ABN 17 090 574 431

Consolidated Financial Report for the Reporting Period

5 July 2009 to 3 July 2010

Snowy Hydro Limited

CONSOLIDATED FINANCIAL REPORT
FOR THE REPORTING PERIOD ENDED 3 JULY 2010

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 reporting period 5 July 2009 to 3 July 2010. In order to comply with the provisions of the *Corporations Act 2001* (Cwlth), the directors report as follows:

The names and particulars of the directors of the Company during or since the end of the reporting period are:

Name	***Particulars***
Roderic (Rick) Holliday-Smith	Chairman
BA (Hons), FAICD	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 Chairman of Cochlear Limited and a director of Servcorp Limited and a former Director of St George Bank 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 Vincent Charlton	Managing Director
BCom, MSc	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 Pty Limited on 12 November 2004 and is a director of Southcare Helicopter Fund. 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 Anthony Hogan AM	Non Executive Director
BEc (Hons), FAICD	Mr Hogan is a director of NSW Treasury Corporation. 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. He is also a former Chairman of State Super Financial Services Australia Ltd.
Bruce Robert Brook	Non Executive Director
BCom BAcc FCA, MAICD	Mr Brook is a chartered accountant with over 25 years experience in the mining industry. Mr Brook is a director of Lihir Gold Limited, Boart Longyear Limited, Programmed Maintenance Services Limited, Export Finance Insurance Corporation, Deep Exploration Technologies Co-operative Research Centre Limited, and is a member of the Financial Reporting Council. He is a former director of Consolidated Minerals Limited and Energy Developments Limited. 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 Scott Lowe	Non Executive Director
MBA, BCom, FCPA, MAICD	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, Western Australia Network Holdings Pty Ltd, Citywide Services Pty Ltd, Norfolk Group Limited, Meridian Wind Macarthur Pty Ltd, United Energy Distribution Holdings Pty Ltd and Multinet Group Holdings Pty Ltd. He was appointed to the board of Red Energy Pty Ltd in March 2007. He has also held a board role at Southern Hydro Pty Ltd and GasNet Limited.
Robert Duncan Hogg, AO, CM	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.
David John Klingberg, AO	Non Executive Director
FTSE, BTech, DUniSA FIEAust, FAusIMM, FAICD, KSJ	Mr Klingberg holds a number of non-executive directorships and appointments with both public and private bodies including Barossa Infrastructure Ltd, Codan Limited, and E & A Limited. He is Chairman of Centrex Metals Limited and the South Australian Premier's Climate Change Council, and a Board member of Renewables SA. He is a former Chancellor of the University of South Australia and has a strong background in engineering through a long association with Kinhill Limited.

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 25 years experience in auditing, finance and governance-related roles, 22 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 28.

The consolidated entity owns, manages and maintains the Snowy Mountains Hydro-electric Scheme, which consists of nine power stations and sixteen large dams located mainly in the Kosciuszko National Park ("KNP"), and owns and operates 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 gas and operates in the National Electricity Market.

Review of Operations

For the reporting period ended 3 July 2010, net profit after tax was $266.9 million. This result is after bringing to account the increase in market values of the consolidated entity's price risk hedging contracts in the amount of $60.5 million before tax, as prescribed by accounting standard AASB 139 "Financial Instruments: Recognition and Measurement". **The underlying net profit after tax excluding this adjustment is $224.5 million (tax adjusted).**

In the reporting period to 4 July 2009, net profit after tax was $211.9 million, which included a Mark to Market increase relating to price risk hedging contracts of $52.3 million before tax. **The underlying net profit after tax excluding the mark to market loss was $175.3 million (tax adjusted).**

The prescriptive nature of the accounting standard AASB 139 precludes the consolidated entity'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 the consolidated entity's generation output. Consequently, all 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 adjustments and are recognised in the income statement as "movements in fair value of derivatives".

The forward price curves current as at 3 July 2010 have resulted in a mark to market valuation which implies that the derivative financial instruments are a significant liability. However, due to factors such as changes in the forward price curves, changes in portfolio mix as contracts expire and new ones are added, receipt or payment of option fees and changes in the discount rate used to value the asset and liability, the net liability has decreased during the period. Positive movements occurring since 4 July 2009 have been taken to the Income Statement.

Notably, 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 treatment 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 2009 reporting period was characterised by both low National Electricity Market volatility (alleviated by a small number of high-price events) and low water inflows. The 2010 period saw a significant increase in NEM volatility, particularly in NSW, and a moderate improvement in water inflows. Snowy Hydro relied heavily on the gas-fired power stations and on recycling at the Tumut 3 pumping station in both years. The costs involved in utilising these water resource risk hedges are reflected in Direct Costs of Revenue.

In the reporting period ended 3 July 2010, Snowy Hydro generated 3,938 GWh from gas and hydro-electric sources, and released 1,854 GL of water. In the previous reporting period, generation was 3,333 GWh and water releases were 1,324 GL.

Changes in State of Affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

Subsequent Events

There has not been any matter or circumstance that has arisen since the end of the reporting period, that has 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 reporting periods.

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, Victorian and New South Wales environmental laws including the *Environmental Protection and Biodiversity Conservation Act 1999* (Cwlth), the *Environmental Planning and Assessment Act 1979 (NSW)*, the *Protection of the Environment Operations Act 1997* (NSW), the *National Parks and Wildlife Act 1974* (NSW) and the *Contaminated Lands Management Act 1997* (NSW).

Within the Kosciuszko National Park, Snowy Hydro's operations are subject to both the Kosciuszko Plan of Management and the Snowy Management Plan. Both are plans of management made under the *National Parks and Wildlife Act 1974* (NSW). 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 *Environmental Planning and Assessment Act 1979* (NSW) and the *Local Government Act 1993* (NSW). Any future development by Snowy Hydro is subject to the standard approval processes under relevant legislation.

For completeness it should also be noted that under Part 5 of the *Snowy Hydro Corporatisation Act 1997 (NSW)*, 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 Limited in terms of releasing environmental flows into the Snowy River and the montane rivers within the Snowy Mountains area. Snowy Hydro has complied with the environmental flow obligations that have come into effect up until the date of this report. During the reporting period, the Government of New South Wales completed a scheduled review of the Snowy Water Licence and a variation to the Licence was issued in May 2010.

In July 2010, Snowy Hydro received a summons issued jointly against the Company and the NSW Water Administration Ministerial Corporation from the Snowy River Alliance seeking declarations by the court that the five year review of the Snowy Water Licence was not in accordance with the *Snowy Hydro Corporatisation Act 1997 (NSW)* and the Snowy Water Licence and that the variation to the Snowy Water Licence was void.

Snowy Hydro and its subsidiaries are subject to the *Renewable Energy (Electricity) Act 2000* (Cwlth) and the *Renewable Energy (Electricity) (Charge) Act 2000* (Cwlth), supported by the *Renewable Energy (Electricity) Regulations 2001* (Cwlth). Under this legislation, renewable energy generators including Snowy Hydro are entitled to create Renewable Energy Certificates. 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 renewable energy certificates to the Regulator equal to the proportion of energy purchased.

Dividends

A fully franked cash dividend of $90 million ($0.45 per share) was paid on 26 March 2010. A fully franked cash dividend of $60 million ($0.30 per share) was paid on 29 May 2009.

Share Options

Snowy Hydro has not granted share options to Directors or Executives.

Indemnification of Officers and Auditors

During the financial year, Snowy Hydro paid a premium in respect of a contract insuring the directors of the Company (as named above), the company secretary and all officers of the Company and of any related body corporate against a liability incurred by a director, secretary or officer to the extent permitted by the *Corporations Act 2001* (Cwlth). The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Snowy Hydro Limited has not otherwise, during or since the reporting period, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

Directors' Meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, ten board meetings and 15 committee meetings were held.

	Board of Directors		Audit & Compliance		Remuneration		Portfolio Risk		Safety, Operations & Environment Risk		Nominations	
Director	**Held**	**Present**	**Held**	**Present**	**Held**	**Present**	**Held**	**Present**	**Held**	**Present**	**Held**	**Present**
R Holliday-Smith	10	10			2	2	5	3			1	1
T V Charlton	10	9										
B R Brook	10	10	4	4			5	5	3	3		
B A Hogan	10	9					5	5				
R D Hogg	10	10			2	2			3	3		
D J Klingberg	10	9	4	4					3	3		
P S Lowe	10	10	4	4	2	2						

T V Charlton is not a member of any subcommittees.

Auditor's Independence Declaration

The Auditor's independence declaration is included on page 7 of the financial report.

Rounding Off of Amounts

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the financial report are rounded off to the nearest one hundred thousand dollars.

Signed in accordance with a resolution of the directors made pursuant to s.298(2) of the *Corporations Act 2001*.

On behalf of the Directors

R Holliday- Smith
Chairman
Sydney 25 August 2010

Terry V Charlton
Managing Director
Sydney 25 August 2010

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Deloitte Touche Tohmatsu
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The Board of Directors
Snowy Hydro Limited
Monaro Highway
Cooma NSW 2630

25 August 2010

Dear Board Members

Snowy Hydro Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Snowy Hydro Limited.

As lead audit partner for the audit of the financial statements of Snowy Hydro Limited for the financial year ended 3 July 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stephen Gustafson
Partner
Chartered Accountants

Deloitte.

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Independent Auditor's Report to the Members of Snowy Hydro Limited

We have audited the accompanying financial report of Snowy Hydro Limited, which comprises the balance sheet as at 3 July 2010, and the income statement, statement of comprehensive income, statement of cash flows and statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 10 to 52.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the consolidated financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

(a) In our opinion, the financial report of Snowy Hydro Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 3 July 2010 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stephen Gustafson

Stephen Gustafson
Partner
Chartered Accountants
Sydney, 25 August 2010

Snowy Hydro Limited

DIRECTORS' DECLARATION

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company and the consolidated entity.

(c) in the directors opinion, the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board as detailed in Note 1 to the financial statements.

At the date of this declaration, the Company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is a party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in note 28 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the *Corporations Act 2001*.

On behalf of the Directors

R Holliday-Smith
Chairman
Sydney, 25 August 2010

Terry V Charlton
Managing Director
Sydney, 25 August 2010

CONSOLIDATED INCOME STATEMENT
FOR THE REPORTING PERIOD ENDED 3 JULY 2010

		Consolidated	
	Notes	Period ended 3 July 2010 $M	Period ended 4 July 2009 $M
Revenue		781.9	711.0
Other income		5.0	4.4
Direct costs of revenue		(201.2)	(208.2)
Consumables and supplies		(51.9)	(47.5)
Employee benefits expense		(92.1)	(85.2)
Depreciation expense		(57.2)	(56.5)
Borrowing costs		(33.4)	(40.0)
Other expenses from ordinary activities		(31.0)	(30.2)
Profit before movements in fair value		320.1	247.8
Movements in fair value of derivatives	1(i)	60.5	52.3
Profit before income tax expense		380.6	300.1
Income tax expense	3	(113.7)	(88.2)
Profit attributable to members of the parent entity	2	266.9	211.9

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE REPORTING PERIOD ENDED 3 JULY 2010

		Consolidated	
	Notes	Period ended 3 July 2010 $M	Period ended 4 July 2009 $M
Cash flow hedges			
(Losses) Gains taken to equity		(1.4)	(0.1)
Income tax effect		0.4	-
Other Comprehensive Income (net of tax)		(1.0)	(0.1)
Profit for the period		266.9	211.9
Total comprehensive income for the period attributable to members of the parent entity		265.9	211.8

Notes to the financial statements are on pages 15 to 52.

CONSOLIDATED BALANCE SHEET
AS AT 3 JULY 2010

	Notes	Consolidated As at 3 July 2010 $M	Consolidated As at 4 July 2009 $M
Current Assets			
Cash and cash equivalents		19.4	43.3
Receivables	6	126.8	93.8
Inventories	7	11.9	10.4
Other financial assets	8	111.8	81.8
Other	9	12.2	12.8
Total Current Assets		282.1	242.1
Non Current Assets			
Deferred tax assets	3	264.4	287.3
Goodwill	10	79.3	79.3
Property, plant & equipment	11	1,789.3	1,778.8
Total Non Current Assets		2,133.0	2,145.4
Total Assets		2,415.1	2,387.5
Current Liabilities			
Payables	12	56.0	50.2
Tax payable	3	39.5	19.3
Provisions	13	30.1	24.9
Interest bearing liabilities	14	77.0	277.0
Other financial liabilities	15	271.3	252.1
Total Current Liabilities		473.9	623.5
Non Current Liabilities			
Interest bearing liabilities	16	221.2	219.7
Provisions	17	2.5	2.5
Total Non Current Liabilities		223.7	222.2
Total Liabilities		697.6	845.7
Net Assets		1,717.5	1,541.8
Equity			
Issued capital	19	816.1	816.1
Reserves	20	-	1.0
Retained profits		901.4	724.7
Total Equity		1,717.5	1,541.8

Notes to the financial statements are included on pages 15 to 52.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE REPORTING PERIOD ENDED 3 JULY 2010

	Consolidated			
	Issued Capital $M	Hedging Reserve $M	Retained Earnings $M	Total $M
Balance as at 29 June 2008	816.1	1.1	572.7	1,389.9
Profit for the period	-	-	211.9	211.9
Loss on cash flow hedges	-	(0.1)	-	(0.1)
Income tax relating to components of other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	(0.1)	211.9	211.8
Deferred consideration recognised directly in equity	-	-	0.1	0.1
Dividends Paid	-	-	(60.0)	(60.0)
Balance as at 4 July 2009	816.1	1.0	724.7	1,541.8
Balance as at 5 July 2009	816.1	1.0	724.7	1,541.8
Profit for the period	-	-	266.9	266.9
Loss on cash flow hedges	-	(1.4)	-	(1.4)
Income tax relating to components of other comprehensive income	-	0.4	-	0.4
Total comprehensive income for the period	-	(1.0)	266.9	265.9
Deferred consideration recognised directly in equity	-	-	(0.2)	(0.2)
Dividends Paid	-	-	(90.0)	(90.0)
Balance as at 3 July 2010	816.1	-	901.4	1,717.5

Notes to the financial statements are included on pages 15 to 52.

Snowy Hydro Limited

CONSOLIDATED CASH FLOW STATEMENT
FOR THE REPORTING PERIOD ENDED 3 JULY 2010

		Consolidated	
		Period ended	Period ended
		3 July 2010	4 July 2009
	Notes	$M	$M
Cash Flows from Operating Activities			
Receipts from customers		894.5	798.0
Payments to suppliers & employees		(458.0)	(423.6)
Interest received		1.6	1.2
Interest and other costs of finance paid		(34.5)	(37.9)
Income tax paid		(70.2)	(23.0)
Net Cash provided by Operating Activities	23	333.4	314.7
Cash Flows from Investing Activities			
Payments for property, plant & equipment		(67.6)	(58.4)
Proceeds from sale of property, plant & equipment		0.9	0.7
Net Cash Used in Investing Activities		(66.7)	(57.7)
Cash Flows from Financing Activities			
Repayment of borrowings		(200.0)	(168.0)
Payment of debt issue costs		(0.6)	(0.7)
Dividends paid	21	(90.0)	(60.0)
Net Cash Used in Financing Activities		(290.6)	(228.7)
Net (Decrease)/Increase in cash and cash equivalents		(23.9)	28.3
Cash and cash equivalents at Beginning of Period		43.3	15.0
Cash and cash equivalents at End of the Period		19.4	43.3

Notes to the financial statements are included on pages 15 to 52.

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1 Summary of Accounting Policies

Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and complies with other requirements of the law.

The financial report comprises the consolidated financial statements of the group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the financial statements and notes of the Company and the consolidated entity comply with International Financial Reporting Standards ("IFRS").

The financial statements were authorised for issue by the directors on 25 August 2010.

Basis of Preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars.

In the application of accounting policies, directors are required to make judgments, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of the accounting policies that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements. Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability thereby ensuring that the substance of the underlying transactions or other events is reported.

Adoption of new and Revised Accounting Standards

The consolidated entity has adopted all of the new and revised Standard and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in any material changes.

Amendments to AASB 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The consolidated entity has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

Accounting standards not yet effective

At the date of authorisation of the financial report the following Standards and Interpretations were in issue but not yet effective:

	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the reporting period ending
AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 January 2010	2 July 2011
AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions	1 January 2010	2 July 2011
AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues	1 February 2010	2 July 2011
AASB 124 Related Party Disclosures (revised December 2009), AASB 2009-12 Amendments to Australian Accounting Standards	1 January 2010	30 June 2012
AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9	1 January 2013	28 June 2014
AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	1 January 2011	30 June 2012
Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010	2 July 2011

The potential effect of the revised Standards and Interpretations on the consolidated entity's financial statements has not yet been determined.

Reporting Period

Reporting period has the same meaning as financial year for the purposes of the *Corporations Act 2001* (Cwlth). The reporting period 2010 refers to 5 July 2009 to 3 July 2010. The reporting period 2009 refers to 30 June 2008 to 4 July 2009.

Significant Accounting Policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Accounts Payable

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

(b) Acquisition of Assets

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

(c) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in income statement over the period of the borrowing using the effective interest rate method. Borrowing costs directly attributable to assets under construction are capitalised as part of those assets.

(d) Capitalisation

Expenditure is capitalised when it relates to:

- Acquisition and installation of a new unit of plant,
- Replacement of a unit of plant or of a substantial part of a unit of plant,
- An addition or alteration to a unit of plant which results in a significant improvement to its overall design or production capacity.

(e) Comparative amounts

Where necessary to facilitate comparison, prior year figures have been adjusted to conform with changes in presentation in the current financial year.

(f) Consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the Company (the parent entity) and its controlled entities as defined in Accounting Standard AASB 127 "Consolidated and Separate Financial Statements". A list of controlled entities appears in Note 28 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of each controlled entity from the date on which the Company obtains control and until such time as the Company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

Where the cost of the acquisition exceeded the fair value of the identifiable assets, liabilities and contingent liabilities, acquired goodwill has been recognised in the consolidated entity's balance sheet. On the acquisition of a business any excess of the fair value of assets and liabilities acquired over the cost of acquisition has been recognised in the consolidated entity's income statement before interest and tax as a profit on acquisition.

(g) Customer Acquisition Costs

Acquisition costs of retail electricity customers are expensed as incurred unless details of customers and/or customer lists are purchased from a third party.

(h) Depreciation

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation and amortisation rates and methods are reviewed at each balance date and calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The following estimated useful lives are used in the calculation of depreciation:

- *Buildings* — *10 - 50 years*
- *Leasehold improvements* — *4 years*
- *Infrastructure, plant and equipment*
  - *Electronic & mechanical equipment* — *5 - 50 years*
  - *Civil works* — *30 – 75 years*
  - *Mobile plant* — *3 – 20 years*
- *Operations software* — *5 - 8 years*
- *Commercial software* — *3 years*

(i) Derivative Financial Instruments

Snowy Hydro enters into a variety of electricity price risk hedging contracts with participants in the national electricity market, and gas price risk hedging contracts with participants in the gas market. Derivative financial instruments are also entered into to manage exposure to interest rate and foreign exchange risk, including forward foreign exchange contracts and interest rate swaps.

Derivative financial instruments are initially recognised at fair value on the date the contract is entered into and are subsequently adjusted to their fair value at each reporting date. The resulting gain or loss is recognised in the income statement immediately unless the contract is designated and effective as a hedging instrument, in which event the timing of the recognition in the income statement depends on the nature of the hedge relationship. Snowy Hydro designates certain derivative financial instruments as cash flow hedges (highly probable forecast transactions).

<u>Cash flow hedges entered into to manage interest rate and foreign exchange risk</u>

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion of changes in the fair value of derivatives is recognised immediately in the income statement.

Amounts deferred in equity are recognised in the income statement in the periods when the hedged item is recognised in the income statement. However, when the underlying forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the cost of the asset or liability recognised on the balance sheet.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in equity on the instrument at that time remains in equity and is recognised in the income statement when the underlying forecast transaction is ultimately recognised in the income statement. When an underlying forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity on the instrument is recognised immediately in the income statement.

Electricity and gas price risk hedging contracts

The prescriptive nature of AASB 139 precludes Snowy Hydro's price risk hedging contracts from being able to be designated and recognised as hedges. Consequently, all price risk hedging contracts are deemed to be trading instruments. As such all movements in the fair value of the price risk hedging contracts between reporting periods are recognised in the income statement as "Movements in fair value of derivatives". Financial assets or liabilities held for trading are classified as a current asset or a current liability.

Further details of derivative financial instruments are disclosed in note 30 to the financial statements.

(j) Employee Benefits

Benefits accruing to employees in respect of salaries, annual leave and long service leave are recognised when it is probable that settlement will be required and they are capable of being measured reliably. Severance benefits for employees are recognised where the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. Unpaid salaries are measured as the amount at the reporting date at current pay rates.

Provisions made in respect of annual leave, long service leave, incentive payments and severance benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of long service leave and annual leave which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

Employee entitlements that have vested including annual leave and long service leave (where the employee has passed the required years of service) are presented as a current provision. Sick leave is non-vesting and therefore the cost is expensed as incurred.

Snowy Hydro's incentive payment schemes include certain components that are dependant upon future results. Only those components of incentive payments that can be considered probable of being settled, relate to past services and can be reliably measured are included in the provision amount.

Employees of the Company are members of a variety of superannuation funds covering both accumulation and defined benefit arrangements. The defined benefit funds are:

- Commonwealth Superannuation Scheme
- Public Sector Superannuation Scheme

- Energy Industries Superannuation Scheme

These plans are considered to be multi employer state plans under AASB 119 "Employee Benefits" and therefore contributions made to these plans are expensed when incurred.

Contributions to defined contribution superannuation funds are expenses when incurred.

In all cases, the funds are complying funds and the level of support provided equals or exceeds the minimum level of support required under the relevant legislation.

(k) Foreign Currency

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction unless they are transactions entered into in order to hedge the purchase of specific goods and services. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date. Exchange differences are recognised in the income statement in the period in which they arise except as follows:

In relation to highly probable forecast transactions (cash flow hedges):

- The effective portion of changes in fair value of derivatives are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.
- Amounts deferred in equity are recognised in profit or loss in the periods when the hedged items are recognised in profit or loss or if the forecast transaction is in relation to the purchase of property plant and equipment will be recognised in work-in-progress and capitalised when the asset commences production.

Hedge accounting is discontinued when the hedging instrument expires or is sold or no longer qualifies for hedge accounting. Financial assets or liabilities relating to foreign currency hedges are classified as current assets or current liabilities.

(l) Going Concern

These financial statements have been prepared on a going concern basis. The Directors have reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

In the current reporting period, current liabilities are greater than current assets mainly due to a portion of interest-bearing debt falling due in 2011 as disclosed in note 14 and because of the effect of movements in fair value of financial derivatives as disclosed in note 15. Having considered the expected future cashflows from operating activities, the ability of the consolidated entity to draw upon existing financing facilities, and preliminary indications on the likelihood of a successful refinancing of the debt maturing in 2011, the directors believe that preparation of this financial report on a going concern basis is appropriate in the current business environment.

(m) Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired. It is recognised as an asset and not amortised, but tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

(n) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST payable to the taxation authority is included as part of receivables or payables. Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(o) Government Grants

Government grants are assistance by the government in the form of transfers of resources to the consolidated entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants are not recognised until there is reasonable assurance that the consolidated entity will comply with the conditions attaching to them and the grants will be received. The grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate.

(p) Impairment of Assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the income statement immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the income statement immediately.

(q) Income Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where Snowy Hydro is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Tax consolidation

The Company and all of its wholly-owned Australian resident entities are part of a tax consolidated group under Australian taxation law. Snowy Hydro is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'stand alone taxpayer' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group). Due to the existence of a tax funding arrangement between the entities in the tax consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement.

(r) *Inventories*

Inventories are valued at the lower of cost and net realisable value.

(s) *Investments*

Investments in controlled entities are recorded at cost in the parent entity financial statements.

(t) *Leased Assets*

Operating lease payments are recognised as an expense on a basis which reflects the pattern in which economic benefits from the leased asset are consumed.

(u) *Non Derivative Tradeable Assets*

Non derivative tradeable assets, including Renewable Energy Certificates ("RECs"), NSW Greenhouse Gas Abatement Certificates ("NGACs") and GreenPower are instruments that can be traded on an open market. Non derivative tradeable assets are recognised at fair value in the balance sheet when it is probable that the economic benefits embodied in the assets will eventuate and the assets possess a value that can be reliably measured. Non derivative tradeable assets are recorded at their fair value based on market prices, with gains and losses realised from the sale of non derivative tradeable assets and unrealised fair value adjustments reflected in the income statement.

(v) *Provisions*

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the entity has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

(w) *Receivables*

Trade receivables and other receivables are recorded at amounts due less any allowance for doubtful debts.

(x) *Revenue Recognition*

Sale of Goods

Revenue from the sale of goods is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership.

Electricity and related products

Revenue from sales of electricity generation on the spot market is recognised when the generation is dispatched to the Australian Energy Market Operator Ltd (i.e. when control has passed to the buyer).

Revenue from the sales of retail electricity is recognised with respect to any customer when the customer has been assigned to the Company by the Australian Energy Market Operator Ltd. The revenue recognised is based on estimated metered usage or actual metered usage.

Interest

Interest revenue is recognised on an accrual basis.

	Period ended 3 July 2010 $M	Period ended 4 July 2009 $M
2 Profit from Operations		

(a) Revenue / Other Income

Revenue and other income from continuing operations includes the following items:

	Period ended 3 July 2010 $M	Period ended 4 July 2009 $M
Revenue from the sale of goods	779.8	711.1
(Decrease) / Increase in non-derivative tradeable assets	(0.9)	(0.1)
Settlement of litigation	3.0	-
Government grants received for staff training	0.1	-
Government grants received for renewable energy initiatives	0.6	1.5
Other	2.7	1.8
Interest income	1.6	1.1
	786.9	715.4

In the 2010 reporting period Snowy Hydro settled a legal dispute which was included in Revenue from the sale of goods as the amounts received were in compensation for revenue foregone.

(b) Profit before income tax

Profit/ (loss) before income tax has been arrived at after crediting /(charging) the following gains and losses from operations:

	Period ended 3 July 2010 $M	Period ended 4 July 2009 $M
(Loss) on disposal of property, plant and equipment	(0.1)	(0.6)
Change in fair value of derivatives classified as trading through profit or loss	69.6	52.3
Hedge ineffectiveness on cash flow hedges	(9.1)	-
Direct costs of revenue	(201.2)	(208.2)
Interest on loans	(33.4)	(40.0)
Bad and doubtful debts from sales	(4.4)	(3.2)
Depreciation and amortisation of non-current assets	(57.2)	(56.5)
Operating lease rental expenses		
Lease payments	(3.1)	(3.0)
Employee benefits expense		
Defined contribution plans	(3.4)	(3.3)
Defined benefit plans	(3.7)	(3.5)
	(7.1)	(6.8)

	Period ended 3 July 2010 $M	Period ended 4 July 2009 $M
3 Income taxes		

(a) Income tax recognised in profit or loss

Current tax (expense) / income	(90.4)	(53.6)
Deferred tax (expense) /income relating to the origination and reversal of temporary differences	(23.3)	(34.6)
Total tax (expense)/income	(113.7)	(88.2)

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

Profit from operations	380.6	300.1
Tax (expense)/income calculated at 30%	(114.2)	(90.0)
Prior year adjustments	(0.2)	2.1
Non-deductible expenses	(0.1)	(0.4)
Tax break investment allowance	0.8	0.1
	(113.7)	(88.2)

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

(b) Current tax liabilities

Income tax payable	39.5	19.3

(c) Deferred tax balances

Deferred tax balances comprise of:		
Tax losses	1.3	1.4
Temporary differences	263.1	285.9
	264.4	287.3

Snowy Hydro and its wholly-owned Australian resident entities are eligible to consolidate for tax purposes and elected to be taxed as a single entity from 1 July 2003. The head entity in the tax consolidated group for the purposes of the tax consolidation system is Snowy Hydro Ltd. Entities within the tax consolidated group are listed in note 28.

Entities in the group have entered into a tax funding arrangement with the head entity.

3 (d) Income taxes (continued)	Opening Balance $M	Charged to Income $M	Charged to equity $M	Other $M	Closing Balance $M
2009					
Gross deferred tax liabilities					
Property plant and equipment	-	-	-	-	-
Capitalised interest	-	-	-	-	-
Non derivative trading instruments	3.6	(0.4)	-	-	3.2
Other	6.9	(0.9)	-	7.2	13.2
Balance as at 4 July 2009	10.5	(1.3)	-	7.2	16.4
Gross deferred tax assets					
Property plant and equipment	262.3	(18.4)	-	0.2	244.1
Provisions	6.7	0.3	-	0.1	7.1
Derivative financial instruments	62.8	(11.1)	-	-	51.7
Unutilised tax losses	-	-	-	1.4	1.4
Other	1.4	(3.9)	-	1.9	(0.6)
Balance as at 4 July 2009	333.2	(33.1)	-	3.6	303.7
2010					
Gross deferred tax liabilities					
Property plant and equipment	-	-	-	-	-
Capitalised interest	-	-	-	-	-
Non derivative trading instruments	3.2	(0.8)	-	-	2.4
Other	13.2	1.2	-	0.1	14.5
Balance as at 3 July 2010	16.4	0.4	-	0.1	16.9
Gross deferred tax assets					
Property plant and equipment	244.0	(16.9)	-	0.3	227.4
Provisions	7.1	1.2	-	0.5	8.8
Derivative financial instruments	51.7	(8.5)	0.4	-	43.6
Unutilised tax losses	1.4	(0.1)	-	-	1.3
Other	(0.6)	(0.2)	-	1.0	0.2
Balance as at 3 July 2010	303.6	(24.5)	0.4	1.8	281.3

		Period ended 3 July 2010	Period ended 4 July 2009
4	**Key management personnel remuneration**	**$**	**$**

The aggregate compensation of key management personnel of the consolidated entity is set out below:

	Period ended 3 July 2010 $	Period ended 4 July 2009 $
Short-term employee benefits	9,781,427	8,676,667
Post-employment benefits	786,126	699,530
Other long-term employee benefits	11,430	380,888
	10,578,983	9,757,085

		Period ended 3 July 2010 $	Period ended 4 July 2009 $
5	**Remuneration of auditors**		
	Auditor of parent entity		
	Audit or review of the financial report	308,625	308,625
	Other non-audit services		
	Taxation services	135,009	101,661
	Other non-audit services	-	-
		443,634	410,286

		As at 3 July 2010 $M	As at 4 July 2009 $M
6	**Current trade and other receivables**		
	Trade receivables	127.5	91.1
	Other receivables	2.2	3.7
	Allowance for doubtful debts	(2.9)	(1.0)
		126.8	93.8
7	**Inventories**		
	Inventories at cost	11.9	10.4
8	**Other current financial assets**		
	At fair value		
	Foreign currency and interest rate contracts	0.1	1.5
	Option fee contracts	19.8	9.3
	Electricity price risk hedging contracts	91.9	71.0
		111.8	81.8
9	**Other current assets**		
	Prepayments	4.0	2.2
	Tradeable assets	8.2	10.6
		12.2	12.8
10	**Goodwill**		
	Net book value		
	At the beginning of the reporting period	79.3	79.3
	Additional amounts recognised	-	-
	At the end of the reporting period	79.3	79.3

Further information about goodwill is provided in note 24.

11 Property, plant and equipment

	Freehold Land at Cost $M	Buildings at Cost $M	Software at Cost $M	Leasehold Improvements at Cost $M	Plant and Equipment at Cost $M	Construction in Progress $M	Total $M
Gross carrying amount							
Balance as at 29 June 2008	26.0	39.9	28.3	2.0	1,893.5	48.7	2,038.4
Transfer	(0.6)	0.6	-	-	-	-	-
Additions	-	0.6	2.2	-	34.5	21.3	58.6
Disposals	(0.5)	-	(3.3)	-	(2.2)	-	(6.0)
Balance as at 4 July 2009	24.9	41.1	27.2	2.0	1,925.8	70.0	2,091.0
Transfer	-	-	-	-	-	-	-
Additions	-	0.4	2.7	0.2	76.0	(10.5)	68.8
Disposals	(0.1)	(0.2)	-	-	(2.3)	-	(2.6)
Balance at 3 July 2010	24.8	41.3	29.9	2.2	1,999.5	59.5	2,157.2
Accumulated Depreciation /Amortisation							
Balance as at 29 June 2008	-	(5.8)	(20.2)	(1.1)	(233.2)	-	(260.3)
Disposals	-	-	3.3	(0.1)	1.4	-	4.6
Depreciation expense	-	(1.3)	(3.1)	(0.3)	(51.8)	-	(56.5)
Balance as at 4 July 2009	-	(7.1)	(20.0)	(1.5)	(283.6)	-	(312.2)
Disposals	-	-	-	-	1.5	-	1.5
Depreciation expense	-	(1.2)	(3.2)	(0.2)	(52.6)	-	(57.2)
Balance at 3 July 2010	-	(8.3)	(23.2)	(1.7)	(334.7)	-	(367.9)
Net Book Value							
As at 4 July 2009	24.9	34.0	7.2	0.5	1,642.2	70.0	1,778.8
As at 3 July 2010	24.8	33.0	6.7	0.5	1,664.8	59.5	1,789.3

	Period ended 3 July 2010 $M	Period ended 4 July 2009 $M
11 Property plant and equipment (cont'd)		
Aggregate depreciation charged as an expense:		
Buildings	(1.2)	(1.3)
Leasehold improvements	(0.2)	(0.3)
Plant and Equipment	(55.8)	(54.9)
	(57.2)	(56.5)
12 Current trade and other payables		
Trade payables	47.6	37.8
Other payables	5.4	8.8
Goods and services tax payable	3.0	3.6
	56.0	50.2
13 Current provisions		
Employee benefits	29.7	24.7
Public liability legal claim	0.3	-
Workers compensation	0.1	0.2
	30.1	24.9

For the 2010 reporting period, employee benefits provisions are for employee leave and that portion of incentive scheme provisions which is due and payable.

14 Current Interest bearing liabilities		
Unsecured		
Bonds	-	277.0
Bank loans	77.0	-
	77.0	277.0
15 Current financial liabilities		
At fair value		
Foreign currency and interest rate contracts	9.1	-
Option fee contracts	187.4	182.5
Electricity price risk hedging contracts	74.8	68.0
Gas price risk hedging contracts	-	1.6
	271.3	252.1

	As at 3 July 2010 $M	As at 4 July 2009 $M
16 Non current interest bearing liabilities		
Unsecured		
Bonds	221.2	219.7

17 Non current provisions		
Employee benefits	2.4	2.3
Workers compensation	0.1	0.2
	2.5	2.5

18 Movement in provisions	Workers Compensation $M	Insurance Payment $M
Balance at the beginning of the reporting period	0.4	-
Additional provisions recognised	-	0.3
Reductions from payments	(0.2)	-
Balance at the end of the reporting period	0.2	0.3
Current (Note 13)	0.1	0.3
Non Current (Note 17)	0.1	-
Balance at the end of the reporting period	0.2	0.3

19 Issued capital	As at 3 July 2010 $M	As at 4 July 2009 $M
200,000,000 fully paid ordinary shares	816.1	816.1

	2010	
	No 'M	$M
Fully paid ordinary shares		
Balance at the beginning of the reporting period	200.0	816.1
Issue of shares	-	-
Balance at the end of the reporting period	200.0	816.1

Fully paid ordinary shares carry one vote per share and are eligible for dividends if declared.

20 Reserves	As at 3 July 2010 $M	As at 4 July 2009 $M
Hedging Reserves		
Balance at the beginning of the reporting period	1.0	1.1
Gains/(loss) recognised:		
Currency swaps	0.1	0.7
Interest rate swaps	(1.5)	(0.8)
Deferred tax arising on hedges	0.4	-
Balance at the end of the reporting period	-	1.0

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges.

21 Dividends	2010	
Fully paid ordinary shares	**Cents per share**	**Total $M**
Dividend fully franked	45.0	90.0
Franking account balance		118.6

	2009	
Fully paid ordinary shares	**Cents per share**	**Total $M**
Dividend fully franked	30.0	60.0
Franking account balance		109.6

22 Commitments for expenditure	As at 3 July 2010 $M	As at 4 July 2009 $M
(a) Capital expenditure commitments		
Plant and equipment		
Not longer than 1 year	34.5	35.3
Longer than 1 year and not longer than 5 years	28.8	18.8
	63.3	54.1
(b) Lease commitments		
Operating lease commitments		
Not longer than 1 year	2.9	3.1
Longer than 1 year and not longer than 5 years	9.0	8.4
Longer than 5 years	63.6	54.8
	75.5	66.3

The lease of office premises in Melbourne commenced in 2004 for a period of 7 years with a rent escalation of 3.5% per annum. Land leased in Melbourne for the site of the Laverton North Power Station commenced in 2005 for a period of 30 years with a rent escalation based on the consumer price index. Both the Blowering land lease and the Kosiuzsko National Park lease commenced in 2002 for a period of 75 years. Rent is escalated by the consumer price index subject to five yearly rent reset reviews. The lease of office premises in Sydney commenced in 2006 and expires in 2012. Rent is escalated at the rate of 4.25% per annum. There are no restrictions imposed by any operating lease.

(c) Other expenditure commitments	As at 3 July 2010 $M	As at 4 July 2009 $M
Not longer than 1 year	5.8	2.0
Longer than 1 year and not longer than 5 years	0.8	2.4
	6.6	4.4

23 Notes to the cash flow statement

	Period ended 3 July 2010 $M	Period ended 4 July 2009 $M

(a) Reconciliation of Cash

For the purposes of the statement of cash flows, cash includes cash on hand, in banks and deposits on call with brokers. Cash at the end of the financial year, as shown in the statement of cash flows, is reconciled to the related items in the balance sheet as follows:

	3 July 2010 $M	4 July 2009 $M
Cash and cash equivalents	4.3	7.4
Deposits with broker or bank	15.1	35.9
	19.4	43.3

(b) Financing facilities

	3 July 2010 $M	4 July 2009 $M
Unsecured debt facilities with various maturity dates through to 2013		
Amount used	298.2	496.7
Amount unused	373.0	375.0
	671.2	871.7
Short term money market funds		
Amount used	-	-
Amount unused	30.0	30.0
	30.0	30.0

(c) Reconciliation of profit for the period to net cash flows from operating activities

	3 July 2010 $M	4 July 2009 $M
Profit for the period	266.9	211.9
(Profit)/loss on sale of non current assets	0.1	0.6
Mark to market movements direct to equity	(1.4)	(0.1)
Depreciation and amortisation of non current assets	59.0	58.6
Increase/(decrease) in current tax balances	20.1	29.7
Decrease/(increase) in deferred tax balances	23.3	35.4
(Increase)/decrease in assets:		
Current receivables	(33.0)	(1.7)
Current inventories	(1.5)	(0.9)
Current financial assets	(29.9)	(10.9)
Other current assets	0.6	5.1
Increase/(decrease) in liabilities:		
Current payables	4.8	11.2
Other current financial liabilities	19.2	(26.1)
Current provisions	5.2	1.6
Non current provisions	-	0.1
Non current debt liabilities	-	0.2
Net cash from operating activities	333.4	314.7

24 Goodwill

The consolidated entity recognised goodwill from the acquisition of Valley Power and associated companies in October 2005. All assets in the consolidated entity comprise one single cash generating unit. All goodwill arises from the portfolio effects of Valley Power in conjunction with the other assets in the Snowy scheme.

During the financial year, the consolidated entity assessed the recoverable amount of the cash generating unit and determined that no impairment existed. The recoverable amount of the cash generating unit has been determined based on a value in use calculation of an asset with an indefinite life. The corporate valuation model provides for a 20 year projection of revenue, operating and capital expenditure, financing activities and taxation. This projection term reflects the perpetual nature of the Snowy Hydro assets and also provides for a realistic pattern of replacement capital expenditure over the projection term.

In accordance with the accounting standard, the recoverable amount test discounts un-geared, pre-tax real asset cash flows (including routine maintenance and refurbishment capital expenditure), at a pre-tax real WACC of 7.53% (2009: 8.07%). These cash flows do not include any planned development capital expenditure or the revenues that may relate to such expenditure. The valuation includes a terminal value calculated by assuming that the final year's cash flow is maintained in perpetuity (in real terms) and discounted to the valuation date using the same pre-tax real WACC noted above.

The recoverable amount is most sensitive to changes in the following assumptions:

Sensitivity	**Management's approach to determining the value**	Growth rate
Forward market price projections for spot, contract and option premium revenue	Spot and contract revenue projections are consistent with Snowy Hydro's recent performance and are based on forward market curves from ICAP. Capacity pricing (i.e. option premium income and difference payments made under the contracts) is based on a blended combination of ICAP and Snowy Hydro's assessment of long-term pricing based on new-entrant modelling.	Zero real growth in prices
Water inflows	The water inflow sequence underlying the projections reflects the expectation that 2011 inflows will be below-average and that future average inflows will thereafter trend back towards, but be lower than, past experience. The starting water storage levels are also reflected in the projections.	Not applicable
Capital expenditure	Capital expenditure is derived from Snowy Hydro's long-term capital asset planning model and includes all expenditure relating to existing assets.	Zero real growth in prices

25 Defined benefit superannuation plans

Name of Plan	Accrued Benefits $M	Net Market Value of Assets $M	(Deficiency)/ Surplus $M	Vested Benefits $M
Commonwealth Superannuation Scheme ("CSS")	65,300.0	4,741.4	(60,558.6)	64,800.0
Public Sector Superannuation Scheme ("PSS")	32,300.0	9,992.1	(22,307.9)	43,200.0
Energy Industries Superannuation Scheme Pool B ("EIS")	1,674.2	1,603.5	(70.6)	1,314.5

These plans are government and industry-wide schemes, and membership relating to Snowy Hydro's employees represents less than 0.05% of the membership of each scheme.

The difference between the accrued benefits and net market value of plan assets has not been recognised in the financial statements. Any unfunded component in CSS and PSS would be financed, by the Commonwealth, from the Consolidated Revenue Fund at the time such superannuation benefits are payable. It is to be expected that, to redress the current under-funded balances, the superannuation fund contribution rates of fund members (including Snowy Hydro) will increase in the future. It is not possible to predict at this time when, and to what extent, Snowy Hydro's contribution rate may change.

Net market value of assets and vested benefits were determined with reference to the most recent financial statements and actuarial reviews, being:

Name of Plan	Date of Financial Statements	Date of Actuarial Review
CSS	30 June 2009	30 June 2005
PSS	30 June 2009	30 June 2005
EIS	30 June 2009	30 June 2006

26 Contingent liabilities

Snowy Hydro is involved in various legal proceedings arising out of the normal course of business. The Directors believe that the outcome of these proceedings will not have a material impact on Snowy Hydro's financial position or results of operations. Contingent liabilities of the consolidated entity as at 3 July 2010 are:

(a) Ongoing contingent liabilities are represented by:

- claims lodged with the Dust Diseases Tribunal which were unresolved as at that date. Snowy Hydro has not accepted liability on those claims. At the reporting date, two matters were before the Tribunal. Subsequently, a consent judgement was made in respect of one matter resulting in a liability of $229,000 being paid by the Company in August 2010.
- Snowy Hydro has entered into a number of bank guarantees in relation to operating within the national electricity market and for rental properties in Sydney and Melbourne to the value of $16.9 million (2009: $23.1 million).

(b) Liability for Former Scheme Sites has been extinguished except to the extent of any contaminated former sites. These contaminated sites are being rehabilitated as they are identified. The consolidated entity does not believe that the contingent liability on any sites identified in the future would be material.

27 Contingent asset

On 17 October 2005, Snowy Hydro purchased the Valley Power gas fired generation power station. The cost of acquisition was $242.4 million. Snowy Hydro commissioned an independent party to apportion the purchase price to, amongst other categories, Land and Fixtures. The valuation determined that the valuation for Land and Fixtures was $15.7 million. This meant the acquisition was not designated land rich and no stamp duty was payable. The Victorian State Revenue Office disagreed with this assessment and issued a letter requesting payment of $9.2 million, which included $1.9 million of penalty taxes and interest. Snowy Hydro made the payment but lodged a formal objection to the assessment, with the aim of recovering the full amount. Snowy Hydro has taken reasonable care in obtaining valuations and legal advice in determining whether or not it was liable for stamp duty and lodged a land acquisition statement before any investigation was commenced by the Victorian State Revenue Office. On these grounds, Snowy Hydro believes that at least the penalty and interest will be recoverable but continues to pursue recovery of the full amount.

A finding by the Supreme Court of Victoria handed down in May 2010 was in favour of Snowy Hydro. However, the Victorian State Revenue Office lodged an appeal against this finding in June 2010. Resolution of the appeal by the Victorian Court of Appeal is not expected before mid 2011.

28 Controlled entities

Name of Entity	Country of Incorporation	Ownership Interests	
		2010 %	2009 %
Parent Entity			
Snowy Hydro Limited (b)	Australia	-	-
Controlled Entities			
Snowy Hydro Trading Pty Ltd (c)	Australia	100	100
Red Energy Pty Ltd (a) (c)	Australia	100	100
Latrobe Valley BV (c)	Netherlands	100	100
Valley Power Pty Ltd (c)	Australia	100	100
Contact Peaker Australia Pty Ltd (c)	Australia	100	100

The entity listed below was deregistered with effect from 21 June 2010.

Contact Peaker NZ Ltd (c)	New Zealand	100	100

(a) Red Energy has entered into a deed of cross guarantee with Snowy Hydro pursuant to ASIC Class Order 98/1418 and is relieved from the requirement to prepare and lodge an audited financial report.
(b) SHL is the head entity within the tax consolidated group.
(c) These companies are members of the tax consolidated group.

The consolidated income statement and balance sheet of the entities which are party to the deed of cross guarantee are:

INCOME STATEMENT

Parties to the Deed of Cross Guarantee

	Period ended 3 July 2010	Period ended 4 July 2009
	$M	$M
Revenue	755.9	681.3
Other income	9.5	10.4
Direct costs of revenue	(198.6)	(199.9)
Consumables and supplies	(51.8)	(47.3)
Employee benefits expense	(92.1)	(85.2)
Depreciation expense	(49.8)	(49.7)
Borrowing costs	(33.4)	(40.0)
Other expenses from ordinary activities	(31.2)	(30.2)
Profit before movements in fair value	308.5	239.4
Movements in fair value of derivatives	53.8	45.2
Profit before income tax expense	362.3	284.6
Income tax expense	(108.8)	(83.5)
Profit attributable to members of the parent entity	253.5	201.1

BALANCE SHEET

Parties to the Deed of Cross Guarantee

	As at 3 July 2010 $M	As at 4 July 2009 $M
Current Assets		
Cash and cash equivalents	19.4	43.3
Receivables	126.8	93.8
Inventories	11.9	10.4
Other financial assets	111.8	81.8
Other	12.2	12.8
Total Current Assets	282.1	242.1
Non Current Assets		
Other financial assets	220.5	225.6
Deferred tax assets	262.4	284.9
Property, plant and equipment	1,654.6	1,651.4
Total Non Current Assets	2,137.5	2,161.9
Total Assets	2,419.6	2,404.0
Current Liabilities		
Payables	56.0	50.2
Provisions	30.1	24.9
Tax payable	39.5	19.3
Interest bearing liabilities	77.0	277.0
Other financial liabilities	262.6	242.0
Total Current Liabilities	465.2	613.4
Non Current Liabilities		
Interest bearing liabilities	221.2	219.7
Provisions	2.5	2.5
Total Non Current Liabilities	223.7	222.2
Total Liabilities	688.9	835.6
Net Assets	1,730.7	1,568.4
Equity		
Issued capital	816.1	816.1
Reserves	-	1.0
Retained profits	914.6	751.3
Total Equity	1,730.7	1,568.4

29 Related party disclosures

The names of directors of Snowy Hydro Limited at any time during the year were: T V Charlton, R D Hogg, D J Klingberg, R Holliday-Smith, B A Hogan, B R Brook, and P S Lowe. T V Charlton is the sole director of Snowy Hydro Trading Pty Limited, Latrobe Valley BV, Contact Peaker Australia Pty Limited, and Valley Power Pty Limited. T V Charlton, I Graham, N Tufedgzic and P S Lowe are directors of Red Energy Pty Limited. K N W Harper ceased as a director of Red Energy Pty Limited in May 2009.

(a) Equity Interests In Related Parties

Detail of the percentage of ordinary shares held in controlled entities is disclosed in note 28 to the financial statements.

(b) Key Management Remuneration

Detail of key management remuneration is disclosed in note 4 to the financial statements.

(c) Directors' and Specified Executive Loans

No loans were made nor are any outstanding between the consolidated entity and any director or director related entities.

(d) Directors' Equity Holdings

No shares or options of the consolidated entity are held by any director or director related entities.

(e) Other Transactions With Directors

No other transactions, other than that in the ordinary course of business on commercial terms, have been entered into between the consolidated entity and any director or director related entities.

(f) Transactions Within the Wholly-Owned Group

The wholly-owned group includes:

- The ultimate parent entity in the wholly-owned group; and
- Five wholly-owned controlled entities.

The ultimate parent entity in the wholly-owned group is Snowy Hydro Limited.

During the financial year Snowy Hydro provided management, accounting and administrated services to its controlled entities other than Valley Power on a cost free basis. Snowy Hydro also provides all personnel, operational and management services to Valley Power on a cost basis. All intercompany balances are at call, but the directors have declared that they are not expected to be called in the current period. The balance of intercompany loans owed by controlled entities to the parent entity as at 3 July 2010 was $171.2 million (2009 $175.8M).

30 Financial instruments

The Company's Treasury and Portfolio management functions provide services to the business to monitor and manage risks relating to national electricity market outcomes, interest rates, foreign exchange movements, credit exposures and liquidity, as they arise in the normal course of operations of the consolidated entity. The Company seeks to control exposures to these risks while aiming to maximise the business's returns. The Company is active in the use of derivative financial instruments to hedge these risk exposures. The use of financial derivatives and the level of exposures are governed by the Company's risk management policies and procedures, which are approved by the Board of directors. Compliance with these policies and procedures and with exposure limits is reviewed by both management and Board risk committees on a regular basis. Any breaches are recorded in a breach register by the compliance manager and investigated by these committees.

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, with respect of each class of financial asset and liability and equity, are disclosed in note 1 to these statements.

(a) Categories of financial assets and liabilities

Category	Consolidated Period ended 3 July 2010 $M	Consolidated Period ended 4 July 2009 $M
Current		
Financial assets		
Cash & cash equivalents	19.4	43.3
Trade receivables	124.6	90.1
Other financial assets	111.8	81.8
Financial liabilities		
Trade payables	47.6	37.8
Other financial liabilities	271.3	252.1
Interest bearing liabilities	77.0	277.0
Non current		
Financial liabilities		
Interest bearing liabilities	221.2	219.7

1 Capital risk management instruments

(i) Debt

Snowy Hydro manages its capital to ensure that all entities in the Group will be able to continue operating as a going concern, by targeting the maintenance of a strong BBB credit rating (issued by Standard & Poor's). The capital structure of the Group consists of debt, which includes borrowings disclosed in notes 14 and 16, cash and cash equivalents and equity attributable to the equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the Statement of Changes in Equity.

The Company's capital structure is reviewed on a regular basis. As part of this review, the Board Audit and Compliance Sub-committee ("the Committee") considers the cost of capital and the risks and structure of the Company's debt on an annual basis. Snowy Hydro has several debt service benchmarks, primary among which is the Funds Flow from Operations ("FFO") to Debt ratio. Other benchmarks include the FFO to Interest ratio and a gearing ratio, determined as the ratio of the consolidated entity's senior debt to debt and shareholders funds.[1] Based on the recommendations of the Committee and resolutions of the Board, the Company will balance its capital structure through the payment of dividends, the redemption of existing debt and the drawdown on uncommitted facilities.

The gearing ratio, as defined by Snowy Hydro's negative pledge, at the end of each of the reporting periods was as follows:

[1] These are the headline rating parameters used by Standard & Poor's as the basis for considering Snowy Hydro's credit standing and hence its credit rating. The final rating assigned by Standard & Poor's is determined through the review of numerous business parameters and also with reference to the Company's operating (industry) environment.

Category	Consolidated Period ended 3 July 2010 $M	Consolidated Period ended 4 July 2009 $M
Debt[1]	298.2	496.7
Add back transaction costs	1.8	3.3
Senior debt	300.0	500.0
Equity[2]	1,717.5	1,541.8
Less goodwill	(79.3)	(79.3)
Shareholders' funds	1,638.2	1,462.5
Gearing (debt/(debt+equity))	15%	25%

1 Debt is defined as interest bearing borrowings as detailed in notes 14 and 16.

2 Equity includes all capital and reserves.

Snowy Hydro's operations are funded by mix of fixed and floating interest rate debt, consisting of bonds maturing February 2013, revolving loan facilities of durations up to August 2012 and funds on call. Further revolving facilities are currently being negotiated to replace facilities scheduled to expire in November 2010. Cash and debt positions are detailed in note 23. The interest rates applicable to the financial assets and liabilities are listed in the interest rate risk section below.

For floating rate financial assets and liabilities with interest rate resets of six months' duration or less, and short term non interest-bearing financial assets and liabilities, the fair value is considered to approximate the carrying value.

The fair values of financial assets and liabilities with fixed interest rates are derived from market quoted interest rates that are incorporated into generally applied discounted cash flow models. Other than fixed rate debt on the balance sheet of $104.0 million (June 2009 $254.0 million), there are no financial assets or liabilities whose carrying value do not approximate fair value. The fair value of fixed rate debt was $6.9 million lower than that recorded on the balance sheet as at 3 July 2010, compared to $8.3 million lower than that on the balance sheet as at 4 July 2009.

(ii) Foreign exchange contracts

It is the policy of the consolidated entity to enter into forward foreign exchange contracts to hedge material foreign currency payments when the consolidated entity has entered a contract to purchase goods or services. Forward foreign exchange contracts are designated as cash flow hedges at inception and tested for effectiveness at each reporting date. Accounting for cash flow hedges is described in note 1(i).

The table below details the forward currency contracts that existed as at 3 July 2010. No forward currency contracts existed at the reporting date of 4 July 2009.

Consolidated	Average Exchange Rate 2010	Principal Amount 2010 $M
Buy Japanese Yen		JPY
6 to 12 months	77.13	53.3
1 to 2 years	67.16	216.0
2 to 5 years	65.7	729.7

The fair value was obtained from the counterparty to the transaction as the counterparty was a recognised market maker in foreign exchange contracts. The fair value of these instruments as at 3 July 2010 was an asset of $0.1 million.

Where appropriate, a sensitivity analysis is undertaken based on the exposure to exchange rates for each of the derivative instruments. Exchange rate movements that refer to the historical volatility experienced by the particular currencies are used as the basis for the sensitivity analysis.

(iii) Interest rate swaps

Snowy Hydro has entered into interest rate swaps to manage its exposure to floating interest rates between 2010 and 2019. The purpose of these swaps was, and remains, to effectively fix the interest rate for a further portion of the debt portfolio for six years beyond the maturity of the current outstanding fixed rate debt. The proportion of the debt portfolio that is required to be hedged is subject to periodic review. These interest rate swaps were designated as cash flow hedges at inception. In 2010, these interest rate swaps were redesignated as trading contracts as floating rate debt levels have fallen to a level lower than the volume of the hedging contracts held. Accounting for cash flow hedges is described in note 1(i).

The following table details the outstanding interest rate swaps at reporting date.

	Average Interest Rate		Notional Principal Amount	
	2010	2009	2010	2009
Consolidated	%	%	$M	$M
Interest rate swaps	5.91	5.91	400.0	400.0

The fair value of interest rate swaps is obtained from the counterparty to the transaction, provided the counterparty is a recognised market maker in interest rate swaps. The fair value of these instruments as at 3 July 2010 was a liability of $9.1 million compared to an asset of $1.5 million as at 4 July 2009. No new contracts were entered into in 2010.

A sensitivity analysis has been undertaken and is based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date, with the stipulated change taking place at the beginning of the financial period and held constant throughout the reporting period. As at reporting date, if interest rates had been 150 basis points higher or lower and all other variables were held constant, Snowy Hydro's:

(a) Net profit before tax would decrease, at interest rates 150 bps higher, or increase, at 150 bps lower, by $3.6 million (the 2009 sensitivity was $4.7 million). This is attributable to Snowy Hydro's exposure on its variable rate borrowing.

(b) Net profit before tax would increase, at interest rates 150 bps higher, or decrease, at 150 bps lower, by $2.8 million. This is attributable to changes in the fair value of Snowy Hydro's interest rate swap contracts.

2 Market risk management instruments

Snowy Hydro uses financial instruments as an integral part of conducting its revenue generating activities.

Snowy Hydro's strategy is to contract a portion of its generation capacity to limit the wide variations in Revenue and Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA") that would arise if all generation was subject to spot market outcomes. This strategy provides a risk management service to national electricity market participants and is structured to maximise revenue in the medium to long term and provide more certain coverage of Snowy Hydro's fixed costs in any given year. The portfolio is managed to retain both a "net long" generation position and thereby a level of flexibility to capture the benefits of increased electricity market volatility and high electricity prices as they occur.

Given the prescriptive nature of *AASB 139 Financial Instruments: Recognition and Measurement*, Snowy Hydro's price risk hedging contracts, defined below, do not meet the criteria for hedge accounting, and changes in the fair value of price risk hedging contracts must be recognised in the income statement (under the category "Movements in fair value of derivatives").

Snowy Hydro uses a Revenue-at-Risk approach when managing its business. In measuring Revenue-at-Risk, revenue incorporates payments to and from electricity market counterparties that arise from financial contracts settled against the spot market, spot revenue arising from physical generation and Settlement Residue Auction receipts. Snowy Hydro has a highly structured contract and portfolio risk management framework that ensures that the Revenue-at-Risk remains within Board-approved trading limits. Trading limits may only be changed with Board approval. The portfolio risk management framework is based on defined probability limits applying to defined monetary amounts at risk over defined time periods.

(a) Price risk hedging contracts

(i) Electricity and gas swaps and swap-like instruments

Electricity swap transactions are those transactions where the consolidated entity receives or pays a fixed rate per MWh in exchange for a floating rate referenced to a regional electricity node. Gas swap transactions are those where the consolidated entity receives or pays a fixed rate per GJ in exchange for a floating rate referenced to a regional gas price. There are other types of "swap-like" transactions where the resulting hedging profile materially reflects a swap-type transaction. These transactions are accounted for in the same manner as swaps.

The fair value is the amount that the consolidated entity expects to pay or receive in order to settle or extinguish the financial contract over the remaining life of the contract.

The fair value of electricity swaps is derived from market quoted forward rates that are incorporated into discounted cash flow models. The market quoted rates are sculpted to take into account any seasonal variations within the duration of the period being quoted. The determination of the extent of seasonal variation within market quoted periods is based on the analysis of historical electricity price movements. Management applies different sculpted forward price curves for determining the fair value depending upon the type of contract. Certain estimates and judgments were required by management to develop the fair value amounts. The fair value at any particular point in time should not be interpreted as an indication of future gains or losses as they are based on a forward price curve at a particular time which may or may not be an accurate representation of future market movements or counterparty behaviour.

The fair value of gas swaps has been referenced to the historical gas price (available since February 2007 with the inception of the new gas market) as there are no quoted forward gas price curves.

The net values of the various instruments by counterparty have been classified as either a current asset or current liability. The details of outstanding electricity and gas swap and swap-like instruments at fair value as at the reporting date are listed in the balance sheet and in notes 8 and 15.

A market risk sensitivity analysis has been undertaken as at reporting date with the sensitivity movements being determined by analysing the historic movements of forward price curves over the applicable reporting period. This estimate is used as a reasonable approximation of future forward price movements. For swap and swap-like instruments, a movement of 8% has been used for the 2010 reporting period and 7% for the 2009 reporting period, based on different volatilities in the ICAP forward curve movements in each year[2].

	Fair value and sensitivity					
Consolidated	**Fair value**		**Upward Price Movement**		**Downward Price Movement**	
Swap Type	**2010 $M**	**2009 $M**	**2010 $M**	**2009 $M**	**2010 $M**	**2009 $M**
Electricity Asset	91.9	71.0	50.2	31.1	133.1	110.9
Electricity Liability	(74.8)	(68.0)	(51.1)	(43.1)	(98.1)	(92.8)
Gas Liability	-	(1.6)	-	(0.6)	-	(3.8)
Impact on net profit before tax	15.6	(8.1)	(2.3)	(20.8)	33.6	4.7

Intercompany price risk hedging contracts have not been included in the sensitivity analysis as they do not represent contracts with external parties and movements of fair value have no impact on the consolidated entity.

(ii) Options

The fair value of option fee contracts is recognised on the balance sheet as being equal to zero at inception (implying a zero differential between future option fee income and payouts under the contracts for their remaining durations). Subsequently, the unrealized gains or losses inherent in the transactions' remaining life to expiration are recorded in the balance sheet at fair value. The change in fair value on these transactions between reporting periods is recognised in the income statement in the accounting period in which the change in fair value occurs (under the category "Movements in fair value of derivatives").

Bought option transactions give the consolidated entity the right of exercise and are ordinarily automatically exercised when the exercise of the option results in a net cash receipt to the consolidated entity (i.e. difference payments are paid automatically to the Company). Sold option transactions give the counterparty to the consolidated entity the right of exercise and are ordinarily automatically exercised by the counterparty when the exercise of the options results in a net cash payment to the counterparty (i.e. difference payments are made automatically by the Company).

Option type contracts are valued using a fair value model based on market quoted rates and volatilities that are incorporated into Snowy Hydro's generally applied option pricing algorithms. Larger, longer term contracts for which no liquid market exists have been priced using management's assessment of new-entrant pricing, blended with credible longer-term

[2] The volatility measured was the standard deviation in movements of ICAP data, on a daily basis, within each financial year. For swap and swap-like contracts, this volatility decreased from 10% in 2008 to 7% in 2009 and increased to 8% in 2010.

market evidence where this exists. The absence of an active and liquid market for options means that the volatilities and the resulting fair values of options are to some extent subjective.

The net values of the instruments by counterparty have been classified as either a current asset or current liability. The details of outstanding option type instruments at fair value as at the reporting date are listed in the balance sheet in notes 8 and 15.

A market risk sensitivity analysis has been undertaken as at reporting date, with the sensitivity movements being determined by analysing the historic movements of forward price curves over the applicable reporting period. This estimate is used as a reasonable approximation of future forward price movements. For option type instruments, a movement of 14% has been used for the 2010 reporting period and 7% for the 2009 reporting period based on different volatilities in the ICAP forward curve movements in each year[3].

	Fair value and sensitivity					
Consolidated	Fair value		Upward Price Movement		Downward Price Movement	
Option Type	2010 $M	2009 $M	2010 $M	2009 $M	2010 $M	2009 $M
Electricity Asset	19.8	9.3	8.2	6.9	30.2	11.8
Electricity Liability	(187.4)	(182.5)	(319.7)	(252.0)	(44.3)	(111.5)
Impact on net profit before tax	54.0	60.4	(89.9)	(11.6)	207.5	138.8

(iii) Other structured products

Snowy Hydro performs a market-making role in the development and tailoring of structured products that have features such as:

- reference to more than one strike price;
- nested options;
- reference to exercise triggers other that the National Electricity Market price (for example, the system demand);
- reference to more than one commodity price (typically gas as well as electricity); and
- sequential call options able to be exercised by both counterparties.

Such products are generally not able to be classified as either swap-like or simple option contracts. These products also have features such as providing the counterparty with the ability to nominate different strike prices and MW volumes (within limits) for different contract periods. In this case, the different volume and strike price nominations determine the calculation of the payments under the contracts. Due to the variability of nominations and prices which are at a counter-party's discretion, payments under such contracts are not predictable.

As these structured products are tailored to the specific hedging requirements of the individual counterparty, have no active market and have unpredictable patterns of use, there is no technique that would provide a reliable and accurate valuation of these instruments. As such, the initial transaction price is taken to be the best measurement of fair value. The objective in holding these customized structured instruments is for the contracts to run their course to maturity (i.e. the Company does not usually engage in adjusting the effective exposures by buying or selling offsetting exposures in the contracts

[3] The volatility measured was the standard deviation in movements of ICAP data, on a daily basis, within each financial year. For option-type contracts, this volatility decreased from 10% in 2008 to 7% in 2009 and increased to 14% in 2010.

market).

(b) Fair Value of Financial Instruments

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Fair value measurement at end of the reporting period using:			
Description	**Level 1 $M**	**Level 2 $M**	**Level 3 $M**	**As at 3 July 2010**
Financial assets/(liabilities) at fair value				
Trading derivatives	(4.1)	12.4	(158.8)	(150.5)
Interest rate swaps	-	(9.1)	-	(9.1)
Foreign currency forward contracts	-	0.1	-	0.1
Total	(4.1)	3.4	(158.8)	(159.5)

Reconciliation of Level 3 fair value measurements of financial assets and liabilities

Description	Trading derivatives at fair value through profit or loss $M
Opening balance	(152.0)
Total gains or losses realised in profit or loss*	126.7
Total gains or losses mark to market movement*	40.4
Purchases	1.4
Settlements	(175.3)
Transfers out of Level 3	-
Closing balance	(158.8)
Total gains or losses for the period included in profit or loss for derivatives held at the end of the reporting period	167.1

* Gains or loss included in the above table are included in the Consolidated Income Statement for the reporting period ended 3 July 2010 presented as follows:

	Period Ended 3 July 2010 $M
Revenue	126.7
Movements in fair value of derivatives	40.4
Total gains or losses included in profit or loss for the period	167.1
Total gains or losses for the period included in profit or loss for derivatives held at the end of the reporting period	167.1

(c) Credit risk

A credit risk arises from the potential default of a counterparty on its obligations under an electricity price risk hedging contract that gives rise to a loss to Snowy Hydro; i.e. credit risk arises from the eventuality that this party will not be able to meet its contractual obligations as they fall due and that this will cause a loss to Snowy Hydro.

The measurement of the risk can include both a current and potential future exposure. The contract's fair value is used to quantify the current credit risk if any exists to which Snowy Hydro is exposed with respect to an entity. The fair values of electricity and gas price risk hedging contracts are presented on the balance sheet. The credit risk for non-derivative financial assets is also the amount carried on the balance sheet.

Generally, Snowy Hydro's spot, contract, inter-regional and ancillary services transactions have four week cash settlement terms. As a result, Snowy Hydro's generation business is not exposed to large receivable collection costs, nor does it provide for any significant doubtful debts.

In the longer term, a natural credit risk mitigant exists in that the circumstances that would typically give rise to a default by a counterparty (e.g. a retailer being unable to pay a contract premium) would generally be expected to be favourable for Snowy Hydro. Specifically, if high and volatile electricity prices led to a retailer's default on a premium payment, the value of that exposure on the market would be likely to exceed the future payment receipts under the original contract. Therefore, and unless the contract specified a fair value adjustment at termination (which would negate any upside), such an event would be beneficial to the Company.

Red Energy customers are billed as their meters are read, generally every three months. A dedicated credit management team actively pursues all outstanding accounts while ensuring compliance with all regulatory obligations.

(d) Interest Rate Risk

The consolidated entity's exposure to interest rate risk and the effective interest rate on financial instruments at the reporting date are detailed in the following table.

		Interest Rate Reset					
Consolidated	**Average Interest Rate %**	**Variable Interest Rate $M**	**Less Than 1 year $M**	**1 to 5 Years $M**	**More Than 5 Years $M**	**Non Interest Bearing $M**	**Total**
2010							
Financial Assets							
Cash	3.63	19.4	-	-	-	-	19.4
Financial Liabilities							
Trade payables	-	-	-	-	-	47.6	47.6
Interest rate swaps	5.91	(400.0)	-	100.0	300.0	-	-
Bank loans	5.29	-	77.0	-	-	-	77.0
Bonds	6.03	-	-	221.2	-	-	221.2
2009							
Financial Assets							
Cash	3.01	43.3	-	-	-	-	43.3
Financial Liabilities							
Trade payable	-	-	-	-	-	37.8	37.8
Interest rate swaps	5.91	(400.0)	-	-	400.0	-	-
Bonds	5.02	-	277.0	219.7	-	-	496.7

(e) Liquidity Risk

Liquidity risk arises from Snowy Hydro's inability to meet its obligations when they become due or by its inability to enter into future contracts as and when it deems it necessary in the normal course of business.

Snowy Hydro manages its liquidity risk by maintaining adequate financial reserves, banking facilities and reserves in uncommitted stand-by facilities, maintaining diverse funding sources and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. At the reporting date, the Group had uncommitted borrowing reserves of $373.0 million (June 2009 $375.0 million), as detailed in note 23. Snowy Hydro manages its market related liquidity risk by maintaining adequate reserves of generation capacity and high levels of plant reliability and availability which allow spot price generation income at times of contracted outgoing commitments.

Snowy Hydro holds an Australian Financial Services Licence under which it must continuously monitor its forward liquidity ratios and the amount of surplus liquid funds. Any un-remedied breach of these conditions would trigger a cessation of trade.

The table below details the remaining contractual maturity of the financial liabilities of the Group. The table has been prepared based on the undiscounted cash outflows of financial liabilities based on the earliest date on which the Group can be required to pay.

Consolidated	Less than 1 year $M	1 to 2 years $M	3 to 5 years $M	Greater than 5 years $M
2010				
Debt	(77.0)	-	(223.0)	-
Interest	(13.8)	(13.5)	(9.0)	-
Swap liability	(62.9)	(12.5)	(1.0)	-
Option liability	(77.1)	(7.2)	(76.9)	(60.1)
Interest rate swaps	(2.9)	(2.9)	(11.0)	(8.2)
2009				
Debt	(277.0)	-	(223.0)	-
Interest	(23.8)	(11.6)	(22.3)	-
Swap liability	(45.2)	(22.1)	(3.0)	-
Option liability	(65.4)	(72.6)	(124.3)	(76.1)
Interest rate swaps	(5.4)	(7.1)	(20.1)	(41.5)

Net cash outflows have been measured for each liability as follows:

(a) Debt is measured as the amount payable at the expiration of the contracted period.
(b) Interest includes interest payments on all currently held fixed and floating debt at current interest rates.
(c) The foreign exchange contract has been measured at the Australian dollar rate for completion of the contract on the expected date and expected amount.
(d) Swap instruments have been measured at the expected gross payout of estimated future contract for difference payments and
(e) Sold option type contracts have been measured at the net of option fees receivable and the gross payout of estimated future contracts for difference payments.

Intercompany swaps are not included in the liquidity risk table as they do not represent cash outflows external to the Group.

31 Parent entity disclosures

The parent entity is Snowy Hydro Limited.

	As at 3 July 2010 $M	As at 4 July 2009 $M
(a) Financial Position		
Assets		
Current Assets	244.9	207.5
Total Assets	2,422.7	2,411.4
Liabilities		
Current Liabilities	435.4	590.5
Total Liabilities	658.9	812.6

	As at 3 July 2010 $M	As at 4 July 2009 $M
Equity		
Issued capital	816.1	816.1
Hedging Reserves	-	1.1

(b) Financial Performance

	Period ended 3 July 2010 $M	Period ended 4 July 2009 $M
Profit attributable to the parent entity	256.1	308.0
Total Comprehensive Income	255.2	307.9

(c) Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

Guarantees provided under the deed of cross guarantee referred to in Note 28	7.0	13.0

(d) Contingent liabilities of the parent entity

Contingent liabilities detailed in Note 26 all relate to the parent entity

(e) Commitments for the acquisition of property plant and equipment

Not longer than 1 year	40.3	35.3
Longer than 1 year but not longer than 5 years	29.6	18.8

32 Subsequent events

There has not been any other matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has 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.

33 Additional company information

Snowy Hydro Limited is a public company, incorporated and operating in Australia.

Registered Office

Monaro Highway
Cooma NSW 2630

Principal Place of Business

Monaro Highway
Cooma NSW 2630