

**INPEX**



*INPEX Australia*

# **2019 Tax transparency report**



We are pleased to present INPEX's third annual tax transparency report.

In sharing this report, we affirm our company's commitment to responsibly managing our activities in Australia and across the globe.

Importantly, we believe tax transparency strengthens trust and accountability between industry, government and communities, while building awareness of the valuable economic and social benefits flowing from the resources sector across Australia.

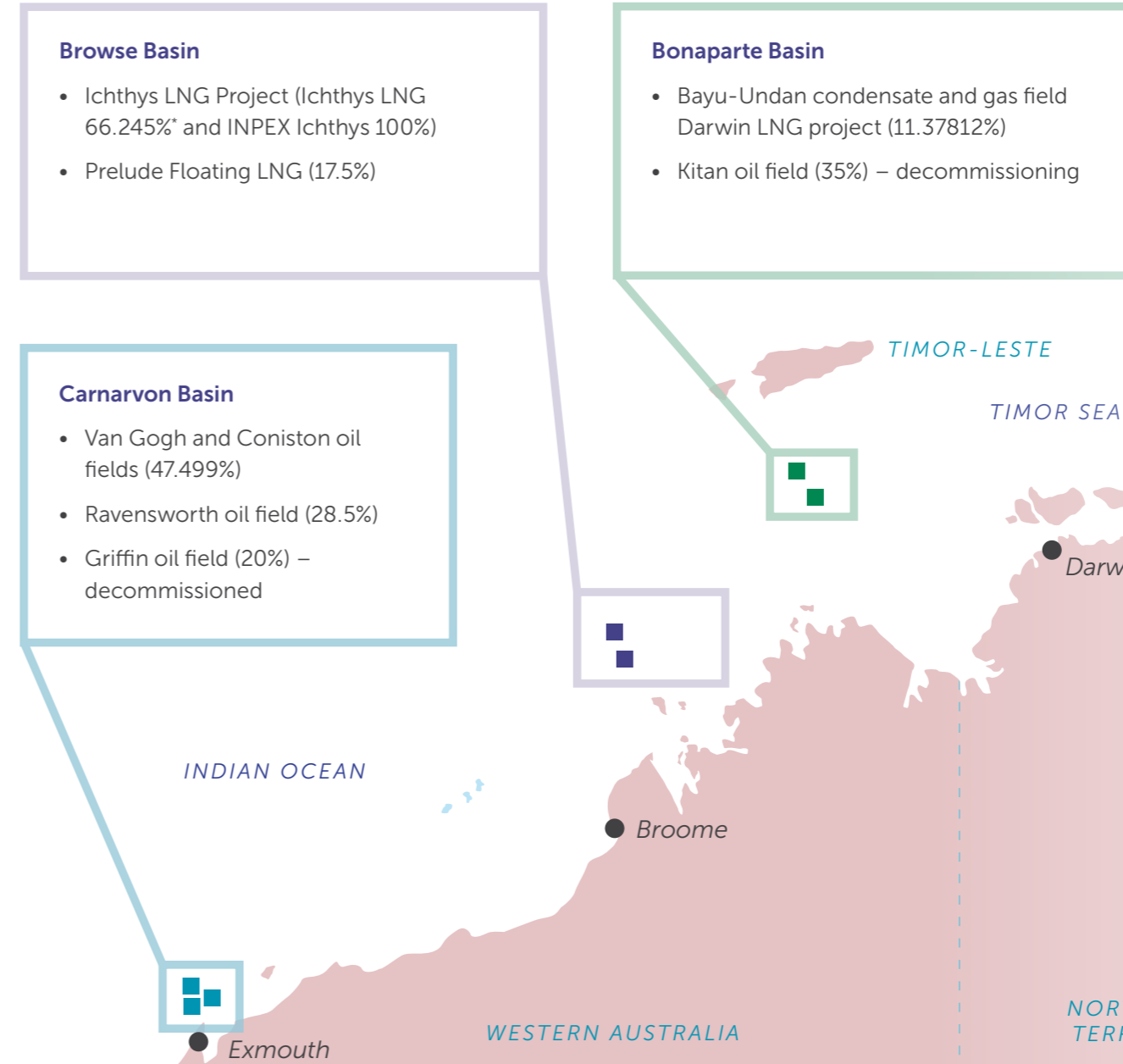
Tax transparency also helps improve the investment environment by encouraging good business practices.

INPEX is listed on the Tokyo Stock Exchange and is 18.96 per cent owned by the Japanese Government. Our company has been a proud member of the Australian business community for more than 30 years – and Australia is central to our growth strategy.

We are extremely pleased to have adopted the Australian Government's *Voluntary Tax Transparency Code*.

**Hitoshi Okawa**  
President Director, Australia  
December 2020

## INPEX in Australia



### INPEX interests in the Timor Sea

The Bayu-Undan condensate and gas field and Kitan oil field are located in the former Joint Petroleum Development Area (JPDA) established under the 2002 Timor Sea Treaty. The Treaty granted taxation rights to 90 per cent of the revenue from the JPDA to Timor-Leste and 10 per cent to Australia.

On 30 August 2019, the 2018 Timor Sea Treaty, which was signed by Australia and Timor-Leste on 6 March 2018, came into effect. Transitional provisions in the Australian tax law saw tax attributes from the JPDA INPEX entities become transferrable to other Australian INPEX entities. As a result of the Treaty, Australia ceased to have taxing rights in respect to the JPDA from 30 August 2019.

It follows that this will be the final Tax Transparency Report covering the Timor Sea interests. INPEX's contribution to Timor-Leste remains disclosed in Extractive Industries Transparency Initiative (EITI) reporting. More information can be found at <https://eiti.org/timorleste>.

# 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 and provides 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.

# 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 laws of Australia and Japan. They are 100 per cent owned and controlled by INPEX. In 2019, INPEX held a share of 66.245 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. Please see the note on page 2 regarding the transition of taxing rights solely to Timor-Leste.



## 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 major development projects move into the production phase. Other employment and transactional taxes will remain payable throughout the operational life of development projects.

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 executive management of INPEX acknowledge that tax is one of our important social responsibilities for the contribution this makes to the social and economic development of the countries and regions in which we operate. INPEX meets this responsibility by ensuring the proper payment of tax in accordance with the applicable laws and regulations and conducting our tax affairs in a transparent manner. The INPEX *Global Taxation Policy*, which dictates the direction and resources for INPEX entities globally, reflects our socially responsible approach. 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.

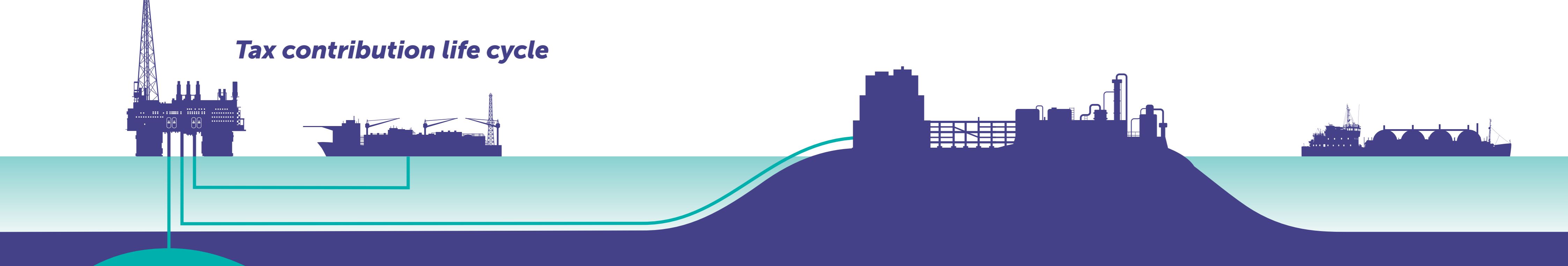
INPEX periodically draws on its internal audit and risk functions to test compliance with the *Tax Standard*, and to continuously improve reporting on

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 Instruments and Exchange Act 2006*, in addition to the laws of the countries in which the companies are based.

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 provides workforce education and training to actively promote tax compliance of its people, 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

## Ichthys LNG contributing to the Australian economy and community



Investing billions of dollars in one of Australia's largest-ever energy developments



Creating thousands of Australian jobs



Providing taxation revenue for Australian governments



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



More information on the forecast contribution of Ichthys LNG 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)

## Global transparency and sustainability initiatives

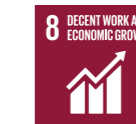
INPEX is committed to achieving Sustainable Development Goals through its business activities and works within international frameworks to strengthen the social and economic benefits of its operations.

Since October 2012, INPEX has been a part of the Extractive Industries Transparency Initiative (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 anticorruption.

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 social and economic benefits and the projected contribution of Ichthys LNG 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 and effective tax rates for the year

(ended 31 December 2019) (in millions)

**Table 2: Accounting income per financial statements and replica of tax note from respective financial statements**

Item	*IHAPL (\$USD)	IOGA (\$USD)	IBEPL (\$USD)	IAPL (\$AUD)	IDLNGPL (\$USD)
Total income	2,162	148	0	418	19
Accounting Profit / (Loss) before taxation	493	29	-13	0	13
Prima facie tax at 30% Australian tax rate	-148	-9	4	-0	-4
Material Permanent Differences:					
- Prior Year under/over	1	2	-	-0	-
- De-recognition DTAs	-11	-	-	-	-
- Non-taxable income	-72	-	-	0	3
<b>Total income tax benefit/(expense) per accounts</b>	<b>-229</b>	<b>-7</b>	<b>4</b>	<b>-0</b>	<b>-1</b>
<b>Effective tax rate</b>	<b>46%</b>	<b>25%</b>	<b>-</b>	<b>17%</b>	<b>5%</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 the Australian Securities and Investments Commission (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 rates disclosed in Table 2 are calculated by dividing the relevant company's income tax expense by their accounting profit before taxation. IHAPL and IDLNGPL's respectively high and low effective tax rates are a consequence of the adjustments required to reflect the equity accounted gains and losses in regards to their investments in Ichthys LNG Pty Ltd and Darwin LNG Pipeline Pty Ltd respectively.

INPEX has a prima facie effective tax rate of 75.6 per cent globally. The Japanese statutory tax rate is 28 per cent. For more information on INPEX's global taxation, please see note 7 on page 72 and page 79 in the INPEX Annual Report 2019 at [https://www.inpex.co.jp/english/ir/library/pdf/annual\\_report/inpex\\_annualreport201912\\_en.pdf](https://www.inpex.co.jp/english/ir/library/pdf/annual_report/inpex_annualreport201912_en.pdf).

# Australian Tax Contribution Summary

**Table 1: INPEX Australian Group taxes paid 2011 to 2019 (in millions)**

Tax Payment	*2011 – 2018	2019	Total (\$AUD millions)
Income Tax	710	8	717
Fringe Benefits Tax	61	12	73
Royalties	-	-	-
Excise	-	-	-
Payroll Tax	90	22	112
Interest Withholding Tax	66	92	158
Stamp Duty	-	89	89
Foreign Resident Withholding Tax	-	-	-
GST - Denied Input Tax Credits	-	-	-
<b>Total contributions</b>	<b>927</b>	<b>223</b>	<b>1,150</b>

\* The above tax payments were made during a period when INPEX was investing in a number of Australian LNG projects (2011 – 2017).

For the first time, stamp duty was paid in 2019 relating to INPEX's purchase of a 4% interest in the Ichthys LNG Project from Total S.A. The payment of AUD 89 million was made to the Northern Territory Government.

# Australian income tax return disclosures for the year

(ended 31 December 2019) (in millions)

**Table 3: Australian company accounting profit to tax payable reconciliation (in millions)**

Particulars	MEC (\$AUD)	IAPL (\$AUD)	IDLNGPL (\$AUD)
Total income as per the tax return	3,821	420	28
Tax return profit / (loss) before adjustments	725	0	18
<b>Material adjustments</b>			
Permanent:			
- Equity accounted (profit)/losses - (not assessable)/not deductible	351	-	-15
- Research and development concession – permanent	9	-	-
- Assessable dividend income	-	-	25
Temporary:			
- Timing adjustments related to assets	-783	-	3
- Borrowing costs	-196	-	-
- Tax losses utilised	-132	-1	-6
- Adjustments related to restoration - restoration amounts become deductible once paid for tax purposes	55	-	0
- Sundry differences	-30	-0	0
- Employee provisions	-	1	-
<b>Taxable income/(loss)</b>	<b>0</b>	<b>0</b>	<b>25</b>
Tax payable (at 30.00%)	0	0	8
Franking credits utilised	-	-	-8
<b>Income tax paid</b>	<b>0</b>	<b>0</b>	<b>0</b>
Tax losses carried forward	3,596 <sup>^</sup>	5 <sup>*</sup>	11 <sup>*</sup>
2018 Tax losses carried forward	3,078	nil	nil

Table 3 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 AU\$ 100 million for the income year ended 31 December 2019.

*\* An election has been made, as allowed under the Timor-Leste Transitional provisions (see page 2), to transfer carried forward losses from ITS and IOTL to IAPL, ISL and IDLNG. For completeness, we note that an election under the same provisions has also been made to transfer the tax value of ISL's assets to IHAPL.*

*<sup>^</sup>The MEC group operates as a USD functional currency entity, but the tax return must disclose in AUD. The foreign exchange (FX) rate movement for tax return disclosure purposes is why losses increased despite \$ 132 million being utilised in the 2019 income year (AUD-USD exchange rates 2019: 0.6951 and 2018: 0.7480).*

# Australian income tax return disclosures for the year cont.

(ended 31 December 2019) (in millions)

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	370
Tax return profit / (loss) before adjustments	130
Taxable income	-6
Tax payable	0
<b>Combined tax losses carried forward</b>	<b>168</b>
<b>2018 combined tax losses carried forward</b>	<b>236</b>





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