

Contents – **Financial Statements** 30 June 2005

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Statement of **Financial Performance** for the Year Ended 30 June 2005

	NOTE	CONSOLIDATED		PARENT	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Revenue from Ordinary Activities	2(a)	461,765	439,817	422,743	422,839
Expenses from Ordinary Activities, excluding Borrowing Costs	2(a)	(309,527)	(295,385)	(275,409)	(278,702)
Borrowing Costs	2(c)	(71,526)	(72,358)	(69,886)	(72,358)
Share of Net Profit/(Loss) of Joint Ventures accounted for using the Equity method	35	(316)	67	-	-
Profit from Ordinary Activities before Income Tax Equivalent Expense		80,396	72,141	77,448	71,779
Income Tax Equivalent Expense	4	(35,986)	(36,661)	(35,300)	(35,791)
Net Profit		44,410	35,480	42,148	35,988
Changes in Reserves	21	(523,033)	1,000	(523,033)	-
Total changes in Equity other than those resulting from transactions with owners as owners		(478,623)	36,480	(480,885)	35,988

The Statement of Financial Performance is to be read in conjunction with the notes to and forming part of the Financial Report included on pages 87 to 116.

Statement of Financial Position

as at 30 June 2005

	NOTE	CONSOLIDATED		PARENT	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Current Assets					
Cash		10,221	2,120	192	2,073
Receivables	8(a)	103,392	50,780	84,558	44,633
Investments	9(a)	130,277	10,817	110,180	10,817
Inventories	10	549	610	556	636
Tax Equivalent Assets	12(a)	9,188	8,952	9,188	8,952
Other	13(a)	5,105	3,144	50,412	117,213
Total Current Assets		258,732	76,423	255,086	184,324
Non-Current Assets					
Receivables	8(b)	2,061	8,161	2,061	2,084
Investments	9(b)	9,767	1,083	48,016	16
Property, Plant and Equipment	11	2,900,667	3,431,346	2,761,177	3,307,062
Tax Equivalent Assets	12(b)	58,145	62,102	57,664	62,102
Other	13(b)	19,028	19,028	19,028	19,028
Total Non-Current Assets		2,989,668	3,521,720	2,887,946	3,390,292
TOTAL ASSETS		3,248,400	3,598,143	3,143,032	3,574,616
Current Liabilities					
Payables	14	105,110	55,422	95,021	49,214
Interest-Bearing Liabilities	15(a)	32,912	201,038	30,000	201,038
Tax Equivalent Liabilities	16(a)	16,253	14,203	16,253	14,716
Provisions	17(a)	38,269	47,265	38,269	35,555
Other	18(a)	1,051	1,740	4,351	1,739
Total Current Liabilities		193,595	319,667	183,894	302,262
Non-Current Liabilities					
Interest-Bearing Liabilities	15(b)	1,178,606	879,516	1,090,018	879,516
Tax Equivalent Liabilities	16(b)	136,996	136,738	132,678	136,373
Provisions	17(b)	182,567	186,963	182,567	181,705
Other	18(b)	19,028	19,028	19,028	19,028
Total Non-Current Liabilities		1,517,197	1,222,245	1,424,291	1,216,621
TOTAL LIABILITIES		1,710,792	1,541,912	1,608,185	1,518,883
NET ASSETS		1,537,608	2,056,231	1,534,847	2,055,733
EQUITY					
Reserves	21(a)	1,348,133	1,871,166	1,348,133	1,871,166
Share of Joint Venture Equity	21(c)	1,000	1,000	-	-
Retained Profits	5	188,475	184,065	186,714	184,567
TOTAL EQUITY		1,537,608	2,056,231	1,534,847	2,055,733

The Statement of Financial Position is to be read in conjunction with the notes to and forming part of the Financial Report included on pages 87 to 116.

Statement of Cash Flows

for the Year Ended 30 June 2005

	NOTE	CONSOLIDATED		PARENT	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Inflows:					
Receipts from Customers		449,701	428,799	417,729	405,300
Operating Grants and Subsidies Received		6,030	6,617	6,030	6,617
Interest Received		2,654	162	3,312	162
Outflows:					
Payments to Suppliers and Employees		(232,891)	(227,074)	(196,798)	(204,889)
Interest Paid		(67,265)	(66,984)	(65,557)	(66,979)
Government Guarantee Fee		(4,019)	(3,795)	(4,019)	(3,795)
Income Tax Equivalent Paid		(29,955)	(32,864)	(29,955)	(31,369)
NET CASH PROVIDED BY OPERATING ACTIVITIES	7(c)	124,255	104,861	130,742	105,047
CASH FLOWS FROM INVESTING ACTIVITIES					
Inflows:					
Proceeds from Sale of Property, Plant and Equipment		1,096	1,360	21,907	1,360
Dividends Received		-	9	-	9
Proceeds from Sale of Business		-	1,177	-	1,177
Outflows:					
Payment for Additional Investment in Joint Venture		(9,000)	-	-	-
Payment for Investment in Subsidiary		-	-	(48,000)	-
Payments for Property, Plant and Equipment		(79,759)	(134,097)	(76,986)	(66,354)
NET CASH USED IN INVESTING ACTIVITIES		(87,663)	(131,551)	(103,079)	(63,808)
CASH FLOWS FROM FINANCING ACTIVITIES					
Inflows:					
Proceeds from Government Guaranteed Loans		1,291,100	1,233,800	1,291,100	1,233,800
Proceeds from Non-Government Loans		91,500	-	-	-
Proceeds from Intercompany Loans		-	-	80,000	-
Repayment of Loan to Associate		5	-	5	-
Outflows:					
Repayment of Intercompany Loans		-	-	(9,649)	(67,838)
Repayments of Government Guaranteed Loans		(1,247,645)	(1,180,431)	(1,247,645)	(1,180,431)
Repayment of Treasury Loans		(3,991)	(9,369)	(3,991)	(9,369)
Amounts Advanced to Associate		-	(100)	-	(100)
Dividend Paid		(40,000)	(43,553)	(40,000)	(43,553)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		90,969	347	69,819	(67,491)
NET INCREASE/(DECREASE) IN CASH		127,561	(26,343)	97,482	(26,252)
CASH AT BEGINNING OF THE YEAR		12,937	39,280	12,890	39,142
CASH AT END OF THE YEAR	7(a)	140,498	12,937	110,372	12,890

The Statement of Cash Flows is to be read in conjunction with the notes to and forming part of the Financial Report included on pages 87 to 116.

Notes to and forming part of the **Financial Statements** for the Year Ended 30 June 2005

1.1 DETAILS OF REPORTING ENTITY

The financial statements and notes thereto relate to Hydro-Electric Corporation, which is a Tasmanian Government Business Enterprise and a consolidated reporting entity. The Corporation was established as the Hydro-Electric Commission by the *Hydro-Electric Commission Act 1944*, and was incorporated by the *Hydro-Electric Corporation Act 1995*. The Corporation trades using the business name Hydro Tasmania.

The Corporation's Australian Business Number is 48 072 377 158. Its principal place of business is 4 Elizabeth Street, Hobart, Tasmania.

The Corporation is the electricity generator for the State of Tasmania. It operates 29 hydro power stations, one gas-fired power station and one wind farm in Tasmania and supplies Bass Strait islands via diesel and wind power generation. It is also developing wind farms and operates a consulting business.

At 30 June 2005 the Corporation had 829 full-time equivalent employees (FTEs) including directors (2004: 800 FTEs).

The Corporation established ten wholly owned subsidiary companies during the 2004/05 financial year. Full details regarding all subsidiary companies, including incorporation dates are provided in note 32.

On 8 February 2005 the Australian Securities and Investments Commission granted the Hydro-Electric Corporation an Australian Financial Services Licence – number 279796. This licence authorises the Hydro-Electric Corporation to carry on a financial services business to:

- (a) provide general financial product advice only, for derivative financial products;
 - (b) deal in a financial product by issuing, applying for, acquiring, varying or disposing of a derivative financial product; and
 - (c) make a market for derivative financial products
- to wholesale clients.

1.2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported. The significant accounting policies, which have been adopted in the preparation of these financial statements, are:

(a) Basis of Preparation

The financial statements are a general purpose financial report, which has been prepared on an accrual basis under the historical cost convention and, except where stated, does not take into account changing money values or fair values of assets. The financial statements have been prepared in accordance with:

- (i) The requirements of the *Hydro-Electric Corporation Act 1995*;
- (ii) The requirements of the *Government Business Enterprises Act 1995* (GBE Act) and related Treasurer's Instructions;
- (iii) Australian Accounting Standards and Urgent Issues Group Consensus Views;

- (iv) Other authoritative pronouncements of the professional accounting bodies; and

- (v) Financial disclosure requirements of the *Corporations Act 2001*, where applicable to the operations of the Hydro-Electric Corporation and its subsidiaries, and other requirements of the law.

These accounting policies have been consistently applied by each company in the consolidated group and are consistent with those of the previous year, unless otherwise stated.

(b) Principles of Consolidation

The consolidated financial statements include the parent entity, the Corporation and its controlled entities.

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

Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

In preparing the consolidated financial statements, the effects of all transactions between entities in the Group have been eliminated.

Joint Ventures

A joint venture is either an entity or an operation that is jointly controlled by the consolidated entity. The reporting of joint ventures in the financial statements is detailed in Note 1.2(q).

(c) Receivables

Trade debtors are carried at amounts due. A provision for doubtful debts is raised when doubt as to collection exists. Debts that are known to be irrecoverable are written off. Non-current receivables are recorded at recoverable amount. In determining recoverable amount expected cash flows have been discounted to their present value.

(d) Inventories

Inventories are carried at the lower of cost or net realisable value.

(e) Property, Plant and Equipment

The Corporation's hydro and Bass Strait island generation assets are recorded on a fair value basis. Fair value is determined on the basis of estimated future cash flows using assumptions which are based on commercial judgment and calculated by the application of expert knowledge from sources both internal and external to the Corporation. Fair values are reviewed at the end of each year to ensure that the carrying value of hydro generation assets is not materially different from their fair value.

Non-hydro generation assets, auxiliary assets, motor vehicles, land and buildings, minor assets and capital work-in-progress are carried at cost. Minor assets include items such as computers and office furniture.

Property, Plant and Equipment is written down to recoverable amount when carrying amount exceeds recoverable amount.

Recoverable amounts are assessed from expected cash flows which are discounted to present values.

The asset revaluation reserve is used to record increments and decrements in the fair value of hydro generation assets.

(f) Depreciation

Depreciation of Property, Plant and Equipment, other than land, is based on remaining useful lives using the straight-line method. In accordance with Australian Accounting Standard AASB1041 Accounting for the Revaluation of Non-Current Assets, the balance of accumulated depreciation is transferred to the asset account when generation assets are re-valued. Useful lives applying to each class are as follows:

	2005	2004
Generation	2 – 100 years	2 – 100 years
Auxiliary	3 – 50 years	3 – 50 years
Motor Vehicles	4 – 33 years	4 – 33 years
Minor Assets	1 – 10 years	1 – 10 years
Buildings	5 – 50 years	5 – 50 years

(g) Provisions

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain but can be reliably measured.

(i) Workers Compensation

The workers compensation provision is funded to a level that will meet expected workers compensation liabilities that remain to be settled from prior to 1 July 1998 when the Corporation self-insured for workers compensation.

(ii) Onerous contracts

An onerous contract is considered to exist when the Corporation has a contract under which the unavoidable cost of meeting contractual obligations exceeds the economic benefits to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds unrecognised future benefits.

(h) Employee Benefits

(i) Wages, salaries, annual leave and non-monetary benefits

Liabilities for wages, salaries and annual leave expected to be settled within 12 months represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on wage and salary rates that the consolidated entity expects to apply at the time of settlement, including related on-costs.

(ii) Long service leave

The provision for long service leave represents the present value of the estimated future cash outflows expected to be made as payment for entitlements earned through employees' services provided to reporting date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and

expected rate of utilisation based on historical patterns and is discounted using Commonwealth Bond rates at reporting date. The provision is allocated to current and non-current portions based on expected utilisation of entitlements in the next twelve months.

(iii) Superannuation

The Retirement Benefits Fund (RBF) is funded by employee and employer contributions. Employee contributions to the fund are transferred to independent RBF administrators while employer contributions are retained internally as a provision.

An internal interest charge, calculated by the application of market-related interest rates, is added to this provision each year after advice from the State Actuary. In accordance with Treasurer's Instructions, the Corporation systematically recognises as an expense the under-provided amount of the RBF provision over the average expected remaining working lives of existing employees.

Where employees are members of superannuation funds other than RBF, the Corporation makes contributions to complying superannuation funds as directed by the employee.

(i) Taxation

(i) Taxation Equivalent

Under the *Government Business Enterprises Act 1995* the Corporation is required to pay an income tax equivalent to the State of Tasmania as if it were a company under Commonwealth income tax laws. As a result the Corporation applies tax effect accounting principles prescribed in AAS3 Income Taxes whereby income tax expense is calculated on pre-tax accounting profit after adjustment for permanent differences. The tax effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different from that for accounting, is shown at current taxation rates in the deferred tax assets and deferred tax liabilities as applicable.

(ii) Tax Consolidation

Legislation allowing groups, comprising a parent entity and its Australian wholly owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantively enacted on 21 October 2002.

The Corporation and its wholly owned Australian resident entities are eligible to consolidate for tax purposes under this legislation and have elected to be taxed as a single entity from 1 July 2003. The head entity within the tax consolidation group is Hydro-Electric Corporation.

Tax sharing agreements between the Corporation as head entity and its subsidiaries have been finalised. These agreements define the liability for tax of each member of the group and the process by which members can exit the group. As a result of these agreements amounts equivalent to the deferred tax assets and liabilities of each subsidiary are disclosed by the respective subsidiary at 30 June 2005 as intercompany loan balances as if the subsidiary were a stand-alone tax entity. Deferred tax balances transferred to the head entity in the 2004 Financial Statements have been reinstated at the beginning of the current year.

Each of the entities in the tax consolidated group has agreed to make a tax equivalent payment to the head entity based on that entity's tax payable on a stand-alone basis. Such amounts are reflected in amounts receivable or payable to other entities in the tax consolidated group.

(iii) Goods and Services Tax

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

- where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO) it is recognised as part of the cost of acquisition of the asset or as part of an expense;
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(j) Loan Portfolio Restructuring

As part of its ongoing debt management activities, the Corporation periodically restructures its loan portfolio. In doing so, capital gains/losses on the prepayment of loans are recognised in the Statement of Financial Performance.

(k) Derivative Financial Instruments

The Corporation enters into derivative financial instruments including electricity price swaps, interest rate swaps, futures, options, forward rate agreements and foreign exchange contracts to manage financial exposures.

Specific accounting treatments adopted for instruments other than foreign exchange instruments are:

- i) Where derivatives are classified as hedges, which at inception and on an ongoing basis are effective in managing the designated exposure, the gains and losses arising from the derivative transactions are deferred and recognised in accordance with the timing of the recognition of the underlying transactions being hedged;
- ii) Option premiums are amortised over the lives of the options;
- iii) Accrued interest receivable and payable on interest rate swaps is included in current assets or liabilities in the Statement of Financial Position;
- iv) Realised gains and losses on forward rate agreements, futures contracts and interest rate options are included in borrowing costs in the Statement of Financial Performance;
- v) Gains and losses on interest rate futures contracts are amortised to the Statement of Financial Performance over the life of the underlying physical position where the relevant Urgent Issues Group criteria are met. Otherwise gains and losses are written off to the Statement of Financial Performance in the year incurred.
- vi) The Basslink Services Agreement is accounted for in accordance with AASB 1033 Presentation and Disclosure of

Financial Instruments, with the exception of foreign currency and interest rate hedge elements. Losses on the hedge of the interest rate portion as at finalisation of the Basslink Services Agreement (29 November 2002) have been deferred for amortisation over the term of the Agreement (Refer note 22).

vii) Electricity price swaps and other electricity price derivatives hedge price differences between contract prices and spot market prices. Gains and losses arising from these contracts are recognised in the Statement of Financial Performance in the year incurred.

(l) Borrowing Expenses

Expenses associated with the raising of loans are generally written off immediately. Ancillary costs including non-refundable costs associated with originating or acquiring a loan are accrued and amortised over the life of the associated borrowing.

(m) Discounted and Premium Loans

The difference between the consideration and the face value of these loans is treated as deferred interest. Deferred interest is written off over the lives of the loans and is an interest component of borrowing. As at 30 June 2005 there were no discounted loans outstanding.

(n) National Debt Sinking Fund (NDSF) Contributions

Department of Treasury and Finance loans from prior years not required to be repaid to the State are treated as revenue.

(o) Foreign Currency

All foreign currency transactions are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency amounts at balance date are translated to Australian dollars at exchange rates in effect at that date.

Gains and losses on forward exchange contracts to hedge sales and purchases of goods and services (including capital equipment) are included in the cost of the purchase.

Gains and losses on termination of forward exchange contracts that no longer represent a hedge of an underlying transaction are recognised in the Statement of Financial Performance at the date of termination.

The Basslink Services Agreement is accounted for in accordance with AASB 1033 Presentation and Disclosure of Financial Instruments, with the exception of foreign currency and interest rate hedge elements. Gains on the hedge of the foreign currency portion as at finalisation of the Basslink Services Agreement (29 November 2002) have been deferred for amortisation over the term of the Agreement (Refer note 22).

(p) General Insurance Reserve

In prior periods a general insurance reserve was set at a level that was expected to meet future costs, and the quantum of the reserve was evaluated every year by the Corporation's Treasury and Corporate Risk Group.

(q) Joint Ventures

Interests in unincorporated joint venture operations are reported in the financial statements by including the Corporation's share of the assets and liabilities of the joint

ventures and of any revenue earned or expenses incurred in relation to the joint ventures in their respective classification categories.

Interests in incorporated joint ventures are reported in the financial statements under the equity method in the consolidated financial statements and the cost method in the parent entity financial statements.

(r) Restoration Costs

Restoration costs are expensed as incurred or capitalised where appropriate.

(s) Revenue Recognition

Revenue from the sale of electricity is recognised at the time the electricity is provided to the customer. Since commencement of trading in the National Electricity Market (NEM) the sole customer has been the National Electricity Market Management Company Limited (NEMMCO). Revenue

from sale of Renewable Energy Certificates is recognised at the time of sale. Consulting revenue is recognised in accordance with contractual agreements.

(t) Rounding

Amounts in the Financial Statements have been rounded to the nearest thousand dollars, unless otherwise stated.

(u) Comparative Figures

Where necessary, the comparative figures for the previous period have been reclassified to facilitate comparison with the 2005 figures. Where restatement has occurred, an explanation of the restatement has been included in the relevant note.

(v) Research and Development

Research and Development expenditure is capitalised to the extent that its recoverability is assured beyond reasonable doubt, otherwise it is expensed as incurred.

	CONSOLIDATED		PARENT	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
2 PROFIT FROM ORDINARY ACTIVITIES				
Profit from ordinary activities before income tax expense has been arrived at after charging /(crediting) the following items.				
(a) REVENUE AND EXPENSES				
Revenue from Ordinary Activities				
Sales Revenue	399,177	378,269	378,316	378,269
Other Operating Revenue:				
Services to External Customers	33,768	29,042	33,768	27,943
Interest Received	3,685	133	3,319	133
Operating Grants and Subsidies (note 2(b))	6,030	6,617	6,030	6,617
NDSF Debt Forgiven (note 1.2(m))	11	37	11	37
Other Subsidiary Revenue	-	12,208	-	-
Subsidiary Debt Forgiven	-	6,472	-	3,530
Other	19,094	7,039	1,299	6,310
Total Revenue from Ordinary Activities	461,765	439,817	422,743	422,839
Expenses from Ordinary Activities				
Labour	83,642	74,683	83,025	73,143
Materials	60,300	59,390	56,457	63,385
Contributions to RBF Provision	18,800	17,200	18,800	17,200
Depreciation and Amortisation (notes 1.2(f), 2(e), and 11)	77,835	79,274	69,455	76,312
Other Administration Costs	64,074	63,734	42,795	47,560
Loss on disposal of Property, Plant and Equipment (note 2(d))	5,165	1,033	5,167	1,031
Bad and Doubtful Debts	(290)	71	(290)	71
Total Expenses from Ordinary Activities	309,527	295,385	275,409	278,702

	CONSOLIDATED		PARENT	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
2 PROFIT FROM ORDINARY ACTIVITIES (continued)				
(b) OPERATING GRANTS AND SUBSIDIES				
The Corporation receives a Community Service Obligation (CSO) from the State Government (note 31).	6,030	4,748	6,030	4,748
Miscellaneous Grants and Subsidies.	-	1,869	-	1,869
	6,030	6,617	6,030	6,617
(c) BORROWING COSTS				
Loan Interest	65,262	60,372	63,677	60,372
Swap (gain)/loss	(157)	1,089	(212)	1,089
Bank Overdraft Interest	2	2	2	2
Government Guarantee Fee	4,020	3,795	4,020	3,795
Hedging losses/debt management costs (note 6)	2,346	7,057	2,346	7,057
Other Financial Charges	53	43	53	43
	71,526	72,358	69,886	72,358
(d) LOSS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT				
Proceeds from disposal	1,096	1,360	21,907	1,360
Less: Carrying value of disposed asset	6,261	2,393	27,074	2,391
Loss on disposal	5,165	1,033	5,167	1,031
(e) DEPRECIATION EXPENSE				
Generation	64,639	67,049	56,304	64,188
Auxiliary	4,268	4,424	4,268	4,422
Motor Vehicles	1,511	1,316	1,491	1,315
Minor Assets	6,552	5,759	6,527	5,721
Buildings	865	676	865	666
	77,835	79,224	69,455	76,312
(f) AMORTISATION EXPENSE				
Goodwill	-	50	-	-

3 INDIVIDUALLY SIGNIFICANT ITEMS

Individually significant items affecting profit from ordinary activities before income tax equivalent expense

Loan Portfolio Restructure

Consideration value of loans	293,947	386,206	293,947	386,206
Capital value of loans	295,837	393,871	295,837	393,871
Cost on repurchase	1,891	7,665	1,891	7,665
Loss/(gain) on interest rate swap terminations	-	(1,080)	-	(1,080)
Early amortisation of losses on swaps	444	-	444	-
Early amortisation of gains on futures contracts	(183)	(117)	(183)	(117)
Total Cost of Loan Portfolio Restructure (note 6)	2,152	6,468	2,152	6,468

	CONSOLIDATED		PARENT	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
4 INCOME TAX EQUIVALENT EXPENSE				
(a) Income Tax Equivalent Expense				
The prima facie income tax equivalent expense on pre-tax accounting profit reconciles to the income tax equivalent expense in the financial statements as follows:				
Profit from Ordinary Activities	80,396	72,140	77,448	71,779
Income tax equivalent expense calculated at 30% (2004: 30%) of operating profit	24,119	21,642	23,234	21,534
Permanent differences:				
Depreciation on revaluation increment	12,411	14,673	12,406	14,551
Other	77	276	(101)	245
Impact of the tax consolidation system:				
Initial recognition of deferred tax balances of subsidiaries	-	-	-	1,216
Net income tax expense/(benefit) arising under tax sharing agreements with wholly owned subsidiaries in the tax consolidated group	-	-	-	-
Transfer of deferred tax balances from the subsidiaries on implementation of the tax sharing agreement	-	-	382	-
Current and deferred taxes relating to transactions, events and balances of wholly-owned subsidiaries in the tax consolidated group.	-	-	(3,300)	8
Net income tax equivalent arising under tax sharing agreements with subsidiaries in the tax consolidated group	-	-	3,300	-
Derecognition of deferred tax balances of subsidiaries in tax consolidated group during the financial year	-	158	-	158
	12,488	15,107	12,687	16,178
Under/(over) provision of income tax equivalent expense in previous year	(621)	(88)	(621)	(1,921)
	11,867	15,019	12,066	14,257
Income tax equivalent expense attributable to operating profit	35,986	36,661	35,300	35,791
(b) Current Income Tax Equivalent Liability				
Balance at beginning of year	7,908	7,836	8,057	6,707
Current year income tax equivalent payable on profit from ordinary activities	27,560	34,087	30,828	36,331
Income tax equivalent paid	(29,807)	(34,625)	(33,254)	(33,060)
(Over)/under provision in prior year	(1,750)	610	(1,720)	(1,921)
Balance at end of year	3,911	7,908	3,911	8,057
(c) Deferred Income Tax Equivalent Liability				
Balance at beginning of year	143,032	135,120	143,032	135,120
Accounting and income tax depreciation	2,086	3,513	2,768	3,813
Other capital adjustments	3,254	401	3,254	397
Miscellaneous	106	(706)	(222)	(147)
Adjustment due to consolidation entries	-	-	(4,672)	4,672
(Over)/under provision in prior year	860	4,704	860	(823)
Balance at end of year	149,338	143,032	145,020	143,032
(d) Future Income Tax Equivalent Benefit				
Balance at beginning of year	71,054	66,870	71,054	65,510
Employee entitlements not currently deductible	1,031	713	1,031	713
Tax deferred expenditure	(4,856)	889	(841)	(49)
Miscellaneous	342	(197)	48	189
Adjustment due to consolidation entries	-	-	(4,202)	4,202
(Over)/under provision in prior year	(238)	2,779	(238)	489
Balance at end of year	67,333	71,054	66,852	71,054

	CONSOLIDATED		PARENT	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
5 RETAINED PROFITS				
Balance at the beginning of the year	184,065	182,238	184,566	182,232
Net profit from the current period	44,410	35,480	42,148	35,988
Dividend paid	(40,000)	(43,553)	(40,000)	(43,553)
Transfer of general insurance reserve (note 21 (b))	-	9,900	-	9,900
Balance at the end of the year	188,475	184,065	186,714	184,566

6 DEBT MANAGEMENT ACTIVITIES

Debt Management Losses/(Gains) and Costs

(i) Cost of Portfolio restructure (note 1.2(j) and 3)	2,152	6,468	2,152	6,468
(ii) Hedging instruments losses/(gains)				
Amortisation of losses on terminated interest rate swaps (note 1.2(k))	55	556	55	556
Amortisation of (gains)/losses on terminated futures contracts	(33)	28	(33)	28
Total losses on hedging instruments	22	584	22	584
(iii) State of Tasmania Treasury loan repayment fee	172	5	172	5
Total hedging losses and debt management costs (note 2(c))	2,346	7,057	2,346	7,057

7 NOTES TO THE STATEMENT OF CASH FLOWS

(a) Cash Reconciliation

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks and short-term money market investments net of outstanding bank overdrafts. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

Cash	10,221	2,120	192	2,073
Money market investments (*)	130,277	10,817	110,180	10,817
	140,498	12,937	110,372	12,890

(*) \$2.5M of consolidated cash is not available for use and is held in a debt service reserve account in accordance with external provider requirements. \$0.1M of money market investments is held in trust for the protection of eagles and orange bellied parrots.

	CONSOLIDATED		PARENT	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
7 NOTES TO THE STATEMENT OF CASH FLOWS (cont.)				
(b) Loan Facilities				
Loan facilities through Tasmanian Public Finance Corporation (Tascorp) are unlimited, with the exception of the Committed Standby facility and Revolving Credit facility.				
Details of the limit and usage are as follows:				
Committed Standby Facility				
Facility limit	50,000	50,000	50,000	50,000
Less: used/committed	-	-	-	-
Balance	50,000	50,000	50,000	50,000
Revolving Credit Facility				
Facility limit	150,000	-	150,000	-
Less: used/committed	110,000	-	110,000	-
Balance	40,000	-	40,000	-
Bank Overdraft				
Facility limit	3,000	1,000	1,000	1,000
Less: used/committed	-	-	-	-
Balance	3,000	1,000	1,000	1,000
Corporate Purchasing Card				
Facility limit	7,500	7,500	7,500	7,500
Less: allocated	5,159	5,082	5,159	5,082
Balance	2,341	2,418	2,341	2,418
(c) Reconciliation of net cash provided by operating activities to operating profit after income tax equivalent expense				
Operating profit after income tax equivalent expense	44,410	35,480	42,148	35,988
Depreciation and amortisation	77,835	79,274	69,455	76,312
NDSF debt forgiven	(11)	(37)	(11)	(37)
(Gain)/loss on disposal of fixed assets	5,165	1,033	5,167	1,031
(Increase)/decrease in accrued interest receivable	(1,030)	29	(7)	29
(Increase)/decrease in prepayments	(1,675)	35	(987)	(2)
Decrease/(increase) in stores and consumables	61	(62)	79	(89)
Decrease/(increase) in trade receivables	(46,466)	(8,637)	(39,853)	(6,825)
(Decrease)/increase in accrued interest payable	2,195	2,812	(455)	2,812
(Increase)/decrease in deferred taxes	6,029	4,090	2,043	3,057
Increase/(decrease) in trade creditors and accrued expenses	46,483	(20,993)	45,277	(11,055)
Increase/(decrease) in employee entitlement provisions	3,576	2,805	3,576	2,805
Net hedging debt management charges	311	1,601	311	1,601
Net movement in other asset and liability accounts	(12,628)	7,431	4,000	(580)
Net cash provided by operating activities	124,255	104,861	130,742	105,047

	CONSOLIDATED		PARENT	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
8 RECEIVABLES				
(a) Current receivables				
Trade receivables	103,392	51,070	84,558	44,923
Less: Provision for doubtful debts (note 1.2(c))	-	(290)	-	(290)
	103,392	50,780	84,558	44,633
(b) Non-current receivables				
Receivables	2,061	8,161	2,061	2,084

Trade receivables at the end of the current year include amounts receivable from National Electricity Market Management Company reflecting the new trading conditions operating since entry to the National Electricity Market.

9 INVESTMENTS

(a) Current investments (at cost)

Money market investments	20,277	10,817	10,180	10,817
Money market investments - Revolving Credit Facility	110,000	-	100,000	-
	130,277	10,817	110,180	10,817

(b) Non-current investments (at cost)

Investment in joint venture (note 36)	9,751	1,067	-	-
Investment in subsidiaries	-	-	48,000	-
Investment in shares	16	16	16	16
	9,767	1,083	48,016	16

All money market investments have been transacted through Tascorp.

Money market investments include \$110 million on deposit with Tascorp that is held as backing for an equivalent non-current borrowing under a Revolving Credit Facility (Note 15). This arrangement is in place in order to satisfy a financial condition of the Corporation's Australian Financial Services Licence

10 INVENTORIES

Stores (note 1.2(d))	549	610	556	636
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11 PROPERTY, PLANT AND EQUIPMENT

The fair value of the Corporation's hydro generation assets is determined by calculating the present value of projected net cash flows of the existing hydro generation assets. Appropriate assumptions have been applied, based on the best information available for a range of relevant factors, including projections for asset lives, cost of capital, future sales volumes and prices in the National Electricity Market, operating costs and expenses and tax and inflation rates. In particular, future sales prices have been based on a combination of published data (Australian Financial Markets Association Victorian electricity forward price curve) and Corporation hydrological data (including projected storages) and Tasmanian load demand forecasts.

A revaluation of hydro generation assets has been conducted for the 2005 financial year to reflect the latest financial projections. As a result the fair value has reduced from \$3.132bn to \$2.535bn. The main factors affecting the revaluation are reduced revenue forecasts as a result of lower price volatility, lower recent electricity pool prices and reduced projected real price increases.

11 PROPERTY, PLANT AND EQUIPMENT (continued)

	Consolidated							Total \$'000
	Hydro Generation at fair value \$'000	Generation at cost \$'000	Auxiliary at cost \$'000	Motor Vehicles at cost \$'000	Land & Buildings at cost \$'000	Minor Assets at cost \$'000	Capital Work in Progress at cost \$'000	
	Gross Carrying Amount							
Balance at the beginning of the year	3,132,786	28,668	48,376	8,639	13,297	44,459	223,895	3,500,120
Additions	319	-	1	3,014	-	3,601	73,631	80,566
Disposals	(4,000)	-	-	(2,211)	-	(2,490)	-	(8,701)
Transfers	(14,271)	119,091	667	-	1,130	2,413	(109,030)	-
Net revaluation decrements	(523,033)	-	-	-	-	-	-	(523,033)
Other	-	-	-	-	-	(119)	(5,269)	(5,388)
Balance at the end of the year	2,591,801	147,759	49,044	9,442	14,427	47,864	183,227	3,043,564
Accumulated Depreciation								
Balance at the beginning of the year	-	3,156	31,759	3,016	911	29,931	-	68,773
Disposals	-	-	-	(1,372)	-	(2,339)	-	(3,711)
Depreciation expense	56,304	8,335	4,268	1,511	865	6,552	-	77,835
Other	-	-	-	-	-	-	-	-
Balance at the end of the year	56,304	11,491	36,027	3,155	1,776	34,144	-	142,897
Net Book Value								
As at 30 June 2004	3,132,786	25,512	16,617	5,623	12,386	14,528	223,895	3,431,347
As at 30 June 2005	2,535,497	136,268	13,017	6,287	12,651	13,720	183,227	2,900,667

The financial reports for the year ended 30 June 2004 reported generation assets of subsidiary company Bell Bay Power Pty Ltd as being at fair value. These assets have been redesignated as being carried at cost in this financial report. This correction of disclosure has had no impact on the carrying value of the assets.

Woolnorth Bluff Point Wind Farm assets that were included within the generation assets at fair value in the 2004 financial statements have been sold to subsidiary company Woolnorth Bluff Point Wind Farm Pty Ltd during 2005, and are carried in the accounts of the subsidiary company at cost.

The total Other is represented by the write down of feasibility studies and generation capital work in progress that is deemed operating expenditure on the basis of low probability of proceeding.

	Parent						Total \$'000
	Generation at fair value \$'000	Auxiliary at cost \$'000	Motor Vehicles at cost \$'000	Land & Buildings at cost \$'000	Minor Assets at cost \$'000	Capital Work in Progress at cost \$'000	
	Gross Carrying Amount						
Balance at the beginning of the year	3,132,917	48,366	8,538	12,188	43,875	126,357	3,372,241
Additions	319	1	2,974	-	3,596	72,029	78,919
Disposals	(26,095)	-	(2,185)	-	(2,490)	-	(30,770)
Transfers	7,824	667	-	1,130	2,413	(12,034)	-
Net revaluation decrements	(523,033)	-	-	-	-	-	(523,033)
Other	-	-	-	-	(119)	(5,112)	(5,231)
Balance at the end of the year	2,591,932	49,034	9,327	13,318	47,275	181,240	2,892,126
Accumulated Depreciation							
Balance at the beginning of the year	-	31,752	2,966	901	29,560	-	65,179
Disposals	-	-	(1,346)	-	(2,339)	-	(3,685)
Depreciation expense	56,304	4,268	1,491	865	6,527	-	69,455
Other	-	-	-	-	-	-	-
Balance at the end of the year	56,304	36,020	3,111	1,766	33,748	-	130,949
Net Book Value							
As at 30 June 2004	3,132,917	16,614	5,572	11,287	14,315	126,357	3,307,062
As at 30 June 2005	2,535,628	13,014	6,216	11,552	13,527	181,240	2,761,177

	CONSOLIDATED		PARENT	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
12 TAX ASSETS				
(a) Current tax equivalent assets				
Future income tax benefit	9,188	8,952	9,188	8,952
(b) Non-current tax equivalent assets				
Future income tax benefit	58,145	62,102	57,664	62,102
13 OTHER ASSETS				
(a) Other current assets				
Interest accrued	1,033	2	9	2
Prepayments	3,695	2,020	3,008	2,020
Unamortised hedging costs	246	1,009	246	1,009
Loans to subsidiaries	-	-	47,018	114,069
Loans to associates	95	100	95	100
Miscellaneous	36	13	36	13
	5,105	3,144	50,412	117,213
(b) Non current assets				
Deferred hedging settlement	19,028	19,028	19,028	19,028
14 PAYABLES				
Trade creditors	82,649	35,693	75,259	29,540
Accrued expenses	1,904	1,367	1,855	1,312
Accrued interest payable	20,557	18,362	17,907	18,362
	105,110	55,422	95,021	49,214

All trade creditors and accrued expenses are unsecured. Trade creditors at the end of the current year include amounts owing under electricity price hedges with Aurora reflecting the new trading conditions operating since entry into the National Electricity Market.

15 INTEREST BEARING LIABILITIES

All semi-government loans have been transacted through Tascorp. Loans maturing within one year that had an original term greater than one year and for which there is an existing arrangement with Tascorp to refinance the loan have been classified as non-current liabilities.

(a) Current interest-bearing liabilities				
Tascorp loans	30,000	201,038	30,000	201,038
Bank loans - secured	2,912	-	-	-
	32,912	201,038	30,000	201,038
(b) Non-current interest-bearing liabilities				
Tascorp loans	980,018	875,525	980,018	875,525
Tascorp loans - Revolving Credit Facility	110,000	-	110,000	-
Bank loans - secured	88,588	-	-	-
State of Tasmania Treasury loans	-	3,991	-	3,991
	1,178,606	879,516	1,090,018	879,516
(c) Total interest-bearing liabilities				
Tascorp loans	1,120,018	1,076,563	1,120,018	1,076,563
Bank loans - secured	91,500	-	-	-
State of Tasmania Treasury loans	-	3,991	-	3,991
	1,211,518	1,080,554	1,120,018	1,080,554

The Bank Loan is secured by fixed and floating charges over all present and future rights, property and undertakings of Woolnorth Bluff Point Wind Farm Pty Ltd and its parent entity, Woolnorth Bluff Point Holdings Pty Ltd. There is no recourse to the Corporation.

Tascorp loans include \$110 million that is held as backing for an equivalent current investment (Note 9). This arrangement is in place in order to satisfy a financial condition of the Corporation's Australian Financial Services Licence.

	CONSOLIDATED		PARENT	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
15 INTEREST BEARING LIABILITIES (cont.)				
(d) Discounted and Premium Loans				
These amounts represent the consideration value of loans borrowed by the Corporation. The difference between the consideration and the face value is deferred interest (or discount/premium). Deferred interest is written off over the lives of the loans and is an interest component of borrowing.				
As at 30 June 2005 there were no discounted loans outstanding.				
Discounted loans				
Discount written off during the year	-	1,528	-	1,528
Premium loans				
Premium written off during the year	507	1,104	507	1,104
Book value of loans	50,018	50,525	50,018	50,525
Less: Premium to be written off	18	525	18	525
Face value of loans	50,000	50,000	50,000	50,000
The premium on these loans is written off to the Statement of Financial Performance over the term of the loans and effectively reduces the interest paid.				
16 TAX LIABILITIES				
(a) Current income tax equivalent liabilities				
Deferred income tax equivalent liability	12,342	6,294	12,342	6,660
Income tax equivalent payable	3,911	7,908	3,911	8,057
	16,253	14,203	16,253	14,716
(b) Non-current income tax equivalent liability				
Deferred income tax equivalent liability	136,996	136,738	132,678	136,373
17 PROVISIONS				
(a) Current provisions				
Employee entitlements (note 19)	38,269	35,555	38,269	35,555
Trading losses (note 20)	-	11,710	-	-
Total current provisions	38,269	47,265	38,269	35,555
(b) Non-current provisions				
Employee entitlements (note 19)	182,537	181,675	182,537	181,675
Other non-current provisions (note 20):				
Workers compensation	30	30	30	30
Trading losses	-	5,258	-	-
Total non-current provisions	182,567	186,963	182,567	181,705
Total Provisions	220,836	234,228	220,836	217,260

	CONSOLIDATED		PARENT	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
18 OTHER LIABILITIES				
(a) Other current liabilities				
Tax equivalent loans from subsidiaries (Note 1.2(i))	-	-	3,300	-
Income received in advance	698	787	698	786
Deferred hedging gains	343	442	343	442
Miscellaneous	10	511	10	511
	1,051	1,740	4,351	1,739
(b) Other non-current liabilities				
Deferred hedging gains	19,028	19,028	19,028	19,028

19 EMPLOYEE BENEFITS

(a) The aggregate employee benefit liability recognised in the financial statements is as follows:

Provision for employee benefits:

Current	38,269	35,555	38,269	35,555
Non-current	182,537	181,675	182,537	181,675
Accrued Wages & Salaries (i)	1,265	768	1,238	768
	222,071	217,998	222,044	217,998

(i) Accrued Wages & Salaries are included in Accrued expenses in Note 14 to the financial statements.

(b) Retirement Benefits Fund (RBF) Provision

RBF provides benefits for eligible employees or their spouse on retirement or death.

The provision is funded by employee and employer contributions. Employee contributions to the funds are transferred to independent RBF administrators, while employer contributions are retained internally as a provision.

Each year, the State Actuary conducts a valuation of the past service and accrued liabilities within the RBF defined benefit scheme at the reporting date. Any shortfall between the value of these benefits and the market value of RBF assets relevant for those members determines the value of any unfunded superannuation liability. The amount of this unfunded liability provided for by the Corporation is shown as a liability in the Statement of Financial Position (note 19(a)).

The funding status of the Corporation's share of the liabilities of the defined benefit scheme at the reporting date, based on actuarial valuations, is summarised as follows.

Retirement Benefits Act 1993

Vested benefits	317,414	315,825	317,414	315,825
Accrued benefits	301,411	300,876	301,411	300,876
Less: Net market value of plan assets relevant to the Corporation	(78,707)	(78,426)	(78,707)	(78,426)
Deficit (Unfunded past service liability)	222,704	222,450	222,704	222,450

The categories and respective liabilities, as determined by the State Actuary at 30 June 2005, for the different member classes of members of RBF are:

Contributory members	53,653	51,075	53,653	51,075
Pensioners	157,632	160,371	157,632	160,371
Retained Benefit Account	11,419	11,004	11,419	11,004
Total liability as at the end of the year	222,704	222,450	222,704	222,450
Balance of the RBF provision as at the end of the year	203,051	200,295	203,051	200,295
Amount under provided	(19,653)	(22,155)	(19,653)	(22,155)

In accordance with Treasurer's Instructions, the Corporation is required to systematically recognise as an expense the under-provided amount of \$19.7M (2004: \$22.2M) over the average expected remaining working lives of existing employees.

	CONSOLIDATED		PARENT	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
19 EMPLOYEE BENEFITS (cont.)				
The balance of the RBF provision in the Financial Statements of the Corporation was as follows:				
Balance at the beginning of the year	200,295	198,635	200,295	198,635
Add: Expense for the current year:				
Contributions for the cost of the current year's service	3,214	2,950	3,214	2,950
Interest added to provision	15,589	14,600	15,589	14,600
Add contribution to under provision	3,211	2,600	3,211	2,600
Total Contributions to RBF provision	22,014	20,150	22,014	20,150
	222,309	218,785	222,309	218,785
Less: Payments made to RBF	(19,258)	(18,490)	(19,258)	(18,490)
Balance at the end of the year	203,051	200,295	203,051	200,295
<i>Represented by:</i>				
Current	27,907	25,641	27,907	25,641
Non-current	175,144	174,654	175,144	174,654
Balance at the end of the year	203,051	200,295	203,051	200,295

The Corporation meets the Superannuation Guarantee obligations for all employees.

20 PROVISION RECONCILIATION

	Consolidated	
	Workers Compensation (i) \$'000	Trading Losses (ii) \$'000
Balance at the beginning of the year	30	16,968
Reductions arising from payments/other sacrifices of future economic benefits	-	(4,988)
Reductions resulting from the re-measurement of the estimated future sacrifice or the settlement of the provision without cost to the entity	-	(11,980)
Balance at the end of the year	30	-
<i>Represented by:</i>		
Current	-	-
Non-Current	30	-
Balance at the end of the year	30	-
	Parent	
	Workers Compensation (i) \$'000	Trading Losses (ii) \$'000
Balance at the beginning of the year	30	-
Reductions arising from payments/other sacrifices of future economic benefits	-	-
Reductions resulting from the re-measurement of the estimated future sacrifice or the settlement of the provision without cost to the entity	-	-
Balance at the end of the year	30	-
<i>Represented by:</i>		
Current	-	-
Non-Current	30	-
Balance at the end of the year	30	-

(i) The workers compensation provision is funded to a level that will meet expected workers compensation liabilities that remain to be settled from prior to 1 July 1998 when the Corporation self-insured for workers compensation.

(ii) A review of the basis for the provision for trading losses of Bell Bay Power Pty Ltd has been undertaken resulting in the removal of the provision from the statement of financial position of Bell Bay Power Pty Ltd (note 1.2(g)). Bell Bay Power Station is regarded as part of the entire generation grid in which the cost of production per MWh is less than the revenue earned per MWh. Hence no onerous contract is considered to exist and therefore no provision is required.

	CONSOLIDATED		PARENT	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
21 RESERVES				
(a) Reserves comprise				
Asset revaluation reserve (note 1.2(e))	1,348,133	1,871,166	1,348,133	1,871,166
(b) Movements in Reserves and Transfers (to)/from Retained Profits (note 5)				
General insurance reserve (note 1.2(p))				
Balance at the beginning of the year	-	9,900	-	9,900
Less transfers to retained profits	-	(9,900)	-	(9,900)
Balance at the end of the year	-	-	-	-
Asset revaluation reserve (note 1.2(e))				
Balance at the beginning of the year	1,871,166	1,871,166	1,871,166	1,871,166
Less: Asset revaluation decrement	(523,033)	-	(523,033)	-
Balance at the end of the year	1,348,133	1,871,166	1,348,133	1,871,166
(c) Share of Joint Venture Equity	1,000	1,000	-	-

The Financial Report for the year ended 30 June 2004 reported Share of Joint Venture Equity as Other Reserves.

22 FINANCIAL INSTRUMENTS DISCLOSURES

Financial instruments are used by the Corporation to manage exposures relating to its loan portfolio and present and future major projects. The administration of all financial instruments, and the monitoring of credit limits, is strictly controlled in accordance with the requirements of the Corporation's Treasury Policy Statement and relevant accounting standards.

(a) Derivative Financial Instruments

Objectives and significant terms and conditions

Interest Rate Swaps

The Corporation has entered into interest rate swap contracts to achieve an interest rate exposure profile that is consistent with the long-term cash flow stability and the interest rate management strategy of the Corporation. All interest rate swaps hedge identified loans.

(i) Debt Portfolio

At 30 June 2005 the fixed rates varied from 4.8% to 6.3% (2004: 4.8% to 6.3%). The floating rates were based on bank bill rates and these varied from 5.7% to 5.9% (2004: 5.5% to 5.6%).

The remaining terms and notional principal amounts of the Corporation's outstanding interest rate swap contracts at balance date were:

Not later than one year	60,000	-	60,000	-
Over one year and up to five years	183,400	113,400	183,400	113,400
Later than five years	118,625	40,000	50,000	40,000
Total	362,025	153,400	293,400	153,400

(ii) Basslink Project

Basslink Services Agreement and Floating Facility Fee Instrument

The Basslink Services Agreement (BSA) and Floating Facility Fee Instrument (FFFI) establish the rights and obligations of both parties including the monthly Basslink Facility Fee (BFF) payments by the Corporation to Basslink Pty Ltd (BPL).

The agreements are financial instruments whereby the Corporation is committed to make payments to BPL over the term of the contract should BPL meet its obligations to keep the link available.

The BSA commences upon successful commissioning of the Basslink project, and is for a term of 25 years. By entering into the BSA, the Corporation has effectively gained access to the whole National Electricity Market.

	CONSOLIDATED		PARENT	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000

22 FINANCIAL INSTRUMENTS DISCLOSURES (cont.)

The Corporation has the right to receive the Inter-Regional Settlements Residue (IRR) created by the northbound and southbound power flows between Tasmania and Victoria. An IRR represents the difference between the pool price in two electricity markets.

The Corporation has committed to sell the right to receive IRRs relating to power flows from Victoria to Tasmania.

The Basslink Facility Fee obligations include an interest rate exposure similar to that of a floating interest rate exposure on amortising debt.

The remaining term and notional principal for these instruments at balance date were:

Later than five years	599,810	599,810	599,810	599,810
Total	599,810	599,810	599,810	599,810

The notional principal amortises over the 25 year period to \$306.2M.

Basslink Facility Fee Swap

Derivatives entered into during 2003 for the Basslink project eliminate the financial market risks which arise from the Basslink Facility Fee payments including:

- the foreign exchange risk inherent in the Facility Fee payment obligation. This resulted in a hedge gain recorded on the Statement of Financial Position as a deferred settlement asset and deferred settlement liability of \$27.7m which will be amortised over the term of the BSA.
- the construction interest rate risk inherent in the Facility Fee payment obligation. This resulted in a hedge cost recorded on the Statement of Financial Position as a deferred cost and deferred settlement liability of \$8.7m which will be amortised over the term of the BSA.

The net hedge gain from these derivatives of \$19.028m is recorded as a deferred gain (note 18) and a deferred settlement (note 13).

The Basslink Facility Fee Swap (BFFS) commences upon successful commissioning of the Basslink project, and is for a term of 25 years.

The BFFS swaps the floating interest rate exposure in the BFF payments for an inherent fixed interest rate of 7.41%.

The remaining term and notional principal amount for this instrument at balance date was:

Later than five years	599,810	599,810	599,810	599,810
Total	599,810	599,810	599,810	599,810

The notional principal amortises over the 25 year period to \$306.2M.

Basslink Credit Swaps

While the Basslink Facility Fee Swap transaction has been executed with a single counterparty, the Corporation has also entered into supplementary interest rate swap transactions with other counterparties to mitigate the potential credit risk associated with a single counterparty.

These swaps are readily tradeable financial instruments.

(iii) Electricity Price Hedges

Exposure to fluctuations in market prices is minimised through the use of hedging contracts executed in accordance with Board approved policy and guidelines.

The Corporation enters into forward electricity price contracts to limit exposure to pool price variations for current contracted industrial and retail customer load. Contract volumes for many of the Corporation's current contracts are determined by the actual load experienced in the contract period. Realised gains and losses from this activity are included in the operating result for the year.

Any valuation of these contracts must be based on readily available future price estimates in an active market. The Corporation's electricity hedge portfolio is predominantly of a nature for which independent market prices are not readily available. In addition, in respect to a small number of minor hedges, no market for future electricity prices has yet been established in Tasmania due to the very recent inclusion of Tasmania in the National Electricity Market (NEM).

Hence, no fair value can be reliably estimated for these derivative instruments.

No ultimate gain or loss to the Corporation is anticipated as the hedge contracts result in net revenue being earned at prices approximately equivalent to contracted positions prior to the introduction of NEM.

(b) Interest Rate Exposures

The Corporation's portfolio exposure to interest rates on financial instruments at 30 June 2005 was:

22 FINANCIAL INSTRUMENTS DISCLOSURES (continued)

CONSOLIDATED							
As at 30 June 2005							
	Weighted Average Effective Interest Rate %	Floating Interest Rate \$'000	Fixed Interest Rate Maturing			Non Interest Bearing \$'000	Total \$'000
			1 year or less \$'000	1 to 5 years \$'000	Over 5 years \$'000		
Financial Assets							
Cash	5.4	10,221	-	-	-	-	10,221
Investments	5.4	130,277	-	-	-	-	130,277
Receivables	-	-	-	-	-	105,453	105,453
Other Assets	-	-	-	-	-	20,438	20,438
Total Financial Assets		140,498	-	-	-	125,891	266,389
Financial Liabilities							
Bank Overdrafts and Loans	6.2	586,500	110,018	435,000	80,000	-	1,211,518
Interest Rate Swaps							
- Pay Fixed/Rec. Floating	5.5	(362,025)	60,000	183,400	118,625	-	-
Forward Rate Agreements	5.7	(30,000)	30,000	-	-	-	-
Credit Swaps							
- Pay Fixed/Rec. Floating	6.5	(667,301)	-	-	667,301	-	-
- Rec. Fixed/Pay Floating	6.5	667,301	-	-	(667,301)	-	-
Basslink Facility Fee Swap	7.4	(599,810)	-	-	599,810	-	-
Floating Facility Fee Instrument	4.8	599,810	-	-	(599,810)	-	-
Accounts Payable	-	-	-	-	-	105,110	105,110
Other Liabilities	-	-	-	-	-	19,381	19,381
Total Financial Liabilities		194,475	200,018	618,400	198,625	124,491	1,336,009
Net Financial Assets /(Liabilities)		(53,977)	(200,018)	(618,400)	(198,625)	1,400	(1,069,620)

PARENT							
As at 30 June 2005							
	Weighted Average Effective Interest Rate %	Floating Interest Rate \$'000	Fixed Interest Rate Maturing			Non Interest Bearing \$'000	Total \$'000
			1 year or less \$'000	1 to 5 years \$'000	Over 5 years \$'000		
Financial Assets							
Cash	5.4	192	-	-	-	-	192
Investments	5.4	110,180	-	-	-	-	110,180
Receivables	-	-	-	-	-	86,619	86,619
Other Assets	-	-	-	-	-	66,432	66,432
Total Financial Assets		110,372	-	-	-	153,051	263,423
Financial Liabilities							
Bank Overdrafts and Loans	6.1	495,000	110,018	435,000	80,000	-	1,120,018
Interest Rate Swaps							
- Pay Fixed/Rec. Floating	5.6	(293,400)	60,000	183,400	50,000	-	-
Forward Rate Agreements	5.7	(30,000)	30,000	-	-	-	-
Credit Swaps							
- Pay Fixed/Rec. Floating	6.5	(667,301)	-	-	667,301	-	-
- Rec. Fixed/Pay Floating	6.5	667,301	-	-	(667,301)	-	-
Basslink Facility Fee Swap	7.4	(599,810)	-	-	599,810	-	-
Floating Facility Fee Instrument	4.8	599,810	-	-	(599,810)	-	-
Accounts Payable	-	-	-	-	-	95,021	95,021
Other Liabilities	-	-	-	-	-	19,381	19,381
Total Financial Liabilities		171,600	200,018	618,400	130,000	114,402	1,234,420
Net Financial Assets /(Liabilities)		(61,228)	(200,018)	(618,400)	(130,000)	38,649	(970,997)

22 FINANCIAL INSTRUMENTS DISCLOSURES (continued)

CONSOLIDATED							
As at 30 June 2004							
	Weighted Average Effective Interest Rate %	Floating Interest Rate \$'000	Fixed Interest Rate Maturing			Non Interest Bearing \$'000	Total \$'000
			1 year or less \$'000	1 to 5 years \$'000	Over 5 years \$'000		
Financial Assets							
Cash	5.4	2,120	-	-	-	-	2,120
Investments	5.4	10,817	-	-	-	-	10,817
Receivables	-	-	-	-	-	58,941	58,941
Other Assets	-	-	-	-	-	20,152	20,152
Total Financial Assets		12,937	-	-	-	79,093	92,030
Financial Liabilities							
Bank Overdrafts and Loans	6.1	358,038	94,991	547,525	80,000	-	1,080,554
Interest Rate Swaps							
- Pay Fixed/Rec. Floating	5.5	(153,400)	-	113,400	40,000	-	-
Credit Swaps							
- Pay Fixed/Rec. Floating	6.5	(667,301)	-	-	667,301	-	-
- Rec. Fixed/Pay Floating	6.5	667,301	-	-	(667,301)	-	-
Basslink Facility Fee Swap	7.4	(599,810)	-	-	599,810	-	-
Floating Facility Fee Instrument	4.8	599,810	-	-	(599,810)	-	-
Accounts Payable	-	-	-	-	-	55,422	55,422
Other Liabilities	-	-	-	-	-	19,981	19,981
Total Financial Liabilities		204,638	94,991	660,925	120,000	75,403	1,155,957
Net Financial Assets /(Liabilities)		(191,701)	(94,991)	(660,925)	(120,000)	3,690	(1,063,927)

PARENT							
As at 30 June 2004							
	Weighted Average Effective Interest Rate %	Floating Interest Rate \$'000	Fixed Interest Rate Maturing			Non Interest Bearing \$'000	Total \$'000
			1 year or less \$'000	1 to 5 years \$'000	Over 5 years \$'000		
Financial Assets							
Cash	5.4	2,073	-	-	-	-	2,073
Investments	5.4	10,817	-	-	-	-	10,817
Receivables	-	-	-	-	-	46,717	46,717
Other Assets	-	-	-	-	-	134,221	134,221
Total Financial Assets		12,890	-	-	-	180,938	193,828
Financial Liabilities							
Bank Overdrafts and Loans	6.1	358,038	94,991	547,525	80,000	-	1,080,554
Interest Rate Swaps							
- Pay Fixed/Rec. Floating	5.5	(153,400)	-	113,400	40,000	-	-
Credit Swaps							
- Pay Fixed/Rec. Floating	6.5	(667,301)	-	-	667,301	-	-
- Rec. Fixed/Pay Floating	6.5	667,301	-	-	(667,301)	-	-
Basslink Facility Fee Swap	7.4	(599,810)	-	-	599,810	-	-
Floating Facility Fee Instrument	4.8	599,810	-	-	(599,810)	-	-
Accounts Payable	-	-	-	-	-	49,213	49,213
Other Liabilities	-	-	-	-	-	19,981	19,981
Total Financial Liabilities		204,638	94,991	660,925	120,000	69,194	1,149,748
Net Financial Assets /(Liabilities)		(191,748)	(94,991)	(660,925)	(120,000)	111,744	(955,920)

	CONSOLIDATED		PARENT	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
22 FINANCIAL INSTRUMENTS DISCLOSURES (cont.)				
Weighted Average Cost of Debt	6.19%	6.14%	6.10%	6.14%

(c) Net Fair Values

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

Current Investments: The carrying amount approximates fair value (note 9(a)).

Current Receivables and Payables: The carrying amount approximates fair value (note 8 and 14).

Forward Foreign Exchange Contracts: The fair value of forward foreign exchange contracts is determined as the recognised gain or loss at balance date calculated by reference to current forward exchange contracts with similar maturity profiles.

Non-Electricity Derivative Transactions: These are only used for the purpose of hedging financial exposures that arise. Therefore net fair values should not be assessed in isolation. The overall impact should take account of the underlying exposures being hedged.

Interest rate swaps are valued at current market quoted prices.

Other Current Assets: The carrying amount approximates fair value (note 13). In accordance with AAS 33 Presentation and Disclosure of Financial Instruments prepayments are not included.

Other Current Liabilities: The carrying amount approximates fair value (note 18(a)).

Fixed rate loans are valued at current risk adjusted market rates.

Basslink Services Agreement

The net fair value of the BSA is presented as an unfavourable amount and represents the net present value of the facility fee payments and the security deposit less the estimated revenue from the Inter-Regional Settlements Residues.

A nominal discount rate of 10.8% has been used being the pre-tax weighted average cost of capital as at 30 June 2005. The future cash flows from the Inter-Regional Settlements Residues have been calculated using a base case simulation being a combination of published data (AFMA Victorian electricity forward price curve), internal hydrological data (including commencement storages), Tasmanian load demand forecasts and water value curves.

The cash flows included in the fair value of the BSA are limited to the contractual elements of the agreement as required by accounting standards. Fair value disclosure in this note does not include the revenue from fixed contract, spot and contract trading of electricity in the National Electricity Market as anticipated at the time of approval of the Basslink Project by the Board of the Corporation. In addition, benefits expected from operational efficiencies, system optimisation, strategic development of renewable generation assets and hydrological offsets have not been included in fair value. In contrast, the calculation of the fair value of generation assets has included all these benefits and obligations of Basslink resulting in a positive contribution to asset fair value.

The assumptions used to calculate fair value are based on commercial judgment and are calculated by the application of externally sourced data and internal expert knowledge of the Corporation's hydrological production.

The BSA is not a readily tradeable financial instrument.

Basslink Facility Fee Derivatives

Floating Facility Fee Instrument and Facility Fee Swap: The net fair values of these derivatives have been calculated using a net present value methodology based on the contractual obligations using a 25 year forward start market rate of 5.69% as at 30 June 2005. Neither derivative instrument is a readily tradeable financial instrument.

22 FINANCIAL INSTRUMENTS DISCLOSURES (continued)

The net fair values of financial assets and financial liabilities as at 30 June 2005 were:

	Consolidated				Parent			
	Carrying Amount 2005 \$'000	Net Fair Value 2005 \$'000	Carrying Amount 2004 \$'000	Net Fair Value 2004 \$'000	Carrying Amount 2005 \$'000	Net Fair Value 2005 \$'000	Carrying Amount 2004 \$'000	Net Fair Value 2004 \$'000
Financial Assets								
Cash	10,221	10,221	2,120	2,120	192	192	2,073	2,073
Investments	130,277	130,277	10,817	10,817	110,180	110,180	10,817	10,817
Receivables	105,453	105,453	58,941	58,941	86,619	86,619	46,717	46,717
Other Assets	20,438	20,438	20,152	20,152	66,432	66,432	134,221	134,221
	266,389	266,389	92,030	92,030	263,423	263,423	193,828	193,828
Financial Liabilities								
State of Tasmania Treasury Loans	-	-	3,991	3,892	-	-	3,991	3,892
Tascorp Loans	1,120,018	1,145,571	1,076,563	1,076,299	1,120,018	1,145,571	1,076,563	1,076,299
Bank Loans - Secured	91,500	99,365	-	-	-	-	-	-
Accounts Payable	105,110	105,110	55,422	55,422	95,021	95,021	49,213	49,213
Other Liabilities	19,381	19,381	19,981	19,981	19,381	19,381	19,981	19,981
	1,336,009	1,369,427	1,155,957	1,155,594	1,234,420	1,259,973	1,149,748	1,149,385
Financial Assets/(Liabilities)								
Basslink Services Agreement	-	(436,800)	-	(429,400)	-	(436,800)	-	(429,400)
Basslink Facility Fee Instruments	-	(273,100)	-	(245,500)	-	(273,100)	-	(245,500)
Credit Swaps	1,112	79,907	1,510	29,850	1,112	79,907	1,510	29,850
Credit Swaps	(1,112)	(79,907)	(1,510)	(29,850)	(1,112)	(79,907)	(1,510)	(29,850)
Interest Rate Swaps	229	1,092	126	2,531	229	1,092	126	2,531
Interest Rate Swaps	(110)	(4,360)	(112)	(427)	(54)	(1,687)	(112)	(427)
Forward Rate Agreements	-	(13)	-	-	-	(13)	-	-
Forward Foreign Exchange Contracts	(355)	(355)	(405)	(405)	(355)	(355)	(405)	(405)
Forward Foreign Exchange Contracts	379	379	882	882	379	379	882	882
	143	(713,157)	491	(672,319)	199	(710,484)	491	(672,319)

(d) Liquidity Risk

Liquidity risk arises from the possibility that the Corporation may be unable to settle a transaction on the due date. To manage this risk, the Corporation has adequate stand-by facilities and other funding arrangements in place.

(e) Credit Risk

Credit risk represents the loss that would be recognised at the reporting date if counterparties failed to meet their contractual obligations. The Corporation measures credit risk as the positive revaluation of financial instruments plus a potential exposure of investments.

The Corporation reduces this risk by only transacting with treasury counterparties of a high quality. Interest rate swaps are subject to the industry recommended International Swap Dealers Association (ISDA) documentation. Where possible this documentation contains clauses enabling the netting of exposures. The credit exposure of a financial instrument is its positive market revaluation at the reporting date. A potential exposure, broadly in line with Reserve Bank guidelines, is calculated on all interest rate swaps. The total exposure to interest rate swaps is also limited to a notional allocation as part of the Corporation's capital base.

	CONSOLIDATED		PARENT	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Credit Risk Exposure by Instrument Type				
Financial Assets				
Investments and bank balances	33,665	14,783	11,530	14,783
Financial Instruments				
Foreign exchange contracts	49,955	40,289	46,524	40,289
Basslink Facility Fee Swap	916	2,266	916	2,266
Futures Contracts	63,356	63,356	63,356	63,356
Total Credit Risk Exposure	147,892	120,694	122,326	120,694

	CONSOLIDATED		PARENT	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
22 FINANCIAL INSTRUMENTS DISCLOSURES (cont.)				
Credit Risk Exposure by Institutions Ratings				
Australian Based Institutions				
AA+ to AA- ratings	74,786	51,088	49,220	51,088
A+ to A ratings	63,356	63,356	63,356	63,356
	138,142	114,444	112,576	114,444
Overseas Based Institutions				
A+ to A ratings	9,750	6,250	9,750	6,250
Total Credit Risk Exposure	147,892	120,694	122,326	120,694

23 FOREIGN EXCHANGE

Forward Foreign Exchange Contracts

The Corporation enters into Forward Foreign Exchange contracts to buy and sell specified amounts of various foreign currencies in the future at pre-determined rates. The contracts are entered into to hedge purchase and sale commitments denominated in foreign currencies.

It is the Corporation's policy to enter into forward foreign exchange contracts to hedge all foreign currency exposures greater than a level approved by the Board of the Corporation as soon as they are recognised.

These hedges are maintained until the exposures expire and may extend for a number of years.

(a) Gains / (losses)

(i)	The balance of realised hedge gains / (losses) relates to forward foreign exchange contracts for the purchase of miscellaneous equipment. The contracts for the purchase of these assets have not been finalised as at 30 June 2005 as the amounts hedged are not yet due for payment. The Corporation expects the balance of deferred hedge gains / (losses) to be transferred to the underlying assets by 30 June 2006.	325	207	325	207
(ii)	Gains/(losses) realised on foreign currency hedges and revaluation of open hedges, recognised in net profit during the year ended 30 June 2005.	(193)	(67)	(193)	(67)

(b) Non-hedged foreign currency balances

The Australian dollar equivalents of foreign currency balances in the Financial Statements which are not effectively hedged, including bank account balances, were as follows:

	5	48	5	48
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(c) Open hedge contracts

The settlement dates and dollar amounts to be paid on the Corporation's outstanding open hedge contracts as at 30 June 2005 were:

	2005 Consolidated		2004 Consolidated	
	AUD Payables Due 2005 \$'000	AUD Receivables Due 2005 \$'000	AUD Payables Due 2004 \$'000	AUD Receivables Due 2004 \$'000
Not later than one year	8,066	3,569	19,927	8,128
Later than one year but not later than two years	1,463	2,220	1,245	640
Later than two years	-	783	1,463	3,004
	9,529	6,572	22,635	11,772

(c) Open hedge contracts (cont.)

	2005 Parent		2004 Parent	
	AUD Payables Due 2005 \$'000	AUD Receivables Due 2005 \$'000	AUD Payables Due 2004 \$'000	AUD Receivables Due 2004 \$'000
Not later than one year	8,066	3,569	19,927	8,128
Later than one year but not later than two years	1,463	2,220	1,245	640
Later than two years	-	783	1,463	3,004
	9,529	6,572	22,635	11,772

	CONSOLIDATED		PARENT	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000

24 SEGMENT REPORTING

The Corporation operates predominantly in the electricity generation business. The Corporation's operations and customers are located predominantly in one geographical segment being Tasmania, Australia. The Corporation's principal activity is the generation and sale of electricity and related products.

25 COMMITMENTS FOR EXPENDITURE**(a) Capital expenditure commitments**

Not later than 1 year	16,365	19,950	15,218	17,160
Over 1 year and up to 2 years	2,200	310	2,200	-
Over 2 years and up to 5 years	1,530	-	1,530	-
	20,095	20,260	18,948	17,160

The above items relate to the Corporation's commitments for capital expenditure.

(b) Lease commitments

(i) Rental Expense:				
Minimum Lease Payment	2,198	3,124	2,198	3,124
(ii) Future Committed Lease Payments:				
Not later than 1 year	485	1,924	485	1,924
Over 1 year and up to 2 years	240	149	240	149
Over 2 years and up to 5 years	47	201	47	201
	772	2,274	772	2,274

The majority of the Corporation's leases are for office accommodation.

Payments made under operating leases are expensed as incurred over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

(c) Other commitments

Not later than 1 year	116,549	141,932	98,992	140,007
Over 1 year and up to 2 years	103,535	113,417	99,983	111,822
Over 2 years and up to 5 years	289,082	290,995	278,049	286,728
Later than 5 years and up to 25 years	2,007,855	2,013,509	1,987,652	2,013,509
	2,517,021	2,559,853	2,464,676	2,552,066

Other commitments include forecast Basslink Facility Fee payments of \$2.3bn (2004:\$2.5bn). These have not been discounted and do not include projected Inter-Regional Revenue. Note 22 provides further information on the Basslink Facility Fee and Basslink Services Agreement.

Also included are commitments under the gas pipeline agreement of \$117.2m (2004:\$135.4m). This represents the commitment entered into by the Corporation for the supply of gas to the Bell Bay Power station for the term of the agreement. It is expected upon commencement of Basslink and the consequent separation of Bell Bay Power Pty Ltd that the balance of the obligation under this agreement will transfer with Bell Bay Power Pty Ltd.

The remaining commitments relate to the supply of general goods and services.

	CONSOLIDATED		PARENT	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000

26 CONTINGENT LIABILITIES AND ASSETS

(a) Contingent Liabilities

1. A Supreme Court of Victoria writ was issued on 5 December 2002 claiming damages from Hydro Tasmania in respect to a service contract with Ericsson Australia Pty Ltd. The principal claim concerns an allegation that Hydro Tasmania provided false and misleading tender information and over utilises the service. Hydro Tasmania considers there is little prospect that the claim will be successful.

2. Transend has advised of its intention to retrospectively increase transmission charges to Hydro Tasmania for Entry Services provided under the CANS 2 Connection Agreement. The Corporation considers that such an increase is not justified and is currently reviewing the details and options for further action.

3. Aurora has requested a reimbursement for liabilities which accrue to it under the Mandated Renewable Energy Target (MRET) legislation for energy purchased from Hydro Tasmania which it is unable to recover. The Corporation has not accepted Aurora's claim.

(b) Contingent Assets

Commencement of Basslink commercial operation has been delayed from 29 November 2005 to a revised scheduled date of 28 April 2006. Basslink Pty Ltd was not successful in gaining an extension of time under the Development Agreement to cover the project delay. It is anticipated that Basslink Pty Ltd will be required to pay liquidated damages to the State of Tasmania. An agreement is in place to pass these amounts on to the Corporation. The estimated value of the liquidated damages may be up to \$5 million.

27 AUDITOR'S REMUNERATION

Amounts received, or due and receivable, by the Auditor-General from the Corporation for auditing the Financial Statements of the Corporation.

	140	173	140	173
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28 DIRECTORS' REMUNERATION

(a) Total salary and benefits paid to directors of the Corporation:

(i) non-executive directors	473	399	417	399
(ii) executive director	321	308	321	308
	794	707	738	707

(b) Total superannuation payments made on behalf of directors:

(i) non-executive directors	49	75	49	75
(ii) executive director	11	11	11	11
	60	86	60	86

29 RELATED PARTY INFORMATION

The Directors as at 30 June 2005 were:

Dr D M Crean, Mr G L Willis, Dr J J Amos,

Mr K P Baxter, Mr D W Challen, Ms J M Healey

Ms C A Hughes, Ms M Willis and Ms S Farrier.

Honorable P E Rae retired on 24 September 2004.

Mr G A Kennedy retired on 30 November 2004.

Dr D M Crean was appointed on 12 July 2004.

Ms M Willis and Ms S Farrier were appointed on 15 December 2004.

Directors and Director related entities

Mr K P Baxter had an interest as an advisor to the Government of Papua New Guinea.

Mr D W Challen had interests as Chairman of the Electricity Oversight Committee and as Chairman of Tascorp.

Ms C A Hughes had an interest as Manager, Resource Planning and Development Commission.

Sponsorship and contribution fees of \$48,000 were paid to the Tasmanian Symphony Orchestra of which Mr G L Willis was a director during the year.

Sponsorship and contribution fees of \$22,000 (2004: \$Nil) were paid to Ten Days on the Island of which Hon. P E Rae was a director during the year.

Sponsorship and contribution fees of \$14,000 (2004: \$8,500) were paid to Renewable Energy Generators of Australia Ltd of which Hon. P E Rae and Mr G L Willis were chairman and director respectively.

Interest revenue of \$3,458,934 (2004: \$42,208) and interest expense of \$63.3M (2004: \$59.2M) was received and paid to Tascorp, a Director related entity of Mr D W Challen.

Details of directors' remuneration and retirement benefits are disclosed in note 28 to the financial statements.

Equity Interests in Controlled Entities

Details of the ordinary shares held in controlled entities are disclosed in note 32 to the financial statements.

Equity Interests in Joint Ventures

Details of interests in joint ventures are disclosed in notes 33- 35 to the financial statements.

Transactions within the Wholly Owned Group

Details of the wholly owned group are disclosed in note 32 to the financial statements.

Transactions with Other Related Parties

Other related parties include:

Aurora Energy AAPT Pty Ltd (trading as TasTel) (Ref note 33)

All transactions with related parties were conducted in the normal course of business and on commercial terms and conditions and include the sale of electricity to the parent entity.

30 EVENTS SUBSEQUENT TO BALANCE DATE

After due enquiry, there have been no other matters or circumstances since the end of the financial year that have significantly affected or may have significantly affected the operations of the Corporation, the results of those operations or the state of affairs of the Corporation in subsequent financial years apart from

- Since balance date the Corporation has arranged an eligible undertaking facility with Tascorp. This facility will not be drawn but will be available to satisfy the financial conditions of the Corporation's financial services licence. The Corporation will therefore be able to repay the \$110 million drawn on the revolving loan facility with Tascorp (Note 15) using the matched money market investment of \$110 million (Note 9).
- The pattern of below- average rainfall continued after balance date. If this pattern continues the low water storage levels may adversely impact upon the Corporation's operations and financial position.

31 COMMUNITY SERVICE OBLIGATIONS

On 1 June 1999, the Government agreed to formally recognise the cost of concessions to eligible pensioners and customers living on Bass Strait islands as Community Service Obligations (CSOs), as defined under the *Government Business Enterprises Act 1995*.

During the year ended 30 June 2005, the Government paid the Corporation \$6.0M (2004 \$4.7M) as reimbursement of cost of providing Community Service Obligations.

32 CONTROLLED ENTITIES

	Footnote	Country of Incorporation	Percentage of Shares Held	
			2005 %	2004 %
Parent Entity				
Hydro-Electric Corporation				
Controlled Entities				
Bell Bay Power Pty Ltd	1	Australia	100	100
Lofty Ranges Power Pty Ltd	2	Australia	100	100
Roaring 40s Renewable Energy Pty Ltd	3	Australia	100	-
Cathedral Rocks Investments Pty Ltd	4	Australia	100	100
Woolnorth Bluff Point Holdings Pty Ltd	5	Australia	100	-
Woolnorth Bluff Point Wind Farm Pty Ltd	6	Australia	100	100
Woolnorth Studland Bay Holdings Pty Ltd	7	Australia	100	-
Woolnorth Studland Bay Wind Farm Pty Ltd	8	Australia	100	-
Musselroe Holdings Pty Ltd	9	Australia	100	-
Musselroe Wind Farm Pty Ltd	9	Australia	100	-
Heemskirk Holdings Pty Ltd	9	Australia	100	-
Heemskirk Wind Farm Pty Ltd	9	Australia	100	-
Waterloo Investment Holdings Pty Ltd	9	Australia	100	-
Waterloo Wind Farm Pty Ltd	9	Australia	100	-

Footnotes

- Bell Bay Power Pty Ltd was registered on 20 December 2001.
- Lofty Ranges Power Pty Ltd was registered on 26 April 2002.
- Roaring 40s Renewable Energy Pty Ltd's name changed from Roaring 40s Wind Pty Ltd on 30 May 2005. Roaring 40s Wind Pty Ltd was registered on 29 November 2004. Roaring 40s Renewable Energy Pty Ltd owns 100% of Cathedrals Rocks Investments Pty Ltd, Woolnorth Bluff Point Holdings Pty Ltd, Woolnorth Studland Bay Holdings Pty Ltd, Heemskirk Holdings Pty Ltd, Musselroe Holdings Pty Ltd and Waterloo Investment Holdings Pty Ltd.
- Cathedral Rocks Investments Pty Ltd name changed from R40 Pty Ltd on 9 November 2004. R40 Pty Ltd was registered on 13 May 2004.
- Woolnorth Bluff Point Holdings Pty Ltd holds 100% of Woolnorth Bluff Point Wind Farm Pty Ltd and was registered on 29 November 2004.
- Woolnorth Bluff Point Wind Farm Pty Ltd's name changed from Roaring 40's Wind Pty Ltd on 9 November 2004. Roaring 40's Wind Pty Ltd was registered on 21 March 2001.
- Woolnorth Studland Bay Holding Pty Ltd holds 100% of Woolnorth Studland Bay Wind Farm Pty Ltd and was registered on 29 November 2004.
- Woolnorth Studland Bay Wind Farm Pty Ltd was registered on 29 November 2004.
- The following entities were registered on 8 March 2005:
 - Musselroe Holdings Pty Ltd which holds 100% of Musselroe Wind Farm Pty Ltd
 - Musselroe Wind Farm Pty Ltd
 - Heemskirk Holdings Pty which holds 100% of Heemskirk Wind Farm Pty Ltd
 - Heemskirk Wind Farm Pty Ltd
 - Waterloo Investment Holding Pty Ltd which holds 100% of Waterloo Wind Farm Pty Ltd
 - Waterloo Wind Farm Pty Ltd.

33 INTERESTS IN JOINT VENTURES

Name	Principal Activity	Joint Venture Balance Date	Ordinary Share Ownership Interest				Joint Venture Agreement Voting Rights			
			Consolidated		Parent		Consolidated		Parent	
			2005 %	2004 %	2005 %	2004 %	2005 %	2004 %	2005 %	2004 %
Aurora Energy AAPT Pty Ltd (trading as TasTel)	Telecommunications Service Provider	30 June	0.00	24.50	0.00	33.33	0.00	24.50	0.00	33.33
Cathedral Rocks Construction and Management Pty Ltd	Wind Farm Construction	30 June	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00
Cathedral Rocks Holdings Pty Ltd	Wind Farm Development and Operation	30 June	50.00	50.00	50.00	50.00				

The Corporation entered into a joint venture (Aurora Energy AAPT Pty Ltd) with Aurora Energy Pty Ltd and AAPT Limited in the year ended 30 June 2001. The Corporation divested its interest in June 2005.

The Corporation entered into a joint venture (Cathedral Rocks Construction and Management Pty Ltd) with EHN (Oceania) Pty Ltd in the year ended 30 June 2004. The joint venture was established to project manage the construction of a wind farm at Cathedral Rocks, South Australia. (Note 35)

A subsidiary of the Corporation, Cathedral Rocks Investments Pty Ltd (formerly R40 Pty Ltd) entered into a joint venture (Cathedral Rocks Holdings Pty Ltd) with EHN (Oceania) Pty Ltd in the year ended 30 June 2004. The joint venture was established to develop, operate and maintain a wind farm at Cathedral Rocks, South Australia. (Note 35)

A subsidiary of the Corporation, Lofty Ranges Power Pty Ltd holds an interest of 50% in an unincorporated joint venture operation named SA Water Corporation & Lofty Ranges Power Pty Ltd Joint Venture. The principal activity of the joint venture is to contract for the construction of and to operate mini hydro facilities. (Note 34)

		CONSOLIDATED	
		2005	2004
		\$'000	\$'000

34 JOINT VENTURE OPERATIONS

Interest in Assets and Liabilities employed in Joint Venture Operations

Current Assets

Cash	3	46
Receivables	4	25
Total Current Assets	7	71

Non-Current Assets

Property, Plant and Equipment	1,408	1,478
Total Non-Current Assets	1,408	1,478

TOTAL ASSETS

1,415	1,549
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Current Liabilities

Payables	21	20
Total Current Liabilities	21	20

TOTAL LIABILITIES

21	20
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	CONSOLIDATED	
	2005	2004
	\$'000	\$'000
35 INCORPORATED JOINT VENTURE		
Aggregate share of elements relating to Incorporated Joint Ventures		
Share of profit of joint venture entity:		
Revenue from ordinary activities	45,534	33
Expenses from ordinary activities	45,697	-
(Loss)/profit from ordinary activities before income tax expense	(163)	33
Income tax benefit/(expense) relating to ordinary activities	42	(10)
Net (loss)/profit - accounted for using the equity method	(121)	23
Statement of financial position		
Current assets	15,745	7,321
Non-current assets	43,872	6,838
Total assets	59,617	14,159
Current liabilities	17,219	6,494
Non-current liabilities	32,497	6,642
Total liabilities	49,716	13,136
Net assets - accounted for using the equity method	9,901	1,022
Share of retained profits		
Share of retained profits at beginning of year	67	-
Share of net (loss)/profit	(316)	67
Share of retained (losses)/profits at the end of the year	(249)	67
Movements in carrying amount of joint venture entities		
Carrying amount at the beginning of the year	1,067	-
Investment in joint venture entities during the year	9,000	1,000
Share of (loss)/profit after tax in joint venture entity for the year	(316)	67
Carrying amount at the end of the year	9,751	1,067

36 DIVIDEND

The statutory dividend for the financial year ended 30 June 2005 is \$32m. This was declared by the Board in August 2005.

The special dividend for the financial year is \$8m. This will be the final special dividend in a phase-out program over three years as agreed with the State.

The payment of a dividend by the Corporation is determined in accordance with the *Government Business Enterprise Act 1995*. This Act requires the Board of Directors to recommend a dividend within 60 days of the end of the financial year.

37 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

For reporting periods beginning on or after 1 January 2005, the Corporation must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board (AASB).

This financial report has been prepared in accordance with Australian Accounting Standards and other financial reporting requirements (Australian Generally Accepted Accounting Standards - AGAAP) applicable for reporting periods ended 30 June 2005.

Transition management

The Corporation has established a formal implementation timetable to assess the impact of transition to AIFRS and to achieve compliance with AIFRS reporting for the financial year commencing 1 July 2005.

At the date of this financial report, the Corporation has substantially completed the implementation timetable, including the assessment of accounting policy alternatives on transition to AIFRS, the finalisation of the AIFRS accounting policies that will be adopted from 1 July 2005 and the determination of the likely impact on the results and financial position of the Corporation.

The Corporation will be in a position to fully comply with the requirements of AIFRS for the 30 June 2006 financial year.

Likely Impact of transition to AIFRS

Financial statements for the first year of adoption of AIFRS, being the financial year ending 30 June 2006, will provide comparative figures for the 2005 financial year prepared in accordance with AIFRS. In order to present a comparative Statement of Financial Position as at 30 June 2005, the initial impact of AIFRS must be assessed and reflected at the beginning of that year, 1 July 2004. This is referred to as the transition date.

37 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont.)

The following reconciliations outline the likely impacts on the current year result and financial position of the Corporation had the financial statements been prepared using AIFRS, based on the directors' accounting policy decisions current at the date of this financial report. Readers of the financial report should note that further developments in AIFRS (for example, the release of further pronouncements by the Australian Accounting Standards Board and the Urgent Issues Group), if any, may result in changes to the accounting policy decisions made by the directors and, consequently, the likely impacts outlined in the following reconciliations. The reconciliations reconcile the AIFRS and AGAAP positions at each respective point in time.

The directors may, at any time until the completion of the Corporation's first AIFRS compliant financial report, elect to revisit, and where considered necessary, revise the accounting policies applied in preparing the Financial Statements.

	Note	Consolidated		Parent	
		30-Jun-05		30-Jun-05	
		\$Millions		\$Millions	
RECONCILIATION OF PROFIT/(LOSS) AFTER TAX:					
Net profit after tax (AGAAP)		44.4		42.1	
Employee benefits expense	(a)	(34.3)		(34.3)	
Income tax equivalent benefit	(b)	173.0		173.0	
Impairment loss	(d)	(542.2)		(542.2)	
Depreciation expense	(e)	(6.6)		(6.6)	
Net profit/(loss) after tax (AIFRS)		(365.7)		(368.0)	

	Note	Consolidated		Parent	
		30-Jun-05	1-Jul-04	30-Jun-05	1-Jul-04
		\$Millions		\$Millions	
RECONCILIATION OF TOTAL ASSETS:					
Total Assets (AGAAP)		3,248.4	3,598.1	3,143.0	3,574.6
Deferred tax asset	(c)	32.1	21.8	32.1	21.8
Generation Property, Plant and Equipment					
-Accumulated Impairment Loss	(d)	(542.2)	-	(542.2)	-
-Less: AGAAP revaluation decrement	(d)	523.0	-	523.0	-
-Accumulated Depreciation	(e)	(6.6)	-	(6.6)	-
Total Assets (AIFRS)		3,254.7	3,619.9	3,149.3	3,596.4

RECONCILIATION OF TOTAL LIABILITIES:					
Total Liabilities (AGAAP)		1,710.8	1,541.9	1,608.2	1,518.9
Deferred tax liability	(b)(c)	447.9	610.6	447.9	610.6
RBF provision	(f)	106.9	72.6	106.9	72.6
Total Liabilities (AIFRS)		2,265.6	2,225.1	2,163.0	2,202.1
Net Assets (AIFRS)		989.1	1,394.8	986.3	1,394.3

RECONCILIATION OF TOTAL EQUITY:					
Total Equity (AGAAP)		1,537.6	2,056.2	1,534.8	2,055.7
Asset Revaluation Reserve:					
-Transfer to Retained Earnings	(g)(d)	(1,348.2)	(1,871.2)	(1,348.2)	(1,871.2)
Retained Earnings:					
-Transfer from Asset Revaluation Reserve	(g)	1,348.2	1,871.2	1,348.2	1,871.2
-Initial recognition of deferred tax assets and liabilities	(c)	(588.8)	(588.8)	(588.8)	(588.8)
-Initial recognition of RBF provision	(f)	(72.6)	(72.6)	(72.6)	(72.6)
-Impairment loss (AIFRS increase over AGAAP revaluation decrement)	(d)	(19.2)	-	(19.2)	-
-Depreciation expense	(e)	(6.6)	-	(6.6)	-
-Employee benefits expense	(a)(f)	(34.3)	-	(34.3)	-
-Income tax equivalent benefit	(b)	173.0	-	173.0	-
Total Equity (AIFRS)		989.1	1,394.8	986.3	1,394.3

Explanatory Notes

(a) Employee Benefits Expense

As explained in note (f) below, the increase during 2005 in the Retirement Benefits Fund (RBF) liability under AIFRS must be recognised as an expense in the current year. This increase was \$34.3 million.

(b) Income Tax Equivalent Expense/Benefit

The tax effect of the full difference between accounting and tax values of assets and liabilities on transition to AIFRS has been recognised through increased deferred tax liability (refer note (c) below). This increased liability will reduce over subsequent years as the difference between accounting and tax asset and liability values reduces. This will result in a lower income tax equivalent expense under AIFRS. In 2005, income tax equivalent expense is lower under AIFRS by \$162.7 million due to the combined effect of the reversal of this difference and the asset impairment loss (refer note (d) below) and by \$10.3 million due to the additional employee benefit expense (refer note (a) above).

The net impact of AIFRS on income tax equivalent expense for 2005 is therefore a decrease of \$173.0 million.

(c) Deferred Tax Assets and Liabilities

The principles of tax effect accounting enable income tax expense to be based on accounting profit while recognising that, since not all expenses and revenues in financial statements are deductible or assessable in the current year (if at all), this expense must be reconciled to the current liability for income tax by a deferred tax liability or deferred tax asset. Before adoption of AIFRS, the deferred tax liability or deferred tax asset has only recognised the tax effect of differences in the timing of recognition of expenses or income for financial reporting and their impact on tax liability.

In some cases there is a permanent difference between the accounting value of an asset and its value for future tax deduction. Prior to AIFRS, the tax effect of this difference was recognised in income tax expense in the year that the liability for tax was affected. AIFRS recognises the tax effect of the full difference between the tax and accounting value of assets or liabilities, whether it is a timing or a permanent difference, as a deferred tax liability or deferred tax asset. For example, the element of the difference between the accounting value of assets and their tax value that is attributable to revaluation increments represents future non-deductible depreciation. Under AIFRS this is recognised as a deferred tax liability.

The initial recognition of the adjustment to deferred tax liability and deferred tax asset on transition date will result in a direct charge against retained earnings. An additional deferred tax liability of \$610.6 million will be recognised representing the tax effect of accumulated revaluation increments on assets. An additional deferred tax asset of \$21.8 million will also be recognised representing the tax effect of recognition on transition date of the RBF provision shortfall. The net impact on retained earnings will be a reduction of \$588.8 million.

In 2005, deferred tax liability is lower under AIFRS by \$162.7 million due to the asset impairment loss (refer note (d) below) and the deferred tax asset is increased by \$10.3 million due to the additional employee benefit expense (refer note (a) above). The net impact on income tax equivalent expense is a decrease of \$173.0 million (refer note (b) above).

(d) Hydro Generation Property, Plant and Equipment – Impairment Loss

As permitted by the first-time adoption provisions, the Corporation has elected to adopt the fair value of these assets at 30 June 2004 as their deemed cost on transition date and to adopt the cost method of recording all property, plant and equipment under AIFRS. Under AIFRS, the carrying value of assets recorded under the cost method must not exceed their recoverable amount. In the event of this occurring, an impairment loss must be recorded as an expense against the current year.

A revaluation under AGAAP of hydro generation assets was conducted in the current year to reflect the latest financial projections of the Corporation. The revaluation resulted in a fair value of \$2.535 billion, a reduction of \$523.0 million. Under AIFRS, revised revenue forecasts represent an impairment trigger requiring an assessment of the recoverable amount of these assets.

Fair value under AGAAP is determined using projected net after-tax cash flows discounted to present value using an after-tax discount rate. Recoverable amount under AIFRS is essentially calculated in the same manner apart from use of pre-tax cash flows and a pre-tax discount rate.

Application of the same financial projections to an assessment of recoverable amount of hydro generation assets under AIFRS results in the recognition of an impairment loss of \$542.2 million, \$19.2 million greater than the fair value reduction under AGAAP.

Under AIFRS, asset impairment must be recognised as an expense of \$542.2 million in the current year whereas, under AGAAP, the revaluation decrement has been applied against asset revaluation reserve.

As explained in note (b) above, the deferred tax liability represents the tax effect of the difference between accounting and tax value of assets. Under AIFRS, the impairment reduction in the accounting value of the hydro generation assets will result in a reduction in deferred tax liability. This will result in a tax benefit for the year of \$162.7 million.

(e) Depreciation Expense

Under AGAAP, a revaluation increment or decrement is applied evenly over the year against the carrying value of the assets. The devaluation in 2005 therefore resulted in a depreciation reduction for that year. An impairment loss under AIFRS is applied at the end of the financial year. Therefore the carrying value of assets under AIFRS was higher than under AGAAP resulting in a higher depreciation charge. Depreciation expense under AIFRS would be higher by \$6.6 million, increasing the provision for depreciation and consequently reducing the asset group carrying value by \$6.6 million.

(f) RBF Provision

AIFRS applies different rules to the determination of the liability for long-term employee benefits. The State Actuary has applied these rules to recalculate the defined benefit liability as at 30 June 2004. This has resulted in a significant increase in the shortfall between the liability to RBF members (net of attributed assets) and the RBF provision in the 2004 financial statements. The principal differences in calculation method are the use of a government or corporate bond rate rather than the fund investment rate to calculate present value, inclusion of the member funded portion of the liability that is not matched by assets and attribution of the 15% contribution tax to the fund deficit.

Explanatory Notes (continued)

The actuarial recalculation of the RBF liability at 30 June 2004 in accordance with AIFRS resulted in an increase in the total liability from \$222.5 million to \$272.9 million. The shortfall in the provision at 30 June 2004 therefore increased from \$22.2 million to \$72.6 million. Under AIFRS, the whole RBF liability will be recognised on transition date, being an increase of \$72.6 million. This increase will also result in an adjustment to deferred tax assets on transition date of \$21.8 million. The net impact on retained earnings on transition date is a charge of \$50.8 million.

At 30 June 2005 an actuarial recalculation of the RBF liability in accordance with AIFRS has resulted in a further increase in the liability to \$310 million, resulting in total shortfall of \$106.9 million. Under AIFRS, \$72.6 million of this shortfall has been recognised on transition and the balance of \$34.3 million arising during 2005 has been recognised as an expense (refer note (a) above).

(g) Asset Revaluation Reserve

As explained in note (d), the directors have elected to adopt the cost method of recording property, plant and equipment on transition to AIFRS. This results in the transfer of the asset revaluation reserve (\$1871.2 million at 30 June 2004) to retained earnings on transition date.

(h) Financial Instruments

AIFRS introduces new standards for recognition and measurement of financial instruments and their disclosure and presentation. These new standards treat financial instruments as assets or liabilities bringing many on to the balance sheet for the first time. They must be presented on the balance sheet at fair value at each reporting date with gains and losses in valuation being taken to the profit and loss account.

The directors have elected to apply the first-time adoption exemption available under AIFRS to defer the date of transition to these new standards until 1 July 2005. Accordingly, the financial impacts of AASB 132 and AASB 139 are not included in the above table.

The Corporation is in the process of determining the impact of these standards on its financial statements. Any adjustments arising from the initial recognition of financial instruments on the transition date of 1 July 2005 will be against retained earnings.

SUPERANNUATION DECLARATION

I, Geoff L Willis, hereby certify that the Hydro-Electric Corporation has met its obligations under the Commonwealth's *Superannuation Guarantee (Administration) Act 1992* in respect of any employee who is a member of a complying superannuation scheme to which the Hydro-Electric Corporation contributes.



GL Willis
Chief Executive Officer

15 August 2005

STATEMENT OF CERTIFICATION

In the opinion of the directors of the Hydro-Electric Corporation (the "Corporation"):

- The financial statements are drawn up so as to give a true and fair view of the results and cash flows for the financial year ended 30 June 2005 and the state of affairs at 30 June 2005 of the Corporation and its subsidiaries;
- The consolidated financial statements have been made out in accordance with the provisions of the *Government Business Enterprises Act 1995*;
- At the date of this statement there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they fall due.

The financial statements have been prepared in accordance with Treasurer's Instructions, Australian Accounting Standards and Urgent Issues Group consensus views.

Signed in accordance with a resolution of the directors:



Dr DM Crean
Chairman

15 August 2005



GL Willis
Chief Executive Officer

15 August 2005