

2019 Tax Contribution Report

For the year ended 31 December 2018



EnergyAustralia

LIGHT THE WAY

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Alastair McKeown
Chief Financial Officer

1. Message from the Chief Financial Officer

EnergyAustralia supplies electricity and gas to 2.5 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 2019 Tax Contribution Report, our third under the Australian government's tax transparency code. The document discloses the tax payments we made during the year ended 31 December 2018 (FY 2018) and includes information about our approach to tax and an explanation of why we paid the tax we did.

In FY 2018 EnergyAustralia paid more than \$130 million of income or corporate tax. Our tax contribution reflects the company's performance, underpinned by a corporate turnaround which began in 2014 and a recovery in the wholesale electricity market.

Better financial results mean we pay more tax, but they also generate important funds that we're using to enhance our existing assets and explore new projects required to underpin a modern, cleaner energy system.

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

EnergyAustralia provides reliable and affordable power to 2.5 million customer accounts across New South Wales, Victoria, South Australia, Queensland and the Australian Capital Territory. Our retail business is backed by a 5000-megawatt (MW) generation portfolio comprising coal, gas and wind assets as well as power purchase agreements for renewable energy. We operate the largest commercial-scale battery trading portfolio in the National Electricity Market. We employ around 2,500 people in Australia, with our headquarters in Melbourne. EnergyAustralia is a wholly-owned subsidiary of 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 while leading the shift to a cleaner energy future for all Australians. That means finding – and investing in – technologies and projects that support Australia's transition to a modern, cleaner energy system. We believe that power prices, just like Australia's energy emissions, are too high – both need to come down.

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 core 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. In April 2018, we acquired Ecogen Energy, which was included in the EnergyAustralia tax consolidated group during the year. 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 2018, updated to reflect final income tax payable for FY 2018 in accordance with the lodged Income Tax Return for FY 2018.

Differences between the FY 2018 income tax expense included in the EnergyAustralia FY 2018 Financial Statements and that disclosed in the Income Tax Return for FY 2018 will be audited as part of the FY 2019 financial statements and, consequently, have not been audited separately for the purposes of the 2019 Tax Transparency report.

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 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.

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

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. EnergyAustralia has been working with the ATO under the Justified Trust program for the past three years. During this time, the ATO has developed a comprehensive understanding of EnergyAustralia's business operations, business environment and financial performance and how this reconciles with EnergyAustralia's income tax profile in respect of economic activity linked to Australia.

In the recent ATO Tax Assurance report for 31 December 2017, 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 satisfied that EnergyAustralia demonstrates a conservative tax risk appetite and EnergyAustralia's tax payable figure was the right amount of Australian Income Tax.

5. Engagement with the Australian Taxation Office (ATO)

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

EnergyAustralia accounting profit before income tax for FY 2018 was \$748.5m (FY 2017 \$556.6m). The improved performance reflected the benefit of higher wholesale electricity prices and efficient portfolio management.

Better performance allowed EnergyAustralia to commit to investments more than \$320 million in 2018 to help support customers, improving our operations and service levels. This includes around \$70 million of measures to mitigate, reduce or avoid electricity price rises for families and vulnerable customers.

Reconciliation of accounting profit to income tax expense	
	2018 (\$m)
Profit/ (loss) before income tax (II)	748.5
Income tax at the Australian Corporate Tax Rate of 30 percent (A)	(224.5)
<i>Tax effect of amounts which are not deductible/(assessable)</i>	
(Over)/under provision of income tax	(2.2)
Adjustment for current tax of prior period	-
Non-deductible expenses	(24.1)
Adjustments (B)	(26.3)
Income Tax Expense I = (A) + (B)	(250.8)
Effective Tax Rate (I)/(II) – FY 2018	34%
Effective Tax rate – FY 2017	13%

The prevailing Australian statutory corporate tax rate is 30% for large business. The effective tax rate for a taxpayer is the effective tax rate after taking into account income tax adjustments such as non-deductible expenses, credits, deductions and exemptions. EnergyAustralia has an effective tax rate of 34% which is higher than the prevailing Australian statutory corporate tax rate due to non-deductible expenses for FY 2018.

Under the Tax Transparency Code published by the Board of Taxation, EnergyAustralia calculates effective tax rate as income tax expense (current and deferred) divided by accounting profit before tax.

Refer to the Tax Contribution Report 2018 for an explanation of FY 2017 effective tax rate reconciliation.

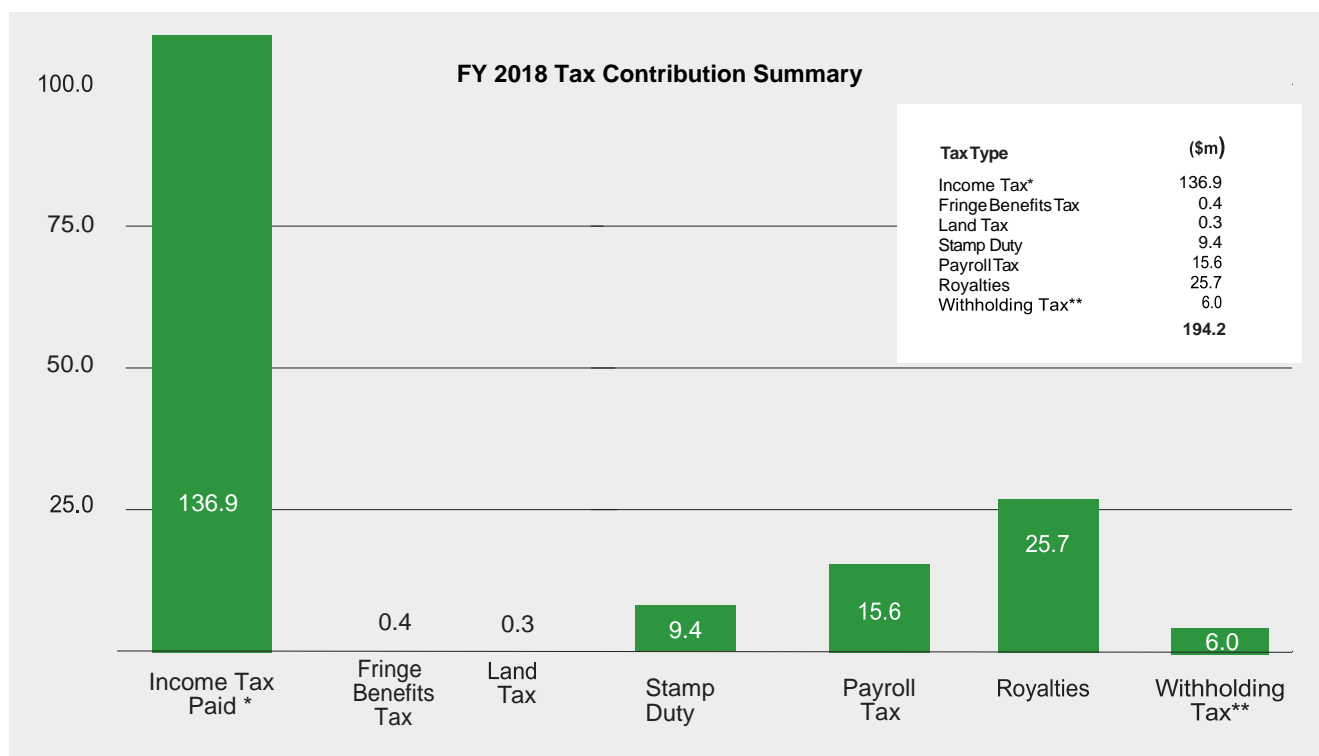
The table below reconciles the accounting income tax expense of \$250.8m to the income tax payable of \$240.8m for year ended 31 Dec 2018.

Reconciliation of income tax expense to income tax payable for FY 2018		2018
		(\$m)
Income tax expense		250.8
<i>a) Increase/(decrease) in non-temporary differences</i>		(2.3)
<i>b) Temporary differences</i>		
Depreciation	(6.4)	
Other	(6.6)	
Inventories	8.5	
Provisions	(8.0)	
Derivatives at fair value	<u>6.6</u>	(5.8)
<i>c) Utilised carry forward tax losses</i>		-
<i>d) Non-refundable carry forward tax offsets – R&D</i>		(1.8)
Income tax payable for FY 2018		<u>240.8</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 2018, EnergyAustralia made the following tax contributions:



*Income Tax paid during FY 2018 includes all monthly income tax instalments made to the ATO for FY 2018 and the balancing tax payment for FY 2017.

Income Tax Payable disclosed in Section 6 of \$240.8m is the total Income Tax Payable for FY 2018 prior to the offset of the FY 2018 monthly instalment payments. The balance of the FY 2018 Income Tax payable has been made in the 2019 financial year and will be disclosed in the Tax Contribution Report for the 2019 financial year.

**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 2018 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.