

One AECl,
for a better world

Tax Transparency Report 2021



good chemistry

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Contents

Foreword from our Chief Financial Officer	2
Our tax landscape	5
Our tax vision and strategy	6
Governance and tax risk management	7
Contribution to total taxes by group entities	9
Other taxes	10
Uncertain tax positions	11
Changes in tax legislation and impact on the business	11
Stakeholder engagement	12
Relationship with revenue authorities and public advocacy	12
Total tax contribution by country	13
AECI Group effective tax rate	14
Corporate information	16

Foreword from our Chief Financial Officer



Mark Kathan
CFO



TOTAL GROUP REVENUE¹

R26 billion



PROFIT BEFORE TAX¹

R1,85 billion



CORPORATE INCOME TAX ACCRUED²

R505 million



GROUP EFFECTIVE TAX RATE¹

34,7%

TOTAL TAX CONTRIBUTION³



TOTAL TAX CONTRIBUTION OF

R1 814 million

Collected on behalf of revenue authorities⁴

R1 245 million

+

Borne by AECI Group⁵

R569 million

As a company established in 1924, AECI is almost 100 years old. Our history dates back further, to the late 1800s when an explosives factory was established at Modderfontein, Gauteng, to service South Africa's burgeoning gold mining industry.

Today, we are an enterprise with a global footprint, operating in multiple tax jurisdictions on six continents. We aspire to grow much more through our diverse businesses which are structured in four main reportable segments or "pillars". They are AECI Mining, AECI Water, AECI Agri Health and AECI Chemicals.

¹ See 2021 annual financial statements.

² The corporate income tax refers to the normal tax accrued for the AECI Group. See note 24 in the annual financial statements.

³ Total tax contribution includes corporates taxes paid, employees' taxes, customs duty, withholding tax, sugar tax, carbon tax, property tax and net sales tax.

⁴ Taxes collected on behalf of revenue authorities include employees' tax, custom tax, sugar tax and sales tax.

⁵ Taxes borne by AECI are corporate income tax, withholding tax, carbon tax and property tax.

We are “One AECI, for a better world”, driven by our ability and commitment to contribute to solutions to many of the challenges faced in the world today. We make a difference by providing products and services for Better Mining, Better Water, Better Food Systems and Better Chemicals. This is our purpose, ingrained in every aspect of the AECI Group’s business and guided by our BIGGER values of being Bold and Innovative, Going Green, being Engaged and being Responsible.

Implicit in this is being a responsible and transparent corporate citizen, including compliance with local tax and transfer pricing legislative requirements in the markets where we have a presence.

We recognise that most countries in which we operate are heavily reliant on revenue from taxes and we are committed to meeting all our obligations in this regard. These obligations include corporate taxes, employees’ taxes, withholding taxes, indirect taxes, property taxes and carbon taxes, where applicable.

In 2021, 56% of AECI’s total tax contribution was to revenue authorities in South Africa and 29% was to authorities in the Democratic Republic of the Congo. The rest was made to authorities across a number of other jurisdictions.

The Organisation for Economic Co-operation and Development (OECD) defines tax morality as the “intrinsic willingness to pay tax”. Aside from tax being a legal obligation, it is AECI’s high level of tax morality that drives our commitment to full compliance in these matters. We acknowledge that governments across the world depend on tax revenue for their investments to uplift communities, raise standards of living and contribute to long-term economic growth.

We strive to maintain strong relationships with all our stakeholders including customers, suppliers, shareholders, employees, communities and regulators. In support of this, we endeavour to provide consistent, clear and transparent communication that fosters a sense of trust and builds mutually beneficial relationships.

To demonstrate our commitment to transparency and stakeholder engagement, I am pleased to present AECI’s first Tax Transparency report. This report sets out our tax strategy and approach, tax compliance matters, tax risk management, relationships with revenue authorities and tax reporting. It has been compiled using guidance from the best standard practice guidelines in the GRI 207.



Mark Kathan

Chief Financial Officer

Woodmead, Sandton

28 April 2022

AECI'S TOTAL TAX CONTRIBUTION BY TAX TYPE IN 2021



EMPLOYEES' TAX

We collected and paid

R991 million*



CUSTOMS DUTY

We collected and paid

R685 million*



CORPORATE INCOME TAXES (PAID IN CASH)

We paid

R482 million



DIVIDEND WITHHOLDING TAXES

We paid

R64 million

on dividends
we received



SERVICES WITHHOLDING TAXES

We paid

R6 million

on various foreign services



PROPERTY TAX

We paid

R10 million*



SUGAR TAX

We collected and paid

R8 million*



CARBON TAX

We paid

R7 million*



NET SALES TAX

We are due a refund of

R439 million

* Limited assurance

Our tax landscape

The global tax landscape has been shaped by several trends that have impacted the way businesses operate. Notably, increased levels of globalisation and more integrated value chains, together with greater use of technology, have resulted in policy-makers and multinational enterprises (MNEs) reassessing whether historical taxation principles remain relevant.

Post the global financial crisis in 2008/2009, the G20 Finance Ministers commissioned the OECD to identify measures that could address perceived base erosion and profit shifting (BEPS). The OECD BEPS project commenced in 2013 and by October 2015 the final reports on the 15 BEPS Action Points were released. The Action Points have important implications for MNEs because they have a strong focus on increasing transparency, concentrating on levels of substance and ensuring the consistent treatment of transactions in different markets.

These international developments were embraced by many countries, including several where the AECI Group operates, and they introduced legislation to give effect to many of the proposals from the OECD BEPS project.

The BEPS project resulted in the need for considerably more disclosure of cross-border transactions for companies that have consolidated revenue exceeding €750 million. Accordingly, the impact from a tax compliance perspective was significant for our Group.

At the same time, several countries, notably those with developing economies, introduced additional regulations to govern cross-border transactions. This was coupled with capacity-building programmes to increase the level of expertise in many revenue authorities and equip them to undertake complex tax audits.

Currently, 141 countries and jurisdictions are working together in the OECD/G20 Inclusive Framework (Framework) on BEPS to implement the 15 Actions Points. The objectives are to combat tax evasion, improve the coherence of international tax rules, ensure a more transparent tax environment and address the tax challenges posed by digitalisation of the global economy.

Jurisdictions where we operate that have signed the Framework are Australia, Botswana, Burkina Faso, Chile, Congo, the Democratic Republic of the Congo, Germany, Indonesia, Mauritius, Namibia, South Africa and Zambia.

We view these developments as positive overall, given the intention to increase certainty for businesses operating in those markets while ensuring that the fair share of tax is being collected by local revenue authorities.

On 20 December 2021 the OECD published guidelines for an additional set of rules, namely the Anti-Global Base Erosion (GloBE) Rules. Known as Pillar Two, these guidelines are intended to ensure that geographically diversified MNEs pay a minimum level of tax on income generated in each jurisdiction where they operate. The guidelines are currently drafted as model rules that could easily be translated into domestic legislation, the goal being to assist jurisdictions which accept them with implementation of Pillar Two in tandem with other jurisdictions, in the agreed-upon timescale.

The intention is that when jurisdictions elect to apply the GloBE Rules they will do so in a consistent and coordinated manner. There is an agreed-upon order in which the rules are implemented, and the regulations contain back-up or secondary rules that apply if the primary rule is not followed by the country where an MNE is located.

Countries that choose to implement the GloBE guidelines will employ a single tax base and definition of covered taxes, as well as an effective tax rate test, to determine if an MNE's effective tax rate in any jurisdiction where it operates is less than the agreed minimum rate of 15%.

These changes and proposed changes are having significant effects on businesses and revenue authorities alike, given the need to establish processes and systems to accommodate the new requirements.

The unprecedented rate of change in the tax landscape has resulted in businesses needing to deal with increasing levels of tax compliance, more revenue authority audits and the increased possibility of double taxation. Differences in domestic tax legislations between jurisdictions, and the manner in which jurisdictions interpret and apply international guidance/standards, often exacerbate the challenge.

The OECD and the United Nations have made tax transparency a priority item on their agendas and action plans. By improving the control environment that governs the reporting process, these organisations are putting more pressure on tax functions to manage tax and related risks effectively. At the same time, corporate governance requirements and best practice guidelines (like King IV™ in South Africa) place increasing responsibility on board members to minimise risk in the interests of shareholders. Unforeseen taxes can have a severe impact on a business and tax risk management is increasingly seen as an important part of good corporate governance.

Tax functions have had to improve their risk management governance, data, processes and technology capabilities. Simultaneously, many revenue authorities are developing new toolsets and methodologies to identify tax risk. Furthermore, because many transparency efforts have potential commercial and reputational risks, the tax function has had to become more involved with strategic decision-making, providing input into future strategies to reduce potential risk.

Our tax vision and strategy

To achieve our tax vision and deliver maximum value to the Group, the strategic objectives of Group Tax have been aligned with the objectives of the Group as a whole.

One key area of focus is managing potential tax risk. While there is no universal definition of the term, AECI views tax risk as a risk related to any changes in tax legislation or the interpretation of legislation.

The Group Tax function's strategic objectives are:

- **Compliance with all applicable tax laws and regulations**
In each territory, timeously and accurately comply with tax-filing requirements for both direct and indirect taxes.
- **Monitoring tax risk**
Promote tax awareness among our internal stakeholders by involving them in anticipating, identifying, reporting and mitigating material tax risks and related exposures. Provide training on relevant tax topics and proactively identify areas to be addressed.
- **Operational tax controls**
Communicate, employ and review business processes to determine required minimum tax-related financial and business controls for all tax types.
- **Transparency and communication**
Partner with business to drive tax initiatives and cultivate tax awareness across the Group.
- **Talent management**
Employ, develop and retain a world-class tax team focused on improving tax management across the Group in line with the Group Tax function's vision. Where finance teams at operational level do not have suitable capacity to perform the required tax functions (e.g. entities in foreign jurisdictions), work is outsourced to respected external service tax providers.
- **Strategic advisory**
Provide guidance to internal stakeholders to minimise tax inefficiencies (including double taxation), improve tax structuring of transactions and identify additional processes to enhance compliance with relevant tax legislation.
- **Tax optimisation**
Formulate a strategic plan in line with the overall AECI Group Growth Strategy with a view to enhancing tax savings, minimising tax costs and limiting unnecessary financial exposures in the short, medium and long term while adhering to the laws and regulations of each country in which we operate. AECI participates in tax incentives offered by various revenue authorities. A particular example in South Africa relates to research and development incentive opportunities. The incentives we receive pertain mainly to AECI Mining, AECI Plant Health and AECI Chemicals.

Our vision

Achieving tax excellence and optimising AECI's global tax position by being a trusted advisor and enabler to the business, while complying with applicable legislation, mitigating operational risks, capitalising on opportunities and effectively managing tax controversy.

Achieving our strategic objectives

We use standard analytical tools for reporting and communication purposes to encourage tax awareness across the business. The Group Tax function involves business stakeholders to assist in mitigating known material tax risks through appropriate action plans. The team encourages business stakeholders to proactively identify and manage new tax risks which arise.

Tax risks identified are captured using standard methodology, in line with AECI's internal control framework, for identifying, assessing, reporting and mitigating tax risks. These risks are documented and tax positions are taken in line with our tax framework.

Relevant training is provided to the broader business to improve knowledge and skills levels. We align with initiatives across the business to enhance tax benefits, ensure compliance with tax legislation and effectively and efficiently mitigate tax risks. In this way we ensure knowledge sharing to create greater awareness of tax-related matters throughout the Group and take advantage of tax planning opportunities.

Our approach to tax

All tax adjustments are made in line with tax legal principles, available published tax cases and the accepted revenue practices of tax legislation in the countries in which we operate. Where the treatment of tax adjustments is uncertain, we seek the legal opinion of a reputable, experienced, expert tax practitioner to understand the technical arguments of the law. We then make a prudent decision on the final tax treatment of the transaction in question. We also seek guidance from highly regarded consultants, lawyers and other advisors in all jurisdictions.

Group Tax reviews all significant tax-sensitive commercial transactions. In addition, any tax disputes require that Group Tax be involved to enable their effective, efficient and appropriate management. AECI has made the decision not to engage in any artificial tax arrangements..

Low tax jurisdictions and tax appetite

AECI will only enter jurisdictions on the basis of strong commercial reasons for doing so. While a degree of tax uncertainty is unavoidable, the Group does not have appetite for significant tax risk and, therefore, strategic decisions are made taking potential tax considerations into account.

Governance and tax risk management

The AECI Board has delegated responsibility for the tax strategy to the Group Tax function. The governance of tax is overseen by the Audit Committee.

In 2016 AECI’s management, with the approval of the Audit Committee, formalised and deployed a tax risk management (TRM) framework across the Group. The framework aims to assist the Group Tax function in aligning its strategic vision with the Group’s overall Growth Strategy, corporate governance structures and risk governance policies along with appropriate monitoring and tracking of relevant tax risks and strategic tax opportunities.

The Group Tax Manager (GTM), through sponsorship from the CFO, is the custodian of TRM and is ultimately responsible for the TRM framework and its implementation. The GTM has the support of a dedicated and skilled centralised tax team based in South Africa.

Key to the TRM process is the Tax Steering Committee. This Committee acts as custodian of the TRM framework and is mandated to ensure compliance with the framework. In line with

its fiduciary responsibilities and in the interests of safeguarding the comprehensive tax strategy, the Audit Committee is invited to the Tax Steering Committee annually. Other invitees are AECI’s external auditor, the Internal Audit Manager and the Group Risk Manager.

The Tax Steering Committee oversees the diverse aspects of the Group Tax function, including governance, strategy, and Group-wide special projects. The GTM and the Tax Steering Committee are also responsible for determining which risks need escalation to the Audit Committee and the Board. They are responsible for rolling out risk mitigation action plans with the assistance of management and the Group’s finance teams. The GTM attends the Audit Committee meetings by invitation to provide updates on tax compliance and revenue authority engagements.

Tax Sub-committees are also in place. Their membership includes the Finance Executives of each Group business and broader finance teams. The Sub-committees oversee tax activities relating to divisional compliance, operations and special projects. They identify, evaluate and report operational tax risks to the Tax Steering Committee.

Tax operating model

AECI operates within a tax framework which includes a tax operating model (TOM). This summarises how Group Tax operates and achieves its vision and strategic objectives. The tax function as a whole is widely represented across the Group. Group Tax relies on the finance teams of subsidiaries and divisions to perform certain tax functions.

TAX STEERING COMMITTEE		
COMPLIANCE	OPERATIONS	SPECIAL PROJECTS
<p>Foreign entities Central contact and coordination of foreign tax compliance (corporate income tax, indirect tax, etc.). Managing revenue authority queries and application of relevant tax laws and practices</p>	<p>Tax planning Cash flow planning in conjunction with tax efficiency planning in terms of tax positions to be taken</p>	<p>Transactions Tax planning relating to corporate activity, M&A, contracts, etc.</p>
<p>South African direct tax Managing local queries and the application of SA tax laws and practices</p>	<p>Risk management Internal audit/controls/processes management and assessing the impact of changes on processes</p>	<p>Long-term planning Group-wide tax planning initiatives (including local and foreign entities)</p>
<p>South African indirect tax Managing local queries and indirect tax compliance policies in line with relevant laws</p>	<p>Group reporting Tax consolidation, reporting and accounting as well as preparation of tax disclosures</p>	
<p>Tax dispute resolution Managing tax audits and disputes with relevant revenue authorities for the entire AECI Group</p>	<p>Tax administration Coordination of queries, managing tax clearance certificates and administering e-filing platforms</p>	

Lines of assurance to mitigate tax risk

We recognise that tax risks are inherent in many business activities. Taking a consistent approach in line with our broader risk management strategy, the TRM process is defined to help identify, mitigate and monitor AECI's significant tax exposures. The TRM framework aligns itself with the AECI Group enterprise risk management (ERM) framework and follows the same approach to managing tax risk by considering the potential consequence of all types of tax risk on all processes, activities, stakeholders, products and services. We provide assurance to all our stakeholders that tax risk is managed proactively and continually strive to improve tax decision-making across our business.

Line of assurance	Those providing assurance	Nature of assurance
First	Finance Executives and finance teams	Complete tax internal control matrix bi-annually.
Second	Audit Committee and Executive Committee	Provide monitoring and oversight of the overall Group Growth Strategy.
Second	Group Tax, Tax Steering Committee, Foreign Investment Committee and Tax Sub-committees	Follow through on Group strategy. Create awareness and training and ensure compliance.
Third	External auditor, Internal Audit and external third-party service providers	Provide overall assurance on tax compliance, processes and policies.

Tax risks overview

Group Tax, together with Group Risk Management, conducts workshops to identify high-level tax risks.

The risks identified must be monitored by Group Tax for follow-up in terms of action plans and to determine whether risk details require updating. Group Tax must determine the appropriate level to which the tax risks should be reported, in compliance with guidelines set in the Tax framework.

Identified tax risks which are more likely than not to result in the tax risk materialising and having a material financial consequence for an individual Group business or AECI as a whole must be reported to the Tax Steering Committee. These risks are deemed to be significant to the Group.

Matters that could pose a high risk for AECI include, but are not limited to, the correct treatment of indirect taxes, revenue authority queries, late or non-compliance of tax-type returns, entering new jurisdictions and transfer pricing.

Transfer pricing

A key Group objective is to leverage its economies of scale and to provide customers with world-class products and services. At the same time, the Group continues to expand, bringing it within the ambit of transfer pricing legislation and regulations in many countries. Internationally, there has been increased focus on the implementation of transfer pricing legislation, an initiative driven and supported mainly by the OECD and the United Nations.

Not surprisingly, many jurisdictions leverage the guidance provided in the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations and, to a lesser extent, the United Nations Practical Manual on Transfer Pricing for Developing Countries when developing and implementing transfer pricing legislation.

Both sets of guidelines place reliance on the "arm's length principle", which is generally incorporated into domestic transfer pricing legislation.

Many of the countries where we operate have introduced transfer pricing legislation, requiring cross-border inter-company transactions and, in certain instances domestic inter-company transactions, to be priced at arm's length.

In line with our value of being Responsible, our approach to transfer pricing is to ensure consistency in cross-border inter-company transactions, adhering to international guidance and best practice while complying with the domestic transfer pricing legislation and requirements of individual countries of operation.

Transfer pricing requirements

The BEPS project provides 15 Actions as a starting point for governments to implement the domestic and international instruments needed to address tax avoidance. Key drivers are transparency, greater consistency and greater focus on the substance of MNEs. Actions 8, 9, 10 and 13 have specific bearing on transfer pricing.

Action 13, "Transfer Pricing Documentation and Country by Country Reporting", contains revised standards for transfer pricing documentation. The OECD considers these to be the minimum standards that should apply to transfer pricing documentation. Action 13 requires taxpayers to document and articulate their transfer pricing position consistently in order to provide revenue authorities with sufficient information regarding the taxpayer's transfer pricing practices. The Action refers to the so-called three-tier approach in terms of which taxpayers meeting certain minimum requirements are required to prepare a local file(s), master file and country-by-country (CbC) report.

The master file and CbC report are submitted to the South African Revenue Service (SARS) and the Ghana Revenue Authority as Ghana has not signed the OECD's Automatic Exchange of Information. CbC report notification is also submitted to the Mauritius Revenue Authority, the Australian Tax office, the Indonesian Tax office and the Zambia Revenue Authority.

Multinational groups with consolidated revenue of €750 million or more in the preceding fiscal year are required to comply with the three-tier approach. This includes the CbC report which contains financial information on each jurisdiction where the MNE operates. Many of the countries where we are active have adopted the three-tier approach, including South Africa.

The AECI Group remains committed to not only complying with local domestic transfer pricing legislation in all jurisdictions of operations but to also document its transfer pricing position in accordance with the three-tier approach in the interests of remaining compliant and transparent in relation to its transfer pricing position.

Strategic partnerships

To comply with the multitude of transfer pricing legislation and requirements, we have engaged a specialist transfer pricing advisory firm on the African continent to support our compliance. By centralising transfer pricing compliance responsibility, we ensure that compliance is prioritised and overseen throughout the Group. This facilitates accurate and timeous compliance with local and international requirements.

Through our strong partnerships in the transfer pricing landscape, we remain committed to continual progress in compliance wherever we operate.

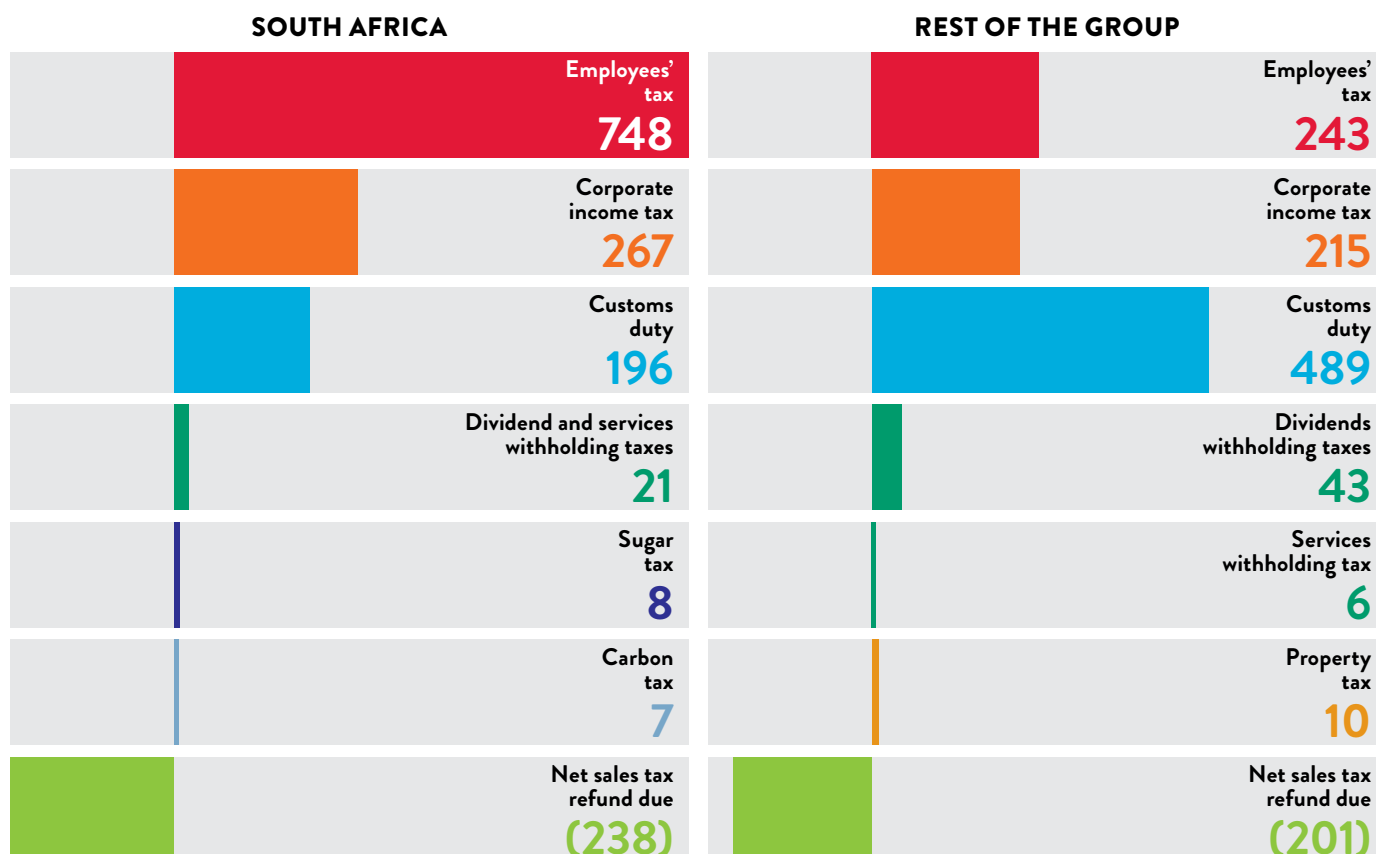
Compliance status

The AECI Group has ensured that it complies with transfer pricing legislation and international best practice in the jurisdictions where we operate. Work in this regard includes:

- Preparing transfer pricing documentation encompassing the three-tiered approach for Group affiliates in 16 countries, where the minimum threshold to prepare transfer pricing documentation is met
- Ensuring that, where domestic legislation contains submission requirements for transfer pricing documentation, this is submitted timeously to the relevant revenue authorities
- In instances where there are no submission requirements, ensuring that transfer pricing documentation is prepared and retained in accordance with local legislation, should the documentation be requested by revenue authorities
- Engaging timeously and constructively with revenue authorities when any query arises.

As we continue our expansion into new markets, and with many jurisdictions introducing transfer pricing requirements or updating their current legislative framework, we remain committed to behaving as a compliant, transparent corporate citizen wherever we operate.

Contribution to total taxes by group entities (Rm)



Other taxes

We take seriously our commitment to pay all taxes. In 2021, we paid particular attention to carbon tax and customs tax.

Carbon tax

The South African carbon tax regulation was enacted on 1 June 2019. It requires companies that conduct certain activities that exceed specified thresholds to pay tax on their greenhouse gas (GHG) emissions. The tax is payable annually, in July each year, for GHG emissions in respect of the prior calendar year.

Because compliance with legislation is of utmost importance to us, prior to the introduction of the South African carbon tax we worked with specialists to understand which of AECI's companies conduct listed activities that exceed the specified thresholds. The following were identified as qualifying carbon taxpayers:

- AECI Mining Ltd
- AECI Ltd
- Much Asphalt (Pty) Ltd
- East Coast Asphalt (Pty) Ltd, and
- SprayPave (Pty) Ltd.

These entities were licensed with SARS for carbon tax. The first carbon tax accounts were submitted in October 2020 for GHG emissions from 1 June 2019 to 31 December 2019. The second accounts were submitted in July 2021 for GHG emissions from 1 January 2020 to 31 December 2020.

The majority of our carbon tax liability (69%) rests with AECI Mining Ltd. AECI Mining Explosives, a division of AECI Mining Ltd, produces nitric acid in a process which results in GHG emissions. It also uses coal to generate steam for use in the manufacturing process.

The Group is currently preparing its carbon tax accounts for 2021, due for submission in July 2022.

We are focused on reducing our GHG emissions. Not only will this reduce our carbon tax liability but it is also aligned with our commitment to published sustainability improvement targets by 20% from 2019's baseline by 2025. Projects to achieve the targets include the installation of abatement technology at our No. 9 and No.11 Nitric Acid plant. The project was completed in 2021 and resulted in lower emissions of nitrous oxide, significantly reducing our Scope 1 emissions.

The carbon tax in South Africa is being applied in phases, with Phase 1 coming to an end at the end of 2022. Phase 2 will commence on 1 January 2023. Although the design of the tax under Phase 2 is not yet clear, it is anticipated that our liability will increase. Under Phase 1, we have utilised available allowances to reduce our liability. We anticipate that these allowances may be reduced or removed under Phase 2. Given this, GHG emission reduction is all the more important for us.

The carbon tax proposals made in the South African National Budget speech on 23 February 2022 increased the carbon tax rate and the carbon fuel levy with effect from 1 January 2022 and 6 April 2022, respectively.

Chile introduced carbon tax legislation in 2017. However, those regulations target the power generation sector and will thus not be applicable to our operations in that country. No other jurisdictions where we operate have introduced carbon taxes to date.

Carbon tax credits

AECI Mining Explosives entered into an agreement with Sasol South Africa Ltd for the sale of 1,3 million carbon credits. The sale was made in two tranches after the date on which the carbon credits were registered in the name of Sasol on the Carbon Offset Administration Systems (COAS) (South Africa) system. The first tranche, for R57 million, was sold in 2020 and the second, for R72 million, was concluded in 2021.

Customs tax

In line with our compliance commitments, we acknowledge our responsibility to pay appropriate customs duties and import value-added tax (VAT) in all countries where we operate. We are transparent on how we manage our taxes and are aware of the importance of the revenue from this source as an enabler of development.

We have initiated customs compliance reviews in certain of our trading businesses to enhance compliance throughout the Group. Better customs compliance ensures that:

- Mechanisms are in place to capture and store all required information and that there is a designated centralised controlled repository for storing customs information
- All employees understand the importance of customs compliance
- Regular customs refresher training is made available to employees, as required
- All imported products are classified correctly and the correct customs duties are paid, and
- Opportunities and risks are identified for the business as a whole.

Uncertain tax positions

IFRS standard IFRIC 23: Uncertainty over Income Tax Treatments deals with the disclosure, recognition and measurement of “uncertain tax positions” in an entity’s annual financial statements. This standard only deals with corporate taxes within the scope of IAS 12 Income Taxes. All other taxes (such as VAT, employees’ tax and customs and excise duties) are excluded.

Since there could be differing views on tax legislation (including tax court cases and revenue practices), certain tax positions may be open to interpretation.

AECI has always taken a prudent approach to the corporate tax treatment of its transactions as well as disclosure in corporate tax returns. In the event of the law being unclear, we seek a tax practitioner’s opinion and take the best approach for the entity on the basis of the advice received.

AECI has certain revenue assessments under dispute resolution within the jurisdictions where the Group operates. We are of the view that the majority of these disputes can be resolved to mutual satisfaction with the respective revenue authority, that we have used the correct interpretation of the law and that our corporate tax approach was in line with the law at the time of submission of the relevant return.

We accept that each tax authority is within its rights to review, scrutinise and challenge any tax treatment in the corporate tax return and subsequent objections to formal assessments. Notwithstanding our view that the corporate tax treatment, including transfer pricing, is correct, we accept that there are certain tax treatments where it is probable that the tax authorities may not be in favour of the arguments presented by ourselves. Where there are positions of uncertainty, AECI takes a view on the likely outcome and makes provision for outflows in accordance with IFRS and IFRIC 23 in particular.

Any provision is reassessed based on the outcomes of the disputes and any other changes in circumstances or new information brought to our attention. Included here could be further discussions with tax authorities, the judgements of court cases of a similar nature and the prescription of tax returns.

Changes in tax legislation and impact on the business

Corporates have very little control over the changes in tax legislation imposed by governments. Since we operate in so many jurisdictions, it is critically important that we keep abreast of these changes.

Once tax legislative changes have been introduced, they are analysed and assessed in terms of the impact they will have on the Group business concerned as well the Group as a whole. The communication of changes is vital because they may require us to make significant changes to processes and/or systems. Where changes involve employees’ tax, employees must be notified of the effects thereof on their disposable income in good time.

Failure to understand and implement legislative changes can have serious consequences including penalties, interest and reputational damage.

Noteworthy changes to tax legislation that impacted the Group during 2021 were as follows:

Country	Tax legislation change	Impact
Mauritius	The taxation of GBC1 companies and the end of godfathering provisions. GBC1 companies will be taxed at a statutory rate of 15%, with some exemptions to income.	The tax obligation for AECI Mauritius will increase.
Zambia	All companies need to keep their accounting records in local currency (kwacha). The corporate income tax rate reduced from 35% to 30% from 1 January 2022.	The kwacha is a volatile currency and it can depreciate significantly against the US dollar, which is the functional currency of AECI Mining Explosives PLC. Lower corporate income taxes will be paid.

Stakeholder engagement

Our stakeholders have a vested interest in our business and in the outcomes of our actions. It follows, then, that the perspective of all AECI’s stakeholders must be considered when we make critical decisions for the business. Our stakeholders and our related commitments in this context are:



Shareholders and lenders

AECI to provide year-on-year increased return on invested capital and money borrowed.



Customers

AECI strives to provide the highest quality of goods and service to customers.



Employees

AECI to provide employees with job security, fair pay and useful benefits in a safe work environment.



Suppliers

AECI strives to build and maintain sound and ethical partnerships with all suppliers.



Government and regulators

AECI to comply with all legislative and regulatory requirements in all jurisdictions.



Communities

AECI to continue investing in corporate social responsibility initiatives, particularly education and community development, to uplift the communities in which we operate.

Relationships with revenue authorities and public advocacy

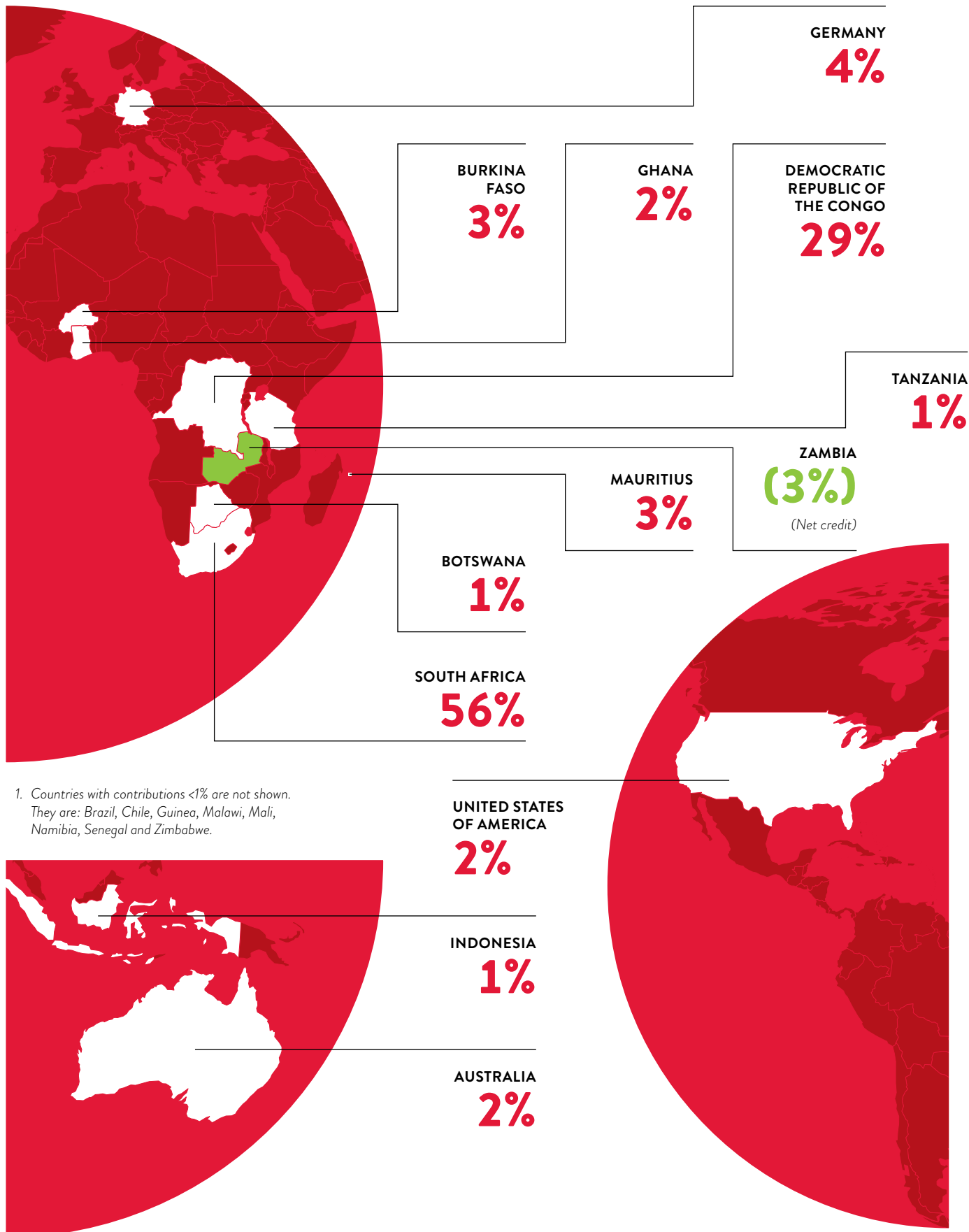
AECI seeks to manage tax controversies and relationships with revenue authorities in a proactive and efficient manner. The same is true for managing their perceptions of our businesses. We are cooperative in all dealings with revenue authorities and maintain proactive relationships, encouraging open dialogue on a timely basis. Where any tax law is unclear or subject to interpretation, we engage with external tax consultants to safeguard compliance in all instances.

Where applicable, we work with revenue authorities to resolve any differences. We encourage face-to-face interaction with the relevant revenue authority alongside our tax consultants, if necessary. We work to foster robust relationships with revenue authorities and endeavour to keep the lines of communication open.

At the same time as cooperating with revenue authorities in addressing their requests, we assess the practical nature and legality of each request. AECI feels strongly about following due tax administration processes and expects revenue authorities to abide by their own rules and procedures.

Where necessary, we approach regulators either on our own or with the assistance of advisors to lobby on new legislation. This is done either directly or via other professional bodies or professional services firms. One example is our joining of a proposal by several stakeholders who operate in Tanzania to seek clarification on the classification of services fees in South Africa. The stakeholders are preparing a presentation for the General Commissioner of the Tanzanian Tax Authority and the South African High Commission. The objective is to approach and present the stakeholders’ case to the Tanzanian Ministry of Finance and SARS.

Total tax contribution by country¹



1. Countries with contributions <1% are not shown. They are: Brazil, Chile, Guinea, Malawi, Mali, Namibia, Senegal and Zimbabwe.

AECI Group

effective tax rate

The effective tax rate reconciliation has been expanded in the annual financial statements to provide more useful information as recommended by the JSE report on proactive monitoring of financial statements in 2021. The latter report was issued to AECI on 9 November 2021.

During 2021 there were no material non-recurring transactions affecting the tax rate. As such, the normalised effective tax rate was 34,7%.

The two main contributors to the effective tax rate were:





















- *Non-deductible expenses, of which depreciation on non-allowable tax assets remains the most significant component. Other non-deductible expenses include items specifically not allowed as a deduction under income tax legislation such as consulting fees (in certain circumstances), unrealised foreign exchange losses and items specified as not utilised in the production of taxable income.*
- *Foreign withholding taxes on dividends received and service fees in foreign jurisdictions for related party transactions.*

We operate in multiple jurisdictions and are subject to taxes at the in-country statutory rate. The Group benefits from the application of lower in-country statutory rates where a location or manufacturing dispensation is applicable (such as in Botswana, Ghana and Zambia). Entities with assessed losses will not incur any current tax in a jurisdiction unless a minimum tax is payable. Finally, entities with prior year adjustments and known revenue authority assessments will also be liable for additional taxes in the jurisdiction.

GROUP EFFECTIVE TAX RATE (%)

Effective rate on profit before tax	34,7
Capital and non-taxable receipts	0,8
– Other capital and non-taxable receipts	0,8
Non-deductible expenses	(3,8)
– Depreciation	(0,6)
– Other non-deductible expenses	(3,2)
Foreign withholding taxes on dividends received and service fees in foreign jurisdictions (related party transactions)	(3,8)
Adjustment to tax provision following final tax computation on completion of tax returns relating to 2020	(1,1)
Capital gains	(0,1)
– Other capital gains	(0,1)
Effect of tax rates in foreign jurisdictions that differ from the SA normal tax rate	1,4
Special tax allowances (primarily research and development allowances in South Africa)	0,4
Other	(0,5)
	28,0

EFFECTIVE TAX RATES AND STANDARD CORPORATE INCOME TAX RATES 2021

	Effective tax rate ¹ %	Standard corporate income tax rates ² %
 Australia	30,04	30,00
 Botswana ³	14,45	22,00
 Brazil ⁴	13,19	34,00
 Burkina Faso ⁵	88,36	27,50
 Chile	26,30	27,00
 Democratic Republic of the Congo ⁵	55,79	30,00
 Germany	29,43	29,32
 Ghana	23,68	25,00
 Guinea ⁶	(30,97)	30,00
 Indonesia ⁵	11,16	22,00
 Malawi	33,34	30,00
 Mali ⁶	(14,22)	30,00
 Mauritius ⁷	29,43	15,00
 Namibia ⁵	370,41	32,00
 Senegal	31,40	30,00
 South Africa	29,48	28,00
 Tanzania	32,76	30,00
 United States of America ⁵	17,76	21,00
 Zambia	37,06	35,00
 Zimbabwe ⁸	(17,26)	24,72

1 ETRs are all based on profit before tax and income tax expenses converted into rand for the Group in the applicable countries that AECI operates.

2 These are standard corporate income tax rates in the respective jurisdictions where our businesses operate. They are in line with in-country income tax legislation.

3 Manufacturing income is taxed at 16% in Botswana.

4 Minimal-trading entity.

5 Adjustment to corporate income tax relating to prior year.

6 In-country minimum tax levied on loss-making entity.

7 Tax rate due to withholding taxes.

8 The deferred tax credit on assessed losses and other temporary differences was not recognised due to requirements of IAS 12 of the IFRS not being met.

Corporate information

AECI Ltd

(Incorporated in the Republic of South Africa)
(Registration No. 1924/002590/06)
Tax reference No. 9000008608
Share code: AFE ISIN: ZAE000000220
Hybrid code: AFEP ISIN: ZAE000000238
Bond company code: AECI
LEI: 3789008641F1D3D90E85
(AECI or the Company or the Group)

Group Tax Manager

Nadia Kuvido

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Web address

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Transfer Secretaries

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2132
South Africa

and

Computershare Investor Services plc

PO Box 82
The Pavilions Bridgwater Road
Bristol BS99 7NH
England

External auditor

Deloitte & Touche

5 Magwa Crescent
Waterfall City
2090
South Africa

Primary transactional and funding banks

Absa Bank Ltd
First National Bank of Southern Africa Ltd
(A Division of FirstRand Bank Ltd)
Investec Bank Ltd
Nedbank Ltd
Sanlam Life Insurance Ltd
(Acting through its Sanlam Capital Markets Division)
Standard Chartered Bank
The Standard Bank of South Africa Ltd

South African equity and debt sponsor

Rand Merchant Bank

(A division of FirstRand Bank Ltd)
1 Merchant Place
Corner Rivonia Road and Fredman Drive
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2196
South Africa