18 May 2016

ILUKA RESOURCES
2016 ANNUAL GENERAL MEETING

Iluka Resources Limited (Iluka) today held its 61st Annual General Meeting of Shareholders in Perth, Western Australia.

Shareholders voted on four resolutions: the election of one non-executive Director (Xiaoling Liu), the re-election of two non-executive Directors (Greg Martin and James Ranck) and the Remuneration Report. 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.

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Attachments:
Chairman's and Managing Director's AGM Addresses, May 2016

ILUKA RESOURCES LIMITED
2016 ANNUAL GENERAL MEETING
18 MAY 2016, PERTH, WESTERN AUSTRALIA

CHAIRMAN'S AND MANAGING DIRECTOR'S ADDRESSES

Chairman's Address

I will commence the business of the Annual General Meeting today with my Chairman's report to you. The Managing Director, David Robb, will then present the operating highlights for the past year and provide a perspective of more current activities.

Shareholders have been provided with details of the financial and operating conditions for the company in 2015 as disclosed in the full year results issued on 19 February and in the Annual Report as well as the Iluka Review, also issued on the same day. Copies of both documents are available here today.

I would encourage shareholders who have not consulted the annual report documents to do so, as they provide more detail than my address and that of the Managing Director will be able to convey today.

I will make some brief comments about the financial position of the company; discuss the Chief Executive Officer transition process and then address other governance and Board related matters.

Before I do, it is important to note some unwavering areas of board focus. The Board's commitment to the highest health, safety and environmental sustainable outcomes is of pre-eminent importance.

In relation to health and safety, the total recordable injury frequency rate, after an extended period of improvement, increased in 2015 to 6.7 from 3.6 in 2014. While the severity rate for injuries remained low, any reversal in a positive trend is taken very seriously and is being addressed with further organisational initiatives that have been discussed with the Board.

Environmental management performance is also a key area of board focus, and I am pleased that in 2015 the company recorded a 59 per cent decrease in level 3 and above (that is the more serious) environmental incidents. Our land rehabilitation activities meant that Iluka rehabilitated more land than it disturbed for the third successive year, as well as making some excellent progress on land rehabilitation at the Jacinth mine site in the Yellabinna Regional Reserve in South Australia. This work is featured on the inside front cover of the Iluka Review.

For a resources company, resource discovery or acquisition, delineation and ultimate reserve additions are always of strategic focus. The company's efforts through exploration; through investment in research and development and in unconventional resource conversion, reflect a multi-prong approach to this core business requirement for the long term sustainability and growth of the business. Ore reserves stand at 23 million tonnes, which in relation to 2015 production or depletion rates – which I recognise are lower than usual – provides approximately 12 years reserve cover. Iluka's resource position is 6.5 times larger than reserves, and obviously a consistent focus of management is on efficient resource to reserve conversion.

Financial Performance

In terms of the financial performance of your company, my observation in the Iluka Review was that the Board is less than satisfied with the current financial performance of the company. Clearly a reported profit of $54 million and a return on equity of 3.8 per cent are recognised by the Board and management as needing to be materially improved upon.

In saying this, shareholders will recognise that the mineral sands sector, similar to other mineral commodities sectors, has now experienced over three years of low market demand conditions and with it lower prevailing prices for the company's main products. This is certainly the case from the high cycle conditions which existed in 2011 and 2012 and during which the company generated higher earnings, cash flow and returns.

I think it is worth shareholders recognising that, despite the subdued financial performance, your company displays many characteristics which means it is in a strong position at this stage of the cycle.

Despite lower prices, the effectiveness of operational management to reduce unit cash costs means that the company recorded a Group EBITDA margin of 31 per cent.

The company generated free cash flow in 2015 of $155 million and was able to declare and pay a combined full year dividend to shareholders of 25 cents fully franked compared with 19 cents the previous year, a 31 per cent increase.

The company's balance sheet position remains strong. As at the end of 2015, the company had no debt, in fact a small net cash position of $6 million. Funding facilities stood at just over $1 billion dollars.

As such, your company is well positioned for both demand recovery and to invest counter cyclically - if appropriate opportunities are identified. I would also point out to shareholders that the company holds inventory on the balance sheet valued at $811 million which management expect to be progressively drawn down, both through production constraint initiatives and demand recovery. This will be positive for cash flow generation.

The Managing Director will provide further context on current market conditions and how this may influence financial outcomes in 2016.

Managing Director Succession

On 22 March, the company announced that succession planning for the Managing Director was progressing and that a transition of this leadership role was planned for the second half of the 2016 calendar year. I will remark on David's contribution shortly, but I thought it would be useful if I outline the approach and criteria being adopted by the board to select a suitable successor to David.

The Board has been pursuing a process for CEO/Managing Director succession which has been conducted in an orderly and disciplined manner. As part of this process, David has provided input and has, as agreed with him, provided experienced and capable internal candidates for the process of ultimate selection. David has also made his own commitment – which given David's character was never in any doubt - to remain firmly in control and committed to the company until he hands over to his successor.

I will say more about David's contribution at the end of the formal proceedings of the AGM.

The Board considers itself the custodian of the values and culture of Iluka and it is a non-negotiable criterion that whoever we select for the role of Managing Director is fully aligned with Iluka's values and approach to doing business.

There are also some aspects of Iluka's approach which are if not unique, then certainly a notable feature of the company's approach to doing business. These include an unremitting focus on return on capital, and therefore capital-efficient deployment decisions; and underpinning this, a rigour and depth of analysis which for a company of Iluka's size I consider unique. And there is Iluka's differentiated approach in terms of being prepared to flex production and being prepared to hold inventory – all of which I think reflects an appreciation of the value of what is after all a finite resource and in seeking to maximise the value to shareholders from this resource. There is also customised marketing - this is not an exchange traded commodity business; it requires skills in product development; technical selling arrangements; consistency of product quality; logistics and new market penetration.

A new CEO will need to embrace these key characteristics of the company and the way it conducts its business.

Clearly a key criterion is alignment of potential CEO candidates to Iluka's culture and values. Beyond this we are seeking an individual with pivotal and relevant industry experience, which can be transferred to Iluka and its business; we are clearly looking at strong leadership qualities; and for someone with agility and growth potential.

Each of these criteria are matched by a range of objective assessment factors and, with the help of a recognised external search consultant, the Board is reviewing both internal and external candidates. This process is nearing its conclusion and the Board would expect to be in a position to make an announcement in the not too distant future.

Governance and Board matters

Finally, some brief comments on other governance and board matters.

The Board focus on a number of key areas; obviously CEO succession and strength and continuity of culture being two.

There is also a focus on diversity – and by diversity I refer to gender diversity but just as importantly, in my view, the skills diversity of the board necessary to provide governance and strategic oversight as the company evolves and grows. We review, analyse and think about board skills and competencies a lot. The recent appointment of Dr Xiaoling Liu is for me an example of where we have been able to enhance board skills and in the process gender diversity. Already in her short time on the Board, having commenced in February 2016, her intellect, technical experience and senior executive experience in the materials and processing environment, have been evident and valuable. Xiaoling will speak later about what she brings to the Board.

I would also reference areas of focus by two Board Sub-Committees – the Audit and Risk and People and Performance Committees. I believe shareholders have been well served by these two Board Sub-Committees chaired respectively by Jenny Seabrook and Wayne Osborn. As part of its work in 2015, the Audit and Risk Committee oversaw the production and accelerated lodgement of audited full year financials, as well as the associated statutory Annual Report and Iluka Review coincidental with the full year results announcement.

The Remuneration and Nominations Committee was renamed during the year to the People and Performance Committee. This Committee, chaired by Wayne Osborn, broadened its scope under its charter to consider talent management, training and development and succession planning issues. A review of the Board's diversity policy also saw its gender diversity target increased to 30 per cent female director representation by 2018 in accordance with the Australian Institute of Company Directors' initiative to have women represent 30 per cent of ASX/S&P 200 boards by the end of 2018. As part of the Board renewal process and with subject to Xialong's re-election today, the Iluka Board will have met this 30 per cent female representation at the conclusion of today's AGM.

The Committee also recommended and the Board accepted a recommendation to extend the vesting period for the long term incentive plans from three years to four years and Wayne Osborn will make reference to this in his comments before the consideration by the Meeting of the Remuneration Report.

In referring to Wayne, I would like to acknowledge his contribution to the Board of Iluka Resources, as he resigns at the conclusion of today's AGM. Wayne joined the Board in March 2010 and most recently has served as Chairman of the People and Performance Committee. His extensive experience in mineral processing has provided a valuable technical contribution to the Board, and more broadly, his wise counsel, and sound judgement have been invaluable to his fellow directors. On behalf of shareholders and my fellow directors, as well as management present here today, I would like to thank Wayne for his invaluable contribution and wish him well for the future.

Ladies and gentlemen, that concludes my Chairman's Address.

Thank you.

I would now like to introduce our Managing Director, David Robb, at what will be his tenth and final Annual General Meeting. Thank you, David.

Managing Director's Address

Thank you Chairman.

Yes, it is the tenth time I've had the privilege of addressing an Iluka AGM as its CEO.

There are not many resources company CEOs who have enjoyed a similar tenure and I thank you for that opportunity. I will say some more on that front later, but first let's concentrate on the business.

As shareholders are aware, after a period, post-GFC, of strong demand growth and improved financial performance in 2010 to 2012, the mineral sands industry has experienced more subdued demand conditions over the last three years.

If we look at sales volumes for Iluka's principal products of zircon, rutile and synthetic rutile: 2015 combined sales volumes were 38 per cent lower than the 2010-2011 average, while zircon prices were 29 per cent lower and rutile prices were 17 per cent lower.

The price path for Iluka products versus some other materials is shown in this chart. All bar nickel have started and finished in similar territory, but the paths are different, with rutile and zircon peaking higher than others, apart from iron ore. Of course the duration of any peak is important too and ultimately it's the area under the curve that counts.

This reduction in sales volumes and received prices, even with a 23 per cent lower Australian dollar to the US dollar, which assists Australian denominated revenues, resulted in reduced revenues, cash flows and profitability. In turn, return on capital and return on equity – our principal measures – have also been adversely affected.

As you know, in these circumstances Iluka's consistent approach has been to flex production downwards and, where required, to idle operations while being prepared also to build inventory. Our rationale is simple: in an industry like ours, if demand is not there, then dropping prices and seeking to push out volume is unlikely to stimulate either further market demand or gains in market share and it is better to conserve production for the future, to focus on margins and await recovery. I believe our actions are logical and better in long run than other options, but they are painful decisions for a company to take and they come with a human cost that I regret deeply.

This chart shows the Iluka production settings over the last three years and as planned in 2016. There are several observations I would make:

- First, Iluka can flex production quite significantly;
- Second, we have improved our ability to do so without major one-off costs although there are always costs associated with idling and then maintaining operations while idled; and
- Third, we have been able to flex production without major impacts on the company's unit cash costs of production, which helps protect cash margins.

The Chairman has already referred to some of the main financial characteristics of the company. For 2015, these were: no debt; Group EBITDA margin of 31 per cent; free cash flow of $155 million; a dividend of 25 cents per share which equates to a 4 per cent yield on the year end share price; and continued investment in various options which I believe are essential for long term growth. But a return on equity of 3.8 per cent is clearly below what we seek to generate for shareholders.

If I look at market conditions over the last 18 months, I would characterise the zircon and high grade titanium dioxide markets as follows.

For zircon, in 2015 we experienced a marginal decline in sales volumes year-on-year, with 346 thousand tonnes of zircon sold. This outcome reflected variable demand in different geographies and in different end sectors and also Iluka's decision to step away from some potential business given our margin, not volume, focus. Iluka's decision, announced during 2015, to idle its Virginia operations at the end of 2015 meant that some customers pro-actively sought alternatives to Iluka's Virginia zircon, adversely affecting sales of this premium product.

Weighted average received prices for zircon declined over the course of 2015, from US$1,024 per tonne in 2014 to US$961 per tonne in 2015, a decline of 6 per cent. The decline was the result of competitive pressures in a low demand environment, but reported prices were also impacted by Iluka's decision to sell a higher proportion of lower price but high margin zircon in concentrate and tailings products.

In February this year we announced the significant step of suspending mining and concentrating activities at the Jacinth-Ambrosia operation in South Australia for a period of 18 to 24 months. As shareholders are aware, Jacinth-Ambrosia is the largest single global source of zircon supply. Given our concentrate and finished goods inventory levels, we can still supply zircon as demand warrants, but the action at Jacinth-Ambrosia will enable inventory of zircon-rich heavy mineral concentrate to be drawn down progressively. Similarly, the completion of mining at the Murray Basin deposits of Woornack, Rownack and Pirro at the end of the first quarter of 2015 and the processing in 2016 of heavy mineral concentrate from these deposits, will likewise enable this more rutile-rich concentrate to be drawn down. Given a major part of Iluka's $800 million of inventory held on the balance sheet is concentrate, these two actions will start the process of normalising inventory levels, and in turn liberating cash flow.

Market conditions for zircon in 2016, as the company has said, have continued to be mixed. Demand in January and February, while seasonally slow, was in line with our budget expectations. March was a month of low zircon sales as a major competitor was rumoured to be about to reduce zircon prices. This acted as a disincentive for customers to purchase and meant that volumes in March were materially lower than expectations; particularly in China. Unfortunately – at a time when we believe customers were seeking stability in the zircon market – when confirmed in April this necessitated Iluka reducing its zircon reference price by approximately 10 per cent to maintain the relevance of the reference price and to ensure our loyal customers were provided with product on a competitive basis.

The good news is that our marketing team has observed over April and into may a recovery in demand from March with total zircon sales in April recovering the ground lost in March and putting us back on track for the full year.

In terms of Iluka's high grade titanium dioxide products of rutile and synthetic rutile, again market conditions have been subdued, although I believe we have seen signs of demand recovery. In 2015, after discussions with major pigment customers, Iluka restarted its largest synthetic rutile kiln, SR2. This was achieved efficiently and safely and our recruitment practices resulted in an improvement in gender and indigenous diversity in our workforce in the South West operations, with 18 per cent of the workforce female and 5 per cent indigenous.

The kiln has operated reliably and efficiently since the restart.

The company, as a result, sold a combined total of 305 thousand tonnes of rutile and synthetic rutile in 2015; a 15 per cent increase from the combined volume of 264 thousand tonnes in 2014. In 2016, Iluka expects to produce 310 thousand tonnes of rutile and synthetic rutile combined; so slightly more than was sold in 2015. While we don't provide specific sales guidance for individual high grade titanium dioxide products, we believe that combined rutile and synthetic rutile sales will again show a positive trend in 2016. Rutile prices in 2015 declined about 7 per cent from weighted average 2014 levels, similar to what we saw in zircon.

Entering 2016 we expected relatively stable rutile and synthetic rutile prices, but it appears pigment demand is strengthening and pigment prices are increasing. This is good news and in fact we are seeing the most positive combination of factors for the pigment sector and ultimately for high grade feedstock demand we have seen since 2012. Demand for rutile in the smaller niche markets of welding and titanium metal has also shown improvement and is enabling Iluka to sell small quantities of rutile at a premium to the largely contracted prices to the pigment sector.

Iluka is focused on operating its business efficiently. This chart shows that the recent trend in unit cash costs of production and perhaps more importantly the costs of goods sold – which, together with sales price, determines margins received – has been positive.

While there has been some erosion in the unit revenue per tonne of zircon/rutile/ synthetic rutile based on the lower zircon and rutile prices to which I have referred, the company expects to generate free cash flow for the full year although, as previously advised, this will be second half weighted.

The company has the balance sheet capacity to consider counter cyclical investment opportunities, within its existing asset base and more broadly. We have said we will consider acquisition opportunities where there is a combination of strategic rationale and financial merit. Shareholders will be aware of the equity based offer, revised downwards on two occasions, for Kenmare Resources Plc., and Iluka's subsequent decision to withdraw when certain pre-conditions were not met. I think this process, if nothing else, demonstrates that Iluka is prepared to be patient, disciplined and thorough in its evaluation of investment opportunities.

As I reflect on the changes in Iluka and in our industry over the last ten years, I am pleased that the Iluka of today is very well placed financially with no debt, significant funding capacity and positive cash flows supporting investment and dividend payments.

I think this chart highlights the extent of the transformation of the company.

From $600 million dollars of debt to zero net debt. From a limited ability to invest for the future to available facilities of slightly in excess of $1 billion dollars with an average tenor of four years. In the period since we resumed dividends in 2010 a payout ratio to shareholders of 68 per cent of free cash flow – that's cash returned to shareholders of $715 million compared with cash retained of $340 million. And with further value available for distribution in future years in the context of a franking account balance of $103 million (which is equal to fully franked dividends of 57 cents per share).

Our organisation is aligned behind a simple objective – "to create and deliver value for shareholders". Consistent with that objective, we are creating options for the future and have talented people intent on delivering those options.

That process is well illustrated in how we apportioned available cash flow last year.

$125 million of available pre-investing cash flows of $280 million was used to maintain our existing assets and preserve our projects, to invest in traditional growth pathways such as exploration, and in innovation and technology which we believe could transform the company and indeed the mineral sands industry.

The balance of $155 million was split between distributing funds to shareholders and, mindful as we are of continuing global uncertainties and volatility, in strengthening our balance sheet still further.

We are now entering another corporate decision-making phase, similar I think to the period when I joined Iluka prior to the major investment decisions we made in early 2008.

Over the next 12-18 months there are significant decisions to be made, involving:

- The advancement of major internal projects, such as Cataby and Balranald;
- Industry opportunities are emerging as cash flow pressures and balance sheet stress take their toll; and
- In technological innovation.

The current decision landscape is complex; it is challenging; and it could, in some cases, result in a transformation, in a re-invention of our industry. It is hard work, it is frustrating and it is exciting, all at the same time. It reminds me in many ways of what we faced in 2007/08.

In making these decisions, we are mindful that one aspect of our industry that is markedly different today is our marketplace. Our markets are much more differentiated now than in 2007. We sell a greater range of products, particularly in the case of zircon where we have 18 distinct products, to more customers in more places than we used to. We now sell more directly and choose to carry more inventory and hold product closer to customers than do many of our competitors. Industry pricing is much more dynamic and price spreads between products and between suppliers can be greater. Global economic performance and government policies are more volatile. There is also financial distress in parts of our industry which can lead to opportunity but also result in behaviour and decision making that is sub-economic.

Ten years ago you might have heard Iluka described as a "perennial underperformer". We disproved that for a period, but enduring outperformance has eluded us and our industry. I am confident that Iluka will emerge from this period just as it did after the global financial crisis following the decisions it took in 2007/08 – it will experience another high.

This complex business landscape existing today is one I enjoy and, while I would like to make the necessary decisions together with the management team and Board, I think it is best if they are led by someone who will be around long after they are determined and implemented. 2016 is therefore an appropriate time to implement an orderly CEO transition in the best longer term interests of all stakeholders in the company.

Importantly, the Iluka organisation and the leadership team particularly are now 'ready' for change, I believe. Bench strength is good and, in the context of our industry, the Iluka talent pool is deep and ready for additional responsibility.

Our technical, commercial and analytical competencies are very much better than they were a decade ago. We are a more innovative company and the huge prize afforded by innovation is both understood and pursued in a coherent way.

We have invested in leadership skills at all levels and we have wonderful people operating in an engaged, ethical and professional way who know what is expected of them. I know people throughout this company will continue to strive to do their job as well and as safely as they can. And I am confident that we will stay focused on our objective – to create and deliver value for shareholders.

From a company you might have thought twice about joining, Iluka is now seen as a 'destination employer', it is well regarded by the investment community, it is well regarded by its employees, it is a "good company".

Our company today has a pervasive culture, largely reflecting its core values of commitment, integrity and responsibility.

Our workforce is more diverse; we spend more time thinking about how we might best develop our people; our workplaces are much safer; our environmental performance is improved; and we have a stronger focus on sustainable business practices, including in areas such as rehabilitation and restoration of former operating sites.

I'm honoured to have played a part in creating a better Iluka.

In conclusion, I know there will be a more appropriate time later to thank my wife Jan and my family for their support but it would be remiss of me today not to mention how much I have appreciated it throughout my executive career, but particularly during my time at Iluka.

I spoke at the start of my address today about what a privilege it is to lead a company like Iluka.

The heart of that privilege is the people you get to work for and with. From demanding shareholders and chairmen; to directors full of questions; to members of a leadership group that evolves over time; to colleagues at all levels and often working in far flung places, I thank you for the commitment you have shown to Iluka and for the support (and the challenge) you have provided me in my time as CEO.

We've achieved a lot, together.

Thank you.