ARGO INVESTMENTS LIMITED

TAX TRANSPARENCY REPORT

2018-2019

Introduction

Argo Investments Limited (Argo or Company) actively manages a diversified portfolio of Australian listed securities with the objective of providing both long-term capital growth and dividend income for its shareholders.

The Board of Argo is committed to responsible financial and business practices and the highest standards of corporate governance to protect and advance shareholders' interests. As part of this commitment, the Board has determined that the Company publish a Tax Transparency Report in accordance with the Voluntary Tax Transparency Code as developed by the Board of Taxation.

Risk management framework

Argo's Risk Management Policy addresses the elements of the Company's risk management framework including how risks are identified and managed and who is responsible for risk.

The Risk Management Policy is available at:
https://www.argoinvestments.com.au/Risk-Management-Policy.pdf

Responsibilities

Board
The Board oversees the operational and financial risks of the Company, including taxation risk with the assistance and recommendations of the Audit & Risk Committee.

Audit & Risk Committee
The Board has delegated responsibilities to the Audit & Risk Committee in relation to financial reporting, internal financial controls and facilitating the external audit.

Management
Management has developed the Company's taxation compliance strategy and designed its taxation risk management system. Management regularly reports to the Audit & Risk Committee on taxation matters and discusses any relevant issues.

The Managing Director and the Chief Financial Officer provide management representation assurance letters twice a year to the Board confirming the Company's financial statements are founded on a sound system of risk management and internal control.

Taxation compliance strategy

Argo's taxation compliance strategy is to provide conservative tax effective accounting under current taxation legislation and ATO guidance to ensure tax obligations are met. The Company looks for certainty in tax outcomes and therefore does not pursue risky or uncertain positions.

Taxation risk management

In accordance with the Company’s risk management framework, the Company’s business environment is regularly reviewed for new taxation risks and its current taxation risks are continually monitored.

Argo’s risk management and internal control systems ensure compliance by the Company with its taxation obligations.

Management consults the Company’s external auditor and tax advisers, PricewaterhouseCoopers (PWC) on all significant transactions and medium/high taxation risk matters to ensure correct application to enable the Company to meet its taxation obligations.

<u>Taxation risk controls</u>
To reduce the risk of misstatement in the calculation and provision for taxation, the Company has the following controls in place:

- As part of the half-year review and full-year audit, PWC review the Company’s provision for tax payable and confirm the franking account and Listed Investment Company (LIC) capital gain account balances;

- PWC annually review and confirm accounting and tax treatment of investment transactions to ensure treatment is consistent with ATO legislation, guidance and class rulings; and

- Management prepares the Company’s annual tax return and engages PWC to review and lodge it.

Income tax reconciliations

A reconciliation of Argo’s accounting profit to its income tax expense is included in Note 4 of the Company’s 2019 Annual Report in accordance with International Financial Reporting Standards (IFRS).

The Company provides the following information to enhance transparency of Argo’s tax outcomes in accordance with the Voluntary Tax Transparency Code:

1) Reconciliation of accounting profit for the year ended 30 June 2019 to income tax paid or payable;

2) Effective company tax rates; and

3) Reconciliation of tax liability payable at 30 June 2019 to tax paid for the 2018-19 year.

1) Reconciliation of accounting profit for the year ended 30 June 2019 to income tax paid or payable

	2019 $ 000
Profit for the year before tax	306,641
Nominal tax at 30%	91,992
Less: franking credits on dividends received	(68,579)
Less: non-taxable distribution	(10,835)
Add: other taxable items	1,496
Less: over provision in previous year	(106)
Income tax expense as per Statement of Profit or Loss	**13,968**
Add: tax on realised capital gains	20,941
Add: deferred tax temporary differences	595
Less: PAYG tax instalments paid	(19,397)
Tax payable as per Statement of Financial Position at 30 June 2019	**16,107**

2) Effective company tax rates

	2019 $ 000
Profit for the year before tax	306,641
Income tax expense as per Statement of Profit or Loss	13,968
Effective tax rate	**4.6%**

Franked dividends received by the Company include tax credits which represent the tax already paid and distributed by the source companies. Including the tax (franking) credits received, and adjusting for the non-taxable demerger dividend from the Coles demerger from Wesfarmers, the effective tax rate would be as follows:

	2019 $ 000
Profit for the year before tax	306,641
Adjustment for demerger dividend	36,116
Adjusted profit for the year before tax	270,525
Franking and foreign tax credits received	68,617
Income tax expense as per Statement of Profit or Loss	13,968
Tax expense including tax paid on dividends received	**82,585**
Effective tax rate including tax paid on dividends received	**30.5%**

The effective tax rate including tax paid on dividends received is more than the company tax rate of 30% due to non-assessable trust income received, dividends accrued at balance date and the over provision of tax from the previous year.

3) Reconciliation of tax liability payable at 30 June 2019 to tax paid for the 2018-19 year

	2019 $ 000
Tax payable as per Statement of Financial Position at 30 June 2019	16,107
Less: PAYG instalments paid post June 2019	(15,926)
Over provision of tax for 2018-19 year	181

The over provision amount above arises from non-assessable amounts and adjustments as per annual tax statements received after 30 June 2019 from trusts. The over provision amount has been accounted for in the Company's financial statements for the year ended 30 June 2020.