



**APA GROUP**  
**TAX TRANSPARENCY REPORT**  
**2018**

As the leading energy infrastructure business in Australia, APA Group (APA) is committed to meeting the highest standards of tax governance. Compliance with all State and Federal tax laws is mandatory.

As part of this commitment APA has voluntarily adopted the Board of Taxation's Tax Transparency Code and will release a Tax Transparency Report for each year ended 30 June.

**Tax Governance and Oversight**

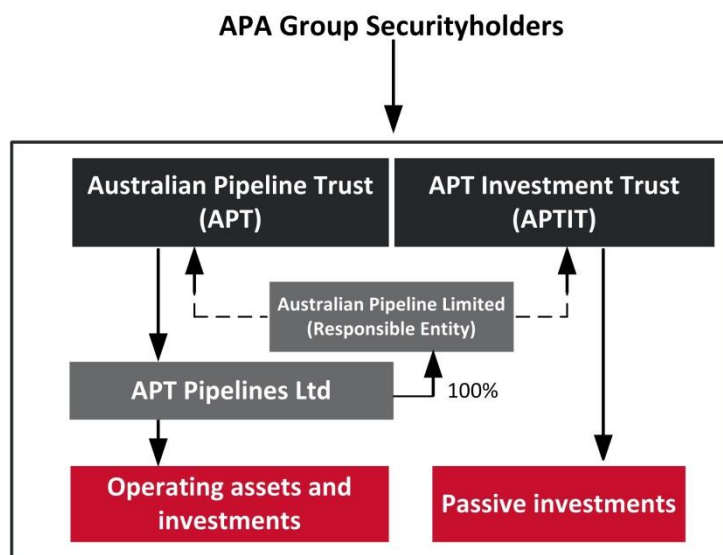
APA has an experienced in-house tax team that reports six monthly to the Audit and Risk Management Committee of the Board. Additional oversight is provided by APA's internal and external auditors. In addition APA regularly uses a range of highly qualified external taxation advisers, typically from the "Big 4" accounting firms to provide specific advice in respect of tax risks arising in respect of material transactions.

APA's tax governance framework includes formal tax policies and procedures that are reviewed and updated annually. APA has appropriate systems, processes and controls in place to identify, monitor, manage and escalate tax risks arising from material transactions undertaken and in its business affairs generally.

**Tax Risk Profile**

APA considers itself to be a low risk tax payer. Where there is a choice between an aggressive tax position, and a more conservative position, APA will take the more conservative approach.

## APA Group Structure



APA Group is a stapled trust structure comprising Australian Pipeline Trust (APT) and APT Investment Trust (APTIT). APA Group operates in Australia. A single subsidiary is resident in the United States. Service fees have been charged and documented using an appropriate arm's length methodology. No businesses are conducted in or through tax haven jurisdictions.

APT is a Division 6C public trading trust which is treated as if it were a company for tax purposes. APT carries on APA's active businesses and is the head of the APT tax consolidated group (APT TCG). As head of the APT TCG, APT is liable for corporate tax of 30% in respect of its business activities.

APTIT is a Division 6 "flow through" trust which owns a number of passive assets used by APT and provides some funding to APT. Cross staple charges by APTIT are at appropriate arm's length market rates. Net income derived by APTIT is fully distributed annually to APA security holders and is taxed in their hands at their applicable marginal tax rates.

### APA Group Distributions

APA makes distributions to security holders based on available operating cash flows. Distributions are made on a profits first basis. Where there are insufficient profits in any period, returns of capital are made to security holders.

Australian resident security holders are subject to income tax at their applicable tax rate on APT profit distributions received. Where tax has been paid by APT, profit



distributions will include applicable franking credits which can be used by security holders to offset their tax liabilities.

Where tax has not been paid by APT, distributions will generally be fully taxed in the hands of resident security holders<sup>1</sup>. This is consistent with Australia's dividend imputation regime whereby company profits are only taxed once at a relevant security holder's applicable marginal rate.

Non-resident security holders are subject to withholding tax of up to 30% on unfranked APT profit distributions. No withholding tax is deducted from franked APT profit distributions.

APTIT profit distributions are taxed in the hands of Australian resident security holders at their applicable marginal tax rate.

Non-resident security holders are subject to withholding tax of 10% on APTIT profit distributions.

Returns of capital by APT and APTIT are "tax deferred" to security holders. This means that the amount of the capital return reduces the cost base of the units held with tax only being paid once the cost base reduces below nil or the units are sold for consideration in excess of the reduced cost base.

Distributions paid by APA during the 2018 financial year totalled \$490.3. This comprised APT franked profit distributions of \$117.0m, APT unfranked profit distributions of \$36.3m, APTIT profit distributions of \$68m and a return of capital of \$269m. The APT unfranked profit distributions and the APTIT profit distributions will be either fully taxed in the hands of Australian resident security holders or were subject to withholding tax at relevant rates in the hands of non-resident security holders.

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<sup>1</sup> Security holders should always consider their own tax position in determining assessability of APA distributions and should seek their own tax advice.



**Reconciliation of Accounting Profit to Income Tax Expense  
Financial Year 2018**

	\$000
Profit before tax	<u>429,896</u>
Income tax expense calculated at 30%	(128,969)
Non-assessable trust income (APTIT)	20,415
Non-deductible expenses <sup>2</sup>	(58,318)
Non-assessable income	<u>18</u>
	(166,854)
Previously unrecognised tax losses	690
R&D tax incentive	496
Adjustment recognised in the current year in relation to the current tax of prior years	<u>612</u>
<b>Income tax expense</b>	<b><u>(165,055)</u></b>

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<sup>2</sup> Predominantly amortisation/write off of contract intangibles that are not deductible for tax



### Australian Effective Tax Rate Financial Year 2018

The accounting effective tax rate for 2018 is 38.4%.

### Reconciliation from Income Tax Expense to Income Tax Payable Financial Year 2018

	\$000
<b>Profit/(loss) Before Tax</b>	<b>429,896</b>
Adjustments made in determining income tax expense	126,284
<b>Adjusted Profit Before Tax</b>	<b>556,180</b>
Accounting depreciation	396,107
Tax depreciation	(676,618)
Capitalised interest deductible for tax purposes	(23,697)
Movement in provisions and accruals	(11,672)
Movement in prepayments	1,805
Capital expenditure deductible for tax over 5 years	(9,432)
Revenue assessable for tax in current/prior periods but deferred in accounts	17,911
Other adjustments	5,275
<b>Gross Taxable Income</b>	<b>255,859</b>
Transferred tax losses utilised	(77,248)
<b>Taxable income after loss utilisation</b>	<b>178,611</b>
Tax @ 30%	53,576
R&D Tax Offset	(1,580)
<b>Income Tax Payable in respect of the FY18 tax year</b>	<b>51,996</b>



The most significant tax timing difference in the above reconciliation is the capped 20 year tax life allowed by Australian tax laws to gas transmission and distribution assets. These capped lives result in accelerated tax depreciation being claimed on APA's long life pipeline assets over a 20 year effective life as opposed to an accounting effective life of, generally, around 40 years.

### Taxes Paid/Payable

The table below shows taxes paid or payable by APA either in its own capacity or on behalf of employees/contractors/customers in respect of the year ended 30 June 2018. All taxes shown are payable in Australia with the exception of \$0.1 million income tax which is payable in the United States.

	<b>\$000</b>
Corporate Income Tax <sup>3</sup>	51,996
Goods & Services Tax	96,799
Fringe Benefits Tax	1,028
Payroll Taxes	13,070
Employee Pay-As-You-Go Withholding	74,810
Land Tax	1,507
Excise	<u>3,437</u>
Total Taxes Payable/Paid	<u>242,647</u>

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<sup>3</sup> Payable by 1 December 2018