

Tax Contribution Report 2018



EnergyAustralia

LIGHT THE WAY

Contents

1. Message from the Chief Financial Officer	3
2. Overview of EnergyAustralia	4
3. Tax Policy, Risk Management and Governance	5
4. Engagement with the Australian Taxation Office (ATO)	5
5. Reconciliation of accounting profit to income tax expense to income tax payable	6–7
6. Effective income tax rate	8
7. Australian tax contribution summary	9
8. International related party dealings	10



Alastair McKeown
Chief Financial Officer

1. Message from the Chief Financial Officer

EnergyAustralia supplies electricity and gas to 2.6 million customer accounts across Australia, the majority belonging to families and small businesses. We're privileged to provide an essential service. We also contribute to the community in other ways, one of them the provision of taxes and royalties to federal and state governments.

We are pleased to present the EnergyAustralia 2018 Tax Contribution Report, our second under the Australian government's tax transparency code. The document discloses the tax payments we made during the year ended 31 December 2017 and includes information about our approach to tax and an explanation of why we paid the tax we did.

For the past decade an excess of electricity supply in a highly competitive market has led to very modest, and sometimes negative, overall returns for EnergyAustralia. In recent years that has meant low profitability, and no corporate tax.

However, a recovery in the wholesale electricity market has underpinned better financial results. In calendar year 2017 EnergyAustralia's income or "corporate" tax liability was almost \$70 million. As our business performance continues to improve, our contribution to the community will follow, including the corporate tax we pay.

We were proud to be the first energy utility in Australia to commit to the transparency code, aimed at encouraging large and medium-sized businesses to disclose their tax affairs. That's because today, more than ever, it's important for people to have confidence in business.

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

Thank you for your interest in EnergyAustralia.

2. Overview of EnergyAustralia

At EnergyAustralia our purpose is to lead and accelerate the clean energy transformation for all, no matter where people live or how much they earn. We're a wholly-owned subsidiary of CLP Group of Hong Kong, one of the oldest and largest integrated power businesses in the Asia Pacific region. EnergyAustralia serves more than 2.6 million customer accounts across New South Wales, Victoria, South Australia, Queensland and the Australian Capital Territory, backed by a 5000 megawatt (MW) generation portfolio comprising coal, gas and wind assets as well as power purchase agreements for renewable energy. We employ around 2500 people in Australia, with our headquarters in Melbourne.

EnergyAustralia's income is derived solely from the supply of energy and energy services in Australia. Our core business is providing reliable, affordable energy for our customers while leading the shift to a cleaner energy future for all Australians. We also contribute to the community through wages to employees, doing business with local suppliers, community investments and sponsorships and payments of taxes and royalties to federal and state governments.

How we do business is just as important as what we do. EnergyAustralia is guided by three values: customers are our priority; do the right thing; lead change. Any decision we make or any project we do should be socially and environmentally acceptable. We believe all our stakeholders including customers, shareholders, employees, the wider community and the environment should be better off for our presence.

For income tax purposes, EnergyAustralia is 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 is governed by the Value Framework and Code of Conduct of our owner, CLP Group. The framework and the code set out CLP Group's commitment to all stakeholders, including compliance with all applicable laws and regulations and open and transparent communication about business matters.

EnergyAustralia recognises that sound tax governance and risk management are crucial to running a sustainable and responsible business. Specifically, EnergyAustralia is committed to observing all applicable laws, regulations and rules in meeting both tax compliance and reporting obligations and paying all applicable taxes due in accordance with the tax rules. Our approach to tax risk management is defined under the EnergyAustralia Risk Management Framework.

Material tax risks are reported quarterly to the Audit and Risk Committee (a delegate of the EnergyAustralia Board) and no less than every six months to the Board.

4. Engagement with the Australian Taxation Office (ATO)

EnergyAustralia is categorised by the Australian Tax Office (ATO) as a Top 100 public and multinational taxpayer and was categorised as a key taxpayer for 2017. This rating applies for both income tax and GST under the ATO's risk differentiation framework.

EnergyAustralia works co-operatively with the ATO in line with the Key Taxpayer Engagement Plan (KTE) on all pre-lodgement compliance reviews, annual compliance arrangements and streamlined assurance reviews. We are committed to the "justified trust" concept of building and maintaining community confidence that EnergyAustralia is paying the right amount of tax according to law on its economic activities connected to Australia.

5. Reconciliation of accounting profit to income tax expense to income tax payable

Despite a competitive retail market and policy uncertainty, EnergyAustralia improved profit before income tax from the prior year (FY2016 \$465.2m), reflecting the benefit of higher wholesale electricity prices and efficient portfolio management. Better performance has allowed EnergyAustralia to commit to both short-term measures aimed at lowering or maintaining prices for customers and in long-term investments and projects to help make energy affordable and reliable. For example, the business is investing an additional \$10 million in support for vulnerable customers and has introduced new products such as Secure Saver, which offers a fixed rate for two years. In June 2018 EnergyAustralia announced it would pay \$40 million of costs to keep average electricity prices flat for its customers in New South Wales. EnergyAustralia is also assessing projects to help integrate solar and wind power into the national grid, including 1000 MW of potential new gas-fired power plants in New South Wales and a 225-MW pumped hydro development in South Australia.

Reconciliation of accounting profit to income tax expense

	2017 (\$m)
Profit/ (loss) before income tax	556.6
Income tax at the Australian rate of 30 percent	<u>(167.0)</u>
<i>Tax effect of amounts which are not deductible/ (assessable)</i>	
(Over) / under provision of income tax	1.8
Adjustment for current tax of prior period*	93.9
Non deductible expenses	0.5
Income tax expense	<u>(70.8)</u>

*During the year, EnergyAustralia reversed a tax provision of \$94m it held against its tax losses in relation to a historical acquisition transaction following confirmation of the tax treatment by the ATO.

Reconciliation of income tax expense to income tax payable

		2017
		(\$m)
Income tax expense		70.8
<i>a. Tax effect of amounts which are not deductible/ (assessable)</i>		
(Over) / under provision of income tax	1.8	
Adjustment for current tax of prior period	<u>93.9</u>	95.7
<i>b. Non-temporary differences</i>		
Non deductible transactions & legal fees	3.7	
Research & Development expense adjustment	<u>1.3</u>	5.0
<i>c. Temporary differences</i>		
Depreciation	(19.5)	
Accruals	(3.0)	
Other	(5.3)	
Inventories	(6.5)	
Provisions	7.0	
Derivatives at fair value	<u>(18.2)</u>	(45.5)
<i>d. Utilised carry forward tax losses</i>		
		(15.9)
<i>e. Non-refundable carry forward tax offsets – R&D</i>		
		(41.6)
Income tax payable		<u>68.5</u>

Temporary differences relate to items which are recognised at different points in time for accounting and tax purposes. They include depreciation, provisions, accruals and unrealised gains and losses on derivatives.

EnergyAustralia's income tax payable was \$68.5m after utilising all tax losses accumulated in prior years and utilising R&D tax offsets. EnergyAustralia has been paying tax monthly since October 2017.

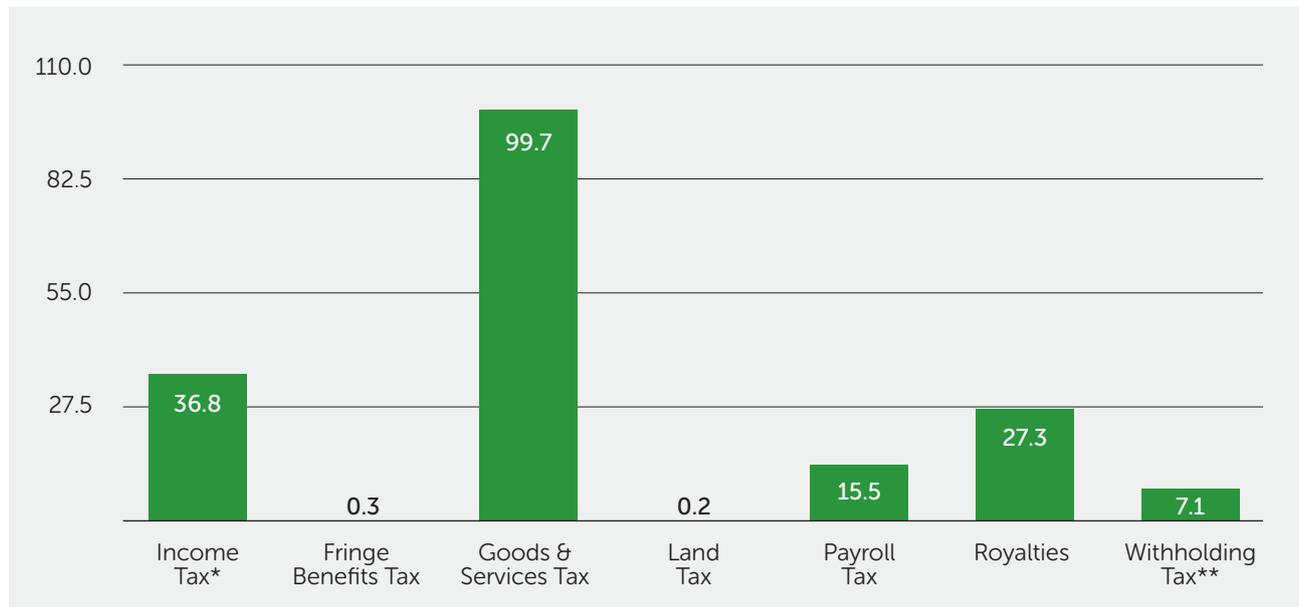
6. Effective income tax rate

	2017
	(\$m)
Income tax expense	70.8
Accounting profit before tax	556.6
Australian effective tax rate	13%

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 2017 is 13% (FY2016: 29%), compared to the corporate income tax rate of 30%. The current year variance is due to the \$94m reversal of a tax provision against tax losses held in relation to a historical acquisition transaction. These tax losses were used in 2017 after the confirmation of the tax treatment by the ATO. The normalised effective corporate tax rate once the impact of the reversed tax provision is adjusted for is 30%.

7. Australian tax contribution summary

During the year ended 31 December 2017, EnergyAustralia made the following tax contributions:



Tax Type	(\$m)
Income Tax*	36.8
Fringe Benefits Tax	0.3
Goods & Services Tax	99.7
Land Tax	0.2
Payroll Tax	15.5
Royalties	27.3
Withholding Tax**	7.1
	186.9

* Income Tax paid includes all monthly instalments made to the ATO relating to the 2017 financial year. Income Tax payable disclosed in Section 5 of \$68.5m is the total Income Tax Payable for the 2017 financial year prior to the offset of the 2017 monthly instalment payments. The balance of the 2017 Income Tax payable has been made in the 2018 financial year and will be disclosed in the Tax Contribution Report for the 2018 financial year.

** Withholding Tax excludes Pay-As-You-Go (PAYG) from employees' salary and wages.

8. International related-party dealings

The primary international related-party dealing expense in FY2017 for EnergyAustralia was interest paid on related party loans. As part of the ATO's early engagement process, EnergyAustralia and the ATO have agreed to the pricing of the related party loan via a Settlement Deed.

EnergyAustralia maintains appropriate documentation in relation to its related-party dealings, which are conducted in a manner consistent with Australian and international tax and transfer pricing laws.