



Australian Securities Exchange Notice

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ASX: ILU

Intention to demerge Iluka's royalty business

Iluka Resources Limited (Iluka) announces that it intends to demerge its Mining Area C royalty business, subject to shareholder and other approvals. The decision follows a review of the optimal capital and corporate structure of Iluka's two principal businesses – its mineral sands business and the Mining Area C royalty business (the Review). The Review considered a range of options and ultimately concluded that a structural separation of the two businesses by way of demerger is the optimal structure to deliver sustainable value.

The proposed demerger will establish an ASX listed Australian royalty company (RoyaltyCo)¹ with its cornerstone asset being the royalty over the BHP-operated Mining Area C iron ore operation (MAC Royalty).² With this cornerstone asset, RoyaltyCo will be uniquely positioned to create substantial shareholder value over time through value accretive royalty investing and the establishment of a diversified royalties business.

Iluka's Chairman, Greg Martin said, "After a thorough review, the Iluka Board considers that a demerger represents the optimal way to unlock value for shareholders by establishing two unique pure-play ASX listed companies with separate management teams who are able to pursue independent strategies and growth opportunities. The business characteristics, capital intensity and risk-return profiles of Iluka and RoyaltyCo differ and hence will likely appeal to different types of investors, with the proposed demerger presenting an opportunity for Iluka shareholders to determine their preferred level of exposure to each business."

Iluka's Managing Director, Tom O'Leary said, "The proposed demerger represents an important milestone for Iluka shareholders and will result in two high quality but different businesses being listed on the ASX. RoyaltyCo is expected to generate attractive cash flows from the MAC Royalty supporting dividends for its shareholders. Further, the MAC Royalty is of sufficient scale to form the cornerstone asset of a royalty investment business, a business model that has seen strong performance in overseas equity capital markets. Iluka's mineral sands business has a leading global market position coupled with a pipeline of growth projects with leverage to underlying mineral sands market dynamics. The demerger will allow each management team to focus on pursuing growth opportunities and adopt capital allocation and investment frameworks appropriate for the strategy and risk profile of each business."

Iluka post demerger

If the demerger proceeds, Iluka will continue to be a leading international mineral sands company with expertise in exploration, development, mining, processing, marketing and rehabilitation. Iluka is a major participant in the global mineral sands sector, with a leading global market share in the production of zircon and high-quality titanium dioxide products (rutile and synthetic rutile).

Following the demerger, Iluka will retain sufficient balance sheet flexibility to support the capital investment required to advance its project pipeline.

Iluka will retain a minority shareholding interest of 15 per cent in RoyaltyCo, as an additional source of financial strength.

RoyaltyCo post demerger

If the demerger proceeds, RoyaltyCo will be Australia's premier listed resources royalty company with its cornerstone asset being the MAC Royalty.

¹ RoyaltyCo registered company name and branding will be announced in due course.

² RoyaltyCo will also hold four other significantly smaller royalty interests.

RoyaltyCo will be headquartered in Perth, Western Australia, and its principal business activity will involve the management of its existing royalty portfolio and disciplined investment in new royalty opportunities. In seeking new royalty investments, RoyaltyCo will seek to invest in value accretive royalties that provide earnings growth and diversification. Whilst RoyaltyCo's capital structure is still under review, the intention is for RoyaltyCo to have low debt and, subject to any future RoyaltyCo Board determination, the dividend policy will be to payout 100 per cent of net profit after tax, reflecting the attractive cash flows associated with the MAC Royalty.

The MAC Royalty generated EBITDA of \$85 million in 2019 and has delivered \$881 million EBITDA since first production in 2003.¹ RoyaltyCo will have a strong growth outlook given that Mining Area C annual iron ore production is expected to more than double to 145 million wet metric tonnes per annum by 2023, once BHP's South Flank expansion is completed.

Board and senior management appointments for RoyaltyCo

The Chair of RoyaltyCo will be Jenny Seabrook. Jenny has over 25 years of experience on boards as well as senior executive experience in capital markets, mergers and acquisitions and accounting. She is currently a non-executive director of BGC, IRESS and Australian Rail Track Corporation while some of her previous non-executive directorships include: MMG Limited, Export Finance and Insurance Corporation, Western Australian Treasury Corporation, AlintaGas, Western Power Corporation and West Australian Newspapers Holdings. Jenny has been a non-executive director of Iluka since 2008 and will step down from the Board of Iluka at the Annual General Meeting on 9 April 2020.

The Chief Executive Officer of RoyaltyCo will be Julian Andrews. Julian joined Iluka as Head of Business Development in 2017 and assumed his current role as Head of Strategy, Planning and Business Development in 2018. His past executive roles have focused on diversified portfolio investment, project finance, and capital raising and mergers and acquisitions across the mining, energy and chemicals industries. Prior to joining Iluka, Julian held various roles at Wesfarmers, including General Manager, Business Development and Chief Financial Officer in Wesfarmers Chemicals, Energy & Fertilisers division. He began his career in strategy consulting with PricewaterhouseCoopers Canada.

A range of activities are under way, led by Jenny and Julian, to put in place a Board and management structure to support RoyaltyCo's business activities.

Demerger structure, conditions and timeline

The demerger will be effected by a distribution of shares in RoyaltyCo via an in-specie dividend and capital return by Iluka, in which Iluka shareholders will receive 1 share in RoyaltyCo for each existing share held in Iluka. RoyaltyCo will be an Australian incorporated company and it is intended that it be listed on the ASX.

As part of the Review, Iluka has engaged with the Australian Tax Office (ATO) in relation to demerger tax relief. Iluka has submitted a final ruling application and is working towards receipt of a draft class ruling prior to distribution of the Demerger Booklet. Iluka is confident that it will receive a favourable class ruling from the ATO. However, as is usual, any final class ruling will only be issued after implementation of the demerger. The demerger is subject to final Board, regulatory and shareholder approvals. If approved, the demerger is expected to be completed in 2020.

Iluka has appointed Gresham Advisory Partners and Macquarie Capital (Australia) Limited as financial adviser, Herbert Smith Freehills as legal adviser and Greenwoods as tax adviser.

Further information on the demerger will be provided at Iluka's Annual General Meeting on 9 April 2020.

This announcement was authorised for release by the Managing Director of Iluka Resources Limited.

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¹ MAC Royalty EBITDA does not include standalone corporate costs.