

8 December 2016

## **ILUKA COMPLETES MERGER WITH SIERRA RUTILE LIMITED**

### **Transaction Details**

Iluka Resources Limited (Iluka) advises that following German regulatory approval on 22 November 2016 and the Merger Update announcement of 7 December 2016, it has completed the acquisition of Sierra Rutile Limited (SRL) by means of a statutory merger of SRL with Iluka Investments Limited (BVI), a wholly owned Iluka subsidiary.

The total transaction cost of A\$393 million, includes the final consideration for SRL equity of A\$375 million (£215 million) and A\$18 million of transaction costs<sup>1</sup>. Payment was made on 7 December. Iluka has assumed SRL's net debt of approximately US\$59 million, (A\$80 million) and is in the process of making arrangements to have this repaid from its own facilities.

Sierra Rutile is a large, long life rutile mining and processing operation with material expansion options. It also provides the company with a quality mineral sands operation to continue to service the high grade titanium dioxide feedstock market. Combined with Iluka's existing operations and internal projects, Sierra Rutile also provides increased portfolio flexibility in relation to capital expenditure timing.

Tom O'Leary, Iluka's Managing Director and Chief Executive Officer said:

"The SRL merger extends Iluka's resource base and provides access to a major global source of rutile. Iluka believes that the combination of the experience and capabilities of SRL personnel with Iluka's mineral sands operational and technical experience, gained across multiple ore bodies and processing facilities over many years, will enhance the operational performance of Sierra Rutile.

As planned, Iluka intends to continue the evaluation of the development options at Sierra Rutile through the commencement of definitive feasibility studies on each option. Subject to this evaluation and market conditions, Iluka plans to commit progressively to expansion opportunities that, in aggregate, could see a significant increase in rutile production and a material improvement in unit cash costs of production.

The merger is expected to generate value and benefits for the multiple stakeholders of the Sierra Rutile operation. I am also confident that the important contribution of the Sierra Rutile operation in Sierra Leone will be maintained and career opportunities for existing SRL employees will be enhanced.

A small number of experienced senior Iluka personnel will be located in Freetown and at the operation, in the Bonthe and Moyamba Districts of the Southern Province of Sierra Leone. In association with SRL management and personnel, initial priorities will relate to operational, safety and other enhancements and the commencement of planning for mine development and expansion activities. The timing of production expansions will be dependent on the outcome of feasibility studies, regulatory approvals and market demand conditions. Integration planning activities have been in train and will now be put into effect."

### **Sierra Rutile Country Significance**

Mr O'Leary added: "Iluka recognises that Sierra Rutile is an operation that has a long and proud history within Sierra Leone; it is a large employer within the country and plays a major role in the national economy as well as the regional economies in the south of the country. The Government of Sierra Leone, as a key supporter of Sierra Rutile over many years, and now a key stakeholder for Iluka, is also acknowledged.

<sup>1</sup> The AUD equivalent of the Sterling offer price was fixed as at 1 August 2016 pursuant to a deal contingent hedge as disclosed at announcement (see 1 August 2016 announcement transcript). Transaction costs include a fee of A\$8 million, which was paid to the deal contingent counter party, which also incorporated the foreign exchange forward points. Transaction costs will be included in Iluka's 2016 Income Statement.

I would also like to recognise the role of John Sisay, Chief Executive Officer and Executive Director of SRL. He has had a formative influence on the development of the operation since 2001, including the company's continued operation and community aid through the Ebola crisis, record rutile production in 2015 and the successful commissioning of the Gangama Dry Mine in May 2016. Following completion of the merger, John has resigned from SRL and Iluka has appointed Rob Hattingh as Chief Executive Officer, Sierra Rutile to ensure Iluka is represented in the country by a suitably senior and experienced executive. Rob has extensive mineral sands operational experience across a range of projects, including operations in Africa and has joined the Executive of Iluka. John has agreed to assist with this transition, and with the commencement of the integration process."

## **Resources**

Iluka's investor presentation on 1 August 2016 regarding the SRL acquisition included information regarding SRL's resources (based on SRL's 2015 Annual Report). A further investor presentation which Iluka will release tomorrow will also include that information.

## **Operational and Safety Improvements**

Iluka expects to spend approximately US\$60 million (~A\$80 million) over the next two years on operational and safety performance improvement measures, subject to developing detailed plans and obtaining any necessary regulatory approvals as well as Iluka's normal capital expenditure approval. Upgrading of safety systems will be the initial focus.

The operational improvements include:

- revised mining method to reduce haulage, stockpiling and reclaim involving in-pit mining units and slurry pump to the wet concentrator plant;
- revised beneficiation plant design for current and future mines, de-constraining throughput and improving recovery;
- improvement of mine pit de-watering to access lower ore zones, improve tailings management and enable earlier tails backfill whilst minimising environmental impact; and
- higher mineral separation plant throughputs and recoveries through equipment upgrades.

## **Production Expansion**

Sierra Rutile has a number of production expansion options that Iluka evaluated as part of the due diligence process and will now move into detailed feasibility studies on these options. Execute decisions will ultimately be dependent on the outcome of these studies and market conditions, with consideration to other options within the Iluka portfolio. Iluka has previously advised that its estimate for these options is ~US\$160 million over a 3 to 5 year period. These opportunities include the following:

- Lanti dry mining - current planned expansion of additional 250 tonnes per hour (tph) of ore throughput; Iluka is considering a larger expansion of 500 tph. This expansion would partially offset the planned decommissioning of the Lanti dredge operation (SRL planned decommissioning in 2018).
- Gangama dry mining – current planned expansion of additional 250 tph throughput; Iluka again considering a larger expansion of 500 tph.
- Sembehun mining – development of a new group of deposits with approximately 1,000 tph throughput.

Both the Lanti dry mining and Gangama dry mining 250 tph expansions had been the subject of process optimisation, value engineering and market evaluation by SRL. The Sembehun mining project is expected to progress towards a definitive feasibility study.

It is estimated the Lanti and Gangama expansions would increase rutile production from the 2016 SRL guided level of ~135-145 thousand tonnes per annum to ~160-175 thousand tonnes per annum. With the Sembehun expansion, production may exceed ~240 thousand tonnes per annum.

## **Tailings Dams**

Iluka carried out technical due diligence in relation to the SRL operations, including SRL's tailings dam facilities, before the Merger was agreed on 31 July 2016. During recent visits by Iluka management for the purposes of integration planning, Iluka had concerns in relation to the Gangama dam, used as a water storage and tails facility, where leakage of water was evident, and in relation to the Lanti containment ponds, with respect to the amount of freeboard. It should be noted that the more recent inspections occurred after the wet season in Sierra Leone and after commencement of mining at Gangama.

Members of Iluka's senior operational team, including a geotechnical expert, have subsequently attended the SRL site and carried out further inspections of the dams. In addition, Iluka has been able to secure additional information from SRL about the dams and their construction. Iluka has also retained an independent geotechnical consultant to make on-site assessments and advise Iluka.

The independent geotechnical consultant, Knight Piesold, has confirmed that, subject to the lowering of the water levels in the Lanti containment ponds, the risk of immediate failure of the dams is low. Iluka confirms that the water levels in the Lanti containment ponds have been lowered to an acceptable level.

Iluka has developed plans for dam management, including wall construction techniques, linings, maintenance and operating and monitoring regimes. Knight Piesold has confirmed that those plans are appropriate in the circumstances. Where operational improvements are required to meet Iluka standards, these will be implemented post completion of the transaction.

## **Integration**

Initial stages of integration are now being implemented and include:

- ensuring the continuity of the Sierra Rutile operation and of its key senior and technical people and broader workforce, so as to maintain the production performance enhancements that have been made;
- recognising and respecting the cultural norms and traditions of Sierra Leone and the Sierra Rutile operation;
- locating a small number of senior Iluka personnel at the operation for integration activities and operational performance improvements. Headed by Rob Hattingh, the team also includes Shane Tilka as Chief Operating Officer, Sierra Rutile. Other senior personnel, including Dan McGrath, General Manager, Eastern Operations will have input on operational, project development and health and safety aspects of the operation. Beyond the core team of eight personnel, who will largely be based in Sierra Leone, Iluka will draw upon other resources as required;
- seeking to capture merger synergies, although limited, including the cessation of SRL listing on the London Stock Exchange. Synergies (net of integration costs) are expected to average ~US\$2 million per year over the first three years; and
- consolidating SRL's performance for the remainder of December with Iluka's for the purposes of full year 2016 financial reporting.

## Iluka Business Priorities

The Iluka management team is currently engaged in a detailed review of business priorities, led by Iluka's Managing Director and CEO, Tom O'Leary. Key areas of focus include:

- the completion of the SRL merger and commencement of an effective integration process;
- completion of the five year corporate planning and 2017 budgetary process;
- a detailed review of the existing production portfolio and projects, including assets, configurations and operating regimes;
- an assessment of the feasibility, attraction and timing of the expansion projects available to the company; and
- a review of all non-production costs of the business to ensure a sustainable cost structure.

## Additional Information on Sierra Rutile and Teleconference

Iluka will lodge a presentation document to be associated with a teleconference to be held at 11.00am Australian Eastern Daylight Time tomorrow, **Friday 9 December** (details below).

Historical SRL physical and financial information - [SRL historical physical and financial data](#).

## Teleconference and webcast dial in details:

### 11:00am – 12:00noon (AEDT) Friday, 9 December 2016

The presentation will include an overview of the announcement. Participants will be able to view accompanying slides and participate in a question-and-answer session.

**Presentation slides** will be available on the following after release to the market:

<http://webcast.openbriefing.com/3175/>

and on Iluka's website [www.iluka.com](http://www.iluka.com)

An **audio recording** and **transcript** of the teleconference will be available on Iluka's website as soon as practicable after the session.

**Please note:** an RSVP for the teleconference is **not required**.

## Teleconference dial-in details

**Conference ID: 3402 2735**

<b>Australia (toll-free)</b>	<b>1800 123 296</b>	<b>Hong Kong (toll-free)</b>	<b>800 908 865</b>
<b>Japan (toll-free)</b>	<b>0120 477 087</b>	<b>Singapore (toll-free)</b>	<b>800 616 2288</b>
<b>Canada (toll-free)</b>	<b>1855 5616 766</b>	<b>United States (toll-free)</b>	<b>1855 293 1544</b>
<b>United Kingdom (toll-free)</b>	<b>0808 234 0757</b>	<b>Any other country or mobile</b>	<b>+61 2 8038 5221</b>

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## Disclaimer

This announcement contains information that is based on projected and/or estimated expectations, assumptions and outcomes. These forward-looking statements are subject to a range of risk factors associated, but not exclusive, with potential changes in:

- exchange rate assumptions
- product pricing assumptions
- mine plans and/or resources
- equipment life or capability
- current or new technical challenges
- market conditions
- management decisions

Iluka makes no representation that any or all of the production options referred to in this announcement will occur nor that the indicative cash and capital costs will apply, being subject as indicated to further evaluation and ultimate investment decision making. While Iluka has prepared this information based on its current knowledge and understanding and in good faith, there are risks and uncertainties involved which could cause results to differ from projections. Iluka shall not be liable for the correctness and/or accuracy of the information nor any differences between the information provided and actual outcomes, and furthermore reserves the right to change its projections from time to time. Except for statutory liability which cannot be excluded, Iluka, its officers, employees and advisers expressly disclaim any responsibility for the accuracy or completeness of the material contained in this presentation and exclude all liability whatsoever (including in negligence) for any loss or damage which may be suffered by any person as a consequence of any information in this presentation or any error or omission there from.

In respect of certain forward looking statements associated with EPS accretion, such outcomes are dependent on, inter alia, the final audited purchase price allocation, relative 2017 product pricing outcomes and the USD:AUD exchange rate.

Iluka accepts no responsibility to update any person regarding any inaccuracy, omission or change in information in this presentation or any other information made available to a person, nor any obligation to furnish the person with any further information.

All currency referred to is Australian denominated unless otherwise indicated.

## **APPENDIX A: ACQUISITION SUPPLEMENTARY INFORMATION**

### **Strategic Rationale**

- Sierra Rutile is a business with a long operating history and well established customer relationships in an industry that Iluka knows well.
- The acquisition provides Iluka with a long life (20 years plus) resource with additional potential upside through exploration and resource to reserve conversion.
- The combination will provide enhanced opportunities for Iluka to increase rutile production as market demand conditions warrant, with the combination enhancing Iluka's market position in rutile and complementing its zircon market position.
- The acquisition provides potential portfolio flexibility in relation to Iluka's internal production options.

### **Financial Merit**

- Iluka believes the acquisition represents an attractive risk/return profile for shareholders across a range of scenarios.
- Iluka has undertaken due diligence on the Sierra Rutile operation. This has included on-site and other due diligence activities and comprehensive risk assessments.
- Sales volume forecasts have been based on detailed marketing plans. Modelled product prices as part of due diligence are consistent with Iluka's view of the industry outlook and TZMI analysis.
- Stress testing of returns and balance sheet outcomes under a range of economic/market/operating conditions has been conducted, in accordance with Iluka's rigorous evaluation approach.
- The transaction is expected to be EPS accretive in the first full year after acquisition and thereafter, with free cash flow impacts in any particular year subject to investment portfolio decision making and timing related to this asset and other Iluka opportunities for example, Cataby and Balranald).

### **Iluka Expertise and Operational Improvement Potential**

- Iluka's evaluation of the Sierra Rutile opportunity has entailed assessments related to country risk, health related matters, internal security and personnel safety, as well as standards of current operating regime and interaction with the workforce and local communities. Iluka is satisfied with these assessments and looks forward to a close working relationship with the Government of Sierra Leone.
- Iluka will bring its extensive operational and technical capabilities to bear in order to deliver a number of operational and resource conversion improvements to Sierra Rutile. These opportunities have been identified as part of due diligence activities. The improvement measures are expected to increase production and improve unit cash cost performance.
- Iluka is able to draw upon the expertise and experience of its employees in relation to dredge and dry mining operations, including mine development and operation in Africa, to supplement existing Sierra Rutile management expertise.
- Iluka will apply its capabilities in areas such as safety and environmental management and rehabilitation.
- Key Iluka personnel that will be involved in integration and operational roles have been identified and are available to undertake assigned activities. Several of these personnel were involved in various elements of due diligence activities.