

**ILUKA**

Australian Securities Exchange Notice

20 February 2020

ASX: ILU

2019 FULL YEAR RESULTS

Key features

- Second consecutive year of strong underlying earnings with EBITDA of \$616 million (2018: \$600 million)
- Mineral sands revenue down 4% on prior year to \$1,193 million reflecting mixed market conditions, with a 17% increase in revenue per tonne partially offsetting the 18% decline in zircon / rutile / synthetic rutile (Z/R/SR) sales volumes
- Underlying net profit after tax of \$279 million (2018: \$301 million)
- Reported net loss after tax of \$300 million (2018: net profit \$304 million) impacted by Sierra Rutile write-down of \$414 million (US\$290 million) combined with the associated removal of \$162 million (US\$115 million) deferred tax asset
- Free cash flow of \$140 million, a solid result after investment of \$198 million in capital expenditure
- Returned to net cash position over the second half of 2019, \$43 million as at 31 December (net cash \$2 million at 31 December 2018)
- Final dividend of 8 cents per share fully franked, total 2019 dividends of 13 cents per share, 40% of free cash flow

Results overview

Iluka Resources Limited (Iluka) today announces a solid underlying result and reflects Iluka's commitment to sustainable prices for mineral sands and delivering projects to support production levels in the years ahead.

Iluka reported a net loss after tax of \$300 million, with the result reflecting the \$414 million (US\$290 million) write-down to the carrying value of Sierra Rutile assets, announced in December 2019. Iluka also removed the associated tax losses available to Sierra Rutile due to the revised outlook. These tax losses remain available for use in the future, but did result in an increased tax charge (non-cash) of \$162 million (US\$115 million).

Mineral sands revenue for 2019 was relatively strong at \$1,193 million, with lower sales volumes being largely offset by price increases as average 2019 received prices for zircon and rutile increased 10% and 20% respectively relative to 2018. Iluka responded to short term softness in the zircon market with an enhanced loyalty rewards program and augmented zircon product mix. Conditions remained tight in the high grade feedstock market and sales volumes exceeded production.

Mining Area C royalty payments for 2019 were \$85 million, up 53% from 2018, due to strong increases in iron ore prices.

Underlying group EBITDA was \$616 million, up 3% from the previous strong earnings result in 2018.

2019 free cash flow was \$140 million after investing \$198 million in capital projects to sustain production, including the completion of the new Cataby operations, a mine move to Ambrosia, a kiln reline and refurbishment and expansions at the Lanti and Gangama mines in Sierra Leone. Iluka returned to a net cash position of \$43 million as at 31 December 2019.

Iluka has declared a final dividend of 8 cents per share, fully franked, bringing full year dividends of 13 cents per share to 40% of free cash flow, in line with Iluka's dividend framework.

Managing Director commentary

"Today's result demonstrates the underlying strength and resilience of the business, while the \$414 million carrying value write-down of Sierra Rutile, which has driven the significant loss, is disappointing. However, I am confident we will generate returns from this asset and we continue to advance Sembehun project options for the development of this high quality deposit.

Market conditions were mixed in 2019. Subdued business sentiment, emanating from persistent trade and other geopolitical tensions, weighed on the zircon market particularly. The flexible approach in Iluka's marketing strategy, however, enabled us to meet revised guidance. Conditions in the high grade feedstock market were stronger and we worked closely with our high grade feedstock customers to support their requirements in the tighter feedstock market.

At the outset of 2019 we outlined a year of project delivery. This has now been completed, on time and on budget. Capital expenditure for 2019 was \$198 million, and was applied toward the completion of the Cataby development, the Ambrosia mine move, the SR2 kiln reline and refurbishment and the expansions at the Lanti and Gangama operations at Sierra Rutile.

2020 will see our pipeline of the next phase of sustaining and growth projects progressed. Iluka will pursue capital discipline of the quality demonstrated in the Cataby development and will deploy capital only where and when we have sufficient confidence in achieving a satisfactory return.

Strong free cash flows, particularly in the second half, returned the business to a net cash position and underpin the 8 cents per share final dividend."

Key Financials

\$ million	FY 2019	FY 2018	Change (%)
Mineral sands revenue	1,193.1	1,244.1	(4.1)
Mineral sands EBITDA	530.9	544.5	(2.5)
MAC EBITDA	85.1	55.6	53.1
Underlying Group EBITDA ¹	616.0	600.1	2.6
Profit for the period (NPAT) – Underlying	278.7	300.7	(7.3)
Profit (loss) for the period (NPAT) – Reported	(299.7)	303.9	n/a
Operating Cash Flow	408.1	594.2	(31.3)
Free Cash Flow ²	139.7	304.4	(54.1)
Dividend final (cps)	8	19	(57.9)
Dividend total (interim + final) (cps)	13	29	(55.2)

\$ million	At 31 Dec 2019	At 31 Dec 2018	Change (%)
Net cash (debt)	43.3	1.8	n/a
Net gearing ratio	n/a	n/a	n/a

¹ Underlying Group EBITDA excludes write-downs, adjustments to fair value and changes to rehabilitation provisions for closed sites (FY19: \$418 million post tax, FY18: \$3 million credit post-tax).

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

Outlook

The mixed market conditions experienced in 2019 are expected to continue into the start of 2020. Economic uncertainty in China stemming from the recent COVID-19 outbreak and lingering trade and political tensions are expected to weigh on business sentiment in the short term. This is likely to impact zircon demand in particular. For high grade titanium feedstocks, supply tightness and solid underlying conditions being reported by pigment producers should support another solid year.

Iluka also has a degree of revenue certainty in the high grade feedstock market, due to the level of take-or-pay contracts across both the synthetic rutile (from Cataby and Capel) and Sierra Rutile products. As announced on 29 January 2020, Iluka and Kronos Worldwide Inc (Kronos) have signed a sales take-or-pay offtake agreement for 75% of standard grade rutile (SGR) produced from the Sierra Rutile operation (with a minimum of 100 thousand tonnes per annum), effective through to December 2022. The agreement provides certainty and security for both Iluka and Kronos in relation to Sierra Rutile's existing operations, which is especially important as Iluka progresses work on a longer-term development approach to the Sembehun project. Iluka has take-or-pay contracts in place with a range of customers for 2020 which, together, aggregate to a minimum of approximately 320 thousand tonnes¹ (around 70% of guided high grade feedstock² production in 2020).

Iluka's operational settings in 2020 are expected to continue as they were at the end of 2019. Projects completed in 2019, including Cataby, Lanti and Gangama expansions and the Ambrosia mine move, are all planned to be operational at capacity for the year. A continued focus on implementing and delivering operational improvements at Sierra Rutile to build consistency and reliability of production levels will also be a feature of the year ahead.

Current 2020 production estimates are for Iluka to produce 280 thousand tonnes of zircon, 230 thousand tonnes of rutile³ and 225 thousand tonnes of synthetic rutile. As noted above, uncertainty created by the potential impact of COVID-19 (and other factors) may impact global and in particular Chinese demand for zircon. Iluka will monitor the situation closely and will adjust operational settings if appropriate over the course of the year. Iluka does not propose to provide sales guidance at this stage.

Capital expenditure in 2020 is expected to be \$135 million, reflecting deferred mine development work at Cataby (\$25 million) and Ambrosia (\$10 million), project work progressing at Sembehun (\$30 million), study costs for our growth projects (\$20 million), Eneabba Mineral Sands Recovery project capital (\$5 million) and sustaining capital expenditure across our operations. The third field trial at Balranald will also occur in 2020, with costs expensed (\$35 million), and so is not included in the guided capital expenditure.

An estimated \$94 million 2019 final tax payment is to be paid in H1 2020.

Iluka's full financial and physical parameters outlook are provided at slides 37-40 of the full year results presentation, available at www.iluka.com.

Corporate and Capital Structure Review

Iluka today announced it intends to demerge its Mining Area C royalty business, subject to final Board, shareholder and other regulatory approvals. Refer to separate ASX release for further information.

¹ Including 30kt of contracted lower grade HYTI volumes from Jacinth-Ambrosia

² Includes lower grade HYTI production volumes

³ Includes lower grade HYTI

2019 full year results teleconference

Iluka will host a conference call for equity market participants to discuss the 2019 result. The conference call will take place at **9:30am (AEDT) on Thursday, 20 February 2020**. Dial in numbers are listed below. Please quote conference ID: **9751907**

For locations within Australia dial toll-free 1800 148 258, or 1300 157 230 (mobile).

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

Hong Kong	800 965 808	Canada	1866 837 4489
United Kingdom	0800 0569 662	Japan	0066 3306 2118
Singapore	800 616 2170	United States	1866 586 2813

This announcement was authorised for release by the Managing Director of Iluka Resources Limited.

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Other Iluka Disclosures:

All references to \$ refer to Australian dollars (AUD) unless otherwise stated.

The full year results briefing pack follows this announcement and will be referred to during the conference call.

The Iluka 2019 Appendix 4E has been released to the Australian Securities Exchange on 20 February 2020 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