



# 2017 Tax Contribution Report

for the year ended  
31 December 2016

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## 1. MESSAGE FROM THE CHIEF FINANCIAL OFFICER



EnergyAustralia supplies energy to 1.7 million customers across Australia, the majority families and small businesses. We provide an essential service, which means we occupy a privileged position in the community. The payment of taxes and royalties to federal and state governments is just one of the ways we contribute to people's lives, but it's an important one.

We also know it's important for people to have confidence their companies are doing the right thing. That's why EnergyAustralia was the first energy utility in Australia to register for the Australian government's new tax transparency code, aimed at encouraging large and medium-sized businesses to disclose their tax affairs.

We are pleased to present the company's first Tax Contribution Report. This report discloses the tax payments we made during the year ended 31 December 2016 and includes information about our approach to tax and an explanation of why we paid the tax we did.

This report is in addition to information already published in EnergyAustralia's general financial statement for the 2016 calendar year, prepared in accordance with Australian Accounting Standards.

We hope in years to come more companies commit to making their businesses, and the tax they pay, easier for the community to understand; it's about doing the right thing.

Thank you for your interest in EnergyAustralia.

Alastair McKeown  
Chief Financial Officer

## **2. OVERVIEW OF ENERGYAUSTRALIA**

At EnergyAustralia, our purpose is to lead and accelerate the clean energy transformation for all. We are one of Australia's largest energy retailers, serving more than 2.6 million accounts and approximately 1.7 million customers across New South Wales, Victoria, South Australia, Queensland and the Australian Capital Territory. The company employs around 2,500 people and owns and operates an energy generation portfolio including coal, gas and wind assets.

We also contribute to the Australian community through payments to local suppliers, wages to employees, investments in community initiatives and payments of taxes and royalties to federal and state governments. Our income is derived solely from the supply of energy and energy services in Australia.

For income tax purposes, EnergyAustralia has formed a tax consolidated group comprising EnergyAustralia Holdings Limited (as head company) and its wholly-owned Australian resident subsidiaries. This tax consolidated group is treated as a "single taxpayer", i.e. EnergyAustralia lodges a single Australian income tax return for its operations.

## **3. TAX POLICY, RISK MANAGEMENT AND GOVERNANCE**

EnergyAustralia recognises that sound tax governance and risk management are crucial to running a sustainable and responsible business. The company is committed to managing its tax affairs responsibly and in line with Group governance framework and procedures.

Specifically, EnergyAustralia is committed to observing all applicable laws, regulations and rules in meeting its tax compliance and reporting obligations and paying all taxes due in accordance with the tax rules. Its approach to tax risk management is defined under EnergyAustralia Group Risk Management Framework.

Any material tax risks are reported to the Audit and Risk Committee (delegate of the Board) on a quarterly basis and to the Board during each half year reporting period at a minimum.

## **4. ENGAGEMENT WITH THE AUSTRALIAN TAXATION OFFICE ("ATO")**

EnergyAustralia is committed to being professional, open and transparent with tax authorities about its tax affairs and in disclosing relevant information for their review.

Based on total gross revenue, the company is classified as a "key taxpayer" by the ATO. As a key taxpayer, EnergyAustralia is in regular and direct contact with the ATO. EnergyAustralia regularly engages with the ATO to confirm its compliance with tax obligations and discuss issues as the year progresses, in line with its commitment to open and transparent dealings.

## 5. RECONCILIATION OF ACCOUNTING PROFIT TO INCOME TAX EXPENSE TO INCOME TAX PAID

This section presents details of EnergyAustralia's accounting profit before tax, income tax expense and income tax paid.

### Reconciliation of accounting profit to income tax expense (as reported in EnergyAustralia's financial statement for year ended 31 December 2016)

	<b>2016 (\$m)</b>
Accounting profit before income tax	465.2
<b>Income tax expense on accounting profit at 30%</b>	<b>(139.6)</b>
<i>(Increase)/decrease in income tax expense due to:</i>	
Tax over provided in prior year *	4.5
Non-deductible transaction and legal fees	(0.6)
Reversal of penalty amount previously assessed to tax	2.0
<b>Income tax expense</b> (per accounts for year ended 31 Dec 2016)	<b>(133.7)</b>

\* Comprises mainly of benefits arising from research and development

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## 6. EFFECTIVE INCOME TAX RATE

	<b>2016 (\$m)</b>
Income tax expense (as above)	133.7
Accounting profit before income tax (as above)	465.2
<b>Effective income tax rate</b>	<b>29%</b>

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EnergyAustralia's effective income tax rate is calculated as income tax expense divided by accounting profit before income tax. The effective income tax rate for the year ended 31 December 2016 is 29 per cent; the corporate income tax rate is 30%. The variance is due mainly to benefits arising from research and development.

**Reconciliation of income tax expense to income tax paid (as reported in EnergyAustralia Holdings' 2017 income tax return – for year ended 31 December 2016)**

	<b>2016 (\$m)</b>
<b>Income tax expense</b>	133.7
<i>Remove income tax expense items (as outlined above) that do not impact on tax payable:</i>	
Tax over provided in prior year	4.5
Reversal of penalty amount previously assessed to tax	2.0
<i>Non-temporary differences impacting income tax payable</i>	
Non-deductible transaction and legal fees	0.9
Research and development expenditure	5.2
<b>Income tax expense after adjustment</b>	<u>146.3</u>
<i>Temporary differences*</i>	
Doubtful debts	(9.6)
Employee benefits	5.0
Derivatives at fair value	0.5
Fixed assets	(19.2)
Intangible assets	6.3
Restoration and remediation provisions	2.8
Inventories	3.5
Provisions	(6.9)
Other	(0.8)
	<u>(18.4)</u>
<i>Utilised carry-forward tax losses</i>	(127.9)
<b>Income tax paid</b> (per EnergyAustralia's income tax return for the year ended 31 December 2016)	-

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\* Temporary differences relate to items which are not paid/received during the year. Such items, which are recognised at different points in time for accounting and tax purposes, include: depreciation, provisions, unrealised gains and losses on derivatives.

EnergyAustralia's taxable income was reduced to nil after applying tax losses accumulated in prior years, reflecting operational performance and the depreciation of assets.

## 7. AUSTRALIAN TAX CONTRIBUTION SUMMARY

EnergyAustralia pays payroll tax, fringe benefits tax and royalties to the ATO and the State Revenue Offices. In 2016, a total payment of \$24 million was made. This comprises of:

	<b>2016 (\$m)</b>
Payroll tax	14.3
Royalties	9.2
Fringe benefits tax	0.5

In addition, EnergyAustralia also collects and remits Goods and Services Tax (GST) and Pay-As-You-Go (PAYG) employee withholding to the ATO.