

Snowy Hydro Limited

2017 Tax Transparency Report

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Chief Financial Officer's Introduction

I am both pleased and proud to be introducing Snowy Hydro's first Tax Transparency Report.

We have a long-standing history of transparency in everything we undertake dating back to when the Snowy Hydro Scheme was first designed and commenced construction. Similarly our ongoing contribution to the communities in which we operate also forms part of the company's enduring philosophy and culture. This is not limited to the company's operations in the Snowy Mountains region, but is also reflected in the company's retail brands, Red Energy and Lumo, who are consistent service award winners with Red Energy being the only energy retailer to have won the Canstar Blue Award for Most Satisfied Customers 8 years in a row.

In line with that philosophy and culture, this report outlines the taxes the company has paid and the broader economic contribution we have made across the areas in which we conduct our business. For the 30 June 2017 year, this report shows that with an effective tax rate of 30.2%, we have paid and remitted \$192.9M in taxes to relevant governments, and in addition paid a total \$227.5M in dividends to our government shareholders.

As such, we voluntarily disclose this information in support of the Australian government's promotion of tax transparency, and have complied with the Australian Board of Taxation's Voluntary Tax Code. In addition, and although still in draft we have sought guidance (where relevant) from the Draft Appendix to the Tax Transparency Code issued by the Australian Accounting Standards Board.

I present this report as a useful guide to interested parties and stakeholders of Snowy Hydro's approach on tax strategy, governance and contributions, and as a reflection of our values of transparency and openness on matters affecting the communities in which we operate.

Gordon Wymer
Chief Financial Officer

Structure and Background

Snowy Hydro Limited was established on 28 June 2002, when the Snowy Mountains Hydro-Electric Authority was corporatised under the *Snowy Hydro Corporatisation Act 1997*.

Snowy Hydro is governed by its Constitution, which sets out the responsibilities of the Board and Snowy Hydro's reporting obligations, subject to the *Corporations Act (Cth) 2001*.

Snowy Hydro's shareholders are the New South Wales (58 per cent), Victorian (29 per cent) and Commonwealth (13 per cent) governments.

Many Australian government owned organisations are subject to the National Tax Equivalent Regime ("NTER"). The NTER is an administrative arrangement under which relevant taxation laws are applied notionally to those entities as if they were subject to those laws.

The NTER does not apply to Snowy Hydro, and the company is subject to all taxes, levies and government imposts as they would apply to any other Australian company.

Who We Are and What We Do

Snowy Hydro has a long and proud history as an Australian entity. The construction of the Snowy Mountains Hydro-electric Scheme is a well documented part of our nation's history and we are a great example of Australian innovation and ingenuity.

The Snowy Scheme has been a highly successful operation for more than half a century. Having constantly evolved since our pioneering past, the Snowy Hydro of today is a modern, innovative and growing business that successfully operates in a competitive market. We are the fourth largest player in the National Electricity Market (NEM), generating energy, providing price risk management products for wholesale customers, and have a national footprint of over one million retail customers across the east-coast.

Key to our success is our ability to utilise the Snowy Scheme's large, reliable and fast start capability to our advantage whether it is through spot generation, risk management for our wholesale customers, futures contracts or electricity and gas supply to households and commercial and industrial customers.

We are the leading provider of peak, renewable energy to the NEM. Over the years we have diversified our business and rebuilt water storages post-drought to manage our risk and help make us resilient to changes in the market, shifts in energy demand and variable climatic conditions. We combine the power of the mighty Snowy Mountains Scheme with gas and diesel fired peaking generators to deliver a flexible and reliable mix of energy to our customers every day.

We own, operate and maintain the 4100MW Snowy Mountains Scheme, the 300MW Valley Power gas-fired power station and the 320MW Laverton North gas-fired power station and the 667MW gas-fired generator at Colongra in New South Wales. We also own and operate diesel fired peakers in South Australia. We've become the fourth largest energy retailer in the NEM by investing in growing our customer base, modernising our generating infrastructure, building and acquiring more generating capacity where needed and developing our people.

Red Energy has been part of our business for more than a decade and we added Lumo Energy to our company in 2014 which doubled our retail customer accounts. Our retail companies Red Energy and Lumo Energy pride themselves on excellent customer service. Direct Connect Australia, which we also acquired in 2014, provides Snowy Hydro's retail businesses with a unique channel to access customers who are moving home and is a valuable third-party sales channel.

Snowy Hydro operates under a stringent water licence that allows us to capture, store and divert water in order to generate electricity. That water is then released into the Murray and Murrumbidgee River systems to be used by irrigators and downstream water suppliers.

Taxation Strategy & Framework

The company has always maintained a conservative tax risk profile, which is reflected in our Tax Risk Management Framework. The Board Audit and Compliance Committee has ownership and oversight of this framework, with management presenting to the committee on the tax status and issues on a regular basis.

The framework also outlines a clearly defined reporting hierarchy on tax issues by which risks are escalated through the organisation.

All transactions entered into by the company are based on commercial considerations underpinned by genuine economic activity. The company's business model, structure and operations do not carry an inherent high level of natural tax risk. The company does not adopt tax driven, artificial or contrived positions, nor do we interpret any tax legislation beyond its spirit and intent.

At all times the company applies the highest standards of governance and compliance to meet our obligations under tax legislation. In doing so, we assess and invest appropriately in people, processes and systems, and when required we engage external tax advisers to guide and support our positions.

Management and the Board, are committed to full transparency and disclosure in all dealings with the Australian Taxation Office ("ATO") and other revenue authorities with whom we interact. The ATO is the principle taxation authority with whom the company has dealings, and we maintain a constructive, professional and transparent dialogue and relationship with them.

This position with regard to taxation reflects the company's support for the ATO's *Tax Risk Management and Governance Review Guide* and the guidance that it provides corporate taxpayers in meeting their tax obligations.

Total Tax Contribution

\$million	Note	
Taxes Levied and Borne by Snowy Hydro Limited		
Corporate Income Tax	1	70.4
Fringe Benefits Tax	2	1.2
Payroll Tax	3	9.4
Land Tax	4	1.4
Stamp Duty	5	0.4
Total Taxes Paid		82.8
Taxes Collected and Remitted		
Net GST Paid	6	63.2
PAYG Salary and Wages Withholding	7	46.9
Total Taxes Collected and Remitted		110.1
Total Amount Paid to Governments		192.9

Notes

1. This is the amount of company income tax actually paid to the ATO to 30 June 2017, net of refunds received as per the Consolidated Statement of Cash Flows. Under the company tax instalment system, additional amounts referable to the June 2017 year totalling \$79M were paid in July 2017 and December 2017.
2. This is the amount of fringe benefits tax ("FBT") paid as per the FBT returns lodged for the 31 March 2017 year (the most recent FBT year).
3. This is the amount of payroll tax liability calculated on an accrual basis for the 30/06/2017 year paid/payable to Revenue NSW \$4.5M, State Revenue Office Victoria \$4.8M, QLD Office of State Revenue \$0.03M and Revenue SA \$0.04M.
4. This is the amount of land tax assessed for the year ended 31 December 2016 and paid to Revenue NSW \$1.4M and State Revenue Office Victoria \$0.04M.
5. This amount represents stamp duty paid to the QLD Office of State Revenue on internal restructuring, and excludes stamp duty embedded in operating costs such as insurance premiums.
6. This represents the net GST amount paid to the ATO in the Business Activity Statements lodged for the 30 June 2017 year.
7. This is the total amount of PAYG withheld from salaries and wages paid during 30 June 2017 year and remitted to the ATO.

No part of this report has been subject to external review or audit.

Dividend Payments

While ordinarily dividend payments to shareholders may not be a feature of a company's tax transparency report, however as Snowy Hydro is 100% owned by three Australian governments, the company's dividend payments are in effect payments to governments.

As mentioned above the company's shareholders are:

- New South Wales government: 58%
- Victorian government: 29%; and
- Commonwealth government: 13%

During the 30 June 2017 year (in October 2016 and April 2017), the company paid a total of \$227.5M in fully franked dividends to its shareholders as follows:

\$million		Cash Paid
New South Wales government	58%	\$131.9
Victorian government	29%	\$ 66.0
Commonwealth government	13%	\$ 29.6
Total Dividends Paid	100%	\$227.5

The balance of the company's franking account as at 30 June 2017 was \$18.6M

Other Non-Tax Community Contributions

As shown above the company paid and remitted \$192.9M in different taxes to the Commonwealth and state governments and in addition paid \$227.5M in dividends to its government shareholders, thereby enabling those governments to continue providing services to the Australian public. In addition Snowy Hydro's contribution to the communities in which it operates runs deeper than the taxes and dividends it pays.

Across the Snowy Hydro group we invest more than \$2 million each year in local communities and sponsorships. At Snowy Hydro, our focus is on supporting and investing in our local communities - where our staff live and work. We support activities that have a wide reach, are accessible and benefit the people in the communities within which we operate. The company does not just provide donations – we build healthy partnerships with the community, with examples of this including:

- Partnering with different local events or programs that not only help economically, but encourage people to come and experience the best that the Snowy Mountains region has to offer;
- Recognising that affordable, accessible higher education facilities are incredibly important to rural and regional communities, Snowy Hydro and the Cooma Monaro Shire Council (now the Snowy Monaro Regional Council) joined forces to create the Cooma Universities Centre (CUC) to provide university education opportunities for local students. Since opening in March 2013, the CUC has had over 185 registrations from students representing 27 different Australian Universities.

In addition to supporting charities and not-for-profits, we partner with organisations that are dedicated to supporting better outcomes for the people who live and work in the Snowy Mountains region. The vitality and economic viability of these communities is critically important to Snowy Hydro as these are the towns where our staff and their families live and work.

This is reflected in the company being recognised on numerous successive occasions at the Australian Business Awards for Community Contribution.

In addition we regularly survey our key community stakeholders to ask them how we're travelling. For the last five years, community satisfaction with Snowy Hydro and our operations has been growing - 91 per cent of respondents told us they were satisfied or very satisfied with Snowy Hydro.

Snowy Hydro prides itself on maintaining those high levels of support and engagement.

International Related Party Dealings

The company operates solely in Australia, and has no international related party dealings.

Within the wholly owned group of Snowy Hydro Limited entities, only one entity is not an Australian incorporated entity, Latrobe Valley BV ("LVBV"). LVBV is incorporated in The Netherlands and was acquired by Snowy Hydro as part of a broader transaction and acquisition of assets undertaken in 2005.

During the 30 June 2017 year, LVBV did not undertake any transactions or dealings with any party either related or unrelated to the Snowy Hydro group. Reflecting that LVBV did not undertake any transactions, it lodges a nil income tax return with The Netherlands tax authorities.

Reconciliations:

1. Accounting Profit to Income Tax Expense and Income Tax Payable

\$million	Note	
Profit before income tax expense		445.1
Income tax calculated at 30%	1	133.5
Amounts not recognised in profit but included in taxable income		
Research and development tax offset	2	(0.4)
Non-deductible operating expenses	3	0.4
Other movements - prior year		0.9
Amounts recognised in profit but not included in taxable income		
Net difference between tax and accounting carrying values	4	(8.6)
Derivative Financial Instruments	5(i)	41.0
Non Derivative Trading Instruments	5(ii)	(26.1)
Intangible Assets	5(iii)	6.5
Employee Provisions	6(i)	4.9
Other Provisions	6(ii)	(0.4)
Lease Liability	7	(1.2)
Other Adjustments		2.3
Current Tax Expense as per Financial Statements		152.8
Deferred Tax Expense as per Financial Statements - Refer Table 2 Below		(18.4)
Total Income Tax Expense on Profit as per Financial Statements		134.4

Notes

1. As the company operates only in Australia, the Australian 30% corporate tax applies to all profit.
2. Research and development tax offset as applicable to group wide eligible expenditure.
3. Operating expenses incurred during the year that are not tax deductible.
4. Difference in the effective lives as applied to the tax and accounting values of assets.
5. These amounts represent the difference in the accounting and tax treatment of these components.
6. These provision balances reflect that provision amounts expensed for accounting purposes are only tax deductible when paid.
7. Represents the net difference between the accounting and tax treatment of lease obligations.

2. Deferred Tax Expense

\$million	Opening Balance	Charged to Equity	Charged to Income	Closing Balance
Deferred Tax Assets				
Net difference between tax and accounting carrying values	173.3		(8.6)	164.7
Lease Liability	25.6		(1.2)	24.4
Employee Provisions	17.8	2.8	4.9	25.5
Other Provisions	9.4		(0.4)	9.0
Movement in Deferred Tax Assets	226.1	2.8	(5.3)	223.6
Deferred Tax Liabilities				
Derivative Financial Instruments	87.3	11.0	(41.0)	57.3
Non Derivative Trading Instruments	14.7		26.1	40.8
Intangible Assets	59.1		(6.5)	52.6
Other Adjustments	2.5		(2.3)	0.2
Movement in Deferred Tax Liabilities	163.6	11.0	(23.7)	150.9
Net Balance/Movement	62.5	(8.2)	18.4	72.7

3. Income Tax Payable

\$million

Income Tax (Refundable) at beginning of financial year as per Statement of Financial Position	(5.2)
Income Tax Paid Net of Refund Received as per Consolidated Statement of Cash Flows	(70.4)
	(75.6)
Current Tax Expense as per Reconciliation 1 Above	152.8
Income Tax Payable at 30 June 2017 as per Statement of Financial Position	77.2

4. Effective Tax Rate

\$million

Total Income Tax Expense on Profit	(A)	134.4
Profit Before Income Tax Expense	(B)	445.1
Effective Tax Rate	A / B	30.2%

In calculating the effective tax rate of 30.2%, no adjustments have been made to either “Total Income Tax Expense on Profit” or “Profit Before Income Tax Expense” as reported in the company’s annual report.

The company has no overseas operations and is domiciled and operates solely in Australia, accordingly the Effective Tax Rate of 30.2% covers the company’s entire operations.