

Snowy Hydro Limited

Tax Transparency Report

For the financial period ended 30 June 2019

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Chief Financial Officer's Introduction

Snowy Hydro Limited ("Snowy Hydro") is a large, dynamic and growing participant in the National Electricity Market ("NEM"), and is mindful of its responsibilities to its customers, staff, regulators, suppliers and shareholders.

It is an exciting time for the company, celebrating its 70 year history, and after obtaining Financial Investment Decision for Snowy 2.0 the project moved forward and broke ground on the exploratory works for the 2,000MW expansion of the Snowy Scheme.

Those achievements combined with the contracted 888MW of large-scale solar and wind offtakes (through our Renewable Energy Procurement Program), and with Red Energy and Lumo Energy both maintaining their industry-leading position for customer satisfaction, has positioned the company to capitalise on its balance sheet strength following Standard and Poor's upgrading of Snowy Hydro's credit rating to A- (from BBB+).

Snowy Hydro continues to be a supporter and signatory to the Voluntary Tax Transparency Code introduced by the Board of Taxation. Snowy Hydro's Tax Transparency Report provides an overview of Snowy Hydro's tax governance and strategy together with tax contributions paid to Australian State and Commonwealth governments.

The information provided in this report is in accordance with the recommendations and guidelines contained in the Board of Taxation's Voluntary Tax Compliance Code and should be read in conjunction with the Snowy Hydro 2019 Annual Report.

The company continues to have a strong commitment to transparency and compliance from a financial and regulatory perspective, including with respect to its tax strategy and compliance.

Kim Josling
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 is subject to and aligned with the *Corporations Act (Cth) 2001*.

On 1 July 2018, Snowy Hydro became a Government Business Enterprise, subject to the Commonwealth Government Business Enterprises - Governance and Oversight Guidelines.

On 2 July 2018, the share transfer to the Commonwealth of Australia was registered, and it became the sole owner under the Company's Constitution.

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 company. 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.

From those beginnings, we have become a dynamic and growing energy generator and retailer backed by the Snowy Mountains Hydro-electric Scheme. We have evolved into an integrated energy business – generating energy, providing price risk management products for wholesale customers and delivering energy to homes and businesses.

Key to our success is our ability to utilise the Snowy Scheme's large reservoirs to store and manage water which is used to generate reliable clean energy on-demand. The combination of our storage and generation capability means we play a critical role in the energy market, whether it's 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 regulate our water storages 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 Snowy Mountains Scheme with gas and diesel fired peaking generators, solar (and soon also wind) to deliver a flexible and reliable mix of energy to our customers every day.

We own, operate and maintain the 4,100MW Snowy Mountains Scheme, and during the year there has been significant steps in the Snowy 2.0 project which will add 2,000MW to the existing scheme.

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

Our retail companies Red Energy and Lumo Energy, supply energy to over 1 million customers and continue to be industry leaders in providing award winning customer service. Direct Connect Australia, supports these 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 River 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 group's 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 which we interact. The ATO is the principal taxation authority with which 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.

Accounting Profit to Income Tax Expense and Income Tax Payable

\$million	Note	2019
Profit before income tax expense		476.0
Income tax calculated at 30%	1	(142.8)
Amounts not recognised in profit but included in taxable income		
Prior year adjustments		(0.7)
Non tax deductible operating expenses		(0.6)
Research and development offset		0.3
Amounts recognised in profit but not included in taxable income		
Net difference between tax and accounting carrying values	2	14.2
Derivative Financial Instruments	3	4.5
Non Derivative Trading Instruments	3	(1.7)
Intangible Assets	3	(7.0)
Employee Provisions	4	(2.1)
Other Provisions	4	1.9
Lease Liability	5	1.4
Current Tax Expense		(132.6)
Deferred Tax Expense		(11.2)
Total Income Tax Expense on Profit		(143.8)

Notes

1. As the group operates only in Australia, the Australian 30% corporate tax rate applies to all profit.
2. Difference in the effective lives as applied to the tax and accounting values of assets
3. These amounts represent the difference in the accounting and tax treatment of these components.
4. These accounting provision balances will be tax deductible when paid.
5. Represents the net difference between the accounting and tax treatment of lease obligations.

Income Tax Payable

\$million	2019
Income tax payable at beginning of financial year *	70.0
Income tax paid net of refund received	(192.1)
	(122.1)
Current Tax Expense	132.6
Income Tax Payable 30 June 2019	10.5

*The prior period financial information has been restated, as described in Note 2 of the 2019 Annual Report.

Deferred Tax Expense

\$million	*Opening balance	Charged to income	Charged to equity	Other/transfer	Closing balance
2019					
Deferred tax assets					
Net difference between tax and accounting carrying values	156.1	(14.2)	-	-	141.9
Lease Liability	23.2	(1.4)	-	-	21.8
Employee Provisions	19.3	2.1	0.8	(5.7)	16.5
Other Provisions	11.8	(1.8)	0.6	5.7	16.3
Derivative financial instruments	4.4	(4.5)	35.9	-	35.8
Non derivative financial instruments	-	1.7	-	-	1.7
Total deferred tax assets	214.8	(18.1)	37.3	-	234.0
Deferred tax liabilities					
Derivative financial instruments	-	-	-	-	-
Cost of customer acquisition	46.2	(7.0)	-	-	39.2
Total deferred tax liabilities	46.2	(7.0)	-	-	39.2
Net deferred tax asset	168.6	(11.1)	37.3	-	194.8

*The prior period financial information has been restated, as described in Note 2 of the 2019 Annual Report.

Effective Tax Rate

\$million	Note	2019
Total Income Tax Expense on Profit	(A)	143.8
Profit Before Income Tax Expense	(B)	476.0
Total Amounts paid to Governments	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. Australia's corporate tax rate is 30%.

Total Tax Contribution

\$million	Note	2019
Tax Levied and Borne by Snowy Hydro Limited		
Corporate Income Tax	1	192.1
Fringe Benefits Tax	2	1.3
Payroll Tax	3	10.7
Land Tax	4	1.6
Total Taxes Paid		205.7
Taxes Collected and Remitted		
Net GST Paid	5	28.2
PAYG Salary and Wages Withholding	6	54.2
Total Taxes Collected and Remitted		82.4
Total Amounts Paid to Governments		288.1

Notes

1. Company income tax paid to the ATO to 30 June 2019, net of refunds received as per the Consolidated Statement of Cash Flows. Under the company tax system, this amount includes income tax paid which is referable to the previous financial year totalling \$71.2M. An additional amount referable to the June 2019 year totalling \$12.8M was paid in July 2019.
2. Fringe benefits tax paid as per the FBT returns lodged for the 31 March 2019 year.
3. Payroll tax liability calculated on an accrual basis for the 30 June 2019 year paid/payable to Revenue NSW \$5.46M, State Revenue Office Victoria \$5.17M, Revenue SA \$0.07M, QLD Office State Revenue \$0.01M and ACT Revenue office \$0.01M.
4. Land tax assessed for the year ended 31 December 2018 and paid to Revenue NSW \$1.5M and State Revenue Office Victoria \$0.1M.
5. Net GST amount paid to the ATO for the 30 June 2019 year.
6. The amount of PAYG withheld from Salary and wages and remitted to the ATO.

Dividend Payments

While ordinarily dividend payments to shareholders are not a feature of a company's tax transparency report, as the company is wholly owned by the Commonwealth government, the company's dividend payments are in effect payments to governments.

During the 30 June 2019 year (in October 2018 and April 2019), the company paid a total of \$238.5M in fully franked dividends to the Commonwealth government.

The balance of the company's franking account as at 30 June 2019 was \$177.2M

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 2019 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 will lodge a nil income tax return with the Dutch tax authorities.