17 December 2019 ASX: ILU

REVIEW OF SIERRA RUTILE CARRYING VALUE AND AUSTRALIAN REHABILITATION PROVISION ADJUSTMENT

Iluka Resources Limited (Iluka) noted in its September Quarterly Review, released 31 October 2019, that the company was undertaking further work to assess the carrying value of its Sierra Rutile (SRL) operations. As a consequence of this work, Iluka advises the following items are expected to be included in the Group's 2019 full year (FY19) financial results, subject to completion of its annual audit.

- An impairment charge of US$290 million to the carrying value of assets associated with SRL.
- A write-down of SRL's deferred tax assets of ~US$115 million, reflecting a more conservative outlook for the business following the impairment review, to be reflected in the Group's income tax expense.
- A change related to the risk-free discount rate used to calculate Australian rehabilitation provisions, due to the continuing decline in Australian dollar bond rates, which will increase the rehabilitation liability in the FY19 by A$60 million, which is comprised of a $42 million increase to the provisions for open sites (no profit and loss impact) and a profit and loss expense of $18 million for closed sites.

SRL carrying value

As a consequence of the matters noted above, the carrying value of SRL's remaining net assets would be reduced to ~US$50 million. This is a function of the operational performance achieved to date being below the acquisition investment case; and that Iluka does not currently have a defined development approach for the Sembehun deposit, resulting in difficulties in ascribing any meaningful value to this asset in the impairment assessment at this time.

The expected carrying value assumes minimal improvement from current performance levels. Iluka is, however, continuing to implement various measures to drive production increases in its current SRL operations, and to advance the Sembehun development options.

Sembehun development pathway

Sembehun is one of the largest and highest quality known rutile deposits in the world. Iluka is committed to determining a development approach in a disciplined and rigorous manner which ensures optimum value can be created from Sembehun.

The impairment charge will not impact study work which continues across a number of areas including identifying and evaluating optimum infrastructure, logistics and mining methods.

Recent work to assess the potential of alternate mining methods has yielded encouraging results with field trials planned for the first half of 2020. Outcomes of these trials may support potential extensions to the existing mining areas, which are currently excluded from the carrying value assessment but may provide additional production.

Sierra Rutile operational performance, 2020 guidance and improvement initiatives

Despite improving production over the second half of 2019 as the mining expansions have been commissioned and ramped up, overall operational performance has been less than the original investment case.

Rutile production from SRL to September was 93kt with full year 2019 rutile production expected to be ~135kt (FY18: 122Kt). SRL is an important contributor to Iluka's rutile supply, and has generated US$71 million in operating cash flow since acquisition, including US$36 million operating cash flow YTD to and including November 2019.

The impairment assessment includes an outlook in future years (including expected rehabilitation costs) and Iluka provides the following SRL guidance for 2020:

- Rutile production of 170kt
- Total Z/R production of 175kt (i.e. zircon production of 5kt)
- Ilmenite production of 70kt
- Cash costs of production of US$125 million
- Unit production cash costs of US$715 per tonne Z/R

Iluka is also progressing a range of operational initiatives to improve SRL's productivity, including

- maintenance and runtime improvement measures to increase mining and plant performance;
- operating cost and procurement review to reduce cost base;
- assessment of potential extensions to current mining areas;
- embedding the refreshed leadership team to support key operational areas; and
- development of a training plan for skilled artisan roles.

Iluka's Managing Director, Tom O'Leary said "the strategic rationale for the acquisition was that it provided Iluka access to a long-life rutile asset, in excess of 20 years, with identified production growth potential from expansion projects (including Sembehun), which were then at feasibility stage.

While production from SRL has been improving over 2019 following the completion of the expansion projects at Lanti and Gangama, the acquisition has not lived up to the investment case. This is a disappointing outcome. We remain focused on continuing to improve SRL's existing operations, including in relation to throughput, reliability, production and cost.

For the Sembehun development, our approach has been to revisit and broaden the project studies to determine a development option that optimises value. The impairment announced today does not detract from the potential we see in this world class rutile deposit. We expect to provide an update by mid-2020."

Background to Sierra Rutile acquisition

Iluka acquired SRL in December 2016 for ~US$330 million (A$455 million). The investment case was underpinned by the proposed doubling of the dry mining operations at Lanti and Gangama; and the development of Sembehun to increase rutile production capacity from 175ktpa to >240ktpa.

Since acquisition, approximately US$75 million has been spent on the capacity increases at Gangama and Lanti in accordance with the investment case and a further US$75 million has been spent on sustaining capital.

Terms of further International Finance Corporation (IFC) investment in Sierra Rutile

In June 2019 Iluka and IFC entered into a strategic partnership in Sierra Leone, with IFC making a US$20 million investment in SRL for an initial 3.57% stake. As advised at the time, further investment by IFC is subject to approval of commencement of early works for the Sembehun project.[1] Given the delay in approval of the Sembehun project, the terms and timing of the second tranche of this investment will likely be subject to renegotiation.

SRL deferred tax asset

On acquiring SRL, Iluka inherited tax losses that resulted in the recognition of a deferred tax asset of US$115 million. Given the updates to the outlook underpinning the impairment assessment, Iluka has concluded that

[1] The terms of the IFC investment are set out in the 6 June 2019 release "Iluka to Partner with IFC in Sierra Leone".

it is not probable, at this point, to conclude the tax losses will be utilised and has written off this asset. The resultant expense is to be recognised as part of the tax expense in the FY19 financial report.

Australian rehabilitation adjustment

Iluka is also expecting to include a change related to the risk-free discount rate used to calculate rehabilitation provisions, due to the continuing decline in Australian dollar bond rates, which will increase Iluka's Australian rehabilitation liability by A$60 million.

The assessment of rehabilitation provisions typically requires a judgement as to the rate at which to discount future rehabilitation-related cash flows. Considerations include the likely timing of those cash flows and prevailing market related risk-free rates.

The 15 year Australian Government Bond rate (bond rate) is used by Iluka as the discount rate in calculating the Australian rehabilitation provision. Due to the sustained decline in the bond rate to around 1.3% (from the current 3% discount rate), the present value of the Australian rehabilitation provision has increased by $60 million, which comprises an $18 million pre-tax charge to the profit and loss for closed sites in FY19 (included in interest costs) and a $42 million increase to the balance sheet for open sites (i.e. no profit or loss impact).

Teleconference Details

An investment conference call will take place at 7:00AM (AWST) on 17 December 2019. Dial in numbers are listed below. Please quote conference ID: 148 5428

For locations within Australia dial toll-free 1800 148 258, or toll +61 (0)2 8038 5271

If you are calling from another country, please use one of the following toll-free dial-in numbers:

Hong Kong	800 965 808	Canada	1866 837 4489
United Kingdom	0800 056 9662	Japan	0120 994 669
Singapore	800 616 2170	United States	1866 586 2813

This announcement has been authorised for release to the market by Iluka's Board of Directors.

Investor enquiries:
Melissa Roberts
General Manager, Investor Relations
and Commercial Mineral Sands Operations
Mobile: + 61 (0) 450 398 431
Email: investor.relations@iluka.com

Media enquiries:
Luke Woodgate
Manager, Corporate Affairs
Phone: + 61 (0) 8 9360 4785
Mobile: +61 (0) 477 749 942
Email: luke.woodgate@iluka.com