



ABN 17 090 574 431

Consolidated Financial Report for the Financial Year

2 July 2006 to 30 June 2007

Snowy Hydro Limited

Consolidated Financial Report for the financial year ended 30 June 2007

	<i>Page Number</i>
<i>Directors' Report</i>	2
<i>Auditor's Independence Declaration</i>	8
<i>Independent Audit Report</i>	9
<i>Directors' Declaration</i>	11
<i>Income Statement</i>	12
<i>Statement of Recognised Income and Expense</i>	12
<i>Balance Sheet</i>	13
<i>Statement of Cash Flows</i>	14
<i>Notes to the Financial Statements</i>	15

Snowy Hydro Limited

Directors' Report

The directors of Snowy Hydro Limited submit herewith the annual financial report for Snowy Hydro Limited and its controlled entities (here within referred to as the "consolidated entity") for the financial year 2 July 2006 to 30 June 2007. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names and particulars of the directors of the company during or since the end of the financial year are:

Name	Particulars
Rick Holliday-Smith BA (Hons), FAICD	Chairman Mr Holliday-Smith has an extensive background in global financial markets including derivatives. He is a Director of ASX Limited and Chairman of its wholly owned subsidiary SFE Clearing Corporation. He is also a Director of St George Bank Limited, Cochlear Limited and Servcorp Limited. Prior to 1998, Mr Holliday-Smith spent 11 years in Chicago, firstly as CEO of Chicago Research and Trading (CRT) and then as President of NationsBanc-CRT. During the 1980s, he was an executive director with Wardley Australia Limited and Managing Director of HongKongBank Limited, London.
Terry V Charlton BCom, MSc	Managing Director Mr Charlton is Chief Executive Officer and Managing Director of Snowy Hydro Limited. Formerly, he was the Commissioner of Snowy Mountains Hydro-electric Authority, and Chief Executive Officer of Snowy Hydro Trading Pty Ltd from 1999 to 2002. Mr Charlton was appointed a director of Red Energy Limited on 12 November 2004. Previous experience in energy and utilities includes being President of Edison Mission Energy, United Kingdom, Europe, Middle East, Africa, and Group General Manager, Tubemakers of Australia Limited – Water, Oil and Gas Division.
Bruce Hogan AM BEc (Hons), FAICD	Non Executive Director Mr Hogan is a director of NSW Treasury Corporation and Chairman of State Super Financial Services Australia Ltd. He is a former Joint Managing Director of Bankers Trust Australia Limited, former Chairman of Adelaide Casino and a former director of Energy Australia, Coles Myer Limited, Metcash Limited, Funds South Australia and GIO Australia Limited.
Bruce R Brook BCom BACC FCA MAICD	Non Executive Director Mr Brook is a chartered accountant with 20 years' experience in the mining industry. Mr Brook is a director of Lihir Gold Limited, Consolidated Minerals Limited and Boart Longyear Limited and a member of the Financial Reporting Council. He is also on the Audit committee of the Salvation Army (Southern Territory) and the Finance Committee of the University of Melbourne. Mr Brook has previously held executive roles with Rio Tinto as well as Pacific Dunlop, ANZ Bank and WMC Resources.
Peter Lowe MBA, BCom, FCPA, MAICD	Non Executive Director Mr Lowe has over 30 years' experience in various financial roles including CFO of public companies in Australia and the USA. He is currently on the boards of Aurora Energy Pty Ltd, Alinta Network Holding Pty Ltd, Citywide Services Pty Ltd, United Energy Distribution Holdings Pty Ltd and Multinet Group Holdings Pty Ltd. He has also held a board role at Southern Hydro Pty Ltd and GasNet Limited.

Snowy Hydro Limited

Directors' Report

Robert D Hogg, AO

Non Executive Director

Mr Hogg was formerly national secretary of the Australian Labor Party, Executive Director/Deputy Chair Singleton Group (1994-98) and Director/Secretary - Homax Pty Ltd which specialises in issues management.

David J Klingberg, AM
FTSE, BTech, FIEAust, FAusIMM,
FICD

Non Executive Director

Mr Klingberg is currently Chancellor of the University of South Australia and holds a variety of non-executive directorships and appointments with both public and private bodies including Barossa Infrastructure Ltd, Codan Ltd, Centrex Metals Ltd and the Workcover Corporation of South Australia. He has a strong background in engineering through a long association with Kinhill Limited. He has substantial professional expertise in project evaluation management and systems and the structuring of major infrastructure projects.

All the above named directors held office during and since the end of the year.

Glen Dewing
BCom, MBA, FCPA,
FCIS

Company Secretary

Glen Dewing has over 20 years experience in auditing, finance and governance-related roles, 18 years of which have been spent with the company and its legal predecessor. Glen was admitted as a Chartered Secretary in 1995.

Principal Activities

The consolidated entity comprises Snowy Hydro Limited ("Snowy Hydro") and its active wholly owned controlled entities; Red Energy Pty Ltd ("Red Energy"), Valley Power Pty Ltd ("Valley Power"), and various inactive subsidiaries. A full list of controlled entities is provided in note 32.

Snowy Hydro owns, manages and maintains the Snowy Mountains Hydro-electric Scheme, which consists of seven power stations and sixteen large dams located mainly in the Kosciuszko National Park ("KNP"), and owns two gas-fired power stations in Victoria; a 320 MW power station at Laverton North and Valley Power, a 300 MW power station in the Latrobe Valley. Snowy Hydro's operations consist of the generation and marketing of flexible and renewable electrical energy, ancillary services and related electricity products, and the storage and diversion of bulk water to the Murray and Murrumbidgee Rivers. Red Energy retails electricity and operates in the National Electricity Market ("NEM").

Snowy Hydro Limited

Directors' Report

Review of Operations

For the financial year ended 30 June 2007, net profit after tax was \$40,974,000. This result is after bringing to account the reduction in market values of Snowy Hydro's electricity price risk hedging contracts in the amount of \$103,252,000 before tax, as prescribed by accounting standard AASB 139 "Financial Instruments: Recognition and Measurement". The net profit after tax excluding this adjustment is \$113,250,000 (tax adjusted).

The prescriptive nature of the accounting standard AASB 139 precludes Snowy Hydro's electricity price risk hedging contracts from being designated and recognised as hedges, despite the fact that these instruments function as economic hedges by dampening the impact of spot price volatility on the value of Snowy Hydro's generation output. Consequently, all electricity price risk hedging contracts are deemed to be trading instruments. The valuation of these financial derivative instruments is subject to significant management judgement in the application of appropriate forward price curves and with respect to assumptions that need to be made regarding future counterparty behaviour. The changes in valuations between reporting periods are known as mark-to-market ("MtM") adjustments and are recognised in the income statement as "movements in fair value of electricity derivatives".

The high forward price curves as at 30 June 2007 have resulted in a MtM valuation which implies that the derivative financial instruments are a large liability, with the movement since June 2006 taken to the Income Statement. However, AASB 139 precludes Snowy Hydro from recognising any increase in the future income stream that would be expected to result if the prices implied in these same curves were applied to the expected generation output. This one sided accounting adjustment is likely to produce high volatility in reported net profit after tax from one year to the next, which will not necessarily be accompanied by any corresponding change in underlying economic earnings.

Snowy Hydro's operating environment for the 2007 financial year was characterised by both depressed NEM volatility (for almost the entire year) and record-low water inflows. The fact that these events occurred simultaneously greatly exacerbated their impact. Snowy Hydro relied heavily on the gas-fired power stations and on recycling at the Tumut 3 pumping station, particularly in the second half of the year. The costs involved in utilising these water resource risk hedges were reflected in the unprecedented Direct costs of Revenue.

In the financial year ended 30 June 2007, 4,633 GWh were generated (from gas and hydro-electric sources) and 1,725 GL of water were released.

In the previous reporting period to 1 July 2006, net profit after tax was \$129,201,000, which included a MtM loss relating to electricity price risk hedging contracts of \$19,604,000 before tax. Generation was 5,339 GWh and water releases were 2,775 GL.

Changes in State of Affairs

The 320 MW power station at Laverton North in Victoria commenced operations on 20 December 2006. Other than this, there were no significant changes in the state of affairs of the consolidated entity during the financial year.

Snowy Hydro Limited

Directors' Report

Subsequent Events

There have not been any matters or circumstances, other than those referred to in note 35 of the financial statements, that have arisen since the end of the financial year, that have significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Future Developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

Environmental Regulations

The consolidated entity is subject to the full range of Commonwealth and New South Wales environmental laws including the Environmental Protection and Biodiversity Conservation Act (Cth), the Environmental Planning & Assessment Act (NSW) ("EP&A Act"), the Protection of the Environment Operations Act (NSW), the National Parks & Wildlife Act (NSW) ("NPW Act") and the Contaminated Lands Management Act (NSW).

Within the Kosciuszko National park ("KNP"), Snowy Hydro's operations are subject to both the Kosciuszko Plan of Management and the Snowy Management Plan ("SMP"). Both are plans of management made under the NPW Act. The latter is specifically enforceable against Snowy Hydro through regulation.

On corporatisation the Snowy Scheme was given deemed planning approvals for the purposes of the EP&A Act and the NSW Local Government Act. Any future development by Snowy Hydro is subject to the standard approval processes under the NPW Act and the EP&A Act.

For completeness it should also be noted that under Part 5 of the Act, Snowy Hydro has been issued with the Snowy Water Licence. The Snowy Water Licence prescribes Snowy Hydro's rights and obligations with respect to the collection, diversion, storage, use and release of water within the Snowy area. The Snowy Water Licence also imposes some obligations on Snowy Hydro in terms of releasing environmental flows into the Snowy River and the montane rivers within the Snowy area. Snowy Hydro has complied with the environmental flow obligations that have come into effect up until the date of this report.

Snowy Hydro and its subsidiaries are subject to the *Renewable Energy (Electricity) Act 2000* and the *Renewable Energy (Electricity) (Charge) Act 2000*, supported by the *Renewable Energy (Electricity) Regulations*. Under these Acts renewable generators including Snowy Hydro are entitled to create Renewable Energy Certificates ("RECs"). Electricity retailers (including Snowy Hydro's subsidiary Red Energy Pty Limited) and wholesale electricity buyers on liable grids in all States and Territories are required to annually surrender RECs to the Regulator equal to the proportion of energy purchased.

The consolidated entity has complied with all relevant environmental regulations to the date of this report.