

# **Tax Transparency Report 2019**

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## CFO Message

IPL's Tax Transparency Report for the financial year ended 30 September 2019 brings together details of payments made by Incitec Pivot Limited to Governments in countries where IPL operates. It outlines our Board approved strategy with regards to tax and reflects IPL's ongoing commitment to tax transparency.

## Corporate Governance

IPL is committed to high standards of corporate governance for the benefit of its various stakeholder groups. Since IPL's listing on the Australian Securities Exchange (ASX) in July 2003, the Board has implemented and operates in accordance with a set of corporate governance principles which are fundamental to the Company's continued growth and success.

IPL's tax governance framework, which is reviewed by the Board's Audit and Risk Management Committee (ARMC) and approved by the IPL Board, provides the foundation by which taxes are managed within the IPL group. It defines our strategy and risk management approach as well as how we comply with our tax obligations within our businesses at an operational level.

The following governance parameters are considered in relation to all taxation activities:

1. All applicable laws and regulations relating to taxation must be adhered to.
2. IPL's tax planning supports our business and reflects commercial and economic activity. We do not engage in artificial tax arrangements.
3. IPL aims to develop and foster constructive working relationships with tax authorities and will be transparent in providing full and timely disclosure to tax authorities.
4. In adopting a taxation position, IPL must take into consideration the potential impact on shareholder value, its market reputation and the impact of possible penalties imposed by the relevant Authorities (including revenue authorities and other regulators where appropriate).

The Chief Financial Officer has oversight responsibility over the tax risk management framework. Operational and governance responsibility for the execution of the Group's tax strategy rests with the Group Tax Manager, who is supported by a team of tax professionals and external tax expertise where required.

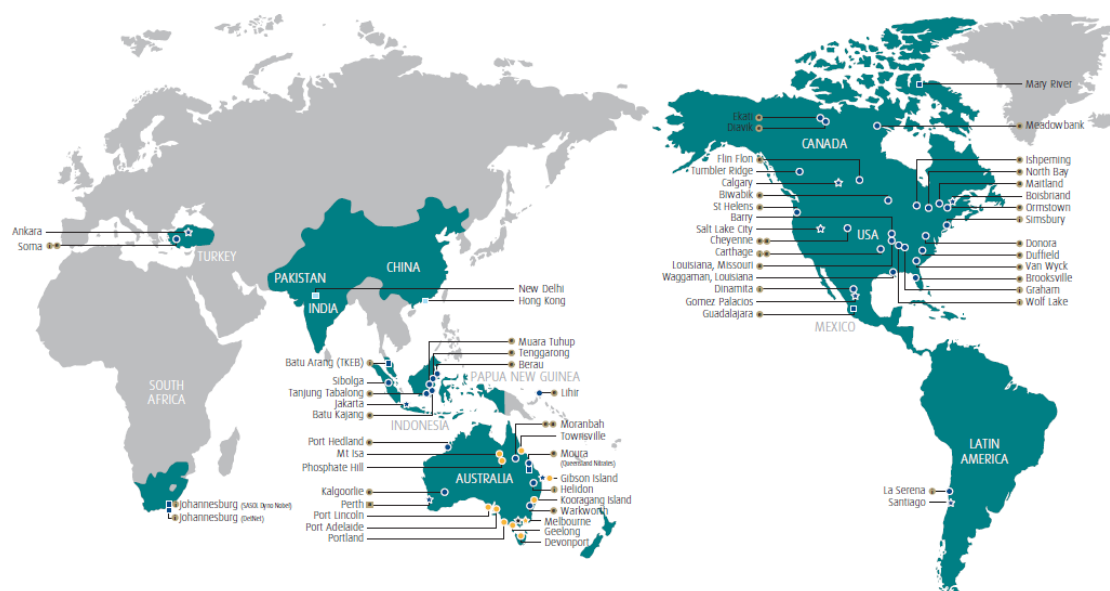
The Board, through the ARMC is updated regularly on material tax matters.

IPL is regularly subject to review by the ATO and have a professional working relationship with them.

## Where we operate

As a global industrial chemicals manufacturer and marketer of commercial explosives and fertilisers, IPL is contributing to the production of the infrastructure, food, clothing, shelter and energy people need every day. We play an essential role in the mining and agricultural industries which produce many of life's daily essentials.

Our operations are primarily focused in the Asia Pacific and North American regions.



IPL is a global diversified industrial chemicals company that manufactures and distributes industrial explosives, industrial chemicals and fertilisers. It has operations primarily in Australia, where it operates under the globally recognised Dyno Nobel and Incitec Pivot Fertilisers brands, and in North America where it also operates under the Dyno Nobel brand.

IPL is managed through an upstream/downstream model that leverages a common nitrogen manufacturing core. Engineering synergies are achieved through the upstream Global Manufacturing organisation, whereas market-facing activity is conducted through its downstream organisations.

IPL operates two downstream businesses, comprising Asia Pacific and Americas.

Both businesses serve three sectors, consisting of:

- Explosives;
- Industrial Chemicals; and
- Fertilisers.

### *Operations in Low Tax Jurisdictions*

All of IPL's overseas operations are located in countries that have lower corporate tax rates than the Australian tax rate of 30% with the exception of Mexico which also has a corporate tax rate of 30%. The fact that a country has a lower corporate tax rate than Australia's is not an indication of aggressive tax planning. IPL's operations are located where value is created by both IPL and its customers.

In reviewing IPL's operations in the context of operating in low tax jurisdictions we have applied the European Union's (EU) list of non-cooperative jurisdictions for tax purposes. In compiling this list the EU assesses countries against agreed criteria for good governance, consistent with standards of the EU member states. These criteria relate to tax transparency, fair taxation, implementation of OECD base erosion and profit shifting measures and entity substance requirements. The EU has published a list of 'non-cooperative' jurisdictions and a 'watch list' of jurisdictions that have committed to address deficiencies in their tax governance.

IPL does not operate in any of the jurisdictions listed as non-cooperative. IPL does have one subsidiary that operates in Turkey, a jurisdiction that is on the watch list.

Turkey is listed on the OECD's watch list on the basis that it should be given more time to resolve all open issues for the automatic exchange of information to be implemented effectively with all EU Member States. IPL's manufacturing and sales operations in Turkey are closely aligned to local and regional customers.

IPL's overseas companies are subject to Australia's international tax rules (Controlled Foreign Corporations rules).

### **Related party transactions**

IPL operates in the global market through locally incorporated subsidiaries or via joint ventures, serving local mining and agricultural businesses. The nature of the products and services produced by IPL require the bulk of our manufacturing and servicing capabilities to be within close proximity of our external customers.

Product flows between Australian and overseas related parties are minimal relative to dealings with external customers and are not material.

Intra group services are charged to the recipient at an arm's length fee in accordance with OECD guidelines. These services include funding and other centralised services such as technology, treasury and engineering services. None of these services are material.

## Taxes paid

### Year ended 30 September 2019

IPL incurs and pays taxes in each jurisdiction in which it operates, and it also collects and remits various taxes on behalf of the local revenue authority. The table below provides a summary of the nature of the taxes borne and collected by IPL globally for the year ended 30 September 2019.

2019	Australia	USA	Canada	Mexico	Hong Kong	Chile	Turkey	Indonesia	Papua New Guinea	Total
	A\$000	A\$000	A\$000	A\$000	A\$000	A\$000	A\$000	A\$000	A\$000	A\$000
<b>Taxes borne by the Group</b>										
Corporate income tax	670.1	1,279.3	2,410.1	4,348.0	3,068.8	-	1,423.6	2,014.8	1,912.2	17,126.9
Employer payroll taxes	15,338.0	19,022.4	1,403.4	2,558.6	-	-	1,452.8	98.7	-	39,873.9
	<b>16,008.1</b>	<b>20,301.7</b>	<b>3,813.5</b>	<b>6,906.6</b>	<b>3,068.8</b>	<b>-</b>	<b>2,876.4</b>	<b>2,113.5</b>	<b>1,912.2</b>	<b>57,000.8</b>
<b>Other taxes and payments net of grants and incentives</b>										
Property taxes	1,330.9	6,593.2	507.3	14.4	-	-	-	26.3	-	8,472.1
Withholding taxes	1,556.8	902.2	1,759.8	450.4	-	0.2	611.2	43.8	-	5,324.4
Customs duties	-	-	-	37.3	-	4,160.0	-	262.7	-	4,460.0
Stamp duty	-	-	-	-	-	-	8.2	0.7	-	8.9
Irrecoverable indirect taxes	-	1,591.4	-	-	-	2,803.7	-	0.9	-	4,396.0
Government grant receipts	(4,422.3)	-	-	-	-	-	-	-	-	(4,422.3)
	<b>(1,534.6)</b>	<b>9,086.8</b>	<b>2,267.1</b>	<b>502.1</b>	<b>-</b>	<b>6,963.9</b>	<b>619.4</b>	<b>334.4</b>	<b>-</b>	<b>18,239.1</b>
<b>Taxes collected on behalf of a government</b>										
Employee payroll taxes collected	86,697.3	58,269.6	9,644.8	982.1	-	237.6	-	804.7	683.0	157,319.1
Sales Taxes/VAT/GST/Excise duties	70,855.8	10,077.6	22,389.1	(3,681.9)	-	1,030.8	1,211.3	2,918.5	358.4	105,159.6
Withholding taxes collected from suppliers	-	-	-	44.8	-	12.2	-	91.4	-	148.4
	<b>157,553.1</b>	<b>68,347.2</b>	<b>32,033.9</b>	<b>(2,655.0)</b>	<b>-</b>	<b>1,280.6</b>	<b>1,211.3</b>	<b>3,814.6</b>	<b>1,041.4</b>	<b>262,627.1</b>
	<b>172,026.6</b>	<b>97,735.7</b>	<b>38,114.5</b>	<b>4,753.7</b>	<b>3,068.8</b>	<b>8,244.5</b>	<b>4,707.1</b>	<b>6,262.5</b>	<b>2,953.6</b>	<b>337,867.0</b>

## Income tax reconciliation to tax payable

Income tax expense comprises current tax (amount payable or receivable within 12 months) and deferred tax (amounts payable or receivable after 12 months). Tax expense is recognised in the profit or loss statement, unless it relates to items that have been recognised in equity. In this instance, the related tax expense is also recognised in equity.

The following table is a reconciliation of accounting profit to income tax payable for the Global and Australian tax groups at 30 September:

### Income tax reconciliation to tax payable

#### Global

	2019 Global A\$mill	2019 Australia A\$mill	2018 Global A\$mill	2018 Australia A\$mill
Profit before income tax excluding individually material items	159.6	46.5	428.7	279.6
Individually material items			(236.0)	(236.0)
<b>Total profit before tax</b>	<b>159.6</b>	<b>46.5</b>	<b>192.7</b>	<b>43.6</b>
Tax exempt Intercompany dividend eliminated on consolidation	-	(138.6)	-	(169.8)
<b>Total profit/(loss) before tax excluding intercompany dividend</b>	<b>159.6</b>	<b>(92.1)</b>	<b>192.7</b>	<b>(126.2)</b>
Tax at the Australian tax rate of 30%	47.9	(27.6)	57.8	(37.9)
<b>Non temporary differences</b>				
Other foreign deductions	(15.9)	-	(32.2)	-
Joint venture income	(11.6)	2.1	(13.0)	0.7
Goodwill impairment		-	70.8	70.8
Sundry items	2.9	5.0	9.5	2.5
Difference in overseas tax rates	(12.8)	-	(11.7)	
Adjustment to tax expenses relating to prior years	(3.0)	-	(2.8)	
<b>Income tax expense attributable to profit</b>	<b>7.5</b>	<b>(20.5)</b>	<b>78.4</b>	<b>36.1</b>
<b>Temporary differences</b>				
Provisions	(7.7)	0.8	(9.4)	1.9
Property, Plant and Equipment	(67.2)	(8.8)	(60.1)	(33.3)
Tax Losses	39.9	33.5	37.7	-
Intangible Assets	5.7	-	3.1	-
Capitalised inventory cost	0.9	-	(1.2)	-
Other	0.8	3.5	9.0	2.1
<b>Total origination and reversal of temporary differences</b>	<b>(27.6)</b>	<b>29.0</b>	<b>(20.9)</b>	<b>(29.3)</b>
<b>Tax liabilities</b>	<b>(20.1)</b>	<b>8.5</b>	<b>57.5</b>	<b>6.8</b>
<b>Less:</b>				
Franking credits		(6.2)		(5.5)
Withholding tax credits			(0.7)	(0.7)
R & D tax offset		(2.3)		
<b>Tax payable/(refundable)</b>	<b>(20.1)</b>	<b>-</b>	<b>56.8</b>	<b>0.6</b>
<b>Effective Tax Rate</b>	<b>2019 Global A\$mill</b>	<b>2019 Australia A\$mill</b>	<b>2018 Global A\$mill</b>	<b>2018 Australia A\$mill</b>
Tax expense attributable to profit before individually material items	7.5	(20.5)	149.2	106.9
Tax benefit attributable to individually material items	-	-	(70.8)	(70.8)
	<b>percentage</b>	<b>percentage</b>	<b>percentage</b>	<b>percentage</b>
Effective tax rate before individually material items and exempt intercompany dividend	4.7%	22.3%	18.3%	32.9%
Effective tax rate on individually material items	-	-	30.0%	30.0%

## ATO Public Disclosure

The ATO is required to publicly report information about Australian public companies (and other companies, including those which are foreign owned) with total income of \$100 million or more.

In December 2020 the ATO will publicly disclose the following information about IPL, as reported by the company in its Australian tax return for the 2019 tax year. The tax return for IPL is a consolidated tax return and comprises the results of its wholly owned, Australian tax resident entities (IPL Tax Group).

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**ABN 42 004 080 264**

Total Income (A\$mill)	2,577.1
Taxable loss (A\$mill)	90.8
Income Tax Payable (A\$mill)	nil

The amount disclosed as Total Income in the tax return is the total accounting revenue of the IPL Tax Group. Accounting revenue is the gross receipts of the IPL wholly owned Australian group before any expenses are taken into account, and therefore does not represent the real, economic or taxable profits of an organisation. Operating Profit before Tax (which is also reported to the ATO is the basis upon which taxable income is determined.

The IPL Tax Group's operating profit before tax for 2019 was \$46.5m. It is from this amount that various non-temporary and temporary adjustments are made to arrive at taxable income. These adjustments are details in the Income Tax Reconciliation to tax payable section of this report. A summary reconciliation is provided below.

	<b>A\$M</b>
	<b>2019</b>
Total Income (as reported by ATO)	2,577.1
Total expenses	2,530.6
Operating profit before tax	46.5
Non-temporary & temporary adjustments	(137.4)
Taxable loss (as reported by ATO)	(90.8)
Tax payable on taxable income	nil
Less Franking and other Credits	n/a
<b>Income tax payable (as reported by ATO)</b>	<b>nil</b>