Strong performance in a challenging year

2009-10
– a snapshot
Our Values

- We put people’s health and safety first
- We always behave with honesty and integrity
- We work together, respect each other and value our diversity
- We strive to deliver outstanding service
- We are committed to creating a sustainable future
- Our positive and determined approach ensures our success

Commitment to Sustainability

For Hydro Tasmania, a sustainable future involves the transparent and balanced application of economic, environmental and social considerations to business decisions and activities.

Hydro Tasmania believes that these considerations enable the business to address community and stakeholder expectations and ensure long-term business success.

We align our sustainability reporting with international standards focused on economic, environmental, social performance, human rights and supplier’s relationships – Global Reporting Initiative (GRI) Sustainability Reporting Guidelines. This year we achieved the most advanced A+ application level in GRI reporting. Our sustainability program and our reporting were acknowledged by three awards in 2009-2010.
Hydro Tasmania

For the past six years, Hydro Tasmania has produced an annual report that not only meets our legislative requirements but also includes sustainability performance.

We continue to embed sustainability practices into our every-day operations with our program recognised nationally and overseas and the bulk of our report assured by an external organisation to ensure it is accurate, transparent and balanced.

This year we have produced a summary in booklet form as we recognise that not everyone has the time and opportunity to read our full report. The aim is to provide our key stakeholders and customers with a snapshot of our performance during the year, as well as to outline our future growth strategy.

If, after you have read this booklet, you would like to find out more about the annual report or our business, or would like to provide feedback, please visit our website at www.hydro.com.au or you can email us at contactus@hydro.com.au

2009-10 achievements

• Profit before fair value adjustment $72.9m
• Declared dividend of $10.2m
• Reduced debt by $41m
• Clear growth strategy to increase returns to owners
• Concluded an agreement to supply Aurora Energy with electricity for non-contestable retail customers
• Full acquisition of Victorian-based energy retailer Momentum – diversifies our revenue, geographic customer base
• Capital expenditure on operations of $95.5m
• Energy storages at preferred operating levels all year
• Employees engagement level in top quartile of Australian benchmark
• Lower lost time injury frequency rate
• Healthy Hydro participation reached 76.2%
• Stakeholder engagement framework developed
• Lake Margaret heritage preserved – upper and lower power stations
• Bass Strait islands developments – innovative renewable energy alternatives to diesel

Awards

• National Engineering Excellence Award 2009 for work at Poatina. Alliance of Hydro Tasmania and Alstom.
• Engineering Australia – Tasmanian Engineering Excellence Award 2009 for design of Lake Margaret hilltop pipeline replacement. Design team of Hydro Tasmania, Johnstone McGee & Gandy and Hazell Bros.
• State Project Management Achievements Awards 2009 – Lake and Macquarie rivers irrigation project.
• Australasian Fleet Managers Association’s Fleet Environment Award 2009 which recognised Hydro Tasmania’s achievements in reducing emissions from vehicular fuel use.
• 2010 Tasmanian Awards for Environmental Excellence. Winner, Large Business Sustainability category for the sustainability program.
Hydro Tasmania has delivered a strong financial performance for the year on the back of a welcome return to average rainfall, ongoing cost containment and improved trading opportunities in the National Electricity Market (NEM).

The year has seen significant advances in setting a clear growth strategy to improve our financial position, diversify our revenue base, increase our mainland activities and provide increased returns to our owners – the people of Tasmania. A significant component is the realignment of the Hydro Tasmania brand to make our business more competitive in our chosen markets. This was launched in September 2010.

This focus on future growth opportunities has been done while responding to the commercial realities of competition within Tasmania and on mainland Australia.

This year has seen a strong performance in terms of cash flow, profitability and balance sheet strength on the back of above average inflows into hydro storages. The end-of-year storage figure of 36.3 per cent of full energy was seven per cent higher than budgeted for. By late November this had risen to 47 per cent.

The business reported a profit before fair value adjustment of $72.9 million for 2009-10 based on a turnover of $727 million. While revenue from the Tasmanian component declined due to increased competition, there was a significant increase in mainland sales resulting in a declared dividend for 2009-10 of $10.2 million.

When compared to the previous two years, the 2009-10 result demonstrated the importance of rainfall to Hydro Tasmania’s financial performance and the importance of Basslink to the business and the State. Rainfall substantially determines our financial performance and this is clearly evident when you compare our results for the year with the years impacted by the drought (see table).

Hydro Tasmania continues to strive to be more efficient and reduce costs. We are setting a clear growth strategy to strengthen our financial position, reduce our debt and build and maintain a sustainable business for future generations while returning the benefits to the Tasmanian community.
The business has set a challenging benchmark for future performance which it must maintain if it is to attain its goal of sustainability.

A key challenge for Hydro Tasmania over the next few years is the progress towards a national emissions trading scheme which has been deferred from its original implementation date of July 2010. This has created uncertainty about the future, not only for Australia and the manner in which it responds to the global challenge of climate change, but also for Hydro Tasmania in realising the true value of its operating asset base and the renewable energy it creates.

We have the lowest level of carbon intensity of any integrated generator and retailer in the NEM. This strong advantage afforded to us by our ability to produce large volumes of very low emission electricity from hydro and wind assets has still to be reflected by the implementation of a carbon price. Until this situation is resolved, the value of our electricity production capability will continue to be undervalued.

The business will build on a successful year by implementing a number of initiatives to ensure it can deal with the challenges that lie ahead.

These include:

- growing the value of the business
- continuing to rationalise the group’s operating cost base to ensure we remain a competitive participant in the NEM and robust enough to deal both with occasional years of extremely low rainfall and the predicted lower average run-off into hydro storages resulting from climate change
- attracting and retaining good quality staff who want to be part of a dynamic and growing business
- positioning the business to stand on its own without any need for additional equity support from the Tasmanian Government
- optimising the management of Hydro Tasmania’s generation asset base
- enhancing the interaction with the Tasmanian community and continuing to support the Tasmanian economy
- a unifying brand for Hydro Tasmania, its consulting business now known as Entura, and its retail arm Momentum to recognise their unique qualities, diversity and wider market focus

While we look to the mainland for growth opportunities, Tasmania will always be our principal place of business and our home base. We have a significant footprint across the State and want to build upon the many areas in which we actively engage with the community. This is a key element of our strategic purpose to deliver a sustainable future.
Performance summary

Assets and Resources

Our ability to generate electricity depends on the management of both generation assets and water. Our journey towards world-class asset management continues so that we sustain a reliable supply of energy, protect the community from any harm arising from our operations and support other electricity market products.

- Capital expenditure on generation assets $78.4 million:
  - completed restoration of Catagunya Dam ahead of schedule
  - redevelopment of Lake Margaret Power Station and construction of mini-hydro at Lower Lake Margaret
  - completed modernisation project at Poatina Power Station
  - Red Hills diversion project to utilise more water at Tribute power station.

- Basslink:
  - net import of 1056 GWh (2560 the previous year)
  - availability – 96 per cent
  - net export to date in 2010-11 of 480GWh.

- Water:
  - Working with stakeholders to share the resource while increasing energy production and addressing environmental issues
  - Revised operating rules for Arthurs Lake and Woods Lake – see box
  - Ouse–Shannon project, including work to address water quality issues at Lagoon of Islands
  - Recreational Boating Infrastructure Plan developed
• Cloud seeding – greater engagement with West Coast community. Seeding stopped over the King catchment as a result of concerns from Queenstown residents. 2010 season ended 31 October after 47 weather assessment flights completed with conditions suitable for seeding found on 26 occasions.

• Transparent water pricing methodology developed in consultation with stakeholders.

Arthurs and Woods Lakes

We manage these lakes to meet a range of potentially conflicting stakeholder requirements.

The lakes contain threatened species, are under increasing demand for irrigation use, are important to anglers and tourists, and provide water for the State’s electricity supply.

After investigations and seeking input from a range of stakeholders, the operating rules were revised for these two lakes. This will provide increased surety of water for irrigation demands, reduce the risk to threatened fish species, provide certainty of access for fishers, and minimise the loss of revenue for hydropower generation.
Entura

Entura is our professional services business. It operates across Australia and in the Asia-Pacific region with offices in Tasmania, Melbourne, Brisbane and New Delhi, India. Previously known as Hydro Tasmania Consulting, the business changed its name to better differentiate itself in a highly competitive market. Entura is an anagram of ‘nature’. The business provides consulting services for the power industry, renewable energy developments, water management and infrastructure and environmental management.

It was a challenging year for Entura and in response it is pushing into new markets. The business is targeting the Asia-Pacific region for international growth, leveraging its experience in Papua New Guinea and more recently in the Malaysian state of Sarawak.

During the year, we signed a Memorandum of Understanding with Sarawak Energy Berhad – a state-owned generation, transmission and distribution business. The Sarawak Government has a 30-year plan to develop energy resources for the region. This is an exciting project for Hydro Tasmania and Entura in particular, but we are also very conscious of operating in a challenging and often sensitive environment and bring to the partnership a commitment to strongly-held sustainability and safety principles.

The office in New Delhi employs 24 people whose main focus is the hydropower sector – a very large market in the region. During the year the office won significant projects. Entura also has been working on projects in PNG and the Solomon Islands.

In Australia, Entura is involved in a number of projects, including the development of a solar atlas for the state of Victoria.

Sharing lunch: Entura’s David Wilson, centre, with local villagers near the Ramu River in northern Papua New Guinea. Entura has been working on a number of projects in the country.
Momentum

Momentum is a niche electricity retail business based in Victoria but operating in four States, providing a variety of services to industrial and commercial customers, and small to medium-sized businesses.

Hydro Tasmania bought a 51 per cent share of the business in August 2008 and completed the full acquisition in September 2009.

During the year, Momentum achieved record success in revenue, sales and volume of contracted load. It is experiencing rapid growth across the broad electricity market with a mix of new business customers in manufacturing, education bodies, councils and the banking sector.

Integration into the broader Hydro Tasmania group has enhanced efficiency, strengthened processes and promoted innovation in product and strategy development.

Momentum employs around 70 people.
People

Building the capability of our people is a key focus of our business. We provide a number of learning and training opportunities, including a nationally accredited program for apprentices and technicians and last year launched our revamped graduate program.

Overall employee engagement was 63 per cent for the year, one per cent down on last year but once again putting the business in the top quartile of high performing businesses in Australia.

Safety, health and well-being

Hydro Tasmania has a safety vision of ‘no harm to anyone at any time’ while ensuring a balance between work and lifestyle is an integral part of our business.

The key safety performance measure is the lost time injury frequency rate. Hydro Tasmania reported a welcome drop in the rate for the year from 2.8 to 2.1.

Stress and fatigue, emergency response, overseas assignments, critical procedures and incident management were the key risks addressed during the year as part of our Safety Improvement Plan.

We have created a program to provide support for staff to manage their own health and well-being and encourage a fit-for-work philosophy.

Participation in the Healthy Hydro program rose from 54.1 per cent to 76.2 per cent.

The program was a national finalist in the Australian Human Resources Institute awards for 2009.
Stakeholders

We believe it is good business to engage in an open and inclusive way with stakeholders and to consider their views in our decision-making.

Our business has an impact on many communities, organisations and individuals.

During the year, Hydro Tasmania:

- Developed a business-wide framework to engage with our stakeholders in a consistent way
- Surveyed key stakeholders to assess their views of the business
- Asked suppliers to rate our performance – we received an overall score of 80 per cent
- Sponsored events and organisations across the State – $362,145 was provided during the year (see box)
- Spent $156.4 million on procuring goods and services, with 53 per cent or $83.1 million going to Tasmanian suppliers.

Accestix

Hydro Tasmania is the proud sponsor of Accestix, a program begun in 2009 to enable disadvantaged people to experience the joys and sounds of a Tasmanian Symphony Orchestra concert.

The program is run by Reclink Australia, a charitable organisation whose mission is to provide sporting, social and arts activities to enhance the lives of people experiencing disadvantage.

Organisations as diverse as the Adult Mental Health Centre, Bethlehem House and the Choir of High Hopes have attended concerts in Hobart, Launceston and Burnie.

We have announced our ongoing commitment to the program and want to increase the number of tickets available.

The TSO’s Lisa Harris, left, with Charlie Mitchell and Reclink’s Andrea Heath
Environment

Our operations have the potential to affect the ecosystems in six of Tasmania’s major water catchments which cover 111,600 hectares of land. Our aim is to effectively manage, protect and enhance our environmental and heritage values.

There were no major environmental incidents during the year. However, there were 31 breaches of our procedures which we addressed.

Achievements for the year included:
- Replacing PCB-contaminated transformers
- Working with scientists in search for threatened species in Lake Pedder
- Continued research of threatened fish species in Great and Arthurs lakes
- Continued review of environmental flow downstream of the Trevallyn Dam through Cataract Gorge in Launceston. Working with stakeholders on values and issues associated with the gorge, including potential flow options
- Developing an agreement with the Parks and Wildlife Service, Aurora and Transend on how we carry out our operations in the Tasmanian World Heritage Area
- Spending $5.6 million on the environment of which $302,000 was on waste removal and rehabilitation
- Considering heritage value as a high priority in the redevelopment of the Lake Margaret power stations.

Carbon status

Significantly reduced our emissions intensity. We were responsible for 29,419 tonnes of carbon dioxide equivalent (tCO₂-e) emissions compared to over 300,000 the previous year. This change was largely the result of the closure of the Bell Bay gas-fired power station in April 2009.

Climate change response

- Partner in the Climate Futures for Tasmania project
- Playing an active role in key national public policy developments and advocacy relating to climate change and renewable energy
- Continued the five-year program to reduce diesel use on the Bass Strait islands
- Continued the downward trend in fuel use for our vehicle fleet
- Purchased 2526 tonnes of offsets that meet offset requirements for 2007-09 financial years.

Annual emissions by tCO₂-e
Future growth

We have set a clear strategic direction for the next five years.

This encompasses structured financial consolidation and discipline, electricity sales growth, primarily through our mainland retail business Momentum, increasing our innovative capability and maintaining our commitment to fully integrating sustainability into our business planning.

We operate in the National Electricity Market which faces a wide range of challenges. Hydro Tasmania, with its very low emission electricity generating base and a wealth of expertise and experience in its workforce, is well placed to deal with the uncertain future ahead, both economically and through the impact of climate change.

We are focused on growing an integrated energy business that is able to withstand volatility such as that experienced across the world in the recent global financial crisis, while reducing the cost of debt and providing the business with greater flexibility to take advantage of options when they arise.

As growth prospects are limited in Tasmania, greater opportunities exist on the mainland. We are committed to growing retail business sales at least 5000 GWh by 2014 which will only be achieved by gaining more customers.

This will be supported by the implementation of the brand strategy that builds on the brand values of the Hydro Tasmania group, while targeting particular strengths in the retail and consulting markets, and returning the value to Tasmania.

This will lead to an improved operating profit, further reductions in our debt and increased returns to our owners – the people of Tasmania.

During the next 12 months, Hydro Tasmania will be pursuing its strategic objectives, building its brand in its chosen markets and looking for further growth opportunities. This will be done at the same time as an independent review of Tasmania’s electricity industry established by the State Government which we believe will be a positive opportunity to set a clear direction for the State’s energy supply. We look forward to making a significant contribution while continuing to build on the financial success of the past year.
2010 statistical summary

Generation

<table>
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<tr>
<th>As at June 30</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
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<tbody>
<tr>
<td><strong>Mainland Tasmania</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Installed capacity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hydro</td>
<td>MW 2 281</td>
<td>2 270</td>
<td>2 270</td>
</tr>
<tr>
<td>Thermal – gas</td>
<td>MW 0</td>
<td>240</td>
<td>240</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>MW 2 281</td>
<td>2 510</td>
<td>2 510</td>
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<tr>
<td><strong>Energy Generated</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Hydro</td>
<td>GWh 8 184</td>
<td>7 203</td>
<td>7 100</td>
</tr>
<tr>
<td>Thermal – gas – Bell Bay 1-2</td>
<td>GWh 0</td>
<td>608</td>
<td>1 169</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>GWh 8 184</td>
<td>7 811</td>
<td>8 269</td>
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<td><strong>Generation peak load</strong></td>
<td></td>
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<tr>
<td></td>
<td>MW 2131</td>
<td>2248</td>
<td>2290</td>
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<tr>
<td><strong>Generation load factor</strong></td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>% 44</td>
<td>40</td>
<td>41</td>
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<tr>
<td><strong>Bass Strait Islands</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>King Island</td>
<td></td>
<td></td>
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<tr>
<td>Diesel</td>
<td>MWh 10 480</td>
<td>10 221</td>
<td>10 297</td>
</tr>
<tr>
<td>Wind</td>
<td>MWh 4 724</td>
<td>5 516</td>
<td>5 949</td>
</tr>
<tr>
<td>Flinders Island – diesel</td>
<td>MWh 4 340</td>
<td>4 404</td>
<td>4 201</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>MWh 19 544</td>
<td>20 141</td>
<td>20 447</td>
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Financial

<table>
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<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale of goods and services</td>
<td>$717.2</td>
<td>$609.2</td>
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<tr>
<td>Other</td>
<td>$9.7</td>
<td>$16.5</td>
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<tr>
<td><strong>Total</strong></td>
<td>$726.9</td>
<td>$625.7</td>
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<tr>
<td><strong>Total expenses:</strong></td>
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<td></td>
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<tr>
<td>Direct operating expenses</td>
<td>$319.0</td>
<td>$262.5</td>
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<tr>
<td>Labour</td>
<td>$100.8</td>
<td>$88.8</td>
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<tr>
<td>Depreciation</td>
<td>$77.7</td>
<td>$73.7</td>
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<tr>
<td>Other operating expenses</td>
<td>$70.2</td>
<td>$73.2</td>
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<tr>
<td>Finance costs</td>
<td>$80.3</td>
<td>$86.8</td>
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<tr>
<td>Share of loss of joint ventures</td>
<td>$6.0</td>
<td>$2.1</td>
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<tr>
<td><strong>Total</strong></td>
<td>$654.0</td>
<td>$587.1</td>
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<tr>
<td><strong>Profit before fair value movements etc</strong></td>
<td>$72.9</td>
<td>$38.6</td>
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<tr>
<td><strong>Profit after tax</strong></td>
<td>$236.4</td>
<td>$291.2</td>
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<tr>
<td><strong>Total assets</strong></td>
<td>$5,130.6</td>
<td>$5,212.9</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>$3,248.7</td>
<td>$3,547.4</td>
</tr>
<tr>
<td><strong>Total Equity</strong></td>
<td>$1,881.9</td>
<td>$1,665.5</td>
</tr>
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</table>

1 Mainland Tasmania energy generated is calculated as the net energy measured at the market and distribution connection points.
2 Bell Bay 1 and 2 were shut down on 1 April 2009.
3 Calculated as average MW divided by peak MW. Average MW calculated from total energy generated divided by number of hours in a year.

All figures include Momentum – became fully owned by Hydro Tasmania in September 2009.

1 These relate directly to revenue raising.
2 Operational expenses not directly related to revenue-raising.
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