



2019 TAX TRANSPARENCY REPORT

AUSNET SERVICES LTD



Introduction

AusNet Services has in excess of \$10 billion of investments in a unique set of critical infrastructure assets based in Victoria in both energy transmission and distribution. We service over 1.4 million customers.

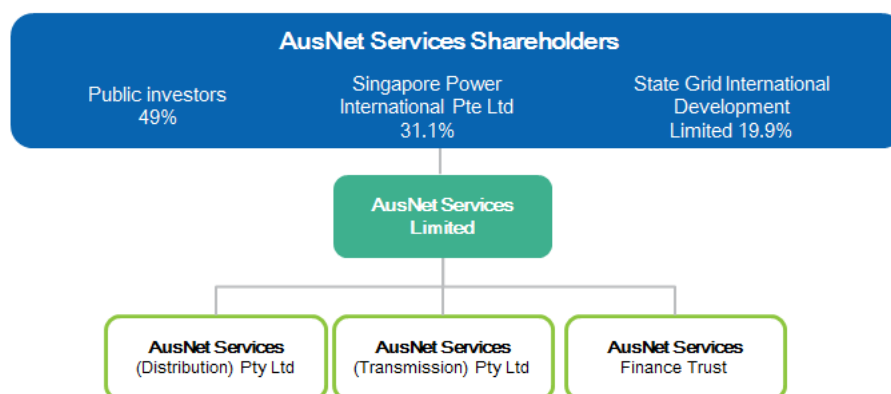
AusNet Services is committed to being a responsible corporate citizen and encourages a robust Federal and State taxation system, that ensures all taxpayers *pay their fair share of tax*.

AusNet Services continues to show its support for tax transparency by voluntarily publishing our third Tax Transparency Report. AusNet Services pursues an approach to taxation that is principled, transparent, and sustainable. Our approach to tax management is focussed on compliance with all statutory obligations, and full disclosure to revenue authorities, at both the State and Federal level.

As noted in prior year tax transparency reports, AusNet Services restructured and simplified its corporate and capital structure in June 2015, moving to a single listed head company ownership structure and a single consolidated group for tax purposes. Moving forward with a simpler structure promotes tax transparency, as evidenced by the 30% effective tax rate maintained by the Group in the 2017 to 2019 years, which is aligned to the Australian company tax rate of 30%. Through the issue of audited financial statements and Annual Report disclosures, together with investor presentations released to the market in conjunction with Half-year and Full-year results reporting, the AusNet Services tax position remains highly *transparent* for interested users.

The final page of this report provides a summary of the \$284m in taxes paid by AusNet Services at both a State and Federal level for the year ended 31 March 2019.

AusNet Services Group Structure



Prior to 18 June 2015, the AusNet Services Group was structured as stapled security investment.

On 18 June 2015, the AusNet Services Group restructured with AusNet Services Limited being incorporated as a new holding company for AusNet Services Distribution Pty Ltd, AusNet Services (Transmission) Pty Ltd and AusNet Services Finance Trust.

As a result of the restructure, AusNet Services Group shareholders own shares in AusNet Services Limited.

AusNet Services Group Distributions

AusNet Services has historically maintained a dividend profile that is partly franked.

Australian resident shareholders are subject to income tax at their applicable tax rate on dividends received.

Non-resident shareholders are subject to Australian withholding tax of 15% on the unfranked dividend portion, where Australia has a tax treaty with that country. Where Australia does not have a tax treaty with the relevant country, Australian withholding tax of 30% is applied to the unfranked dividend component. No withholding tax is applied to the franked dividend component.

Tax Policy and Governance Framework

AusNet Services approaches its tax affairs in a principled, transparent and sustainable manner. In this regard, we maintain appropriate internal controls in relation to the identification and management of tax risk, which includes a Board-approved framework for the escalation of uncertain tax matters to the Executive Management and to the Audit and Risk Management Committee.

In addition, AusNet Services engages a range of highly experienced external tax advisers, typically from the “Big 4” accounting firms, or large Legal firms, to provide specific advice in relation to interpreting complex tax law, as it applies to material transactions.

Our experienced in-house tax function maintains policies and procedures to support the meeting of tax compliance obligations, which includes strict adherence to the aforementioned Board-approved tax risk management framework. For material business transactions involving elevated levels of tax technical uncertainty, AusNet Services typically seeks to obtain a private binding ruling from the Australian Taxation Office (ATO).

AusNet Services seeks to identify and pay the correct amount of income tax due and payable, under a reasonable interpretation of the law.

Engagement with the Australian Taxation Office

AusNet Services maintains a co-operative compliance relationship with the ATO. We foster a relationship of regular, proactive communication and full disclosure, particularly in responses to ATO information requests or in relation to significant transactions that AusNet Services has executed or is contemplating.

As a large, listed taxpayer, AusNet Services is subject to an annual ATO Pre-Lodgement Compliance review, of the AusNet Services consolidated income tax return. AusNet Services has been classified as a key taxpayer by the ATO pursuant to its Risk Differentiation Framework.

Where AusNet Services does not agree with a position maintained by the ATO, we seek to work with the ATO to resolve technical disagreements. Historically, AusNet Services has filed formal proceedings against the ATO, to have uncertain matters decided by the Courts. There were no legal disputes involving the ATO in the 2019 year of income.

Income taxes disclosed in the 2019 Annual Report

Income tax expense ('ITE') of \$118.0m is disclosed in *Note B.5* of AusNet Services' 2019 Financial Report and represents 30% (the Australian company tax rate) of profit before tax, adjusted for amounts which are not assessable or deductible in calculating net taxable income for the year. In any one income year, there are differences between the ITE disclosed in the Financial Report and the total income tax payable to the ATO. These differences (commonly referred to as *timing differences*) occur because revenues and expenses for accounting purposes may be assessable or deductible in different periods for taxation purposes.

In 2019, the group was entitled to accelerated deductions in respect of property plant and equipment, relative to the write-off profile recognised for accounting purposes. AusNet Services maintains a significant maintenance capital expenditure program relating to bushfire mitigation recommendations emanating from the Bushfire Royal Commission into the Black Saturday bushfires. Significant elements of bushfire safety mitigation have been confirmed as fully deductible in the year of expenditure, pursuant to a private binding ATO ruling received by AusNet Services. Furthermore, asset replacement expenditure in respect of certain electricity distribution poles, cross arms, conductors (above and below) ground is immediately deductible for tax purposes.

Reconciliation of Accounting Profit to Income Tax Expense ("ITE")	2019	2018
	(\$M)	(\$M)
Profit Before Income Tax	371.9	416.6
Tax at the Corporate Rate of 30%	111.6	125.0
Tax effect of amounts which are not deductible/ (taxable) in calculating taxable income		
Prior year under/(over) provisions	0.5	0.6
Tax Risk Provision	11.0	0.0
Sundry items	<u>(5.1)</u>	<u>(0.4)</u>
Income tax (benefit)/expense	<u>118.0</u>	<u>125.2</u>
	2018	2018
Reconciliation of Income Tax Expense to Cash Tax	(\$M)	(\$M)
Income Tax Expense on Profit Before Tax	118.0	125.2
Timing differences recognised in deferred tax	<u>(75.7)</u>	<u>(96.0)</u>
Cash taxes paid per cash flow statement	<u>42.3</u>	<u>29.2</u>

Total Tax Contributions – By Category

During the year ended 31 March 2019, the AusNet Services group made the following tax payments.

Description	Amount
	(\$M)
Income Tax	42.3
Goods & Services Tax	84.7
Land Tax (Transmission Easements) **	136.4
Land Tax (non - Transmission Easements)	6.1
Fringe Benefits Tax	0.7
Payroll Tax	13.8
TOTAL	284.0

** In 2004, the State Government of Victoria expanded the provisions of the Land Tax Act to include Electricity Transmission Easements for land tax purposes. The rate at which Electricity Transmission Easements are assessed for land tax purposes is 5% compared to 2.25% for interests in freehold land.

The land tax on Electricity Transmission Easements was introduced by the State Government to replace a levy that was previously imposed on Alcoa's Portland aluminium smelter which was terminated by the State Government of Victoria.

It should be noted that land tax is a "pass-through" cost for AusNet Services pursuant to its Transmission Revenue Reset process, meaning that AusNet Services receives this amount as revenue from the Australian Energy Market Operator.