



ABN 17 090 574 431

Consolidated Financial Report for the Financial Year

3 July 2005 to 1 July 2006

# **Snowy Hydro Limited**

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## **Annual Financial Report**

### **for the financial year ended 1 July 2006**

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# Snowy Hydro Limited

## Directors' Report

The directors of Snowy Hydro Limited submit herewith the annual financial report for Snowy Hydro Limited and its controlled entities (here within referred to as the "consolidated entity") for the financial year 3 July 2005 to 1 July 2006. 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:

<i>Name</i>	<i>Particulars</i>
Rick Holliday-Smith BA (Hons) Appointed 15 May 2006 and elected Chairman on that date.	Chairman Mr Holliday-Smith has an extensive background in global financial markets including derivatives. He is Chairman of SFE Corporation, of Sydney Futures Exchange, of SFE Clearing Corporation, and of Austraclear. He is a director of Servcorp Limited, DCA Group Limited and Cochlear 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 HongKong Bank Limited, London.
Terry V Charlton BCom, BSc, MSc	Managing Director Terry 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. Terry is currently sole director of Snowy Hydro Trading Pty Ltd. and was appointed a director of Red Energy Limited on 12 November 2004. Previous experience in energy and utilities includes being President of Edison Mission Energy, United Kingdom, Europe, Middle East, Africa, and Group General Manager, Tubemakers of Australia Limited – Water, Oil and Gas Division.
Bruce Hogan AM BEc (Hons) Appointed 15 May 2006.	Non Executive Director Mr Hogan is a director of Metcash Limited, NSW Treasury Corporation and Chairman of State Super Financial Services Australia Ltd. He is a former Joint Managing Director of Bankers Trust Australia Limited, former Chairman of Adelaide Casino and a former director of Energy Australia, Coles Myer Limited, Funds South Australia and GIO Australia Limited.
Bruce Brook BCom BACC FCA MAICD Appointed 15 May 2006.	Non Executive Director Mr Brook is a chartered accountant with 20 years experience in the mining industry. Mr Brook is a director of Lihir Gold Limited and Consolidated Minerals Limited and a member of the Financial Reporting Council. Mr Brook has previously held executive roles with Rio Tinto as well as Pacific Dunlop, ANZ Bank and WMC Resources.

# Snowy Hydro Limited

## Directors' Report

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Peter Lowe  
MBA, BCom, FCPA, MAICD  
Appointed 15 May 2006.

Non Executive Director  
Mr Lowe is currently on the boards of Aurora Energy, GasNet Limited, Access Providers Limited, Citywide Services Pty Ltd, United Energy Distribution Holdings Pty Ltd and Multinet Group Holdings Pty Ltd, where he has been chairman since July 2004. He has also held a board role at Southern Hydro Pty Ltd.

Robert D Hogg, AO

Non Executive Director  
Robert Hogg was formerly national secretary of the Australian Labor Party. Since 1993 he has pursued a career in consulting through his company, Homax Pty Ltd which specialises in issues management. He is also currently a director of Aust Health International, a NSW state-owned company specialising in exporting health services.

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

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

Robert H Barry  
BCom, FCPA, FAICD  
Chairman to 15 May 2006.  
Resigned 15 May 2006.

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 to UBS Australia and was head of International Capital Markets for the Midland Bank Group. Robert is currently deputy chairman of AWB Limited, and a non executive director of a number of private companies.

Huw G Davies  
BSc PhD  
Resigned 15 May 2006.

Non Executive Director  
Huw Davies has extensive experience in the electricity industry, electricity reform and manufacturing having formerly been a director of CitiPower Pty Ltd, Victorian Power Exchange and an executive director of BTR Nylex. He is currently a director of Boom Logistics Ltd and Administrator of the SECV.

Arlene M Tansey  
BBA, MBA, JD(Law) FAICD  
Resigned 15 May 2006.

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 Head of Industrials and Materials for ANZ, and is a non-executive director of Sydney Ports Corporation and the Police and Community Youth Clubs.

Bruce M Cohen  
PhD (PP), MCom, LLB, BCom.  
Resigned 15 May 2006.

Non Executive Director  
Bruce Cohen was formerly Treasury Director for the Office of the Premier and Treasurer of Victoria and has also been a senior analyst / executive advisor on regulatory affairs with the Australian Bankers Association. Bruce is now a principal in private practice in the area of public policy and is also a non-executive director of Victorian Rail Track.

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

# Snowy Hydro Limited

## Directors' Report

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Glen Dewing  
BCom, MBA, FCPA,  
FCIS

Company Secretary  
Glen Dewing has over 20 years experience in auditing, finance and governance-related roles, 17 years of which have been spent with the company and its legal predecessor. Glen was admitted as a Chartered Secretary in 1995.

### Review of Operations

The consolidated entity comprises Snowy Hydro Limited ("Snowy Hydro") and its active wholly owned controlled entities; Red Energy Limited ("Red Energy"), Valley Power Pty Ltd ("Valley Power") and various inactive subsidiaries. A full list of controlled entities is provided in note 35.

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 ("KNP"). Operations consist of the generation and marketing of flexible and renewable electrical energy, ancillary services and related electricity products, and the storage and diversion of bulk water to the Murray and Murrumbidgee Rivers. Red Energy retails electricity and operates in the state of Victoria. Snowy Hydro purchased Valley Power (and associated entities), which owns and operates a 300 MW gas peaking station in Victoria on 17 October 2005. The construction of a 320 MW power station at Laverton North in Victoria was due to be completed in December 2005 and is now anticipated to be completed in the latter half of 2006.

In the financial year ended 1 July 2006, 5,343 GWh were generated and 2,775 GL of water were released. Net profit after tax was \$129,201,000. In the previous reporting period to 2 July 2005 net profit after tax was \$140,365,000 with a generation of 4,388 GWh and water releases of 2,187 GL.

### Changes in State of Affairs

Snowy Hydro acquired one hundred percent of the share capital of Valley Power and associated entities on 17 October 2005. Valley Power owns and operates a 300 MW gas peaking station in Victoria.

### 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.

# Snowy Hydro Limited

## Directors' Report

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### Environmental Regulations

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

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

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

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

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

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

### Dividends

A cash dividend of \$70.0 million (\$0.35 per share) fully franked was paid on 2 September 2005. In the year ended 2 July 2005 there were two dividends paid. A cash dividend of \$70.0 million (\$0.35 per share) fully franked was paid on 6 September 2004 and the second cash dividend of \$40.0 million (\$0.20 per share) fully franked was paid on 9 March 2005.

### Share Options

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

# Snowy Hydro Limited

## Directors' Report

### 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 some 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.

### 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, 20 board meetings and 14 committee meetings were held.

Directors	Board of Directors		Audit and Compliance Committee		Remuneration Committee		Contract Portfolio Risk Committee		Safety, Operations and Environmental Risk Committee		Safety, Operations and Environmental Risk Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
R Holliday-Smith	6	6			1	1						
T V Charlton	20	20										
B Brook	6	6							1	1		
B Hogan	6	2										
R D Hogg	20	20			5	5			2	2		
D J Klingberg	20	20			4	4			2	2		
P Lowe	6	5			1	1						
R H Barry	14	14	5	5	4	4	2	2	1	0		
B M Cohen	14	13	5	5			2	2				
H G Davies	14	14	5	5			2	2				
A M Tansey	14	14					2	2				

T V Charlton is not a member of any subcommittees.

# **Snowy Hydro Limited**

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## **Directors' Report**

### **Auditor's Independence Declaration**

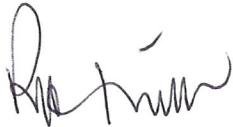
The Auditor's independence declaration is included on page 8 of the financial report.

### **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 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 17 August 2006



T V Charlton  
Managing Director  
Sydney 17 August 2006



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

17 August 2006

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 1 July 2006, 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



Samantha Lewis  
Partner  
Chartered Accountants

## **Independent audit report to the members of Snowy Hydro Limited**

### **Scope**

#### *The financial report and directors' responsibility*

The financial report comprises the balance sheet, income statement, cash flow statement, statement of recognised income and expense, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both Snowy Hydro Limited ("the Company") and the consolidated entity, for the financial year ended 1 July 2006 as set out on pages 11 to 53. 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 Accounting Standards in Australia and the Corporations Act 2001. This includes responsibility for the maintenance of adequate financial 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 Accounting Standards in Australia and the Corporations Act 2001 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, their changes in equity 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.

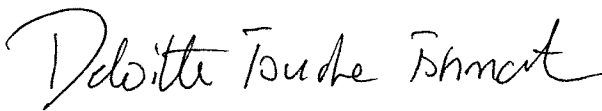
While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

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

### **Audit Opinion**

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

- (a) giving a true and fair view of the Company's and consolidated entity's financial position as at 1 July 2006 and of their performance for the year ended on that date; and
- (b) complying with Accounting Standards in Australia and the Corporations Regulations 2001.



DELOITTE TOUCHE TOHMATSU



Samantha Lewis  
Partner  
Chartered Accountants  
Sydney, 17 August 2006

# Snowy Hydro Limited

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## 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 consolidated entity.

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 35 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, 17 August 2006



T V Charlton  
Managing Director  
Sydney, 17 August 2006

# Snowy Hydro Limited

## Income Statement

### for the Financial Year Ended 1 July 2006

	Consolidated		Snowy Hydro	
	Year ended 1 July 2006 \$000	Year ended 2 July 2005 \$000	Year ended 1 July 2006 \$000	Year ended 2 July 2005 \$000
Note				
Revenue	511,463	421,476	470,320	416,831
Other income	13,063	5,227	70,247	3,148
Direct costs of revenue	(83,560)	(44,185)	(49,682)	(40,502)
Consumables and suppliers	(47,176)	(38,384)	(42,393)	(35,432)
Employee benefits expense	(63,141)	(49,723)	(51,833)	(45,483)
Depreciation and amortisation expense	(46,684)	(39,448)	(39,805)	(38,712)
Borrowing costs	(42,981)	(35,294)	(42,981)	(35,294)
Other expenses from ordinary activities	(26,309)	(19,629)	(14,277)	(15,070)
<b>Profit before movements in fair value</b>	<b>214,675</b>	<b>200,040</b>	<b>299,596</b>	<b>209,486</b>
Movements in fair value of electricity derivatives	1 (h) (19,604)	-	(19,604)	-
<b>Profit before income tax expense</b>	<b>195,071</b>	<b>200,040</b>	<b>279,992</b>	<b>209,486</b>
Income tax expense	3 (65,870)	(59,675)	(74,632)	(63,054)
<b>Profit attributable to members of the parent entity</b>	<b>2 129,201</b>	<b>140,365</b>	<b>205,360</b>	<b>146,432</b>

## Statement of Recognised Income and Expense

	Consolidated		Snowy Hydro	
	Year ended 1 July 2006 \$000	Year ended 2 July 2005 \$000	Year Ended 1 July 2006 \$000	Year Ended 2 July 2005 \$000
Cash flow hedges				
Gain / (loss) taken to equity	2,916	-	2,916	-
Initial position transferred to profit and loss	18,505	-	18,505	-
Income tax effect	(6,426)	-	(6,426)	-
<b>Net income recognised directly in equity</b>	<b>14,995</b>	<b>-</b>	<b>14,995</b>	<b>-</b>
Profit for the period	129,201	140,365	205,360	146,432
<b>Total recognised income and expense for the period attributable to the parent entity</b>	<b>144,196</b>	<b>140,365</b>	<b>220,355</b>	<b>146,432</b>

Notes to the financial statements are included on pages 15 to 53

# Snowy Hydro Limited

## Balance Sheet as at 1 July 2006

		Consolidated		Snowy Hydro	
		As at	As at	As at	As at
		1 July 2006	02 July 2005	1 July 2006	02 July 2005
Note		\$000	\$000	\$000	\$000
<b>Current Assets</b>					
Cash and cash equivalents		3,863	1,805	3,139	1,582
Receivables	6	65,353	64,894	51,314	61,617
Inventories	7	5,843	4,009	5,843	4,009
Other financial assets	8	17,419	4,651	-	4,651
Tax assets	3	30,352	-	30,352	-
Other	9	23,325	15,260	22,965	15,179
<b>Total Current Assets</b>		<b>146,155</b>	<b>90,619</b>	<b>113,613</b>	<b>87,038</b>
<b>Non Current Assets</b>					
Receivables	10	-	83,958	-	83,958
Other financial assets	11	170	4,814	263,383	15,611
Deferred tax assets	3	311,658	382,151	322,152	382,151
Goodwill	12	72,003	-	-	-
Other	13	-	9,551	-	9,526
Property, plant & equipment	14	1,747,425	1,553,128	1,595,255	1,548,730
<b>Total Non Current Assets</b>		<b>2,131,256</b>	<b>2,033,602</b>	<b>2,180,790</b>	<b>2,039,976</b>
<b>Total Assets</b>		<b>2,277,411</b>	<b>2,124,221</b>	<b>2,294,403</b>	<b>2,127,014</b>
<b>Current Liabilities</b>					
Payables	15	32,348	34,013	23,285	30,898
Interest bearing liabilities	16	250,000	-	250,000	-
Provisions	17	26,621	21,706	26,195	21,546
Tax payables	3	-	42,248	-	42,248
Other financial liabilities	18	53,678	57,422	53,678	57,422
<b>Total Current Liabilities</b>		<b>362,647</b>	<b>155,389</b>	<b>353,158</b>	<b>152,114</b>
<b>Non Current Liabilities</b>					
Trade and other payables	19	840	2,173	840	2,173
Interest-bearing liabilities	20	613,613	615,927	613,613	615,927
Provisions	21	3,130	8,692	3,042	8,692
Other	23	-	99,080	-	154,738
<b>Total Non Current Liabilities</b>		<b>617,583</b>	<b>725,872</b>	<b>617,495</b>	<b>781,530</b>
<b>Total Liabilities</b>		<b>980,230</b>	<b>881,261</b>	<b>970,653</b>	<b>933,644</b>
<b>Net Assets</b>		<b>1,297,181</b>	<b>1,242,960</b>	<b>1,323,750</b>	<b>1,193,370</b>
<b>Equity</b>					
Issued capital	25	816,084	816,084	816,084	816,084
Reserves	26	(4,140)	-	(4,140)	-
Retained profits	27	485,237	426,876	511,806	377,286
<b>Total Equity</b>		<b>1,297,181</b>	<b>1,242,960</b>	<b>1,323,750</b>	<b>1,193,370</b>

Notes to the financial statements are included on pages 15 to 53

# Snowy Hydro Limited

## Statement of Cash Flows

### for the Financial Year ended 1 July 2006

	Note	Consolidated		Snowy Hydro	
		Year ended	Year ended	Year ended	Year ended
		1 July 2006 \$000	2 July 2005 \$000	1 July 2006 \$000	2 July 2005 \$000
<b>Cash Flows from Operating Activities</b>					
Receipts from customers		541,190	442,659	487,507	439,284
Payments to suppliers and employees		(266,217)	(200,857)	(200,434)	(186,005)
Interest received		392	450	343	428
Interest and other costs of finance paid		(51,758)	(32,403)	(51,758)	(32,403)
Income tax paid		(79,804)	(48,151)	(79,804)	(50,619)
<b>Net Cash provided by Operating Activities</b>	30	143,803	161,698	155,854	170,685
<b>Cash Flows from Investing Activities</b>					
Payment for property, plant and equipment		(91,504)	(167,602)	(88,436)	(165,140)
Proceeds from sale of property, plant & equipment		7,082	1,103	7,082	1,103
Payment for business	36	(242,423)	(36)	(242,673)	(11,708)
<b>Net Cash used in Investing Activities</b>		(326,845)	(166,535)	(324,027)	(175,745)
<b>Cash Flows from Financing Activities</b>					
Proceeds from borrowings		4,343,500	1,251,000	4,343,500	1,251,000
Repayment of borrowings		(4,088,300)	(1,144,000)	(4,088,300)	(1,144,000)
Loan payment from (to) related party / controlled entity		50	(272)	(15,320)	(272)
Payment for debt issue costs		(150)	(451)	(150)	(451)
Dividends paid	28	(70,000)	(110,000)	(70,000)	(110,000)
<b>Net Cash provided by Financing Activities</b>		185,100	(3,723)	169,730	(3,723)
<b>Net Increase/(Decrease) in Cash and cash equivalents</b>		2,058	(8,560)	1,557	(8,783)
<b>Cash and cash equivalents at Beginning of Year</b>		1,805	10,365	1,582	10,365
<b>Cash and cash equivalents at End of the Year</b>		3,863	1,805	3,139	1,582

Notes to the financial statements are included on pages 15 to 53

# Snowy Hydro Limited

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# **Snowy Hydro Limited**

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## **Notes to the Financial Statements for the Financial Year Ended 1 July 2006**

### **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 Urgent Issues Group Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with the AIFRS ensures that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards ('IFRS'). The parent entity financial statements and notes also comply with IFRS except for the disclosure requirements in IAS 32 'Financial Instruments: Disclosure and Presentation' as the Australian equivalent Accounting Standard, AASB 132 'Financial Instruments: Disclosure and Presentation' does not require such disclosures to be presented by the parent entity where its separate financial statements are presented together with the consolidated financial statements of the consolidated entity.

The financial statements were authorised for issue by the directors on 17 August 2006.

#### ***Basis of Preparation***

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

In the application of AIFRS management is required to make judgments, estimates and assumptions about 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 AIFRS 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.

The consolidated entity changed its accounting policies on 3 July 2005 to comply with AIFRS. The transition to AIFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 27 June 2004 as the date of transition. Snowy Hydro elected under AASB 1 not to restate comparative information for financial instruments including derivatives, with 3 July 2005 as the date of transition for financial instruments. An explanation of how the transition from superseded policies to AIFRS has affected the company's and consolidated entity's financial position, financial performance and cash flows is discussed in note 41.

# Snowy Hydro Limited

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## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

### ***Reporting Period***

The financial year 2006 refers to 3 July 2005 to 1 July 2006. The financial year 2005 refers to 27 June 2004 to 2 July 2005.

### ***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 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.

#### ***(e) 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 35 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.

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

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.

### (f) *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.

### (g) *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 improvements</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 - 75 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>

### (h) *Derivative Financial Instruments*

Snowy Hydro enters into a variety of electricity price risk hedging contracts with participants in the National Electricity Market ("NEM") to generate revenue. 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).

#### ***Cash flow hedges entered into to manage interest rate and foreign exchange risk.***

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.

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

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 price risk hedging contracts*

The prescriptive nature of AASB 139 precludes Snowy Hydro's electricity price risk hedging contracts from being able to be designated and recognised as hedges. Consequently, all electricity price risk hedging contracts are deemed to be trading. As such all movements in the fair value of the electricity price risk hedging contracts between reporting periods are recognised in the income statement. 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 39 to the financial statements.

### Difference between AIFRS and AGAAP

Snowy Hydro elected under AASB 1 not to restate comparative information for financial instruments including derivatives, with 3 July 2005 as the date of transition for financial instruments.

Under AGAAP in order to be designated as a hedge, at inception and during the term of the hedging instrument, it had to be expected that the hedge would be effective in reducing exposure to the risks being hedged. At transition to AIFRS the items deemed to be hedged included assets and liabilities already on the balance sheet, and anticipated transactions that were probable of occurring. Snowy Hydro's electricity price risk hedging contracts were designated as hedges under AGAAP.

Gains and losses on these contracts were deferred and included in the measurement of the hedged item when the underlying forecast transaction occurred. If a derivative was terminated, sold, redesignated or was no longer effective and the anticipated transaction was still probable of occurring, gains and losses up to the time of termination, sale, redesignation or loss of effectiveness, continued to be accounted for as stated above. If the anticipated transaction was no longer probable, all deferred gains and losses were recognised immediately in the income statement. If a derivative ceased to be designated as a hedge (or did not satisfy the criteria for hedge accounting) further gains and losses were recognised in the income statement until the derivative matured or was terminated or sold.

Under the AIFRS first-time adoption rules, as at 3 July 2005 (the date of transition to AASB 139) the fair value of those electricity price risk hedging contracts previously classified as hedges under AGAAP was recorded in reserves as if hedge accounting had been achieved. The fair value of these electricity price risk hedging contracts will be recognised in the income statement as the contract period unwinds.

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

### (i) *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.

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.

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.

### (j) *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.

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

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.

### *(k) 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. During the year the entity entered into a \$250 million, 12 month facility, to fulfil its obligations in the acquisition of business disclosed in note 36. This has resulted in current liabilities being greater than current assets for this report. Negotiations have already commenced to replace this short term facility with long term debt. The entity has already had indications of favourable terms for this long term debt.

### *(l) 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.

### *(m) 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.

### *(n) 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.

# **Snowy Hydro Limited**

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## **Notes to the Financial Statements for the Financial Year Ended 1 July 2006**

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.

### *(o) 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.

# Snowy Hydro Limited

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## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

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 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.

### *(p) Inventories*

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

### *(q) Investments*

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

### *(r) 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.

### *(s) Non derivative Tradeable Assets*

Non derivative tradeable assets, including Renewable Energy Certificates (RECs), are instruments that can be traded on an open market. Non derivative tradeable assets are recognised at fair value in the statement of financial position 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.

### *(t) 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.

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.



# **Snowy Hydro Limited**

## **Notes to the Financial Statements for the Financial Year Ended 1 July 2006**

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### *(u) Receivables*

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

### *(v) 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 National Electricity Market Management Company ("NEMMCO") (ie 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 NEMMCO. The revenue recognised is based on estimated metered usage or actual metered usage.

#### Interest

Interest revenue is recognised on an accrual basis.

### *(w) Accounting standards not yet effective*

Accounting Standard AASB 119 'Employee Benefits' (December 2004) has been issued by the AASB but has not been adopted by the consolidated entity as it is not effective until annual reporting periods beginning on or after 1 January 2006. The consolidated entity will adopt the revised Accounting Standard from 2 July 2006. Application of the revised Accounting Standard will have no impact on the consolidated entity's financial position and results in the period of initial application as the consolidated entity intends to maintain its policy for defined benefit plans as described in note 32, as permitted by the new Standard.

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

	Consolidated		Snowy Hydro	
	Year ended	Year ended	Year ended	Year ended
	1 July 2006 \$000	2 July 2005 \$000	1 July 2006 \$000	2 July 2005 \$000
<b>2 Profit from Operations</b>				
<b>(a) Revenue / Other Income</b>				
Revenue from continuing operations includes the following items				
Revenue from the sale of goods	484,706	421,860	443,563	417,216
Increase (decrease) in non-derivative tradeable assets	26,757	(385)	26,757	(385)
Other	11,419	3,000	11,230	2,749
Forgiveness of debt by controlled entity	-	-	55,657	-
Profit on acquisition of business	-	1,819	-	-
Settlement of litigation	1,250	-	1,250	-
Interest income from investments	394	409	2,110	399
	<u>524,526</u>	<u>426,703</u>	<u>540,567</u>	<u>419,979</u>
<b>(b) Profit before income tax</b>				
Profit/ (loss) before income tax has been arrived at after crediting /(charging) the following gains and losses from operations				
Gain/(loss) on disposal of property, plant and equipment	5,914	696	5,914	696
Government grants received for staff training	95	9	-	-
Change in fair value of financial assets classified as fair value through profit or loss	(19,604)	-	(19,604)	-
	<u>(13,595)</u>	<u>705</u>	<u>(13,690)</u>	<u>696</u>
Profit/ (loss) before income tax has been arrived at after crediting /(charging) the following expenses				
Direct costs of revenue	(83,560)	(44,185)	(49,682)	(40,502)
Borrowing costs				
Interest on loans	(42,981)	(33,473)	(42,981)	(33,473)
Amortisation of borrowing costs	-	(1,821)	-	(1,821)
	<u>(42,981)</u>	<u>(35,294)</u>	<u>(42,981)</u>	<u>(35,294)</u>
Bad and doubtful debts from sales	<u>(590)</u>	<u>(136)</u>	<u>-</u>	<u>-</u>
Depreciation and amortisation of non-current assets	<u>(46,684)</u>	<u>(39,448)</u>	<u>(39,805)</u>	<u>(38,712)</u>
Operating lease rental expenses				
Lease payments	<u>(1,852)</u>	<u>(2,841)</u>	<u>(1,416)</u>	<u>(1,294)</u>
Employee benefits expense				
Defined contribution plans	(2,500)	(1,702)	(1,790)	(1,425)
Defined benefit plans	(3,026)	(3,075)	(3,026)	(3,075)
	<u>(5,526)</u>	<u>(4,777)</u>	<u>(4,816)</u>	<u>(4,500)</u>

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

### 3 Income taxes

#### (a) Income tax recognised in profit or loss

	Consolidated		Snowy Hydro	
	Year ended	Year ended	Year ended	Year ended
	1 July 2006 \$000	2 July 2005 \$000	1 July 2006 \$000	2 July 2005 \$000
Current tax expense / (income)	5,739	60,984	14,049	64,363
Deferred tax expense /income relating to the origination and reversal of temporary differences	60,131	(1,309)	60,583	(1,309)
Total tax expense/(income)	65,870	59,675	74,632	63,054

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	195,071	200,040	279,992	209,486
Tax expense/(income) calculated at 30%	58,521	60,012	83,998	62,846
Prior year adjustments	7,027		7,027	
Non-deductible expenses	349	41	340	41
Depreciation adjustment on property, plant & equipment	(36)	198	(36)	198
In group debt forgiveness	-	-	(16,697)	-
Other	9	(576)	-	(31)
	65,870	59,675	74,632	63,054

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 assets and liabilities

Income tax payable (receivable) is attributable to:

Parent entity	(21,319)	45,627	(21,319)	45,627
Entities in the tax-consolidation group	(9,033)	(3,379)	(9,033)	(3,379)
	(30,352)	42,248	(30,352)	42,248

#### (c) Deferred tax balances

Deferred tax balances comprise of	-	-	-	-
Tax losses	-	-	-	-
Temporary differences	311,658	382,151	322,152	382,151
Other	-	-	-	-
	311,658	382,151	322,152	382,151

Snowy Hydro and its wholly-owned Australian resident entities are eligible to consolidate for tax purposes and have elected during the current financial year 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. Entities within the tax consolidated group are listed in note 35.

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

**Snowy Hydro Limited**  
**Notes to the Financial Statements**  
**for the Financial Half year Ended 1 July 2006**

**3 (d) Income taxes (continued)**

**Consolidated**

	Opening Balance	Charged to Income	Charged to equity	Acquisitions	Other	Closing Balance
	\$'000	\$'000	\$'000	\$'000	\$'000	
<b>2005</b>						
<b>Gross deferred tax liabilities</b>						
Property Plant and equipment	-	-	-	-	-	-
Capitalised interest	-	-	-	-	-	-
Provisions	-	-	-	-	-	-
Non derivative trading instruments	11,276	(7,202)	-	-	-	4,074
Other	307	361	-	-	-	668
Balance as at 2 July 2005	11,583	(6,841)	-	-	-	4,742
<b>Gross deferred tax assets</b>						
Property Plant and equipment	349,737	(19,326)	-	-	-	330,411
Provisions	9,280	(808)	-	-	-	8,472
Derivative financial instruments	36,769	10,974	-	-	-	47,743
Other	147	120	-	-	-	267
Balance as at 2 July 2005	395,933	(9,040)	-	-	-	386,893

**2006**

<b>Gross deferred tax liabilities</b>						
Property Plant and equipment	-	-	-	4,612	-	4,612
Capitalised interest	-	5,029	-	-	-	5,029
Provisions	-	-	-	-	-	-
Non derivative trading instruments	4,074	1,542	-	-	-	5,616
Other	668	2,028	-	9,750	-	12,446
Balance as at 1 July 2006	4,742	8,599	-	14,362	-	27,703
<b>Gross deferred tax assets</b>						
Property Plant and equipment	330,411	(21,028)	-	-	-	309,383
Provisions	8,472	(294)	-	-	-	8,178
Derivative financial instruments	47,743	(30,321)	1,774	-	-	19,196
Other	267	2,214	-	123	-	2,604
Balance as at 1 July 2006	386,893	(49,429)	1,774	123	-	339,361

**Snowy Hydro**

	Opening Balance	Charged to Income	Charged to equity	Acquisitions	Other	Closing Balance
	\$'000	\$'000	\$'000	\$'000	\$'000	
<b>2005</b>						
<b>Gross deferred tax liabilities</b>						
Property Plant and equipment	-	-	-	-	-	-
Capitalised interest	-	-	-	-	-	-
Provisions	-	-	-	-	-	-
Non derivative trading instruments	11,276	(7,202)	-	-	-	4,074
Other	307	361	-	-	-	668
Balance as at 2 July 2005	11,583	(6,841)	-	-	-	4,742
<b>Gross deferred tax assets</b>						
Property Plant and equipment	349,737	(19,326)	-	-	-	330,411
Provisions	9,280	(808)	-	-	-	8,472
Derivative financial instruments	36,769	10,974	-	-	-	47,743
Other	147	120	-	-	-	267
Balance as at 2 July 2005	395,933	(9,040)	-	-	-	386,893

**2006**

<b>Gross deferred tax liabilities</b>						
Property Plant and equipment	-	-	-	-	-	-
Capitalised interest	-	5,029	-	-	-	5,029
Provisions	-	-	-	-	-	-
Non derivative trading instruments	4,074	1,542	-	-	-	5,616
Other	668	223	-	-	-	891
Balance as at 1 July 2006	4,742	6,794	-	-	-	11,536
<b>Gross deferred tax assets</b>						
Property Plant and equipment	330,411	(21,028)	-	-	-	309,383
Provisions	8,472	(671)	-	-	-	7,801
Derivative financial instruments	47,743	(34,036)	1,774	-	-	15,481
Other	267	756	-	-	-	1,023
Balance as at 1 July 2006	386,893	(54,979)	1,774	-	-	333,688

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

	Consolidated		Snowy Hydro	
	Year ended 1 July 2006	Year ended 2 July 2005	Year ended 1 July 2006	Year ended 2 July 2005
	\$	\$	\$	\$

### 4 Key management personnel remuneration

The aggregate compensation's of key management personnel of the consolidated entity and Snowy Hydro is set out below:

Short-term employee benefits	5,922,018	4,185,275	5,408,518	4,001,801
Post-employment benefits	526,987	453,662	486,937	435,516
Other long-term employee benefits	1,220,124	192,249	1,210,947	192,249
Termination benefits	-	-	-	-
	7,669,129	4,831,186	7,106,402	4,629,566

### 5 Remuneration of auditors

#### Auditor of parent entity

Audit or review of the financial report	285,343	187,790	285,343	187,790
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#### Other non-audit services

Taxation services	383,008	261,574	383,008	261,574
Business Acquisition (primarily taxation services)	301,521	41,025	301,521	41,025
Other non-audit services	69,688	1,750	69,688	1,750
	1,039,560	492,139	1,039,560	492,139

	Consolidated		Snowy Hydro	
	As at 1 July 2006	As at 2 July 2005	\$000 1 July 2006	\$000 2 July 2005
	\$000	\$000	\$000	\$000

### 6 Current trade and other receivables

Trade receivables	60,630	32,462	46,424	29,477
Option fee receivables	-	32,088	-	32,088
Other receivables	5,380	492	4,895	57
Allowance for doubtful debts	(657)	(148)	(5)	(5)
	65,353	64,894	51,314	61,617

Snowy Hydro elected under AASB 1 not to restate comparative information for financial instruments including derivatives, with 3 July 2005 as the date of transition for financial instruments. Under AIFRS all financial derivative instruments held for trading are shown as a current liability or current asset.

### 7 Inventories

Inventories at cost	5,843	4,009	5,843	4,009
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### 8 Other current financial assets

At fair value- classified as held for trading

Options	17,419	4,651	-	4,651
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Snowy Hydro elected under AASB 1 not to restate comparative information for financial instruments including derivatives, with 3 July 2005 as the date of transition for financial instruments. Under AIFRS all financial derivative instruments held for trading are shown as a current liability or current asset.

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

	Consolidated		Snowy Hydro	
	As at 1 July 2006 \$000	As at 2 July 2005 \$000	\$000 1 July 2006 \$000	\$000 2 July 2005 \$000
<b>9 Other current assets</b>				
Prepayments	4,540	1,627	4,180	1,546
Loans to related parties	65	52	65	52
Renewable Energy Certificates	18,720	13,581	18,720	13,581
	23,325	15,260	22,965	15,179
<b>10 Non current receivables</b>				
Option fees receivable	-	83,958	-	83,958

Snowy Hydro elected under AASB 1 not to restate comparative information for financial instruments including derivatives, with 3 July 2005 as the date of transition for financial instruments. Under AIFRS all financial derivative instruments held for trading are shown as a current liability or current asset.

<b>11 Other non current financial assets</b>				
Loans to controlled entities	-	-	175,442	10,772
Loans to related parties	170	220	170	220
Investment in Red Energy	-	-	25	25
Investment in Valley Power	-	-	87,746	-
Options bought	-	4,594	-	4,594
	170	4,814	263,383	15,611

Snowy Hydro elected under AASB 1 not to restate comparative information for financial instruments including derivatives, with 3 July 2005 as the date of transition for financial instruments. Under AIFRS all financial derivative instruments held for trading are shown as a current liability or current asset.

<b>12 Goodwill</b>				
<b>Net book value</b>				
At the beginning of the financial year	-	-	-	-
Additional amounts recognised from business combinations	72,003	-	-	-
At the end of the financial year	72,003	-	-	-

During the year goodwill was recognised at the purchase of Valley Power. Further information about goodwill is provided in note 31.

<b>13 Other non current assets</b>				
<b>Borrowing costs</b>				
Cost	-	13,600	-	13,600
Accumulated amortisation	-	(4,074)	-	(4,074)
Other	-	25	-	-
	-	9,551	-	9,526

Snowy Hydro elected under AASB 1 not to restate comparative information for financial instruments including derivatives, with 3 July 2005 as the date of transition for financial instruments. Under AIFRS borrowing costs are included in the fair value of the borrowings.

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

### 14 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 26 June 2004	22,640	30,954	14,439	166	1,391,056	21,377	1,480,632
Business Acquisition	-	-	1,447	938	287	-	2,672
Transfer	-	-	-	-	-	-	-
Additions	-	1,794	1,776	157	19,662	161,958	185,347
Disposals	(170)	(83)	-	-	(819)	-	(1,072)
Balance as at 2 July 2005	22,470	32,665	17,662	1,261	1,410,186	183,335	1,667,579
Business Acquisition	650	4	11	-	151,676	-	152,341
Transfer	-	-	-	-	(737)	-	(737)
Additions	-	487	3,739	644	16,176	69,494	90,540
Disposals	(733)	(136)	-	-	(2,225)	-	(3,094)
Balance at 1 July 2006	22,387	33,020	21,412	1,905	1,575,076	252,829	1,906,629
<b>Accumulated Depreciation/Amortisation</b>							
Balance as at 26 June 2004	-	(1,937)	(6,109)	(109)	(67,512)	-	(75,667)
Disposals	-	4	-	-	660	-	664
Transfer	-	-	-	-	-	-	-
Depreciation expense	-	(1,043)	(3,628)	(204)	(34,573)	-	(39,448)
Balance as at 2 July 2005	-	(2,976)	(9,737)	(313)	(101,425)	-	(114,451)
Disposals	-	7	-	-	1,924	-	1,931
Transfer	-	-	-	-	-	-	-
Depreciation expense	-	(1,077)	(4,503)	(271)	(40,833)	-	(46,684)
Balance at 1 July 2006	-	(4,046)	(14,240)	(584)	(140,334)	-	(159,204)
<b>Net Book Value</b>							
As at 2 July 2005	22,470	29,689	7,925	948	1,308,761	183,335	1,553,128
As at 1 July 2006	22,387	28,974	7,172	1,321	1,434,742	252,829	1,747,425

#### 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 26 June 2004	22,640	30,954	14,439	166	1,391,056	21,377	1,480,632
Business Acquisition	-	-	-	-	-	-	-
Transfer	-	-	-	-	-	-	-
Additions	-	1,794	935	-	18,562	161,595	182,886
Disposals	(170)	(83)	-	-	(819)	-	(1,072)
Balance as at 2 July 2005	22,470	32,665	15,374	166	1,408,799	182,972	1,662,446
Business Acquisition	-	-	-	-	-	-	-
Transfer	-	-	-	-	-	-	-
Additions	-	487	1,449	-	15,879	69,680	87,495
Disposals	(733)	(136)	-	-	(2,225)	-	(3,094)
Balance at 1 July 2006	21,737	33,016	16,823	166	1,422,453	252,652	1,746,847
<b>Accumulated Depreciation/Amortisation</b>							
Balance as at 26 June 2004	-	(1,937)	(6,109)	(110)	(67,512)	-	(75,668)
Disposals	-	4	-	-	660	-	664
Transfer	-	-	-	-	-	-	-
Depreciation expense	-	(1,043)	(3,148)	(56)	(34,465)	-	(38,712)
Balance as at 2 July 2005	-	(2,976)	(9,257)	(166)	(101,317)	-	(113,716)
Disposals	-	8	-	-	1,921	-	1,929
Transfer	-	-	-	-	-	-	-
Depreciation expense	-	(1,077)	(2,995)	-	(35,733)	-	(39,805)
Balance at 1 July 2006	-	(4,045)	(12,252)	(166)	(135,129)	-	(151,592)
<b>Net Book Value</b>							
As at 2 July 2005	22,470	29,689	6,117	-	1,307,482	182,972	1,548,730
As at 1 July 2006	21,737	28,971	4,571	-	1,287,324	252,652	1,595,255

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

	Consolidated		Snowy Hydro	
	As at	As at	As at	As at
	1 July 2006 \$000	2 July 2005 \$000	1 July 2006 \$000	2 July 2005 \$000
<b>14 Property plant and equipment (cont'd)</b>				
Aggregate depreciation allocated recognised as an expense:				
Buildings	(1,077)	(1,043)	(1,077)	(1,043)
Leasehold improvements	(271)	(204)	-	(56)
Plant and Equipment	(45,336)	(38,201)	(38,728)	(37,613)
	(46,684)	(39,448)	(39,805)	(38,712)
<b>15 Current trade and other payables</b>				
Trade payables	20,889	24,233	11,894	21,483
Other payables	10,794	9,058	10,726	8,693
Goods and services payable	665	722	665	722
	32,348	34,013	23,285	30,898
<b>16 Current interest bearing liabilities</b>				
Bank loans - unsecured	250,000	-	250,000	-
Snowy Hydro entered into a one year facility for the above amount at the time of acquisition of Valley Power in October 2005. Snowy Hydro intends to refinance this loan using bonds within the first half of the 2007 financial year.				
<b>17 Current provisions</b>				
Employee benefits	20,950	16,106	20,524	15,946
Rehabilitation of former scheme sites	5,476	5,395	5,476	5,395
Workers compensation	195	205	195	205
	26,621	21,706	26,195	21,546
<b>18 Current financial liabilities</b>				
At fair value				
Foreign currency and interest rate contracts	1,852	-	1,852	-
Option fee contracts	28,159	-	28,159	-
Electricity price risk hedging contracts.	23,667	-	23,667	-
Unearned Income	-	57,422	-	57,422
	53,678	57,422	53,678	57,422
Snowy Hydro elected under AASB 1 not to restate comparative information for financial instruments including derivatives, with 3 July 2005 as the date of transition for financial instruments. Under AIFRS borrowing costs are included in the fair value of the borrowings.				
<b>19 Non current trade and other payables</b>				
Option fee payables	-	2,173	-	2,173
Deferred consideration	840	-	840	-
	840	2,173	840	2,173
Snowy Hydro elected under AASB 1 not to restate comparative information for financial instruments including derivatives, with 3 July 2005 as the date of transition for financial instruments. Under AIFRS borrowing costs are included in the fair value of the borrowings.				
<b>20 Non current Interest bearing liabilities</b>				
Unsecured				
Bonds	491,413	498,927	491,413	498,927
Bank loans	122,200	117,000	122,200	117,000
	613,613	615,927	613,613	615,927
<b>21 Non current provisions</b>				
Employee benefits	2,503	2,614	2,503	2,614
Rehabilitation of former sites	88	5,395	-	5,395
Workers compensation	539	683	539	683
	3,130	8,692	3,042	8,692



# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

### 22 Movement in provisions

#### Consolidated

	Workers Compensation \$'000	Rehabilitation of Former Scheme Sites \$'000	Rehabilitation of current sites \$'000	Total \$'000
Balance as at 26 June 2004	1,113	15,826	-	16,939
Additional provisions recognised	30	237	-	267
Reductions from payments	(255)	(5,273)	-	(5,528)
Business acquired	-	-	-	-
Balance as at 02 July 2005	888	10,790	-	11,678
Additional provisions recognised	77	86	-	163
Reductions from payments	(230)	(5,400)	-	(5,630)
Business acquired	-	-	88	88
Balance at 1 July 2006	735	5,476	88	6,299
Current (Note 17)	195	5,476	-	5,671
Non Current (Note 21)	539	-	88	627
Balance at 1 July 2006	734	5,476	88	6,298

#### Snowy Hydro

	Workers Compensation \$'000	Rehabilitation of Former Scheme Sites \$'000	Rehabilitation of current sites \$'000	Total
Balance as at 26 June 2004	1,113	15,826	-	16,939
Additional provisions recognised	30	237	-	267
Reductions from payments	(255)	(5,273)	-	(5,528)
Business acquired	-	-	-	-
Balance as at 02 July 2005	888	10,790	-	11,678
Additional provisions recognised	77	86	-	163
Reductions from payments	(230)	(5,400)	-	(5,630)
Business acquired	-	-	-	-
Balance at 1 July 2006	735	5,476	-	6,211
Current (Note 17)	195	5,476	-	5,671
Non Current (Note 21)	539	-	-	539
Balance at 1 July 2006	734	5,476	-	6,210

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

	Consolidated		Snowy Hydro	
	As at 1 July 2006 \$000	As at 2 July 2005 \$000	As at 1 July 2006 \$000	As at 2 July 2005 \$000
<b>23 Other non current financial liabilities</b>				
Loans from related companies	-	-	-	55,658
Unearned income	-	99,080	-	99,080
	-	99,080	-	154,738

Snowy Hydro elected under AASB 1 not to restate comparative information for financial instruments including derivatives, with 3 July 2005 as the date of transition for financial instruments. Under AIFRS borrowing costs are included in the fair value of the borrowings.

<b>24 Capitalised borrowing costs</b>				
Borrowing costs capitalised during the financial year	11,628	5,136	11,628	5,136
Weighted average capitalisation rate on funds borrowed generally	6.19%	5.73%	6.19%	5.73%

<b>25 Issued capital</b>				
200,000,000 fully paid ordinary shares	816,084	816,084	816,084	816,084
	816,084	816,084	816,084	816,084

	2006		2005	
	No '000	\$'000	No '000	\$'000
Fully paid ordinary shares				
Balance at the beginning of financial year	200,000	816,084	200,000	816,084
Issue of shares	-	-	-	-
Balance at the end of financial year	200,000	816,084	200,000	816,084

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

	Consolidated		Snowy Hydro	
	As at 1 July 2006 \$000	As at 2 July 2005 \$000	As at 1 July 2006 \$000	As at 2 July 2005 \$000
<b>26 Reserves</b>				
<b>Hedging Reserves</b>				
Balance at beginning of financial year	-	-	-	-
Adjustment on adoption of AIFRS	(19,135)	-	(19,135)	-
Restated balance at beginning of financial year	(19,135)	-	(19,135)	-
Gains/(loss) recognised:				
Currency swaps	1,473	-	1,473	-
Interest rate swaps	1,443	-	1,443	-
Transfer to profit and loss	-	-	-	-
Financial instruments on transition	18,505	-	18,505	-
Deferred tax arising on hedges	(6,426)	-	(6,426)	-
	(4,140)	-	(4,140)	-

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges as well as the amounts recognised on adoption of AASB 139 relating to derivatives previously classified as hedges under AGAAP.

<b>27 Retained Earnings</b>				
Balance at the beginning of financial period	426,876	150,534	377,286	94,877
Adjustments on adoption of AIFRS	-	245,977	-	245,977
Restated balance at beginning of financial year	426,876	396,511	377,286	340,854
Net profit attributable to members of the parent entity	129,201	140,365	205,360	146,432
Deferred consideration recognised directly in equity	(840)	-	(840)	-
Dividends paid	(70,000)	(110,000)	(70,000)	(110,000)
Balance at the end of financial period	485,237	426,876	511,806	377,286

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

### 28 Dividends

	2006		2005	
	Cents per share	Total \$'000	Cents per share	Total \$'000
Fully paid ordinary shares				
Interim dividend:				
Fully franked	35.00	70,000	35.00	70,000
Final dividend				
Fully franked	-	-	20.00	40,000
	35.00	70,000	55.00	110,000
Franking account balance		34,203		54,486

### 29 Commitments for expenditure

#### (a) Capital expenditure commitments

	Consolidated		Snowy Hydro	
	As at 1 July 2006 \$000	As at 2 July 2005 \$000	As at 1 July 2006 \$000	As at 2 July 2005 \$000
Plant and Equipment				
Not longer than 1 year	49,686	62,208	49,686	62,208
Longer than 1 year and not longer than 5 years	41,843	8,899	41,843	8,899
Longer than 5 years	-	-	-	-
	91,529	71,107	91,529	71,107

#### (b) Lease commitments

Operating lease commitments				
Not longer than 1 year	2,027	3,021	1,421	1,407
Longer than 1 year and not longer than 5 years	6,413	6,753	5,469	5,415
Longer than 5 years	55,978	53,951	55,978	53,951
	64,418	63,725	62,868	60,773

Operating lease commitments include leased equipment and office space and the Kosciuszko National Park Lease. Lease of premises in Me bourne is for a future 7 years with rent escalation at 3.5% per annum. Kosciuszko National park lease is for a period of 75 years commencing in 2002 and escalates by CPI each year. Laverton land lease is for a period of 30 years commencing 2005 with a CPI escalation. Sydney office lease is for a period of 3 more years with rental escalation based on market movements. There are no restrictions imposed by any operating lease.

#### (c) Other expenditure commitments

Not longer than 1 year	703	2,333	703	2,333
Longer than 1 year and not longer than 5 years	305	2,155	305	2,155
Longer than 5 years	-	-	-	-
	1,008	4,488	1,008	4,488

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

30	Notes to the cash flow statement	Consolidated		Snowy Hydro	
		Year ended	Year ended	Year ended	Year ended
		1 July 2006	2 July 2005	1 July 2006	2 July 2005
		\$000	\$000	\$000	\$000
<b>(a) Reconciliation of Cash</b>					
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 balance sheet as follows:					
	Cash and cash equivalents	3,863	1,805	3,139	1,582
<b>(b) Financing facilities</b>					
	Unsecured bank overdraft facility				
	Amount used	-	-	-	-
	Amount unused	1,490	1,490	1,390	1,390
		1,490	1,490	1,390	1,390
	Unsecured debt facilities with various maturity dates through to 2013				
	Amount used	863,613	615,927	863,613	615,927
	Amount unused	231,000	233,000	231,000	233,000
		1,094,613	848,927	1,094,613	848,927
	Short term money market funds				
	Amount used	3,200	-	3,200	-
	Amount unused	11,800	-	11,800	-
		15,000	-	15,000	-
<b>(c) Reconciliation of profit for the period to net cash flows from operating activities</b>					
	Profit for the period	129,201	140,365	205,360	146,432
	(Profit)/loss on sale of non current assets	(5,888)	(696)	(5,888)	(696)
	Gain on acquisition of business	-	(1,819)	-	-
	Depreciation and amortisation of non current assets	48,675	41,269	41,796	40,533
	Increase/(decrease) in current tax balances	(66,412)	9,327	(72,906)	10,239
	Gain on debt forgiveness	-	-	(55,657)	-
	Movement in fair value of electricity derivatives	19,604	-	19,604	-
	Interest capitalised	(11,628)	-	(11,628)	-
	(Increase)/decrease in deferred tax balances	52,524	2,197	67,655	2,197
	<b>(Increase)/decrease in assets:</b>				
	Current receivables	(31,548)	(39,367)	(1,131)	(36,286)
	Current inventories	(834)	61	(1,834)	61
	Current financial assets	24,620	(4,651)	4,651	(4,651)
	Other current assets	(7,998)	27,417	(7,773)	27,498
	Other non current assets	4,594	(4,594)	4,594	(4,594)
	Non current receivables	83,958	(44,047)	83,958	(44,047)
	<b>Increase/(decrease) in liabilities:</b>				
	Current payables	9,494	(1,200)	4,982	(3,287)
	Other current liabilities	(31,013)	4,556	(46,004)	4,556
	Other current financial liabilities	28,159	-	28,159	-
	Current provisions	9,719	(343)	9,340	(493)
	Non current provisions	(10,341)	(4,770)	(10,341)	(4,770)
	Non current financial liabilities	(2,174)	2,173	(2,174)	2,173
	Non current payables	(99,080)	35,648	(99,080)	35,648
	Other non current liabilities	171	172	171	172
	<b>Net cash from operating activities</b>	<b>143,803</b>	<b>161,698</b>	<b>155,854</b>	<b>170,685</b>

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

### 31 Goodwill

During the year the consolidated entity recognised goodwill from the acquisition of Valley Power and associated companies. 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 and its geographical position, which allows a natural mitigation of interregional risks.

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 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 provides for a realistic pattern of replacement capital expenditure over the projection term. It also allows for step-changes in cash flows that may reasonably be expected to occur over the projection term.

In accordance with the accounting standard, the recoverable amount test discounts un-gearred, pre-tax real asset cash flows (including routine maintenance and refurbishment capital expenditure), at a pre-tax real WACC of 6.94%. 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 cashflow 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	Managements 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 AFMA. Capacity pricing (i.e. option premiums) is based on current market rates, blended into Snowy Hydro's assessment of long-term pricing based on new-entrant modeling.	Zero real growth in prices
Water inflows	The water inflow sequence underlying the projections reflects the expectation that future average inflows will be similar to past experience. The starting water balance and dam 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

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

### 32 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")	55,000,000	6,014,647	(48,895,353)	61,290,000
Public Sector Superannuation Scheme ("PSS")	13,800,000	7,583,012	(6,216,988)	26,998,000
Energy Industries Superannuation Scheme Pool B ("EIS")	1,194,956	1,579,221	384,265	1,134,967

These plans are government and industry wide schemes, and membership by Snowy Hydro employees represents less than 0.13% 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 2005	30 June 2002
PSS	30 June 2005	30 June 2002
EIS	30 June 2005	1 July 2003

### 33 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 1 July 2006 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. As at that date there were three such matters before the Tribunal.
- Snowy Hydro has entered into a number of bank guarantees in relation to operating within the NEM and for rental properties in Sydney and Melbourne to the value of \$11.5 million.

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 sites identified in the future would be material.

# **Snowy Hydro Limited**

## **Notes to the Financial Statements for the Financial Year Ended 1 July 2006**

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On 17 October 2005 Snowy Hydro purchased the Valley Power gas fired generation power station. The cost of acquisition was \$242.4 million (see note 36). 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 land rich and no stamp duty was payable. The State Revenue Office of Victoria disagrees with this assessment and has asked the Valuer General to perform a valuation. Depending on the outcome of this valuation there is a possibility that the company could owe approximately \$8 million in stamp duty.

### **34 Contingent assets**

Snowy Hydro has an engineer, procure, construct contract with a Contractor to design, procure, construct and commission a 320MW power station in Laverton, Victoria ("Laverton Power Station"). The Date for Practical completion for the Laverton Power Station was originally 1 December 2005 and has since been extended, through contractual mechanisms to approximately 11 January 2006. At the time of preparing the financial statements for the financial year ended 1 July 2006, the Laverton Power Station is still not complete. The Contractor has formally advised that Practical Completion has been delayed until approximately November 2006.

Under the contract, Snowy Hydro is entitled to liquidated damages for delay in the amount of \$250,000 per day for every day that the Practical Completion is delayed beyond the Date for Practical Completion. Liquidated damages are capped under the contract at a maximum amount of approximately \$44 million (depending on exchange rates between the Australian Dollar and the currencies in which the contract is denominated). That maximum amount is reached approximately 176 days after the Date for Practical Completion and the therefore the maximum amount has been reached.

The Contractor claims it is entitled to significant extensions of time. Snowy Hydro believes it is entitled to Liquidated Damages for delay to at least the maximum contractual amount and that the claims by the Contractor are not substantiated in the contract.

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

### 35 Controlled entities

Name of Entity	Country of Incorporation	Ownership Interest	
		2006 %	2005 %
<b>Parent Entity</b>			
Snowy Hydro Limited (b)	Australia	-	-
<b>Controlled Entities</b>			
Snowy Hydro Trading Pty Ltd (c) ("SHT")	Australia	100	100
Red Energy Pty Ltd (a) (c) ("Red Energy")	Australia	100	100
Latrobe Valley BV (c) ("LVBV")	Netherlands	100	-
Valley Power Pty Ltd (c) ("Valley Power")	Australia	100	-
Contact Peaker NZ Ltd (c) ("CPNZ")	New Zealand	100	-
Contact Peaker Australia Pty Ltd (c) ("CPA")	Australia	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:

	Consolidated	
	Year ending 1 July 2006 \$000	Year ending 2 July 2005 \$000
<b>INCOME STATEMENT</b>		
Revenue	517,040	421,476
Other income	68,732	5,227
Direct costs of revenue	(87,502)	(44,185)
Consumables and suppliers	(47,086)	(38,384)
Employee benefits expense	(63,141)	(49,723)
Depreciation and amortisation expense	(41,937)	(39,448)
Borrowing costs	(42,981)	(35,294)
Other expenses from ordinary activities	(23,872)	(19,629)
<b>Profit before movements in fair value</b>	<b>279,253</b>	<b>200,040</b>
Movements in fair value of electricity derivatives	(19,604)	-
<b>Profit before income tax expense</b>	<b>259,649</b>	<b>200,040</b>
Income tax expense	(69,098)	(59,675)
<b>Profit after income tax expense</b>	<b>190,551</b>	<b>140,365</b>



# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

### 35 Controlled entities (cont)

	Consolidated	
	As at 1 July 2006 \$000	As at 02 July 2005 \$000
<b>BALANCE SHEET</b>		
<b>Current Assets</b>		
Cash and cash equivalents	3,863	1,805
Receivables	65,667	64,894
Inventories	5,843	4,009
Other financial assets	-	4,651
Tax assets	30,352	-
Other	23,325	15,260
<b>Total Current Assets</b>	<b>129,050</b>	<b>90,619</b>
<b>Non Current Assets</b>		
Receivables	-	83,958
Other financial assets	233,855	4,814
Property, plant & equipment	1,600,566	1,553,128
Deferred tax assets	319,545	382,151
Other	-	9,551
<b>Total Non Current Assets</b>	<b>2,153,966</b>	<b>2,033,602</b>
<b>Total Assets</b>	<b>2,283,016</b>	<b>2,124,221</b>
<b>Current Liabilities</b>		
Payables	32,348	34,013
Interest bearing liabilities	250,000	-
Provisions	26,621	21,706
Tax payables	-	42,248
Other financial liabilities	53,678	57,422
<b>Total Current Liabilities</b>	<b>362,647</b>	<b>155,389</b>
<b>Non Current Liabilities</b>		
Trade and other payables	840	2,173
Interest-bearing liabilities	613,613	615,927
Provisions	3,042	8,692
Other	-	154,737
<b>Total Non Current Liabilities</b>	<b>617,495</b>	<b>781,529</b>
<b>Total Liabilities</b>	<b>980,142</b>	<b>936,918</b>
<b>Net Assets</b>	<b>1,302,874</b>	<b>1,187,303</b>
<b>Equity</b>		
Issued capital	816,084	816,084
Reserves	(4,140)	-
Retained profits	490,930	371,219
<b>Total Equity</b>	<b>1,302,874</b>	<b>1,187,303</b>

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

### 36 Acquisition of business

On 17 October 2005 Snowy Hydro purchased the Valley Power gas fired generation power station. The legal acquisition consisted of the purchase of shares in Latrobe Valley BV and Contact Peaker New Zealand.

Name of Business acquired	Principal Activity	Date of Acquisition	Proportion of shares acquired %	Cost of acquisition \$'000
Latrobe Valley BV	Investment of 60% of Valley Power generator	17 October 2005	100	145,453
Valley Power Pty Ltd	Electricity generator	17 October 2005	Wholly owned subsidiary of LVBV	
Contact Peaker NZ Ltd	Investment of 40% of Valley Power generator	17 October 2005	100	96,970
Contact Peaker Australia Pty Ltd	Electricity generator	17 October 2005	Wholly owned subsidiary of CPNZ	

Included in the net profit for the period of the consolidated entity is a loss of \$7,174,000 attributable to the additional businesses. This loss does not reflect the portfolio effects of the acquisition, which are included in the parent entity's income statement. It is impractical to estimate the effect on the consolidated entity's income statement as if the acquisition had occurred at the beginning of the reporting period, as the operations of both Valley Power and Snowy Hydro are dependent on the portfolio effect of available generation and market demand.

The fair values on acquisition listed below are provisional values as the total consideration may be effected by the stamp duty matter referred to in note 33:

Net assets acquired \$000	Book value	Fair value adjustment	Fair value on acquisition
<b>Current assets</b>			
Cash and cash equivalents	250	-	250
Trade and other receivables	312	-	312
Prepayments	28	-	28
Financial assets	-	32,500	32,500
Inventories	1,001	-	1,001
<b>Non current assets:</b>			
Property plant and equipment	153,846	(1,505)	152,341
Deferred tax benefit	123	-	123
<b>Current liabilities:</b>			
Trade and other payables	(1,435)	-	(1,435)
Unearned income	(4,888)	4,888	-
<b>Non current liabilities:</b>			
Deferred tax liability	(4,612)	(9,750)	(14,362)
Provisions	(88)	-	(88)
	144,537	26,133	170,670
Goodwill on acquisition			72,003
			242,673
<b>Consideration:</b>			
Cash			242,092
Cost of transaction			581
Cash acquired			(250)
<b>Total of consideration</b>			242,423

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

All goodwill, as calculated above, arises from the portfolio effects of this power station in conjunction with the other assets in the Snowy scheme and its geographical position which allows a natural mitigation of interregional risks. There were no additional intangible assets recognised as part of the acquisition.

In November 2004, Snowy Hydro acquired 100% of the shares of Red Energy, a Victorian-based electricity retailer.

Net assets acquired \$000	Book value	Fair value adjustment	Fair value on acquisition
<b>Current assets</b>			
Cash and cash equivalents	(11)	-	(11)
Trade and other receivables	194	-	194
<b>Non current assets:</b>			
Property plant and equipment	2,672	-	2,672
<b>Current liabilities:</b>			
Trade and other payables	(1,026)	-	(1,026)
Provisions	(10)	-	(10)
<b>Non current liabilities:</b>			
Payables	-	-	-
	1,819	-	1,819
Less Gain on acquisition			(1,819)
			-
<b>Consideration:</b>			
Cost of transaction			25
Less cash balances			11
			36

The gain on acquisition disclosed above has been reflected as an AIFRS adjustment to the comparative information in the financial statements. The Red Energy acquisition agreement has additional possible consideration of up to \$5.0 million in the form of an earn out clause if Red Energy reaches certain milestones up to the 2010 financial year. To date \$840,000 has been recognised.

### 37 Segment information

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

# Snowy Hydro Limited

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## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

### 38 Related party disclosures

The names of directors of Snowy Hydro Limited at any time during the year were: R H Barry, T V Charlton, A M Tansey, H G Davies, B M Cohen, R D Hogg, D J Klingberg, R Holliday-Smith; B Hogan, B Brook, P Lowe. T V Charlton is the sole director of SHT, LVBV, CPA, CPNZ and Valley Power. T V Charlton, I Graham and S Mikkelsen were appointed directors of Red Energy Pty Ltd on 12 November 2004.

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

Details of the percentage of ordinary shares held in controlled entities are disclosed in note 35 to the financial statements.

#### *(b) Key Management Remuneration*

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

#### *(c) Directors' and Specified Executive Loans*

A loan totalling \$270,000 was made to S Mikkelsen, a director of a controlled entity, in the financial year ended 2 July 2005 on normal terms and conditions. Repayments and interest have been received during the financial year according to the loan terms.

#### *(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 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
- Six wholly-owned controlled entities.

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

During the year, SHT forgave a loan to Snowy Hydro with the value of \$55,657,000. This loan arose in previous periods due to SHT originally holding the financial services licence for the company. Snowy Hydro applied for and was granted a financial services licence in its own name from March 2004.

Amounts receivable and payable to entities in the wholly-owned group are disclosed in notes 11 and 23 to the financial statements. 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. Snowy Hydro charged its controlled entity Red Energy interest at 6% pa on the balance of amounts receivable.

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

### 39 Financial instruments

#### *Financial risk management objectives*

Snowy Hydro uses financial instruments as an integral part of managing its business.

Snowy Hydro's strategy is to contract a portion of its generation capacity to provide a base of revenue that exceeds the fixed costs of the business. Reliance on the peaking spot market would create an unacceptable degree of revenue volatility. Entering into electricity price risk hedging contracts reduces this volatility and provides more certain coverage of fixed costs in any given year. In addition to providing a more certain base revenue, Snowy Hydro seeks to structure its contracts to capture the benefits of increased volatility and higher electricity prices as they occur.

Given the prescriptive nature of AASB 139, Snowy Hydro's electricity price risk hedging contracts do not meet the criteria for hedge accounting, and changes in the fair value of electricity price risk hedging contracts must be recognised in the income statement.

Snowy Hydro uses a Revenue at Risk ("RaR") approach when managing its business. In Snowy Hydro's RaR measurement, revenue incorporates payments arising from financial contracts settled against the spot market, offsetting 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 RaR remains within Board approved limits. These limits are only changed subject to Board approval. That framework is based on defined probability limits applying to defined monetary amounts over defined time periods.

Forward foreign exchange and interest rate swaps are used to mitigate risk on purchases in foreign currency and movements in interest rates on borrowings respectively. Snowy Hydro's forward foreign exchange and interest rate swaps qualify for hedge accounting under AASB 139.

#### *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(h) to these statements. In respect of derivative financial instruments the following accounting policies are applied.

##### (a) Electricity price risk hedging contracts

Unrealised gains or losses on transactions that are not designated as hedge transactions or do not qualify as hedge transactions are carried on the balance sheet at fair value. The change in fair value on these transactions is recognised in the income statement in the accounting period in which the change in fair value occurs.

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

### (b) Forward 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. These 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(h).

### (c) Interest rate swaps

Snowy Hydro has funded its operation with a mix of fixed and floating interest rate debt. Snowy Hydro has entered into interest rate swaps to manage its exposure to floating interest rates between 2013 and 2018. The purpose of these swaps was to effectively fix the interest rate for a further portion of the debt portfolio for five years beyond the maturity of the current outstanding fixed rate debt. The fixed interest proportion is subject to periodic review. These interest rate swaps 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(h).

The basis for measuring fair value is described below.

#### *Significant terms and conditions*

### (a) Swaps

#### (i) Electricity Swaps

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 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.

Swap Type	Face value			
	0 – 12 months \$000		Greater than 12 months \$000	
	2006	2005	2006	2005
Receive Fixed	118,916	111,182	96,959	69,527
Pay Fixed	61,896	44,804	62,795	29,968

#### (ii) Interest rate swaps

Interest rate swap transactions are those transactions where the consolidated entity pays a fixed interest rate in exchange for a floating interest rate. The table below summarises the outstanding interest rate swaps

	Average interest rate %		Notional principal amount	
	2006	2005	2006	2005
	%	%	\$000	\$000
Greater than 5 years	6.17	6.17	100,000	100,000

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

### (b) Electricity 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	
	2006	2005	2006	2005
Bought	513,207	297,009	264,240	282,105
Sold	1,105,479	1,338,684	4,493,754	2,653,007

### (c) Forward foreign exchange contracts

The following table details the forward currency contracts outstanding as at reporting date:

Outstanding contracts	Average exchange rate		Principal amount \$'000	
	2006	2005	2006	2005
Buy Japanese Yen			JPY	JPY
Less than 3 months	69.11	75.24	166,120	53,284
3 to 6 months	68.41	73.98	36,481	139,723
Longer than 6 months	64.15	68.30	348,082	604,539
Buy Euros			EUR	EUR
Less than 3 months	0.55	0.56	3,763	6,878
3 to 6 months	-	0.56	-	2,205
Longer than 6 months	-	-	-	-
Buy USD			USD	USD
Less than 3 months	0.69	0.70	1,099	1,898
3 to 6 months	-	0.69	-	699
Longer than 6 months	-	-	-	-

### 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.

	Average Interest Rate %	Variable Interest Rate \$'000	Interest Rate Reset			Non-Interest Bearing '000	Total
			Less than 1 Year \$'000	1 to 5 Years \$'000	More than 5 Years \$'000		
<b>2006</b>							
Financial Assets							
Cash	5.34	3,863	-	-	-	-	3,863
Receivables	-	-	-	-	-	65,353	65,353
Other	-	-	-	-	-	23,325	23,325
Financial Liabilities							
Trade Payables	-	-	-	-	-	20,889	20,889
Bank loans	6.65	-	372,200	-	-	-	372,200
Provisions	-	-	-	-	-	6,298	6,298
Employee Benefits	-	-	-	-	-	23,453	23,453
Interest rate swaps	6.17	(100,000)	-	-	100,000	-	-
Bonds	6.32	-	246,000	-	245,413	-	491,413



# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

	Average Interest Rate %	Variable Interest Rate \$'000	Interest Rate Reset			Non-Interest Bearing '000	Total
			Less than 1 Year \$'000	1 to 5 Years \$'000	More than 5 Years \$'000		
<b>2005</b>							
Financial Assets							
Cash	5.05	1,805	-	-	-	-	1,805
Receivables	-	-	-	-	-	148,852	148,852
Other	-	-	-	-	-	15,260	15,260
Financial Liabilities							
Trade Payables	-	-	-	-	-	24,233	24,233
Bank loans	6.10	-	117,000	-	-	-	117,000
Provisions	-	-	-	-	-	11,678	11,678
Employee Benefits	-	-	-	-	-	18,720	18,720
Interest rate swaps	6.17	(100,000)	-	-	100,000	-	-
Bonds	6.12	-	246,000	-	252,927	-	498,927

### Credit risk

A credit risk arises from the potential that the counterparty to the electricity price risk hedging contracts 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 contract's fair value is used to quantify the entity's current credit risk. The fair value of electricity 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.

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.

### 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 judgments were required by management 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

##### (i) Electricity swaps and 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 of these instruments as at 1 July 2006 was a loss of \$23,667,000 compared to a loss of \$22,567,000 as at 2 July 2005.



# **Snowy Hydro Limited**

## **Notes to the Financial Statements for the Financial Year Ended 1 July 2006**

### **(ii) Shared benefit caps**

Shared Benefit Cap contracts ("SBCs") are collars that give the counterparty the ability to change the cap strike price and MW volumes (within limits). The different MWs nominated as well as certain other factors determine the calculation of the payments under the contracts. Due to the variability of nominations and prices, the payments are not able to be predicted. As SBCs are customised contracts tailored for each counterparty, have no active market and no predictable patterns of use, there are no techniques that would provide a valuation of these instruments that is reliably measurable. As such, the initial transaction price is taken to be the best measurement of fair value.

### **(iii) Interest rate swaps**

The fair value 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 1 July 2006 was a loss of \$25,000 compared to a loss of \$1,468,000 as at 2 July 2005.

### **(b) Options**

Option type contracts are valued using 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 fair value of these instruments as at 1 July 2006 was a loss of \$10,740,000 compared to a loss of \$33,384,000 as at 2 July 2005.

### **(c) Forward foreign exchange contracts**

The fair value is obtained from the counterparty to the transaction provided the counterparty is a recognised market maker in foreign exchange contracts. The fair value of these instruments as at 1 July 2006 was a loss of \$1,827,000 compared to a loss of \$3,300,000 as at 2 July 2005.

### **(d) 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 short term 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. Other than fixed rate debt on the balance sheet of \$253.1 million, there are no financial assets or liabilities whose carrying value does not approximate fair value. The fair value of fixed rate debt was a profit of \$5.5 million as at 1 July 2006 compared to a profit of \$5.8 million 2 July 2005.

## **40 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.

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

### 41 Adoption of Australian Equivalents to International Financial Reporting Standards

The consolidated entity changed its accounting policies on 3 July 2005 to comply with AIFRS. The transition to AIFRS is accounted for in accordance with Accounting Standard AASB 1 "First time Adoption of Australian Equivalents to International Financial Reporting Standards", with 27 June 2004 as the date of transition, except for financial instruments, including derivatives where the date of transition is 3 July 2005.

The effect of the transition from superseded policies to AIFRS is set out in the following tables and the notes that accompany the tables.

#### (a) Effect of AIFRS on the balance sheet as at 27 June 2004

Effect of AIFRS on the Balance Sheet as at 31 June 2004							
Consolidated					Snowy Hydro		
			Effect of transition to			Effect of transition to	
\$000	Note	AGAAP	AIFRS	AIFRS	AGAAP	AIFRS	AIFRS
<b>Current Assets</b>							
Cash and cash equivalents		10,365	-	10,365	10,365	-	10,365
Receivables		25,331	-	25,331	25,331	-	25,331
Inventories		4,070	-	4,070	4,070	-	4,070
Tax assets		2,467	-	2,467	-	-	-
Other		42,625	-	42,625	42,625	-	42,625
<b>Total Current Assets</b>		<b>84,858</b>	<b>-</b>	<b>84,858</b>	<b>82,391</b>	<b>-</b>	<b>82,391</b>
<b>Non Current Assets</b>							
Receivables		39,911	-	39,911	39,911	-	39,911
Deferred tax assets	1	150,263	234,087	384,350	150,263	234,087	384,350
Property, plant & equipment		1,404,964	-	1,404,964	1,404,964	-	1,404,964
Other		10,897	-	10,897	10,897	-	10,897
<b>Total Non Current Assets</b>		<b>1,606,035</b>	<b>234,087</b>	<b>1,840,122</b>	<b>1,606,035</b>	<b>234,087</b>	<b>1,840,122</b>
<b>Total Assets</b>		<b>1,690,893</b>	<b>234,087</b>	<b>1,924,980</b>	<b>1,688,426</b>	<b>234,087</b>	<b>1,922,513</b>
<b>Current Liabilities</b>							
Payables		16,441	-	16,441	16,441	-	16,441
Provisions	2	17,389	4,296	21,685	17,389	4,296	21,685
Tax payables		35,388	-	35,388	35,388	-	35,388
Other		52,866	-	52,866	106,056	-	106,056
<b>Total Current Liabilities</b>		<b>122,084</b>	<b>4,296</b>	<b>126,380</b>	<b>175,274</b>	<b>4,296</b>	<b>179,570</b>
<b>Non Current Liabilities</b>							
Interest-bearing liabilities		508,756	-	508,756	508,756	-	508,756
Provisions	2	18,421	(4,603)	13,818	18,421	(4,603)	13,818
Deferred tax liabilities	1	11,583	(11,583)	-	11,583	(11,583)	-
Other		63,431	-	63,431	63,431	-	63,431
<b>Total Non Current Liabilities</b>		<b>602,191</b>	<b>(16,186)</b>	<b>586,005</b>	<b>602,191</b>	<b>(16,186)</b>	<b>586,005</b>
<b>Total Liabilities</b>		<b>724,275</b>	<b>(11,890)</b>	<b>712,385</b>	<b>777,465</b>	<b>(11,890)</b>	<b>765,575</b>
<b>Net Assets</b>		<b>966,618</b>	<b>245,977</b>	<b>1,212,595</b>	<b>910,961</b>	<b>245,977</b>	<b>1,156,938</b>
<b>Equity</b>							
Issued capital		816,084	-	816,084	816,084	-	816,084
Retained profits		150,534	245,977	396,511	94,877	245,977	340,854
<b>Total Equity</b>		<b>966,618</b>	<b>245,977</b>	<b>1,212,595</b>	<b>910,961</b>	<b>245,977</b>	<b>1,156,938</b>

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

### (b) Effect of AIFRS on the income statement for the financial year ended 2 July 2005

\$000	Note	Consolidated			Snowy Hydro		
		AGAAP	Effect of transition to AIFRS	AIFRS	AGAAP	Effect of transition to AIFRS	AIFRS
Revenue		421,476	-	421,476	416,831	-	416,831
Other income	3	3,408	1,819	5,227	3,148	-	3,148
Direct costs of revenue		(44,185)	-	(44,185)	(40,502)	-	(40,502)
Consumables and suppliers		(38,384)	-	(38,384)	(35,432)	-	(35,432)
Employee benefits expense	2	(49,682)	(41)	(49,723)	(45,442)	(41)	(45,483)
Depreciation and amortisation expense	3	(39,073)	(375)	(39,448)	(38,712)	-	(38,712)
Borrowing costs		(35,294)	-	(35,294)	(35,294)	-	(35,294)
Other expenses from ordinary activities		(19,629)	-	(19,629)	(15,070)	-	(15,070)
<b>Profit before income tax expense</b>		<b>198,637</b>	<b>1,403</b>	<b>200,040</b>	<b>209,527</b>	<b>(41)</b>	<b>209,486</b>
Income tax expense	1,4	(51,116)	(8,559)	(59,675)	(51,116)	(11,938)	(63,054)
<b>Profit attributable to members of the parent entity</b>		<b>147,521</b>	<b>(7,156)</b>	<b>140,365</b>	<b>158,411</b>	<b>(11,979)</b>	<b>146,432</b>

### (c) Effect of AIFRS on the balance sheet as at 2 July 2005

Effect of AIFRS on the Balance Sheet as at 30 July 2008							
		Consolidated			Snowy Hydro		
			Effect of transition to			Effect of transition to	
\$000	Note	AGAAP	AIFRS	AIFRS	AGAAP	AIFRS	AIFRS
<b>Current Assets</b>							
Cash and cash equivalents		1,805	-	1,805	1,582	-	1,582
Receivables		64,894	-	64,894	61,617	-	61,617
Other financial assets		4,651	-	4,651	4,651	-	4,651
Inventories		4,009	-	4,009	4,009	-	4,009
Other		15,260	-	15,260	15,179	-	15,179
<b>Total Current Assets</b>		<b>90,619</b>	<b>-</b>	<b>90,619</b>	<b>87,038</b>	<b>-</b>	<b>87,038</b>
<b>Non Current Assets</b>							
Receivables		83,958	-	83,958	83,958	-	83,958
Other financial assets	4	4,814	-	4,814	18,990	(3,379)	15,611
Deferred tax assets	1	149,897	232,254	382,151	149,897	232,254	382,151
Property, plant & equipment	3	1,551,684	1,444	1,553,128	1,548,730	-	1,548,730
Other		9,551	-	9,551	9,526	-	9,526
<b>Total Non Current Assets</b>		<b>1,799,904</b>	<b>233,698</b>	<b>2,033,602</b>	<b>1,811,101</b>	<b>228,875</b>	<b>2,039,976</b>
<b>Total Assets</b>		<b>1,890,523</b>	<b>233,698</b>	<b>2,124,221</b>	<b>1,898,139</b>	<b>228,875</b>	<b>2,127,014</b>
<b>Current Liabilities</b>							
Payables		34,013	-	34,013	30,898	-	30,898
Provisions	2	17,015	4,691	21,706	16,855	4,691	21,546
Tax payables	3	42,361	(113)	42,248	42,361	(113)	42,248
Other		57,422	-	57,422	57,422	-	57,422
<b>Total Current Liabilities</b>		<b>150,811</b>	<b>4,578</b>	<b>155,389</b>	<b>147,536</b>	<b>4,578</b>	<b>152,114</b>
<b>Non Current Liabilities</b>							
Payables		2,173	-	2,173	2,173	-	2,173
Interest-bearing liabilities		615,927	-	615,927	615,927	-	615,927
Provisions	2	13,651	(4,959)	8,692	13,651	(4,959)	8,692
Deferred tax liabilities	1	4,742	(4,742)	-	4,742	(4,742)	-
Other		99,080	-	99,080	154,738	-	154,738
<b>Total Non Current Liabilities</b>		<b>735,573</b>	<b>(9,701)</b>	<b>725,872</b>	<b>791,231</b>	<b>(9,701)</b>	<b>781,530</b>
<b>Total Liabilities</b>		<b>886,384</b>	<b>(5,123)</b>	<b>881,261</b>	<b>938,767</b>	<b>(5,123)</b>	<b>933,644</b>
<b>Net Assets</b>		<b>1,004,139</b>	<b>238,821</b>	<b>1,242,960</b>	<b>959,372</b>	<b>233,998</b>	<b>1,193,370</b>
<b>Equity</b>							
Issued capital		816,084	-	816,084	816,084	-	816,084
Retained profits		188,055	238,821	426,876	143,288	233,998	377,286
<b>Total Equity</b>		<b>1,004,139</b>	<b>238,821</b>	<b>1,242,960</b>	<b>959,372</b>	<b>233,998</b>	<b>1,193,370</b>

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

(d) Notes to the reconciliations of income and equity

(1) *Deferred tax balances*

Snowy Hydro has a deferred tax benefit relating to the difference between the accounting value and the tax value of property plant and equipment. Under superseded policies Snowy Hydro recognised the deferred tax benefit at the discounted value of expected future benefits. Under AASB 112 "Income Taxes" discounting is not allowed. This results in additional tax expense in the comparative periods. In addition deferred tax assets and deferred tax liabilities are offset within the tax consolidated group.

(2) *Employee benefits.*

Under superseded policies the provision for annual leave was required to be recorded at nominal value regardless of whether they were expected to be settled with 12 months of the reporting date.

Under AASB 119 "Employee Benefits" provisions made in respect of annual leave, 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 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. Under AASB 101 "Presentation of Financial Statements" all vested entitlements are presented as a current provision.

(3) *Business Combinations*

Snowy Hydro purchased Red Energy on 12 November 2004. This acquisition was recorded in the statement of financial position at a discount on acquisition of \$1,941,000 (at that time). This resulted in a reduction of non monetary assets (fixed assets) and consequentially a reduction in depreciation. Under AASB 3 "Business Combinations" any excess of the fair value of the identifiable assets, liabilities and contingent liabilities acquired over the cost of acquisition is to be recognised as a profit on acquisition.

(4) *Income Tax Accounting*

In accordance with AASB 1 on adoption of UIG 1052 "Tax consolidation accounting" the company has restated its 2005 comparative.

(e) Effect of AIFRS on cash flow statements

There are no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under the superseded AGAAP policies.

(f) Comparative Information for financial instruments

Snowy Hydro elected under AASB 1 "First time Adoption of Australian Equivalents to International Financial Reporting Standards" not to restate comparative information for financial instruments. The effect of changes in the accounting policies for financial instruments on the opening balance sheet as at 3 July 2005 is shown below:

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

		Consolidated			Snowy Hydro		
\$000	Note	02 July 2005	Effect of adoption	03 July 2005	02 July 2005	Effect of adoption	03 July 2005
<b>Current Assets</b>							
Cash and cash equivalents		1,805	-	1,805	1,582	-	1,582
Receivables	5	64,894	(32,088)	32,806	61,617	(32,088)	29,529
Other financial assets	5	4,651	(4,651)	-	4,651	(4,651)	-
Inventories		4,009	-	4,009	4,009	-	4,009
Other		15,260	-	15,260	15,179	-	15,179
<b>Total Current Assets</b>		<b>90,619</b>	<b>(36,739)</b>	<b>53,880</b>	<b>87,038</b>	<b>(36,739)</b>	<b>50,299</b>
<b>Non Current Assets</b>							
Receivables	5	83,958	(83,958)	-	83,958	(83,958)	-
Other financial assets	5	4,814	(4,594)	220	15,611	(4,595)	11,016
Deferred tax assets		382,151	8,199	390,350	382,151	8,199	390,350
Property, plant & equipment		1,553,128	-	1,553,128	1,548,730	-	1,548,730
Other	6	9,551	(9,527)	24	9,526	(9,526)	-
<b>Total Non Current Assets</b>		<b>2,033,602</b>	<b>(89,880)</b>	<b>1,943,722</b>	<b>2,039,976</b>	<b>(89,880)</b>	<b>1,950,096</b>
<b>Total Assets</b>		<b>2,124,221</b>	<b>(126,619)</b>	<b>1,997,602</b>	<b>2,127,014</b>	<b>(126,619)</b>	<b>2,000,395</b>
<b>Current Liabilities</b>							
Payables		34,013	-	34,013	30,898	-	30,898
Provisions		21,706	-	21,706	21,546	-	21,546
Tax payables		42,248	-	42,248	42,248	-	42,248
Other financial liabilities	5	57,422	3,296	60,718	57,422	3,296	60,718
<b>Total Current Liabilities</b>		<b>155,389</b>	<b>3,296</b>	<b>158,685</b>	<b>152,114</b>	<b>3,296</b>	<b>155,410</b>
<b>Non Current Liabilities</b>							
Trade and other payables	5	2,173	(2,173)	-	2,173	(2,173)	-
Interest-bearing liabilities	6	615,927	(9,527)	606,400	615,927	(9,527)	606,400
Provisions		8,692	-	8,692	8,692	-	8,692
Other	5	99,080	(99,080)	-	154,738	(99,080)	55,658
<b>Total Non Current Liabilities</b>		<b>725,872</b>	<b>(110,780)</b>	<b>615,092</b>	<b>781,530</b>	<b>(110,780)</b>	<b>670,750</b>
<b>Total Liabilities</b>		<b>881,261</b>	<b>(107,484)</b>	<b>773,777</b>	<b>933,644</b>	<b>(107,484)</b>	<b>826,160</b>
<b>Net Assets</b>		<b>1,242,960</b>	<b>(19,135)</b>	<b>1,223,825</b>	<b>1,193,370</b>	<b>(19,135)</b>	<b>1,174,235</b>
<b>Equity</b>							
Issued capital		816,084	-	816,084	816,084	-	816,084
Reserves	5	-	(19,135)	(19,135)	-	(19,135)	(19,135)
Retained profits		426,876	-	426,876	377,286	-	377,286
<b>Total Equity</b>		<b>1,242,960</b>	<b>(19,135)</b>	<b>1,223,825</b>	<b>1,193,370</b>	<b>(19,135)</b>	<b>1,174,235</b>

### (5) Fair value of financial instruments

Under AASB 101 "Presentation of Financial Statements" the fair value of all financial instruments, not in a hedging relationship, are to be presented as a current liability or current asset. AASB 139 "Financial Instruments: Recognition and Measurement" does not recognise the management of Snowy Hydro's electricity price risk activities using derivatives as hedging activity. Consequently all derivative transactions are deemed trading.

Under AASB 1 those derivatives that were considered to be hedges in accordance with previous accounting policies were required to be recorded as hedges on initial adoption of AASB 139. These derivatives will be recognised in the income statement as the underlying transaction occurs.

# Snowy Hydro Limited

## Notes to the Financial Statements for the Financial Year Ended 1 July 2006

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### **(6) Borrowing costs**

Snowy Hydro recorded deferred borrowing costs as an asset at the inception of its bond facility. Under AASB 139 “Financial Instruments Recognition and Measurement” financial liabilities should initially be recognised at fair value, net of transaction costs, and subsequently at amortised cost using the effective interest method. Therefore deferred borrowing costs have been netted against the total for interest bearing liabilities.

## **42 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