ILUKA

Tax Transparency Report

2016

This statement is current as at 12 October 2017 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 ("Iluka") Tax Transparency Report for 2016 marks the second annual publication of this document and continues the company's commitment to high standards of corporate governance and transparency.

This report outlines Iluka's approach to tax strategy and governance; provides details of tax contributions to Australian State and Federal authorities and offers additional context to the financial statements and notes to the company's 2016 Annual Report. The report supplements the company's 2016 Sustainability Report, released on 21 April 2017.

Corporate governance and transparency are essential and important elements of Iluka's reputation; and hence the company's ability to create and deliver value for shareholders. Iluka supports measures to increase tax transparency and this report complies with the recommendations by the Board of Taxation in its report to the Treasurer on a voluntary tax transparency code in February 2016.

Iluka is committed to ensuring compliance with tax law and practice in all of the jurisdictions in which the company operates. This means paying the appropriate amount of tax; disclosing all relevant facts and circumstances to tax authorities; and claiming reliefs and incentives where applicable.

In the year ended 31 December 2016, Iluka paid and remitted $55.2 million in taxes, royalties and other payments to Australian authorities. The company's underlying Australian effective tax rate was 28.7 per cent. Iluka reported an Australian corporate income tax loss for 2016, arising from lower 2016 earnings.

In 2016, the company's revenue continued to be derived predominantly from its Australian operations; which is reflected in the Australian focus of this report.

On 8 December 2016, Iluka acquired 100 per cent of Sierra Rutile Limited (SRL), which is located in the Republic of Sierra Leone. SRL's taxes paid for the three weeks that it was owned by Iluka in 2016 are not included in this report on the basis that they are not material in the tax contributions borne by Iluka in 2016. SRL is an important aspect of Iluka's operations and the company is committed to ensuring that SRL continues to meet its tax obligations in country.

Iluka's contribution to the economies of the jurisdictions in which the company operates extends well beyond tax payments. Other substantive contributions include capital investment, employment, training, partnerships and the utilisation of local contractors, goods and services. Iluka 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

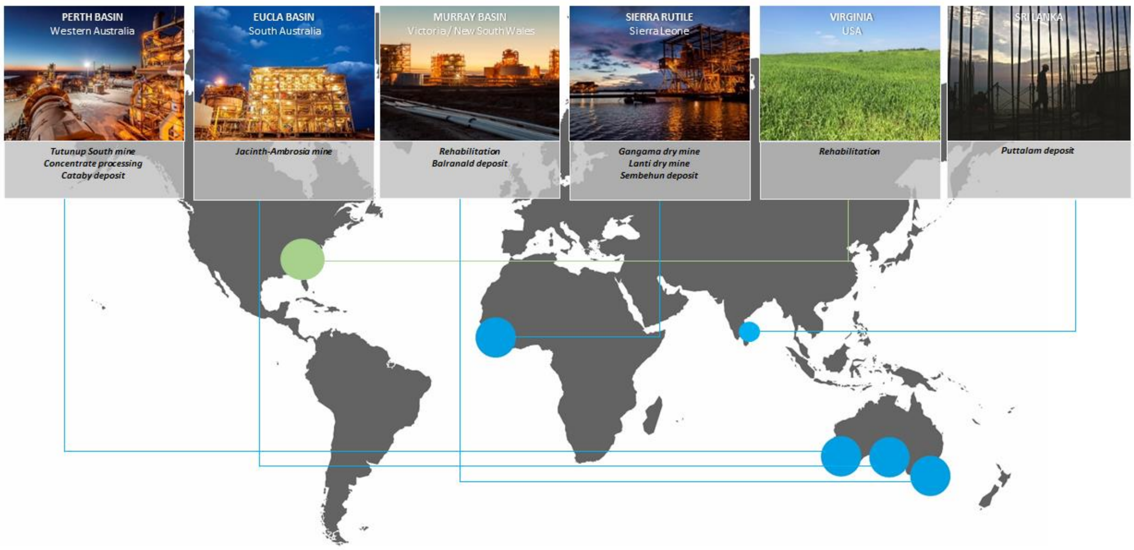
2. Iluka Overview

Iluka is an Australian listed and headquartered company. It is the largest global producer of zircon and rutile; and also a major producer of synthetic rutile.

Principal activities

Iluka's principal activities are mineral sands exploration, project development, operations and marketing and rehabilitation. The company has mineral sands mining, concentrating and processing operations in Australia and more recently in Sierra Leone, following the acquisition of Sierra Rutile Limited in December 2016.

Our mining and processing operations



Overview of 2016 results

Iluka recorded a pre-tax accounting loss of $277.7 million, compared with a pre-tax accounting profit of $86.6 million for the previous corresponding period. Iluka Resources Limited is the head company of an Australian income tax consolidated group consisting of itself and its wholly-owned Australian subsidiaries. Iluka Australia recorded a pre-tax accounting loss of $198.6 million resulting in no Australian income tax payable for the 2016 income year.

The 2016 result was significantly impacted by a $201 million pre-tax accounting impairment charge in relation to assets in the Murray Basin and an increase in the rehabilitation provision for closed sites in the United States. Other key factors included lower Zircon unit revenues and lower Mining Area C royalty EBIT.

Further information on Iluka's 2016 financial performance can be found in the company's 2016 Annual Report.

3. Tax policy, strategy and governance

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 of Directors (Board).

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:

- the Board's 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.

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 commercial 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.

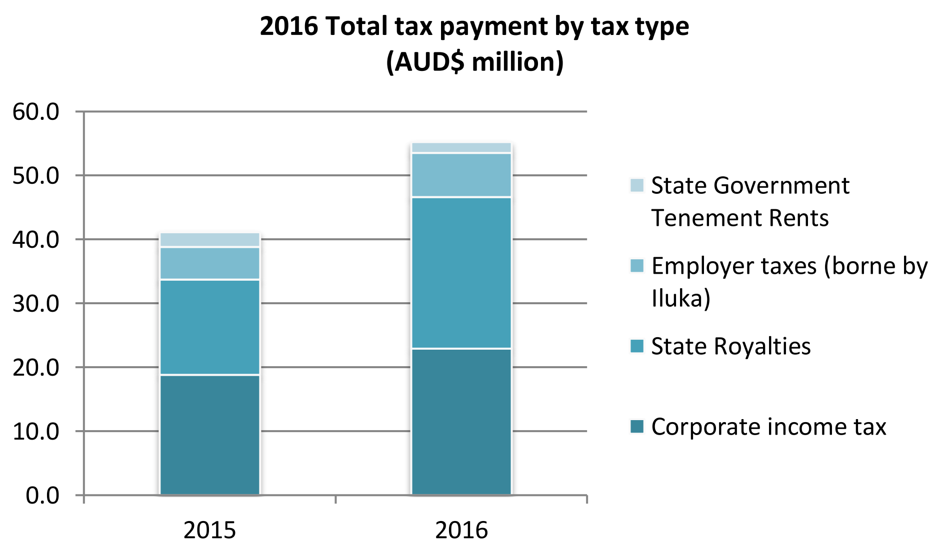
4. Australian tax contribution

All financial data presented in this report is quoted in Australian dollars unless otherwise stated.

Iluka contributed $55.2 million in taxes, royalties and other payments to Australian State and Federal authorities in 2016. The table below illustrates this contribution[1].

	Corporate income tax[2]	Royalties	Tenement rents[3]	Employer taxes[4]	Total
Australia $m (Federal)	22.9	-	-	0.5	**23.4**
Australia $m (States)	-	23.7	1.7	6.4	**31.8**
Total $m	**22.9**	**23.7**	**1.7**	**6.9**	**55.2**

This compares to tax contributions of $41.1 million in the previous corresponding period as illustrated in the below table.



[1] In addition, Iluka pays other types of taxes such as State duties not disclosed in this report on the basis that they are immaterial in dollar terms. Taxes collected such as goods and services tax (GST) and employee income tax withheld and remitted are also not disclosed in this Report.

[2] Represents the amount of Australian corporate income tax paid in 2016 by Iluka Australia as reflected within the statement of cash flows in the financial statements to the 2016 Annual Report (Financial Statements).

[3] Tenement rents are payments to State authorities in respect of exploration licenses and mining leases granted to Iluka.

[4] Consists of payroll taxes and fringe benefits tax (FBT) paid by Iluka as an Australian employer.

5. Accounting loss to income tax and the effective tax rate

The table below presents reconciliation between Iluka's statutory accounting loss and income tax benefit as recognised in 2016 Financial Statements and income tax benefit to the company's current income tax refundable position for the 31 December 2016 income year.

Description	Australia $m	Group $m
(Loss)/profit before income tax expense	(198.6)	(277.7)
Tax at the Australian tax rate of 30%	**(59.6)**	**(83.3)**
Movement in non-temporary differences		
Research and development offset[5]	(5.5)	(5.5)
Tax losses not recognised by overseas operations	-	26.8
Non-deductible expenses[6]	6.1	6.2
2015 under provision of income tax	1.9	2.1
Income tax (benefit)	**(57.1)**	**(53.7)**
Movement in temporary differences[7]		
Fixed assets[8]	29.0	29.0
R&D offset and tax losses carried forward	28.4	28.4
Trading stock / consumables	6.8	6.8
Foreign exchange	0.8	0.8
Rehabilitation and employee leave provisions	(7.1)	(10.6)
Other	(3.4)	(6.0)
Deferred tax movement recognised to equity	2.6	0.3
Current income tax (benefit)	**0.0**	**(5.0)**
Effective corporate tax rate (%)	**28.7%**	**19.3%**

Iluka's Australian effective tax rate of 28.7 per cent (2015: 28.8 per cent) is close to the Australian corporate tax rate of 30 per cent. The difference is due principally to the differing treatment of certain items for tax and accounting purposes as set out in the reconciliation above.

Iluka's effective tax rate for 2016 was 19.3 per cent (2015: 38.2 per cent). This is the rate recognised in the company's Financial Statements. The effective tax rate is calculated as income tax expense/(benefit) divided by accounting profit/(loss) before tax. Iluka's Group effective tax rate is lower than the Australian corporate tax rate of 30 per cent, due principally to the non-recognition

[5] The Australian research and development (R&D) tax incentive provides a tax benefit to companies to help offset some of the cost of conducting eligible R&D activities. The incentive comes in the form of a non-refundable tax offset of 40% which reduces a taxpayer's income tax liability. As Iluka is in a tax loss position for the 2016 income year, the tax offset has been carried forward to be utilised against Iluka's future Australian income tax liability. The non-temporary difference represents the net 10% incremental R&D tax benefit being the 40% R&D tax offset less the 30% corporate income tax rate.

[6] Includes SRL and Kenmare acquisition related costs.

[7] Being timing differences relating to treatment of asset and liabilities for accounting and tax purposes in accordance with AASB112.

[8] Primarily being accounting impairment charge to idle and surplus equipment in the Murray Basin less allowable tax write downs and timing differences on capitalised expenditure.

of US tax losses, combined with to a much lesser extent, differing corporate tax rates in the locations where Iluka operates.

5.1 Income tax payable (receivable)

The table below presents a reconciliation of current income tax payable (receivable) in the Financial Statements. It represents the company's total 2016 income tax receivable inclusive of tax payments made to revenue authorities.

Description	**Australia A$m**	**Group A$m**
Current tax payable / (receivable) - opening	25.9	13.7
2015 over provision of income reflected in 2016 Financial Statements [9]	(9.1)	(9.3)
Net foreign income tax refundable	0	(3.0)
Income taxes paid in 2016 [10]	(22.9)	(13.8)
Current tax payable / (receivable) - closing	**(6.1)**	**(12.4)**

[9] Over provision of income tax relating to the 31 December 2015 income tax return lodged in 2016. For Iluka Australia, this includes a $1.9 million non-temporary under-provision of income tax expense and a $10.9 million over-provision of deferred tax expense.

[10] As reflected in the statement of cash flows in the 2016 Financial Statements of which $16.7 million represents income tax payments relating to prior income years and the balance being income tax refundable in 2017 due to Iluka Australia being in a tax loss position for the 31 December 2016 income year.

6. International related party dealings

The majority of Iluka's Australian production is sold directly from Australia to unrelated overseas customers. The primary form of international transactions within Iluka Group subsidiaries relates to charges for management activities and other intra-group services. These intra-group services are included in the tax returns of both the Iluka Group service provider and service recipient's tax jurisdictions. Iluka seeks independent advice from transfer pricing experts to ensure that intra-group services are priced on an arm's length basis and that related party transactions are appropriately documented.