Australian Securities Exchange Notice

ILUKA

19 February 2016

ILUKA FULL YEAR RESULTS TO 31 DECEMBER 2015

Key Features (refer Annual Report for more detailed financial analysis)

$ million	2015	2014	% Change
Mineral Sands Revenue	819.8	724.9	13.1
Mineral Sands EBITDA	270.6	238.6	13.4
Group EBITDA	275.3	257.0	7.1
Group EBIT	143.0	(16.7)	n/a
Reported Earnings (Loss) After Tax	53.5	(62.5)	n/a
Operating Cash Flow	222.2	254.8	(12.8)
Free Cash Flow[1]	155.0	196.3	(21.1)
Dividend (cps)	25.0	19.0	31.6
Net Cash (Debt)	6.0	(59.0)	n/a

- Net profit after tax for the year was $53.5 million, inclusive of a $17.7 million after tax non-cash accounting adjustment related to an increase in rehabilitation provisions arising from the use of a lower discount rate as announced to the ASX on 16 December 2015 (2014: loss of $62.5 million, including a non-cash impairment charge of $86.5 million after tax in relation to the planned idling of the Virginia operations).
- Free cash flow of $155.0 million was generated (2014: $196.3 million) and was impacted by $11.2 million lower receipts from the Mining Area C (MAC) iron ore royalty and lower operating cash flow.
- Iluka recorded a Group EBITDA margin of 31.2 per cent.
- Iluka ended the year in a net cash position of $6.0 million, a $65.0 million improvement in balance sheet position compared with net debt at 31 December 2014 of $59.0 million.
- Iluka had undrawn facilities at 31 December of $955 million and cash at bank was $55 million. At 31 January, Iluka's net cash position was $24 million.
- Production volumes of zircon, rutile and synthetic rutile (Z/R/SR) increased by 29 per cent in large part reflecting the successful recommencement of Iluka's synthetic rutile kiln 2.
- Z/R/SR sales volumes increased by 5.6 per cent to 651.0 thousand tonnes (2014: 616.2 thousand tonnes).
- Revenue per tonne of Z/R/SR sold increased by 10.3 per cent to $1,136 (2014: $1,030 per tonne).
- Unit cash cost of production for Z/R/SR (excluding the costs for ilmenite concentrate and by-products), decreased 16.5 per cent to $558 per tonne of Z/R/SR (2014: $668 per tonne).
- Unit cost of goods sold decreased by 9.5 per cent to $780 per tonne of Z/R/SR (2014: $862 per tonne).
- Total cash cost of production increased 2.8 per cent to $392.5 million (2014: $381.9 million) in the context of a 29 per cent increase in Z/R/SR production in 2015 compared to 2014, reflecting reactivation of mining at Tutunup South and SR kiln 2 production in the South West of Western Australia; offset by lower costs on completion of mining at Woornack, Rownack, Pirro in the Murray Basin, Victoria.

[1] Free Cash Flow is determined as cash flow before refinance costs, proceeds/repayment of borrowings and dividends paid in the year.

- Mining Area C iron ore royalty earnings (MAC) decreased 7.8 per cent to $61.2 million (2014: $66.4 million), including capacity payments of $3.0 million (2014: $1.0 million) and also a one-off receipt of US$8.0 million (A$10.4 million) following the modification to the royalty arrangement as disclosed on 21 July 2015.
- Iluka's effective tax rate was 38.2 per cent in 2015. This is above Iluka's Australian corporate tax rate of 30 per cent due to minimal tax benefits recognised for the US losses of $35.5 million incurred during the year combined with an increase in non-deductible expenses, specifically in relation to overseas exploration and Kenmare Resources Plc acquisition costs.
- Capital expenditure of $66.4 million, including continued investments in internal mineral sands projects and Metalysis Limited.

Dividend

- Directors have determined a final dividend of 19 cents per share (fully franked), payable on 1 April 2016 with a record date of 10 March 2016. Full year dividend payments for 2015 are 25 cents per share, 100 per cent franked. This represents a 68 per cent payout of free cash flow in 2015.

Income Statement

$ million	**2015**	**2014**	**% change**
Z/R/SR revenue	739.7	634.8	16.5
Ilmenite and other revenue	80.1	90.1	(11.1)
Mineral sands revenue	**819.8**	**724.9**	**13.1**
Cash costs of production	(392.5)	(381.9)	(2.8)
Inventory movement	(5.7)	14.7	n/a
Restructure and idle capacity charges	(38.3)	(40.1)	4.5
Rehabilitation and holding costs for closed sites	(2.7)	1.0	n/a
Government royalties	(21.0)	(10.6)	(98.1)
Marketing and selling costs	(32.0)	(30.1)	(6.3)
Asset sales and other income	1.4	6.0	(76.7)
Resource development	(58.4)	(45.3)	(28.9)
Mineral sands EBITDA	**270.6**	**238.6**	**13.4**
Depreciation and amortisation	(132.0)	(191.3)	31.0
Impairment of US assets	-	(82.0)	n/a
Mineral sands EBIT	**138.6**	**(34.7)**	**n/a**
Mining Area C	61.2	66.4	(7.8)
Corporate other costs	(52.7)	(48.4)	(8.9)
Foreign exchange loss	(4.1)	-	n/a
Group EBIT	**143.0**	**(16.7)**	**n/a**
Net interest and bank charges	(11.0)	(13.9)	20.9
Rehabilitation unwind, discount rate change and other finance costs	(45.4)	(17.9)	(153.6)
Profit (loss) before tax	**86.6**	**(48.5)**	**n/a**
Tax expense	(33.1)	(14.0)	(136.4)
Profit (loss) for the period (NPAT)	**53.5**	**(62.5)**	**n/a**
Average AUD/USD (cents)	**75.2**	**90.3**	**16.7**

Mineral Sands Production and Sales Volumes

	12 mth to Dec-15	12 mth to Dec-14	12 mth Dec-15 vs 12 mth Dec-14
Production (kt)			
Zircon	388.6	357.6	8.7
Rutile	136.5	177.2	(23.0)
Synthetic rutile	164.9	-	n/a
Total Z/R/SR production	**690.0**	**534.8**	**29.0**
Ilmenite	466.1	365.4	27.6
Total mineral sands production[1]	**1,156.1**	**900.2**	**28.4**
Sales (kt)			
Zircon	346.2	352.2	(1.7)
Rutile	133.6	182.0	(26.6)
Synthetic rutile	171.2	82.0	108.8
Total Z/R/SR Sales	**651.0**	**616.2**	**5.6**
Ilmenite	299.8	316.6	(5.3)
Total mineral sands sales	**950.8**	**932.8**	**1.9**
Z/R/SR revenue ($m)	739.7	634.8	16.5
Ilmenite and other revenue[2] ($m)	80.1	90.1	(11.1)
Total mineral sands revenue ($m)	**819.8**	**724.9**	**13.1**
Production cash costs Z/R/SR (excluding ilmenite & by-products) ($m)	384.9	356.9	(7.8)
Ilmenite concentrate & by-product costs ($m)	7.6	25.0	69.6
Total cash cost of production ($m)	**392.5**	**381.9**	**(2.8)**
Unit cash production costs per tonne of Z/R/SR produced (excluding ilmenite & by-products) ($/t)	558	668	16.5
Unit cash production cost per tonne of Z/R/SR produced (including ilmenite & by products) ($/t)	569	714	20.3
Unit cost of goods sold per tonne of Z/R/SR sold ($/t)	780	862	9.5
Revenue per tonne of Z/R/SR sold ($/t)	1,136	1,030	10.3

Mineral Sands Markets

Market conditions for Iluka's mineral sands products remain subdued overall, in line with lower global growth, persistent low inflation and capacity adjustments in parts of the mineral sands value chain. For some customers, weak business profitability and cash flow impacted purchasing capability and product delivery timings.

In relation to zircon, 2015 saw stable overall demand in China, the largest market, similar to 2014 levels, with ceramics demand steady for the year, although with some earlier than usual plant closures and destocking in the fourth quarter in advance of winter and the Chinese New Year. Demand in the smaller but still significant zirconium oxy chloride chemicals market continued to be low and towards the end of the year a number of large producers idled production lines or undertook maintenance outages. The fused zirconia market in China has been variable in terms of its performance, although Iluka's largest customers in this segment have performed solidly.

[1] Total mineral sands production includes ilmenite available for upgrading to synthetic rutile and ilmenite that is available for sale. For both commercial reasons and given the company's increased flexibility in utilising ilmenite production from multiple sources for upgrading to synthetic rutile, the company does not separate ilmenite production into saleable and upgradeable components.

[2] Ilmenite and other revenue include revenues derived from other materials not included in production volumes, including activated carbon products and iron concentrate. Iluka receives a royalty payment from its Mining Area C iron ore royalty.

In Europe, the second largest market, Iluka achieved increased zircon sales in 2015, with a recovery in demand in the ceramics and opacifier sectors, although still at lower than historical run rates. The Middle East market has shown signs of strengthened demand off a low base. Asia (excluding China) and India were variable: ceramics demand in Asia was stable, while the Indian ceramics market, after a solid first half, was affected by a slowdown in exports and by a period in which domestic demand was satisfied by imports of mainly Chinese tiles.

The market which displayed the most marked reduction in zircon sales for Iluka was the Americas. Iluka's sales in the United States were affected by several factors, but primarily by the imminent idling of the Virginia operation and lower availability of the company's premium Virginia zircon, which saw some customers seek alternative sources of supply in advance of the operational wind down, as well as a marked demand reduction in sectors such as oil and steel, which adversely affected demand for zircon used in fused zirconia and refractory applications.

The company had a higher proportion of both standard grade and zircon in concentrate sales in the second half, associated with Iluka's specific market sector targeting activities and end customer product requirements.

The majority of its high grade titanium feedstock sales were contracted for the second half of the year and were delivered as planned.

Western chloride pigment producers, an important market for Iluka's high grade feedstocks, remained under pressure in 2015, with excess global pigment capacity leading to an erosion of pigment prices. Despite this, Iluka's combined synthetic rutile and rutile sales volumes in 2015 increased by 16 per cent relative to 2014, with synthetic rutile production and sales volumes largely underpinned by commercial off take arrangements. Iluka is well positioned for 2016 with the majority of its high grade feedstocks contracted for the year and with the opportunity for additional spot sales.

The titanium sponge market in China remained depressed, as did the welding electrode market. This is in contrast to the rest of Asia where sponge and welding were stable. In the United States, weakness in the oil sector and a reduction in large infrastructure projects have reduced demand in these sectors of the market.

Mineral Sands Weighted Average Received Prices

The following table provides weighted average received prices for Iluka's main products for 2014 and 2015.

	2014	**1st Half 2015**	**2nd Half 2015**	**2015 Full Year**
Weighted Average Price US$/tonne FOB				
Zircon Premium and Standard	1,033	1,019	962	986
Zircon (all products including concentrate and tailings material)	1,024	1,000	928	961
Rutile (includes all rutile products, including HyTi)	777	758	708	721
Synthetic rutile	750	Refer Note1	Refer Note 1	Refer Note 1

Note 1: 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.

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. For example, Iluka sold more zircon standard and zircon in concentrate in the second half of 2015 compared with the first half of 2015 and more in 2015 than 2014. In the case of rutile, Iluka sells a lower titanium dioxide product, HyTi.

Managing Director Commentary

Iluka's Managing Director, David Robb stated:

"In 2015, Iluka's approach was consistent with prior years. It remained centred on shareholder returns through industry cycles and included a willingness to act counter-cyclically where appropriate and where strategic rationale and financial merit could be demonstrated.

Specifically, Iluka's business was managed to achieve a balance between positioning the company conservatively and robustly against prevailing volatility in global economic conditions while being prepared to invest in options which position the business for demand recovery and future growth.

The company ended the year with no debt, with the business run efficiently to generate free cash flow and to be able to return funds to shareholders, via dividends, in a manner consistent with Iluka's distribution framework. Production increased significantly in line with demand for the company's high grade titanium dioxide feedstocks. Sales also grew, though at a rate which still reflects variable demand patterns across sectors and geographies. Further unit cash cost efficiencies were achieved, unit revenues increased in A$ terms while margins were protected and capital expenditure was minimised.

The company continued to invest in its future. Iluka believes now is the time to secure and develop options – conventional and innovative, organic and inorganic – consistent with its objective. The company therefore has a bias towards the deployment of capital.

In 2015, the Cataby definitive feasibility study was completed and that for Balranald well advanced, with other options, in terms of two potential US deposits also taken to a very advanced stage. The early evaluation of satellite deposits at Jacinth-Ambrosia has been undertaken, while Iluka will move from scoping to pre-feasibility study work on the large Sri Lanka sulphate ilmenite deposit. Other growth options received significant funding, including those based on new mineral sands mining and processing technologies, and this will continue in 2016. Iluka continues to invest also in its international marketing presence and products.

During 2015 Iluka made substantial progress in addressing and finalising the majority of the pre-conditions related to its offer to acquire UK listed Kenmare Resources Plc and its Moma mineral sands operation in north Mozambique. The proposed transaction was consistent with Iluka's objective: to create and deliver value for shareholders and, as a major investment, passed the twin tests of strategic rationale and financial merit, and in a pro-cyclical industry the proposed transaction reflected Iluka's willingness to act counter-cyclically. Iluka believed that the offer was an attractive one for Kenmare shareholders and would have provided the application of Iluka's industry-specific technical competence, together with its market knowledge, access and reach, and balance sheet capacity, to enable the Moma operation to achieve its financial potential.

The process of determining pre-conditions and the final offer reflected Iluka's disciplined, diligent and patient approach. In the end, while Iluka viewed this as a compelling offer for both Kenmare and Iluka shareholders, information from Kenmare that its largest shareholder would not support the transaction resulted in Iluka terminating discussions with the Board of Kenmare.

Operationally, the company performed very well. Tutunup South mine and SR kiln 2 were restarted safely and efficiently, demonstrating what Iluka has said previously – that it has the ability to rapidly re-activate idled capacity in the context of demand recovery. In other parts of the business, Iluka continues to flex production as required. Iluka idled its Virginia operation in December, based on its inability to arrive at satisfactory commercial arrangements for the development of one or the other of two new deposits in the US. Earlier this week the company announced its intention to suspend mining and concentrating operations at Jacinth-Ambrosia for a period of 18 to 24 months. The suspension will increase the company's free cash flow at a time of subdued industry returns. It will also improve return on capital over time by reducing operating costs and accelerating inventory drawdown (therefore reducing working capital). In addition, to the extent that perceptions of an inventory 'supply overhang' might impact market pricing dynamics, then Iluka believes its contribution to a reduction in global inventory will impact those dynamics positively.

Achieving the right balance between maintaining defensive strength for today's industry circumstances and creating options for the industry of the future is challenging, but I am confident the company is well positioned in both aspects."

Investment market and media enquiries

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Other Iluka Disclosures

Refer Iluka's separate release – Annual Report – 31 December 2015 issued on 19 February 2016, for more detailed financial information and commentary and the Iluka Review 2015, which provides more information on the Iluka business in 2015.

Iluka issued on 19 February 2016, Key Physical and Financial Parameters, 2016

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