16 April 2019 ASX: ILU

ILUKA RESOURCES 2019 ANNUAL GENERAL MEETING

Iluka Resources Limited (Iluka) today held its 64th Annual General Meeting of Shareholders in Perth, Western Australia.

Shareholders voted on three resolutions: the re-election of Chairman Greg Martin; the adoption of the remuneration report; and the grant of securities to the Managing Director.

A transcript of the addresses delivered by the Chairman and the Managing Director; and remarks on the Remuneration Report by the Chairman of the People and Performance Committee are attached.

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2019 Annual General Meeting
16 April 2019, Perth, Western Australia
Chairman's and Managing Director's Addresses; Chairman of People and Performance Committee Remarks

Chairman's Address

As in previous years, formal business will commence with my Chairman's report.

Iluka published its Annual Report on 21 February and its Sustainability Report on 9 April. These documents detail the company's activities in 2018 and I encourage you to review them. Copies are available at today's meeting and on our website.

I would like to begin by reiterating an observation I made in my letter to shareholders in the Annual Report – that your Board believes Iluka is positioned financially, strategically and culturally to deliver on its objective: to deliver sustainable value.

Now that may strike some as a rather predictable statement for a Chairman to make; but I think it is important that shareholders are aware of this view and it is stated explicitly, not only in light of current challenges in the global business environment; but, on the domestic front, in the wake of the Hayne Royal Commission in particular.

Shareholders will have followed the Commission's hearings and findings with some interest over the past year; and I think it is fair to say that these have compelled open and honest reflection, not only on the part of those operating in the financial industry; but indeed the boards and management teams of all Australian companies.

While it is only too easy to bemoan the reputational damage caused by the behaviour of others to Australian business collectively, the imperative for companies to actively demonstrate that their activities are being carried out according to correct standards – and directed bearing in mind the interests of a broad range of stakeholders – has never been clearer. That this is in the interest of shareholders is self-evident. Furthermore, the days when companies could expect to 'fly under the radar' simply by virtue of being good corporate citizens are well and truly behind us. As part of core business, we must also be more active and adept in communicating the work that we do to and for a wider audience.

In acknowledging this reality, the Board commends the work of the Managing Director and his Executive team over the past two years in placing the concept of sustainable value at the centre of Iluka's business. As directors, we are focussed on setting and exemplifying a culture that emphasises the key pillars of value – the sustainability of our profits, our people and our communities; the latter encompassing not only those in Iluka's operating regions, but the company's customers, suppliers and other external stakeholders as well.

The Board is equally determined to guard against the hubris of a 'set and forget' mindset in these areas. And one only need look to our own operating challenges in Sierra Leone last year, for instance, as a reminder that we are ourselves far from perfect and must strive continually for improvement.

Notwithstanding the challenges in the external environment, Iluka delivered a strong financial performance in 2018, including:

- net profit after tax of $304 million;
- a 22% increase in mineral sands revenue to $1.24 billion;
- underlying EBITDA up 81% to $545 million;
- free cash flow of $304 million; and
- return on equity and return on capital of 32% and 54% respectively.

This result was underpinned by positive market conditions for the company's products and an excellent performance by our Australian operations. As I alluded to a moment ago, this performance was not replicated in Sierra Leone, which encountered a number of technical, industrial and external challenges throughout the year. The Board visited Sierra Leone in November; and, as I am sure he will elaborate on shortly, Tom and the Executive are pursuing a number of measures to address the stability of our operating environment there and deliver consistent results.

In line with Iluka's dividend framework to return to shareholders a minimum of 40% of free cash flow not required for investment purposes or balance sheet activity, we declared total dividends for the year of 29 cents per share, fully franked.

Perhaps most pleasing was our return to a net cash position of $2 million at the end of 2018, which has been achieved only two years post the acquisition of Sierra Rutile, when net debt was $506 million. This balance sheet strength reflects Iluka's considered focus on capital management; and I will take a moment to address the company's approach in this area. In doing so, I am particularly mindful of the potential for policy shift with respect to franking credits in the event of a change of federal government, as well as various public commentary on the approach companies might take in the meantime.

From Iluka's perspective, we acknowledge the value of franking credits to many of our shareholders. We have in fact fully distributed our franking credit balance as at 31 December 2018. The company remains committed to its dividend framework, which explicitly prioritises returning the maximum franking credits practicable. Similarly, we have a track record of disciplined capital allocation; and, consistent with Iluka's objective, the company is cognisant of balancing future capital required to grow the business and ensure sustainable returns over the long-term. Shareholders can rest assured that both the Board and Executive are constantly evaluating ways to optimise these returns; and we will of course continue to keep you updated on any developments.

This same philosophy has and will continue to govern the company's approach to our Mining Area C (MAC) royalty agreement in Western Australia, which generated $56 million for Iluka in 2018. Shareholders are likely aware that BHP is progressing its $4 billion South Flank Project with a view to tripling iron ore production from the MAC precinct. At 2018 prices, this would see payments to Iluka treble over the coming years – a welcome development to say the least.

Our safety performance for 2018 was mixed, with eight additional injuries compared to the previous year. This translated to an increase in our total recordable injury frequency rate from 2.8 to 3.5. While the Board should not and does not take an increase in safety incidents lightly, in this case we take some consolation from the fact that many of these recordable injuries were minor in nature; and there was actually a material reduction in the number of injuries classified as having serious potential. This is reflected in the lost time injury frequency rate, which remained constant at 1.0.

Turning to environmental management, the year also saw Iluka introduce a closure index, which measures, on a weighted basis, the total area of land open by the company relative to that closed. 888 hectares of land were opened in 2018, largely in relation to the Cataby project; and 741 hectares were rehabilitated. Twenty reportable environmental incidents were recorded, compared to 27 in 2017. The evolution of the company's broader sustainability credentials continued, with the development and publication of a human rights policy and a review of our approach to managing climate change impacts. These credentials will be increasingly important in the context of Iluka's activities globally. I am pleased that we have retained our position on the Australian Dow Jones Sustainability Index and have been included on the FTSE4Good Index in recognition of our strong environmental, social and governance practices.

In my AGM address last year I foreshadowed the introduction of a new Executive Incentive Plan (EIP). This was the product of considerable deliberation by the Board over many months; and took account of extensive consultation with our shareholder base in the year prior to the EIP's implementation. Hutch Ranck, the Chairman of the People and Performance Committee, will deliver the Remuneration Report later this morning; but I can convey that in shareholder voting we have incurred a first strike against the report. While a substantial percentage of shareholders have voted in its favour, this is nonetheless a disappointing outcome. The Board considered it had proposed an incentive plan that was suitable for Iluka; and that it had assessed performance under it fairly. This included a relative increase to the at risk non-cash component of executive remuneration – i.e. equity rather than cash – so as to more closely align with shareholder interests.

Hutch will elaborate further on the process of engagement with shareholders and design of the EIP. I acknowledge however that a number of our shareholders are not satisfied with the plan. As is appropriate under such circumstances, we have resolved to continue to engage with shareholders over the coming months on this matter.

I mentioned at the outset, today marks the departure from the Board of a valued colleague. Xiaoling Liu will retire from the Board at the conclusion of this meeting. The company has evolved substantially since Xiaoling's commencement as a director in February 2016, with major developments during that period including the appointment of a new Managing Director, the acquisition of Sierra Rutile and approval for a new mine at Cataby in Western Australia. Xiaoling's thoughtful contributions to the Board's consideration of these and other matters during her tenure have been valued. Xiaoling – you will be missed. On behalf of all at Iluka, thank you for your efforts and we wish you well in your future endeavours. The Board is well advanced in terms of the process to select Xiaoling's successor and we will have more to say on that subject in due course.

Ladies and gentlemen, I'll conclude my remarks by once again thanking shareholders for their continued support and interest in the company. This is something we never take for granted. I think we can all be encouraged by Iluka's performance in 2018. I know Tom is determined to see strong performance achieved sustainably into the future; and I'll now make way for him to outline how the company is setting about that objective.

Thank you.

Managing Director's Address

Thank you, Greg and welcome everyone.

2018 marked a period of intense activity across all aspects of Iluka's business. This included:

- record and near record production performances by the company's Australian operations;
- operational transition in Sierra Leone, with the wind down of dredge mining and the ongoing expansion of dry mining capacity, which will be doubled in the second half of 2019;
- construction of the Cataby project – on time and budget – with production currently ramping up;
- the execution of our marketing and pricing strategy; and
- the progression of Iluka's project portfolio more broadly, including to address the impending structural deficit in mineral sands markets over coming years.

Shareholders may recall that at last year's AGM I emphasised the company's focus on delivery. Twelve months on, my assessment is that we have performed well, though not flawlessly, in delivering on our priorities. Given that 2019 promises similarly high activity levels, it is vital that we maintain our resolve; learn from recent experience; and continue to strive for flawless execution.

As the Chairman mentioned, we are focussed on meeting our objective: to deliver sustainable value; and our efforts are now directed expressly toward this purpose, pursuant to the Iluka Plan.

What do we mean by deliver sustainable value? It's an objective that makes us accountable not only for what we achieve; but how we achieve it, and over what timeframe. This of course requires delivery against what one might call the traditional 'sustainability' disciplines of health, safety, community and environmental performance, which should be fundamental in any enterprise. Beyond this – and I think crucially in Iluka's case – it also requires us to take actions that promote the long term commercial sustainability of Iluka as well as of the mineral sands industry more generally.

An example of a step taken to promote Iluka's commercial sustainability is the company proceeding with the Cataby development only after securing contractual underpinning of returns; but also the nature of those offtake contracts themselves. I touched on them last year; but the key point is that as a consequence of take or pay terms; floors but no caps; and a large portion of Cataby outputs being subject to contracts with western chloride pigment producers, the financial returns expected from the project have been rendered very robust.

A further example of promoting commercial sustainability, this time for the industry more generally, is Iluka's approach to the zircon market. We have a focus on meeting our customers' needs through a global marketing presence as well as on being a responsible industry leader. That leadership is demonstrated in particular by our approach to zircon pricing, where we've sought to bring a level of predictability and stability to a market which has in the past been characterised by volatility.

So while shareholders rightly expect satisfactory returns on their investment, achieving this demands our focus be wider than the generation of high near term cash flows. Building a sustainable industry for the long term, one that sees opportunity for both producers and consumers to prosper, is a pre-requisite to meeting our objective: to deliver sustainable value – to our shareholders, employees and the communities in which we operate.

Staying with the zircon market, the industry has been in good shape from a demand perspective. This was reflected in the favourable price outcomes we continued to achieve in 2018. More recently, we witnessed some signs of softening demand towards the end of the third quarter last year, which eased tensions in the market. However, we think this dynamic will be short lived, as growth in demand for zircon is expected to outpace supply from existing operations over the medium to long term.

On the supply side, pricing conditions have seen the return of artisanal zircon production from the Kalimantan provinces of Indonesia. Kalimantan operates as a true marginal producer; and has in the past played an important role in smoothing price volatility. In previous periods of strong demand and relatively high prices, supply has been induced, alleviating market pressure. Conversely, when demand and price has eased, production has declined; and the region has not contributed to an oversupplied market.

Iluka has guided average annual zircon production for the period 2019-2021 at 335 thousand tonnes. This production is derived from a combination of:

1. the early mine move to Ambrosia in South Australia, scheduled to be completed by October this year;
2. Cataby, which, in addition to sustaining the company's synthetic rutile production over the next decade, also provides material quantities of zircon and rutile; and
3. the release of zircon in concentrate, or ZIC, into the market.

The company has the capacity to release additional ZIC tonnes as required to aid market balance; and we will continue to mobilise what is a significant store of ZIC as necessary. This provides Iluka a swing production capability which, together with Indonesian production, will assist our customers in meeting their requirements over coming years.

Moving to the titanium dioxide feedstocks market, there were a number of production disruptions across the industry in 2018, including at Sierra Rutile, resulting in the supply of high grade feedstocks being curtailed.

Pigment demand – which accounts for approximately 90% of the titanium feedstock market – is expected to be solid overall in 2019. Combined with limited feedstock inventories through the supply chain, this is likely to create a very tight high grade feedstock supply situation. Over the medium to longer term, increase in chloride pigment capacity is expected to result in demand outstripping supply.

Iluka of course operates almost exclusively in the high grade chloride feedstock area; and occupies a leading position in the very high grade markets of rutile and synthetic rutile. This is significant given the advantages inherent in these products, which include the ability to run pigment plants more efficiently and with less impact on the environment.

In China, where stricter environmental regulations have been introduced, the benefits of the cleaner chloride process have been recognised. New chloride pigment plants have come online, with more planned or under construction. Iluka's products have been used as plant feed in the ramp up of these facilities, which is a positive sign, as China has not previously been a large market for Iluka's high grade feedstocks, most of which are currently sold into Europe and the US.

So, given the structural deficit emerging across Iluka's key markets, the company's approach to addressing this situation is vital in the context of our ability to deliver sustainable value.

We will continue in our efforts to promote greater customer certainty and transparency in pricing; and, consistent with this approach, we communicated to the market in February that the current Zircon Reference Price would be extended for a further six months through to the end of September 2019.

We are similarly fortunate to have a portfolio of project options in Australia, Sierra Leone and Sri Lanka, which are either being executed or are part of a pipeline of developments for the medium and longer term.

I have spoken today of Cataby, the Ambrosia mine move and the near term Sierra Rutile expansions, all of which will be commissioned by the end of this year.

While we experienced some operational challenges at Sierra Rutile in 2018, we are pleased the ore bodies are delivering and, as noted in yesterday's Quarterly Review, that production performance is improving.

Shareholders may be aware that Iluka is in discussions with the International Finance Corporation (IFC) regarding a potential partnership in Sierra Leone. These discussions are the culmination of engagement between Iluka and the IFC over several years. They are progressing well; and while the IFC's potential investment remains subject to board approvals by both sides, and finalisation of commercial terms, the proposed partnership would see the IFC acquire a 10% equity stake in Sierra Rutile. If realised, this will provide benefits to Iluka, the IFC and the people of Sierra Leone by promoting the continued, sustainable development of the operation.

In Victoria, the Wimmera project is focussed on one of our fine grained deposits in that region. Iluka holds a number of these deposits and, while they have been known to the industry some time, technological challenges have hampered their development. They are large and have long life potential; but owing to the particle size of their valuable mineral content, cost effective processing has been elusive. Our technical teams have made good progress in developing this technology; and hence the project has been advanced to the pre-feasibility stage. I would also note these deposits have material co-product credits in the form of rare earth elements. So, if we're successful, their development will provide Iluka some diversification in its revenue stream and exposure to a fast growing market linked to, among other things, permanent magnets as used in electric vehicles and wind turbines.

Another project requiring innovation to meet technical challenges is Balranald. The deposit is high grade with good rutile and zircon assemblage – the main challenge is that it is around 60 to 70 metres deep on average and sits below the water table. Since 2015 we've been working on an internally developed, underground mining method to access the orebody more economically than through conventional means. Though still under development, we believe this technology could have advantages of a smaller footprint, lower rehabilitation costs, lower capital intensity and scalability in its operations. We'll be making a commercial decision on whether to undertake a further underground trial later this year.

In Sri Lanka, we have a large sulphate ilmenite deposit in the North Western Province; and the pre-feasibility study for the project is largely complete. However, recent political unrest has delayed progress on agreeing fiscal terms; and this is an essential prerequisite for Iluka to develop the deposit.

We also have another synthetic rutile kiln, SR1, in the south west of Western Australia, with capacity to produce around 120kt per annum. This asset has been idle for a number of years but, in light of the market conditions I outlined earlier, we've commenced a scoping study on its potential restart.

It is clear that, across the industry, many of the potential new sources of zircon and rutile present challenges. These can include technical issues around separation, depth or quality of the deposit; as well as access to infrastructure. In addition, many are located in regions that carry higher political risk.

All of these factors drive higher return requirements and necessitate stable and sustainable pricing. They also demand that capital be deployed very carefully, fully cognisant of the risks involved. The industry needs to be mindful of the capital that was ineffectively deployed when prices for mineral sands products were last strong, briefly, at the beginning of the decade.

Consistent with our objective, Iluka will continue to evaluate our portfolio of projects and exercise discipline in deploying capital; and I'd encourage others in the industry, or thinking of investing in the industry, to do the same.

Thank you and I look forward to taking your questions.

Chairman of People and Performance Committee Remarks

Thank you Chairman.

Good morning

Firstly I would like to start by echoing the Chairman in expressing our disappointment as a Board in receiving what will be a first strike on the Remuneration Report.

This outcome is particularly disappointing because prior to the implementation of the new Executive Incentive Plan, we engaged widely and listened to you, our shareholders. We proactively sought feedback and incorporated that feedback into the design of the plan trying to balance the interests of investors and the need to ensure our executive remuneration remains competitive. We presented the full details of the new plan last year in our 2017 remuneration report which received good support at that time, expressed by a 99.4% FOR vote at last year's AGM.

The new plan was designed to deliver a significant part of each executive's overall reward in shares. The Board wanted to ensure that executives are immediately aligned with and exposed to the same financial consequences as shareholders. The Executive Incentive Plan performance measures were set to focus Executives on the things they can control – costs, production, strategy implementation, including our pricing approach, and asset utilisation which we believe will deliver value for shareholders over the longer term. The plan has 35% of the scorecard solely focused on individual and group strategy, which is fundamental to the long term performance of your company. We believe the remuneration outcomes reflected in the 2018 remuneration report appropriately reflected the overall performance achieved by the Company and the Executives.

It is clear from our engagement with shareholders over the last couple of weeks that there is support for the Executive Incentive Plan, particularly the alignment with investors through the delivery of awards predominately in deferred equity. For those who do have concerns with the plan those concerns relate, in large part, to the 'combined plan' structure, which has always been a feature of the new plan. Through this recent shareholder engagement process, we understood that, while there were aspects of the plan that some felt could be improved, we were expecting overall support for the Remuneration Report.

Going forward, we will continue to engage with shareholders over the coming months and endeavour to develop an approach which is acceptable to you, our shareholders, while ensuring we can continue to attract and retain talent within the business.

The Chairman and I would both be happy to address any matters arising from shareholder questions.

Thank you