



Australian Securities Exchange Notice

21 August 2019

ASX: ILU

Half Year Results to 30 June 2019

Key Features

- Profit for the period (NPAT) of \$137 million, up 9%
- Underlying group EBITDA of \$274 million, down 2%
- Mineral sands EBITDA margin remains strong at 43%
- Reduced mineral sands revenue on reduced zircon sales, partially offset by strong price growth across all major products
- \$41 million contribution from MAC royalty, up 41% due to stronger iron ore prices
- Operating cash flow of \$180 million and free cash outflow of \$65 million, with the latter reflecting the 2018 final tax instalment of \$127 million and capital expenditure of \$145 million to deliver on projects in execution
- Net debt of \$142 million as at 30 June 2019 (\$2 million net cash as at 31 December 2018)
- Interim dividend of 5 cents per share, fully franked
- Cataby mine development completed on schedule and on budget
- Gangama expansion commissioned; Lanti expansion in commissioning; on schedule and on budget
- Zircon Reference Price maintained at US\$1,580 per tonne for a further 6 months until 31 March 2020

Results Summary

\$ million	H1 2019	H1 2018	% change
Mineral Sands Revenue	545.6	606.9	(10.1)
Underlying Mineral Sands EBITDA	232.7	249.3	(6.7)
Underlying Mineral Sands EBITDA margin (%)	42.7	41.1	3.8
MAC EBITDA	41.2	29.2	41.1
Underlying Group EBITDA ¹	273.9	278.5	(1.7)
Profit (loss) for the period (NPAT)	137.2	126.1	8.8
Operating Cash Flow	179.9	306.5	(41.3)
Free Cash Flow ²	(65.2)	225.5	n/a
Dividend - interim (cps)	5	10	(50.0)

	At 30 June 2019	At 31 Dec 2018	% change
Net (Debt) Cash (\$ million)	(141.5)	1.8	n/a
Net Gearing ratio (%)	10.7	n/a	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 2018 and H1 2019.

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

Iluka Resources Limited (Iluka) has recorded a profit after tax for the first half of 2019 of \$137.2 million (H1 2018: \$126.1 million). The higher profit reflects higher sales prices across the product suite partially offsetting lower sales volumes; and increased Mining Area C (MAC) royalty revenue due to strong iron ore prices in the first half 2019. Iluka's earnings result was also favourably impacted by a 9% depreciation in the AUD:USD exchange rate, increasing the AUD value of predominantly USD revenue.

Higher cash production costs in the period of \$251.8 million (H1 2018: \$224.9 million) related to the commencement of mining at Cataby and exchange rate impacts on the predominantly USD Sierra Rutile cost base. Inventory build at the newly commenced Cataby operation and of finished goods zircon due to reduced sales was reflected in the \$36.8 million positive cash cost inventory movement in the first half (H1 2018: negative \$49.8 million).

Iluka's underlying mineral sands EBITDA decreased relative to H1 2018, down by 7% to \$232.7 million.

Iluka's royalty income from MAC increased 41% to \$41.2 million (H1 2018: \$29.2 million), with iron ore prices up 26% and sales volumes up 2%. No capacity payment was received (H1 2018: \$1 million).

Zircon and rutile prices were up 19% and 22%, respectively, in H1 2019 while sales volumes were down 31% from H1 2018. The zircon market experienced a slow start to 2019, reflecting usual seasonal patterns, however ongoing trade tensions and political instability has impacted end consumer sentiment and reduced buying activity. High grade titanium markets were strong as pigment producer inventories returned to normal levels and reported capacity utilisation rates were high across most producers. Iluka's sales for these products (rutile and synthetic rutile) are constrained by production.

Operating cash flow was lower at \$179.9 million (H1 2018: \$306.5 million), reflecting capital expenditure of \$145.0 million in the period, which included spending on completion of the Cataby mine, a major maintenance outage at the synthetic rutile kiln, Ambrosia mine move works and the Lanti and Gangama expansion projects. Also impacting cash flows in H1 were lower customer receipts on reduced sales revenue, and a \$127 million final tax instalment with respect to 2018 income. Iluka recorded a free cash outflow for the period of \$65.2 million (H1 2018: \$225.5 million inflow).

Reflective of the above factors, net debt has increased to \$141.5 million (10.7% gearing ratio).

Iluka's Board has determined an interim dividend of 5 cents per share, fully franked.

Iluka's Managing Director, Tom O'Leary, said "Today's results reflect a mix of factors. While overall profit has increased, the global economic and political environment are headwinds as we move forward in 2019. These external factors impacted sentiment for zircon end customers such that our sales in this market were lower than expected in the first half. Conversely, we see strong conditions in high grade titanium markets and are fully sold with strong ongoing customer enquiries. Average prices for all our products are well up on this time last year and we believe our pricing strategy is contributing to some stability in the market. Our Zircon Reference Price has been US\$1,580/t since September 2018, and we have today extended this for a further six months through to the end of March 2020. Iluka continues to endeavour to achieve predictable and sustainable pricing outcomes for its customers."

"Operationally, we have delivered the Cataby mine development, on time and on budget, the Jacinth-Ambrosia operation continues to operate at capacity and the move from Jacinth to Ambrosia has now also been completed, while the synthetic rutile kiln in the South West has undergone a planned major maintenance outage, returned to full capacity and begun its next four year campaign. At Sierra Rutile, our Gangama operation is running in line with expectations and the expansion project has been commissioned. Disappointingly, as the market is aware the Lanti operation continues to experience issues with run time and throughput. We continue to implement a range of measures to ensure we see improvement in the period ahead."

"Finally, I note the increased contribution the MAC royalty has made to our first half results on the back of higher iron ore prices. As BHP continues to progress its South Flank development, we expect this world-class royalty to continue to make a strong contribution to Iluka. As with any asset, the Board remains focused on

optimising returns to shareholders from the MAC royalty. I note that the South Flank development will enhance Iluka's capacity to pay dividends in coming years."

2019 Outlook

Iluka foreshadowed in the June Quarterly Review that market conditions for Zircon were difficult. The business expected zircon sales to be second half weighted however sales volumes are now expected to be at the lower end of expectations, with second half sales volumes similar to the first half. Iluka continues to support customers through its rebating system and flexible product offering, which will include more Standard Zircon product. As a consequence, Iluka expects a lower average realised price in the second half.

Depreciation and amortisation outlook has been increased to \$155 million from \$135 million, due to increased depreciation costs following capital improvement works at Sierra Rutile. The combination of higher depreciation and amortisation, along with higher ilmenite feedstock costs from Cataby and a greater proportion of higher cost SRL rutile as part of the product sales mix, have impacted unit cost of goods sold, with the outlook for 2019 unit cost of goods sold increasing to \$840 per tonne (from \$765 per tonne).

2019 capital expenditure outlook has been reduced to \$260 million from \$330 million, predominantly reflecting the previously announced delay of Sembahun early works beyond 2019, and some timing of spend for other projects.

All other parameters remain unchanged.

2019 Half Year Results Teleconference Details

An investment conference call will take place at **9am (AEST)** on 21 August 2019. Dial in numbers are listed below. Please quote conference **ID: 179 5512**

For locations within Australia dial toll-free 1800 123 296, or toll +61 (0)2 8038 5221

If you are calling from another country, please use one of the following toll-free dial-in numbers:

Hong Kong	800 908 865	Canada	1855 5616 766
United Kingdom	0808 234 0757	Japan	0120 994 669
Singapore	800 616 2288	United States	1855 293 1544

Cataby Mine Site Visit

Iluka will be conducting a site visit for equity market participants to its Cataby mine site in Western Australia in November. Please register your interest in attending to investor.relations@iluka.com. Further details will be provided in due course.

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Other Iluka Disclosures:

The Iluka 2019 Appendix 4D has been released to the Australian Securities Exchange on 21 August 2019 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