

SGSP (Australia) Assets Pty Ltd Tax Transparency Report Year Ended 31 December 2016 (CY16)

Background

SGSP (Australia) Assets Pty Ltd (**SGSPAA**) is 60% owned by State Grid Corporation of China and 40% owned by Singapore Power.

SGSPAA is the parent entity of a group of entities collectively known as the SGSPAA Group.

The SGSPAA Group comprises two distinct operating businesses – an assets business and a services business. The SGSPAA Group has approximately 3000 employees across eastern and northern Australia.

The assets business trades as “Jemena” (**Jemena**). Jemena is an investor and operator of a portfolio of electricity, gas and water infrastructure assets which is diversified in terms of geography, fuel and markets. Key assets include Jemena Gas Network (NSW), Jemena Electricity Network (VIC), Eastern Gas Pipeline (NSW and VIC), Queensland Gas Pipeline (QLD), Darling Downs Pipeline (QLD), Northern Gas Pipeline (NT and QLD; under construction), a 50% interest in the ActewAGL Distribution Partnership (ACT) and a 34% shareholding in United Energy Distribution (VIC).

The services business trades as “Zinfra” and provides services to Jemena as well as to third parties. The services business focuses on delivering engineering, design and construction, as well as field based maintenance and operational services across gas, electricity, telecommunications and water assets.

Approach to Tax Strategy and Governance

SGSPAA is committed to meeting its Federal and State tax compliance obligations, including payment of all taxes by relevant due dates.

The SGSPAA Group has implemented a robust and operationally effective Tax Corporate Governance (**TCG**) framework which effectively aligns with the Australian Taxation Office's (**ATO**) Tax Risk Management and Governance Guide. The TCG framework includes strong Board and Management level controls which are tested periodically.

SGSPAA's Board has also approved a Tax Risk Management (**TRM**) Policy which is used to categorise tax risks and mandate the steps SGSPAA needs to take to manage such tax risks. This includes obtaining external professional advice and / or ATO confirmation as appropriate. SGSPAA seeks to adopt tax positions that are of low risk. Where there is uncertainty in application of the tax law, SGSPAA only adopts tax positions that are at least “reasonably arguable”.

SGSPAA has an experienced in-house Tax Team that formally reports to the Audit and Compliance Committee (**ACC**) on a quarterly basis. The Tax Team also provides specific updates on significant tax legislative changes / developments to the Board and ACC where appropriate. For materially important transactions (e.g. mergers and acquisitions, distributions to shareholders and capital restructures), the Board is advised of key tax implications and risks prior to providing its approval, in line with SGSPAA's TRM Policy. Additional oversight is provided by SGSPAA's external and internal auditors.

Engagement with Revenue Authorities

SGSPAA endeavours to engage with the ATO and all other revenue authorities in a cooperative and transparent manner.

In December 2016, the ATO issued its annual risk differentiation framework letter to SGSPAA and categorised SGSPAA as a key taxpayer for income tax. In particular, the ATO states in the letter that:

SGSP has demonstrated an ongoing willingness to maintain a cooperative and open relationship with us on a real time basis. I appreciate the efforts of your staff and their genuine desire to work with us.

Information about International Related Party Dealings

SGSPAA only has business activities and investments in Australia.

Whilst SGSPAA's shareholders are overseas and involved in the utilities industry, SGSPAA is held as an investment by those shareholders and SGSPAA's business is not integrated with those of its shareholders in any way. Accordingly, SGSPAA's international related party dealings are limited to:

- Payments of dividends.
- Payments of interest on Convertible Instruments currently on issue to shareholders. SGSPAA remits 10% interest withholding tax to the ATO.
- Occasional purchases of equipment and materials from related entities.

All material international related party dealings are based on arm's length principles with supporting documentation.

Reconciliation of Accounting Profit to Tax Expense and Tax Expense to Income Tax Payable

	\$'M
Accounting profit before tax	372.0
Prima facie income tax expense (30%)	(111.6)
Non-deductible expenses	0.5
Non-assessable income	(0.5)
Prior year under / over	0.3
Income tax expense	(111.3)
Temporary differences	
Reverse accounting depreciation	(75.0)
Deduct tax depreciation	121.1
Other	6.1
Income tax payable	(59.1)
Effective tax rate¹	29.9%

The key variance between SGSPAA's income tax expense and income tax payable relates to the difference between straight line accounting depreciation and accelerated tax depreciation. This reflects SGSPAA's use of the diminishing value method (inclusive of the 200% uplifted rate) and the capped effective life of 20 years for gas distribution and transmission assets under tax law.

Summary of Taxes Paid

The tables below provide a summary of various Federal and State taxes that the SGSPAA Group has directly and indirectly contributed to the Australian community and economy in relation to the year ended 31 December 2016 (unless otherwise stated).

¹ As indicated above, SGSPAA's business is solely domestic and SGSPAA does not have any overseas presence. Accordingly, its Australian and global effective tax rate is the same.

Taxes borne by SGSPAA	\$'M
Income tax	59.1
Payroll taxes (for the year ended 30 June 2017)	22.3
Fringe benefits tax (for the year ended 31 March 2017)	1.3
Land tax	1.7
Total	84.4

Taxes borne by others	\$'M
Goods and services tax	84.6
Interest withholding tax	8.2
Total	92.8

In addition, there is material tax (PAYG withholding) generated on the salary and wages earned by SGSPAA's employees.