



ILUKA

Australian Securities Exchange Notice

7 December 2015

TERMINATION OF DISCUSSIONS WITH THE BOARD OF KENMARE RESOURCES PLC ON POTENTIAL ALL SCRIP ACQUISITION

Iluka Resources (Iluka) refers to the attached Termination Notice under Rule 2.8 of the Irish Takeover Rules, as well as the following additional contextual information for Iluka shareholders in accordance with Australian disclosure obligations.

Iluka advises that it has terminated all discussions with the Board of Kenmare Resources plc (Kenmare) regarding a potential offer by Iluka to all Kenmare shareholders to acquire all of the shares in Kenmare.

The reason for terminating discussions is based on information from Kenmare that its largest shareholder will not support the transaction at a level Iluka is prepared to offer. The interest held by the largest Kenmare shareholder is of a size such that it alone could likely prevent implementation of an acquisition, which (subject to satisfaction of other pre-conditions) would have been put to a vote of Kenmare shareholders under an Irish scheme of arrangement.

Background

After an announcement in June 2014 regarding a non-binding proposal to the Board of Kenmare, on 30 April 2015, after the completion of a significant due diligence exercise, Iluka announced the terms of a revised non-binding proposal, still subject to specific pre-conditions, to acquire Kenmare through an all-share exchange offer.

On 23 November 2015, Iluka submitted a further revised non-binding proposal to Kenmare. Iluka confirmed within this proposal that its proposed exchange ratio of 0.007 Iluka shares per Kenmare share was final. It should be noted that Iluka's original offer ratio in June 2014 (rejected by the Board of Kenmare and its largest shareholder at the time) was 0.036 Iluka shares per Kenmare share and its offer in April 2015 was 0.016 Iluka shares per Kenmare share.

The terms of the November 2015 proposal were lower than the April 2015 proposal as the Board of Iluka determined that it was necessary to reassess the valuation of Kenmare in order to ensure that any transaction continued to meet Iluka's financial merit criteria, given (i) a deteriorating global market backdrop which impacted Iluka's view of appropriate risk weightings, and (ii) a recent significant drop in sulphate ilmenite prices in contestable markets. The terms of the November 2015 proposal represented a premium of approximately 176.7%¹ to Kenmare's closing share price of 0.76 pence on 20 November 2015 and approximately 319.3%² premium to Kenmare's closing share price of 0.44 pence on 4 December 2015.

In the period since April, Iluka had made substantial progress in addressing and finalising the majority of the pre-conditions listed in its April 2015 disclosure, including:

- reaching commercial agreement with Kenmare's lenders regarding the treatment of Kenmare's indebtedness in the event of a change of control, including the continuation of a project facility from a subset of existing Kenmare lenders after a change of control, at lower interest rates;
- obtaining an acceptable written determination from the Mozambique Tax Authority for the capital gains tax liability that would arise in the event that Iluka acquired Kenmare; and
- completing the significant majority of its due diligence.

¹ Implied offer price of 2.1 pence or €0.030 per Kenmare share, based on Iluka's closing share price of A\$6.32, an AUD/GBP exchange rate of 0.48 and an AUD/EUR exchange rate of 0.68, each as of 20 November 2015.

² Implied offer price of 1.8 pence or €0.026 per Kenmare share, based on Iluka's closing share price of A\$5.37, an AUD/GBP exchange rate of 0.49 and an AUD/EUR exchange rate of 0.69, each as of 4 December 2015.

Iluka has also had constructive dialogue with multiple departments within the Government of Mozambique, including approval received last week for the proposed change of control in Kenmare Mining Moma (Mauritius) Limited as part of the proposed transaction.

Iluka Chairman and Managing Director Commentary

Mr. Greg Martin, Chairman of Iluka said:

“Iluka was very disappointed to be informed by the Board of Kenmare that it did not expect to achieve the necessary shareholder irrevocable undertakings to fulfill this pre-condition and, in turn, provide the Board of Iluka with the confidence that if it were to proceed with a firm offer, it could gain one hundred per cent control of Kenmare.

The Board of Iluka believes that the acquisition of Kenmare would have demonstrated compelling financial merit and strategic rationale at an attractive price for Kenmare shareholders.

The Board of Iluka is confident that Iluka’s quality asset portfolio and internal prospects, supported by a strong balance sheet, will allow it to continue to deliver value for its shareholders.”

Mr. David Robb, Iluka’s Managing Director stated:

“The proposed transaction with Kenmare was pursued consistent with Iluka’s objective: to create and deliver value for shareholders.

It was also consistent with the company’s disciplined, diligent and patient approach. Iluka recognises that value creation for shareholders over time requires a business which exhibits profitability, sustainability and growth – for example, its asset flexing approach supports profitability goals while its strong balance sheet is designed to underpin sustainability and growth. The company also recognises that growth typically requires an element of prudent risk-taking.

Iluka believes that in a heavily pro-cyclical resources industry, value can be generated by acting counter-cyclically, where appropriate.

Finally, all major investment decisions by Iluka, counter-cyclical or otherwise, must satisfy two tests – strategic rationale and financial merit. Despite the latest development in Iluka’s pursuit of the Kenmare opportunity, the proposed all scrip acquisition passed these two tests.

Crucially, however, Iluka was of the view that for the Moma operation to achieve its financial potential, the application of Iluka’s industry-specific technical competence, together with its market knowledge, access and reach, and balance sheet capacity, would have been necessary. Iluka considered that its technical capability and experience could have enhanced significantly the operational and thus financial performance of the Moma operation.

In relation to sulphate ilmenite opportunities, Iluka will continue pre-feasibility studies and engagement with the Sri Lankan Government in relation to the evaluation of the large, JORC compliant Puttalam sulphate ilmenite resource.”

Investment market and media inquiries:

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Attachment:

Release issued to London Stock Exchange in accordance with Irish Takeover Rules

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7 December 2015

ILUKA RESOURCES LIMITED (“ILUKA”)

TERMINATION OF DISCUSSIONS WITH THE BOARD OF KENMARE RESOURCES PLC (“KENMARE”) RELATING TO A POTENTIAL ALL-SHARE OFFER FOR THE SHARE CAPITAL OF KENMARE

Introduction

Iluka announces that it has terminated discussions with the Board of Kenmare regarding a potential offer for the entire issued and to be issued share capital of Kenmare.

Background

On 26 June 2014, Iluka announced that it had made an approach to the Board of Kenmare in relation to a potential combination of Iluka and Kenmare.

On 30 April 2015, Iluka announced the terms of a revised non-binding proposal (the “April Proposal”), still subject to specific pre-conditions, to acquire Kenmare through an all-share exchange offer.

In the period since April, Iluka had made substantial progress in addressing the pre-conditions listed in the April Proposal, including (i) reaching commercial agreement with Kenmare’s lenders regarding the treatment of Kenmare’s indebtedness in the event of a change of control, including the continuation of a project facility from a subset of existing Kenmare lenders after a change of control at lower interest rates; (ii) obtaining an acceptable written determination from the Mozambique Tax Authority for the capital gains tax liability that would arise in the event that Iluka acquired Kenmare; and (iii) Iluka completing the significant majority of its due diligence. Further, Iluka notes the very constructive dialogue it had with multiple departments within the Government of Mozambique including approval received last week for the proposed change of control in Kenmare Mining Moma (Mauritius) Limited as part of the proposed transaction.

On 23 November 2015, Iluka submitted a further revised non-binding proposal to Kenmare (the “November Proposal”). Iluka confirmed within the November Proposal that its proposed exchange ratio of 0.007 Iluka shares per Kenmare share was final⁽¹⁾. The terms of the November Proposal represented a premium of approximately 176.7%⁽²⁾ to Kenmare’s closing share price of 0.76 pence on 20 November 2015 and a premium of approximately 319.3%⁽³⁾ to Kenmare’s closing share price of 0.44 pence on 4 December 2015.

The terms of the November Proposal were lower than the April Proposal as the Board of Iluka determined that it was necessary to reassess the valuation of Kenmare in order to ensure that any transaction continued to meet Iluka’s financial merit criteria, given (i) a deteriorating global market backdrop which impacted Iluka’s view of appropriate risk weightings, and (ii) a recent significant drop in sulphate ilmenite prices in contestable markets.

Termination of Discussions with the Board of Kenmare

The Board of Iluka has been encouraged with progress to date on a number of aspects of the potential combination.

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However, based on recent discussions with the Board of Kenmare, which consulted its largest shareholder, Iluka has determined that it is unlikely that Iluka would be able to implement the proposed transaction (which would have been via a scheme of arrangement).

Accordingly, Iluka confirms that it does not intend to make an offer to acquire the share capital of Kenmare, and that Iluka is now bound by Rule 2.8 of the Irish Takeover Rules (see below).

The Board of Iluka is confident that its quality asset portfolio and growth prospects supported by a strong balance sheet will allow it to continue to deliver value for its shareholders.

Other

This announcement is being made in accordance with Rule 2.8 of the Irish Takeover Rules, which restricts Iluka from taking certain actions in relation to Kenmare shares for a period of 12 months from the date of this announcement (including, *inter alia*, making an offer for Kenmare). As a result, Iluka will, except with the consent of the Irish Takeover Panel, be bound by these restrictions save that the restrictions contained in Rule 2.8 may be set aside within the next 12 months in the circumstances set out in Rule 2.8(c)(ii) of the Irish Takeover Rules. These circumstances are:

1. the board of Kenmare agrees to this termination statement being set aside;
2. an offer is announced by a third party in respect of Kenmare;
3. an announcement is made by Kenmare of (A) a proposal for a “whitewash” dispensation from the obligation under Rule 9 to make a general offer in respect of Kenmare or (B) the proposed entry by Kenmare into a reverse takeover transaction; and
4. in the opinion of the Panel, a material change of circumstances has occurred that justifies Iluka changing its intention.

This announcement is being made without the consent of Kenmare.

Notes

¹ *Iluka's original offer ratio in June 2014 was 0.036 Iluka shares per Kenmare share and its offer in April 2015 was 0.016 Iluka shares per Kenmare share.*

² *Implied offer price of 2.1 pence or €0.030 per Kenmare share, based on Iluka's closing share price of A\$6.32, an AUD/GBP exchange rate of 0.48 and an AUD/EUR exchange rate of 0.68, each as of 20 November 2015.*

³ *Implied offer price of 1.8 pence or €0.026 per Kenmare share, based on Iluka's closing share price of A\$5.37, an AUD/GBP exchange rate of 0.49 and an AUD/EUR exchange rate of 0.69, each as of 4 December 2015.*

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The Directors of Iluka accept responsibility for the information contained in this announcement. To the best of their knowledge and belief (having taken all reasonable care to ensure that such is the case), the information contained in this announcement is in accordance with the facts and does not omit anything likely to affect the import of such information.

The announcement is not intended to, and does not, constitute or form part of any offer, invitation or the solicitation of an offer to purchase, otherwise acquire, subscribe for, sell or otherwise dispose of, any securities whether pursuant to this announcement or otherwise. The distribution of this announcement in jurisdictions outside Australia, Ireland or the United Kingdom may be restricted by law and therefore persons into whose possession this announcement comes should inform themselves about, and observe such restrictions. Any failure to comply with the restrictions may constitute a violation of the securities law of any such jurisdiction.

A copy of this announcement will be available on the Iluka website at www.iluka.com

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