

Snowy Hydro Limited

and its Controlled Entities

ABN 17 090 574 431

Annual Report

For the financial period ended 30 June 2018

Contents

| | |
|---|-----------|
| Corporate Directory | 2 |
| Directors' Report | 3 |
| Operating and Financial Review | 9 |
| Consolidated Financial Report | 12 |
| Directors' Declaration | 58 |
| Auditor's Independence Declaration | 59 |
| Independent Auditor's Report | 60 |

Corporate Directory

Directors

Noel H Cornish AM, Chair
BSc (Met), MEngSc, FAICD

Paul A Broad, Managing Director
BCom (Hons), MCom (Econ)

Leeanne K Bond
BE (Chem), MBA, FIEAust, RPEQ, HonFIEAust,
CPEng Eng Exec, FAICD

Nigel J Clark
BBus (Accounting), FCPA, Grad Dip Bus, GAICD, CFTP (Snr)

The Hon. Helen L Coonan
BA, LLB

Michael F Ihlein
BBus (Accounting), FCPA, FFIN, MFEI, FAICD

Joycelyn C Morton
BEc, FCPA, FCA, FIPA, FCIS, FGIA, FAICD

W Richard Sheppard
BEc (Hons), FAICD

Principal registered office

Monaro Highway
Cooma NSW 2630
Australia

Auditors

Deloitte Touche Tohmatsu
Grosvenor Place
225 George Street
Sydney NSW 2000
Australia

Website address

www.snowyhydro.com.au

Directors' Report

In accordance with the *Corporations Act 2001*, the Directors of Snowy Hydro Limited present their report on the consolidated entity (Snowy Hydro, or the Group) consisting of Snowy Hydro Limited (the Company) and its controlled entities, for the period ended 30 June 2018.

Principal Activities

Snowy Hydro is a producer, supplier, trader and retailer of energy in the National Electricity Market (NEM) and a leading provider of risk management financial hedge contracts. In addition, we are a water manager operating under a stringent water licence. Snowy Hydro captures, stores, diverts water and releases it for the use of irrigators, town water supplies and the environment.

Snowy Hydro has more than 5500 megawatts (MW) of generating capacity across New South Wales, Victoria and South Australia including the iconic 4100MW Snowy Mountains Hydro-electric Scheme, the 300MW Valley Power gas-fired power station, the 320MW Laverton North gas-fired power station in Victoria; the 667MW gas-fired power station at Colongra in NSW and 136MW of diesel generation at Port Stanvac and Angaston in South Australia. Snowy Hydro has also established an offtake agreement with renewable developer Equis for 100MW of large-scale solar generation at Tailem Bend in South Australia, expected to commence from April 2019.

Snowy Hydro is the fourth largest retailer in the NEM through two award-winning retail energy companies - Red Energy and Lumo Energy. We bring competitive tension to the NEM which helps achieve the best price outcomes for consumers. Our retail businesses have more than one million customer accounts in the NEM including households, Small to Medium Enterprises (SMEs) and Commercial and Industrial customers (C&I) across Victoria, New South Wales, South Australia and Queensland. Snowy Hydro also operates the utilities connection business Direct Connect.

Dividends

Dividends paid during the financial year were as follows:

| \$million | 2018 | 2017 |
|---|--------------|-------|
| Final dividend | | |
| Final dividend for 2017 of 65.00 cents per share, fully franked at 30%, paid 27 October 2017 (2017: Final dividend for 2016 of 48.75 cents per share, fully franked at 30%, paid 29 October 2016) | 130.0 | 97.5 |
| Interim dividend | | |
| Interim dividend for 2018 of 67.50 cents per share, fully franked at 30%, paid 27 April 2018 (2017: Interim dividend for 2017 of 65.00 cents per share, fully franked at 30%, paid 28 April 2017) | 135.0 | 130.0 |

Since the end of the financial year, the Directors have determined a final dividend for 2018 of 65.00 cents per share, fully franked at 30%, payable on 31 October 2018.

Review of operations and future developments

A review of the operations and results of Snowy Hydro during the period is set out in the Operating and Financial Review, which is attached to and forms part of this Directors' Report. Information about likely developments in the operations of Snowy Hydro and the expected results of those operations in the future has been included in this report except to the extent disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

Significant changes in the state of affairs

On 29 June 2018, the Commonwealth of Australia completed the acquisition of the 58% and 29% shares of the Company previously owned by the New South Wales and Victorian governments respectively. The Company continues to operate as a Corporation Law company with an independent Board of Directors.

As a result of the Commonwealth assuming full ownership, the Company became subject to the Public Governance, Performance and Accountability Act 2013 (PGPA Act) and related legislative instruments, which are effective for financial reporting purposes from its 2019 annual reporting period.

In the opinion of the Directors there were no other significant changes in the state of affairs of Snowy Hydro that occurred during the financial year other than those included in this Directors' Report.

Events subsequent to balance sheet date

On 1 July 2018, Snowy Hydro became a Government Business Enterprise (GBE), subject to the Commonwealth Government Business Enterprises - Governance and Oversight Guidelines (GBE guidelines). The 2019 Annual Report will include additional disclosures as required by the PGPA Act and GBE guidelines.

On 2 July 2018, the share transfer to the Commonwealth of Australia was registered, and it became the sole owner under the Company's Constitution.

The Directors are not aware of any other matters or circumstances that have arisen since 30 June 2018, which have significantly affected, or may significantly affect the operations of Snowy Hydro in future financial years, the results of those operations in future financial years, or the state of affairs of Snowy Hydro in future financial years.

Directors and Company Secretary Information

The names of the Directors of the Company that held office during and since the end of the financial year are:



Noel H Cornish AM
BSc (Met), MEngSc, FAICD

Non-executive Director since August 2012 and Chairman since February 2015.

Other Snowy Hydro Responsibilities

Member of the Safety, Operations & Environment Risk, People and Culture and Snowy 2.0 Committees.

Experience and Expertise

Noel was previously the Chief Executive Officer of BlueScope Limited's Australian and New Zealand steel manufacturing businesses, President of NorthstarBHP LLC in Ohio USA, National President of Ai Group and Deputy Chancellor of the University of Wollongong. Noel was appointed as a Member of the Order of Australia (AM) in 2017 for his outstanding service through business leadership and community service.

Other Directorships

Chairman of IMB Limited.
Director of Forestry Corporation NSW, Venues NSW and UOW Global Enterprises (a subsidiary group of the University of Wollongong).



Paul A Broad
BCom (Hons), MCom (Econ)

Appointed Non-executive Director in June 2013 then Managing Director since July 2013.

Other Snowy Hydro Responsibilities

Member of the Retail Operations, Snowy 2.0 and Snowy 2.0 Funding Committees.

Experience and Expertise

Prior to joining Snowy Hydro Paul was the Chief Executive Officer of Infrastructure NSW, AAPT, PowerTel, Energy Australia, Sydney Water and Hunter Water. In addition he was formerly Chairman of the Hunter Development Corporation.

Other Directorships

Former Director of iiNet Limited.



The Hon. Helen L Coonan
BA, LLB

Non-executive Director since January 2014.

Other Snowy Hydro Responsibilities

Chair of the Retail Operations Committee and member of the Safety, Operations & Environment Risk and Snowy 2.0 Committees.

Experience and Expertise

Helen is a former Senator for New South Wales serving in the Australian Parliament from 1996 to 2011. In Parliament, Helen served as the Deputy Leader of the Government in the Senate. She was appointed to Cabinet as the former Minister for Communications, Information Technology and the Arts and was shareholder Minister for Telstra Corporation and Australia Post. She also served as the Minister for Revenue and Assistant Treasurer and had portfolio oversight of the Australian Taxation Office and the Australian Prudential Regulation Authority. She is the recipient of a Centenary Medal for service to the Australian Parliament.

Other Directorships

Chair of Supervised Investments Limited and Place Management NSW, Co Chair GRACosway Pty Limited, and Inaugural Chair of the Australian Financial Complaints Authority.
Director of Crown Resorts Limited and Obesity Australia Limited, Advisory Council Member JP Morgan.



Leeanne K Bond
BE (Chem), MBA, RPEQ, HonFIEAust,
CPEng Eng Exec, FAICD

Non-executive Director since November 2015.

Other Snowy Hydro Responsibilities

Chair of the Safety, Operations & Environment Risk Committee and member of the Portfolio Risk, Retail Operations and Snowy 2.0 Committees.

Experience and Expertise

Leeanne has 30 years' experience across a broad range of industrial sectors including energy, minerals, infrastructure and water resources. She is the sole director and owner of Breakthrough Energy Pty Limited, a project and business development consulting firm. Prior to this Leeanne held a number of management roles over a 10 year period with Worley Parsons in Queensland, including General Manager (Qld, NT & PNG), where she negotiated project alliances and supervised contracts and projects with many Australian and international companies. She is also currently the Executive for Diversity and Inclusion at Downer's Mining Energy and Industrial division.

Other Directorships

Chair of Synertec Corporation Limited. Director of Liquefied Natural Gas Limited, JKTech and Qado Services. Board member of Queensland Building and Construction Commission and Clean Energy Finance Corporation. Formerly a Director of Coffey International Limited.



Nigel J Clark
BBus (Accounting), FCPA, Grad Dip
Bus, GAICD, CFTP (Snr)

Non-executive Director since May 2015.

Other Snowy Hydro Responsibilities

Member of the People & Culture, Retail Operations and Snowy 2.0 Committees.

Experience and Expertise

Nigel was appointed the Executive General Manager Customer Operations of Genesis Energy in September 2016. Prior roles include Chief Commercial Officer Carlton Football Club and Managing Director Momentum Energy. Nigel held several roles at Momentum Energy including Chief Financial Officer and General Manager Commercial. He has also held the Head of Strategy and Development role at TRUenergy and the Manager Energy Developments, Eastern Australia at Alcoa Australia.

Other Directorships

Nil



Michael F Ihlein
BBus (Accounting), FCPA, FFIN, MFEI,
FAICD

Non-executive Director since August 2012.

Other Snowy Hydro Responsibilities

Chair of the People and Culture and Snowy 2.0 Funding Committees and member of the Audit & Compliance and Snowy 2.0 Committees.

Experience and Expertise

Mike was formerly Chief Executive Officer and executive director of Brambles Limited until November 2009, prior to which he was Brambles' Chief Financial Officer for four years. Mike also had a long career with Coca-Cola Amatil Limited including seven years as Chief Financial Officer and executive director and a number of senior operational, finance, business development and treasury roles including managing director of Coca-Cola Amatil Poland.

Other Directorships

Director of Scentre Group, CSR Limited, Spark Software sp. z o.o. and Kilfinan Australia Limited. Formerly a Director of Murray Goulburn Co-operative Co. Limited.



Joycelyn C Morton
BEC, FCPA, FCA, FIPA, FCIS, FGIA,
FAICD

Non-executive Director since August 2012.

Other Snowy Hydro Responsibilities

Chair of the Audit & Compliance Committee and member of the Portfolio Risk and Snowy 2.0 Committees.

Experience and Expertise

Joycelyn has more than 38 years' experience in finance and taxation having begun her career with Coopers & Lybrand (now PwC), followed by senior management roles with Woolworths Limited and global leadership roles in Australia and internationally within the Shell Group of companies. Joycelyn was National President of both CPA Australia and Professionals Australia, she has served on many committees and councils in the private, government and not-for-profit sectors.

Other Directorships

Director of Beach Energy Limited, Argo Investments Limited, Argo Global Listed Infrastructure Limited and ASC Pty Limited.
Formerly a Director of Invocare Limited, Thorn Group Limited, Crane Group Limited, Count Financial Limited and Noni B Limited.



W Richard Sheppard
BEC (Hons), FAICD

Non-executive Director since May 2015.

Other Snowy Hydro Responsibilities

Chair of the Portfolio Risk Committee and a member of the Audit & Compliance, Snowy 2.0 Funding and Snowy 2.0 Committees.

Experience and Expertise

Richard is a former Managing Director and Chief Executive Officer of Macquarie Bank Limited and chaired the boards of a number of Macquarie's listed entities. Prior to joining Macquarie Group's predecessor, Hill Samuel Australia, Richard spent seven years with the Reserve Bank. He has also served as Chairman of the Commonwealth Government's Financial Sector Advisory Council. Richard was Chairman of Eraring Energy from 2012 to 2014, and Chairman of Green State Power from 2014 to 2015.

Other Directorships

Chairman of Dexus Property Group, Director of Star Entertainment Group and the Bradman Foundation.

Company Secretaries

Praveena Karunaharan, BCom / BSc, CFA

Praveena was appointed Company Secretary on 29 June 2018. She has over 15 years' experience in senior governance, risk and compliance roles, including current Non-Executive Directorships in the not-for-profit sector.

Glen Dewing, BCom, MBA, FCPA, FCIS, FGIA, MAICD

Glen retired as Company Secretary on 29 June 2018. Glen had over 33 years experience in auditing, finance and governance related roles primarily with the Company and its legal predecessor. He was admitted as a Chartered Secretary in 1995.

Directors' Meetings

The number of meetings of the Company's board of directors and of each board committee held during the period ended 30 June 2018, and the number of meetings attended by each director were:

| Directors | Board meetings | | Committee meetings | | | | | | | | | | | | | | | |
|-------------------------|----------------|----|----------------------|---|----------------|---|---|---|--------------------|---|-------------------|---|-------------------|---|-----------|---|---|---|
| | | | Audit and Compliance | | Portfolio Risk | | Safety, Operations and Environment Risk | | People and Culture | | Retail Operations | | Snowy 2.0 Funding | | Snowy 2.0 | | | |
| | H | A | H | A | H | A | H | A | H | A | H | A | H | A | H | A | | |
| Noel H Cornish AM | 12 | 12 | | | | | 4 | 4 | 5 | 5 | | | | | | | 5 | 5 |
| Paul A Broad | 12 | 12 | | | | | | | | | 4 | 2 | 2 | 2 | | | 5 | 5 |
| The Hon. Helen L Coonan | 12 | 12 | | | | | 4 | 4 | | | 4 | 4 | | | | | 5 | 5 |
| Michael F Ihlein | 12 | 12 | 4 | 4 | | | | | 5 | 5 | | | 2 | 2 | | | 5 | 5 |
| Joycelyn C Morton | 12 | 12 | 4 | 4 | 4 | 4 | | | | | | | | | | | 5 | 5 |
| W Richard Sheppard | 12 | 11 | 4 | 4 | 4 | 4 | | | | | | | 2 | 2 | | | 5 | 5 |
| Nigel J Clark | 12 | 12 | | | | | | | 5 | 5 | 4 | 4 | | | | | 5 | 5 |
| Leeanne K Bond | 12 | 12 | | | 4 | 4 | 4 | 4 | | | 4 | 4 | | | | | 5 | 5 |

H Number of meetings held during the time the director held office or was a member of the committee during the year

A Number of meetings attended

In addition to scheduled meetings, Directors conducted visits of Company operations at various sites and met with operational management during the year.

Indemnities and insurance for Directors and Officers

Under its Constitution, the Company may indemnify current and past Directors and Officers for any liability incurred by them as a Director or Officer of the Company or its related bodies corporate to the extent allowed under law. The Constitution also permits the Company to purchase and maintain a Directors and Officers' insurance policy.

The Company has entered into agreements with current Directors and certain former Directors where they are indemnified from any loss, expense or damage in accordance with the terms and subject to the limits set by the Constitution.

The agreements stipulate that the Company will meet the full amount of any such loss, expense or damage, allowed under the law. The Company is not aware of any liability having arisen, and no claim has been made against the Company during or since the period ended 30 June 2018 under these agreements.

No indemnity has been granted to an auditor of the Company in their capacity as auditor of the Company, or any related body corporate.

During the year, the Company has paid premiums in respect of a contract insuring Directors, Company Secretary and other Officers against liabilities incurred in their capacity as Director or Officer, as the case may be, of the consolidated entity. The contract prohibits disclosure of the nature of the liabilities and the amount of the premium.

Environmental regulation

Snowy Hydro's operations are subject to environmental laws and regulations as well as project and site-specific environmental permits and approvals issued at the Federal, State and Local Government levels. These include the Kosciuszko National Park Plan of Management and the Snowy Management Plan for operations within Kosciuszko National Park; Environmental Protection Licences and Authorisations applicable to each of Snowy Hydro's generation facilities; and the Snowy Water Licence which prescribes rights and obligations with respect to the collection, diversion, storage, use and release of water within the Snowy Scheme and the release of environmental flows.

There were no environmental non-compliances resulting in regulatory action or intervention (such as infringement notices, penalties or official cautions) during the financial year. Snowy Hydro had some minor non-conformances that were not subject to regulatory action, and these were reported to the relevant regulator in line with Snowy Hydro's licence conditions and internal processes.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings. Snowy Hydro was not a party to any such proceedings during the year.

Rounding

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the Directors' Report and the Financial Report have been rounded off to the nearest one hundred thousand dollars, unless otherwise indicated.

Non-audit services

Snowy Hydro may decide to employ the external auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Snowy Hydro group of companies are important.

Non-audit services have been provided during the year by the external auditor, Deloitte Touche Tohmatsu. Disclosure of the details of these services can be found in Note 27 of the 2018 Financial Report.

The Board of Directors has considered the position, and in accordance with advice received from the Board Audit & Compliance Committee, is satisfied that the provision of the non-audit services during the year by Deloitte Touche Tohmatsu:

- is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*; and
- did not compromise the auditor independence requirements of the *Corporations Act 2001* in view of the materiality of the amounts, the nature of the services and the processes established to monitor the independence of the auditors.

Auditor's Independence Declaration

A copy of the external auditor's declaration under Section 307C of the Corporations Act in relation to the audit for the financial year is on page 59 of the Financial Report.

Signed in accordance with a resolution of the Directors



Noel H Cornish AM, Chairman
Sydney, 24 September 2018



Paul A Broad, Managing Director
Sydney, 24 September 2018

Snowy Hydro

Operating and Financial Review

For the period ended 30 June 2018

This report is attached to and forms part of the Directors' Report

Contents

| | |
|--------------------|----|
| Results Overview | 10 |
| Snowy 2.0 | 10 |
| Outlook | 11 |
| Capital Management | 11 |

Results Overview

The Operating & Financial Review includes a number of non-International Financial Reporting Standards (IFRS) financial measures. Snowy Hydro management uses these non-IFRS financial measures to assess the performance of the business and make decisions on the allocation of resources. Among these non-IFRS financial measures is Underlying Profit/(Loss) after tax. This measure is Statutory Profit/(Loss) after tax adjusted for:

- significant items (which are material items of revenue or expense that are unrelated to the underlying performance of the business); and
- changes in the fair value of financial instruments recognised in the consolidated statement of profit or loss (to remove the volatility caused by mismatches in valuing financial instruments and the underlying asset differently).

Snowy Hydro believes that Underlying Profit/(Loss) after tax provides a better understanding of its financial performance than Statutory Profit/(Loss) after tax and allows for a more relevant comparison of financial performance between financial periods.

The consolidated Statutory Profit after tax attributable to the owners of Snowy Hydro was \$210.2 million (FY17: \$310.7 million). The underlying profit after tax was \$371.1 (FY17: \$411.8 million). The following table reconciles Statutory Profit after tax to Underlying Profit after tax:

| \$million | 2018 | 2017 |
|--|--------------|-------|
| Statutory Profit after tax | 210.2 | 310.7 |
| Adjust for the following after tax items: | | |
| Changes in fair value of financial instruments | 148.9 | 98.9 |
| Snowy 2.0 feasibility study costs | 12.0 | 2.2 |
| Underlying Profit after tax | 371.1 | 411.8 |

The 2017 financial year was characterised by high water inflows and volatile market conditions, particularly in February 2017 where Snowy Hydro responded to temperature and demand extremes in New South Wales. In addition, hydro generation of 5,437 GWh contributed to the creation of 1.9 million Renewable Energy Certificates, a record for the Company.

Conversely, the 2018 financial year has emphasised the unpredictability of NEM price and volatility outcomes. The demand and price volatility expected to occur in the first quarter of calendar 2018 did not eventuate, due to a lack of significant weather volatility, unusually high coal plant availability and, consequently, peak demand levels below forecast. Resulting hydro generation volumes of 4,349GWh, 20% lower than the prior year, contributed to the lower earnings.

Considering the competitive environment, the 2% growth of Snowy Hydro's retail business, to 1.06 million customers, was a standout success. The retail businesses also maintained their market lead in customer satisfaction, with both the Red and Lumo brands highlighting the positive relationship with their customers. This performance was achieved with Cost to Serve and Cost to Acquire per customer lower than the prior period, by 3% and 2%, respectively.

Snowy 2.0

Snowy Hydro already has the capability to store and recycle significant amounts of energy, but the ongoing decarbonisation of the NEM will amplify the demand for this service. Snowy 2.0 is a critical project, bringing 350GWh of storage (or 175 hours running at full capacity) and 2,000MW of dispatchable capacity to the NEM. Snowy Hydro considers the cheap, reliable storage of energy to be the centrepiece of a corporate strategy to enable decarbonisation through wind and solar resources. In particular, the emergence of wind and solar "droughts" over timescales of months and seasons, not just intra-day, is

expected to create a scale of storage demand from the NEM that drives an economic imperative to develop Snowy 2.0 as quickly as possible.

The rise of intermittent renewable sources such as wind and solar are expected to displace a portion of coal-fired power plants over the coming decades. The characteristics of renewable generation, which generates a supply/demand mismatch, will embed a small but rapidly-growing premium for fast-start, “dispatchable” generation into the available NEM revenues. Snowy 2.0 will provide Australian businesses and households with reliable, stable and affordable energy in the future.

Snowy 2.0 will limit peak prices and the risk of extreme price volatility. It will also support renewables in the NEM by buying energy from the new renewable plants when this energy is surplus to the market’s requirements, store it as water (potential energy) in the upper storage and release it when electricity demand is high.

Snowy 2.0, along with the existing Snowy Scheme, will underpin an orderly transition from coal to renewables and help Australia meet its global climate change targets. An independent economic analysis of the changing NEM, prepared by leading financial and economic consultants Marsden Jacob Associates, has confirmed the scale, strategic location and longevity of Snowy 2.0 makes it likely to be the most economic option for the NEM to meet its key goals on reliability, price and decarbonisation.

Snowy Hydro marked a key milestone during the period with the successful completion of the Snowy 2.0 feasibility study. The Snowy Hydro Board has approved the progression of the project to a Final Investment Decision, which is anticipated in late 2018.

Outlook

Political and regulatory interest in energy market activity remains elevated. The threat of additional layers of regulation and the potential for intervention remain, in an environment where broader coordination within a national reform agenda continues to evolve.

The intense levels of Retail competition are not expected to abate in the near term. Delivery of customer growth will require innovation with our partners, sales channels and products as well as maintaining the focus on customer service and people engagement.

Snowy Hydro remains well positioned with its unique asset portfolio as the largest provider of peak energy in NSW and Victoria, critical to contributing to system security. Focus in the coming period remains on operational and portfolio risk management related to water inflows and what these imply for potential NEM outcomes and Snowy Hydro’s earnings and risk exposures.

Capital Management

Total interest-bearing liabilities were \$785.5 million at June 2018, a reduction of \$28.4 million from the June 2017 level of \$813.9 million.

Snowy Hydro holds a BBB+ Standard & Poor’s (S&P) credit rating, with the outlook upgraded from “Stable” to “Positive Watch” in March 2018. This recognised Snowy Hydro’s continually improving ratings metrics.

The strength of Snowy Hydro’s balance sheet and its focus on earnings and value-accretive investments places the Company on a solid foundation to pursue further growth in all of its business segments, and also implies that a high degree of reliance can be placed on internally generated funding sources to pursue major developments such as Snowy 2.0.

Snowy Hydro Limited and its Controlled Entities

Consolidated Financial Report

For the period ended 30 June 2018

Table of contents

| | | | |
|---|-----------|---|-----------|
| Consolidated financial report | | Notes to the consolidated financial statements | 19 |
| Consolidated statement of profit or loss | 13 | 1 Basis of preparation | 19 |
| Consolidated statement of comprehensive income | 14 | Financial performance overview | 21 |
| Consolidated statement of financial position | 15 | 2 Revenue and expenses | 21 |
| Consolidated statement of changes in equity | 17 | 3 Net finance costs | 22 |
| Consolidated statement of cash flows | 18 | 4 Income tax expense | 22 |
| Notes to the consolidated financial statements | 19 | 5 Reconciliation of profit for the period to net cash flows from operating activities | 23 |
| Directors' declaration | 58 | Balance sheet items | 24 |
| Auditor's independence declaration | 59 | 6 Trade and other receivables | 24 |
| Independent auditor's report | 60 | 7 Other financial assets | 24 |
| | | 8 Other assets | 25 |
| | | 9 Property, plant and equipment | 25 |
| | | 10 Goodwill and other intangible assets | 27 |
| | | 11 Net deferred income tax assets | 29 |
| | | 12 Current trade and other payables | 30 |
| | | 13 Provisions | 31 |
| | | 14 Interest bearing liabilities and credit facilities | 31 |
| | | 15 Other financial liabilities | 33 |
| | | Capital structure and risk management | 33 |
| | | 16 Financial instruments | 33 |
| | | 17 Issued capital | 43 |
| | | 18 Reserves | 43 |
| | | 19 Dividends | 43 |
| | | Group structure | 44 |
| | | 20 Subsidiaries | 44 |
| | | 21 Parent entity disclosures | 46 |
| | | 22 Related party disclosures | 47 |
| | | Other | 48 |
| | | 23 Defined benefit superannuation plan | 48 |
| | | 24 Commitments | 52 |
| | | 25 Contingent liabilities | 53 |
| | | 26 Subsequent events | 53 |
| | | 27 Remuneration of auditors | 54 |
| | | 28 New standards not yet applicable | 54 |

Snowy Hydro Limited and its Controlled Entities

Consolidated statement of profit or loss For the period ended 30 June 2018

| \$million | Note | 2018 | 2017 |
|--|------|--------------|-----------|
| Revenue | 2 | 2,599.0 | 2,590.6 |
| Other income | 2 | 4.4 | 2.4 |
| Direct costs of revenue | 2 | (1,489.1) | (1,414.5) |
| Consumables and supplies | | (69.8) | (70.5) |
| Employee benefits expense | | (209.4) | (212.1) |
| Depreciation and amortisation expense | 2 | (138.9) | (139.4) |
| Other expenses | | (141.9) | (123.1) |
| Changes in fair value of financial instruments | | (212.7) | (141.3) |
| Profit before net finance costs and income tax | | 341.6 | 492.1 |
| Interest income | 3 | 0.8 | 0.8 |
| Finance costs | 3 | (42.8) | (47.8) |
| Profit before income tax | | 299.6 | 445.1 |
| Income tax expense | 4 | (89.4) | (134.4) |
| Profit for the period attributable to the owners of Snowy Hydro Limited | | 210.2 | 310.7 |

The consolidated statement of profit or loss should be read in conjunction with the notes to the consolidated financial statements.

Snowy Hydro Limited and its Controlled Entities

Consolidated statement of comprehensive income For the period ended 30 June 2018

| \$million | Note | 2018 | 2017 |
|--|------|--------------|--------|
| Profit for the period | | 210.2 | 310.7 |
| Other comprehensive income | | | |
| Items that will not be reclassified subsequently to profit or loss | | | |
| Remeasurement of defined benefit obligations | 23 | 5.2 | (8.9) |
| Income tax relating to items that will not be reclassified subsequently to profit or loss | | (1.6) | 2.8 |
| | | 3.6 | (6.1) |
| Items that may be reclassified subsequently to profit or loss | | | |
| Changes in fair value of cash flow hedges | | 10.3 | 38.1 |
| Income tax relating to items that may be reclassified subsequently to profit or loss | | (3.1) | (11.0) |
| | | 7.2 | 27.1 |
| Total other comprehensive income, net of income tax | | 10.8 | 21.0 |
| Total comprehensive income for the period attributable to the owners of Snowy Hydro Limited | | 221.0 | 331.7 |

The consolidated statement of comprehensive income should be read in conjunction with the notes to the consolidated financial statements.

Snowy Hydro Limited and its Controlled Entities

Consolidated statement of financial position As at 30 June 2018

| \$million | Note | 2018 | 2017 |
|--------------------------------------|------|----------------|---------|
| Current assets | | | |
| Cash and cash equivalents | | 32.7 | 34.0 |
| Trade and other receivables | 6 | 428.8 | 382.8 |
| Inventories | | 20.0 | 19.7 |
| Other financial assets | 7 | 149.4 | 287.3 |
| Other current assets | 8 | 119.9 | 109.0 |
| Total current assets | | 750.8 | 832.8 |
| Non-current assets | | | |
| Deferred tax assets | 11 | 154.1 | 72.7 |
| Goodwill and other intangible assets | 10 | 578.9 | 595.4 |
| Property, plant & equipment | 9 | 2,003.0 | 1,970.4 |
| Other financial assets | | 0.6 | 1.5 |
| Other non-current assets | 8 | 3.2 | 89.0 |
| Total non-current assets | | 2,739.8 | 2,729.0 |
| Total assets | | 3,490.6 | 3,561.8 |

Snowy Hydro Limited and its Controlled Entities

Consolidated statement of financial position As at 30 June 2018

| \$million | Note | 2018 | 2017 |
|---|------|----------------|---------|
| Current liabilities | | | |
| Trade and other payables | 12 | 338.4 | 278.0 |
| Interest bearing liabilities | 14 | 10.4 | 215.6 |
| Provisions | 13 | 31.0 | 33.2 |
| Other financial liabilities | 15 | 143.9 | 189.0 |
| Income tax payable | | 70.5 | 77.2 |
| Total current liabilities | | 594.2 | 793.0 |
| Non-current liabilities | | | |
| Interest bearing liabilities | 14 | 775.1 | 598.3 |
| Provisions | 13 | 50.7 | 54.0 |
| Other financial liabilities | 15 | 15.3 | 17.2 |
| Total non-current liabilities | | 841.1 | 669.5 |
| Total liabilities | | 1,435.3 | 1,462.5 |
| Net Assets | | | |
| Equity | | | |
| Issued capital | 17 | 816.1 | 816.1 |
| Reserves | 18 | (13.4) | (20.6) |
| Retained earnings | | 1,252.6 | 1,303.8 |
| Total equity attributable to the owners of Snowy Hydro Limited | | 2,055.3 | 2,099.3 |

The consolidated statement of financial position should be read in conjunction with the notes to the consolidated financial statements.

Snowy Hydro Limited and its Controlled Entities

Consolidated statement of changes in equity For the period ended 30 June 2018

| \$million | Issued capital | Hedging reserve | Retained earnings | Total attributable to the owners of Snowy Hydro Limited |
|---|-------------------|--------------------|----------------------|--|
| Balance as at 2017 | 816.1 | (20.6) | 1,303.8 | 2,099.3 |
| Profit for the period | - | - | 210.2 | 210.2 |
| Other comprehensive income for the period, net of tax | - | 7.2 | 3.6 | 10.8 |
| Dividends paid | - | - | (265.0) | (265.0) |
| Balance as at 2018 | 816.1 | (13.4) | 1,252.6 | 2,055.3 |
| Balance as at 2016 | 816.1 | (47.7) | 1,226.7 | 1,995.1 |
| Profit for the period | - | - | 310.7 | 310.7 |
| Other comprehensive income/(loss) for the period, net of tax | - | 27.1 | (6.1) | 21.0 |
| Dividends paid | - | - | (227.5) | (227.5) |
| Balance as at 2017 | 816.1 | (20.6) | 1,303.8 | 2,099.3 |

The consolidated statement of changes in equity should be read in conjunction with the notes to the consolidated financial statements.

Snowy Hydro Limited and its Controlled Entities

Consolidated statement of cash flows For the period ended 30 June 2018

| \$million | Note | 2018 | 2017 |
|---|------|----------------|-----------|
| Receipts from customers | | 2,757.4 | 2,722.5 |
| Payments to suppliers & employees | | (2,104.2) | (1,965.9) |
| Interest received | | 0.8 | 0.8 |
| Interest and other costs of finance paid | | (42.4) | (45.2) |
| Income tax paid, net of refunds received | | (182.3) | (70.4) |
| Net cash provided by operating activities | 5 | 429.3 | 641.8 |
| Cash flows from investing activities | | | |
| Payments for property, plant & equipment | | (99.1) | (36.6) |
| Proceeds from sale of property, plant & equipment | | 0.3 | 0.3 |
| Payments for intangible assets | | (37.1) | (29.8) |
| Net cash used in investing activities | | (135.9) | (66.1) |
| Cash flows from financing activities | | | |
| Repayment of borrowings | | (27.1) | (325.3) |
| Payment for debt issues | | (2.6) | (0.7) |
| Dividends paid | 19 | (265.0) | (227.5) |
| Net cash used in financing activities | | (294.7) | (553.5) |
| Net (decrease) / increase in cash | | (1.3) | 22.2 |
| Cash at beginning of period | | 34.0 | 11.8 |
| Cash at end of the period | | 32.7 | 34.0 |

The consolidated statement of cash flows should be read in conjunction with the notes to the consolidated financial statements.

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

1 Basis of preparation

Snowy Hydro Limited (the Company) is a for profit entity limited by shares, incorporated and domiciled in Australia. Its shares are privately held by the Commonwealth Government and it operates as a Corporations Law company with an independent Board of Directors.

The consolidated financial statements comprise the Company and its controlled entities (together referred to as Snowy Hydro or the Group).

The nature of the operations and principal activities of Snowy Hydro are described in the Directors' Report and are consistent with the information disclosed in the Annual Financial Report 2018.

Statement of compliance

The consolidated financial statements are general purpose financial statements and have been prepared in accordance with the Corporations Act 2001, applicable Accounting Standards and Interpretations, and comply with other requirements of the law.

The consolidated financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The consolidated financial statements were authorised for issue by the Directors on 24 September 2018.

Basis of preparation

These consolidated financial statements have been prepared on the basis of historical cost, except for derivative financial instruments and environmental scheme certificates, which have been measured at fair value. Cost is based on the fair value of the consideration given in exchange for assets.

All amounts are presented in Australian dollars.

Unless otherwise shown in the financial statements, amounts have been rounded to the nearest tenth of a million dollars and are shown by \$million. Snowy Hydro is a company of the kind referred to in the Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191, dated 24 March 2016.

Basis of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the Company and its controlled entities as defined in Accounting Standard AASB 127 "Consolidated and Separate Financial Statements". A list of controlled entities appears in Note 20 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of each controlled entity from the date on which the Company obtains control and until such time as the Company ceases to control such entity. In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

Where the cost of the acquisition exceeded the fair value of the identifiable assets, liabilities and contingent liabilities, acquired goodwill has been recognised in the consolidated statement of financial position. 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 statement of profit or loss as a gain on acquisition.

Reporting Period

Reporting period has the same meaning as financial year for the purposes of the Corporations Act 2001 (Cwlth). The reporting period 2018 refers to 2 July 2017 to 30 June 2018. The reporting period 2017 refers to 3 July 2016 to 1 July 2017.

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

1 Basis of preparation (continued)

Critical accounting judgements and key sources of estimation uncertainty

Critical judgement and key assumptions that management has made that have the most significant effect on the amounts recognised in the financial statements are detailed in the notes below:

| Note | Judgement/ Estimation |
|------|------------------------------------|
| 2 | Revenue recognition |
| 6 | Provision for doubtful debts |
| 8 | Environmental scheme certificates |
| 10 | Impairment of goodwill |
| 16 | Valuation of financial instruments |

Adoption of new and revised accounting standards

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

Notes to the Financial Report

The notes are organised into the following sections:

Financial performance overview

Provides a breakdown of individual line items in the consolidated statement of financial performance, and other information that is considered most relevant to users of the annual report.

Balance sheet items

Provides a breakdown of individual line items in the consolidated statement of financial position that are considered most relevant to users of the annual report.

Capital structure and risk management

Provides information about the capital management practices of Snowy Hydro and shareholder returns for the year. This section also discusses Snowy Hydro’s exposure to various financial risks, explains how these affect Snowy Hydro’s financial position and performance and what Snowy Hydro does to manage these risks.

Group structure

Explains aspects of the Snowy Hydro structure and the impact of this structure on the financial position and performance of Snowy Hydro.

Other

Provides information on items which require disclosure to comply with Australian Accounting Standards and other regulatory pronouncements; and provides information about items that are not recognised in the financial statements but could potentially have a significant impact on Snowy Hydro’s financial position and performance.

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

Financial Performance Overview

2 Revenue and expenses

| \$million | 2018 | 2017 |
|---|-----------|-----------|
| Revenue/ Other income | | |
| Revenue from the sale of goods | 2,588.8 | 2,453.6 |
| Increase in fair value of environmental scheme certificates | 10.2 | 137.0 |
| Other income | 4.4 | 2.4 |
| Expenses | | |
| Loss on disposal of property, plant and equipment | (1.6) | (0.5) |
| Direct costs of revenue | (1,489.1) | (1,414.5) |
| Bad and doubtful debts | (20.6) | (23.1) |
| Amortisation | (53.7) | (55.1) |
| Depreciation | (85.2) | (84.3) |
| Operating lease expenses | (13.5) | (7.6) |
| Defined contribution plans | (14.4) | (11.8) |

Recognition and measurement

- Revenue:** is recognised and measured at fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to Snowy Hydro and the revenue can be reliably measured.
 Revenue from sale of electricity and gas is recognised on delivery of the product. At the end of each reporting period, electricity and gas revenue includes an accrual for energy delivered to customers but not yet billed (unbilled revenue).
 Changes in the fair value of environmental certificates are recognised in revenue.
- Operating lease expense:** payments made under operating leases (net of any incentives received from the lessor) are expensed on a straight-line basis over the period of the lease.

Critical accounting estimate - Unbilled revenue

At the end of each reporting period, the volume of energy supplied since a customer's last bill is estimated in determining unbilled revenue. This estimation requires judgement and is based on historical customer consumption patterns. Related to this are unbilled network expenses of unread electricity and gas meters which are estimated based on historical customer consumption patterns.

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

3 Net finance costs

| \$million | 2018 | 2017 |
|-----------------------------------|---------------|---------------|
| Interest expense and funding cost | (34.0) | (39.6) |
| Interest rate hedge costs | (9.3) | (8.2) |
| Finance costs capitalised | 0.5 | - |
| Finance costs | (42.8) | (47.8) |
| Interest income | 0.8 | 0.8 |
| Net Finance costs | (42.0) | (47.0) |

Recognition and measurement

- **Interest income and expense:** are accrued on a time basis, by reference to the principal outstanding and at the applicable effective interest rates. Interest costs directly attributable to the acquisition or construction of qualifying assets are added to the cost of those assets. The weighted average capitalisation rate on funds borrowed for finance costs capitalised is 3.82%.
- **Finance lease expense:** Assets held under finance lease are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

4 Income tax expense

Reconciliation of income tax expense charged to the consolidated statement of profit or loss:

| \$million | 2018 | 2017 |
|---|---------------|----------------|
| Profit from operations | 299.6 | 445.1 |
| Tax expense calculated at 30% | (89.9) | (133.5) |
| Prior year adjustments | 0.8 | (0.9) |
| Non-deductible expenses | (1.2) | (0.4) |
| Research and development concession | 0.9 | 0.4 |
| Total income tax expense on profit | (89.4) | (134.4) |
| Comprising of: | | |
| Current tax expense | (175.5) | (152.8) |
| Deferred tax income | 86.1 | 18.4 |
| Total income tax expense on profit | (89.4) | (134.4) |

The tax rate used in the above reconciliation is the corporate tax 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.

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

4 Income tax expense (continued)

Snowy Hydro and its wholly-owned Australian resident entities are eligible to consolidate for tax purposes and elected to be taxed as a single entity from 1 July 2003. The head entity in the tax consolidated group is Snowy Hydro Ltd. Entities within the tax consolidated group are listed in note 20.

Recognition and measurement

Current and deferred tax is recognised as an expense in the consolidated statement of profit or loss except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from an initial accounting for a business acquisition, in which case it is taken into account in the determination of goodwill.

5 Reconciliation of profit for the period to net cash flows from operating activities

| \$million | 2018 | 2017 |
|---|--------------|--------------|
| Profit for the period | 210.2 | 310.7 |
| Adjustments for: | | |
| Loss on sale of non-current assets | 1.6 | 0.5 |
| Depreciation and amortisation of current and non-current assets | 139.7 | 141.1 |
| Changes in fair value of cash flow hedges recognised in equity | 10.3 | 38.1 |
| Remeasurement of defined benefit obligations recognised in equity | 5.2 | (8.9) |
| Income tax expense recognised in equity | (4.7) | (8.2) |
| | 362.3 | 473.3 |
| Changes in assets and liabilities: | | |
| (Increase)/ decrease in trade and other receivables | (46.0) | (26.0) |
| (Increase)/ decrease in inventories | (0.3) | 3.6 |
| (Increase)/ decrease in current other financial assets | 137.9 | 87.6 |
| (Increase)/ decrease in other current assets | (10.9) | 7.3 |
| (Increase)/ decrease in non-current other financial assets | 0.9 | (1.5) |
| (Increase)/ decrease in other non-current assets | 85.8 | (89.0) |
| (Increase)/ decrease in deferred tax assets | (81.4) | (10.2) |
| Increase/ (decrease) in trade and other payables | 42.6 | 15.8 |
| Increase/ (decrease) in current provisions | (2.2) | 1.3 |
| Increase/ (decrease) in current other financial liabilities | (45.1) | 98.8 |
| Increase/ (decrease) in non-current provisions | (5.7) | 23.8 |
| Increase/ (decrease) in non-current other financial liabilities | (1.9) | (25.4) |
| Increase/ (decrease) in current tax liabilities | (6.7) | 82.4 |
| Net cash flows from operating activities | 429.3 | 641.8 |

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

Balance Sheet Items

6 Trade and other receivables

| \$million | 2018 | 2017 |
|--|--------------|--------------|
| Trade receivables | 454.5 | 409.8 |
| Allowance for doubtful debts | (25.7) | (27.0) |
| Total trade and other receivables | 428.8 | 382.8 |

Movement in the allowance for doubtful debts is as follows:

| | | |
|---|-------------|-------------|
| Balance at beginning of period | 27.0 | 31.8 |
| Impairment loss recognised on receivables | 20.6 | 23.1 |
| Amounts written off as uncollectible | (21.9) | (27.9) |
| Balance at end of period | 25.7 | 27.0 |

The ageing analysis of trade receivables and allowance for doubtful debts is as follows:

| | 2018 | | 2017 | |
|----------------------|--------------|-------------|--------------|-------------|
| | Total | Allowance | Total | Allowance |
| Not past due | 399.0 | 5.1 | 354.1 | 6.2 |
| Past due 0-30 days | 24.7 | 1.4 | 22.1 | 1.8 |
| Past due 31-90 days | 11.6 | 1.6 | 13.3 | 3.0 |
| Greater than 90 days | 19.2 | 17.6 | 20.3 | 16.0 |
| | 454.5 | 25.7 | 409.8 | 27.0 |

Recognition and measurement

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

Critical accounting estimate - Provision for doubtful debts

Snowy Hydro recognises an allowance for doubtful debts based on a percentage of total trade receivables that reflects expected write-offs of uncollectible revenue. Recovery action is taken where it is appropriate to the circumstances of the particular debt.

7 Other financial assets

| \$million | 2018 | 2017 |
|---|--------------|--------------|
| Current | | |
| Financial assets carried at fair value | | |
| Energy derivatives - economic hedge | 108.0 | 314.4 |
| Loans and receivables | | |
| Deposits with brokers | 41.4 | (27.1) |
| Total other current financial assets | 149.4 | 287.3 |

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

8 Other assets

| \$million | 2018 | 2017 |
|---------------------------------------|--------------|-------|
| Current | | |
| Advances to other companies | - | 2.8 |
| Prepayments | 8.8 | 13.4 |
| Environmental scheme certificates | 111.1 | 92.8 |
| Total other current assets | 119.9 | 109.0 |
| Non-current | | |
| Environmental scheme certificates | 3.2 | 89.0 |
| Total other non-current assets | 3.2 | 89.0 |

Recognition and measurement

Environmental scheme certificates are recognised at fair value in the consolidated 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. Environmental scheme certificates are recorded at their fair value based on market prices, with gains and losses realised from the sale of environmental scheme certificates and unrealised fair value adjustments reflected in the consolidated statement of profit or loss.

9 Property, plant and equipment

| \$million | Land and Buildings | Leasehold Improvements at Cost | Plant and Equipment at Cost | Construction in Progress | Total |
|------------------------------|-----------------------|--------------------------------------|-----------------------------------|-----------------------------|----------------|
| Gross carrying amount | | | | | |
| 2017 | 85.5 | 6.7 | 2,635.9 | 57.4 | 2,785.5 |
| Additions | - | 2.4 | - | 117.3 | 119.7 |
| Capitalised to asset class | 1.9 | 19.4 | 30.8 | (52.1) | - |
| Disposals | (1.8) | (0.5) | (3.6) | - | (5.9) |
| 2018 | 85.6 | 28.0 | 2,663.1 | 122.6 | 2,899.3 |
| 2016 | 84.5 | 6.3 | 2,606.4 | 53.2 | 2,750.4 |
| Additions | - | 0.7 | 0.2 | 36.4 | 37.3 |
| Capitalised to asset class | 1.0 | 0.2 | 31.0 | (32.2) | - |
| Disposals | - | (0.5) | (1.7) | - | (2.2) |
| 2017 | 85.5 | 6.7 | 2,635.9 | 57.4 | 2,785.5 |

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

9 Property, plant and equipment (continued)

| \$million | Land and Buildings | Leasehold Improvements at Cost | Plant and Equipment at Cost | Construction in Progress | Total |
|---------------------------------|--------------------|--------------------------------|-----------------------------|--------------------------|----------------|
| Accumulated depreciation | | | | | |
| 2017 | (19.5) | (5.4) | (790.2) | - | (815.1) |
| Disposals | - | 0.5 | 3.5 | - | 4.0 |
| Depreciation expense | (1.9) | (2.8) | (80.5) | - | (85.2) |
| 2018 | (21.4) | (7.7) | (867.2) | - | (896.3) |
| 2016 | (17.6) | (4.1) | (710.4) | - | (732.1) |
| Disposals | - | 0.1 | 1.2 | - | 1.3 |
| Depreciation expense | (1.9) | (1.4) | (81.0) | - | (84.3) |
| 2017 | (19.5) | (5.4) | (790.2) | - | (815.1) |
| Net book value | | | | | |
| 2018 | 64.2 | 20.3 | 1,795.9 | 122.6 | 2,003.0 |
| 2017 | 66.0 | 1.3 | 1,845.7 | 57.4 | 1,970.4 |

Recognition and measurement

- Property, plant and equipment:** assets are acquired at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition or construction of the asset. Finance costs directly attributable to the acquisition or construction of qualifying assets are capitalised. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss as incurred. The gain or loss arising on disposal or retirement is recognised in profit or loss. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if an asset's carrying amount is greater than its estimated recoverable amount.
- Depreciation:** assets are depreciated at rates based upon their expected economic life using the straight-line method. Leasehold improvements are amortised over the period of the relevant lease or estimated useful life, whichever is the shorter. Land is not depreciated. The following estimated useful lives are used in the calculation of depreciation:

Buildings: 10-50 years
 Electronic & mechanical equipment: 5-60 years
 Civil works: 30-75 years
 Mobile plant: 3-20 years
 Control systems: 5-8 years

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

10 Goodwill and other intangible assets

| \$million | Goodwill | Cost of customer acquisition | Computer software | Total |
|-----------------------|--------------|------------------------------|-------------------|----------------|
| Cost | | | | |
| 2017 | 383.2 | 307.1 | 114.8 | 805.1 |
| Additions | - | 18.4 | 18.8 | 37.2 |
| Disposals | - | - | (6.7) | (6.7) |
| 2018 | 383.2 | 325.5 | 126.9 | 835.6 |
| 2016 | 383.2 | 288.5 | 103.6 | 775.3 |
| Additions | - | 18.6 | 11.2 | 29.8 |
| 2017 | 383.2 | 307.1 | 114.8 | 805.1 |
| Amortisation | | | | |
| 2017 | - | (131.8) | (77.9) | (209.7) |
| Amortisation | - | (40.6) | (13.1) | (53.7) |
| Disposals | - | - | 6.7 | 6.7 |
| 2018 | - | (172.4) | (84.3) | (256.7) |
| 2016 | - | (91.5) | (63.2) | (154.7) |
| Amortisation | - | (40.3) | (14.8) | (55.1) |
| Disposals | - | - | 0.1 | 0.1 |
| 2017 | - | (131.8) | (77.9) | (209.7) |
| Net book value | | | | |
| 2018 | 383.2 | 153.1 | 42.6 | 578.9 |
| 2017 | 383.2 | 175.3 | 36.9 | 595.4 |

Recognition and measurement

- **Goodwill:** represents the excess of the cost of acquisition over the fair value of the identifiable assets and liabilities acquired. Goodwill is not amortised but tested for impairment annually and whenever there is an indicator of impairment.
- **Customer Acquisition Costs:** customer contracts acquired in a business combination are carried at cost less accumulated amortisation. The costs incurred in acquiring new customers are recognised based on the directly attributable costs of obtaining the customer contract. Amortisation is recognised as an expense on a straight line basis over the period of the expected benefit.

Critical accounting estimate - carrying value assessment

Snowy Hydro tests goodwill for impairment at least annually to ensure it is not carried at above its recoverable amount. Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the Directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

There are two cash generating units (CGU's) in the consolidated entity comprising a gas and electricity retailer and an electricity generator. Notwithstanding this the gas and electricity retailer and the electricity generator operate in unison and therefore form one operating segment. Indicators of impairment of goodwill are assessed against this operating segment.

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

10 Goodwill and other intangible assets (continued)

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

In accordance with the accounting standard, the recoverable amount test discounts pre-tax nominal asset cash flows (including routine maintenance and refurbishment capital expenditure), at a pre-tax nominal WACC of 7.34% (2017: 6.95%). 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 the final year's cash flow is maintained in perpetuity (in real terms) and discounted to the valuation date using the same pre-tax nominal WACC noted above. The recoverable amount is most sensitive to the changes in the following assumptions:

| Sensitivity | Management's approach to determining the value | Growth rate |
|---|---|--|
| Forward market price projects 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 GFI Group. Capacity pricing (i.e. option premium income and difference payments made under the contracts) is based on a blended combination of GFI and Snowy Hydro's assessment of long-term pricing based on new-entrant modelling. | Zero real growth in prices |
| Water inflows | The water inflow sequence underlying the projections reflects the expectation that 2019 inflows will be below average and that future average inflows will thereafter trend back towards past experience. The starting water storage levels are also reflected in the projections. | Not applicable |
| Capital expenditure | Capital expenditure is derived from Snowy Hydro's long-term capital asset planning model and includes all expenditure relating to existing assets. | Zero real growth in prices |
| Retail Gross Margin | The retail operating cost model is sufficiently flexible to respond to customer growth and is modelled as such; customer growth targets drive cost to acquire and cost to serve. The most sensitive valuation assumption is what gross margin the retail businesses charge mass-market customers. This valuation sensitivity exercise is performed in isolation of a corporate response that might ensue (such as reducing customer targets). | Retail gross margin is materially maintained |

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

11 Net deferred income tax assets

| \$million | Opening balance | Charged to income | Charged to equity | Other/ transfer | Closing balance |
|---------------------------------------|--------------------|----------------------|----------------------|--------------------|--------------------|
| 2018 | | | | | |
| Deferred tax assets | | | | | |
| Property plant and equipment | 189.1 | (9.8) | - | - | 179.3 |
| Provisions | 34.5 | (1.8) | (1.6) | - | 31.1 |
| Derivative financial instruments | - | - | - | 4.4 | 4.4 |
| Total deferred tax assets | 223.6 | (11.6) | (1.6) | 4.4 | 214.8 |
| Deferred tax liabilities | | | | | |
| Derivative financial instruments | 57.3 | (64.8) | 3.1 | 4.4 | - |
| Non derivative trading instruments | 40.8 | (26.1) | - | - | 14.7 |
| Other | 52.8 | (6.8) | - | - | 46.0 |
| Total deferred tax liabilities | 150.9 | (97.7) | 3.1 | 4.4 | 60.7 |
| Net deferred tax asset | | | | | 154.1 |
| 2017 | | | | | |
| Deferred tax assets | | | | | |
| Property plant and equipment | 198.9 | (9.8) | - | - | 189.1 |
| Provisions | 27.2 | 4.5 | 2.8 | - | 34.5 |
| Total deferred tax asset | 226.1 | (5.3) | 2.8 | - | 223.6 |
| Deferred tax liabilities | | | | | |
| Derivative financial instruments | 87.3 | (41.0) | 11.0 | - | 57.3 |
| Non derivative trading instruments | 14.7 | 26.1 | - | - | 40.8 |
| Other | 61.6 | (8.8) | - | - | 52.8 |
| Total deferred tax liabilities | 163.6 | (23.7) | 11.0 | - | 150.9 |
| Net deferred tax asset | | | | | 72.7 |

Recognition and measurement

Current tax: The Income Tax Payable/Income Tax Receivable in the Statement of Financial Position represents the amount expected to be paid (or refunded) in relation to taxable income for the financial year measured using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for the current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

11 Net deferred income tax assets (continued)

Recognition and measurement

Deferred income tax: is provided in full, using the balance sheet method, on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting and tax purposes. 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.

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 and tax offsets can be utilised. A deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

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 the tax assets and liabilities on a net basis.

12 Current trade and other payables

| \$million | 2018 | 2017 |
|---|--------------|--------------|
| Trade payables | 312.9 | 258.1 |
| Other payables | 9.8 | 10.2 |
| Goods and services tax payable | 15.7 | 9.7 |
| Total current trade and other payables | 338.4 | 278.0 |

Recognition and measurement

Trade and other payables are recognised when Snowy Hydro becomes obliged to make future payments resulting from the purchase of goods and services. Payables are stated at their amortised cost.

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

13 Provisions

| \$million | 2017 | Recognised/ remeasured | Settled/ transferred | 2018 |
|-------------------------------------|-------------|---------------------------|-------------------------|-------------|
| Current | | | | |
| Employee benefits | 31.1 | 16.7 | (20.2) | 27.6 |
| Other provisions | 2.1 | 3.2 | (1.9) | 3.4 |
| Total current provisions | 33.2 | 19.9 | (22.1) | 31.0 |
| Non-current | | | | |
| Employee benefits | 42.6 | (6.1) | - | 36.5 |
| Site rehabilitation | 11.0 | 2.9 | - | 13.9 |
| Other provisions | 0.4 | (0.1) | - | 0.3 |
| Total non-current provisions | 54.0 | (3.3) | - | 50.7 |

Recognition and measurement

Provisions are recognised when Snowy Hydro has a present obligation (legal or constructive) as a result of a past event, it is probable that settlement will be required and the obligation can be reliably estimated. Provisions 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 Snowy Hydro.

- **Employee benefits:** provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and other employee obligations when it is probable that settlement will be required and they are capable of being reliably measured. Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the current remuneration rate.
- **Site rehabilitation:** are initially recognised at the best estimate of the costs to be incurred in settling the obligation. Where restoration activities are expected to occur more than 12 months from the reporting period the provision is discounted using a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised in each period as interest expense.

14 Interest bearing liabilities and credit facilities

i) Interest bearing liabilities - unsecured

| \$million | 2018 | 2017 |
|---|-------------|--------------|
| Current | | |
| Bank loans | - | 205.0 |
| Borrowing costs | (0.8) | (0.6) |
| Finance lease liability | 11.2 | 11.2 |
| Total current interest bearing liabilities | 10.4 | 215.6 |

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

14 Interest bearing liabilities and credit facilities (continued)

i) Interest bearing liabilities - unsecured (continued)

| \$million | 2018 | 2017 |
|---|--------------|--------------|
| Non-current | | |
| Bank loans | 711.0 | 529.0 |
| Borrowing costs | (1.4) | (0.3) |
| Finance lease liability | 65.5 | 69.6 |
| Total non-current interest bearing liabilities | 775.1 | 598.3 |

ii) Credit facilities - unsecured

| | | |
|-----------------------------------|----------------|----------------|
| Financing facilities | | |
| Amounts used | 711.0 | 734.0 |
| Amounts unused | 389.0 | 566.0 |
| Total financing facilities | 1,100.0 | 1,300.0 |

These facilities have fixed maturity dates as follows: \$125.0 million in 2019, \$400.0 million in 2020, \$300.0 million in 2021, \$200.0 million in 2022 with the balance of \$75.0 million in 2023.

Uncommitted short term money market facilities

| | | |
|---|-------------|-------------|
| Amounts used | - | - |
| Amounts unused | 45.0 | 45.0 |
| Total short term money market facilities | 45.0 | 45.0 |

Recognition and measurement

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 the consolidated statement of profit or loss over the period of the borrowing, using the effective interest rate method.

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

15 Other financial liabilities

| \$million | 2018 | 2017 |
|--|--------------|-------|
| Current | | |
| Financial liabilities carried at fair value | | |
| Foreign exchange contracts and interest rate swaps - cash flow hedge | 4.3 | 7.0 |
| Commodity forwards - cash flow hedge | - | 4.9 |
| Energy derivatives - economic hedge | 139.6 | 177.1 |
| Total current other financial liabilities | 143.9 | 189.0 |
| Non-current | | |
| Financial liabilities carried at fair value | | |
| Interest rate swaps - cash flow hedge | 15.3 | 17.2 |
| Total non-current other financial liabilities | 15.3 | 17.2 |

Capital Structure and Risk Management

16 Financial Instruments

1. Capital Management

The Group's objectives in managing capital are to safeguard its ability to operate as a going concern by maintaining sufficient liquidity so that it can continue to provide returns for shareholders, and to maintain a capital structure commensurate to targeting a strong investment grade corporate credit rating (Standard & Poor's), to minimise the cost of capital and to provide credit transparency to trading and lending counterparties. The Group's overall capital management strategy remains unchanged from 2017.

The capital structure of the Group consists of net debt (borrowings as detailed in Note 14 offset by cash and cash equivalents) and equity of the Group (comprising issued capital, reserves, and retained earnings). The Group's capital structure is reviewed annually by the Board Audit and Compliance Committee which considers the Group's expected operating cash flows, capital expenditure plans, maturity profile of debt facilities, dividend policy and the ability to access funding from banks and other sources.

The Group monitors its capital management objectives by continuously assessing several benchmarks related to debt, cash flows and financial performance.

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

16 Financial Instruments (continued)

2. Financial Risk Management

| \$million | 2018 | 2017 |
|---|---------|---------|
| Financial assets | | |
| Cash and cash equivalents | 32.7 | 34.0 |
| Fair value through profit or loss (FVPL) | 108.0 | 314.4 |
| Derivatives designated and effective as hedging instruments | 0.6 | 1.5 |
| Loans and receivable | 470.2 | 355.7 |
| Financial liabilities | | |
| Amortised cost | 1,098.4 | 1,072.0 |
| Fair value through profit or loss (FVPL) | 139.6 | 177.1 |
| Derivatives designated and effective as hedging instruments | 19.6 | 29.1 |

The Group's Treasury and Portfolio management functions provide services to the business to monitor and manage risks relating to National Electricity Market (NEM) outcomes, commodity prices, foreign exchange and interest rates movement, liquidity and credit exposure as they arise in the normal course of operations of the Group.

Risk exposures are assessed and monitored using a variety of methods including stress modelling and ongoing surveillance, with regular risk reporting to both Management and Board risk committees. The Group uses derivative instruments, physical hedges such as generation capacity, and strict liquidity management to mitigate the exposures while aiming to optimise risk-adjusted financial returns within policies approved by the Board of Directors.

Policy compliance is monitored by a segregated compliance management process and reviewed by the Board on a regular basis.

The Group holds and issues financial instruments as an integral part of conducting its revenue generating and financing activities including:

- Funding: to finance the Group's operating activities. The principal types of instruments include revolving bank loans and bank guarantees;
- Operating: the Group's day to day business activities generate financial instruments such as cash, trade and other receivables and payables; and
- Risk management: to reduce the risks to financial performance that would arise if all generation was subject to spot market outcomes. The Group transacts electricity swaps and options to notionally contract a portion of its generation capacity. Interest rate and commodity derivative instruments are transacted to manage cash flow risks associated with financing with floating rate debt instruments, purchasing in foreign currencies, and energy procurement activities.

Key financial risks from utilising the aforementioned financial instruments are explained further in the following sections:

- (i) market risk (including electricity and commodity price risk, foreign exchange and interest rate risk)
- (ii) liquidity risk
- (iii) credit risk

The Group's overall financial risk management strategy remains unchanged from 2017.

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

16 Financial Instruments (continued)

(i) Market risk

Electricity and commodity price risk

Fluctuations in electricity and commodity prices will impact the Group's results and cash flows. To manage price risks associated with electricity generation, and sales of electricity and gas to retail customers the Group has established a risk framework that consists of policies on the overall limits of exposure across spot and derivatives energy markets, delegations and transaction limits for trading activity.

The Group utilises a range of energy derivative instruments to manage electricity price risk, both in futures and over-the-counter markets. These derivative instruments are classified into swaps (vanilla swaps, load-following swaps and capped swaps) and options (caps, standard options and average rate options). Some over-the-counter caps and related derivative products include features providing the counterparty with the ability to nominate different strike prices and notional megawatt (MW) volumes (within limits) for different contract periods. Snowy Hydro manages the risk associated with variably nominated contracts by utilising standby, fast-start generation capacity.

The Group is also exposed to cash flow effects from fluctuations in commodity prices as certain gas supply contracts are indexed to Brent oil prices denominated in USD. Commodity forwards are used to manage oil price and AUD/USD exchange rate fluctuation risk.

The table below sets out the fair value of energy and commodity derivatives at reporting date.

| \$million | 2018 | 2017 |
|--|---------------|---------|
| Energy and commodity derivatives asset - current | 108.0 | 314.4 |
| Energy and commodity derivatives liability - current | (139.6) | (182.0) |
| Total energy and commodity derivatives | (31.6) | 132.4 |

Of the total energy and commodity derivatives, \$78.7 million (2017: \$229.2 million) of the asset and \$41.5 million (2017: \$117.8 million) of the liability is expected to mature within 12 months, and \$29.3 million (2017: \$85.2 million) of the asset and \$98.1 million (2017: \$64.2 million) of the liability is expected to mature beyond 12 months.

Energy derivatives - economic hedge

The Group uses energy derivative instruments to economically hedge electricity price risks within the risk management framework. The economic hedges do not meet the requirements of hedge accounting set out in AASB 139 *Financial Instruments: Recognition and Measurement*. Therefore these instruments are categorised as held for trading and changes in fair valuation are recognised immediately as Profit/Loss on the fair value of financial instruments in the Consolidated statement of profit or loss.

Energy and Commodity Price Sensitivity Analysis

The table below sets out the impact of changes of prices on profit and loss and equity based solely on the Group's exposures at the reporting date (holding all other variables constant and without any mitigating actions that management might take if the price changes occurred). A 20% price change has been applied to flat and off-peak electricity swaps, a 25% price change has been applied to peak electricity swaps, a 40% price change has been applied to electricity options. These changes are based on the volatility of historical prices of the relevant instruments. As at June 2018, Snowy no longer has exposure to commodity forwards, therefore there is no sensitivity analysis performed on these instruments for the current reporting period.

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

16 Financial Instruments (continued)

| \$million | Profit/ (loss) before tax Increase/ (decrease) in fair value | | Other comprehensive income Increase/ (decrease) in fair value | |
|--------------------------------------|--|---------|---|-------|
| | 2018 | 2017 | 2018 | 2017 |
| Electricity swap - price increase | 118.1 | 115.1 | - | - |
| Electricity swap - price decrease | (118.6) | (115.1) | - | - |
| Electricity options - price increase | (360.8) | (432.5) | - | - |
| Electricity options - price decrease | 360.6 | 432.4 | - | - |
| Commodity forwards - price increase | - | - | - | 3.8 |
| Commodity forwards - price decrease | - | - | - | (3.8) |

Foreign exchange risk

The Group operates wholly within Australia and contracts with suppliers in Australian dollars or other currencies.

Contracts in New Zealand dollars are not hedged as historically the New Zealand dollar has maintained a proportional relationship with the Australian dollar and purchase and contract exposures are immaterial.

Where a purchase or contract is payable in another currency, the Group is exposed to the fluctuation of exchange rates. The Group's Treasury policy is to hedge any aggregate (per contract) foreign exchange exposure which exceeds AUD \$250,000 equivalent value.

Foreign exchange contracts - cash flow hedge

The Group has entered into foreign exchange contracts to hedge the exchange rate risk arising from purchases or contracts that are denominated in foreign currencies, which are designated as cash flow hedges at inception and tested for effectiveness at each reporting date. The maturity of the foreign exchange contracts are matched with the underlying transaction. As at year end, the underlying purchases are assessed to remain highly probable and the amount accumulated in equity will be reclassified to profit and loss when the underlying transaction affects profit and loss. As the fair value and notional amount of the foreign exchange contracts are immaterial, quantitative disclosure is not presented.

Interest rate risk

The Group is exposed to interest rate risk from floating rate borrowings (excluding finance lease liabilities). The Group manages interest rate risk by fixing the interest rate for a portion of the borrowings with interest rate swaps. The proportion of debt targeted to be hedged is based on forecast debt positions, on a scale which varies in proportion to absolute debt levels.

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

16 Financial Instruments (continued)

The Group had the following financial assets and liabilities exposed to floating interest rate risk as at 30 June 2018:

| \$million | 2018 | 2017 |
|---------------------------------------|-------------|---------|
| Floating rate instruments | | |
| Financial assets | | |
| Cash and cash equivalents | 32.7 | 34.0 |
| | 32.7 | 34.0 |
| Financial liabilities | | |
| Bank loans | 711.0 | 734.0 |
| Interest rate swap notional principal | (651.2) | (727.2) |
| | 59.8 | 6.8 |

Interest rate swaps - cash flow hedge

Interest rate swaps exchange floating interest rates for a fixed rate resulting in fixed interest rate payment on floating rate borrowings, reducing the Group's exposure to the fluctuation of interest rates. The swaps are designated as cash flow hedges at inception and are tested for effectiveness at each reporting date. The interest rate swaps and bank loan interest payments are settled quarterly at the same time. The amount accumulated in equity is reclassified to profit and loss over the period that the floating rate interest payments on the bank loan affect profit and loss.

The following table summarises the interest rate hedges in place for the reporting period, detailing the notional principal hedge amounts, the average fixed rate, and the current fair value:

| | Average swap fixed interest rate | | Notional principal amount | | Fair value | |
|------------------|----------------------------------|-------------|---------------------------|--------------|---------------|---------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | % | % | \$million | \$million | \$million | \$million |
| Less than 1 year | - | - | - | - | - | - |
| 1 to 2 years | 3.23 | 3.45 | 51.0 | 75.9 | (0.8) | (2.3) |
| 2 to 3 years | - | 3.23 | - | 51.1 | - | (1.4) |
| 3 to 4 years | 2.06 | - | 200.1 | - | 0.6 | - |
| 4 to 5 years | 2.86 | 2.05 | 200.1 | 200.1 | (4.7) | 1.1 |
| 5 years or more | 3.67 | 3.27 | 200.0 | 400.1 | (14.1) | (20.1) |
| | 2.89 | 2.95 | 651.2 | 727.2 | (19.0) | (22.7) |

Interest rate sensitivity analysis

The table below sets out the impact on profit and loss and equity, should interest rates had been 150 basis points higher or lower, based on the interest rate yield curve applicable to the Group's interest bearing assets and liabilities at the reporting date. All other variables have been held constant.

The impact of any mitigating actions that management might take if the interest rate change had occurred has not been taken into account.

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

16 Financial Instruments (continued)

| | Profit/ (loss) before tax | | Other comprehensive income | |
|---|---------------------------|--------|----------------------------|--------|
| | 2018 | 2017 | 2018 | 2017 |
| Interest rate + 150 basis points | | | | |
| Interest on bank loan | (10.7) | (11.0) | - | - |
| Interest on interest rate swap | 9.8 | 10.9 | - | - |
| Fair valuation of interest rate swap | - | - | 37.5 | 47.4 |
| Interest rate - 150 basis points | | | | |
| Interest on bank loan | 10.7 | 11.0 | - | - |
| Interest on interest rate swap | (9.8) | (10.9) | - | - |
| Fair valuation of interest rate swap | - | - | (40.2) | (51.3) |

(ii) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its obligations as they become due.

Short term liquidity risk predominantly arises through three sources: the potential for large margin calls on electricity futures contracts in the event of adverse movements in forward electricity prices; prudential calls from the electricity market operator (AEMO); and lastly the risk of settling large payouts on a contract or contracts where the Group's generation fails to cover those contract positions.

The Group manages its liquidity risk by continuously monitoring forecast and actual cash flows and prudential exposures, matching the maturity profiles of financial assets and liabilities and maintaining committed stand-by facilities. The Group holds an Australian Financial Services Licence under which it must continuously monitor its forward liquidity ratios and the amount of surplus liquid funds. Any unremedied breach of these conditions would trigger a cessation of trading.

At the reporting date, the Group had committed, undrawn facilities of \$389.0 million (1 July 2017: \$566.0 million), as detailed in Note 14 Interest bearing liabilities and credit facilities.

The Group manages its market related liquidity risk by maintaining adequate reserves of generation capacity and high levels of plant reliability and availability which allows for the generation of spot income to match contracted outgoing commitments to various NEM counterparties.

The table below details the contractual maturity of the financial liabilities of the Group at the end of reporting period. The amounts are based on the undiscounted cash flows of financial liabilities on the earliest date on which the Group could be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are at floating rate, the undiscounted amount is derived from interest rate curves at the end of reporting period. For derivative instruments that are required to be net settled, the amounts are based on the undiscounted net cash inflows and outflows; for the derivative instruments that are required to be gross settled, the amounts are based on undiscounted gross cash inflows and outflows.

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

16 Financial Instruments (continued)

| \$million | Less than 1 year | 1 to 2 years | 2 to 5 years | More than 5 years | Total |
|-----------------------------------|---------------------|--------------|--------------|----------------------|----------------|
| 2018 | | | | | |
| Financial liabilities | | | | | |
| <i>Non derivative instruments</i> | | | | | |
| Trade payables | 338.4 | - | - | - | 338.4 |
| Bank loans | 208.2 | 200.0 | 311.0 | - | 719.2 |
| Finance lease liability | 11.2 | 11.2 | 33.6 | 63.5 | 119.5 |
| | 557.8 | 211.2 | 344.6 | 63.5 | 1,177.1 |
| <i>Derivative instruments</i> | | | | | |
| Energy derivatives | 34.6 | 13.8 | 38.9 | 65.2 | 152.5 |
| Interest rate swaps | 5.5 | 4.9 | 8.8 | 2.3 | 21.5 |
| | 40.1 | 18.7 | 47.7 | 67.5 | 174.0 |
| 2017 | | | | | |
| Financial liabilities | | | | | |
| <i>Non derivative instruments</i> | | | | | |
| Trade payables | 258.1 | - | - | - | 258.1 |
| Bank loans | 209.0 | 329.0 | 200.0 | - | 738.0 |
| Financial lease liability | 11.2 | 11.2 | 33.6 | 74.7 | 130.7 |
| | 478.3 | 340.2 | 233.6 | 74.7 | 1,126.8 |
| <i>Derivative instruments</i> | | | | | |
| Energy and commodity derivatives | 97.8 | 14.0 | 23.2 | 10.0 | 145.0 |
| Interest rate swaps | 8.7 | 6.8 | 7.0 | 3.2 | 25.7 |
| | 106.5 | 20.8 | 30.2 | 13.2 | 170.7 |

(iii) Credit risk

Credit risk is the risk that a counterparty will not fulfil its financial obligations under a contract or other arrangement that may cause a financial loss to the Group.

Credit risk is managed under a Board approved policy which includes the use of credit limits allocated based on the overall financial and competitive strength of the counterparty.

Derivative contract counterparties are generally limited to high-credit-quality financial institutions and organisations operating in the NEM and financial markets. Credit assessment of the counterparty is carried out when the Group deals with it for the first time and reviewed when necessary, at least annually.

The concentration of credit risk arising from energy derivative trading is significant within a few counterparties at the end of reporting period. The Group manages the concentration risk by continuously monitoring the credit exposure against the individual assigned credit limit and the Group's aggregated limit. The Group also utilises International Swap and Derivative Association (ISDA) agreements to limit its exposure to credit risk through the netting of amounts receivable from and payable to its counterparties.

Trade and other receivables consist of over 1.0 million residential, small and large commercial and industrial customers, in New South Wales, Victoria, South Australia and Queensland. The Retail Group has adopted a policy of only dealing with creditworthy customers as a means of mitigating the risk of financial loss from defaults, with the use of an external credit scoring system to assess the potential customer's receivables through the adoption of standard payment terms.

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

16 Financial Instruments (continued)

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, an allowance for doubtful debts is raised.

3. Fair value of financial assets and financial liabilities

The following table presents the financial instruments that are measured and recognised at fair value on a recurring basis. Snowy Hydro classifies its financial instruments into the three levels prescribed under the accounting standards. The three levels in the hierarchy reflect the level of independent observable market data used in determining the fair values and are defined as follows:

- Level 1 Quoted prices (unadjusted) in active markets for identical financial instruments.
- Level 2 Other valuation methods for which all inputs that have a significant impact on fair value are observable, either directly (as prices) or indirectly (derived from prices).
- Level 3 One or more key inputs for the instrument are not based on observable market data (unobservable inputs).

There were no material transfers between levels during the period.

| \$million | Level 1 | Level 2 | Level 3 | Total fair value |
|------------------------------------|--------------|-------------|--------------|------------------|
| 2018 | | | | |
| Financial assets | | | | |
| Derivative financial instruments | | | | |
| - Energy derivatives | 29.5 | 15.8 | 62.7 | 108.0 |
| - Interest rate swaps | - | 0.6 | - | 0.6 |
| Total financial assets | 29.5 | 16.4 | 62.7 | 108.6 |
| Financial liabilities | | | | |
| Derivative financial instruments | | | | |
| - Energy derivatives | 50.9 | 19.3 | 69.4 | 139.6 |
| - Interest rate swaps | - | 19.6 | - | 19.6 |
| Total financial liabilities | 50.9 | 38.9 | 69.4 | 159.2 |
| 2017 | | | | |
| Financial assets | | | | |
| Derivative financial instruments | | | | |
| - Energy derivatives | 150.1 | 45.2 | 119.1 | 314.4 |
| - Interest rate swaps | - | 1.5 | - | 1.5 |
| Total financial assets | 150.1 | 46.7 | 119.1 | 315.9 |
| Financial liabilities | | | | |
| Derivative financial instruments | | | | |
| - Energy and commodity derivatives | 83.7 | 18.8 | 79.5 | 182.0 |
| - Interest rate swaps | - | 24.2 | - | 24.2 |
| Total financial liabilities | 83.7 | 43.0 | 79.5 | 206.2 |

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

16 Financial Instruments (continued)

Management have assessed the carrying value of financial assets (excluding derivative financial assets) and financial liabilities (excluding derivative financial liabilities) to be comparable to fair value.

The following is a summary of the methods that are used to estimate the fair value of Snowy Hydro's financial instruments:

| Instrument | Hierarchy | Fair Value Methodology |
|--|-----------|---|
| Electricity swaps and options regularly traded in active markets | Level 2 | Present value of estimated future cash flows relating to the difference between the contract rates and the market forward rate. Cash flows are discounted at a rate that reflects the credit risk of the relevant counterparty or own credit risk, when applicable. |
| Electricity swaps and options not regularly traded in active markets, with no observable inputs. | Level 3 | Generally accepted valuation models which reflect the difference between the contract rates and an internal cap curve based on management's assessment of new-entrant pricing which takes into account capital costs, fixed and variable operating costs, efficiency factors and asset lives, as well as premiums for accepting physical risks or a long-term market forward curve provided by external consultants. Cash flows are discounted at a rate that reflects the credit risk of the relevant counterparty or own credit risk, when applicable, or the Group's weighted average cost of capital. |
| Electricity Load Following Swaps | Level 3 | Present value of estimated future cash flows relating to the difference between the contract rates and the market forward rate based on forecast energy usage profiles. Market prices are adjusted with a half hourly calibration factor to price the usage profile. |
| Financial instruments traded in active futures markets | Level 1 | Quoted market prices at the end of reporting period. |
| Foreign exchange contracts | Level 2 | Present value of estimated future cash flows relating to the difference between the contract rates and the quoted forward exchange rates. Cash flows are discounted at a rate that reflects the credit risk of the relevant counterparty or own credit risk, when applicable. |
| Interest rate swaps | Level 2 | Present value of estimated future cash flows. Key variables include market pricing data, discount rates and credit risk of Snowy Hydro or counterparty where relevant. Variables reflect those which would be used by market participants to execute and value the instruments. |

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

16 Financial Instruments (continued)

4. Level 3 fair value measurement instruments

The following table presents the changes in level 3 instruments for the period ended 30 June 2018:

| \$million | 2018 | 2017 |
|---|--------------|---------|
| Opening balance | 39.6 | 265.4 |
| Option premium received in cash during the period | (212.4) | (234.8) |
| Total gains and losses in profit or loss | | |
| - Settlements during the period | 325.6 | 173.8 |
| - Changes in fair value of financial instrument | (159.5) | (164.8) |
| Closing balance | (6.7) | 39.6 |

Gains and losses in profit or loss due to changes in fair value are included within 'Loss on the fair value of financial instruments'. All other gains and losses in profit or loss are shown in revenue.

Sensitivity analysis of level 3 instruments

The use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, the sensitivity of the valuation to a 40% movement in the price curve for cap instruments, 25% movement in the price curve for peak swap capped instruments and 20% movement in the price curve for flat and off-peak swap capped and load following swap instruments would have the following effects:

| \$million | Profit/ (loss) before tax | | |
|-------------------------------|---------------------------|-------------------|-------------------|
| | Fair value | Increase movement | Decrease movement |
| 2018 | | | |
| Energy Derivative assets | 62.7 | (208.1) | 208.0 |
| Energy Derivative liabilities | (69.4) | (71.2) | 70.6 |
| 2017 | | | |
| Profit/ (loss) before tax | | | |
| \$million | Fair value | Increase movement | Decrease movement |
| Energy Derivative assets | 119.1 | (164.4) | 164.1 |
| Energy Derivative liabilities | (79.5) | (213.5) | 213.4 |

The sensitivity measure is based on the historical analysis of movement in the annual cap prices over the historical period for short term broker market (less than 100MW and short duration up to 2 years) and applied to non-standard, long term large volume contracts.

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

17 Issued capital

| \$million | 2018 | 2017 |
|--|-------|-------|
| 200,000,000 fully paid ordinary shares | 816.1 | 816.1 |

18 Reserves

| \$million | 2018 | 2017 |
|--|--------|--------|
| Hedging reserves | | |
| Balance at the beginning of the reporting period | (20.6) | (47.7) |
| Gains / (losses) recognised: | | |
| Currency swaps | - | 0.2 |
| Interest rate swaps | 3.5 | 21.3 |
| Commodity forwards | 6.8 | 16.6 |
| Deferred tax arising on hedges | (3.1) | (11.0) |
| Balance at the end of the reporting period | (13.4) | (20.6) |

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

19 Dividends

| \$million | 2018 | 2017 |
|--|--------------|--------------|
| Recognised amounts | | |
| Final dividend | | |
| Final dividend for 2017 of 65.00 cents per share, fully franked at 30%, paid 27 October 2017 (2017: Final dividend for 2016 of 48.75 cents per share, fully franked at 30%, paid 29 October 2016) | 130.0 | 97.5 |
| Interim dividend | | |
| Interim dividend for 2018 of 67.50 cents per share, fully franked at 30%, paid on 27 April 2018 (2017: Interim dividend for 2017 of 65.00 cents per share, fully franked at 30%, paid 28 April 2017) | 135.0 | 130.0 |
| Total recognised amounts | 265.0 | 227.5 |
| Unrecognised amounts | | |
| Since the end of the financial year, the Directors have determined a final dividend for 2018 of 65.00 cents per share, fully franked at 30%, payable on 31 October 2018. | 130.0 | 130.0 |
| Dividend franking account balance | 87.3 | 18.6 |

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

Group Structure

20 Subsidiaries

| Name of Entity | Country of Incorporation | % Ownership | |
|--|--------------------------|-------------|------|
| | | 2018 | 2017 |
| Parent Entity | | | |
| Snowy Hydro Limited (b) | Australia | - | - |
| Controlled Entities | | | |
| Snowy Hydro Trading Pty Ltd (c) | Australia | 100 | 100 |
| Red Energy Pty Ltd (a) (c) | Australia | 100 | 100 |
| Latrobe Valley BV (c) | Netherlands | 100 | 100 |
| Valley Power Pty Ltd (c) | Australia | 100 | 100 |
| Contact Peaker Australia Pty Ltd (c) | Australia | 100 | 100 |
| Lumo Energy Australia Pty Ltd (a) (c) | Australia | 100 | 100 |
| Lumo Energy (NSW) Pty Ltd (a) (c) | Australia | 100 | 100 |
| Lumo Energy (Qld) Pty Ltd (a) (c) | Australia | 100 | 100 |
| Lumo Energy (SA) Pty Ltd (a) (c) | Australia | 100 | 100 |
| Lumo Energy Telecommunications Pty Ltd (a) (c) | Australia | 100 | 100 |
| Lumo Generation NSW Pty Ltd (a) (c) | Australia | 100 | 100 |
| Lumo Generation SA Pty Ltd (a) (c) | Australia | 100 | 100 |
| Emagy Pty Ltd (a) (c) | Australia | 100 | 100 |
| TFI Partners Pty Ltd (a) (c) | Australia | 100 | 100 |
| Direct Connect Australia Pty Ltd (a) (c) | Australia | 100 | 100 |
| Connection Media Pty Ltd (a) (c) | Australia | 100 | 100 |

(a) Entities which have entered into a deed of cross guarantee with Snowy Hydro pursuant to ASIC Class Order 2016/785 and are relieved from the requirement to prepare and lodge audited financial reports.

(b) SHL is the head entity within the tax consolidated group.

(c) These companies are members of the tax consolidated group.

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

20 Subsidiaries (continued)

The consolidated statement of profit or loss and consolidated statement of financial position of the entities which are party to the deed of cross guarantee are:

Statement of profit or loss

| \$million | 2018 | 2017 |
|---|--------------|--------------|
| Revenue | 2,585.4 | 2,590.1 |
| Interest income | 0.8 | 0.8 |
| Other income | 9.0 | 7.1 |
| Direct costs of revenue | (1,485.1) | (1,413.7) |
| Consumables and supplies | (69.8) | (70.5) |
| Employee benefits expense | (209.4) | (212.1) |
| Depreciation and amortisation expense | (129.8) | (130.3) |
| Finance costs | (42.8) | (47.8) |
| Other expenses from ordinary activities | (141.9) | (123.1) |
| Loss on the fair value of financial instruments | (212.7) | (141.3) |
| Profit before income tax expense | 303.7 | 459.2 |
| Income tax expense | (90.7) | (138.6) |
| Profit attributable to the owners of the parent entity | 213.0 | 320.6 |

Statement of financial position

| \$million | 2018 | 2017 |
|--------------------------------------|----------------|----------------|
| Current assets | | |
| Cash and cash equivalents | 32.7 | 34.0 |
| Trade and other receivables | 428.8 | 382.8 |
| Inventories | 20.0 | 19.7 |
| Other financial assets | 149.4 | 287.3 |
| Other current assets | 119.9 | 109.0 |
| Total current assets | 750.8 | 832.8 |
| Non-current assets | | |
| Deferred tax assets | 150.7 | 70.2 |
| Goodwill and other intangible assets | 578.9 | 595.4 |
| Property, plant and equipment | 1,912.9 | 1,870.9 |
| Other financial assets | 120.8 | 127.4 |
| Investments in subsidiaries | 95.1 | 95.1 |
| Other non-current assets | 3.2 | 89.0 |
| Total non-current assets | 2,861.6 | 2,848.0 |
| Total assets | 3,612.4 | 3,680.8 |

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

20 Subsidiaries (continued)

Statement of financial position (continued)

| \$million | 2018 | 2017 |
|--------------------------------------|----------------|----------------|
| Current liabilities | | |
| Trade and other payables | 338.1 | 277.9 |
| Interest bearing liabilities | 10.4 | 215.6 |
| Provisions | 31.0 | 33.2 |
| Other financial liabilities | 143.9 | 189.0 |
| Income tax payable | 70.5 | 77.2 |
| Total current liabilities | 593.9 | 792.9 |
| Non-current liabilities | | |
| Interest bearing liabilities | 775.1 | 598.3 |
| Provisions | 50.7 | 54.0 |
| Other financial liabilities | 15.3 | 17.2 |
| Total non-current liabilities | 841.1 | 669.5 |
| Total liabilities | 1,435.0 | 1,462.4 |
| Net assets | 2,177.4 | 2,218.4 |
| Equity | | |
| Issued capital | 816.1 | 816.1 |
| Reserves | (13.4) | (20.6) |
| Retained profits | 1,374.7 | 1,422.9 |
| Total equity | 2,177.4 | 2,218.4 |

21 Parent entity disclosures

(a) Summary financial information (Parent)

| \$million | 2018 | 2017 |
|----------------------------|---------|---------|
| Assets | | |
| Current assets | 401.1 | 478.5 |
| Total assets | 3,024.2 | 3,186.6 |
| Liabilities | | |
| Current liabilities | 313.1 | 641.9 |
| Total liabilities | 1,146.6 | 1,305.8 |
| Equity | | |
| Issued capital | 816.1 | 816.1 |
| Reserve | (13.4) | (15.9) |
| Retained earnings | 1,074.9 | 1,080.6 |
| Profit for the period | 255.6 | 200.2 |
| Total comprehensive income | 261.7 | 209.1 |

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

21 Parent entity disclosures (continued)

(b) Guarantees entered into by the parent entity in relation to its subsidiaries

| \$million | 2018 | 2017 |
|---|------|------|
| Guarantees provided under the deed of cross guarantee as referred to in note 20 | 68.6 | 67.9 |

(c) Contingent liabilities of the parent entity

Contingent liabilities detailed in note 25 relate to the parent entity.

(d) Capital commitments

| \$million | 2018 | 2017 |
|--|------|------|
| Not longer than 1 year | 39.3 | 19.6 |
| Later than 1 year but not later than 5 years | 12.4 | 2.7 |
| Later than 5 years | 0.6 | - |
| | 52.3 | 22.3 |

22 Related party disclosures

(a) Equity Interests In Related Parties

Detail of the percentage of ordinary shares held in controlled entities is disclosed in Note 20 to the financial statements.

(b) Key Management Remuneration

The total remuneration paid or payable to Directors and key management personnel of the consolidated entity is set out below:

| \$ | 2018 | 2017 |
|-----------------------------------|------------------|------------------|
| Short-term employee benefits | 5,823,560 | 5,065,655 |
| Post-employment benefits | 235,319 | 202,159 |
| Other long-term employee benefits | 2,532,580 | 3,987,081 |
| Total remuneration | 8,591,459 | 9,254,895 |

KMP are those people who have authority and responsibility for planning, directing and controlling the activities of Snowy Hydro. The KMP are the Managing Director, certain Snowy Hydro executives (together, the Executives) and each of the non-executive Directors.

(c) Directors' and Specified Executive Loans

No loans were made nor are any outstanding between Snowy Hydro and any director or director related entities.

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

22 Related party disclosure (continued)

(d) Directors' Equity Holdings

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

(e) Other Transactions With Directors

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

(f) Transactions Within the Wholly-Owned Group

The wholly-owned group includes the ultimate parent entity and sixteen wholly-owned controlled entities.

The ultimate parent entity in the wholly-owned group is Snowy Hydro Limited. During the financial year Snowy Hydro provided management, accounting and administrative services to its controlled entities other than Valley Power and Lumo Generation SA on a cost free basis. Snowy Hydro also provides all personnel, operational and management services to Valley Power and Lumo Generation SA on a cost basis. All intercompany balances are at call, but the Directors have declared that they are not expected to be called in the current period. The balance of intercompany loans owed by the parent entity to the controlled entities to as at 30 June 2018 was \$67.5 million (1 July 2017: \$10.4 million owed by the parent entity).

Other

23 Defined benefit superannuation plan

Employees of Snowy Hydro are members of a variety of superannuation funds covering both defined contribution and defined benefit plans. Payments to defined contribution plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Snowy Hydro's defined benefit plans include:

- Commonwealth Superannuation Scheme ("CSS");
- Public Sector Superannuation Scheme ("PSSS");
- Energy Industries Superannuation Scheme ("EISS");
- State Superannuation Scheme ("SSS"); and
- State Authorities Non-contributory Superannuation Scheme ("SANCS")

CSS and PSSS are accounted for as defined contribution plans on the basis that these are multi-employer plans and insufficient information is available to apply defined benefit accounting.

The SSS and SANCS schemes are part of the same pooled funds and are therefore treated together for the defined benefit scheme financial statement disclosures below.

For the EISS, SSS and SANCS defined benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out annually. Remeasurements, comprising actuarial gains and losses, the effect of changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur.

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

23 Defined benefit superannuation plan (continued)

Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Service cost (including current service cost, past service cost and gains and losses on curtailments and settlements are recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the deficit in Snowy Hydro's defined benefit plans, calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of the plan assets.

The defined benefit plans are administered by a separate Fund that is legally separated from the entity.

The defined benefit plans require contributions from employees. Contributions are in the following two forms; one is based on the number of years of service and the other one is based on a fixed percentage of salary of the employees. Employees can also make discretionary contributions to the plans.

The Energy Industries Superannuation Scheme Pool B ("EISS"), the State Authorities Superannuation Scheme ("SSS") and the State Authorities Non-contributory Superannuation Scheme ("SANCS") provide defined benefits in the form of lump sum or pension benefits on retirement, death, disablement and withdrawal. These schemes are here forth referred to as the 'Schemes'. The Schemes are closed to new members.

Description of the regulatory framework

The Schemes are primarily regulated by the Superannuation Industry (Supervision) Act 1993 (Cth) ("the SIS legislation").

The Schemes have received an exemption from detailed annual actuarial valuations and therefore detailed actuarial valuations are only required triennially. The last actuarial valuation of the Schemes was performed as at 30 June 2015. The next actuarial investigation is due as at 30 June 2018.

Description of other entities' responsibilities for the governance of the Schemes

The Schemes' Trustees are responsible for the governance of the Scheme according to the Scheme rules and regulations.

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

23 Defined benefit superannuation plan (continued)

Description of the risks

There are a number of risks to which the Fund exposes the Employer. The more significant risks relating to the defined benefits are:

- **Investment risk:** The risk that investment returns will be lower than assumed and the Employer will need to increase contributions to offset this shortfall.
- **Longevity risk:** The risk that pensioners live longer than assumed, increasing future pensions.
- **Pension indexation risk:** The risk that pensions will increase at a rate greater than assumed, increasing future pensions.
- **Salary growth risk:** The risk that wages or salaries (on which future benefit amounts for active members will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.
- **Legislative risk:** The risk is that legislative changes could be made which increase the cost of providing the defined benefits.

Description of significant events

The schemes had no amendments, curtailments or settlements during the year due to exits.

Reconciliation of the Net Defined Benefit Liability/(Asset)

| \$million | Present value of obligation | Fair value of plan assets | Total | Impact of minimum funding requirement/ asset ceiling | Net amount |
|---|-----------------------------|---------------------------|------------|--|------------|
| 2017 | 26.2 | (14.4) | 11.8 | - | 11.8 |
| Current service cost | 0.1 | - | 0.1 | - | 0.1 |
| Interest expense/ (income) | 0.7 | (0.4) | 0.3 | - | 0.3 |
| Total amount recognised in profit or loss | 0.8 | (0.4) | 0.4 | - | 0.4 |
| <i>Remeasurements:</i> | | | | | |
| Return on plan assets, excluding amounts included in interest expense/ (income) | - | (0.7) | (0.7) | - | (0.7) |
| Gain from changes in demographic and financial assumptions | (4.9) | - | (4.9) | - | (4.9) |
| Experience loss | 0.4 | - | 0.4 | - | 0.4 |
| Total amount recognised in other comprehensive income | (4.5) | (0.7) | (5.2) | - | (5.2) |
| <i>Contributions:</i> | | | | | |
| Employers | - | (0.6) | (0.6) | - | (0.6) |
| Plan participants | 0.2 | (0.2) | - | - | - |
| <i>Payments from plan:</i> | | | | | |
| Benefit payments | (1.1) | 1.1 | - | - | - |
| 2018 | 21.6 | (15.2) | 6.4 | - | 6.4 |

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

23 Defined benefit superannuation plan (continued)

Fair value of Fund assets

The major categories of plan assets as a percentage of the fair value of total plan assets at the end of the reporting period are as follows:

| As at 30 June 2018 | EISS | SSS/SANCS |
|------------------------|-------------|-------------|
| Australian equities | 18% | 22% |
| International equities | 28% | 26% |
| Property | 8% | 9% |
| Private equity | 1% | - |
| Infrastructure | 7% | - |
| Alternatives | 5% | 24% |
| Fixed income | 28% | 9% |
| Short Term Securities | - | 10% |
| Cash | 5% | - |
| Total | 100% | 100% |

All plan assets are held within investment funds which do not have a quoted market price in an active market.

Significant actuarial assumptions at the reporting date

| As at 30 June 2018 | EISS | SSS/SANCS |
|--|---------|--------------|
| Discount rate | 4.13% | 4.28% |
| Salary increase rate (excluding promotional increases) | 2.5% pa | 2.7% - 3.2% |
| Rate of CPI increase | 2.3% pa | 2.25% - 2.5% |

Pensioner mortality As per the triennial valuation of the Scheme as at 30 June 2015

The sensitivity analysis below has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate is 1% higher/(lower), the defined benefit obligation would decrease by \$2.6 million (increase by \$3.2 million); and
- If the rate of 'CPI increase' increases/(decreases) by 0.5%, the defined benefit obligation would increase by \$1.5 million (decrease by \$1.3 million).

Asset-Liability matching strategies

The asset-liability risk is monitored in setting the investment strategy however no explicit asset-liability matching strategy is used. There has been no change in the process used to manage its risks from prior periods.

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

23 Defined benefit superannuation plan (continued)

Funding arrangements

Funding arrangements are reviewed at least every three years following the release of the triennial actuarial review and was last reviewed following completion of the triennial review as at 30 June 2015. Contribution rates are set after discussions between the employer and relevant parties such as the Trustee and NSW Treasury.

Funding positions are reviewed annually and funding arrangements may be adjusted as required after each annual review.

Expected contributions

Expected employer contributions for the financial year ending 29 June 2019 are \$0.4 million and \$0.2 million for EISS and SANCS/SSS respectively.

Maturity profile of defined benefit obligation

The weighted average duration of Snowy Hydro's defined benefit obligation is 12.4 years and 15 years for EISS and SANCS/SSS respectively.

24 Commitments

| \$million | 2018 | 2017 |
|--|--------------|--------------|
| Capital expenditure commitments - property, plant & equipment | | |
| Not longer than 1 year | 39.3 | 30.7 |
| Later than 1 year but not later than 5 years | 12.4 | 1.9 |
| Later than 5 years | 0.6 | - |
| Total capital expenditure commitments - property, plant and equipment | 52.3 | 32.6 |
| Operating lease commitments | | |
| Not longer than 1 year | 11.2 | 11.8 |
| Later than 1 year but not later than 5 years | 30.6 | 34.5 |
| Later than 5 years | 87.0 | 94.2 |
| Total operating lease commitments | 128.8 | 140.5 |
| Other commitments | | |
| Not later than 1 year | 20.2 | 46.3 |
| Later than 1 year but not later than 5 years | 31.6 | 46.9 |
| Total other commitments | 51.8 | 93.2 |

The lease commitments above are for office premises in Sydney and Melbourne and land leased for various power stations in NSW, Victoria and South Australia with durations from 1 to 30 years. All leases have an annual escalation clause, with most being a relevant consumer price index. In addition the Kosciuszko National Park lease commenced in 2002 for a period of 75 years. There are no restrictions imposed by any operating lease.

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

24 Commitments (continued)

Finance lease commitments

| \$million | Minimum lease payments | | Present value of minimum lease payments | |
|--|------------------------|--------|---|------|
| | 2018 | 2017 | 2018 | 2017 |
| Not later than 1 year | 11.2 | 11.2 | 4.5 | 4.1 |
| Later than 1 year and not later than 5 years | 44.9 | 44.9 | 22.6 | 20.7 |
| Later than 5 years | 63.4 | 74.6 | 49.6 | 56.0 |
| Minimum future lease payments | 119.5 | 130.7 | 76.7 | 80.8 |
| Less future finance charges | (42.8) | (49.9) | - | - |
| Present value of minimum lease payments | 76.7 | 80.8 | 76.7 | 80.8 |

The present value of minimum lease payments is included in the financial statements as disclosed in Note 14. Finance lease relates to a gas pipeline at the Colongra Power Station. The lease has a term of 20 years.

25 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 30 June 2018 are:

(a) Ongoing contingent liabilities are represented by:

Snowy Hydro has entered into a number of bank guarantees in relation to operating within the national electricity and gas markets, and for rental properties in Sydney and Melbourne, to the value of \$81.0 million (2017: \$81.8 million).

(b) Liability for Former Scheme Sites has been extinguished except to the extent of any contaminated former sites. These contaminated sites are being rehabilitated as they are identified.

The consolidated entity does not believe that the contingent liability on any sites identified in the future would be material.

26 Subsequent events

Except as otherwise disclosed in this report, no item, transaction or event of a material nature has arisen since 30 June 2018 that would significantly affect the operations of Snowy Hydro, the results of those operations, or the state of affairs, in future financial periods.

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

27 Remuneration of auditors

| \$ | 2018 | 2017 |
|---|----------------|----------------|
| Audit services | | |
| Audit or review of the financial report | 532,000 | 547,000 |
| Other audit services | 10,000 | 10,000 |
| Other non-audit services | | |
| Taxation services | 7,500 | 97,060 |
| Technology services | 123,240 | 294,745 |
| Total remuneration of auditors | 672,740 | 948,805 |

28 New standards not yet applicable

Snowy Hydro has not applied the following new and revised Australian Accounting Standards that have been issued but are not yet effective:

- AASB 9 *Financial Instruments* (AASB 9)
- AASB 15 *Revenue from Contracts with Customers (and related Clarifications)* (AASB 15)
- AASB 16 *Leases* (AASB 16)

The estimated impact of the adoption of these standards is based on assessments undertaken to date and is summarised below. The actual impacts of adopting AASB 9 and AASB 15 as at 1 July 2018 may change as the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

In addition to the above standards applicable in future periods, other issued amendments and new standards are not expected to have a material impact on Snowy Hydro's financial statements.

i) AASB 9 Financial Instruments

AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement* and addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The new standard must be applied for financial years commencing on or after 1 January 2018, and will be adopted by Snowy Hydro on 1 July 2018.

The key requirements of the new standard, and the impact expected from adoption are:

Classification and measurement

AASB 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed, and their cash flow characteristics. It contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVTOCI), and fair value through profit or loss (FVTPL). The standard removes the existing AASB 139 categories of held to maturity, loans and receivables and available for sale.

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

28 New standards not yet applicable (continued)

The new standard also requires that where a significant portion of changes in the fair value of financial liabilities designated as FVTPL is attributable to changes in the credit risk of the liability, these changes be presented in other comprehensive income. Under AASB 139 the entire amount of the change in fair value of the financial liability was presented in profit or loss.

Based on the types of financial instruments Snowy Hydro holds at 30 June 2018, the new classification and measurement requirements of AASB 9 are not expected to have a material impact on the financial statements, as these instruments are currently classified for measurement consistently under AASB 139 with AASB 9.

Impairment

The new standard replaces the 'incurred loss' model of AASB 139 with a forward-looking 'expected credit loss' model, requiring judgement about how changes in economic factors will affect credit risk and accounting for those changes. The new approach will apply to financial assets measured at amortised cost or FVTOCI, except for investments in equity instruments, and to contract assets.

At 30 June 2018, the Group held \$428.8 million trade and other receivables and \$41.4 million deposits with brokers which are measured at amortised cost. Currently, allowances for impairment of trade receivables of \$25.7 million are recognised by assessing each balance for collectability based on analysis of various historical factors, however adjustment is made for limitation to the relevance of observable data, as permitted under AASB 139, which applies a forward looking overlay. It is not anticipated that application of the impairment model under AASB 9 will result in a material impact on the financial statements.

Hedge accounting

The new hedge accounting requirements retain the existing hedge accounting mechanisms available under AASB 139, however under AASB 9 a more principles-based approach has been introduced which as a general rule makes more hedge relationships eligible for hedge accounting. Additionally, for cash flow hedges, amounts accumulated in the cash flow hedge reserve are reclassified to profit or loss in the same period as the hedged expected cash flows affect profit or loss. Under AASB 9, for cash flow hedges of foreign currency risk associated with forecast non-financial asset purchases, the amounts accumulated in the cash flow hedge reserve will instead be included directly in the initial cost of the non-financial asset when it is recognised.

An assessment of current hedging relationships indicates that they will continue to qualify for hedge accounting upon application of AASB 9. Whilst the review concluded there may be opportunity to apply hedge accounting to hedge relationships not meeting the relevant criteria under AASB 139, the Group does not currently consider that a significant benefit would be realised, and therefore does not expect a material impact on the financial statements.

The Group expects that it will be affected by the requirement under the new standard to transfer accumulated cash flow hedge reserve amounts against the initial cost of non-financial assets instead of to profit or loss, however it is not possible to reliably estimate the impact in the year of adoption as it is dependent on major project plans which are not yet finalised.

Transition

Changes resulting from the adoption of AASB 9 will generally be applied retrospectively, with comparative information being restated for the minor classification changes expected to arise from adoption.

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

28 New standards not yet applicable (continued)

ii) AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the current revenue recognition guidance including AASB 118 *Revenue* and AASB 111 *Construction Contracts*. The standard introduces a 5-step approach with the core principle that an entity recognises revenue when a performance obligation is satisfied i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. The entity recognises revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services.

AASB 15 also includes a number of new quantitative and qualitative disclosure requirements.

The new standard must be applied for financial years commencing on or after 1 January 2018, and will be adopted by Snowy Hydro on 1 July 2018.

Snowy Hydro has assessed the impact of AASB 15 on its revenue streams as follows:

Recognition and Measurement

The 5-step model introduced by AASB 15 is not expected to result in material changes to the timing of recognition or to the measurement values of revenue for the Group.

AASB 15 requires that goods or services which are 'bundled' for sale to the customer be assessed to determine whether separate performance obligations exist, and the transaction price allocated to each performance obligation based on the relative stand-alone selling prices of the goods or services provided.

Snowy Hydro's retail businesses provide customers with a number of goods or services bundled with the sale of electricity, including vouchers, loyalty point packages, and one off services. Certain of these services comprise separate performance obligations under AASB 15, however the aggregate value of these lines is below \$5.0 million, and therefore the impact is not expected to be material.

Under the current revenue accounting standard, revenue is recognised when it is probable that future economic benefits will flow to the entity, and these benefits can be measured reliably. AASB 15 requires that where revenue is subject to uncertainty, it is recognised only to the extent it is highly probable that a significant reversal will not occur when this uncertainty is resolved, which is a higher threshold for revenue recognition.

Snowy Hydro's revenue streams include sales from electricity dispatched into the spot market which are subject to a period of finalisation over an initial period of four weeks from the point of initial recognition, with further refinement possible up to a period of thirty weeks. Based on an assessment of the historic variability of this revenue as it is finalised, it is not expected that the value of any reversal will be significant, and therefore no impact is expected.

Revenue includes recognition of pay on time discounts estimated based on historic take up by customers, and unbilled revenue using estimated volumes of energy usage by customers provided by the market operator. Historic variability has been low, and therefore it is expected that these revenue components will continue to meet the recognition criteria of AASB 15.

Snowy Hydro Limited and its Controlled Entities

Notes to the consolidated financial statements For the period ended 30 June 2018

28 New standards not yet applicable (continued)

Presentation

Certain revenue streams are outside the scope of AASB 15. For Snowy Hydro these comprise revenue arising from financial instruments and other contracts within the scope of AASB 9, and revenue recognised from renewable energy certificates (RECs). On adoption of the new accounting standard Snowy Hydro intends to present revenue from RECs separately from other revenue in order to provide greater clarity of those items within the scope of the accounting and disclosure requirements of AASB 15.

For the year ended 30 June 2018, this is expected to result in a reclassification of \$10.2 million from revenue on the income statement.

Additionally, Snowy Hydro currently recognises credits provided for generation of electricity from solar panels by retail customers as a reduction in revenue. On transition to AASB 15, these credits are not considered to form part of the consideration receivable for the service provided to these customers, and will therefore be reclassified to direct costs of revenue. For the year ended 30 June 2018, these credits amount to \$61.4 million.

Transition

The standard is expected to be adopted using the full retrospective option, with the comparative period information restated for the presentation impacts described above.

iii) AASB 16 Leases

AASB 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. AASB 16 will supersede the current lease guidance including AASB 117 Leases and the related interpretations when it becomes effective.

For lessees, the previous distinction between an operating lease and a finance lease has been removed in the new standard, and all but short term leases, or leases of low value assets must be accounted for in a manner consistent with the existing finance lease approach, using the concept of a right-of-use asset and corresponding financial liability to pay rentals. For lessors, AASB 16 contains minimal changes.

Transition relief options are available to mitigate the impact of adoption, including the option to implement without restatement of comparative information, and a 'grandfathering' approach permitting operating leases signed prior to initial application with short remaining lives to continue to be accounted for on the historic basis.

The new standard is effective for all periods beginning on or after 1 January 2019, and will be adopted by Snowy Hydro on 30 June 2019, for the year ending 27 June 2020.

Until the completion of a detailed review, it is not practicable to provide a reasonable estimate of the effect of this standard.

Directors' Declaration

The Directors of Snowy Hydro Limited (the Company) declare that, in their opinion:

- (a) the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the financial position as at 30 June 2018 and of the performance for the period ended on that date of Snowy Hydro; and
- (b) 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
- (c) there are reasonable grounds to believe that the Parent Entity and the subsidiaries identified in Note 20 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee between the Parent Entity and those subsidiaries pursuant to ASIC Class Order 2016/785.

Signed in accordance with a resolution of the Directors



Noel H Cornish AM, Chairman
Sydney, 24 September 2018



Paul A Broad, Managing Director
Sydney, 24 September 2018

The Board of Directors
Snowy Hydro Limited
Lot 3, Pier 8/9
23 Hickson Road
Walsh Bay NSW 2000

24 September 2018

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 30 June 2018, 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



Jamie Gatt
Partner
Chartered Accountants

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

Opinion

We have audited the financial report of Snowy Hydro Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated income statement, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other Information

The directors are responsible for the other information. The other information obtained at the date of this auditor's report comprises Management's Review of Operations included in the Group's financial report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



DELOITTE TOUCHE TOHMATSU



Jamie Gatt
Partner
Chartered Accountants
Sydney, 24 September 2018