



ABN 17 090 574 431

Consolidated Financial Report for the Financial Year

29 June 2002 to 28 June 2003

# Snowy Hydro Limited

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## Annual Financial Report as at 28 June 2003

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# Snowy Hydro Limited

## Directors' Report

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The directors of Snowy Hydro Limited submit herewith the annual financial report for Snowy Hydro Limited and its controlled entities (here within referred to as the consolidated entity) for the financial year 29 June 2002 to 28 June 2003. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

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

<b>Name</b>	<b>Particulars</b>
Anthony R Cotton FCA Appointed 27 June 2001	Chairman Anthony Cotton has a wide international business experience over 35 years. This includes; Mining, Building Materials Manufacturing and Service Industries. He was Chairman of Snowy Hydro Trading Pty Ltd from Incorporation for the 5 years until Corporatisation. His other chairmanships have included RGC Limited and Goldfields. He is a fellow of the Institute of Chartered Accountants in England and Wales.
Terry V Charlton BCom, BSc, MSc Appointed 27 June 2001	Managing Director Terry Charlton is Chief Executive Officer and Managing Director of Snowy Hydro Limited and has been Commissioner of Snowy Mountains Hydro-electric Authority, and Chief Executive Officer of Snowy Hydro Trading Pty Ltd since 1999. Previous experience in energy and utilities includes President of Edison Mission Energy, United Kingdom, Europe, Middle East, Africa, and Group General Manager, Tubemakers of Australia Limited – Water, Oil and Gas Division.
Arlene M Tansey BBus, MBA, JD(Law) FAICD Appointed 27 June 2001	Non Executive Director Arlene Tansey has extensive experience in corporate finance, underwriting, restructuring, bankruptcy and securities including fourteen years of US corporate finance practice. She currently holds the position of Director Corporate Portfolio Management for ANZ.
Robert H Barry BCom, FCPA, FAICD Appointed 27 June 2001	Non Executive Director Robert Barry has spent 27 years in the investment banking industry both in Australia and the United Kingdom. He co-founded the Dominguez & Barry Group, a predecessor of UBS Australia and was head of International Capital Markets for the Midland Bank Group. Robert is currently deputy chairman of AWB Limited, a non-executive director of Sugar Australia Pty Limited, New Zealand Sugar Company Limited, Queensland Cotton Ltd and Unisearch Limited.
Huw G Davies BSc PhD Appointed 27 June 2001	Non Executive Director Huw Davies has extensive experience in the electricity industry, electricity reform and manufacturing having been a director of CitiPower Pty Ltd, Victorian Power Exchange and a former Executive Director of BTR Nylex. He is currently Chairman of GasCor, Administrator of the SECV and Chair of its Executive Committee and Chairman of Gale Pacific Limited.

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

# Snowy Hydro Limited

## Directors' Report

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### Principal Activities

The consolidated entity's principal activities are 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.

### Review of Operations

The consolidated entity comprises Snowy Hydro Limited ("Snowy Hydro") and its wholly owned controlled entity Snowy Hydro Trading Pty Ltd ("SHTPL").

Operations of Snowy Hydro commenced on 28 June 2002. Snowy Hydro owns, manages and maintains the Snowy Mountains Hydro-electric Scheme, which consists of seven power stations and sixteen large dams mainly in the Kosciuszko National Park.

In the year to 28 June 2003, 4,749 GWh were generated and 2,220 GL of water for irrigation were released. Net profit after tax was \$131,671,000. In the previous reporting period to 28 June 2002 net profit after tax was nil as operations only commenced on 28 June 2002.

### Changes in State of Affairs

During the financial year there was no significant change in the state of affairs of the consolidated entity other than that referred to in the financial statements or notes thereto.

### Subsequent Events

There has not been any 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.

### 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 Commonwealth and New South Wales environmental legislation and regulations. Snowy Hydro is also subject to additional unique regulation with respect to its occupation and activities within the Kosciuszko National Park ("KNP"). This regulation is effected through Part 6 of the Snowy Hydro Corporatisation Act 1997 (NSW) ("the Act"). The Act makes provision with respect to the preparation and enforcement of the Snowy Management Plan ("SMP"), which is a Plan of Management under the National Parks and Wildlife Act 1974 (NSW). The SMP applies to Snowy Hydro activities within the KNP.

The SMP includes an obligation that requires that an Environmental Management Plan ("EMP") be developed by Snowy Hydro within 30 months of the date of corporatisation. The EMP comprises 15 chapters, each dealing with a separate environmental issue. The SMP specifies a completion date for each chapter. Each chapter must be approved by the National Parks & Wildlife Service, and then implemented by Snowy Hydro.

# **Snowy Hydro Limited**

## **Directors' Report**

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### **Environmental Regulations (cont)**

The SMP also includes an obligation, and specifies timing, for the ongoing review of each chapter of the EMP.

Three chapters are due for submission to NPWS during 2003:

- Emergency Management: Submitted for NPWS review and approval on 28 June 2003;
- Water Quality: Due date 30 September, 2003;
- Public Health: SHL unable to proceed, pending production of NPWS Public Health Plan. Deferred two years by agreement with NPWS.

Snowy Hydro's performance will be evaluated against the requirements of the EMP.

For completeness it should also be noted that under Part 5 of the Act, Snowy Hydro has been issued with the Snowy Water License. The Snowy Water License 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 License also imposes some obligations on Snowy Hydro in terms of releasing environmental flows into the Snowy River and the montane rivers within the Snowy area. Snowy Hydro has complied with the environmental flow obligations that have come into effect up until the date of this report.

### **Dividends**

No dividends were declared or paid in the financial year ended 28 June 2003. The directors resolved at a meeting held on 24 July 2003 to pay a cash dividend of \$70.0 million (\$0.35 per share) unfranked on 12 September 2003.

### **Share Options**

Snowy Hydro Limited 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. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

As part of the corporatisation agreements the company entered into a deed of indemnity with the three shareholder governments. Under this deed the company indemnifies those governments in respect of their liability to directors of the company under deed of indemnity between the governments and each of the directors. This liability is limited to the extent permitted by the Corporations Act 2001.

The company has not otherwise, during or since the financial year, 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.

# Snowy Hydro Limited

## Directors' Report

### 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, 11 board meetings and 7 committee meetings were held.

Directors	Board of Directors		Audit and Compliance Committee		Remuneration Committee		Risk Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Anthony R Cotton	11	9	3	2	2	2	2	2
Terry V Charlton	11	11	-	-	-	-	-	-
Arlene M Tansey	11	10	3	2	2	2	2	2
Robert H Barry	11	11	3	3	2	2	2	2
Huw G Davies	11	11	3	3	2	2	2	2

T V Charlton is not a member of any subcommittees.

### 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 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



A R Cotton  
Chairman

Cooma, 28 August 2003



T V Charlton  
Managing Director

Cooma, 28 August 2003

# **Snowy Hydro Limited**

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## **Independent Audit Report**

### **INDEPENDENT AUDIT REPORT TO THE MEMBERS OF SNOWY HYDRO LIMITED**

#### ***Scope***

##### ***The Financial Report and Directors' Responsibility***

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Snowy Hydro Limited (the company) and the consolidated entity, for the financial year ended 28 June 2003 as set out on pages 8 to 37. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report

##### ***Audit Approach***

We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the Corporations Act 2001 and Accounting Standards and other mandatory professional reporting requirements in Australia so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.

##### ***Independence***

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

The audit opinion expressed in this report has been formed on the above basis.

**Independence**

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

**Audit Opinion**

In our opinion, the financial report of Snowy Hydro Limited is in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 28 June 2003 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU

*D.M. Irving*

D M Irving  
Partner  
Chartered Accountants

Cooma, 28 August 2003



# Snowy Hydro Limited

## Directors' Declaration

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The directors declare that:

- (a) the attached financial statements and notes thereto comply with Accounting Standards;
- (b) the attached financial statements and notes thereto give a true and fair view of the financial position and performance of the company and the consolidated entity;
- (c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001; and
- (d) 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.

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



A R Cotton  
Chairman

Cooma, 28 August 2003



T V Charlton  
Managing Director

Cooma, 28 August 2003

# Snowy Hydro Limited

## Statement of Financial Performance for the Financial Year Ended 28 June 2003

	Consolidated		Snowy Hydro	
	Year Ended 28 June 2003 \$000	Year Ended 28 June 2002 \$000	Year Ended 28 June 2003 \$000	Year Ended 28 June 2002 \$000
Revenue from ordinary activities	385,792	-	304,553	-
Direct costs of revenue	(29,971)	-	(5,071)	-
Consumables and suppliers	(44,461)	-	(44,201)	-
Employee benefits expense	(39,827)	-	(39,827)	-
Depreciation and amortisation	(39,931)	-	(39,931)	-
Borrowing costs	(38,728)	-	(38,552)	-
Other expenses from ordinary activities	(10,328)	-	(10,324)	-
<b>Profit from Ordinary Activities Before Income Tax Expense</b>	2 182,546	-	126,647	-
Income tax expense relating to ordinary activities	4 (50,875)	-	(51,123)	-
<b>Profit from Ordinary Activities After Related Income Tax Expense</b>	131,671	-	75,524	-
<b>Net Profit</b>	131,671	-	75,524	-
Increase/(decrease) in asset revaluation reserve arising on revaluation of non current assets	-	-	-	-
<b>Total Revenue, Expense and Valuation Adjustments Attributable to Members of the Parent Entity Recognised Directly in Equity</b>	-	-	-	-
<b>Total Changes in Equity Other than those Resulting from Transactions with Owners as Owners</b>	131,671	-	75,524	-

# Snowy Hydro Limited

## Statement of Financial Position as at 28 June 2003

	Consolidated		Snowy Hydro	
	As at 28 June 2003 \$000	As at 28 June 2002 \$000	As at 28 June 2003 \$000	As at 28 June 2002 \$000
<b>Current Assets</b>				
Cash assets		209,500	3,960	105,426
Receivables	7	76,252	62,351	34,272
Inventories	8	4,012	4,012	4,273
Other	9	4,197	4,197	3,076
<b>Total Current Assets</b>		<b>88,421</b>	<b>74,520</b>	<b>147,047</b>
<b>Non Current Assets</b>				
Receivables	10	13,920	2,562	13,920
Deferred tax assets	11	171,479	152,523	171,286
Property plant & equipment	12	1,449,289	1,423,485	1,447,278
Other	13	132	12,755	-
<b>Total Non Current Assets</b>		<b>1,634,820</b>	<b>1,591,325</b>	<b>1,632,484</b>
<b>Total Assets</b>		<b>1,914,541</b>	<b>1,665,845</b>	<b>1,779,531</b>
<b>Current Liabilities</b>				
Payables	14	147,175	35,978	15,306
Interest-bearing liabilities	15	808,678	-	808,678
Provisions	16	10,367	16,277	10,166
Current tax liabilities	17	486	28,317	-
Other	18	31,029	53,302	31,029
<b>Total Current Liabilities</b>		<b>997,735</b>	<b>133,874</b>	<b>865,179</b>
<b>Non Current Liabilities</b>				
Interest-bearing liabilities	19	-	554,586	-
Deferred tax liabilities	20	96	-	-
Provisions	21	30,019	23,740	30,019
Other	22	70,607	62,037	68,249
<b>Total Non Current Liabilities</b>		<b>100,722</b>	<b>640,363</b>	<b>98,268</b>
<b>Total Liabilities</b>		<b>1,098,457</b>	<b>774,237</b>	<b>963,447</b>
<b>Net Assets</b>		<b>816,084</b>	<b>891,608</b>	<b>816,084</b>
<b>Equity</b>				
Contributed equity	25	816,084	816,084	816,084
Retained profits	26	-	75,524	-
<b>Total Equity</b>		<b>816,084</b>	<b>891,608</b>	<b>816,084</b>

# Snowy Hydro Limited

## Statement of Cash Flows

### for the Financial Year ended 28 June 2003

	Consolidated		Snowy Hydro	
	Year Ended 28 June 2003 \$000	Year Ended 28 June 2002 \$000	Year Ended 28 June 2003 \$000	Year Ended 28 June 2002 \$000
Note				
<b>Cash Flows from Operating Activities</b>				
Receipts from customers	404,285	-	282,052	-
Payments to suppliers and employees	(158,413)	-	(123,089)	-
Interest received	3,766	-	2,756	-
Interest and other costs of finance paid	(31,501)	-	(31,326)	-
Income tax paid	(4,184)	-	(4,043)	-
<b>Net Cash (used in) / provided by Operating Activities</b>	34(c) 213,953	-	126,350	-
<b>Cash Flows from Investing Activities</b>				
Payment for property plant and equipment	(16,570)	-	(16,570)	-
Acquisitions of businesses	-	209,500	-	105,426
Proceeds from sale of property plant and equipment	955	-	955	-
<b>Net Cash (used in) / provided by Investing Activities</b>	(15,615)	209,500	(15,615)	105,426
<b>Cash Flows from Financing Activities</b>				
Proceeds from borrowings	1,312,586	-	1,312,586	-
Repayment of borrowings	(1,566,678)	-	(1,566,678)	-
Loans from controlled entity	-	-	65,373	-
Repayment of shareholder loans	(12,565)	-	(10,206)	-
Borrowing costs - facility fees	(13,276)	-	(13,276)	-
Payment for working capital balances to entitlement holders	(123,945)	-	-	-
Dividends paid	-	-	-	-
<b>Net Cash (used in) / provided by Financing Activities</b>	(403,878)	-	(212,201)	-
<b>Net (Decrease)/Increase in Cash Held</b>	(205,540)	209,500	(101,466)	105,426
<b>Cash at Beginning of Year</b>	209,500	-	105,426	-
<b>Cash at End of Year</b>	34(a) 3,960	209,500	3,960	105,426

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 28 June 2003

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# Snowy Hydro Limited

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## Notes to the Financial Statements for the Financial Year Ended 28 June 2003

### 1 Summary of Accounting Policies

#### *Financial Reporting Framework*

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

The financial report has been prepared on the basis of historical cost and except where stated does not take into account changing money values. Cost is based on the fair values of the consideration given in exchange for assets.

#### *Reporting Period*

The financial year 2002 refers to 27 June 2001 to 28 June 2002. The financial year 2003 refers to 29 June 2002 to 28 June 2003.

#### *Significant Accounting Policies*

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.

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) *Capitalisation*

Expenditure is capitalised when it is in relation 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.

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 28 June 2003

### (d) 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 1024 "Consolidated Accounts". A list of controlled entities appears in Note 31 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.

### (e) 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:

•	<i>Buildings</i>	<i>10 - 50 years</i>
•	<i>Leasehold improvement</i>	<i>4 years</i>
•	<i>Infrastructure, Plant and equipment</i>	
	• <i>Electronic &amp; Mechanical Equipment</i>	<i>5 - 50 years</i>
	• <i>Civil works</i>	<i>30 - 100 years</i>
	• <i>Mobile Plant</i>	<i>3 - 20 years</i>
•	<i>Operations Software</i>	<i>5 - 8 years</i>
•	<i>Commercial Software</i>	<i>3 years</i>

### (f) Derivative and Hedging Activities

The consolidated entity uses derivative financial instruments ("derivatives") to manage exposures to variable revenues arising from the sale of electricity. In order to be designated as a hedge, at inception and during the term of the hedging instrument, it must be expected that the hedge will be effective in reducing exposure to the risks being hedged. The hedge items include recognised assets and liabilities, and anticipated transactions that are probable of occurring.

Electricity futures, swaps, options, and combinations thereof are used to hedge anticipated sales of electricity. Gains and losses on derivatives hedging anticipated transactions are deferred and recognised in the measurement of the hedged item when it occurs. If a derivative is terminated, sold, redesignated or is no longer effective and the anticipated transaction is still probable of occurring, gains and losses up to the time of termination, sale, redesignation or loss of effectiveness, continue to be accounted for as stated above. If the anticipated transaction is no longer probable, all deferred gains and losses are recognised immediately in net profit or loss. If a derivative ceases to be designated as a hedge (or does not satisfy the criteria for hedge accounting) further gains and losses are recognised in net profit or loss until the derivative matures or is terminated or sold. Option premiums are deferred and amortised over the term of the option.

Further details of derivative financial instruments are disclosed in Note 35 to the financial statements.

# Snowy Hydro Limited

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## Notes to the Financial Statements for the Financial Year Ended 28 June 2003

### *(g) Employee Benefits*

Provision is made for benefits accruing to employees in respect of salaries, annual leave and long service leave. Provision is made for severance benefits for employees where reasonable grounds exist to calculate the entitlement and the employees remain employed at the balance date. Sick leave is non-vesting and therefore the cost is expensed as occurred.

Provisions made in respect of salaries are measured as the amount unpaid at the reporting date at current pay rates.

Provisions made in respect of annual leave, sick leave, long service leave 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 which are not expected to be settled within 12 months are measured as 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.

Employees of the company are members of a variety of superannuation funds covering both accumulation and defined benefit arrangements including:

- Commonwealth Superannuation Scheme
- Public Sector Superannuation Scheme
- Energy Industries Superannuation Scheme
- Australian Government Employee Superannuation Trust

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.

Contributions made to defined benefit superannuation plans are expensed when incurred. The difference between the accrued benefits and net market value of plan assets has not been recognised in the financial statements.

### *(h) 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. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date.

### *(i) 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.



# Snowy Hydro Limited

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## Notes to the Financial Statements for the Financial Year Ended 28 June 2003

### *(j) Income Tax*

Tax-effect accounting principles are adopted whereby income tax expense is calculated on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in the deferred tax assets and deferred tax liabilities, as applicable.

The consolidated entity has recognised a deferred tax asset on property, plant and equipment and certain liabilities at its fair value at corporatisation representing the present value of the difference between amounts allowable for tax purposes and the accounting value of the underlying assets. This amount will reduce over the useful lives of the underlying assets and liabilities as the accounting and tax depreciation amounts are recognised by the consolidated entity.

The consolidated entity has entered into a tax sharing arrangement. As a result all income tax expenses, revenues, assets and liabilities of the members of the tax consolidated group are recognised in the financial statements of the parent entity.

### *(k) Interest-Bearing Liabilities*

Loans are recorded at an amount equal to the net proceeds received. Interest expense is recognised on an accrual basis. Ancillary costs incurred in connection with the arrangement of borrowings are deferred and amortised over the period of the borrowing.

### *(l) Inventories*

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

### *(m) Investments*

Investments are recorded at cost. Interest revenue is recognised on an accrual basis.

### *(n) 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.

### *(o) 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.

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 28 June 2003

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(p) *Receivables*

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

(q) *Recoverable Amount of Non-Current Assets*

Non-current assets are written down to recoverable amount where the carrying value of any non-current asset exceeds recoverable amount. In determining the recoverable amount of non-current assets, the expected net cash flows have been discounted to their present value.

(r) *Restoration Costs*

A provision has been recognised for the rehabilitation of former scheme sites. This provision is calculated as the net present value of future cash flows required to settle the liability.

(s) *Revenue Recognition*

Sale of Goods and Disposal of Assets

Revenue from the sale of goods and disposal of other assets is recognised when the consolidated entity has passed control of the goods or other assets to the buyer.

Electricity and related products.

Revenue from sales of electricity on the spot market is recognised when control has passed to the buyer. Net revenue from the purchase and sale of electricity derivative contracts are recognised in accordance with the methodologies disclosed in Note 35.

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 28 June 2003

### 2 Profit from Ordinary Activities

Profit from ordinary activities before income tax includes the following items of revenue and expense:

	Consolidated		Snowy Hydro	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
<b>(a) Operating Revenue</b>				
Sales revenue - sale of goods	380,839	-	299,753	-
Interest revenue - other entities	2,910	-	2,757	-
Other	1,088	-	1,088	-
	<u>384,837</u>	<u>-</u>	<u>303,598</u>	<u>-</u>
<b>(b) Non Operating Revenue</b>				
Proceeds from the sale of property plant and equipment	955	-	955	-
	<u>385,792</u>	<u>-</u>	<u>304,553</u>	<u>-</u>
<b>(c) Expenses</b>				
Direct costs of revenue	29,971	-	5,071	-
Borrowing costs				
Interest - other entities	38,207	-	38,031	-
Amortisation of deferred borrowing costs	521	-	521	-
Borrowing costs	38,728	-	38,552	-
Depreciation of non current assets				
Property plant and equipment	39,876	-	39,876	-
Amortisation of non current assets				
Leasehold improvements	55	-	55	-
	<u>39,931</u>	<u>-</u>	<u>39,931</u>	<u>-</u>
Contributions to defined benefits superannuation plans during the financial year.	2,639	-	2,639	-
Operating lease expenses				
Sydney office rental	325	-	325	-
Blowering operating lease	120	-	120	-
Kosciuszko National Park	500	-	500	-
	<u>945</u>	<u>-</u>	<u>945</u>	<u>-</u>

### 3 Sales of Assets

Sales of assets in the ordinary course of business have given rise to the following profits and losses:

<b>(a) Net Profits</b>				
Property plant and equipment	389	-	389	-
<b>(b) Net Losses</b>				
Property plant and equipment	1,876	-	1,876	-

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 28 June 2003

### 4 Income Tax

	Consolidated		Snowy Hydro	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
(a) The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:				
<b>Profit from Ordinary Activities</b>				
Parent entity	126,647	-	126,647	-
Controlled entity consolidated to parent	55,899	-	55,899	-
<b>Total Profit from Ordinary Activities</b>	<b>182,546</b>	<b>-</b>	<b>182,546</b>	<b>-</b>
Income Tax Expense calculated at 30%	54,764	-	54,764	-
<b>Permanent Differences</b>				
Non-allowable depreciation on buildings	307	-	307	-
Non-allowable depreciation on plant.	-	-	-	-
Non-deductible expenses	75	-	75	-
Over provision in controlled entity in previous year	(248)	-	-	-
Future income tax benefit not previously recognised now brought to account.	(4,023)	-	(4,023)	-
Other	-	-	-	-
<b>Income Tax Expense Relating to Ordinary Activities</b>	<b>50,875</b>	<b>-</b>	<b>51,123</b>	<b>-</b>

### Tax Consolidation System

Legislation to allow groups, comprising a parent entity and its Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantively enacted on 21 October 2002. This legislation, which includes both mandatory and elective elements, is applicable to the company.

The company has elected for those entities within the consolidated entity that are wholly-owned Australian resident entities to be taxed as a single entity from 1 July 2002. The adoption of the tax consolidation system has not yet been formally notified to the Australian Taxation Office. The head entity within the tax consolidation group is Snowy Hydro.

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 28 June 2003

### 5 Directors' Remuneration

The Directors of Snowy Hydro during the year were:

**Anthony R Cotton**

**Terry V Charlton**

**Arlene M Tansey**

**Robert H Barry**

**Huw G Davies**

	Consolidated		Snowy Hydro	
	2003 \$	2002 \$	2003 \$	2002 \$
The aggregate of income paid or payable, or otherwise made available, in respect of the financial year, to all directors of the company, directly or indirectly, by the company or by any related party.			1,136,798	-
The aggregate of income paid or payable, or otherwise made available, in respect of the financial year, to all directors of each entity in the consolidated entity, directly or indirectly, by the entities in which they are directors or by any related party.	1,136,798	-		

The number of directors of the company whose aggregate income paid or payable, or otherwise made available falls within each successive \$10,000 band of income (*commencing at \$0*):

	No.	No.
\$50,000 - \$59,999	3	-
\$130,000 - \$139,999	1	-
\$830,000 - \$839,999	1	-

### 6 Remuneration of Auditors

	Consolidated		Snowy Hydro	
	2003 \$	2002 \$	2003 \$	2002 \$
(a) <b>Auditor of the Parent Entity</b>				
Auditing the financial report	135,000	-	135,000	-
Other services	394,474	-	394,474	-
	529,474	-	529,474	-

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 28 June 2003

### 7 Current Receivables

	<b>Consolidated</b>		<b>Snowy Hydro</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Trade receivables	50,997	55,048	37,096	-
Option fees receivables	25,182	7,683	25,182	7,683
Other receivables	78	122	78	122
Non trade receivables from controlled entity	-	-	-	26,472
Allowance for doubtful debts	(5)	(5)	(5)	(5)
	<u>76,252</u>	<u>62,848</u>	<u>62,351</u>	<u>34,272</u>

### 8 Current Inventories

Inventories - at cost	<u>4,012</u>	<u>4,273</u>	<u>4,012</u>	<u>4,273</u>
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### 9 Other Current Assets

Prepayments	4,161	3,075	4,161	3,051
Other	36	25	36	25
	<u>4,197</u>	<u>3,100</u>	<u>4,197</u>	<u>3,076</u>

### 10 Non Current Receivables

Option fees receivable	<u>2,562</u>	<u>13,920</u>	<u>2,562</u>	<u>13,920</u>
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### 11 Deferred Tax Asset

Timing differences	<u>152,523</u>	<u>171,479</u>	<u>152,523</u>	<u>171,286</u>
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**Snowy Hydro Limited**  
**Notes to the Financial Statements**  
**for the Financial Year Ended 28 June 2003**

**12 Property, Plant and Equipment**

**Consolidated**

	Freehold Land at Cost \$'000	Buildings at Cost \$'000	Software at Cost \$'000	Leasehold Improvements at Cost \$'000	Plant and Equipment at Cost \$'000	Work in Progress \$'000	Total
<b>Gross Carrying Amount</b>							
Balance as at 28 June 2002	22,946	31,001	11,825	166	1,379,215	4,136	1,449,289
Transfer	-	545	-	-	(545)	(5,531)	(5,531)
Additions	-	-	195	-	5,335	16,570	22,100
Disposals	(211)	(357)	-	-	(2,136)	-	(2,704)
Balance as at 28 June 2003	22,735	31,189	12,020	166	1,381,869	15,175	1,463,154
<b>Accumulated Depreciation/Amortisation</b>							
Balance as at 28 June 2002	-	-	-	-	-	-	-
Disposals	-	7	-	-	255	-	262
Depreciation expense	-	(990)	(3,720)	(55)	(35,166)	-	(39,931)
Balance at 28 June 2003	-	(983)	(3,720)	(55)	(34,911)	-	(39,669)
<b>Net Book Value</b>							
As at 28 June 2002	22,946	31,001	11,825	166	1,379,215	4,136	1,449,289
As at 28 June 2003	22,735	30,206	8,300	111	1,346,958	15,175	1,423,485

**Snowy Hydro**

	Freehold Land at Cost \$'000	Buildings at Cost \$'000	Software at Cost \$'000	Leasehold Improvements at Cost \$'000	Plant and Equipment at Cost \$'000	Work in Progress \$'000	Total
<b>Gross Carrying Amount</b>							
Balance as at 28 June 2002	22,946	31,001	10,664	-	1,378,531	4,136	1,447,278
Transfer from controlled entity	-	-	1,161	166	684	-	2,011
Transfer	-	545	-	-	(545)	(5,531)	(5,531)
Additions	-	-	195	-	5,335	16,570	22,100
Disposals	(211)	(357)	-	-	(2,136)	-	(2,704)
Balance as at 28 June 2003	22,735	31,189	12,020	166	1,381,869	15,175	1,463,154
<b>Accumulated Depreciation/Amortisation</b>							
Balance as at 28 June 2002	-	-	-	-	-	-	-
Disposals	-	7	-	-	255	-	262
Depreciation expense	-	(990)	(3,720)	(55)	(35,166)	-	(39,931)
Balance at 28 June 2003	-	(983)	(3,720)	(55)	(34,911)	-	(39,669)
<b>Net Book Value</b>							
As at 28 June 2002	22,946	31,001	10,664	-	1,378,531	4,136	1,447,278
As at 28 June 2003	22,735	30,206	8,300	111	1,346,958	15,175	1,423,485

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 28 June 2003

### 12 Property, Plant and Equipment (cont)

Aggregate depreciation allocated is recognised as an expense during the year:

	<b>Consolidated</b>		<b>Snowy Hydro</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Land	-	-	-	-
Buildings	990	-	990	-
Software	3,720	-	3,720	-
Leasehold improvements	55	-	55	-
Plant and equipment	35,166	-	35,166	-
	<u>39,931</u>	<u>-</u>	<u>39,931</u>	<u>-</u>
<b>Current Value of Land and Buildings</b>	<u>52,941</u>	<u>53,947</u>	<u>52,941</u>	<u>53,947</u>

The value disclosed above for land and buildings was determined on the basis of current market value as at June 2002 for those assets where a market value exists, and an in-use valuation for the remainder as at the date of this report. No capital gains tax effect has been disclosed, as the consolidated entity does not intend to sell these assets.

### 13 Other Non Current Assets

Borrowing costs				
Cost	13,276	-	13,276	-
Accumulated amortisation	(521)	-	(521)	-
Other	132	132	-	-
	<u>12,887</u>	<u>132</u>	<u>12,755</u>	<u>-</u>

### 14 Current Payables

Trade creditors & accruals	9,287	7,356	9,287	6,680
Payments to entitlement holders	-	123,087	-	-
Other creditors	8,773	55	8,773	55
Non trade payables to controlled entity	-	-	-	1,201
Loans from shareholders	17,351	-	17,351	-
Goods & services tax payable	567	16,677	567	7,370
	<u>35,978</u>	<u>147,175</u>	<u>35,978</u>	<u>15,306</u>

#### *Creditors*

Creditors are generally settled within 30 days of recognition and are unsecured.

#### *Payments to Entitlement Holders*

SHTPL traded as agent for Pacific Power, State Electricity Corporation of Victoria and Commonwealth of Australia (the "Entitlement Holders") up to 28 June 2002 when SHTPL became a wholly owned subsidiary of Snowy Hydro. The amount paid was calculated on an agreed payment formula up to this date. The agency trading arrangement between SHTPL and the three Entitlement Holders ceased effective 28 June 2002.



# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 28 June 2003

### 15 Current Interest-Bearing Liabilities

	Consolidated		Snowy Hydro	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
<i>Unsecured:</i>				
Loan from Commonwealth	-	808,678	-	808,678

### 16 Current Provisions

Annual leave	5,176	4,582	5,176	4,454
Long service leave	965	417	965	417
Rehabilitation of former scheme sites	5,172	5,000	5,172	5,000
Workers compensation	261	295	261	295
Other employee benefits	4,703	-	4,703	-
Other	-	73	-	-
	<u>16,277</u>	<u>10,367</u>	<u>16,277</u>	<u>10,166</u>

A description of the provisions is disclosed in Note 21.

### 17 Current Tax Liabilities

Income tax payable	<u>28,317</u>	<u>486</u>	<u>28,317</u>	<u>-</u>
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### 18 Other Current Liabilities

Electricity derivatives	16,046	10,934	16,046	10,934
Unearned income	37,256	20,095	37,256	20,095
	<u>53,302</u>	<u>31,029</u>	<u>53,302</u>	<u>31,029</u>

Unearned Income represents the net unamortised option fee premiums on current contracts. Option receipts or payments are amortised over the life of the option.

### 19 Non Current Interest-Bearing Liabilities

<b>Unsecured:</b>				
Bonds	498,586	-	498,586	-
Bank loans	56,000	-	56,000	-
	<u>554,586</u>	<u>-</u>	<u>554,586</u>	<u>-</u>

**Snowy Hydro Limited**  
**Notes to the Financial Statements**  
**for the Financial Year Ended 28 June 2003**

**20 Deferred Tax Liabilities**

	<b>Consolidated</b>		<b>Snowy Hydro</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Deferred tax liability	-	96	-	-

**21 Non Current Provisions**

Workers compensation	764	1,168	764	1,168
Severance benefits	-	1,133	-	1,133
Long service leave	7,460	7,718	7,460	7,718
Rehabilitation of former scheme sites	15,516	20,000	15,516	20,000
	<b>23,740</b>	<b>30,019</b>	<b>23,740</b>	<b>30,019</b>

Workers compensation provision covers the liability in respect of workers compensation claims arising before 1988. An assessment of the provision is undertaken yearly with the balance adjusted to maintain adequacy.

Severance benefits have been provided for on the basis of known plans for reductions.

Provision has been made in line with the Major Former Scheme Sites Management Deed. Under this deed, in consideration given over a period of 5 years, commencing in June 2002, National Parks and Wildlife Service has accepted environmental liabilities with respect to "Former Scheme Sites" within the Kosciuszko National Park. This liability excludes any that are deemed contaminated sites.

**22 Other Non Current Liabilities**

Unrealised income electricity derivatives	2,082	18,129	2,082	18,129
Loans from shareholders	-	29,915	-	27,557
Loans from controlled entities	-	-	42,114	-
Unearned income	17,841	22,563	17,841	22,563
	<b>19,923</b>	<b>70,607</b>	<b>62,037</b>	<b>68,249</b>

Loans from Shareholders are interest free and have no fixed maturity date.

**23 Employee Benefits**

The aggregate employee entitlement liability recognised and included in the financial statements is as follows:

Current (note 16)	10,844	4,999	10,844	4,871
Non Current (note 21)	7,460	8,851	7,460	8,851
	<b>18,304</b>	<b>13,850</b>	<b>18,304</b>	<b>13,722</b>
Number of employees at reporting date.	423	431	423	431

Accrued salaries are included in the current trade payables balance as disclosed in note 14

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 28 June 2003

### 24 Movement in Provisions

Movement in each class of provision during the financial year, other than employee benefits are set out below:

	<b>Workers Compen - sation</b>	<b>Environmental</b>	<b>Other</b>	<b>Total</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Consolidated - 2003</b>				
Balance at 28 June 2002	1,463	25,000	73	26,536
Additional provisions recognised	-	688	-	688
Payments / other sacrifices of economic benefits	(357)	(5,000)	(73)	(5,430)
Reductions from remeasurement	(81)	-	-	(81)
Balance at 28 June 2003	1,025	20,688	-	21,713
<b>Snowy Hydro - 2003</b>				
Balance at 28 June 2002	1,463	25,000	-	26,463
Additional provisions recognised	-	688	-	688
Payments / other sacrifices of economic benefits	(357)	(5,000)	-	(5,357)
Reductions from remeasurement	(81)	-	-	(81)
Balance at 28 June 2003	1,025	20,688	-	21,713

### 25 Contributed Equity

	<b>Consolidated</b>		<b>Snowy Hydro</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
200,000,000 fully paid ordinary shares	816,084	816,084	816,084	816,084
	<b>2003</b>		<b>2002</b>	
	<b>No. '000</b>	<b>\$000</b>	<b>No. '000</b>	<b>\$000</b>
<i>Fully Paid Ordinary Shares</i>				
Balance at beginning of financial year	200,000	816,084	-	-
Issue of shares	-	-	200,000	816,084
	200,000	816,084	200,000	816,084

Fully paid ordinary shares carry the right to dividends and voting in proportion to the number of shares held.

**Snowy Hydro Limited**  
**Notes to the Financial Statements**  
**for the Financial Year Ended 28 June 2003**

**26 Retained Profits**

	<b>Consolidated</b>		<b>Snowy Hydro</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Balance at beginning of financial year	-	-	-	-
Net profit attributable to members of the parent entity	131,671	-	75,524	-
Balance at end of financial year	131,671	-	75,524	-

**27 Dividends**

Adjusted franking account balance	32,501	486	32,501	-
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No dividends have been recommended, declared or paid during the financial year. Since the reporting date a dividend of \$70,000,000 unfranked has been declared by the directors to be paid on 12 September 2003.

Due to changes in Australian income tax legislation, from 1 July 2002 franking accounts are maintained on a 'tax paid' rather than an 'after tax distributable profits' basis. The comparative franking account balance as at 28 June 2002 has been restated on the 'tax paid' basis so as to be comparable with the disclosure as at 28 June 2003.

**28 Commitments for Expenditure**

	<b>Consolidated</b>		<b>Snowy Hydro</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
(a) <i>Capital Expenditure Commitments</i>				
Plant and equipment				
Not longer than 1 year	4,537	2,161	4,537	2,161
Longer than 1 year and not longer than 5 years	2,969	-	2,969	-
Longer than 5 years	-	-	-	-
	7,506	2,161	7,506	2,161

(b) *Lease Commitments*

The entity does not have any material finance or operating leases as lessor nor any material finance leases as lessee. A number of operating leases are held which relate to rights held by the consolidated entity to continue operations as determined in a number of agreements as part of corporatisation. They generally have a lease period of 75 years of which 74 years remain. Whilst they are not non-cancellable it is not anticipated that the consolidated entity would ever seek to cancel them.

**Operating Lease Commitments**

Not longer than 1 year	960	945	960	620
Longer than 1 year and not longer than 5 years	3,516	3,780	3,516	2,480
Longer than 5 years	43,832	43,400	43,832	43,400
	48,308	48,125	48,308	46,500

(c) *Other Expenditure Commitments*

Not longer than 1 year	5,214	6,533	5,214	6,533
Longer than 1 year and not longer than 5 years	356	1,321	356	1,321
Longer than 5 years	-	-	-	-
	5,570	7,854	5,570	7,854

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 28 June 2003

### 29 Defined Benefit Superannuation Plans

Name of Plan	Accrued Benefits \$'000	Net Market Value of Assets \$'000	(Deficiency) / Surplus \$'000	Vested Benefits \$'000
Commonwealth Superannuation Scheme ("CSS")	45,838,000	5,336,740	(40,501,260)	54,430,000
Public Sector Superannuation Scheme ("PSS")	9,189,000	4,468,238	(4,720,762)	16,629,000
Energy Industries Superannuation Scheme Pool B ("EIS")	993,138	1,194,649	201,511	830,283

These plans are government and industry wide schemes, and membership by Snowy Hydro employees represents less than 0.24% of the membership of each scheme.

The difference between the accrued benefits and net market value of plan assets have not been recognised in the financial statements. The unfunded component in CSS and PSS is to be financed, by the Commonwealth, from the Consolidated Revenue Fund at the time the superannuation benefits become payable.

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

Scheme	Date of Financial Statements	Date of Actuarial Review
CSS	30 June 2002	30 June 1999
PSS	30 June 2002	30 June 1999
EIS	30 June 2002	01 July 2000

### 30 Contingent Liabilities

Contingent liabilities of the consolidated entity as at 28 June 2003 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 and an assessment of the maximum amount for which the entity may have become liable should the claimants succeed was impractical.

Liability for Former Scheme Sites has been provided for or 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 future sites would be material.

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 28 June 2003

### 31 Controlled Entities

Name of Entity	Country of Incorporation	Ownership Interest	
		2003 %	2002 %
<b>Parent Entity</b>			
Snowy Hydro Limited	Australia		
<b>Controlled Entities</b>			
Snowy Hydro Trading Pty Ltd	Australia	100	100

Snowy Hydro is the head entity within the tax consolidated group comprising both entities listed above.

### 32 Segment Information

The consolidated entity derives all of its revenue from electricity and related products, operates wholly within New South Wales and therefore neither business nor geographical segmentation is necessary.

### 33 Related Party Disclosures

The names of directors of Snowy Hydro Limited at any time during the year are: A R Cotton, T V Charlton, A M Tansey, R H Barry and H G Davies. T V Charlton is the sole director of SHTPL.

#### (a) *Equity Interests In Related Parties*

##### **Equity Interests in Controlled Entities**

Details of the percentage of ordinary shares held in controlled entities are disclosed in note 31 to the financial statements.

#### (b) *Directors' Remuneration*

Details of directors' remuneration is disclosed in note 5 to the financial statements.

#### (c) *Directors' 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.

# Snowy Hydro Limited

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## Notes to the Financial Statements for the Financial Year Ended 28 June 2003

### 33 Related Party Disclosures (cont)

#### (e) *Other Transactions With Directors*

No transactions 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;
- One wholly-owned controlled entity.

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

Amounts receivable from and payable to entities in the wholly-owned group are disclosed in notes 7, 14 and 22 to the financial statements. During the financial year Snowy Hydro Limited provided management services to SHTPL on a cost free basis.

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 28 June 2003

### 34 Notes to the Statement of Cash Flows

#### (a) Reconciliation of Cash

For the purposes of the statement of cash flows, cash includes cash on hand, in banks and investments 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 statement of financial position as follows:

	<b>Consolidated</b>		<b>Snowy Hydro</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Cash	3,960	209,500	3,960	105,426
Investments	-	-	-	-
	<u>3,960</u>	<u>209,500</u>	<u>3,960</u>	<u>105,426</u>
<b>(b) Financing Facilities</b>				
Unsecured bank overdraft facility.				
Amount Used	-	-	-	-
Amount Unused	1,390	1,390	1,390	1,390
	<u>1,390</u>	<u>1,390</u>	<u>1,390</u>	<u>1,390</u>

Unsecured debt facilities with various maturity dates through to 2013.

Amount Used	554,586	-	554,586	-
Amount Unused	244,000	-	244,000	-
	<u>798,586</u>	<u>-</u>	<u>798,586</u>	<u>-</u>

#### (c) Reconciliation of Profit from Ordinary Activities after Related Income Tax to Net Cash Flows from Operating Activities

	<b>Consolidated</b>		<b>Snowy Hydro</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Profit from ordinary activities after	137,262	-	81,115	-
(Profit)/loss on sale of non current assets	1,487	-	1,487	-
Depreciation and amortisation of non-current assets	40,452	-	40,452	-
Increase/(decrease) in current tax liability	27,831	-	28,317	-
Increase/(decrease) in deferred tax balances	13,269	-	13,172	-
Interest received and paid to Entitlement Holders	860	-	-	-
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				-
<b>(Increase)/decrease in assets:</b>				-
Current receivables	(13,404)	-	(54,551)	-
Current inventories	261	-	261	-
Other current assets	(1,097)	-	(1,121)	-
Non current receivables	11,358	-	11,358	-
<b>Increase/(decrease) in liabilities:</b>				-
Current payables	(5,461)	-	4,524	-
Other current liabilities	22,273	-	22,273	-
Current provisions	5,910	-	6,111	-
Non current provisions	(6,279)	-	(6,279)	-
Other non current liabilities	(20,769)	-	(20,769)	-
Net cash from operating activities	<u>213,953</u>	<u>-</u>	<u>126,350</u>	<u>-</u>



# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 28 June 2003

### 34 Notes to The Statement of Cash Flows (cont)

#### (d) Businesses Acquired

A business and a controlled entity was acquired during 2002. Details of the acquisition are included here for comparative purposes as follows:

	Consolidated		Snowy Hydro	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
<b>Consideration</b>				
Cash	-	-	-	-
Ordinary shares	-	816,084	-	816,084
	-	818,086	-	818,086
<b>Fair Value of Net Assets Acquired</b>				
Current assets:				
Cash	-	209,500	-	105,426
Receivables	-	62,848	-	34,272
Inventory	-	4,273	-	4,273
Other current assets	-	3,100	-	3,076
Non-current assets:				
Receivables	-	13,920	-	13,920
Property, plant and equipment	-	1,449,289	-	1,447,278
Deferred Tax Asset	-	171,479	-	171,286
Other	-	132	-	-
Current liabilities:				
Interest bearing liabilities	-	808,678	-	808,678
Payables and Other liabilities	-	189,057	-	56,501
Non-current liabilities				
Payables and other liabilities	-	100,722	-	98,268
	-	-	-	-
Net assets acquired	-	816,084	-	816,084
Goodwill on acquisition	-	-	-	-
<b>Net Cash Inflow on Acquisition</b>				
Cash consideration	-	-	-	-
Cash balances acquired	-	209,500	-	105,426
	-	209,500	-	105,426

# Snowy Hydro Limited

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## Notes to the Financial Statements for the Financial Year Ended 28 June 2003

### 35 Financial Instruments

#### ***Significant Accounting Policies***

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, in respect of each class of financial asset and liability and equity are disclosed in Note 1 to the financial statements. In respect of derivative financial instruments the following accounting policies are applied.

#### **(a) Corporatisation**

The consolidated entity has recognised all derivative financial instruments on the Statement of Financial Position at the corporatisation date at their fair value. The fair value recognised at corporatisation date is amortised and recognised in the Statement of Financial Performance in the accounting period in which the unrealised gain or loss is scheduled to be realised. The accounting treatment for the change in fair value from the corporatisation date onwards is dependent upon whether the derivative financial instrument is designated and qualifies as a hedge transaction.

#### **(b) Hedge Transactions**

Gains and losses on hedge transactions are recognised on a cash basis in the Statement of Financial Performance. Unrealised gains and losses arising on the hedge transactions are deferred in order to align the income or expense recognition with the underlying item being hedged. Gains and losses on hedge transactions recognised at their fair value at the corporatisation date are amortised over the accounting period in which those gains and losses are scheduled to be realised. Any changes in unrealised gains or losses for those hedging transactions in existence at the date of corporatisation are deferred in order to align the income or expense recognition with the underlying item being hedged.

#### **(c) Other Transactions**

Unrealised gains or losses on transactions that are not designated as hedge transactions or do not qualify as hedge transactions are carried on the Statement of Financial Position at fair value. The change in fair value on these transactions is recognised in the Statement of Financial Performance in the accounting period in which the change in fair value occurs. Derivative financial instruments that were outstanding at corporatisation date and are not hedges will be accounted for on this basis from corporatisation date onwards.

The consolidated entity accounts for sold options on this basis and has also elected to account for bought options on this basis.

The basis for measuring fair value is described below.

#### ***Significant Terms and Conditions***

#### **(a) Swaps**

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 on a notional volume. There are other types of transactions where the resulting hedging profile materially reflects a swap type transaction. These transactions are accounted for in the same manner as swaps and are included in the table below. The consolidated entity is overall a net receiver of a fixed rate and a net payer of a floating rate.

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 28 June 2003

Swap Type	Face Value			
	0 – 12 months \$'000		Greater than 12 months \$'000	
	2003	2002	2003	2002
Receive Fixed	154,895	82,224	57,616	176,333
Pay Fixed	39,654	55,195	40,589	45,266

### (b) Options

Bought option transactions give the consolidated entity the right of exercise and are ordinarily or automatically exercised when the exercise of the option results in a net cash receipt to the consolidated entity. Sold option transactions give the counterparty to the consolidated entity the right of exercise and are ordinarily or automatically exercised by the counterparty when the exercise of the options results in a net cash payment to the counterparty.

Option Type	Face Value			
	0 – 12 months \$'000		Greater than 12 months \$'000	
	2003	2002	2003	2002
Bought	35,058	164,725	49,325	78,233
Sold	441,403	445,311	1,202,129	1,134,148

### Objectives of Derivative Financial Instruments

The consolidated entity enters into a variety of derivative financial instruments to manage the variable revenues arising from the sale of electricity.

The variability in revenue is both a function of price measured on a megawatt per hour basis (MWh) and volume despatched (MW). The consolidated entity enters into derivative transactions to manage these risks by structuring the terms and conditions of the derivative financial instruments to match the underlying price and volume related risks described. The types of derivative financial instruments include swaps, options and combinations thereof including the sale of options to derive premium income. All derivative financial instruments are transacted within prescribed market and credit risk limits.

### Interest Rate Risk

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

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 28 June 2003

2003	Average Interest Rate %	Variable Interest Rate \$'000	Fixed Interest Rate Maturity			Non-Interest Bearing '000	Total
			Less than 1 Year \$'000	1 to 5 Years \$'000	More than 5 Years \$'000		
<b>Financial Assets</b>							
Cash	4.15	3,960					3,960
Receivables	-					78,814	78,814
Other	-					4,197	4,197
<b>Financial Liabilities</b>							
Trade Payables	-					9,287	9,287
Bank loans	5.56		56,000				56,000
Provisions	-					21,713	21,713
Employee Benefits	-					18,304	18,304
Shareholder Loans	-					17,351	17,351
Bonds	5.79		246,000		252,586		498,586
Other	-					9,340	9,340

2002	Average Interest Rate %	Variable Interest Rate \$'000	Fixed Interest Rate Maturity			Non-Interest Bearing '000	Total
			Less than 1 Year \$'000	1 to 5 Years \$'000	More than 5 Years \$'000		
<b>Financial Assets</b>							
Cash	5.08	209,500					209,500
Receivables	-					76,768	76,768
Other	-					3,100	3,100
<b>Financial Liabilities</b>							
Trade Payables	-					7,356	7,356
Bank loans	5.53		808,678				808,678
Provisions	-					27,669	27,669
Employee Benefits	-					12,717	12,717
Payment to Entitlement Holders	-					123,087	123,087
Other	-					16,732	16,732

### Credit Risk

A credit risk arises from the potential that the counterparty to the derivative financial instrument will not be able to meet its contractual obligations as they fall due. The measurement of the risk can include both a current and potential exposure. The derivative financial instrument's fair value is used to quantify the entity's current credit risk. The quantification of the current credit risk includes only those derivative financial instruments contracts that have a positive fair value and does not take into account any netting arrangements that the consolidated entity has executed. Using this gross method the credit risk for the consolidated entity is \$56.6 million including those derivatives recognised on the Statement of Financial Position upon corporatisation. This method does not measure the potential credit risk that exists over the remaining maturity of the derivative contract. The credit risk for non derivative financial assets is that carried on the Statement of Financial Position.

# Snowy Hydro Limited

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## Notes to the Financial Statements for the Financial Year Ended 28 June 2003

### **Net Fair Value**

The fair value is the amount that the consolidated entity expects to pay or receive in order to settle or extinguish the financial contract. The entity uses different methodologies for determining the fair value. The methodology is dependent upon the characteristics of the financial instrument, including the financial market in which it operates. Certain estimates and judgements were required to develop the fair value amounts. The fair value at any particular point in time does not provide an indication of any future gains or losses.

#### **(a) Swaps & Swap like Instruments**

The fair value is derived from market quoted forward rates that are incorporated into generally applied discounted cash flow models. The market quoted rates are modified 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. The fair value for these instruments, including those recognised on the Statement of Financial Position upon corporatisation, as at 28 June 2003 was a loss of \$7.5 million compared to the carrying value at 28 June 2003 of \$18.1 million.

#### **(b) Options**

The option premium is the fair value of the option on the dealt date. In order to determine the fair value of the option at the reporting date, the option premium is adjusted to take into account pro-rata utilisation, if any, of the option from the effective date to the reporting date. All options are recognised on the Statement of Financial Position at fair value as at 28 June 2003.

A reasonableness check of the above is made against a fair value model utilising market quoted rates (as described above under swaps) and volatilities that are incorporated into generally applied option pricing algorithms. 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 consolidated entity utilises the option premium method to determine the fair value to the extent that the fair value model does not result in any significant divergence.

#### **(c) Financial Assets and Liabilities**

The fair value of floating rate financial assets and liabilities with interest rate resets of six months duration or less and non interest-bearing financial assets and liabilities, is considered to approximate the carrying value. The fair value 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. The fair value of fixed rate debt, greater than one year, as at the reporting date is \$255.0 million.

### **Hedges of Anticipated Future Transactions**

The consolidated entity has entered into derivative financial instruments to swap floating revenues to fixed revenues. These swaps have been dealt to match the period of the underlying exposure being hedged and as such the timing of the anticipated underlying exposure is as per the maturity of the swap contracts disclosed under Significant Terms and Conditions.

# Snowy Hydro Limited

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## Notes to the Financial Statements for the Financial Year Ended 28 June 2003

### 36 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