AUDITOR'S INDEPENDENCE DECLARATION

For the year ended 31 December 2021

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Iluka Resources Limited for the year ended 31 December 2021, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit, and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Iluka Resources Limited and the entities it controlled during the period.

Helen Bathurst

Helen Bathurst
Partner
PricewaterhouseCoopers

Perth
24 February 2022

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ILUKA RESOURCES LIMITED FINANCIAL REPORT ABN 34 008 675 018

31 December 2021

ABOUT THIS REPORT

These financial statements are the consolidated financial statements of the Group consisting of Iluka Resources Limited and its subsidiaries (the Group). The financial statements are presented in Australian dollars.

Iluka Resources Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Iluka Resources Limited
Level 17
240 St Georges Terrace
Perth WA 6000

A description of the nature of the Group's operations and its principal activities is included in the operating and financial review section of the Directors' Report, which is not part of these financial statements.

The financial statements were authorised for issue by the directors on 24 February 2022. The directors have the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All ASX releases, financial reports and other relevant information are available at www.iluka.com.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

	Notes	2021 $m	2020 $m
CONTINUING OPERATIONS			
Revenue	5	**1,559.4**	990.6
Other income		**9.8**	21.2
Expenses	6	**(1,067.5)**	(799.3)
Equity accounted share of profit - Deterra	23	**18.4**	0.1
Interest and finance charges		**(6.2)**	(7.7)
Rehabilitation and mine closure provision discount unwind		**(8.9)**	(26.6)
Total finance costs	15	**(15.1)**	(34.3)
Profit before income tax		**505.0**	178.3
Income tax expense	11	**(139.1)**	(74.8)
Profit after income tax from continuing operations		**365.9**	103.5
DISCONTINUED OPERATIONS			
Profit after tax from discontinued operations	23	**-**	2,306.5
Profit for the period, attributable to:		**365.9**	2,410.0
Equity holders of Iluka Resources Limited		**364.9**	2,411.9
Non-controlling interest		**1.0**	(1.9)

	Cents	Cents
Earnings per share from continuing operations attributable to the ordinary equity holders of the parent		
Basic earnings per share	**86.7**	24.5
Diluted earnings per share	**86.0**	24.4
Earnings per share attributable to ordinary equity holders of the parent		
Basic earnings per share	**86.7**	570.4
Diluted earnings per share	**86.0**	568.0

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

	Notes	**2021 $m**	2020 $m
Profit for the period		**365.9**	2,410.0
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss			
Currency translation of foreign operations	17	**(9.2)**	6.2
Movements in foreign exchange cash flow hedges, net of tax	17	**(1.9)**	5.7
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations	17	**3.8**	(4.2)
Total other comprehensive (loss)/income for the year, net of tax		**(7.3)**	7.7
Total comprehensive income for the year, attributable to:		**358.6**	2,417.7
Equity holders of Iluka Resources Limited		**357.6**	2,419.6
Non-controlling interest	22	**1.0**	(1.9)
Total comprehensive income for the year attributable to the equity holders of the parent arises from:			
Continuing operations		**357.6**	113.1
Discontinued operations		**-**	2,306.5

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

As at 31 December 2021

	Notes	2021 $m	2020 $m
ASSETS			
Current assets			
Cash and cash equivalents	15	**294.8**	87.1
Receivables	13	**253.7**	95.5
Inventories	14	**489.7**	504.1
Derivative financial instruments	21	**-**	1.9
Total current assets		**1,038.2**	688.6
Non-current assets			
Investments accounted for using the equity method	23	**455.7**	452.1
Derivative financial instruments	21	**-**	0.6
Property, plant and equipment	9	**1,009.5**	1,066.8
Deferred tax assets	12	**39.1**	28.4
Inventories	14	**65.0**	112.0
Right of use assets	10	**28.7**	15.4
Total non-current assets		**1,598.0**	1,675.3
Total assets		**2,636.2**	2,363.9
LIABILITIES			
Current liabilities			
Payables		**174.8**	129.4
Derivative financial instruments	21	**0.5**	-
Current tax payable		**28.5**	29.3
Provisions	8	**100.1**	95.0
Lease liabilities	10	**8.7**	7.5
Total current liabilities		**312.6**	261.2
Non-current liabilities			
Interest-bearing liabilities	15	**-**	36.9
Provisions	8	**690.8**	750.5
Financial liabilities at fair value through profit or loss	22	**11.0**	7.2
Lease liabilities	10	**27.2**	15.8
Total non-current liabilities		**729.0**	810.4
Total liabilities		**1,041.6**	1,071.6
Net assets		**1,594.6**	1,292.3
EQUITY			
Contributed equity	16	**1,148.3**	1,150.5
Reserves	17	**31.0**	37.1
Retained earnings	17	**413.9**	104.3
Non-controlling interests	22	**1.4**	0.4
Total equity		**1,594.6**	1,292.3

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Notes	Attributable to owners of Iluka Resources Limited					
		Share capital $m	Other reserves $m	Retained earnings $m	Total $m	NCI[1] $m	Total equity $m
Balance at 1 January 2020		**1,157.6**	**24.0**	**(472.0)**	**709.6**	**2.0**	**711.6**
Profit for the year	17	-	-	2,411.9	2,411.9	(1.9)	2,410.0
Other comprehensive income (loss)	17	-	11.9	(4.2)	7.7	-	7.7
Total comprehensive income		**-**	**11.9**	**2,407.7**	**2,419.6**	**(1.9)**	**2,417.7**
Transfer of asset revaluation reserve		-	(0.5)	0.5	-	-	-
Transactions with owners in their capacity as owners:							
Transfer of shares to employees, net of tax		1.7	(1.7)	-	-	-	-
Share-based payments, net of tax		-	3.7	-	3.7	-	3.7
Dividends paid	18	1.2	-	(1,831.9)	(1,830.7)	-	(1,830.7)
Transactions with non-controlling interests		-	(0.3)	-	(0.3)	0.3	-
Return of capital		(10.0)	-	-	(10.0)	-	(10.0)
		(7.1)	1.7	(1,831.9)	(1,837.3)	0.3	(1,837.0)
Balance at 31 December 2020		**1,150.5**	**37.1**	**104.3**	**1,291.9**	**0.4**	**1,292.3**

	Notes	Attributable to owners of Iluka Resources Limited					
		Share capital $m	Other reserves $m	Retained earnings $m	Total $m	NCI[1] $m	Total equity $m
Balance at 1 January 2021		**1,150.5**	**37.1**	**104.3**	**1,291.9**	**0.4**	**1,292.3**
Profit for the year	17	-	-	364.9	364.9	1.0	365.9
Other comprehensive income (loss)	17	-	(11.1)	3.8	(7.3)	-	(7.3)
Total comprehensive income		**-**	**(11.1)**	**368.7**	**357.6**	**1.0**	**358.6**
Transfer of asset revaluation reserve		-	(0.1)	0.1	-	-	-
Transactions with owners in their capacity as owners:							
Transfer of shares to employees, net of tax		3.0	(3.0)	-	-	-	-
Share-based payments, net of tax		-	8.1	-	8.1	-	8.1
Purchase of treasury shares, net of tax		(9.0)	-	-	(9.0)	-	(9.0)
Dividends paid	18	3.8	-	(59.2)	(55.4)	-	(55.4)
		(2.2)	5.1	(59.2)	(56.3)	-	(56.3)
Balance at 31 December 2021		**1,148.3**	**31.0**	**413.9**	**1,593.2**	**1.4**	**1,594.6**

[1]Non-controlling interest - refer to note 22(b).

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Notes	2021 $m	2020 $m
Cash flows from operating activities			
Receipts from customers		**1,386.1**	1,043.0
Receipts/(repayments) of government assistance - JobKeeper	2	**(13.9)**	13.9
Payments to suppliers and employees		**(858.3)**	(860.2)
Operating cash flow		**513.9**	196.7
Interest received		**0.6**	0.7
Interest paid		**(1.7)**	(3.2)
Income taxes paid		**(149.9)**	(164.7)
Exploration expenditure		**(8.0)**	(10.0)
Mining Area C royalty receipts		**-**	92.2
Net cash inflow from operating activities	30	**354.9**	111.7
Cash flows from investing activities			
Payments for property, plant and equipment		**(53.6)**	(71.2)
Sale of property, plant and equipment		**2.0**	5.1
Payments for options contracts		**(0.1)**	-
Dividends received - Deterra		**14.8**	-
Net cash outflow from investing activities		**(36.9)**	(66.1)
Cash flows from financing activities			
Repayment of borrowings		**(117.2)**	(304.5)
Proceeds from borrowings		**78.2**	295.1
Purchase of treasury shares		**(11.9)**	-
Dividends paid		**(55.4)**	(32.6)
Principal element of lease payments		**(6.6)**	(9.3)
Net cash outflow from financing activities		**(112.9)**	(51.3)
Net increase/(decrease) in cash and cash equivalents		**205.1**	(5.7)
Cash and cash equivalents at 1 January		**87.1**	97.3
Effects of exchange rate changes on cash and cash equivalents		**2.6**	(4.5)
Cash and cash equivalents at end of period	15	**294.8**	87.1

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

CONTENT OF THE NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2021

Iluka Resources Limited and its subsidiaries together are referred to in this financial report as the Group.

The notes include information which is required to understand the financial statements and is material and relevant to the operations and the financial position and performance of the Iluka Group. Information is considered relevant and material if:

- The amount is significant due to its size or nature;
- The amount is important in understanding the results of the Group;
- It helps to explain the impact of significant changes in the Group's business; or
- It relates to an aspect of the Group's operations that is important to its future performance.

BASIS OF PREPARATION

This section of the financial report sets out the Group's accounting policies that relate to the financial statements as a whole. This section also sets out information related to critical accounting estimates and judgements applied to these financial statements.

1 REPORTING ENTITY

Iluka Resources Limited (Company or parent entity) is domiciled in Australia. The financial statements are for the Group consisting of Iluka Resources Limited and its subsidiaries.

2 BASIS OF PREPARATION

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. Iluka Resources Limited is a for-profit entity and is primarily involved in mineral sands exploration, project development, mining operations, processing and marketing.

The consolidated financial statements of Iluka Resources Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These financial statements have been prepared under the historical cost convention except for financial assets and liabilities which are required to be measured at fair value.

New and amended standards adopted by the Group, and their related impacts on the financial statements (if any), are detailed in note 34.

(a) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Iluka Resources Limited as at 31 December 2021 and the results of all subsidiaries for the year then ended. A list of controlled entities (subsidiaries) at year-end is contained in note 22(a).

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group.

Intercompany transactions, balances, and unrealised gains on transactions between Group companies, are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. Cost is measured as the fair value of the assets given, shares issued, or liabilities incurred or assumed at the date of exchange. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting from the date on which the investee becomes an associate. Deterra Royalties Limited is accounted for as an associate.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 7.

(iii) Employee Share Trust

The Group's Employee Share Schemes are administered through the Iluka Resources Limited Employee Share Plan Trust (the trust). This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group. Shares in the Company held by the trust are disclosed as treasury shares in the consolidated financial statements and deducted from contributed equity, net of tax.

(b) Foreign currency translation

The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

Where Group companies based in Australia transact in foreign currencies, these transactions are translated into Australian dollars using the exchange rate on that day. Foreign currency monetary assets and liabilities are translated to Australian dollars at each reporting date exchange rate. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to Australian dollars at the exchange rate when the fair value was determined. Foreign currency differences are generally recognised in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not re-translated.

The financial position of foreign operations is translated into Australian dollars at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into Australian dollars at average exchange rates each month. Foreign currency differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

(c) Government grants

The Group received $13.9 million under the Australian Government's Jobkeeper Payment scheme in the prior reporting period ended 31 December 2020. The scheme was a response by the Australian Government to assist businesses impacted by the economic effects of the COVID-19 pandemic. It subsidised employee costs of eligible nominated employees, provided the employer met certain eligibility criteria and elected to participate in the scheme.

Iluka was eligible following a significant decline in zircon demand and associated revenue in Q1 2020 and it accordingly elected to participate in the scheme. Subsequently, Iluka voluntarily decided to return amounts received in light of financial performance for the remainder of 2020. No amount was included in the income statement for the year ended 31 December 2020, and a payable of $13.9 million was reflected in the balance sheet as at that date. The full amount was repaid in the current reporting period.

(d) Rounding of amounts

The Company is of a kind referred to in Rounding Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the rounding of amounts in the financial statements. In accordance with that Rounding Instrument, amounts in the financial statements have been rounded to the nearest hundred thousand dollars, or in certain cases, the nearest thousand dollars or nearest dollar.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future in applying its accounting policies. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are found in the following notes:

	Note
Rehabilitation and mine closure provisions	8
Net realisable value and classification of product inventory	14

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and future periods affected.

The Group recognises the physical and transitional impacts of climate change may affect its assets, productivity, the markets in which it sells its products, and the jurisdictions in which it operates. The Group continues to develop its assessment of the potential impacts of climate change and the transition to a low carbon economy and, where possible, the potential financial impacts have been considered in the preparation of these financial statements.

The Group's physical and transition risk assessment process is ongoing. Changes in the Group's climate strategy or global decarbonisation initiatives may impact the Group's significant judgements and key estimates and materially impact financial results and the carrying values of certain assets and liabilities in future reporting periods.

KEY NUMBERS

4 SEGMENT INFORMATION

(a) Description of segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision-makers) in assessing performance and in determining the allocation of resources. The operating segments of the Group are:

Jacinth-Ambrosia/Mid West (JA/MW) comprises the mining operations at Jacinth-Ambrosia located in South Australia, and associated processing operations at the Narngulu mineral separation plant in mid-west Western Australia.

Cataby/South West (C/SW) comprises mining activities at Cataby and processing of ilmenite at Synthetic Rutile Kiln 2, both located in Western Australia.

Sierra Rutile (SRL) comprises the integrated mineral sands mining and processing operations in Sierra Leone.

United States/Murray Basin (US/MB) comprises rehabilitation obligations in the United States (Florida and Virginia), where mining and processing activities were substantially completed in December 2015 and certain idle assets located in Australia (Murray Basin).

The Mining Area C (MAC) segment comprised a deferred consideration iron ore royalty interest over certain mining tenements in Australia operated by BHP Group, which was demerged from the Group in the prior reporting period. The results of the previous MAC operating segment are reflected in the comparative reporting period as discontinued operations.

Cash, debt and tax balances are managed at a group level, together with exploration and other corporate activities, and are not allocated to segments.

Where finished product capable of sale to a third party is transferred between operating segments, the transfers are made at arm's length prices. Any transfers of intermediate products between operating segments are made at cost. No such transfers took place between segments during the year ended 31 December 2021 (2020: $nil).

(b) Segment information

2021	**JA/MW** $m	**C/SW** $m	**SRL** $m	**US/MB** $m	**Total** $m
Total segment sales of mineral sands	599.6	639.1	232.7	14.4	1,485.8
Total segment freight revenue	39.5	19.5	10.2	3.9	73.1
Depreciation and amortisation expense	(43.8)	(81.0)	(43.2)	(0.2)	(168.2)
Changes in rehabilitation recognised in profit or loss[1]	(9.7)	(1.0)	40.4	31.1	60.8
Total segment result[2]	331.6	237.3	16.1	32.0	617.0
Segment assets	685.5	852.2	113.3	149.1	1,800.1
Segment liabilities	323.5	315.2	121.9	177.5	938.1
Segment capital expenditure	36.7	17.5	-	7.5	61.7
Additions to non-current segment assets	36.7	66.6	-	7.5	110.8

2020	JA/MW $m	C/SW $m	SRL $m	US/MB $m	Total $m
Total segment sales of mineral sands	389.0	300.4	223.1	34.5	947.0
Total segment freight revenue	20.6	8.5	7.8	6.1	43.0
Depreciation and amortisation expense	(36.2)	(72.3)	(72.2)	(0.4)	(181.1)
Changes in rehabilitation recognised in profit or loss[1]	1.7	0.2	4.0	2.2	8.1
Total segment result[2]	242.0	116.8	(51.2)	(0.2)	307.4
Segment assets	609.6	860.2	138.7	135.7	1,744.2
Segment liabilities	270.2	284.8	139.2	255.0	949.2
Segment capital expenditure	7.7	28.4	20.9	0.8	57.8
Additions to non-current segment assets	44.6	80.0	20.9	0.8	146.3

[1]Changes in rehabilitation provisions charged or credited to profit or loss include those related to closed sites, and SRL. SRL is an open site, but is treated as closed as the carrying amount of SRL's mine development assets is fully impaired.

[2]Total segment result includes impairment charges, depreciation and amortisation expenses, and rehabilitation and holding costs for closed sites that are also separately reported above.

Mineral sands revenue is derived from sales to external customers domiciled in various geographical regions. Details of segment revenue by location of customers are as follows:

	2021 $m	2020 $m
China	**502.6**	316.7
Asia excluding China	**247.6**	211.4
Europe	**407.9**	341.6
Americas	**265.9**	76.7
Other countries	**61.8**	0.6
Sale of goods	**1,485.8**	947.0

Revenue of $265.3 million and $183.9 million was derived from two external customers of the mineral sands segments, which individually account for greater than 10% of the total segment revenue (2020: revenues of $144.1 million and $90.7 million from two external customers).

Segment result is reconciled to profit before income tax as follows:

	2021 $m	2020 $m
Segment result	**617.0**	307.4
Interest income	**0.5**	0.6
Asset sales and other income	**(0.2)**	(0.2)
Marketing and selling	**(10.8)**	(11.5)
Corporate and other costs	**(64.3)**	(54.6)
Major Projects, Engineering and Innovation	**(45.2)**	(62.3)
Depreciation	**(3.0)**	(3.4)
Interest and finance charges	**(5.3)**	(6.0)
Net foreign exchange gains	**7.6**	1.2
Equity accounted profit - Deterra	**18.4**	0.1
Gain on remeasurement of put option	**(3.4)**	19.4
Impairment - exploration assets	**(6.3)**	(12.4)
Profit before income tax from continuing operations	**505.0**	178.3

Total segment assets and total segment liabilities are reconciled to the balance sheet as follows:

Segment assets	**1,800.1**	1,744.2
Corporate assets	**46.6**	50.1
Cash and cash equivalents	**294.8**	86.9
Deferred tax assets	**39.0**	28.4
Investment in Deterra Resources Limited	**455.7**	452.1
Total assets as per the balance sheet	**2,636.2**	2,361.7

Segment liabilities	**938.1**	949.2
Corporate liabilities	**75.0**	54.0
Current tax payable	**28.5**	29.3
Interest-bearing liabilities	**-**	36.9
Total liabilities as per the balance sheet	**1,041.6**	1,069.4

5 REVENUE

	Notes	2021 $m	2020 $m
Continuing operations			
Sales revenue			
Sale of goods	5(a)	**1,485.8**	947.0
Freight revenue	5(b)	**73.1**	43.0
Other revenue			
Interest	5(c)	**0.5**	0.6
		1,559.4	**990.6**

(a) Sale of mineral sands

The Group earns revenue by mining, processing, and subsequently selling mineral sands (including zircon, rutile, synthetic rutile and ilmenite) and monazite by export to customers based in the Americas, Europe, China, the rest of Asia, and other countries under a range of commercial terms.

Revenue from the sale of product is recognised when control has been transferred to the customer, generally being when the product has been dispatched and is no longer under the physical control of the Group. In cases where control of product is transferred to the customer before dispatch takes place, revenue is recognised when the customer has formally acknowledged their legal ownership of the product, which includes all inherent risks associated with control of the product. In these cases, product is clearly identified and immediately available to the customer.

Sales to customers are generally denominated in US Dollars, which are translated into the functional currency of the Group using the spot exchange rate applicable on the transaction date. The effect of variable consideration arising from rebates, discounts and other similar arrangements with customers is included in revenue to the extent that it is highly probable that there will be no significant reversal of the cumulative amount of revenue recognised when any pricing uncertainty is resolved. Revenue is recognised net of duties and other taxes.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Accordingly, the group does not adjust transaction prices for the time value of money.

(b) Freight revenue

The Group also earns revenue from freighting its products to customers in accordance with the Incoterms in each particular sales contract. Freight revenue is recognised to the extent that the freight service has been delivered, specifically with reference to the proportion of completed freight distance to total freight distance, which is determined by the Group at each reporting date.

Freight revenue is allocated from the overall contract price at its standalone selling price (where observable) or otherwise at its estimated cost plus margin.

Freight revenue includes $0.7 million relating to contracts in place at the end of the prior year (2020: $1.5 million). Freight revenue of $3.8 million has been deferred at the end of the current year in relation to unfulfilled shipping obligations.

(c) Interest income

Interest income is recognised in profit or loss as it accrues, using the effective interest method.

6 EXPENSES

	Notes	2021 $m	2020 $m
Expenses			
Cash costs of production	6(a)	**559.1**	537.1
Depreciation/amortisation		**156.0**	178.9
Inventory movement - cash costs of production		**67.0**	(142.3)
Inventory movement - non-cash production costs		**12.6**	(39.9)
Cost of goods sold	6(b)	**794.7**	533.8
Ilmenite concentrate and by-product costs	6(c)	**20.1**	21.6
Depreciation (idle, corporate and other)		**15.2**	5.9
Restructure and idle capacity charges	6(d)	**33.4**	20.9
Rehabilitation costs for closed sites	6(e)	**(60.8)**	(7.2)
Government royalties		**38.0**	22.3
Marketing and selling costs		**107.5**	70.7
Corporate and other costs	6(f)	**64.3**	54.6
Major projects, exploration and innovation	6(g)	**45.2**	62.3
Put option remeasurement loss[1]		**3.4**	-
Net loss on disposal of property, plant and equipment		**0.2**	2.0
Impairment - exploration asset	7(b)	**6.3**	12.4
		1,067.5	799.3

(a) Cash costs of production

Cash costs of production include costs for mining and concentrating, transport of heavy mineral concentrate, mineral separation, synthetic rutile production, externally purchased ilmenite, and production overheads; but exclude Australian state and Sierra Leone government royalties which are reported separately.

(b) Cost of goods sold

Cost of goods sold is the inventory value of each tonne of finished product sold. All production is added to inventory at cost, which includes direct costs and an appropriate portion of fixed and variable overhead expenditure, including depreciation and amortisation, allocated on the basis of relative sales value. The inventory value recognised as cost of goods sold for each tonne of finished product sold is the weighted average value per tonne for the stockpile from which the product is sold.

Inventory movement represents the movement in balance sheet inventory of work in progress and finished goods, including the non-cash depreciation and amortisation components and movement in the net realisable value adjustments.

(c) Ilmenite concentrate and by-product costs

Ilmenite and by-product costs include by-product costs such as for iron concentrate processing, activated carbon, monazite treatment, and wet high intensity magnetic separation (WHIMS) ilmenite transport costs.

(d) Restructure and idle capacity charges

Idle capacity charges reflect ongoing costs incurred during periods of no or restricted production. The costs incurred in 2021 increased due to the SR2 kiln being idled in February and March to reduce inventory levels.

(e) Rehabilitation costs for closed sites

These costs relate to adjustments to the rehabilitation provision for closed sites arising from the annual review of rehabilitation programmes and estimate, and are recognised in profit or loss. Details regarding the annual review for the current reporting period, together with the applicable accounting policy details, are outlined in note 8.

(f) Corporate and other costs

Corporate and other costs reflect expenses required to operate, govern, and grow the business and operations, including employee expenses, office costs, and other overheads for finance, legal, human resources, and senior management. Also included are $24.3 million (2020: $20.5 million) of centralised support costs to serve the operations, including resource development and mine planning, procurement and logistics, information technology, human resources support, and insurance premiums.

(g) Major projects, exploration and innovation

These costs relate to activities associated with developing our resources, including exploration and mine planning.

(h) Other required disclosures

Expenses also include the following:

	2021 $m	2020 $m
Employee benefits (excluding share-based payments)	**210.5**	202.6
Share-based payments	**10.6**	4.1
Exploration expenditure	**9.3**	12.8
Operating leases	**4.5**	3.0
Inventory NRV write-downs - finished goods and WIP	**11.4**	13.0

[1]A put option remeasurement gain of $19.4 million is included in other income in the comparative period.

7 IMPAIRMENT OF ASSETS

Assets are assessed for the presence of impairment indicators whenever events or changes in circumstances suggest that their carrying amounts may not be recoverable. For the purposes of impairment indicator assessments (and, if required, impairment testing) operating assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash Generating Units - CGUs).

If an impairment indicator is found to be present for a CGU, then the Group estimates its recoverable amount and compares it to its carrying amount. The recoverable amount of each CGU is determined as the higher of value-in-use and fair value less costs of disposal (FVLCD) estimated based on the discounted present value of future cash flows (a level 3 fair value estimation method) and other adjustments. Assets that are not currently in use and not scheduled to be brought back into use (idle assets) are considered on a standalone basis. If necessary, an impairment charge is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

(a) Impairment indicator assessments

The Group assessed CGUs and assets for the presence of impairment indicators, including those which may have arisen due to the continuing global economic impact of the ongoing COVID-19 pandemic.

No impairment indicators were found to be present in respect of any CGU at 31 December 2021, however, an impairment indicator was present in respect of an exploration asset following a decision by the Group to cease related exploration activities, and expiration of applicable exploration licences. Refer to (b), below.

The Group did not note any conditions that suggest previously recognised impairments can be reversed.

(b) Impairment testing - exploration asset

The Group performed an impairment test on the exploration asset and estimated the recoverable to be $nil. Accordingly the Group wrote the carrying amount of $6.3 million down, resulting in an impairment loss of $6.3 million, included in expenses in note 6.

8 PROVISIONS

	Notes	**2021 $m**	2020 $m
Current			
Rehabilitation and mine closure	8(a)	**81.2**	77.3
Employee benefits - long service leave	8(b)	**12.0**	13.0
Workers compensation and other provisions		**6.9**	4.7
		100.1	95.0
Non-current			
Rehabilitation and mine closure	8(a)	**660.5**	720.7
Employee benefits - long service leave	8(b)	**3.7**	3.0
Retirement benefit obligations	29	**26.6**	26.8
		690.8	750.5

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that resources will be expended to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(a) Rehabilitation and mine closure

The movements in the rehabilitation and mine closure provision are set out below:

	Notes	$m
Movements in rehabilitation and mine closure provisions		
Balance at 1 January		**798.0**
Change in provisions - reassessment of provision for closed sites		**(60.8)**
Change in provisions - additions to property, plant and equipment		**49.3**
Rehabilitation and mine closure provision discount unwind	15(d)	**8.9**
Foreign exchange rate movements		**14.1**
Amounts spent during the year		**(67.8)**
Balance at 31 December		**741.7**

The Group has obligations to dismantle and remove certain items of property, plant and equipment and to restore and rehabilitate the land on which they sit.

A provision is raised for the estimated cost of performing the rehabilitation and restoration obligations existing at balance date, discounted to present value using an appropriate pre-tax discount rate.

Where the obligation is related to an item of property, plant and equipment, its cost includes the present value of the estimated costs of dismantling and removing the asset, and restoring and rehabilitating the site on which it is located. Costs that relate to obligations arising from waste created by the production process are recognised as production costs in the period in which they arise.

The increase in the provision associated with unwinding of the discount rate is recognised as a finance cost - refer to note 15(d).

Reductions in the expected rehabilitation liability that relate to closed sites are credited to profit or loss. SRL is an open site, however reductions in its expected rehabilitation liability are also credited to profit or loss since the related rehabilitation assets are fully impaired. Credits to profit or loss are reported within the expense item rehabilitation costs for closed sites in note 6.

The total rehabilitation and mine closure provision of $741.7 million (2020: $798.0 million) includes $299.8 million (2020: $375.2 million) for assets no longer in use. A reduction of $60.8 million (2020: reduction of $8.1 million) in the expected rehabilitation liability for closed sites and SRL was recognised in the current reporting period, which has accordingly been credited to profit or loss. SRL is an open site, but is treated as closed as the carrying amount of SRL's rehabilitation assets is fully impaired. The provision reduction in the current reporting period was due to agreements with regulators and landholders in the US being finalised ($39.6 million reduction), and reduced rehabilitation requirements for SRL ($39.8 million reduction), partly offset by increases in the rehabilitation for closed Australian sites ($17.9 million increase).

Open site rehabilitation liabilities increased by $49.3 million (2020: increased by $86.6 million). The increase in the current period is due to higher earthmoving rates and a larger open area (driven by the move to Ambrosia and subsequent return to Jacinth North) at Jacinth-Ambrosia ($29.7 million), and increased mining footprint at Cataby ($19.3 million) due to the progression of mining at that operation. Jacinth-Ambrosia and Cataby comprise $156.6 million and $157.8 million of the rehabilitation provision balance, respectively.

Key estimate: Rehabilitation and mine closure provisions

The Group's assessment of the present value of the rehabilitation and mine closure provisions requires the use of significant estimates and judgements, including the future cost of performing the work required, timing of the cash flows, discount rates, final remediation strategy, and future land use requirements. The provision can also be impacted prospectively by changes to legislation or regulations.

The provisions are reassessed at least annually. A change in any of the assumptions used to determine the provisions could have a material impact on the carrying value of the provision. In the case of provisions for assets which remain in use, adjustments to the provision are offset by a change in the carrying value of the related asset. Where the provisions are for assets no longer in use, such as mines and processing sites that have been closed, any adjustment is reflected directly in profit or loss.

Key estimate: Discount rate for provisions

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability to the extent they are not included in the cash flows.

Rehabilitation and mine closure provisions for Australia, the US and Sierra Rutile have been calculated by discounting risk adjusted cash flows at discount rates representing the risk-free rates of applicable government bonds for the currencies in which each respective provision is recognised. The discount rates used for Australia, the US and Sierra Rutile are unchanged from the prior reporting period.

A one percent increase in only the discount rate used to calculate rehabilitation and mine closure provisions would result in a decrease to their closing balance of $62.7 million. Of this amount, $46.2 million would be recognised as a decrease in rehabilitation assets for open sites, and $16.6 million would be recognised as a credit in profit or loss for closed or previously impaired sites.

(b) Employee benefits

The employee benefits provision relates to long service leave entitlements measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date, discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows. Liabilities for annual leave are included in payables.

The current provision represents amounts for vested long service leave for which the Group does not have an unconditional right to defer settlement, regardless of when the actual settlement is expected to occur. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

9 PROPERTY, PLANT AND EQUIPMENT

	Land & buildings $m	Plant, machinery & equipment[3] $m	Mine reserves & development[3] $m	Exploration & evaluation $m	Total $m
At 1 January 2020					
Cost	320.5	2,536.7	1,265.4	43.6	4,166.2
Accumulated depreciation[1]	(148.9)	(2,078.1)	(787.3)	(25.8)	(3,040.1)
Opening written down value	171.6	458.6	478.1	17.9	1,126.2
Additions	1.1	38.1	106.9	-	146.1
Disposals	(3.7)	(0.2)	-	(0.1)	(4.0)
Depreciation	(19.9)	(87.4)	(68.9)	-	(176.2)
Exchange differences[2]	(5.7)	(4.9)	(3.1)	0.8	(12.9)
Impairment of assets	-	-	(4.4)	(8.0)	(12.4)
Transfers	1.2	(4.8)	3.6	-	-
Closing written down value	144.6	399.4	512.2	10.6	1,066.8
At 31 December 2020					
Cost	301.1	2,450.0	1,215.8	35.0	4,001.9
Accumulated depreciation	(156.5)	(2,050.6)	(703.6)	(24.4)	(2,935.1)
Closing written down value	**144.6**	**399.4**	**512.2**	**10.6**	**1,066.8**
Year ended 31 December 2021					
Additions	0.1	51.8	58.9	-	110.8
Disposals	-	(0.4)	-	-	(0.4)
Depreciation	(10.8)	(85.5)	(69.1)	-	(165.4)
Exchange differences[2]	2.9	1.1	(0.1)	0.2	4.0
Impairment	-	-	(6.3)	-	(6.3)
Transfers	(0.2)	0.2	-	-	-
Closing written down value	**136.6**	**366.5**	**495.6**	**10.8**	**1,009.5**
At 31 December 2021					
Cost	311.8	2,482.7	1,288.9	35.5	4,118.9
Accumulated depreciation	(175.2)	(2,116.2)	(793.3)	(24.7)	(3,109.4)
Closing written down value	**136.6**	**366.5**	**495.6**	**10.8**	**1,009.5**

[1]Accumulated depreciation includes cumulative impairment charges.

[2]Exchange differences arising on translation of the gross cost and accumulated depreciation of items of property, plant and equipment held by foreign operations are reflected net.

[3]Iluka reclassified certain items of property, plant and equipment from mine reserves and development to plant, machinery and equipment. Comparatives have been restated to reflect the reclassification.

(a) Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and impairment charges. Cost includes:

- expenditure that is directly attributable to the acquisition of the items;
- direct costs associated with the commissioning of plant and equipment, including pre-commissioning costs in testing the processing plant;
- if the asset is constructed by the Group, the cost of all materials used in construction, direct labour on the project, project management costs and unavoidable borrowing costs incurred during construction of assets with a construction period greater than 12 months and an appropriate proportion of variable and fixed overheads; and
- the present value of the estimated costs of dismantling and removing the asset, and restoring and rehabilitating the site on which it is located.

As set out in note 8, in the case of rehabilitation provisions for assets which remain in use, adjustments to the carrying value of the provision are offset by a change in the carrying value of the related asset. Total additions in the year include $49.3 million (2020: $86.6 million) relating to rehabilitation.

(b) Maintenance and repairs

Certain items of plant used in the primary extraction, separation and secondary processing of extracted minerals are subject to a major overhaul on a cyclical basis. Costs incurred during such overhauls are characterised as either capital in nature or repairs and maintenance. Work performed may involve:

(i) the replacement of a discrete sub-component asset, in which case an asset addition is recognised and the book value of the replaced item is written off; and
(ii) demonstrably extending the useful life or functionality of an existing asset, in which case the relevant cost is added to the capitalised cost of the asset in question.

Costs incurred during a major cyclical overhaul which do not constitute (i) or (ii) above, are written off as repairs and maintenance as incurred. General repairs and maintenance which are not characterised as part of a major cyclical overhaul are expensed as incurred.

(c) Depreciation and amortisation

Items of property, plant and equipment are depreciated on a straight-line basis over their useful lives. The estimated useful life of buildings is the shorter of applicable mine life or 25 years; plant and equipment is between 2 and 20 years. Land is not depreciated.

Expenditure on mine reserves and development is amortised over the life of mine, based on the rate of depletion of the economically recoverable reserves (units of production methodology). If production has not yet commenced, or the mine is idle, amortisation is not charged.

(d) Assets not being depreciated

Included in plant, machinery and equipment, mine reserves and development, and land and buildings are amounts totalling $41.7 million, $10.4 million and $nil, respectively, relating to assets under construction which are currently not being depreciated as the assets are not ready for use (2020: $26.9 million, $7.9 million and $0.6 million, respectively).

In addition, within property, plant and equipment, excluding exploration and land assets, are amounts totalling $63.2 million which have not been depreciated in the year as mining of the related area of interest has not yet commenced (2020: $62.3 million).

(e) Exploration, evaluation and development expenditure

Exploration and evaluation expenditure is accumulated separately for each area of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure. Expenditure is carried forward when incurred in areas for which the Group has rights of tenure and where economic mineralisation is indicated, but activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable ore reserves, and active and significant operations in relation to the area are continuing. Each such project is regularly reviewed. If the project is abandoned or if it is considered unlikely the project will proceed to development, accumulated costs to that point are written off immediately.

Each area of interest is limited to a size related to a known mineral resource capable of supporting a mining operation. Identifiable exploration assets acquired from another mining company are recognised as assets at their cost of acquisition.

Projects are advanced to development status when it is expected that accumulated and future expenditure on development can be recouped through project development or sale. Capitalised exploration is transferred to Mine Reserves once the related ore body achieves JORC reserve status (reported in accordance with JORC, 2012) and has been included in the life of mine plan.

All of the above expenditure is carried forward up to commencement of operations at which time it is amortised in accordance with the reserves and development depreciation policy noted in (c) above.

(f) Impairment of PPE

Refer to note 7 for details on impairment testing.

10 LEASES

(a) Amounts recognised in the statement of financial position

	2021 $m	2020 $m
Right-of-use assets		
Buildings	**8.2**	9.2
Plant, machinery and equipment	**20.5**	6.2
	28.7	15.4
Lease liabilities		
Current	**8.7**	7.5
Non-current	**27.2**	15.8
	35.9	23.3

Additions to the right-of-use assets during the reporting period were $21.1 million (2020: $2.6 million). Right-of-use assets are reflected net of incentives received. The maturity analysis of lease liabilities is included in note 20(d).

(b) Amounts recognised in the statement of profit or loss

	2021 $m	2020 $m
Amortisation charge of right-of-use assets		
Buildings	**1.0**	1.3
Plant, machinery and equipment	**5.2**	7.5
	6.2	8.8
Borrowing costs	**0.9**	1.3
Expense relating to short term leases, low value leases and leases with variable payments	**4.5**	3.0

Payments for the principal element of leases of $6.6 million (2020: $9.3 million) are included in the statement of cash flows.

The group leases various offices, warehouses, equipment and vehicles. Rental contracts are typically made for fixed periods of 6 months to 10 years, but may have extension options as described below.

Contracts may contain both lease and non-lease components. The group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Lease liabilities

Liabilities arising from a lease are initially measured on a present value basis by discounting the following lease payments to their present value:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the group under residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. The weighted average borrowing rate used for the year was 3.1% (2020: 4.9%).

Subsequent to initial recognition, lease liabilities are carried at amortised cost. Payments are allocated between repayment of principal and borrowing costs, which are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets

Right-of-use assets are initially recognised at cost, comprising:
- The amount of the lease liability
- Any lease payments made at or before the commencement date, less any incentives received
- Initial direct costs, and
- Restoration costs.

Subsequently, right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Where the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Short term leases, leases of low value assets and leases containing variable payments

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

11 INCOME TAX

Income tax expense comprises current and deferred tax and is recognised in profit or loss, as disclosed in (a) below, except to the extent that it relates to items recognised directly in equity or other comprehensive income as disclosed in (c) below.

(a) Income tax expense

	Notes	2021 $m	2020 $m
Current tax		**146.6**	98.4
Deferred tax		**(5.4)**	(3.1)
(Over)/under provided in prior years		**(2.1)**	0.2
		139.1	95.5
Income tax expense is attributable to:			
Profit from continuing operations		**139.1**	74.8
Profit from discontinued operation		**-**	20.7
Aggregate income tax expense		**139.1**	95.5

(b) Reconciliation of income tax expense to prima facie tax payable

Profit from continuing operations before income tax expense	**505.0**	178.3
Profit from discontinued operations before income tax expense	**-**	2,327.2
	505.0	**2,505.5**
Tax at the Australian tax rate of 30% (2020: 30%)	**151.5**	751.7

Tax effect of amounts not deductible (taxable) in calculating taxable income:		
Equity accounted share of profit - Deterra	**(5.4)**	-
Non-assessable income	**(23.6)**	(8.0)
SRL minimum tax[1]	**5.4**	27.0
Non-deductible expenses	**3.7**	6.1
Other items	**0.5**	4.1
Research and development credit	**-**	(3.2)
Recognition of historical alternative minimum tax (AMT) credits	**-**	(4.5)
Losses not recognised by overseas operations	**10.0**	3.0
Demerger gain	**-**	(680.7)
	142.1	**95.5**
Difference in overseas tax rates	**(0.9)**	(0.2)
(Over)/under provision in prior years	**(2.1)**	0.2
Income tax expense	**139.1**	**95.5**

[1] The SRL minimum tax was 3.5% of revenue until 1 August 2021, when it was reduced to 0.5% of revenue.

No tax benefits have been recognised in respect of exploration activities of overseas operations as their recovery is not currently considered probable.

The idling of the US operations at the end of 2015 means that the recovery of US state tax losses are not considered probable. Unrecognised US state tax losses for which no deferred tax asset has been recognised are US$251.0 million (equivalent to $346.3 million) at 31 December 2021 (2020: US$237.1 million, equivalent to $308.3 million).

Unused capital losses for which no deferred tax asset has been recognised are approximately $80.5 million (2020: $79.4 million) (tax at the Australian rate of 30%: $24.1 million (2020: $23.8 million)). The benefit of these unused capital losses will only be obtained if sufficient future capital gains are made and the losses remain available under tax legislation.

The write-down of Sierra Rutile Limited in 2019 means that the recovery of Sierra Leone tax losses are not considered probable. Unrecognised Sierra Leone tax losses for which no deferred tax asset has been recognised are US$509.7 million at 31 December 2021 (31 December 2020: US$502.3 million).

(c) Tax expense relating to items of other comprehensive income

	2021 $m	2020 $m
Changes in fair value of foreign exchange cash flow hedges	**0.6**	(2.6)
Actuarial gains (losses) on retirement benefit obligation	**(1.1)**	(1.8)
	(0.5)	(4.4)

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. The current tax charge is calculated using the tax rates and tax laws enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2021

12 DEFERRED TAX

	2021 $m	2020 $m
Deferred tax asset:		
The balance comprises temporary differences attributable to:		
Employee provisions	**8.2**	8.1
Provisions	**178.4**	166.3
Lease liabilities	**10.7**	7.0
Other	**5.7**	10.2
Gross deferred tax assets	**203.0**	191.6
Amount offset from deferred tax liabilities pursuant to set-off provision	**(163.9)**	(163.2)
Net deferred tax assets	**39.1**	28.4
Deferred tax liability:		
The balance comprises temporary differences attributable to:		
Property, plant and equipment	**(134.5)**	(138.7)
Inventory	**(15.3)**	(17.3)
Treasury shares	**(3.1)**	(0.5)
Right-of-use assets	**(10.3)**	(6.5)
Receivables	**(0.3)**	(0.2)
Other	**(0.4)**	-
Gross deferred tax liabilities	**(163.9)**	(163.2)
Amount offset to deferred tax assets pursuant to set-off provision	**163.9**	163.2
Net deferred tax liabilities	**-**	-
Movements in net deferred tax balance:		
Balance at 1 January	**28.4**	22.1
Credited to the income statement	**5.4**	5.9
Over provision in prior years	**1.0**	7.4
Charged directly to equity	**4.4**	(2.6)
Transfers	**(0.1)**	(4.4)
Balance at 31 December	**39.1**	28.4

Deferred tax policy

Deferred income tax is provided on all temporary differences at the balance sheet date between accounting carrying amounts and the tax bases of assets and liabilities.

Deferred income tax liabilities are recognised for all taxable temporary differences, other than for the exemptions permitted under accounting standards.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent it is probable that taxable profit will be available to utilise these deductible temporary differences, other than for the exemptions permitted under accounting standards. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are also recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Deferred tax recognised

As at 31 December 2021, there were no carried forward tax losses recognised by SRL (2020: $nil million).

13 RECEIVABLES

	2021 $m	2020 $m
Trade receivables	**213.8**	55.0
Other receivables	**16.5**	26.6
Prepayments	**23.4**	13.9
	253.7	95.5

Trade receivables are recognised initially at the value of the invoice sent to the customer and subsequently at the amount considered recoverable, translated using the spot exchange rate at balance date with translation differences accounted for in line with the Group's accounting policy (refer note 2). Recognition occurs at the earlier of dispatch or formal acknowledgement of legal ownership by a customer, as this is the point in time that the consideration is unconditional because only the passage of time is required before payment is due. Trade receivables are generally due within 47 days of the invoice being issued (2020: 43 days).

The Group has applied the simplified approach to measuring expected credit losses (ECL), which uses a lifetime expected loss allowance for all trade receivables. Based on the payment profiles of sales over the past three years and historical credit losses experienced within this period, the Group concluded that the lifetime ECL would be negligible and therefore no loss allowance was required at 31 December 2021 (2020: nil). The amount of any impairment loss is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income within other expenses.

Trade receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 120 days past due. Impairment losses on trade receivables and subsequent recoveries of amounts previously written off are recognised within other expenses.

There was $3.4 million overdue at balance date (2020: $6.6 million), of which $nil million is less than 28 days overdue (2020: $0.5 million). Due to the short-term nature of the Group’s receivables, their carrying value is considered to approximate fair value.

(a) Trade receivables purchase facility

Iluka has a purchase facility for the sale of eligible trade receivables. Trade receivables sold using the facility were previously covered by an insurance policy, the terms of which (when taken together with the terms applicable to the facility) resulted in them being derecognised by the Group, since the majority of the significant risks and rewards of ownership had transferred to the purchaser, including credit risk. Iluka’s balance sheet included a continuing involvement asset of $12.0 million in other receivables (and a corresponding continuing involvement liability was reflected in payables for the same amount), comprising the maximum first loss specified under the facility and deductible amounts under the insurance policy.

Iluka elected not to renew the insurance policy during the current reporting period, and accordingly does not derecognise trade receivables sold using the facility as the majority of the risks and rewards of ownership, including credit risk, are retained by the Group.

Trade receivables include $18.9 million of sold trade receivables at the reporting date. A corresponding liability is included under payables for the same amount, representing the Group's risk associated with sold trade receivables.

(b) Credit risk

At 31 December 2021 the trade receivables balance was $213.8 million, with $30.3 million by letters of credit. As a result, the Group had $183.5 million of uninsured receivables at the reporting date (2020: $nil). Further details regarding the Group's approach to managing customer credit risk are outlined in note 20(b).

14 INVENTORIES

	2021 $m	2020 $m
Current		
Work in progress	**224.6**	156.6
Finished goods	**220.9**	312.6
Consumable stores	**44.2**	34.9
Total current inventories	**489.7**	504.1
Non-current		
Work in progress	**65.0**	112.0
Total non-current inventories	**65.0**	112.0
Total inventories	**554.7**	**616.1**

Inventories are valued at the lower of weighted average cost and estimated net realisable value. The net realisable value is the estimated selling price in the normal course of business, less any anticipated costs of completion and the estimated costs to sell, including royalties.

There are separate inventory stockpile values for each product, including Heavy Mineral Concentrate (HMC) and other intermediate products, at each inventory location.

Weighted average cost includes direct costs and an appropriate portion of fixed and variable overhead expenditure, including depreciation and amortisation. As a result of mineral sands being co-products from the same mineral separation process, costs are allocated to inventory on the basis of the relative sales value of the finished goods produced. No cost is attributed to by-products, except direct costs.

Finished goods inventory of $36.1 million (2020: $34.4 million) is carried at net realisable value, with all other product inventory carried at cost.

Consumable stores include ilmenite acquired from third parties, flocculant, coal, diesel and warehouse stores. A regular and ongoing review is undertaken to establish the extent of surplus, obsolete or damaged stores, which are then valued at estimated net realisable value.

Inventories expected to be sold (or consumed in the case of stores) within 12 months after the balance sheet date are classified as current assets; all other inventories are classified as non-current assets.

Key estimate: Net realisable value and classification of product inventory

The Group's assessment of the net realisable value and classification of its inventory holdings requires the use of estimates, including the estimation of the relevant future product price and the likely timing of the sale of the inventory.

During the year, inventory write-downs of $11.4 million occurred for work in progress or finished goods (2020: $13.0 million). If finished goods future selling prices were 5% lower than expected, an inventory write-down of $1.6 million would be required at 31 December 2021 (2020: $1.5 million).

Inventory of $65.0 million (2020: $112.0 million) was classified as non-current as it is not expected to be sold within 12 months of the balance sheet date.

CAPITAL

15 NET CASH AND FINANCE COSTS

	2021 $m	2020 $m
Cash and cash equivalents		
Cash at bank and in hand	**92.6**	87.1
Deposits at call	**202.2**	-
Total cash and cash equivalents	**294.8**	87.1
Non-current interest-bearing liabilities (unsecured)		
Multi Optional Facility Agreement	**-**	(38.0)
Deferred borrowing costs	**-**	1.1
Total interest-bearing liabilities	**-**	(36.9)
Net cash	**294.8**	**50.2**

(a) Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at call with financial institutions with original maturities of three months or less.

Cash and deposits are at floating interest rates between 0.1% and 3.3% (2020: 0.0% and 3.0%) on Australian and foreign currency denominated deposits.

(b) Interest-bearing liabilities

Interest-bearing liabilities are initially recognised at fair value less directly attributable transaction costs, with subsequent measurement at amortised cost using the effective interest rate method. Under the amortised cost method the difference between the amount initially recognised and the redemption amount is recognised in profit or loss over the period of the borrowings on an effective interest basis.

Interest-bearing liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

(i) Multi Optional Facility Agreement

The Multi Optional Facility Agreement (MOFA) comprises a series of unsecured committed five year bilateral revolving credit facilities with several domestic and foreign institutions, totalling A$512.0 million (2020: A$500.1 million). The facilities are denominated in both AUD and USD.

The table below details the facility expiries:

A$million	Total facility	Facility Expiry 2022	2023	2024	2025	2026
At 31 December 2021	**512.0**	**-**	**-**	**512.0**	**-**	**-**
At 31 December 2020	500.1	-	-	500.1	-	-

Undrawn MOFA facilities at 31 December 2021 were A$512.0 million (2020: A$462.1 million).

(c) Interest rate exposure

No amount was drawn down on the facility at 31 December 2021 (2020: $38.0 million was subject to an effective weighted average floating interest rate of 1.5%). The contractual repricing date of all floating rate interest-bearing liabilities at the balance date is within one year.

(d) Finance costs

	2021 $m	2020 $m
Interest charges on interest-bearing liabilities	**0.8**	1.9
Bank fees and similar charges	**3.8**	3.9
Amortisation of deferred borrowing costs	**0.7**	0.6
Lease borrowing costs	**0.9**	1.3
Rehabilitation and mine closure provision discount unwind	**8.9**	14.4
Rehabilitation provision discount rate changes	**-**	12.2
Total finance costs	**15.1**	34.3

(i) Amortisation of deferred borrowing costs

Fees paid on establishment of borrowing facilities are recognised as transaction costs and amortised over the period until the next expected facility extension.

(ii) Rehabilitation and mine closure provision discount unwind

Rehabilitation and mine closure unwind represents the cost associated with the passage of time. Rehabilitation provisions are recognised as the discounted value of the present obligation to restore, dismantle and rehabilitate with the increase in the provision due to passage of time being recognised as a finance cost in accordance with the policy described in note 8(a).

(iii) Rehabilitation provision discount rate changes

Any change in the discount rate for closed sites is recorded as a finance cost. In the prior reporting period, Iluka re-set the risk free discount rates used in calculating rehabilitation provisions in the US and Sierra Leone due to the continuing decline in applicable US Treasury Bond Rates. The 5- and 10-year US Treasury Bond Rates are used as a proxy for risk-free discount rates.

16 CONTRIBUTED EQUITY

	2021 Shares	2020 Shares	2021 $m	2020 $m
Balance on 1 January, comprising				
Ordinary shares - fully paid	**422,769,681**	422,584,778	**1,151.7**	1,160.4
Treasury shares - net of tax	**(199,929)**	(470,456)	**(1.2)**	(2.8)
	422,569,752	422,114,322	**1,150.5**	1,157.6
Movements in ordinary share capital				
2021 Interim Dividend - DRP	**351,254**	-	**3.3**	-
2020 Final Dividend - DRP	**81,407**	-	**0.5**	-
2019 Final Dividend - DRP	**-**	184,903	**-**	1.2
Redemption of capital - Deterra Demerger	**-**	-	**-**	(10.0)
Movements in treasury shares, net of tax				
Employee share issues	**572,970**	270,527	**3.0**	1.7
Treasury share purchases	**(1,584,193)**	-	**(9.0)**	-
Balance on 31 December, comprising	**421,991,190**	**422,569,752**	**1,148.3**	**1,150.5**
Ordinary shares - fully paid	**423,202,342**	422,769,681	**1,155.5**	1,151.7
Treasury shares - net of tax	**(1,211,152)**	(199,929)	**(7.2)**	(1.2)

(a) Ordinary share capital

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands, every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll each share is entitled to one vote. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

The Group issues ordinary shares to shareholders who elect to receive shares instead of cash dividends as part of the Dividend Reinvestment Plan (DRP), the terms of which are detailed in the ASX announcement dated 27 February 2018. During the year, the Group issued the following shares under the DRP:

	Date issued	Price per share	Number of ordinary shares issued
2020 final	8 April 2021	6.77	81,407
2021 interim	6 October 2021	9.66	351,254

(b) Treasury shares

Treasury shares are shares in Iluka Resources Limited acquired on market and held for the purpose of issuing shares under the Directors, Executives and Employees Share Acquisition Plan and the Employee Share Plan.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2021

17 RESERVES AND RETAINED EARNINGS

	Notes	2021 $m	2020 $m
Asset revaluation reserve			
Balance at 1 January		**10.8**	11.3
Transfer to retained earnings on disposal		**(0.1)**	(0.5)
Balance at 31 December	17(a)	**10.7**	10.8
Hedge reserve			
Balance at 1 January		**0.9**	(4.8)
Changes in the fair value of hedging instruments recognised in equity		**(5.0)**	0.7
Reclassified to profit or loss		**2.4**	7.8
Deferred tax		**0.7**	(2.8)
Balance 31 December	17(b)	**(1.0)**	0.9
Share-based payments reserve			
Balance at 1 January		**2.2**	0.2
Share-based payments, net of tax		**8.1**	3.7
Transfer of shares to employees, net of tax		**(3.0)**	(1.7)
Balance at 31 December	17(c)	**7.3**	2.2
Foreign currency translation			
Balance at 1 January		**45.3**	39.1
Currency translation of US operation		**(9.2)**	14.9
Currency translation of SRL		**(1.8)**	(0.2)
Translation differences on other foreign operations		**1.9**	(8.5)
Balance at 31 December	17(d)	**36.2**	45.3
Other reserves			
Balance at 1 January		**(22.1)**	(21.8)
(Loss)/gain on part disposal of investment in subsidiary		**-**	(0.3)
Balance at 31 December	17(e)	**(22.1)**	(22.1)
Total reserves		**31.1**	37.1
Retained earnings			
Balance at 1 January		**104.3**	(472.0)
Net profit/(loss) for the period		**364.9**	2,411.9
Dividends paid		**(59.2)**	(1,831.9)
Transfer from asset revaluation reserve		**0.1**	0.5
Actuarial gains (losses) on retirement benefit obligation, net of tax		**3.8**	(4.2)
Balance at 31 December		**413.9**	104.3

(a) Asset revaluation reserve

The asset revaluation reserve records revaluations of non-current assets prior to the adoption of AIFRS. Transfers are made to retained earnings on disposal of previously revalued assets.

(b) Hedge reserve

Iluka uses foreign currency collars as part of its foreign currency risk management strategy associated with its US dollar denominated sales, as described in note 21. The foreign currency collars are designated to cash flow hedge relationships. To the extent these hedges are effective, the change in fair value of the hedging instrument is recognised in the cash flow hedge reserve.

(c) Share-based payments reserve

The employee share-based payments reserve is used to recognise the fair value of equity instruments granted but not yet issued to employees under the Group's various equity-based incentive schemes. Shares issued to employees are acquired on-market prior to the issue. Shares not yet issued to employees are shown as treasury shares. When shares are issued to employees the cost of the on-market acquisition, net of tax, is transferred from treasury shares (refer note 16) to the share-based payment reserve.

(d) Foreign currency translation reserve

Exchange differences arising on translation of the net investment in foreign operations, including US dollar denominated debt used as a hedge of the net investment, are taken into the foreign currency translation reserve net of applicable income tax, as described in note 2(b). Both US and Sierra Rutile operations had net liabilities at 31 December 2021 and 31 December 2020 and were not designated as a net investment hedge against USD dollar denominated debt. The reserve is recognised in profit or loss when the net investment is disposed of.

(e) Other reserves

The impact on equity of transactions related to changes in the structure of the Group are accumulated in other reserves. No such changes occurred in the current reporting period (2020: the Group reduced its shareholding in Sierra Rutile from 96.43% to 90%, and recognised a loss on partial disposal of its investment in Sierra Rutile of $0.3 million).

18 DIVIDENDS

	2021 $m	2020 $m
Final dividend		
for 2019 of 8 cents per share, fully franked	**-**	33.8
for 2020 of 2 cents per share, fully franked	**8.6**	-
Interim dividend		
for 2021 of 12 cents per share, fully franked	**50.6**	-
Distributions		
Demerger dividend	**-**	1,798.1
Total dividends	**59.2**	1,831.9

Of the total $50.6 million interim dividend declared for 2021 and the total $8.6 million final dividend declared for 2020, shareholders respectively took up $3.3 million and $0.5 million as ordinary shares as part of the Dividend Reinvestment Plan. Refer to note 16(a).

Since balance date the directors have determined a final dividend for 2021 of 12 cents per share, fully franked. The dividend is payable on 7 April 2022 for shareholders on the register as at 10 March 2022. The aggregate amount of the proposed dividend is $50.6 million, which has not been included in provisions at balance sheet date as it was not declared on or before the end of the financial year.

Franking credits

The balance of franking credits available as at 31 December 2021 is $406.6 million (2020: $281.0 million). This balance is based on a tax rate of 30% (2020: 30%).

19 EARNINGS PER SHARE

Basic earnings per share	**2021 Cents**	2020 Cents
From continuing operations	**86.7**	24.5
From discontinued operations	**-**	545.9
Total basic earnings per share	**86.7**	570.4

Diluted earnings per share	**2021 Cents**	2020 Cents
From continuing operations	**86.0**	24.4
From discontinued operations	**-**	543.6
Total diluted earnings per share	**86.0**	568.0

Total earnings per share (EPS) is the amount of post-tax earnings attributable to each share. Total basic and diluted EPS comprises EPS from continuing operations and discontinued operations. Discontinued operations represent the earnings associated with the demerger of Deterra in the prior reporting period.

Total basic EPS is calculated on the profit for the period of $365.9 million (2020: profit of $2,410.0 million) divided by the weighted average number of shares on issue during the year, excluding treasury shares, being 422,267,055 shares (2020: 422,478,404 shares).

Total diluted EPS takes into account the dilutive effect of all outstanding share rights vesting as ordinary shares.

RISK

20 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Financial risk management is managed by a central treasury department under policies approved by the Board.

(a) Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates and interest rates will affect the Group's income or value of its holdings of financial instruments.

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising predominantly from the US dollar, which is the currency the Group's sales are generally denominated in.

Foreign exchange risk is also managed through entering into forward foreign exchange contracts and collar contracts detailed in note 21.

The treasury function of the Group manages foreign currency risk centrally. The Group hedges foreign exchange exposures for firm commitments relating to a portion of sales, where the hedging instrument must be in the same currency as the hedged item.

The Group's exposure to USD foreign currency risk (by entities which have an Australian dollar functional currency) at the end of the reporting period, expressed in Australian dollars, was as follows:

	2021 $m	2020 $m
Cash and cash equivalents	**6.3**	26.8
Receivables	**189.3**	33.0
Payables	**(51.4)**	(25.4)
Interest-bearing liabilities	**-**	(13.0)
Derivative financial instruments	**(11.6)**	(4.7)
	132.6	16.7

The Group's balance sheet exposure to other foreign currency risk is not significant.

The objective of Iluka's policy on foreign exchange hedging is to protect the Group from adverse currency fluctuations.

(ii) Group sensitivity

The average US dollar exchange rate during the year was 0.7515 (2020: 0.6907). The US dollar spot rate at 31 December 2021 was 0.7248 (31 December 2020: 0.7690). Based on the Group's net financial assets at 31 December 2021, the following table demonstrates the estimated sensitivity to a -/+ 10% movement in the US dollar spot exchange rate, with all other variables held constant, on the Group's post-tax profit for the year and equity:

	-10% Strengthen		+10% Weaken	
	Profit (loss) $m	Equity $m	Profit (loss) $m	Equity $m
31 December 2021	**10.4**	**4.9**	**(8.4)**	**(3.3)**
31 December 2020	5.2	7.7	7.0	(6.5)

(iii) Interest rate risk

Interest rate risk arises from the Group’s borrowings and cash deposits. During 2021 and 2020, the Group's borrowings at variable rates were denominated in Australian dollars and US dollars. At 31 December 2021, if variable interest rates for the full year were -/+ 1% from the year-end rate with all other variables held constant, pre-tax profit for the year would have moved as per the table below.

	-1% $m	+1% $m
31 December 2021	**0.3**	**(0.3)**
31 December 2020	0.4	(0.4)

The sensitivity is calculated using the average month end debt position for the year ended 31 December 2021. The interest charges in note 15(d) of $0.8 million (2020: $1.9 million) reflect interest-bearing liabilities in 2021 that range between $nil and $60.5 million (2020: $1.3 million and $159.7 million).

(b) Credit risk

Credit risk arises from cash and cash equivalents and hedging instruments held with financial institutions, as well as credit exposure to customers.

The Group's policy is to ensure that cash deposits are held by financial institutions with a minimum A-/A3 credit rating. Exposure limits are approved by the Board based on credit ratings from external ratings agencies.

Derivative counterparties and cash transactions are limited to high credit quality financial institutions and policies limit the amount of credit exposure to any one financial institution.

The Group manages customer credit risk subject to established policies, procedures and controls. Credit limits are established for all customers. The Group trades primarily with recognised, creditworthy third parties. Customers who wish to trade on credit terms are subject to credit verification procedures, including an assessment of their independent credit rating (if available), financial position, past experience, and industry reputation.

Credit risk management practices include reviews of trade receivables aging by days past due, the timely follow-up of past due amounts, and the use of letters of credit.

The expected credit loss on trade receivables is not significant.

(c) Liquidity risk

Liquidity risk is the risk the Group will not be able to meet its financial obligations as they fall due. Liquidity risk management involves maintaining sufficient cash on hand or undrawn credit facilities to meet the operating requirements of the business. This is managed through committed undrawn facilities under the MOFA (refer note 15(b)(i)) of $512.0 million at balance date as well as cash and cash equivalents of $294.8 million and prudent cash flow management.

(d) Maturities of financial liabilities

The tables below analyse the Group's interest-bearing liabilities into maturity groupings based on the remaining period at the reporting date to the contractual maturity date. For the MOFA, the contractual maturity dates and contractual cash flows are until the next contractual re-pricing date in 2024. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. All other non-derivative financial liabilities are due within 12 months. Derivative cash flows include the net amounts expected to be paid for foreign exchange forward contracts and net amounts expected to be received for foreign exchange collar contracts.

At 31 December 2021	Weighted average rate %	Less than 1 year $m	Between 1 and 2 years $m	Between 2 and 5 years $m	Over 5 years $m	Total contractual cash flows $m	Carrying amount liabilities $m
Non-derivatives							
Payables		174.8	-	-	-	174.8	174.8
Lease liabilities	3.1	8.7	8.1	14.1	5.0	40.8	35.9
Interest-bearing variable rate	1.5	-	-	-	-	-	-
Total non-derivatives		183.5	8.1	14.1	5.0	215.6	210.7
Derivatives							
Foreign exchange collar contracts		0.5	-	-	-	0.5	0.5
Put option		11.0	-	-	-	11.0	11.0
Total derivatives		11.5	-	-	-	11.5	11.5

At 31 December 2020	Weighted average rate	Less than 1 year $m	Between 1 and 2 years $m	Between 2 and 5 years $m	Over 5 years	Total contractual cash flows $m	Carrying amount liabilities $m
Non-derivatives							
Payables		129.4	-	-	-	129.4	129.4
Lease liabilities	4.9	7.5	3.9	7.8	9.3	28.5	23.3
Interest-bearing variable rate	1.5	-	-	38.0	-	38.0	38.0
Total non-derivatives		136.9	3.9	45.8	9.3	195.9	190.7
Derivatives							
Foreign exchange collar contracts		(1.9)	(0.6)	-	-	(2.5)	(2.5)
Put option		-	7.7	-	-	7.7	7.2
Total derivatives		(1.9)	7.1	-	-	5.2	4.7

Refer to note 21 for detail on derivative instruments.

21 HEDGING

	2021 $m	2020 $m
Current (liabilities)/assets		
Foreign exchange collar hedges	**(0.5)**	1.9
Non-current assets		
Foreign exchange collar hedges	**-**	0.6

The Group is exposed to risk from movements in foreign exchange in relation to its forecast US dollar denominated sales and as part of the risk management strategy has entered into foreign exchange forward contracts and foreign exchange collar contracts.

(a) Recognition

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged and the type of hedge relationship designated.

(b) Fair value of derivatives

Derivative financial instruments are the only assets and liabilities measured and recognised at fair value at 31 December 2021 and 31 December 2020, comprising the above hedging instruments and the put option liability detailed in note 22(b)(ii). The fair value of hedging instruments is determined using valuation techniques with inputs that are observable market data (a level 2 measurement). The valuation of the options making up the collars is determined using forward foreign exchange rates, volatilities and interest rates at the balance date. The only unobservable input used in the calculations is the credit default rate, movements in which would not have a material effect on the valuation.

(c) Hedge accounting

At the start of a hedge relationship, the Group formally designates and documents the hedge relationship, including the risk management strategy for undertaking the hedge. This includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness. Hedge accounting is only applied where effective tests are met on a prospective basis.

Iluka will discontinue hedge accounting prospectively only when the hedging relationship, or part of the hedging relationship, no longer qualifies for hedge accounting. This includes where there has been a change to the risk management objective and strategy for undertaking the hedge and instances when the hedging instrument expires or is sold, terminated or exercised. The replacement or rollover of a hedging instrument into another hedging instrument is not treated as an expiration or termination if such a replacement or rollover is consistent with our documented risk management objective.

The foreign exchange collars Iluka holds are classified as cash flow hedges. Hedges are classified as cash flow hedges when they hedge a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions.

Cash flow hedges

For cash flow hedges, the portion of the gain or loss on the hedging instrument that is effective is recognised directly in equity, while the ineffective portion is recognised in profit or loss. The ineffective portion was immaterial in the current and prior periods. The maturity profile of these hedges is shown in note 20(d). The recognition of the future gain or loss is expected to be consistent with this timing.

Foreign exchange collar contracts in relation to expected USD revenue, predominantly from contracted sales to 31 December 2022, remain open at the reporting date. The foreign exchange collar hedges cover US$102.3 million of expected USD revenue to 31 December 2022 and comprise US$102.3 million worth of purchased AUD call options with a weighted average strike price of 80.0 cents and US$102.3 million of AUD put options with a weighted average strike price of 65.9 cents.

The period above corresponds with the long-term sales contracts entered into in 2017 including those in support of the development of the Cataby project. However, the hedged USD revenues do not represent the full value of expected sales under these contracts over this period.

US$105.5 million in foreign exchange collar contracts consisting of US$105.5 million of bought AUD call options with weighted average strike prices of 78.6 cents and US$105.5 million of sold AUD put options with weighted average strike prices of 70.4 cents matured during the year. Additionally, US$24.6 million of bought AUD call options with a weighted average strike price of 80.0 cents and US$69.7 million of foreign exchange forward contracts with a weighted average rate of 77.2 cents matured during the year.

Amounts recognised in equity are transferred to the income statement when the hedged sale occurs or when the hedging instrument is exercised.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or roll over, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs.

Net investment hedge

To the extent possible, the Group designates US denominated debt as a hedge against the Group's net investment in Sierra Leone, which has a US dollar functional currency. Sierra Rutile operations had net liabilities at 31 December 2021 and 2020, and were therefore not designated as a net investment hedge against USD dollar denominated debt. No amounts in respect of the Group's net investment hedge were recognised in the foreign currency translation reserve during the current or prior reporting period.

GROUP STRUCTURE

22 CONTROLLED ENTITIES AND DEED OF CROSS GUARANTEE

(a) Subsidiaries

The consolidated financial statements incorporate the following subsidiaries:

	Note	Place of business/ country of incorporation	Ownership interest held by the group 2021 %	2020 %
Iluka Resources Limited (Parent Company)	*	**Australia**		
Ashton Coal Interests Pty Limited		Australia	**96**	96
Associated Minerals Consolidated Ltd	*	Australia	**100**	100
Basin Minerals Holdings Pty Ltd	*	Australia	**100**	100
Basin Minerals Limited	*	Australia	**100**	100
Basin Properties Pty Ltd	*	Australia	**100**	100
Glendell Coal Ltd	*	Australia	**100**	100
Gold Fields Asia Ltd	*	Australia	**100**	100
Ilmenite Proprietary Limited	*	Australia	**100**	100
Iluka (Eucla Basin) Pty Ltd	*	Australia	**100**	100
Iluka Consolidated Pty Limited	*	Australia	**100**	100
Iluka Corporation Limited	*	Australia	**100**	100
Iluka Eneabba Pty Ltd	^	Australia	**100**	-
Iluka Exploration Pty Limited	*	Australia	**100**	100
Iluka Finance Limited	*	Australia	**100**	100
Iluka International (Brazil) Pty Ltd	*	Australia	**100**	100
Iluka International (China) Pty Ltd	*	Australia	**100**	100
Iluka International (ERO) Pty Ltd	*	Australia	**100**	100
Iluka International (Lanka) Pty Ltd	*	Australia	**100**	100
Iluka International (Netherlands) Pty Ltd	*	Australia	**100**	100
Iluka International (South Africa) Pty Ltd	*	Australia	**100**	100
Iluka International (West Africa) Pty Ltd	*	Australia	**100**	100
Iluka International Limited	*	Australia	**100**	100
Iluka Midwest Limited	*	Australia	**100**	100
Iluka Rare Earths Pty Ltd	^	Australia	**100**	-
Iluka RE Investments Pty Ltd	^	Australia	**100**	-
Iluka Royalties (Australia) Pty Ltd	*	Australia	**100**	100
Iluka Share Plan Holdings Pty Ltd	*	Australia	**100**	100
Lion Properties Pty Limited	*	Australia	**100**	100
NGG Holdings Ltd	*	Australia	**100**	100
Renison Limited	*	Australia	**100**	100
Southwest Properties Pty Ltd	*	Australia	**100**	100
Swansands Pty Ltd	*	Australia	**100**	100
The Mount Lyell Mining and Railway Company Limited	*	Australia	**100**	100
The Nardell Colliery Pty Ltd	*	Australia	**100**	100
Western Mineral Sands Proprietary Limited	*	Australia	**100**	100
Western Titanium Limited	*	Australia	**100**	100
Westlime (WA) Limited	*	Australia	**100**	100
Yoganup Pty Ltd	*	Australia	**100**	100
A.C.N. 637 824 027 Limited		Australia	**-**	100
Iluka Brasil Mineração Ltda		Brazil	**100**	100
Iluka Investments (BVI) Limited		British Virgin Islands	**90**	90

	Note	Place of business/ country of incorporation	Ownership interest held by the group 2021 %	2020 %
Sierra Rutile Holdings Limited		British Virgin Islands	**90**	90
SRL Acquisition No. 3 Limited		British Virgin Islands	**90**	90
Iluka Exploration (Canada) Limited		Canada	**100**	100
Iluka Trading (Shanghai) Co., Ltd		China	**100**	100
Iluka Exploration (Kazakhstan) LLP		Kazakhstan	**-**	100
Sierra Rutile Limited		Sierra Leone	**90**	90
Iluka International (Eurasia) Pte. Ltd		Singapore	**100**	100
Iluka South Africa (Pty) Limited		South Africa	**100**	100
Iluka Lanka P.Q. (Private) Limited		Sri Lanka	**100**	100
Iluka Lanka Resources (Private) Limited		Sri Lanka	**100**	100
ERO (Tanzania) Limited		Tanzania	**100**	100
Iluka International Coöperatief U.A.		The Netherlands	**100**	100
Iluka Investments 1 B.V.		The Netherlands	**100**	100
Iluka Trading (Europe) B.V.		The Netherlands	**100**	100
Iluka (UK) Ltd		United Kingdom	**100**	100
Iluka International (UK) Limited		United Kingdom	**100**	100
Iluka Technology (UK) Ltd		United Kingdom	**100**	100
Sierra Rutile (UK) Limited		United Kingdom	**90**	90
Associated Minerals Consolidated Investments		USA	**100**	100
Iluka (USA) Investments Inc.		USA	**100**	100
Iluka Atlantic LLC		USA	**100**	100
Iluka Resources (NC) LLC		USA	**100**	100
Iluka Resources (TN) LLC		USA	**100**	100
Iluka Resources Inc.		USA	**100**	100
IR RE Holdings LLC		USA	**100**	100

* The above companies are parties to a Deed of Cross Guarantee (the Deed) under which each company guarantees the debts of the others.

By entering into the Deed, the wholly-owned entities represent a closed group and have been relieved from the requirements to prepare a Financial Report and Directors' Report under ASIC Corporations (Wholly-owned Companies) Instrument 2016/785. The closed group is also the extended closed group.

^ In October 2021, Iluka incorporated three Australian wholly-owned entities in relation to its rare earths project. These companies are not parties to the Deed.

(b) Non-controlling interests (NCI)

(i) International Finance Corporation (IFC) interest in Sierra Rutile Limited (SRL)

The Group entered into a strategic partnership with the IFC, a member of the World Bank Group, in 2019 in relation to the Sierra Rutile operation. Under the partnership, the IFC acquired an interest in SRL from the Group, and the Group entered into a put option arrangement with the IFC (refer to (ii), below).

The IFC holds 10% of Iluka Investments (BVI) Limited at 31 December 2021, which was acquired in two tranches. No changes to the IFC's holding have occurred in the current reporting period.

(ii) Transactions with NCI - put option held by the IFC

The Group also entered into a commercial put option (i.e. at fair market value) with the IFC, exercisable only after 7 years from June 2019 (or 3 years if the Sembehun development was not approved).

The put option was revalued to $11.0 million (2020: $7.2 million), being the equivalent of US$8.0 million (2020: $5.5 million) during the current reporting period. The resultant $3.4 million remeasurement loss is included in expenses in profit or loss (2020: $19.4 million remeasurement gain included in other income). In addition, an unrealised foreign exchange gain of $0.4 million has been recognised in profit or loss in relation to the put option (2020: $1.8 million foreign exchange gain).

(c) Condensed financial statements of the extended closed group

Condensed statement of profit or loss and other comprehensive income	2021 $m	2020 $m
CONTINUING OPERATIONS		
Revenue from ordinary activities	**1,313.1**	756.8
Expenses from ordinary activities	**(863.1)**	(509.3)
Finance costs	**(13.5)**	(13.7)
Equity accounted share of profit - Deterra	**18.1**	0.1
Income tax expense	**(134.8)**	(68.7)
Profit for the period	**319.8**	165.2
DISCONTINUED OPERATIONS		
Profit after tax from discontinued operations	**-**	2,306.5
Net profit after tax for the period	**319.8**	**2,471.7**
Other comprehensive income		
Changes in the fair value of cash flow hedges	**1.9**	9.5
Total comprehensive income for the period	**321.7**	2,481.2

Summary of movements in consolidated retained earnings

Retained earnings at the beginning of the financial year	**1,036.7**	397.0
Total comprehensive income for the year	**319.8**	2,471.7
Dividends provided for or paid	**(59.2)**	(1,832.0)
Retained earnings at the end of the financial year	**1,297.3**	1,036.7

Condensed balance sheet	2021 $m	2020 $m
Current assets		
Cash and cash equivalents	**243.9**	52.2
Receivables	**279.3**	90.4
Inventories	**432.0**	452.7
Derivative financial instruments	**-**	1.9
Total current assets	**955.2**	597.2

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2021

Condensed balance sheet	2021 $m	2020 $m
Non-current assets		
Property, plant and equipment	**947.7**	956.2
Deferred tax assets	**36.5**	28.0
Inventories	**65.0**	112.0
Derivative financial instruments	**-**	0.6
Other financial assets - investments in non-closed group entities	**850.4**	902.1
Investments accounted for using the equity method	**455.5**	452.1
Right of use assets	**28.6**	15.1
Total non-current assets	**2,383.7**	2,466.1
Total assets	**3,338.9**	3,063.3
Current liabilities		
Payables	**220.4**	222.8
Derivative financial instruments	**0.5**	-
Current tax payable	**27.6**	27.7
Provisions	**50.0**	53.9
Lease liabilities	**7.5**	7.5
Total current liabilities	**306.0**	311.9
Non-current liabilities		
Interest-bearing liabilities	**-**	36.9
Provisions	**549.2**	504.2
Lease liabilities	**28.3**	15.7
Total non-current liabilities	**577.5**	556.8
Total liabilities	**883.5**	868.7
Net assets	**2,455.4**	2,194.6
Equity		
Contributed equity	**1,148.3**	1,150.5
Reserves	**9.8**	7.5
Retained earnings	**1,297.3**	1,036.6
Total equity	**2,455.4**	2,194.6

23 EQUITY ACCOUNTED ASSOCIATE - DETERRA ROYALTIES LIMITED (DETERRA)

Deterra Royalties Limited was formed on 2 November 2020 when it was demerged from the Group. Deterra is the largest resource-focused royalty company listed on the ASX. Since demerger, the Group has held a 20% equity ownership interest in Deterra. Refer to note 23 to the 2020 Annual Report for further details of demerger transactions. The Group accounts for its investment in Deterra as an equity accounted associate.

(a) Investment carrying amount

Movements in the carrying value of the Group's investment in Deterra are as follows:

	2021 $'m	2020 $'m
Balance at the beginning of the year	**452.1**	-
Initial recognition on demerger	**-**	452.0
Gross equity accounted profit	**24.6**	1.4
Depreciation	**(6.2)**	(1.3)
Dividends received	**(14.8)**	-
Balance at the end of the year	**455.7**	452.1

The Group recognises its share of the profits of Deterra, being 20% of its net profit after tax, as income in each reporting period. The Group adjusts its share of the profit of Deterra by depreciating the value attributed to the Mining Area C (MAC) Royalty right (materially all of its initial value) over a period of 50 years on a straight-line basis, which aligns with the estimated life of mine of the mining operations in the MAC Royalty area.

The Group initially recognised its investment at its cost to the Group in the prior reporting period, which was equal to the carrying value of the net assets of Deterra immediately prior to demerger. The retained interest was immediately remeasured to its fair value on the demerger date. This fair value was allocated to the assets acquired on a notional basis, with the value uplift attributed to MAC Royalty rights held by Deterra.

(b) Summarised financial information of Deterra

The following is a summary of the financial information presented in the financial statements of Deterra, amended to include adjustments made by the Group in applying the equity method:

Summarised balance sheet of Deterra Royalties Limited at 31 December

	2021 $'000	2020 $'000
Current assets		
Cash and cash equivalents	**29,431**	188
Trade and other receivables	**33,229**	25,092
Income tax receivable	**-**	363
Prepayments	**1,445**	1,114
Total current assets	**64,105**	26,757
Non-current assets		
Royalty and other intangible assets	**8,753**	10,029
Property, plant and equipment	**33**	29
Right of use assets	**261**	332
Prepayments	**33**	-
Total non-current assets	**9,080**	10,390

(b) Summarised financial information of Deterra (continued)

	2021 $'000	2020 $'000
Current liabilities		
Trade and other payables	**590**	382
Provisions	**69**	11
Lease liability	**68**	65
Income tax payable	**104**	-
Total current liabilities	**831**	458
Non-current liabilities		
Lease liability	**211**	279
Borrowings	**-**	16,386
Deferred tax	**9,039**	6,961
Total non-current liabilities	**9,250**	23,626
Net assets	**63,104**	13,063

The Group's share of Deterra's net assets is reconciled to its carrying value as follows:

	2021 $'000	2020 $'000
Opening net assets	**13,063**	-
Profit for the period	**122,621**	33,341
Movements in other reserves	**1,251**	115
Dividends	**(73,831)**	-
Dividend paid prior to demerger	**-**	(20,393)
Closing net assets	**63,104**	13,063
Group's share percentage	**20%**	20%
Group's share of net assets	**12,621**	2,613
Iluka's gain on demerger, net of accumulated depreciation	**443,106**	449,487
Carrying value of investment in Deterra	**455,727**	452,100

Deterra is a listed ASX royalty company. The market value of Iluka's interest at 31 December 2021 was $455.5 million.

OTHER NOTES

24 CONTINGENT LIABILITIES

(a) Bank guarantees

The Group has a number of bank guarantees in favour of various government authorities and service providers to meet its obligations under exploration and mining tenements. At 31 December 2021, the total value of performance commitments and guarantees was $153.4 million (2020: $120.5 million).

(b) Native title

There is some risk that native title, as established by the High Court of Australia's decision in the Mabo case, exists over some of the land over which the Group holds tenements or over land required for access purposes. It is impossible at this stage to quantify the impact, if any, which these developments may have on the operations of the Group.

(c) Sierra Leone environmental class action

On 22 January 2019, SRL was served with a writ and statement of claim in respect of an action filed in the High Court of Sierra Leone Commercial And Admiralty Division against both SRL and The Environmental Protection Agency.

The proceedings have been brought by a group of landowner representatives (Representatives) who allege that they suffered loss as a result of SRL's mining operations. The claims primarily relate to environmental matters that arose prior to the Group acquiring its interest in SRL. The Representatives allege, in part, that SRL engaged in improper mining practices resulting in environmental degradation and contamination, did not meet certain rehabilitation obligations and violated local mining laws. SRL denies liability in respect of the allegations and intends to defend the claims. SRL filed its defence in March 2019 and also applied to the Court for an order requiring the Representatives to provide further detail on their claims.

As at 31 December 2021, the status of the proceedings has still not reached a stage where SRL is able to reliably estimate the quantum of liability, if any, that SRL may incur in respect of the class action.

(d) Other claims

In the course of its normal business, the Group occasionally receives claims arising from its operating or historic activities. In the opinion of the directors, all such matters are covered by insurance or, if not covered, are without merit or are of such a kind or involve such amounts that would not have a material adverse effect on the operating results or financial position of the Group if settled unfavourably.

25 EVENTS OCCURRING AFTER THE REPORTING PERIOD

(a) Shareholder class action - Australia

On 24 March 2014, Iluka became aware that a litigation funder proposed to fund claims that current or former shareholders may have against Iluka in respect of alleged breaches of Iluka's continuous disclosure obligations and misleading or deceptive conduct in 2012.

On 23 April 2018, Iluka was served with an originating application and statement of claim in respect of a shareholder class action filed in the Federal Court of Australia. The trial of the proceedings concluded on 12 May 2021.

On 7 February 2022, the Federal Court of Australia handed down its decision, dismissing all of the applicant's and group members' claims against Iluka.

(b) Withdrawal of notice to suspend operations - Sierra Rutile

On 14 January 2022, Sierra Rutile withdrew its notice to suspend operations following the ratification by the Parliament of Sierra Leone of adjustments to the applicable fiscal regime for Area 1 in December.

(c) Warehouse compound fire - Sierra Rutile

On 19 February 2022, a fire in a warehouse compound at SRL damaged sheds containing stored equipment parts and spares. The fire damage did not extend to operational property, plant, and equipment or product inventory. The group is still assessing the potential impact and therefore no estimates of its financial effect can be made as at the date of this report.

26 COMMITMENTS

(a) Exploration and mining lease commitments	2021 $m	2020 $m
Commitments in relation to leases contracted for at reporting date but not recognised as liabilities payable:		
Within one year	**11.0**	14.8
Later than one year but not later than five years	**25.9**	32.3
Later than five years	**44.9**	43.6
	81.8	90.7

These costs are discretionary. If the expenditure commitments are not met then the associated exploration and mining leases may be relinquished.

(b) Capital commitments

Capital expenditure contracted for and payable, but not recognised as liabilities is $21.4 million (2020: $35.1 million). All of the commitments relate to the purchase of property, plant and equipment. The total amount is expected to be paid within one year of the reporting date.

27 REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by PricewaterhouseCoopers Australia (PwC) as the auditor of the parent entity, Iluka Resources Limited, by PwC's related network firms and by non-related audit firms:

(a) Auditors of the Group - PwC and related network firms	2021 $000	2020 $000
Audit and review of financial reports		
Group	**587**	624
Controlled entities	**114**	156
	701	780
Other assurance services		
Investigating Accountants report for Deterra Demerger	**-**	266
Other assurance services	**67**	63
	67	329

(a) Auditors of the Group - PwC and related network firms	**2021 $000**	2020 $000
Other services		
Tax compliance and advisory services	**10**	34
Other advisory services	**30**	10
	40	44
Total services provided by PwC	**808**	1,153

(b) Other auditors and their related network firms

Audit and review of financial statements	**377**	101
Other compliance and advisory services	**5**	4
	382	105

28 SHARE-BASED PAYMENTS

Share-based compensation benefits are provided to employees via the Equity Incentive Plan (specifically, the Executive Incentive Plan, Long Term Incentive Plan and Short Term Incentive Plan). Information relating to this scheme is set out in the Remuneration Report.

The fair value of shares granted is determined based on market prices at grant date, taking into account the terms and conditions upon which those shares were granted. The fair value is recognised as an expense through profit or loss on a straight-line basis over the vesting period for each respective plan.

The fair value of share rights is independently determined using a Monte Carlo simulation that takes into account the exercise price, the term of the share right, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate of the term of the share right. The fair value of the Long Term Incentive Plan (LTIP - TSR tranche) and Executive Incentive Plan also take into account the Company's predicted share prices against the comparator group performance at vesting date.

A credit to the share-based payments expense arises where unvested entitlements lapse on resignation or the non-fulfilment of the vesting conditions that do not relate to market performance. Payroll tax payable on the grant of restricted shares or share rights is recognised as a component of the share-based payments expense when paid.

The share-based payment expense recognised in profit or loss of $11.1 million (2020: $4.1 million) results from several schemes summarised below.

Schemes	Grant date	Vesting date	Fair value $	**Shares / rights at 31 Dec 21**	**Expense 2021 $m**	Shares / rights at 31 Dec 20	Expense 2020 $m
STIP (i)							
2021	Mar-22	Mar23/24	10.1	**-**	**2.0**	-	-
2020	Mar-21	Mar-22/23	6.62	**-**	**0.7**	-	0.7
2019	Mar-20	Mar-21/22/23	9.30	**-**	**0.4**	-	1.0
2018	Mar-19	Mar-20/21	7.62	**-**	**0.1**	-	0.6
2017	Mar-18	Mar-19/20	10.55	**-**	**-**	-	0.1
LTIP - TSR (ii)							
2017	May-17	Mar-21	5.66	**286,546**	**0.1**	610,323	0.3
2016 MD Grant	Oct-16	Mar-21	3.71	**74,314**	**-**	126,688	0.1
2016	May-16	Mar-20	4.27	**90,493**	**-**	104,037	-
LTIP - ROE (ii)							
2017	May-17	Mar-21	7.44	**-**	**-**	610,312	(2.0)
2016 MD Grant	Oct-16	Mar-21	5.42	**-**	**-**	126,687	(0.5)
2016	May-16	Mar-20	6.01	**-**	**-**	104,037	-
EIP (iii)	Mar-18/19/20/21/22	Mar-23/24/25/26	7.62	**3,212,070**	**5.1**	1,528,301	3.4
Restricted Share Plan (iv)					**2.7**	-	0.5
					11.1		4.1

(i) Short Term Incentive Plan (STIP)

The fair value of the STIP is determined as the volume weighted average price of ordinary shares over the five trading days following the release of the Company's annual results.

(ii) Long Term Incentive Plan (LTIP)

The fair value at grant date for the LTIP took into account the exercise price of $nil, the share price at grant date, the expected price volatility of the share price (based on historical volatility), the expected dividend yield and the risk free rate of return. The fair value of the total shareholder return tranche also took into account the Company's predicted share prices against the comparator group performance at vesting date.

Prior year expenses related to rights that do not vest for the Return on Equity (ROE) tranche are credited to share-based payments expense.

(iii) Executive Incentive Plan (EIP)

Equity awarded under the Executive Incentive Plan is granted on 1 March each year. The number of restricted shares and performance rights to be awarded is determined based on a volume weighted average market price of Iluka shares for the five days following the release of the full year results.

The fair value at grant date for the Executive Incentive Plan (EIP) with market vesting conditions takes into account the exercise price of $nil (2020: nil), the share price at grant date of $7.45 for KMP other than T O'Leary and $7.77 for T O'Leary (2020: $9.34), the expected share price volatility (based on historical volatility) of 38% (2020: 33%), the expected dividend yield of 0% (2020: 0%) the risk free rate of return of 0.49% for KMP other than T O'Leary and 0.60% for T O'Leary (2020: 1.7%), and vesting dates for a period of four years commencing one year after the grant date. The fair value of the TSR tranche also takes into account the Company's predicted share prices against the comparator group performance at vesting date. The fair value at grant date for the Executive Incentive Plan (EIP) with non-market vesting conditions is calculated as volume weighted average market price of Iluka shares for the five days following the end of performance year.

(iv) Restricted share plan

No restricted shares were issued to eligible employees (2020: no restricted shares issued to eligible employees) who participated in the plan.

29 POST-EMPLOYMENT BENEFIT OBLIGATIONS

(a) Superannuation plans

(i) USA

All employees of the United States (US) operations are entitled to benefits from the US operations' pension plans on retirement, disability or death. The US operations have one defined benefit plan and one defined contribution plan. The defined benefit plan provides a monthly benefit based on average salary and years of service. The defined contribution plan receives an employee's elected contribution and an employer's match-up to a fixed percentage. The entity's legal or constructive obligation is limited to these contributions.

(ii) SRL

SRL does not operate any retirement benefit plan for its employees. For employees of the Sierra Leone based subsidiary, the Group makes a contribution of 10% of the employees' basic salary to the National Social Security and Insurance Trust ("NASSIT") for payment of pension to staff on retirement. These employees also contribute 5% of their basic salary to NASSIT.

The Sierra Leone-based subsidiary also provides for end-of-term benefits based on the provisions contained in the collective bargaining agreements negotiated with trade unions representing employees. The end-of-term benefits include senior and management employees in addition to all other employees. The post-employment benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation in relation to this arrangement.

(b) Financial position

The net financial position of the Group’s defined benefit plans based on information supplied from the plans' actuarial advisors per the table below.

	Net plan position	2021 $m	2020 $m
United States	Deficit	**(13.3)**	(17.7)
Sierra Leone	Deficit	**(13.3)**	(9.1)
Total		**(26.6)**	(26.8)

A net deficit of $26.6 million (2020: deficit $26.8 million) is included in non-current provisions in note 8. The table below provides a summary of the net financial position at 31 December for the past five years.

	2021 $m	2020 $m	2019 $m	2018 $m	2017 $m
Defined benefit plan obligation	**(57.5)**	(51.8)	(46.7)	(39.4)	(36.0)
Plan assets	**30.9**	25.0	24.3	21.5	21.2
Deficit	**(26.6)**	(26.8)	(22.4)	(17.9)	(14.8)

(c) Defined benefits superannuation expense

In 2021, $4.5 million (2020: $2.3 million) was recognised in expenses for the year in respect of the defined benefit plans.

Other disclosures in respect of retirement benefit obligations required by AASB 119 are not included in the financial report as the directors do not consider them to be material to an understanding of the financial position and performance of the Group.

30 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Notes	2021 $m	2020 $m
Profit for the year		**365.9**	2,410.0
Depreciation and amortisation	9	**165.4**	176.2
Amortisation of right-of-use-assets	10	**6.2**	8.8
Net loss (gain) on disposal of property, plant and equipment		**(1.6)**	(2.0)
Doubtful debts/(reversed)		**(1.5)**	(0.1)
Net exchange differences and other		**(1.8)**	5.5
Rehabilitation and mine closure provision discount unwind	8	**8.9**	14.4
Rehabilitation discount rate change	8	**-**	12.2
Non-cash share-based payments expense	28	**11.1**	4.1
Amortisation of deferred borrowing costs	15	**0.7**	0.6
Equity accounted share of profit	23	**(18.4)**	(0.1)
Impairment - exploration asset	7	**6.3**	12.4
Inventory NRV write-down	14	**11.4**	13.0
Changes in rehabilitation provisions for closed sites	8	**(60.8)**	(8.1)
Demerger gain		**-**	(2,246.8)
Put option revaluation gain/(loss)	22	**3.9**	(19.4)
Change in operating assets and liabilities			
(Increase)/decrease in receivables		**(153.9)**	93.4
Decrease/(increase) in inventories		**49.3**	(196.2)
(Decrease) in net current tax liability		**(0.8)**	(63.3)
(Increase) in net deferred tax		**(9.9)**	(8.1)
(Decrease) in payables		**(19.7)**	(118.9)
(Decrease)/increase in provisions		**(5.8)**	24.1
Net cash inflow from operating activities		**354.9**	111.7

31 KEY MANAGEMENT PERSONNEL

(a) Key Management Personnel

Key Management Personnel of the Group comprise directors of Iluka Resources Limited as well as other specific employees of the Group who met the following criteria: "personnel who have authority and responsibility for planning, directing and controlling the activities of the Group, either directly or indirectly."

(i) Key Management Personnel compensation

Detailed information about the remuneration received by each Key Management Person is provided in the Remuneration Report on pages 67 to 85.

The below provides a summary:

	2021 $000	2020 $000
Short-term benefits	**5,092**	4,962
Post-employment benefits	**189**	199
Termination benefits	**-**	49
Share-based payments	**2,538**	590
Total	**7,819**	5,800

(b) Transactions with Key Management Personnel

There were no transactions between the Group and Key Management Personnel that were outside of the nature described below:

(i) occurrence was within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those it is reasonable to expect the Group would have adopted if dealing at arms length with an unrelated individual;

(ii) information about these transactions does not have the potential to adversely affect the decisions about the allocation of scarce resources made by users of the financial report, or the discharge of accountability by the Key Management Personnel; and

(iii) the transactions are trivial or domestic in nature.

32 PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information for Iluka Resources Limited

	2021 $m	2020 $m
Balance sheet		
Current assets	**461.4**	197.5
Non-current assets	**1,495.0**	2,078.0
Total assets	**1,956.4**	2,275.5
Current liabilities	**-**	69.6
Non-current liabilities	**814.0**	620.7
Total liabilities	**814.0**	690.3
Net assets	**1,142.4**	1,585.2
Shareholders' equity		
Contributed equity	**1,155.5**	1,151.5
Other reserves	**23.4**	15.3
Profit reserve[1]	**626.9**	626.9
Accumulated loss	**(663.4)**	(208.5)
	1,142.4	1,585.2
Profit/(loss) for the year	**(469.2)**	2,244.9
Other comprehensive income		
Changes in the fair value of cash flow hedges, net of tax	**2.4**	(7.8)
Total comprehensive income	**(466.8)**	2,237.1

[1]Profits have been appropriated to a profits reserve for future dividend payments.

(b) Contingent liabilities of the parent entity

The parent had contingent liabilities for performance commitments and guarantees of $12.2 million as at 31 December 2021 (2020: $12.4 million). In addition, the parent has a contingent liability related to the shareholder class action, as detailed in note 24.

(c) Contractual commitments for the acquisition of property, plant or equipment

As at 31 December 2021, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling $3.1 million (2020: $2.3 million).

(d) Parent entity financial information

The financial information for the parent entity has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries
Investments in subsidiaries are accounted for at cost.

(ii) Tax consolidation legislation
Iluka Resources Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 January 2004. On adoption of the tax consolidation legislation, the entities in the tax consolidation group entered into a tax sharing agreement which limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Iluka Resources Limited.

33 RELATED PARTY TRANSACTIONS

The only related party transactions are with Directors and Key Management Personnel (refer note 31). Details of material controlled entities are set out in note 22, and details of the Group's equity accounted associate are set out in note 23. The ultimate Australian controlling entity and the ultimate parent entity is Iluka Resources Limited.

34 NEW AND AMENDED STANDARDS

New standards and amendments adopted

Iluka Resources Limited applied the following standards and amendments for the first time in the current reporting period:

- AASB 2020-8 *Amendments to AASs - Interest Rate Benchmark Reform - Phase 2*
- IFRIC Agenda Decision - March 2021 - *Configuration or Customisation Costs in a Cloud Computing Arrangement (AASB 138)*

Application of the above standards and amendments did not have any impact on the amounts recognised in prior periods and is not expected to significantly affect current or future periods.

Forthcoming standards and amendments not yet adopted

There are no forthcoming standards and amendments that are expected to have a material impact on the entity in the current or future reporting periods, or on foreseeable future transactions.

DIRECTORS' DECLARATION

For the year ended 31 December 2021

DIRECTORS' DECLARATION

In the directors' opinion:

(a) the financial statements and notes set out on pages 87 to 140 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Accounting Standards and other mandatory professional reporting requirements as detailed above, and the *Corporations Regulations 2001*; and

   (ii) giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the financial year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 23 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 23.

Note 2 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.

G Martin
Chairman

T O'Leary
Managing Director

24 February 2022

INDEPENDENT AUDITOR'S REPORT

To the members of Iluka Resources Limited

For the year ended 31 December 2021

Independent auditor's report

To the members of Iluka Resources Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Iluka Resources Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2021 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 31 December 2021
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of profit or loss for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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INDEPENDENT AUDITOR'S REPORT

To the members of Iluka Resources Limited

For the year ended 31 December 2021

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Materiality

- For the purpose of our audit we used overall Group materiality of $22 million, which represents approximately 5% of the Group's profit before tax.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.
- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- Component auditors, operating under our instructions, performed audit procedures over the Group's Sierra Leone operations' financial information. These procedures, combined with the work performed by us which included reviewing component auditors' work, as the Group engagement team, provided sufficient appropriate audit evidence as a basis for our opinion on the Group financial report as a whole.

INDEPENDENT AUDITOR'S REPORT

To the members of Iluka Resources Limited

For the year ended 31 December 2021

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committee.

Key audit matter	How our audit addressed the key audit matter
Closure and Rehabilitation Provisions *Refer to note 8 of the financial statements* As a result of its mining and processing operations, the Group is obliged to restore and rehabilitate the environment disturbed by these operations and remove related infrastructure. Rehabilitation activities are governed by a combination of legislative requirements and Group policies. At 31 December 2021 the consolidated balance sheet included provisions for such obligations of $742 million. This was a key audit matter given the determination of these provisions required judgement by the Group in the assessment of the nature and extent of the work to be performed, the future cost of performing the work, the timing of when the rehabilitation will take place and economic assumptions such as the discount rate for future cash outflows associated with rehabilitation activities.	We performed the following procedures over the Group's rehabilitation provision, amongst others. We evaluated key assumptions utilised in the rehabilitation models by performing the following procedures: • Developed an understanding of how the Group identified the relevant methods, assumptions or sources of data, and the need for changes in them, that are appropriate for developing the rehabilitation provision in the context of the Australian Accounting Standards. • Evaluated the competency and independence of the experts retained by the Group to assist with the assessment of its rehabilitation obligations. • Examined the Group's assessment of significant changes in future cost estimates from the prior year. • Compared the estimated future rehabilitation costs to actual costs being incurred at the Group's sites for similar activities to assess the extent to which rehabilitation estimates take into account current experience, and tested on a sample basis the provision to comparable data from external parties and management's experts. • Assessed the ability of the Group to make reliable estimates of the extent of future rehabilitation expenditure by comparing actual cash outflows in 2021 to those forecast as part of the provision in previous years. • Tested a sample of agreements with stakeholders supporting the manner in which the rehabilitation of legacy sites in Virginia will occur.

Key audit matter	How our audit addressed the key audit matter
	• Considered the appropriateness of the discount rates and inflation rates utilised in calculating the provision by comparing them to current market consensus.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 December 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 67 to 85 of the directors' report for the year ended 31 December 2021.

In our opinion, the remuneration report of Iluka Resources Limited for the year ended 31 December 2021 complies with section 300A of the *Corporations Act 2001.*

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

Helen Bathurst

Helen Bathurst
Partner

Perth
24 February 2022