

SNOWY HYDRO LIMITED

STATEMENT OF CORPORATE INTENT 2004-2008

1. INTRODUCTION

This Statement of Corporate Intent for Snowy Hydro Limited ("**Snowy Hydro**") continues with a deliberate focus on the period of transition, following corporatisation, where priority will be given to stabilising the new business, communicating the issues defining the new operating environment and progressing resolution of the strategies most appropriate for the new entity.

2. MISSION AND GOALS

The corporate mission is to...

"To deliver superior financial returns by being the preferred supplier of flexible energy and related products; developing our people and utilising our physical assets and water resources in order to exceed customer and stakeholder expectations while demonstrating best practice in safety and health, asset and environmental management."

To achieve the goals of this mission statement, the organisation has actively adopted innovative programs covering:

- (1) Clean, green and safe (corporate wide focus);
- (2) Continuous improvement (team focus);
- (3) Goals, Actions, Measures Performance Appraisal (individual focus);
- (4) ISO9000 Certification (quality systems);
- (5) ISO14000 Certification (environmental systems);
- (6) Five Star National Safety Council Certification;
- (7) Company wide incentives/rewards programme;
- (8) Best Practice visits;
- (9) Identification of "model" markets and "model" companies;
- (10) Learning organisation and knowledge transfer programmes;

- (11) Business systems review and simplification; and
- (12) Focus on "Economic Value Added".

The core values underpinning the corporate culture are:

- (1) Respect for people
 - (a) safety first;
 - (b) participation;
 - (c) communications;
 - (d) individual development; and
 - (e) recognise success.
- (2) Product innovation
 - (a) exploit uncertainty;
 - (b) create opportunities; and
 - (c) leverage off policy and regulatory changes.
- (3) Shareholder value
 - (a) think like an owner;
 - (b) create value adding initiatives;
 - (c) use capital wisely;
 - (d) reward value creation; and
- (4) Customer responsiveness
 - (a) "delight" the customer;
 - (b) anticipate needs;
 - (c) create "partnerships"; and
 - (d) applies also to internal dealings.
- (5) Environmental sensitivity
 - (a) satisfy the "spirit";
 - (b) demonstrate leadership; and

- (c) promote initiatives.
- (6) Minimise non value adding activity
 - (a) remove waste;
 - (b) constancy of purpose;
 - (c) simplification; and
 - (d) manage with facts.
- (7) Continuous improvement
 - (a) do it better each time;
 - (b) deal with causes not symptoms;
 - (c) best practice in all we do; and
 - (d) robust justification for spending.

Unlike base load generators, Snowy Hydro derives much of its value from risk, uncertainty and volatility in the electricity market. The fast start and flexible operating capability of its hydro assets enables Snowy Hydro to manage these risks. It also allows Snowy Hydro to offer to other market participants a broad range of risk management products. Snowy Hydro is striving to increase its range of risk management products while reducing its overall risk exposure. Consistent with this strategy, Snowy Hydro will continue its assessment of opportunities for the establishment of generating capability in regions outside the Snowy region and in regions where constraint and separation can occur. Snowy Hydro intends to maintain its share of the peaking energy market.

3. SCOPE OF OPERATIONS

Snowy Hydro owns and operates the Snowy Mountains Hydro-electric Scheme, and has as its core businesses:

- (1) the provision of electrical energy and electricity risk management services within the National Electricity Market;
- (2) the storage and diversion of bulk water to the Murray and Murrumbidgee Rivers and the provision of associated risk management products;
- (3) the creation and marketing of products derived from water, electricity and environmental services.

The Snowy Scheme remains one of the most complex combined irrigation and hydro schemes in the world. The Scheme's integrated system of 16 large dams, 7 major tunnels, and 8 separate generating/pumping facilities are located predominantly in the Kosciuszko National Park. Total generation capacity is 3,756 MW, annual average energy production of 5,100GWh, and annual average water released of 2,360GL. The Scheme also has 680 MW of pumping capacity.

The Snowy Hydro trading group and associated support functions are located in the Sydney central business district.

Snowy Hydro is a registered Generator in the National Electricity Market (“NEM”).

Snowy Hydro is the premier supplier of renewable electrical energy, electricity risk management products and electrical ancillary services in the four-State inter-connected power system, comprising Queensland, New South Wales, Victoria and South Australia.

Snowy Hydro’s electrical energy is traded into the NEM power pool. Snowy Hydro is the largest single supplier of renewable energy in the NEM. Snowy Hydro is a major creator and marketer of Renewable Energy Certificates.

Snowy Hydro is the largest single supplier of ancillary services in the NEM such as “black start” and reactive power control.

Through the provision of specialised products and services, Snowy Hydro will continue to play a key role in maintaining the operational security of the interconnected four-State power system. Snowy Hydro will work with transmission asset owners to implement incentive regimes to ensure the operators of the transmission assets are aligned to Snowy Hydro’s market imperatives.

An extensive range of electricity risk management products are sold in the form of bilateral contracts to individual customers across the NEM. These products are backed by Snowy Hydro’s large-capacity, fast-starting and flexible hydro plant. These products will continually evolve to meet changing market needs.

Snowy Hydro also plays a key role in water resource security for the Murray-Darling Basin, providing on average an additional 5% of River Murray flows, and up to 33% of flows under severe drought conditions. An Annual Water Operating Plan, approved by the NSW Water Administration Ministerial Corporation, defines Snowy Hydro water management objectives for each year.

In March 2004, Snowy Hydro obtained its Australian Financial Services Licence. Prior to that time and under transitional arrangements, all dealings in financial services had to be undertaken by Snowy Hydro Trading Pty Limited for and on behalf Snowy Hydro Limited. From March 2004 Snowy Hydro has been able to deal in financial services in its own name.

4. VISION

The new Snowy Hydro is a manager of water resources, responding to a wide range of environmental, operational and irrigation obligations and in so doing seeks to provide superior and secure returns from generation activities and the sale of electricity industry and water industry related products.

Snowy Hydro will actively pursue a robust but financially sustainable growth strategy to fulfil its potential to grow shareholder value and enhance future dividends to shareholders in an effective and prudent manner.

It aims to be the industry leader in profitable renewable energy and related risk

management products,

Snowy Hydro aims to be recognised internationally and to be well regarded in the communities in which it operates.

5. CORPORATISATION

After eight years of the corporatisation process, the priority is now to rebuild, re-motivate and redirect the organisation to deliver the many benefits attainable from corporatisation.

The cultural shift from a government authority providing energy and water services under a guaranteed cost recovery arrangement to a market responsive corporation with an economic value added focus is well under way. To deliver the necessary changes specific accountabilities have been established through all levels of the organisation. A thorough approach to this transition to the new Snowy Hydro is fundamental to sustaining high performance and shareholder value over the long term.

The company has successfully implemented an economic value added focus that recognises the scarcity of financial resources. Cash management disciplines are also being emphasised.

6. OBLIGATIONS AND RISKS

Many new obligations and risks have been created in the course of, and as a result of, corporatisation.

The immediate task is to fully understand, quantify and respond to these new conditions. A substantial risk management and compliance infrastructure is being developed to meet these new conditions.

However, significant other risks arise from the age of plant and equipment, maintenance issues, an environment of change impacting on corporate and supplier knowledge, the state of communications and controls technology and facilities, the difficult working environment of the Snowy Mountains and the separation of Sydney trading activities from the dispersed generation sites. These issues will be dealt with early in the life of Snowy Hydro.

Formal risk assessment processes are in place. Priority is being given to responding to those risks arising from the market, environmental obligations and occupational health and safety.

7. SHAREHOLDER REPORTING AND RELATIONS

Being a company formed under the *Corporations Act*, the company reports to shareholders in accordance with the requirements of that Law.

In addition, the company has some additional formal shareholder reporting obligations under its Constitution. Those obligations are:

- (1) to provide shareholders with a Corporate Plan for comment, and to report half yearly on the performance of the company against its Corporate Plan; and

- (2) to ensure continuous disclosure of any information concerning the company that a reasonable person would expect to have a material effect on the price or value of shares in the company.

The company's Constitution also requires that:

- (3) the company obtain shareholder approval to certain actions relating to the issue of shares, and to changes in the nature and scale of its activities, the disposal or winding up of its main undertaking or the appointment of an external administrator; and
- (4) the directors of the company must consult with the shareholders prior to undertaking certain activities include, by way of example, acquiring any major debt or undertaking any material capital restructuring.

In addition, the company initiates briefings from time to time to ensure that not only are the company's obligations to keep shareholders informed under the Corporations Act fully satisfied, but that shareholders, each having equal voting rights, have a "feel" for the company, its operations and its business development objectives.

8. CODE OF ETHICS

The corporation demands high standards of transparency in all its dealings. It also expects the "spirit" of the law to be followed, not just the "letter". With regard to obligations relating to Occupational Health and Safety, ACCC, NECA, EPA, Equal Employment Opportunities and Anti Discrimination legislation, the highest standards are expected.

9. TARGETS

The company aims to be in the top quartile of the industry participants in the NEM with regard to revenue growth, EVA growth and return on assets employed. Due to the commercially sensitive nature of financial forecasts, they have not been included in this Statement of Corporate Intent.

The corporation has a suite of other financial and non-financial measures by which to evaluate and determine its project and improvement initiatives and by which it is able to monitor its performance. Performance is assessed on an individual, team and corporate basis. Non-financial indicators being targeted over the forecast period include:

NON-FINANCIAL INDICATOR	TARGET
Turbine Start Reliability	>99.4%
Forced Outages during Peak Periods	<0.9%
Dam Safety Inspection Compliance	>90%
EPA Notifiable Events	<2

NON-FINANCIAL INDICATOR	TARGET
Lost Time Injuries	<2

10. ACCOUNTING POLICIES

Snowy Hydro's financial statements are prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views, and the Corporations Law.

