

2020 Tax Contribution Report

For the year ended 31 December 2019



EnergyAustralia

LIGHT THE WAY

Contents

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





Alastair McKeown
Chief Financial Officer

1. Message from the Chief Financial Officer

We are pleased to present the EnergyAustralia 2020 Tax Contribution Report, our fourth 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 2.47 million accounts we serve belong to families and small businesses and it is our privilege to provide this essential service.

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 2019, EnergyAustralia paid more than \$260 million in income and corporate tax. This document details those payments, includes information about our approach to tax and explains why we paid the tax we did.

The increase in tax we paid in 2019 reflects an improvement in our business's performance, underpinned by a corporate turnaround which began in 2014 and a recovery in the wholesale electricity market. These better financial results have also delivered funds that we are investing to enhance our existing assets and deliver new projects that will create jobs and underpin a modern, cleaner energy system in Australia.

Thank you for your interest in EnergyAustralia.

2. Overview of EnergyAustralia

EnergyAustralia provides reliable and affordable power to 2.47 million customer accounts 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 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 2,200 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 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. This tax consolidated group is treated as a "single taxpayer", i.e. EnergyAustralia lodges a single Australian income tax return for its operations.

We acquired 49% interest in Echo Group during FY 2019, which was included in the EnergyAustralia tax consolidated group earnings as a joint venture.

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 2019, updated to reflect final income tax payable for FY 2019 in accordance with the lodged Income Tax Return for FY 2019.

Differences between the FY 2019 income tax expense included in the EnergyAustralia FY 2019 Financial Statements and that disclosed in the Income Tax Return for FY 2019 will be audited as part of the FY 2020 financial statements and, consequently, have not been audited separately for the purposes of the 2020 Tax Transparency report.

The EnergyAustralia tax consolidated group has a December year end. The tax return filed for the year ended 31 Dec 2019 falls within the 2020 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.

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.

The ATO has completed the income tax and GST review for FY 2018 and prior years under its Justified Trust program. The ATO has indicated that it has a high level of comfort that EnergyAustralia:

- has paid the correct amount of tax;
- demonstrates a conservative tax risk appetite;
- takes an open, transparent and cooperative approach to its tax obligations; and
- proactively engages with the ATO on a regular basis.

5. Engagement with the Australian Taxation Office (ATO)

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

EnergyAustralia's accounting loss before income tax for FY 2019 was \$860.6m (FY 2018 was an accounting profit of \$748.5m). The accounting loss before tax for FY 2019 has decreased from the prior year profit figure, most notably impacted by a \$1.176 billion impairment of goodwill arising from the anticipated reduction in future earnings as a result of the regulatory changes in the market through implementation of the Victorian Default Offer (VDO) and Default Market Offer (DMO) in July 2019.

Reconciliation of accounting profit to income tax expense	FY 2019 (\$m)
Total income	7,126.2
Less: Accounting expense	<u>(7,986.8)</u>
Accounting Profit/ (Loss) before income tax (II)	<u>(860.6)</u>
Income tax at the Australian Corporate Tax Rate of 30 percent (A)	258.2
<i>Tax effect of amounts which are deductible/(assessable)</i>	
(Over)/under provision of income tax	0.9
Non-deductible impairment expense	(352.8)
Other permanent differences	2.6
Adjustments (B)	(349.3)
Income Tax Expense I = (A) + (B)	(91.1)
Effective Tax Rate (I)/(II) – FY 2019	(11%)
Effective Tax Rate - FY 2019 normalised after impairment	30%
Effective Tax rate – FY 2018	34%

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% on this net amount.

Effective tax rate

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 -11% due to the FY 2019 accounting loss and represents the percentage tax benefit associated with the FY 2019 accounting loss. This effective rate is lower than the prevailing Australian statutory corporate tax rate predominantly due to the impairment of the retail business of \$1,176m (\$352.8m tax effected) not being deductible for tax purposes in FY 2019. Once normalised for the impairment expense, the effective tax rate for FY 2019 is 30%.

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/(loss) before tax.

Refer to the Tax Contribution Report 2019 for an explanation of FY 2018 effective tax rate reconciliation.

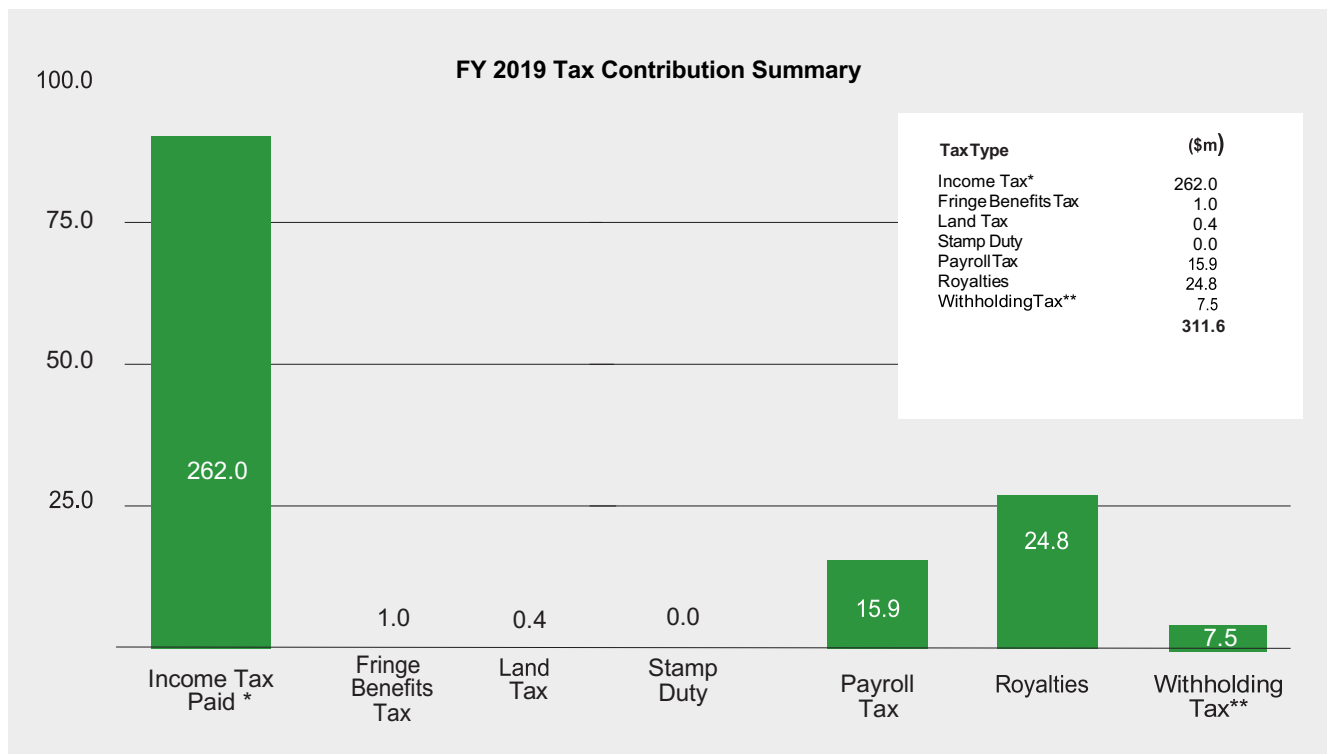
The table below reconciles the accounting income tax expense of \$91.1m to the income tax payable of \$83m for year ended 31 December 2019.

Reconciliation of income tax expense to income tax payable for FY 2019		2019 (\$m)
Income tax expense		91.1
<i>a) Increase/(decrease) in non-temporary differences</i>		2.3
<i>b) Temporary differences</i>		
Depreciation	1.6	
Accruals	(2.1)	
Other	0.2	
Inventories	0.3	
Provisions	8.3	
Derivatives at fair value	<u>(17.1)</u>	(8.8)
<i>c) Utilised carry forward tax losses</i>		-
<i>d) Tax offsets (Franking credits and R&D tax offsets)</i>		(1.5)
Income tax payable for FY 2019		<u>83.1</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 2019, EnergyAustralia made the following tax contributions:



*Income Tax paid during FY 2019 includes all monthly income tax instalments made to the ATO for FY 2019 and the balancing tax payments for FY 2018.

Income Tax Payable disclosed in Section 7 of \$83m is the total Income Tax Payable for FY 2019 prior to the offset of the FY 2019 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 2019 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.