TAX TRANSPARENCY REPORT
AUSNET

Period Ended 31 Dec 2022

Introduction

With over 1.5 million customers, AusNet is the largest diversified energy network business in Victoria, owning and operating over $15bn of regulated and contracted assets. AusNet owns and operates three core regulated networks – electricity distribution, gas distribution and the state-wide electricity transmission network. The company also has an unregulated business called Growth & Future Networks (this includes the Mondo business and customer-initiated excluded transmission services), focussing on contracted infrastructure and energy services.

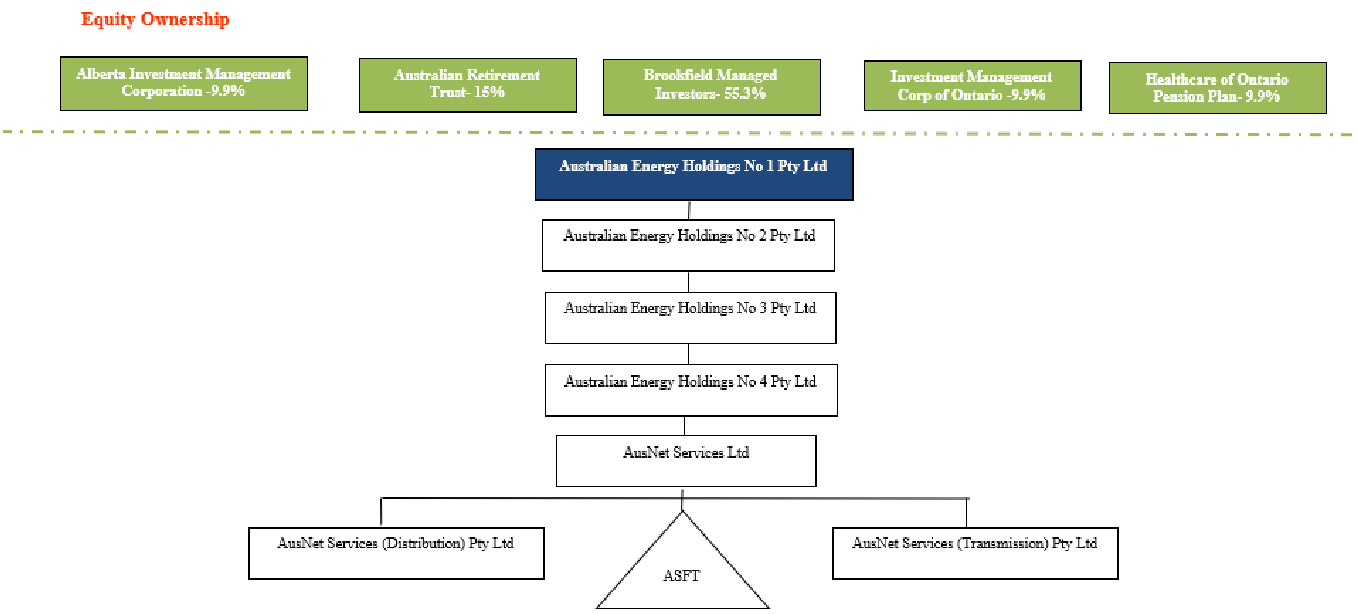
AusNet is committed to operating responsibly and encourages a robust Federal and State taxation system, that ensures all taxpayers *pay their fair share of tax*.

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

The information covered in this report covers the period ended 31 December 2022.

The final page of this report provides a summary of the taxes paid by AusNet at both a State and Federal level for the period ended 31 December 2022.

AusNet Structure



On 16 February 2022, AusNet was acquired by a consortium of investors led by the Brookfield Group. Upon joining the Australian Energy Holdings No. 1 (AEH) tax consolidated group, a tax consolidation event occurred for AusNet, which broadly resulted in a reset and increase in the tax base of depreciable assets held by AusNet at that joining time. Reset tax basis, results in higher capital allowance claims (depreciation) for income tax purposes, which impacts the profile of income tax payable moving forward.

Tax Policy and Governance Framework

AusNet is committed to full compliance with its statutory obligations and takes a conservative approach to tax risk. 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 team and the Board. The AusNet tax function is subject to internal reviews and audits to provide assurance over compliance with internal risk management frameworks.

In support of meeting its statutory obligations, AusNet 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.

AusNet’s experienced in-house tax function maintains policies and procedures to support the meeting of tax compliance obligations, which includes strict adherence to the 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).

In the face of elevated technical uncertainty, where a binding ruling is not sought, AusNet seeks to pay the correct amount of income tax due and payable, under a reasonable interpretation of the law.

Engagement with the ATO

AusNet maintains a transparent and co-operative relationship with the ATO and other relevant tax authorities. AusNet has extensive annual engagement with the ATO and acts with integrity when engaging with revenue authorities to support positive and sustainable relationships.

The ATO conducts an annual review of AusNet Services consolidated income tax returns in accordance with the Pre-Lodgement Compliance Review (PCR) regime that applies to significant taxpayers, including AusNet. The PCR process is used by the ATO to identify potentially uncertain tax positions maintained by the Group. The process allows AusNet to contemporaneously engage with the ATO in respect of all material transactions adopted or being contemplated. AusNet is included in the ATO’s Top 100 assurance review programme.

Income taxes disclosed in the 2022 Annual Report

Income tax expense ('ITE') of $48.0m is disclosed in *Note B.3* (included below) of AEH’s December 2022 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 2022, AusNet was entitled to accelerated deductions in respect of property plant and equipment, relative to the write-off profile recognised for accounting purposes. Asset replacement expenditure in respect of certain electricity distribution assets (poles, cross arms and conductors) are immediately deductible for tax purposes but are depreciated over time for accounting purposes. As a result of timing differences, no income tax was payable or paid in the period ended 31 December 2022.

Reconciliation of Accounting Profit to Income Tax Expense ("ITE")	2022 ($M)
Profit Before Income Tax	15.7
Tax at the Corporate Rate of 30%	(4.7)
Tax effect of amounts which are not deductible/ (taxable) in calculating taxable income	
Non-Deductible Transaction Costs	(43.1)
Other Non-Deductible Expenses	(0.2)
Income Tax Expense	**(48.0)**

Reconciliation of Income Tax Expense to Cash Tax	2022 ($M)
Income Tax Expense on Profit Before Tax	(48.0)
Timing differences recognised in deferred tax	48.0
Cash taxes paid per cash flow statement	**(0.0)**

Note B.3 Taxation

Key estimates and judgements – Timing and availability of tax deductions

Following the acquisition of the AusNet Pty Ltd group, a new tax consolidated group was formed with Australian Energy Holdings No 1 Pty Ltd as the head entity and its wholly-owned Australian controlled entities as members. The AusNet Pty Ltd group filed its final tax return for the period ended 16 February 2022. The new tax consolidated group will file its first tax return for the period ending 31 December 2022.

This tax consolidation event resulted in a reset and increase in the tax base of depreciable assets acquired. The tax base of assets were calculated using the allocable cost amount process (ACA) and a deferred tax liability of $27.1 million was recognised on acquisition date. The increase in the tax base of depreciable assets represents an estimate. (Refer to Note E.3).

The tax expense and deferred tax balances assume certain tax outcomes and values of assets in relation to the application of tax legislation as it applies to AEH. Judgement is required in determining the timing of deductibility of expenditure, which impacts the amount of income tax payable and whether deferred tax balances are to be recognised in the statement of financial position. Changes in tax legislation or the interpretation of tax laws by tax authorities may affect the amount of provision for income taxes and deferred tax balances recognised.

For the period ended 31 December 2022, the Group has recognised deferred tax assets on unused tax losses on the basis that the Group has sufficient taxable temporary differences available, which the unused tax losses can be utilised against. The deferred tax asset is netted against the deferred tax liability for presentation in the balance sheet.

At present there are several tax positions of that are being reviewed by the State Revenue Office ("SRO") and ATO relating to the Australian Energy Holdings No 1 Pty Ltd tax group. These include but are not limited:

- The determination of stamp duty in relation to the transaction. The Group has paid $103.6 million in stamp duty, but the amount payable is subject to final review by the SRO;
- Determination of reset tax base of assets using the allocable cost amount processes (ACA). An opening deferred tax liability has been recognised based on our calculations, but the calculation is subject to further review by the ATO. This could result in changes to the tax base and finalisation of the opening tax balances; and
- The classification of shareholder loans (debt vs equity). Interest of shareholder loans is currently deductible for tax purposes (until new tax regulations become effective in 2024). The classification of the loans as equity for tax purposes would result in non-deductibility of interest on the shareholder loans.

Matters relating to the former AusNet Pty Ltd tax consolidated group include but not limited to an objection lodged by AusNet in relation to certain tax consolidation and capital allowances positions arising from the corporate restructure completed in June 2015. In relation to the tax consolidation element of the 2015 corporate restructure objection, the potential uplift in tax bases has not been previously recognised in the financial statements of AusNet Pty Ltd.

The matters being considered by the ATO are at various stages and include items that could have both a positive or negative impact on the currently recognised tax positions.

(a) Effective tax rate reconciliation

	2022 $M
Profit before income tax	15.7
Tax at the Australian tax rate of 30.0%	(4.7)
Tax effect of amounts which are not (taxable)/deductible in calculating taxable income:	
Non-deductible transaction costs	(43.1)
Other non-deductible expenses	(0.2)
Income tax expense	**(48.0)**
Consists of:	
Current tax benefit (recognised as deferred tax asset)	55.8
Deferred tax	(103.8)
Income tax expense	**(48.0)**

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill. Both our current income tax and deferred tax are calculated using tax rates that have been enacted or substantively enacted at reporting date.

(b) Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(c) Deferred tax

	Deferred tax assets / (Deferred tax liabilities)				
	20 October 2021	Additions due to acquisition of subsidiary	(Charged)/ credited to income statement	Charged/ (credited) directly in equity	31 December 2022
	$M	$M	$M	$M	$M
Employee benefits	-	23.4	(3.0)	-	20.4
Other accruals and provisions	-	114.8	2.2	-	117.0
Defined benefit fund	-	-	(0.1)	0.2	0.1
Intangibles	-	(95.6)	(1.0)	-	(96.6)
Finance lease receivables	-	1.1	3.6	-	4.7
Derivative financial instruments and fair value adjustments on borrowings	-	-	(24.3)	(211.0)	(235.3)
Property, plant and equipment	-	(71.1)	(72.5)	-	(143.6)
Right-of-use assets and lease liabilities	-	0.3	(8.7)	-	(8.4)
Deferred tax asset from carried-forward tax losses	-	-	55.8	-	55.8
Net deferred tax liabilities	**-**	**(27.1)**	**(48.0)**	**(210.8)**	**(285.9)**

Total Tax Contributions – By Category

During the period ended 31 December 2022, AusNet made the following tax payments.

Description	2022 Amount
	($M)
Goods & Services Tax	86.9
Land Tax (Transmission Easements) **	163.2
Land Tax (non - Transmission Easements)	6.4
Fringe Benefits Tax	0.6
Payroll Tax	11.2
Interest Withholding Tax	5.2
TOTAL	**273.5**

** 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.