Australian Securities Exchange Notice

14 August 2020 ASX: ILU

Half Year Results to 30 June 2020

Key Features

- Solid profit for the period (NPAT) of $113 million despite challenging market conditions
- Underlying group EBITDA of $225 million, down 18%
- Mineral sands EBITDA margin remains robust at 39%
- Mineral sands revenue lower due to impact of COVID-19 pandemic on global markets
- MAC royalty contribution of $48 million, up 16% due to increased iron ore prices and volumes
- Operating cash flow of $97 million and free cash flow of $46 million, reflecting operational changes and other measures implemented during the half to preserve cash flow
- Net cash position of $62 million as at 30 June 2020 ($43 million net cash as at 31 December 2019)
- No interim dividend given current economic uncertainty
- Phase 2 of Eneabba project approved by the Iluka Board, comprising ~$35 million in execute funding to produce an upgraded monazite feedstock. This confirms the next step in the company's incremental approach to entering the rare earths market.
- Board approval to put demerger of the royalty business, to be called Deterra Royalties, to shareholders in coming weeks with Iluka retaining a 20% stake.
- Demerger booklet planned to be distributed to shareholders in September and shareholder vote by end of October, subject to final Board and other approvals.

Results Summary

$ million	H1 2020	H1 2019	% change
Mineral Sands Revenue	456.6	545.6	(16.3)
Underlying Mineral Sands EBITDA	177.1	232.7	(23.9)
Underlying Mineral Sands EBITDA margin (%)	38.8	42.7	(8.9)
MAC EBITDA	48.0	41.2	16.5
Underlying Group EBITDA[1]	225.1	273.9	(17.8)
Profit for the period (NPAT)	113.2	137.2	(17.5)
Operating Cash Flow	96.7	179.9	(46.2)
Free Cash Flow[2]	46.2	(65.2)	n/a
Dividend - interim (cps)	-	5	n/a
	At 30 June 2020	**At 31 Dec 2019**	**% change**
Net (Debt) Cash ($ million)	62.1	43.3	n/a
Net Gearing ratio (%)	-	-	n/a

[1] Underlying Group EBITDA excludes non-recurring adjustments including impairments and changes to rehabilitation provisions for closed sites which are non-cash in nature. There were no adjustments between Underlying Group EBITDA and Group EBITDA for H1 2019 and H1 2020.

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

Overview of Financial Performance

In the first half of 2020 Iluka Resources Limited (Iluka) recorded a net profit after tax of $113 million, down 17% from the previous corresponding period. The lower earnings are largely due to reduced revenue with sales volumes significantly impacted by the COVID-19 pandemic.

Total zircon / rutile / synthetic rutile (Z/R/SR) sales volumes declined 20% in the first half to 242 thousand tonnes, reflecting the impact of COVID-19 on demand in zircon markets, as well as lower than expected sales to contracted customers for synthetic rutile. Sales prices for zircon (premium and standard) recorded some erosion from 2019 levels while rutile prices increased 7% from H2 2019, reflecting ongoing contractual arrangements.

Iluka's earnings were positively impacted by a 7% depreciation of the AUD:USD exchange, increasing the AUD value of predominantly USD denominated sales.

Underlying Group EBITDA declined 18% in the first half to $225 million, in line with the decline in mineral sands revenue. Cash costs of production increased 16% in the first half 2020 relative to first half 2019, largely reflecting the inclusion of a full period of Cataby operations following commissioning in April 2019. Sierra Rutile costs of production also increased due to higher maintenance and fuel costs, with the US$9 million increase exacerbated by the exchange rate depreciation resulting in the reported increase of AUD$16 million.

While changes to production settings were implemented in the half to reduce finished product build in a period of market uncertainty, some build of finished product stocks was recorded, primarily related to lower than expected sales of synthetic rutile to contracted customers. Also, while mineral processing was reduced, mining at Jacinth-Ambrosia and Cataby continued at full rates to optimise unit costs of heavy mineral concentrate. As such, a positive cash cost inventory movement of $98 million was recorded.

Receipts from the Mining Area C royalty increased 16% in the first half to $48 million. The contribution reflected an 11% increase in AUD denominated iron ore prices while sales volumes were up 3%. A $1 million capacity payment was also received in the first half.

Free cash flow in the first half was $46 million. Operating cash flow was down 46% from H1 2019 to $97 million, reflecting reduced sales and higher operating payments, including inventory build. Lower capital expenditure of $50 million supported the maintenance of a strong cash position and included project development work on Cataby southern area expansion, delivery of phase one of the Eneabba project, and studies advancing a mining option for Sembehun. A final 2019 tax instalment of $99 million was deferred to September 2020, resulting in lower tax payments being recorded in H1 2020 from the previous corresponding period.

Net cash increased to $62 million as at 30 June 2020.

Iluka's Board has determined no interim dividend is payable in light of the uncertain global economic conditions.

Iluka's Managing Director, Tom O'Leary, said "Iluka has recorded a solid first half result given the impact of COVID-19 on zircon and titanium markets and the global economy broadly. Given the volatility experienced throughout the world over recent months, we're pleased with the earnings and cash position we've delivered.

The impact of the pandemic to Iluka's business is evident in the 20% decline in mineral sands sales volumes recorded in the first half of the year. Zircon prices registered some erosion, though management of production levels and the sustainable nature of previous price increases has meant that the decline has been less than that experienced in previous periods of market weakness. Iluka has also consistently noted that a decline in zircon prices is not expected to result in increased demand.

Iluka made a number of changes to operational settings in the first half in response to the market uncertainty. These included altered plant settings at the Narngulu mineral separation plant and a return to mining at Jacinth from Ambrosia, with this move occurring at the end of July and mining commencing at Jacinth on 1 August. These changes are enabling us to reduce costs in an efficient manner to preserve cash and maintain a strong balance sheet.

Operational performance was mixed in the first half with strong results from the Australian sites while challenges continue to be experienced at Sierra Rutile. While this is an ongoing source of frustration, access to technical expertise in Sierra Leone has been hampered by travel restrictions.

We will continue to closely monitor the dynamic market conditions we're currently operating in and manage our operational response accordingly. As noted in our Quarterly Review, we have commenced legal action against one of our customers, Chemours, to ensure that take or pay obligations entered into to underpin the Cataby development are met.

We are also actively progressing the demerger which we expect to complete in the second half. This will be an important milestone for the company and result in two high quality businesses. I look forward to engaging with shareholders over this period."

Demerger Update

The release of the demerger booklet is planned for September with a shareholder vote expected to be held by the end of October, subject to final Board and other approvals. Iluka continues to engage with the ATO and remains confident of receiving a favourable ruling.

In addition to previous announcements relating to the appointment of Jennifer Seabrook, Independent Non Executive Chair and Julian Andrews, CEO and Managing Director, further appointments to the Deterra Royalties Board (subject to shareholder approval of the demerger) include Graeme Devlin and Joanne Warner, as Independent Non-Executive Directors, and Adele Stratton as Iluka's nominee director. Brendan Ryan will also be joining Deterra Royalties as Chief Financial Officer.

Deterra Royalties Chair, Jennifer Seabrook, said "We are very pleased to announce these appointments. Graeme was the head of acquisitions and divestments at BHP Limited for 8 years, Joanne led the Colonial First State resources investing team for 8 years and Brendan was 10 years at Rio Tinto and most recently CFO and Chief Business Development Officer at Boart Longyear. All bring relevant and complementary skills as Deterra Royalties seeks to build its business as a listed Australian based royalties investor".

Summary biographies for the Deterra Royalties Board and Brendan Ryan are contained in Iluka's Half Year Results Presentation released separately.

Given the significantly uncertain business conditions arising as a consequence of COVID-19, Iluka has elected to increase the level of shareholding it will retain in Deterra Royalties to 20% in order to further increase its financial strength.

Eneabba Project Phase 2

Also in the half, the first phase of Iluka's diversification into rare earths production was delivered with the Eneabba project. This is a small scale, relatively low risk, high return development of a strategic stockpile rich in monazite and zircon. The current project parameters are based on sale of a monazite-zircon concentrate. The Board has this week approved approximately $35 million to execute phase two of this project, which will see further upgrading of monazite to produce a 90% monazite product, which is expected to deliver a value accretive opportunity for the company.

COVID-19 Health & Safety

Iluka has continued to place the health and safety of its employees and the communities in which it operates as its highest priority and has maintained operational continuity over the first half despite significant disruptions from travel and other restrictions. As part of a broad response to the pandemic, the company has made improvements to health and safety processes and working conditions to effectively manage the risks and impacts of the virus.

2020 Half Year Results Teleconference Details

A conference call for equity market participants will take place at **10.30am (AEST) on Friday, 14 August 2020**. All participants wishing to attend the call must **pre-register online** before they can receive the relevant dial-in numbers. Pre-registration may require a few minutes to complete so it is advised that participants do so prior to the start of the call.

Participants can pre-register for the conference call at this link:
http://apac.directeventreg.com/registration/event/1438239

Once pre-registration has been completed, participants will receive dial-in numbers, a Direct Event passcode, and a registrant ID number. To join the conference, simply dial the number in the calendar invite you receive after pre-registering, enter the passcode followed by your PIN, and you will join the conference immediately.

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Other Iluka Disclosures:

The Iluka 2020 Appendix 4D has been released to the Australian Securities Exchange on 14 August 2020 and should be referred to for detailed financial commentary of the results.

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