

Snowy Hydro Limited

2018 Tax Transparency Report

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Chief Financial Officer's Introduction

The past financial year has been a tremendously exciting one for the Snowy Hydro group. Through our multi-year award winning Red Energy and Lumo brands, we continue to be a leading energy provider to more than 1 million retail customers. In addition, we have continued our investigations into the proposal to build and operate the Snowy 2.0 pumped hydro-electric storage facility ('Snowy 2.0'), which if approved, will add 2,000MW to the company's existing 5,500MW of generating capacity.

It is with that same dedication and professionalism that I introduce Snowy Hydro's second Tax Transparency Report.

Snowy Hydro continues to be supportive of the Voluntary Tax Transparency Code introduced by the Board of Taxation. This report reflects the company's commitment to maintain open, ongoing and transparent dialogue with all relevant stakeholders and regulators in respect of the taxation obligations of the Snowy Hydro Group.

As indicated in our 30 June 2018 report, our effective tax rate is 29.8%. We have also outlined the taxes and broader economic contributions we have made, including the payment and remittance of \$305.0M in taxes to relevant governments, and the payment of \$265.0M in dividends to our government shareholders at the time.

The organisation is proud of the contributions we make not only to the industries in which we participate, but also to the communities in which we are based, the employment opportunities that we generate and to Australia's overall finances.

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* and, from 29 June 2018, the *Public Governance, Performance and Accountability Act (Cth) 2013* ("PGPA Act").

Until 29 June 2018, Snowy Hydro had three shareholders, being the New South Wales (58%), Victorian (29%) and Commonwealth (13%) Governments. On 29 June 2018, the Commonwealth of Australia completed the acquisition of all shares of the Company and is now the sole shareholder. The Company continues to operate as a Corporation Law company with an independent Board of Directors.

As a result of the Commonwealth assuming full ownership, the Company became subject to the PGPA Act and related legislative instruments, which are effective for financial reporting purposes from the 2019 annual reporting period.

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 Aussie 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 mean 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 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 we need it 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 customer service with energy backed by one of the civil engineering wonders of the modern world – the Snowy Mountains Scheme. 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 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.

Total Tax Contribution

\$million	Note	
Taxes Levied and Borne by Snowy Hydro Limited		
Corporate Income Tax	1	182.3
Fringe Benefits Tax	2	1.1
Payroll Tax	3	10.4
Land Tax	4	1.5
Total Taxes Paid		195.3
Taxes Collected and Remitted		
Net GST Paid	5	55.7
PAYG Salary and Wages Withholding	6	54.0
Total Taxes Collected and Remitted		109.7
Total Amount Paid to Governments		305.0

Notes

1. This is the amount of company income tax actually paid to the ATO to 30 June 2018, net of refunds received as per the Consolidated Statement of Cash Flows. Under the company tax instalment system, additional amounts referable to the June 2018 year totalling \$71.2M were paid in July 2018 and December 2018.
2. This is the amount of fringe benefits tax ("FBT") paid as per the FBT returns lodged for the 31 March 2018 year (the most recently concluded FBT year).
3. This is the amount of payroll tax liability calculated on an accrual basis for the 30 June 2018 year paid/payable to Revenue NSW \$5.2M, State Revenue Office Victoria \$5.1M, Revenue SA \$0.05M, QLD Office State Revenue \$0.01M and ACT Revenue office \$0.01M.
4. This is the amount of land tax assessed for the year ended 31 December 2017 and paid to Revenue NSW \$1.4M and State Revenue Office Victoria \$0.1M.
5. This represents the net GST amount paid to the ATO in the Business Activity Statements lodged for the 30 June 2018 year.
6. This is the total amount of PAYG withheld from salaries and wages paid during 30 June 2018 year and remitted to the ATO.

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

Dividend Payments

Dividend payments to shareholders are not typically a feature of a company's tax transparency report. However, considering that up until 28 June 2018 Snowy Hydro was 100% owned by three Australian governments, the company's dividend payments during the year were, in effect, payments to governments.

Up until 29 June 2018 Snowy Hydro's shareholders, were:

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

During the 30 June 2018 year (in October 2017 and April 2018), the company paid a total of \$265M in fully franked dividends to its shareholders as follows:

\$million		Cash Paid
New South Wales government	58%	\$153.70
Victorian government	29%	\$ 76.85
Commonwealth government	13%	\$ 34.45
Total Dividends Paid	100%	\$265.00

The balance of the company's franking account as at 30 June 2018 was \$87.3M

On 29 June 2018, the Commonwealth of Australia completed its acquisition of the 58% and 29% shares of the Company previously owned by the New South Wales and Victorian governments respectively.

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 2018 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 Dutch tax authorities.

Reconciliations:

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

\$million	Note	
Profit before income tax expense		299.6
Income tax calculated at 30%	1	89.9
Amounts not recognised in profit but included in taxable income		
Research and development tax offset	2	(0.9)
Non-deductible operating expenses	3	1.2
Other movements - prior year		(0.8)
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	64.8
Non Derivative Trading Instruments	5	26.1
Intangible Assets	5	6.6
Employee Provisions	6	(1.1)
Other Provisions	6	(0.7)
Lease Liability	7	(1.2)
Other Adjustments		0.2
Current Tax Expense as per Financial Statements		175.5
Deferred Tax Expense as per Financial Statements - Refer Table 2 Below		(86.1)
Total Income Tax Expense on Profit as per Financial Statements		89.4

Notes

1. As the company operates only in Australia, the Australian 30% corporate tax rate 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	Transfer	Closing Balance
Deferred Tax Assets					
Net difference between tax and accounting carrying values	164.7		(8.6)		156.1
Lease Liability	24.4		(1.2)		23.2
Derivative Financial Instruments	0.0			4.4	4.4
Employee Provisions	25.5	(1.6)	(1.1)	(3.5)	19.3
Other Provisions	9.0		(0.7)	3.5	11.8
Movement in Deferred Tax Assets	223.6	(1.6)	(11.6)	4.4	214.8
Deferred Tax Liabilities					
Derivative Financial Instruments	57.3	3.1	(64.8)	4.4	0.0
Non Derivative Trading Instruments	40.8		(26.1)		14.7
Intangible Assets	52.6		(6.6)		46.0
Other Adjustments	0.2		(0.2)		0.0
Movement in Deferred Tax Liabilities	150.9	3.1	(97.7)	4.4	60.7
Net Balance/Movement	72.7	(4.7)	86.1	0.0	154.1

3. Income Tax Payable

\$million	
Income Tax Payable at beginning of financial year as per Statement of Financial Position	77.2
Income Tax Paid Net of Refund Received as per Consolidated Statement of Cash Flows	(182.3)
	(105.1)
Current Tax Expense as per Reconciliation 1 Above	175.5
Income Tax Payable at 30 June 2018	70.4

4. Effective Tax Rate

\$million

Total Income Tax Expense on Profit	(A)	89.4
Profit Before Income Tax Expense	(B)	299.6
Effective Tax Rate	A / B	29.8%

In calculating the effective tax rate of 29.8%, 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 29.8% covers the company’s entire operations. Australia’s corporate tax rate is 30%.