

2021 Tax Contribution Report

For the year ended 31 December 2020



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 2021 Tax Contribution Report, our fifth 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. Most of the 2.45 million accounts we serve belong to families and small businesses and it is our privilege to provide this essential service.

EnergyAustralia provides the option for residential customers to opt into our carbon neutral product, Go Neutral, where we will calculate the emissions associated with household energy use and purchase corresponding carbon offsets to cancel out the emissions – all at no extract cost to the customer.

We were proud to be the first energy utility in Australia to commit to the tax transparency code. 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.

During the year ended 31 December 2020, EnergyAustralia paid more than \$113 million in income and corporate tax and over \$49 million in other taxes. This document details those payments, includes information about our approach to tax and explains why we paid the tax we did.

The tax we paid in 2020 reflects the combined effects on our business of the devastating bushfires in the early part of the year followed by the COVID-19 pandemic, retail price regulation introduced in July 2019 and ongoing competition combined with falling wholesale prices which placed considerable pressure on margins in our Customer and Energy businesses respectively. 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 2.45 million customer accounts (at 31 Dec 2020) across New South Wales, Victoria, South Australia, Queensland and the Australian Capital Territory. Our retail business is backed by a 5500-megawatt (MW) generation portfolio comprising of 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 2,200 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 while leading the shift to a cleaner energy future for all Australians. That means finding as well as investing in technologies and projects that support Australia's transition to a modern, cleaner energy system.

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 our code of conduct and our values: *customers are our priority; do the right thing; lead change*. We believe all our stakeholders – including customers, shareholders, employees, the wider community and the environment – should be better off for our presence. We are constantly reviewing how we work and our culture to ensure that we are meeting the expectations of our stakeholders.

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 2020, updated to reflect final income tax payable for FY 2020 in accordance with the lodged Income Tax Return for FY 2020.

Differences between the FY 2020 income tax expense included in the EnergyAustralia FY 2020 Financial Statements and that which are disclosed in the Income Tax Return for FY 2020 will be audited as part of the FY 2021 financial statements. Consequently, these have not been audited separately for the purposes of the 2021 Tax Transparency report.

The EnergyAustralia tax consolidated group has a December year end. The tax return filed for the year ended 31 December 2020 falls within the 2021 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 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 (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 delegate 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 (ATO)

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

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.

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

EnergyAustralia's accounting profit before income tax for FY 2020 was \$384.2m (FY 2019 was an accounting loss of \$860.6m predominantly due to a \$1.176b impairment of goodwill).

Reconciliation of accounting profit to income tax expense	FY 2020 (\$m)
Total income	6,026.7
Less: Accounting expense	<u>(5,642.5)</u>
Accounting Profit/ (Loss) before income tax (II)	<u>384.2</u>
Income tax at the Australian Corporate Tax Rate of 30 percent (A)	115.2
<i>Tax effect of amounts which are deductible/(assessable)</i>	
(Over)/under provision of income tax from the prior year	0.2
Other permanent differences	<u>7.8</u>
Adjustments (B)	8.0
Income Tax Expense I = (A) + (B)	123.2
Effective Tax Rate (I)/(II) – FY 2020	32%
Effective Tax Rate - FY 2019 normalised after impairment	30%

Total income

EnergyAustralia's total income is derived from our retail energy customers and generation business. This amount represents gross receipts before any expenses are taken into account and is not an indicator of the overall profitability of EnergyAustralia for both tax and 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 percent on this net amount.

Effective tax rate

The prevailing Australian statutory corporate tax rate is 30 percent for large business. The effective tax rate for a taxpayer is the tax rate after taking into account income tax adjustments such as non-deductible expenses, credits, deductions and exemptions.

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 2020 for an explanation of the FY 2019 effective tax rate reconciliation.

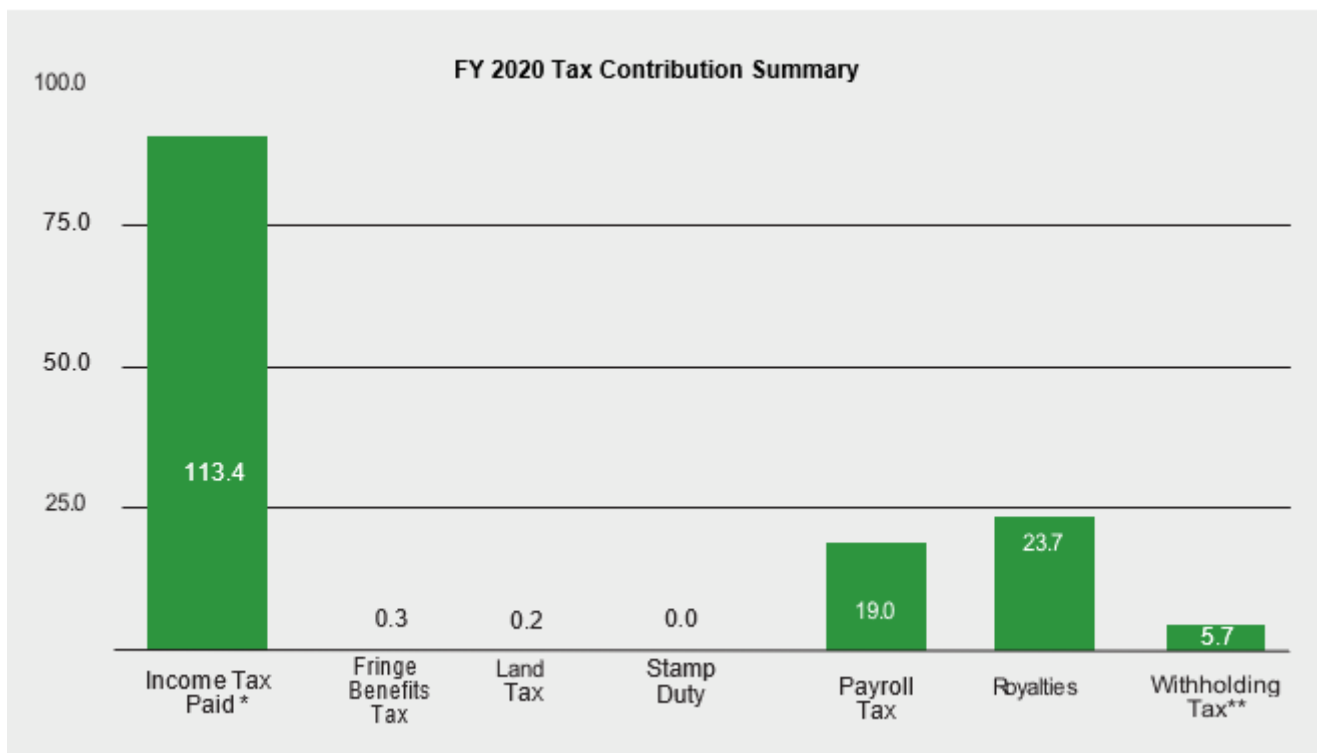
The table below reconciles the accounting income tax expense of \$123.2m to the income tax payable of \$122.8m for year ended 31 December 2020.

Reconciliation of income tax expense to income tax payable		2020
		(\$m)
Income tax expense		123.2
<i>a) Increase/(decrease) in non-temporary differences</i>		1.1
<i>b) Temporary differences</i>		
Depreciation	2.4	
Accruals	1.1	
Other	9.6	
Inventories	(14.6)	
Provisions	24.2	
Derivatives at fair value	<u>(23.7)</u>	(1.0)
<i>c) Utilised carry forward tax losses</i>		(0.2)
<i>d) Tax offsets (Franking credits)</i>		(0.3)
Income tax payable for FY 2020		<u>122.8</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 2020, EnergyAustralia made the following tax contributions:



*Income Tax paid during FY 2020 includes all monthly income tax instalments made to the ATO for FY 2020 and the balancing tax payments for FY 2019.

Income Tax Payable disclosed in Section 6 of \$122.8m is the total Income Tax Payable for FY 2020 prior to the offset of the FY 2020 monthly tax instalment payments.

**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 2020 for EnergyAustralia was interest paid on related party loans. As part of the ATO's early engagement process, EnergyAustralia and the ATO 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.