

# **TAX TRANSPARENCY REPORT**

## **BANPU AUSTRALIA CO. PTY LTD**

### **31 DECEMBER 2017**

#### **Introduction**

Banpu Australia Co. Pty Ltd ('Banpu Australia' or 'the Company') is pleased to present this report ('the Report'), which sets out the Australian tax contribution of Banpu Public Company Limited ('Banpu' or 'the Group') and how Banpu approaches its tax responsibilities.

The Report covers the financial year ended 31 December 2017 ('2017') and meets all the requirements of the voluntary Tax Transparency Code ('TTC'), which was released by Australia's Board of Taxation on 16 February 2016. Banpu Australia is a large business for the purpose of the TTC and is therefore disclosing the information detailed in Part A and Part B of the TTC.

Banpu Australia has a substituted accounting period for Australian income tax purposes – the Company lodges income tax returns for each calendar year in lieu of the succeeding 30 June tax year.

The Report covers the Banpu Australia income tax consolidated group ('the BPA Group') – i.e. the Australian operations of Banpu (predominantly Centennial Coal Company Limited ('Centennial') and its subsidiaries). The members of the BPA Group are treated as a single taxpayer for income tax purposes.

#### **Banpu**

Banpu is an integrated energy supplier with an active presence across the Asia-Pacific region. Banpu is listed on the Stock Exchange of Thailand and headquartered in Bangkok.

From humble beginnings managing a small lignite operation in the north of Thailand in the early 1980s, Banpu has since grown to become one of the Asia-Pacific region's most integrated and geographically diverse independent energy players, with expertise throughout the supply chain from upstream resource development, through midstream logistics and marketing to downstream power generation and energy delivery.

Currently, Banpu has businesses based in ten countries: Thailand, Indonesia, China, Australia, Lao People's Democratic Republic ('Laos'), Mongolia, Singapore, Japan, the United States of America and Vietnam.

Banpu has over a third-of-a-century of experience in upstream resource development in coal and industrial minerals in Asia and Australia. Banpu's expertise covers exploration, open-pit mining and underground operations. Banpu manages or co-manages mines producing in excess of 60 million tonnes of coal and lignite in the Asia-Pacific region. Banpu has also recently ventured into unconventional shale gas production. The Group currently has active upstream operations and projects in China, Mongolia, Australia, Indonesia, Laos and the US.

Banpu's midstream capabilities are currently focussed on managing over 45 million tonnes of coal logistics, marketing, sales and trading in the Asia-Pacific region. The Group has plans to diversify into liquid fuels, bio-fuels and bio-mass logistics and marketing. Much of the Group's midstream business is managed in Singapore.

Downstream, Banpu has been a pioneer in private sector power developments in Asia for over two decades. Banpu has successfully developed a series of greenfield Independent Power Producer ('IPP') and Small Power Producer ('SPP') power projects in Asia since the early 1990s, securing several billion dollars of project finance in the process. The Group's current power portfolio consists of over 2,000 megawatts of equity power capacity in Thailand, Laos, China and Japan. This includes a solar photovoltaic power operating portfolio of approximately 200 equity megawatts. The Group is targeting growth of its power business to over 4,000 equity megawatts by the early 2020s focused on high-efficiency, low-emissions conventional power and renewable energy. Banpu also holds an interest in a US gas producer. Banpu recently launched its new smart energy business, Banpu Infinergy, focused on solar rooftop services in Thailand for residential and commercial clients.

### **Banpu Australia & Centennial**

Banpu acquired Centennial in 2010.

Established in 1989 and listed on the Australian Securities Exchange in 1994, Centennial is a coal mining and marketing company supplying thermal and coking coal to the domestic and export markets. From its small beginnings in 1989 and a \$20 million listing in 1994, Centennial grew to be a top S&P/ASX 100 company. Upon the takeover by Banpu in September 2010, its market capitalisation had grown to approximately \$2.5 billion. Today, Centennial is a wholly owned subsidiary of Banpu, via Banpu's Australian subsidiary Banpu Australia.

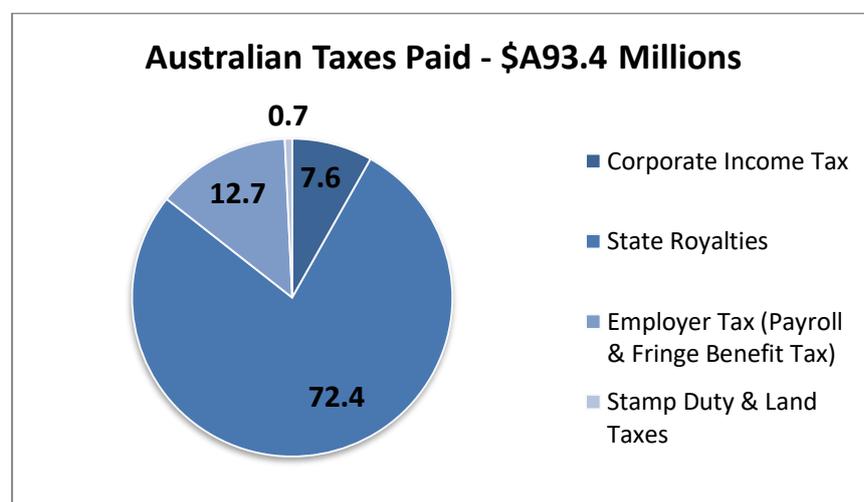
Centennial has over 1,600 employees and currently operates underground coal mines in New South Wales.

Centennial is a major fuel supplier to the NSW energy industry, fuelling approximately 40% of the State's coal-fired electricity generation. We have a growing export capability and currently sell approximately 40% of our coal into the export market. Coal is exported

through ports at Newcastle and Port Kembla in NSW and our customers include power stations and steel mills in Taiwan, Japan, Korea, China and Europe.

## Taxes Paid

The following chart summarises the Australian taxes paid by the BPA Group for 2017:



The BPA Group made an accounting profit before tax of \$78,786,880 and a taxable income of \$21,055,314 (before utilisation of tax losses and tax offsets) in 2017.

As a result of the BPA Group applying prior year tax losses and tax offsets, no corporate income tax was payable in respect of 2017 year. However, corporate income tax of \$7.6 million was paid during 2017 year, which related to a settlement of an outstanding issue in respect of prior income years.

Prior year tax losses may be carried forward and applied to reduce taxable income in later income years (subject to the satisfaction of certain criteria). Tax payable is generally 30% of taxable income, which may be reduced by available tax offsets. Tax offsets include franking credits and the Research & Development ('R&D') tax offset.

## Reconciliation of Australian accounting profit to taxable income/loss

Description	2017 Annual Accounts A\$Millions
Banpu Australia's profit before tax	78.78
Temporary adjustments for Income/Expenses	(1.25)
Accelerated tax depreciation and capitalised expenditure	(42.21)
Payments made from provisions	(15.17)
Non-deductible items	0.69
Foreign exchange	1.95
Australian R&D Expenditure	1.11
Other	(2.84)
<b>Taxable Income/(Loss) before tax losses and tax offsets</b>	<b>21.06</b>

Many of the items in the reconciliation above relate to temporary differences between tax and accounting. Details of the material differences are as follows:

- Temporary adjustments for Income/Expenses – primarily relating to consumables which are immediately deductible for tax.
- Accelerated tax depreciation and capitalised expenditure – temporary adjustments due to differences in effective lives adopted between tax and accounting for depreciable assets and deductible mining expenditure which is capitalised and depreciated for accounting.
- Payments made from provisions – temporary adjustments due to payments of provisions predominantly related to employee benefits and mining rehabilitation which are deductible for tax when paid and which have been already provided for in the accounts.

The above information has been audited as part of the BPA Group’s annual reporting processes.

For the years ended 31 December 2012 to 2016 years, the BPA Group incurred tax losses. The tax losses primarily arose from trading in an oversupplied coal market, which resulted in lower coal prices. In addition to the difficult trading environment for coal, the BPA Group also incurred significant mine development expenditure during this period.

During 2017, the restructuring of the coal sector in China, nuclear plant shut downs in Korea and Japan, strong winter demand and global economic growth were some of the factors leading to an increase in coal demand and the recovery of coal prices. The increased demand, along with tight supply from major exporting countries, resulted in coal prices soaring sharply towards the end of the year. Consequently, the increased profitability of the BPA Group ultimately led to the partial recoupment of prior year tax losses.

**Taxes collected on behalf of the Federal and State Governments in 2017 include:-**

<b>Australian Taxes Collected</b>	<b>AUD \$ Millions</b>
Pay As You Go Withholding taxes - employee wages	76.9
Goods & Services Tax ('GST') remitted from sales <sup>1</sup>	66.1
<b>Total</b>	<b>143.0</b>

<sup>1</sup> This amount represents the gross GST payable in respect of sales, and does not take into account GST recovered by the BPA Group on expenditure.

## Reconciliation of Australian accounting profit to tax (expense)/credit

Description	2017 Annual Accounts AUD \$Millions
<b>Banpu Australia's profit before tax</b>	<b>78.8</b>
Tax at Australian corporate tax rate (30%)	(23.6)
Australian R&D tax offset	0.1
(Non deductible) / Non Assessable	1.0
Prior year's (under)/over provision	1.8
<b>Tax Expense per accounts</b>	<b>(20.7)</b>

Effective Tax Rate ('ETR') of Banpu Australia	2017 Annual Accounts AUD \$Millions
Tax Expense per accounts	20.7
Banpu Australia's profit before tax	78.8
<b>ETR</b>	<b>26.27%</b>
<b>ETR reconciled as:</b>	
Australian statutory tax rate	30.00%
<b>Adjusted for non-temporary differences:</b>	
Australian R&D tax offset	(0.14%)
(Non deductible)/Non Assessable	(1.29%)
<b>Subtotal</b>	<b>28.57%</b>
Prior year's under/(over) provision	(2.30%)
<b>ETR</b>	<b>26.27%</b>

## Tax Governance, Tax Planning and Engagement with Tax Authorities

### Risk Management

Both Banpu and Centennial have a strong focus on risk management throughout all aspects of the business. Centennial's Risk Management Policy and Framework is based on the Risk Management Standard AS/NZS/ISO 31000 ('include the full name') for the management of risk.

Tax is one of the risks managed within the overall risk framework.

The Risk Management Framework requires senior executives and management personnel to identify risks inherent in their area of responsibility, and put policies and procedures in place to mitigate those risks, where possible. On an annual basis, each business area's risks are reviewed to ensure that all risks have been identified, and any risks arising from the last review date are included in the analysis. This task is led by Centennial's Executive General Manager – Risk and Compliance. The outcome of this analysis is reported to the Centennial

Audit & Risk Committee ('the A&R Comm') and to the Board of Directors ('the Board') of Centennial and Banpu Australia.

Further details are outlined in Centennial's 2017 Sustainability Report, which can be viewed on the Centennial's website ([www.centennialcoal.com.au](http://www.centennialcoal.com.au)).

### **Tax Risk Management**

The BPA Group employs an experienced tax professional to manage the BPA Group's tax affairs. The tax affairs of the BPA Group must be carried out in accordance with the BPA Group's Tax Policy, which places an emphasis on a prudent approach to tax management and operates within the Company's broader governance and risk management framework.

The BPA Group's Tax Policy requires:

- Compliance with all applicable tax laws, rules and regulations.
- Culture of tax compliance embedded within the business.
- Managing tax risk so as to avoid unnecessary disputes with Government authorities.
- Seeking constructive and co-operative working relationships with the ATO and NSW Office of State Revenue.
- Complying with the arm's length principle for international related party and intra-group transactions.
- Pro-actively managing and monitoring compliance.

Reports are provided to the A&R Comm quarterly, the Centennial Board monthly via the Finance Report, and the Banpu Australia Board quarterly.

The quarterly update to the A&R Comm includes details of tax issues arising in respect of:

- Progress of ongoing tax obligations (Federal and State).
- Progress on any ongoing audits from revenue authorities (Federal and State).
- Legislative changes proposed or made by revenue authorities.
- Progress on major transactions currently being undertaken.

In relation to significant or complex transactions, Banpu Australia engages external advisors when necessary to advise on new matters or significant transactions. In addition, the corporate income tax return is reviewed by Banpu Australia's external advisor.

Banpu Australia's international related party dealings are undertaken in accordance with the 'arm's length principle', and the ATO and Organisation for Economic Co-operation and Development's transfer pricing rulings and guidelines. Banpu Australia engages external advisors to review the transfer pricing documentation. The number of cross-border transactions with related parties are few and their value small relative to the BPA Group's economic value.

The BPA Group does not engage in aggressive tax planning.

The BPA Group has invested in information technology, including an integrated accounting platform and tax compliance software to ensure integrity of its financial data and tax reporting.

### **Corporate and Tax Governance**

Banpu and Centennial both have a Corporate Governance Policy, which demonstrates the commitment to values such as respect for the law, honesty, integrity, ethical and transparent practices, which are key attributes for which the companies are known and respected.

Accordingly, in line with these reputational considerations, the BPA Group pursues a tax strategy that is fair and transparent.

### **Engagement with Tax Authorities**

The Group seeks to maintain an open, proactive and co-operative relationship with revenue authorities in all the countries where operations are located. These relationships are supported by ongoing communication, particularly with regard to significant transactions, and are based on constructive communication and mutual respect. Where possible, the BPA Group works collaboratively with tax authorities to achieve early agreement and certainty in the application of tax laws.

Currently, the BPA Group is categorised as a GST lower risk taxpayer by the ATO.

As part of the commitment to corporate citizenship, where the ATO has previously engaged with the BPA Group to conduct assurance on tax affairs of the Company, a positive and sustainable relationship has been maintained at all stages of the engagement.

### **International Related Party Dealings**

The Group had the following related party dealings during 2017.

#### **a. Intercompany borrowings**

There are currently inter-group loans between Banpu Australia and other Banpu related companies, upon which market interest rates are charged.

These loans only represent a small proportion (1.2%) of the total borrowing of the Group.

## b. Marketing services

Banpu has centralised its marketing operations with respect to international coal sales for its overseas subsidiaries. As a result, marketing services are provided to Centennial with respect to coal sold outside Australia (i.e. export coal sales).

The marketing fee charged for these services represents an arm's length price.

All documentation required by Australian tax legislation has been prepared in support of arm's length pricing.

### Information published by the ATO

Pursuant to Australia's public tax transparency laws, the Federal Commissioner of Taxation ('the Commissioner') has an obligation to annually publish selected income tax information for large corporate tax entities with total income of at least \$100 million (as disclosed in its income tax return), except Australian owned private companies with total income of less than \$200 million.

Accordingly, the following details will be published by the Commissioner in December 2019 with respect to the financial year ended 31 December 2017:

<b>Name</b>	BANPU AUSTRALIA CO. PTY LTD
<b>ABN</b>	56136468007
<b>Total Income</b>	\$1,156,236,412
<b>Taxable Income</b>	\$284,272
<b>Tax Payable</b>	\$0

**'Total Income'** represents gross revenue, not profit of Banpu Australia. **This figure does not take into account expenses incurred in the operation of the business.**

**'Taxable Income'** refers to a company's statutory profits plus all adjustments required under the income tax legislation. As noted above, a company's taxable income can vary significantly to their statutory profit due to timing differences for accounting and tax for expenses and depreciation, and the application of prior year tax losses.

**'Tax Payable'** refers to the tax payable based on a company's taxable income, after taking into account the application of franking credits and tax offsets (e.g. R&D tax offsets).

**As noted earlier, no corporate income tax was payable in respect of 2017 year as a result of the BPA Group applying prior year tax losses and tax offsets.**