

Tax Transparency Report 2018

Incitec Pivot Limited
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Australia

Contents

CFO Message 3

Corporate Governance..... 3

Where we operate..... 4

Related party transactions..... 5

Taxes paid..... 6

ATO Public Disclosure (include at end of report after tax rec) 8

CFO Message

This is IPL's first comprehensive Tax Transparency Report which 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 Audit Risk Committee (BARC) 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 must be 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 BARC is updated regularly on material tax matters.

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

Operations in Low Tax Jurisdictions

IPL has commercial operations in countries that have lower corporate tax rates than the Australian tax rate of 30%, principally Hong Kong and Singapore.

Our Hong Kong business is centrally located, proximate to global suppliers of fertilisers across the sub-continent and the Middle East, and plays an important role in supporting the Australian fertilisers business.

The IPL Group operates a captive insurance business based in Singapore where the local regulatory framework allows IPL to access the wholesale insurance market, enabling it to secure cost effective insurance for its global business.

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 2018

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 2018.

2018	Australia A\$000	USA A\$000	Canada A\$000	Mexico A\$000	Other A\$000	Total A\$000
Taxes borne by the Group						
Corporate income tax	323.6	449.6	244.8	4,763.6	4,590.5	10,372.1
Employer payroll taxes	13,540.1	15,448.9	1,170.6	2,329.3	1,140.4	33,629.3
	13,863.7	15,898.5	1,415.4	7,092.9	5,730.9	44,001.4
Other taxes and payments net of grants and incentives						
Property taxes	-	5,988.6	280.9	17.5	19.5	6,306.5
Withholding taxes	-	-	-	472.5	713.0	1,185.5
Customs duties	-	-	-	41.5	1,580.0	1,621.5
Stamp duty	-	-	-	-	89.7	89.7
Irrecoverable indirect taxes	-	1,663.7	-	-	1,543.4	3,207.1
Government grant receipts	(2,898.1)	-	-	-	-	(2,898.1)
	(2,898.1)	7,652.3	280.9	531.5	3,945.6	9,512.2
Taxes collected on behalf of a government						
Employee payroll taxes collected	79,172.4	48,830.3	6,112.7	1,527.1	1,424.8	137,067.3
Sales Taxes/VAT/GST/Excise duties	77,864.8	8,373.8	29,435.6	(2,582.5)	4,801.7	117,893.4
Withholding taxes collected from suppliers	-	-	-	37.3	70.2	107.5
	157,037.2	57,204.1	35,548.3	(1,018.1)	6,296.7	255,068.2
	168,002.8	80,754.9	37,244.6	6,606.3	15,973.2	308,581.8

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

	2018 Global A\$mill	2018 Australia A\$mill	2017 Global A\$mill	2017 Australia A\$mill
Profit before income tax excluding individually material items	428.7	279.6	392.5	252.9
Individually material items	(236.0)	(236.0)	-	-
Total profit before tax	192.7	43.6	392.5	252.9
Tax exempt Intercompany dividend eliminated on consolidation	-	(169.8)		(129.6)
Total profit/(loss) before tax excluding intercompany dividend	192.7	(126.2)	392.5	123.3
Tax at the Australian tax rate of 30%	57.8	(37.9)	117.8	37.0
Non temporary differences				
Other foreign deductions	(32.2)	-	(30.1)	-
Joint venture income	(13.0)	0.7	(12.0)	1.0
Capital losses recouped				(4.1)
Goodwill impairment	70.8	70.8		
Sundry items	9.5	2.5	(7.9)	4.0
Withholding tax expense	-		-	-
Difference in overseas tax rates	(11.7)		0.4	-
Adjustment to tax expenses relating to prior years	(2.8)		2.7	
Income tax expense attributable to profit	78.4	36.1	70.9	37.9
Temporary differences				
Provisions	(9.4)	1.9	(31.7)	(6.5)
Property, Plant and Equipment	(60.1)	(33.3)	(119.8)	(24.7)
Tax Losses	37.7	-	59.8	-
Intangible Assets	3.1	-	10.5	-
Capitalised inventory cost			20.1	
Other	13.3	2.1	30.9	5.1
Total origination and reversal of temporary differences	(15.4)	(29.4)	(30.2)	(26.1)
Tax liabilities	63.0	6.8	40.7	11.8
Less:				
Franking credits	(5.5)	(5.5)	(5.8)	(5.8)
Withholding tax credits	(0.7)	(0.7)		
R & D tax offset			(5.7)	(5.7)
Tax payable/(refundable)	56.8	0.6	29.2	0.3
Effective Tax Rate				
	2018 Global A\$mill	2018 Australia A\$mill	2017 Global A\$mill	2017 Australia A\$mill
Tax expense attributable to profit before individually material items	149.2	106.9	70.9	37.9
Tax benefit attributable to individually material items	(70.8)	(70.8)	-	-
	percentage	percentage	percentage	percentage
Effective tax rate before individually material items and exempt intercompany dividend	18.3%	32.9%	18.1%	30.7%
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 2019 the ATO will publicly disclose the following information about Incitec Pivot Limited, as reported by the company in its tax return for the 2018 tax year. The tax return for Incitec Pivot Limited is a consolidated tax return and comprises the results of its wholly owned, Australian tax resident, IPL entities (IPL Tax Group).

Incitec Pivot Limited ABN 42 004 080 264

Total Income (A\$mill)	2,830.6
Taxable Income (A\$mill)	22.7
Income Tax Payable (A\$mill)	0.6

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 Australia group before any expenses are taken into account, and therefore does not represent the real, economic re 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 2018 was \$43.6m. 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 2018
Total Income (as reported by ATO)	2,830.6
Total expenses	2,787.0
Operating profit before tax	43.6
Non-temporary & temporary adjustments	(20.6)
Taxable income (as reported by ATO)	22.7
Tax payable on taxable income	6.8
Less Franking and other Credits	(6.2)
Income tax payable (as reported by ATO)	0.6