HALF-YEARLY REPORT 2005

Hydro Tasmania is proud to present its half-yearly report for the business period from 1 July to 31 December 2004. This is the ninth occasion on which Hydro Tasmania has published a half-yearly report on its activities. Unlike the legislatively required Annual Report on its full financial year activities, there is no compulsion on Hydro Tasmania to publish a half-yearly report. However the Board of Hydro Tasmania is committed to the concept of its stakeholders, the people of Tasmania, having the opportunity to scrutinise the Corporation’s performance and be well-informed of the activities and strategic direction of Tasmania’s principal Government Business Enterprise.

Highlights of the period
The half-year period concluding on 31 December 2004 saw the achievement of a number of significant milestones for Hydro Tasmania. There was a record in peak electricity generation of 1736 megawatts (MW) on 19 July, as a result of the winter cold snap. Hydro Tasmania’s operations and maintenance regime, and its program of asset refurbishment giving greater output from its power stations, have enabled this record electricity demand to be comfortably met.

A milestone in this asset refurbishment program was the completion of upgrade works on the headrace tunnel which carries water from Lake Trevallyn to the Trevallyn Power Station. The $5.1 million tunnel upgrade is part of Hydro Tasmania’s $200 million, 10 year modernisation program which will increase electricity production by an amount sufficient to meet the power needs of an additional 12,000 households.

The safety of our employees and contractors has been strengthened by the increased commitment to our safety principles across the organisation. For the period under review we incurred 2 lost time injuries. We aim to improve against this disappointing statistic following the adoption of our occupational
health and safety plan which sets our safety strategy for the remainder of the year.

The annual Statement of Opportunities released by the National Electricity Market Management Company underlined the importance of Basslink to help meet problems of electricity supply in the National Electricity Market, which covers all eastern seaboard states and South Australia, and hence the bulk of Australia's population. As well as being a good business opportunity for Hydro Tasmania, Basslink will play a vital role in meeting the peak electricity demands of the Market.

The six-month period saw the achievement of a number of important steps in Hydro Tasmania's strategic plan to position itself as a major wind power developer. These were:

- commencement of construction of the 66MW, $120 million Cathedral Rocks Wind Farm, on the Eyre Peninsula in South Australia. This will be Hydro Tasmania's first wind power project outside Tasmania
- official opening of Stage 2 of the Woolnorth Wind Farm, the largest wind farm now operating in Australia with a total installed capacity of 64 MW. Output from Stages 1 and 2 of the Woolnorth Wind Farm has exceeded Hydro Tasmania's forecasts
- lodgement of a Development Application for a 117 MW wind farm at Waterloo, in the Clare Valley, 100 kilometres north of Adelaide
- receipt of Development Approval from all Tasmanian state and local authorities for a 130 MW wind farm at Musselroe, in the State's northeast. Further approval is required from the Federal Government.

Hydro Tasmania's aspiration to be recognised as Tasmania's world renowned renewable energy business was promoted on a number of fronts. Principal among these were:

- an opportunity to promote its strategic direction, capabilities and potential to an international audience at the prestigious World Energy Conference in Sydney
- signing of contracts for consulting work overseas, such as the investigation of rural electrification in Sri Lanka
- commitment of $350,000 for research by the University of Tasmania into the energy potential of hydrogen
- partnership with the CSIRO in an interactive, high quality educative exhibition to focus on climate change and renewable energy solutions to that significant problem.

Signing of a 10-year, $90 million agreement with major national electricity retailer EnergyAustralia for the sale of all Renewable Energy Certificates and Green Power Rights created by the production of electricity from Stages 1 and 2 of the Woolnorth Wind Farm.
Continued, business-wide program of detailed preparation for Tasmania’s entry to the National Electricity Market in May 2005, including the implementation of a record capital expenditure program.

**Governance**

The period saw some notable changes in the governance of Hydro Tasmania, with the Board changing its chairmanship, farewelling a long-standing Director and welcoming two new Directors to assist the existing Board members meet the challenging duties that are involved in leading Tasmania’s principal Government Business Enterprise into the National Electricity Market.

The term of appointment of the Honourable Peter Rae AO concluded on 24 September 2004, on the occurrence of his 72nd birthday. Mr Rae joined the Board in 1992 and in early 1993 was appointed Chairman. His leadership, dedication and commitment to the organisation through a period of great change is much appreciated.

Mr Graeme Kennedy retired on 30 November 2004 after 14 years of continuous service to the Corporation as a Board member. Mr Kennedy’s extensive private and public experience enabled him to consistently make a very valuable contribution.

On 15 December 2004, two new Directors were appointed to the Board to fill the vacancies caused by the departure of Mr Rae and Mr Kennedy, and bring Board numbers to their full complement of nine Directors with the
wide range of disciplines and expertise necessary for the full development of Hydro Tasmania.

Ms Sally Farrier is a director of Farrier Swier Consulting and has specialised in the energy sectors of Australia and New Zealand. Ms Melanie Willis, a principal of consulting company, Capital Performance Group, has broad experience in investment banking and finance.

Financial performance

The financial performance for this period shows a continuation of the strong results achieved in the 2004 financial year. Consolidated profit before income tax expense for the six months ended 31 December, 2004 of $45.9M exceeded budget by $12.7M. Although lower than the profit before tax reported for the comparative period last year we remain on track to achieving a profit result in line with the record 2004 full year result. Sales of energy to the retail sector have grown and were in line with budget expectations for the period. Total revenue for the period of $185.2 million was $4.6 million below the comparable period last year. This is principally due to the timing of sales of green renewable energy certificates (RECs) which correct as the year progresses and we derive an increasing proportion of our revenue from this source.

Increased costs have been incurred as preparations continue for entry into the National Electricity Market (NEM) and as the Corporation adapts to the increasingly regulated corporate environment. As with 2003 we continue to incur substantial costs for gas generation at Bell Bay to supplement our storages.

The organisation has continued to maintain its focus on cost control and we are pleased to report that costs for the six month period were below budget. As we head into the competitive NEM environment containment of costs remains at the forefront of our attention.

Borrowing costs increased by $1.2 million to $42.5 million for the period resulting from slightly higher borrowings, which funded the completion of Woolnorth Stage 2 windfarm. The Corporation continues to achieve a weighted average cost of debt (WACD) that benchmarks favourably against other participants in the NEM. At 31 December 2004 WACD was
6.12%, a substantial improvement compared to the 6.44% at the same
time last year.

During December we paid an interim ordinary dividend of $22.6M. A
continuation of the strong, steady returns paid to our shareholder, the
Government of Tasmania.

The financial results for the six months are pleasing, particularly the
stronger than forecast result from our Consulting business, and as they
exceed a challenging budget target. Financially the remainder of the year
continues to present a challenge to the Board and management as we
approach NEM entry. However we are confident that the strong first half
result sets us up well to achieve a strong result for the full year. It should
be noted however that our trading pattern is seasonally weighted toward
this first six months operation and that our trading performance for the
remainder of the year is heavily dependent on inflows.

**Water storages and Bell Bay operation**

As at the end of December 2004, Hydro Tasmania’s water storage levels
stood at 39.5% of full capacity, compared with 38.7% at the end of 2003
and 41.3% at the end of 2002.

These storage levels require constant monitoring and careful planning to
ensure Hydro Tasmania can meet Tasmania’s electricity demand, through
its supply capability of hydro, wind and gas sources.

The state of storage levels at this time of year requires the operation of the
Bell Bay gas-fired Power Station. After installation of a new transformer
Bell Bay Unit 1 recommenced operations in November supplying 120 MW
to the system. Prior to this Unit 2 operated at its full capacity of 120 MW
over this period.

With Basslink scheduled to come into operation in November 2005, Bell
Bay will no longer augment Hydro Tasmania’s system but will be
separated from Hydro Tasmania and operate in its own right in the
Tasmanian electricity market.

However, until that time Hydro Tasmania will continue to face the
operational, logistical and financial challenges that are inherent in
managing a generation system susceptible to variable rainfall patterns.
Looking ahead

The 2005 calendar year will present Hydro Tasmania with exciting opportunities and challenges. On 29 May 2005, Tasmania joins the National Electricity Market and is from that time subject to all the Market's rules and regimes. Hydro Tasmania is undertaking an enormous body of work to ensure its people, policies, systems and assets are ready for us to take our place as a highly significant participant in a highly competitive market.

On 29 November 2005, the Basslink undersea power cable is scheduled to be commissioned giving us physical access to the National Market and enabling us to trade our high-value renewable energy into the market at times of peak demand. This will be the culmination of years of dedicated work to achieve the avenue for growth that access to the National Market represents.

The strong financial performance developed over recent years and the capabilities our people possess set us up for the future. We look forward to continuing to report our successes to the people of Tasmania.

David Crean
Chair

Geoff Willis
CEO

16 February 2005
## STATEMENT OF FINANCIAL PERFORMANCE

For the six months ending 31 December 2004

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<tr>
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<th>Consolidated Six Months Ending</th>
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<tr>
<td></td>
<td>31st December 2004</td>
<td>31st December 2003</td>
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<td>$Millions</td>
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<tr>
<th>Revenues from Ordinary Activities</th>
<th>185.2</th>
<th>189.8</th>
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<tr>
<td>Electricity Sales</td>
<td>29.1</td>
<td>25.5</td>
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<td>Other Trading Income</td>
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<tr>
<td><strong>Total</strong></td>
<td>214.3</td>
<td>215.3</td>
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<tr>
<th>Expenses from Ordinary Activities excluding borrowing costs</th>
<th>85.5</th>
<th>77.0</th>
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<tr>
<td>Expenses</td>
<td>40.4</td>
<td>39.6</td>
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<tr>
<td>Depreciation</td>
<td></td>
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<tr>
<td><strong>Total</strong></td>
<td>125.9</td>
<td>116.6</td>
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<tr>
<th>Borrowing Costs</th>
<th>42.5</th>
<th>41.3</th>
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<th>Share of net loss of joint venture accounted for using the equity method</th>
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<th>Profit from Ordinary Activities before income tax equivalent</th>
<th>45.9</th>
<th>57.4</th>
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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.