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Iluka to pay $200m more for rare earths refinery

Company/ASX Code	Iluka Resources Ltd (ASX: ILU)
AGM date	Friday, 2 May 2025
Time and location	2pm, Theatrette, Mezzanine Level, 240 St Georges Terrace, Perth
Registry	Computershare
Type of meeting	Physical with webcast (https://www.iluka.com/AGM)
Poll or show of hands	Poll on all items
Monitor	John Campbell assisted by Leanne Harrison
Pre AGM Meeting?	Yes with acting chair Andrea Sutton

Monitor Shareholding: The individual(s) (or their associates) involved in the preparation of this voting intention have no shareholdings in this company.

How we intend to vote:

No.	Resolution description	
1	Election of Mr Peter Smith as a director	For
2	Re-election of Ms Susie Corlett as a director	For
3	Adoption of Remuneration Report	For
4	Approval of 2024 STIP award to Managing Director Tom O'Leary	For
5	Approval of 2024 LTIP award to Managing Director Tom O'Leary	For

Summary of issues for meeting

We are disappointed that Iluka has moved from having a hybrid AGM in 2024 to a physical AGM with a webcast in 2025. Shareholders who are unable to attend the meeting will need to submit a proxy to vote at the meeting. The ASA would prefer companies to hold their AGMs in hybrid format despite the cost of doing so, as it enables shareholders to ask questions and vote after hearing the addresses and comments at the meeting.

The major event of the year was the securing of an additional commitment of funds from the Export Finance Australia (a federal government agency) of $400m matched by a similar commitment by Iluka to provide funds of $414m to the Eneabba Rare Earths project. This commitment came late in the year after a protracted period of negotiation after the revision of the estimate for the construction cost of the refinery at Eneabba from the initial $1.0 - 1.2bn to $1.7 - $1.8bn, due to material and labour cost escalations. The original agreement was for Export Finance to provide $1.25bn and Iluka to provide equity funding of $200m for the project (funded on a $3:$1 basis), so the additional funds have come at a significant cost to the company. An amount of $100m by Iluka is to be provided in each of the next 2 calendar years with the balance in 2027 as working capital and these amounts are required to be funded in advance of drawdown of funds from Export Finance Aust. We understand that prices for neodymium, dysprosium, praseodymium (NDPR) & terbium, the sought-after magnet rare earth elements, have remained at depressed levels having fallen significantly since the decision was made to construct a rare earth refinery at Eneabba.

It was sad to see the resignation of the company's chairman Rob Cole late in the year after he had obtained sick leave from the board a few months earlier. We understand that he has made a good recovery from his medical condition, and we wish him a speedy full recovery. Andrea Sutton has acted as chair in the period since Rob Cole stood down and we understand that the appointment of a new chair is imminent.

Another important step was taken during the year to instigate a new mine at Balranald in NSW using an underground mining process, which is a first for mineral sands in Australia. The new mine is expected to be commissioned in the second half of 2025. It is important for Iluka to obtain new sources of ore as 30% of heavy mineral concentrates (and most of the zircon content) in 2024 production came from the Jacinth-Ambrosia mine in South Australia, which has only a few years of resources left to be mined. There are also advanced projects at Wimmera in Victoria (feasibility study completed, environmental approval being sought) and Tutunup in WA (feasibility study commenced).

Accounts and reports

(As at FYE)	**2024**	**2023**	**2022**	**2021**	**2020**
NPAT ($m)	231	343	589	366	2410
UPAT ($m)	231	343	597	315	151
Share price (closing) ($)	5.05	6.60	9.53	10.1	6.46
Cash dividend (cents)	8	23	37	14	2
Simple TSR (%)	-22.3	-28.3	-9.7	58	34.1
EPS (cents)	54.10	80.50	139.30	86.70	24.50
CEO total remuneration, actual ($m)	2.362	2.622	3.76	4.515	4.28

For 2024, the CEO's total realised remuneration was 23 times the Australian average full time adult weekly total earnings ($102,632 per annum in November 2024).

Simple TSR is calculated by dividing the change in share price plus dividends paid during the year, excluding franking, by the share price at the start of the year. For 2022, this ignores the demerger dividend of 1 Sierra Rutile share additional to the cash dividends shown above. Sierra Rutile shares (ASX: SRX) traded at about 30c per share for a period of in excess of a month after initial listing.

As noted above, Iluka now has a major commitment to provide $100m of funding to the Eneabba Rare Earths projects in each of the next three calendar years. Cash on hand at December 2024 was $136m so it will be necessary for the group to generate a similar amount of free cashflow or capital funding annually in that period just to pay into the RE project. The company had $751m in undrawn credit facilities at December 2024.

The market for titanium feedstocks remained depressed in 2024, which saw production exceed sales with inventory building another 30% on top of 2023's 43% build-up. We understand that the stockpiles are readily available to feed the S1 kiln if demand picks up so as to justify its refiring. Zircon sales and production were in balance with production about one third less than in 2023. Synthetic rutile production was also 19% less than last year but sales held up at a similar level to

2023 with the benefit of long-term contracts. Overall mineral sands revenue was 9% less than 2023 and underlying mineral sands EBITDA 18% ($104.5m) less than 2023.

This revenue reduction, together with capital expenditure and inventory build-up, left a deficit of mineral sands free cashflow of $156.8m and capital expenditure on the Eneabba RE project of $162.1m created total negative free cash flow of $288.1 after crediting the dividends received from the company's investment in Deterra Royalties of $30.8m. The dividend policy is to distribute the dividends from Deterra with a proportion of free cashflow so last year's final and this year's interim dividends costing $$34.2m were small as they reflected only the Deterra cash. A further 4c 2024 final dividend has been declared. Shareholder dividends are unlikely to improve for a few years unless there is a major turnaround in the market for titanium feedstocks.

Iluka's synthetic rutile production requires the use of coal as a reductant of the ilmenite ore produced from its mines. This and its energy use in production generally put the Capel facility in the category of asset subject to the Albanese government's 'safeguard mechanism' requiring a legislated net 5% per annum reduction in emissions to 2030. One of the assumptions made in reaching the favourable impairment assessment involved the safeguard mechanism and we will ask about its impact on the carrying value of assets in this segment, which represents about 50% of the company's assets.

Governance and culture

The company has a small board (just 5 at present after Rob Cole's resignation) with a good cross-section of skills and 3/5ths female membership. We looked for a board skills matrix showing each director's skills but the matrix only shows the collective board skills. We believe that showing individual skills would provide important information for shareholders in considering director elections and re-elections and urge its inclusion in future. We have no other issues with governance arrangements.

Iluka continues to employ 24% female in the total workforce and over 4% Aboriginal and Torres Strait Islander peoples, including 17% at Jacinth- Ambrosia (down from 19% in 2023.)

Key events

As discussed at the start of the document, the key events were the sourcing of additional funding for the Eneabba RE Project and progress with the Balranald mine.

Key Board and senior management changes

In addition to the resignation through illness of the former chair Rob Cole, Iluka also lost the services of Marcelo Bastos mid-year after serving 10 years as a non-executive director. His retirement came shortly after the appointment of Peter Smith, an experienced mining executive and director.

Sustainability/ESG

Iluka's AR contains more information on its carbon strategy this year – the annual report is reduced in its number of pages but also in its font size making it more difficult to read. However, the statistics for 2024 indicate that reduced production levels resulted in reduced CO2 emissions but at an increased intensity of emissions per tonne of product produced. Further, there was a significant increase in water use, but waste creation was reduced. Over 50% of Iluka's energy is generated from coal use with most of the rest coming from diesel. We are advised that worldwide transition from coal to other sources of energy for use as a reductant in converting heavy mineral sands to titanium feedstock is still in experimental stages without a clearly economic means of achieving this. Achievement of Safeguard Mechanism targets of 5% pa reduction in emissions by 2030 is therefore likely to be dependent on purchasing/creating carbon offsets. This has significant negative implications for the continued economic viability of Capel's synthetic rutile facilities and the level of impairment of asset carrying values – currently 75% of total assets. The ACCU costs are immaterial for 2024.

In 2024, Iluka rehabilitated 403ha of previously disturbed land allowing only a small increase in the area of land disturbed and not yet rehabilitated of 27ha to 4471ha. Much of this area is occupied by the company's processing facilities and stockpiles.

Rationale for Voting Intentions

Resolution 1 Election of Mr Peter Smith as a director (for)

Mr Smith is an experienced mining executive who has held senior positions with a number of significant mining entities. He is a director of Evolution Mining and Yancoal. He is an MBA, and we support his election.

Resolution 2 Re-election of Ms Susie Corlett as a director (for)

Ms Corlett is a geologist appointed to the board in 2019 after a career in mining. She is also a NED with MinRes and two other smaller mining companies. Her level of involvement in MinRes must have involved a considerable amount of extra time in last nine months but assuming she has sufficient time for Iluka, we support her re-election.

Resolution 3 Adoption of Remuneration Report (for)

The Remuneration Report clearly describes the remuneration structure, which is not dissimilar to many other companies. Disclosure is made of take-home pay – the MD's is shown as $2.36m, less than 2023's $2.62m. A significant change to executive remuneration occurred in 2023, with the decoupling of the long-term incentive from the annual scorecard, but the long-term incentive under the former Executive Incentive Plan did not vest in 2024 as total shareholder return fell short of the comparator index. There was no long-term incentive vesting in 2023, due to another structural change from a 5-year appraisal period to 4 years. The MD's realised pay compares with $3.88m determined under the accounting standard's complex method of determining the value of incentives, and with his 2024 target total remuneration of $4.2m as shown in the table in the appendix at the end of these voting intentions.

We have some concerns with Iluka's remuneration structure:

- There was a change to the performance measures for the short-term incentive in 2024 to remove NPAT as a yardstick and use unit cost of production and operating cashflow instead. We see this as a retrograde step because it discards the NPAT measure which is directly related to shareholder rewards and determines other financial measures such as price/earnings. The unit cost of production rose from $947/t in 2023 to $1,298/t in 2024, but this was still less than guidance and accordingly better than target. Similarly, operating cash flow of $252m was significantly less than in 2023 ($347m) and was close to the target of $266m. The reduced cashflow was partly because inventories rose by close to $180m in both of 2023 and 2024. The level of short-term incentive, which included hurdles relating to return on capital and sustainability was relatively high at 80% of target for the MD and between 80% and 87% for other key management personnel. In 2023, it was 104% for the MD and 103-104% for other KMP. For Mr O'Leary, this represents 64% (2023 – 83%) of his fixed remuneration. By contrast, shareholders suffered a fall in the price of ILU shares from $9.53 at the start of 2023 to $5.05 at the end of 2024 and received dividends of just 23c in 2023 and 8c in 2024. We are not convinced that the targets set were sufficiently challenging and perhaps this is reflected in the board decision to reduce the financial outcomes results from 119% down to 60% of target. The significance of this reduction in earnings for the MD and executives means that our concerns about this in 2024 are largely overcome but as a matter of principle we see two years in which easy bonuses have been earned whilst shareholders suffer.

- There is only one hurdle for the long-term incentive performance rights – that is to achieve a level of total shareholder reward comparable to or better than a comparator group of resource companies. The ASA prefers there be two hurdles, one of which is TSR and the other is an absolute measure such as return on capital or earnings per share. Iluka's titanium feedstock results are dependent upon commodity prices over which management has little control and its rare earth refinery is not expected to generate profits for several years. We are worried that the LTI does not provide a real strategic incentive for management in these circumstances and have suggested that other hurdles such as meeting cost budgets and construction deadlines for the RE project be considered.

Looking at justification for the high level of short-term incentive awarded, the awards would have been higher in both 2023 and 2024 if the prescribed measures had been followed to the letter - the board exercised discretion to reduce the awards based on unit cost of production, operating cash flow which were between target and stretch and return on capital which was stretch performance. We also note that the MD has had no increase to his fixed remuneration since 2016. Accordingly, we think the overall outcome of the remuneration structure to be fair if not obviously well-deserved. We will be watching closely the 2025 outcomes because we are close to voting against the report if weak targets continue to be set.

Resolution 4 Approval of 2024 STIP equity grant to Managing Director Tom O'Leary (for)

Resolution 4 asks shareholders to approve the grant of 99,472 restricted shares to the MD, Tom O'Leary. This represents the equity half of his short-term incentive award being $448,000 (2023 - $582,400) in restricted shares (using the 5-day volume weighted average price (VWAP) of Iluka shares of approximately $4.50 (2023 - $7.10) in March 2025) being, in aggregate with the 50% cash component, 53.3% of the 2024 maximum STIP opportunity for Mr O'Leary. The MD's total 2024 remuneration therefore comprises his fixed remuneration (base pay + superannuation) of $1,400,000, other benefits of $65,652 (2023 - $57,675) plus the cash and equity STIP of $896,000 to equal $2,361,652 (2023- $2,622,475) in 'take-home pay'. The restricted shares are expected to become free of disposal restrictions as to 50% in May 2026 and the balance in May 2027.

Resolution 5 Approval of 2024 LTIP equity grant to Managing Director Tom O'Leary (for)

Resolution 5 asks shareholders to approve a further allocation of 373,019 (2022 – 236,744) performance rights to Mr O'Leary. The award reflects an entitlement to the LTIP portion of his 2024 remuneration package being 120% of his fixed salary or $1,680,000 which will vest to the extent that a TSR hurdle is passed in the four-year period to 31 December 2028. One half of the rights will vest if Iluka equals the TSR performance of the comparator group with the balance vesting proportionate to its performance exceeding the comparator group by 75%. The number of rights has been determined using the same VWAP of $4.50.

Whilst the ASA would prefer all companies to adopt a 5-year period, Iluka operates in a competitive environment where it is necessary to remunerate at market rates to attract and retain skilled and experienced executives, particularly when entering a new field of endeavour – i.e. rare earths.

Appendix 1
Remuneration framework detail

The 2024 Executive Incentive Plan provided for the managing director to earn benefits to the value of $4.2m at target (300% of base) and $4.76m at maximum (340% of base) from a fixed pay (base pay + superannuation) of $1.4m as shown in the table below.

Executive KMP fixed salaries were unchanged from 2024 levels, including the MD's.

MD rem. framework for FY24	Target $m	% of Total	Max. Opportunity $m	% of Total
Fixed remuneration	1.4	33.33%	1.4	29.41%
STI - cash	0.56	13.33%	0.84	17.65%
STI – restricted shares	0.56	13.33%	0.84	17.65%
LTI – performance rights	1.68	40.00%	1.68	35.29%
Total	4.2	100.00%	4.76	100.00%

Other executive key management personnel had a remuneration structure of a similar nature to the managing director but to a target of 250% and a maximum of 280% of base pay.

The amount of the allocation of restricted shares is based on assessed performance in the 2024 financial year as determined by a scorecard for each executive. The company-wide performance achieved was assessed to be 77% of target then further modified by individual performance factors leading to the MD's award being 80% of target, and other executive KMP between 80 and 87% of target.

The incentive element of remuneration is split between restricted shares (to vest in equal instalments over 2 years commencing in 2026 without further testing) and performance rights (to be assessed against a TSR objective of minimum 50% and maximum 75% of a comparator group of companies based on the S&P 200 Resources Index excluding companies primarily engaged in the oil and gas sector and non-mining activities, over the 4 years commencing in 2025 and concluding at 31 December 2028). Both restricted shares and performance rights are awarded using a volume weighted average actual share prices to determine the number allotted. Dividends are paid on restricted shares during the disposal restriction period. Dividends are not paid on performance rights.

Non-executive directors' fees were again unchanged in 2024.