

**Recommended proposal for the £215 million acquisition of Sierra Rutile Limited by Iluka Resources**

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**Part I**

**Not for release, publication or distribution, in whole or in part, directly or indirectly, in, into or from the United States or from any other jurisdiction where to do so would constitute a violation of the relevant laws or regulations of such jurisdiction.**

**This announcement contains inside information in relation to Sierra Rutile Limited.**

**FOR IMMEDIATE RELEASE**

**1 August 2016**

**Recommended proposal for the £215 million acquisition  
of Sierra Rutile Limited by Iluka Resources Limited to be implemented by statutory merger  
under the BVI Companies Act**

**of**

**Sierra Rutile Limited**

**with**

**Iluka Investments (BVI) Limited**

**Summary**

- The Boards of Sierra Rutile Limited ("SRL") and Iluka Resources Limited ("Iluka") are pleased to announce that they have reached agreement on the terms of a recommended Acquisition of all of the issued and to be issued shares of SRL by Iluka. The Acquisition will be implemented by merging SRL with Iluka Investments (BVI) Limited ("Iluka Newco"), a wholly-owned BVI incorporated subsidiary of Iluka International (West Africa) Pty Ltd., which is an entity within the Iluka Group.
- Under the terms of the Acquisition, SRL Shareholders will receive 36 pence in cash for each SRL Share. The Acquisition represents:
  - a premium of 32.3 per cent. to 27.2 pence, being the 1 month volume-weighted average price of SRL Shares to 29 July 2016 being the Business Day immediately prior to the date of this announcement;
  - a premium of 34.7 per cent. to 26.7 pence, being the 3 month volume-weighted average price of SRL Shares to 29 July 2016;
  - a premium of 43.9 per cent. to 25.0 pence, being the 6 month volume-weighted average price of SRL Shares to 29 July 2016;
  - a premium of 80.0 per cent. to 20 pence, being the price at which SRL undertook a share placement on 14 April 2016;
  - a discount of 4.0 per cent. to the closing middle market price of 37.5 pence per SRL Share on 28 July 2016, being the Business Day immediately prior to the date on which SRL announced a possible offer from Iluka; and
  - a discount of 1.4 per cent. to the closing middle market price of 36.5 pence per SRL Share on 29 July 2016, being the Business Day immediately prior to the date of this announcement.

- Assuming the exercise of all outstanding options under the SRL Share Plan which have an exercise price of less than 36 pence in cash, the Acquisition values all of the issued and to be issued shares of SRL at approximately £215 million.
- It is intended that the Acquisition will be implemented by means of a statutory merger between SRL and Iluka Newco under section 170 of the BVI Companies Act.
- Pala has irrevocably undertaken to vote in favour of the resolutions to approve the Acquisition, the Merger and all ancillary matters relating to the implementation of the Merger as may be proposed at the Shareholder Meeting in respect of 318,065,731 SRL Shares, representing approximately 53.39 per cent. of the existing issued shares of SRL.
- Neon has irrevocably undertaken to vote in favour of the resolutions to approve the Acquisition, the Merger and all ancillary matters relating to the implementation of the Merger as may be proposed at the Shareholder Meeting in respect of 34,517,400 SRL Shares, representing approximately 5.79 per cent. of the existing issued shares of SRL.
- In aggregate, therefore, and including the irrevocable undertakings given by the SRL Directors, Iluka and Iluka Newco have received irrevocable undertakings to vote in favour of the resolutions to approve the Acquisition, the Merger and all ancillary matters relating to the implementation of the Merger as may be proposed at the Shareholder Meeting in respect 60.15 per cent. of the of the SRL Shares in issue on 29 July 2016.
- The Iluka Board believes that the Acquisition provides SRL Shareholders with certain value at a time of heightened market volatility and uncertainty, while at the same time meeting Iluka's strategic rationale and financial merit criteria.
- The SRL Board, which has been so advised by Investec, considers the terms of the Acquisition to be fair and reasonable. In providing its advice to the SRL Board, Investec has taken into account the commercial assessments of the SRL Board.
- The SRL Board intends unanimously to recommend that SRL Shareholders vote in favour of the resolutions to be proposed at the Shareholder Meeting which is to be convened to approve the Acquisition, and has irrevocably undertaken to vote in favour of the resolutions to approve the Acquisition, the Merger and all ancillary matters relating to the implementation of the Merger as may be proposed at the Shareholder Meeting in respect of their own beneficial shareholdings representing 5,772,463 SRL Shares and approximately 0.97 per cent. of the existing issued shares of SRL.
- The SRL Board believes that the Acquisition provides attractive certainty and liquidity for SRL and its shareholders as a whole. There is a concentration of shareholdings amongst a small number of SRL Shareholders and a relative lack of liquidity in SRL Shares. The SRL Board believes that the Acquisition presents an opportunity for all SRL Shareholders to crystallise value for their shareholdings which may not be achieved in the near term if SRL were to remain independent and quoted on AIM.
- The Acquisition is conditional on approval of the Merger by a simple majority (i.e. more than 50 per cent.) of SRL Shareholders being obtained at a duly convened meeting.
- It is expected that the Merger Circular will be published in August 2016 and that, subject to the satisfaction of all relevant Conditions, the Merger will become Effective in September or on or before 30 November 2016 (or such other date as agreed between Iluka, Iluka Newco and SRL).

Commenting on the Acquisition, Robert Edwards, Chairman of SRL said:

*"The SRL Board has reached agreement on the terms of a recommended Acquisition of SRL by Iluka. The Acquisition enables all SRL Shareholders to realise value today in cash for their shares at an acceptable level after the management of SRL has achieved all of its immediate goals with respect to optimising the asset base. Iluka has an established track record in the mineral sands sector and will be able to support SRL's longer term growth and optimisation ambitions. We believe*

that the Acquisition provides attractive certainty and liquidity for SRL and its shareholders as a whole."

Commenting on the Acquisition, John Sisay, Chief Executive of SRL said:

*"I believe the Acquisition of SRL by Iluka will ensure the operations in Sierra Leone will be realised to their fullest potential. I am proud of the important milestones which have been achieved by management and employees in recent years, in particular, record rutile production in 2015 and H1 2016 and the successful commissioning of the Gangama Dry Mine in May 2016. Iluka is a financially strong and established owner with a successful track record in the mineral sands sector who will continue the development of SRL's long life assets. Management and employees will benefit from Iluka's future investment in SRL and wider career development opportunities across Iluka's global asset base. This Acquisition demonstrates that Sierra Leone is open for business and able to attract investment from high profile multinational companies such as Iluka that are keen to participate in the development and growth of the country."*

Commenting on the Acquisition, Greg Martin, Chairman of Iluka said:

*"The transaction is consistent with Iluka's approach to act in a counter-cyclical manner where appropriate, including via transactions where strategic rationale and financial merit can be demonstrated. It is a logical combination of complementary businesses at this point in the mineral sands cycle.*

*The offer is cash based and entails Iluka absorbing SRL's modest debt of ~ US\$60 million which would represent a pro-forma post-acquisition gearing for Iluka (net debt / net debt + equity) of ~ 25 per cent. The Acquisition of SRL, along with, current Iluka project progress, provides the potential for enhanced portfolio flexibility which will in turn determine the level and phasing of Iluka's future capital expenditure. Iluka will continue to prioritise the maintenance of a strong balance sheet after an expected peak debt in 2018 as internal projects are also funded within that period.*

*Iluka believes that a disciplined approach to both capital expenditure and cash distribution strongly influences shareholder value creation and delivery in a cyclical industry. Iluka's approach in both respects remains unchanged."*

Commenting on the Acquisition, David Robb, Managing Director of Iluka said:

*"SRL is a long life operation, with an established position in high grade chloride feedstock markets. Iluka is confident the application of its industry-specific technical expertise, together with its market access and reach, will enhance the SRL business.*

*The Acquisition provides Iluka with additional, long life (20 years plus) resources of proven quality, with further potential through resource additions, reserve optimisation and exploration. The combination enhances Iluka's rutile portfolio position. This enhancement sits alongside Iluka's existing position as the largest global zircon producer.*

*Due diligence has been conducted on SRL's operations and Iluka believes the offer represents an attractive risk / return profile for shareholders across a range of scenarios. The transaction is expected to be EPS accretive in the first full year (2017)."*

**This summary should be read in conjunction with the full text of the following announcement including the Appendices. The Conditions and certain further terms of the Acquisition are set out in Appendix I to this announcement. Appendix II sets out the bases of calculation and sources used in this announcement. Appendix III contains details of the irrevocable undertakings given to Iluka. Appendix IV contains the definitions of certain terms used in this announcement.**

**Enquiries:**

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RBC Capital Markets is Financial Adviser to SRL. Numis Securities Limited is Joint Corporate Broker for SRL.

Herbert Smith Freehills is retained as legal advisers to SRL.

Ogier is retained as BVI legal advisers to SRL.

Ashurst is retained as legal advisers to Iluka.

Conyers Dill & Pearman is retained as BVI legal advisers to Iluka.

**Further information**

This announcement is not intended to and does not constitute, or form part of, any offer to sell or subscribe for or an invitation to purchase or subscribe for any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the Acquisition or otherwise, nor shall there be any sale, issuance or transfer of securities of SRL in any jurisdiction in contravention of applicable law.

Any vote in respect of the Acquisition should only be made on the basis of the information contained in the Merger Circular, which will contain the full terms and conditions of the Acquisition (including details of how to vote). SRL Shareholders are advised to read the formal documentation in relation to the Acquisition carefully once it has been dispatched.

Please be aware that addresses, electronic addresses and certain other information provided by SRL Shareholders, persons with information rights and other relevant persons in connection with the receipt of communications from SRL may be provided to Iluka during the offer period.

Investec, which is authorised by Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority in the United Kingdom, is acting for SRL and no-one else in connection with the Acquisition and will not be responsible to anyone other than SRL for providing the protections afforded to clients of Investec nor for providing advice in relation to the Acquisition. Neither Investec nor any of its subsidiaries, branches or affiliates owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of Investec in connection with this announcement, any statement contained herein or otherwise.

Goldman Sachs is acting for Iluka and no-one else in connection with the Acquisition and will not be responsible to anyone other than Iluka for providing the protections afforded to clients of Goldman Sachs nor for providing advice in relation to the Acquisition. Neither Goldman Sachs nor any of its subsidiaries, branches or affiliates owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of Goldman Sachs in connection with this announcement, any statement contained herein or otherwise.

### **Overseas jurisdictions**

The release, publication or distribution of this announcement in or into jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this announcement comes who are not resident in the United Kingdom should inform themselves about and observe any applicable restrictions. SRL Shareholders who are in any doubt regarding such matters should consult an appropriate independent adviser in the relevant jurisdiction without delay. Any failure to comply with such restrictions may constitute a violation of the securities laws of any such jurisdiction.

This announcement has been prepared for the purposes of complying with the AIM Rules and the relevant procedural requirements of the articles of association of SRL and the information disclosed may not be the same as that which would have been disclosed if this announcement had been prepared in accordance with the laws of jurisdictions outside the United Kingdom.

### **Additional information for US investors in SRL**

These materials are not for distribution, directly or indirectly, in or into the United States (including its territories and possessions, any State of the United States and the District of Columbia). These materials do not constitute or form a part of any offer or solicitation to purchase or subscribe for securities in the United States.

Shareholders in the United States should note that the Acquisition relates to the shares of a BVI company and is proposed to be made by means of a merger provided for under, and governed by, BVI law. Neither the proxy solicitation nor the tender offer rules under the US Securities Exchange Act of 1934, as amended (the "US Exchange Act"), will apply to the Merger. Moreover the Merger will be subject to the disclosure requirements, rules and practices applicable in the BVI to statutory mergers, which differ from the disclosure requirements of the US proxy solicitation rules and tender offer rules. Financial information included in this announcement and the Merger Circular has been or will be prepared in accordance with International Financial Reporting Standards adopted for use by the European Union and may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.

SRL is incorporated under the laws of the BVI, Iluka under the laws of Australia and Iluka Newco under the laws of the BVI. The vast majority of the officers and directors of SRL and Iluka are residents of countries other than the United States. It may not be possible to sue SRL, Iluka, Iluka Newco or their respective officers or directors in a non-US court for violations of US securities laws. It may be difficult to compel SRL, Iluka or Iluka Newco or their respective affiliates to subject themselves to the jurisdiction and judgment of a US court.

The Acquisition is expected to be made in accordance with, and in reliance on, certain applicable laws of the United States, including section 14(e) of the US Exchange Act and Regulation 14E thereunder, as exempted thereunder by Rule 14d-1(c). The Acquisition is not expected to be

subject to the requirements of Regulation 14D of the US Exchange Act and as such, is not expected to be submitted to, nor reviewed by, the US Securities and Exchange Commission.

To the extent permitted by applicable law, and to the extent permitted by normal UK practice and Rule 14e-5 under the US Exchange Act, Iluka or its nominees, or its brokers (acting as agents), may from time to time make certain purchases of, or arrangements to purchase, SRL Shares outside of the United States, other than pursuant to the Acquisition, until the date on which the Acquisition becomes Effective, lapses or is otherwise withdrawn. If such purchases or arrangements to purchase are made they will be made outside the United States and will comply with applicable law, including the US Exchange Act. In addition, the financial advisers to SRL may also engage in ordinary course trading activities in the securities of SRL until the date on which the Acquisition becomes Effective, lapses or is otherwise withdrawn, which may include purchases or arrangements to purchase such securities. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices. Any information about such purchases will be disclosed as required in the UK, will be reported to the Regulatory Information Service of the London Stock Exchange and will be available on the London Stock Exchange website at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

### **Forward-looking statements**

This announcement may contain certain forward-looking statements, including statements regarding Iluka, Iluka Newco and SRL's plans, objectives and expected performance. Such statements relate to events and depend on circumstances that will occur in the future and are subject to risks, uncertainties and assumptions. There are a number of factors which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements, including among others, the enactment of legislation or regulation that may impose costs or restrict activities; the re-negotiation of contracts or licences; fluctuations in demand and pricing in the mining industry; fluctuations in exchange controls; changes in government policy and taxations; industrial disputes; and war and terrorism. These forward-looking statements speak only as at the date of this announcement.

### **Mineral resource Competent Person**

The mineral resource information in this announcement, in relation to SRL, has been reviewed and approved for release by Mr Mark Button, NHDip, MMRM, Pr.Sci.Nat. who has 25 years' experience in mineral commodities, of which 15 years is specific to mineral resource estimation, and is currently an independent contractor providing consulting services to SRL. Mr Button has sufficient experience in relation to the style of mineralisation and type of deposit under consideration to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Button has consented to the inclusion of this mineral resource information in the form and context in which it appears.

### **Application of the Code**

SRL is a company incorporated and registered in the BVI and, as such, is not subject to the jurisdiction of the UK Takeover Panel or the Code.

Shareholders are reminded that SRL's articles of association require certain offers to be made on terms that would be required by the Code, save to the extent that the SRL Board otherwise determines. The Panel on Takeovers and Mergers does not, however, have responsibility for ensuring compliance with the Code in respect of the Acquisition and is not able to answer shareholders' queries in relation to SRL, Iluka, Iluka Newco or the Acquisition. However, the SRL Board intends to take into account guidance issued by the Panel on Takeovers and Mergers in connection with the exercise of its discretion.

In particular, the SRL Board has confirmed to Iluka and Iluka Newco that it does not intend to require announcements pursuant to Rule 8 of the Code containing details of interests or short positions in, or rights to subscribe for, any relevant securities of a party to an offer and announcements pursuant to Rule 8 of the Code containing details of dealings in interests in relevant securities of a party to an offer (as referred to in the Code) to be made by shareholders in

accordance with Rule 8 of the Code. Shareholders are reminded that public disclosures consistent with the provision of Rule 8.3 of the Code should not be e-mailed to the Panel on Takeovers and Mergers.

**Publication of this announcement**

A copy of this announcement will be available, subject to restrictions relating to persons resident in certain restricted jurisdictions on <http://www.iluka.com> and <http://www.sierra-rutile.com>.

The contents of Iluka's website and SRL's website are not incorporated into and do not form part of this announcement.

## Part II

### 1. Introduction

The Boards of SRL and Iluka are pleased to announce that they have reached agreement on the terms of a recommended Acquisition of all of the issued and to be issued shares of SRL by Iluka.

### 2. Summary of terms

Under the terms of the Acquisition, SRL Shareholders will be entitled to receive:

|                           |                         |
|---------------------------|-------------------------|
| <b>in respect of each</b> | <b>36 pence in cash</b> |
| <b>SRL Share</b>          |                         |

Assuming the exercise of all outstanding Options under the SRL Share Plan which have an exercise price of less than 36 pence in cash, the Acquisition values all of the issued and to be issued shares of SRL at approximately £215 million.

Under the terms of the Acquisition, SRL Shareholders will receive 36 pence in cash for each SRL Share. The Acquisition represents:

- a premium of 32.3 per cent. to 27.2 pence, being the 1 month volume-weighted average price of SRL Shares to 29 July 2016 being the Business Day immediately prior to the date of this announcement;
- a premium of 34.7 per cent. to 26.7 pence, being the 3 month volume-weighted average price of SRL Shares to 29 July 2016;
- a premium of 43.9 per cent. to 25.0 pence, being the 6 month volume-weighted average price of SRL Shares to 29 July 2016;
- a premium of 80.0 per cent. to 20 pence, being the price at which SRL undertook a share placement on 14 April 2016;
- a discount of 4.0 per cent. to the closing middle market price of 37.5 pence per SRL Share on 28 July 2016, being the Business Day immediately prior to the date on which SRL announced a possible offer from Iluka; and
- a discount of 1.4 per cent. to the closing middle market price of 36.5 pence per SRL Share on 29 July 2016, being the Business Day immediately prior to the date of this announcement.

It is intended that the Acquisition will be implemented by means of a statutory merger between SRL and Iluka Newco under section 170 of the BVI Companies Act, further details of which are contained in section 11 below.

### 3. Background to and reasons for the Acquisition

The Iluka Board believes that the Acquisition provides SRL Shareholders with certain value at a time of heightened market volatility and uncertainty, while at the same time meeting Iluka's strategic rationale and financial merit criteria.

SRL is one of the major and established producers of rutile, currently producing approximately 130,000 tonnes per annum, with expansion potential. The operation has a long life resource base which will supplement Iluka's position as a high grade chloride feedstock supplier.

Iluka's industry-specific expertise, market knowledge, access and reach, coupled with its financial capacity, will provide a platform to secure the longevity and profitability of SRL's



mining and processing operations in Sierra Leone and ensure it continues to provide important employment, community and other socio-economic benefits to the country.

4. **Recommendation**

The SRL Board, which has been so advised by Investec, considers the terms of the Acquisition to be fair and reasonable. In providing its advice, Investec has taken into account the commercial assessments of the SRL Board.

The SRL Board believes that the terms of the Acquisition are in the best interests of SRL Shareholders as a whole and intends unanimously to recommend that SRL Shareholders vote in favour of the resolutions to be proposed at the Shareholder Meeting which is to be convened to approve the Acquisition. The SRL Directors have irrevocably undertaken to do the same in respect of their own beneficial shareholdings in SRL, which amount in aggregate to 5,772,463 SRL Shares, representing approximately 0.97 per cent. of the existing issued shares of SRL.

5. **Background to and reasons for the recommendation**

The SRL Board believes that the Acquisition enables all SRL Shareholders to realise value today in cash for their shares at an acceptable level after the management of SRL has achieved all of its immediate goals with respect to optimising the asset base. Following an extended period of uncertainty in the mineral sands market and volatility in its share price, SRL's recent operational and financial performance has been strong. It has also made positive progress in strengthening its balance sheet, including raising \$20 million in new equity at 20 pence per share in April 2016. These positive developments have been reflected in the very recent share price increase, which has been broadly in line with SRL's mining peer group companies on AIM. There is a concentration of shareholdings amongst a small number of SRL Shareholders and a relative lack of liquidity in SRL Shares. The SRL Board believes that the Acquisition presents an opportunity for all SRL Shareholders to crystallise value for their shareholdings which may not be achieved in the near term if SRL were to remain independent and quoted on AIM. Iluka has an established track record in the mineral sands sector and will be able to support SRL's longer term growth and optimisation ambitions. The SRL Board believes that the Acquisition provides attractive certainty and liquidity for SRL and its shareholders as a whole.

6. **Shareholder Irrevocable Undertakings to vote in favour of the Acquisition**

Pala has irrevocably undertaken to vote in favour of the resolutions to approve the Acquisition, the Merger and all ancillary matters relating to the implementation of the Merger as may be proposed at the Shareholder Meeting in respect of 318,065,731 SRL Shares, representing approximately 53.39 per cent. of the existing issued shares of SRL; and

Neon has irrevocably undertaken to vote in favour of the resolutions to approve the Acquisition, the Merger and all ancillary matters relating to the implementation of the Merger as may be proposed at the Shareholder Meeting in respect of 34,517,400 SRL Shares, representing approximately 5.79 per cent. of the existing issued shares of SRL,

(together the "Shareholder Irrevocable Undertakings").

In aggregate, therefore, and including the irrevocable undertakings given by the SRL Directors, Iluka and Iluka Newco have received irrevocable undertakings to vote in favour of the resolutions to approve the Acquisition, the Merger and all ancillary matters relating to the implementation of the Merger as may be proposed at the Shareholder Meeting in respect 60.15 per cent. of the of the SRL Shares in issue on 29 July 2016.

Further details of the Shareholder Irrevocable Undertakings (including the circumstances in which they will cease to be binding) are set out in Appendix III and will be set out in the Merger Circular.

7. **Management and employees**

Iluka values the specific knowledge and expertise of members of the SRL senior management team, and it will discuss what interest such management may have in being involved with SRL, directly or indirectly, following the Acquisition. While Iluka will undertake a review of key senior operational positions to ensure the best team possible is in place to operate SRL's assets, it is not anticipated that there would be any material change to current employment levels.

Furthermore, Iluka is also committed to preserving employment benefits that SRL's operations provide to surrounding local communities and the country of Sierra Leone. Following the Acquisition, Iluka would look to provide SRL's workforce with career development opportunities including the potential for high performing employees to have the opportunity to work across multiple assets within Iluka's global portfolio.

8. **Information on Iluka Group**

Iluka is a mineral sands company involved in the exploration, project development, mining, processing and marketing of mineral sands products. Iluka's objective is to create and deliver value for shareholders. Iluka is the largest producer of zircon globally and a significant producer of the higher grade titanium dioxide products of rutile and ilmenite. Iluka's operations are located in Australia with previous operations in Virginia, U.S.A which have recently been idled. Iluka has several potential mineral sands developments at various stages of evaluation in Australia, the U.S.A., Sri Lanka and Brazil. Iluka also has an international marketing and sales capability. Iluka owns an in-perpetuity iron ore royalty over certain mining tenements in Australia, operated by BHP Billiton Limited. Iluka employs approximately 850 people. The corporate office is located in Perth, Western Australia. Iluka is listed on the Australian Securities Exchange (ASX code: ILU) and has a market capitalisation as at 29 July 2016, being the last business day prior to this announcement, of A\$2,939 million (US\$2,234 million, £1,689 million). For further information on Iluka visit <http://www.iluka.com>.

9. **Information on SRL, its current trading and prospects**

SRL is a leading, multi-mine, mineral sands company, operating low cost assets and developing a portfolio of growth projects in the south west of Sierra Leone, with its primary commodity mined being rutile, a titanium feedstock. It has an established operating history spanning approximately 50 years and a projected mine life of 50 years at current output rates with one of the largest rutile deposits in the world and a JORC-Compliant Mineral Resource for measured, indicated and inferred resources for the SRL mine of 866.9 million tonnes with 0.94 per cent. rutile, 0.20 per cent. Ilmenite and 0.08 per cent. Zircon (as at 30 September 2015).

SRL produced 126,021 tonnes of rutile in 2015. SRL's rutile services a variety of end uses, and is, for example, used in the pigment, titanium sponge and welding industries. The price of rutile itself has varied significantly over recent years and may continue to do so in the future.

SRL also produces ilmenite, which is used in pigment production.

On 15 July 2016 SRL published an operational update and reported on the second quarter of 2016, including current trading and prospects. As stated in the announcement, rutile production for 2016 was expected to be at the upper end of previously stated guidance of between 120,000 and 135,000 tonnes driven by the continued strong demand from customers, with 96 per cent. of maximum targeted sales volumes already contracted for 2016. The Gangama Dry Mine continues to outperform budgeted performance criteria since its successful commissioning at the end of May 2016, with steady state operations expected to be achieved in Q3 2016.

Since the last operational update, SRL has also agreed a monthly loan repayment schedule with the Government of Sierra Leone, further to the deferral of the repayment of SRL's loan from the Government announced on 31 March 2016, which as at 31 December

2015 amounted to \$22 million. As a result of this agreement, the loan will be repaid in 23 equal instalments of €1 million commencing from December 2016 with a final instalment of €660,000 payable in November 2018, instead of the previous semi-annual repayment profile.

SRL is incorporated in the BVI with its issued shares traded on the AIM market of the London Stock Exchange. SRL's ticker symbol is SRX.

10. **SRL Share Plan**

Participants in the SRL Share Plan will be sent letters explaining the effect of the Acquisition on the Options under the SRL Share Plan and appropriate proposals will be made to such participants in due course. Options may be exercised under the SRL Share Plan as provided for in the rules. Options which are not exercised prior to the time required by the rules of the SRL Share Plan shall lapse upon the Merger becoming Effective.

The Merger will extend to any SRL Shares which are unconditionally allotted and issued before the Merger Record Time to satisfy the exercise of Options under the SRL Share Plan.

11. **The Merger**

It is intended that the Acquisition will be implemented by means of a statutory merger pursuant to the provisions of Part IX of the BVI Companies Act.

The constituent companies of the Merger will be Iluka Newco and SRL, with Iluka Newco being the surviving company.

Upon the Merger, Iluka International (West Africa) Pty Ltd., the sole shareholder of Iluka Newco, will be the owner of all of the issued shares of Iluka Newco as the surviving company.

All the issued shares of SRL shall be cancelled in connection with the Merger. In consideration for this, the SRL Shareholders (other than any SRL Shareholders who dissent pursuant to section 179 of the BVI Companies Act) will receive cash on the basis set out in section 2 of this announcement.

The Merger has been approved by the SRL Directors and also needs to be approved by the SRL Shareholders. SRL Directors will call a meeting of the SRL Shareholders. A simple majority of SRL Shareholders entitled to vote and voting (in person or by proxy) at the Shareholder Meeting is all that is required to approve the Merger.

A SRL Shareholder may exercise statutory dissent rights as set out in section 179 of the BVI Companies Act in respect of the Merger. On the exercise by a SRL Shareholder of his right to dissent, such shareholder ceases to have any rights of a member except the right to be paid fair value for his or her shares.

The exercise by any SRL Shareholder of their dissent rights will not prevent, hinder or delay the completion of the Acquisition as the process for dissenting shareholders will be conducted outside of the Acquisition process.

As soon as the Merger becomes Effective:

- the separate corporate existence of SRL shall cease;
- Iluka Newco will assume all of the rights, privileges, immunities, powers, objects and purposes of SRL;
- all assets of every description and the business of SRL will immediately vest in Iluka Newco;
- Iluka Newco will become liable for all claims, debts, liabilities and obligations of SRL; and
- as the non-surviving company, SRL will be struck off the register of companies held by the Registrar of Corporate Affairs.

The Merger will also need to be approved by the directors and shareholder of Iluka Newco.

The Merger is also subject to certain Conditions and certain further terms referred to in Appendix I of this announcement and to be set out in the Merger Circular.

If the Merger is approved and the other Conditions have been satisfied or waived, the Articles of Merger will be executed and filed for registration with the Registrar of Corporate Affairs and, upon registration of the Articles of Merger, the Merger will become Effective. Once the Merger becomes Effective, it will be binding on all SRL Shareholders, whether or not they voted at the Shareholder Meeting and, if they did vote, whether or not they voted in favour of or against the resolutions proposed at such meeting.

Further information will be provided in the Merger Circular as to how to vote at the Shareholder Meeting and how SRL Shareholders will receive the Merger consideration, as this will depend on whether the SRL Shares are represented by share certificates, the SRL Shares are held in uncertificated form or if the SRL Shares are held by the SRL Shareholder's broker, bank or other nominee.

If the Merger is not approved or the other Conditions are not satisfied or waived, SRL Shareholders will not receive any payment for SRL Shares pursuant to the Merger. Instead, the SRL Shares will continue to be admitted to trading on AIM, provided that SRL continues to meet the rules and requirements of AIM.

## 12. **Financing of the Acquisition**

Pursuant to the Merger Implementation Agreement, Iluka has warranted to SRL that it has sufficient cash resources available to it to satisfy, in full, the cash consideration payable under the Acquisition.

## 13. **De-listing**

Applications will be made to AIM in compliance with the AIM Rules to cancel the SRL Shares from trading on AIM upon the Merger becoming Effective. When the Merger becomes Effective, the Depositary Interests will be cancelled. At that point any share certificates in respect of the Depositary Interests will cease to be valid and the Depositary Interests held in CREST will be cancelled.

## 14. **Acquisition-related arrangements**

SRL, Iluka and Iluka Newco have entered into the Merger Implementation Agreement in relation to the Acquisition, which contains provisions regarding the implementation of the Acquisition and certain assurances and confirmations between them, including the obligation on Iluka Newco (guaranteed by Iluka) to pay the consideration due under the Acquisition. A summary of the Merger Implementation Agreement is set out below and further information regarding the Merger Implementation Agreement will be included the Merger Circular:

- *Guarantee and indemnity by Iluka:* Iluka has unconditionally and irrevocably guaranteed to SRL the performance of Iluka Newco's obligations under the Merger Implementation Agreement and the Merger (including but not limited to the payment of all monies payable by Iluka Newco). Iluka has also agreed to indemnify SRL from and against any and all losses suffered or incurred by SRL and arising from the failure of Iluka Newco to comply with any of its obligations, or discharge any of its liabilities under the Merger Implementation Agreement.
- *Conditions:* the Acquisition will be made subject to the Conditions and on the terms contained in Appendix I to this announcement and on the further terms and conditions to be set out in the Merger Circular. SRL, Iluka and Iluka Newco have agreed to use their reasonable endeavours to ensure and procure that each condition for which it is responsible is satisfied as soon as reasonably practicable and not take any action or refrain from taking any action (except as required by law) which may prevent the conditions being satisfied (and in respect of the antitrust condition Iluka has agreed to use its reasonable endeavours to satisfy such condition and has agreed to take certain prescribed steps set out in the Merger Implementation Agreement regarding its satisfaction).

- *Conduct of Business:* SRL has agreed to conduct its business in the ordinary course and in substantially the same manner as conducted in the previous 12 months.
- *Termination:* the Merger Implementation Agreement may be terminated if: agreed by the parties; the SRL Board changes or withdraws its recommendation or fails to make the recommendation; the Merger does not become Effective on or by 30 November 2016 (or such other date as agreed) or SRL Shareholder approval is not obtained one Business Day before that date; the German Antitrust Authority initiates phase II proceedings in relation to the Merger; the Conditions cannot be satisfied; if an insolvency event occurs in respect of SRL, Iluka or Iluka Newco; or if SRL enters into a definitive agreement with a competing bidder on more favourable terms after Iluka shall have been given the opportunity to match the terms being offered by such competing bidder.

15. **Expected timetable**

Further details of the Merger will be contained in the Merger Circular which will be sent to SRL Shareholders as soon as practicable and in any event before 23 August 2016.

Further details on the timetable for implementation of the Merger will be set out in the Merger Circular, which will also include the notice of the Shareholder Meeting and specify the necessary actions to be taken by SRL Shareholders. It is expected that the Merger Circular will be posted on or before 23 August 2016 and that the Shareholder Meeting will be held in September 2016.

Subject to satisfaction of the relevant Conditions as set out in Appendix I to this announcement, the Merger is expected to become Effective in September 2016 or on or before 30 November 2016 (or such other date as agreed between Iluka, Iluka Newco and SRL).

## APPENDIX I

### CONDITIONS AND CERTAIN FURTHER TERMS OF THE ACQUISITION

#### Part 1 Conditions of the Acquisition

1. The Merger will be conditional on:
  - SRL Shareholder approval being obtained at the Shareholder Meeting.
  - The Acquisition not being expressly prevented or prohibited by any order, decision or ruling of any court, tribunal or regulatory authority of competent jurisdiction.
  - No material adverse change, in respect of certain regulatory events or a cessation of production for an extended period of time, as defined in the Merger Implementation Agreement.
  - Certain specified events with regard to SRL not occurring prior to the closing of the Acquisition, including but not limited to, an alteration of SRL share capital, insolvency or any action which would otherwise be prohibited by Rule 21.1 of the Code were it to be applicable to the Acquisition.
  - The warranties given by SRL, Iluka or Iluka Newco, (which are generally limited to standard title and capacity warranties) in each case being true and correct in all material respects.
  - The Acquisition having obtained clearance under the German Act Against Restraints of Competition (*Gesetz gegen Wettbewerbsbeschränkungen*, (GWB)), as amended, and which shall occur on the sooner of (a) the German Antitrust Authority having taken a decision to clear the Acquisition, or (b) all applicable waiting periods with respect thereto having expired or been terminated without the German Antitrust Authority having prohibited the Acquisition.

#### Part 2 Certain further terms of the Acquisition

1. The Merger, and any dispute or claim arising out of, or in connection with the Merger, will be governed by BVI law. Any dispute or claim arising out of, or in connection with, the Acquisition, the Merger Implementation Agreement or the irrevocable undertakings (whether contractual or non-contractual in nature) will be governed by English law and will be subject to the jurisdiction of the Courts of England and Wales.
2. SRL Shares and Depositary Interests will be cancelled under the Merger.
3. Iluka and SRL reserve the right to elect to implement the Merger by means of tender offer, offer, scheme of arrangement, plan of arrangement or consolidation.

## **APPENDIX II**

### **BASES OF CALCULATIONS AND SOURCES OF INFORMATION**

1. References to the value of the Acquisition assume the number of issued shares of SRL to be 595,786,674. References to the value of the Acquisition assuming the exercise of all outstanding Options (which have an exercise price of less than 36 pence in cash) are based upon the SRL Shares currently in issue as referred to above, and the 11,550,000 SRL Shares which are at 29 July 2016 (being the latest practicable date prior to the publication of this announcement) the subject of Options granted under the SRL Share Plan (which have an exercise price of less than 36 pence in cash).
2. Unless otherwise stated, all prices and closing prices for SRL Shares are closing middle market quotations derived from AIM.

## APPENDIX III

### IRREVOCABLE UNDERTAKINGS

#### Part 1 Pala Shareholder Irrevocable Undertaking

1. Iluka and Iluka Newco have received an irrevocable commitment from Pala in respect of its beneficial holdings in SRL Shares representing in aggregate approximately 53.39 per cent. of SRL's issued shares as at 29 July 2016 (being the last Business Day prior to the date of this announcement). This commitment is subject to certain limitations and exceptions as described below.
2. This commitment requires Pala, amongst other things, to vote (or, where the Depositary holds Pala's SRL Shares on Pala's behalf, to procure that the Depositary votes) in favour of the resolutions to approve the Acquisition, the Merger and all ancillary matters relating to the implementation of the Merger as may be proposed at the Shareholder Meeting.
3. The Shareholder Irrevocable Undertaking given by Pala will cease to be binding on the earliest to occur of the following:
  - if the Merger Implementation Agreement is terminated in accordance with its terms and Iluka does not make or announce an intention to make an alternative acquisition (where the price to be received by Pala is not less than the price per SRL Share offered pursuant to the Merger and such alternative acquisition is recommended by the SRL Board) within five Business Days of the Merger Implementation Agreement being terminated;
  - if otherwise agreed in writing by Pala, Iluka and Iluka Newco;
  - the Merger does not become Effective on or before the date which is six months after the date on which this announcement is issued; or
  - if Iluka or Iluka Newco withdraws or announces that it does not intend to make or proceed with the Merger and does not make or announce an intention to make an alternative acquisition (where the price to be received by Pala is not less than the price per SRL Share offered pursuant to the Merger and such alternative acquisition is recommended by the SRL Board) within five Business Days of the withdrawal of the Merger or announcement of its intention not to make or proceed with the Merger (as applicable)).

#### Part 2 Neon Shareholder Irrevocable Undertaking

1. Iluka and Iluka Newco have received an irrevocable commitment from Neon in respect of its beneficial holdings in SRL Shares representing in aggregate approximately 5.79 per cent. of SRL's issued shares as at 29 July 2016 (being the last Business Day prior to the date of this announcement). This commitment is subject to certain limitations and exceptions as described below.
2. This commitment requires Neon, amongst other things, to vote (or, where a third party holds Neon's SRL Shares on Neon's behalf, to procure that the third party votes) in favour of the resolutions to approve the Acquisition, the Merger and all ancillary matters relating to the implementation of the Merger as may be proposed at the Shareholder Meeting.
3. The Shareholder Irrevocable Undertaking given by Neon will cease to be binding on the earliest to occur of the following:
  - if the Merger Implementation Agreement is terminated in accordance with its terms and Iluka does not make or announce an intention to make an alternative acquisition (where the price to be received by Neon is not less than the price per SRL Share offered pursuant to the Merger and such alternative acquisition is recommended by the SRL Board) within five Business Days of the Merger Implementation Agreement being terminated;



- if otherwise agreed in writing by Neon, Iluka and Iluka Newco;
- the Merger does not become Effective on or before the date which is six months after the date on which this announcement is issued;
- if Iluka or Iluka Newco withdraws or announces that it does not intend to make or proceed with the Merger and does not make or announce an intention to make an alternative acquisition (where the price to be received by Neon is in cash and not less than the price per SRL Share offered pursuant to the Merger and such alternative acquisition is recommended by the SRL Board) within five Business Days of the withdrawal of the Merger or announcement of its intention not to make or proceed with the Merger (as applicable)); or
- if any person other than Iluka or Iluka Newco or any person acting in concert with Iluka announces prior to the date which is six months after the date on which this announcement is issued a firm intention to make an offer that could result in such person acquiring all the share capital of SRL (other than that already owned or agreed to be acquired by the person making such offer or its associates) at a price and / or in exchange for such number of shares (or other securities) that in Neon's reasonable opinion represents an increase in value for SRL Shareholders when compared to the Merger.

### **Part 3 Director irrevocable undertakings**

1. Iluka and Iluka Newco have received irrevocable commitments from the SRL Directors in respect of their entire beneficial holdings in SRL Shares representing in aggregate approximately 0.97 per cent. of SRL's issued shares as at 29 July 2016 (being the last Business Day prior to the date of this announcement). This commitment is subject to certain limitations and exceptions as described below.
2. This commitment requires the SRL Directors, amongst other things, to vote (or, where the Depositary holds the SRL Director's SRL Shares on their behalf, to procure that the Depositary votes) in favour of resolutions to approve the Acquisition, the Merger and all ancillary matters relating to the implementation of the Merger as may be proposed at the Shareholder Meeting.
3. The irrevocable undertakings given by the SRL Directors will cease to be binding on the earliest to occur of the following:
  - if the Merger Implementation Agreement is terminated in accordance with its terms and Iluka does not make or announce an intention to make an alternative acquisition (where the price to be received by the SRL Directors is not less than the price per SRL Share offered pursuant to the Merger and such alternative acquisition is recommended by the SRL Board) within five Business Days of the Merger Implementation Agreement being terminated;
  - if otherwise agreed in writing by the SRL Directors, Iluka and Iluka Newco;
  - the Merger does not become Effective on or before the date which is six months after the date on which this announcement is issued; or
  - if Iluka or Iluka Newco withdraws or announces that it does not intend to make or proceed with the Merger and does not make or announce an intention to make an alternative acquisition (where the price to be received by the SRL Director is not less than the price per SRL Share offered pursuant to the Merger and such alternative acquisition is recommended by the SRL Board) within five Business Days of the withdrawal of the Merger or announcement of its intention not to make or proceed with the Merger (as applicable).

## APPENDIX IV

### DEFINITIONS

The following definitions apply throughout this announcement unless the context requires otherwise:

|                        |   |
|------------------------|---|
| "Acquisition"          | the proposed acquisition by Iluka of all of the issued and to be issued shares of SRL to be implemented by means of the Merger  |
| "AIM"                  | the AIM market of the London Stock Exchange   |
| "AIM Rules"            | the AIM Rules for Companies being the rules of the London Stock Exchange governing admission to and the operation of AIM  |
| "Articles of Merger"   | the articles of merger executed by the SRL Directors and Iluka Newco Directors in accordance with section 171 of the BVI Companies Act  |
| "Business Day"         | a day (other than a Saturday or Sunday) on which banks are open for general business in London, Perth and the BVI   |
| "BVI"                  | the British Virgin Islands  |
| "BVI Companies Act"    | the BVI Business Companies Act (as amended from time to time)   |
| "Closing Date"         | the third Business Day after the date on which all Conditions have been satisfied or waived, and in any event no later than the sixth Business Day after such date (or such other date as agreed between SRL and Iluka) |
| "Code"                 | the City Code on Takeovers and Mergers  |
| "Conditions"           | the conditions to the implementation of the Acquisition (including the Merger) which are set out in Appendix I to this announcement and to be set out in the Merger Circular  |
| "CREST"                | the relevant system (as defined in the Uncertificated Securities Regulations 2001 (SI 2001/3755)) in respect of which Euroclear UK & Ireland Ltd is the operator  |
| "Depository"           | Computershare Investor Services PLC   |
| "Depository Interests" | the interests representing SRL Shares issued through the Depository   |
| "Effective"            | in the context of the Acquisition means the Merger having become effective pursuant to its terms  |
| "Effective Date"       | the date on which the Merger becomes Effective  |

|                                   |   |
|-----------------------------------|---|
| "German Antitrust Authority"      | German Federal Cartel Office (Bundeskartellamt) (FCO)   |
| "Goldman Sachs"                   | Goldman Sachs Australia Pty Ltd of Level 17, 101 Collins Street, Melbourne VIC 3000   |
| "Iluka"                           | Iluka Resources Limited incorporated in Australia with registered address at Level 23, 140 St Georges Terrace, Perth, WA 6000   |
| "Iluka Board"                     | the board of directors of Iluka   |
| "Iluka Group"                     | Iluka Resources Limited and its subsidiaries  |
| "Iluka Newco"                     | Iluka Investments (BVI) Limited incorporated in the British Virgin Islands with its registered office at Commerce House, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands VG1110            |
| "Iluka Newco Directors"           | the board of directors of Iluka Newco   |
| "Investec"                        | Investec Bank plc   |
| "London Stock Exchange"           | London Stock Exchange plc   |
| "Merger"                          | the merger of Iluka Newco and SRL pursuant to the provisions of sections 170 and 171 of the BVI Companies Act and the Plan of Merger, with Iluka Newco being the surviving company thereof.           |
| "Merger Circular"                 | the document to be sent to SRL Shareholders setting out, amongst other things, the Merger, the Plan of Merger and notices convening the Shareholder Meeting, and the required Shareholder Resolutions |
| "Merger Implementation Agreement" | the agreement dated 31 July 2016 between Iluka, SRL and Iluka Newco and relating, among other things, to the implementation of the Acquisition  |
| "Merger Record Time"              | 6:00 p.m. London time on the Business Day immediately preceding the Closing Date  |
| "Neon"                            | Neon Liberty Capital Management LLC   |
| "Option"                          | a right to acquire SRL Shares under the SRL Share Plan  |
| "Pala"                            | Pala Investments Limited  |
| "Plan of Merger"                  | the plan of merger under section 170 of the BVI Companies Act in respect of the Merger, to be included in the Merger Circular   |
| "Registrar of Corporate Affairs"  | the Registrar of Corporate Affairs of the British Virgin Islands  |
| "Regulatory Information Service"  | a Regulatory Information Service that is approved by the Financial Conduct Authority  |

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| "Shareholder Irrevocable Undertakings" | as defined in Part II, Section 6 of this announcement   |
| "Shareholder Meeting"                  | the meeting of SRL Shareholders to be convened by the SRL Board, notice of which will be set out in the Merger Circular, to consider and if thought fit approve the Merger and the Plan of Merger (with or without amendment) including any adjournment thereof |
| "Shareholder Resolutions"              | resolutions of the SRL Shareholders to approve the Plan of Merger and other transactions contemplated by the Merger Implementation Agreement  |
| "SRL"                                  | SRL Limited, a company limited by shares incorporated in the BVI, whose registered office is at Trinity Chambers, P.O. Box 4301, Road Town Tortola, British Virgin Islands  |
| "SRL Board" or "SRL Directors"         | the board of directors of SRL and "SRL Director" means any of them  |
| "SRL Share Plan"                       | the Sierra Rutile Limited Share Option Plan (as amended)  |
| "SRL Shareholders"                     | holders of SRL Shares   |
| "SRL Shares"                           | no par value shares of SRL  |
| "UK" or "United Kingdom"               | the United Kingdom of Great Britain and Northern Ireland  |
| "United States", "US" or "U.S.A"       | the United States of America, its territories and possessions, any State of the United States of America, the District of Columbia, and all other areas subject to its jurisdiction   |
| "US Exchange Act"                      | the US Securities Exchange Act of 1934, as amended  |
| "£" or "Sterling"                      | pounds sterling, the lawful currency for the time being of the UK and references to "pence" and "p" shall be construed accordingly  |