16 December 2015

FULL YEAR PHYSICAL AND FINANCIAL UPDATE

Iluka Resources Limited (Iluka) provides the following disclosure related to expected physical and financial characteristics for the 2015 full year, relative to the company's forecast Key Physical and Financial Parameters, as disclosed on 19 February 2015. The disclosure also includes details of an expected year-end non-cash accounting adjustment related to an increased rehabilitation provision. The increase is due to a sustained decline in the 15 year Australian Government Bond rate, which is used in determining the Australian rehabilitation provision. As a result a $25 million non-cash pre-tax charge to the profit and loss will be recorded in the 2015 full year accounts.

Year End Market Conditions

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 pressures have increasingly impacted purchases.

Also evident as the year-end approaches, are examples of distressed selling by highly leveraged companies. Buyers at all levels in the industry value chain with financial capacity have, naturally, looked to capitalise on this market dynamic and in some cases this has resulted in buyer deferral of purchases, mainly zircon, from Iluka. Sales of Iluka's high grade titanium dioxide products, which are more typically subject to contractual arrangements, remain in line with company expectations.

Iluka's approach to sales volume versus sales price trade-offs is cognisant of current market dynamics and both short and long term objectives in the competitive positioning of its various products in different geographies and market sectors. The company follows demand and in doing so effectively prioritises margins ahead of additional tonnes that might be secured via lower prices, even if that leads to a shortfall against budgets or guidance parameters.

Zircon/Rutile/Synthetic Rutile (Z/R/SR) Sales and Prices

Given the context above, Iluka's aggregate 2015 Z/R/SR sales are now expected to be approximately 645 thousand tonnes, 5 per cent lower than guided aggregate 2015 production of Z/R/SR (of approximately 680 thousand tonnes but 5 per cent higher than 2014 Z/R/SR sales (of 616 thousand tonnes).

The variance from guidance is accounted for mainly by lower zircon sales, which are now expected to be approximately 330 thousand tonnes. Rutile and synthetic rutile sales are expected to be approximately 315 thousand tonnes combined, assuming expected shipments are made in the next two weeks.

As noted above, Iluka's approach is to not pursue volume at the expense of price, where practicable, and this approach has limited erosion in its received prices. The November year-to-date weighted average received zircon price for premium and standard product sales was approximately US$1,005/tonne (2014: US$1,033/tonne). Inclusive of zircon in concentrate sales (which as noted below generate comparable margins to finished product sales), the weighted average received price for zircon reduces to approximately US$995/tonne.

There have been no material changes in rutile and synthetic rutile price outcomes to those disclosed with the half year results on 18 August 2015.

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Non cash rehabilitation provision adjustment

The assessment of rehabilitation provisions typically requires an assessment of the rate at which to discount future rehabilitation-related cash flows. Considerations include the likely timing of those cash flows and prevailing market related risk-free rates.

The 15 year Australian Government Bond rate (bond rate) is used as the discount rate in calculating the Australian rehabilitation provision. Due to a sustained decline in the bond rate to around 3 per cent (from around 4.7 per cent in 2013), the present value of the Australian rehabilitation provision has increased by $47 million, which comprises a $25 million non-cash pre-tax charge to the profit and loss for closed sites in the 2015 financial year (line item “rehabilitation unwind and other finance costs”), and a $22 million increase to the balance sheet for open sites.

Other 2015 Guidance Parameters and Financial Characteristics Year-to-Date

Unless referenced in the Summary of Physical and Financial Parameters table over the page, guidance parameters and expected outcomes are in line with previous guidance, or in some cases lower, as issued on 19 February 2015.

Total cash costs of production, including those for ilmenite concentrate and by-products, are expected to be approximately $30 million lower than guidance.

Importantly, unit cash costs for Z/R/SR produced, excluding by-products, as at the end of November were A$565/tonne, while unit revenue per tonne of Z/R/SR sold was A$1,160. These figures represent an improvement upon 2014 year end unit cash costs of A$668/tonne and unit revenue of A$1,030/tonne. The zircon sales mix in 2015, as advised previously, has a higher proportion of standard grade and zircon in concentrate, relative to premium product and with this weighting being second half biased. Despite the lower price for standard product and zircon in concentrate, in Iluka’s case the EBIT margins for these products are comparable to, if not higher than, premium zircon and, as such, represent no diminution in margins.

Capital expenditure for the year is expected to be over 35 per cent lower at approximately $75 million, compared to guidance of approximately $120 million. Lower capital expenditure has been achieved in part by the deferral of some expenditure, such as that for land acquisition and for additional investment in Metalysis Ltd, which were planned for 2015 but are now expected to occur in 2016.

The company has generated stronger levels of free cash flow in the second half and expects to end the year in a minimal debt/net cash position.

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Summary of Physical and Financial Parameters - Update

(Based on Iluka Disclosure 19 February 2015)

	2014 Actual	2015 Guidance	2015 Full Year Commentary (*Some commentary on 2016 expected trends is provided with more detailed 2016 commentary to be available when finalised in February 2016*)
Production kt			
- Zircon	358	~400	Total 2015 Z/R/SR production expected to be in line with guidance, with higher SR, offsetting lower rutile, due to better than expected throughputs at SR 2 kiln.
- Rutile	177	~140	
- Synthetic rutile	0	~140	*2016 total Z/R/SR production expected to be slightly lower than 2015, associated with idling of US operations and reduced mineral separation plant utilisation levels, although with a full year of production from SR 2 kiln.*
Z/R/SR Total	**535**	**~680**	
Sales kt			
- Zircon	352	Not guided	*2016 sales supported by increased drawdown of finished product and concentrate inventories.*
- Rutile	182	Not guided	
- Synthetic rutile	82	Not guided	
Z/R/SR Total	**616**	**>680**	Refer to commentary in this Release: 2015 Z/R/SR sales expected to be ~5% lower than aggregate production (at~645kt), mainly due to lower zircon sales.
Cash Costs of Production excluding by-product costs $m	357	~410	Lower outcome in 2015 now expected (~$390 million). *2016 expected to be lower than 2014 actual, with reduced mining and processing activities and increased inventory drawdown*.
Ilmenite concentrate and by-product costs	25	~20	Lower outcome now expected in 2015 (~$10 million). Lower ilmenite in concentrate and by-product costs due to market conditions/lower revenue.
Other cash costs $m	135	~160	Includes royalties, exploration, marketing, major projects and corporate costs as well as expensed investment in developing innovative solutions to mining and processing challenges which limit, currently, the development of known resources.
Restructure, idle capacity, rehabilitation and holding costs $m	40	~40	
Total Cash Costs $m	**557**	**630**	Total expected to be lower than guidance (~$600 million).
Unit cash costs (A$/t) of Z/R/SR produced, excluding by-product costs	668	~605	November YTD at ~A$565/t *2016 expected to trend below A$500/t (dependent on production settings and demand profile).*
Non Cash Costs $m			
Depreciation and amortisation	192	~130	In line with guidance in 2015 *Expected to be lower in 2016 with reduced mining activity*.
Other	18	~20	Refer below to non-cash rehabilitation provision. As advised this charge will increase by $25 million in the 2015 year.
Capital Expenditure $m	67	~120	~$75 million in 2015 *~$95 million in 2016*