

Tax Transparency Report 2020

Incitec Pivot Limited
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Australia

Contents

CFO Message 3

Corporate Governance..... 3

Where we operate..... 4

Related party transactions..... 6

Taxes paid..... 7

ATO Public Disclosure..... 9

CFO Message

IPL's Tax Transparency Report for the financial year ended 30 September 2020 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 approach 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.

West, US West and Canada and the Coal sector in the Powder River Basin, Illinois Basin and Appalachia.

Asia Pacific: Dyno Nobel Asia Pacific (DNAP), provides ammonium nitrate based industrial explosives, initiating systems and services to the Met Coal and Base & Precious Metals sectors in Australia, and internationally to a number of countries including Indonesia, Papua New Guinea and Turkey through its subsidiaries and joint ventures.

Incitec Pivot Fertilisers

Incitec Pivot Fertilisers (IPF) is IPL's fertilisers business. With an unrivalled position across Eastern Australia, it is the largest domestic manufacturer and supplier of fertilisers by volume produced from its strategically positioned manufacturing facilities, including the ammonium phosphate fertiliser plant in Phosphate Hill, complemented by the world scale sulphuric acid plant at Mount Isa. Internationally, the fertilisers business sells to major offshore agricultural markets in Asia Pacific, the Indian subcontinent, Brazil and the United States. It also procures fertilisers from overseas manufacturers to meet domestic seasonal peaks for its customers' diversified crops.

Global Manufacturing

Americas: In North America, Dyno Nobel manufactures ammonium nitrate at its Cheyenne, Wyoming and Louisiana, Missouri plants. The Cheyenne, Wyoming plant is adjacent to the Powder River Basin, strategically placed for both the Base & Precious Metals Base sector and North America's most competitive thermal coal mining region. The Louisiana, Missouri plant has a competitive logistic footprint from which to support the Quarry & Construction sector and mining in both the Illinois Basin and Appalachia.

Initiating Systems are manufactured at Dyno Nobel's facilities in Connecticut, Kentucky, Illinois, Missouri, Chile and Mexico, and are also sourced from DetNet South Africa (Pty) Ltd (DetNet), an IPL electronics joint venture.

The business also produces nitrogen-based fertilisers and industrial chemicals across four locations including its state of the art ammonia plant in Waggaman Louisiana.

Asia Pacific: In Australia, Dyno Nobel manufactures ammonium nitrate at its Moranbah plant, which is located in the Bowen Basin, the world's premier metallurgical coal region. It also operates its fully integrated, state of the art joint venture ammonium nitrate facility near Moura in Central Queensland.

Initiating Systems are manufactured at Dyno Nobel's Helidon facility in Queensland, and are also sourced from IPL facilities in the Americas and its joint ventures.

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 OECD 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 2020

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 2020.

	Australia	USA	Canada	Mexico	Hong Kong	Chile	Turkey	Indonesia	Papua New Guinea	Other	Total
2020	A\$000	A\$000	A\$000	A\$000	A\$000	A\$000	A\$000	A\$000	A\$000	A\$000	A\$000
Taxes borne by the Group											
Corporate income tax	334.2	(968.2)	7,722.5	3,868.6	208.8	-	985.3	1,764.2	464.1	3,422.4	14,379.5
Employer payroll taxes	15,523.6	16,335.8	1,521.5	2,208.1	-	-	1,000.4	23.2	-	1,023.6	36,612.6
	15,857.8	15,367.6	9,244.0	6,076.7	208.8	-	1,985.7	1,787.4	464.1	4,446.0	50,992.1
Other taxes and payments net of grants and incentives											
Property taxes	452.1	6,405.0	239.5	8.6	-	-	-	27.9	-	27.9	7,133.1
Withholding taxes	801.0	-	-	389.2	-	68.3	469.0	25.3	-	562.6	1,752.8
Customs duties	-	-	-	27.0	-	893.8	-	163.6	-	1,057.4	1,084.4
Stamp duty	-	-	-	-	-	-	6.4	0.3	-	6.7	6.7
Irrecoverable indirect taxes	-	741.5	-	-	-	1,579.9	-	-	-	1,579.9	2,321.4
Government grant receipts	(5,771.4)	-	-	-	-	-	-	-	-	-	(5,771.4)
	(4,518.3)	7,146.5	239.5	424.8	-	2,542.0	489.8	217.1	-	3,248.9	6,541.4
Taxes collected on behalf of a government											
Employee payroll taxes collected	80,786.5	49,364.1	9,805.5	902.8	-	163.9	-	875.0	655.8	1,694.7	142,553.6
Sales Taxes/VAT/GST/Excise duties	81,066.4	7,941.2	19,876.6	(2,667.6)	-	462.6	450.0	2,211.8	651.7	3,776.1	109,992.7
Withholding taxes collected from suppliers	-	-	-	81.8	-	3.2	-	79.0	-	82.2	164.0
	161,852.9	57,305.3	29,682.1	(1,683.0)	-	629.7	450.0	3,165.8	1,307.5	5,553.0	252,710.3
	173,192.4	79,819.4	39,165.6	4,818.5	208.8	3,171.7	2,925.5	5,170.3	1,771.6	13,247.9	310,243.8

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

	2020 Global A\$mill	2020 Australia A\$mill	2019 Global A\$mill	2019 Australia A\$mill
Profit before income tax excluding individually material items	150.9	44.1	159.6	46.5
Total profit before tax	150.9	44.1	159.6	46.5
Tax exempt Intercompany dividend eliminated on consolidation	-	(1.5)	-	(138.6)
Total profit/(loss) before tax excluding intercompany dividend	150.9	42.5	159.6	(92.1)
Tax at the Australian tax rate of 30%	45.3	12.8	47.9	(27.6)
Non temporary differences				
Other foreign deductions	-	-	(15.9)	-
Joint venture income	(8.1)	0.1	(11.6)	2.1
Sundry items	(4.2)	9.8	2.9	5.0
Difference in overseas tax rates	(3.8)	-	(12.8)	-
Adjustment to tax expenses relating to prior years	(1.7)	-	(3.0)	-
Income tax expense attributable to profit	27.5	22.7	7.5	(20.5)
Temporary differences				
Provisions	7.6	5.5	(7.7)	0.8
Property, Plant and Equipment	(47.0)	(14.8)	(67.2)	(8.8)
Tax Losses	42.0	(13.7)	39.9	33.5
Intangible Assets	3.4	-	5.7	-
Capitalised inventory cost	3.8	-	0.9	-
Other	(13.9)	13.7	0.8	3.5
Total origination and reversal of temporary differences	(4.1)	(9.3)	(27.6)	29.0
Tax liabilities	23.4	13.4	(20.1)	8.5
Less:				
Franking credits		(7.9)		(6.2)
Withholding tax credits		(0.6)		
R & D tax offset		(4.9)		(2.3)
Tax payable/(refundable)	23.4	-	(20.1)	-
Effective Tax Rate				
	2020 Global A\$mill	2020 Australia A\$mill	2019 Global A\$mill	2019 Australia A\$mill
Tax expense attributable to profit before individually material items	27.5	22.7	7.5	(20.5)
	percentage	percentage	percentage	percentage
Effective tax rate before individually material items and exempt intercompany dividend	18.2%	53.4%	4.7%	22.3%

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 disclosed 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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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.

	A\$M
	2019
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
Income tax payable (as reported by ATO)	nil