



**ILUKA**



## Tax Transparency Report

# 2015

This statement is current as at 29 September 2016 and has been approved  
by the Board of Iluka Resources Limited

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## 1 Message from Chief Financial Officer

Iluka Resources Limited's 2015 Tax Transparency Report marks the inaugural publication of a document Iluka Resources Limited ("Iluka") intends to produce on an annual basis. While Iluka's tax information has been available publicly for a number of years, this is the first time it is consolidated in a single report.

Consistent with Iluka's commitment to the highest standards of corporate governance and transparent interaction with stakeholders, this voluntary report discloses and provides relevant context to the company's 2015 tax position. In preparing the report, Iluka has adopted disclosure recommendations contained in the Board of Tax Voluntary Tax Transparency Code.

Tax governance is an essential and important element of Iluka's reputation and the company's ability to create and deliver value for shareholders. Iluka has a Tax Policy – approved by its Board of Directors – that operates within the company's broader governance and risk management framework. This policy reflects a conservative approach to managing tax risk in alignment with the company's objectives.

Iluka complies with tax law and practice in all of the jurisdictions in which the company operates. This means paying the right amount of tax, in the right place, at the right time; disclosing all relevant facts and circumstances to tax authorities; and claiming reliefs and incentives where applicable.

As part of this approach, Iluka welcomes scrutiny of its tax contribution, which in 2015 was predominantly based in Australia and is reflected in the Australian focus of this report. The company is committed to compliance with all of its statutory obligations and supports the Extractive Industries Transparency Initiative and the decision of the Australian Government to join this global standard on tax transparency.

As detailed in the 2015 Iluka Review, Iluka's contribution to the Australian economy extends well beyond tax payments and includes capital investment, employment, training, partnerships and the utilisation of local contractors, goods and services. The company is committed to the regional communities that underpin its operations and tax contributions are but one way this commitment is delivered.

Doug Warden  
Chief Financial Officer and Head of Strategy and Planning  
Iluka Resources Limited

## 2 Introduction

In 2015, Iluka achieved a net profit of \$54 million and contributed tax payments in Australia of \$41.1 million. The Company's Australian corporate effective tax rate was 28.8 per cent.

This report details the contribution Iluka makes through taxes and imposts levied by the various levels of government in Australia. Specifically, the report provides details of Australian cash taxes paid in 2015 and reconciles this to the Australian company tax payable as reflected in Iluka's Australian company tax return<sup>1</sup> and the income tax expense in the 2015 annual financial statements.

Iluka is an Australian listed and headquartered company. Mining and processing activities in 2015 took place predominantly in Australia, with some United States-based operations idled in December 2015. The company recorded a loss for its US operations with minimal tax benefits recognised. Almost all of Iluka's Australian production is sold directly from Australia to Iluka's unrelated overseas customers. Accordingly, while Iluka does have limited related party transactions with its foreign subsidiaries, these are immaterial for the purposes of this report and are not separately disclosed. All of the company's international related party transactions are undertaken on a commercial and arm's length basis.

The report also provides information on the company's approach to tax governance and tax planning.

All figures disclosed in this report are in Australian dollars.

## 3 Tax governance, tax planning and dealings with authorities

Iluka's tax governance framework, including its Tax Policy, emphasises a prudent approach to tax management and operates within the company's broader governance and risk management framework. The policy is reviewed annually by the Board, and aligns with the Tax Risk Management and Governance Review Guide produced by the Australian Taxation Office (ATO).

The broader tax governance framework operates to ensure that Iluka is compliant with statutory reporting and disclosure obligations and that all material tax risks are recognised, managed and recorded in a manner consistent with:

- Iluka's Board of Directors' (Board) risk management philosophy;
- generally accepted industry practice and corporate governance standards;
- guidance from regulatory authorities; and
- shareholder expectations.

Tax issues are regularly reported to and considered by the Board and senior executives at meetings of the company's Audit and Risk Committee.

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<sup>1</sup> This is a reference to the company tax return of the Iluka Australian tax consolidated group for the year ended 31 December 2015, in lieu of the fiscal year ended 30 June 2016. The return reflects the Australian corporate tax position of Iluka's Australian operations only.

Tax planning is undertaken in this context, with material tax risks identified at the earliest opportunity and risk mitigation strategies implemented. In structuring Iluka's commercial activities the company considers – among other factors – the tax laws of the countries in which it operates, with a view to maximising value on a sustainable basis for shareholders. All tax planning is undertaken with commercial and economic substance and with regard to the potential impact on Iluka's reputation and objectives.

Given the scale of Iluka's business and volume of tax obligations, risks will inevitably arise from time to time in relation to the interpretation of tax law and nature of the company's compliance arrangements. Iluka proactively seeks to identify, evaluate, manage and monitor these risks. Where there is significant uncertainty or complexity external advice may be sought.

The company acts with integrity in dealing with all stakeholders, including tax authorities, with whom Iluka maintains a transparent and professional relationship.

## 4 2015 Tax Payments

The following table represents Australian taxes paid by Iluka in 2015.

It excludes taxes collected by Iluka and passed onto Australian federal and state revenue authorities including, but not limited to, goods and services tax and pay as you go withholding on employee / contractor salary and wages.

Australian Tax Type	\$m	% of Taxes paid
Corporate income tax	18.8 <sup>2</sup>	46%
State royalties	14.9	36%
Employer taxes (borne by Iluka) <sup>3</sup>	5.1	12%
Tenement rents	2.3	6%
<b>Total Australian taxes paid</b>	<b>41.1</b>	<b>100%</b>

A reconciliation of the corporate income tax paid during the year of \$18.8 million to Australian income tax expense disclosed in the financial statements of \$38.1 million and income tax payable as per the tax return for the same period of \$38.3 million is set out in section 5 below.

<sup>2</sup> This includes a \$2.8 million income tax refund referable to the 2014 income year. Income tax expense paid of \$18.5 million in the 2015 consolidated cash flow statement is reflective of Australian and foreign operations.

<sup>3</sup> Consists of fringe benefits tax and payroll tax.

## 5 Financial statement disclosures

### 5.1 Income tax expense and effective tax rates

The following table extracts the 2015 accounting profit before income tax, income tax expense and effective tax rate from the Iluka 2015 annual financial statements. This information allows for the reconciliation of the Australian corporate income taxes paid to the income tax expense in the financial statements.

#### *2015 income tax expense and effective tax rates*

Description	Australia	Foreign operations (including US)	Total
Accounting profit/(loss) before tax	132.1	(45.5)	<b>86.6</b>
Income tax expense/(benefit) <sup>4</sup>	38.1	(5.0)	<b>33.1</b>
Effective corporate tax rate	<b>28.8%</b>	<b>11.0%</b>	<b>38.2%</b>

The company's 2015 Australian effective corporate income tax rate is 28.8 per cent compared to a global effective tax rate of 38.2 per cent. The Australian effective tax rate is below the standard Australian corporate tax rate of 30 per cent, primarily due to income tax benefits arising from Australian research and development (R&D) tax offset concessions provided by the Commonwealth Government. The effective global tax rate is higher than 30 per cent due to no income tax benefit being recognised for a significant portion of US tax losses or overseas exploration expenditure.

<sup>4</sup> Iluka's 2015 Australian income tax expense of \$38.1m is derived from a current tax expense of \$45.9 million and a deferred tax benefit of \$7.8 million. A reconciliation of the 2015 Australian operating profit to the Australian current tax expense is provided in a subsequent table. Current tax as defined in International Financial Reporting Standard IAS12 is the amount of income taxes payable in respect of the taxable profit for a period.

**Reconciliation of Australian accounting profit to tax expense**

Description	2015 Annual Report \$m
<b>Iluka Australian profit before tax</b>	132.1
Tax at the Australian tax rate of 30%	39.6
Australian R&D tax offset	(2.9)
Various non-deductible expenditure relating to overseas exploration and Kenmare Resources Plc transaction costs	3.3
Prior year over provision	(0.8)
Other	(1.1)
<b>Australian income tax expense</b>	<b>38.1</b>
<b>Movement in temporary differences<sup>5</sup></b>	
Trading stock / consumables	(1.3)
Fixed assets	11.1
Provisions	(4.3)
Foreign exchange	5.0
Other	(2.7)
<i>Sub-total movement in temporary differences</i>	<b>7.8</b>
<b>Current income tax expense</b>	<b>45.9</b>

**5.2 Corporate income tax payable**

Reconciliation of the Australian current tax expense of \$45.9 million to 2015 Australian corporate income tax paid and corporate income tax payable as per the 2015/2016 Australian company tax return is set out below.

Description	A\$m
<b>2015 current tax expense</b> (refer to above table)	<b>45.9</b>
Tax expense impact recognised in equity for share based payments	1.6
Under provision of income tax reflected in 2016 financial statements <sup>6</sup>	(9.2)
<b>Australian income tax payable for the year ended 31 December 2015</b>	<b>38.3</b>
Tax payments for 2015 made in subsequent periods	(16.7)
Tax payments for prior periods made in 2015	(2.8)
<b>Total 2015 corporate income tax paid</b> (refer to section 4)	<b>18.8</b>

<sup>5</sup> Being movement in deferred tax assets and liabilities as recognised on Iluka's balance sheet.

<sup>6</sup> The under provision of income tax represents the difference in the Australian income tax payable position estimated for the 2015 income year (reflected in the 2015 annual report) compared to the final Australian income tax payable position calculated and reflected in Iluka's 2015/2016 Australian company tax return. For 2015, this difference relates predominantly to the unwinding of temporary differences in relation to Australian fixed assets resulting in a reclassification between current tax and deferred tax with no overall change to net tax balances. These adjustments are reflected in the 2016 half year report.

## 6 Information published by the Australian Tax Office

Each December the ATO publicly discloses certain details from the income tax return lodged for Iluka. The following details are those expected to be published by the ATO in December 2017 (all amounts are expressed in Australian dollars) for Iluka's tax year ended 31 December 2015 (2015/2016 income tax return):

ABN	34 008 675 018
Total Income	\$848,996,435
Taxable Income	\$155,516,718
Income Tax Payable	\$38,283,695

The following is additional information that will assist readers of this report in interpreting the information to be published by the ATO.

- Total income represents gross revenue and not profit for Iluka. Australian accounting profit before tax was \$132.1 million.<sup>7</sup>
- The income tax payable figure of \$38.3 million is equal to Iluka's taxable income of \$155.5 million at 30 per cent, being \$46.7 million, less R&D and foreign income tax offsets of \$8.4 million.<sup>8</sup>

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<sup>7</sup> Refer to reconciliations above at section 5.

<sup>8</sup> Being sum of \$8.2 million R&D tax offsets and \$0.2 million foreign income tax offsets.