

Snowy Hydro Limited

Tax Transparency Report

For the financial period ended 30 June 2020

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Chief Financial Officer's Introduction

I welcome the opportunity to present information about Snowy Hydro Limited's ("Snowy Hydro") taxation strategy, governance and framework, its total taxation contributions to the economy and its tax expense, within this Tax Transparency Report for the year ended 30 June 2020..

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 shareholder.

Acknowledging and accepting those responsibilities, we continue to be a strong supporter and signatory to the Voluntary Tax Transparency Code introduced by the Board of Taxation.

Snowy Hydro also recognises its responsibilities and contributions it makes to communities in which it operates particularly those in the Snowy Mountains region where the group is a significant employer and generator of economic activity, which has significantly increased during the year with the continuing progress of the Snowy 2.0 project. Our responsibilities and social contributions also extend to our retail businesses, where Red Energy and Lumo have been consistent service award winners over the past 10 years. Across all areas in which the company operates, we have been providing this ongoing community and stakeholder support throughout the most recent drought period, the devastating January 2020 bushfires and the current Covid-19 pandemic.

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 2020 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*.

As the company's sole shareholder continues to be the Commonwealth of Australia, it is also subject to the Commonwealth Government Business Enterprises - Governance and Oversight Guidelines.

The company is not exempt from any taxes, and 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. This is achieved while continuing to operate under a strictly regulated water licence whereby water is released into the River Murray and Murrumbidgee River systems to be used by irrigators and downstream water suppliers..

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 through spot generation, risk management for our wholesale customers, futures contracts or electricity and gas supply to households and commercial and industrial customers.

We combine the power of the 4,100MW Snowy Mountains Scheme with gas and diesel fired peaking generators, together with an expanding solar and wind portfolio to deliver a flexible and reliable mix of energy to our customers every day. In addition, during the year we reached significant milestones in the Snowy 2.0 project which when completed will add a further 2,000MW to the existing scheme.

Our retail companies Red Energy and Lumo Energy, supply energy to over 1.1 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.

Taxation Strategy, Governance & 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 matters 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.

Basis of Preparation

This Tax Transparency Report satisfies Part A and Part B of the Tax Transparency Code. It is based on the income tax disclosures contained in Snowy Hydro's audited 30 June 2020 Consolidated Financial Report, and reflects the final income tax payable for the year ended 30 June 2019 in accordance with that income tax return as lodged.

The 30 June 2020 income tax return is yet to be prepared and lodged, and any differences between the the final 30 June 2020 income tax return and the income tax disclosures contained in Snowy Hydro's audited 30 June 2020 Consolidated Financial Report, will be disclosed and reconciled in the 30 June 2021 Tax Transparency Report.

Accounting Profit to Income Tax Expense and Income Tax Payable

\$million	Note	2020
Profit before income tax expense		116.0
Income tax calculated at 30%	1	(34.8)
Amounts not recognised in profit but included in taxable income		
Prior year adjustments		0.7
Non tax deductible operating expenses		(0.9)
Research and development offset		0.2
Amounts recognised in profit but not included in taxable income		
Net difference between tax and accounting carrying values	2	15.2
Derivative Financial Instruments	3	(61.4)
Non Derivative Trading Instruments	3	(0.4)
Intangible Assets	3	(6.2)
Employee Provisions	4	(0.3)
Other Provisions	4	(4.5)
Lease Liability	5	3.8
Other	3	0.4
Current Tax Expense		(88.2)
Deferred Tax Expense		53.4
Total Income Tax Expense on Profit		(34.8)

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	2020
Income tax payable at beginning of financial year	10.5
Income tax paid net of refund received	(89.4)
	(78.9)
Current Tax Expense	88.2
Income Tax Payable 30 June 2020	9.3

Deferred Tax Expense

\$million	Opening balance	Charged to income	Charged to equity	Other/transfer	Closing balance
Deferred tax assets					
Net difference between tax and accounting carrying values	141.9	(15.1)	-	(31.2)	95.6
Lease Liability	21.8	(3.8)	-	32.1	50.1
Derivative financial instruments	35.8	61.4	60.4	-	157.6
Non derivative financial instruments	1.7	0.4	-	-	2.1
Employee Provisions	16.5	0.3	(0.2)	3.6	20.2
Other Provisions	16.3	4.5	-	(4.3)	16.5
Total deferred tax assets	234.0	47.7	60.2	0.2	342.1
Deferred tax liabilities					
Cost of customer acquisition	39.2	(6.2)	-	-	33.0
Other	-	0.6	-	0.2	0.8
Total deferred tax liabilities	39.2	(5.6)	-	0.2	33.8
Net deferred tax asset	194.8	53.3	60.2	-	308.3

Effective Tax Rate

\$million	Note	2020
Total Income Tax Expense on Profit	(A)	34.8
Profit Before Income Tax Expense	(B)	116.0
Total Amounts paid to Governments	A / B	30.0%

In calculating the effective tax rate of 30.0%, 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 30.0% covers the company's entire operations. Australia's corporate tax rate is 30%.

Total Tax Contribution

Tax Levied and Bore	\$M	Taxes Collected and Remitted	\$M
Corporate Income Tax ¹	89.4	Net GST Paid ⁵	23.0
Fringe Benefits Tax ²	1.0	PAYG Salary and Wages Withholding ⁶	55.1
Payroll Tax ³	10.6		
Land Tax ⁴	1.7		
Total Taxes Paid	102.7	Total Taxes Collected and Remitted	78.1

Notes

1. Company income tax paid to the ATO to 30 June 2020, 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 \$7.3M. An additional amount referable to the June 2020 year totalling \$10.5M was paid in July 2020.
2. Fringe benefits tax paid as per the FBT returns lodged for the 31 March 2020 year.
3. Payroll tax liability calculated on an accrual basis for the 30 June 2020 year paid/payable to Revenue NSW \$5.72M, State Revenue Office Victoria \$4.71M, Revenue SA \$0.13M
4. Land tax assessed for the year ended 31 December 2019 and paid to Revenue NSW \$1.6M and State Revenue Office Victoria \$0.1M.
5. Net GST amount paid to the ATO for the 30 June 2020 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 Snowy Hydro is wholly owned by the Commonwealth government, the company's dividend payments are in effect payments to governments.

During the 30 June 2020 year (in October 2019 and April 2020), the company paid a total of \$217.8M in fully franked dividends to the Commonwealth government.

The balance of the company's franking account as at 30 June 2020 was \$173.3M.

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 2020 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.