



# BP Australia

tax transparency report  
year ended 31 December 2016



## 1. Introduction

BP is a global energy business with wide reach across the world's energy system. The energy we produce helps to support economic growth and improve quality of life for millions of people. We strive to be a world-class operator, a responsible corporate citizen and a good employer.

In supplying energy we contribute to economies around the world by employing local staff, helping to develop national and local suppliers, and through the taxes we pay to governments. Additionally, we aim to create meaningful impacts through our social investments.

In Australia, BP collected and paid \$5.4 billion in taxes in 2016 and had an effective tax rate of 44%. Further details are provided in this report. Furthermore, this report should be read in conjunction with "BP's Contribution to Australia" issued in December 2016.

## 2. Our business activities

BP delivers energy products and services to people around the world through two main operating segments – Upstream and Downstream. Through these operating segments, BP finds, develops and produces essential sources of energy and turns these sources into products that people need.

Within Australia, our Upstream oil and gas production interests are primarily focused in the North West Shelf, accounting for more than 40 per cent of the country's oil and gas production. In Downstream, we own energy infrastructure, provide premium fuels and deliver world-class lubricants to our customers.

The BP Kwinana Refinery has been in operation for more than 60 years and is the largest and most modern Australian refinery and with a capacity of 132,000 barrels per day the refinery produces petrol, kerosene, autogas and other products.

We employ more than 5,700 employees and contractors across Australia and our operations cover every state and territory in the country, which includes main offices in Perth and Melbourne.

We believe the communities in which we work should benefit from our presence and we recognise that our business activities and the taxes we collect and pay form a significant part of our economic contribution.

We support transparency in revenue flows from oil and gas activities to governments. This increases the understanding of tax systems, builds public trust and helps citizens of those countries access information to hold public authorities to account for the way they use funds received through taxes and other agreements.

## 3. Taxes paid by BP Australia

Our business activities generate a substantial amount and variety of taxes in Australia. We collect and/or pay corporate income tax (CIT), Downstream fuel excise, royalties and excise in respect of North West Shelf production, fringe benefits tax, payroll tax, stamp duties, land taxes, and withholding taxes. In addition, we



collect and pay employee taxes as well as GST. Please refer to section six of this report for further information on CIT and reconciliation of accounting profit to tax expense to tax paid.

## 4. Our approach to tax

BP is committed to complying with tax laws in a responsible manner and to having open and constructive relationships with tax authorities. Our approach to tax aligns with BP's code of conduct which sets out what is expected of everyone at BP.

This includes respecting the world in which we operate and those we work with. It also includes acting in a manner that is safe, ethical and consistent with applicable laws and regulations. We seek to work with others who share our commitments to safety, ethics and compliance. We do not tolerate the facilitation of tax evasion by people who act for or on behalf of BP.

In Australia we have an Annual Compliance Arrangement (ACA) with the Australian Tax Office (ATO) covering indirect taxes and we are engaged with the ATO on current business under a Pre-Compliance Review (PCR) arrangement for income tax. We also participate in initiatives to simplify and improve tax regimes to encourage investment and economic growth.



We actively contribute to tax policy development reviews via direct submissions (e.g. the Henry Review, the Tax White Paper and the review of Petroleum Resource Rent Tax (PRRT) ). We also contribute to industry association submissions (for example through our participation in the following associations; APPEA, BCA and CTA). We support efforts to increase public trust in tax systems and work closely with ATO to support the 'justified trust' agenda.

Our approach to tax is underpinned by the following principles:

### 4.1 Governance

The group head of tax owns and implements our approach to tax which is reviewed by the main board audit committee. The group head of tax is also responsible for ensuring policies and procedures that support the approach are in place, maintained and used consistently around the world, and that the global tax team has the skills and experience to implement our approach.

We use external service providers on a selective basis, for example where we require additional resource or expertise.

### 4.2 Relationships with governments

We seek to build and sustain relationships with governments and fiscal authorities that are constructive and based on mutual respect. We work together with governments to contribute to sustainable growth, create jobs and invest in people.

We engage with governments on the development of tax laws either directly or through trade associations and other similar bodies as appropriate. We also work collaboratively wherever possible with fiscal authorities to resolve disputes and to achieve early agreement and certainty where tax law is complex or unclear.

#### 4.3 Tax planning

At BP, we adhere to relevant tax law and we seek to minimise the risk of uncertainty or disputes. We engage in efficient tax planning that supports our business and reflects commercial and economic activity. We do not engage in artificial tax arrangements.

We establish entities in jurisdictions suitable to hold our overseas investments, giving consideration to our business activities, the prevailing regulatory environment, and as appropriate, in line with joint venture requirements. We seek to conduct transactions between BP group companies on an arm's length basis and in accordance with current OECD principles.

Tax incentives and exemptions are sometimes implemented by governments and fiscal authorities in order to support investment, employment and economic development. Where they exist we seek to apply them in the manner intended.

#### 4.4 Tax risk management

We do not prescribe acceptable levels of tax risk. We seek clarity within the law and evaluate the potential tax outcomes of our business transactions and escalate tax risks and uncertainties to the relevant level within BP to determine the appropriate management response.

We follow BP's risk management system and policy as part of our internal control processes which means that we identify, assess and manage tax risks from our business transactions, account for them appropriately and implement and monitor controls over them.

This system and policy, together with our tax governance, requires us to:

- Understand the fiscal environment, and assess specific risks and potential exposure for BP.
- Determine how best to deal with these risks to manage the overall potential exposure.
- Manage the identified risks in appropriate ways.
- Monitor and seek assurance of the effectiveness of the management of these risks and intervene for improvement where necessary.
- Report internally on a periodic basis on how significant risks are being managed, monitored and assured and the improvements that are being made.

Material tax risks and disputes are reported on a periodic basis by the BP Group Head of Tax to the Group Financial Risk Committee, which is chaired by the Chief Financial Officer (CFO). In this way the Group Financial Risk Committee provides governance and oversight of financial risks, including tax risks and provides assurance that material tax risks are managed in accordance with approved BP group policies. Material tax risks and disputes are additionally reviewed by our external auditor and the main board audit committee is briefed on an annual basis.

At a local level, material risks are identified and reported to the CFO and Board to provide assurance that mitigating actions are consistent with BP Group policies.



## 5. **International Operations**

The main international related party transactions for BP Australia include crude and product purchases from BP Singapore; financing, principally provided by BP in the UK; support services predominantly provided by BP in the UK, and license of brands (e.g. BP and Castrol) owned by BP in the UK.

BP's policy is that all related party transactions occur on arm's length terms in a manner consistent with OECD principles and abiding by the laws of the countries in which the transactions occur.

## 6. Reconciliation of Accounting Profit to Tax Expense to Tax Paid

### 6.1 Reconciliation of accounting profit to income tax expense – 31 December 2016 and 31 December 2015

	<b>2016</b> <b>(A\$ million)</b>	<b>2015</b> <b>(A\$ million)</b>
Accounting profit before tax from continuing operations	369	845
At the statutory income tax rate of 30% (2015: 30%)	111	254
Adjustments in respect of current income tax of previous years	(12)	3
Non-taxable gain/loss on disposal	94	(20)
Non-assessable dividend income	(46)	(75)
Research and development	4	(1)
Non-deductible expenditure	(1)	7
Unrealised exchange results	16	6
Other	(3)	1
<b>Income tax expense reported in statement of comprehensive income</b>	<b>163</b>	<b>175</b>

### 6.2 Reconciliation from income tax expense to income tax payable – 31 December 2016

	<b>2016</b> <b>(A\$ million)</b>
Income tax expense (as per above)	163
Adjustments in respect of prior years	12
Temporary differences recognised in deferred tax:	
Property, plant & equipment	60
Entitlement revenue	15
Provisions, accruals and prepayments	(4)
Unrealised foreign exchange	20
Tax accounting adjustment on a common control transaction	47
	138
<b>Current income tax charge</b>	<b>313</b>
Tax accounting adjustment on a common control transaction	(47)
<b>Current income tax payable</b>	<b>266</b>
Less: tax instalments paid (11 PAYG instalments)	(136)
<b>Income tax payable</b>	<b>130*</b>

\*Please note that the above figures are based on the 31 December 2016 statutory accounts for the BP group in Australia. For corporate income tax paid figures relating to the 2017 income tax year for the BP Australia tax consolidated MEC group, please refer to the 'Tax Payments and Collections on behalf of Governments' section below.

### 5.3 Effective tax rate

2016

Effective tax rate – Australia	44%
Effective tax rate – BP Global	107% **

\*\* Source: BP Annual Report and Form 20-F 2016 (p.147). The increase in BP Global's effective tax rate in 2016 relates primarily to the tax impact on the contribution of BP's Norwegian upstream business into Aker BP ASA.

The table below demonstrates how the BP Group effective tax rate in 2016 was impacted by the overall tax credit for the year and the loss before taxation, including the impacts of the Gulf of Mexico oil spill and impairments.

	2016 Excluding impacts of Gulf of Mexico oil spill and impairments <b>(million)</b>	2016 Impacts of Gulf of Mexico oil spill and impairments <b>(million)</b>	2016
Profit (loss) before taxation	2,914	(5,209)	(2,295)
Tax charge (credit) on profit or loss	(117)	(2,350)	(2,467)
Effective tax rate	(4)%	45%	107%

## 7. Tax Payments and Collections on behalf of Governments

For statutory reporting purposes, the BP Australia group comprises the following entities:

- BP Australia Investments Pty Ltd (consolidated) \*\*\*
- Arco Coal Australia Inc\*\*\*
- BP Regional Australasia Holdings Pty Ltd\*\*\*
- BP Australia Capital Markets Pty Ltd
- Arco Resources Limited.

\*\*\* Eligible tier one company

Under the tax consolidation regime in Australia, the above eligible tier one companies have elected to form a Multiple Entry Consolidated (MEC) group.

BP Regional Australasia Holdings Pty Ltd, being the head entity of the Australian MEC group, lodges one consolidated income tax return on behalf of all the wholly-owned subsidiaries in the group.



## 7.1 Australian Tax Contribution Summary - BP Australia MEC Group

	<b>2016 (A\$ million)</b>	<b>2015 (A\$ million)</b>
Taxable income	915	722
Income tax paid (12 PAYG instalments)	150	225
Income tax return – tax payable (after offsets)	268	175
Other taxes:		
Excise	4,234	4,184
GST	1,086	1,259
Fringe Benefits Tax (FBT)	8	8
Payroll tax	26	27
<b>Total of other taxes</b>	<b>5,355</b>	<b>5,478</b>

## 8. Other information

For further enquiries, please call the BP Australia media centre on 0410 479 002.

Additional information is also available at the following links:

- BP contribution to Australia: [bp.com.au/bpinaustralia](http://bp.com.au/bpinaustralia)
- BP positions of fostering transparency: [bp.com/tax](http://bp.com/tax)
- BP sustainability report: [bp.com/sustainability](http://bp.com/sustainability)
- BP annual report: [bp.com/results](http://bp.com/results)