

**ILUKA**

Australian Securities Exchange Notice

21 August 2013

ILUKA HALF YEAR RESULTS SIX MONTHS TO 30 JUNE 2013

Summary of Financial Results

\$ million	1 st Half 2013	1 st Half 2012	% change
Mineral Sands Revenue	381.7	662.8	(42.4)
Mineral Sands EBITDA	136.6	480.2	(71.6)
Mineral Sands EBITDA/revenue %	35.8	72.4	(50.6)
Group EBITDA	160.2	505.0	(68.3)
Reported Earnings (NPAT)	34.3	274.4	(87.5)
Earnings per share - cents	8.2	66.1	(87.6)
Operating Cash Flow	92.4	207.2	(55.4)
Free Cash Flow ¹	(44.5)	(44.7)	0.4
FCF/share – cents	(10.6)	(10.7)	0.9
Dividend cps	5.0	25.0	(80.0)
Net Debt	(197.0)	(117.2)	(68.1)
Gearing (net debt/net debt + equity)%	11.2	6.9	(62.3)
Return on Capital % (annualised) ²	6.9	47.1	n/a
Return on Equity % (annualised) ³	4.5	36.9	n/a
Average AUD/USD	101.5	103.3	1.7

Key Features of Results⁴

- Iluka reported a net profit after tax of \$34.3 million for the half year ended 30 June 2013, compared with \$274.4 million for the previous corresponding period. Despite 4.9 per cent higher combined sales volumes of zircon/rutile/synthetic rutile (Z/R/SR), and 35.8 per cent lower cash costs of production, earnings declined mainly due to lower received prices.
- Iluka's sales revenue for the half was of \$381.7 million (2012: \$662.8 million), reflecting lower received prices, as disclosed at the time of the June Quarterly Production Report.
- Average revenue per tonne of Z/R/SR for the half year was \$1,178 per tonne compared with \$2,255 per tonne for the half year ended 30 June 2012 and \$1,655 per tonne in the second half of 2012.

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 Earnings Before Interest and Tax (EBIT) on an annualised basis as a percentage of average monthly capital employed.

³ Calculated as Net Profit after Tax (NPAT) on an annualised basis as a percentage of the average monthly shareholders equity.

⁴ Refer Iluka 4D Commentary on Results for the Half Year Ended 30 June 2013, and the slide material associated with the results for more detailed information. All currency is Australian dollars unless otherwise indicated. Refer also to slide 27 in half year investment presentation slide material for reconciliation of non- IFRS financial information indicated.

- Total cash costs of production were \$ 201.9 million, a 35.8 per cent reduction compared with the half year to 30 June 2012 (\$314.7 million). Lower cash costs were a result of operational adjustments made in the context of lower demand and the intention to conserve cash, as well as allow the draw down of finished goods inventory over time. On a unit basis, cash costs of production were \$848 per tonne of Z/R/SR, a 19.6 per cent increase compared with the previous corresponding period reflecting 46.3 per cent lower Z/R/SR production and higher production of heavy mineral concentrate (HMC). Restructure costs incurred in the half amounted to of \$31.1 million and with operational adjustments fully implemented, full year restructure costs will be similar. This compares to \$50 million of expected restructure costs, as guided in February.
- Mineral sands EBITDA for the first half was \$136.6 million, a 71.6 per cent decrease compared with the previous corresponding period. Mineral sands EBIT decreased by 89.9 per cent to \$37.8 million (2012: \$375.2 million)
- Mining Area C (MAC) iron ore royalty earnings increased by 9.1 per cent to \$45.4 million (2012: \$41.6 million), including capacity payments of \$4.0 million (2012: \$3.0 million).
- Group EBIT was \$61.2 million, a decrease of 84.7 per cent compared to \$400.0 million in the previous corresponding period.
- During the half, Iluka sold combined Z/R/SR volumes of 287.2 thousand tonnes (2012: 273.9 thousand tonnes), compared with production of 238.1 thousand tonnes (2012: 443.8 thousand tonnes). The lower production and recovery in zircon sales allowed finished goods inventory to be drawn down to the value of \$20.2 million, while work in progress product (mainly heavy mineral concentrate and ilmenite stocks) increased in value by \$61.0 million, with an adjustment in stores value of \$2.6 million, resulting in a \$38.2 million increase in total inventories of \$818.7 million at 30 June (\$780.5 million at 31 December 2012 and \$596.5 million at 30 June 2012).
- Free cash outflow of \$44.5 million is in line with the previous corresponding period (2012: \$44.7 million outflow) although the composition has changed. Operating cash flow reduced \$114.8 million to \$92.4 million (2012: \$207.2 million), which was partially offset by a \$91.0 million reduction in capital expenditure and a \$32.1 million reduction in taxes paid. During the half, Iluka made a taxation payment of \$118.4 million in respect of earnings in 2012.
- The company had net debt as at 30 June of \$197.0 million (31 December 2012: net debt of \$95.9 million; 30 June 2012: net debt of \$117.2 million), with a corresponding gearing ratio (net debt/net debt + equity) of 11.2 per cent. Net debt at 31 July 2013 was [\$xx] million.

Dividend

- Directors have determined an interim dividend of 5.0 cents per share, fully franked. The dividend is payable on 2 October 2013 for shareholders on the register as at 4 September 2013. This dividend compares with a 2012 interim dividend of 25 cents (fully franked).

Market Conditions

As Iluka advised at the time of its June Quarter Production Report, aggregate zircon demand improved significantly in the first half, although the recovery has not been uniform across markets or sectors.

A progressive zircon demand recovery from an extreme low in 2012 was anticipated over 2013 and 2014, but the pace of recovery has to date exceeded Iluka's initial expectations, reflecting: improvements in business confidence and run rates; some replenishment of inventories from highly depleted levels; price stabilisation; and anticipation by some customers of possible price increases which encouraged order placement. However subdued conditions continued in some areas and the company is cautious about assuming that the typically second half weighted sales profile will occur in 2013 and expects a more even half-to-half profile as the year progresses.

Iluka's first half 2013 zircon sales volume of 210.9 thousand tonnes was a marked increase from the previous corresponding period sales volume of 87.4 thousand tonnes and was approximately equal to 2012 full year sales volumes of 213.8 thousand tonnes. Notwithstanding seasonal factors such as typically slow northern hemisphere start to the second half, based on a strong first half, Iluka continues to expect that zircon sales in 2013 will exceed production (which has been increased to approximately 280 thousand tonnes).

Global demand for high grade feedstocks (including rutile and synthetic rutile), normally underpinned by the chloride pigment sector, was unusually subdued during the first half of the year, continuing a trend that commenced in the second half of 2012. Lower pigment plant yields – often achieved by reducing high grade feedstock components in plant feed blends - associated with pigment producers' efforts to work down pigment inventories, combined with the residual contractual availability of legacy-priced high grade feedstocks, meant demand for Iluka's high grade feedstocks was low during the first half of 2013.

As advised previously, high grade titanium dioxide weighted average feedstock prices softened through the first half, reflecting competition for sales in the low demand environment outlined, to a level approximately 40 per cent below the December quarter 2012 rutile price levels of approximately US\$2,090 per tonne.

Iluka's combined rutile and synthetic rutile sales volumes in the first half of 2013 were 76.3 thousand tonnes, a level similar to those in the second half of 2012 (88.6 thousand tonnes) and significantly lower than the first half of 2012 volume of 186.5 thousand tonnes, which was a period when Iluka had greater volumes contracted to customers and was prior to the emergence of strong inventory adjustment activities in the pigment industry.

Commentary from major pigment producers, now for two successive quarters, has flagged a near term bottoming and stabilisation of the pigment market, which Iluka sees as a necessary pre-condition for a recovery in demand for high grade feedstocks. Some demand factors are clearly positive such as the US housing market recovery, while others, such as China sulphate pigment capacity utilisation (not a market Iluka supplies in material volume) are more negative.

Group Physicals and Profit and Loss Summary

\$ million	1 st Half 2013	1 st Half 2012	% change
S/R/SR revenue	338.4	615.6	(45.0)
Ilmenite and other revenue	43.3	47.2	(8.3)
Mineral sands revenue	381.7	662.8	(42.4)
Cash costs of production	(201.9)	(314.7)	35.8
Inventory movement	38.4	181.1	(78.8)
Restructure and idle capacity charges	(43.6)	(7.5)	(481.3)
Rehabilitation and holding costs for closed sites	(1.1)	(2.4)	54.2
Government royalties	(6.6)	(12.0)	45.0
Marketing and selling costs	(13.1)	(11.1)	(18.0)
Asset sales and other income	1.3	3.2	(59.4)
Exploration and resources development	(18.5)	(19.2)	3.6
Mineral sands EBITDA	136.6	480.2	(71.6)
Depreciation and amortisation	(98.8)	(105.0)	5.9
Mineral sands EBIT	37.8	375.2	(89.9)
Mining Area C	45.4	41.6	9.1
Corporate and other costs	(21.6)	(21.2)	(1.9)
Foreign exchange	(0.4)	4.4	n/a
Group EBIT	61.2	400.0	(84.7)
Net interest and bank charges	(4.9)	2.0	n/a
Rehabilitation unwind and other finance costs	(9.1)	(13.4)	32.1
Profit before tax	47.2	388.6	(87.9)
Tax expense	(12.9)	(114.2)	88.7
Profit for the period (NPAT)	34.3	274.4	(87.5)
Average AUD/USD (cents)	101.5	103.3	1.7

Mineral Sands Operational Results⁵

\$ million	Revenue		EBITDA		EBIT	
	1 st Half 2013	1 st Half 2012	1 st Half 2013	1 st Half 2012	1 st Half 2013	1 st Half 2012
Australia	340.3	615.9	146.1	469.9	53.3	369.9
United States	41.4	46.9	15.1	30.4	10.3	26.8
Exploration & other	-	-	(24.6)	(20.1)	(25.8)	(21.5)
Total	381.7	662.8	136.6	480.2	37.8	375.2

⁵ Refer Iluka 4D. The Half Year slide presentation contains supplementary information on the Australian Operations, relating to Eucla/Perth Basin and Murray Basin Operations. Given Iluka's Australian operations have become increasingly integrated and are now managed as a single operation, statutory reporting is as a single entity.

Mineral Sands Production and Sales Volumes

	1 st Half 2013	1 st Half 2012	% change
Sales (kt)			
Zircon	210.9	87.4	141.3
Rutile	56.3	85.4	(34.1)
Synthetic rutile	20.0	101.1	(80.2)
Total Z/R/SR sales	287.2	273.9	4.9
Ilmenite – saleable and upgradeable	147.0	218.9	(32.8)
Total sales volume	434.2	492.8	(11.9)
Z/R/SR revenue (\$m)	338.4	615.6	(45.0)
Ilmenite and other revenue (\$m)	43.3	47.2	(8.3)
Total mineral sands revenue ⁶ (\$m)	381.7	662.8	(42.4)
Revenue per tonne of Z/R/SR sold ⁷ (\$/t)	1,178	2,255	(47.8)
Production (kt)			
Zircon	118.5	209.0	(43.3)
Rutile	60.6	103.6	(41.5)
Synthetic rutile	59.0	131.2	(55.0)
Total Z/R/SR production	238.1	443.8	(46.3)
Ilmenite – saleable and upgradeable	333.9	362.9	(8.0)
Total saleable production volume	572.0	806.7	(29.1)
HMC produced	880.4	710.7	23.9
HMC processed	534.8	789.2	(32.2)
Cash costs of production (\$m)	201.9	314.7	35.8
Unit cash cost per tonne of Z/R/SR produced (\$/t)	848	709	(19.6)

⁶ Mineral sands revenues included revenues derived from other materials not included in production volumes, including activated carbon products and iron oxide.

⁷ Revenue from the sale of zircon, rutile and synthetic rutile.

Managing Director Commentary

David Robb, Iluka Resources' Managing Director, provided the following commentary in relation to the half year results:

"Despite some mixed signals about the strength and timing of recovery across our markets, we believe we are approaching the end of a low point of the mineral sands business cycle, a period from which the company will emerge with a still-robust balance sheet; with lower but generally healthy margins; with significant finished product and concentrate inventory the value of which will be realised over time; and with its growth options preserved and progressed.

Iluka's first half results reflect a combination of factors: recovery in sales volumes across one of Iluka's two main product suites; materially lower product prices compared with the first half of 2012; and successful efforts to conserve cash through operational adjustments and the curtailment of capital expenditure.

So in a volatile period we've done what we indicated we would do - implemented major production and cost reductions and built inventories above normal holding levels versus sales, with a view to shortening the overall period of time spend in "low cycle" supply/demand conditions.

Through this volatile period the company has distributed the maximum practicable level of free cash flow to shareholders, distributing 75 per cent of free cash flow on a cumulative basis, while maintaining a strong balance sheet.

As expected, the company did not generate free cash flow in the half. However, first half net cash outflow of \$86 million can be viewed in the context of restructure costs of \$31 million; a taxation payment in respect of 2012 earnings of \$118 million; as well as the 2012 final dividend payment of \$42 million. Cash flows are expected to be positive in the second half of the year.

The company highlighted in its full year results release in February that probable first half market conditions and business cash flows did not provide a firm basis for an interim dividend payment in 2013. Those conditions did eventuate but, although global economic concerns remain, an expectation of stronger free cash flows in the second half led the Board to determine the payment of a small interim dividend of 5 cents per share fully franked.

Iluka's workforce has responded positively to the challenging conditions and the company has achieved significant improvements in safety and environmental performance during a period of major operational change, which has involved the company operating at approximately 40 per cent of capacity across its two main products. This included idling all synthetic rutile operations, running mining and mineral separation plants at reduced capacity and reducing the workforce by approximately 200 positions during the half. Total cash costs of production were reduced materially, and the previously guided \$50 million in restructuring costs was reduced to \$31 million largely as result of commercial negotiations.

As demand strengthened, the company drew down finished goods inventory in zircon and full year production is expected to be above initially budgeted levels, in anticipation of a potential further strengthening of zircon demand into 2014. Heavy mineral concentrate inventory build occurred, as anticipated, although moderate quantities of zircon-rich Jacinth-Ambrosia concentrate are now being moved to the Narngulu mineral separation plant in Western Australia for processing.

We always look to prioritise capital investment for both short and long term shareholder benefit, for example, in the form of project feasibility studies; near term project execution requirements; early stage investment in new options such as Sri Lankan resources and in innovation and technology spend. In that regard, the company spent \$18.5 million on resource development activities in the half, which included exploration, project development studies and research and development work, including new product development. A major component of the full year anticipated \$100 million in capital expenditure relates to project scoping and feasibility studies. Iluka is progressing six projects, with three at or moving to definitive feasibility study (Cataby and Balranald in Australia and Hickory in Virginia, USA), and with three in pre-feasibility or scoping study stage (Sonoran, Atacama and Typhoon deposits in the Eucla Basin, Aurelian Springs in North Carolina and the Sri Lankan deposits).

Iluka's recently secured exploration tenements in Sri Lanka , while subject to feasibility study work and all necessary Sri Lankan regulatory and Iluka approvals, may in due course deliver a capital-efficient, financially attractive investment opportunity for shareholders, for a modest initial outlay. Resources confirmed to date represent a 46 per cent increase in Iluka's Mineral Resource inventory – an addition of 56 million tonnes to the 31 December 2012 reported figure of 122 million tonnes⁸. Further work will occur to seek to transfer further identified heavy mineral into JORC resources. The acquisition furthers one part of Iluka's titanium dioxide strategy: positioning the company to be a participant in both sulphate and chloride pigment industry evolution and growth, particularly in China.

It is clear that the global economic environment still presents risks to growth and business and consumer confidence and it remains difficult to predict the course of demand recovery with any confidence. The trend in the business in 2013 to date has been encouraging and the company believes that high grade titanium dioxide feedstock markets will recover as have zircon markets. Iluka will maintain a prudent but generally optimistic approach, looking to opportunities that may exist counter cyclically to create and deliver value for shareholders."

Investment market and media enquiries

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Refer Attachment – Appendix 4D for detailed financial commentary of the results.

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

⁸ Refer Iluka ASX Release, Acquisition of Sri Lankan Tenement and Heavy Mineral Resource Base, 5 August 2013.