

# ASX & SGX-ST Release



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## Resolution of ATO intra-group financing review (Division 974 audit)

AusNet Services and the Australian Taxation Office (“ATO”) have reached an in-principle, non-binding agreement to settle all matters concerning the Division 974 audit and related reviews.

This resolution responds to legislative uncertainty in relation to Division 974 of the *Income Tax Assessment Act 1997* and the ATO’s publicly stated views in respect of stapled structures. AusNet Services considers the negotiated outcome prudent and optimal.

AusNet Services is presently considering a simplified corporate structure for the future operation of the Group and will update securityholders as soon as practicable.

### Key Outcomes:

- Resolution provides tax certainty, with the ATO concluding all audit activity for years up to and including 31 March 2014;
- FY15 distribution guidance maintained at 8.36 cents per security;
- Future distributions to securityholders expected to contain a higher fully franked dividend component, reflecting settlement outcomes;
- AusNet Services will make a primary tax payment of \$23.5m and an interest payment of \$1.5m, following execution of a binding settlement deed in November 2014;
- AusNet Services will cancel carry forward tax losses, amounting to \$475m in respect of the 2008-14 financial years and \$31.5m in respect of the 2005 financial year, following execution of a binding settlement deed;
- After settlement, AusNet Services will hold \$676m of carry forward tax losses;
- AusNet Services will cease taking interest deductions in respect of AusNet Services Finance Trust (“Finance Trust”) loans from 1 April 2014;
- FY15 Net Profit after Tax is impacted by around \$185m (reflecting \$25m cash payment, plus cancellation of prior year losses and FY15 deductions @ 30%); and
- Resolution does not impact ongoing litigation proceedings in respect of the Sec 163AA impost and Intellectual Property matters.

## Background

In September 2013, the ATO notified AusNet Services of its intention to review the Group's intra-group financing arrangements. The primary focus of the audit was to consider the application of the debt and equity rules under Division 974, focussing on classification of loans between the Finance Trust and Group companies. In its 2014 Statutory Annual Report, AusNet Services advised it had the following exposures:

- A primary tax liability of \$79.8m and \$20.7m of interest penalties and incremental withholding tax arising in the AusNet Services Transmission Group;
- A primary tax liability of \$128.9m in the AusNet Services Distribution Group, but no cash tax liability due to carry forward tax losses; and
- \$17.2m of incremental withholding tax in the AusNet Services Distribution Group (a cash tax liability).

Accumulating interest charges have accrued beyond 31 March 2014, in respect of the Transmission Group exposures and the Distribution Group withholding tax exposure, taking the total cash tax liability to beyond \$120m, as at the date of resolution.

At the time of resolving the Division 974 audit, AusNet Services and the ATO reviewed the treatment of *rights to future income* (specifically, derivative assets under tax consolidation), as it pertains to the AusNet Services Distribution Group's acquisition of the TXU Australia Group in July 2004, together with the subsequent divestment of the merchant energy business in March 2005 ("the TXU transaction").

AusNet Services has agreed to cancel a portion of carry forward tax losses, amounting to \$31.5m, reflecting potential adjustments to tax positions adopted in the 2005 financial year, in relation to rights to future income issues. Following execution of a binding settlement deed, the ATO will cease to review any matter associated with the TXU transaction.

## About AusNet Services

AusNet Services is the largest diversified energy network business in Victoria, owning and operating around \$11 billion of electricity and gas distribution assets, including the state-wide electricity transmission network. The company also has a non-regulated division, Select Solutions, providing utility services.

Headquartered in Melbourne, Australia, AusNet Services employs more than 2100 people to service 1.3 million consumers and is listed on the Australian Securities Exchange (ASX: AST) and the Singapore Stock Exchange (SGX-ST: X04).

For more information visit AusNet Services' website, [www.ausnetservices.com.au](http://www.ausnetservices.com.au)

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