

18 April 2006

Mr Roger Norton
Mayor
Cooma Monaro Shire Council
PO Box 714
Cooma NSW 2630

Dear Roger,

SNOWY HYDRO LIMITED

Thank you for the conversation of last week regarding my participation in your upcoming public forum and the opportunity to discuss the "state of play" of the ASX listing of Snowy Hydro.

As I explained to you, under the *Corporations Act*, until the Prospectus is issued both I and the Executive team at Snowy Hydro are prohibited from making public statements that directly or indirectly refer to the IPO.

The *Corporations Act* provisions effectively prohibit Snowy Hydro from making comment, especially about the future, until after the Prospectus is issued (and even then our comments must be limited to the contents of the Prospectus). The idea is that a company cannot "drip feed" selective information to the public and thus potential investors. Rather, investors should make an informed investment decision based only on the contents of the Prospectus.

In a recent meeting with the Australian Securities and Investments Commission ("**ASIC**") we were pointedly warned that our public statements are being monitored for any breach of the *Corporations Act*, which carries serious personal consequences.

However, you would also be aware that I have devoted a considerable amount of effort over a number of years to work closely with local communities, listening to people's concerns and more recently addressing misplaced fears about the future listing of Snowy Hydro and what it means for them. I very well know and understand how much the people of Cooma and the region rely on the presence and commercial success of the Snowy Scheme, and how much the irrigation communities rely on a close and co-operative relationship with Snowy Hydro.

What I can categorically state on the record is that I believe that I and my Executive team have demonstrated commitment and support to all of our stakeholders in the years since corporatisation. The relationships we have developed with these stakeholders have grown stronger during the post-corporatisation period while Snowy Hydro has been conducting business exactly like a private sector company, even though we will not see this change formalised until the conclusion of the listing.

I believe our employees would recognise and acknowledge that the Snowy Hydro company today, and since corporatisation nearly four years ago, is a better place to work, with

demonstrably greater commitment to the asset, greater job security and vastly improved morale. It is also more innovative and has grown its skills base and improved and extended its assets. The track record is assurance of the future.

Anyone who doubts our willingness to continue to invest in the future of our local workforce and communities need only look at what has been achieved in the short time since corporatisation: we have spent more than \$1 million upgrading our Cooma head office; we have upgraded the Cabramurra township; we have built new council boat ramps and toilets; we are building new mini hydro generation plants at Jounama and Jindabyne; and we are hiring gas fired generation expertise.

As discussed with your Council some months ago, I believe the proposed listing of Snowy Hydro sets the Snowy Scheme on a new phase of development. As the NSW Government has previously stated, the proposed listing will allow the company to raise much-needed private equity to further develop its business and employment locally and interstate.

Without additional equity from our Government shareholders (which they have confirmed they will not provide) and continuing to have dividends paid to the Government shareholders, means that the Scheme will ultimately lose its importance and then its relevance, as the market and competitors expand and consolidate. With the electricity market growing, particularly the maximum demand for electricity as more air conditioning is used, if the company doesn't grow then the Snowy Scheme will have its importance in the market reduced and profitability could decline.

The listing on the Australian stock exchange is a transfer of ownership from effectively already "arms length" Government shareholders to what will be active and interested investors. The vendor Governments are highly aware of the need to have a broad and appropriately balanced share register that protects the strategic nature of the company and gives as many investors as possible an opportunity to participate.

It should also be remembered that at corporatisation the Scheme transferred from being directly Government owned to being a company managed by private sector management, operating under the *Corporations Act* and with privately financed debt and private sector creditors. From that time it had growth and dividend obligations to shareholders as it will in the future. Clearly the sky has not fallen in during the four years since corporatisation and the business has demonstrated its awareness of and responsiveness to the needs of all its stakeholders.

Also at the time of corporatisation the regulatory framework governing Snowy Hydro's water, land occupation, land use and other issues was established and "locked in". The framework does not vary at all on a change in upstream ownership of Snowy Hydro which will occur on listing. Snowy Hydro is also subject to the full range of laws of the land.

While I am constrained in what I can say at this time as explained above, I will make the following points:

- 1) There is no intention to relocate the Cooma office or reduce local employment.

Snowy Hydro employment is growing in Cooma and in the regions, with capital expenditure and new business initiatives planned for the long term. New initiatives are already very evident including:

- The hiring of expertise in gas fired generation;
- Jounama and Jindabyne mini hydro generation plant being built;




- Upgrade of all our assets and offices, with more than \$1m spent on the Cooma office alone;
 - Construction of the Kosciuszko Production Control base;
 - Undertaking of the cloud seeding initiatives;
 - Upgrading of communication towers and dishes;
 - Cabramurra township upgrade;
 - New council boat ramps and local toilets constructed; and
 - Undergrounding of 11kV system and the installation of fibre optic cabling, transformer upgrades etc.
- 2) Access to dams and waterways will be unchanged but safety, of course, will always be paramount when it comes to public access. Our support for community recreational activities continues as does our support for Snowy Hydro SouthCare Rescue Helicopter service; and
- 3) I note some recent negative comments regarding heritage and culture.

I agree with the cultural significance of the Scheme but my view is that ownership by a wide cross section of the community, retail investors in other words, is very consistent with the history and culture of the Scheme and arguably more so than if it remains in the hands of Governments, that have indicated they are unable to give additional equity to ensure it prospers long into the future and thus keeps pace with the industry changing around it.

In concluding I would also like to correct some misunderstandings:

- 4) Snowy Hydro does not own and therefore cannot sell, water. We collect, store and divert water. We do provide risk management products, being timing of release guarantees to irrigators which they consider to be of special value and for which they pay a fee. This has been welcomed by the more commercially aware irrigators during the severe drought conditions of the last few years. Any arrangements for timing of releases to irrigators are consistent with the requirements in our operating licence. Also, it should be noted, we do not directly control the water released to irrigators. We deliver a required amount of water into storages controlled by the Murray Darling Basin Commission and the NSW water agencies. It is those entities that control releases downstream.
- 5) The *Snowy Water Licence* which controls our water release regime is set by NSW Department of Natural Resources and ownership of Snowy Hydro is irrelevant to the decisions of the NSW regulator with regard to water release obligation on Snowy Hydro. Such obligations were described back at corporatisation and have proven very workable for the irrigators during the recent difficult drought years, as well as providing increased environmental flows in the Snowy River.

Finally, while there is maybe still concern at the event of change, I think some considerable comfort can be taken from the experience and behaviour of the company and of its management in the period since corporatisation. Certainly managements and shareholders can change over longer periods of time but so can governments and their expectations of Snowy Hydro Limited. So even the current situation is no guarantee of “no change”.



Roger, I firmly believe the proposed listing of Snowy Hydro on the Australian Stock Exchange is a new and beneficial era for the Snowy Scheme and for the surrounding communities, which I hope can be embraced by all in a positive and constructive way.

Yours sincerely



TERRY CHARLTON
Managing Director

