

# Iluka Resources Limited



## 2016 Half Year Results

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# Disclaimer – Forward Looking Statements



## Forward Looking Statements

This presentation contains certain statements which constitute “forward-looking statements”. These statements include, without limitation, estimates of future production and production potential; estimates of future capital expenditure and cash costs; estimates of future product supply, demand and consumption; statements regarding future product prices; and statements regarding the expectation of future Mineral Resources and Ore Reserves.

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## Non-IFRS Financial Information

This presentation uses non-IFRS financial information including mineral sands EBITDA, mineral sands EBIT, Group EBITDA and Group EBIT which are used to measure both group and operational performance. A reconciliation of non-IFRS financial information to profit before tax is included in the supplementary slides. Non-IFRS measures have not been subject to audit or review.

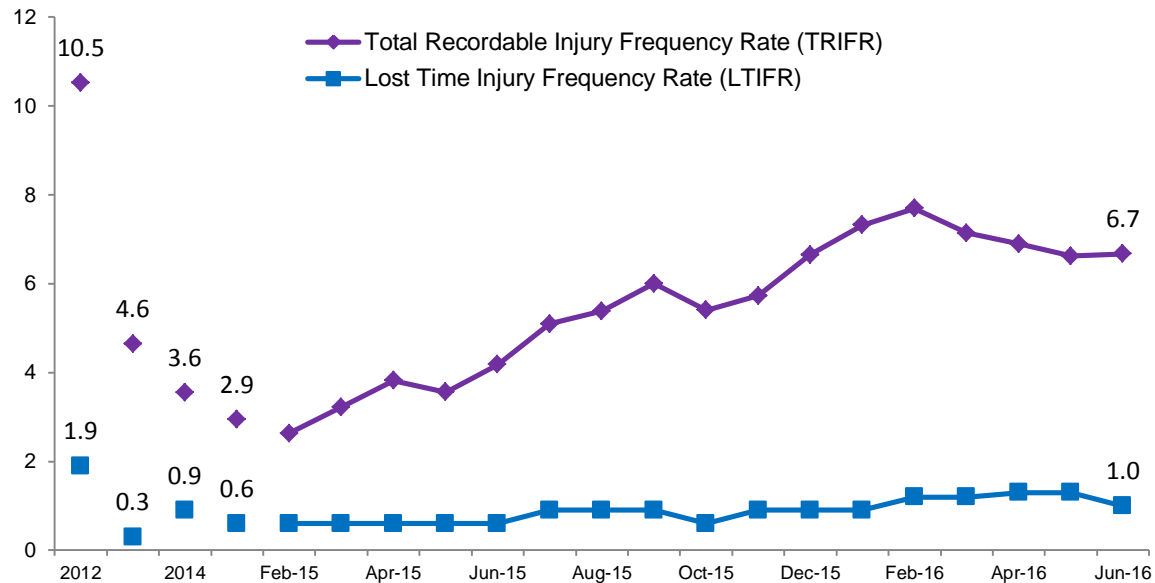
## Mineral Resources Estimates

The information in this presentation that relates to Mineral Resources estimates on the Tapira and Puttalam Projects has been previously announced to ASX (see relevant slides for details). Iluka confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and that all material assumptions and technical parameters underpinning the estimates in those announcements continue to apply and have not materially changed. Iluka confirms that the form and context in which the Competent Person’s findings are presented have not been materially modified from the original market announcements.

# Key Features

- Net loss after tax of \$20.9 million
  - lower Mining Area C receipts
  - higher 1<sup>st</sup> half resource development expenditure as planned
  - lower USD prices (mainly zircon); sales mix (higher SR and ZIC component in sales)
    - offset by: lower unit cost of goods sold; higher volume; and favourable FX
- Higher Z/R/SR sales with full half of SR volumes (kiln restarted in March 2015)
- Free cash outflow of \$50.6 million
  - operating cash flow impacted by \$103m increase in trade debtors (1H16: \$147m vs 1H15: \$44m)
  - higher resource development expenditure
- Moderate debt draw down, significant funding headroom
- 3 cents per share dividend
- Acquisition of Sierra Rutile Limited (SRL) announced 1 August
  - all cash consideration of £215 million (A\$380 million) plus ~A\$80 million debt

Frequency Rate



- Redoubling of safety focus has halted TRIFR increase
- Continued progress on rehabilitation and tenement relinquishment activities

# Key Features 1H 2016 versus 1H 2015



Z/R/SR Sales Volumes	↑	14.7% - higher SR sales relative to 1H 2015 reflecting a full half of kiln operation (restarted March 2015)
Mineral Sands Sales Volumes	↓	23.3% - reflects lower ilmenite sales, including ilmenite volumes diverted to SR kiln feed
Mineral Sands Revenue	↓	3.2% - lower zircon price and reduced ilmenite revenue, partially offset by increased SR sales
Cash Costs of Production	↓	19.8% - lower production settings
Unit Cost of Goods Sold	↓	\$717/t (Z/R/SR) vs \$821/t – reflects higher proportion of lower cost zircon concentrates & reduction in SR unit costs
Unit Cash Prod Costs (excl. by products)	↓	\$402/t (Z/R/SR) compared to \$616/t – lower production settings
Unit Revenue	↓	10.2% to \$1,015/t (Z/R/SR) – lower zircon price and product mix changes
Mining Area C EBIT	↓	\$20.8 million vs \$39.0 million – lower iron ore prices and 1H 2015 included a one off payment (\$10.4 million)
Mineral Sands EBITDA	↓	61.9% to \$43.6 million – higher resource development expenditure
Group EBITDA Margin	↓	10.7% vs 32.7%; Mineral Sands EBITDA Margin of 12.9% vs 32.7%
Group EBITDA	↓	\$38.6 million vs \$127.2 million
Reported Earnings (NPAT)	↓	\$(20.9) million vs \$20.4 million due to lower MAC contribution and higher resource development expenditure
Return on Capital (annualised)	↓	(1.4)% vs 4.7%
Return on Equity (annualised)	↓	(3.2)% vs 2.9%
Capital Expenditure	↓	\$28.8 million vs \$39.6 million - \$16.7 million for major projects and \$12.1 million for increased equity in Metalysis
Free Cash Flow	↓	\$(50.6) million vs \$39.0 million; (12.1) cents per share vs 9.3 cents per share; higher trade receivables; resource development expenditure
Net Debt	↑	\$124.1 million vs \$80.2 million as at 30 June 2015 (\$6.0 million net cash as at 31 December 2015)
Gearing (net debt/net debt + equity)	↓	8.7% vs 9.8% (as at 30 June 2015)
Earnings per Share	↓	(5.2) cents vs 4.9 cents
Dividend	↓	3 cents per share vs 6 cents per share (interim 2015)

# Business Characteristics – 2016

(As disclosed 19 February)

Consistent with February observations:

- Iluka well placed for current global circumstances
  - strong balance sheet, good margins, value realisable from inventory
- Bias to act counter-cyclically and deploy capital now
- 2016 expectations:
  - Z/R/SR sales volumes higher than 2015 and higher than 2016 production
  - work in progress inventory drawdown
  - materially lower total cash costs and unit cash cost of production
  - low organic capital expenditure
  - free cash flow generation, strongly 2H weighted

# 2016 Key Physical & Financial Parameters

(As disclosed 19 February)



		Full Year 2016 Guidance	1H 2016 Actual	Guidance Commentary and Status Update
Z/R/SR production	kt	~660	334.4	Iluka expects aggregate Z/R/SR sales may exceed aggregate Z/R/SR production. <i>This remains on track with sales expected to be second half weighted, particularly zircon.</i>
Z/R/SR sales	kt	Not guided	316.4	
Total cash production costs (including ilmenite and by product costs)	\$m	~300	140.7	<i>Trending below February guidance currently</i>
Other cash costs	\$m	~190	99.5	Non production costs including Resources Development of which ~\$35m was allocated to progress innovative mining and processing solutions - expenditure first half weighted.
Restructure idle capacity, rehab	\$m	~ 65	28.4	<i>In line with guidance</i>
<b>Total cash costs</b>	<b>\$m</b>	<b>~555</b>	<b>268.6</b>	
Unit cost of goods sold per tonne of Z/R/SR (\$/t)	\$m	Not guided	717	<i>Lower than 2015 (\$821) reflecting mix factors</i>
Depreciation and amortisation	\$m	~75	44.1	<i>First half weighted as depreciation of mine specific equipment at Jacinth-Ambrosia suspended in line with mining and concentration suspension in April.</i>
Rehab unwind and other finance costs	\$m	~ 15	7.2	
Capital expenditure	\$m	~90	28.8	<i>Expenditure expected to be second half weighted.</i>

# Summary Group Results



\$m	1H 2016	2H 2015	1H 2015	1H 2016 vs 1H 2015 % change
<b>Mineral sands revenue</b>	<b>338.4</b>	<b>470.2</b>	<b>349.6</b>	<b>(3.2)</b>
<b>Mineral sands EBITDA</b>	<b>43.6</b>	<b>156.2</b>	<b>114.4</b>	<b>(61.9)</b>
Mining Area C royalty	20.8	22.2	39.0	(46.7)
<b>Group EBITDA</b>	<b>38.6</b>	<b>148.1</b>	<b>127.2</b>	<b>(69.7)</b>
Group EBITDA margin %	10.7	30.1	32.7	(37.3)
Depreciation and amortisation	(44.1)	(48.4)	(83.6)	47.2
<b>Group EBIT</b>	<b>(5.7)</b>	<b>99.5</b>	<b>43.5</b>	<b>(113.1)</b>
Net interest, rehab unwind and financing costs	(12.8)	(40.7)	(15.7)	18.5
<b>Profit (loss) before tax</b>	<b>(18.5)</b>	<b>58.8</b>	<b>27.8</b>	<b>(166.5)</b>
Tax expense	(2.4)	(25.7)	(7.4)	67.6
<b>Profit (loss) after tax</b>	<b>(20.9)</b>	<b>33.1</b>	<b>20.4</b>	<b>(202.5)</b>
EPS (cents per share)	(5.2)	7.9	4.9	n/a
Free cash (outflow) inflow	(50.6)	116.0	39.0	n/a
<b>Free cash (outflow) inflow (cents per share)</b>	<b>(12.1)</b>	<b>27.7</b>	<b>9.3</b>	<b>n/a</b>
Dividend – fully franked (cents per share)	3.0	19.0	6.0	(50.0)
<b>Net debt</b>	<b>(124.1)</b>	<b>6.0</b>	<b>(80.2)</b>	<b>(54.7)</b>
Gearing (net debt /net debt + equity) %	8.7	(0.4)	5.4	61.1
Return on capital % (annualised)	(1.4)	4.1	4.7	n/a
<b>Return on equity % (annualised)</b>	<b>(3.2)</b>	<b>3.8</b>	<b>2.9</b>	<b>n/a</b>
Average A\$/US\$ exchange rate	73.4	89.1	78.3	(6.3)



# Interim Dividend



- 3 cents interim dividend fully franked payable 6 October 2016
- Cumulative 72 per cent of free cash flow paid in dividends since dividends recommenced at end 2010

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<b>Distribution Metrics</b>	
1H 2016 free cash flow pay out ratio (%)	n/a
2010 – 30 June 2016 cumulative dividend payout ratio (%)	72
Cumulative free cash flow returned to shareholders (\$m)	727
Cumulative cents per share returned to shareholders (cents)	174
Cumulative retained free cash flow (\$m)	277

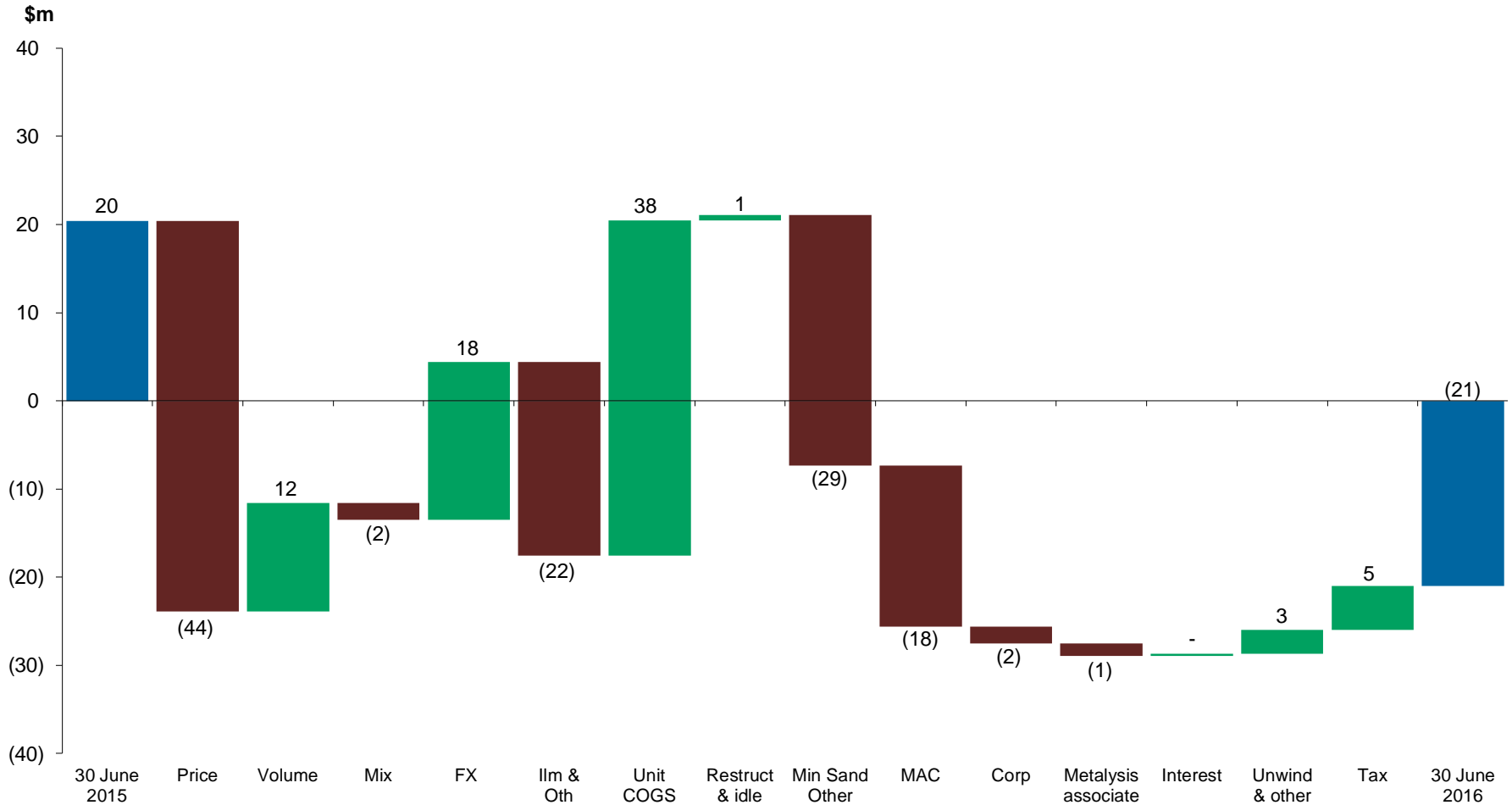
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(1) Free cash flow adjusted to align cash tax payments with corresponding earnings period.

- Iluka's stated distribution framework:
  - pay a minimum 40 per cent of FCF not required for investing or balance sheet activity
  - distribute maximum practicable available franking credits

# Net Loss after Tax

1H 2016 versus 1H 2015



# Factors Influencing Net Loss After Tax

1H 2016 versus 1H 2015

Net loss after tax of \$20.9 million (1H 2015: \$20.4 million profit)

- Mining Area C receipts \$18.2 million lower
  - iron ore price lower and nil capacity payments (1H 2015: \$3.0 million capacity payment)
  - 1H 2015 renegotiation one off payment of \$10.4 million – not repeated in 1H 2016
- Resource development costs up \$23.9 million
  - significant investment in trialling an innovative mineral sands mining technique
- Product margins maintained
  - lower USD prices (mainly zircon; sales mix (higher SR component of sales))
  - offset by lower unit cost of goods sold; higher volume; and favourable FX
- Restructure and idle costs are comparable, although composition changed
  - increased US feasibility costs for re-treatment and recovery of ZIC from tailings stocks
  - reduced Australian costs with restart of SR2 kiln in March 2015
- Tax expense on operating loss due to tax benefit associated with
  - US operating loss and international exploration expenditure

# Z/R/SR Unit Margin



		1H 2016	1H 2015	1H 2016 vs 1H 2015 % change
Unit Revenue	A\$/t Z/R/SR	1,015	1,130	(10.2)
Unit Cost of Goods Sold	A\$/t Z/R/SR	717	821	(12.7)
Gross Profit	A\$/t Z/R/SR	298	309	(3.6)
<b>Gross Margin</b>	<b>%</b>	<b>29</b>	<b>27</b>	

- Reduction in unit revenue more than offset by reduction in unit cost of goods sold
- Gross margin of Z/R/SR increased 2% to 29% from 1H 2015

# Mineral Sands Earnings

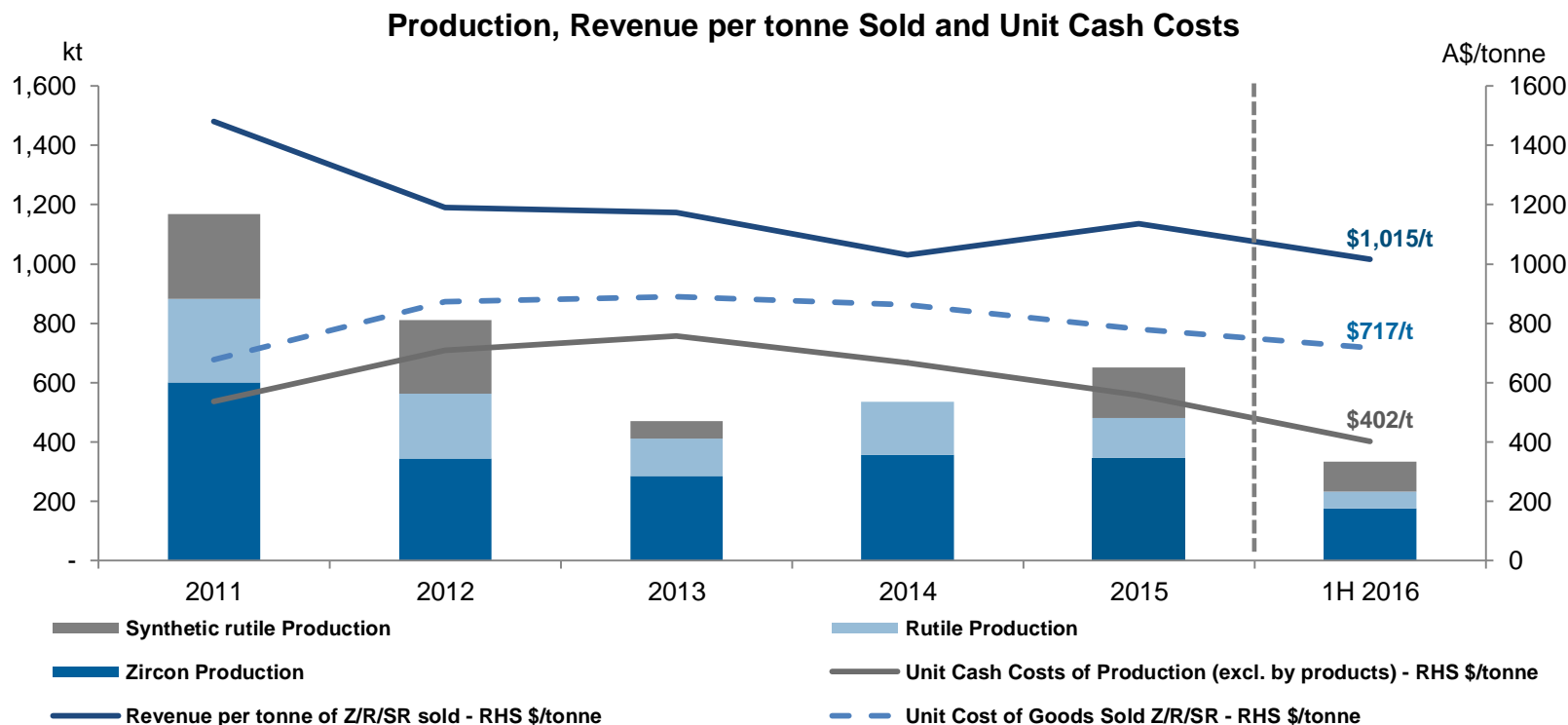


\$m	1H 2016	1H 2015	\$ change
Mineral sands revenue	338.4	349.6	(11.2)
Cost of Goods Sold	(226.9)	(226.5)	(0.3)
<b>Gross Profit</b>	<b>111.5</b>	<b>123.1</b>	<b>(11.5)</b>
Restructure and idle capacity charges	(26.8)	(27.4)	0.6
Rehabilitation and holding costs for closed sites	(1.6)	(1.1)	(0.5)
Government royalties	(9.4)	(7.8)	(1.6)
Marketing and selling costs	(18.4)	(17.2)	(1.2)
Assets sales and other income	0.9	2.2	(1.3)
Resource development	(47.1)	(23.2)	(23.9)
By-product costs	(6.2)	(5.0)	(1.2)
Idle and corporate depreciation charges	(3.5)	(12.8)	9.3
<b>Mineral sands EBIT</b>	<b>(0.5)</b>	<b>30.8</b>	<b>(31.3)</b>

- Increase in resource development costs is the primary reason for the reduction in mineral sands earnings
  - increase of \$24 million relates to trialling an innovative mining technique
- Gross profit reduction driven mainly by lower ilmenite sales and a reduction in USD pricing

# Strong Cost Performance

Supports continued investment in future projects

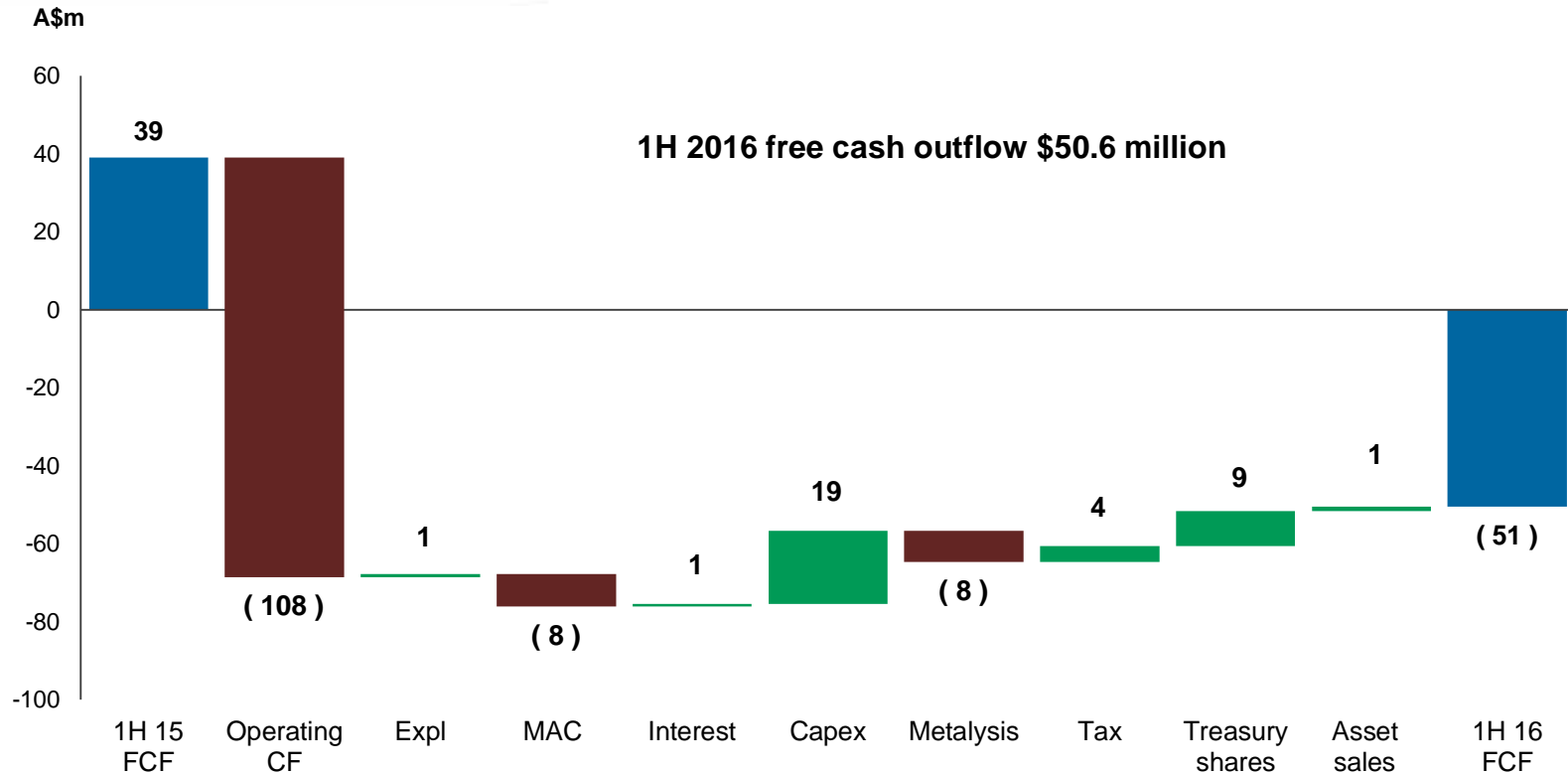


- Unit production cash cost reduction largely reflects
  - cessation of mining and concentrating activities at Jacinth-Ambrosia and Virginia
  - production of finished goods maintained from HMC inventory
- Cost of goods sold is a better indication of cash and non-cash cost of product sold in the period
  - continued downward trend to \$717/tonne Z/R/SR (full year 2015: \$780 per tonne)



# Free Cash Flow Movement

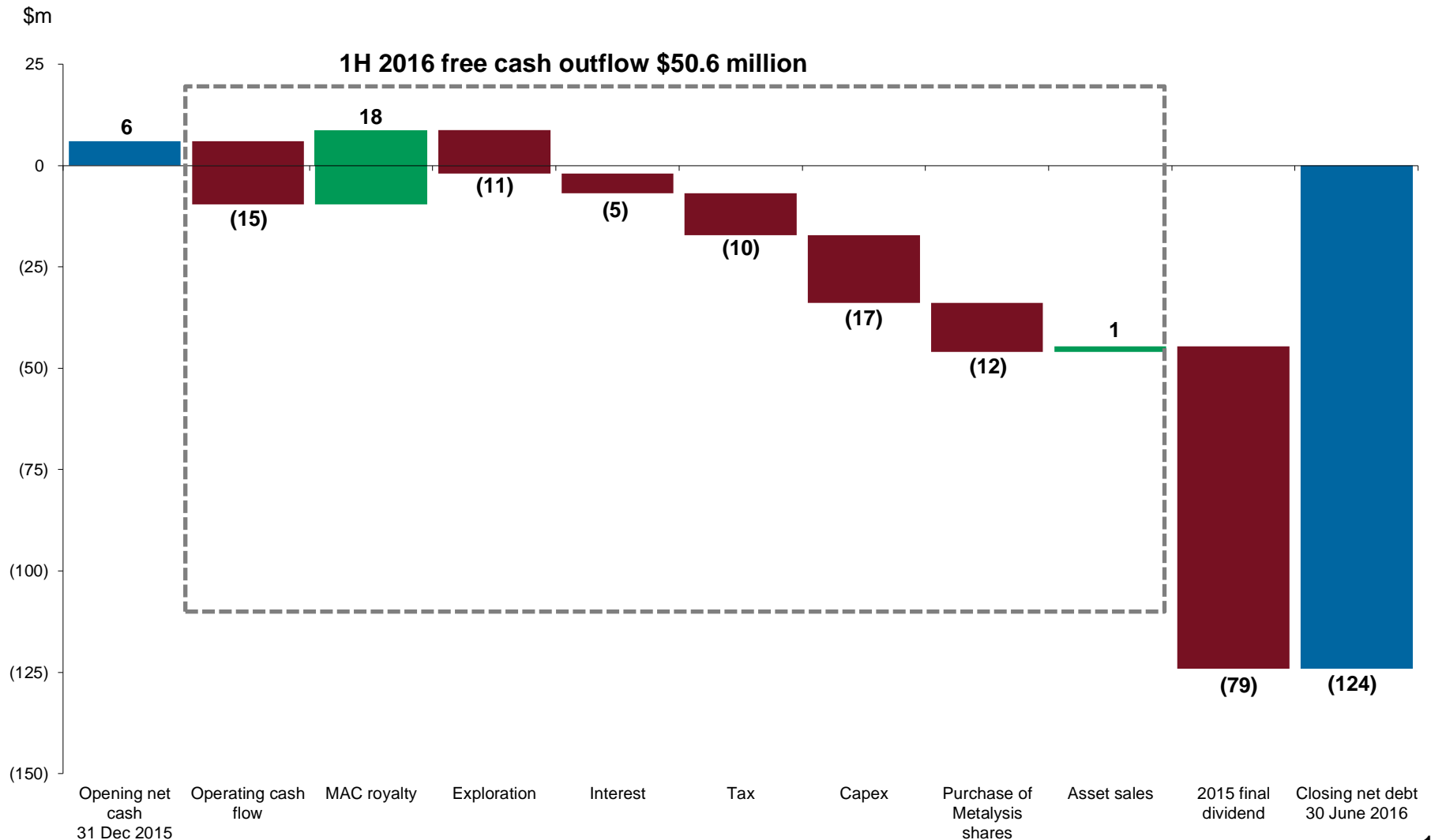
1H 2016 v 1H 2015



- Reduction in operating cash flow of \$108 million reflects:
  - an increase of \$103 million in trade receivables
  - higher resource development expenditure (\$24 million);
  - increased expenditure on rehabilitation works (\$11 million); offset by
  - lower cash production costs (\$35 million)

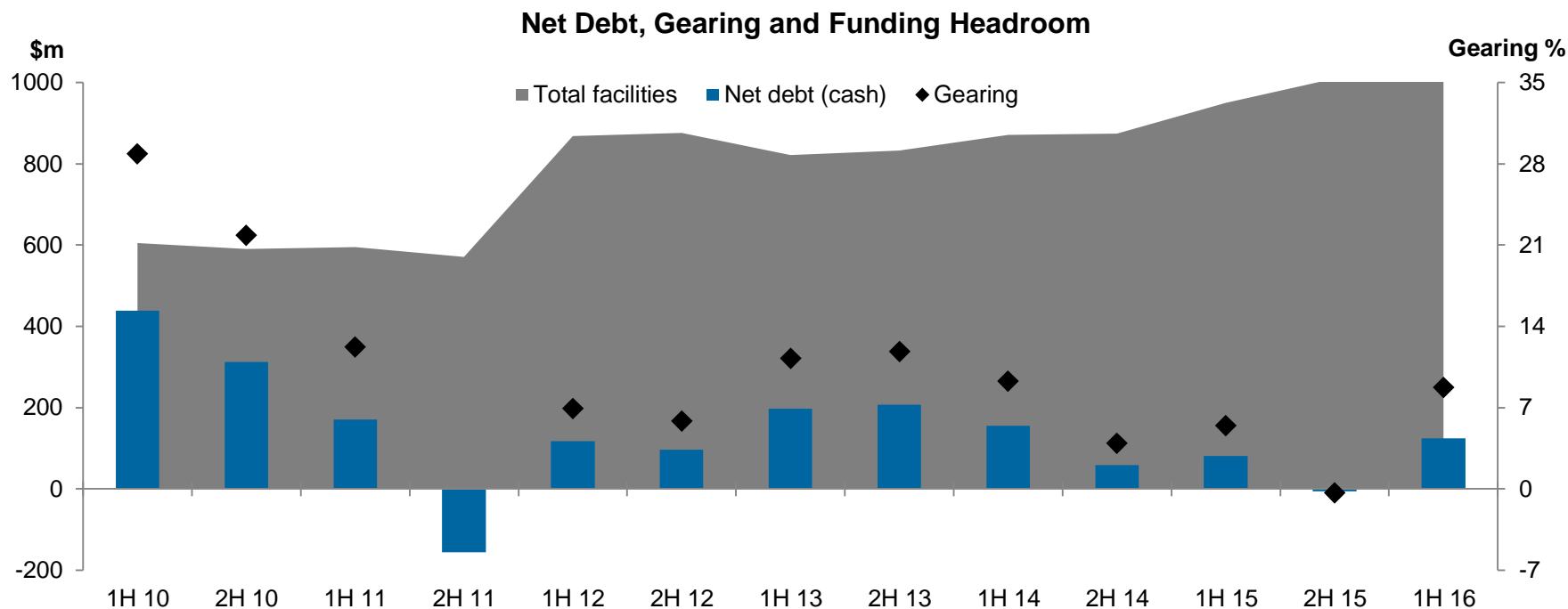
# Net Debt Movement

1H 2016



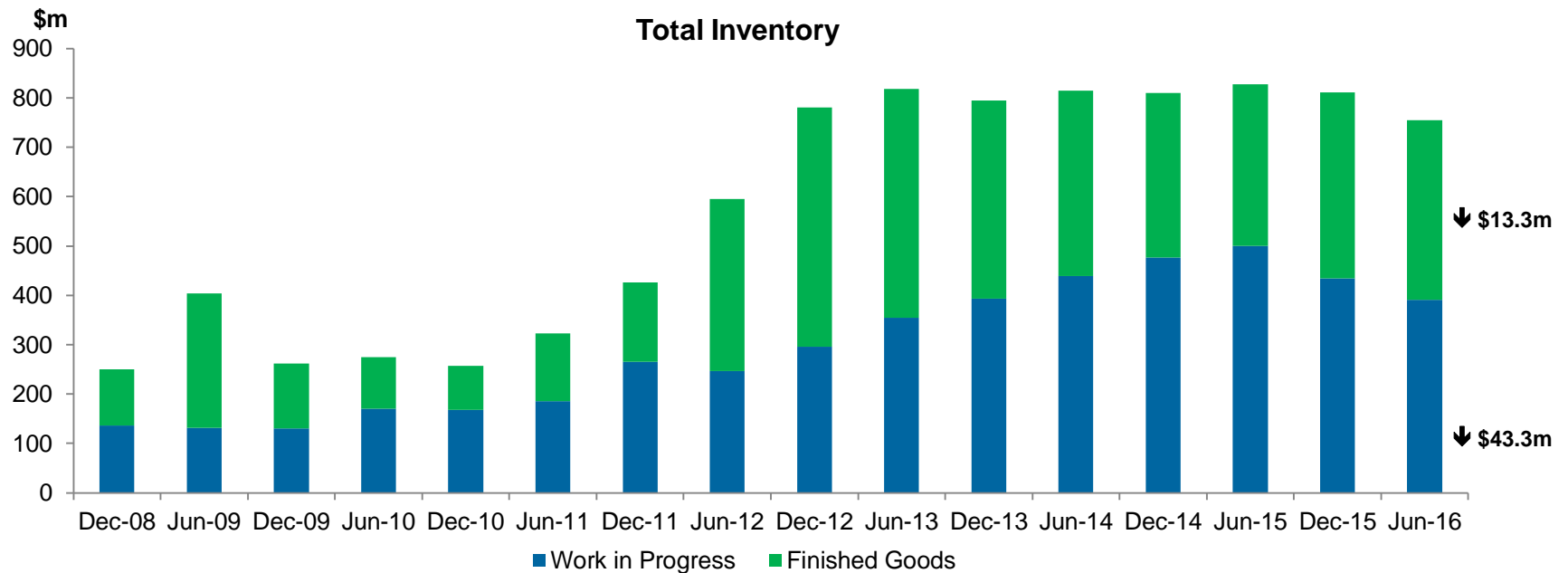


# Balance Sheet



- Modest debt drawdown
  - net debt (as at 30 June 2016) of \$124.1 million
  - gearing (net debt/net debt + equity) 8.7 per cent
- Significant funding headroom
  - undrawn facilities of \$828 million with total facilities of \$1,010 million
  - cash and cash equivalents of \$53 million

# Inventory



- Total inventory reduced by \$56.6 million to \$755.2 million (31 Dec 2015 - \$811.8 million)
  - work in progress and other inventory<sup>1</sup> drawn down by \$43.3 million
    - HMC volumes down 253 thousand tonnes
  - finished goods inventory decreased \$13.3 million
- Inventory expected to reduce to pre-2012 levels over ~2 years

<sup>1</sup> Ilmenite and consumables

# Mining Area C Royalty

1H 2016 versus 1H 2015



		<b>1H 2016</b>	<b>1H 2015</b>	<b>1H 2016 vs 1H 2015 % change</b>
Sales volumes	mdmt	25.4	27.5	(7.6)
Implied price	A\$/t	67.3	74.8	(10.2)
Net Royalty income	\$m	21.0	25.6	(17.6)
Annual capacity payments <sup>1</sup>	\$m	-	3.0	n/a
Agreement modification one-off receipt <sup>1</sup>	\$m	-	10.4	n/a
Iluka EBIT	\$m	20.8	39.0	(46.7)


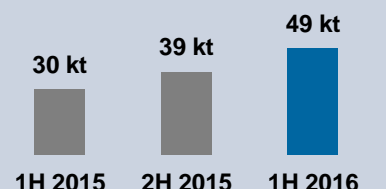
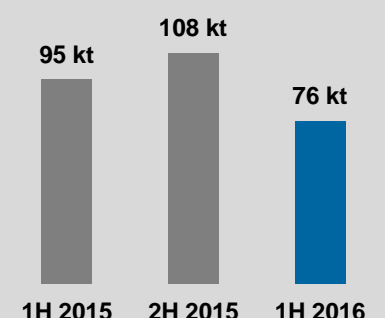
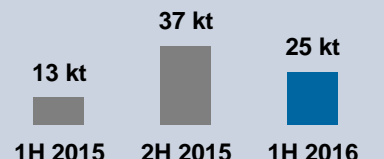
(mdmt = million dry metric tonnes)

- Royalty EBIT to 30 June decreased 46.8 per cent to \$20.8 million
  - iron ore prices (in AUD terms) down by 10.2 per cent
  - no capacity payments received in 1H 2016 (1H 2015: \$3.0 million)
  - one-off payment (\$10.4 million) received in 2015 as part of revised royalty rate arrangements

<sup>1</sup> Revenue recognised in 1H 2015, cash payment received 2H 2015

# Zircon Market

- Zircon sales in line with first half 2015
  - 154.5 kt in 1H 2016 (1H 2015: 153.4 kt)
  - sales typically second half weighted

Americas	EMEA (Europe, Middle East, Africa, India)	China	Asia																																
 <p>Bar chart showing Zircon sales in the Americas region for 1H 2015, 2H 2015, and 1H 2016. Sales are 15 kt, 10 kt, and 5 kt respectively.</p> <table border="1"> <tr><th>Period</th><th>Sales (kt)</th></tr> <tr><td>1H 2015</td><td>15</td></tr> <tr><td>2H 2015</td><td>10</td></tr> <tr><td>1H 2016</td><td>5</td></tr> </table>	Period	Sales (kt)	1H 2015	15	2H 2015	10	1H 2016	5	 <p>Bar chart showing Zircon sales in the EMEA region for 1H 2015, 2H 2015, and 1H 2016. Sales are 30 kt, 39 kt, and 49 kt respectively.</p> <table border="1"> <tr><th>Period</th><th>Sales (kt)</th></tr> <tr><td>1H 2015</td><td>30</td></tr> <tr><td>2H 2015</td><td>39</td></tr> <tr><td>1H 2016</td><td>49</td></tr> </table>	Period	Sales (kt)	1H 2015	30	2H 2015	39	1H 2016	49	 <p>Bar chart showing Zircon sales in China for 1H 2015, 2H 2015, and 1H 2016. Sales are 95 kt, 108 kt, and 76 kt respectively.</p> <table border="1"> <tr><th>Period</th><th>Sales (kt)</th></tr> <tr><td>1H 2015</td><td>95</td></tr> <tr><td>2H 2015</td><td>108</td></tr> <tr><td>1H 2016</td><td>76</td></tr> </table>	Period	Sales (kt)	1H 2015	95	2H 2015	108	1H 2016	76	 <p>Bar chart showing Zircon sales in Asia for 1H 2015, 2H 2015, and 1H 2016. Sales are 13 kt, 37 kt, and 25 kt respectively.</p> <table border="1"> <tr><th>Period</th><th>Sales (kt)</th></tr> <tr><td>1H 2015</td><td>13</td></tr> <tr><td>2H 2015</td><td>37</td></tr> <tr><td>1H 2016</td><td>25</td></tr> </table>	Period	Sales (kt)	1H 2015	13	2H 2015	37	1H 2016	25
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<ul style="list-style-type: none"> <li>• Softer demand due to weakness in some industrial sectors (e.g. oil &amp; gas)</li> <li>• Introduction of new products targeting specialty markets (incl. additive manufacturing): volume benefits expected in 2017</li> </ul>	<ul style="list-style-type: none"> <li>• Growth of Spanish and Italian ceramics markets associated with strengthening domestic and export markets</li> <li>• Indian demand for zircon up on new tile designs and underlying market strength</li> </ul>	<ul style="list-style-type: none"> <li>• Ceramics market demand stable led by sanitary ware</li> <li>• ZOC market weak with volume leakage from this to other sectors</li> <li>• Producer held inventories in China down ~90kt in 1H</li> </ul>	<ul style="list-style-type: none"> <li>• Consistent with other sectors in Japanese economy confidence is subdued impacting overall demand</li> <li>• Activity in rest of Asia remains consistent with expectations resulting in stable demand and sales</li> </ul>																																

# Zircon Market




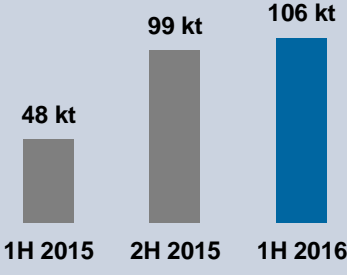
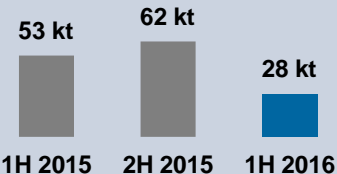
- Overall weighted average zircon price impacted by combination of factors
  - decline in Q1 prices
  - higher proportion of standard grade sales (40 per cent 1H 2016: 27 per cent full year 2015)
  - premium grade sales accounted for 47 per cent (compared with 60 per cent full year 2015)
  - higher sales of lower priced zircon concentrate material (monetisation of residue material 2015/2016)
  - Iluka’s response to major competitor price reduction in 2Q<sup>1</sup>
- Iluka advised in May of Reference Price increase by US\$60 per tonne for 3Q
  - in keeping with Iluka’s approach to encourage price stability
  - market pricing monitored in early part of quarter
  - Iluka has moderated its 3Q Reference Price

Weighted Average Price (US\$/tonne FOB)	1H 2015	2H 2015	1H 2016
Zircon - Premium and Standard	1,014	962	812
Zircon - All products, including concentrate and tailings material	1,000	928	787

<sup>1</sup> Refer Iluka ASX Release 7 April 2016, ~10% reduction in Iluka Zircon Reference Price to ~US\$950/tonne

# High Grade Feedstock Market

- Rutile and synthetic rutile sales 32% higher than 1H 2015
  - 161.9 kt in 1H 2016 (1H 2015: 122.5 kt)
  - Higher SR volumes with full half of kiln operation relative to 1H 2015 (restart March 2015)
  - Majority of high grade feedstocks contracted in 2016 (price/volume)

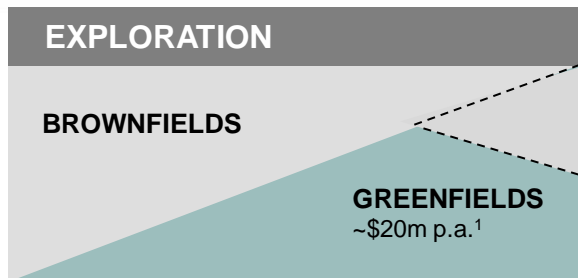
Americas	EMEA <sup>1</sup> (Europe, Middle East, Africa, India)	Asia <sup>1</sup>
 <p>21 kt    21 kt    27 kt</p> <p>1H 2015    2H 2015    1H 2016</p>	 <p>48 kt    99 kt    106 kt</p> <p>1H 2015    2H 2015    1H 2016</p>	 <p>53 kt    62 kt    28 kt</p> <p>1H 2015    2H 2015    1H 2016</p>
<ul style="list-style-type: none"> <li>• Demand for high-grade feedstocks strengthening consistent with demand for pigment and reported stresses in the supply chain</li> <li>• Sales to Americas solid with a second half weighting</li> </ul>	<ul style="list-style-type: none"> <li>• European pigment producers supported by strong demand in both domestic and export markets</li> <li>• Recent surge in sulphate ilmenite prices will benefit chloride route producers and suppliers</li> </ul>	<ul style="list-style-type: none"> <li>• Asian pigment plants predominately sulphate however Iluka's chloride customers and sales benefiting from pricing traction across industry</li> <li>• Welding market remains positive and influencing demand for rutile</li> </ul>

<sup>1</sup> China currently accounts for minimal sales volumes (<5 thousand tonnes) of high grade chloride feedstocks given its overwhelming sulphate pigment base. Small tonnages are, on occasions, sold into the China welding sector, but these are not material from a revenue point of view.

# High Grade Feedstock Market

- Confirmed signs of market recovery in chloride pigment market
  - pigment end use demand growth
  - more favourable industry production settings; evidence of pigment price traction
  - restocking activities (estimate 18 days supply pulled out of supply chain in 2015)
  - several Iluka customers pulled forward volumes
- Strengthening demand also evident in niche markets
- Rutile price increase secured in welding market in 2H 2016
  - shortages apparent in some markets and geographies
  - ~US\$50-90 per tonne increases secured for 3Q
  - supply constraints indicate acceleration in demand for pigments
- Majority of Iluka pigment sector volumes and prices contracted for 2016
- Industry characteristics favourable entering 2017

# Iluka Investment Portfolio



HIGH GRADE ORE	PRODUCTION
<b>SIERRA RUTILE</b> Equity value ~A\$380m Debt ~A\$ 80m Op capex ~A\$ 80m Exp capex ~A\$210m Total capex ~A\$745m <sup>2</sup>	R ~130 to >200ktpa Ch.IIm ~60ktpa

SULPHATE	PRODUCTION
<b>KENMARE</b> (unsuccessful)	S.IIm ~700ktpa Z ~20ktpa R ~20ktpa
<b>SRI LANKA PFS</b> (~\$10m) <sup>3</sup>	

CATABY	PRODUCTION
Capex ~ \$250 - \$ 275m <sup>4</sup>	Ch.IIm ~380ktpa (or SR ~200ktpa) Z ~50ktpa R ~30ktpa

BALRANALD	PRODUCTION*
<b>CONVENTIONAL</b> DFS complete	Capex ↓ Rutile ↓ Zircon ↓
<b>ALTERNATIVE</b> Lower capital intensity Scalable	* (Relative to conventional)

**RESOURCE TO RESERVE**

- Innovative mining and processing solutions
- Address production, marketability and environmental challenges

**METALYSIS**

- ~\$42m<sup>5</sup> investment for 26.0% equity
- Transformative technology
- SR feedstocks very suitable
- IPO potential

**BRAZIL**

- Resource development opportunities requiring innovative technical solutions

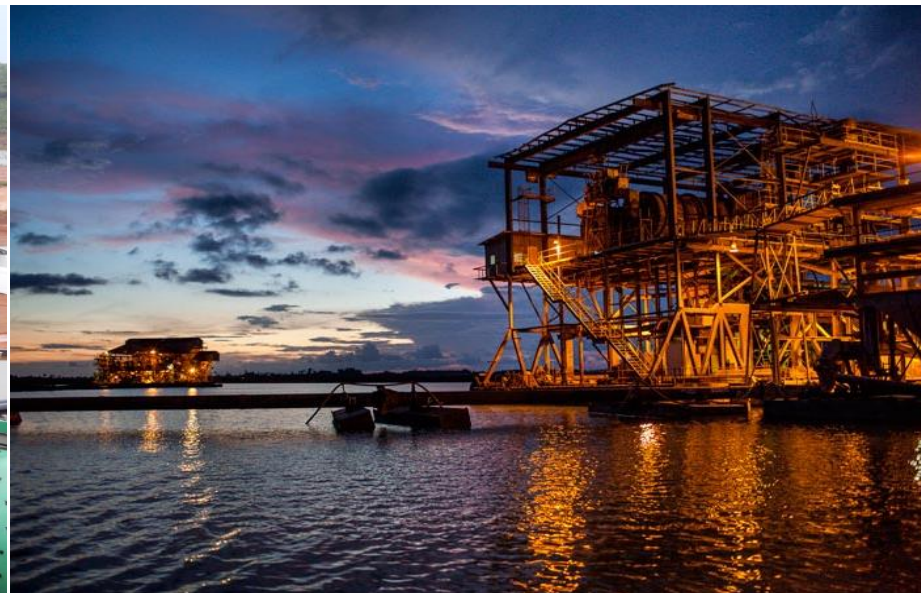


**NOTES**  
 All figures are in AUD  
 1. Indicates average annual gross exploration expenditure  
 2. As disclosed in SRL acquisition release, 1 August 2016  
 3. Cost of pre-feasibility study estimate  
 4. Estimated execute capital expenditure, range, subject to completion of detailed engineering estimates  
 5. Historical expenditure to acquire 26.0 per cent stake as at 30 June 2016



# Sierra Rutile Limited Acquisition

- All cash consideration of £215 million (A\$380 million) plus ~A\$80 million debt
  - board of SRL has provided unanimous recommendation
  - requires simple majority of more than 50 per cent of shares presented and voted at general meeting
  - institutional shareholder support from 68 per cent of shares on issue
  - SRL Shareholder Circular distributed; Shareholder Meeting 1 September
- Subject to approval of German anti-trust authority, completion expected September 2016
- Iluka refers investors to its ASX Release of today's date in relation to SRL shareholder capital gains tax<sup>1</sup>



<sup>1</sup> ASX Release, 25 August 2016, Sierra Rutile Limited Merger Update

# Strategic Rationale and Financial Merit



## Strategic Rationale

- Major producer of rutile globally
- Strong operating history, established customer relationships in an industry Iluka knows well
- Long life asset (20 plus years mine life)<sup>1</sup>
- Further potential in reserve optimisation, exploration opportunities in Sierra Leone
- Approximately doubles Iluka's resource base
- Production potential expansion from ~130ktpa to ~240ktpa
- Increased portfolio flexibility in relation to Iluka's internal production options
- Consistent with Iluka's counter-cyclical approach

## Financial Merit

- Attractive risk/return profile across range of scenarios
- Expected to be EPS accretive in first full year (2017) and thereafter
- FCF and DPS impact in any year subject to investment decisions across portfolio
- Peak debt is expected in 2018, dependent on phasing of Iluka's internal projects
- Post transaction gearing (net debt/net debt + equity) of ~25%
- Operational and resource conversion improvements; production expansion potential
- Balance sheet capacity (funding headroom) maintained ~A\$500 million post acquisition

<sup>1</sup> Subject to Iluka feasibility studies and resource assessment post acquisition. Source SRL Annual Report.

# Sierra Rutile - Physical & Financial Parameters <sup>1</sup>



	2014	2015	2016 (SRL Guidance)	Iluka Commentary 2017-2019
<b>Production Cash Costs (total)<sup>2</sup> (US\$m)</b>	73	77	68-76 <sup>3</sup>	Total production costs expected to average ~US\$80 – 90m p.a. Post Sembuhun (~2020), cash costs expected to be ~US\$115-125m. Refer capex requirements below.
<b>Unit Production Cash Costs<sup>2</sup> (US\$/t rutile)</b>	643	614	540-590	Unit production costs (before any co-product credits) expected to decline by ~10-20% from 2016 mid point guidance and by ~15-25% from 2015 actual levels.
<b>Rutile Production (kt)</b>	114	126	120-135	Rutile production is expected to average ~160 -175 kt pa with production in 2020 potentially >240 ktpa post Sembuhun development.
<b>Synergies (net of integration costs) (US\$m)</b>	Not disclosed	Not disclosed	Not guided	Net synergy savings after integration costs. Annual net synergies modest (~US\$2m p.a.) and relate mainly to duplicated costs.
<b>Capital expenditure (US\$m)</b>	17	31		Average capex is estimated at ~US\$70m per annum and includes: operational efficiency measures ~US\$60m, production expansion capital ~US\$160m, sustaining and other capital expenditure  The phasing of capital will be subject to feasibility studies, market demand and wider Iluka portfolio considerations. Capital is likely to be weighted to 2018 associated with operational efficiency measures and production expansions to offset the expected closure of Lanti Dredge. This rise is reflected in Iluka's comment regarding expected peak debt in 2018.

Note: All Iluka forecast numbers are in 2016 real dollars

<sup>1</sup> Initial guidance to assist equity market participants. The numbers are indicative and subject to modification following conclusion of the transaction and initial review/confirmatory activities.

<sup>2</sup> Production cash cost calculated as total direct costs of sales less depreciation, amortisation, freight costs and change in value of finished goods inventory. Total cash costs for rutile (and small tonnages of zircon-in-concentrate and ilmenite) are divided by rutile tonnes produced to calculate unit production cash cost. Does not include royalties, selling & distribution expenses, G&A/overheads, sustaining capital expenditure or co-product credits.

<sup>3</sup> Assumes mid point of SRL's unit production cash cost guidance (i.e. US\$565/t rutile) multiplied by SRL's rutile production guidance range (i.e. 120-135kt rutile)

# Sierra Rutile - Operational Improvements



## **Mining and mine processing**

- Mine reserve re-optimisation
  - initial Iluka reserve booking expected to be lower than SRL figures based on Iluka modifying factors
  - ore grade HM recovery expected to be higher
  - lower reserves expected to be replaced through resource conversion
  - resource replenished by drilling of prospective ground
- Revised mining method to reduce haulage, stockpiling and reclaim involving hybrid techniques used by Iluka
- Revised beneficiation plant design for current and future mines, de-constraining throughput and improving mining recovery
- Undertake 500tph (c/w 250tph) upgrades to existing mines
- Improve mine pit de-watering to access lower ore zones, improve tailings management and enable earlier tails backfill

## **Mineral separation**

- Higher peak throughputs expected to be achieved through equipment upgrades
- Upgrading of safety systems
- Iluka operating and control philosophies for improved quality control and lower re-processing

# Mineral Sands Projects - Cataby



- Definitive feasibility study complete, with all regulatory approvals
- Pre-execute activities undertaken to further optimise and de-risk project
- Conventional mine development with re-use of existing Iluka wet concentrator
- Ilmenite sufficient to supply SR2 and/or seaborne chloride ilmenite market
  - zircon and rutile production of ~50 and ~30 thousand tonnes per annum, respectively
  - estimated economic life of 8.5 years
- Capital estimate of ~\$250 - \$275 million (subject to completion of final detailed engineering estimates)
- Attractive project economics across a range of scenarios

# Mineral Sands Projects - Balranald



- Balranald - large, deep, high grade rutile-rich deposit, Murray Basin, NSW
- Industry significant source of ilmenite and zircon
- Definitive feasibility study based on conventional mining method complete
  - detailed work on mining with truck and shovel and /or continuous mining systems
  - associated infrastructure and dewatering and re-injection systems
  - majority of environmental regulatory approvals achieved
- Assessing an alternative, innovative, less capital intensive, scalable, flexible development path
  - field trials continue to validate approach
- Portfolio flexibility also possible in context of Sierra Rutile

## Iluka Shareholding

- Additional investment of ~\$20 million (as announced 18 February 2016)
- Iluka recognised its share of Metalysis' losses for the period of \$1.4 million since equity accounting commenced from 18 February 2016
- Equity interest (on final payment) will be ~28.6 per cent (currently 26.0 per cent); largest shareholder

## Commercial Demonstration

- Two vertical cells fully commissioned and operational
- Trials successfully completed 2Q with up to 6 multiple trays
  - focused on increasing vertical cell productivity
- New Generation 4 design completed for 20 tonne metal powder per annum plant
  - hot commissioning of commercial unit planned for end 2Q 2017
- Modular approach allows scale up to multiple hundreds of tonnes per annum output

## Technology Development

- Major powder development contracts progressing to schedule, e.g.
  - GKN (world's biggest metal powder producer)
  - Safran (major producer of aircraft landing gear and aerostructures)
  - major global automotive manufacturers
- SR, pigment based Ti 6/4 and Titanium intermetallic powders produced

## Major Projects

- Fit-out of Metalysis' Materials Discovery Centre underway
- Focussed on novel Ti based alloy powders, expected opening 3Q 2016

## Titanium Dioxide Feedstocks

- Further work on feedstocks, including development of “bespoke” synthetic rutile products
- SR capability to add other metals at the kiln stage via additives, ilmenite selection or blending
- Iluka metallurgical input to post-cell processing, flow sheet design, equipment, commissioning



# Outlook - 2H 2016

- Sales expected to be 2H weighted
- Free cash flow expected to be 2H weighted
- Lower unit cash costs – trend expected to continue
- Transition to new CEO
- Completion of SRL acquisition
  - integration activities and focus on early operational improvements
- Further progress on Balranald flexible development path
- Cataby development decision
- Moderate debt, funding headroom maintained



**ILUKA**



## Supplementary Slides



# Reconciliation of Non-IFRS Financial Information to Profit (Loss) before Tax

Non-IFRS financial measures of Mineral sands EBITDA, Mineral sands EBIT, Group EBITDA and Group EBIT are highlighted in the table below, together with profit before tax.

\$m	AUS	US	Exploration & Other <sup>(1)</sup>	Mineral Sands	MAC	Corp	Group
<b>Mineral sands revenue</b>	<b>329.4</b>	<b>9.0</b>		<b>338.4</b>			<b>338.4</b>
Mineral sands expenses	(214.3)	(26.1)	(54.4)	(294.8)			(294.8)
Mining Area C					21.0		21.0
Corporate and other costs						(25.5)	(25.5)
Share of Metalysis Ltd's losses						(1.4)	(1.4)
Foreign exchange						0.9	0.9
<b>EBITDA</b>	<b>115.1</b>	<b>(17.1)</b>	<b>(54.4)</b>	<b>43.6</b>	<b>21.0</b>	<b>(26.0)</b>	<b>38.6</b>
Depreciation and amortisation	(42.6)	-	(1.5)	(44.1)	(0.2)		(44.3)
<b>EBIT</b>	<b>72.5</b>	<b>(17.1)</b>	<b>(55.9)</b>	<b>(0.5)</b>	<b>20.8</b>	<b>(26.0)</b>	<b>(5.7)</b>
Net interest expense						(5.5)	(5.5)
Rehab unwind/other finance costs	(5.4)	(0.4)	-	(5.8)		(1.5)	(7.3)
<b>Profit (loss) before tax</b>	<b>67.1</b>	<b>(17.5)</b>	<b>(55.9)</b>	<b>(6.3)</b>	<b>20.8</b>	<b>(33.0)</b>	<b>(18.5)</b>
<i>Segment result</i>	<i>67.1</i>	<i>(17.5)</i>			<i>20.8</i>		<i>70.4</i>

<sup>1</sup> Comprises exploration and resources development costs (\$47.1m) and marketing and selling costs (\$7.8m), offset by other income \$0.5m

# Production Volumes

kt	1H 2016	1H 2015	% change
Zircon	175.5	163.3	7.5
Rutile	56.7	56.2	0.9
Synthetic rutile	102.2	57.4	78.0
<b>Total Z/R/SR production</b>	<b>334.4</b>	<b>276.9</b>	<b>20.8</b>
Ilmenite	164.1	195.1	(15.9)
<b>Total production volume</b>	<b>498.5</b>	<b>472.0</b>	<b>5.6</b>
Heavy mineral concentrate produced	244	632	(61.4)
Heavy mineral concentrate processed	497	526	(5.5)

# Sales Volumes



kt	1H 2016	1H 2015	% change
Zircon	154.5	153.4	0.7
Rutile	57.4	59.1	(2.9)
Synthetic rutile	104.5	63.4	64.8
<b>Total Z/R/SR</b>	<b>316.4</b>	<b>275.9</b>	<b>14.7</b>
Ilmenite	17.7	159.5	(88.9)
<b>Total sales volumes</b>	<b>334.1</b>	<b>435.4</b>	<b>(23.3)</b>

# Mineral Sands Results



\$m	1H 2016	1H 2015	% change
Mineral sands revenue	338.4	349.6	(3.2)
Australia EBITDA	115.1	148.7	(22.6)
United States EBITDA	(17.1)	(6.2)	(175.8)
Resource development and other EBITDA	(54.4)	(28.1)	(93.6)
<b>Total mineral sands EBITDA</b>	<b>43.6</b>	<b>114.4</b>	<b>(61.9)</b>
Depreciation and amortisation	(44.1)	(83.6)	47.2
<b>Mineral sands (loss)/earnings before tax</b>	<b>(0.5)</b>	<b>30.8</b>	<b>n/a</b>

# Unit Cash Costs and Revenue per tonne

		1H 2016	1H 2015	% change
Total Z/R/SR production	kt	334.4	276.9	20.8
Ilmenite	kt	164.1	195.1	(15.9)
Total production	kt	498.5	472.0	5.6
Total cash costs of production	\$m	140.7	175.5	19.8
Unit cash costs per tonne of Z/R/SR produced <sup>1</sup>	\$/t	402	616	34.7
Cost of goods sold per tonne of Z/R/SR sold <sup>2</sup>	\$/t	717	821	12.7
Z/R/SR revenue	\$m	321.1	311.7	3.0
Ilmenite and other revenue	\$m	17.3	37.9	(54.4)
Revenue per tonne of Z/R/SR sold <sup>3</sup>	\$/t	1,015	1,130	(10.2)

<sup>1</sup> Unit cash cost per tonne of Z/R/SR produced is determined as cash costs of production, excluding by-products, divided by total Z/R/SR production volumes.

<sup>2</sup> Cost of goods sold per tonne of Z/R/SR sold is determined as cost of goods sold, excluding by-products, divided by total Z/R/SR sales volumes.

<sup>3</sup> Revenue per tonne of Z/R/SR sold is determined as total Z/R/SR revenue divided by total Z/R/SR sales volumes.





# Cash Flow and Net Debt

\$m	1H 2016	1H 2015	2H 2015	1H 2016 vs 1H 2015 % change
<b>Opening debt</b>	<b>6.0</b>	<b>(59.0)</b>	<b>(80.2)</b>	<b>n/a</b>
Operating cash flow	(15.5)	92.1	130.1	n/a
MAC royalty	18.3	26.7	37.3	(31.5)
Exploration	(10.7)	(11.5)	(16.2)	7.0
Interest (net)	(4.9)	(5.6)	(4.9)	12.5
Tax	(10.3)	(14.3)	(4.2)	28.0
Capital expenditure	(16.7)	(35.5)	(26.8)	53.0
Purchase of investment in Metalysis	(12.1)	(4.1)	-	(195.1)
Asset sales	1.3	0.2	0.7	550.0
Share purchases	-	(9.0)	-	100.0
<b>Free cash flow</b>	<b>(50.6)</b>	<b>39.0</b>	<b>116.0</b>	<b>n/a</b>
Dividends	(79.5)	(54.4)	(25.1)	(46.1)
<b>Net cash flow</b>	<b>(130.1)</b>	<b>(15.4)</b>	<b>90.9</b>	<b>(744.8)</b>
Exchange revaluation of USD net debt	1.4	(4.6)	(3.5)	n/a
Amortisation of deferred borrowing costs	(1.4)	(1.2)	(1.2)	(16.7)
<b>(Decrease) / Increase in net debt</b>	<b>(130.1)</b>	<b>(21.2)</b>	<b>86.2</b>	<b>513.7</b>
<b>Closing net debt</b>	<b>(124.1)</b>	<b>(80.2)</b>	<b>6.0</b>	<b>(55.1)</b>

# Capital and Exploration Expenditure (cash)



<b>\$m</b>	<b>1H 2016</b>	<b>1H 2015</b>	<b>% change</b>
Capital expenditure	16.7	35.5	53.0
Metalysis	12.1	4.1	(195.1)
Exploration	11.3	11.5	1.7
<b>Total</b>	<b>40.1</b>	<b>51.1</b>	<b>21.5</b>

# Summary Group Operations



		1H 2016	1H 2015	% change
<b>Production volumes</b>				
Zircon	kt	175.5	163.3	7.5
Rutile	kt	56.7	56.2	0.9
Synthetic rutile	kt	102.2	57.4	78.0
<b>Total Z/R/SR production</b>	<b>kt</b>	<b>334.4</b>	<b>276.9</b>	<b>20.8</b>
Ilmenite	kt	164.1	195.1	(15.9)
Heavy mineral concentrate produced	kt	244	632	(61.4)
Heavy mineral concentrate processed	kt	497	526	(5.5)
Unit cash cost of production – Z/R/SR	\$/t	421	634	33.6
Z/R/SR revenue	\$m	321.1	311.7	3.0
Ilmenite and other revenue	\$m	17.3	37.9	(54.4)
<b>Mineral sands revenue</b>	<b>\$m</b>	<b>338.4</b>	<b>349.6</b>	<b>(3.2)</b>
Cash cost of production	\$m	(140.7)	(175.5)	19.8
Inventory movements	\$m	(51.7)	14.8	n/a
Restructure and idle capacity charges	\$m	(26.8)	(27.4)	2.2
Rehabilitation and holding costs for closed sites	\$m	(1.6)	(1.1)	(45.5)
Government royalties	\$m	(9.4)	(7.8)	(20.5)
Marketing and selling costs	\$m	(18.4)	(17.2)	(7.0)
Asset sales and other income	\$m	0.9	2.2	(59.1)
Resource development	\$m	(47.1)	(23.2)	(103.0)
<b>Mineral sands EBITDA</b>	<b>\$m</b>	<b>43.6</b>	<b>114.4</b>	<b>(61.9)</b>
Mineral sands depreciation and amortisation	\$m	(44.1)	(83.6)	47.2
<b>Mineral sands (Loss) / Earnings Before Tax</b>	<b>\$m</b>	<b>(0.5)</b>	<b>30.8</b>	<b>n/a</b>
Cost of goods sold <sup>1</sup>	\$m	(226.9)	(226.5)	(0.2)

<sup>1</sup> Cost of goods sold is calculated as cash costs of production excluding by-product costs, plus depreciation and amortisation plus movement in inventory.

# Australian Operations



		1H 2016	1H 2015	% change
<b>Production volumes</b>				
Zircon	kt	175.5	146.4	19.9
Rutile	kt	56.7	56.2	0.9
Synthetic rutile	kt	102.2	57.4	78.0
<b>Total Z/R/SR production</b>	<b>kt</b>	<b>334.4</b>	<b>260.0</b>	<b>28.6</b>
Ilmenite	kt	164.1	128.9	27.3
Total production	kt	498.5	388.9	28.2
Heavy mineral concentrate produced	kt	244	526	(53.5)
Heavy mineral concentrate processed	kt	497	413	20.2
Unit cash cost of production – Z/R/SR	\$/t	416	549	24.3
<b>Mineral sands revenue</b>	<b>\$m</b>	<b>329.4</b>	<b>335.3</b>	<b>(1.8)</b>
Cash cost of production	\$m	(139.0)	(142.8)	2.7
Inventory movements	\$m	(41.4)	(2.9)	1,327.6
Restructure and holding costs for closed sites	\$m	(14.4)	(23.0)	37.4
Government royalties	\$m	(9.4)	(7.8)	(20.5)
Marketing and selling costs	\$m	(10.5)	(10.2)	(2.9)
Asset sales and other income	\$m	0.4	0.1	300.0
<b>EBITDA</b>	<b>\$m</b>	<b>115.1</b>	<b>148.7</b>	<b>(22.6)</b>
Depreciation and amortisation	\$m	(42.6)	(82.6)	48.4
<b>EBIT</b>	<b>\$m</b>	<b>72.5</b>	<b>66.1</b>	<b>9.7</b>

# US Operations



		1H 2016	1H 2015	% change
<b>Production volumes</b>				
Zircon	kt	-	16.9	n/a
Ilmenite	kt	-	66.2	n/a
<b>Total production</b>	<b>kt</b>	<b>-</b>	<b>83.1</b>	<b>n/a</b>
Heavy mineral concentrate produced	kt	-	106	n/a
Heavy mineral concentrate processed	kt	-	113	n/a
Unit cash cost of production	\$/t	-	394	n/a
<b>Mineral sands revenue</b>	<b>\$m</b>	<b>9.0</b>	<b>14.3</b>	<b>(37.1)</b>
Cash cost of production	\$m	(1.7)	(32.7)	94.8
Inventory movements	\$m	(10.3)	17.7	n/a
Rehabilitation and idle capacity costs	\$m	(14.0)	(5.5)	(154.4)
Marketing and selling costs	\$m	(0.1)	-	n/a
<b>Loss Before Interest and Tax</b>	<b>\$m</b>	<b>(17.1)</b>	<b>(6.2)</b>	<b>(175.8)</b>

- All US mining and concentrating activities were idled in December 2016
- Cash costs of production largely reflect finished goods transport
- US Restructure and idle capacity charges reflect:
  - regional management, administration and holding costs;
  - regional asset care and maintenance costs; and
  - feasibility costs associated with planned re-treatment and recovery of zircon in concentrate from tailings stocks.



ILUKA

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