



ILUKA

Australian Securities Exchange Notice

30 January 2017

ILUKA BUSINESS REVIEW UPDATE AND THE IMPACT ON 2016 AND 2017 FINANCIAL RESULTS

Iluka Resources Limited (Iluka) provides the following update relating to various outcomes, flowing from a review of the business undertaken in the context of the priorities communicated to the market at the completion of the Sierra Rutile acquisition in December 2016, being:

- the commencement of an effective integration process for Sierra Rutile;
- the conclusion 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.

Key outcomes of the review which will impact the 2016 and 2017 financial results are detailed below, and include:

- non-cash impairments of \$201 million pre-tax (\$141 million after-tax);
- a change in Iluka's depreciation method from 1 January 2017 for mine specific plant from units of production method to straight line method with an increase of \$12 million in depreciation for 2017;
- an increase in rehabilitation provisions of \$45 million, related mainly to closed United States' operations;
- a review of Iluka (non Sierra Rutile) Ore Reserves in the context of the acquisition of the long life Sierra Rutile operation and Iluka's current ten year mine plan, with a reduction in Ore Reserves by 6.3 million tonnes of heavy mineral - this reduction is not associated with any current operating mines, or those idled and expected to be resumed, and these reclassified Ore Reserves continue to be part of Iluka's Mineral Resources; and
- the initial results of a sustainable business review which is likely to see 2017 underlying non-production cash costs (excluding Sierra Rutile) reduced by ~\$20 million on a like-for-like basis compared to 2016 levels; redundancy and other costs associated with the review were ~\$7 million pre-tax in 2016.

As a consequence of the above adjustments, 2016 net profit after tax is estimated to be a loss of between -\$220 million and -\$230 million. Net debt at 31 December 2016 was \$506 million. These results remain subject to audit.

Managing Director, Tom O'Leary, stated: "Our review has been aimed at generating shareholder value and, with the completion of the Sierra Rutile acquisition, Iluka has added a large, long life asset with strong growth potential. It's against that backdrop that we've reviewed the likelihood of developing some of Iluka's mineral deposits in Australia and the United States. It has necessitated the write-down of some assets, particularly in the Murray Basin, which have been idled for some time, and where the carrying value is not supported by planned activities. The review of Iluka's rehabilitation provision has also necessitated an increase in the provision, particularly associated with Virginia which is now regarded as a site to be permanently closed, rather than idled. The reclassification of Ore Reserves to Mineral Resources largely reflects the fact that none of the deposits were in our ten year mine plans.

We have also commenced what we've described within Iluka as a Sustainable Business Review to remove cost from the business, and to ensure we're focused on the key priorities identified. This has resulted in us making the difficult decision to make ~90 roles redundant, largely within support functions, and a number of exploration and other activities have either ceased or expenditure has been reduced."

Asset Impairments

A review of the mineral sands mining and processing assets within the portfolio has been undertaken and several decisions relating to carrying values have been made today. The non-cash impairments are \$201 million pre-tax or \$141 million after tax relating to the following assets:

- idle and surplus equipment in the Murray Basin of \$156 million pre-tax, including the Douglas wet concentrator, mining unit and other equipment, as well as the mining unit and wet concentrator utilised for the Woorneck, Rownack, Pirro deposits. In the case of this equipment, some was previously considered able to be utilised for a Balranald conventional mine development, which has been passed over in favour of an unconventional mining approach;
- in the Murray Basin, Iluka is continuing with trialling and evaluating an unconventional, underground mining approach for Balranald following the cessation of work associated with the conventional mine development. As a consequence, \$20 million of capitalised costs associated with feasibility work for the conventional method have been impaired; and
- \$25 million related to exploration and evaluation assets previously capitalised, as well as mine reserves in the Perth and Murray Basins have been impaired. This category includes a number of areas where no further work is contemplated.

The impairment in the Murray Basin leaves a remaining carrying value for property, plant and equipment of \$216 million, of which \$144 million relates to the Hamilton mineral separation plant. This plant processes heavy mineral concentrate from Victoria, as well as heavy mineral concentrate from Jacinth-Ambrosia in South Australia. Dependent upon a commercial development decision for the Balranald deposit, the plant will be used to process concentrate from that development.

Depreciation Policy

Iluka currently adopts a unit of production depreciation policy for all mine specific plant and mine reserves. All other assets are depreciated using the straight line method. As a result, all mine specific plant, such as mining units, concentrators and mineral separation plants, do not incur any depreciation charges when they are not in use (i.e. when they are idle). Given Iluka's approach to flexing production to meet market demand, sometimes for extended periods, Iluka has decided to change its depreciation policy to a straight line methodology, with effect from 1 January 2017. This will result in additional depreciation charges of ~\$12 million in 2017. Mine reserves will continue to be depreciated using units of production, consistent with common industry practice.

Provisions for Rehabilitation

Provisioning for rehabilitation and mine closure activities, has been increased by \$45 million, with the total Group provision increasing to \$528 million. The majority of the increase (\$41 million) relates to the now discontinued United States operations in Virginia and Florida.

Iluka regularly assesses its rehabilitation approach and revises estimates on the basis of adopting the most effective method of completing the work and the latest available information. Provisions by their very nature are liabilities of uncertain timing or amount and require significant judgement and may be subject to change in the future. In 2016, the Australian Operations' review included an external assessment and, while the review determined that Iluka has robust processes for the estimation of rehabilitation costs and provisions, some enhancements to ensure consistency in contingencies have been adopted, increasing the provision by \$4 million to \$388 million for the Australian Operations.

For Iluka's now discontinued United States' operations, the provision has been increased by US\$30 million or A\$41 million. The increase in the provision relates to the company's former operating assets in the United States, including Virginia which was idled at the end of 2015 and is now undergoing rehabilitation as a closed site, and Florida, which was closed in 2009.

The increase in rehabilitation provisions in the United States follows an extensive review in the last 12 months and relates to the refinement of estimates including the current scope of work, approach to undertaking the required work and a change in methodology for calculating the amount of contingency. In the second half of 2016, the focus of the US activities shifted from being an idled site ready to restart should market conditions improve, to a permanently closed site, the primary purpose of which is to rehabilitate in a cost effective and responsible manner. This clarification resulted in a number of costs previously forecast as operating expenses, being incorporated into the provision estimate. The US rehabilitation provision at December 2016 is now \$104 million.

Of the \$45 million increase, \$43 million relates to closed sites, which is charged against the profit and loss statement and \$2 million relates to open sites, which is reflected on the balance sheet.

Ore Reserves and Mineral Resources

A review of Iluka's estimates of Ore Reserves and Mineral Resources, not including Sierra Rutile, has recently been completed. The review was undertaken in the context of the recent acquisition of the Sierra Rutile operation and other strategic priorities.

The review has resulted in a 27 per cent reduction to Iluka's current estimates of Ore Reserves, from 23.0 million tonnes of heavy mineral (HM) (44 per cent proved, 56 per cent probable) as at 31 December 2015 to 16.7 million tonnes (58 per cent proved, 42 per cent probable). These reclassified Ore Reserves continue to be part of Iluka's Mineral Resources which remain largely unchanged.

The Ore Reserves to be reclassified:

- are not associated with any current operating mines or those idled and expected to resume; and
- do not form part of any deposits within Iluka's current ten year mine plan.

It should be noted, that there has been no material change to the estimates of Ore Reserves for any of Iluka's existing material projects, namely Jacinth-Ambrosia, Cataby and Tutunup South, nor has there been any change in Modifying Factors¹ (such as price forecasts) associated with this review.

A full Ore Reserves and Mineral Resources Report (including Sierra Rutile) is being prepared and will be disclosed at the time of the release of Iluka's Annual Report, planned to be lodged with the ASX on 23 February 2017.

The following provides a summary of the Ore Reserve reclassifications:

Perth Basin, Western Australia

- In the Mid West, a decrease in Ore Reserves of 3.0 million tonnes of HM (7 per cent proved, 93 per cent probable), associated with several deposits at Eneabba. In the South West, a decrease in Ore Reserves of 0.6 million tonnes of HM (100 per cent probable).

Murray Basin, Victoria/New South Wales

- All Ore Reserves in the Murray Basin have been reclassified, with a decrease of 1.7 million tonnes of HM (100 per cent probable). The Balranald deposit has not, as yet, been classified as an Ore Reserve and, there is no change to its status as a Measured and Indicated Resource.

Atlantic Seaboard, United States of America

- All Ore Reserves have been reclassified, with a decrease of 0.9 million tonnes of HM (22 per cent proved, 78 per cent probable), associated with Virginia deposits.

¹ As defined within the 2012 JORC Code.

Sustainable Business Review – Cost Reductions

In October 2016, the Sustainable Business Review was commenced to ensure a more appropriate resourcing structure in the context of current business priorities and business conditions. A review of personnel levels has been conducted and, as a result, ~90 roles within the company are redundant. The total workforce at the commencement of the review was 814 with approximately 440 roles in support functions; the focus of the review. Redundancy and other associated costs are estimated at ~\$7 million, pre-tax.

The Sustainable Business Review will materially reduce non-production cash costs in 2017 and in subsequent years. To aid the market in understanding the implications for 2017, the company has brought forward its Key Physical and Financial Parameters document, which is being lodged with the ASX today. Iluka's cash non-production costs in 2017 (excluding Sierra Rutile) are expected to be reduced by ~\$20 million on a like-for-like basis.²

Key Physical and Financial Parameters – 2017

The Key Physical and Financial Parameters document provides details of production, cash and non-cash costs, as well as capital expenditure for 2017.

Other Matters

An update on other business matters, including the status of Sierra Rutile integration activities, the Cataby project, as well as an update on the potential development of the Balranald deposit, will be provided at the time of the release of Iluka's 2016 full year financial results.

Teleconference

Iluka will hold a teleconference associated with this announcement on Tuesday 31 January at 11.30AM Eastern Daylight Time. Dial in details below.

Teleconference dial-in details			
Conference ID: 6089 0982			
Australia (toll-free)	1800 123 296	Hong Kong (toll-free)	800 908 865
Japan (toll-free)	0120 477 087	Singapore (toll-free)	800 616 2288
Canada	1855 5616 766	United States (toll-free)	1855 293 1544
UK (toll-free)	0808 234 0757	Any other country or mobile phone	+61 2 8038 5221

Associated ASX Disclosures

Iluka Quarterly Production Report, 31 December 2016
Iluka Resources, Key Physical and Financial Parameters 2017

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² Refer Page 4 ASX Release, Key Physical and Financial Parameters – 2017, dated 30 January 2017

Competent Person Statement

The information in this report that relates to Mineral Resources is based on information compiled by Mr Brett Gibson who is a Member of the Australian Institute of Geoscientists. The information in this report that relates to Ore Reserves is based on information compiled by Mr Chris Lee who is a member of the Australasian Institute of Mining and Metallurgy (AUSIMM).

Mr Gibson and Mr Lee are full time employees of Iluka Resources Limited.

Mr Gibson and Mr Lee have sufficient experience that is relevant to the styles of mineralisation and types of deposits under consideration and to the activity which is being undertaken to qualify as Competent Persons as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Gibson and Mr Lee consent to the inclusion in this report of the matters based on their information in the form and context in which it appears.

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