

18 June 2019

Ms Helen Szoke
Chief Executive
Oxfam Australia
132 Leicester Street
Carlton VIC 3053

Dear Helen,

Thank you for your correspondence of 29 May in relation to the Oxfam Australia embargoed draft research report on Australia mining companies' tax transparency.

MMG appreciates the opportunity to review the report prior to its publication. While we have worked collaboratively with Oxfam on the provision of information over 2018, we were surprised by both the tone and quality of information contained in the draft document and have done our best to respond to this given the short time frame available for our review.

MMG has traditionally valued the high quality of reports produced by Oxfam, however we were disappointed to see that despite Internationally accepted accounting standards and methods being the basis of global tax and transparency dialogues to date, including through the EITI, that this report is not aligned to those globally accepted norms and therefore risks misleading readers of the report.

With regards to the specifics of the report, and your statements on MMG, we would provide the following feedback and look forward to your response on these matters.

Misrepresentation of data that has been publicly disclosed in audited accounts

Your assertion that MMGs payment of taxes is not a 'fair share' is not consistent with our audited accounts, the details of which have been published in our annual reports, with further information provided on request to Oxfam Australia as per our correspondence with Ms Daisy Gardner of 22 October 2018.

On page 4 of the draft report you state: "MMG Limited pays almost no tax in the DRC and has an effective tax rate of zero just about everywhere it operates around the world". The footnote (No.18) refers to Appendix II for "full details" however the Appendix does not show how this statement was established.

A company's effective tax rate is calculated as income tax expense as a percentage of its profit before tax. The company's audited 2018 Annual Report (Pg17) shows the company's effective tax rate as 55% and 53% for the 2018 and 2017 financial years respectively. We would note that this substantially exceeds the effective rate of taxation paid by the mining industry globally, as reported by the ICMM (44% in 2016).

MMG's reporting of taxes paid in the countries of operation includes corporate income taxes, royalties and other indirect taxes imposed by Governments. These are significant financial contributions to Governments. For example, on Page 17 of the company's 2018 annual report, the company's income tax expense is disclosed as \$169.6M and \$394.5M for the 2018 and 2017 years respectively. Similar disclosures can also be found in the company's annual accounts for prior years.

All payments disclosed by MMG have been produced in accordance with International Accounting Standards, audited in line with International Accounting procedures and the consistent with the requirements of our listing rules under both the Hong Kong Stock Exchange, and our secondary listing under the Australian Stock Exchange. Accordingly, we find a number of statements related to these disclosures to be inferring that MMG may be seeking to mislead or engage in deceptive conduct and would request these are amended prior to publication. Examples of these include:

- page 27 of the report: *"This means that if the company's claim that they have paid between US\$65 million and US\$210 million annually in income taxes to governments globally from 2011 to 2017 is correct ..."*. We note that this is not a claim made by MMG but rather relates to numbers determined through independent audit of our accounts and published in an audited annual report.
- Page 29 of the report: Figure 8 compares the revenue to corporate tax paid and is supported by the statement *"by assuming that the Kinsevere mine actually makes profits on par with the industry average of 12% ... we have estimated that MMG could have paid at least US\$39 million extra in taxes between 2012 and 2015.*

This statement does not in any way align with international accounting practices and norms as it is universally understood that revenue does not equate to profits. Furthermore, accounting profit does not equate to taxable profit, as there are certain expenses which reduce the accounting profit to calculate the taxable profit in which income tax is calculated. It is also simplistic to apply an industry average profit margin to revenue, as there are different factors impacting the financial performance of a mine.

We note that the information which has been misreported by Oxfam Australia is already publicly disclosed on Page 26 of MMG's 2018 annual accounts, Kinsevere had earnings before interest and tax ("EBIT") of \$49.8M and \$34.5M for the 2018 and 2017 years respectively. It should be noted that the taxable profits for Kinsevere in those years were less than EBIT as the company also incurred interest to fund the operation of the mine. The interest is tax deductible pursuant to the DRC Mining Code.

- page 30 of the report: *"The company has denied that they have a relationship with the financial planning firm named Appleby"*. As confirmed in our correspondence of 22 October 2018, MMG uses this firm to provide legal and company secretarial services only.
- Page 55 of the report: *"The royalty paid for Kinsevere in MMG Limited's annual reports is more than double the royalty reported in EITI. While it is unclear if it's the government misreporting royalties received or company misreporting royalties paid ..."*

MMG rejects the assertion that it has misreported the amount of royalties paid. The company's annual reports and accounts are audited by Deloitte and in earlier financial years by PricewaterhouseCoopers, both being international reputable accounting and audit firms. For example in the company's 2018 annual report, Page 26 discloses the amount of royalties paid by Kinsevere. Similar details are also disclosed for each mine operated by MMG in the report. This disclosure has been made in the annual reports for each of the years the subject of Oxfam's report and analysis.

- Page 58 of the report: *"Trafigura thereby becomes a related party. If copper concentrate mined from Kinsevere was being sold at a discounted price to Trafigura, then the company is able to claim less profit is made in DRC and therefore less tax is paid to the DRC Government"*. Trafigura is not a related party. MMG does not have an ownership interest in Trafigura. The terms and conditions of trading with Trafigura are at arm's length. It should also be acknowledged by Oxfam that the Hong Kong listing rules related to the disclosure of related party transactions are recognised by some global advocacy groups as providing a higher level of disclosure than is required under the Australian equivalent.

We request that these significant misrepresentations are corrected prior to publication.

Failure to acknowledge the limitations on taxes paid directly correlating to development outcomes due to the issues associated with other non-mining actors

The report asserts that additional resources to the DRC Government would necessarily correlate with additional expenditure on key drivers of sustainable development in the DRC including health and education, as well as food security and poverty alleviation. The only recognition provided by Oxfam that this may not be the case is a footnote on page 2 of the report which states that: *"In addition to ensuring governments receive the correct amount of taxes, there is an important role for governments to make the right decisions on spending on these public sources in order to achieve positive social outcomes."*

This footnote significantly understates the challenge in any jurisdiction, and particularly in a developing country context, of ensuring appropriate levels of Government investment in the provision of essential services like health and education; of ensuring equity of access for all people in the country irrespective of income status or physical location; and to deliver these in a context where there is often the absence of critical infrastructure (like reliable electricity supplies, water and sanitation) essential to their effective functioning.

Further, we note that in a previous Oxfam Australia Report: *The Hidden Billions*, Jamaldeen, M., (2016) that Oxfam recognised that:

"...we find that, on average, 33% of government spending goes towards essential services such as education, health, water and sanitation, social protection and gender equality programs. A large chunk of the rest goes towards servicing debt, which is a major issue for many developing economies."

In addition, the report fails to appropriately recognise the challenges in ensuring that all mining related revenues are invested in state services (e.g. health) given the persistent, widespread and endemic forms of corruption¹ existing in the DRC which de facto negatively impact sustainable development.

Failure to acknowledge the significant value of MMG direct investment in the social and economic development of the DRC.

While Oxfam has not engaged MMG in a dialogue on any other payments made within the DRC, we note that in 2018 MMG directly invested US\$931,163 in social development initiatives to increase the development outcomes to our host communities. This amount of investment has been stable since our acquisition of the mine in 2012.

Our investments in the DRC are aligned to United Nations Sustainable Development Goals 1-6, and focus on the following areas:

- *Poverty alleviation* – business programs to support local enterprises, particularly focussed on vulnerable groups including female headed households.
- *Zero Hunger* – operation of a large-scale maize farm as a demonstration site for mechanised food production, a small-scale Farmers Assistance Program benefiting over 420 households, and support for protein in diets through the construction of fish farms in communities.
- *Good Health and Well-being* – we run a community-based hospital which includes surgical and maternal health services to the local community. We also provide support to the regional nursing service to enable their mobile health posts, and run major health campaigns on diseases such as Malaria and HIV/AIDS, including supporting testing and treatment and the provision of relevant medications and prophylaxis.
- *Quality Education* – MMG Kinsevere has constructed 8 schools in our local communities and supports their operations, including the provision of teaching materials and support for teachers' salaries. In addition, we provide a comprehensive range of scholarships, apprenticeships and traineeships, as well as adult literacy and financial education.

¹ Transparency International (2014). Overview of the corruption and anti-corruption in the Democratic Republic of Congo (DRC). Accessed: https://www.transparency.org/files/content/corruption/Country_Profile_DRC_2014.pdf

- *Gender Equality* – Kinsevere in conjunction with a range of civil society organisations runs community engagement sessions on the issues associated with gender biased practices in the DRC. In response to this our communities have reduced the level of early child marriage, increased girls participation in schools (such that they now exceed 50% of the student cohort) and enable women’s economic independence.
- *Water and Sanitation* – MMG Kinsevere has constructed and operates a comprehensive set of water bores in the communities within our area of influence. We undertake constant testing and cleaning of the bores, as well as community education, to minimise the risk of cholera or coliform infections.

In addition to our direct investment, MMG provides a number streams of other direct support to communities in the Katanga Province, examples of which include:

- *Employment* – the MMG workforce at Kinsevere is currently 3,125 people of whom 99.2% are Congolese Nationals. These stable, skilled and highly paid roles contribute substantial incomes to our employees and their families. In addition to their salaries employees and their families also receive high quality health care and education support.
- *Local Procurement* – MMG Kinsevere procures local goods and services within the Haute Katanga Province and other areas of the DRC
- *Management of health epidemics* – e.g MMG recently managed a cholera outbreak in the neighbouring Kilongo community which was subsequently recognised by Medicens Sans Frontieres and leading to the protection of numerous lives in the community; and
- *Management of natural disasters* – e.g MMG has on numerous occasions provided emergency roofing materials to ensure water proofing of houses during significant rainfall events and has supported communities that have lost maize crops due to bushfires.

Despite the implementation of a social basket fund under the new DRC Mining Code, MMG has chosen to maintain its direct investment activities to ensure that nearby communities continue to benefit from our support of development projects aligned to UN SDG’s 1-6.

Failure to acknowledge MMGs leadership on the Extractive Industries Transparency Initiative and commitment to resource transparency

The report leaves readers with an impression that MMG is not acting as a good corporate citizen when MMG is actively participating in improving transparency of the mining sector in the DRC and globally.

In line with the ICMM member commitments on transparency of mining revenues, MMG recognises the value of disclosure of taxes, royalties and other payments made to Governments, and the value of such disclosures in empowering citizens and civil society organisations to hold Governments accountable for the effective expenditure or investment of those funds.

Further, we recognise that increased transparency is most beneficial when pursued as part of broader governance improvement programs to deliver long-term economic growth and poverty alleviation. A related aspect is the implementation of policies and procedures to ensure effective regional planning and investment in critical infrastructure and administrative processes to ensure that revenues are managed effectively.

MMG is committed to several global transparency initiatives, some examples of which follow:

- We support the Extractive Industry Transparency Initiative in its efforts to improve transparency in countries rich in oil, gas and mineral resources. MMG contributes financially to EITI through its membership in International Council on Mining & Metals and is an active participant in the EITI candidacy of the DRC and Peru.
- MMG was a strong advocate of the Australian pilot of the EITI which was catalysed by the Minerals Council of Australia in collaboration with Oxfam and Transparency International and participated as a

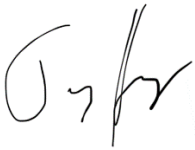
pilot reporting company in this initiative. Since this time, we have continued to reference the importance of the Australian Government adoption of the EITI in full in any advocacy activities.

- We are an active member of International Council on Mining and Metals, an international organisation dedicated to a safe, fair and sustainable mining and metals industry. Through this membership MMG participates in all ICMM initiatives, tax transparency being one of them.
- MMG's Code of Conduct and Standards create a strong governance framework for anti-bribery and corruption. We have a specific Anti-Corruption Standard, as well as anti-bribery and corruption training across the business. We also have appropriate disclosure and grievance management frameworks and whistle-blower protections to strengthen this framework.
- MMG has been engaged in the promulgation of the new Mining Code in the DRC and has actively participated in the industry and government dialogue.

Thank you again for the opportunity to provide feedback on the report. While we have not had an opportunity to respond to every point in the report which we consider warrants review, given the available time we have focused on material errors and omissions which warrant your reconsideration.

We look forward to continuing our productive relationship in the future.

Kind regards

A handwritten signature in black ink, appearing to read 'Troy Hey', with a stylized flourish at the end.

Troy Hey
Executive General Manager – Stakeholder Relations