

Iluka Resources (ILU) 2018 Voting Intentions

Company/ASX Code :	Iluka Resources Limited (ILU)
Registry :	Computershare Services
Poll/Show of Hands :	Poll on all items
Webcast :	Yes
Venue :	9.30am River View Room 5 at the Perth Convention and Exhibition Centre 21 Mounts Bay Road, Perth Perth, Western Australia
Monitor :	Mr Geoff Read
AGM Details / NoM :	Tuesday 24th April, 2018

This voting intention was prepared by Geoff Read assisted by Geoff Field. ASA met with Chairman Greg Martin and others. One of the persons (or their associates) involved in the preparation of this voting intention has a shareholding in this company.

Item: Consideration of accounts and reports

ASA Position

2017 was the first full year for Tom O'Leary the new CEO and it was also the first full year of ownership of Sierra Rutile. During the year the board approved the development of the Cataby mine near Geraldton WA. There was an improvement in both the volumes of mineral sands sold and the prices achieved this year. Unfortunately in spite of good operational performance and good market conditions the company recorded an after tax loss of \$171.6M. This was due to increases in rehabilitation provisions and write downs in the value of some assets due to their financial impairment.

Not Applicable

The financial impairments and write downs this year included the Hamilton plant -\$151M, rehabilitation in the USA -\$120M and the investment in MetalYSIS (UK) -\$30M.

On a more positive note the corporate cost structure decreased by \$62M during the year.

ILU recorded free cash flow of \$322m allowing the company to reduce net debt from \$506M to \$183M at year end. Gearing fell from 31.5% to 17.1%. Readers may recall that the 2016 purchase of Sierra Rutile was funded entirely by debt.

With debt under control the company resumed meaningful dividends, 31 cents for the period. For the prior year shareholders only received 3 cents.

During the year the share price rose from \$7.27 to \$10.17 which when combined with 6 cents of the dividend mentioned above yields a TSR of 41%.

The board has a clear majority of independent directors. Two directors out of a total of seven are female. All directors except the most recent appointment, Rob Cole, have a shareholding in Iluka although four of them are smaller than recommended in ASA guidelines. The company has recently increased its minimum shareholding policy for directors to 12,000 shares after 3 years tenure. Take home pay is disclosed in addition to the statutory remuneration tables.

(As at FYE) •	2017	2016	2015	2014
NPAT (\$m)	(171.6)	(224)	53.5	(62.5)
UPAT (\$m)	13.8	(23)	53.5	19.5
Share price (\$)	10.17	7.27	6.13	5.95
Dividend (cents)	31	3	25	19
TSR (%)	41	22.6	5.4	(30.2)
EPS (cents)	(41)	(53.6)	12.8	(15)
CEO total remuneration, actual (\$m)	3.544	6.147 now retired	3.131	3.146

For 2017 the CEO's total actual remuneration was 42 times the Australian Full time Adult Average Weekly Total Earnings (based on November 2017 data from the Australian Bureau of Statistics).

Item 1: Election of Robert Cole as a Director

ASA Position

Mr Cole was appointed to the board in March 2018. He is an independent director. He is an experienced executive with a substantial background in the energy and resources industries. He was previously the MD of Beach Energy and is presently the chairman of the unlisted GLX group. At the time of writing he did not have a shareholding in ILU. We have a concern about his workload as in addition to GLX group mentioned above he is also the chairman of 2 WA State owned enterprises namely Synergy and Southern Ports Authority. The chairman has assured us that he is confident that Mr Cole will be an enthusiastic and diligent director of Iluka and will not allow his other roles to impact adversely. Having received this assurance we will vote undirected proxies FOR his election.

For

Item 2: Election of James (Hutch) Rank as a Director

ASA Position

Mr Rank was appointed to the board in January 2013. He is an independent director and is the Chairman of the People and Performance Committee of the board. He is an experienced executive with a substantial background in the chemical and titanium industries. He had an extensive career at DuPont industries. At the time of writing he held 10,000 shares in ILU. We will vote any undirected proxies we receive FOR this resolution.

For

Item 3: Adoption of Remuneration Report

ASA Position

In the year ended 31 December 2017, the company posted substantial impairments of its assets which caused a loss. As a result the freeze on KMP pay and directors' fees which began in 2014 was extended. In general the amounts paid to KMP and NEDS are within the reasonable range for a company of this size.

The CEO Tom O'Leary received a sign-on benefit to offset benefits foregone at his previous employer. It has performance hurdles attached, is share based and has delayed access. Under this arrangement the CEO will receive approximately 74,000 shares in 2018 measured against 2017 performance. The TSR hurdle was achieved and the ROE target was missed.

For

The company has been progressively bringing its remuneration policies up to date and more into line with ASA guidelines. For instance 50% of the STI is paid as shares and now is subject to a claw back provision, and the LTI is moving to a 4 year performance period this year. The LTI too has a claw back provision. Retesting is not allowed. The company will implement a combined STI and LTI performance scheme in 2018.

For the period just ended the LTI performance was 25% as the ROE hurdle was not achieved and the performance against the TSR comparator group gave a ranking of 47.8% which was above target. Iluka is to be commended for disclosing the take home amounts as well as the statutory remuneration amounts which are nearly always different.

For the year just ended the new CEO received a STI payment of 60% of target, and the STI payments to other KMP were in the range of 55-60% of the maximum opportunity.

The company uses market value (VWAP) to assess the allocation of share based awards under the STI plan.

Areas of the remuneration report that cause concern to the ASA are as follows.

> During 2017 the board awarded some share rights to the chief operating officer. ASA guidelines do not support one off awards such as this. However in this case the award is subject to performance hurdles relating to the successful integration and performance of the Sierra Rutile acquisition. This is important to the company and we are prepared to modify our approach in this instance.

> Under the STIP participants receive dividends and voting rights on unvested shares, this is unlike the LTI plan where there is no entitlement to dividends or voting rights on unvested shares. The STI component of remuneration seems to be high as a percentage. This is counter to ASA guidelines.

> 50% of the LTI plan is assessed against comparative TSR relative to a comparator group derived from the ASX 200 materials index. The ASA prefers companies to use absolute TSR for LTI plans. We understand that the company uses the comparative method to aid assessment in a cyclical market.

> If TSR is negative, it appears from the report that, KMP can still receive an award even though shareholders' have done badly. This breaches ASA guidelines on KMP/shareholder alignment.

Summary

The company is moving its remuneration towards current best practice. A new incentive scheme (EIP) is being introduced this year. There remain some areas which do not accord with ASA guidelines but we do not believe they are too numerous or severe to warrant a vote against. On balance, we intend to vote undirected proxies FOR this resolution.

Item 4: Approval of a grant of securities to the Managing Director

ASA Position

This resolution seeks shareholder approval to award restricted shares and performance rights to the Managing Director in accordance with the newly introduced executive incentive plan. (EIP) The at target amount of shares the MD could be awarded is \$1,582,700 and the maximum for over-performance is \$2,380,000. This gives a range of shares which could be awarded from 150,000 to 225,000 at current prices.

For

The number of shares to be awarded will be calculated using VWAP in February/March 2019.

As the structure of this EIP is broadly consistent with the ASA guidelines we will vote any undirected proxies we receive FOR this resolution.
