ASX RELEASE

27/11/2018

# FY18 TAX TRANSPARENCY REPORT

## Introduction

Independence Group NL (also referred to as IGO or the Company or the Group) is pleased to present its first Tax Transparency Report (Report). The Report is prepared to conform with the recommendations of the Board of Taxation's Voluntary Tax Transparency Code (the Code) and the disclosures in this report are in accordance with the recommendations contained in Part A and Part B of the Code.

The IGO Board of Directors and management believe that excellence in Corporate Governance is essential for the long-term sustainability of the business and it is paramount for the protection of the interests of all stakeholders. It is a strong belief of the Company, that good governance is about 'doing the right thing' and this is the responsibility for all those who work at IGO, with this ethos embedded throughout the organisation.

Furthermore, the desire to 'do the right thing' is embedded within IGO's values. It is the intention that consideration is always given to how things get done and the subsequent impacts of the actions of management, employees and the Company as a whole. The Company affirmed this recently in its 2018 Sustainability Report[1] where it was stated '*The duties of "big business" are changing. There is a clear societal expectation that to sustain business and create reliable returns for shareholders, we must act in a manner that is both ethical and creates shared value for host communities*'.

In line with the Company's Corporate Governance framework, IGO is committed to providing a high level of financial and regulatory compliance. This Report is published on a voluntary basis as part of our commitment to tax transparency. Further information about the Voluntary code can be found at: https://www.ato.gov.au/Business/Large-business/In-detail/Tax-transparency/Voluntary-Tax-Transparency-Code/.

## Group Summary

IGO is a leading mining and exploration company listed on the Australian Stock Exchange (ASX:IGO / ADR:IIDY) with a strategic focus on metals critical to renewable energy and energy storage, and assets that are of high quality, scale and longevity. The Company's operations are all located in Western Australia and include the 100% owned world class Nova nickel-copper-cobalt Operation, and a 30% interest in the Tropicana gold Operation - a joint venture with AngloGold Ashanti Australia Ltd. In addition, the Company has a portfolio of belt-scale exploration projects in Western Australia (Albany Fraser Range) and in the Northern Territory (Lake McKay JV and the Raptor Project). During the year ended 30 June 2018, the Company disposed of its non-core Stockman copper-zinc Project and Jaguar zinc-copper Operation, and also placed its Long nickel Operation into care and maintenance.

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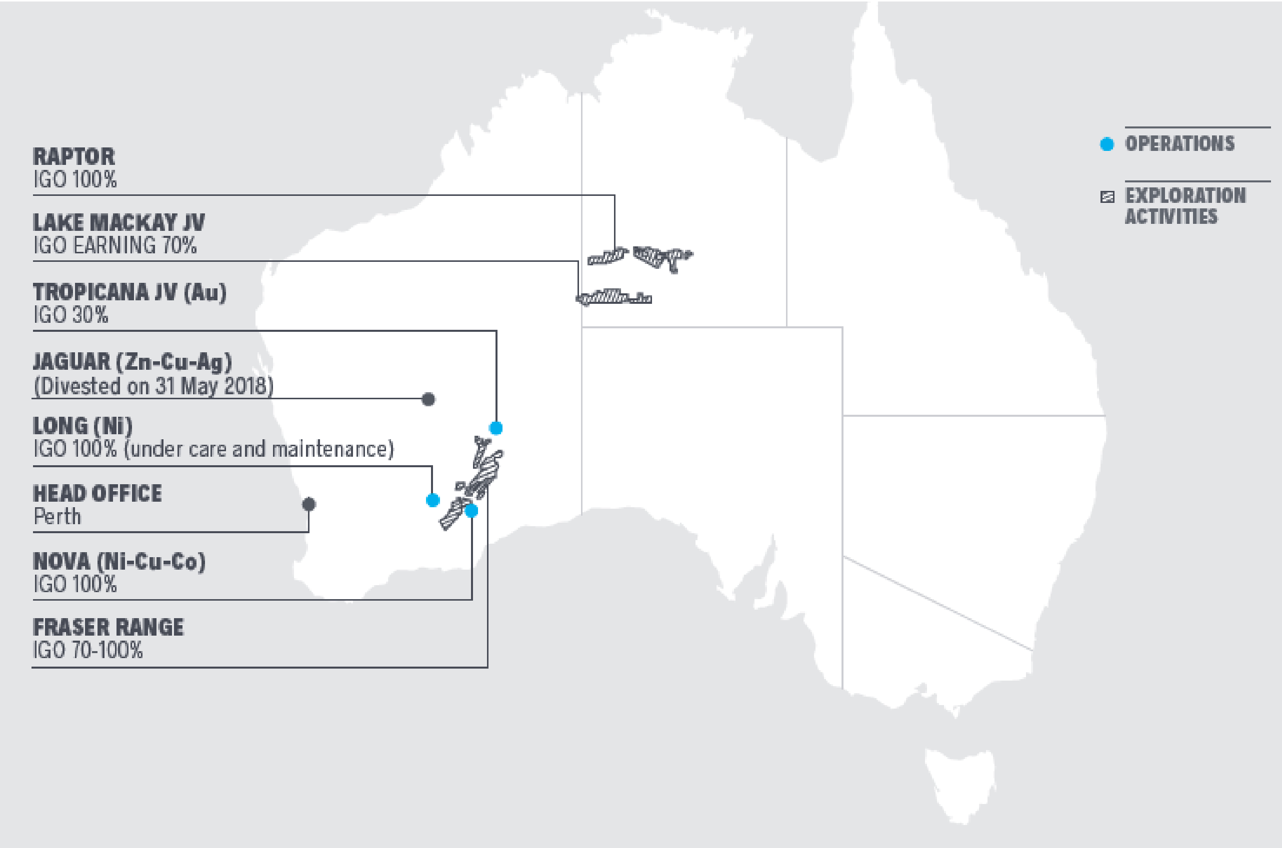
1 https://www.asx.com.au/asxpdf/20181026/pdf/43zmnc3xn286q8.pdf




## Financial and Tax Reporting

This Report provides information relating to Australian taxation activities for IGO for the 2017 and 2018 financial years.

IGO prepares a single consolidated set of financial statements that discloses the accounting profit before tax and income tax expense[1].

IGO has formed a tax consolidated group for income tax purposes, whereby a single consolidated income tax return is prepared and lodged by IGO with the Australian Taxation Office for all Australian wholly-owned subsidiaries. All subsidiary companies are domiciled in Australia with the exception of a minor exploration entity that is domiciled in Sweden.

As at 30 June 2018, the Company has approximately A$650 million of tax losses available to offset against future taxable income of the Company. These losses arose due to a combination of prior year's corporate activity as well as ongoing investment in its operations and growth opportunities.

The following information should be read in conjunction with the disclosures in the 2018 Annual Report.

[1] Further information can be found at Note 29 on page 78 of the IGO 2018 Annual Report: https://www.asx.com.au/asxpdf/20180829/pdf/43xsv9p0sqw2bv.pdf.

## Reconciliation of Accounting Profit to Income Tax Expense and Income Tax Payable

Income tax expense reported on the Company's income statement is calculated by multiplying the accounting profit for the year, adjusted for non-temporary differences, by the relevant corporate tax rate.

A reconciliation of accounting profit to income tax expense and income tax payable is provided as follows:

| | 2018<br>A$'000 | 2017<br>A$'000 |
|---|---|---|
| **Profit from continuing operations** | **79,066** | **26,417** |
| **Tax expense at the Australian tax rate of 30% (2017: 30%)** | **23,720** | 7,925 |
| **Tax effect of non-temporary amounts that are not deductible / (not taxable) in calculating taxable income:** | | |
| Share-based payments | **897** | 51 |
| Non-deductible costs associated with acquisition of subsidiary | **-** | 1,173 |
| Other non-deductible items | **1** | - |
| Adjustment to tax cost base of asset on acquisition of subsidiary | **(11,038)** | - |
| Impairment of tax losses previously recognised | **14,032** | - |
| Non-assessable gain on disposal of subsidiary | **(1,341)** | - |
| Capital losses not brought to account | **-** | 84 |
| Previously unrecognised capital losses brought to account | **(86)** | - |
| Difference in overseas tax rates | **46** | 46 |
| Overseas tax losses not brought to account | **126** | 126 |
| Adjustments for current tax of prior periods | **23** | 1 |
| **Income tax expense** | **26,380** | 9,406 |
| **Income tax payable / paid** | **-** | - |

## Material Non-Temporary and Temporary Differences

The items listed in the table above are non-temporary tax differences that are not, or will never be, assessable or deductible for tax purposes, based on existing tax legislation.

Temporary differences on the other hand arise when income or expenses are recognised in different periods on the financial statements than for tax purposes due to differences in the timing of assessability or deductibility relative to accounting income or expense. They represent differences between the carrying amount of an asset or liability and its notional tax carrying amount (tax base), at the prevailing Australian company tax rate. In the table below, these differences are represented as either a deferred tax liability or a deferred tax asset, and as such they are recorded as liabilities or assets on the Company's balance sheet. A deferred tax liability arises when the tax base is lower than the amount carried on the financial statements. This could be due to accelerated tax deductibility of the expensing of an asset (eg mine properties) relative to the accounting expensing of the asset. The "Balance Sheet" columns of the table outline the temporary differences at balance date, and the "Profit or Loss" columns represent how those differences have changed and impacted the financial accounts (primarily Profit and Loss) during the relevant year.

| | Balance Sheet | | Profit or loss | | Equity | | Disposal of Subsidiary | |
|---|---|---|---|---|---|---|---|---|
| | 2018 A$'000 | 2017 A$'000 | 2018 A$'000 | 2017 A$'000 | 2018 A$'000 | 2017 A$'000 | 2018 A$'000 | 2017 A$'000 |
| **Deferred tax liabilities** | | | | | | | | |
| Capitalised exploration expenditure | (3,915) | (13,285) | (8,729) | (7,108) | - | - | (641) | - |
| Mine properties | (121,034) | (115,721) | 14,212 | 42,451 | - | - | (8,899) | - |
| Deferred gains and losses on hedging contracts | (597) | (197) | - | (1,544) | 400 | 301 | - | - |
| Trade debtors | (2,606) | (6,906) | (3,226) | 2,974 | - | - | (1,074) | - |
| Consumable inventories | (1,905) | (2,514) | 750 | 814 | - | - | (1,359) | - |
| Other | (1,581) | (1,280) | 334 | 1,066 | - | - | (33) | - |
| **Gross deferred tax liabilities** | **(131,638)** | **(139,903)** | **3,341** | **38,653** | **400** | **301** | **(12,006)** | **-** |
| **Deferred tax assets** | | | | | | | | |
| Property, plant and equipment | 514 | 17,965 | 2,766 | 3,405 | - | - | 14,685 | - |
| Deferred losses on hedged commodity contracts | - | 365 | - | 1,543 | 365 | (197) | - | - |
| Business-related capital allowances | 3,593 | 5,509 | 1,916 | 2,056 | - | (2,258) | - | - |
| Provision for employee entitlements | 1,738 | 4,740 | 1,851 | (2,086) | - | - | 1,151 | - |
| Provision for rehabilitation | 18,380 | 21,813 | (391) | (1,905) | - | - | 3,824 | - |
| Mining information | - | 715 | 172 | 307 | - | - | 543 | - |
| Carry forward tax losses | 180,695 | 198,571 | 17,876 | (32,065) | - | - | - | - |
| Other | 2,351 | 1,751 | (1,151) | (502) | - | - | 551 | - |
| **Gross deferred tax assets** | **207,271** | **251,429** | **23,039** | **(29,247)** | **365** | **(2,455)** | **20,754** | **-** |
| **Deferred tax expense (benefit)** | **75,633** | **111,526** | **26,380** | **9,406** | **765** | **(2,154)** | **8,748** | **-** |

As discussed above, the Group has approximately A$650 million of tax losses carried forward. Of these, a deferred tax asset has been recognised for A$602.3 million (carrying value A$180.7 million). The remainder continue to be available to IGO in the future, however have not been recognised as a deferred tax asset as their utilisation in the future is considered to be uncertain.

Whilst the income tax return has not been finalised for the 30 June 2018 financial year, tax payable is anticipated to be $nil due to the availability of these tax losses.

## Accounting Effective Company Tax Rate

The Australian company tax rate is 30% of taxable income for the 2017 and 2018 financial years. The Australian and Global Effective Company Tax Rate (ETR) is calculated as income tax expense divided by accounting profit before tax. The ETR will differ from the company tax rate due to non-temporary differences explained above. The ETRs for IGO for the years ended 30 June 2017 and 30 June 2018 were as follows:

| | 2018 | 2017 |
|---|---|---|
| Australian Effective tax rate (ETR) | 33.4% | 35.6% |
| Global Effective tax rate (ETR) | 33.4% | 35.6% |

The Company's ETR reflects the rate calculated for the entire accounting consolidated group, which includes worldwide operations.

## Tax Contribution Summary

The table below outlines the major taxes and government charges paid by IGO for the 2018 and 2017 financial years.

| | Tax Authority | 2018 A$'000 | 2017 A$'000 |
|---|---|---|---|
| Government Royalties | State | 24,102 | 13,941 |
| Payroll Tax | State | 5,126 | 4,013 |
| Fringe Benefits Tax | Federal | 448 | 425 |
| Stamp Duties | State | - | 59,075 |
| **Total** | | **29,676** | **77,454** |

Please note, these figures exclude taxes withheld from employees and goods and services tax (GST) that is collected by the Company and paid to the Australian Taxation Office.

## Approach to Tax Strategy and Governance

The Board of Directors of IGO recognise tax risk management and governance as a subset of corporate governance. IGO's risk management system is designed to ensure that the Company identifies, documents, communicates and proactively manages risks in a systematic way. At IGO, risk management is fundamentally embedded within the culture of its business.

On 29 August 2018, IGO re-affirmed its approach to corporate governance as being more than just compliance driven in that it is essential for the long-term sustainability of the business and it is paramount for the protection of the interests of all its stakeholders. At IGO, the Board of Directors has a clear understanding that it is responsible for the Company's corporate governance and recognises the importance of its corporate governance framework in establishing accountabilities, guiding and regulating activities, monitoring and managing risks and optimising the Company's performance.

At the highest level, IGO operates a Sustainability and Risk Committee to oversee the management of risk. In accordance with the Committee's Charter, the Committee oversees and reviews the Company's Risk Management System to ensure it remains effective. This includes an assessment of the risk of perceived or actual non-compliance with IGO's statutory regulations including taxation obligations (tax risk).

The identification and management of tax risks are included in the Group's overarching risk management framework that has been endorsed by the Board. The Company's strategy for managing tax risk is as follows:

- To maintain open and constructive relationships with all relevant taxation authorities;
- To ensure that all taxes are paid as and when they become due and payable;
- To comply with the relevant tax laws in all jurisdictions in which it operates;
- To consider tax risks as part of the commercial assessment of any transaction, and to not enter into transactions that are purely motivated by tax outcomes;
- To ensure it has supportable positions in relation to its carry forward tax loss positions;
- To engage with tax authorities where clarity is required;
- To provide evidence that tax positions are valid and legally sustainable in the event of a request for information from a taxation authority; and
- To seek advice from external specialist tax consultants as and when required.

Furthermore, IGO has processes in place to regularly review internal controls via internal audit plans which are tested by both independent assurance providers, as well as internal resources. These plans are authorised by the Board of Directors and findings are reported by management to the Board or its delegated committee.

## International Related Party Dealings

IGO does not have material operations located outside of Australia. IGO does have a minor incorporated subsidiary domiciled in Sweden that was set up in 2014 to advance an exploration opportunity in that country. With the exception of this Swedish entity, IGO does not have any international related party dealings. Hence, IGO's Global Effective Tax Rate is the same as its Australian Effective Tax Rate.

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