

Hydro Tasmania
2001 Half Yearly
Report



Hydro Tasmania
the renewable energy business

Welcome

It's my pleasure to once again present the half-yearly report of Hydro Tasmania, covering the business period from July to December 2001.

This concise view of the organisation's activities during the six-month period includes a review of highlights and key events and a summary of our business performance.

This is the sixth occasion on which we've made a half-yearly report. While it is not a statutory requirement, we believe that reviewing the organisation's performance and results at this time is both important and useful to our stakeholders, the people of Tasmania, as well as to others interstate and overseas who have an interest in the activities of the nation's leading generator of renewable energy.

It is particularly significant this year, since the period under review has been marked by a number of major events and initiatives for Hydro Tasmania.

- Completion of the approvals process and start of construction at Woolnorth Wind Farm.
- Preparation of Bell Bay Power Station for gas-fired operation in co-operation with Duke Energy International.
- Close involvement in the Basslink joint assessment process.
- Award of the inaugural international Blue Planet Prize for excellence in hydro-electric power development.

Through Basslink, the clean, renewable energy that we produce from Tasmania's abundant yet precious wind and water resource will be increasingly valued on Australia's energy markets. Furthermore, through the Commonwealth Government's mandated renewable energy targets, the energy that we generate has global benefits, assisting the nation to meet its commitments given in relation to the Kyoto Protocol to reduce the emission of Greenhouse gas produced in energy generation.

The energy business environment, which has undergone rapid change in recent years, continued to evolve quickly, and Hydro Tasmania again proved that we are an organisation capable of meeting and adapting to the challenge.





Our people are skilled specialists, responsive to change. We maintain a strong environmental focus in all that we do. The continuing sound financial performance of this business will underpin the benefits brought to Tasmania from the investment in energy.

This Triple Bottom Line – People, Planet, Profit – underpins the way we do business, and is the firm foundation on which we continue to build for growth and success in the future.

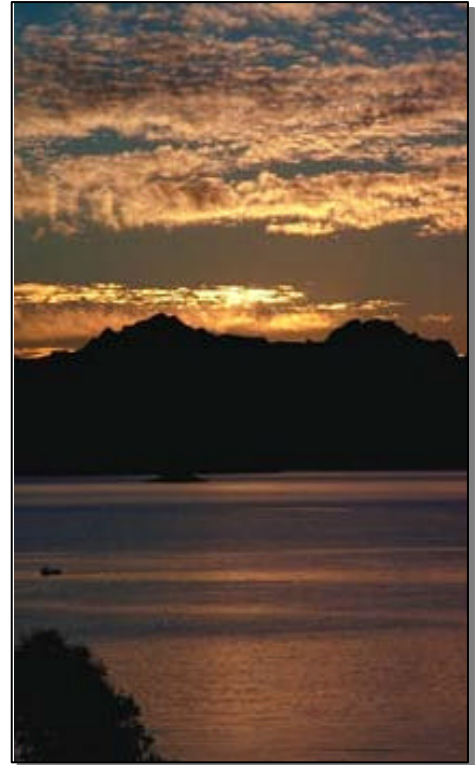
Highlights of the Half-Year

The first half of the 2001-2002 financial year included the following key events and highlights:

- In July 2001, the Summary Report of the Basslink Integrated Impact Assessment Statement was lodged by Basslink Pty Ltd with the Joint Advisory Panel. Hydro Tasmania's contribution to this was the culmination of over two years of work by a team from Hydro Tasmania Environmental Services. The Joint Advisory Panel involved the most stringent environmental approvals process ever undertaken in Australia for an energy project.
- A significant aspect of the catchment management studies completed for the Basslink Joint Advisory Panel was the adoption of detailed riverine enhancement measures for the Gordon River and downstream Poatina. A major winter seasonal flow allocation was established for the Gordon, along with on-going bank stability and monitoring work. We are proud of the work done by our environmental management team.
- At Woolnorth Wind Farm, foundations were laid before the end of the year and construction began on the towers. Stage 1 will have a generation capacity of 10.5 MW. Stage 2 Bluff Point development will extend capacity by a further 54 MW. There is potential for further wind power generation, both in Tasmania and on interstate sites. These developments are being pursued.
- Hydro Tasmania placed orders with turbine manufacturer Vestas for machines capable of generating up to 128 MW. As a result of the order, Vestas will establish a nacelle assembly plant on the North West Coast to assemble turbine housings. When Basslink is in place, the potential for further wind farm development could see the establishment of a blade manufacturing plant in Tasmania.
- Through our continued investment in upgrades of existing hydro power stations and the growing program of renewable generation development, Hydro Tasmania is increasing renewable energy generation in Australia. Specific activities to increase renewable generation in the past year include station upgrades, implementing



efficiency measures and development of new mini-hydro stations. Plans for upgrading of existing hydro power stations, including Poatina, Gordon and Trevallyn continued under our asset development program. Generation Group has also identified ten power stations with the potential to increase output through the installation of more efficient equipment. Further enhancing our capability to generate additional renewable energy, Hydro Tasmania began construction of a mini-hydro installation at Parangana in the Mersey-Forth Development, and continued feasibility studies for mini-hydro at Butlers Gorge on the Derwent Scheme.



- We continued to take a leading role in REGA, the Renewable Energy Generators of Australia and the Renewable Energy Roundtable - these represent the nation's major forums for organisations involved in the renewables industry.
- Hydro Tasmania's King River Power Development won the inaugural Blue Planet Prize, awarded by the International HydroPower Association General Assembly. The award recognises best practice at an international level in the development and operation of a hydro scheme, and assessments included technical, economic, and social aspects, with a particular emphasis on the environmental criteria.
- Feasibility studies continued into the potential for new wind farm sites in the North East at Musselroe and on the West Coast at Granville Harbour. Local councils in both regions approved the construction of wind monitoring towers to assess the available resource.

Performance Highlights

Sales and Customers

A significant milestone was achieved when Hydro Tasmania's energy sales to Aurora Energy passed the one billion dollar mark since the disaggregation of the old Hydro into separate generation, transmission and distribution/retail businesses in 1998.

Several contracts have been renewed with major industrial customers through Aurora Energy. In addition, a number of contracts for new electricity consumption have been offered and accepted.

Hydro storages

Hydro Tasmania's storages received only minor benefit from Tasmania's wetter than normal Spring, with most rainfall occurring outside our catchment areas. Storages remained steady just below 50% of capacity. With gas generation in place at Bell Bay, the hydro system back-up will be more cost-effective than the oil-fired option of the past. It is unlikely that the backup will be required in Autumn of 2002.

Marketing and Trading initiative

Continuing our preparation for competition when Basslink connects Tasmania to the National Electricity Market (NEM), Hydro Tasmania strengthened the depth and skill of our new Marketing and Trading Group. This Group will be responsible for implementing trading strategies, via stringent risk management policies and procedures, to ensure that the organisation maximises the value of the commercial opportunities presented by Basslink.

Asset Maintenance

We continue to effectively manage the existing assets, which underpin our business success, together with building peaking capacity and expanding our capability by strengthening and extending the life of these assets.

Looking Ahead

With Basslink giving Hydro Tasmania direct access to the National Electricity Market, the market for the State's wind and water power will widen, allowing us to maximise the value of our clean, renewable energy. In preparation, we will continue to build a skilled and focused team of people ready to compete on a national scale.

Sound and prudent management of existing assets as well as the development of new energy sources, particularly the harnessing of Tasmania's abundant wind energy resource, will be a major focus for the organisation in the future.

As the global importance and value of the world's clean, green energy sources increases, Hydro Tasmania, as Australia's pre-eminent renewables generator, is poised to take a key place in what will be the 21st century's leading sustainable industry.

With our reach widening, the social, environmental and financial imperatives that form our Triple Bottom Line – People, Planet, Profit – will remain the organisation's core business drivers.



In summary:

1. Sales increased over the corresponding 2000 period by \$3.9 million incorporating higher energy sales and external consulting work.
2. Expenses, including borrowing costs, increased by \$2.6 million over the corresponding 2000 period. This reflects the increased costs involved in the preparation for entry to the National Electricity Market and the Basslink project. All cost categories were held at or below budget for this current financial year.
3. Profit continues to improve with an increase of \$0.9 million over the 2000 period.

Performance Highlights

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE SIX MONTHS ENDING 31 DECEMBER 2001

	Consolidated Six Months Ending 31 st December <u>2001</u>	Consolidated Six Months Ending 31 st December <u>2000</u>	Holding Corp Six Months Ending 31 st December <u>2001</u>	Holding Corp Six Months Ending 31 st December <u>2000</u>
	\$'000	\$'000	\$'000	\$'000
Revenues from Ordinary Activities				
• Electricity Sales	155.7	153.8	155.7	153.8
• Other Trading Income	17.9	15.9	17.5	15.9
	<u>173.6</u>	<u>169.7</u>	<u>173.2</u>	<u>169.7</u>
Expenses from Ordinary Activities excluding borrowing costs				
• Expenses	52.3	46.4	51.9	46.4
• Depreciation	42.0	40.4	41.9	40.4
	<u>94.3</u>	<u>86.8</u>	<u>93.8</u>	<u>86.8</u>
Borrowing Costs	<u>45.1</u>	<u>50.0</u>	<u>45.1</u>	<u>50.0</u>
Share of net loss of joint venture accounted for using the equity method	(0.4)	-	-	-
Profit from Ordinary Activities before Income Tax Equivalent Expense	<u>33.8</u>	<u>32.9</u>	<u>34.3</u>	<u>32.9</u>

- Note:
- Seasonal factors affect the revenue figure in the first six months and it is not appropriate to derive a full year estimate on the basis of the half yearly results.
 - The above Statement of Financial Performance has not been subject to audit.