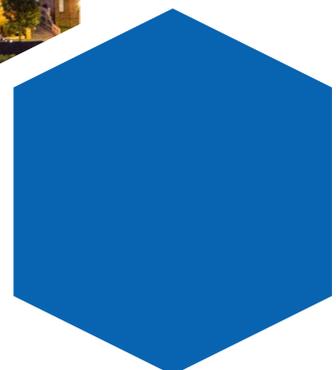




2018 TAX TRANSPARENCY REPORT

AUSNET SERVICES LTD



Introduction

AusNet Services presents its second Tax Transparency Report for the AusNet Services group, for the financial year ended 31 March 2018. AusNet Services welcomes the opportunity to present a report on taxes paid in Australia, and to highlight the governance and policy mechanisms in place within AusNet Services to ensure that the group meets its Australian tax obligations.

Tax transparency, together with the broader focus on ensuring that Australian corporates pay their fair share of Australian tax, continues to be a significant issue for regulators, customers, shareholders, employees and the community alike. AusNet Services publishes this report on a voluntary basis, as a part of its commitment to tax transparency and to meeting the information needs of all stakeholders, with the aim of making tax information more accessible and understandable.

As noted in the inaugural 2017 tax transparency report, 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 2017 and 2018, which is aligned to the Australian company tax rate of 30%

AusNet Services maintains a strong commitment to governance, transparency and compliance. We value the principles of being transparent, particularly with respect to our tax strategy and compliance with Australian tax obligations.

AusNet Services supports the adoption of the voluntary tax transparency code and believe it, together with annual disclosures made in AusNet Services' published financial statements, provides all stakeholders with a comprehensive picture of the significant tax contribution made by the group.

The final page of this report provides a summary of the \$285m in taxes paid by AusNet Services at both a State and Federal level for the year ended 31 March 2018.

Governance and Tax Strategy

AusNet Services is committed to understanding and effectively managing business risk to provide greater certainty and confidence for all internal and external stakeholders.

Complex, evolving or untested tax law contributes to circumstances where a diverse, but reasonably arguable, range of tax interpretations may exist. Over the past decade, tax risk management has represented a key business risk for AusNet Services, involving extensive governance and risk management actions and protocols, where the right balance between risk and reward was critically assessed.

The AusNet Services Board reviews and guides AusNet Services' overall systems of risk management and internal controls, sets the risk appetite, and ensures that shareholders are informed in a timely manner of material changes to AusNet Services' risk profile.

AusNet Services has a robust risk management process that actively assesses both internal and external drivers of risk, including economic, environmental and social sustainability risks, and considers potential impacts to sustainable value generation and the broader environment and community as part of its strategic planning. Material risks have been identified through this process.

Tax Risk Management

Tax risk management practices within AusNet Services are aligned with the risk appetite and risk tolerance principles adopted in the broader business. As a part of AusNet Services' business strategy and objectives, we pursue a tax strategy that is principled, transparent and sustainable. In this regard, AusNet Services does not undertake aggressive tax planning. We do however, pursue tax concessions and incentives that are available under State and Commonwealth laws. AusNet Services should pay no more tax than what is due under a reasonable interpretation of the law.

AusNet Services' approach to tax risk management practices are based on the following objectives:

- AusNet Services seeks to fully comply with tax laws and compliance obligations in all jurisdictions and seeks to reduce the incidence of disputation with the ATO and tax uncertainty generally;
- AusNet Services is committed to the ATO's Cooperative Compliance model and will act in good faith with tax authorities, fostering positive working relationships and trust;
- Optimal commercial outcomes are pursued through tax positions that are supportable in law (as demonstrated by external professional advice or ATO confirmation) and do not contribute a significant level of financial or reputational risk, relative to the position adopted;
- Overall, a conservative approach to tax risk management is preferred, as driven by AusNet Services' stable and predictable investment proposition;
- Be recognised as maintaining ethical, well managed and appropriate tax practices that are aligned to corporate social responsibility obligations;
- The AusNet Services Board and / or Board Committee is actively involved in tax risk management policy and issues, such that managing tax risk is an integral part of corporate governance. The Board reviews and approves the tax risk management policy and management's adherence to it, on a regular basis.

Income taxes disclosed in the 2018 Annual Report

Income tax expense ('ITE') of \$125.2m is disclosed in *Note B.4* of AusNet Services' 2018 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 2018, 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.

	2018 (\$M)	2017 (\$M)
Reconciliation of Accounting Profit to Income Tax Expense ("ITE")		
Profit Before Income Tax	416.6	363.3
Tax at the Corporate Rate of 30%	125.0	109.0
Tax effect of amounts which are not deductible/ (taxable) in calculating taxable income		
Prior year under/(over) provisions	0.6	(0.4)
Sundry items	(0.4)	(0.4)
Income tax (benefit)/expense	125.2	108.2
	2018 (\$M)	2017 (\$M)
Reconciliation of Income Tax Expense to Cash Tax		
Income Tax Expense on Profit Before Tax	125.2	108.2
Timing differences recognised in deferred tax	(96.0)	(58.8)
Cash taxes paid per cash flow statement	29.2	49.4

Total Tax Contributions – By Category

During the year ended 31 March 2018, the AusNet Services group made the following tax payments.

Description	Amount
	(\$M)
Income Tax	29.2
Goods & Services Tax	99.3
Land Tax (Transmission Easements) **	136.4
Land Tax (non - Transmission Easements)	5.8
Fringe Benefits Tax	1.1
Payroll Tax	13.2
TOTAL	285.0

** 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.