Australian Securities Exchange Notice

21 February 2019 ASX: ILU

Full Year Results to 31 December 2018

Key features

- Mineral sands revenue up 22% on prior year to $1,244 million
- Underlying EBITDA increased 66% to $600 million
- Net profit after tax (NPAT) of $304 million
- Strong free cash flow of $304 million, after investing $312 million in capital expenditure
- Repaid debt and returned to net cash position of $2 million (net debt $183 million at 31 December 2017)
- Final dividend of 19 cents per share fully franked, total 2018 dividends of 29 cents per share representing 40% of free cash flow for the year
- Zircon production up 12% to 349 thousand tonnes
- Record synthetic rutile production of 220 thousand tonnes from SR2 kiln in Western Australia
- Rutile production down 46% to 163 thousand tonnes, reflecting cessation of processing at Murray Basin and disappointing production performance and strike action interruptions at Sierra Rutile
- Zircon / rutile / synthetic rutile (Z/R/SR) sales volumes down 7% reflecting production constraints
- Zircon weighted average price up 41% to US$1,351 per tonne
- Rutile weighted average price up 21% to US$952 per tonne

Results overview

Iluka Resources Limited (Iluka) has recorded a strong set of financial results for the year ended 31 December 2018. The results reflect favourable mineral sands market conditions with significant price increases across both of Iluka's major product groups, zircon and high grade titanium dioxide feedstocks.

Iluka's NPAT for 2018 was $304 million, with underlying EBITDA of $600 million. This result followed a net loss of $172 million in 2017 (which included impairment and rehabilitation provision charges of $264 million post-tax). Mineral sands revenue was up 22% to $1,244 million with price increases offsetting a small decline in production constrained Z/R/SR sales volumes. Average revenue per tonne of Z/R/SR sold was up 31% to $1,415 per tonne, reflecting a 41% and 21% increase in zircon and rutile prices respectively.

Iluka received royalty payments of $56 million from the Mining Area C royalty. Underlying Group EBITDA was $600 million, up 66% from 2017.

2018 free cash flow was $304 million, the second consecutive year of strong free cash flow following $322 million being generated in 2017. Iluka also spent $312 million on capital expenditure in 2018, largely across Cataby, Jacinth-Ambrosia and Sierra Rutile, to sustain and grow mineral sands production into the future. Strong free cash flow and Iluka's commitment to capital discipline allowed the company to achieve a net cash position of $2 million at 31 December 2018. This represents a significant turnaround from net debt of $183 million at 31 December 2017 and a recent peak in net debt of $506 million at 31 December 2016, following the SRL acquisition in that year.

Iluka's Board has determined a final dividend of 19 cents per share, fully franked, and the Dividend Reinvestment Plan (DRP) remains active with no discount offered.

Potential IFC Involvement in Sierra Leone

Iluka has been in discussions with the International Finance Corporation (IFC), a member of the World Bank Group, regarding a potential investment by IFC in Iluka's Sierra Rutile operation. IFC has today commenced a 60 day disclosure period in relation to the potential investment[1].

The potential investment remains subject to due diligence, finalisation of documentation on commercially acceptable terms and Board approvals of both Iluka and IFC, and would see IFC acquiring an equity stake of up to 10% in Sierra Rutile for US$60 million.

The potential investment is proposed to be split into two stages. The first potential investment is made to support efficiency improvements in the existing brownfield operations. The second potential investment (comprising the majority of funding) would be subject to the commencement of early works for the proposed development of the Sembehun deposits (20 – 30 kilometres north-west of Sierra Rutile's existing operations).

Sierra Rutile is one of Sierra Leone's largest private sector operations, currently employing ~2,700 people, over 98% of whom are Sierra Leonean. The World Bank Group has a large and longstanding presence in Sierra Leone and, through IFC, mobilises funding for private enterprises in developing countries, with partners that adhere to high levels of corporate governance and sustainability performance to aid economic development and reduce poverty.

Managing Director commentary

Iluka's Managing Director, Tom O'Leary, said "The strong financial results we have reported today are a reflection of mineral sands market conditions, which have helped us to achieve sustainable price increases and solid sales volumes, a strong operational performance in Australia, and of our disciplined approach to markets and capital allocation. The strong cash flow generated has allowed us to return to a net cash position, at the same time as beginning to deliver on a significant pipeline of projects, including Cataby, which has entered the commissioning phase on time and budget. Further, the company's performance in 2018 has enabled Iluka to deliver a final dividend to shareholders of 19 cents per share, fully franked. Full year dividends of 29 cents per share represent 40% of 2018 free cash flow, in line with Iluka's dividend framework.

Iluka's sustainability performance in 2018 featured some positive achievements, including two South Australian Premier's awards recognising the work of the team at Jacinth-Ambrosia, and the rehabilitation of 741 hectares of land. Notwithstanding that Iluka's total recordable injury frequency rate increased from 2.8 in 2017 to 3.5 in 2018, the lost time injury frequency rate remained steady at one per million hours worked, and the number of incidents classified as significant potential incidents decreased by 22%.

While at SRL production levels were disappointing, I believe we have the right team and the right strategy in place to improve future outcomes and deliver stable and consistent production. We have two major projects progressing well at SRL, being the Lanti and Gangama expansions and I am pleased to report these are also on time and budget.

Iluka's Australian operations performed exceptionally well in 2018. Annual production from the SR2 kiln in Western Australia was the highest it has ever been since the kiln was commissioned in 1997. At Jacinth-Ambrosia in South Australia and the Narngulu mineral separation plant in Western Australia, higher than expected ore grades and improved recoveries have helped the company to build stockpiles which will be used to smooth future production.

Looking forward in 2019, we are on track to deliver key projects and we have a portfolio of quality assets to deliver sustainable value."

[1] See IFCs disclosures portal at https://disclosures.ifc.org

Key Financials

$ million	FY 2018	FY 2017	Change
Mineral sands revenue	1,244.1	1,017.5	22.3%
Underlying mineral sands EBITDA	544.5	300.9	81.0%
MAC EBITDA	55.6	59.6	(6.7%)
Underlying Group EBITDA[1]	600.1	360.5	66.5%
Profit (loss) for the period (NPAT)	303.9	(171.6)	n/a
Operating Cash Flow	594.2	391.7	52.0%
Free Cash Flow[2]	304.4	321.9	(5.4%)
Dividend final (cps)	19	25	(24.0%)
Dividend total - interim + final (cps)	29	31	(6.5%)

$ million	At 31 Dec 2018	At 31 Dec 2017	Change
Net cash (debt)	1.8	(182.5)	n/a
Net gearing ratio	n/a	17%	n/a

Outlook

In 2019, mineral sands markets for zircon are expected to remain balanced, and for high grade titanium feedstocks are expected to remain tight.

Over 2018, Iluka successfully implemented two increases to the Zircon Reference Price. The last increase raised the Reference Price to US$1,580 per tonne from 1 October 2018 for a period of six months. While early in the year, Iluka's assessment is that underlying zircon demand is stable. Iluka has communicated to customers that it will hold the Zircon Reference Price at its current level for a further 6 months, and customer feedback has been positive. This provides stability to customers while being supportive of our sustainable approach to pricing.

High grade titanium feedstock price increases ranging from 8 to 11% for rutile/synthetic rutile have been negotiated for all volumes contracted in the first half 2019.

On sales volumes, Iluka expects production to be fully sold in 2019, with sales expected to be broadly in-line with production. Early in 2019 zircon sales are in-line with expectations. Rutile is fully committed for the first half and synthetic rutile production is fully contracted for the year.

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[1] Underlying Group EBITDA excludes adjustments including impairments and changes to rehabilitation provisions for closed sites (FY18: $3 million credit post-tax; FY17: $264 million post-tax). Underlying EBITDA excludes Iluka's share of Metalysis Ltd's losses.

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

Iluka’s production profile in 2019 will be impacted by a number of key events, including:

- Cataby project to be commissioned in first quarter 2019;
- mining at Jacinth-Ambrosia will move from Jacinth North to Ambrosia in the fourth quarter of 2019;
- Lanti dredge at Sierra Rutile to be decommissioned in first quarter 2019; and
- Lanti (dry mine) and Gangama expansions to be commissioned from mid-2019.

Reflecting the above, Iluka’s group Z/R/SR production guidance for 2019 is 720 thousand tonnes.

Rutile production guidance for Sierra Rutile in 2019 is 150 thousand tonnes. This reflects the net impact of reduced production from the decommissioning of the dredge and a partial year of expanded Lanti and Gangama operations. The full production impact of the Lanti and Gangama expansions will not be evident until 2020.

Iluka expects significant capital expenditure outlays of around $330 million in 2019. This includes final expenditure to deliver Cataby and the Lanti and Gangama expansions, the Ambrosia mine move and, subject to value optimisation recommendations and approvals, early works at Sembehun. Other longer term projects are also being progressed including the fine minerals project.

Iluka’s full financial and physical parameters outlook are provided at slides 30-33 of the full year results presentation, available at www.iluka.com.

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About IFC

IFC—a sister organisation of the World Bank and member of the World Bank Group—is the largest global development institution focused on the private sector in developing countries. IFC work with more than 2,000 businesses worldwide. In fiscal year 2018, IFC delivered more than US$23 billion in long-term financing for emerging markets, leveraging the power of the private sector to end extreme poverty and boost shared prosperity. For more information, visit www.ifc.org

2018 full year results teleconference

An investment conference call will take place at 08.30am (AEDT) on 21 February 2019. Dial in numbers are listed below. Please quote passcode ID: **6897414**.

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:

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Other Iluka Disclosures:
The full year results briefing pack follows this announcement and will be referred to during the conference call.
The Iluka 2018 Appendix 4E has been released to the Australian Securities Exchange on 21 February 2019 and should be referred to for detailed financial commentary of the results.
All information about the full year results is also included on Iluka’s website – refer **www.iluka.com**