ILUKA

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ILUKA RESOURCES LIMITED

ABN 34 008 675 018

INTERIM REPORT

for the half-year 30 June 2019

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RESULTS FOR ANNOUNCEMENT TO THE MARKET

Provided below are the results for announcement to the market in accordance with Australian Securities Exchange (ASX) Listing Rule 4.2A and Appendix 4D for the Consolidated Entity comprising Iluka Resources Limited (Iluka) and its controlled entities for the half year ended 30 June 2019 (the current period) compared with the half year ended 30 June 2018 (the comparative period).

This report should be read in conjunction with the Annual Report for the year ended 31 December 2018, and public announcements made by Iluka during the half year ended 30 June 2019 in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the *ASX Listing Rules*.

All currencies shown in this report are Australian dollars unless otherwise indicated.

Revenue from ordinary activities	Down 8.0% to $609.3m
Net profit after tax for the period from ordinary activities	Up 8.8% to $137.2m
Net profit after tax for the period attributable to equity holders of the parent	Up 8.8% to $137.2m

Dividends
2019 interim: 5 cents per ordinary share (100% franked), to be paid in October 2019
2018 final: 19 cents per ordinary share (100% franked), paid in April 2019
2018 interim: 10 cents per ordinary share (100% franked), paid in September 2018

Key ratios	**1st Half 2019**	**1st Half 2018**
Basic profit per share (cents)	32.5	30.0
Diluted profit per share (cents)	32.3	30.0
Free cash flow per share[1] (cents)	(15.5)	53.4
Net tangible assets per share ($)	2.27	1.80

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

Dividend Reinvestment Plan (DRP)

The current Dividend Reinvestment Plan (DRP) was approved by the Board of Directors, effective for all dividends from the 2017 final dividend onwards. Under the plan, eligible shareholders can reinvest either all or part of their dividend payments into additional fully paid Iluka shares. The DRP remained active for the 2019 interim dividend.

The Directors have determined that no discount will apply for the DRP in respect of the 2019 interim dividend. Shares allocated to shareholders under the DRP for the 2019 interim dividend will be allocated at an amount equal to the average of the daily volume weighted average market price of ordinary shares of the Company traded on the ASX over the period of 10 trading days commencing on 10 September 2019. The last date for receipt of election notices for the DRP is 6 September 2019.

Independent auditor's review report

The Consolidated Financial Statements upon which this Appendix 4D is based have been reviewed.

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REVIEW OF RESULTS AND OPERATIONS

Review of Results

- Net profit after tax of $137.2 million
- Underlying Group EBITDA of $273.9 million
- Free cash outflow of $65.2 million, increasing net debt to $141.5 million (10.7% gearing)
- Interim dividend of 5 cents per share, fully franked

Revenue

Mineral sands revenue decreased by 10% to $545.6 million in the first half of 2019, reflecting a 31% reduction in zircon/rutile/synthetic rutile (Z/R/SR) sales volumes to 302 thousand tonnes from the previous corresponding period. In the first half of 2018, sales of Z/R/SR exceeded production by 88 thousand tonnes, as inventory levels returned to 'normalised' levels throughout last year. In the first half of 2019, sales of high grade titanium dioxide feedstock (rutile and synthetic rutile) were 169 thousand tonnes compared to production of 164 thousand tonnes, with sales constrained by production volumes. Zircon sales volumes lagged production by 27 thousand tonnes at 133 thousand tonnes in H1 2019, with sales affected by trade and geopolitical tensions impacting sentiment in key markets.

In contrast, sales price increases were achieved across the product suite. Iluka's weighted average zircon premium and standard price received in the first half 2019 was 19% higher than the first half of 2018, with the Zircon Reference Price set at US$1,580 per tonne effective for 12 months from 1 October 2018. Rutile prices, excluding HyTi, rose 22% on average from the first half 2018. Synthetic rutile sales are, in large part, underpinned by commercial off-take arrangements and the terms of these arrangements are commercial in confidence and as such cannot be disclosed.

Sales (kt)	1st Half 2019	1st Half 2018	% change
Zircon	133.3	189.6	(29.7)
Rutile	82.9	136.1	(39.1)
Synthetic rutile	85.6	112.9	(24.2)
Total Z/R/SR sales	**301.8**	**438.6**	(31.2)
Ilmenite – saleable	121.5	119.5	1.7
Total sales volumes	**423.3**	**558.1**	(24.2)
Z/R/SR revenue ($m)	507.2	566.6	(10.5)
Ilmenite and other revenue($m)	38.4	40.3	(4.7)
Total mineral sands revenue[1]($m)	**545.6**	**606.9**	(10.1)
Revenue per tonne of Z/R/SR sold[2]($/t)	1,681	1,292	30.1

[1] Mineral sands revenue includes revenue derived from other materials not included in production volumes, including activated carbon products and iron concentrate.
[2] Calculated as revenue from the sale of zircon, rutile and synthetic rutile (Z/R/SR) products divided by Z/R/SR sales volumes.

Earnings

Iluka recorded a profit after tax for the half-year ended 30 June 2019 of $137.2 million (2018: $126.1 million), with the improvement in earnings reflecting higher sales prices; depreciation of the AUD:USD foreign exchange rate, which favourably impacts mainly USD denominated revenue; and increased Mining Area C (MAC) royalty revenue following the run-up of iron ore prices in 2019.

Iluka's underlying mineral sands EBITDA decreased relative to 2018, down by 7% to $232.7 million. This result predominantly reflects lower mineral sands revenue following the completion of inventory drawdowns. Cash production costs increased by $26.9 million to $251.8 million with the commencement of mining operations at Cataby and higher maintenance costs at Sierra Rutile.

Iluka's royalty income from MAC increased to $41.2 million, with iron ore prices up 43% and sales volumes up by 2%. No capacity payment was received in 2019 (2018: $1 million).

Earnings per share for the period were 32.5 cents compared to an earnings per share of 30.0 cents in the previous corresponding period. The number of shares on issue at 30 June 2019 of 422.5 million increased from 422.0 million in 2018 due to the activation of the dividend reinvestment plan (DRP) for the 2018 final dividend paid in April 2019.

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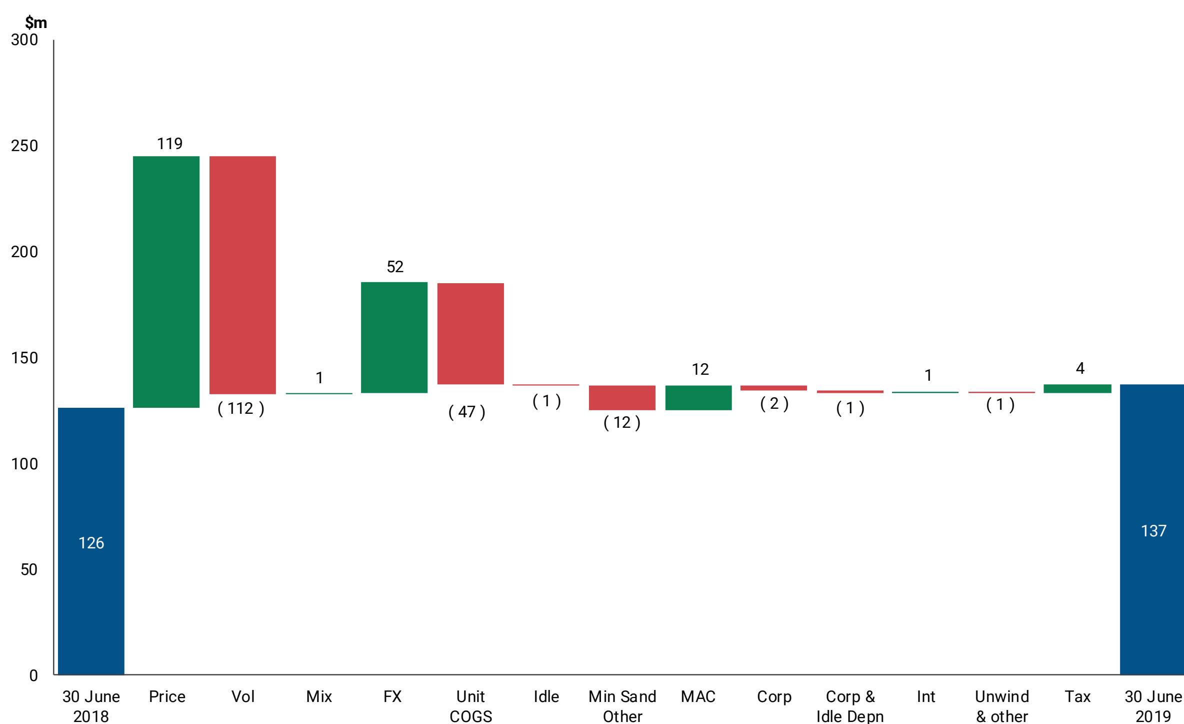
Income statement analysis

$ million	1st Half 2019	1st Half 2018	% change
Z/R/SR revenue	507.2	566.6	(10.5)
Ilmenite and other revenue	38.4	40.3	(4.7)
Mineral sands revenue	**545.6**	**606.9**	(10.1)
Cash costs of production	(251.8)	(224.9)	(12.0)
Inventory movement - cash costs of production	36.8	(49.8)	n/a
Restructure and idle capacity charges	(11.8)	(10.8)	(9.3)
Government royalties	(21.5)	(17.9)	(20.1)
Marketing and selling costs[1]	(15.2)	(18.0)	15.6
Asset sales and other income	(3.2)	1.0	n/a
Resource development	(19.4)	(12.5)	(55.2)
Corporate and other costs	(25.9)	(23.6)	(9.7)
Foreign exchange gain (loss)	(0.9)	(1.1)	18.2
Underlying mineral sands EBITDA[2]	**232.7**	**249.3**	(6.7)
Mining Area C EBITDA	41.2	29.2	41.1
Underlying Group EBITDA	**273.9**	**278.5**	(1.7)
Depreciation and amortisation	(64.7)	(42.6)	(51.9)
Inventory movement - non-cash production costs	8.0	(25.5)	n/a
Rehabilitation costs for closed sites	(0.3)	(0.5)	40.0
Group EBIT	**216.9**	**209.9**	3.3
Net interest and bank charges	(6.3)	(7.1)	11.3
Rehabilitation unwind and other finance costs	(9.8)	(9.2)	(6.5)
Profit before tax	**200.8**	**193.6**	3.7
Tax expense	(63.6)	(67.5)	5.8
Profit for the period (NPAT)	**137.2**	**126.1**	8.8
Average AUD/USD rate for the period (cents)	**70.6**	**77.2**	(9.3)

[1] Freight revenue and expenses are included as a net number in marketing and selling costs.

[2] Underlying Group EBITDA excludes non-recurring adjustments including impairments and changes to rehabilitation provisions for closed sites which are non-cash in nature.

Movement in NPAT



The key drivers for the movement in NPAT from the 2018 half year were:

- improved sales prices across the product suite, with average zircon prices up 19% and rutile prices up 22%;
- lower Z/R/SR sales volumes at 302 thousand tonnes (2018: 439 thousand tonnes), with the volume variance calculated using the average margin achieved for Z/R/SR product sales in the current period;
- the average Australian dollar foreign exchange rate was lower at 71 cents in the first half 2019 compared to 77 cents achieved on sales in the previous corresponding period;
- increased unit COGS to $861 per tonne in the first half of 2019 (2018: $753 per tonne) due to a combination of factors including higher synthetic rutile unit COGS mainly driven by changes in ilmenite feedsource as mining has transitioned to Cataby; a greater proportion of higher cost SRL rutile in the sales mix combined with production inefficiencies at SRL that have further increased that unit cost. The increased SRL unit cost has been further exacerbated by foreign exchange movements on SRL's US-denominated cost base and increased depreciation costs following the capital improvement works;
- higher mineral sands other expenses due to increased resource development costs of $6 million for the Wimmera project prefeasibility study, higher government royalties at JA, and disposal of obsolete plant and equipment; and
- higher royalty received from Mining Area C due to higher iron ore prices.

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Cash flow and balance sheet

Operating cash flow for the 2019 half year was $179.9 million (2018: $306.5 million) reflecting lower receipts from customers due to lower revenue combined with the timing of debtor factoring and collection in comparison to the first half of 2018.

Capital expenditure was $145.0 million (2018: $93.6 million) reflecting the completion of the Cataby mine development in the first half 2019; the planned major maintenance outage at the SR2 kiln in preparation for receiving the Cataby ilmenite feed source and the next 4 year campaign; the Ambrosia mine move, which is expected to be completed in Q3 2019; and completion of the Gangama expansion at Sierra Rutile and progress on the Lanti mine expansion.

Inventory in Australian operations increased in the first half as global uncertainty weighed on zircon demand, with inventory levels for the remainder of the finished goods product suite remaining steady from the prior period. Cataby also built some ore inventory as the mine was established in 2019.

Tax payments represent both income tax payments in Australia and Sierra Leone. Tax instalments in Australia have been based on the instalment rate provided by the Australian Tax Office (ATO). A final 2018 tax instalment of $127 million was made in June 2019 reflecting the low tax instalments paid during 2018. Sierra Rutile Limited's annual Sierra Leone income tax payments are the greater of 3.5% of revenue or 30% of profit, based on the *Sierra Rutile Act*.

In June 2019, Iluka formally established the strategic partnership with International Finance Corporation (IFC) in Sierra Leone, with the agreement practically completing and the first subscription of US$20 million occurring in late June.

In July 2019, Iluka completed a refinancing of its Multi Option Facility Agreement (MOFA), which comprises a series of five year committed unsecured bilateral revolving credit facilities, with a number of leading domestic and foreign banks. The refinancing has resulted in improved margins and fees. All facilities have a 5 year term and now mature in July 2024. Following an assessment of its medium term liquidity requirements, the Company reduced the size of its facilities by $100 million to approximately $520 million. Drawings under the MOFA at 30 June 2019 were $192.0 million (31 December 2018: $50.4 million).

Net debt increased to $141.5 million from net cash of $1.8 million at 31 December 2018, with gearing (net debt / net debt + equity) increased to 10.7% as at 30 June 2019 (31 December 2018: %nil).

Net debt at 31 July 2019 was $108.7 million.

Movement in net debt ($million)	1st Half 2018	2nd Half 2018	1st Half 2019
Opening net cash (debt)	**(182.5)**	**(34.4)**	**1.8**
Operating cash flow	306.5	287.7	179.9
MAC royalty	29.6	26.2	30.4
Exploration	(4.6)	(7.1)	(5.0)
Interest (net)	(4.7)	(1.9)	(2.9)
Tax	(2.4)	(2.8)	(143.9)
Capital expenditure	(93.6)	(217.9)	(145.0)
Proceeds from changes in ownership interests	-	-	28.5
Payment for hedging option contracts	-	(0.6)	-
Principle element of lease payments AASB 16	-	-	(4.0)
Asset sales	1.1	1.3	1.8
Share purchases	(6.4)	(6.0)	(5.0)
Free cash flow	**225.5**	**78.9**	**(65.2)**
Dividends	(69.2)	(39.1)	(79.6)
Net cash flow	**156.3**	**39.8**	**(144.8)**
Exchange revaluation of USD net debt	(7.3)	(2.9)	1.8
Amortisation of deferred borrowing costs	(0.9)	(0.7)	(0.3)
Increase in net debt	**148.1**	**36.2**	**(143.3)**
Closing net debt	**(34.4)**	**1.8**	**(141.5)**

Dividends

Iluka's dividend framework is to pay a minimum of 40% of free cash flow not required for investing or balance sheet activity. The company also seeks to distribute the maximum franking credits payable.

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Production

Production (kt)	1st Half 2019	1st Half 2018	% change
Zircon	159.9	158.9	0.6
Rutile	80.8	82.8	(2.4)
Synthetic rutile	82.8	109.3	(24.2)
Total Z/R/SR production	**323.5**	**351.0**	**(7.8)**
Ilmenite	125.0	210.8	(40.7)
Total Mineral Sands Production	**448.5**	**561.8**	**(20.2)**
HMC produced	480	469	2.3
HMC processed	456	529	(13.8)
Cash costs of production ($m)	**251.8**	**224.9**	**(12.0)**
Unit cash cost per tonne of Z/R/SR produced[1]($/t)	778	641	(21.4)
Unit cash cost per tonne of Z/R/SR produced excluding by-products ($/t)	755	619	(22.3)
Unit cost of goods sold per tonne of Z/R/SR sold ($/t)	861	753	(14.3)

[1] Unit cash cost per tonne of Z/R/SR produced is determined as cash costs of production divided by total Z/R/SR production volumes.

Australian Operations

At Jacinth-Ambrosia, Iluka's primary zircon mine in South Australia, operations continued at full capacity at Jacinth North ahead of the planned move to the Ambrosia deposit later in the year. The mine continued with strong production over the first half of 2019, with 240 thousand tonnes of heavy mineral concentrate (HMC) transported to the Narngulu mineral separation plant (MSP) for final separation and export. Zircon production attributable to Jacinth-Ambrosia in the first half was 137 thousand tonnes.

The Cataby project in Western Australia was successfully commissioned over the first half of 2019 and within budget. Cataby has produced 66 thousand tonnes of HMC in the first half. Transport of HMC commenced over the period with magnetic material being trucked south to Capel for processing into ilmenite and then upgrading to synthetic rutile in the kiln, while non-magnetics (rutile and zircon) have been trucked north to the Narngulu MSP.

During the first quarter of 2019, Iluka's synthetic rutile kiln 2 (SR2) at Capel, Western Australia underwent a major maintenance outage. The outage was completed in 45 days, and the kiln was restarted and returned to full capacity ahead of schedule. Production in the first half was 83 thousand tonnes of synthetic rutile, largely from stockpiled ilmenite as the Cataby mine ramps up. The kiln is now expected to run for a full campaign of four years.

Sierra Leone Operations

Sierra Rutile produced 60 thousand tonnes of rutile in the first half. This result reflects the planned decommissioning of the Lanti dredge, which safely ceased operating in February 2019.

At the Lanti mine, efforts to improve throughput and runtime have continued with detailed reviews of maintenance practices and outcomes finalised during the period. An external specialist maintenance team has been deployed to site to address stability and other issues and to train the permanent workforce to ensure production rates achieve targeted levels.

Commissioning and ramp up of the Gangama expansion project occurred successfully, with the plant reaching design rates in June.

Rutile production from Sierra Rutile is expected to be second half weighted with the completion and commissioning of the two expansion projects at Lanti and Gangama.

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Jacinth-Ambrosia/Mid West

		1st Half 2019	1st Half 2018	% change
Production volumes				
Zircon	kt	137.2	142.6	(3.8)
Rutile	kt	17.5	19.6	(10.7)
Total Z/R/SR production	**kt**	**154.7**	**162.2**	**(4.6)**
Ilmenite - saleable and upgradeable	kt	58.2	63.0	(7.6)
Total production volume	**kt**	**212.9**	**225.2**	**(5.5)**
HMC produced	kt	291	329	(11.6)
HMC processed	kt	244	258	(5.4)
Unit cash cost of production - Z/R/SR [1]	$/t	529	491	(7.7)
Mineral sands revenue	**$m**	**242.4**	**244.6**	**(0.9)**
Cash cost of production	$m	(81.8)	(79.7)	(2.6)
Inventory movements - cash costs of production	$m	29.6	1.9	n/a
Restructure and idle capacity charges	$m	(1.7)	(2.0)	15.0
Government royalties	$m	(13.8)	(11.9)	(15.6)
Marketing and selling costs [2]	$m	(3.1)	(3.3)	6.1
Asset sales and other income	$m	-	0.3	n/a
EBITDA	**$m**	**171.6**	**149.9**	**14.5**
Depreciation & amortisation	$m	(14.1)	(11.3)	(24.8)
Inventory movement - non-cash production costs	$m	6.9	(2.7)	n/a
EBIT	**$m**	**164.4**	**135.9**	**21.0**

[1] Calculated as cash costs of production, including by-product costs divided by Z/R/SR production.
[2] Freight revenue and expenses are included as a net number in marketing and selling costs.

Total Z/R production decreased 5% from the previous corresponding period reflecting slightly lower feed into Narngulu MSP, as Plant 1 has been prepared to process Cataby material in the second half of 2019.

Mineral sands revenue decreased 1% from the previous corresponding period to $242.4 million (2018: $244.6 million) reflecting lower sales volumes, offset by higher zircon and rutile prices.

Cash costs of production were $2.1 million higher than the previous corresponding period. The change predominantly reflects an increase in transport costs.

The inventory movement predominantly reflects an increase of finished goods stocks, with finished goods inventory increasing by $17.9 million to $96.5 million at 30 June 2019.

Depreciation and amortisation charges have increased 25% from the previous corresponding period due mainly to the impact of changed accounting standards related to operating leases, with expenses now reflected in Depreciation rather than as an operating cost.

Government royalties increased 16% to $13.8 million, reflecting higher pricing.

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Cataby/South West

		1st Half 2019	1st Half 2018	% change
Production volumes				
Zircon	kt	18.6	6.7	177.6
Rutile	kt	3.6	2.1	71.4
Synthetic rutile	kt	82.8	109.3	(24.2)
Total Z/R/SR production	**kt**	**105.0**	**118.1**	**(11.1)**
Ilmenite - saleable and upgradeable	kt	40.5	91.6	(55.8)
Total production volume	**kt**	**145.5**	**209.7**	**(30.6)**
HMC produced	kt	66	-	100.0
HMC processed	kt	86	113	(23.9)
Unit cash cost of production - Z/R/SR [1]	$/t	833	495	68.3
Mineral sands revenue	**$m**	**167.0**	**153.6**	**8.7**
Cash cost of production	$m	(87.5)	(60.1)	(45.6)
Inventory movements - cash costs of production	$m	20.5	(4.5)	n/a
Restructure and idle capacity charges	$m	(5.3)	(2.4)	(120.8)
Government royalties	$m	(2.4)	(1.7)	(41.2)
Marketing and selling costs [2]	$m	(3.5)	(5.6)	37.5
Asset sales and other income	$m	(0.3)	0.7	n/a
EBITDA	**$m**	**88.5**	**80.0**	**10.6**
Depreciation & amortisation	$m	(20.2)	(10.2)	(98.0)
Inventory movement - non-cash production costs	$m	4.5	(1.3)	n/a
Rehabilitation costs for closed sites	$m	(0.2)	(1.0)	80.0
EBIT	**$m**	**72.6**	**67.5**	**7.6**

[1] Calculated as cash costs of production, including by-product costs divided by Z/R/SR production.
[2] Freight revenue and expenses are included as a net number in marketing and selling costs.

Total Z/R/SR production decreased by 11% from the previous corresponding period due to the 45 day planned major maintenance outage (MMO) at the synthetic rutile kiln in the South West.

Mineral sands revenue increased 9% from the previous corresponding period to $167.0 million (2018: $153.6 million) reflecting higher achieved Z/R/SR prices, partially offset by lower sales volumes.

Cash costs of production were $27.4 million higher than the previous corresponding period. The change predominantly reflects the commencement of mining and concentrating activities at Cataby in April 2019 offset by lower synthetic rutile upgrade costs as the kiln was offline for 45 days due to the MMO.

The inventory build predominantly reflects the establishment of ore and HMC stockpiles at the Cataby operation.

Depreciation and amortisation charges increased 98% from the previous corresponding period due to the start of operations at Cataby. Restructure and idle capacity charges were higher than the prior period, at $5.3 million, reflecting some non-capital costs, including training and camp costs, at Cataby prior to commissioning.

Sierra Rutile Operations

		1st Half 2019	1st Half 2018	% change
Production volumes				
Zircon	kt	4.1	5.1	(19.6)
Rutile	kt	59.7	61.1	(2.3)
Ilmenite	kt	26.3	25.6	2.7
Total production volume	**kt**	**90.1**	**91.8**	**(1.9)**
HMC produced	kt	123	119	3.4
HMC processed	kt	125	118	5.9
Unit cash cost of production - Z/R	$/t	1216	1162	(4.6)
Mineral sands revenue	**$m**	**111.8**	**88.5**	**26.3**
Cash cost of production	$m	(77.6)	(76.9)	(0.9)
Inventory movements - cash costs of production	$m	(6.7)	5.6	n/a
Government royalties	$m	(4.7)	(3.0)	(56.7)
Marketing and selling costs [1]	$m	0.3	(0.2)	n/a
EBITDA	**$m**	**23.1**	**14.0**	**65.0**
Depreciation & amortisation	$m	(27.5)	(19.7)	(39.6)
Inventory movement – non-cash costs of production	$m	(1.7)	1.4	n/a
EBIT	**$m**	**(6.1)**	**(4.3)**	**(41.9)**

[1] Freight revenue and expenses are included as a net number in marketing and selling costs.

Sierra Rutile's total Z/R production was 4% lower than the corresponding prior period as a result of the decommissioning of the Lanti dredge in the first quarter of 2019.

Mineral sands revenue was $111.8 million derived from 67 thousand tonnes of Z/R sales volumes and 27 thousand tonnes of ilmenite sales.

Cash costs of production of $77.6 million increased from the previous corresponding period due to foreign exchange, with local US dollar cash costs lower due to lower plant utilisation and runtime.

The inventory movement reflects an inventory drawdown of finished goods stocks, decreasing $8.4 million to $35.3 million.

The Sierra Rutile operations generated positive operating cash inflow in the first half of 2019 of $33.1 million (2018: $24.9 million).

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Marketing

Zircon

First half zircon sales of 133 thousand tonnes were lower than the previous corresponding period (2018: 190 thousand tonnes).

Iluka noted previously that first quarter sales were in line with seasonal norms and underlying demand was stable. In the second quarter, the negative business sentiment around continued political and trade tensions has translated into purchasing decisions and contributed to slower economic conditions. Furthermore, in China, the strict implementation of environmental regulations has maintained pressure on the manufacturing sector, affecting production and costs. As a result, zircon demand has slightly decreased, particularly in ceramics markets.

Standard zircon has been more available in the market, as smaller concentrate producers have exported more material to China. This increased availability, as well as price pressure from downstream markets, has resulted in some shifting in demand from Premium Zircon to Standard Zircon.

Iluka has historically produced a Standard grade Zircon but, since Murray Basin material has been exhausted, Iluka's production has largely been of premium product. Iluka maintains the ability to alter its mineral separation plant (MSP) settings and produce Standard Zircon at a slightly lower unit cost to Premium. In addition, Iluka can support current or future demand for Standard grade Zircon through the release of additional zircon in concentrate (ZIC) to compete with existing and potential concentrate producers. Iluka has the capacity to produce ZIC by re-processing stockpiled material at a rate of up to approximately 60 thousand tonnes per annum (zircon contained) through existing ancillary infrastructure located at Narngulu MSP at a very low cost.

The weighted average received Zircon Premium and Zircon Standard price in the first half was US$1,522 per tonne, up 19% from the same period of 2018. Iluka's Zircon Reference Price has been set at US$1,580 per tonne for 12 months through to 30 September 2019.

High Grade Titanium Feedstocks

Market conditions in the high grade titanium market continued to be strong. High grade titanium dioxide feedstock (rutile and synthetic rutile) sales for the first half 2019 were 169 thousand tonnes (2018: 249 thousand tonnes). Iluka was fully sold in the first half, with sales constrained by production volumes.

The pigment industry has shown further signs of strengthening, with inventories moving back to seasonal norms and higher capacity utilisation rates being recorded by most major producers. In China, demand for imported high grade ore (HGO) feedstocks is increasing as new domestic chloride production comes on line and ramps up.

Welding and sponge markets continue to perform well with demand for HGO feedstocks holding firm.

The average price of rutile, excluding HyTi, in the first half 2019 was US$1,107 per tonne. Iluka expects rutile and synthetic rutile prices to increase by 6-8% in the second half.

Weighted Average Received Prices (US$/t FOB)	**1st Half 2017**	**2nd Half 2017**	**1st Half 2018**	**2nd Half 2018**	**1st Half 2019**
Zircon Premium and Standard	871	1,053	1,278	1,434	1,522
Zircon (all products including zircon in concentrate)[1]	850	1,037	1,240	1,403	1,465
Rutile (excluding HyTi)[2]	756	825	906	1,022	1,107
Synthetic rutile	Refer Note 3				

[1] Zircon prices reflect the weighted average price for zircon premium, zircon standard and zircon-in-concentrate. The prices for each product vary considerably, as does the mix of such products sold period to period. In the first half of 2019 the split of zircon sand and concentrate by zircon sand-equivalent was approximately: 77%:23% (2018 full year: 79%;21%).

[2] Included in rutile sales volumes reported elsewhere in this Report is a lower titanium dioxide product, HyTi that typically has a titanium dioxide content of 70 to 91%. This product sells at a lower price than rutile, which typically has a titanium dioxide content of 95%.

[3] Iluka's synthetic rutile sales are, in large part, underpinned by commercial offtake arrangements. The terms of these arrangements, including the pricing arrangements are commercial in confidence and as such not disclosed by Iluka. Synthetic rutile, due to its lower titanium dioxide content than rutile, is priced lower than natural rutile.

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Capital and major projects

Sembehun mine, Sierra Leone

The Sembehun group of deposits are situated 20 to 30 kilometres north-west of the existing Sierra Rutile operations. Iluka plans to develop an additional mine at these deposits and value optimisation studies have been underway since mid-2018 to enable Sierra Rutile to achieve production capacity, over time, in excess of 300 thousand tonnes per annum.

The definitive feasibility study (DFS) for early works (haul road, bridge and process water dam) and Phase 1 of developing Sembehun were scheduled to be completed in the second half of 2019. As detailed engineering and definitive estimates developed and the studies advanced, it became evident that additional capital, beyond mid-2018 estimates, would be required to execute the development.

Iluka has decided to revisit and broaden the value optimisation studies to consider changes to the parameters, the mining technique and the mine sequencing (including prioritising minimisation of tailings storage capital expenditure), to determine a development option which is both fit for purpose for Sierra Rutile and optimises the risk-return relationship.

As a consequence, some elements of design will revert to scoping and pre-feasibility study (PFS) level of definition and early works, scheduled to commence in H2 2019, will now be delayed until there is sufficient clarity on the revised development option. Further work is also required to finalise the Environmental and Social Impact Assessment.

Site management remain focused on implementing fully and realising gains from operational improvements, and on successfully commissioning the Gangama and Lanti expansion projects, such that these meet operational stability expectations.

Lanti dry and Gangama mine expansions, Sierra Leone

Iluka is progressing with the doubling of capacity of both the Gangama and Lanti dry operations from 500-600 tonne per hour to 1,000-1,200 tonne per hour. Capital expenditure for these expansions received Board approval in December 2017. Progress on the expansion projects remains in line with schedule.

Construction of the second Gangama concentrator was completed on time and the plant has subsequently been commissioned successfully, operating at design capacity since June 2019.

At Lanti, the re-purposing of the Lanti floating concentrator is progressing in accordance with plan. The floating plant was successfully beached in April and construction of infrastructure and electrical refurbishment is in progress. With work nearing completion, commissioning will commence in Q3 and ramp up is expected to be completed in Q4.

Ambrosia mine move, South Australia

In October 2018, the Iluka Board approved funding of ~$55 million to bring forward the mine move to the Ambrosia deposit to Q4 2019 (previously planned for 2022).Construction has been completed and wet commissioning has begun with project completion expected ahead of the scheduled completion date in Q4 2019. Approximately $35 million was allocated to be spent on the initial move expenditure and is trending under budget. The remaining deferred capital of ~$20 million is to be spent over 2020-21 and relates to tailings infrastructure and management.

Wimmera, Murray Basin, Victoria

The Wimmera project involves the mining and beneficiation of a fine grained heavy mineral sand ore body in the Victorian Murray Basin for the potential long term supply of zircon into the market, along with rare earths. Technical challenges relating to purity and recovery of the valuable mineral have, in the past, impeded development of this style of deposit. Since 2015, Iluka has been undertaking technical development studies to overcome these challenges. To date the studies have yielded pathways to address successfully the challenges with recovery and purity, and a pre-feasibility study has commenced to assess the technical and economic viability, focussing on the WIM100 project area.

The PFS is progressing as planned. In Q2 2019, pilot plant test work of the rare earth refinery process successfully produced a rare earth mixture for customer assessment. Piloting of the zircon refining process will commence shortly. Environmental baseline studies are ongoing with the referral documentation for both state and federal environmental approvals submitted for scoping in July 2019. Engagement with government, community and landholders is progressing.

The pre-feasibility study is scheduled for completion by the end of 2019.

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Eneabba mineral sands recovery, Western Australia

The Eneabba mineral sands recovery project involves the extraction, processing and sale of an historical monazite-rich tailings stockpile that is currently stored in a mining void at Eneabba, Western Australia.

The feasibility study was completed in Q2 2019. Subject to finalisation of some regulatory approvals, construction of the recovery plant is expected to commence in Q4 2019 with commissioning and first sales in H1 2020.

Balranald, Murray Basin, New South Wales

Balranald and Nepean are two rutile-rich deposits in the northern Murray Basin, New South Wales. A drilling programme to provide more detailed understanding of the deposit mineralisation was completed in late 2018. The results were positive and have increased Iluka's confidence. The proposed final trial is currently being planned and is designed to determine whether the underground mining and backfilling technology is economically viable in a continuous mining and processing environment.

Other matters

International Finance Corporation (IFC) Partnership

In June, Iluka formally established the strategic partnership with International Finance Corporation (IFC) in Sierra Leone, with the agreement practically completing and with first subscription occurring late June.

As announced previously, IFC's investment is made in two parts:

- Initial investment US$20 million for a 3.57% stake in Sierra Rutile (which has now occurred); and
- Further investment of US$40 million to increase its stake to 10% to occur if or when Iluka approves the construction of early works for the Sembehun project and upon completion of the related Environmental and Social Impact Assessment.

Partnering with IFC is a logical step for Iluka in Sierra Leone. IFC has unparalleled expertise with respect to community and stakeholder relations in developing countries, which will complement Sierra Rutile's activities in these areas.

Executive Changes

Iluka has made a number of changes to its executive team structure following the departure of Simon Hay (previously Head of Resource Development) in June.

- Matthew Blackwell has been appointed Head of Major Projects, Engineering and Innovation. Matthew joined Iluka in 2004 and has held a variety of roles including Head of Marketing and Procurement and General Manager US Operations.
- Christian Barbier has been appointed to Head of Marketing. Christian joined Iluka in 2016 and was previously General Manager Zircon Sales.

Given the commencement of the new mine at Cataby and the range of development options in Australia, the Chief Operations Officer role, previously occupied by Steve Wickham, has been restructured into 3 Divisional Heads, all reporting directly to Tom O'Leary: Dan McGrath, General Manager Cataby and Southwest; Shane Tilka, General Manager Jacinth Ambrosia and Midwest; and Rob Hattingh, Chief Executive Officer, Sierra Rutile.

Tim Bartholomew has been appointed as General Manager, Strategic Development and Closure, and has also joined the executive team. Steve Wickham (formerly Chief Operating Officer) has moved to a Transition Advisor role and will leave the company in 2020.

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Reconciliation of non-IFRS financial information

A reconciliation of the statutory results to the segment and commentary presented in this 4D for the half year ended 30 June 2019 is presented below:

	JA/MW	C/SW	Idle	SRL	Expl & Oth	Mineral Sands	MAC	Corp	Group
Mineral sands revenue	242.4	167.0	24.4	111.8		545.6			545.6
AASB 15 freight revenue	10.9	3.3	1.5	6.1		21.8			21.8
Expenses	(81.7)	(81.8)	(23.5)	(94.8)	(26.1)	(307.9)			(307.9)
Mining Area C						-	41.2		41.2
FX						-		(0.9)	(0.9)
Corporate costs						-		(25.9)	(25.9)
EBITDA	**171.6**	**88.5**	**2.4**	**23.1**	**(26.1)**	**259.5**	**41.2**	**(26.8)**	**273.9**
Depn & Amort	(14.1)	(20.2)	(0.3)	(27.5)	(2.5)	(64.5)	(0.2)		(64.7)
Inventory movement - non-cash	6.9	4.5	(1.6)	(1.7)		8.0			8.0
Rehabilitation for closed sites		(0.2)	(0.1)			(0.3)			(0.3)
EBIT	**164.4**	**72.6**	**0.4**	**(6.1)**	**(28.6)**	**202.7**	**41.0**	**(26.8)**	**216.9**
Net interest costs						-		(6.3)	(6.3)
Rehab unwind and other finance costs	(2.3)	(2.6)	(3.7)	(1.1)		(9.7)		(0.1)	(9.8)
Profit Before tax	**162.1**	**70.0**	**(3.3)**	**(7.2)**	**(28.6)**	**193.0**	**41.0**	**(33.2)**	**200.8**
Segment result	**162.1**	**70.0**	**(3.3)**	**(7.2)**		**193.0**	**41.0**		**262.6**

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GOVERNANCE

The Directors of Iluka Resources Limited present their report together with the financial statements of the Group for the half year ended 30 June 2019 and the auditor's review report thereon.

Board of Directors

G Martin (Chairman)
T O'Leary (Managing Director and CEO)
M Bastos
R Cole
S Corlett (joined 1 June 2019)
X Liu (retired 16 April 2019)
J Ranck
J Seabrook

Principal activities

The principal activities and operations of the Group during the half year were the exploration, project development, mining operations, processing and marketing of mineral sands. The Company also has a royalty over iron ore sales revenue from BHP's Mining Area C province in Western Australia.

Review of results and operations

The Review of Results and Operations is set out on pages 2 to 12, and forms part of the Directors' Report.

Dividends

Directors have determined a fully franked interim dividend of 5 cents per share, payable on 2 October 2019 with a record date of 5 September 2019.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 15.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191 (Rounding in Financial/Directors' Reports). Amounts in the financial statements and Directors' Report have been rounded off in accordance with that Rounding Instrument to the nearest million dollars to one decimal place, or in certain cases, to the nearest dollar. All amounts are in Australian dollars, unless otherwise stated.

This report is made in accordance with a resolution of the Directors.

G Martin
Chairman

T O'Leary
Managing Director and CEO

Perth, 21 August 2019

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Auditor's Independence Declaration

As lead auditor for the review of Iluka Resources Limited for the half-year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Iluka Resources Limited and the entities it controlled during the period.

Justin Carroll
Partner
PricewaterhouseCoopers

Perth
21 August 2019

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ILUKA RESOURCES LIMITED

ABN 34 008 675 018

FINANCIAL INFORMATION

for the half-year ended 30 June 2019

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the half-year ended 30 June 2019

	Notes	Half-year 2019 $m	Half-year 2018 $m
Revenue	5	**609.3**	662.3
Other income		**0.4**	1.5
Expenses	6	**(392.0)**	(453.5)
Interest and finance charges		**(7.1)**	(8.4)
Rehabilitation and mine closure provision discount unwind		**(9.8)**	(8.3)
Total finance costs		**(16.9)**	**(16.7)**
Profit before income tax		**200.8**	**193.6**
Income tax expense	7	**(63.6)**	(67.5)
Profit for the half-year, attributable to:		**137.2**	126.1
Equity holders of Iluka Resources Limited		**137.2**	126.1
Non-controlling interest		**-**	-
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Currency translation of foreign operations		**2.7**	23.5
Hedge of net investment in foreign operation, net of tax	8	**(0.5)**	(2.2)
Movements in foreign exchange cash flow hedges, net of tax	8	**2.9**	(5.7)
Other comprehensive income for the half-year, net of tax		**5.1**	15.6
Total comprehensive income for the half-year, attributable to:		**142.3**	141.7
Equity holders of Iluka Resources Limited		**142.3**	141.7
Non-controlling interest		**-**	-
		Cents	Cents
Earnings per share attributable to ordinary equity holders of the parent			
Basic earnings per share		**32.5**	30.0
Diluted earnings per share		**32.3**	30.0

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET
As at 30 June 2019

	Notes	30 June 2019 $m	31 December 2018 $m
ASSETS			
Current assets			
Cash and cash equivalents		**50.0**	51.3
Receivables		**154.7**	162.6
Inventories		**430.0**	387.1
Current tax receivable		**5.7**	7.7
Total current assets		**640.4**	**608.7**
Non-current assets			
Property, plant and equipment		**1,454.9**	1,379.1
Deferred tax assets		**193.4**	215.6
Intangible asset - MAC Royalty		**3.7**	3.9
Inventories		**4.6**	4.6
Right of use assets	4	**24.0**	-
Total non-current assets		**1,680.6**	**1,603.2**
Total assets		**2,321.0**	**2,211.9**
LIABILITIES			
Current liabilities			
Payables		**124.2**	153.2
Derivative financial instruments		**2.8**	4.4
Current tax payable		**41.4**	143.6
Provisions		**103.2**	105.6
Lease liabilities	4	**9.2**	-
Total current liabilities		**280.8**	**406.8**
Non-current liabilities			
Interest-bearing liabilities	9	**191.4**	49.5
Derivative financial instruments		**5.6**	7.3
Provisions		**618.0**	638.3
Lease liabilities	4	**22.7**	-
Financial liabilities at fair value through profit or loss	3	**28.5**	-
Total non-current liabilities		**866.2**	**695.1**
Total liabilities		**1,147.0**	**1,101.9**
Net assets		**1,174.0**	**1,110.0**
EQUITY			
Contributed equity	10	**1,158.6**	1,154.0
Reserves		**23.5**	42.6
Accumulated losses		**(29.9)**	(86.6)
Non-controlling interests		**21.8**	-
Total equity		**1,174.0**	**1,110.0**

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 30 June 2019

		Attributable to owners of Iluka Resources Limited			
	Notes	Share capital $m	Other reserves $m	Retained profits $m	Total equity $m
Balance at 1 January 2018		1,119.7	9.4	(243.6)	885.5
Adjustment on adoption of AASB 15 (net of tax)		-	-	0.6	0.6
Restated total equity at the beginning of the half-year		**1,119.7**	**9.4**	**(244.2)**	**884.9**
Profit for the period		-	-	126.1	126.1
Other comprehensive income		-	15.6	-	15.6
Total comprehensive income for the half-year		**-**	**15.6**	**126.1**	**141.7**
Transactions with owners in their capacity as owners:					
Transfer of shares to employees, net of tax		4.6	(4.6)	-	-
Purchase of treasury shares, net of tax		(4.5)	-	-	(4.5)
Share-based payments, net of tax		-	1.3	-	1.3
Dividends paid	11	35.3	-	(104.7)	(69.4)
		35.4	(3.3)	(104.7)	(72.6)
Balance at 30 June 2018		**1,155.1**	**21.7**	**(222.8)**	**954.0**

		Attributable to owners of Iluka Resources Limited					
Consolidated entity	Notes	Share capital $m	Other reserves $m	Retained earnings $m	Total $m	NCI[1] $m	Total equity $m
Balance at 1 January 2019		1,154.0	42.6	(86.6)	1,110.0	-	1,110.0
Profit for the period		-	-	137.2	137.2	-	137.2
Other comprehensive income		-	5.1	-	5.1	-	5.1
Total comprehensive income for the half-year		**-**	**5.1**	**137.2**	**142.3**	**-**	**142.3**
Transactions with owners in their capacity as owners:							
Transfer of shares to employees, net of tax		8.0	(8.0)	-	-	-	-
Purchase of treasury shares, net of tax		(4.3)	-	-	(4.3)	-	(4.3)
Share-based payments, net of tax		-	5.2	-	5.2	-	5.2
Dividends paid	11	0.9	-	(80.5)	(79.6)	-	(79.6)
Transactions with non-controlling interests	3	-	(21.4)	-	(21.4)	21.8	0.4
		4.6	(24.2)	(80.5)	(100.1)	21.8	(78.3)
Balance at 30 June 2019		**1,158.6**	**23.5**	**(29.9)**	**1,152.2**	**21.8**	**1,174.0**

[1]Non-controlling interest - refer to note 3.

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

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CONSOLIDATED STATEMENT OF CASH FLOWS
For the half-year 30 June 2019

	Notes	**30 June 2019 $m**	30 June 2018 $m
Cash flows from operating activities			
Receipts from customers		**558.8**	653.4
Payments to suppliers and employees		**(378.9)**	(346.9)
Operating cash flow		**179.9**	306.5
Interest received		**0.7**	0.4
Interest paid		**(3.6)**	(5.1)
Income taxes paid		**(143.9)**	(2.4)
Exploration expenditure		**(5.0)**	(4.6)
Mining Area C royalty receipts		**30.4**	29.6
Net cash inflow from operating activities	13	**58.5**	**324.4**
Cash flows from investing activities			
Payments for property, plant and equipment		**(145.0)**	(93.6)
Sale of property, plant and equipment		**1.8**	1.1
Net cash outflow from investing activities		**(143.2)**	**(92.5)**
Cash flows from financing activities			
Repayment of borrowings		**(138.0)**	(219.3)
Proceeds from borrowings		**281.2**	89.2
Purchase of treasury shares		**(5.0)**	(6.4)
Proceeds from changes in ownership interests	3	**28.5**	-
Principle element of lease payments	4	**(4.0)**	-
Dividends paid	11	**(79.6)**	(69.2)
Net cash (outflow) inflow from financing activities		**83.1**	**(205.7)**
Net increase (decrease) in cash and cash equivalents		**(1.6)**	26.2
Cash and cash equivalents at 1 January		**51.3**	53.6
Effects of exchange rate changes on cash and cash equivalents		**0.3**	1.3
Cash and cash equivalents at end of half-year		**50.0**	**81.1**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

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1 BASIS OF PREPARATION

This general purpose financial report for the interim half-year reporting period ended 30 June 2019 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 31 December 2018 and any public announcements made by Iluka Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted (and their application) are consistent with those of the previous financial year and corresponding interim reporting period, except for changes to the operating segments of the Group detailed in note 2, and the adoption of new and amended standards. New or amended standards that became applicable to the Group in the current reporting period have been adopted, with the only material impact arising from the adoption of AASB 16 *Leases*. The impact of adoption of this standard is detailed in note 1(a) and note 4.

Where applicable, certain comparatives have been adjusted to conform with current year presentation.

(a) Change in accounting policy - adoption of AASB 16 Leases

The Group leases various buildings, plant, equipment, and vehicles. Leases are typically entered into for fixed periods of 2 to 10 years, but some may have extension options. Leases are generally negotiated on an individual basis and contain a wide range of different terms and conditions; they do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the end of the 2018 comparative period, leases were classified as either finance or operating leases under the requirements of AASB 117 *Leases*. Payments made under operating leases (net of incentives received from the lessor) were charged to profit or loss on a straight line basis over the period of the lease, and, aside from differences in timing between payments and expense recognition, did not give rise to any balance sheet amounts.

From 1 January 2019, leases are recognised on the balance sheet, each comprising a right-of-use asset and corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between its liability and finance cost components. Finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right of use asset is amortised over the shorter of the asset's useful life and the lease term on a straight line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any incentives receivable,
- variable lease payments that are based on an index or rate,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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1 BASIS OF PREPARATION (CONTINUED)

Right of use assets (classified as either land and buildings; or plant, machinery and equipment) are measured at cost, comprising the following:

- the amount of the initial measurement of the lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- an estimate of restoration costs.

Payments associated with short term leases and leases of low value assets are recognised on a straight line basis as an expense in profit or loss. Short term leases are for a period of 12 months or less in total; contracts involving low-value assets typically comprise small items of IT-equipment, furniture and sundry minor assets.

(b) Critical accounting estimates and judgements

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and future periods affected.

(i) Impairment of assets

In accordance with the Group's accounting policy, assets are assessed for impairment when there is an indication that their carrying amount may not be recoverable. The recoverable amount of each Cash Generating Unit (CGU) is determined as the higher of value-in-use and fair value less costs of disposal estimated on the basis of discounted present value of the future cash flows (a level 3 fair value estimation method). Assets that are not currently in use and not scheduled to be brought back into use (idle assets) are considered on a standalone basis.

The estimates of discounted future cash flows for each CGU are based on significant assumptions including:

- estimates of the quantities of mineral reserves and ore resources for which there is a high degree of confidence of economic extraction and the timing of access to these reserves and ore resources;
- future production levels and the ability to sell that production;
- future product prices based on the Group's assessment of short and long term prices for each of the key products;
- future exchange rates using external forecasts (2019 long term AUD:USD exchange rate of 0.75, unchanged from 2018 assessment);
- successful development and operation of new mines, consistent with latest forecasts;
- future cash costs of production, sustaining capital expenditure, rehabilitation and mine closure; and
- the asset specific discount rate applicable to the CGU (Sierra Rutile: 12%; Australian operations: 10%).

Given the nature of the Group's mining activities, changes in assumptions upon which these estimates are based may give rise to material adjustments. This could lead to recognition of new impairment charges in the future, or the reversal of impairment charges previously recognised.

As at 30 June 2019, an indicator of impairment was identified for Sierra Rutile due to management's decision to delay the Sembehun Early Works beyond the end of 2019 in order to revisit and broaden optimisation studies following further expected increases to the capital costs to develop Sembehun based on production capacity, over time, in excess of 300 thousand tonnes of rutile production per annum. The value optimisation studies will assess alternative development approaches, including the level of annual production.

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1 BASIS OF PREPARATION (CONTINUED)

Our considerations in relation to the fair value of Sierra Rutile CGU has included reference both to the value implied by the recent IFC investment in Sierra Rutile, announced on 6 June 2019, and to a range of life of mine discounted cash flow estimates. These discounted cash flows are based on the current operation along with various options for the development of the Sembehun deposit. The cash flows assume additional capital investment in both mine development and an upgrade to the mineral separation plant, along with a number of different mine optimisation assumptions. No impairment has been recognised for the half-year. The Group will continue to monitor and assess the CGU for impairment in future periods as the value optimisation studies progress.

(ii) Rehabilitation and mine closure provisions

These provisions represent the discounted value of the present obligation to restore, dismantle and rehabilitate certain items of property, plant and equipment. The discounted value reflects a combination of management's assessment of the nature and extent of the work required, the future cost of performing the work required, the timing of the cash flows and the discount rate. Changes to one or more of these assumptions is likely to result in a change to the provision and the related asset (for open sites), or a charge to profit or loss (for closed sites) in accordance with the Group's accounting policy.

Rehabilitation and mine closure provisions have been calculated by discounting risk adjusted cash flows at discount rates of between 2% and 4% (2018: 2% and 4%). A decrease of 1% to these discount rates would result in a $19 million increase to the provision, of which $15.6 million would be expensed to profit or loss for closed sites.

(iii) Net realisable value and classification of inventory

The Group's assessment of the net realisable value and classification of its inventory holdings requires the use of estimates, including the estimation of the relevant future product price and the likely timing of the sale of the inventory.

Total inventory at 30 June 2019 was $434.6 million (31 December 2018: $391.7 million). Inventory write-downs of $2.7 million occurred for work in progress or finished goods during the period (31 December 2018: $11.4 million).

Inventory of $4.6 million (31 December 2018: $4.6 million) was classified as non-current as it is not expected to be sold within 12 months of the balance sheet date.

(iv) Deferred tax asset recognition

Deferred income tax assets are recognised for all deductible temporary differences, carried forward unused tax assets and unused tax losses. Deferred tax assets are based on tax laws (and tax rates) that have been enacted or substantively enacted at the balance sheet date. The Group recognises deferred tax assets if it is probable that future taxable amounts will be available, including from the development of related assets and operations, in order to utilise those deductible temporary differences, carried forward unused tax assets, and unused tax losses.

Deferred tax assets are not discounted and represent the face value of the losses expected to be utilised.

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2 SEGMENT INFORMATION

(a) Description of segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision-makers) in assessing performance and in determining the allocation of resources.

During the current reporting period, the Group changed the internal reporting basis of its operations to match changes in the operational structure of the business, with the resultant new operating segments of the group being as follows:

Jacinth-Ambrosia/Mid West (JA/MW) comprises the integrated mining operations of Jacinth-Ambrosia located in South Australia, and associated processing operations at the Narngulu mineral separation plant in Western Australia.

Cataby/South West (C/SW) comprises mining activities at Cataby and processing of ilmenite at Synthetic Rutile Kiln 2, located in Western Australia.

Sierra Rutile (SRL) comprises the integrated mineral sands mining and processing operations in Sierra Leone.

Mining Area C (MAC) comprises the deferred consideration iron ore royalty interest over certain mining tenements in Australia operated by BHP Group Iron Ore.

United States/Murray Basin (US/MB) comprises rehabilitation obligations in the United States (Florida and Virginia), where mining and processing activities were substantially completed in December 2015, although sale of remnant product remains an activity; and certain idle assets located in Australia (Murray Basin).

The previous Australia operating segment has been disaggregated to form the Jacinth-Ambrosia/Mid West and Cataby/South West operating segments. Certain idle assets previously included in the Australia operating segment have been combined with the United States operating segment to form the United States/Murray Basin segment. The Sierra Rutile and Mining Area C segments are unchanged. Comparative information for changed segments has been restated.

Cash, debt and tax balances are managed at a group level, together with exploration and other corporate activities, and are not allocated to segments.

Where finished product capable of sale to a third party is transferred between operating segments, the transfers are made at arm's length prices. Any transfers of intermediate products between operating segments are made at cost. No such transfers took place between segments during the half year ended 30 June 2019 (2018: $12.2 million).

(b) Segment information

Half-year 2019	**JA/MW** $m	**C/SW** $m	**SRL** $m	**MAC** $m	**US/MB** $m	**Total** $m
Total segment sales of mineral sands	242.4	167.0	111.8	-	24.4	545.6
Total segment freight revenue	10.9	3.3	6.1	-	1.5	21.8
Total segment result	162.1	70.0	(7.2)	41.0	(3.3)	262.6
Segment assets at 30 June 2019	504.0	715.4	609.0	28.1	161.4	2,017.9
Segment liabilities at 30 June 2019	196.8	198.7	127.2	-	306.3	829.0

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 30 June 2019

2 SEGMENT INFORMATION (CONTINUED)

Half-year 2018	JA/MW $m	C/SW $m	SRL $m	MAC $m	US/MB $m	Total $m
Total segment sales of mineral sands	246.8	143.6	86.7	-	129.8	606.9
Total segment freight revenue	11.6	2.3	4.1	-	7.7	25.7
Total segment result	133.4	50.7	(5.3)	29.0	39.6	247.4
Segment assets at 31 December 2018	465.6	624.8	621.0	17.5	165.9	1,894.8
Segment liabilities at 31 December 2018	198.9	209.5	137.6	-	319.2	865.2

Segment result is reconciled to profit before income tax as follows:

	Half-year 2019 $m	Half-year 2018 $m
Segment result	**262.6**	247.4
Interest income	**0.8**	0.5
Other income (expenses)	**-**	(0.2)
Marketing and selling	**(6.7)**	(7.1)
Corporate and other costs	**(25.9)**	(23.4)
Depreciation	**(2.5)**	(1.6)
Resource development	**(19.5)**	(12.5)
Interest and finance charges	**(7.1)**	(8.4)
Net foreign exchange loss	**(0.9)**	(1.1)
Profit before income tax	**200.8**	**193.6**

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3 CHANGES IN OWNERSHIP INTERESTS HELD IN CONTROLLED ENTITIES

On 21 February 2019, the Group announced the potential for the International Finance Corporation (IFC), a member of the World Bank Group, to acquire a 10% equity interest in Sierra Rutile Limited (SRL) for consideration of US$60 million, thereby commencing a strategic partnership in relation to the Group's Sierra Rutile operation.

The transaction was subject to the completion of due diligence and necessary approvals being obtained, as disclosed in note 23(a) of the 2018 annual report.

Upon completion of the above prerequisites, agreements to effect the transaction were finalised. The key terms thereof are summarised in the ASX announcement released on 6 June 2019, being:

- IFC will be issued new shares in Iluka Investments (BVI) Limited, the holding company of Sierra Rutile Limited.
- IFC acquires their 10% equity interest in two tranches, with the first being the acquisition of 3.57% for US$20 million on 6 June 2019. Acquisition of the second tranche (representing the remaining equity interest for US$40 million), will occur upon approval of construction of early works on the Sembehun project. If approval is not obtained, then IFC may elect to acquire the second tranche regardless.
- The Group enters into an arrangement whereby IFC has the right to dispose of their interest back to the Group at its fair value on date of exercise of the put. The put becomes exercisable after three years if the Sembehun early works are not approved, alternatively the put is exercisable after seven years.

(i) Recognition of non-controlling interest

The first tranche of the transaction was effected on 6 June 2019. The Group recognised a non-controlling interest of $21.8 million on this date, representing IFC's 3.57% share in the net assets of SRL. The Group received $28.5 million (US$20 million) in cash consideration for the equity interest, with the resulting gain of $6.7 million recognised in other reserves in equity.

(ii) Put option held by the IFC

The Group has also recognised a financial liability at its fair value of $28.5 million against other reserves in equity.

The fair value of the put option was determined based on a significant unobservable input, and accordingly it is classified as level 3 in the fair value hierarchy. The significant unobservable input is the estimated settlement amount, which is based on the issue price of the interest held by the IFC.

The effects of subsequent changes in the fair value of the put option are recognised in profit or loss. There were no changes in fair value during the reporting period.

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4 ADOPTION OF AASB 16 LEASES

The Group has adopted AASB 16 with effect from 1 January 2019 (the 'adoption date'), but has not restated comparatives for the 2018 reporting period. All relevant contracts, other than short term contracts or those relating to low-value assets, have been assessed to determine whether they are, or contain, leases. For initial adoption purposes, short term contracts include contracts that are for a total period of more than 12 months, but that expire within 12 months or less of the adoption date.

The Group recognised lease liabilities and right of use assets in relation to leases which had previously been classified as operating leases under the principles of AASB 117. No adjustments were made to the opening balance on retained earnings. The Group did not have any leases previously classified as finance leases on the adoption date.

Lease liabilities

Lease liabilities were measured at amounts equal to the present value of remaining lease payments over the estimated remaining lease term, discounted at the appropriate incremental borrowing rate on the adoption date. The weighted average interest rate used was 4.2%.

The discount rate used in calculating the carrying amount of lease liabilities takes into account the particular circumstances applicable to the underlying leased assets (including the amount, lease term, economic environment and other relevant factors). Leases with similar characteristics have been grouped together, predominantly on the basis of geography and lease length.

The Group has estimated remaining lease terms including the effects of any renewal options or termination options expected to be exercised, applying hindsight where appropriate.

Operating lease commitments disclosed at the end of the comparative period are reconciled to the opening lease liability balance as follows:

	$m
Operating lease commitments disclosed as at 31 December 2018	37.3
Discounted using the Group's weighted average incremental borrowing rate on 1 January 2019	**32.7**
Less: short-term and low value leases recognised on a straight-line basis	(1.4)
Add: contracts reassessed as leases	5.9
Lease liabilities recognised on 1 January 2019	**37.2**

Right-of-use assets

Right-of-use assets were measured at amounts equal to the carrying amount of their respective lease liabilities on the adoption date, adjusted for incentives, accruals and prepayments and to exclude initial direct costs. A total of $29.5 million was recognised on the adoption date.

There were no onerous lease contracts that would have required an adjustment to the right-of-use assets on the adoption date.

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4 ADOPTION OF AASB 16 LEASES (CONTINUED)

Impact on the current reporting period

Adoption of AASB 16 impacted all segments (except for MAC) and certain non-segment corporate and other items:

	JA/MW $m	C/SW $m	SRL $m	US/MB $m	Corporate and other $m	Total $m
Lease liabilities						
Recognised on adoption	8.2	5.0	0.3	1.1	22.6	37.2
Additional lease liabilities recognised	0.5	0.5	-	0.1	0.1	1.2
Remeasurement adjustments	-	-	-	-	(3.3)	(3.3)
Borrowing costs	0.1	0.1	0.1	0.1	0.4	0.8
Payments	(1.9)	(1.1)	(0.1)	(0.2)	(0.7)	(4.0)
Lease liabilities as at 30 June 2019	**6.9**	**4.5**	**0.3**	**1.1**	**19.1**	**31.9**
Right of use assets						
Recognised on adoption	8.2	5.0	0.3	1.1	14.9	29.5
Additional right of use assets recognised	0.5	0.5	-	0.1	0.1	1.2
Remeasurement adjustments	-	-	-	-	(3.3)	(3.3)
Accumulated amortisation	(1.8)	(1.0)	(0.1)	(0.1)	(0.4)	(3.4)
Right of use assets as at 30 June 2019	**6.9**	**4.5**	**0.2**	**1.1**	**11.3**	**24.0**

The impact on the profit or loss items of the JA/MW, C/SW, SRL and US/MB segments was not material, nor was there a material impact on Group earnings per share. The impact on the profit or loss of the Group was:

	Total $m
Decrease in operating lease expense	4.0
Increase in borrowing costs on lease liabilities	(0.8)
Increase in right of use asset amortisation	(3.4)
Decrease in profit before tax	**(0.2)**
Decrease in income tax expense	0.1
Decrease in profit after tax	**(0.1)**

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5 REVENUE

	Half-year 2019 $m	Half-year 2018 $m
Sales revenue		
Sale of goods	**545.6**	606.9
Freight revenue	**21.8**	25.7
Other revenue		
Mining Area C royalty income	**41.2**	29.2
Interest	**0.7**	0.5
	41.9	29.7
	609.3	**662.3**

(a) Sale of mineral sands

The Group earns revenue by mining, processing, and subsequently selling mineral sands (including zircon, rutile, synthetic rutile and ilmenite) by export to customers based in the Americas, Europe, China, the rest of Asia, and other countries under a range of commercial terms.

Revenue from the sale of product is recognised when control has been transferred to the customer, generally being when the product has been dispatched and is no longer under the physical control of the Group. In cases where control of product is transferred to the customer before dispatch takes place, revenue is recognised when the customer has formally acknowledged their legal ownership of the product, which includes all inherent risks concomitant with control of the product. In these cases, product is clearly identified and immediately available to the customer.

Sales to customers are generally denominated in US Dollars, which are translated into the functional currency of the Group using the spot exchange rate applicable on the transaction date. The effect of variable consideration arising from rebates, discounts and other similar arrangements with customers is included in revenue to the extent that it is highly probable that there will be no significant reversal of the cumulative amount of revenue recognised when any pricing uncertainty is resolved. Revenue is recognised net of duties and other taxes.

A receivable is recognised at the earlier of dispatch or formal acknowledgement of legal ownership by a customer, as this is the point in time that the consideration is unconditional because only the passage of time is required before payment is due.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Accordingly, the group does not adjust transaction prices for the time value of money.

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5 REVENUE (CONTINUED)

(b) Freight revenue

The Group also earns revenue from freighting its products to customers in accordance with the incoterms in each particular sales contract. Freight revenue is recognised to the extent that the freight service has been delivered, specifically with reference to the proportion of completed freight distance to total freight distance, which is determined by the Group at each reporting date.

Freight revenue is allocated from the overall contract price at its standalone selling price (where observable) or otherwise at its estimated cost plus margin.

(c) Mining Area C royalty income and amortisation of royalty asset

Iluka holds a royalty stream over BHP's Mining Area C (MAC) iron ore mine. The royalty stream is paid as 1.232% of Australian denominated revenue from the royalty area and a one-off payment of $1 million per million tonne increase in annual production capacity.

Royalty income is recognised on an accrual basis and is received on a quarterly basis in arrears. The royalty entitlement asset is an intangible asset and is amortised on a straight-line basis over its estimated useful life.

(d) Interest income

Interest income is recognised in profit or loss as it accrues, using the effective interest method.

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6 EXPENSES

	Notes	Half-year 2019 $m	Half-year 2018 $m
Expenses			
Cash costs of production	6(a)	**244.1**	217.1
Depreciation and amortisation	6(e)	**60.5**	39.7
Inventory movement - cash costs of production		**(36.8)**	49.8
Inventory movement - non-cash production costs		**(8.0)**	25.5
Cost of goods sold	6(b)	**259.8**	332.1
Ilmenite concentrate and by-product costs	6(c)	**7.7**	7.8
Restructure and idle capacity charges	6(d)	**11.8**	10.8
Rehabilitation costs for closed sites		**0.3**	0.5
Government royalties		**21.5**	17.9
Marketing and selling costs		**36.9**	43.7
Corporate and other costs		**25.9**	24.2
Resource development		**19.4**	12.5
Foreign exchange losses (net)		**0.9**	1.1
Depreciation (idle, corporate and other)		**4.2**	2.9
Net loss on disposal of property, plant and equipment		**3.6**	-
		392.0	**453.5**
Finance costs			
Interest charges		**3.2**	4.9
Bank fees and similar charges		**2.8**	2.6
Amortisation of deferred borrowing costs		**0.3**	0.9
Lease borrowing costs	6(e)	**0.8**	-
Rehabilitation and mine closure provision discount unwind		**9.8**	8.3
		16.9	16.7

(a) Cash costs of production

Cash costs of production include costs for mining and concentrating; transport of heavy mineral concentrate; mineral separation; synthetic rutile production; externally purchased ilmenite and production overheads. This category also includes landowner royalty payments, but excludes Australian State and Sierra Leone Government royalties which are reported separately.

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6 EXPENSES (CONTINUED)

(b) Cost of goods sold

Cost of goods sold is the inventory value of each tonne of finished product sold. All production is added to inventory at cost, which includes direct costs and an appropriate portion of fixed and variable overhead expenditure, including depreciation and amortisation, allocated on the basis of relative sales value. The inventory value recognised as cost of goods sold for each tonne of finished product sold is the weighted average value per tonne for the stockpile from which the product is sold.

Inventory movement represents the movement in balance sheet inventory of work in progress and finished goods, including the non-cash depreciation and amortisation components and movement in the net realisable value adjustments.

Inventory movement non-cash of $8.0 million represents the depreciation and amortisation component included within the inventory drawdown during the half.

(c) Ilmenite concentrate and by-product costs

Ilmenite and by-product costs of $7.7 million (2018: $7.8 million) include by-product costs such as for iron concentrate processing, activated carbon and wet high intensity magnetic separation (WHIMS) ilmenite transport costs.

(d) Restructure and idle capacity charges

Idle capacity charges reflect ongoing costs incurred at operations during periods of no or restricted production.

Liabilities for employee termination benefits associated with the restructuring activities are recognised when the Group is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal and therefore no further service required. Where further service is required to be eligible for the benefit, the liability is recognised over the relevant service period.

(e) Lease related amortisation and borrowing costs

Additional amortisation and borrowing cost expenses of $3.4 million and $0.8 million, respectively, have been recognised in the current reporting period. These additional costs relate to right of use assets and lease liabilities recognised in accordance with AASB 16 Leases, which the Group adopted with effect from 1 January 2019. Amounts in the comparative period have not been restated. Refer to notes 1(a) and 4.

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7 INCOME TAX

(a) Income tax expense (benefit)

	Half-year 2019 $m	Half-year 2018 $m
Current tax	**48.8**	68.5
Deferred tax	**15.9**	(2.0)
Under provided in prior years	**(1.1)**	1.0
	63.6	67.5

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	Half-year 2019 $m	Half-year 2018 $m
Profit before income tax expense	**200.8**	193.6
Tax at the Australian tax rate of 30% (2018: 30%)	**60.2**	58.1
Tax effect of amounts not deductible (taxable) in calculating taxable income:		
Non-deductible expenses	**0.8**	0.5
Deferred tax losses not recognised by overseas operations	**1.8**	1.6
SRL - income tax calculated at 3.5% of revenue[1]	**3.5**	3.3
Assessable income from controlled foreign companies	**-**	0.7
Reduction in tax loss for SRL	**-**	1.4
Research and development credit	**(0.7)**	-
Other items	**(0.9)**	0.9
	64.7	**66.5**
Under provision in prior years	**(1.1)**	1.0
Income tax expense	**63.6**	**67.5**

[1]In accordance with the terms of the Sierra Rutile Agreement (Ratification) Act 2002 the amount of income tax payable by SRL shall not be less than an amount equal to 3.5% of revenue.

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8 HEDGING

The Group is exposed to risk from movements in foreign exchange in relation to its forecast US dollar denominated sales and as part of the risk management strategy has previously entered into foreign exchange forward contracts and foreign exchange collar contracts.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged and the type of hedge relationship designated.

Fair value of derivatives
Derivative financial instruments are measured and recognised at fair value at 30 June 2019 and 31 December 2018. The fair value of these instruments is determined using valuation techniques with inputs that are observable market data (a level 2 measurement). The valuation of forward contracts is determined using forward exchange rates at the balance date. The valuation of the options making up the collars is determined using forward foreign exchange rates, volatilities and interest rates at the balance date. The only unobservable input used in the calculations is the credit default rate, movements in which would not have a material effect on the valuation.

Cash flow hedges
No additional derivative contracts were entered into during the period. Of the derivative contracts previously entered into, the following contracts remain open at the reporting date:

- foreign exchange forward contracts covering US$31.6 million at an average rate of 72.1 cents; and
- foreign exchange collar hedges covering US$252 million of expected USD revenue to 31 December 2022. The collars comprise US$252 million worth of purchased AUD call options with a weighted average strike price of 78.9 cents and US$252 million worth of sold AUD put options at a strike price of 68.9 cents.

US$58.9 million in foreign exchange collar contracts consisting of US$58.9 million of bought AUD call options with strike prices of 80.5 cents and US$58.9 million of sold put options with strike prices of 70 cents matured during the half year. No foreign exchange forward contracts expired.

The above period corresponds with the long-term sales contracts entered into in 2017 including those in support of the development of the Cataby project. However, the hedged USD revenues do not represent the full value of expected sales under these contracts over this period.

The foreign exchange forward contracts and foreign exchange collars Iluka holds are classified as cash flow hedges as they hedge a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions.

Net investment hedge
The Group also designates US denominated debt as a hedge against the Group's net investment in Sierra Leone, which has a US dollar functional currency. During the period the Group's net investment hedge resulted in the foreign currency translation reserve being reduced by $0.5 million (2018: $2.2 million reserve reduction).

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9 INTEREST-BEARING LIABILITIES

	30 June 2019 $m	31 December 2018 $m
Non-current interest-bearing liabilities - unsecured		
Multi Optional Facility Agreement	**(192.0)**	(50.4)
Deferred borrowing costs	**0.6**	0.9
	(191.4)	(49.5)

Multi Option Facility Agreement

The Multi Option Facility Agreement (MOFA) comprises a series of five year unsecured bilateral revolving credit facilities with several domestic and foreign institutions. Changes in the US Dollar exchange rate resulted in the facility increasing to $619.7 million during the reporting period (31 December 2018: $618.3 million) with the following maturity profile:

- $77.5 million expiring in 2020, and
- $542.2 million expiring in 2022.

Undrawn MOFA facilities at 30 June 2019 were $427.6 million (31 December 2018: $567.9 million). The Group refinanced the MOFA subsequent to the end of the reporting period, resulting in the facility size being reduced to $519.3 million, all of which now expires in 2024.

10 CONTRIBUTED EQUITY

(a) Movements in ordinary share capital

On 4 April 2019, the Group issued 103,439 ordinary shares to shareholders at a price of $8.86 per share as part of the Dividend Reinvestment Plan, the terms of which are detailed in the ASX announcement dated 27 February 2018. As at 30 June 2019, 422,499,116 ordinary shares are on issue.

(b) Movements in treasury shares

During the period 1,192,389 treasury shares were transferred to employees (2018: 624,010) and 662,051 shares were purchased (2018: 595,587). Following the transfer, the total number of treasury shares on hand at 30 June 2019 was 145,183 (31 December 2018: 675,521).

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11 DIVIDENDS

	Half-year 2019 $m	Half-year 2018 $m
Final dividend		
For 2018 of 19 cents per share, fully franked	**80.5**	-
For 2017 of 25 cents per share, fully franked	**-**	104.7
	80.5	104.7

Of the total $80.5 million final dividend declared for 2018, $0.9m was taken up by shareholders as part of the Dividend Reinvestment Plan as detailed in the announcement to the ASX dated 4 April 2019.

In addition to the above dividend, since half-year end the Directors have determined an interim dividend of 5 cents per ordinary share, fully franked. The dividend is payable on 2 October 2019 for shareholders on the register as at 5 September 2019. The aggregate amount of the proposed dividend is $21.1 million.

Franking credits

The balance of franking credits available as at 30 June 2019 is $129.4 million (2018: $44.4 million). This balance is based on a tax rate of 30% (2018: 30%).

12 CONTINGENT LIABILITIES

Shareholder class action - Iluka Resources Limited ("Iluka")

On 24 March 2014 Iluka became aware that a litigation funder proposed to fund claims that current or former shareholders may have against Iluka Resources Limited in respect of alleged breaches of Iluka's continuous disclosure obligations and misleading and deceptive conduct in 2012.

On 23 April 2018, Iluka was served with an originating application and statement of claim in respect of a shareholder class action filed in the Federal Court of Australia. The proceedings have been brought by a group of Iluka shareholders for alleged breaches of Iluka's continuous disclosure obligations, and misleading and deceptive conduct in relation to disclosures made by Iluka to the market between April and July 2012.

In late January 2019, Iluka was informed that a dispute had arisen between the applicant and its third party litigation funder, Harbour Fund II LP. Since about that time the applicant has sought to secure replacement funding. On 2 August 2019, Iluka was notified that the applicant secured funding from a replacement funder, August Ventures Limited.

Iluka denies liability in respect of the allegations and is defending the proceedings.

This contingent liability was first disclosed in Iluka's 2018 Interim Report. The status of the proceedings has still not reached a stage where Iluka is able to reliably estimate the quantum of liability, if any, that Iluka may incur in respect of the class action.

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12 CONTINGENT LIABILITIES (CONTINUED)

Environmental Class Action - Sierra Rutile Limited ("SRL")

On 22 January 2019, SRL was served with a writ and statement of claim in respect of an action filed in the High Court of Sierra Leone Commercial And Admiralty Division against both SRL and The Environmental Protection Agency.

The proceedings have been brought by a group of landowner representatives (Representatives) who allege that they suffered loss as a result of SRL's mining operations. The claims primarily relate to environmental matters. The Representatives allege, in part, that SRL engaged in improper mining practices resulting in environmental degradation and contamination, did not meet certain rehabilitation obligations and violated local mining laws. SRL denies liability in respect of the allegations and intends to defend the claims. SRL filed its defence in March 2019 and also applied to the Court for an order requiring the Representatives to provide further detail on their claims.

As at 30 June 2019, the status of the proceedings has still not reached a stage where SRL is able to reliably estimate the quantum of liability, if any, that SRL may incur in respect of the class action.

13 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES

	Half-year 2019 $m	Half-year 2018 $m
Profit for the half-year	**137.2**	126.1
Depreciation and amortisation	**64.7**	42.6
Net (gain)/loss on disposal of property, plant and equipment	**3.6**	(0.7)
Net exchange differences	**(1.3)**	3.6
Rehabilitation and mine closure provision discount unwind	**9.8**	8.3
Non-cash share-based payments expense	**5.2**	1.9
Amortisation of deferred borrowing costs	**0.3**	0.9
Inventory NRV write-down	**2.7**	1.2
Borrowing costs on leases	**0.8**	-
Change in operating assets and liabilities		
Decrease in receivables	**5.1**	38.2
(Increase) decrease in inventories	**(45.1)**	75.3
Increase (decrease) in net current tax liability	**(100.0)**	66.1
Decrease in net deferred tax	**27.6**	0.1
(Decrease) in payables	**(23.6)**	(11.8)
(Decrease) in provisions	**(28.5)**	(27.4)
Net cash inflow from operating activities	**58.5**	**324.4**

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DIRECTORS' DECLARATION
30 June 2019

In the directors' opinion:

(a) the interim financial statements and notes set out on pages 17 to 37 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the half-year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of directors.

G Martin
Chairman

T O'Leary
Managing Director

21 August 2019

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Independent auditor's review report to the shareholders of Iluka Resources Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Iluka Resources Limited (the Company), which comprises the consolidated balance sheet as at 30 June 2019, the consolidated statement of changes in equity, consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, selected other explanatory notes and the directors' declaration for Iluka Resources Limited. The Group comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Iluka Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Iluka Resources Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

Justin Carroll
Partner

Perth
21 August 2019