



**INPEX**



*INPEX Australia*

# **2018 Tax transparency report**





INPEX CORPORATION is the largest oil and gas exploration and production company in Japan.

Involved in over 70 projects across more than 20 countries, INPEX is ranked in the top 150 global energy companies. It is listed on the Tokyo Stock Exchange, and 18.9 per cent owned by the Japanese Government. The company's growth is driven from four core business areas: Australia, Abu Dhabi, Indonesia and Japan.

We are committed to managing our business activities responsibly in all countries in which we operate.

We believe tax transparency strengthens accountability by governments and companies to communities. Tax transparency encourages good business practices that improve the overall investment environment. Transparency ensures citizens remain informed of the valuable economic contribution being made by the resources industry, and the benefits that flow to the community.

As a proud member of the Australian business community for more than 30 years, INPEX is pleased to adopt the Australian Government's Voluntary Tax Transparency Code.

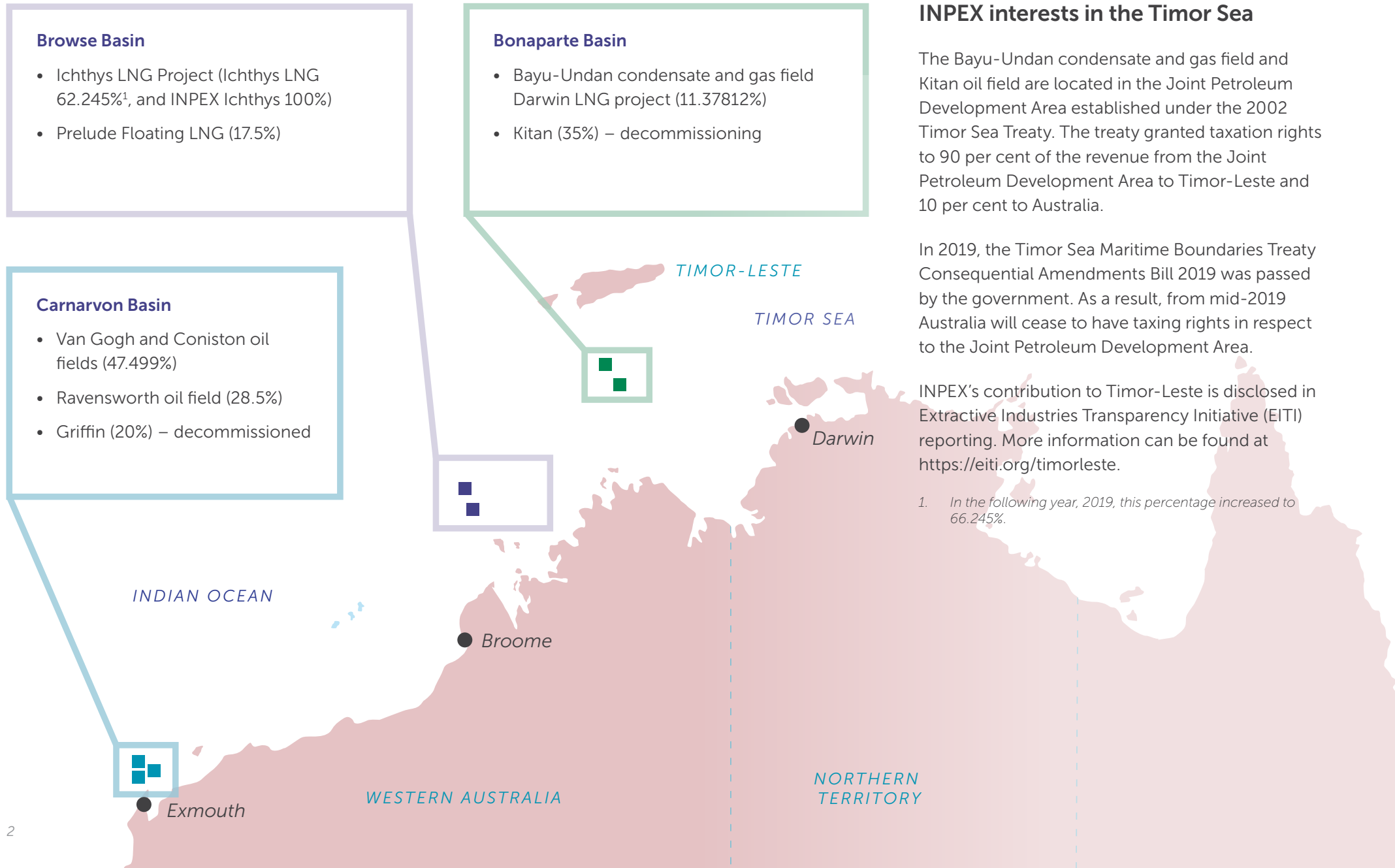
A handwritten signature in black ink, appearing to read 'Hitoshi Okawa', enclosed in a faint circular outline.

**Hitoshi Okawa**

*President Director, Australia*

*December 2019*

# INPEX in Australia



# INPEX companies in Australia

INPEX has seven Australian-based entities and five branches of Japanese companies. These companies are all governed in accordance with the Corporations Law of Australia and Japan. They are 100 per cent owned and controlled by INPEX. In 2018, INPEX held a share of 62.245 per cent in Ichthys LNG Pty Ltd, which is an incorporated joint venture company. This company processes the feed gas sold to it by the Ichthys Upstream Joint Venture Participants. Ichthys LNG Pty Ltd is not covered in this report.

	<i>Company/branch name</i>	<i>Australian head company</i>	<i>Japanese head company</i>	<i>Ultimate beneficial owner</i>	<i>Participating interest in project name/function</i>
<b>Multi-entity consolidation (MEC)</b>	INPEX Holdings Australia Pty Ltd		INPEX Browse, Ltd	INPEX CORPORATION	Holding company
	INPEX Browse E&P Pty Ltd (IBEPL)		INPEX Browse, Ltd	INPEX CORPORATION	Exploration permits
	INPEX Ichthys Pty Ltd (IIPL)	INPEX Holdings Australia Pty Ltd (IHAPL)	INPEX Browse, Ltd	INPEX CORPORATION	Ichthys upstream project
	INPEX Oil & Gas Australia Pty Ltd (IOGA)		INPEX CORPORATION	INPEX CORPORATION	Prelude Floating LNG
	INPEX Operations Australia Pty Ltd (IOAPL)	INPEX Holdings Australia Pty Ltd	INPEX Browse, Ltd	INPEX CORPORATION	Operating Company
	INPEX Australia Pty Ltd (IAPL)		INPEX CORPORATION	INPEX CORPORATION	Australian payroll company
	INPEX DLNGPL Pty Ltd (IDLNGPL)		INPEX CORPORATION	INPEX CORPORATION	Darwin LNG
<b>Branch of Japanese entity</b>	INPEX Browse, Ltd (IBL)		INPEX CORPORATION	INPEX CORPORATION	Holding company
	INPEX Offshore Timor-Leste, Ltd* (IOTL)		INPEX CORPORATION	INPEX CORPORATION	Timor-Leste exploration permits
	INPEX Alpha, Ltd (Alpha)		INPEX CORPORATION	INPEX CORPORATION	Griffin Ravensworth Van Gogh Coniston
	INPEX Sahul, Ltd* (Sahul)		INPEX CORPORATION	INPEX CORPORATION	Bayu-Undan
	INPEX Timor Sea, Ltd* (ITS)		INPEX CORPORATION	INPEX CORPORATION	Kitan

\* denotes entities within the former Joint Petroleum Development Area



# Taxation governance and standards

All INPEX companies and branch entities operating in Australia are compliant with Australian tax law. INPEX companies that operate in Australia either pay income tax now, or will pay income tax once on major development projects move into the production phase. Other employment and transactional taxes will remain payable throughout the project.

The Boards of Directors for INPEX companies that operate in Australia are responsible for maintaining a system of risk management, governance and controls across all business operations, including the approach to tax, supported by Executive Management.

The directors and employees of INPEX acknowledge that tax is one of our important social responsibilities to contribute to the socioeconomic development of various countries and regions we operate in, through ensuring the proper payment of tax in accordance with the applicable laws and regulations and being committed to conducting our tax affairs in a transparent manner. The INPEX Global Taxation Policy reflects this, and dictates the direction and resources for INPEX entities globally. A copy of the global tax policy can be found at <https://www.inpex.co.jp/english/csr/governance/tax.html>.

In addition to the Global Taxation Policy, INPEX companies that operate in Australia also follow the Company's Tax Standard which sets out the approach to tax risk management, compliance processes, as well as engagement with the Australian Taxation Office (ATO) and other revenue agencies.

INPEX periodically draws on its Internal Audit and Risk Functions to test compliance with the Tax Standard, and continuously improve reporting on processes, and governance matters. Significant matters relating to taxation

affairs are also audited by external auditors. Global Taxation Governance of INPEX ensures material companies are subject to Japan's Sarbanes-Oxley financial rules, in addition to the laws of the countries in which the companies are based in.

INPEX's Code of Conduct stipulates that the company must build sound and appropriate relationships with government and administrative authorities. INPEX is in regular communication with the ATO and responds in a cooperative and timely way to information requests. INPEX aims for certainty on material tax positions it adopts. INPEX engages with the ATO when matters are significant, complex or uncertain.

INPEX actively promotes tax compliance by providing education and training on tax compliance to INPEX employees, as required by their roles.

# Tax contribution life cycle



## Project phase

**Revenues received**

**Tax contributions**

**Costs incurred**

## Explore and appraise

None

Payroll tax  
Fringe benefits tax (FBT)  
Goods and services tax (GST)

Seismic acquisition  
Drilling

## Develop

None

Payroll tax  
FBT  
GST  
Duty on imported capital equipment  
Interest withholding tax

Capital expenditure





## **Ramp up**

Initial revenues which do not cover costs

Payroll tax  
 FBT  
 GST  
 Duty on imports  
 Interest Withholding Tax  
 Excise/Fuel Tax

Operating costs  
 Capital expenditure

## **Produce**

Revenues exceed costs

Payroll tax  
 FBT  
 GST  
 Duty on imports  
 Interest Withholding Tax  
 Excise/Fuel Tax  
 Income tax  
 Petroleum Resource Rent Tax

Operating costs  
 Sustaining investment

## **Abandon**

None

Payroll tax  
 FBT  
 GST

Decommissioning costs

# ***International related party dealings***

All international dealings by INPEX are conducted in accordance with Australian and international tax law, and in keeping with the arm's length principle recommended by the Organisation for Economic Co-operation and Development (OECD).

INPEX follows global taxation trends and endeavours to respond to new developments. In particular, INPEX will monitor developments in legislation governing international transactions in Japan and other G20 countries based on the report of the OECD/G20 Base Erosion and Profit Shifting Project, which aims to prevent multinational enterprises from exploiting gaps and loopholes in tax rules to shift profits to low or no tax locations.

INPEX's head office is in Tokyo, and its Australian companies draw on INPEX's global pool of resources:

## **Business Services**

INPEX companies in Australia draw on technical and general administrative services in Japan to assist local operations. This maintains consistency across INPEX's global operations.

## **Financing**

INPEX has a treasury company based in Singapore that manages all intragroup cash and funding needs, the risk management associated with running multiple currencies across the globe.

## **Trading**

INPEX has a trading company in Japan that INPEX Ichthys Pty Ltd and INPEX Alpha Ltd use to sell product to end customers. This trading company manages the interface and marketing arrangements.

## **Transfers within Integrated Projects**

INPEX Ichthys Pty Ltd sells feed gas from the Ichthys gas condensate field to Ichthys LNG Pty Ltd under a pricing formula based on the OECD residual profit sharing transfer pricing methodology.

INPEX Sahul, Ltd (INPEX's upstream participant on the Bayu-Undan project) pays its share of a gas pipeline tariff to the downstream affiliates (including IDLNGPL) for the use of the gas pipeline. It also pays a processing fee to Darwin LNG Pty Ltd (downstream company). The tariff rate is agreed with the ATO in an Advanced Pricing Agreement.



# Australian Tax Contribution Summary

INPEX Australian Group taxes paid 2011 to 2018 (in millions)

Tax Payment	*2011 – 2017	2018	Total (\$AUD millions)
Income Tax	699	11	710
Fringe Benefits Tax	47	14	61
Royalties	0	0	0
Excise	0	0	0
Payroll Tax	71	19	90
Interest Withholding Tax	16	50	66
Foreign Resident Withholding Tax	0	0	0
GST - Denied Input Tax Credits	0	0	0
<b>Total contributions</b>	<b>833</b>	<b>94</b>	<b>927</b>

*The above tax payments were made during a period when INPEX was investing in a number of Australian LNG Projects.*

*\*Prior year disclosures have been updated to reflect new information, changes and refinement to the transparency procedures from the prior report and the 2011 year information.*

## Ichthys LNG Project contributing to the Australian economy and community



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Investing billions of dollars in one of Australia's largest-ever resource projects

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Creating thousands of Australian jobs

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Providing taxation revenue for Australian governments

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Bringing multi-generational economic and community benefits to the people of Australia for the next 40 years

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More information on the forecast contribution of the Ichthys Project can be found at [https://www.inpex.com.au/media/14ljlb2g/2240\\_acil-allen-brochure-2\\_web.pdf](https://www.inpex.com.au/media/14ljlb2g/2240_acil-allen-brochure-2_web.pdf)

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# Global transparency and sustainability initiatives

INPEX is committed to achieving Sustainable Development Goals through its business activities and works within international frameworks to strengthen the social and economic impact of its operations.

Since October 2012, INPEX has been a part of the EITI, working closely with governments, companies and civil society to promote transparency. EITI monitors and reconciles the payments made by companies to government and government to communities. Through EITI, INPEX is helping improve governance, reduce corruption and promote economic growth through stronger accountability and transparency.

INPEX supports global standards relating to human rights, such as the International Bill of Human Rights, the International Labor Standards of the International Labor Organization and the UN Guiding Principles on Business and Human Rights. In 2011, INPEX adopted the Ten Principles of the UN Global Compact, including areas relating to labour, environment and anti-corruption. INPEX is an active member of IPIECA, the global oil and gas industry association for environmental and social issues.

For more information on INPEX's global economic and social impacts and the projected contribution of the Ichthys LNG Project to Australia's economy, please visit the INPEX Australia website at [www.inpex.com.au/news-media/reports/](http://www.inpex.com.au/news-media/reports/).



# Reconciliation of financial statements to lodged returns for the year (ended 31 December 2018) (in millions)

## Accounting income per financial statements & replica of tax note from respective financial statements

Item	*IHAPL (\$USD)	IOGA (\$USD)	IBEPL (\$USD)	IAPL (\$AUD)	IDLNGPL (\$USD)
Total income	214	0	0	513	10
Accounting Profit / (Loss) before taxation	-331	-11	-8	0	12
Prima facie tax at 30% Australian tax rate	99	3	3	-0	-4
Material Permanent Differences:					
- Prior Year under/over	1	1	0	-0	-0
- De-recognition DTAs	-5	-	-	-	-
- Non-taxable income	-45	-	-	0	2
<b>Total income tax benefit/(expense) per accounts</b>	<b>50</b>	<b>4</b>	<b>3</b>	<b>-0</b>	<b>-1</b>

\* Denotes the IHAPL accounting group which is IHAPL, IIPL and IOAPL only.

Table 2 reconciles accounting profit to income tax expense (accounting). All financial statements for INPEX's Australian companies and branches of Japanese companies are lodged with ASIC. For the branch entities, Australian tax effect accounting is not required and instead tax effect accounting is applied under tax regimes in Japan, Australia and Timor-Leste (if applicable) in accordance with Japanese Generally Accepted Accounting Principles

The effective tax rate calculation is income tax expense divided by accounting profit before taxation. In 2018, only IDLNGPL had a material tax expense and an accounting profit. The effective tax rate in Australia is 12 per cent for IDLNGPL<sup>1</sup>.

INPEX has a prima facie effective tax rate of 100.7 per cent globally. The Japanese statutory tax rate is 28.2 per cent. For more information on INPEX's global taxation, please see note 7 (page 72) in the INPEX Annual Report 2018 at [https://www.inpex.co.jp/english/ir/library/pdf/annual\\_report/inpex\\_annualreport2018\\_en.pdf](https://www.inpex.co.jp/english/ir/library/pdf/annual_report/inpex_annualreport2018_en.pdf).

<sup>1</sup> Income Tax Expense of ~1.4m, is divided by the accounting profit of 12m, results in an effective tax rate of 12 per cent.

# Australian income tax return disclosures

(31 December 2018)

Table 3 below reconciles accounting profit to taxable income to tax paid based on lodged tax returns with the ATO. The total income, taxable income and tax payable for IHAPL, IAPL, Alpha and Sahul will be formally released by the Commissioner of Taxation, as these entities all have total income in excess of AUD \$100 million for the 31 December 2018 income year.

## Australian company accounting profit to tax payable reconciliation (in millions)

Particulars	MEC (\$AUD)	IAPL (\$AUD)	IDLNGPL (\$AUD)
Total income as per the tax return	617	515	22
Tax return profit / (loss) before adjustments	-275	0	16
Material adjustments:			
- Assessable dividend income	-	-	-4
- Research and Development Concession	45	-	-
- Equity Accounted Losses not deductible	-4	-	-
- Restoration Provision deductible in the future	25	-	0
- Sundry assessable items	-26	0	0
- Timing adjustments related to assets	-1,579	-	0
- Employee Entitlements Deductible in the future	-	19	-
Taxable income / (loss)	-1,812	19	12
Tax payable (at 30.00%)	-0	6	4
Tax losses carried forward	3,078	-	-

Tax effect accounting for INPEX branch entities are not performed in Australia, however, INPEX has summarised the branch contributions (in millions) to the lodged tax returns as follows:

Particulars	\$AUD
Total income as per the tax return	377
Tax return profit / (loss) before adjustments	-13
Taxable income	4
Tax payable	2
Combined tax losses carried forward	236



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