HALF-YEARLY REPORT 2004

It is with very great pleasure that we present Hydro Tasmania’s eighth half-yearly report for the business period from 1 July to 31 December 2003.

In producing this report we point out that, as with the Annual Meeting which we conduct annually, there is no legislative requirement to produce a half-yearly report on the organisation’s activities.

However, the Corporation is firmly of the view that all opportunities should be taken to enable our stakeholders, the people of Tasmania, to scrutinise our performance and accordingly have confidence that our performance meets stakeholder expectations.

A number of significant milestones were achieved by the Corporation in the six months covered by this report. They include:

- As a result of a renewed focus and commitment to safety management no lost time injuries were recorded in the first six months of the year and a significant reduction in the number of medically treated injuries was also achieved.
- Receipt of development approval for the Corporation’s first interstate wind farm development at Cathedral Rocks in South Australia as well as the signing of a connection agreement with Electranet.
- A landmark Enterprise Agreement between the Corporation, its employees and relevant unions was signed following a successful consultative process.
- Commencement of Basslink construction activities in Tasmania and Victoria by Basslink Pty Ltd and its contractors.
- In conjunction with our joint venture partners, S.A. Water, the opening of our first interstate mini hydro facility at Terminal Storage in South Australia.
- Further recognition of Hydro Tasmania’s credentials as a renewable energy leader with the adoption by the International Hydropower Association of the Sustainability Guidelines developed by the Corporation for world wide use.
• Successful conversion of the oil fired Bell Bay Unit 2 to gas fired operation within budget and on time.

• Completion of the first full year’s operation at Stage 1 of the Woolnorth wind farm and excellent progress on construction of the 54MW Stage 2. The 110kV transmission line from the Woolnorth site to Smithton was also commissioned.

• Participation in the formal opening ceremony for the Vestas Wind Turbine assembly factory at Wynyard – a milestone in the development of the wind component of the renewables industry in Australia.

• NEMMCO included Basslink for the first time in its Statement of Opportunities. This recognised the role that energy from Tasmania, via Basslink, will play in the National Energy Market.

• The signing of an alliance agreement with Alstom’s Hydro Power Division to upgrade the Trevallyn Power Station and the announcement of a $28 million upgrade for the Gordon Power Station.

Our financial performance for the period has been very pleasing in all respects and continues on from the strong results achieved in the 2003 financial year. Consolidated profit before income tax expense was $57.4 million, a $2.1 million improvement over the comparable period last year. This is the second year in a row with a significant lift in sales and reflects the growth in the Tasmanian economy and Hydro Tasmania’s growing presence in the renewable energy market.

Sales of energy both to major industrial customers and to the retail sector continue to exceed our budgeted projections. Total energy sales for the period of $189.8 million were $18.2 million above the comparable period last year. This increase is greater than the corresponding $15.9 million increase reported in our previous half yearly report.

Sales of Renewable Energy Certificates (REC’s) continue to grow with strong spot and forward sales performance. The proceeds from these sales continue to be reinvested into our renewable energy and asset upgrade programmes.

The organisation continued to maintain its focus on cost containment with the result that, for the half year, operating costs were well below budget projections. The favourable result is all the more pleasing as we expand into new activities and prepare for entry into the National Electricity Market (NEM). Cost control will continue to present a challenge and remain a key focus once we are operating in the competitive NEM environment.
Borrowing costs reduced by $4.2 million to $41.3 million through continued management of our debt portfolio in this low interest rate environment. At 31 December 2003 the Corporation had a very competitive weighted average cost of debt when benchmarked against other participants in the NEM. This was 6.44%.

The favourable result for the first six months of the year sets a strong foundation for the remainder of the financial year. However, it should be recognised that the trading pattern is seasonally weighted toward this first six months operation. In addition our trading performance is heavily dependant on weather patterns.

At the end of December 2003 our storage levels had fallen to 38.7% of full capacity compared with 43.1% at the end of December 2002. We have experienced both the driest December on record and the driest November-December period on record. Dry weather and low storage levels increase the likelihood of reliance on the more expensive energy produced by Bell Bay. Given the state of water storages at the end of December we are expecting to operate both units of Bell Bay for substantial periods over the next six months. Despite the conversion of both units to gas the cost of this energy remains significantly higher than hydro generation and this continued operation will impact on the second half’s operating results.

The low water storages have also necessitated the Corporation seeking approval to develop supplementary diesel generation sites on the West Coast. Although good rainfall received in January has greatly reduced the likelihood of the Corporation requiring diesel generation, approval for these sites has been sought in the unlikely event that a repeat of the dry weather patterns experienced in November and December 2003 is experienced.

Our preparations for entry into the National Electricity Market involves a substantial capital programme and includes projects to refurbish, modernise and upgrade power stations to improve their reliability and output. The Trevallyn power station was returned to service in December following a successful station upgrade and head race tunnel refurbishment which is part of a program which will provide a further 29MW from this 80MW powerstation and is part of the most desirable results of the MRET scheme. We have also successfully completed work on the Gordon intake valve and Number 1 machine. Upgrade projects are currently being planned for other stations to occur over the next 5-10 years.

Until the successful operation of Basslink we continue to face the logistical and financial challenges of managing a generation system that is susceptible to variable rainfall patterns.
The milestones achieved during period under review, together with the strong financial result set a solid foundation for the remainder of the financial year and forward as the Corporation progresses to NEM participation.

The Board and employees of the Corporation are committed to a continuation of these achievements and strong financial results.

Hon Peter Rae AO
Chairman
24 February 2004

Geoff Willis
CEO
24 February 2004
# Statement of Financial Performance

**For the Six Months Ending 31 December 2003**

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<td><strong>Revenues from Ordinary Activities</strong></td>
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<tr>
<td>Electricity Sales</td>
<td>189.8</td>
<td>171.6</td>
<td>189.8</td>
<td>169.6</td>
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<tr>
<td>Other Trading Income</td>
<td>25.5</td>
<td>25.0</td>
<td>19.2</td>
<td>22.8</td>
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<td><strong>Total</strong></td>
<td>215.3</td>
<td>196.6</td>
<td>209.0</td>
<td>192.4</td>
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**Expenses from Ordinary Activities excluding borrowing costs**

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<tr>
<td>Expenses</td>
<td>77.0</td>
<td>57.0</td>
<td>69.9</td>
<td>53.0</td>
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<tr>
<td>Depreciation</td>
<td>39.6</td>
<td>38.8</td>
<td>38.6</td>
<td>37.7</td>
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<tr>
<td><strong>Total</strong></td>
<td>116.6</td>
<td>95.8</td>
<td>108.5</td>
<td>90.7</td>
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<tr>
<td>Borrowing Costs</td>
<td>41.3</td>
<td>45.5</td>
<td>40.9</td>
<td>45.4</td>
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**Profit from Ordinary Activities before income tax equivalent**

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<td>57.4</td>
<td>55.3</td>
<td>59.6</td>
<td>56.3</td>
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**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.