

20 May 2015

## **ILUKA RESOURCES 2015 ANNUAL GENERAL MEETING**

Iluka Resources Limited (Iluka) today held its 60<sup>th</sup> Annual General Meeting of Shareholders in Perth, Western Australia.

Shareholders voted on three resolutions: the re-election of one non-executive Director (Gavin Rezos), the Remuneration Report and an increase in the non-executive Directors' fee cap. The results of the voting on these resolutions will be disclosed to the ASX separately.

A transcript of the addresses delivered by Chairman, Greg Martin and Managing Director, David Robb, are attached.

**Investment market and media inquiries:**

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**Attachments:**

Chairman's and Managing Director's AGM Addresses, May 2015

**ILUKA RESOURCES LIMITED**  
**2015 ANNUAL GENERAL MEETING**  
**20 MAY 2015, PERTH, WESTERN AUSTRALIA**

**CHAIRMAN'S AND MANAGING DIRECTOR'S ADDRESSES**

**CHAIRMAN'S ADDRESS**

I will commence our business today with my report to you. David Robb will then give his presentation on the operating highlights for the past year and our future plans.

Shareholders have been provided with details of the financial and operating conditions for the company in 2014 as disclosed in the Full Year Results issued on 17 February and in the Annual Report. Copies are available here today.

I thought it may be informative to shareholders if I provide a brief perspective of the main priorities of your Board, the financial position of the company, as well as some governance and remuneration matters addressed during the last 12 months.

I would like to reiterate that the Iluka Board and management team have continued to focus on building a growth platform, and in providing as much optionality in the business as possible, in order to create avenues for the creation and delivery of value for shareholders.

The strategic direction of the company remains appropriate, including a disciplined approach to evaluating and, in some cases, pursuing internal and external opportunities. Directors are supportive of the approach management has adopted to shepherding the business through challenging market conditions.

These conditions have been characterised by variability in demand across geographies and markets for Iluka products.

Despite market conditions, I believe progress has been made in advancing growth opportunities. These include: the advancement of Iluka's mineral sands projects and the evaluation of merger and acquisition opportunities.

The recent announcement of a revised conditional proposal relating to an all-share offer for Kenmare Resources Plc is notable in this regard. There is also the investment in what might be considered disruptive or non-conventional potential sources of value for shareholders. In this category, is early stage work in relation to Metalysis and the Tapira mineralisation in Brazil.

Iluka reported an after tax loss in 2014 of \$62.5 million. This loss was inclusive of a non-cash impairment of \$86.5 million announced in December 2014. The impairment was due to the failure to conclude appropriate commercial arrangements to underpin the development of one or other of two potential deposits in Virginia and North Carolina. The decision was made to idle the US operations during 2015 which necessitated the non-cash impairment.

Influenced by the financial results and, no doubt market conditions for resource companies generally, Iluka recorded a negative share price movement in 2014. Since the commencement of the 2015 year, the share price has appreciated 44 per cent, compared with the ASX Materials Index which increased 7 per cent over this period, and the ASX 200 Index which increased 3 per cent.

Notwithstanding the results, your company remains in a sound financial position, in what are low cycle business conditions.

The company generated \$196 million in free cash flow in 2014 and ended the year with moderate net debt of \$59 million, a gearing ratio of 3.9 per cent.

The company has significant funding capacity of approximately \$925 million.

Directors declared total 2014 dividends of 19 cents per share, fully franked. This represented a payment of 40 per cent of free cash flow, in line with the company's stated dividend framework.

In terms of cultural and sustainability aspects of the company's performance, Iluka has continued to perform to the high expectations that I know the community, our key stakeholders, our employees and the Board expect. The improvement in Iluka's health and safety performance, built through clear processes, systems and employee alignment measures implemented in 2011, continued in 2014.

Environmental management performance has been commendable.

These aspects of the company's governance and risk management approach are well established and fundamentally important to employees and our contractors. As always, continued diligence and focus are obviously necessary.

In terms of governance, I would like to comment on a number of areas of focus by your Board.

The Board completed a director skills matrix review. This was a useful exercise in determining the current and desired skills mix for the Board and the findings will be used for director selection, and for improving the gender diversity of the Board.

Directors have continued to deepen their industry knowledge. This has entailed an involvement in operational site visits, engagement with customers, governance firms and others. These activities are useful in ensuring your directors are well informed about the dynamics of the company and its industry, as well as the views of key stakeholders.

The Board committee structure evolved during 2014, with new arrangements commencing earlier this year. The Board renamed its remuneration and nominations committee the people and performance committee. This committee is responsible for recommendations to the Board on remuneration strategy, including for the Managing Director and his direct reports. Wayne Osborn is the chairman.

A nominations committee has been formed, which I chair and which includes all of the non-executive Directors, but excludes the Managing Director. This committee is responsible for evaluating and implementing arrangements for Board renewal; managing director succession planning and selection; as well as remuneration and performance incentive arrangements for this position.

Finally, the Board instigated a review of remuneration arrangements.

Wayne Osborn, as chairman of the people and performance committee, will speak to the main elements of this review in the context of the vote on the 2014 remuneration report.

In relation to long term incentive arrangements for key management personnel, I would observe that the external review commissioned by the Board determined that Iluka is below the median of resource companies.

The Board has deemed it appropriate to increase long term incentive targets from 30 per cent to 60 per cent of total fixed remuneration for key management personnel. This will continue to be based on relative total shareholder return against relative comparator companies and also by an absolute return on equity target. As such, any payment under the long term incentive plan will be aligned to shareholder interests.

There was no change in short term incentive arrangements, and in the case of the Managing Director, it was determined that his long term incentive payment level should remain at 30 per cent given potential succession within the next three years.

As both the Managing Director and I commented upon in the Annual Report, progress was made in 2014 in advancing and in some cases securing new growth options. The strength of the balance sheet and the ability to utilise cash flow for investment as well as distributions to shareholders, are characteristics which are not common in resources companies at this stage of the cycle.

The prospects for resource companies are linked, in large measure, to global and regional economic conditions. Clearly there are still clouds on the horizon which necessitate caution. It is important for a resource company to maintain the ability to benefit from demand recovery through earnings, margin expansion and associated free cash flow generation. Your company remains in a sound position in this regard.

I would like to thank my fellow Directors for their wise counsel and hard work during 2014. I also acknowledge the management team and workforce of Iluka for their continued commitment. My thanks also to our shareholders for their continued support.

The Managing Director, David Robb, will now provide you with further context on the business and business environment before we commence the formal business of the meeting.

Thank you.

## MANAGING DIRECTOR'S ADDRESS

Thank you Chairman and I would also like to extend my welcome to those shareholders present today.

While the reported financial performance of the company was poor in 2014, the company responded effectively to prevailing market conditions:

- first, the financial health of the company was preserved by actions taken to protect margin structures, cash flow and balance sheet strength;
- second, foundations were laid for recovery in the existing business, as demonstrated recently by the restart of our largest synthetic rutile kiln; and
- third, new options for future growth were advanced, and here I refer to the company's internal mineral sands production projects as well as investment in opportunities such as Metalysis and Tapira.

Pleasing progress was also made in areas such as:

- enhancing our already high standards of corporate governance;
- further improving our health, safety and environmental standards, measurement practices and performance; and in
- the development of our people and the diversity of our workforce.

Shareholders will have heard me outline the key elements of Iluka's business approach. These include:

- our preparedness to flex asset operations in line with market demand – an approach I think is appropriate given the structure and dynamics of the mineral sands industry and our place within it;
- our belief that existing growth options need to be preserved and advanced even during low cycle market conditions, and
- our willingness to act in a counter-cyclical manner where appropriate – knowing that shareholder value can often best be created with long term thinking when others are, probably of necessity, very short term in the views and their capabilities. For Iluka this has meant evaluating and, if appropriate, placing bets on options in a counter-cyclical manner – e.g. at the low point of a business cycle.

We do all of this while maintaining a strong balance sheet.

In terms of Iluka's willingness to flex production, this chart shows the production settings across Iluka's mining operations, mineral separation plants and synthetic rutile kilns. Two observations – first, Iluka's production settings are below historical averages and below what might be expected in mid to high cycle market conditions. And, second, higher combined zircon, rutile and synthetic rutile production is expected in 2015.

Our business is impacted by global economic conditions and we operate in a competitive market which has resulted in product prices declining from their peaks. However zircon and high grade titanium prices have been relatively stable over the last 18 and 9 months respectively, with the result that even in challenging market conditions the company generated a mineral sands EBITDA margin of 32 per cent.

Iluka has adjusted its operating cost base given market conditions and this table shows the reduction in gross cash costs since 2011 – a 30 per cent reduction. Despite lower overall production costs, unit cost performance has inevitably reflected some inefficiencies, shown by an increase in unit cash costs at materially lower production levels. As production increases, unit cash costs of production should decline and margins should therefore expand.

Capital expenditure for the last two years and that guided for 2015 is lower than the historical run rate and also lower than what the company might expect in future if it commits to a number of internal projects. The company has continued to invest in project studies for its five internal production options, in a manner which ensures these projects are advanced prudently and professionally.

Iluka has approximately \$800 million of inventory on its balance sheet – reflected in this chart - comprising finished products and also in what is referred to as work in progress, mainly concentrate that still needs to go through a final separation stage. Historical inventory levels are also shown.

Inventory levels going forward are expected to be higher than historical levels, because of a longer logistics chain and the increased proportion of small lot sales we make in servicing our customer base at multiple locations around the world. Nonetheless, over time and as demand recovers, this inventory can be expected to reduce, materially. It is an asset which will be monetised and that will be reflected in future cash generation.

Market conditions remain broadly in line with comments in the recent quarterly production report, that is, variable demand across markets for zircon, and indications of a recovery in demand for high grade titanium dioxide feedstocks.

In zircon, we observe stable demand in Europe with exports of zircon-based products offsetting the impact of a weaker Euro for some zircon buyers. In China, demand from ceramics-related customers is holding up well, while major zirconium chemicals producers report operating utilisation at 70-80 per cent levels and stable export-led demand. In the Americas, Iluka's sales are moderating in-line with the wind-down of the Virginia operations. Overall, Iluka's zircon sales have improved following first, Chinese New Year and, second, some delays associated with the implementation of Iluka's new pricing and payments framework.

Demand from pigment makers for Iluka's high grade titanium dioxide products has increased and the majority of Iluka's high grade ore sales are now contracted for 2015. In welding, demand for specific grades of rutile is strong and Iluka's warehouse network has enabled it to respond promptly to the increased demand.

The market for low grade titanium feedstock is oversupplied currently resulting in pressure on ilmenite prices but presenting some trading opportunities for the company.

Risks to prices in any industry of course exist when cash flows and balance sheets are under pressure as they are currently in many parts of the mineral sands industry.

However, the company is encouraged by the efforts of some customers to increase their prices to improve margins in their part of the value chain.

Iluka has maintained its activity levels and investment in the following areas:

- internal mineral sands project development;
- exploration, including a commitment to other commodities where adjacent to our core interest in minerals sands;
- market development including a focus on improving Iluka's customer offer and global market presence; and
- investment in research and development or what we refer to as Innovation and Technology.

Iluka advanced its internal production options: Balranald as the next planned mine development in the Murray Basin; Cataby as a potential significant chloride ilmenite feed source for synthetic rutile production, as well as early stage feasibility work on the Sonoran, Typhoon and Atacama deposits in the vicinity of the Jacinth-Ambrosia operation in South Australia.

Iluka has decisions to make on the first two of these options following the completion of definitive feasibility studies. Both are at an advanced evaluative stage and both will involve significant capital expenditure but, equally, they will be significant components of global supply as market demand grows.

Iluka's marketing capabilities, points of presence and logistics are areas where I believe Iluka has a differentiated customer offer. Elements of Iluka's approach include the following:

- separate zircon and titanium dioxide sales forces for a greater degree of specialisation in customer and market understanding and service;
- 14 global points of distribution, via sales and marketing offices and warehouses which provide flexibility in terms of product availability and delivery arrangements;
- a commitment to quality and an adherence to specifications of products delivered – in 2014 there were zero instances of products delivered out of specification, a remarkable achievement when you consider that over 53 products of different specifications are now offered, including 18 different specifications of zircon;
- active pursuit of new market opportunities, perhaps exemplified by the planned establishment of a China Technical Centre, to service existing and new zircon customers, and to work with emerging chloride pigment producers; as well as
- a new zircon price and payments framework.

Ours is not an industry where relevant, expert, external technical or other services are readily available. A high degree of self-sufficiency in areas such as metallurgy, mineral sands process engineering and geology is required and Iluka has demonstrated that it has this internal capability.

Iluka is prepared to look at merger and acquisition opportunities if financial merit and strategic rationale exist, and suitable opportunities can sometimes become more reasonably and readily available during market downturns.

Iluka's announcement on 30 April 2015 in relation to the potential acquisition of Kenmare Resources Plc, which operates a large dredge mining operation – Moma - in Mozambique, is a case in point.

Iluka has been diligently and patiently evaluating a potential combination with Kenmare for some time. In June 2014, following media speculation in the UK, the company advised it had at that stage made a proposal which was non-binding and indicative, and subject to due diligence and appropriate regulatory approvals. This offer was 0.036 new Iluka shares for each Kenmare share. Kenmare advised at that time that its Board has rejected the offer.

The most recent announcement on 30 April 2015 follows the conduct of due diligence and further discussions. The proposal remains subject to a number of pre-conditions. Under the terms of the current proposal, Kenmare shareholders would be entitled to 0.016 new Iluka shares for each Kenmare share, materially lower than the mid 2014 offer.

Iluka remains subject to the Irish Takeover Code, and as such we are limited in the information we can provide investors and other stakeholders at this stage. This includes areas such as what changes Iluka would make to improve the operational and financial performance of the Moma operation over what time period; implications for supply; Iluka's marketing approach for the Kenmare product; integration plans and timetables and so on.

All are legitimate questions and all and more have formed part of Iluka's detailed assessment of this opportunity.

While limited on what we can say, we have stated in our recent disclosures that if implemented, the combination would:

- consolidate complementary assets, reserves and skills;
- enhance current and future production flexibility, product range and marketing effectiveness; and
- bring to bear Iluka's industry specific technical expertise, and market knowledge, access and reach to improve Kenmare's operation.

Needless to say, for the company to proceed to a binding offer, we need to have confidence around the financial merit and the value creation opportunity for our shareholders and our ability to manage Kenmare's operation for the benefit of all stakeholders.

In addition to Kenmare, the work with Vale in Brazil on the potential commercialisation of a huge titanium mineralisation, which also contains significant levels of rare earth elements, as well as the investment of 12 million pounds for an 18.3 per cent stake in the UK technology company, Metalysis, are examples of Iluka's innovation focus and option-based approach.

Neither bet the farm. Yet they are potentially valuable options where Iluka can bring to the table something more than its balance sheet to create value for shareholders.



I realise that investors in this industry can be buffeted from time to time by cyclical forces which can test the confidence and persistence of all involved, but those investors with patience have in my time in the industry been well rewarded and I believe they will be so again in the future. The fundamentals of mineral sands medium to long term demand versus supply remain sound.

We have shown that our portfolio of assets and our approach can generate high shareholder returns and exemplary cash distributions. We have recently navigated through a low cycle period, but I am confident that the financial health of the company has been preserved; the foundations have been laid for recovery in the existing business; and new options have been secured for future growth.

In concluding, I would like to acknowledge the guidance and support provided by our Board of Directors, the committed efforts of Iluka employees, the strengthening relationship we enjoy with our many customers and the support of our shareholders.

Thank you.