Australia Pacific LNG Pty Limited Income Tax Transparency Report

Year ended 30 June 2018

Australia Pacific LNG Pty Limited (‘APLNG’) makes a significant contribution to the communities in which it operates, including by paying rates and royalties.

APLNG is open and transparent about its tax arrangements and undertakes all required tax compliance and reporting obligations. All of APLNG and its subsidiaries’ activities are Australian based.

APLNG has been classified as a key taxpayer by the Australian Taxation Office (‘ATO’) under its risk-differentiation framework which means that APLNG’s operations are assessed as having a significant effect on the tax system but also that the ATO considers that it would be unlikely that APLNG would lodge tax returns that would apply an interpretation of the tax law which is inconsistent with that of the ATO. As a key taxpayer APLNG continually engages with the ATO on a rolling review basis to confirm compliance with the tax law.

As part of this review process the ATO has issued APLNG with a high level of assurance for its income tax position in respect of the 2018 tax year under its justified trust initiative[1]. In particular, the ATO stated that, “APLNG has demonstrated conservative tax behaviours and there is no evidence of propensity to engage in aggressive tax planning. APLNG is co-operative and engages with the ATO displaying a good level of transparency.”

ATO tax transparency reporting

The ATO’s report on tax entity information for the 2018 income year includes details of tax paid as compared to revenue. This report doesn’t disclose what is invested to earn that income nor the expenses incurred to derive the revenue.

The ATO report includes the following information with respect to APLNG for the year ended 30 June 2018:

Total income	$5,292,408,456
Taxable income	Nil
Income tax payable	Nil

The accounting profit before income tax for APLNG for the year ended 30 June 2018 was $722,860,489, as compared to a tax loss of $510,754,989. The most significant reason for the variance between these amounts relates to tax depreciation and is described in the below ATO Guidance. Another reason for the variance relates to a foreign exchange loss deduction associated with the project finance debt repayments.

The Australian tax consolidated group

APLNG and its subsidiaries only have operations in Australia. APLNG lodges a single Australian tax return which consolidates the results of all of its wholly owned Australian resident companies.

APLNG changed its functional currency from Australian Dollars (‘AUD’) to United States Dollars (‘USD’) from 1 July 2016 as required under accounting standards. Also, with effect from the same date APLNG elected to change its functional currency from AUD to USD for income tax purposes.

[1] The justified trust initiative involves a comprehensive review of a taxpayer by the ATO with objective evidence that would lead a reasonable person to conclude that the taxpayer paid the right amount of tax. This is a higher level of assurance than confirming that certain risks do not arise. For further information on justified trust, please refer to the ATO’s website, www.ato.gov.au/business/large-business/justified-trust/

As a result of the change in functional currency for accounting purposes, APLNG elected to present the APLNG Group's financial statements in USD presentation currency from 1 July 2016. Although APLNG's presentation currency in its financial accounts is USD, the company is required to disclose amounts in its Australian tax return in AUD, and has done so using the ATO's published average foreign exchange rate for the year ended 30 June 2018.

ATO Guidance Information

The ATO has also published guidance to assist in interpreting the tax entity information that it will publish (see: https://www.ato.gov.au/printfriendly.aspx?url=/Business/Large-business/In-detail/Tax-transparency/Tax-transparency--reporting-of-entity-tax-information/). This should be referred to in detail. However, the following extracts are particularly relevant to APLNG and its subsidiaries in relation to the year ended 30 June 2018:

Tax transparency: reporting of entity tax information

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Producing the report

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> ***Total income***
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> *Total income does not include accounting expenses – the total income figure is similar to gross accounting revenue, not profit and it makes no allowances for the costs of earning income.*
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> ***Taxable income***
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> …
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> - *An entity's taxable income may include franking credits and non-deductible items that increase taxable income relative to accounting profit, but will also reflect available concessions or deductions allowable for income tax purposes such as tax losses used from prior years that will decrease taxable income relative to accounting profit.*
> - *The inclusion of assessable amounts and allowable deductions to arrive at the taxable income reported, and the omission of expenses from the total income reported, means there is not a simple correlation between total income and taxable income.*

Tax and report data

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> ***Taxable income***
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> *Variations between an entity's tax expense as recorded in its statutory accounts and tax payable as recorded in a tax return can arise for a number of reasons, including:*
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> - *Timing in the depreciation of capital assets will cause differences in the accounting and tax position of an entity; generally tax is more concessional to provide business with incentives to invest.*
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> …
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> ***Tax losses and economic losses***
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> *Generally a tax loss occurs where the total deductions claimed for an income year exceed the total of assessable and net exempt income for that year. Accounting profit/loss will rarely equate to tax profit/loss.*
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> …
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> *Economic losses (or those reported for financial statement purposes) generally reflect the position of a company for the particular year and can include losses that are recorded for asset impairments or write downs.*