss from ordinary activities after tax attributable to members	Up 290.0% to ($81.5)m
Net loss for the period attributable to members	Up 290.0% to ($81.5)m

Dividends
2017 interim: 6 cents per ordinary share (100% franked), to be paid in September 2017
2016 final: nil
2016 interim: 3 cents per ordinary share (100% franked), paid in October 2016

Key ratios	**1st Half 2017**	**1st Half 2016**
Basic and diluted loss per share (cents)	(19.5)	(5.2)
Free cash flow per share[1] (cents)	43.0	(12.1)
Return on equity[2] (% annualised)	(7.7)	(3.2)
Net tangible assets per share ($)	1.91	3.10

[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 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 2017 of $81.5 million, compared with a loss of $20.9 million for the previous corresponding period. A significant factor contributing to the reduction was the non-cash impairment charge of $151.4 million pre-tax ($105.6 million after tax) for the Hamilton mineral separation plant (MSP), which will be placed on care and maintenance from October 2017. Iluka has sufficient processing capacity at its main mineral separation plant in Narngulu, Western Australia to accommodate future processing from the Australian mines. The idling of the Hamilton MSP has also resulted in restructuring and redundancy costs of $14.0 million being recognised in the 2017 result, including $5.0 million for rehabilitation works.

Notwithstanding the impairment and restructuring charges, Iluka's underlying EBITDA increased by $91.9 million to $154.6 million from the first half of 2016, with the key factors influencing the result being:

- higher mineral sands revenue, up $165.2 million from the previous corresponding period, due to 43% higher zircon/rutile/synthetic rutile (Z/R/SR) sales volumes, a 2% increase on weighted average Z/R/SR sales prices and increased ilmenite and other revenue of $16.3 million;
- higher income received from the Mining Area C iron ore royalty (MAC), up $10.3 million period-on-period; and
- lower expenditure on trialling an unconventional underground mining approach for Balranald. The expenditure in the first half of 2016 of $26.0 million was expensed within Resource Development costs, whereas costs of $6.4 million incurred during 2017 have been capitalised to the Balranald project. Exploration expenditure is also $5.2 million lower than the previous corresponding period due to a more focused approach (2016: $10.5 million), reducing overall Resource Development costs by $33.1 million period-on-period.

Other factors influencing the result, including higher unit cost of goods sold; higher interest costs; and unfavourable exchange rate movements, are explained in more detail later in this report.

Iluka's higher value product sales of Z/R/SR represent a 43% increase in volumes from the first half of 2016 at 453.8 thousand tonnes (2016: 316.4 thousand tonnes). Sierra Rutile Limited was acquired by Iluka on 7 December 2016 and contributed Z/R sales volumes of 64.9 thousand tonnes during the first half of 2017 (2016: nil).

Z/R/SR revenue was $470.0 million, up 46% compared with the previous corresponding period (2016: $321.1 million) associated with higher sales volumes and higher prices. The weighted average received price for zircon premium and standard has increased 7% to US$871 per tonne period-on-period, with the weighted average price for rutile up 4% to US$741 per tonne. Average unit revenue per tonne of Z/R/SR was $1,036 (2016: $1,015). Ilmenite and other revenue was up 94% to $33.6 million (2016: $17.3 million) predominantly associated with higher ilmenite sales volumes. The AUD:USD exchange rate averaged 75.4 cents (2016: 73.4 cents).

Total cash production costs, which include ilmenite concentrate and by-product costs, increased by 42% from the previous corresponding period to $200.1 million (2016: $140.7 million). The increase in cash costs of production reflects the acquisition of Sierra Rutile, with cash production costs of $66.8 million incurred in 2017, partially offset by the suspension of mining and concentrating activities at Jacinth-Ambrosia in April 2016. In June 2017 Iluka announced to the ASX the planned re-start of mining at Jacinth-Ambrosia from December 2017, following the substantial drawdown of heavy mineral concentrate (HMC) inventory.

On a unit basis, cash costs of production excluding ilmenite concentrate and by-products were $424 per tonne of Z/R/SR (2016: $402 per tonne), a 6% increase compared with the previous corresponding period, reflecting 36% higher Z/R/SR production offset by higher costs noted above.

Unit costs of goods sold has increased 8% to $772 per tonne of Z/R/SR sold compared to $717 per tonne in the previous corresponding period reflecting product mix, with Sierra Rutile products having a higher unit cost.

MAC earnings increased by 49.5 per cent to $31.1 million (2016: $20.8 million) due to higher period-on-period iron ore prices. No capacity payments were received in either 2017 or 2016.

Loss before tax was $108.7 million (2016: loss of $18.5 million). A net tax benefit of $27.2 million (2016: $2.4 million) was recorded in respect of the loss for the period with no tax benefit recognised in respect of the US operating loss ($4.2 million) nor for international exploration expenditure.

Loss per share for the period was 19.5 cents compared to a loss per share of 5.2 cents in the previous corresponding period. The number of shares on issue at 30 June 2017 of 418.7 million was unchanged during the period.

Free cash flow of $180.2 million compared to an outflow of $50.6 million in the previous corresponding period predominantly reflects $222.2 million higher receipts due to higher sales revenue, the timing of sales combined with higher utilisation of the trade receivables purchase facility (refer page 10).

Capital expenditure of $24.6 million related to major project expenditure including works at Sierra Rutile, Cataby and Balranald.

Net debt as at 30 June 2017 was $304.6 million, with a corresponding gearing ratio (net debt/net debt + equity) of 23.2%. This compares with net debt at 31 December 2016 of $506.3 million. Undrawn facilities at 30 June 2017 were $377.5 million and cash and cash equivalents of $69.2 million. Net debt as at 31 July 2017 was $222.0 million.

OTHER MATTERS

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 from the Federal Court for pre-action discovery which was dismissed in July 2015 and which was subsequently appealed to the Full Federal Court. The Full Federal Court upheld the appeal in June 2017. Iluka has made an application to the High Court of Australia seeking special leave to appeal the Full Federal Court's decision.

DIVIDEND

Directors have determined a fully franked interim dividend of 6 cents per share, payable on 27 September 2017 with a record date of 31 August 2017.

OVERVIEW OF SALES AND PRODUCTION

	1st Half 2017	1st Half 2016	% change
Sales (kt)			
Zircon	197.4	154.5	27.8
Rutile	118.4	57.4	106.3
Synthetic rutile	138.0	104.5	32.1
Total Z/R/SR sales	**453.8**	**316.4**	**43.4**
Ilmenite - saleable	95.1	17.7	437.3
Total sales volumes	**548.9**	**334.1**	**64.3**
Z/R/SR revenue ($m)	470.0	321.1	46.4
Ilmenite and other revenue($m)	33.6	17.3	94.2
Total mineral sands revenue[1] ($m)	**503.6**	**338.4**	**48.8**
Revenue per tonne of Z/R/SR sold[2] ($/t)	1,036	1,015	2.1
Production (kt)			
Zircon	203.7	175.5	16.1
Rutile	149.8	56.7	164.2
Synthetic rutile	99.6	102.2	(2.5)
Total Z/R/SR production	**453.1**	**334.4**	**35.5**
Ilmenite	228.1	164.1	39.0
Total Mineral Sands Production	**681.2**	**498.5**	**36.6**
HMC produced	314	244	28.7
HMC processed	713	497	43.5
Cash costs of production ($m)	200.1	140.7	42.2
Unit cash cost per tonne of Z/R/SR produced[3] ($/t)	442	421	5.0
Unit cash cost per tonne of Z/R/SR produced excluding by-products ($/t)	424	402	5.5
Unit cost of goods sold per tonne of Z/R/SR sold ($/t)	772	717	7.7

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

[2] Calculated as revenue from the sale of zircon, rutile and synthetic rutile (Z/R/SR) products divided by Z/R/SR sales volumes.

[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

Iluka's first half zircon sales volume growth of 28% from the same period in 2016 reflects the increased sales volumes in the first quarter 2017. Demand for Iluka's products continued to be very strong in the second quarter, influenced by underlying demand and customers' continued demand for restocking from depleted levels. The Company's approach has been, and continues to be, to support genuine demand of its long-standing customers rather than fuel speculative trading.

Excluding the contribution of Sierra Rutile volumes, sales of rutile were in line with the first half of 2016. The inclusion of Sierra Rutile sales for the first full half has resulted in total rutile sales more than doubling period-on-period to 118.4 thousand tonnes (2016: 57.4 thousand tonnes).

Sales of synthetic rutile increased 32% relative to the first half of 2016 to 138.0 thousand tonnes. The majority of Iluka's synthetic rutile sales volumes in 2017 are contracted.

The increase in ilmenite sales largely reflects Sierra Rutile volumes, with the majority of Iluka's existing ilmenite consumed internally in the production of synthetic rutile.

Mineral sands production

Total Z/R/SR production for the half was 453.1 thousand tonnes inclusive of Sierra Rutile, a 36% increase from the previous corresponding period (2016: 334.4 thousand tonnes), with 371.2 thousand tonnes from Iluka's Australian and US operations.

Higher zircon and rutile production for the first half of 2017 compared to 2016 reflects higher mineral separation plant (MSP) run rates. In addition, a small amount of remnant zircon concentrate stocks from the US Operations was shipped in the first half of the year and recognised as production when sold.

The synthetic rutile kiln continued to operate at full capacity in the half.

The Tutunup South mine in south-west Western Australia continued to be Iluka's only Australian mine in operation. During the half, 314 thousand tonnes of heavy mineral concentrate (HMC) was produced and 714 thousand tonnes processed globally. This reflected the continued drawdown of HMC from the Jacinth-Ambrosia mine (currently idle) and the Woornack, Rownack and Pirro mine (mining completed 2015). Iluka announced in June the planned restart of mining at Jacinth-Ambrosia from December 2017, following the substantial drawdown of HMC inventory.

The Company's two Australian mineral separation plants (MSP) at Narngulu (Western Australia) and Hamilton (Murray Basin) continued to operate as planned with the Hamilton plant scheduled to complete processing activities in October 2017, as previously announced. In addition, Iluka plans to undertake maintenance works at Narngulu in the second half for a period of two months. This will support further drawdown of finished product inventories and reduce the length of future major maintenance outages. As a result, zircon and rutile production from Iluka's Australian operations is expected to be first half weighted, although with the planned closure of Hamilton bringing forward the processing of remaining Murray Basin heavy mineral concentrate, 2017 rutile production will increase to approximately 280 thousand tonnes from the previously guided 240 thousand tonnes.

INCOME STATEMENT ANALYSIS

$ million	1st Half 2017	1st Half 2016	% change
Z/R/SR revenue	470.0	321.1	46.4
Ilmenite and other revenue	33.6	17.3	94.2
Mineral sands revenue	**503.6**	**338.4**	**48.8**
Cash costs of production	(200.1)	(140.7)	(42.2)
Inventory movement - cash costs of production	(78.6)	(30.4)	(158.6)
Restructure and idle capacity charges	(33.3)	(26.8)	(24.3)
Government royalties	(13.3)	(9.4)	(41.5)
Marketing and selling costs	(18.5)	(18.4)	(0.5)
Asset sales and other income	0.4	0.9	(55.6)
Resource development	(14.0)	(47.1)	70.3
Corporate and other costs	(23.2)	(25.5)	9.0
Foreign exchange gain (loss)	0.5	0.9	(44.4)
Underlying mineral sands EBITDA*	**123.5**	**41.9**	**194.7**
Mining Area C EBITDA	31.1	20.8	49.5
Underlying Group EBITDA	**154.6**	**62.7**	**146.6**
Depreciation and amortisation	(58.5)	(44.1)	(32.7)
Inventory movement - non-cash production costs	(30.6)	(21.3)	(43.7)
Rehabilitation costs for closed sites	(5.4)	(1.6)	(237.5)
Share of Metalysis Ltd's losses (associate)	(1.7)	(1.4)	(21.4)
Impairment of assets	(151.4)	-	n/a
Group EBIT	**(93.0)**	**(5.7)**	**(1,531.6)**
Net interest and bank charges	(9.2)	(5.5)	(67.3)
Rehabilitation unwind and other finance costs	(6.5)	(7.3)	11.0
Loss before tax	**(108.7)**	**(18.5)**	**(487.6)**
Tax benefit (expense)	27.2	(2.4)	1,233.3
Loss for the period (NPAT)	**(81.5)**	**(20.9)**	**(290.0)**
Average AUD/USD rate for the period (cents)	**75.4**	**73.4**	**2.7**

* Underlying Group EBITDA excludes non-recurring adjustments including impairments, SRL transaction costs, changes to rehabilitation provisions for closed sites. Underlying EBITDA also excludes Iluka's share of Metalysis Ltd's losses, which are non-cash in nature.

Mineral sands operational results

	Revenue		EBITDA		EBIT	
$ million	**1st Half 2017**	**1st Half 2016**	**1st Half 2017**	**1st Half 2016**	**1st Half 2017**	**1st Half 2016**
Australia	413.9	329.4	162.7	140.2	(66.4)	72.5
Sierra Leone	66.9	-	7.6	-	(7.4)	-
United States	22.8	9.0	(4.2)	(17.1)	(4.2)	(17.1)
Resource development and other	-	-	(42.6)	(81.2)	(15.0)	(55.9)
Total	**503.6**	**338.4**	**123.5**	**41.9**	**(93.0)**	**(0.5)**

An overview of the performance for operations in Australia, Sierra Leone and United States 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 $503.6 million, an increase of 49% compared with the previous corresponding period (2016: $338.4 million), largely associated with increased sales volumes and increasing product prices.

As noted, Z/R/SR sales volumes increased 43% to 453.8 thousand tonnes (2016: 316.4 thousand tonnes) combined with higher received US dollar prices across the product suite period-on-period.

Cash costs of production

Cash costs of production were up $59.4 million from the previous corresponding period to $200.1 million (2016: $140.7 million). Cash costs of production include $7.9 million of costs in relation to ilmenite concentrate and by-products (2016: $6.2 million). The increase in cash costs of production is driven by a number of factors including:

- inclusion of Sierra Rutile, with cash production costs of $66.8 million in the first half of 2017 (2016: $nil);
- higher US cash costs of production at $9.6 million (2016: $1.7 million) associated with processing a small amount of remnant zircon concentrate stocks; partially offset by
- no mining and concentrating costs at Jacinth-Ambrosia in 2017 following the suspension of these activities in April 2016 to allow HMC inventory to be drawn down.

On a unit basis, cash costs of production, excluding ilmenite concentrate and by-products, were $424 per tonne of Z/R/SR produced, a 6% increase compared with the previous corresponding period.

Inventory movement

Work-in-progress inventory decreased by $87.9 million to $200.1 million as HMC processed of 714 thousand tonnes exceeded HMC production of 314 thousand tonnes. This drawdown in HMC inventory is consistent with Iluka's reduced production settings, which are likely to see HMC and finished goods inventories return to pre-2012 levels within the next year. Finished product inventory has also decreased by $29.3 million to $312.0 million. Inventory movements in the balance sheet include the impacts of foreign currency translation for the US and Sierra Rutile operations, which are accounted for within a foreign currency translation reserve and not through the profit and loss account.

Restructure and idle capacity charges

Idle capacity charges are costs incurred during periods of no or restricted production. Restructure and idle capacity costs of $33.3 million increased $6.5 million from the previous corresponding period (2016: $26.8 million) predominantly due to the plan for Hamilton MSP being placed onto care and maintenance in October 2017, incurring $9.0 million in restructure and redundancy costs. Liabilities for employee termination benefits associated with restructuring activities are recognised when the Group is demonstrably committed to terminating the employment of current employees according to a detailed formal plan. The remaining costs in 2017 include idle costs for Jacinth-Ambrosia, with mining and processing suspended in April 2016, and restructure and idle costs for the US operations.

Rehabilitation and holding costs for closed sites

Rehabilitation and holding costs incurred in the first half of 2017 relate to the reassessment of rehabilitation provisions for the Hamilton MSP following the plant being placed on care and maintenance from October 2017.

Government royalties

Government royalties were higher than the previous corresponding period reflecting increased mineral sands revenue.

Marketing and selling costs

Marketing and selling costs were comparable with the previous corresponding period at $18.5 million (2016: $18.4 million).

Resource development

Resource development costs were $33.1 million lower than the previous corresponding period, predominantly due to lower expenditure on trialling an unconventional underground mining approach for Balranald combined with lower costs following the sustainable cost review that was undertaken in the last quarter of 2016.

Expenditure on trialling the unconventional mining approach in the prior year was expensed within Resource Development costs, whereas costs of $6.4 million incurred during 2017 have been capitalised to the Balranald project. Exploration expenditure of $5.3 million was 50% lower than the previous corresponding period due to a more focused approach (2016: $10.5 million).

Depreciation and amortisation

Iluka changed its depreciation method to a straight-line methodology for all property, plant and equipment effective from 1 January 2017, with the exception of mine reserves which continue to be depreciated using a units of production (UOP) methodology.

Total depreciation costs have increased $14.4 million compared to the previous corresponding period due to:

- depreciation of $18.2 million (2016: $nil) on Sierra Rutile assets; and
- increased depreciation charges of $6.3 million reflecting a change to depreciation methodology to straight line as noted above; partially offset by
- lower depreciation at Jacinth-Ambrosia due to the mine being suspended for the full six months in 2017 as opposed to operational for four months in 2016; and
- useful economic lives for some Jacinth-Ambrosia assets extended.

Mining Area C

Iron ore sales volumes increased 6% to 27.0 million dry metric tonnes (DMT). The average AUD realised price upon which the royalty is payable increased by 39% from the previous corresponding period. The EBITDA contribution of $33.1 million includes no annual capacity payments for production increases in the year to 30 June (2016: $nil).

Corporate and other

Corporate costs were $2.3 million lower than the previous corresponding period associated with cost reductions coming from the sustainable business review that was undertaken in the last quarter of 2016 to remove cost from the business and ensure a more appropriate resourcing structure in the context of current business priorities.

Foreign exchange

Net foreign exchange translation gains were $0.5 million, compared to a net gain of $0.9 million in the previous corresponding period.

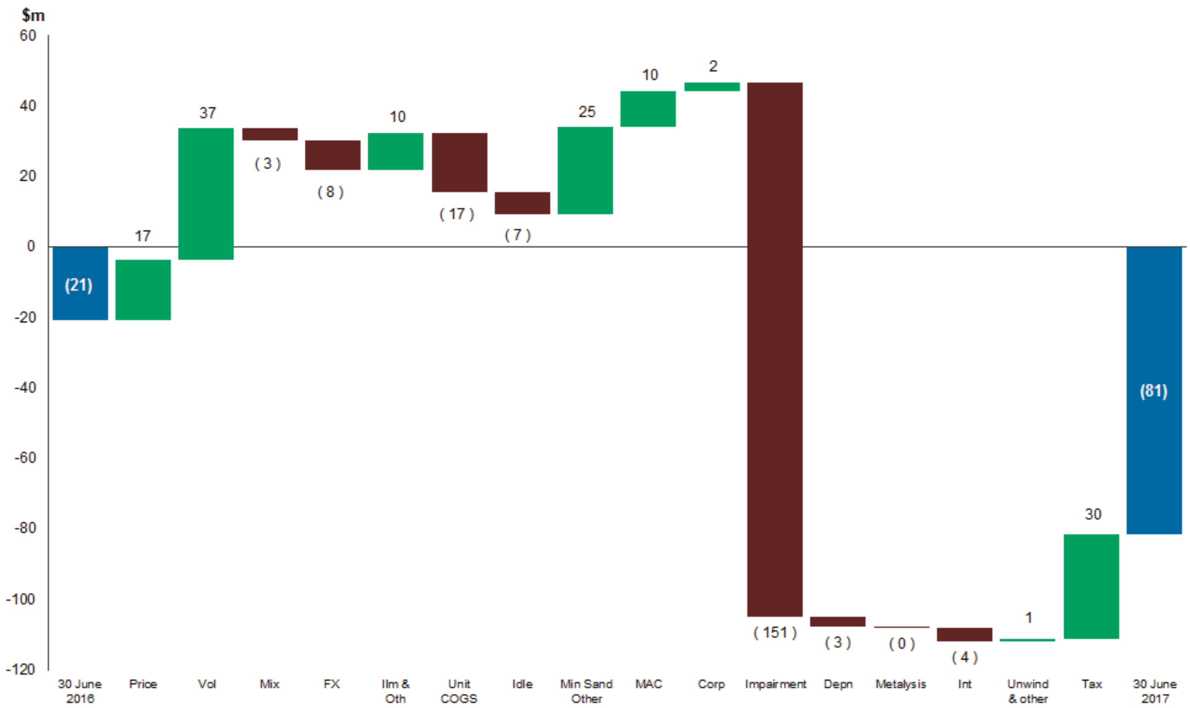
Net Interest and bank charges

Net interest and bank charges have increased $3.7 million from the previous corresponding period due to increased net debt. As at 31 December 2015, Iluka had a net cash position of $6.0 million transitioning to net debt of $124.1 million as at 30 June 2016. The net debt increased to $506.3 million at 31 December 2016 following the acquisition of Sierra Rutile but strong free cash flows during the first half of 2017 have reduced net debt to $304.6 million at 30 June 2017.

Tax expense

The income tax benefit of $27.2 million (2016: $2.4 million) on an operating loss before tax of $108.7 million reflects no tax benefit recognised in respect of the US operating loss ($4.2 million) and international exploration expenditure, partially offset by the benefit of research and development tax offsets.

MOVEMENT IN NPAT



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

Z/R/SR sales price (+ve $17 million)

The weighted average received price for zircon has increased 8% to US$850 per tonne period-on-period impacted by a combination of underlying product price increases and product mix. Zircon prices reflect the weighted average price for zircon premium, zircon standard/universal and zircon in concentrate. The prices for each product vary considerably, as does the mix of such products sold period to period. In 2017 a lower proportion of zircon in concentrate was sold in the product mix at 11% compared to 13% in the first half of 2016.

The weighted average price for rutile increased by 4% to US$741 per tonne relative to 2016. 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.

The average unit revenue per tonne of Z/R/SR was $1,036 (2016: $1,015).

Z/R/SR sales volumes (+ve $37 million)

The amount reflects the impact of higher Z/R/SR sales volumes, up 43% 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 $3 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 $8 million)

The impact of a higher weighted average spot exchange rate of 75.4 cents applicable to Z/R/SR revenue compared with the rate in the previous corresponding period of 73.4 cents. Foreign exchange impacts on operating costs, mainly those relating to the Sierra Rutile and US operations, are included in the overall movement in unit cost of sales. The variance also includes a foreign exchange gain of $0.5 million (2016: $0.9 million).

Ilmenite and other revenue (+ve $10 million)

Ilmenite and other revenue was up 94% to $33.6 million (2016: $17.3 million) predominantly associated with higher ilmenite sales volumes.

Z/R/SR unit cost of sales (-ve $17 million)

Higher unit cost of sales for Z/R/SR sold during the period reflects the sale of higher cost Sierra Rutile material and changes in the sales mix.

Restructure and idle capacity (-ve $7 million)

The composition of these costs has changed with an increase in costs at both Jacinth-Ambrosia due to a full six months of suspension in 2017 as opposed to two months in the first half of 2016 and in the Murray Basin due to the plan to place the Hamilton MSP on care and maintenance, offset by lower costs in the US due to the closure of the operations.

Mineral sands other costs (+ve $25 million)

The lower costs were due mainly to decreased expenditure on trialling the unconventional mineral sands mining approach, offset by higher royalty costs and increased rehabilitation costs for the Hamilton MSP.

MAC (+ve $10 million)

Underlying iron ore royalties increased compared to the previous corresponding period due to a 39% increase in realised AUD iron ore prices, combined with a 6% increase in sales volumes. No MAC annual capacity payments were received in 2017 or 2016.

Corporate costs (+ve $2 million)

The lower corporate costs were due to retirement costs in 2016 related to the previous Managing Director's transition.

Impairments (-ve $151 million)

The current half year includes an impairment charge of $151.4 million recorded against the Hamilton MSP and associated assets following the decision to place this asset on care and maintenance effective from October 2017.

Depreciation for idle assets (-ve $3 million)

Higher depreciation charges for idle assets following a change in the depreciation methodology for mine specific equipment resulting in ongoing depreciation charges for the equipment at Jacinth-Ambrosia whilst the mining is currently suspended.

Metalysis associate (-ve $2 million)

Iluka’s increased investment in Metalysis on 18 February 2016 resulted in Iluka equity accounting from this date. Iluka has recognised its share of Metalysis losses for the period of $1.7 million compared to $1.4 million in the previous corresponding period.

Interest (-ve $4 million)

Interest costs increased due to higher average borrowing levels than the previous corresponding period resulting from the acquisition of Sierra Rutile in December 2016.

Rehabilitation unwind and other finance charges (+ve $1 million)

Charges are comparable to the previous corresponding period.

Tax (+ve $30 million)

The variance reflects an increased tax benefit as a result of lower earnings compared to the previous corresponding period.

BALANCE SHEET, CASH FLOW AND NET DEBT

Balance sheet by operation - $ million

	AUS	US	SRL	MAC	Corp	30 June 2017 Group	31 Dec 2016 Group
Receivables	77.2	12.1	29.8	14.7	15.7	**149.5**	169.9
Inventories	486.8	39.0	51.8	-	-	**577.6**	693.9
Payables and accruals	(59.3)	(9.4)	(30.3)	-	(16.3)	**(115.3)**	(116.0)
Employee and other provisions	(20.5)	(12.4)	(0.2)	-	(12.3)	**(45.4)**	(40.9)
Rehabilitation provisions	(386.9)	(91.9)	(34.6)	-	-	**(513.4)**	(528.1)
Investment in Metalysis Limited	-	-	-	-	32.1	**32.1**	33.7
Derivative financial asset	-	-	-	-	0.3	**0.3**	-
Property, plant & equipment	607.5	42.3	342.2	-	15.6	**1,007.6**	1,194.2
Intangibles	-	-	-	4.5	-	**4.5**	4.7
Capital employed	**704.8**	**(20.3)**	**358.7**	**19.2**	**35.1**	**1,097.5**	**1,411.4**
Net tax asset						**(213.1)**	(197.9)
Net debt						**304.6**	506.3
Total equity						**1,006.0**	1,103.0
Net funding						**1,097.5**	**1,411.4**

Receivables have decreased $20.4 million from 31 December 2016 influenced predominantly by the timing of sales. Iluka has continued to utilise a trade receivables purchase facility entered into in late 2014 which enabled the earlier collection of $84.2 million of receivables at 30 June 2017 (31 December 2016: $88.1 million).

Inventories on hand decreased by $116.3 million to $577.6 million, which is consistent with Iluka's reduced production settings.

The written down value of property, plant and equipment reduced by $186.6m, largely driven by the write-down of the Hamilton MSP of $151.4 million and normal depreciation charges.

Net debt has reduced by 40% to $304.6m, associated with the drawdowns of inventory, increased revenue and a reduction in receivables, resulting in a significant improvement in free cash flow of $230.8 million from the first half of 2016 (2017: $180.2 million v 2016: -$50.6 million). For further details on the Group's debt facility refer to note 9 of the interim report.

Movement in net (debt) cash

$ million	1st Half 2016	2nd Half 2016	1st Half 2017
Opening net cash (debt)	**6.0**	**(124.1)**	**(506.3)**
Operating cash flow	(15.5)	152.8	193.9
MAC royalty	18.3	25.3	30.5
Exploration	(10.7)	(14.0)	(5.6)
Interest (net)	(4.9)	(9.1)	(8.8)
Tax	(10.3)	(3.5)	(6.4)
Capital expenditure	(16.7)	(47.0)	(24.6)
Purchase of shares in Metalysis Limited	(12.1)	(6.7)	-
Asset sales	1.3	0.1	1.2
Free cash flow	**(50.6)**	**97.9**	**180.2**
Dividends	(79.5)	(12.6)	-
Net cash flow	**(130.1)**	**85.3**	**180.2**
SRL acquisition cost	-	(375.4)	-
Net debt assumed on acquisition of SRL	-	(79.7)	-
Exchange revaluation of USD net debt	1.4	(11.0)	22.6
Amortisation of deferred borrowing costs	(1.4)	(1.4)	(1.1)
(Decrease) increase in net (debt) cash	**(130.1)**	**(382.2)**	**201.7**
Closing net (debt) cash	**(124.1)**	**(506.3)**	**(304.6)**

Operating cash flow for the interim period was $193.9 million compared to an outflow of $15.5 million in the previous corresponding period largely driven by increased Z/R/SR sales volumes up 43% and the significant drawdown of inventory.

MAC royalty cash flows in the first half of 2017 increased by $12.2 million to $30.5 million from the previous corresponding period predominantly reflecting higher iron ore prices.

Capital expenditure of $24.6 million in the half-year related to major projects, including Cataby (Western Australia), Sierra Rutile and Balranald (New South Wales).

No dividend was paid during the interim period.

The exchange revaluation of net debt in the period predominantly reflects the revaluation of US dollar denominated debt from an exchange rate of 72.1 cents at 31 December 2016 to 76.7 cents at 30 June 2017. A portion of this debt is used as a net investment hedge against translation differences arising from assets held by the Group's Sierra Rutile operations.

REVIEW OF AUSTRALIAN OPERATIONS

		1st Half 2017	1st Half 2016	% change
Production volumes				
Zircon	kt	193.9	175.5	10.5
Rutile	kt	70.8	56.7	24.9
Synthetic rutile	kt	99.6	102.2	(2.5)
Total Z/R/SR production	**kt**	**364.3**	**334.4**	**8.9**
Ilmenite - saleable and upgradeable	kt	201.5	164.1	22.8
Total production volume	**kt**	**565.8**	**498.5**	**13.5**
HMC produced	kt	138	244	(43.4)
HMC processed	kt	539	497	8.5
Unit cash cost of production - Z/R/SR *	$/t	340	416	18.3
Mineral sands revenue	**$m**	**413.9**	**329.4**	**25.7**
Cash cost of production	$m	(123.7)	(139.0)	11.0
Inventory movements - cash costs of production	$m	(78.1)	(17.9)	(336.3)
Restructure and idle capacity charges	$m	(29.2)	(12.8)	(128.1)
Government royalties	$m	(10.4)	(9.4)	(10.6)
Marketing and selling costs	$m	(9.5)	(10.5)	9.5
Asset sales and other income	$m	(0.3)	0.4	n/a
EBITDA	**$m**	**162.7**	**140.2**	**16.0**
Depreciation & amortisation	$m	(38.5)	(42.6)	9.6
Inventory movement - non-cash production costs	$m	(33.8)	(23.5)	(43.8)
Rehabilitation costs for closed sites	$m	(5.4)	(1.6)	(237.5)
Impairment expense	$m	151.4	-	n/a
EBIT	**$m**	**(66.4)**	**72.5**	**(191.6)**

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

Total Z/R/SR production increased 9% from the previous corresponding period reflecting higher mineral separation plant (MSP) run rates.

Mineral sands revenue increased 26% from the previous corresponding period to $413.9 million (2016: $329.4 million) reflecting higher Z/R/SR sales volumes and higher achieved prices.

Cash costs of production were $15.3 million lower than the previous corresponding period. The change predominantly reflects the suspension of mining and concentrating activities at Jacinth-Ambrosia in April 2016.

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

Restructure and idle capacity charges have increased from the previous corresponding period due to a full six months of charges associated with the suspension of mining and concentrating at Jacinth-Ambrosia from April 2016, combined with costs for the Hamilton MSP being placed on care and maintenance from October 2017.

The rehabilitation costs relates to a $5.0 million increase in the provision associated with the Hamilton MSP being placed on care and maintenance.

REVIEW OF SIERRA RUTILE OPERATIONS

		1st Half 2017
Production volumes		
Zircon	kt	2.9
Rutile	kt	79.0
Ilmenite	kt	26.6
Total production volume	**kt**	**108.5**
HMC produced	kt	176
HMC processed	kt	174
Unit cash cost of production - Z/R *	$/t	816
Mineral sands revenue	**$m**	**66.9**
Cash cost of production	$m	(66.8)
Inventory movement - cash costs of production	$m	12.9
Government royalties	$m	(2.9)
Marketing and selling costs	$m	(2.5)
EBITDA	**$m**	**7.6**
Depreciation & amortisation	$m	(18.2)
Inventory movement - non-cash production costs	$m	3.2
EBIT	**$m**	**(7.4)**

Note: The table shows only first half 2017 figures as SRL was acquired in December 2016.
* Calculated as cash costs of production, including by-product costs divided by Z/R production.

Sierra Rutile's total Z/R production was 81.9 thousand tonnes in the first full six months of operation within the Iluka group. The production includes opportunistic processing of minor rutile rich reject stockpiles, which is forecast to be completed by year end. A focus in the first half has been on operational improvements including adjustments to the wet concentrator plant settings resulting in improved valuable heavy mineral recovery and higher HMC grades combined with improved mineral separation plant recoveries following detailed metallurgical work.

Mineral sands revenue was $66.9 million derived from Z/R sales volumes of 64.7 thousand tonnes and 29.1 thousand tonnes of ilmenite sales which was reflected in unit revenue of A$1,034 per tonne Z/R.

The SRL cash costs of production of $66.8m includes a corporate re-charge of $1.8 million in the half year results.

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

REVIEW OF UNITED STATES OPERATIONS

		1st Half 2017	1st Half 2016	% change
Zircon production volumes	kt	6.9	-	n/a
Unit cash cost of production - saleable product *	$/t	1,391	-	n/a
Minerals sands revenue	**$m**	**22.8**	**9.0**	**153.3**
Cash cost of production	$m	(9.6)	(1.7)	(464.7)
Inventory movements	$m	(13.4)	(10.3)	(30.1)
Restructure and idle capacity charges	$m	(4.1)	(14.0)	70.7
Marketing and selling costs	$m	-	(0.1)	n/a
Asset sales and other income	$m	0.1	-	n/a
EBIT	**$m**	**(4.2)**	**(17.1)**	**75.4**

* 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.

During the first half of 2017 a small amount of remnant zircon concentrate stocks was shipped and recognised as production when sold. These activities have now ceased.

Cash costs of production largely reflect activities associated with the planned recovery of this remnant zircon concentrate stocks and finished goods transport for sale.

The inventory movement reflects the drawdown in finished goods through sales.

Restructure and idle capacity charges reflect regional management, administration and holding costs combined with some regional asset care and maintenance costs.

Directors' report

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:

G Martin
M Bastos
X Liu
T O'Leary
J Ranck
J Seabrook

Review of operations

Revenue for the half-year ended 30 June 2017 from operations was $535.1 million (2016: $359.6 million), which includes revenue from both the mineral sands operation and the Mining Area C (MAC) royalty.

Loss before income tax benefit for the half-year ended 30 June 2017 was $108.7 million (2016: $18.5 million loss).

Loss for the half-year ended 30 June 2017 was $81.5 million (2016: $20.9 million loss).

Dividends

Directors have determined a fully franked interim dividend of 6 cents per share, payable on 27 September 2017 with a record date of 31 August 2017.

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 16.

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

T O'Leary
Managing Director

16 August 2017

Auditor's Independence Declaration

As lead auditor for the review of Iluka Resources Limited for the half-year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

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

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

Justin Carroll
Partner
PricewaterhouseCoopers

Perth
16 August 2017

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Iluka Resources Limited
ABN 34 008 675 018

Interim financial report - 30 June 2017

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Iluka Resources Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 30 June 2017

	Notes	**Half-year 2017 $m**	Half-year 2016 $m
Revenue	3	**535.1**	359.6
Other income	4	**0.9**	1.8
Expenses	5	**(627.0)**	(365.5)
Share of losses of investments accounted for using the equity method		**(1.7)**	(1.4)
Interest and finance charges		**(10.6)**	(7.1)
Rehabilitation and mine closure provision discount unwind		**(5.4)**	(5.9)
Total finance costs	5	**(16.0)**	(13.0)
Loss before income tax		**(108.7)**	(18.5)
Income tax benefit (expense)	6	**27.2**	(2.4)
Loss for the half-year attributable to owners		**(81.5)**	(20.9)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Currency translation of foreign operations		**(31.5)**	(1.1)
Hedge of net investment in foreign operation, net of tax	8	**12.5**	-
Changes in fair value of foreign exchange cash flow hedges, net of tax	8	**0.3**	-
Items that will not be reclassified to profit or loss			
Share of losses relating to previously held interests in an associate		**-**	(4.5)
Total other comprehensive loss for the half-year, net of tax		**(18.7)**	(5.6)
Total loss for the half-year attributable to owners		**(100.2)**	(26.5)

	Cents	Cents
Loss per share attributable to ordinary equity holders		
Basic loss per share	**(19.5)**	(5.2)
Diluted loss per share	**(19.5)**	(5.2)

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 2017

	Notes	**30 June 2017 $m**	31 December 2016 $m
ASSETS			
Current assets			
Cash and cash equivalents		**69.2**	101.3
Receivables		**149.5**	169.9
Inventories		**494.8**	474.0
Current tax receivable		**9.9**	12.4
Derivative instruments	8	**0.3**	-
Total current assets		**723.7**	757.6
Non-current assets			
Inventories		**82.8**	219.9
Property, plant and equipment		**1,007.6**	1,194.2
Intangible asset - MAC Royalty		**4.5**	4.7
Deferred tax assets		**203.2**	185.5
Investments accounted for using the equity method		**32.1**	33.7
Total non-current assets		**1,330.2**	1,638.0
Total assets		**2,053.9**	2,395.6
LIABILITIES			
Current liabilities			
Payables		**121.3**	125.9
Provisions		**72.5**	44.3
Total current liabilities		**193.8**	170.2
Non-current liabilities			
Provisions		**480.3**	514.8
Interest-bearing liabilities	9	**373.8**	607.6
Total non-current liabilities		**854.1**	1,122.4
Total liabilities		**1,047.9**	1,292.6
Net assets		**1,006.0**	1,103.0
EQUITY			
Contributed equity	10	**1,119.8**	1,117.2
Reserves		**14.1**	32.2
Accumulated losses		**(127.9)**	(46.4)
Total equity		**1,006.0**	1,103.0

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

Iluka Resources Limited
Consolidated statement of changes in equity
For the half-year ended 30 June 2017

		Attributable to owners of Iluka Resources Limited			
	Notes	**Share capital $m**	**Other reserves $m**	**Retained profits $m**	**Total equity $m**
Balance at 1 January 2016		1,112.7	23.1	272.8	1,408.6
Loss for the period		-	-	(20.9)	(20.9)
Other comprehensive loss		-	(1.1)	(4.5)	(5.6)
Total comprehensive loss 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	11	-	-	(79.5)	(79.5)
		3.6	(0.3)	(79.5)	(76.2)
Balance at 30 June 2016		**1,116.3**	**21.7**	**167.9**	**1,305.9**
Balance at 1 January 2017		1,117.2	32.2	(46.4)	1,103.0
Loss for the period		-	-	(81.5)	(81.5)
Other comprehensive loss		-	(18.7)	-	(18.7)
Total comprehensive loss for the half-year		**-**	**(18.7)**	**(81.5)**	**(100.2)**
Transactions with owners in their capacity as owners:					
Transfer of shares to employees, net of tax		2.6	(2.6)	-	-
Share-based payments, net of tax		-	3.2	-	3.2
		2.6	0.6	-	3.2
Balance at 30 June 2017		**1,119.8**	**14.1**	**(127.9)**	**1,006.0**

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 2017

	Notes	**30 June 2017 $m**	30 June 2016 $m
Cash flows from operating activities			
Receipts from customers		**493.3**	271.1
Payments to suppliers and employees		**(299.4)**	(286.6)
Operating cash flow		**193.9**	(15.5)
Interest received		**0.4**	0.3
Interest paid		**(9.3)**	(5.2)
Income taxes paid		**(6.4)**	(10.3)
Exploration expenditure		**(5.6)**	(10.7)
Mining Area C royalty receipts		**30.5**	18.3
Net cash inflow (outflow) from operating activities	12	**203.5**	(23.1)
Cash flows from investing activities			
Payments for property, plant and equipment		**(24.7)**	(16.7)
Sale of property, plant and equipment		**1.2**	1.3
Purchase of shares in Metalysis Limited		**-**	(12.1)
Net cash outflow from investing activities		**(23.5)**	(27.5)
Cash flows from financing activities			
Repayment of borrowings		**(264.3)**	(20.0)
Proceeds from borrowings		**53.6**	149.3
Dividends paid	11	**-**	(79.5)
Debt refinance costs		**-**	(0.5)
Net cash (outflow) inflow from financing activities		**(210.7)**	49.3
Net decrease in cash and cash equivalents		**(30.7)**	(1.3)
Cash and cash equivalents at 1 January		**101.1**	55.0
Effects of exchange rate changes on cash and cash equivalents		**(1.4)**	(0.4)
Cash and cash equivalents at end of half-year		**69.2**	53.3

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

1 Basis of Preparation

This general purpose financial report for the interim half-year reporting period ended 30 June 2017 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 2016 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.

(a) Accounting policies

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

(i) Depreciation

The depreciation method for mine specific plant was revised effective 1 January 2017 from the units of production method, to the straight line method, to more appropriately match depreciation charges with the expected pattern of consumption of the economic benefit of the asset (3 to 20 years). This change in method will impact depreciation on idle assets and reflects the expected duration of use and physical deterioration of assets and the impact of future technical or commercial obsolescence.

(ii) AASB 9 adoption

The Group has elected to apply AASB 9 *Financial Instruments* as issued in December 2014, from 1 January 2017 because the new accounting standard provides more relevant information for the users of the financial report. In accordance with the transitional provisions in AASB 9(7.2.15), comparative figures have not been restated.

AASB 9 replaces the provisions of AASB 139 *Financial Instruments* that relate to the recognition, classification and measurement of financial assets and financial liabilities, including derecognition, impairment and changes to hedge accounting rules. AASB 9 also amends other standards dealing with financial instruments such as AASB 7 *Financial Instruments: Disclosures.*

The adoption of AASB 9 did not result in a significant change to the recognition or measurement of financial instruments for the Group as presented in the interim financial report. The new hedge accounting rules align the accounting for hedging instruments more closely to the Group's risk management practices, which allows the Group's natural hedge relationship and derivatives to qualify for hedge accounting under AASB 9. See note 8.

The new standard also introduces expanded disclosure requirements and changes from AASB 7 which will be presented in the annual financial report for the period ended 31 December 2017.

(d) 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.

1 Basis of Preparation (continued)

(i) Impairment of assets

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

The estimates of discounted future cash flows for each CGU are based on significant assumptions including:

- estimates of the quantities of mineral reserves and ore resources for which there is a high degree of confidence of economic extraction and the timing of access to these reserves and ore resources;
- future production levels and the ability to sell that production;
- future product prices based on the Group's assessment of short and long term prices for each of the key products;
- future exchange rates using external forecasts by recognised economic forecasters;
- successful development and operation of new mines, consistent with latest forecasts;
- future cash costs of production, sustaining capital expenditure, rehabilitation and mine closure; and
- the asset specific discount rate applicable to the CGU.

Given the nature of the Group's mining activities, future changes in assumptions upon which these estimates are based may give rise to material adjustments to the current or prior years. This could lead to a reversal of part, or all, of impairment charges recorded in the current or prior years, or the recognition of new impairment charges in the future. See note 5(f).

(ii) Rehabilitation and mine closure provisions

These provisions represent the discounted value of the present obligation to restore, dismantle and rehabilitate certain items of property, plant and equipment. The discounted value reflects a combination of management's assessment of the nature and extent of the work required, the future cost of performing the work required, the timing of the cash flows and the discount rate. Changes to one or more of these assumptions is likely to result in a change to the provision and the related asset (for open sites), or a charge to profit or loss (for closed sites) in accordance with the Group's accounting policy. In 2017 the rehabilitation provision increased by $5.4 million (charged to the profit or loss account) to $513.4 million as a result of the Hamilton MSP being placed on care and maintenance effective from October 2017.

(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 2017 was $577.6 million (31 December 2016: $693.9 million). Inventory write-downs of $5.2 million occurred for work in progress or finished goods during the period (31 December 2016: $5.4 million).

Inventory of $82.8 million (31 December 2016: $219.9 million) was classified as non-current as it is not expected to be sold within 12 months of the balance sheet date.

(iv) SRL provisional acquisition purchase price allocation

Business combinations (acquisitions of subsidiaries) are accounted for using the acquisition method. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, liabilities incurred and the equity interests issued by the Group.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The financial assets and liabilities acquired are assessed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's accounting policies and other pertinent conditions as at the acquisition date. Under the acquisition method, the Group has up to 12 months post the acquisition date to finalise the fair value of identifiable assets and liabilities.

Acquisition-related costs are expensed as incurred.

1 Basis of Preparation (continued)

(v) Deferred tax asset recognition

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

The Group has recognised a deferred tax asset in relation to unused tax losses for SRL of $187.4 million as part of the provisional purchase price allocation. Deferred tax assets are not discounted and represent the face value of the losses expected to be utilised. As stated in note 7 below, the acquisition accounting balances are provisional due to ongoing work finalising valuations and tax related matters which may impact the deferred tax asset and other accounting balances. The acquisition accounting balances must be finalised by 7 December 2017.

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 2016.

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

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

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

Mining Area C (MAC) comprises a deferred consideration iron ore royalty interest over certain mining tenements in Australia operated by BHP Billiton Iron Ore.

2 Segment information (continued)

(b) Segment information

Half-year 2017	**AUS** $m	**US** $m	**SRL** $m	**MAC** $m	**Total** $m
Total segment sales to external customers	413.9	22.8	66.9	-	503.6
Total segment result*	(71.6)	(4.5)	(7.4)	30.9	(52.6)
Impairment of assets	151.4	-	-	-	151.4
Segment assets at 30 June 2017	1,171.5	93.4	423.8	19.2	1,707.9
Segment liabilities at 30 June 2017	466.7	113.8	65.0	-	645.5

Half-year 2016	**AUS** $m	**US** $m	**SRL** $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 31 December 2016	1,478.6	103.6	439.7	18.8	2,040.7
Segment liabilities at 31 December 2016	448.2	127.6	71.2	-	647.0

* Total segment result includes the impairment charge that is also separately reported above.

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

	Half-year 2017 $m	Half-year 2016 $m
Segment result	**(52.6)**	70.4
Interest income	**0.3**	0.2
Other income	**0.6**	0.5
Marketing and selling	**(6.5)**	(7.8)
Corporate and other costs	**(23.2)**	(25.5)
Depreciation	**(1.6)**	(1.5)
Resource development	**(14.0)**	(47.1)
Interest and finance charges	**(10.5)**	(7.2)
Net foreign exchange gain	**0.5**	0.9
Equity accounted share of losses	**(1.7)**	(1.4)
Loss before income tax	**(108.7)**	(18.5)

3 Revenue

	Half-year 2017 $m	Half-year 2016 $m
Sales revenue		
Sale of goods	**503.6**	338.4
Other revenue		
Mining Area C royalty income	**31.1**	21.0
Interest	**0.4**	0.2
	31.5	21.2
	535.1	359.6

4 Other income

	Half-year 2017 $m	Half-year 2016 $m
Sundry income	**0.3**	0.4
Net exchange gain on disposal of property, plant and equipment	**0.1**	0.5
Foreign exchange gains (net)	**0.5**	0.9
	0.9	1.8

5 Expenses

	Notes	Half-year 2017 $m	Half-year 2016 $m
Expenses			
Cash costs of production	5(a)	**192.2**	134.4
Depreciation and amortisation		**58.5**	44.3
Inventory movement - cash costs of production		**78.6**	30.4
Inventory movement - non-cash production costs		**30.6**	21.3
Cost of goods sold	5(b)	**359.9**	230.4
Ilmenite concentrate and by-product costs	5(c)	**7.9**	6.3
Restructure and idle capacity charges	5(d)	**33.3**	26.8
Rehabilitation costs for closed sites	5(e)	**5.4**	1.6
Government royalties		**13.3**	9.4
Marketing and selling costs		**18.5**	18.4
Corporate and other costs		**23.3**	25.5
Resource development		**14.0**	47.1
Impairment of assets	5(f)	**151.4**	-
		627.0	365.5

Finance costs			
Interest charges		**9.3**	5.2
Bank fees and similar charges		**0.2**	0.5
Amortisation of deferred borrowing costs		**1.1**	1.4
Rehabilitation and mine closure provision discount unwind		**5.4**	5.9
		16.0	13.0

(a) Cash costs of production

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

(b) Cost of goods sold

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

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

Inventory movement non-cash of $30.6 million represents the depreciation and amortisation component included within the large inventory drawdown during the half. In addition, includes net realisable value (NRV) write-downs of inventory across the group of $5.2 million, including $2.0 million during the first quarter at Sierra Rutile following lower finished goods production levels.

5 Expenses (continued)

(c) Ilmenite concentrate and by-product costs

Ilmenite and by-product costs of $7.9 million (2016: $6.3 million) include by-product costs such as for iron concentrate processing, activated carbon and wet high intensity magnetic separation (WHIMS) ilmenite transport costs.

(d) Restructure and idle capacity charges

Idle capacity charges reflect ongoing costs incurred at operations during periods of no or restricted production. Iluka suspended mining and concentrating activities at Jacinth-Ambrosia in April 2016. In addition, the planned care and maintenance of the Hamilton MSP in October 2017 resulted in $9.0 million of additional charges for the interim period.

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

(e) Rehabilitation provision expense for closed sited

Rehabilitation costs for the interim period of $5.4 million relate to an increased rehabilitation provision in relation to the planned care and maintenance of the Hamilton MSP effective in October 2017 as disclosed in the ASX announcement on 22 June 2017.

(f) Impairment

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment charge is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal (FVLCD) and value-in-use. For the purposes of assessing impairment, operating assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash Generating Units).

The fair value measurement is categorised as fair value based on the inputs in the valuation technique that are not based on observable market data. In determining the FVLCD a nominal discount rate of 10 per cent was applied to the cash flows expressed in nominal terms. The key assumptions used for commodity prices are broadly comparable to independent industry forecasts, and foreign exchange and inflation rates are aligned with current economic forecast rates.

Assets that are not currently in use and not scheduled to be brought back into use (idle assets) are considered on a standalone basis. Indicators of impairment may include significant changes in business performance or future operating plans along with changes in technology. Assets that have suffered an impairment charge are reviewed for possible reversal of the impairment at each reporting date.

Iluka identified certain idle assets in Australia which are no longer expected to contribute to the future cash inflows of the Group’s operations and have been removed from the CGU and considered on a standalone basis. Iluka did not identify any impairment triggers for any of its CGUs.

As disclosed in the ASX Announcement on 22 June 2017, idle and surplus equipment related to the Hamilton MSP will be placed on care and maintenance in October 2017, and an impairment charge of $151.4 million for the half-year ended 30 June 2017 was recorded. The MSP was previously considered able to be utilised to process HMC produced at Balranald, however with a staged approach now considered likely for any future Balranald development, annual production volumes are likely to be lower than had previously been envisaged. While it is possible that the Hamilton MSP may be utilised in the future to treat HMC produced from the Murray Basin by Iluka or others, there is insufficient certainty at this time to justify carrying the book value. The recoverable amount was determined as $nil based on its FVLCD at the time of impairment.

6 Income tax

(a) Income tax expense

	Half-year 2017 $m	Half-year 2016 $m
Current tax	**32.9**	(2.3)
Deferred tax	**(60.9)**	2.7
Under provided in prior years	**0.8**	2.0
	(27.2)	2.4

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

Loss before income tax expense	**(108.7)**	(18.5)
Tax at the Australian tax rate of 30% (2016: 30%)	**(32.6)**	(5.5)
Tax effect of amounts not deductible (taxable) in calculating taxable income:		
Non-deductible expenses	**0.8**	1.5
Research and development credit	**(0.4)**	(3.1)
Tax losses not recognised by overseas operations	**2.9**	7.5
SRL - income tax calculated at 3.5% of revenue*	**2.3**	-
Other items	**(0.5)**	-
	(27.5)	0.4
Under provision in prior years	**0.3**	2.0
Income tax (benefit) expense	**(27.2)**	2.4

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

7 Business combination

On 7 December 2016, Iluka completed the acquisition of Sierra Rutile Limited ('SRL') by means of a statutory merger of SRL with Iluka Investments Limited (BVI), a wholly owned Iluka subsidiary. Iluka Investments (BVI) Limited acquired 100% of the issued share capital of SRL for 36 British pence cash per share, totalling £215.3 million (A$375.4 million). Iluka assumed SRL's net debt of US$59.3 million (A$79.7 million), and repaid this from its own facilities in December 2016.

SRL is a large, long life rutile mining and processing operation with material expansion options based in Sierra Leone. It provides the Group with a quality mineral sands operation to continue to service the high grade titanium dioxide feedstock market. Combined with Iluka's existing operations and internal projects, SRL also provides increased portfolio flexibility in relation to Iluka's internal production options and capital expenditure.

At 31 December 2016, the acquisition accounting balances recognised were provisional due to ongoing work finalising valuations and tax related matters which may impact acquisition accounting entries.

In accordance with AASB 3 *Business Combinations* the provisional purchase price allocation was recognised in the 31 December 2016 financial statements. Work is ongoing and these provisional balances will be finalised in the 31 December 2017 financial statements.

8 Hedging

The Group is exposed to risk from movements in foreign exchange and as part of the risk management strategy has entered into forward foreign exchange contracts covering US dollar denominated sales during the period.

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

During the period Iluka entered into US$114.0 million of forward contracts at an average rate of 76.1 cents. The purpose of these derivatives was to hedge the exchange rate exposure relating to US dollar priced contracts. As at 30 June 2017 there was US$76.4 million in forward contracts remaining at an average exchange rate of 76.4 cents.

The fair value of the Group's forward foreign exchange contracts covering US dollar denominated sales at 30 June 2017 was $0.3 million. This value is reflected in the hedge reserve.

The hedging reserve is used to record gains or losses on derivatives that are designated and qualify as cash flow hedges and that are recognised in other comprehensive income. Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

The Group also designates US denominated debt as a hedge against the Group's net investment in Sierra Leone, which has a US dollar functional currency. During the period the Group's net investment hedge resulted in $12.5 million being recorded in the foreign currency translation reserve.

9 Interest-bearing liabilities

	30 June 2017 $m	31 December 2016 $m
Non-current interest-bearing liabilities (unsecured)		
Multi Optional Facility Agreement	**(376.4)**	(611.2)
Deferred borrowing costs	**2.5**	3.6
	(373.8)	(607.6)

(i) Multi Optional Facility Agreement

The Multi Optional Facility Agreement (MOFA) comprises a series of five year unsecured bilateral revolving credit facilities with several domestic and foreign institutions. Undrawn commitments of A$175.0 million matured during the period. The facility has been reduced to A$753.9 million (31 December 2016: A$1,015.4 million) with a maturity profile of: A$97.2 million expiring in 2019, A$556.7 million expiring in 2020 and A$100.0 million expiring in 2021. Undrawn MOFA facilities at 30 June 2017 were A$377.5 million (31 December 2016: A$404.2 million).

10 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 426,509 treasury shares were transferred to employees (2016: 585,225) and nil shares were purchased (2016: nil). Following the transfer, the total number of treasury shares on hand at 30 June 2017 was 39,541 (31 December 2016: 466,050).

11 Dividends

	Half-year 2017 $m	Half-year 2016 $m
Final dividend		
For 2015 of 19 cents per share, fully franked	**-**	79.5

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

In addition to the above dividend, since half-year end the directors have determined an interim dividend of 6 cents per share, fully franked (2016: 3 cents per share, fully franked). The dividend is payable on 27 September 2017 for shareholders on the register as at 31 August 2017. The aggregate amount of the proposed dividend is $25.1 million.

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

	Half-year 2017 $m	Half-year 2016 $m
Loss for the period	**(81.5)**	(20.9)
Depreciation and amortisation	**58.5**	44.3
Exploration capitalised	**-**	0.1
Net gain on disposal of property, plant and equipment	**(0.1)**	(0.5)
Net exchange differences	**(7.2)**	(1.8)
Rehabilitation and mine closure provision discount unwind	**5.4**	5.9
Non-cash share-based payments expense	**4.4**	4.0
Amortisation of deferred borrowing costs	**1.1**	1.4
Equity accounted share of losses	**1.7**	1.4
Impairment of assets	**151.4**	-
Inventory NRV write-down	**5.2**	1.4
Non-cash rehabilitation for closed sites	**5.0**	-
Change in operating assets and liabilities		
Decrease (increase) in receivables	**0.6**	(69.4)
Decrease in inventories	**105.6**	53.8
Increase in net current tax asset	**(0.7)**	(21.9)
(Increase) decrease in net deferred tax	**(32.5)**	13.7
Decrease in payables	**(2.8)**	(4.4)
Decrease in provisions	**(10.6)**	(30.2)
Net cash inflow (outflow) from operating activities	**203.5**	(23.1)

Directors' declaration

In the directors' opinion:

(a) the interim financial statements and notes set out on pages 17 to 32 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 2017 and of its performance for the half-year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

G. Martin

G Martin
Chairman

T O'Leary

T O'Leary
Managing Director

16 August 2017

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Iluka Resources Limited (the Company), which comprises the consolidated balance sheet as at 30 June 2017, the consolidated statement of changes in equity, consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, 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 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Iluka Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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

Conclusion

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

1. giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the half-year ended on that date;

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

PricewaterhouseCoopers

Justin Carroll
Partner

Perth
16 August 2017