

2022 Tax Contribution Report

For the year ended 31 December 2021



EnergyAustralia

LIGHT THE WAY

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Alastair McKeown
Chief Financial Officer

1. Message from the Chief Financial Officer

We are pleased to present the EnergyAustralia 2022 Tax Contribution Report, our sixth under the Australian government's tax transparency code.

EnergyAustralia supplies electricity and gas to customers across Victoria, New South Wales, South Australia, Queensland and the Australian Capital Territory. We only operate in Australia. Most of the 2.44 million accounts we serve belong to families and small businesses and it is our privilege to provide this essential service. As part of our service offering, EnergyAustralia provides the option for residential customers to opt into our carbon neutral product, Go Neutral, which we offer as part of our drive to a cleaner energy future. Under this product, we calculate the emissions associated with household energy use and purchase corresponding carbon offsets to cancel out the emissions – all at no extra cost to the customer.

We were proud to be the first energy utility in Australia to commit to the tax transparency code. We have published our tax contribution report on all taxes paid and collected by EnergyAustralia for our operations in Australia since 2017. Sharing what we do and the tax that we pay – and encouraging other businesses to do the same – is one important way we can help to build Australians' confidence in business.

EnergyAustralia incurred financial losses during 2021 due to the combined effects of the increased operating expenditure arising from a flooding event at Yallourn's Morwell River Diversion, the settlement on litigation arising from the legacy disposal of the Iona Gas Plant, and a fall in realised wholesale electricity prices. A loss of earnings (due to the loss of several large contracts and reduced usage per account across some segments) was also attributable to the overall loss position. As a result of the financial losses, EnergyAustralia reported a net tax loss position but has made payments over \$47m in other indirect taxes. This document details the tax loss position as at 31 December 2021 and those payments made for other taxes, and includes information about our approach to tax and explains why we paid the tax we did.

We continue to focus on the optimisation of a diversified generation portfolio and the development and integration of flexible capacity options, which have the potential to safeguard and enhance the power system's reliability and security as Australia moves towards a low-carbon future.

Thank you for your interest in EnergyAustralia.

2. Overview of EnergyAustralia

EnergyAustralia provides reliable and affordable power to 2.44 million customer accounts (as at 31 Dec 2021) across New South Wales, Victoria, South Australia, Queensland and the Australian Capital Territory. Our retail business is backed by a 5,470-megawatt (MW) generation portfolio comprising coal, gas and wind assets as well as power purchase agreements for renewable energy. We operate one of the largest commercial-scale battery trading portfolios in the National Electricity Market. We employ over 2,500 people in Australia, with our headquarters in Melbourne. EnergyAustralia is a wholly-owned subsidiary of the CLP Group of Hong Kong, one of the oldest and largest integrated power businesses in the Asia Pacific.

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. We are helping our customers to reduce their own emissions with innovative and affordable products and services that blend customer assets with the grid. We are transforming our generation portfolio, investing in cleaner forms of energy as we build the new power system, while reducing the emissions from existing assets that are needed to keep the lights on. We are proud of the contribution our assets and our workforce make to the economic prosperity of our local communities and our nation. We 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. We undertake this transition with our people and our communities respectfully and responsibly, with planning, consultation, and support.

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. Basis of Preparation

The Tax Transparency Report is based on the income tax expense analysis contained in EnergyAustralia's audited Financial Statements for FY 2021, updated to reflect final income tax payable / (refund) for FY 2021 in accordance with the lodged Income Tax Return for FY 2021.

Differences between the FY 2021 income tax expense included in the EnergyAustralia FY 2021 Financial Statements and that which is disclosed in the Income Tax Return for FY 2021 will be audited as part of the FY 2022 financial statements and, consequently, have not been audited separately for the purposes of the 2022 Tax Transparency report.

The EnergyAustralia tax consolidated group has a December year end. The tax return filed for the year ended 31 December 2021 falls within the 2022 Income Year for tax purposes.

4. 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 sets 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 (together the '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.

EnergyAustralia's Audit and Risk Committee (a subcommittee of the EnergyAustralia Board) oversees risk management and internal controls in relation to all risks across the company, including tax and receives regular updates on tax matters. Internal and external auditors provide an additional layer of oversight.

5. Engagement with the Australian Taxation Office

EnergyAustralia is categorised as a Key Taxpayer by the Australian Tax Office (ATO) as it is a Top 100 public and multinational taxpayer. This means EnergyAustralia is under constant review by the ATO.

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. EnergyAustralia interprets the tax law using relevant case law, Tax Authority's rulings and guidance and discusses such interpretations with tax authorities where appropriate, to minimise tax disputes.

Under the ATO's Justified Trust Program, the ATO has issued to EnergyAustralia an overall provisional high level of assurance for income tax for FY 2020. This means the ATO has assurance that EnergyAustralia has paid the correct amount of tax for that period. The ATO has indicated that it is satisfied that EnergyAustralia takes an open, transparent and cooperative approach to its tax obligations and proactively engages with the ATO on a regular basis. The ATO is currently reviewing our FY 2021 tax lodgement at the date of publication of this tax contribution report.

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

EnergyAustralia's accounting loss before income tax for FY 2021 was \$326.2m (FY 2020 was an accounting profit of \$384.0m). A decline in financial performance was driven by increased operating expenditure arising from the flood at Yallourn's Morwell River Diversion in June 2021, the settlement of litigation arising from the legacy disposal of Iona Gas Plant, and unfavourable fair value movements due to rising forward prices. A fall in realised wholesale electricity prices, loss of earnings was also attributable to the accounting loss before income tax.

Reconciliation of accounting profit to income tax expense

	FY 2021 (\$m)
Total income	5,552.0
Less: Accounting expense	<u>(5,878.2)</u>
Accounting Profit/ (Loss) before income tax (II)	<u>(326.2)</u>
Income tax at the Australian Corporate Tax Rate of 30 percent (A)	(97.9)
<i>Tax effect of amounts which are deductible/(assessable)</i>	
(Over)/under provision of income tax from the prior year*	(51.9)
Other permanent differences*	<u>59.0</u>
Adjustments (B)	7.1
Income Tax Expense / (Benefit) I = (A) + (B)	(90.8)
Effective Tax Rate (I)/(II) – FY 2021	28%
Effective Tax Rate - FY 2020	30%

* As per our 31 December 2021 Financial Statements, EnergyAustralia reached a full and final settlement of all claims made by Lochard Energy against the Group arising from the disposal of the Iona Gas Plant. For tax purposes, the vast majority of the settlement amount is treated as a non-deductible expense (tax effect of \$52.95m) in the current year with a corresponding adjustment made to the prior year's tax return when the initial sales proceeds were recognised.

Total income

EnergyAustralia's total income is derived from our retail energy customers and generation business in Australia. This amount represents gross receipts before any expenses are taken into account and is not an indicator of the overall profitability of EnergyAustralia for either tax or accounting purposes. A large part of our income is made up of revenue received from gas and electricity customer accounts which includes pass-through regulated network charges paid to third party companies who operate and maintain the electricity network.

Taxable income is calculated as assessable income less allowable deductions. Tax is then applied at the corporate tax rate of 30% on this net amount. Where assessable income is less than allowable deductions, the net amount is a tax loss which can be carried forward to offset future year's taxable income.

Effective tax rate

The prevailing Australian statutory corporate tax rate is 30% for large business. Under the Tax Transparency Code published by the Board of Taxation, EnergyAustralia calculates the effective tax rate as income tax expense (current and deferred) divided by accounting profit/(loss) before tax.

Refer to the Tax Contribution Report 2021 for an explanation of the FY 2020 effective tax rate reconciliation.

Reconciliation of income tax expense to income tax paid/payable

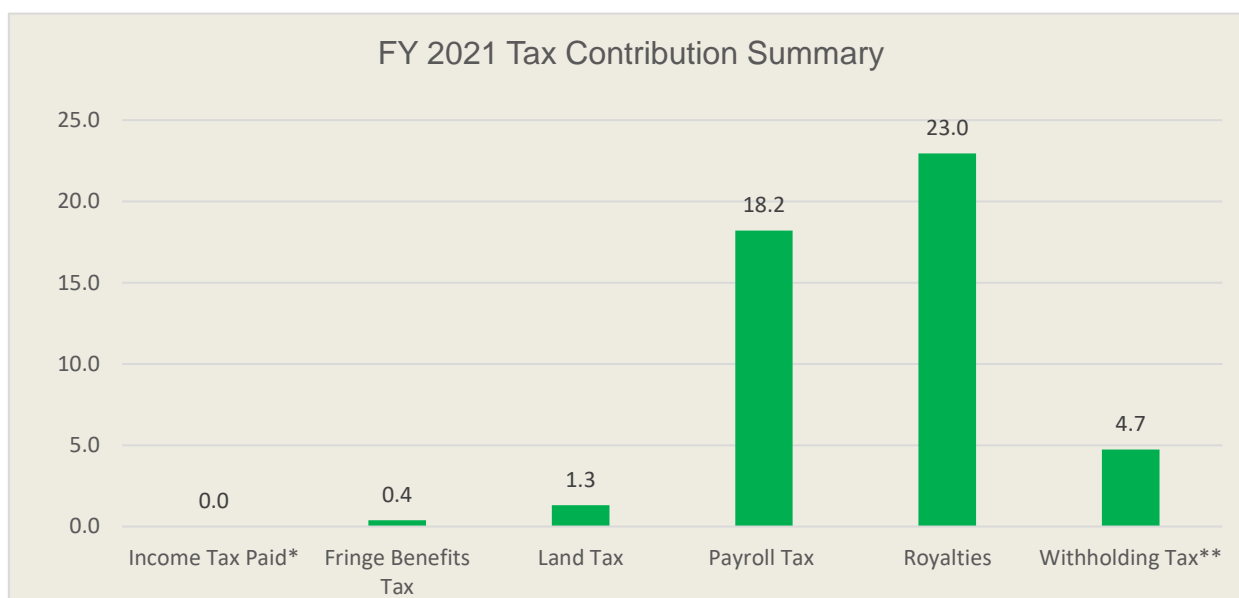
The table below reconciles the accounting income tax benefit of \$90.8m to a nil income tax payable per the income tax return for the year ended 31 December 2021 arising from EnergyAustralia's tax loss for the year which is driven by the financial accounting loss for the year. Tax losses in the FY 2021 income tax return are non-refundable and are carried forward to offset taxable income for future income years (subject to meeting the loss recoupment rules).

Reconciliation of income tax expense to income tax payable for FY 2021	
	2021 (\$m)
Income tax expense / (benefit)	(90.8)
<i>a) Increase/(decrease) in permanent differences</i>	51.9
<i>b) Temporary differences</i>	
Depreciation	(1.4)
Accruals	2.7
Other	(4.8)
Inventories	13.7
Provisions	5.3
Derivatives at fair value	<u>16.1</u>
	31.6
<i>c) Non-refundable tax losses</i>	7.3
Income tax payable for FY 2021	<u>Nil</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.

7. Australian tax contribution summary

During the year ended 31 December 2021, EnergyAustralia made the following tax contributions:



*All Income Tax paid during FY 2021 as monthly PAYG income tax instalments were ultimately refunded by the ATO due to the tax loss position per the FY 2021 income tax return lodged.

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

8. International related-party dealings

EnergyAustralia is a tax resident of Australia and operates entirely within the Australian market. EnergyAustralia does not own any foreign assets.

The primary international related party dealing expense in FY 2021 for EnergyAustralia was interest paid on related party loans. As part of the ATO's early engagement process, EnergyAustralia and the ATO has agreed to the pricing of the related party loan via a Settlement Deed. Australian interest withholding tax was applicable on the interest paid on related party loans.

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.