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23 February 2017

## ILUKA FULL YEAR RESULTS TO 31 DECEMBER 2016

**Key Features (refer 4E and Annual Report for more detailed financial analysis)**

**All 2016 figures are inclusive of Sierra Rutile operations, effective from 7 December 2016.**

| $ million | 2016 | 2015 | % Change |
|---|---|---|---|
| **Mineral sands revenue** | 726.3 | 819.8 | (11.4) |
| **Underlying mineral sands EBITDA**[1] | 103.0 | 231.8 | (55.5) |
| **MAC EBITDA** | 47.5 | 61.6 | (22.9) |
| **Underlying Group EBITDA**[1] | 150.5 | 293.4 | (48.7) |
| **Group EBIT** | (247.7) | 143.0 | n/a |
| **(Loss) profit for the period (NPAT)** | (224.0) | 53.5 | n/a |
| **Operating Cash Flow** | 137.3 | 222.2 | (38.2) |
| **Free Cash Flow**[2] | 47.3 | 155.0 | (69.5) |
| **Dividend (cps) - interim** | 3.0 | 25.0 | (88.0) |
| **Net Cash (Debt)** | (506.3) | 6.0 | n/a |

- As foreshadowed, Iluka recorded a loss after tax for the year of $224.0 million, compared with a profit of $53.5 million for the previous corresponding period. The 2016 loss was impacted by several non-recurring adjustments including a non-cash impairment charge of $140.7 million after tax and an increase in rehabilitation provision for closed sites of $42.1 million after tax (refer pages 4-5 for details).
- The loss before tax was $277.7 million (2015: profit $86.6 million). A net tax benefit of $53.7 million (2015: expense of $33.1 million) was recognised in respect of the loss for the year. The tax benefit relates mainly to the Group's Australian earnings, with minimal benefits recognised for overseas losses.
- Z/R/SR sales revenue decreased 5.8 per cent to $696.8 million (2015: $739.7 million). The lower Z/R/SR revenue is mainly due to lower received zircon prices over the year.
- Mineral sands sales revenue, including ilmenite and by-product revenues, decreased 11.4 per cent to $726.3 million (2015: $819.8 million), with ilmenite and by-product revenues of $29.5 million (2015: $80.1 million). Ilmenite revenues for the year were $47.9 million lower mainly reflecting higher internal usage of ilmenite for synthetic rutile production and lower sales of remaining ilmenite inventory from the Virginia operations (idled December 2015).

[1] Underlying mineral sands EBITDA and Underlying Group EBITDA exclude 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.

[2] Free Cash Flow is determined as cash flow before refinance costs, proceeds/repayment of borrowings and dividends paid in the year. 2016 Free Cash Flow is also before the acquisition of Sierra Rutile Ltd (SRL) of $375.4 million.

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- Revenue per tonne of Z/R/SR sold decreased by 12.1 per cent to $999/tonne (2015: $1,136/tonne), as a result of lower weighted average received USD prices for zircon, and a higher proportion of standard grade zircon and zircon in concentrate sales. Rutile prices were stable year-on-year, with a slight increase in the weighted average received price in the fourth quarter.
- Total cash cost of production, excluding ilmenite and by-product costs, decreased by 34.4 per cent to $252.3 million (2015: $384.9 million), reflecting lower mining costs, following the suspension of mining and concentrating activities at Jacinth-Ambrosia, South Australia in April 2016 and the completion of mining and processing activities in US at the end of 2015.
- Unit cash cost of Z/R/SR produced, excluding by-product costs, decreased by 33.1 per cent to $373/tonne, compared with $558/tonne in 2015.
- Unit costs of goods sold per tonne of Z/R/SR decreased by 10.2 per cent to $700/tonne, compared with $780/tonne in 2015.
- Mining Area C (MAC) iron ore royalty EBIT contribution was $47.1 million (2015: $61.2 million). There were no annual capacity payments for production increases in the year to 30 June (2015: $3.0 million). The previous corresponding period also included a one-off receipt of $10.4 million following the modification to the royalty agreement with BHP Billiton and its joint venture partners.
- Iluka's increased investment in Metalysis on 18 February 2016 has resulted in Iluka equity accounting from this date. Iluka has recognised its share of Metalysis losses for the period of $3.3 million.
- Capital expenditure of $82.5 million in the year (2015: $66.4 million) related to various projects, including Cataby (Western Australia), Balranald (New South Wales) and new earth moving equipment at Sierra Rutile, combined with land acquisitions and an increased equity stake in Metalysis Limited.
- Net debt at 31 December 2016 was $506.3 million, with a corresponding gearing ratio (net debt/net debt + equity) of 31.5 per cent. This compares with net cash of $6.0 million at 31 December 2015. The increase in net debt follows the acquisition of Sierra Rutile Limited (SRL). Undrawn facilities at 31 December 2016 were $404.2 million and cash and cash equivalents of $101.3 million. As at 31 January 2017, Iluka's net debt was $441.8 million.

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**Sierra Rutile Acquisition**

On 7 December 2016 Iluka completed the acquisition of SRL. The final consideration for SRL comprised payments for equity of $375.4 million (£215 million), $14.1 million of transaction costs and interest costs in relation to a deal contingent forward hedge contract of $2.1 million. In addition, SRL's net debt of US$59.3 million (A$79.7 million) was assumed upon completion, resulting in a total cash outlay for the acquisition of $469.2 million.

**Dividend**

In the context of the company's potential investment opportunities, including Cataby and the Sierra Rutile expansion options, Directors have determined no final dividend will be declared for 2016. Iluka's interim dividend was 3.0 cents per share, fully franked. The dividend payment in 2016 represents 27 per cent of free cash flow generated. This is lower than the Iluka framework of a minimum of 40 per cent, but reflects the consideration of potential investment requirements.

**Managing Director Commentary**

Iluka's Managing Director, Tom O'Leary stated:

"Iluka, in its announcement on 31 January, foreshadowed the main elements of its 2016 financial results. The results reflect the continuation of both subdued market conditions and lower revenues across the three main products, mainly associated with lower zircon prices, and also a number of measures implemented as part of the review of the business, the outcomes from which we described in some detail in our release of 31 January 2017. Specifically, the asset impairments and increased provisions for rehabilitation mentioned in the release are reflected in the financial results. Clearly, the results recorded today are unsatisfactory.

As also mentioned in the 31 January 2017 ASX release, a change in depreciation policy has been implemented and Iluka has commenced a Sustainable Business Review to remove cost from the business and to ensure we're focused on the key priorities we've identified.

In relation to the Cataby project in Western Australia, Iluka has completed the definitive feasibility study for the project. Further work has de-risked the project and it remains at an execute-ready stage. Iluka marketing personnel continue to engage with customers regarding off-take arrangements on appropriate commercial terms.

The acquisition of Sierra Rutile Limited in December 2016 secured a large, long life rutile mine for the company. Integration activities are progressing to effect operational enhancements as well as planning to commence feasibility studies for the three expansion projects available, which are central to higher production and lower unit cash cost of production, thus generating a more robust business through the cycle.

On 20 February 2017, Iluka issued a detailed JORC 2012 compliant Ore Reserves and Mineral Resources statement for 2016 which includes inaugural Ore Reserves and Mineral Resources for Sierra Rutile and also reflects the reclassifications of reserves outlined in the 31 January release.

In relation to Balranald, the trials and evaluative work carried out in 2016 have given us technical and commercial confidence to continue with development, on a phased basis, of an unconventional, underground mining approach for this large rutile-dominant deposit. As indicated previously, the acquisition of Sierra Rutile provides flexibility as to timing and further work is required before a development commitment would be contemplated.

Key activities for Iluka in 2017 include  progression of the Cataby project, continued Sierra Rutile integration activities and evaluation of expansion options, as well as progressing, in a phased manner, the evaluation of the Balranald project. Operational settings will continue to be aligned to market conditions, which are displaying signs of improvement, and the continued reduction of inventory.

Flowing from the Sustainable Business Review, the company is focused on key activities with support costs more appropriately aligned to these priorities.

As noted in our 2017 guidance provided on 31 January, in 2017 we expect:

- higher sales volumes, including the additional sales of Sierra Rutile product;
- further inventory drawdown;
- capital expenditure of ~$260 million; and
- free cash flow generation, likely second half weighted"

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**INCOME STATEMENT ANALYSIS**

| **$ million** | **2016** | **2015** | **% change** |
|---|---|---|---|
| Z/R/SR revenue | 696.8 | 739.7 | (5.8) |
| Ilmenite and other revenue | 29.5 | 80.1 | (63.1) |
| **Mineral sands revenue** | **726.3** | **819.8** | **(11.4)** |
| Cash costs of production | (260.6) | (392.5) | 33.6 |
| Inventory movement - cash costs of production | (107.6) | 9.6 | n/a |
| Restructure and idle capacity charges | (69.5) | (38.3) | (81.5) |
| Government royalties | (20.4) | (21.0) | 2.9 |
| Marketing and selling costs | (36.3) | (32.0) | (13.4) |
| Asset sales and other income | (0.6) | 1.4 | n/a |
| Resource development | (79.4) | (58.4) | (36.0) |
| Corporate other costs | (53.8) | (52.7) | (2.1) |
| Foreign exchange loss | 4.9 | (4.1) | n/a |
| **Underlying mineral sands EBITDA** | **103.0** | **231.8** | **(55.5)** |
| Mining Area C EBITDA | 47.5 | 61.6 | (22.9) |
| **Underlying Group EBITDA** | **150.5** | **293.4** | **(48.7)** |
| SRL transaction costs | (14.1) | - | n/a |
| Depreciation and amortisation | (79.9) | (132.4) | 39.7 |
| Inventory movement - non-cash production costs | (57.3) | (15.3) | (275.2) |
| Rehabilitation costs for closed sites | (42.6) | (2.7) | (1,477.8) |
| Share of Metalysis Ltd's losses (associate) | (3.3) | - | n/a |
| Impairment of assets | (201.0) | - | n/a |
| **Group EBIT** | **(247.7)** | **143.0** | **n/a** |
| Net interest and bank charges | (15.4) | (11.0) | (40.0) |
| Rehabilitation unwind, discount rate change and other finance costs | (14.6) | (45.4) | 67.8 |
| **(Loss) profit before tax** | **(277.7)** | **86.6** | **n/a** |
| Tax benefit (expense) | 53.7 | (33.1) | n/a |
| **(Loss) profit for the period (NPAT)** | **(224.0)** | **53.5** | **n/a** |
| **Average AUD/USD (cents)** | **74.4** | **75.2** | **(1.1)** |

## Non-recurring Items in 2016 Financials

The non-cash impairment charge of $201.0 million pre-tax related to the following assets:

- idle and surplus equipment in the Murray Basin of $156 million pre-tax, including the Douglas wet concentrator, mining unit and other equipment, as well as the mining unit and wet concentrator utilised for the Woornack, Rownack, Pirro deposits. In the case of this equipment, some was previously considered able to be utilised for a Balranald conventional mine development, which has been passed over in favour of an unconventional mining approach;
- in the Murray Basin, Iluka is continuing with trialing and evaluating an unconventional, underground mining approach for Balranald following the cessation of work associated with the conventional mine development. As a consequence, $20 million of capitalised costs associated with feasibility work for the conventional method have been impaired; and
- $25 million related to exploration and evaluation assets previously capitalised, as well as mine reserves in the Perth and Murray Basins have been impaired. This category includes a number of areas where no further work is contemplated.

The increase in the rehabilitation provision predominantly relates to Iluka's former operating assets in the United States ($40.9 million), including Virginia which was idled at the end of 2015 and is now undergoing

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rehabilitation as a closed site, and Florida, which was closed in 2009. The increase in rehabilitation provisions follows an extensive review and relates to the refinement of estimates including the current scope of work and approach to undertaking the work. In the second half of 2016, the focus of the US activities shifted from being an idled site, ready to restart should market conditions improve, to a permanently closed site, the primary purpose of which is to rehabilitate in a cost effective and responsible manner. This clarification resulted in a number of costs, previously forecast as operating expenses, being incorporated into the costs of rehabilitating and holding the land during rehabilitation.

Other key factors influencing Iluka's result included:

- lower weighted average received USD prices for zircon, down 19.6 per cent to US$773/tonne from the previous corresponding period of US$961/tonne. The reduction is driven by a combination of lower reference prices and a higher proportion of standard grade zircon and zircon in concentrate sales;
- higher resource development costs, with costs of $79.4 million compared to $58.4 million in the previous corresponding period, mainly due to costs associated with trialing an unconventional, underground mining approach;
- higher restructure and idle costs following the suspension of mining and concentrating at Jacinth Ambrosia in April 2016 and the idling of the US operations in December 2015;
- lower income received from the Mining Area C iron ore royalty (MAC), down $14.1 million year-on-year;
- lower ilmenite revenues, down $47.9 million, reflecting higher internal usage of ilmenite for synthetic rutile production and lower sales of remaining ilmenite inventory from the Virginia operations (idled December 2015);
- transaction costs of $14.1 million associated with the SRL acquisition; offset by
- no revisions in 2016 to the discount rate used to calculate the rehabilitation provisions (2015: $25.3 million).

In addition to the above factors, excluded from underlying Group EBITDA is the non-cash inventory movement of $57.3 million (2015: $15.3 million). When inventory is built, both cash and non-cash production costs (i.e. depreciation and amortization) are capitalized to the balance sheet and do not impact earnings. When inventory is drawn, the profit or loss is charged with the inventory movement, which reflects both the cash and non-cash components.

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**Mineral Sands Production and Sales Volumes[1]**

| | 12 MTh to Dec-16 | 12 MTh to Dec-15 | 12 MTh Dec-16 vs 12 MTh Dec-15 |
|---|---|---|---|
| **Production (kt)** | kt | kt | % |
| Zircon | 347.1 | 388.6 | (10.7) |
| Rutile | 117.6 | 136.5 | (13.8) |
| Synthetic Rutile | 210.9 | 164.9 | 27.9 |
| **Total Z/R/SR Production** | **675.6** | **690.0** | **(2.1)** |
| Ilmenite | 329.4 | 466.1 | (29.3) |
| **Total Mineral Sands Production** | **1,005.0** | **1,156.1** | **(13.1)** |
| | | | |
| **Sales (kt)** | kt | kt | % |
| Zircon | 338.8 | 346.2 | (2.1) |
| Rutile | 172.1 | 133.6 | 28.8 |
| Synthetic Rutile | 186.8 | 171.2 | 9.1 |
| **Total Z/R/SR Sales** | **697.7** | **651.0** | **7.2** |
| Ilmenite | 17.7 | 299.8 | (94.1) |
| **Total Mineral Sands Sales** | **715.4** | **950.8** | **(24.8)** |
| | | | |
| **Z/R/SR Revenue ($m)** | 696.8 | 739.7 | (5.8) |
| Ilmenite and Other Revenue[2] ($m) | 29.5 | 80.1 | (63.2) |
| **Mineral Sands Revenue ($m)** | **726.3** | **819.8** | **(11.4)** |
| Production Cash Costs Z/R/SR ($m) (excluding ilmenite & by-products) | 252.3 | 384.9 | (34.4) |
| Ilmenite concentrate & by-product costs ($m) | 8.3 | 7.6 | 9.2 |
| **Total Cash Cost of Production ($m)** | **260.6** | **392.5** | **(33.6)** |
| | | | |
| **Unit Cash Prod Costs per Tonne of Z/R/SR ($/t)** (excluding ilmenite & by-products) | **373** | **558** | **(33.1)** |
| **Unit Cash Prod Cost per Tonne of Z/R/SR ($/t)** (including ilmenite & by-products) | **386** | **569** | **(32.2 )** |
| **Unit Cost of Goods Sold per tonne of Z/R/SR ($/t)** | **700** | **780** | **(10.2)** |
| **Revenue per Tonne of Z/R/SR ($/t)** | **999** | **1,136** | **(12.1)** |
| **Average AUD:USD cents** | **74.4** | **75.2** | **(1.1)** |

[1] SRL's contribution was for 24 days from 7 December 2016.

[2] Ilmenite and other revenue include revenues derived from other materials not included in production volumes, including activated carbon products and iron concentrate.

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## Appendix - Mineral Sands Markets

### Zircon

The zircon market entered 2016 with demand characteristics similar to 2015. 2016 was the fourth consecutive year Iluka's sales volumes have been approximately 350 thousand tonnes, relative to higher sales levels in the immediately preceding years. This steady sales profile was achieved in the context of new entrants bringing approximately 150 thousand tonnes (net) into the market over the same period. A result has been some diminution of Iluka's market share as it has sought to exercise production flexibility and supply discipline. Iluka regards this as an appropriate approach compared to pursuing volume or market share outcomes.

End demand in 2016 remained variable across sectors and geographical markets. Elevated inventories of zircon sand were held by producers at the commencement of the year and during the first half 2016. However, inventory of zircon sand and opacifier held at the direct customer level was minimal as customers sought to benefit from declining prices. In Iluka's assessment, there was a material destocking of the producer supply chain over the course of 2016, with market information that some zircon suppliers had fully committed their volumes or were having difficulties in filling some customer orders.

Iluka's weighted average zircon price received was approximately 20 per cent lower in 2016 compared with 2015 (refer table below), with the majority of the price decline influenced by competitor pricing actions in the first and second quarter during which the zircon price declined in total by ~US$160/tonne. Observing apparent supply interruptions, Iluka recognised an opportunity to stabilise its prices and, as such, announced a US$60/tonne increase across its zircon portfolio for the third quarter. This price outcome was partially achieved and it was the first increase in zircon prices for Iluka in five years.

Market conditions in the latter part of the year provided encouraging indications for 2017 in terms of the potential for demand and/or price recovery. In late 2016 the company advised its customers that it would be increasing prices from 15 February 2017 by US$50/tonne and has secured volumes in the first quarter at the higher prices.

Iluka is of the view that, subject to global economic settings and restoration of confidence in some downstream sectors, the demand outlook for zircon in 2017 and 2018 is for moderate growth. In Iluka's estimation, inventories of finished goods (mainly held by Iluka) will be drawn down over this period. This will also be a period during which industry participants will be required to make critical decisions on the commitment of significant capital necessary to maintain and replenish existing supply.

### High Grade Titanium Feedstocks

Market conditions for pigment, the main end sector for the high grade feedstocks of rutile, synthetic rutile and slag, improved dramatically towards the end of 2015 and continued to improve through 2016. Three key attributes of the pigment sector in 2016 appear to continue to be relevant into 2017 which is favourable for feedstock; especially for high grade feedstocks such as rutile and synthetic rutile.

Firstly, pigment inventories have been drawn down, and in many geographies, remain below seasonal norms. Continued focus on working capital levels within the pigment production sector of the value chain has resulted in producers holding uncharacteristically low levels of feedstock, particularly in the case of high grade ores, exposing producers to minor interruptions in the supply chain. Iluka estimates that 2017 demand for pigment, and hence feedstock, will continue to reflect re-stocking of the supply chain resulting in demand for feedstocks exceeding normal end-user growth.

Secondly, pigment industry plant capacity utilisation levels have moved back to levels more typical of balanced market conditions, with capacity utilisation in 2016 at elevated levels. Over the course of 2016, all major Western chloride producers have reported operating rates at above 90 per cent capacity utilisation. In China, reductions in sulphate capacity have also seen some larger sulphate pigment producers running above 90 per cent levels.

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Thirdly, the Western chloride pigment producers have had success in achieving pricing increases for their products, with pigment prices rising in the order of 10 per cent during 2016 and with major pigment producers having announced further price increases for first quarter of 2017.

It is normal for Western chloride pigment producers to increase the head grade of feedstocks being fed into their plants as a means of increasing plant outputs. If the industry follows past practices, this will be positive for high grade ores.

Most of Iluka's rutile and synthetic rutile volumes in 2016 were contracted (volume and price). The weighted average rutile price Iluka received over 2016 remained relatively stable compared with the 2015 average, although the company achieved price increases in the order of US$50/tonne for smaller lot supply into specialty markets, such as welding and titanium sponge. Iluka has advised customers of contracted volume price increases of up to 4 per cent, depending on product specifications and volumes, for rutile in the first half of 2017. Unlike 2016, most rutile contracts have been structured on a six month or lesser period. In the case of the majority of Iluka's synthetic rutile sales volumes, these are under contracts extending over the 2017 year with some extending into 2018.

Ilmenite sales in 2016 were down from 2015 reflecting the idling of the US operations and utilisation of Australian ilmenites as feedstock for SR production. Iluka anticipates a small increase in ilmenite sales in 2017 as ilmenite production from Sierra Rutile is sold under pre-existing arrangements.

**Mineral Sands Weighted Average Received Prices**

| | **2015 Full Year** | **1st Half 2016** | **2nd Half 2016** | **2016 Full Year** |
|---|---|---|---|---|
| Weighted Average Price US$/tonne FOB | | | | |
| Zircon Premium and Standard | 986 | 812 | 808 | 810 |
| Zircon (all products including concentrate and tailings material – refer Note 1) | 961 | 787 | 760 | 773 |
| Rutile (all rutile products, including HyTi – refer Note 2) | 721 | 712 | 719 | 716 |
| Synthetic rutile | Refer Note 3 | Refer Note 3 | Refer Note 3 | Refer Note 3 |
| Revenue per Tonne of Z/R/SR Sold – A$ | 1,136 | 1,015 | 985 | 999 |

Note 1: Zircon prices reflect the weighted average price for zircon premium and zircon standard, also with a weighted average price for all zircon materials, including zircon-in-concentrate and zircon tailings. The prices for each product vary considerably, as does the mix of such products sold period to period. In 2016 the split of premium, standard and concentrate by zircon sand-equivalent was approximately: 47%;33%;20%.

Note 2: Included in rutile sales is a lower titanium dioxide product, HyTi, that typically has a titanium dioxide content of ~91 per cent. This product sells at a lower price than rutile, which typically has a titanium dioxide content of 95%. In 2016, ~9 per cent of total sales in this category were of the lower grade HyTi material.

Note 3: 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. Synthetic rutile, due to its lower titanium dioxide content than rutile, typically is priced lower than natural rutile.

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**Other Iluka Disclosures**

Refer Iluka's separate release – Annual Report – 31 December 2016 issued on 23 February 2017, for more detailed financial information and commentary and the Iluka Review 2016, which provides more information on the Iluka business in 2016.

Iluka issued on 31 January 2017, Key Physical and Financial Parameters, 2017

Iluka's website contains presentational material associated with the full year results – refer **www.iluka.com**

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