HYDRO TASMANIA ANNUAL REPORT 2012

Hydro Tasmania
The power of natural thinking

Hydro Tasmania

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We welcome feedback, comments and any queries regarding this report or its contents so that we can continue to improve its value to our readers. Contact us by phone on 1300 360 441 or email contactus@hydro.com.au or write to GPO Box 355, Hobart, Tasmania, Australia 7001

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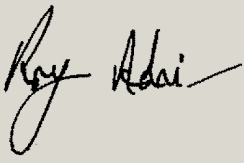
DIRECTORS' STATEMENT

To the Honourable Bryan Green MP, Minister for Energy and Resources, in compliance with requirements of the *Government Business Enterprises Act 1995*.

In accordance with Section 55 of the *Government Business Enterprises Act 1995*, we hereby submit for your information and presentation to Parliament, the report of the Hydro-Electric Corporation for the year ended 30 June 2012. The report has been prepared in accordance with the provisions of the *Government Business Enterprises Act 1995*.

David Crean
Chairman Hydro-Electric Corporation
September 2012



Roy Adair
CEO Hydro-Electric Corporation
September 2012

Hydro-Electric Corporation
ARBN 072 377 158
ABN 48 072 377 158

OUR VISION

To be Australia's leading clean energy business, inspiring pride and building value for our owners, our customers and our people.

OUR VALUES

- We put people's health and **safety** first
- We build value for our partners and customers through **innovation** and outstanding service
- We behave with honesty and **integrity**
- We work together, **respect** each other and value our diversity
- We are **accountable** for our actions
- We are committed to creating a **sustainable** future

CONTENTS PAGE

THE YEAR AT A GLANCE

Achievements

- Strong financial performance despite below average annual generation:
  - Operating profit before fair value and tax of $103.4 million.
  - Returns to Government of $118.7 million, including a dividend of $49 million. See table on page 29.
  - 'Least Cost Producer Strategy' reduced base operating expenditure across the business to $109.9 million, well below the $115 million target.
  - Achieved BBB investment grade credit rating three years ahead of target.
  - Our mainland retailer Momentum Energy exceeded both customer acquisition and profitability targets, delivering an annual EBIT contribution of $10.9 million, $3.7 million above budget.
  - Our professional services business Entura continued to strengthen its financial performance, delivering its stretch profit target of $3 million.
- Restructured wind business to maximise value and limit future equity requirements:
  - Sold down a 75 per cent equity share in the Bluff Point and Studland Bay wind farms to a new joint venture partner (Shenhua Clean Energy Holdings Pty Ltd).
  - Began construction of the $395 million Musselroe Wind Farm.
- Capital expenditure on hydro assets totalled $52.5 million. Main projects were the Tungatinah modernisation, completion of the Binney Dam upgrade and completion of the Poatina penstock refurbishment.
- Successfully renegotiated contracts with two major industrial customers on commercial terms.

The International Hydropower Association assessment team that assessed management of Trevallyn power station

- 91 per cent of surveyed stakeholders rated our performance as good or excellent.
- Awarded the Tasmanian Employer of Choice Award 2011.
- Staff engagement increased to 63 per cent, well above the benchmark for Australian high-performing companies.
- Launched our new set of business values.
- No significant environmental and heritage incidents during the year.
- Achieved all milestones of the King Island Renewable Energy Integration Project.
- Sustainability assessment of Trevallyn Power Station endorsed Hydro Tasmania's management of the asset.
- Increased base environmental flow through Cataract Gorge in northern Tasmania.
- Completed the stakeholder engagement process of the Mersey-Forth Water Management Review.
- Hydro Tasmania's Community initiative – formed partnerships with four community organisations and established an employee volunteering program.

Challenges

- Impact on staff and business of meeting the requirements of the Expert Panel Review into Tasmania's electricity industry.
- Growing community concern over cost-of-living pressures and the increased focus on energy costs at both a State and Federal level.
- Challenging economic climate in Tasmania and the constrained State budget, reinforcing the focus on Hydro Tasmania continuing to perform strongly and contribute to the State budget through improving returns.
- The introduction of a price on carbon from 1 July 2012. While this will bring many opportunities for Hydro Tasmania, ongoing uncertainty about the future of the carbon scheme will impact on future planning.

- Communicating to the Tasmanian community the benefits of our strategy to grow Momentum Energy thereby reducing our exposure to key risks such as reliance on a small Tasmanian customer base and hydrological inflows while at the same time increasing returns to the State of Tasmania.
- Entura operating in diverse markets overseas.
- Achieving our safety targets. There were five lost time injuries (LTIs) during the year against a target of zero.
- Changes to planning regulations in a number of states have created uncertainty about wind development opportunities on the mainland.

Awards

Hydro Tasmania received the following awards during FY (financial year) 2011/2012:

Energy Supply Association of Australia (esaa) 2011 Sustainability Report Award

This prestigious award recognises the highest standard of sustainability reporting in the energy industry in Australia. esaa established these awards to recognise high standards of sustainability performance and provide a platform for promoting good environmental, community, governance and workplace practices within the energy supply industry. This is the fourth time Hydro Tasmania has been presented with the award for our annual report.

Australian Water Association, Tasmanian Water Environment Merit Award 2011

Presented for the sustainable management of low lake levels.

Hydro Tasmania's Kate Steele accepting the Employer of Choice award from the Minister for Economic Development, David O'Byrne

employer of choice

Engineers Australia 2011

Colin Crisp Award for Engineering Heritage for Lake Margaret Power Scheme Redevelopment in recognition of excellence in heritage engineering.

Department of Economic Development, Tourism and the Arts Tasmanian Employer of Choice Award 2011

Recognising our employment practices and policies.

Tasmanian Division of Engineers Australia 2011 Engineering Excellence Awards:

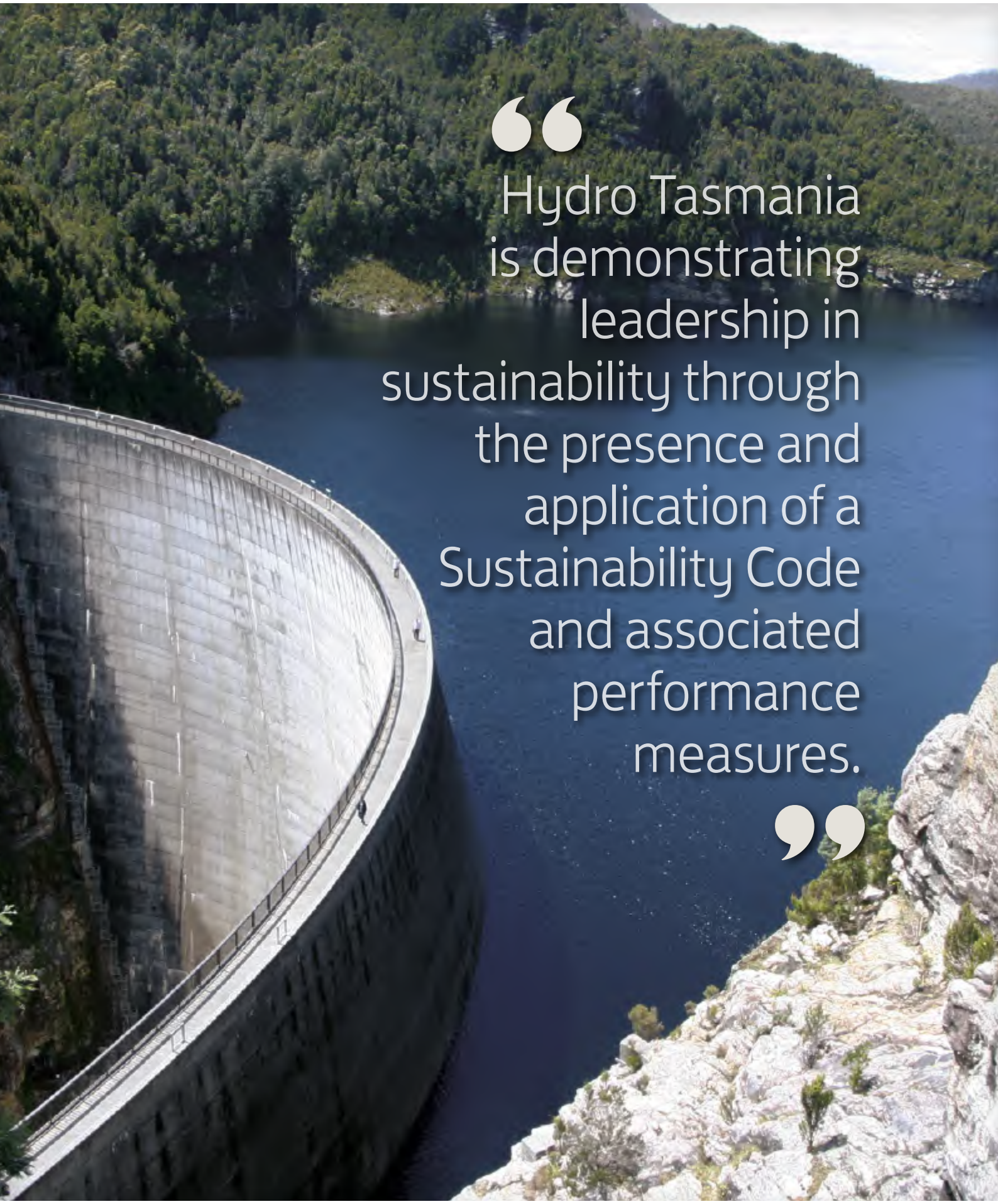
- Young Professional Engineer of the Year – Michael Sylvester. (read more on page 94)
- Engineering Excellence Award – Catagunya Dam Restoration project.
- High Commendation – Lower Lake Margaret project.

Australian Institute of Project Management, Tasmania Chapter:

- Sustainable Projects – Catagunya Dam restoration.
- Construction/Engineering less than $100 million - Red Hills Creek diversion.
- Tasmanian Project of the Year – Red Hills Creek Diversion.

Australian Marketing Institute, 2011 Awards for Marketing Excellence:

- Tasmanian state winner – Internal Marketing.
- Tasmanian finalist – Brand Revitalisation.


“Hydro Tasmania is demonstrating leadership in sustainability through the presence and application of a Sustainability Code and associated performance measures.”

OUR SUSTAINABILITY VISION

Hydro Tasmania believes that being committed to sustainability and acting sustainably makes good business sense. Our sustainability commitment is drawn from our values and our Sustainability Code, and is used to frame business activities, policies and procedures.

Our Sustainability Code defines sustainability for the entire Hydro Tasmania group.

A detailed review of the Sustainability Code was undertaken in 2011. The review involved representatives from Hydro Tasmania, Momentum Energy and Entura, external stakeholder surveys, one-on-one interviews and a third-party review against best practice sustainability principles.

The review highlighted that Hydro Tasmania is demonstrating leadership in sustainability through the presence and application of a Sustainability Code and associated performance measures. It also identified potential opportunities for improvement:

- inclusion of a principle titled 'Customers', to better reflect Entura and Momentum Energy; and
- further embedding our sustainability principles into our business systems and processes.

Measuring sustainability performance

For more than five years, we have undertaken an annual self-assessment of our sustainability performance, based on criteria set by the International Hydropower Association (IHA) Sustainability Assessment Protocol 2006.

In reviewing the Sustainability Code, long-term sustainability indicators (LSIs) were developed to further integrate the Sustainability Code into our business planning and targets. The adoption of LSIs has removed the need to self-assess our sustainability performance each year.

The LSIs are aligned with the Sustainability Code and comprehensively reflect our longer-term (five-year) strategic priorities, as set out in the Corporate Plan. The LSIs will provide a consistent guide to the development of annual business strategy and provide a means to measure our sustainability performance.

Annual progress will now be assessed against the longer-term targets, and the LSIs will be reviewed annually to ensure they remain relevant to the business.

Sustainability Code principle		Sustainability commitment	Long-term sustainability indicator (LSI)	Page
	Economic	**Long-term business value** We make sound commercial and investment decisions in our chosen markets, to deliver long-term business value and meet shareholder expectations.	Shareholder equity	27
			Credit rating	27
			Total returns to Government	27
		Low-cost provider of supply We leverage our low carbon generation and competitive customer focus to create value for our shareholders, the people of Tasmania.	Base operating expenses	27
			Cost-competitive supply to back retail load growth	27
	Governance	**Risk/Governance processes** We make our decisions within comprehensive governance and risk management frameworks while seeking to continually improve our business processes.	Risk exposure	37
		Compliance We make ethical decisions by applying our values, sustainability principles and code of ethics, complying with relevant legislation and delivering on the commitments we make.	Compliance risk	37

Sustainability Code principle		Sustainability commitment	Long-term sustainability indicator (LSI)	Page
	Customers	**Customer satisfaction** We know our customers have a choice. We aim to be the first choice through understanding, responding and delivering sustainable solutions to our customers.	**Entura** % increase in sales per year	47
			Client satisfaction rating	47
			Customer mix	47
			Momentum Energy total retail electricity sales measured in terawatt hours (TWh)	47
			Retention rates	47
			Customer mix	47
		Products and services We are innovative and creative in developing new products and services in response to the needs of our customers and in order to retain our competitive edge in the marketplace.	Client perception score on Entura's and Momentum Energy's ability to offer smart and innovative products and services.	47
			Remote Area Power Supply (RAPS) product firmly established	47
	Infrastructure and resources	**Asset safety and reliability** We manage our infrastructure optimally for present and future reliability, and with the highest standards of safety.	Asset performance, safety and compliance obligations as detailed in the 10-year Asset Management Plan	
			New generation asset completion	57
		Resource use We manage our resources optimally for present and future reliability.	Business value	58
			Water rights	58
	Environment	**Ecosystems and heritage** We aim to minimise our impact on the environment and seek opportunities to enhance environmental and cultural values.	Environmental conditions in Hydro Tasmania operational areas	67
		Carbon status As climate change has significant implications for our business, we are committed to being part of a sustainable solution.	Emissions intensity	67
	Community	**Community engagement** We aim to have regular, open and transparent dialogue with our community.	Stakeholder satisfaction rating	79
			Level of community awareness	79
		Community capability We aim to make a genuine difference in the communities in which we operate.	Staff participation in the Community Initiative	79
		Suppliers and partners We work with our customers, stakeholders, suppliers and partners to contribute to a sustainable future.	Key suppliers' alignment with Hydro Tasmania's sustainability principles	79
	Our People	**Attraction, capability and retention** We will continue to: • offer opportunities for our employees to grow and develop; • reward, recognise and value employee contributions; • listen to and engage with our employees and maintain sound employment relations; and • ensure a diverse and equitable workplace.	Staff engagement score	89
			Percentage of development plans implemented	
		Safety, health and wellbeing We provide a safe and healthy working environment.	Lost time injuries	89
			Safety ratio index	
			Participation in Healthy Hydro program	

INTRODUCTION

STATEMENT OF CORPORATE INTENT

Hydro Tasmania is the trading name for the Hydro-Electric Corporation, which is a registered business, 100 per cent owned by the State of Tasmania. The Honourable Bryan Green MP, Minister for Energy and Resources, has portfolio responsibility for Hydro Tasmania.

Hydro Tasmania operates under the *Government Business Enterprises Act 1995* (GBE Act) and the *Hydro-Electric Corporation Act 1995*. Our water licence is issued under the *Water Management Act 1999*. The GBE Act sets out a requirement for Hydro Tasmania to write a Statement of Corporate Intent each year, which is included in both the Corporate Plan (a document that details our strategy to the Tasmanian Government) and the Annual Report. The Statement of Corporate Intent provides a summary of our strategy for our ultimate owners, the people of Tasmania.

Our business

Hydro Tasmania's vision is to be Australia's leading, clean energy business, inspiring pride and building value for our owners, our customers and our people.

This vision is reflected in our long-term strategic goal, which is to become a material player in the National Electricity Market (NEM) to enhance the value of the business and returns to the State of Tasmania.

Hydro Tasmania's strategy has been developed to achieve the purpose and objectives set out for the business in the GBE Act and the Ministerial Charter. Our principal purpose, as defined in the Ministerial Charter, is to undertake the following activities:

- generation and trading of electricity;
- provision of consulting services and other services in hydropower, environment and water management, and associated services and technologies; and
- scientific and commercial research associated with all of the above.

Our principal objectives, set out in section 7 of the GBE Act, are to perform our functions and exercise our powers so as to be a successful business by:

- operating in accordance with sound commercial practice and as efficiently as possible; and
- achieving a sustainable rate of return that maximises value for the State in accordance with the corporate plan and having regard to the economic and social objectives of the State.

Our business includes generating electricity (currently from hydropower and wind); trading in the wholesale electricity market and in environmental energy products; selling retail electricity on the mainland NEM through our retail business Momentum Energy; and providing consulting services through our consulting business Entura.

Three distinct entities operate as part of the Hydro Tasmania group, building on nearly 100 years of experience in the electricity industry – Hydro Tasmania, Momentum Energy and Entura.

Each business operates as a stand-alone profit centre in an integrated value chain, and each plays an important role in delivering the core business and strategy to enhance value and mitigate strategic risks, ensuring Hydro Tasmania can deliver strong financial returns to the State to support the State Budget.

Hydro Tasmania

The power of natural thinking

- Generating and trading wholesale electricity and environmental energy products.
- Generating electricity from hydro and wind to provide energy and environmental products to back retail sales.

momentum

The power of natural thinking

Hydro Tasmania

- Retailing electricity to small and medium businesses and commercial and industrial customers in the NEM.
- Providing a diversified revenue source for Hydro Tasmania.

entura | The power of natural thinking

- Providing expert power engineering, renewable energy, water and environmental solutions in Australia, Southern Africa and across the Asia-Pacific region.
- Supporting the business through providing services for asset maintenance and new developments.

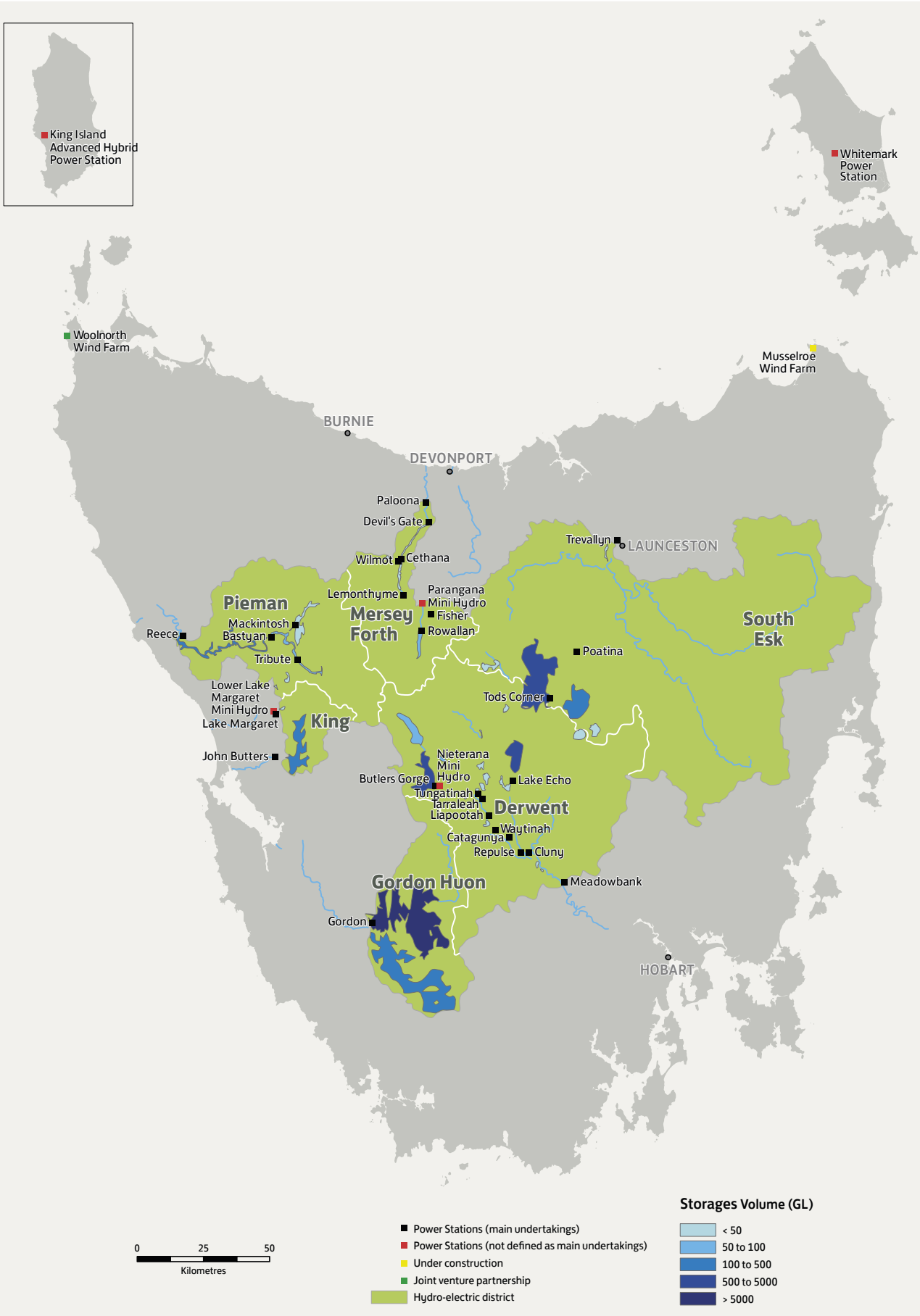


Figure 1: Hydro Tasmania's Tasmanian operations

Our operations

Hydro Tasmania is Australia's leading renewable energy business and Australia's largest water manager. We have six large catchments covering 35 per cent of Tasmania's land area. We own and operate 29 power stations in these catchments and are responsible for managing 53 lakes and water bodies and 67 rivers and creeks consistent with our various obligations, including the Special Water Licence (granted under the *Water Management Act 1999*) and Hydro Tasmania's Ministerial Charter. A total of 27 of the 29 power stations, and their associated dams, canals and infrastructure, have been given a special status under the *Hydro-Electric Corporation Act* and are considered to be our 'main undertakings', as shown in the map opposite.

Hydro Tasmania owns a 25 per cent stake in the Studland Bay and Bluff Point wind farms (140 MW) at Woolnorth in north-west Tasmania. The remaining 75 per cent was sold to Guohua Energy Investment Corporation and its parent company Shenhua Group in February 2012. Hydro Tasmania operates and maintains the wind farms on behalf of the joint venture. In January 2012, Hydro Tasmania started construction of the Musselroe Wind Farm (168 MW) in north-east Tasmania. Musselroe is scheduled for completion in June 2013.

In addition, Hydro Tasmania owns assets on King and Flinders Islands in Bass Strait. These include the Huxley Hill wind farm on King Island and two diesel power stations and associated electricity distribution networks. Hydro Tasmania has a Community Service Obligation (CSO), funded by the State of Tasmania under Part 9 of the GBE Act, to provide concessional arrangements to customers on the Bass Strait islands.

Hydro Tasmania's retail business Momentum Energy is based in Melbourne and sells electricity to customers in Victoria, South Australia, the ACT, Queensland and New South Wales. Momentum Energy specialises in serving industrial and business customers and tailors products to suit their specific needs.

Our consulting business Entura provides engineering and management services to water and energy clients nationally and internationally. Entura also provides water and environmental management and compliance services to support Hydro Tasmania's delivery of capital programs associated with hydropower and wind developments. Entura has offices at Cambridge in Tasmania, along with offices in Melbourne, Brisbane and New Delhi, India as well as project offices in Adelaide and Sydney.

Hydro Tasmania is a significant Tasmanian employer and contributor to the Tasmanian economy. The scale of our operations is set out in the table below.

Table 1: Overview of Hydro Tasmania group at 30 June 2012

	2008	2009	2010	2011	2012
Total employees (Australia and India) (head count)	838	880[1]	923	914	994
Net revenue ($ million)	474	626	727	813	1051
Total equity ($ million)	1395	1665	1882	2013	2132
Net debt ($ million)	872	904	863	964[2]	857[5]
Total installed capacity (MW)	2510	2510	2281[3]	2421[4]	2283[6]
Total electricity generated (GWh)	8269	7881	8167	9273	9538
Total assets ($ billion)	4.8	5.2	5.1	5.5	5.8

[1] Hydro Tasmania acquired Momentum Energy Pty Ltd.

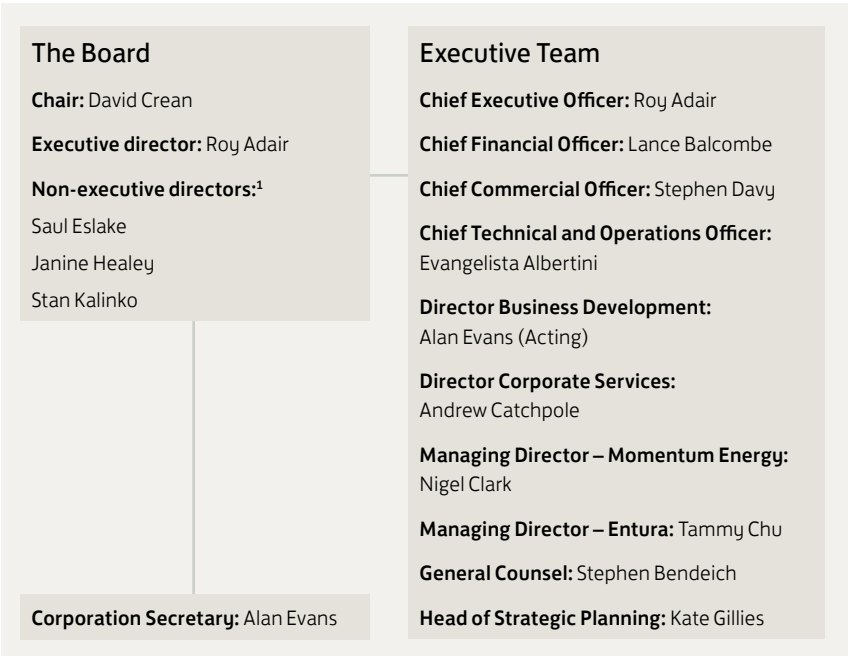
[2] Change in debt is due to acquisition of $143.7 million of Roaring 40s' debt.

[3] Bell Bay 1 and 2 were shut down in April 2009.

[4] Woolnorth wind farms (Bluff Point and Studland Bay) were transferred to Hydro Tasmania in June 2011.

[5] Includes debt funding for the construction of the Musselroe Wind Farm of $56 million.

[6] Hydro Tasmania sold 75 per cent of the Woolnorth wind farms (Bluff Point and Studland Bay) to Shenhua Clean Energy Holdings Pty Ltd in February 2012.



[1] Sally Farrier resigned from the board on 30 April 2012.
Chloe Munro resigned from the board on 17 February 2012.

Figure 2: Hydro Tasmania's business structure as at 30 June 2012

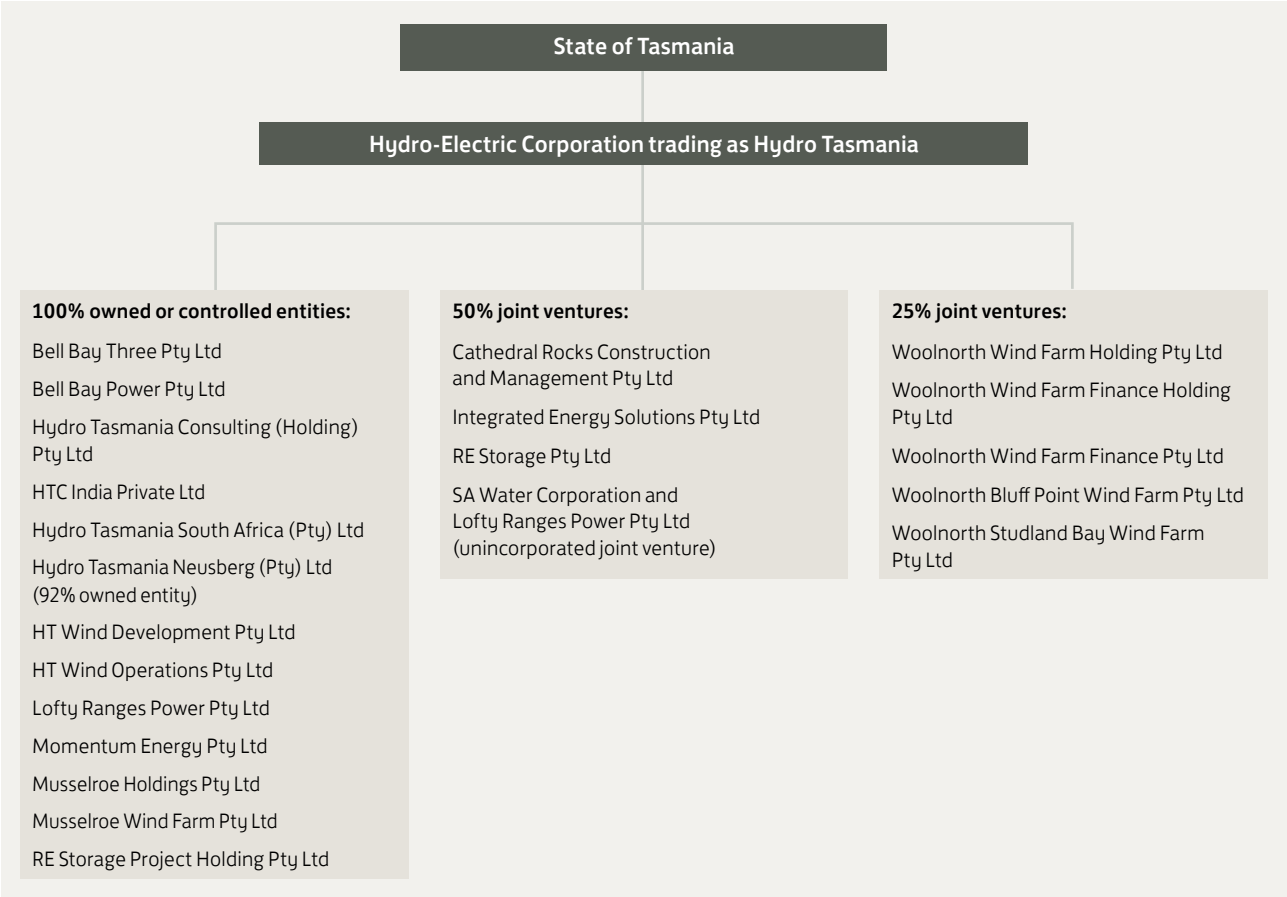


Figure 3: Hydro Tasmania's ownership structure

Our operating environment

Hydro Tasmania is facing a period of both significant uncertainty and great opportunity. The introduction of a carbon price on 1 July 2012 is set to deliver a significant uplift in the value of the State's investment in Hydro Tasmania and its renewable energy generation. Hydro Tasmania's strategy has been carefully developed to ensure that the value of the carbon price to Hydro Tasmania and Tasmania is maximised. This value will be returned to the people of Tasmania through future higher dividends and tax equivalent payments to the State of Tasmania.

The business is well positioned to realise maximum carbon value. Hydro Tasmania has the lowest carbon intensity of any vertically-integrated entity in the NEM, which provides a unique competitive advantage that can be leveraged to attract and retain customers.

At the same time, market factors such as increasing consolidation in the NEM, the difficult market conditions faced by some of our largest customers, and the Tasmanian electricity industry reform process create uncertainty and present potential challenges for Hydro Tasmania.

Key factors influencing Hydro Tasmania's operating environment include:

- The increasingly uncertain global economic outlook. While Australia is well placed in the short term, it is potentially vulnerable due to its reliance on commodities, the high Australian dollar and a relatively narrow customer base (focused on China). This has a potential flow-on impact to Hydro Tasmania with an increased risk of impacts to our major industrial customers in Tasmania.
- The uncertainty related to the longevity of the Australian Government's Clean Energy Future legislation in its current form and the uncertainty related to how the carbon price will respond after the fixed-price period.
- The challenging economic climate in Tasmania and the constrained State Budget. This places increased pressure on Hydro Tasmania to continue to deliver strong financial performances and to contribute to economic development and the State Budget through improving returns.
- Cost-of-living pressures and the increased focus on energy costs at both a state and national level, and the increasing competitive advantage of clean-tech products and services as a consequence.
- The continuing trend towards vertical integration in the NEM and upstream integration to secure long-term gas access, particularly for gas generation by key players in the market.
- From a longer-term perspective, electricity market modelling generally shows that wind and gas generation will be the most significant sources of new generation in the NEM.

Entura operates in the highly dynamic national and international consulting markets. Its business model and strategy

The King Island advanced hybrid power station uses a combination of renewable energy and diesel

have been developed to manage market volatility through establishing key relationship-based clients and achieving client and regional diversity. Renewable energy and water continue to be key resources that need to be developed and managed, particularly in developing countries as they meet increasing energy demand. This creates opportunities for Entura to apply its skills and resources for the sustainable development of these resources.

Our strategic direction

Hydro Tasmania is on a very strong path. In FY2011/12 the business delivered an operating profit before fair value and tax of $103.4 million and returned $118.7 million to the State Budget, in respect of the profit earned in the previous year.

Our strategy is focused on consolidating and growing our integrated energy business, and becoming a material player in the NEM. Our shorter-term goals, set in 2009, were to achieve a BBB financial strength rating by FYE (financial year ending) 2015 and increase sales to 15 TWh by 2014. These targets provide a focal point for the business. They will mitigate our exposure to strategic risks (such as extreme variability in water inflows), enhance the value of the business and generate consistent, strong returns to the State of Tasmania.

In 2012 Hydro Tasmania achieved our investment grade rating target of BBB, reflecting our financial strength, three years ahead of target. The range of strategic initiatives supporting the achievement of BBB financial strength include: maximising revenue opportunities; reducing costs to remain a low-cost producer of energy; and optimising capital expenditure levels without compromising the structural integrity of our infrastructure assets. The progress made on these initiatives has improved profitability and made us less vulnerable to periods of sustained low inflows.

Momentum Energy plays a crucial role in achieving our strategic targets, through the growth of sales to retail customers interstate. Momentum Energy has made exceptional progress towards its growth targets and will continue to focus on profitable, sustainable growth across the NEM. This growth is supporting Hydro Tasmania to achieve our medium-term strategic target of 15TWh ahead of target. Momentum Energy is contributing, and will continue to contribute to, our overall improved returns to the State of Tasmania. Through Momentum Energy and our operations in the NEM, we are creating value for all Tasmanians. While Tasmania will always be our main focus, diversifying our revenue sources interstate reduces our exposure to market concentration (reliance on a small number of large customers) and hydrological (drought) risks. As such, Momentum Energy is also a key risk mitigant for Hydro Tasmania, helping to maintain our stable dividend and tax payments for the Tasmanian Government to rely on for budget purposes.

Continued organic, value-accretive growth for Momentum Energy will deliver the risk mitigation benefits highlighted above and help us maximise the value to the State from the introduction of the carbon price.

As Momentum Energy's retail sales to customers grow interstate, Hydro Tasmania also needs to look at ways to economically source Large-scale Generation Certificates (LGCs) to satisfy its obligations under the Large-scale Renewable Energy Target (LRET) scheme. Hydro Tasmania has a significant history in wind development. Wind development

not only allows us to satisfy Momentum Energy's LGC requirements, but also creates opportunities to employ Entura's expertise in this area. We will continue to pursue economic wind developments for these reasons.

Entura is a key part of the Hydro Tasmania business. Entura provides technical expertise and skills for the ongoing maintenance, upgrade and operation of our hydropower assets and wind farm developments. As a stand-alone business targeting growth in new markets, it also contributes to our overall profitability. Entura provides employment for more than 300 professionally skilled people, exporting their skills throughout Australia and overseas.

Hydro Tasmania also continues to pursue the emerging opportunities in Remote Area Power Systems (RAPS). It sees this as an excellent opportunity to employ Entura's expertise to assist in alleviating one of the world's great challenges – energy poverty. We are proud of the technological advancements we are making to develop RAPS. At a Tasmanian level, the King Island RAPS project is progressing well and provides an excellent launch pad for future projects.

The success of our business is underpinned by our people; the effective management of our water resource and generation assets; and the systems and processes in place to support the operation of our business. We are committed to making improvements in each of these areas so that Hydro Tasmania can continue to be Australia's leading clean energy business.

Table 2: Hydro Tasmania's key performance indicators (2013 – 2017)

KPIs	FYE2013	FYE2014	FYE2015	FYE2016	FYE2017
Financial indicators					
Profit before fair value	$245m	$289m	$246m	$169m	$170m
Non-financial indicators					
Lost time injury	0	0	0	0	0
Staff engagement	Top Quartile Score	Top Quartile Score	Top Quartile Score	Top Quartile Score	Top Quartile Score
Percentage of surveyed stakeholders rate performance as 'good' or 'better'	80 per cent	80 per cent	80 per cent	80 per cent	80 per cent
Returns to Government					
Ordinary dividend	$120m	$141m	$121m	$83m	$83m
Total other returns to Government	$125m	$108m	$97m	$81m	$81m
Total returns to Government from operations in each year[1]	**$245m**	**$249m**	**$218m**	**$164m**	**$165m**

[1] Tax and dividend paid in cash the following year.

Key performance indicators

The forecasts are encouraging for substantial increases in operating profit for the period 2013-2017, largely due to Hydro Tasmania's strategy of maximising the opportunity provided by the introduction of a carbon price in Australia. It is important to note that with the uncertain future of the carbon price, these forecasts are subject to significant risk. The forecasts also reflect the dividend payout ratio of 70 per cent of underlying profit after tax. This has resulted in a significant increase in Hydro Tasmania's forecast contribution to the State Budget, which will help mitigate some of the budgetary challenges facing Tasmania.

Performance Agreement

For the first time, a Performance Agreement has been included in the Statement of Corporate Intent this year, under new guidelines issued by the Government to improve transparency and accountability for GBEs. It formally commits Hydro Tasmania to strive to achieve the targets set out in the Agreement. The key performance indicators for the FY2012/13 financial year included in the Performance Agreement will provide a strong measure of progress against our strategic objectives. Financial performance indicators are based on detailed five-year financial forecasts.

Directors' Statement of Corporate Intent and Agreement of Shareholding Ministers

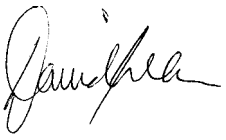
In signing this Statement of Corporate Intent, the Board of Hydro Tasmania commits to the targets proposed for the FY2012/13 financial year on a best endeavours basis, subject to section 24 of the GBE Act.

The Board of Hydro Tasmania agrees to provide the Shareholding Ministers with information on progress against the targets included in this Statement of Corporate Intent, as required under the Reporting Guidelines.

Table 3: Performance agreement – Key performance indicators

KPIs	FYE2013
Financial indicators	
Profit before fair value	$245m
Non-financial indicators	
Lost time injury	0
Staff engagement score in top quartile benchmark	Top Quartile Score
Greater than 80 per cent of surveyed stakeholders rate performance as 'good' or 'better'	80 per cent
Returns to Government	
Ordinary dividend	$120m
Total other returns to Government	$125m
Total returns to Government, in respect of FY2012/13	**$245m**

This Statement of Corporate Intent has been agreed between:



David Crean
Chairman
Hydro Tasmania
On behalf of the Board

Roy Adair
Chief Executive Officer
Hydro Tasmania
On behalf of Management

Original signed by

Lara Giddings MP
Treasurer

Bryan Green MP
Minister for Energy

CHAIRMAN'S REVIEW

Hydro Tasmania posted a record profit before fair value movement and tax of $103.4 million for FY2011/12 in what has been a year of significant opportunity for the business.

This positive outcome came at a time of some uncertainty created by the review of the State's energy industry.

The profit builds on last year's strong result of $100 million before fair value movement and was accompanied by net operating cash of $107.3 million and a reduced net debt level of $857 million. Our financial performance was the result of a number of factors, including growing opportunities interstate through our retail business Momentum Energy, another year of around average inflows into hydro storages and Hydro Tasmania continuing to be a highly commercially-focused and efficient operation.

This overall performance has enabled Hydro Tasmania to reach its strategic financial target of BBB-rating three years ahead of schedule. This will position the business well for the growth years ahead by providing improved financial robustness and flexibility.

Our strong result will increase the amount the business returns to taxpayers with further growth predicted over the next five years. In FY2012/13 the business will generate $245 million in returns to government, including a dividend of $120 million. The following year the total returns to the Tasmanian Government are expected to exceed $249 million, including a dividend payment of approximately $141 million.

Momentum Energy success

Total group revenue for the year amounted to $1051 million, an increase of $238 million from last year. This is largely as a result of the success of our mainland retail business Momentum Energy, which performed above expectations in a highly-competitive market. Fifty-one per cent of our total revenue now comes from interstate with a shrinking proportion coming from our arrangement with Aurora Energy for residential customers and small businesses in Tasmania.

With the advent of a price on carbon from 1 July, Hydro Tasmania is well positioned to capture the premium attached to renewable energy and looks forward to the opportunities this will present for the business while the scheme is in operation. A key factor in Tasmania's capacity to reap the benefits of the State's renewable energy resource has been Basslink. Hydro Tasmania has been able to export across the link at high prices and import at low prices.

Wind

The year saw the sale of 75 per cent of the Woolnorth wind farms to the Chinese renewable energy company Guohua Energy Investment Corporation (GEIC) and its parent company the Shenhua Group. The sale came at a profit to the business, vindicating Hydro Tasmania's decision more than a decade ago to enter into the wind farm construction and management business.

However, times change and it is no longer necessary for Hydro Tasmania to develop wind farms solely as an investment opportunity. Rather, wind farm part-ownership is now about our strategic interest in the renewable energy and Large-scale Generation Certificates the wind farms produce. Our wind strategy is about a smaller percentage interest in the developments with a continued interest in the power purchase agreements to support our retail load through Momentum Energy and its mandatory requirements under the Australian Government's Large-scale Renewable Energy Target.

Work is well underway on construction of the Musselroe project and the 168 MW wind farm is expected to be completed by the end of June 2013. We are currently in discussion with GEIC for the selldown of 75 per cent of Musselroe and remain hopeful the relationship with GEIC will continue and involve further wind farm opportunities beyond this project.

Entura

Hydro Tasmania's professional services business Entura has gone from strength to strength and is operating in interstate and overseas locations, as well as in Tasmania. It provides expert consulting services in renewable energy, power engineering as well as environmental and water management services. Entura and Hydro Tasmania recently won a tender, in partnership with a private company, for a small run-of-river 10MW hydropower development in South Africa as part of a program to increase renewable energy in that country. Work will continue to seek more professional services opportunities in southern Africa, as well as locally, around Australia and in the Asia-Pacific region.

King Island

The King Island Renewable Energy Integration Project is progressing well and expected to be completed within the next 18 months. Over the next 12 months, Hydro Tasmania will be looking to package the technologies from this project into a business plan so that the successful renewable energy applications on King Island can be translated to any remote area throughout Australia and overseas as a business proposition.

Potential uses of this technology include remote communities, where it's challenging to establish traditional energy supply infrastructure. Another potential use is major industrial activities that require large-scale energy generation such as mining – where operations are also often in remote locations.

Managing risk

Hydro Tasmania, as Australia's leading clean energy business, is now a very diversified organisation operating in number of different markets. It follows that risk management is always at the forefront of executive and Board considerations. Our comprehensive risk management strategy, overseen by the risk management sub-committee of the Board, underpins the strategic decision-making that has seen the organisation diversify and grow since the development of Basslink and entry into the National Electricity Market (NEM).

Our retail business enables Hydro Tasmania to compete on a level playing field with the national generators in the NEM which also have large retailing activities. This would have been much more difficult had we not acquired Momentum Energy three years ago.

Conclusion

As chair of Hydro Tasmania I am very confident about the future of this great organisation as I know my fellow board members are. I would like to thank our workforce and senior management for their outstanding contributions to our success, as well as their hard work and dedication. Thank you also to my fellow board members for their involvement in overseeing the prudential and commercial operations and commitment to setting the strategic directions of what is Australia's leading clean energy business.

CEO'S REPORT

Hydro Tasmania has recorded an outstanding all-round performance in an extremely challenging year.

I am particularly pleased with the success of our mainland retail business Momentum Energy which is operating in the highly competitive national market. It remains a key component of our risk management strategy by reducing the overall group exposure to key business risks through diversifying our revenue sources, while simultaneously growing earnings and value.

At the same time, our professional services business Entura has again returned a profit as it seeks to build on the experience and knowledge of almost 100 years in the renewable energy business through innovative partnerships locally, nationally and overseas.

The Hydro Tasmania group met most of its strategic targets, some of them significantly ahead of schedule. It now stands ready to consolidate its achievements and further enhance the value of what is an integrated energy business. It will do so while leveraging the unique capabilities of both the business and the State of Tasmania on the national and international stage.

Energy reform

We welcomed the recognition of our unique position in the Tasmanian Government's response to the energy reform process it set in place in 2010. Its blueprint for the industry issued in May 2012 followed the earlier release of the Expert Panel's final report. The Government rejected the Panel's inappropriate and commercially naïve proposal for the development of a gentrader model for Hydro Tasmania, which would have resulted in significant value destruction of the State's investment in our business and our inability to pursue our business strategy.

Its response is far more measured, though key elements have the potential to impact on our business. These include the implementation of wholesale price regulation in the Tasmanian region of the NEM and the potential transfer to us of Aurora Energy retail assets and the Tamar Valley Power Station. The Government's response also confirmed support for our growth strategy through Momentum Energy as a way to leverage Tasmania's carbon advantage. We will work closely with the Government on the reform's implementation.

Leveraging the clean Tasmanian brand

Our strong financial result represents the second consecutive year the business has exceeded the benchmark of $100 million in operating profit. This is particularly pleasing as it comes at a time of carefully conserving storages for use in 2012/13 when the value of our water resource will be greater following the introduction of a carbon price from 1 July 2012. This will attribute value, for the first time, to the quality of the very low emissions electricity we produce. Other significant achievements include the careful husbandry of our water resource and continued reduction of operating expenditure, with core operating costs coming in below budget at $109.9 million.

At the same time, Momentum Energy exceeded both customer acquisition and profitability targets for the year. This can be attributed to a range of factors, including maintaining a low cost to serve business model, retaining customers and implementing a number of highly effective campaigns in mainland markets. Momentum achieved 5TWh of contracted sales two years ahead of target and delivered an annual contribution of $10.9 million, $3.7 million above budget.

Its role in the successful implementation of the wider group strategy cannot be overstated. Hydro Tasmania has been able to manage its generation exposure through the successful operation of Momentum Energy. A strategic priority for the year will be to promote the benefits of having a mainland retailer to the Tasmanian community and how it enhances the value of our overall business while enabling us to generate consistent and strong returns to the Government. Without Momentum, our business risk exposure would be much higher while our value to our shareholders would be reduced.

Entura is another Tasmanian brand success story. It employs around 250 professional and skilled Tasmanians who are building and extending the State's reputation as a renewable energy hub and an exporter of local expertise. The stand-alone business continued to meet the challenges of a highly-competitive market and achieved a $3 million profit for the year. While Tasmania and Australia are major markets for Entura, the greatest growth opportunities are emerging overseas.

Sustainability

Our commitment to sustainability is a key strategic priority and governs the way we do business. We are well aware of the importance of applying our Sustainability Code in everything we do, particularly through Entura as it operates overseas. Hydro Tasmania will continue to monitor its commercial activities and relationships outside of Australia to ensure they meet the highest standards as expected of us by our shareholders.

Our asset base

Hydro Tasmania executed a program of works during 2011/12 that delivered against all targets set out in our 10-year Asset Management Plan. We also accommodated some modifications to address issues that arose during the year such as bringing forward the Rowallan Dam upgrade while the completion of upgrade works at Binney Dam now provides improved and acceptable flood protection. The year saw a capital investment in our hydro assets of $52.5 million.

We made excellent progress in restructuring our wind business through implementing an innovative model that leverages our expertise, maximises value and limits future equity requirements. During the year, we successfully sold down a 75 per cent equity share in the

Bluff Point and Studland Bay wind farms and reached a financial investment decision point on the Musselroe Wind Farm. The Musselroe project has been in development for several years and the start of construction this year was a watershed occasion for both our business and the State.

Stakeholder involvement

Hydro Tasmania achieved an outstanding response from our annual stakeholder survey, with 91 per cent of respondents rating our performance as good or excellent. An important activity that has been underway this year is the community program around the Musselroe Wind Farm, which is already achieving a high level of positive feedback from stakeholders.

Our people

Our people have once again demonstrated the level of professionalism and commitment that is required to manage and run a profitable and successful business operating in challenging markets. They have dealt patiently and productively with the significant demands of the past year, while materially advancing the status and value of our business. I would like to thank each and every one of them for their professionalism and willingness to meet all challenges put before them. Their high level of engagement with the business and what it stands for is inspiring.

Conclusion

The past year has not been without its challenges but we have come through to be stronger than ever while taking particular pride in having built further value for the Tasmanian community. We are well positioned to take full advantage of our strengths and the opportunities that will be presented locally, nationally and overseas in the coming years as we seek to build on our position as Australia's leading clean energy business.

INDEPENDENT ASSURANCE STATEMENT

AA1000
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tomorrow's agenda

To the Board and Management of Hydro Tasmania:

Hydro Tasmania commissioned Net Balance Management Group Pty Ltd (Net Balance) to provide independent assurance over the sustainability content of the 2012 Annual Report (the Report). The Report presents Hydro Tasmania's sustainability performance over the period 1 July 2011 to 30 June 2012. Hydro Tasmania was responsible for the preparation of the Report and this statement presents our opinion as independent assurance providers. Net Balance's responsibility in performing its assurance activities is to the Board and Management of Hydro Tasmania in accordance with the terms of reference agreed with them. Other stakeholders should perform their own due diligence before taking any action as a result of this statement.

Assurance Standard and Objectives

The assurance engagement was undertaken in accordance with AccountAbility's AA1000 (2008) Assurance Standard (AA1000AS). This standard allows for the evaluation of whether an organisation is responsible for its management, performance and reporting on sustainability issues.

This was undertaken by evaluating the organisation's adherence to the AA1000 AccountAbility Principles (2008) of:

Inclusivity: How does the organisation include stakeholders in developing and achieving an accountable and strategic response to corporate responsibility and sustainability?

Materiality: How does the organisation include in its reporting the material (most important) information required by its stakeholders to make informed judgements, decisions and actions?

Responsiveness: How does the organisation respond to stakeholder concerns, policies and relevant standards and adequately communicate these in its reporting?

Assurance of the accuracy and quality of selected sustainability performance information was guided by the Australian Standard on Assurance Engagements ASAE3000 Assurance Engagements other than Audits or Review of Historical Financial Information (ASAE3000) issued by the Australian Auditing and Assurance Standards Board.

Assurance Type, Level, Scope and Limitations

Net Balance provided Type 2 moderate level of assurance in accordance with the AA1000AS. The review of adherence to the Principles was undertaken using the criteria outlined in the AA1000 Assurance Principles Standard (2008), while assessment of the accuracy and quality of selected sustainability performance information was guided by the ASAE3000. A third-party level check of the Report against the Global Reporting Initiative (GRI) G3.1 Guidelines was also provided. The material issues that were the focus of this engagement and the criteria used during the assurance process included:

Table 4: Performance information selected for assurance (2012 data only)

Topic	Assessment criteria	Report reference
Workforce Safety	GRI LA7, Australian Standard AS 1885.	Annual Report p. 89, 91, 92, GRI Table.
Employee Attraction & Retention	GRI LA1, GRI LA2, Inclusivity and Responsiveness.	Annual Report p. 89, 93, GRI Table.
Environmental compliance	GRI EN28, Inclusivity and Responsiveness.	Annual Report p. 38, GRI Table.
Scope 1 & Scope 2 Greenhouse Gas Emissions	GRI EN3, GRI EN4, GRI EN16, National Greenhouse and Energy Reporting (Measurement) Determination 2008 (as amended)	Annual Report p. 72, GRI Table.
Mersey Forth Water Management Review	Inclusivity and Responsiveness.	Annual Report p. 73.
Community Investment Spend	GRI EC1 and Inclusivity.	Annual Report p. 83, 84, GRI Table.
Value adding for customers, Entura Client Satisfaction rating, Momentum Energy Retention rates.	Inclusivity and Responsiveness.	Annual Report p. 47, 52.
Supplier Engagement	EC6, Inclusivity and Responsiveness.	Annual Report p. 30, 79, 80, 85, GRI Table.

The assurance scope excluded the following:

- The scope of work did not involve assurance of financial data, other than that relating to environmental, social or broader economic performance where applicable.
- The Hydro Tasmania head office in Hobart and the Momentum head office in Melbourne were visited as part of this assurance engagement with any non-head office data being reviewed remotely.

Assurance Methodology

The assurance engagement was undertaken from June to August 2012, and involved:

- Interviews with over 20 personnel including the Chairman of the Board, the Hydro Tasmania CEO, the Entura MD, the Momentum MD and managers responsible for oversight of strategic planning, safety, human resources, environment and sustainability performance.
- A review of the materiality process and stakeholder engagement activities undertaken by Hydro Tasmania during the reporting period and how this informs the sustainability strategies, policies, objectives, management systems, reporting procedures and performance of the organisation.
- Interviews with key personnel responsible for collating and writing various parts of the Report to substantiate the reliability of selected claims.
- A review of the content for any significant omissions and anomalies, particularly in relation to claims as well as trends in data.
- Testing of a limited sample of selected data points and statements and the systems and processes that support the information reported.
- A Global Reporting Initiative (GRI) G3 application level assessment.

Our Independence

Net Balance was not responsible for preparing any part of the Report. Net Balance had no other involvement with Hydro Tasmania on any other engagement during the reporting period. Net Balance confirms that we are not aware of any other issue that could impair our objectivity in relation to this assurance engagement. A copy of our Independence Policy is available at http://www.netbalance.com/services/assurance.

Our Competency

The Hydro Tasmania assurance engagement was carried out by an experienced team of professionals led by a Lead Sustainability Assurance Practitioner (Lead CSAP), accredited by AccountAbility in the UK. The project included personnel with expertise in environmental, social and economic performance measurement across a range of industry sectors. Net Balance is a global leader in the use of Accountability's AA1000AS, having undertaken over 150 assurance engagements in Australia in the past six years. The project team also has demonstrated experience in the application of the ASAE3000.

Findings and Conclusions

Adherence to AA1000 Principles

Inclusivity:

Hydro Tasmania was found to have a suitable approach in place to assist with the identification of and engagement with key stakeholder groups. Stakeholder engagement plans were found to guide this process at a corporate level. A company-wide stakeholder engagement manual based on AccountAbility's AA1000 Stakeholder Engagement Standard and the International Association for Public Participation IAP2 Australasia guidelines was also finalised during the year. As an example, the application of these engagement principles and processes were observed to have occurred during Stage 1 and Stage 2 of the Mersey-Forth Water Management Review. It is understood that Hydro Tasmania will use this manual to guide future stakeholder engagement activities.

Materiality:

During the reporting year Hydro Tasmania reviewed and refined their Sustainability Code. The Code was found to demonstrate an overarching commitment to the management of the Hydro Tasmania's material sustainability issues. It was observed that the Code also articulates how these material issues apply to relevant stakeholder groups. The business also established long term sustainability indicators to measure performance in each of these material areas of performance.

Hydro Tasmania used a documented process to identify its material sustainability issues for reporting in 2012. Information and feedback drawn from a number of internal and external sources was used to define internal material issues. This information was then collectively considered by a multidisciplinary team to rank and prioritise issues for reporting. The report was found to be structured in broad alignment with the outcomes of this materiality process.

Responsiveness:

Net Balance tested the responsiveness of Hydro Tasmania to the management of the selected sustainability issues through a series of interviews with management, the review of management systems and supporting documentation.

In the area of Safety management and performance it was found the company had reviewed the decline in performance reported during the year and had implemented actions through their Safety Improvement Plan to respond to this change in performance.

In the area of employee attraction and retention Hydro Tasmania was found to take a proactive approach to engaging with employees through the annual engagement survey. The results of this survey are used to guide future strategies and approaches.

In the area of environmental management Hydro Tasmania expended a large amount of effort on the implementation of the Mersey-Forth Water Management Review. This whole of catchment review process involved extensive stakeholder engagement to identify community values and priority areas for management. Key social and environmental technical studies were identified from the results of the stakeholder engagement. Once complete, the results of these studies will be used to improve the management of this and other catchments.

Hydro Tasmania placed focused effort on the implementation of the organisation's Community Initiative to help deliver on their commitment to support the young, the aged and the disadvantaged. Through this initiative four key partnership agreements have been established. These are further supported by a number of staff-led fundraising activities as well as being clearly linked to staff volunteering activities.

Both Momentum Energy and Entura were observed to be focusing on adding value to customers through a number of targeted initiatives. Momentum Energy has used its certified Environmental Management System to influence and monitor the development of retail products that have a lower environmental footprint.

Entura has demonstrated value-adding through capacity building and training initiatives with their customers in a number of developing countries where they work.

Hydro Tasmania was also found to be proactively engaging with its supply chain through a number of sustainability initiatives. During the reporting period this engagement included supplier feedback surveys, supplier sustainability self-assessments and the implementation of a supplier prequalification process. These initiatives aim to raise awareness of the Sustainability Code and implementation of sustainable management practices in the Hydro Tasmania supply chain.

Reliability of Performance Information

Based on the scope of the assurance process, the following was observed with regard to performance information:

- The findings of the assurance engagement provide confidence in the systems and processes used for managing and reporting sustainability performance information included in the scope of this assurance engagement.
- The level of accuracy of sustainability performance information was found to be acceptable.
- Data trails selected were identifiable and traceable, and the personnel responsible were able to reliably demonstrate the origin and interpretation of data.
- The GRI application level check found that the reporting was classified as A+ in accordance with the GRI 3.1.

Based on our assurance procedures, nothing has come to our attention that causes us to conclude that the selected sustainability performance information has not been prepared, in all material respects, in accordance with the criteria as presented in Table 4.

The Way Forward

Overall, it is Net Balance's opinion that nothing came to our attention to indicate that the Report was not a fair representation of Hydro Tasmania's environmental, social and economic performance during the reporting period. To ensure Hydro Tasmania continues to improve, Net Balance has identified the following recommendations for the AA1000AS component of the assurance engagement. These and other areas are discussed in more detail in Net Balance's report to Hydro Tasmania's Board and Management.

Materiality

A number of opportunities for improvement in the ranking of material issues for reporting were identified during the assurance process. It is recommended that internal and external sources of information used to review potential issues are expanded. This will ensure that a comprehensive and inclusive review of both internal and external stakeholder feedback is undertaken to define material issues. It is also recommended that future materiality assessments review corporate material issues that cut across the entire business separately from issues that individually apply to Hydro Tasmania, Momentum Energy or Entura. This approach will ensure that all relevant issues are identified for reporting purposes. It will also assist to further streamline and tailor reporting to stakeholder needs.

Procurement and Suppliers

Hydro Tasmania was found to have implemented a number of initiatives to improve the awareness and management of sustainability issues within its supply chain. It is recommended that the pre-qualification tool is expanded to cover all aspects of the Sustainability Code and to include web links to relevant policies. Ensuring that suppliers are well aware of Hydro Tasmania's sustainability objectives will be particularly important as the business expands into overseas markets. To ensure that suppliers are operating in alignment with the Code and relevant policies it is recommended that the distribution of the supplier self-assessment tool is also expanded to further target high risk suppliers.

Business Growth and Expansion

Hydro Tasmania's brands Momentum Energy and Entura are currently expanding into different markets within Australia and overseas. As this occurs the principles contained in the overarching Sustainability Code will need to be considered and applied to the local context. This is particularly relevant to Entura as it expands into developing countries where different stakeholder groups and cultures, engagement needs, management requirements, sustainability risks and opportunities may exist.

On behalf of the assurance team
11 September 2012
Melbourne, Australia

Terence Jeyaretnam, FIEAust
Director, Net Balance & Lead CSAP
(AccountAbility UK)

ECONOMIC

Long-term sustainability indicators

Sustainability code principle	Indicator	Target	Performance	Expectations/plans for the future
Long-term business value We make sound commercial and investment decisions in our chosen markets, to deliver long-term business value and meet shareholder expectations.	Shareholder equity[1]	Grow shareholder equity to $2.3 billion by 2017 from $2.01 billion in 2011.	Working towards this target. Shareholder equity for FY2011/12 was $2.13 billion.	Progressing as expected.
	Credit rating	Achieve and maintain BBB financial strength.	Achieved BBB credit rating, three years ahead of target.	The business will focus on maintaining its BBB rating. This will provide flexibility to manage future downside events and take advantage of market opportunities while maintaining a competitive capital structure.
	Total Returns to Government	Deliver total $1 billion returns to Government over FY2013-FY2017.	Returns to government paid in FY2012 were $118.7 million. This was made up of: • Dividends $49.0 million • Income Tax Equivalent $54.8 million • Rates equivalent $3.5 million • Stamp Duty $2.7 million • Government guarantee fee $8.7 million The projected returns to government are forecast to average $208 million over the five-year period and achieve this target.	Returns to government are projected to increase over the next five years to meet this target.
Low cost provider of supply We leverage our low carbon generation and competitive customer focus to create value for our shareholders, the people of Tasmania.	Base Operating Expenses	Reduce Base Operating Expenses to target[2].	Working towards this target, base operating expenditure[2] for FY2011/12 was $109.9 million and $11.5/MWh.	Progressing as expected with the aim to reduce operating expenses in real terms.
	Cost-competitive supply to back retail load growth	Ensure sufficient options for additional supply to back sales growth.	In FY2011/12 sales growth was supported by using wholesale financial products and options. Together with existing generation capacity this enabled us to meet our sales targets.	In future years in addition to wholesale financial products Hydro Tasmania will continue to develop options for additional physical electricity generation projects to support future sales growth.

[1] Shareholder equity is defined here as Total Assets less Total Liabilities.

[2] Base Operating Expenses are all group operating expenses excluding transmission charges, the NEM and Basslink expenses, operating costs for Entura, Momentum Energy and Bass Strait islands, and the provision of services to wind investments.

A number of significant economic milestones have been achieved during FY2011/12. In terms of financial performance, Hydro Tasmania delivered an operating profit before fair value and tax of $103.4 million. This is the second consecutive year and only the second time since disaggregation that the benchmark of $100 million operating profit has been achieved.

This year's result was particularly pleasing as it was achieved with below average annual generation of 8439 GWh, demonstrating that Hydro Tasmania's performance is due to a robust strategy that has been well-executed, rather than simply reflecting high generation. This excellent result also reinforces Hydro Tasmania's capacity to deliver stable and strong returns in a pre-carbon tax environment.

HYDRO TASMANIA'S CONTRIBUTION TO THE STATE ECONOMY

As one of the State's largest businesses, Hydro Tasmania is committed to making a positive difference in Tasmania from an economic, environmental and community perspective.

The challenging economic climate in Tasmania and the constrained State Budget have placed greater importance on Hydro Tasmania continuing to deliver strong financial performance.

The current economic climate in Australia has meant that demand for energy has reduced across the NEM. Softening demand across the NEM has put downward pressure on wholesale prices in all regions and led to energy companies reassessing future expansion in generation. This is the result of three factors: the downturn in manufacturing activity, energy efficiency programs and the take up of embedded renewable generation.

Global economic factors coupled with a high Australian dollar have put pressure on industrial consumers to cut costs, including reducing energy consumption, and improve operational inefficiencies or face shutdowns. This was particularly relevant in Tasmania, with the temporary closure of the TEMCO smelter at Bell Bay, and speculation regarding Pacific Aluminium's Bell Bay Aluminium Smelter.

In June 2012, Hydro Tasmania signed a new power supply agreement with Pacific Aluminium that supported the ongoing operation of its smelter.

This followed negotiation of a separate, new power supply agreement for BHP Billiton's TEMCO plant that contributed to the decision for the plant to resume operations. Both agreements are commercially profitable for Hydro Tasmania and involve no element of cross-subsidy or government support.

Through Momentum Energy and our operations in the NEM, we are creating value for all Tasmanians. While Tasmania will always be our main focus, diversifying our revenue sources interstate reduces our risk exposure.

Momentum Energy's interstate growth forms the cornerstone of Hydro Tasmania's strategy to mitigate risks, deliver additional returns and create value in the business for the Tasmanian Government, and in turn, our shareholders, the people of Tasmania.

In FY2011/12 Hydro Tasmania returned $118.7 million to the Tasmanian Government and is forecast to increase returns substantially over the five-year corporate plan projection period. Hydro Tasmania provides a reliable source of non-Federal revenue to the State budget (estimated to be approximately seven per cent in FY2011/12 and increasing over the forward estimate period).

Hydro Tasmania's contribution to the Tasmanian economy comes in many forms:

- Hydro Tasmania is a significant investor in capital projects to maintain and upgrade hydropower assets, creating work for contractors and professional service providers. In FY2011/12 our capital expenditure program on the hydro assets was more than $50 million.
- Hydro Tasmania's strategy is also focused on leveraging the unique capabilities of Tasmania on a national and international stage. The growth of Hydro Tasmania's international consulting business Entura will result in the 'export' of Tasmanian renewable energy and water services. Entura's growth into new markets extends Tasmania's reputation as a renewable energy hub beyond just renewable energy generation, to one of exporting niche renewable energy and water skills to develop projects. As well, Entura provides employment for more than 300 employees, with approximately 250 professional and skilled Tasmanians based at the Cambridge offices. It is a great Tasmanian success story.
- Hydro Tasmania has played a role as a significant developer in Tasmania. This was historically seen in the development of the hydro-electric system and more recently, in the development of large-scale wind farms at Woolnorth and currently at Musselroe. The Musselroe project is creating jobs and flow-on benefits in the economically vulnerable north-east region of Tasmania.

FINANCIAL RESULTS

In FY2011/12 the business achieved an operating profit before tax and fair value of $103.4 million and continued to focus on cost reduction by lowering real operating expenses through the implementation of the least cost producer strategy. As a result of realising the full value of our renewable generation through the introduction of carbon pricing, operating profit is projected to increase over the next five years.

Financial strength

Hydro Tasmania achieved a BBB stand-alone credit rating in 2012, a significant achievement and well ahead of target. The range of strategic initiatives supporting the achievement of the BBB rating include: maximising revenue opportunities from the introduction of the carbon price; reducing costs to remain a low-cost producer of energy; and carefully prioritising capital expenditure having regard to safety and asset maintenance objectives. The progress made on these initiatives has improved profitability and increased our resilience to periods of sustained low water inflows. Achieving BBB financial strength increases our financial flexibility, reduces borrowing costs for the business and reflects a more competitive capital structure.

Hydro Tasmania's net debt at the end FY2011/12 was $857 million.

Hydro Tasmania's objective is to retain this BBB rating to remain financially resilient and to maintain flexibility to manage future downside events, and take advantage of market opportunities while maintaining a competitive capital structure. Strong cash flows and prudent debt management resulted in a core debt at 30 June 2012 of $801 million, excluding that incurred on the Musselroe construction, the lowest level of debt since Hydro Tasmania entered the NEM.

Table 5: Financial results

Year ending 30 June:	2008 $m	2009 $m	2010 $m	2011 $m	2012 $m
Profit/(loss) before fair value and tax	(58.0)	38.1	72.9	100.0	103.4
Profit/(loss) before tax	224.2	417.9	332.1	216.4	17.8[1]
Cash flow from operating activities	25.0	43.8	178.0	160.8	107.3
Net debt	872	904	863	964[2]	857
Weighted average cost of debt	6.54%	6.62%	6.98%	7.18%	7.08%
Capital expenditure	54.9	81.2	95.5	64.3	186.1[3]
Other expansion and acquisitions	-	17.8	34.5	0	114.4
Total assets	4846	5213	5129	5507	5805

[1] Profit before tax in 2012 has been adversely impacted by the overall change in the fair value of energy derivatives. This change reflected the realisation of gains that had been reported in prior years as unrealised fair value gains. For further information refer note 3 to the financial statements.

[2] Significant debt increase is because of the acquisition of $143.7 million of Roaring 40s' debt following the end of the joint venture with the CLP Group.

[3] Includes joint venture and subsidiary expenditure (where consolidated).

Table 6: Cash returns to Government

	2008 $ m	2009 $ m	2010 $ m	2011 $ m	2012 $m
Government guarantee fee	5.6	4.5	4.9	6.6	8.7
Income tax equivalent	0	0	0	16.2	54.8
Ordinary dividend	0	0	5.3	25.5	49.0
Special dividend	0	0	0	0	0
Rates equivalent	3.9	2.8	3.01	3.3	3.5
Total returns	9.5	7.3	13.3	51.7	116.0[1]

[1] Excluding stamp duty of $2.7 million.

Business growth

Hydro Tasmania set a short-term goal to increase sales to 15 TWh by 2014. Strong progress was made and this was achieved during the year with Momentum Energy playing a crucial role in meeting this goal.

Hydro Tasmania's strategic goal is to become a material player in the NEM by 2020 and so enhance the value of the business. This will be achieved through maintaining our BBB credit rating and further expanding our interstate retail position.

In order to meet Momentum Energy's growth targets, Hydro Tasmania is investigating how to secure adequate energy supply, either through the electricity market or by investing in new generation such as wind and gas. Hydro Tasmania's focus on renewable energy gives us a competitive advantage in the NEM to pursue these growth goals.

INVESTMENT IN WIND

Signing ceremony in Beijing formalises the joint venture partnership between Hydro Tasmania and Shenhua Clean Energy Holding for the Woolnorth wind farms

The disaggregation of the Roaring 40s joint venture was completed on 30 June 2011. As a result, Hydro Tasmania acquired full ownership of the Musselroe (Tasmania), Sidonia Hills and Mt Fyans (both in Victoria) wind farm development sites, an additional 200 MW of pre-feasibility stage wind development sites and the Tasmanian-based operational wind farms Bluff Point and Studland Bay (north-west Tasmania).

Woolnorth

In February 2012, a 75 per cent interest in the Woolnorth wind farms (Bluff Point and Studland Bay) was divested to Shenhua Clean Energy Holdings Pty Ltd. See page 31.

The Woolnorth sale transaction resulted in a $242 million reduction in Hydro Tasmania's debt levels, including a net cash injection of $88 million. A tax payment of $23 million will be paid to the State Government in 2013 as a result of this transaction.

The cash injection from the sale of Woolnorth has helped Hydro Tasmania to fund construction of the Musselroe project. The final sale agreement for Woolnorth provides a six-month period of exclusivity to negotiate the purchase of a 75 per cent equity stake in the Musselroe Wind Farm. These negotiations are currently in progress.

Musselroe Wind Farm

The Musselroe Wind Farm project has been in development for several years and the start of construction in 2012 was a watershed occasion for both Hydro Tasmania and the State of Tasmania. Favourable exchange rate movements and competitive turbine pricing led to a strong business case to proceed with the project.

The construction phase of the project has been structured to deliver maximum benefit to the Tasmanian community through a high level of community engagement. Where possible, Hydro Tasmania has maximised the use of Tasmanian suppliers, including selecting Launceston-based business Haywards Steel Fabrication and Construction as the preferred provider of towers. Tasmanian company Hazell Bros is the main civil contractor and has followed Hydro Tasmania's lead in employing local people to work on the project wherever possible. Approximately 80 per cent of the supplier spend for Musselroe was with locally-based suppliers.

Musselroe is delivering significant value to the north-east of Tasmania in terms of investment and direct employment, as well as other flow-on benefits generated through spending with local businesses. Maintaining high community engagement for the wind farm is a key priority as the project progresses.

Once operational, Hydro Tasmania will take 100 per cent of the wind farm's output. The investment in Musselroe will provide an additional source of renewable energy output in the NEM and will support retail sales growth through Momentum Energy.

Partnership agreement finalises Woolnorth wind farm deal

Hydro Tasmania has entered into a partnership with a leading Chinese renewable energy business for joint ownership, management and operation of its wind farms in the State.

The initial agreement formalised in February 2012 relates to the Woolnorth wind farms, Bluff Point and Studland Bay, in north-west Tasmania.

Under the arrangement, Shenhua Clean Energy Holding Pty Ltd (SCE) has taken a 75 per cent share in the wind farms, with Hydro Tasmania retaining the remaining 25 per cent share. SCE is 75 per cent owned by Guohua Energy Investment Corporation and 25 per cent owned by Guohua's sister company Shenhua Hong Kong Ltd.

The Tasmanian Deputy Premier and Minister for Energy and Resources Bryan Green took part in the formal signing ceremony in Beijing.

"THIS IS AN IMPORTANT STRATEGIC PARTNERSHIP THAT BUILDS ON TASMANIA'S STANDING AS AUSTRALIA'S RENEWABLE ENERGY POWERHOUSE."

"Importantly, there are many Chinese companies like Guohua looking for investment opportunities and we want to ensure that we are attracting investment to our State that will help grow jobs in Tasmania." Hydro Tasmania chairman Dr David Crean described SCE as a first-class strategic partner for Hydro Tasmania and the State. "One of SCE's parent companies, Guohua, is one of the world's largest wind developers and brings a wealth of expertise in the renewable energy sector and a strong interest in working with us on other renewable energy projects."

A similar agreement is expected to be put in place for the Musselroe Wind Farm currently being constructed in Tasmania's north-east.

Something new on the horizon

Tasmania is less than a year away from having a major new source of renewable power, as the Musselroe Wind Farm takes shape.

Musselroe is being developed on an agricultural property owned by Hydro Tasmania at Cape Portland, 20 kilometres north of Gladstone and 100 kilometres from Launceston.

It covers 5500 hectares of coastal plains, lagoons and sand dunes. The property has been farmed for many decades, and grazing will continue to co-exist with the wind farm after it is operational.

THE $395 MILLION PROJECT WILL HAVE 56 WIND TURBINES, WITH A GENERATING CAPACITY OF 168 MEGAWATTS. THIS WOULD POWER 50 000 HOMES, EQUAL TO THE RESIDENTIAL POWER NEEDS OF BURNIE AND DEVONPORT COMBINED.

The project will reduce Tasmania's greenhouse gas emissions by around 450 000 tonnes each year. The Musselroe site has significance to many members of the local Aboriginal community. Detailed cultural heritage surveys were undertaken during the planning process, and the project team continues to consult with the Aboriginal community as construction proceeds.

Information from both environmental and cultural heritage studies was used to minimise the environmental impact of roads, cable trenches, turbine foundations and other features needed for the project. The footprint of the project infrastructure occupies less than one per cent of the site.

In the second half of 2012 tower sections will be delivered to the site to be erected. The turbines that will eventually sit atop the towers will arrive from Europe late in 2012 and the wind farm will begin full operation in July 2013.

Implications of the carbon price for Hydro Tasmania

The business is well-positioned to realise past investment in renewable energy through the introduction of a price on carbon. Hydro Tasmania has the lowest carbon intensity of any vertically-integrated entity in the NEM, which provides a unique competitive advantage that can be leveraged to attract and retain customers.

Momentum Energy provides Hydro Tasmania with the ability to leverage this advantage to return value to the business over the longer-term.

Over recent years, supported by the improvement in inflows, Hydro Tasmania has been increasing storage levels. We will therefore be able to generate more over the next few years while storages return to normal levels. The increase in our forecast returns to Government reflects this. It provides the opportunity to realise the maximum value from the introduction of carbon pricing during the fixed-price period while continuing to prudently manage our water resources.

MOMENTUM ENERGY

Momentum Energy is Hydro Tasmania's retailer operating on mainland Australia. Based in Melbourne, Momentum Energy brings a diversified customer base and income stream to the Hydro Tasmania group.

Momentum Energy performed strongly during the reporting year and exceeded both customer acquisition and profitability targets. Its excellent financial performance is the result of a range of factors, including the maintenance of a low cost-to-serve business model and implementing a number of highly-effective marketing campaigns (for example SmilePower). These factors have contributed to Momentum Energy delivering a 20-fold increase in annual EBIT contribution, to reach $10.9 million, some $3.7 million above budget.

Momentum Energy's record sales growth in 2012 was driven by strong call-to-action campaigns, enhanced commercial and industrial segment targeting, geographic expansion and innovative product offerings. This was further enhanced by ongoing development and diversification of channels to market across multiple regions. Especially pleasing has been the growth from inbound sales, which is testament to the success of its campaign focus over the year. Sales exceeded the budget target by 22 per cent.

ENTURA

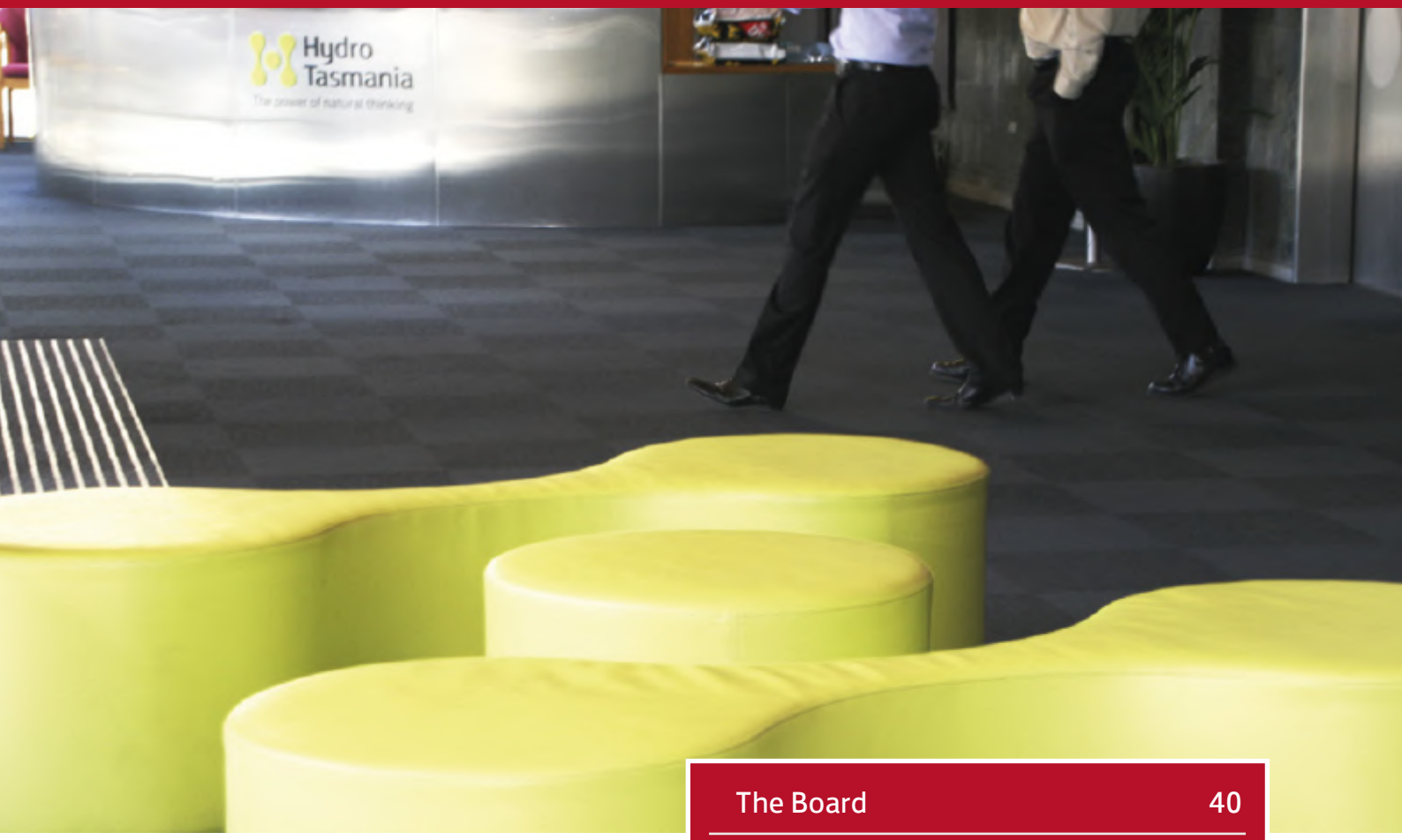
Hydro Tasmania's professional services business Entura is one of Australia's most experienced energy and water consultancies. Combining the experience and knowledge of Hydro Tasmania's almost 100-year development history, Entura works with clients around the world to help them achieve their business goals using innovative engineering and scientific solutions. Entura completed a very successful year measured across all areas of business performance, providing a $3 million profit contribution to the consolidated business and playing a key role in delivering asset and water management programs for Hydro Tasmania.

A new marketing campaign was launched during the year, a sample of which is shown above.

Entura achieved an ambitious business plan, encompassing financial, client, system and processes, and people elements. In addition to achieving financial targets, Entura also implemented new systems to support project delivery, upgrade IT software and improve document management. The business maintained its quality accreditation under ISO 9001 and ISO 14001 and achieved ISO 9001 accreditation for its Indian operations. Entura achieved a cumulative net promoter score (used to measure customer satisfaction and advocacy) of +21, well above the target of +5. The business undertook workforce planning and developed a people strategy that is currently being implemented. This strategy includes a new career progression framework and a knowledge and collaboration-sharing portal, titled the *Institute of Thinking*, both of which will be launched in early FY2012/13.

Read more about Momentum Energy and Entura in the 'Customers' section starting on page 45.

GOVERNANCE



Long-term sustainability indicators

Sustainability code principle	Indicator	Target	Performance	Expectations/plans for the future
Risk / Governance processes We make our decisions within comprehensive governance and risk management frameworks while seeking to continually improve our business processes.	Risk exposure	Operational and strategic risks are assessed against the business's risk management frameworks and reviewed on a regular basis. Reports are presented quarterly to the Board via the Business Risk Committee.	The Corporation's risk register was continually updated during FY2011/12 in alignment with the Integrated Business Risk Management (IBRM) framework. Risk Register reports have been presented to the Executive Leadership Team (ELT) on several occasions and to each subsequent Business Risk Committee meeting.	Risk appetite statement is to be developed in FY2012/13 with review of IBRM framework to follow.
Compliance We make ethical decisions by applying our values, sustainability principles and code of ethics, complying with relevant legislation and delivering on our commitments.	Compliance risk	Compliance risk minimised in accordance with our Compliance Standard which outlines Hydro Tasmania's compliance program.	We have continued to look for ways to improve our compliance framework via: • the consolidation of processes across the business; • identification of other improvement opportunities; and • engaging external auditors to independently assess our compliance framework.	New compliance program will begin to support internally identified improvement opportunities and external audit recommendations to further embed compliance.

Progress against commitments from FY2010/11

Commitment	Progress
Hydro Tasmania is committed to remaining at the forefront of governance, compliance and risk. We will continue to review our policies, standards and procedures on a regular basis.	A number of improvements have been initiated. • **Risk:** A review of the business's risk appetite is underway. • **Compliance:** – A review of our existing compliance system software with a view to its replacement has begun and continues. – An external audit of our compliance framework has been undertaken to determine how well it supports the commitment and to identify improvement opportunities. – A number of initiatives to further embed compliance processes have been implemented across our business. • **Policies/Codes:** – The Sustainability Code has been reviewed and revised and long-term sustainability indicators (LSIs) developed based on our sustainability principles. – A review of Hydro Tasmania's Code of Ethics and Code of Conduct is underway. – The review of our policies and procedures will continue as part of ongoing good governance programs.

Hydro Tasmania's corporate governance is strongly supported by our Sustainability Code, Code of Ethics and Policy framework, Assurance Policy and the Guidelines for Tasmanian Government Businesses – Corporate Governance Principles, issued under the *Government Business Enterprises Act 1995*.

Energy sector reform in Tasmania

In March 2012, the Tasmanian *Electricity Supply Industry Expert Panel* delivered its final report, which was the culmination of an extensive 17-month review process. The report contained a number of key findings and made recommendations on the future structure of the electricity industry in Tasmania.

Hydro Tasmania welcomed a number of the Panel's findings. The Panel concluded that Basslink had proven to be an efficient and cost-effective means of providing security of supply during times of drought, as well as being profitable in operation. The Panel also concluded that there was no cross-subsidisation of major industrial customers by any other customer group.

However, we did not support the Panel's proposed GenTrader model as we considered it would be complex, extremely costly and risky to implement.

Further, the Panel failed to undertake a cost-benefit evaluation of the proposed model. We undertook our own cost-benefit analysis, based on our significant experience in successfully operating hydro assets in the NEM. We found that implementing the GenTrader model would be:

- value destructive;
- a barrier to allowing the State to maximise its carbon advantage;
- extremely risky – the proposed model has never been implemented in a complex, unique hydropower-based system such as that in Tasmania. The risks of 'getting it wrong' are high and the financial implications of a failed implementation would be borne by the taxpayers of Tasmania;
- unsustainable, as the resulting businesses would be too small to effectively compete in the NEM and to deal with managing market and hydrological risk in Tasmania;
- inefficient; and
- the first step in what would become an inevitable path to privatisation.

In May 2012, the Tasmanian Government announced its response to the Panel's final report and outlined an electricity industry blueprint. The Government's response confirmed support for Hydro Tasmania's business strategy as a way to leverage Tasmania's carbon advantage and build additional returns for the State.

The Government now intends to make a number of changes to the Tasmanian electricity industry. Through this reform, it aims to:

- provide retail competition to all customers;
- improve industry efficiency; and
- put downward pressure on prices.

We support this industry blueprint and will be working with the Government as the reforms are implemented for the benefit of all Tasmanians. In particular, we support the Government's decision to pursue reform of the wholesale market through regulation.

We have shown that we can operate extremely successfully in the NEM. Our strategy will ensure the value of the business continues to be maximised for the Tasmanian community, while minimising risks, to deliver consistent returns to the State Budget.

Shareholder governance arrangements

The State Government's focus on governance arrangements for government businesses over the past year has been evident through the development of the '*Principles for Strengthening the Oversight and Governance of Government Businesses*'. We respect the Government's desire to reform government business oversight arrangements and support the introduction of arrangements that satisfy the Government's objectives but ensure that the business retains the flexibility to operate effectively in the market.

Compliance

This year, our compliance program included:

- annual external reporting to the Office of the Tasmanian Economic Regulator;
- an external audit of our compliance framework to determine the degree of assurance it provides the Board;
- work on the replacement of compliance software, offering the opportunity to further embed compliance processes across the business;
- incorporation of wind farm-related compliance obligations into our compliance framework;
- identification of further improvement opportunities to minimise business compliance risks; and
- review of our compliance incident and breach reporting processes to ensure full capture and effective management.

No fines or non-monetary sanctions were imposed on Hydro Tasmania during the FY2011/12 period. However, Entura was issued with a caution from the Tasmanian Department of Primary Industries, Parks, Water and Environment regarding a major non-conformance during a project in Tasmania's central highlands as a result of the sampling of a frog species not approved in the relevant research licence. We continue to work with compliance-related stakeholders to ensure effective compliance management that meets our obligations.

Great Lake, showing Poatina power station intake

Information Technology

During FY2011/12, the Board approved a business case with defined objectives and benefits to transform our core business processes (e.g. finance, asset management, payroll) and supporting information technology (IT) system. An extensive planning and design phase of this major information technology project has been completed and the business is now ready to begin implementation. Key drivers of the project are to position Hydro Tasmania to improve process efficiency and effectiveness, and replace obsolete legacy IT systems.

As a result of the major changes above to core business processes and the IT applications portfolio, we will implement changes to the supporting IT operating model, including negotiation of key outsourcing contracts, review of skills capability and process re-design.

Risk management

Hydro Tasmania's risk appetite is currently reflected in the IBRM framework. A review of the business's risk appetite is underway.

Internal reviews have been undertaken as part of the compliance management system to identify trading-related compliance risks and the implementation of effective controls and mitigations. We are developing an Energy Trading Risk Management system (ETRM) to enhance operational arrangements around trading in the NEM while ensuring that risk management arrangements are appropriately focused. The implementation of the ETRM system will enable centralised reporting, provide added risk management and trading capabilities and allow the 'integration' of retail and generation businesses under a single system.

THE BOARD

David Crean

Dr David Crean was appointed a director of the Hydro-Electric Corporation on 12 July 2004 and chair on 27 September 2004.

Dr Crean was Treasurer of the State of Tasmania from August 1998 until his retirement from the position in February 2004. He was also Minister for Employment from July 2002 to February 2004, Member of the Legislative Council from 1992 to May 2004, and a Member of the House of Assembly between 1989 and 1992. From 1993-1998 he held Shadow Portfolios of State Development, Public Sector Management, Finance and Treasury. Prior to this he was in private medical practice for 10 years. He holds Bachelor of Medicine and Bachelor of Surgery degrees from Monash University.

Roy Adair

Roy Adair was appointed as CEO, and to the Board, of Hydro Tasmania on 21 June 2010. Prior to his appointment he had been Chief Executive of Senoko Power, Singapore's largest electricity generator and retailer for six years and led the transformation of that business. A graduate economist and qualified accountant, he has extensive international experience in running electricity businesses in merchant risk environments.

A former Director with Coopers & Lybrand, he was actively involved in the liberalisation of the United Kingdom electricity supply industry from where he joined PowerGen, one of the two major British generators. He held a number of senior management positions with PowerGen, including Managing Director of PowerGen Renewables, and became Chief Executive of Yallourn Energy in 1996 following the successful acquisition of this Australian energy company by the PowerGen-led consortium.

Saul Eslake

Saul Eslake was appointed to the Hydro Tasmania Board on 19 March 2008.

Mr Eslake is Chief Economist at the Bank of America Merrill Lynch Australia. Prior to taking up this role, he was a program director at the Grattan Institute. He was previously Chief Economist of Australia & New Zealand Banking Group (ANZ) for 14 years to July 2009.

Mr Eslake is a member of the Australian Government's National Housing Supply Council and was formerly Chair of the Tasmanian Arts Advisory Board.

He holds an Honours degree in Economics from the University of Tasmania and a post-graduate Diploma in Applied Finance and Investment. He has completed the Senior Executive Program at the Columbia University Graduate School of Business in New York.

Mr Eslake is a Senior Fellow of the Financial Services Institute of Australia and a Member of the Australian Institute of Company Directors.

Sally Farrier

Sally Farrier was appointed to the Board on 13 December 2004 and resigned effective 30 April 2012.

Ms Farrier is a professional non-executive director and corporate adviser. Her professional career has focused on the utility industries (water, electricity and gas) spanning a number of consulting roles and areas.

Ms Farrier is a director of Farrier Swier Consulting. She served as a Director of Manidis Roberts from 2011 until 30 April 2012, as a National Water Commissioner from August 2008 until 30 June 2012, and as a Director of Western Power (the Western Australian electricity network business) between 2006 and 2009. She was a member of the Victorian Water Trust Advisory Council from its inception in 2003 until it was wound up in early 2011, and was a member of the Independent Panels for the Central, Western and Gippsland Sustainable Water Strategies.

She holds a Bachelor of Chemical and Process Engineering (First Class Honours), a Master of Business Administration and a postgraduate Diploma in Finance and Investment Analysis. She is a Member of the Australian Institute of Company Directors, a Fellow of the Financial Services Institute of Australasia, and a Member of the International Water Association.

Janine Healey

Janine Healey was appointed to the board on 9 September 2002. Currently a Chartered Accountant with Ruddicks (Launceston, Tasmania), Ms Healey has wide-ranging commercial experience, particularly in the areas of commercial taxation advice, business structures, planning and cash flow management. She has a strong history of community and commercial involvement in Tasmania which includes serving as a member of the University of Tasmania Council Audit and Finance Committee (including a term as Chair), Vice-President (2011 to current) and Treasurer (1999-2010) of the Launceston Chamber of Commerce, Director of the Inveresk Railyard Development Authority (including Chair of the Audit Committee), Director of the Female Factory Historic Site Ltd in Hobart and Director and Chair of the Audit Committee of the Port of Launceston Pty Ltd. She was a Director of the Tasmanian Electronic Commerce Centre Pty Ltd (a joint venture between the Government of Tasmania and the University of Tasmania, now privatised) until her resignation in July 2012.

Her professional memberships include Fellow of the Taxation Institute of Australia, spending two years as Chairman of the Tasmanian Division, and Fellow of the Institute of Chartered Accountants.

Stan Kalinko

Stan Kalinko was appointed to the Hydro Tasmania Board on 25 June 2007. He practised law for more than 30 years, specialising in corporate and commercial law, including initial public offerings, takeovers and mergers and acquisitions and has broad experience covering a number of industries.

Mr Kalinko began his career in South Africa and for 16 years was a partner of the international law firm Deacons (now Norton Rose), in Sydney. He was also a merchant banker for six years.

Mr Kalinko is a Fellow of the Australian Institute of Company Directors and also serves on the Boards of FSA Group Limited, Indigenous Community Volunteers Limited, Seisia Enterprises Pty Ltd and the Central Synagogue. Previously, he served on Deacons' Sydney board for eight years and on its national board for three years, and was chairman of the Sydney office for three years. He has a Bachelor of Commerce, Bachelor of Laws, a Higher Diploma in Tax, and is an accredited mediator.

Chloe Munro

Chloe Munro was appointed to the Board on 1 March 2010 and resigned as at 8 February 2012.

Ms Munro stood down from the Board to take up the full-time position of Chair/ Chief Executive Officer of the Clean Energy Regulator, beginning on 2 April 2012.

While a director of Hydro Tasmania, Ms Munro was also the non-executive Chair of AquaSure, the consortium building Victoria's desalination plant, and Chair of the National Water Commission. Previously, she had been an Executive Director at Telstra, holding leadership positions in human resources, business operations, information technology, public policy and communications and customer service. Earlier, she served in the Victorian public sector, and held the positions of Secretary of the Department of Natural Resources and Environment and of the Department of Primary Industries. Prior to this, she was a Deputy Secretary in the Department of Treasury and Finance.

Ms Munro holds Masters degrees in Mathematics and Philosophy from Cambridge University and in Business Administration from Westminster University. She was awarded a Centenary Medal for outstanding contribution to public administration in 2001.

Table 7: Board committee membership at 30 June 2012

Audit committee	Business Risk committee	Corporate Governance committee	Sustainability committee	Human Resources & Remuneration committee
Janine Healey[1]	Dr David Crean[1]	Dr David Crean[1]	Stan Kalinko[1]	Stan Kalinko[1]
Dr David Crean	Roy Adair	Roy Adair	Roy Adair	Dr David Crean
Saul Eslake	Saul Eslake	Stan Kalinko	Vacant	Janine Healey
Vacant	Vacant	Vacant		Roy Adair

[1] Committee Chair.

Table 8: Directors' attendance at Board and committee meetings during 2011-2012

	Board (regular and special meetings)		Audit committee		Business Risk committee		Corporate Governance committee		Environment and Sustainability committee		Human Resources and Remuneration committee	
	A	B	A	B	A	B	A	B	A	B	A	B
Dr David Crean	15	15	4	3[1]	4	4	0	0			3	3
Saul Eslake	15	15	4	4	4	4						
Sally Farrier (as at 30 April 2012)	13	12[1]	4	4	3	3			1	1		
Janine Healey	15	15	4	4					1	1	3	3
Stan Kalinko	15	15					0	0	1	1	3	3
Chloe Munro (as at 8 February 2012)	10	10			2	2			1	1		
Roy Adair	15	15			4	4	0	0	1	1	3	3

Notes:

A = Maximum number of meetings the director could have attended

B = Number of meetings attended

[1] Leave of absence granted

Corporate governance matters were managed by the Board at the Board meetings and therefore no Corporate Governance committee meetings were required.

A process is currently underway to fill the two Board vacancies.

EXECUTIVES

Clockwise from left:
Kate Gillies, Nigel Clark, Alan Evans, Stephen Davy, Andrew Catchpole, Lance Balcombe, Evangelista Albertini, Roy Adair, Stephen Bendeich, Tammy Chu

Hydro Tasmania

Business Development

Acting Director, Alan Evans

Business Development is responsible for investigating emerging business opportunities, delivering projects that realise the opportunities and managing these investments. It facilitates the research and development program that investigates both renewable technologies to develop new products and methods to improve the use of Hydro Tasmania's water resources. It collaborates with teams across the business to build cross-functional teams containing people with the best experience and expertise to deliver the specific projects.

Commercial

Chief Commercial Officer, Stephen Davy

The Commercial team markets and trades Hydro Tasmania's renewable generation portfolio in the NEM as well as managing water storages. It meets the needs of Hydro Tasmania's and Momentum Energy's customers for energy contracts and renewable energy products, and plans for future requirements for retail electricity and oversees other product sales.

Corporate Services

Director, Andrew Catchpole

The Corporate Services team supports the delivery of energy and consulting products and services and promotes Hydro Tasmania's brand. It supports delivery by using a shared services model with internal customers to efficiently deliver information systems and management, human resources functions that attract, retain and develop our people, safety and environment systems, procurement, fleet management and office support. Corporate Services promotes Hydro Tasmania's brand and profile as Australia's leading clean energy business through communications, marketing and community engagement.

Lake Burbury on Tasmania's west coast

Entura

Managing Director, Tammy Chu

Entura is Hydro Tasmania's international consulting business. As a leading consultancy, Entura works with clients in Tasmania, nationally and internationally to deliver a full range of consulting services related to planning, designing, constructing, operating and maintaining all kinds of energy and water projects. Entura's areas of expertise include renewable energy, power engineering, hydropower, water infrastructure and water and environmental management and planning.

Finance and Risk

Chief Financial Officer, Lance Balcombe

Finance and Risk provides financial, commercial and financial planning analysis across the Hydro Tasmania group to assist in building the financial strength and flexibility of the business. The team leads business and trading risk management, project and financial structuring, treasury and business financing for Hydro Tasmania's full investment portfolio. It oversees capital allocation for the business as well as incorporating internal audit. Finance and Risk is also responsible for the organisation's management and financial reporting.

Legal Regulation and Compliance

General Counsel, Stephen Bendeich

Legal Regulation and Compliance provides legal, market regulatory and compliance support across the business. The team provides legal advice on operational, transactional and project-related matters. It provides advice to the business on market regulatory matters and manages dealings with regulators. The team is also responsible for overseeing Hydro Tasmania's compliance processes.

Momentum Energy

Managing Director, Nigel Clark

Momentum Energy is Hydro Tasmania's retail electricity business. It is responsible for successfully gaining, retaining, billing and collecting from its retail customer base. Responsibilities include product development and the branding and marketing of Momentum Energy in target markets to achieve profitable business growth to support the objectives of the overall business.

Strategic Planning

Head, Kate Gillies

The Strategic Planning and Policy group leads the business strategy for Hydro Tasmania. It is responsible for managing the strategy development and corporate planning process, and driving the achievement of the strategic targets. The group also manages Hydro Tasmania's external policy advocacy, focusing on energy and climate change policy.

Technical and Operations

Chief Technical and Operations Officer, Evangelista Albertini

Technical and Operations is responsible for creating and managing production opportunities to deliver a reliable electricity supply to customers through sustainable, innovative and commercially responsible asset management. The core functions of the team are to maintain, refurbish and operate the generating assets to optimise whole-of- life costs and performance while managing risk. The Technical and Operations and Commercial teams work with Hydro Tasmania's network service providers to ensure production delivery. The teams also liaise with regulators and the Australian Energy Market Operator to ensure Hydro Tasmania is not disadvantaged in the market.

CUSTOMERS

Long-term sustainability indicators

Sustainability code principle	Indicator	Target	Performance	Expectations/plans for the future
Customer satisfaction We know our customers have a choice. We aim to be the first choice through understanding, responding and delivering sustainable solutions to our customers.	**Entura:** Total sales ($m)	Percentage increase in sales per year.	An increase in sales of 10 per cent was achieved for the year.	The business is planning to continue to increase sales as it continues its organic growth strategy nationally and internationally.
	Entura: Client satisfaction rating	Achieve a net promoter score (NPS) within the top quartile of professional services businesses.	Entura achieved a cumulative NPS of +21 (2010-2012).	Maintain the score.
	Entura: Customer mix	Achieve a balanced customer mix in our regions.	Entura made progress towards achieving a balanced client mix of clients based in Tasmania, nationally and internationally through increased clients nationally and internationally.	Entura is expected to make further progress towards this goal.
	Momentum Energy: Total retail electricity sales	Become a material player in the retail energy market.	Momentum Energy exceeded its new sales and retention targets within the year.	Momentum Energy is expected to achieve planned growth trajectory in becoming a material national energy retailer.
	Momentum Energy: Retention rates	Market leading retention rates for target market segments.	Momentum Energy's retention rates were better than industry market averages.	To continue to improve retention performance and remain a market leader.
	Momentum Energy: Customer mix	Establish a mix of customers that supports profitable and sustainable growth.	Momentum Energy exceeded the planned progress towards its target customer mix in the year.	Achievement of target customer mix across the national market.
Products and services We are innovative and creative in developing new products and services in response to the needs of our customers and in order to retain our competitive edge in the marketplace.	Client perception score on Entura and Momentum Energy's ability to offer smart and innovative products and services	Entura is recognised by its clients as providing smart and innovative service and product provision.	Not currently measured in FY2011/12. Will begin measurement in FY2012/13.	The aim is to achieve a score of five out of seven for FY2012/13.
		Momentum Energy is recognised as a leading NEM energy services provider in the business market.	Creation of Energy Services division has commenced and is on target to meeting strategic milestones.	Comprehensive energy services offering to our customers and broader market.
	RAPS product firmly established	Hydro Tasmania's RAPS credentials are recognised by our potential customers, and the commercial opportunity understood by our stakeholders.	A business strategy was endorsed to identify one Australian project, and pursue (subject to business case and relevant approval) one outside of Australia.	King Island showcase to be launched Q1 FY2012/13. Endorsement of RAPS business plan.

Progress against commitments from FY2010/11

Commitment	Progress
Entura will implement a customer management framework to provide improved service and retain key clients by 30 June 2012.	The customer management framework was implemented during the year. The framework involved identifying the different levels of service requirements expected by Entura's customers and managing the accounts accordingly. To support this, a sales and account management career path has been mapped out as part of Entura's new career progression framework in support of our client focus. The net promoter cumulative score of +21 demonstrated that Entura achieved an overall positive customer response to working with Entura during the year.
Momentum Energy will implement a new product development process and put at least one new product through this by FY2012/13.	Product development process was successfully implemented during the year. Products launched or undergoing development were in line with targeted activity for the year.

GROWTH AND INCREASING THE NATIONAL CUSTOMER BASE

Entura and Momentum Energy implemented extensive growth strategies during FY2011/12, with the continued growth and performance of the businesses supported by their connection with the Hydro Tasmania group. Promoting the group brand was a core marketing strategy for all components of the business.

Entura launched a new campaign to position it as a niche consulting business specialising in water and energy. The campaign centres on expert knowledge and experience supported by almost 100 years in designing, developing, managing and maintaining energy and water assets. It is this history and ongoing connection with Hydro Tasmania that sets Entura apart from other consultancies. Entura undertook project work for a number of new clients during the year, including local councils, utilities and water authorities.

An exciting new chapter in Momentum Energy's short history began in 2012 with its entry into the South Australian and New South Wales markets, targeting mass-market customers. This initiative, and subsequent growth, was in line with the strategic plan objectives facilitating greater leverage of the brand and its capability to deliver value back to shareholders and the people of Tasmania through access to larger markets.

As part of this expansion, Momentum Energy launched valuable new sponsorship deals. Sponsorship offers Momentum Energy the opportunity to grow the brand into new markets in a cost-effective manner, differentiate itself from competitors and provides a platform from which to promote sales and marketing campaigns to a captive audience.

An important sponsorship relationship was developed during the year with Tasmanian Olympic and Tour de France cyclist Matt Goss, who became a Momentum Energy ambassador. This provides strong brand alignment connecting the kinetic force and momentum of cycling with Hydro Tasmania clean energy credentials. More on page 50.

Momentum Energy Managing Director Nigel Clark, right, receives the Geelong coach's top from coach, Chris Scott

The energy behind the Crows

In 2012, Momentum Energy became the coaches' sponsor for the Adelaide Crows Australian Football League (AFL) team as part of a long-term partnership. The Crows are the iconic sporting team in South Australia, attracting average home crowds of 40 000 people, reaching 10 million television viewers each season and offering unique access for Momentum Energy to that state's corporate market, and a strong and passionate fan base.

Powering the Dragons

Momentum Energy entered into a sponsorship agreement to become the back-of-jersey apparel partner of the St George Illawarra Dragons in the National Rugby League (NRL) for the next four years. The Dragons 20 000 plus membership, including 500 corporate partners, is the highest of all New South Wales teams in the NRL.

Momentum Energy is taking the opportunity in New South Wales' deregulated market to offer competitive, clean energy products to homes and businesses and particularly to Dragons members and the wider fan base in the Illawarra and Southern Sydney regions. Regional strategies ensure cost-effective marketing for both media spend and sales approach, and provide a point from which to expand into the wider state-based market.

Cat power

Momentum Energy extended its elite partnership with the Geelong Cats AFL team, becoming sponsor of the head coach and senior coaching staff. The partnership with Geelong was the first major sponsorship arrangement entered into by Momentum Energy, and has helped establish strong brand awareness among the Geelong business community. The Cats' membership and fan following has swelled on the back of their recent Premiership wins, giving Momentum Energy an unrivalled platform from which to communicate with a regional centre and business community.

Matt's cycling energy powers up for Momentum Energy

Australian sprint cycling champion Matt Goss has joined our team as an ambassador for Momentum Energy.

MOMENTUM ENERGY IS PROUD TO SUPPORT MATT GOSS WHOSE 2012 COMPETITION SCHEDULE INCLUDED REPRESENTING AUSTRALIA AT THE LONDON OLYMPICS AND THE 99TH TOUR DE FRANCE – THE ULTIMATE TEST OF HIS POWER, STAMINA AND ENDURANCE AS A PROFESSIONAL CYCLIST.

Announcing the partnership, Managing Director Nigel Clark said: "There is a strong alignment between renewable energy and cycling. Both represent the generation of power through a kinetic force without any emissions. And like our parent company, Hydro Tasmania, Matt Goss is from Tasmania.

"Cycling is increasingly becoming the pastime of choice for the Australian business community. Momentum Energy knows its customers and their professional networks are passionate about elite sporting competitions and the athletes involved. The relationship with Matt Goss will help us engage the cycling community," Mr Clark said.

As an ambassador for Momentum Energy, Matt Goss will increase awareness of renewable energy as a product which enables homes and businesses to be sustainable.

"I am very happy to have become a Momentum Energy ambassador. I am originally from Tasmania, and Momentum Energy's connection to Hydro Tasmania is really important for me," Matt Goss said.

"I rarely think about the power created by a professional cyclist during a race. Especially not when I am fighting for a stage win or when I'm half way through a big climb. It is fascinating to think about my body as a human power plant and the level of effort I need to maintain to generate the power to win."

PRODUCTS AND MARKETS

During the year, the Hydro Tasmania group focused on leveraging its renewable energy advantage, which has driven increased revenues and greater returns to the people of Tasmania. Clean energy has been the anchor of the group's brand positioning and has influenced innovation in product development.

Momentum Energy

FY2011/12 was a watershed year for Momentum Energy, with medium-term contracted sales targets achieved two years ahead of the original FY2013/14 plan. As the business has grown, it has been cognisant of competition from other retailers and the increased vertical integration occurring in the electricity market. Momentum Energy's key points of difference are that it is able to create products that offer a strategic advantage to the consumer, as well as superior customer and account management services.

Momentum Energy's clean energy product SmilePower is a prime example of its ability to differentiate and meet consumer needs. When customers choose SmilePower, Momentum Energy and Hydro Tasmania ensure the customer's consumption is matched with an equivalent amount of renewable energy generated in the NEM. The product has generated outstanding sales success over the past 12 months with three key marketing campaigns driving public and media interest in the product. The SmilePower product differentiates Momentum Energy's offering from commodity-based products offered by our competitors. It has become the leading product for Momentum Energy in the mass market segment.

Entura

Entura operates in the highly dynamic national and international consulting markets. Its business model and strategy have been developed to manage market volatility through establishing key relationship-based clients and achieving client and regional diversity.

Site of the Chanju-I hydropower in India, one of Entura's current projects

The consulting market is experiencing similar market dynamics to many other industries. While there are a number of market opportunities, there are also a number of potential market impacts such as an uncertain global economic outlook and amalgamation of a number of energy and water utilities within Tasmania and interstate, including New South Wales and Queensland. These are core markets for Entura and it is important for the business to work with clients through this period of change.

The critical skill shortage in key discipline areas is providing a further market challenge for the business, as it is for most engineering-related businesses. Attracting and retaining people will be an important priority and focus for the future.

Entura's unique connection with Hydro Tasmania enables it to confidently offer clients workable solutions for operating and maintaining assets. The business structure supports Entura to develop services and products that help manage operational assets, and then provide these services to benefit clients across Australia and overseas.

An example of this is the use of Ajenti (a combined telemetry and data logger) developed by Entura and used for resource and asset monitoring. The device is used to remotely monitor the performance of one of Hydro Tasmania's water pumps that regulates water levels in a pond and weir. The application of Ajenti for this purpose is equally applicable for mining and irrigation clients to provide a cost-effective remote monitoring solution to better manage water resources.

CUSTOMER RELATIONSHIPS

Momentum Energy

Momentum Energy's customer service ethos is underpinned by the understanding that customers have a choice. Customer experience is the largest driver of churn in the retail energy market. As a result of its strategy to offer high-quality and personalised products and services, the business achieved a churn rate below the industry standard over the year for residential and small to medium enterprise (SME) customers and all significant commercial & industrial (C&I) customers.

As part of its commitment to providing exceptional customer service, Momentum Energy commissioned a benchmarking study to assess and monitor the performance of its contact centre agents. The survey found Momentum Energy provides an above industry average benchmark for customer service when compared with the broader energy and utilities sectors.

During the year, it embarked on a suite of work to strengthen the systems that support positive customer experiences. It continues to refine systems and infrastructure support to ensure it is positioned to compete nationally and cost effectively.

Entura

Entura undertakes a quarterly client satisfaction survey to better understand the key areas of strength and areas for continued improvement in delivery to clients. A client management framework was also put in place during the year to address the needs of clients requiring additional account support.

Entura believes that the transfer of knowledge is an important component of its work to build the capacity of clients, suppliers and communities in which it operates. The transfer of knowledge has the potential to improve development outcomes by lifting its clients' capability to deliver significant energy or water programs required to meet the challenges of climate change, energy access, poverty alleviation and improving quality of life, particularly in less developed countries.

Staff of Entura's New Delhi office

Entura is able to increase the capacity of organisations through advice and support throughout a project, or via training. This capacity building ranges from institutional or management strengthening, through to technical and systems instruction. This adds significant value to the services it offers and creates value for clients over the longer term.

Overseas business opportunities

Internationally, renewable energy initiatives, particularly in developing regions and countries, are playing a key role in rural electrification, meeting energy demand and economic performance. Entura has identified a number of opportunities in renewable energy and water management in southern Africa and the Asia-Pacific region.

In South East Asia, it has been undertaking work on behalf of the Mekong River Commission, World Wildlife Fund and the Asia Development Bank over the past two years, developing tools and methods for the assessment of hydropower sustainability at the river basin level for the Mekong region. This involvement will continue in FY2012/13.

Entura continues to provide a range of professional services to support sustainable development of renewable energy projects in Malaysia. Entura is one of a number of international consulting businesses working in Sarawak on these projects, providing services to Sarawak Energy Berhad (SEB).

Entura's work in Sarawak has received some media attention over the past 12 months. The basis for this attention is a combination of misconceptions about the type of work Entura is undertaking in Sarawak and the stance of some community groups on development within Sarawak.

Entura has provided a range of advice, including training, safety, feasibility studies and undertaking technical due diligence as SEB seeks to develop that state's significant renewable energy resources. Entura is not building dams in that state as has been claimed in internet and media reports.

The work Entura is doing in Sarawak and other countries showcases Tasmanian expertise to the world and reflects Entura's business values and commitment to creating a sustainable future. This extends to building a greater commitment to sustainability in locations where we operate.

Africa provides another focus for Entura. Currently, only seven per cent of Africa's hydropower capacity has been developed. Flowing from this, South Africa has announced a Renewable Energy Feed In Tariff (REFIT) program to promote the development of renewable energy and Hydro Tasmania is part of Kakamas Hydro Electric Power (Pty) Ltd, the consortium that will develop a

small hydropower project as part of the scheme. The Neusberg project is a 10 MW run-of-river hydropower project located on the Orange River. Hydro Tasmania will be an equity partner in the project. Entura has undertaken the engineering and design work for the project bid submission. Having now been appointed a preferred bidder, Entura will continue to perform an ongoing role in providing engineering and design services to the project up to financial close, forecast to occur in early 2013. Following financial close, Entura will be involved in the design and technical management of the project.

Entura's New Delhi office has been involved in a range of projects in India and Nepal. The projects have involved feasibility studies, technical due diligence, tender and detailed design. Entura has also been providing wind engineering services for wind farm developments in India.

Leveraging our renewable energy advantage

Globally, Hydro Tasmania is exporting the skills and experience of Tasmanian professionals built up over the past 100 years to help build a greater commitment to renewable energy and sustainability around the world. This is achieved through Entura's work both nationally and internationally.

By leveraging its renewable energy advantage, the Hydro Tasmania group has achieved better than expected performance results.

Entura is a design partner on a number of work panels for transmission network service providers in Australia, and has been heavily involved in the upgrade and refurbishment of electrical infrastructure to help keep up with growing national energy demand. This is particularly true in Victoria, Tasmania and Queensland, where Entura's renowned design skills have been used to refurbish major substations in the SP Ausnet, Powerlink and Transend networks.

Entura is also assisting in the improvement of energy generation in remote communities. For example, on Thursday Island off far north Queensland, Entura is assessing the feasibility of expanding Ergon Energy's wind farm. Increasing the wind generation on Thursday Island will reduce the population's reliance on costly and unreliable diesel generation, which currently meets up to 95 per cent of the island's electricity needs.

At a policy level, Entura is helping inform the industry on wind energy best practices through its work on the Clean Energy Council's guidelines for the implementation of wind energy projects. There is increasing scrutiny of wind farm projects as the wind generation industry in Australia continues to grow. The guidelines will help developers adopt best practice principles through the life of their projects and strive for continuous improvement.

Internationally, Entura continues to provide business certainty to investors, particularly in the Indian wind market, through the provision of expert due diligence and technical advice.

Sustainability and climate change

With the increased threat and incidence of flooding due to climate change, Entura's involvement in flood modelling spans not only Australia, but also the Asia-Pacific region. Entura has recently undertaken flood modelling and flood forecasting projects in Tasmania, South Australia, Malaysia and New Zealand. Horizons Regional Council, in New Zealand, is responsible for catchments that cover approximately 15 to 20 per cent of New Zealand's north island. Entura has been working with the council to produce flood forecasting systems and flood and hazards maps to help with catchment planning.

In March 2012, Momentum Energy achieved ISO 14001 certification for its Environmental Management System. This certification applies to the promotion and sale of energy products for all jurisdictions in which Momentum Energy Pty Ltd is licensed to retail electricity; the provision of assistance and advice to customers to help them become more sustainable; and resource use, waste production and travel associated with the energy retail business. The ISO 14001 certification reinforces Momentum Energy's commitment to the environment and sends a clear message to customers that, as an energy retailer, it is following through on this commitment.

Hydro Tasmania and Entura have been involved in the application of the International Hydropower Association (IHA) Sustainability Assessment Protocol (2010) that provides a sustainability assessment framework for hydropower development and operation. Hydro Tasmania played a lead role in the development of the protocol, and participated in the first publicly available assessment under the new protocol, which involved assessment of Tasmania's Trevallyn Power Station. Hydro Tasmania and Entura have also participated in providing training courses for IHA sustainability partners on how to prepare for an assessment, and have provided members of assessment teams for preparation and implementation phase assessments for hydropower projects in Asia and Europe.

Major industrial customers

Hydro Tasmania has contractual relationships with the four largest energy users in Tasmania, which account for approximately 55 per cent of the energy consumed in the State. These customers require long-term energy contracts that are backed by Hydro Tasmania's generation and, through Basslink, hedge contracts in Victoria.

National economic pressures and a rapid deterioration of the trading environment affected major customers during FY2011/12. The combination of falling commodity prices and the appreciation of the Australian dollar threatened the ongoing viability of two of these customers. As reported under 'Contribution to State economy' (see page 28), Hydro Tasmania responded by engaging with the customers, BHP Billiton (TEMCO plant) and Pacific Aluminium (Bell Bay Aluminium Smelter), to find mutually agreeable commercial solutions to help them through this difficult period.

Entura helps bring renewable energy to the Solomon Islands

The Tina River Hydropower Project is a proposed 15 MW hydropower development and 58-metre high dam on the Tina River in the Solomon Islands.

After identifying attractive sites for development in stage one, Entura has been responsible for taking the best options into phase two for further investigation.

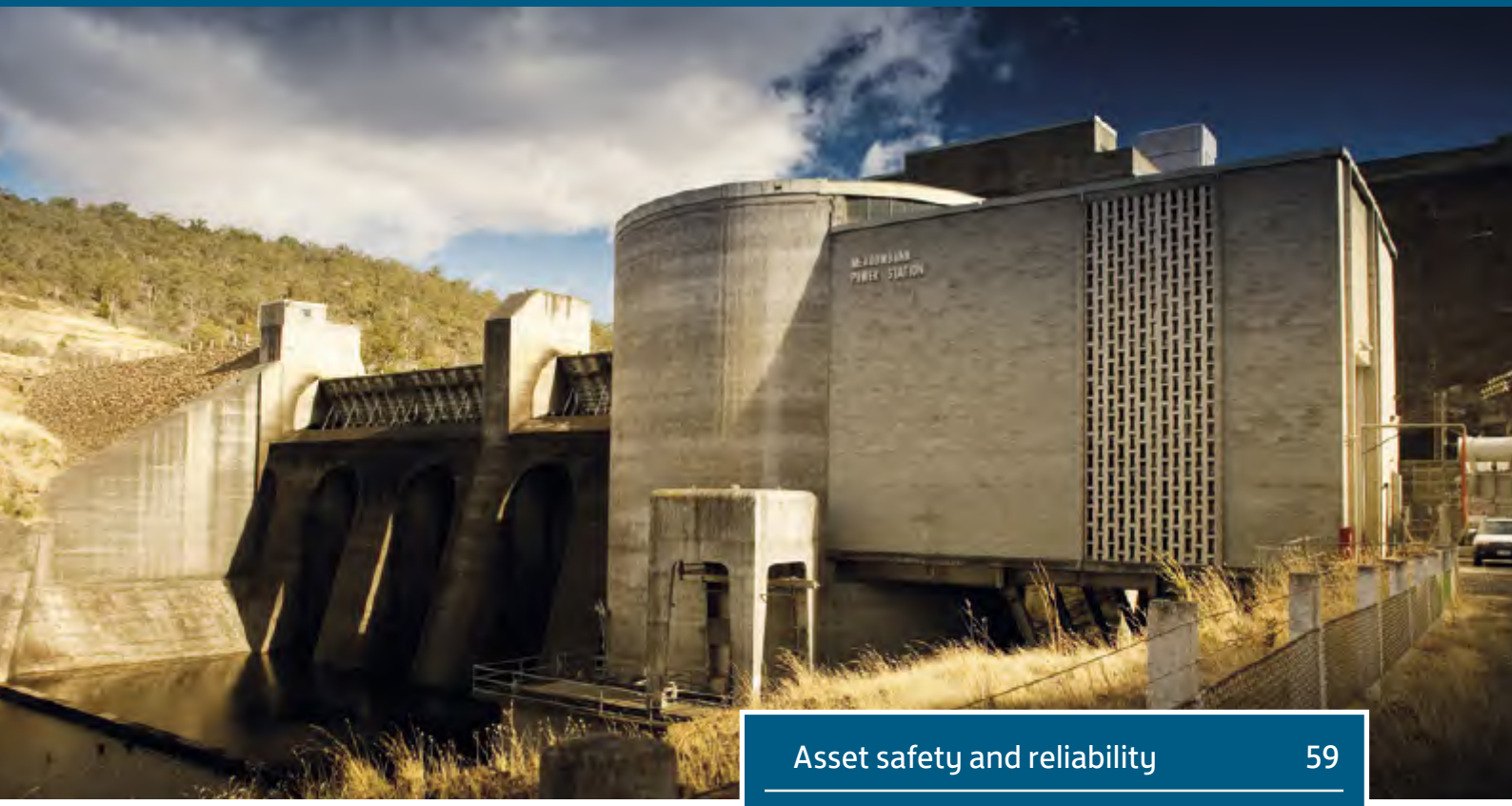
This involved several onsite investigations, including rain and river monitoring, and geological drilling in and around the river. Entura supervised New Zealand company Webster to undertake the challenging drilling work, using a rig that was built specifically for the Tina River conditions.

ONCE COMPLETE, IT'S ESTIMATED THAT THE STATION WILL PROVIDE ABOUT HALF THE ENERGY REQUIRED TO SUPPLY RESIDENTS OF THE CAPITAL, HONIARA.

Entura also employed local villagers to help with the investigations; three young men were given training and safety equipment, and employed to help with the drilling; four locals were employed as security guards to watch over the expensive drilling equipment overnight; and nearby residents were employed to provide catering for the project team during the six weeks of drilling.

The Tina River Hydropower project is being financed by the European Investment Bank and managed by the World Bank. The project is expected to be completed by the end of 2016.

INFRASTRUCTURE AND RESOURCES



Long-term sustainability indicators

Sustainability code principle	Indicator	Target	Performance	Expectations/plans for the future
Asset safety and reliability We manage our infrastructure optimally for present and future reliability and with the highest standards of safety.	Asset performance, safety and compliance obligations as detailed in the 10-year Asset Management Plan (AMP)	Progress against 10-year AMP objectives: • dam safety risk mitigation works for Binney, Rowallan and Edgar completed by 2017; • refurbishment of Tungatinah and Kaplan stations completed by 2017; • refurbishment of three Poatina machines and Penstock internal re-lining; and • refurbishment of two Tarraleah machines.	• Rowallan Dam works commenced; • Binney Dam works completed; • Tungatinah unit 5 major refurbishment completed; • Tungatinah unit 1 major refurbishment commenced; • Kaplan turbine replacement preparation on schedule. • Poatina modernisation of three machines completed; • Poatina Penstock internal re-lining completed; and • Tarraleah refurbishment works completed on two machines and commenced on the third.	At the end of this current 10-year AMP, the following outcomes will be achieved: • all currently known high-risk asset issues in the 20 highest value production lines will be treated and resolved. These 20 strong and reliable production lines underpin 50 per cent of production and provide the majority of peak generation and market ancillary services; • four Kaplan turbine major upgrades; • all currently known Primary Protection Asset high-risk issues rectified; • replacement of the highest-risk machine electrical protection systems will be completed; • the program of alternator re-winding and core replacement for those nearing end-of-life will be completed; • end-of-life transformers will be replaced and strategic spares procured; and • risk reduction works at Binney, Rowallan, Edgar, Scotts Peak and a number of earth-filled embankment dams will be completed.
	New generation asset completion	Build new generation assets, if required, to back sales.	The Hydro Tasmania generation portfolio will need to be added to over time to asset-back our sales target of 25 TWh. The first step in augmenting our portfolio capacity has been the construction of Musselroe Wind Farm. This project is progressing well and is on track for commissioning mid-2013.	Any future projects to augment our portfolio capacity will occur on mainland Australia where wind and gas generating assets could add to our asset-backed target sales strategy.

Sustainability code principle	Indicator	Target	Performance	Expectations/plans for the future
Resource use We manage our resources optimally for present and future reliability.	Business value	Business value optimised through prudent management of water resources.	System yield of 9538 GWh. Budget revenue achieved with hydropower generation of 8421 GWh. System storage increased by approximately 1100 GWh or 7.7 per cent.	Hydro Tasmania plans to maximise the long-term value of water in storage, at acceptable risk, to deliver Corporate Plan projected revenue.
	Water rights	Existing water rights optimised through achievement of objectives of Strategic Water Resources Management Plan (SWRMP).	SWRMP and all catchment operations plans finalised and approved.	Objectives of the SWRMP achieved through completion of the agreed actions within the plan (two-year program).

Progress against commitments from FY2010/11

Commitment	Progress
Fourteen strong and reliable production lines.	Four additional production lines qualified as strong and reliable in FY2011/12, increasing the delivery to 14 strong and reliable production lines in our hydro portfolio with no high-risk asset issues.
Deliver a strategic water resource management plan.	SWRMP and all catchment operations plans finalised and approved.

ASSET SAFETY AND RELIABILITY

Rowallan Dam, where a major spillway upgrade will soon begin

Our hydropower asset portfolio is extensive, aged and diverse. It is also geographically dispersed, operating in harsh environmental conditions and generally operating beyond its intended design life. The portfolio's condition displays many of the characteristics of age-related deterioration and also reflects the rigours of the environment in which it operates. Despite these challenges, the hydropower portfolio is also inherently robust and forgiving, provides great production flexibility and remains largely fit-for-purpose and, most importantly, is in a superior risk-managed position than at any time in the previous 10 years. This is demonstrated by excellent portfolio reliability, availability and forced outage performance metrics, and the outstanding record of asset risk reduction achieved over the past five years.

These outcomes are a direct result of the transformation in asset and risk management practices achieved by Hydro Tasmania over the past five years. These practices now comprise an optimal mix of condition-based, preventative/predictive and remedial maintenance integrated with operational and capital investment programs. These activities are underpinned by improved operational and asset risk management practices targeting enhanced asset condition and performance understanding, improved operational and maintenance skills development, and embedded knowledge management systems and practices.

Under-investment and inadequate maintenance from the end of the construction era in the mid-1990s until circa 2007 has 'mined' asset life to the extent where maintaining a prudent portfolio risk position and adequate levels of plant performance is increasingly reliant on targeted capital upgrades, proactive maintenance and operational programs.

Currently, 40 of the 50 major hydro production lines generating approximately 60 per cent of Hydro Tasmania's revenue are past their nominal mid-life (of around 40 years). Current condition monitoring and performance testing indicates that 31 of these machines require timely major refurbishment. By 2021, at the forecast rate of investment and prioritisation, major refurbishments will have been undertaken on 10 of these machines. The machines not refurbished will continue to require ongoing targeted investment and maintenance to ensure that adequate levels of portfolio performance and flexibility are retained.

The dam portfolio comprises assets constructed between the 1950s and 1990s, and while they have generally performed well to date, they were designed and constructed according to the standards of the day. Changes over time to standards, regulatory requirements and contemporary industry practice have required review of these assets to determine their performance against 'modern day' benchmarks. Significant investment in risk mitigation works is occurring to enhance our asset base. Projects that deal with these risks remain a priority focus of the 10-year AMP.

Dam safety

Hydro Tasmania ensures public safety of Australia's largest portfolio of 204 dams with a comprehensive asset management framework based on the Australian National Committee on Large Dams (ANCOLD) guidelines. The framework combines regular inspections, collection and analysis of monitoring data, engineering assessments, a maintenance program and targeted investment.

Our Dam Safety Emergency Plan (DSEP) provides a robust framework for managing an event that could threaten the safety of one or more of our dams. This plan is reviewed and updated regularly and exercises are held to ensure staff are familiar with current practice. Regular training in dam surveillance and incident management ensures our personnel have the requisite skills.

Our ten-year asset management plan incorporates significant investment in ensuring the ongoing safety of our dams, addressing deterioration over the life of certain assets and maintaining currency with contemporary practice. Notable works in FY2011/2012 included the following:

- Upgrade of the spillway at Brady's Dam to enhance its capacity to cope with large volumes of water ;
- Strengthening and refurbishment works on Binney Dam's embankment and outlet works;
- Additional instrumentation for Clark, Liapootah, and Pine Tier dams to improve monitoring of these dams; and
- Completion of designs for upgrade works to Rowallan Dam, scheduled to begin in FY2012/2013.

New turbines ensure efficiency and greater capacity

Hydro Tasmania has an ongoing program of major works throughout the generating asset portfolio, to ensure it remains fit for purpose, and delivers reliable, safe electricity supply.

This year one of the major projects involved the Tungatinah power station in Tasmania's central highlands.

TUNGATINAH WAS COMMISSIONED IN THE 1950S AND ITS FIVE TURBINES GENERATE 550 GIGAWATT HOURS OF ENERGY EACH YEAR. THAT'S SIX PER CENT OF HYDRO'S TOTAL GENERATION AND ENOUGH TO POWER 80 000 HOMES.

Three of the five turbines are being refurbished. The new turbines are designed and built in Europe, are more efficient and have higher capacity per unit than the original design.

Work on one of the machines has been completed; work on the second machine is underway; work on the third and final machine will be completed in 2013.

CAPITAL WORKS

The programs of work characterised by 'refurbishment' and 'upgrade' represent a substantial portion of the investment in the existing hydro generating portfolio. These programs aim to maintain key assets at an acceptable level of risk through refurbishment or replacement of selected components to improve asset condition and performance. Simultaneously, this creates the opportunity to realise the benefits of modern technology in the form of improvements in operational efficiency and effectiveness.

These programs underpin Hydro Tasmania's growth strategy by ensuring that the existing hydro generating portfolio serves the needs of the business's Commercial Group to have access to available, reliable and efficient generation.

Refurbishment work at Tungatinah power station

Projects

Refurbishment and upgrade projects have been partially or fully completed at Poatina, Tarraleah and Tungatinah power stations and Binney Dam.

The Poatina Power Station now has three of the six machines refurbished and upgraded and the Poatina penstock has a new internal lining. One of the five machines at Tungatinah has been refurbished with another under construction. Binney Dam has been modified to current standards and preliminary work has begun at Rowallan Dam.

Projects underway in the second half of 2012 will include completion of the refurbishment of three of the five machines at Tungatinah, all six machines at Tarraleah, replacement of each machine at Paloona and Meadowbank stations and significant modification to Rowallan Dam.

Refurbishment and upgrade projects are complex, of long duration and typically involve communication and consultation with local communities. Their complexity offers the business an unprecedented training ground to develop the next generation of inter-generational asset managers and we actively seek to staff these projects in part with younger and less experienced employees.

Community interaction enables us to work and build relationships with people living in the communities in which we undertake projects. Major works recently completed at Poatina enhanced our relationships with local businesses and farmers. Effective engagement with these groups ensured that the needs of all were met appropriately during the works program. Due to the larger than normal workforce required, this was supported by engaging contracting staff from the local community to support the project in a variety of roles.

Kaplan turbines

A program has begun to replace the four Kaplan turbines at Paloona, Meadowbank, Repulse and Cluny due to their age and asset risk profile. This also provides an opportunity to redesign the turbines to gain improved efficiency and, in line with our environmental and sustainability programs, the elimination of oil stored in the 'hub' of the turbines, fully mitigating against the risk of a significant environmental incident in the event of a failure.

This program contributes to our strategic vision, as the decision to invest in eliminating oil in the hub illustrates the high value and importance placed on the environment and the communities that use the water downstream of our power stations.

The new and modified turbine configuration will substantially reduce the risks associated with:

- loss of flora and fauna in both the Derwent and Forth rivers; and
- the impact on water supplies to the cities and surrounding areas of Hobart or Devonport due to the need to shut down the filtration systems as floating or emulsified oil can complicate coagulation, flocculation and sedimentation processes.

The design of the new turbine has been completed, as has testing of a scale model to verify performance for Paloona, Meadowbank and Repulse stations. Preparation is well underway for site works to commence at Paloona in January 2013.

STORAGE LEVELS AND INFLOWS

At 1 July 2011, aggregate Hydro Tasmania storages stood at 45.9 per cent full of energy and were 53.6 per cent full of energy at 1 July 2012. This is the highest 1 July level since 1 July 2000 (when levels were at 56.2 per cent).[1]

The energy value of inflows (i.e. yield) was 9538 GWh for the period. This is well above the average of the previous 10 years (9042 GWh/year) but is similar to the average for the previous 30 years (9443 GWh/year).

Basslink reliability and capacity

Hydro Tasmania works with the owner of Basslink, CitySpring, to ensure electricity production can be delivered and to resolve technical transmission issues. Basslink provides Tasmania with the opportunity to avoid spill during high inflow periods and revenue maximisation by supporting Hydro Tasmania's interstate energy sales.

Basslink has also proven to be an effective and cost-efficient means of securing the State's energy supply during times of drought. It has enabled Tasmanian demand to be met at a materially lower cost to Hydro Tasmania than it otherwise would have been. Basslink availability for the reporting period was 98.69 per cent. Basslink successfully completed a biennial planned maintenance outage in October 2011 with some short duration forced outages also during the period.

In FY2011/12 there were exports of 986 GWh and imports of 1262 GWh, a net import amount of 276 GWh.[2]

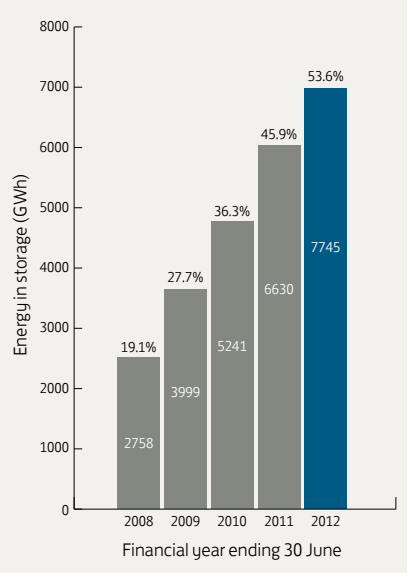


Figure 4: Storage level and energy in storage

[1] 'Full of energy' is explained in 'Measuring water storage levels' on page 169.

[2] Based on operational market data measured at the receiving end.

Boat builders Andy Gamlin and Peter Heading work on *Pipe Dream*, built with salvaged King Billy Pine. Photo courtesy ABC TV

Boats benefit from pipeline's special timber

King Billy Pine timber from an 80-year-old woodstave pipeline at the Lake Margaret Power Station has found new life, following the decommissioning of the wooden pipeline.

Lake Margaret Power Station was commissioned in 1914 by the Mt Lyell Mining and Railway Company to provide electricity for its mines. Hydro Tasmania purchased the station in 1985.

The deterioration of the original woodstave pipeline over time had caused substantial leaking, and it was replaced in 2010 as part of a major refurbishment and restoration program to increase the operating efficiency of the station.

King Billy Pine salvaged from the pipeline was sold for a dollar a metre and has ended up in some interesting places, among them at Tasmania's Wooden Boat Centre in the Huon Valley, where it's being used to build boats.

Boat builder Andy Gamlin said using the old wood was a risk, but one that's paid off.

"King Billy Pine is a beautiful Tasmanian boat-building timber but very difficult to get and becoming quite expensive.

"ONCE WE CUT INTO THE SALVAGED TIMBER, WHICH WAS DEGRADED ON THE OUTSIDE, WE WERE RELIEVED TO SEE THAT THE WOOD IS AS GOOD AS IT WAS 80 YEARS AGO, AND IT'S BEAUTIFUL TIMBER."

"It has close grains, no knots in it, all the things you want for boat building and obviously it's stood 80 years being immersed in fresh water so it's not going to fall apart in five minutes."

Another interesting use for the wood is in the renovation of Ron Carthew's fishing lodge at Highland Waters in Central Tasmania. Ron used timber from Lake Margaret in the ceiling (pictured). Ron said he invested many hours of hard work to restore the wood, but believes the effort was well worth it.

Cloud seeding

Cloud seeding makes an important contribution to our annual generating capacity by increasing rainfall over important water catchment areas.

A Monash University study found a consistent increase of at least five per cent in monthly rainfall over seeded catchment areas.

The cloud seeding season runs from April to October. During the FY2011/12, five catchment areas were included in our cloud seeding program. They were Gordon, Great Lake, Mersey-Forth, Upper Derwent and Upper Pieman. We do not undertake seeding activity over the King River catchment area, close to Queenstown.

Over the year, which includes part of two cloud seeding programs, a total of 32 flights were conducted. Sixteen of those encountered conditions that were suitable for cloud seeding to take place.

We regularly report on our cloud seeding operations to the public through a variety of mediums.

- Public notices in all three daily Tasmanian newspapers at the beginning and end of each season to announce the program and to report overall cloud seeding activity.
- During operations, we provide monthly reports in *The Advocate* newspaper.
- We broadcast details of each operational flight on West Coast Radio 7XS.
- All cloud seeding flights are logged and presented on our website, showing flight path maps of seeded flights.

Numerous studies undertaken by the CSIRO and by the Antarctic Cooperative Research Centre show that cloud seeding does not cause any detectable increase in rainfall outside the identified target area. The same organisations concluded that cloud seeding does not cause any measurable decrease in rainfall downwind of the target areas. An intensive socioeconomic impact study of cloud seeding on the West Coast was conducted in FY2007/08 and the report is available on the Hydro Tasmania website.

Cloud seeding research investigates improved forecasting

Hydro Tasmania is part of a collaboration that has been awarded a highly competitive Australian Research Council (ARC) grant for research that it's hoped will improve rainfall forecasting in important catchment areas in south-east Australia.

The ARC grant provides $666 000 over three years to study precipitation in wintertime storms across south-east Australia, including Tasmania and the Southern Ocean. Hydro Tasmania is contributing more than $500 000 to the project through cash and in-kind contributions.

The Southern Ocean is the source of much of the winter rain across southern Australia. However, some aspects of the ocean's influence on weather patterns are poorly understood, resulting in limited ability to generate accurate long-term forecasts. This is partly because of the challenges undertaking research and monitoring, leading to a lack of long-term, records in this remote part of the world, and partly because of the unique characteristics of low-altitude clouds in this region.

GAINING A GREATER UNDERSTANDING WILL SUPPORT DEVELOPMENT OF MODELLING TOOLS THAT WILL RESULT IN IMPROVED LONG-TERM FORECASTING. THIS IS VITAL TO IMPROVING WATER RESOURCE MANAGEMENT IN MANY PARTS OF SOUTHERN AUSTRALIA, INCLUDING TASMANIA.

The research is being led by Monash University, with support from scientists at Hydro Tasmania, Snowy Hydro, the Bureau of Meteorology, CSIRO, and the Department of Sustainability and Environment (VIC).

Hydro Tasmania's cloud seeding expertise makes it an important project partner. Hydro Tasmania will schedule flights during the 2012 and 2013 cloud seeding seasons to coincide with the passage of satellites over the Southern Ocean, providing 'in-situ' validation of satellite measurements. Key measurements will be taken, including air temperature, dewpoint temperature, wind and liquid water content of the atmosphere.

Rainfall forecasts are important for businesses such as Hydro Tasmania to help predict inflows into storages. As well, results from this research are likely to lead to improved efficacy and reduced costs in cloud seeding operations.

ENVIRONMENT

Long-term sustainability indicators

Sustainability code principle	Indicator	Target	Performance	Expectations/plans for the future
Ecosystems and heritage We aim to minimise our impact on the environment and seek opportunities to enhance environmental and cultural values.	Environmental conditions in Hydro Tasmania operational areas	Maintaining and, where possible, enhancing the environmental values in our land and water environments that are under our management.	The environmental status of 18 lakes was monitored in FY2011/12. Water quality conditions in Lake Trevallyn have improved. Arthurs Lake continues to show elevated chlorophyll levels.	Continue to monitor our lakes and focus on those lakes that have water quality issues.
Carbon status As climate change has significant implications for our business we are committed to being part of a sustainable solution.	Emissions intensity	To generate electricity with the lowest emissions intensity compared to other integrated generators in the NEM.	Hydro Tasmania's emissions intensity (0.0051 tCO_2e/MWh), is among the lowest in the NEM and well below the average emissions intensity of 0.8 tCO_2e/MWh.[1]	Remain the integrated generator with the lowest emissions intensity in the NEM.

Progress against commitments from FY2010/11

Commitment	Progress
Integrate the environmental and safety management systems by end FY2011/12 (a commitment also under Safety with information outlined in this report on page 91).	The Health, Safety and Environment (HSE) integration project started around August 2011. The HSE management system has been developed and includes integrated documentation, a manual, environmental handbook and web pages. The new HSE management system will be rolled out with training and communications during July, August and September 2012.
Incorporate Momentum Energy retail operations within the scope of our ISO 14001 certification.	A significant effort by the Regulatory and Compliance team ensured that Momentum Energy gained ISO 14001 certification on 8 March 2012.
We will develop a register of environmental and safety management plans and audit quarry operations.	Hydro Tasmania operations require the use of a range of quarried material for construction and maintenance activities. Quarries used by Hydro Tasmania are located on State Government-owned land, private land and land owned by Hydro Tasmania. A process for managing these quarries has been developed to: • comply with legal requirements; • minimise the environmental impacts of quarry operations; and • meet safety requirements for quarry operations. As part of this process a Quarry and Borrow Pits Register has been developed. This register identifies quarry location, material extracted and legal requirements of the quarry pertaining to leases and licences. An assessment has been completed for Sand Banks Tier Quarry that has resulted in the development of a Quarry Management and Maintenance Plan, as required by Mineral Resources Tasmania (MRT). Sandbanks Tier is currently the only quarry for which Hydro Tasmania has a licence requirement from Mineral Resources Tasmania to have a quarry management plan. Further audits and assessments of quarries will be undertaken as required.

[1] NEM average: http://www.aemo.com.au/Electricity/Settlements/Carbon-Dioxide-Equivalent-Intensity-Index.

Commitment	Progress
Develop a draft strategy for biodiversity for land and water by June 2012.	A key part of developing a strategic approach to biodiversity conservation is collating and understanding the data currently available that relate to biodiversity values. A consultant has been contracted to collate and analyse existing data for biodiversity values that exist on land and water managed by Hydro Tasmania, as well as all rivers whose flow is impacted by upstream storages. This information will be used as a baseline to determine and prioritise the requirements for monitoring, and the opportunities for conserving or enhancing, biodiversity in these areas. A strategic approach to managing biodiversity will be developed from this analysis.
Finalise development of a more efficient ramp-down rule for the Gordon River.	Hydro Tasmania has developed a more efficient ramp-down rule for the Gordon River and this was put in place in April 2012. The rule stipulates the rate for reducing discharge from the power station whenever the river banks are saturated, as the risk of seepage erosion occurs under these conditions.
Develop guidelines for heritage management for inclusion into the HSE management system.	Hydro Tasmania is undertaking a project to develop guidelines to help identify and manage the heritage values of a number of common asset types. Guidelines for managing impacts on the heritage values of water storages, generation assets and historic archaeological sites were drafted this year. These add to the existing guidelines on Water Conveyance and Safety Access and Security Assets which will be integrated into the new HSE management system. The guidelines will be trialled across the business by people working with assets with heritage values before being finalised.

Hydro Tasmania is committed to a sustainable environment and the provision of a clean and healthy environment for current and future generations. During FY2011/12 there were no significant environmental or heritage incidents.

We aim to maintain a leading position as an environmentally responsible and low-carbon intensity business.

We also have responsibility for managing tracts of land and issues associated with fire, vegetation and disturbance from infrastructure such as roads and quarries. Areas of this land within the World Heritage Area in south-west Tasmania have their own unique management requirements as does land subject to cultural heritage considerations.

Maintaining ISO 14001 certification is a key strategic objective for Hydro Tasmania. One of the requirements of maintaining certification is to identify and implement continual improvement opportunities.

As we change, so does the scope of our HSE management system. On June 30 2011, the disaggregation of the Roaring 40s joint venture resulted in us taking over management of the Bluff Point and Studland Bay wind farms. Our safety and environmental management processes and systems were subsequently extended to these sites and in December 2011 incorporated into our ISO 14001 certification. As well, Momentum Energy has also been incorporated into the ISO 14001 certification.

In FY2012/13, further changes to the scope of the management system will include operations on the Bass Strait islands.

WIND FARM MANAGEMENT

Wind turbine at Woolnorth

The Bluff Point and Studland Bay wind farms operate under local government, State and Commonwealth approvals and are regularly audited under Hydro Tasmania's HSE management System as well as through the external ISO 14000 process. Regular auditing has confirmed ongoing environmental and regulatory compliance for both sites.

Specific site management issues include control of minor erosion along access roads and hardstands, weed control and ongoing avian fauna surveys and management. As part of the 2010 review of the environmental management plans for the wind farms, a number of projects were completed or concluded (if found to not be providing useful data) and three new projects instigated. The following avian and bat projects have been implemented over the FY2011/12:

- study of bats at the wind farm sites;
- development of a remote sensing device to monitor eagle movements on both sites; and
- studies into the genetic relationship of eagles on both sites.

Data collected at the wind farms over the past 10 years is currently being analysed and manuscripts prepared for submission to scientific journals.

Environmental management requirements during the construction phase of the Musselroe Wind Farm have been stipulated by local government, State and Commonwealth regulators and have been incorporated into the contract documentation for contractors involved in construction activities.

At site level, the environmental requirements are managed through Environmental Works Plans (EWPs) and EWPs Technical Specifications, which apply to specific parcels of work projects. The construction has been regularly audited under Hydro Tasmania's HSE management system as well as through the external ISO 14000 process.

Land management and agricultural activities provide challenges for the Bluff Point, Studland Bay and Musselroe sites, particularly in relation to raptor management, stock management and weed control. Agricultural activities at each wind farm site are managed through grazing licences and regular meetings with the licensee.

ABORIGINAL HERITAGE

Hydro Tasmania manages land with significant Aboriginal heritage values. In order to better understand, avoid and minimise impacts of our operations on these values, we have developed a predictive model to guide assessment and management of potential effects. Planned testing to allow improvements in the accuracy of the model has been delayed due to Aboriginal community-imposed work bans arising from concerns over heritage management of Department of Infrastructure, Energy and Resources infrastructure projects which have resulted in delays to a range of projects across the State. During this time, we have had positive discussions with Aboriginal community representatives and Aboriginal Heritage Tasmania. During the next financial year we will cooperate with the Aboriginal community to develop management plans (as envisaged under proposed State Aboriginal heritage legislation). The first of these areas is likely to cover parts of the Mersey catchment, an area of long and concentrated Aboriginal occupation. The predictive model will be tested further as relevant inputs become available.

Aboriginal Heritage Officer Colin Hughes, second right, shows construction crew members how to identify stone artefacts on site at Musselroe Wind Farm

Musselroe Wind Farm

Hydro Tasmania has acknowledged and respected the cultural significance of the land known as 'Tebrikuna', or Cape Portland, since early studies into the feasibility of the Musselroe Wind Farm. Early consultation with members of the Aboriginal community, and desktop studies identified that the landscape is rich in historic, spiritual and cultural values. The wind farm development will have an indisputable impact on the values and Aboriginal landscape. However, some Aboriginal community members have said that, given it is a renewable energy project and important to Tasmania, they do not oppose the development and have been working cooperatively with us to minimise negative impacts and maximise benefits as the project develops.

The first aspect – minimising negative impacts – relates to cultural heritage materials such as stone artefacts. There are many known, and likely many more undiscovered, sites containing artefacts spread over the property. Early reviews noted that the coastal margins, dune systems and river margins were likely to be rich in artefacts, and these were excluded from the development with buffer zones. These exclusion zones make up some 40 per cent of the property and include areas of native vegetation and lagoons. Field surveys were then undertaken by Aboriginal heritage officers and archaeologists over the area to be disturbed. Although the property is large, the actual disturbance footprint of the project comprises less than one per cent of the site. As new cultural heritage sites are found, they are documented, and project infrastructure such as roads and even turbine locations, have been shifted to avoid impact on sites.

The second aspect – maximising benefit to the community – relates to the broad cultural significance of the land itself. We have ensured that construction team members understand the significance of the area to Tasmanian Aboriginal people through the engagement of the Tasmanian Aboriginal Land and Sea Council to conduct a series of cultural awareness training days on site. As a result of this engagement there is a high level of awareness among staff and contractors about the importance of the site.

A further element of our engagement with the community is the development of relationships with local Aboriginal elders over a number of years, starting well before construction began. Elders who live close to the site, and who have strong personal links to the landscape, have been invited to 'walk country' with project team members, and share their knowledge and stories about their ancestors who lived there. We are collaborating closely with these elders to find ways to acknowledge and share the Aboriginal history of Cape Portland.

RESPONDING TO CLIMATE CHANGE

Climate change presents significant strategic challenges as well as opportunities for Hydro Tasmania. As Australia's largest renewable energy generator, climate variability, including rainfall, temperature and wind, significantly influences the business.

Our Climate Change Response Strategy (CCRS), initiated in 2007, has advanced our understanding and identification of the risks and opportunities stemming from climate change. The CCRS has provided an evolving management context for climate change-related initiatives, policy advocacy, legislative obligations and relevant marketing and communications opportunities. We are nearing the completion of a revision of our climate change management approach, taking account of internal and external changes in the climate change space.

Some key influences to the business response to climate change risks and management include:

- nationally regulated energy and emission reporting through the National Greenhouse and Energy Reporting Scheme (NGERS);
- required identification of energy efficiency opportunities through Energy Efficiency Opportunities (EEO) legislation;
- Tasmanian Government focus on climate change adaptation, taking advantage of new opportunities and reducing vulnerability to detrimental climate change impacts;
- increase in the national Renewable Energy Target (RET) legislated in 2009;
- introduction of a carbon price from 1 July 2012; and
- legislation associated with carbon offsets and sequestration opportunities.

The CCRS provided a framework for making decisions while the federal policy/regulatory environment evolved.

Within this ever-changing policy and regulatory environment, the key themes of our 2012 climate change policy position are:

- We support the implementation of a well-designed carbon price as the basis of Australia's long-term response to climate change;
- The introduction of a carbon price appropriately values the clean energy output from renewable and other clean energy producers and prospective developments. It is an essential reform if Australia's energy sector emissions are to be reduced in a market-based, cost-effective manner; and
- While a price on carbon should be the central policy instrument to transition to a low-emissions economy, it will be insufficient on its own to drive the scale of investment needed in clean energy technologies. In the short to medium term, complementary measures such as the national RET, along with investment in research, development and demonstration, are also essential.

Gareth Humphries, formerly of Inland Fisheries Service, hauls in a fyke net to catch native fish for threatened species research (Reynolds Bay, Great Lake)

Hydro Tasmania's emissions

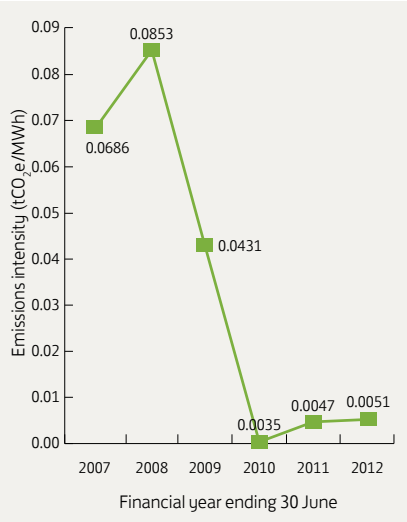


Figure 5: Emissions intensity

Aligned with our values and Sustainability Code, we actively work to reduce business emissions and energy use. As part of our business objectives for FY2011/12 we have sucessfully implemented energy efficiency projects across key business areas. We comply with legislative requirements such as the NGER and the EEO Act.

The measurement of emissions intensity (Figure 5) enables us to track the emissions associated with the energy we generate and our business operations. Our emissions intensity is measured as tonnes of carbon dioxide equivalent per megawatt-hour (tCO_2e/MWh). The standard method for the calculation of a generator's emissions intensity requires only emissions directly associated with energy generation be included. Were we to calculate our emissions intensity based on the NEM methodology, our emissions intensity would be near to zero, due to our predominantly renewable energy portfolio. The Hydro Tasmania group chooses to include many additional emissions in the calculation of intensity, as we believe this is more reflective of the impact of our business. Hydro Tasmania's emissions intensity (0.0051 tCO_2e/MWh), as outlined Figure 5, is among the lowest in the NEM and well below the average emissions intensity of 0.8 tCO_2e/MWh . The significant reduction from 2008-2009 is due to the closure of our only gas-fired power station at Bell Bay in April 2009.

The group saw a slight increase in emissions intensity and overall emissions (Figures 5 and 6) in FY2011/12 due to increased generation and diesel usage on the Bass Strait islands. Decreases in emissions were recorded from sources such as electricity use in buildings and facilities, paper use, business travel and staff commuting.

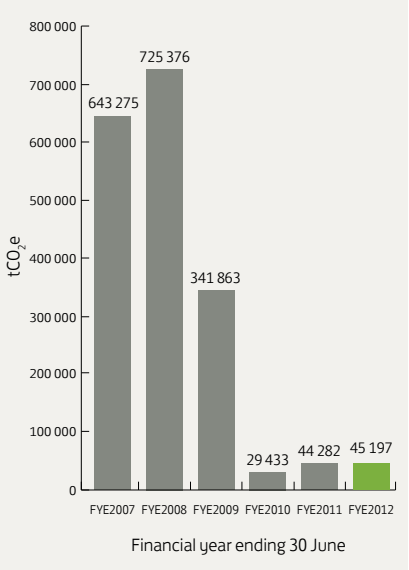


Figure 6: Hydro Tasmania total emissions

Reporting boundaries: Hydro Tasmania had operational control and emissions reporting responsibility for the Woolnorth wind farms for the period of 1 July 2011 – 28 February 2012, and for the Musselroe Wind Farm construction for the full financial year. While these emissions contributed less than 0.5 per cent of the Hydro Tasmania total, they have been included.

During FY2011/12 we did not have control of the diesel generation facilities on the Bass Strait islands, and therefore did not have reporting responsibility under the NGER legislation. However, as these facilities are owned by Hydro Tasmania we choose to include associated generation and emissions in our business emissions profile outlined in Figure 6. Facilities on the Bass Strait islands will return to our management from July 2012.

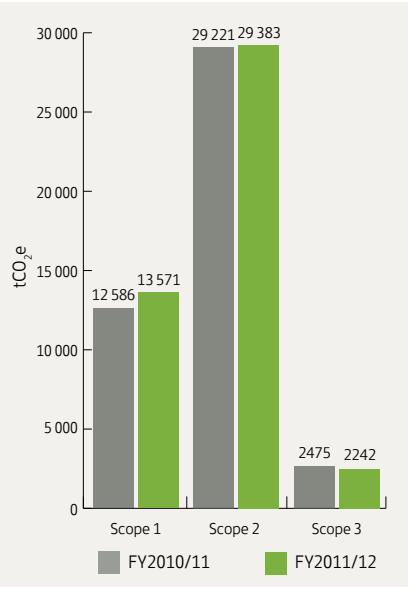


Figure 7: Hydro Tasmania emissions by scope

As defined by the Australian Government, our emissions can be divided into Scopes 1, 2 and 3 (see Figure 7).

Scope 1 emissions include direct emisisons sources (diesel, petrol consumption and SF_6 leakage).

Scope 2 emissions are indirect emissions resulting from the purchase of electricity, heat or steam electricity consumed in pumps, power stations and buildings).

Scope 3 emissions are other material indirect emissions (i.e. commercial travel, paper use, waste, staff commuting).

WATER MANAGEMENT

Water licences

Since connection to the NEM, we are required to have a ramp-down rule in place for the Gordon Power Station to ensure that seepage erosion is not increased in the Gordon River due to the operation of the power station.

We have worked with the Department of Primary Industries, Parks, Water and Environment and the Gordon River Scientific Reference Committee to improve the rule. The improved rule was put in place in April 2012 and stipulates the rate for reducing discharge from the power station whenever the riverbanks are saturated, as the risk of seepage erosion occurs under those conditions. Monitoring is planned to assess the effectiveness of the improved rule.

Mersey-Forth Water Management Review

The Mersey-Forth Water Management Review (MFWMR) aims to proactively, and in consultation with stakeholders, assess our current land and water management activities in the Mersey-Forth catchments, to establish more sustainable management practices. It is the third such review we have conducted and is part of a broader program conducting reviews across our six major catchments.

This review was initiated in 2011 and is a multi-year project comprising four main stages – information review, stakeholder consultation, social and technical studies, and program development and implementation.

Two of the four stages have been completed. The information review stage culminated in the Mersey-Forth Water Management Review Report. The report detailed available information on social, environmental and operational activities and known issues within the Mersey-Forth catchments. Stakeholder consultation involved circulation of a survey, aimed at gaining an understanding of stakeholders' values and issues, and a series of one-on-one stakeholder meetings.

Hydro Tasmania's Mick Bidwell, left, with Kentish Council aldermen Annie Willock and Bart Wisse during consultation on the Mersey-Forth Water Management Review

The survey was sent to more than 750 stakeholders and 21 per cent of people responded. Respondents provided information on community values, issues and management options for those waterways influenced by hydropower operations. Fishing, rowing/canoeing/skiing, aquatic ecosystems and land conservation were highlighted as being key values. Major issues that emerged included water quality, recreational and water level management, flora and fauna, rubbish management and erosion. The one-on-one stakeholder meetings further elaborated on the options that were provided in the surveys.

The stakeholder consultation stage culminated in the production of a report that summarised the consultation process and findings. The report proposed a number of social and technical studies aimed at addressing issues of concern raised by stakeholders. The social and technical studies include:

- maintaining and improving recreational management in the Mersey-Forth catchments;
- recreational releases;
- dissemination of flow and water level information;
- water level management at Lake Gairdner;
- Lake Barrington erosion study;
- sign improvement;
- pests and pathogens management in the Mersey-Forth catchments;
- Mersey River water quality assessment;
- Mersey-Forth aboriginal heritage study;
- land rehabilitation at Lake Mackenzie;
- Wilmot River condition assessment;
- acid drainage investigation;
- fish migration in the Mersey-Forth catchments; and
- Mersey and Forth River flood evacuation plans.

Two newsletters were published providing stakeholder updates on the review process. In addition, a second survey has been initiated inviting stakeholders to provide feedback on the consultation process.

The social and technical studies stage of the review has now begun. In collaboration with stakeholders, we will continue to investigate issues, mitigation opportunities and management options, with the goal of working towards the development of a program of commitments to improve management in the Mersey-Forth catchments.

Further information on the Mersey-Forth Water Management Review, including the reports, newsletters and social and technical studies can be accessed via the following link:

http://www.hydro.com.au/environment/water-management-reviews/mersey-forth

Managing water levels improves galaxiid habitat

We strive to sustainably manage our lakes by balancing economic, environmental and social considerations. The lakes are managed primarily for generating most of Tasmania's electricity requirements, however there are also multiple-use requirements to consider for recreation, irrigation, water supply and the environment.

Arthurs Lake and Great Lake provide natural habitat for six galaxiid species, four of them considered to be threatened.

UNTIL RECENTLY, LITTLE WAS KNOWN OF THE LIFE CYCLES AND HABITAT REQUIREMENTS OF THREATENED FISH IN SEVERAL LAKES IN TASMANIA'S CENTRAL HIGHLANDS, OR HOW WATER LEVELS INFLUENCE THEIR POPULATIONS. LOSS OF CRITICAL HABITATS AND BIOLOGICAL SIGNALS COULD SIGNIFICANTLY REDUCE THE BREEDING SUCCESS OF GALAXIID POPULATIONS.

We funded research to increase our knowledge of these species, including when and where these fish spawn, and the habitat they use for breeding in Great Lake and Arthurs Lake. This knowledge has led to changes in water level management in the lakes. We have increased the social and environmental risk bands in Arthurs Lake to ensure sufficient habitat is available for galaxiids to spawn. We have introduced a limit on the rate of drawdown in Great Lake during the spawning season, to ensure galaxiid eggs are not desiccated.

The findings of this study should also assist management of other galaxiid populations in the region. You can find the research report on our website – http://www.hydro.com.au/environment/threatened-species/central-highlands-galaxiid-fish

Lagoon of Islands rehabilitation

For a number of years, poor water quality at Lagoon of Islands has been an ongoing issue for Hydro Tasmania and downstream water users on the Shannon and Ouse Rivers. We strive to be recognised as a world-class manager of water resources and we are working to address persistent environmental issues identified at the lagoon. A suite of rehabilitation initiatives is being implemented to achieve an environmentally acceptable and self-sustaining wetland and address the deteriorating conditions.

To complete the decommissioning of the infrastructure and rehabilitation of the surrounding area, the natural water level needed to be restored. To achieve this, excess water needed to be released from Lagoon of Islands, via the Shannon and Ouse Rivers, resulting in poor quality water being released into the rivers, relied on by local residents for their domestic water supply. Following consultation with residents, we installed water tanks and delivered water to all eight affected properties for the duration of the drawdown of the lagoon. The cost of this activity was approximately $50 000.

Other initiatives already completed as part of this project include the decommissioning and rehabilitation of Ripple Canal which is an artificial diversion intended to increase the yield of Lagoon of Islands. A number of studies have also been completed to mitigate environmental impacts associated with the project.

Cataract Gorge flow increase

We made a commitment in 2011 to increase the base flow through Cataract Gorge in Launceston from 1.5 cumecs to 2.5 cumecs following a review of the existing flow.

A necessary prerequisite for the increased flow was application for a threatened species permit from the Tasmanian Government. This was granted and the increased flow put in place on 1 December 2011. The increased flow improves the aesthetic conditions of the Gorge and, while it provides additional habitat area for some aquatic species, it reduces the habitat for some threatened plant species growing near the water's edge.

Launceston City Council is looking at options to re-commission the old Duck Reach Power Station. We have provided the Council with information from a preliminary pre-feasibility study. We have also agreed to provide a water surety agreement.

Hydro Tasmania's Andrew Jones, right, with Shannon River resident Rob Casey in front of one of the new water tanks

MANAGING FOR MULTIPLE USE

Hydro Tasmania is undertaking work at Lake Margaret power station to enable access for tourism operators

Tasmanian Wilderness World Heritage Area management

We have a number of generating assets within and adjacent to the Tasmanian Wilderness World Heritage Area (TWWHA). In close consultation with the Parks & Wildlife Service, we have developed processes for planning and approval of works required to maintain, operate and upgrade these assets while ensuring that the works meet the objectives of the TWWHA Management Plan to prevent impacts on the World Heritage Area values.

We have incorporated these processes into the integrated HSE management system.

Recreational management framework

We manage land and water assets that provide opportunities for contributing to the outdoor recreational lifestyle of Tasmanians. Discussions with recreational groups and other stakeholders identified that developing a recreational framework and recreational strategy would be beneficial in providing clear governance for recreation use and development of our water and land for both us and the community.

A framework has been developed that provides clarity within the business and for the community on the use of our land and water assets for recreation through a set of guiding recreational principles. These guiding principles are aligned with our commitment to sustainability to ensure the continued use of the resources for hydropower generation and to provide amenity value for the community.

These principles will be used to develop individual recreational management and development plans for highly valued recreational sites on land and water we manage. The first of these plans to be completed is the Brady's Lake whitewater course. This site represents one of the top three whitewater courses in the world and has been used for national and international kayaking tournaments. It is highly valued by the Tasmanian and national kayaking community. Brady's Lake is also classified among the top five angling waters in Tasmania. The preparation of the management and development plan involved engagement with Canoe Tasmania, the Inland Fisheries Service, Southern Highlands Progress Association and the Central Highlands Council. Over the next three years further plans will be prepared involving the engagement of key user groups.

Lake Margaret tourism and heritage project

Lake Margaret is Tasmania's oldest operating power station and has significant historical value, creating the potential for an attractive tourism destination. With connections to the mining industry, it complements the mix of industrial sites being promoted on the west coast of Tasmania as part of the region's mining heritage.

To facilitate the use of the site as a tourism attraction, a working group has been established comprising the West Coast Council, Cradle Coast Authority, Tourism Tasmania and Hydro Tasmania. The committee has coordinated an independent risk assessment to identify the safety requirements needed to allow visitors to enter a working power station. Work required to facilitate safe access for visitors has received support from Heritage Tasmania and includes a safety barrier within the station and construction of an ablutions block.

The working group has sought expressions of interest from local tour operators to conduct guided tours at the power station and these are planned to begin during the summer of 2012. During this process it has been identified that access may be required to other parts of the site to enhance the Lake Margaret visitor experience.

COMMUNITY

Long-term sustainability indicators

Sustainability code principle	Indicator	Target	Performance	Expectations/plans for the future
Community engagement We aim to have regular, open and transparent dialogue with our community.	Stakeholder satisfaction rating	Stakeholder satisfaction rating of greater than 90 per cent and at least 40 per cent participation.	For FY2011/12, 91 per cent of external stakeholders surveyed rated our performance as good or excellent. Forty per cent response rate.	The external stakeholder survey is conducted annually.
	Level of community awareness	Fifty per cent of Tasmanian survey respondents are aware of what Hydro Tasmania does and its contribution to Tasmania.	This is a new target for FY2012/13.	FY2012/13 will see the development of a Tasmanian community awareness strategy.
Community capability We aim to make a genuine difference in the communities in which we operate.	Staff participation in the Community Initiative	Twenty five per cent of staff members are involved in the Community Initiative.	During FY2011/12, a corporate volunteering program was established. The participation rate currently sits at 7.5 per cent.	The participation rate will continue to improve as more volunteering opportunities are identified.
Suppliers and partners We work with our customers, stakeholders, suppliers and partners to contribute to a sustainable future.	Suppliers' alignment with Hydro Tasmania's sustainability principles	Key suppliers are 75 per cent aligned with Hydro Tasmania's sustainability principles (rolling three-year average).	The self-assessment was completed this year with a result of 83 per cent. Three-year rolling average = 78.67 per cent.	Continue to ask a different group of key suppliers to self-assess their sustainability performance.

Progress against commitments from FY2010/11

Commitment	Progress
Establish three community partnerships supporting the young, the aged and the disadvantaged.	Community partnerships have been established with: • Colony 47 – housing and employment support for the disadvantaged. • Able Australia – services for people living with multiple disabilities. • Tasmanian Symphony Orchestra – free concert tickets for disadvantaged and socially isolated (elderly) Tasmanians. • Greening Australia – The development of 'Water for Life' education program for school children.
Establish a process for capturing information about our stakeholders and their material issues to be used by stakeholder managers to understand our stakeholders' issues and concerns.	External stakeholder survey is completed annually and material issues are referred back to the business. A process to capture compliments and complaints received via our website and general inquiry phone number has been implemented.
Develop an information and education package for employees to build stakeholder engagement capability.	An information kit on our Stakeholder Engagement Framework is now available on our intranet. Managers have been provided with the information kit and education sessions are available.

Commitment	Progress
Establish a supplier pre-qualification register to improve the efficiency of how we deal with suppliers.	Hydro Tasmania's supplier pre-qualification register has been developed internally with input from key stakeholders. It is designed to allow us to identify organisations that are capable of assisting us in our business pursuits. This process improves the efficiency of how we deal with our suppliers, by collecting relevant information before commencing formal tender or quotation processes for services. This effectively establishes pre-qualified suppliers who can be called on to perform services for Hydro Tasmania when required. The process involves suppliers completing an online questionnaire, providing Hydro Tasmania with details about their business, including what services they can provide; the level of experience and capability; health, safety and environmental performance and processes in place; sustainability practices; quality control processes; and insurance cover. The invitation to join the register is open to all suppliers of services at any time and has been sent to businesses that have previously expressed interest in doing business with us.

COMMUNICATING WITH OUR STAKEHOLDERS

We are committed to listening and responding to issues raised by the communities in which we operate. Good examples of our commitment to this are the Musselroe Wind Farm and the Mersey-Forth Water Management Review, where project development was shaped by stakeholders' input.

Each year, we survey our external stakeholders to obtain their views on how we are performing against the commitments made in our Sustainability Code. This year people working on current projects were surveyed to provide a relevant and current point of view. The survey was sent to 84 people and received a 40 per cent response rate. The results showed that 91 per cent rated their dealings with Hydro Tasmania as 'good' or 'excellent'.

The three issues identified by external stakeholders as most important were:

- our commerciality, including plans for long-term business growth;
- water management for recreation, including access and management for multiple users; and
- open and timely communication with the community.

To respond to this feedback we:

- publish financial results in our Annual Report and meet regularly with the Department of Treasury and Finance;
- publish information on water levels in the media and on the Hydro Tasmania website;
- monitor water conditions constantly through our monitoring program;
- manage storages according to our storage management system;
- publish fact sheets on our website;
- make information available via printed and online media; and
- maintain a general inquiry telephone number and email address.

Hydro Tasmania's Merren Wilkinson delivers the Musselroe Wind Farm schools program

We strongly hold the view that by working with our stakeholders we will achieve a better outcome than by operating alone. We will continue to have regular and open contact with the Tasmanian community about our activities, listen to feedback and respond to issues as they arise.

Mersey-Forth Water Management Review

The Mersey-Forth Water Management Review aims to proactively, and in consultation with stakeholders, assess our current land and water management activities in the Mersey-Forth catchments, in order to establish more sustainable management practices. Read more about the Mersey-Forth project on page 73.

Musselroe Wind Farm

The environmental and heritage approval process for this project has been ongoing for a number of years. Effective community stakeholder relationships have been developed over this time. As work started on the site during 2012, stakeholders were kept up-to-date through community information sessions, newsletters and fact sheets, information provided on our website and through the media, and site visits for key stakeholders. This process will continue as construction progresses.

In addition, a program began with local schools to educate both teachers and students about renewable energy generally, and wind farms in particular, recognising that students have the Musselroe project 'in their backyard'.

Taking a leap of faith... and charity

Forty people abseiled down the side of Hydro Tasmania's corporate headquarters in Hobart during June to raise both awareness and money to help some of Tasmania's most disadvantaged community members.

THE EVENT MARKED THE START OF HYDRO TASMANIA'S COMMUNITY PARTNERSHIP WITH COLONY 47, A NOT-FOR-PROFIT ORGANISATION OFFERING SERVICES TO DISADVANTAGED TASMANIANS.

Colony 47 and Hydro Tasmania have entered into a three-year partnership that will benefit both organisations.

CEO of Colony 47 Therese Taylor says the partnership will enable Colony 47 to engage with a well-known and trusted Tasmanian business to broaden opportunities for community engagement for its clients and staff.

Hydro Tasmania's Stakeholder and Community Coordinator Kate Hickey says Hydro Tasmania is committed to making a genuine difference in the community.

The partnership provides an opportunity for our employees to understand the challenges many Tasmanians face and it allows our people to work collaboratively with an organisation helping those in our community who need a hand.

Participants in the abseil raised money through sponsorship, and all proceeds will go to Colony 47 to support financial counselling for Colony clients. A total of $14 500 was raised.

There is a significant demand for advice regarding controlling debt and credit cards. The money raised will provide access to a financial counsellor. For many people this is the first step in getting their lives back on a sound financial footing.

HYDRO TASMANIA'S COMMUNITY INITIATIVE

Hydro Tasmania employs more than 700 people in Tasmania. As well as meeting Tasmania's broad electricity needs, we provide renewable energy to remote communities in the State, and our people and their families are part of those communities.

In the post-WWII era, the Hydro-Electric Commission opened up many of the rugged areas of Tasmania and provided services such as schools and community centres in these new communities. Today we still play our part by supporting events such as the Back to Pedder fishing competition and the Queenstown Heritage and Arts Festival that foster community spirit and stimulate the economies of these small population centres.

We are also a member of the Australian Business Arts Foundation and will once again support Ten Days on the Island in 2013.

In 2011, we responded to feedback from our employees that we could do more, so we launched a program called the Community Initiative. This program includes sponsorships, donations and fundraising.

In 2012, our goals for the Community Initiative were to form partnerships with three community organisations and to establish an employee volunteering program. We are now working with four community partners and through the year provided support of $180 000 across all four partnerships:

Colony 47

Colony 47 offers services, particularly in the areas of housing and employment, to those who lack social or family support. Colony 47 started in the 1970s as a community centre and, like us, saw the strength of pulling together in times of adversity. In 2012 our employees are involved in Colony 47's mentoring programs. As well, in conjunction with Sustainable Living Tasmania, our people are conducting energy audits for low-income families. The partnership with Colony 47 provides two-way benefits. As well as our people providing support for its programs, Colony 47 is offering a program to our staff to help them strengthen their parenting skills.

Able Australia client Brian Ponsonby and mentor Rosie McKeand

Able Australia

Able Australia's supports clients living with multiple disabilities, assisting these people to be seen, heard, valued and respected. We chose to partner with Able Australia because of the alignment with our value of respecting diversity. We support the organisation's arts and music therapy program.

Greening Australia

Greening Australia is committed to protecting the health of our landscapes. We are a founding sponsor of the Sustainability Learning Centre that Greening Australia is building in Tasmania to deliver innovative and inspiring sustainability education programs. We are providing technical input and financial support to develop a program that will educate the next generation about caring for our catchments.

Tasmanian Symphony Orchestra

The Tasmanian Symphony Orchestra (TSO) provides world-class orchestral music to the people of Tasmania. We support the AccessTix program, which provides free concert tickets to disadvantaged Tasmanians who wouldn't normally experience the gift of music from our world-class orchestra. The AccessTix program is a partnership between Hydro Tasmania, Reclink Australia (a not-for-profit organisation supporting participation in sports and arts programs to enhance the lives of disadvantaged people) and the TSO.

We work with community organisations like Able Australia, Lifeline, Colony 47 and others to ensure the TSO is accessible to all Tasmanians.

In addition to the Community Initiative, we sponsor small community groups and sporting clubs. Through these sponsorships we have contributed an additional $42 000 of support.

Through releases of water to support river-based recreational activities, we make an additional in-kind contribution of approximately $370 000 each year (the value of the administration and foregone generation revenue) to community activities.

Employee Volunteering Program

In 2012, we developed and implemented an employee volunteering program. Employees are able to link volunteer activities with our community partners to their professional development plans. This is a win-win initiative. Our partners receive support and our employees take on different challenges outside their normal jobs.

Boat ramps at Lake Pedder

The aim of Hydro Tasmania and our employees is to make a genuine difference in the communities in which we operate. The goal over the next 12 months is to develop projects with our community partners that will make this difference for their clients.

During FY2011/12 our employees have:

- collected gifts and toys for the Salvation Army Christmas Appeal;
- raised $830 for Able Australia through a wine drive;
- held a curry night and raised $3320 for Meals on Wheels;
- provided energy audits for low-income families;
- participated in Colony 47's mentoring programs;
- raised $14 500 for Colony 47 through a sponsored abseiling event;
- collected books for the Able Australia reading room at the Royal Tasmanian Botanical Gardens;
- accompanied AccessTix clients to TSO performances; and
- helped develop a 'Water for Life' education program, to support Greening Australia's Sustainability Learning Centre.

With more than 50 employees currently working with our partners to contribute to their work in the community, the target for the first full year of the volunteering program (FY2012/13) is to increase this involvement to 75.

In total, during FY2011/12 we contributed:

Community partnerships	$180 000
Sponsorships	$42 000
Fundraising	$18 650
Water releases (in-kind)	$370 000
Total	**$610 650**

SUPPLIER SURVEY

The annual survey of suppliers rates their satisfaction with our performance as a customer. All suppliers were invited to participate, with a response rate of around 10 per cent. Overall satisfaction was up by five per cent from last year, to 91 per cent[3].

Both the annual External Stakeholder survey and the Supplier survey indicated that communication with suppliers needed to be improved, especially regarding upcoming work. We recognise that open communications is important to suppliers and a number of initiatives were implemented in the second half of FY2011/12 to improve this:

- Tenders and upcoming projects are advertised on both our website and the Industry Capability Network (ICN) website. Examples include: Expression of interest for Rowallan Dam upgrade; Request for proposal for Poatina waste disposal; Tender for Gordon Dam bridge protective coating works; and Statewide waste removal services.
- Suppliers are invited to register interest with us to pre-qualify for potential future work via the ICN website.

Feedback is offered after tender awards to both successful and unsuccessful bidders to help them improve future bids, both technically and commercially.

Sustainability in the supply chain

Each year different key suppliers are asked to self-assess their own performance on sustainability against our principles. This demonstrates if key suppliers share similar values to us in sustainability related areas and helps us determine business compatibility.

Premier Lara Giddings with Hazell Bros Managing Director Geoffrey Hazell at the announcement of the $40 million civil works contract for the Musselroe Wind Farm

This year, 20 suppliers and one partner were invited to participate in this self-assessment, with 12 organisations undertaking the process. The overall score was 83 per cent[4], up seven per cent compared with the previous year. In all of seven of our sustainability principles, this group of key suppliers collectively self-assessed their performance above our expected benchmark of 75 per cent.

Our intention is to analyse the responses more fully, and this may involve discussing the details with some suppliers. The learning and sharing of information through this process will help fulfil our commitment to work with suppliers and partners to contribute to a sustainable future.

Procurement expenditure

In FY2011/12, we spent $96.2 million with Tasmanian firms and $225 million in total on a range of goods and services. Tasmanian firms are defined as businesses operating in Tasmania that have a permanent office or presence in the state and employ Tasmanian workers. Utility costs such as electricity, transmission and fixed telephony are excluded.

Our procurement policy states that we will give consideration to sourcing supplies locally. We work with the ICN to help source Australian suppliers of required goods and services before sourcing from overseas. Tender documents require that firms provide information on their environmental and safety practices and their sustainability policy.

[3] The methodology for determining the score from the annual suppliers' satisfaction survey, conducted by Hydro Tasmania, was altered to exclude all responses marked 'not applicable' whereas this was assigned a score of 50 per cent last year.

[4] Each supplier responds to seven questions, rating their performance from 0 per cent (poor) – 100 per cent (best practice).The final percentage reported here is the average across all questions and all respondents.

Helping Tasmanians become more energy efficient at home

The Power Savings for Tenants program is an example of making a genuine difference to the organisations we support through the Community Initiative, and for their clients.

DURING 2012, 16 HYDRO TASMANIA STAFF WILL TAKE PART IN THE PROGRAM, WHICH IS DESIGNED TO HELP LOW-INCOME HOUSEHOLDS REDUCE THEIR POWER BILLS AND BE MORE COMFORTABLE IN THEIR HOMES.

The program is run by Sustainable Living Tasmania in partnership with a number of organisations, including Hydro Tasmania's partner Colony 47.

Our staff members have been trained to become 'Home Energy Helpers' – able to change lights, insulate hot water cylinders, install draft-proofing and educate tenants on how to be more energy efficient.

It's expected that 1000 assessments will be conducted over a six-month period, with Hydro Tasmania participating in 200.

Learn more about the program on the Sustainable Living Tasmania website: www.sustainablelivingtasmania.org.au

Table 9: Stakeholder groups

Category	Includes
Tasmanian Government	Minister for Energy Treasurer Premier Ministerial advisors Tasmanian Government departments Regulators State Opposition and Tasmanian Greens Other Tasmanian parliamentarians Expert Panel into electricity industry
Tasmanian community	Commercial and recreational land and water users Community organisations and groups The general public
Local government and communities	Councils
Other government (Commonwealth and other state governments)	Regulators Departments Ministers Victorian Government Tasmanian federal politicians
Employees	Contractors
Suppliers and partners	Suppliers of goods and services Partners
Customers	Wholesale Retail Consulting
Competitors	Generators Retailers Consultants
Tasmanian electricity industry	Aurora Energy Transend Networks
Other	Media – national, state, local, industry Industry associations Unions Sponsorship partners

Hydro Tasmania has an ongoing contractual disagreement with CitySpring regarding certain aspects of the operation of Basslink. Commercial and technical progress this year in resolving these issues included completion of a trial of revised arrangements. While the parties have worked together to negotiate through the issues, some key areas of disagreement remain and resolution work is ongoing.

OUR PEOPLE

Long-term sustainability indicators

Sustainability code principle	Indicator	Target	Performance	Expectations/plans for the future
Attraction, capability and retention We will continue to: • offer opportunities for our employees to grow and develop; • reward, recognise and value employee contribution; • listen and engage with our employees and maintain sound employment relations; • ensure a diverse and equitable workplace.	Staff engagement score	Maintain engagement levels in top quartile for our industry.	Achieved. Engagement score was 63 per cent overall for the HT group, up from 58 per cent last year[1].	The whole-of-business plan will be seeking to address our main business-wide areas for improvement. In addition teams are developing area-specific plans to leverage strengths and identify area for improvement during FY2012/13.
	Percentage of development plans implemented	Eighty per cent of individual annual development plans implemented to employees' satisfaction.	Not yet available.	This is a measure for FY2012/13. Data not available for FY2011/12.
Safety, health and wellbeing We provide a safe and healthy working environment	Lost time injuries (LTIs)	Zero LTIs.	Five LTIs were reported for FY2011/12.	The current work on defining processes to meet OHSAS 18001 will help define significant risks and focus on developing better programs that will reduce injury rates.
	Safety Reporting Index (SRI)	Safety Reporting Index = 3 (FY2011/12).	The Safety Reporting Index: this is a measure of the number of proactive reports of hazards and near misses to all injuries, and is calculated as follows: No. of hazards + Near misses reported First aid + Medical treatment + Lost time injuries A higher number denotes better safety performance.	Note: This is a measure for FY2012/13. Focus on improving near miss hazard reporting, and reduction of all injuries through programs such as the 'Safe Start' program aimed at minimising the number of incidents that occur as a consequence of human error.
	Participation in Healthy Hydro Program	Ninety per cent participation in program.	Eighty five per cent participation for FY2011/12.	A revised Healthy Hydro program is under development and will be presented to the Executive Safety Team for review in August 2012.

[1] Entura India was not included in the employee engagement survey.

Progress against commitments from FY2010/11

Commitment	Progress
Implement key HR strategies (talent management, remuneration, training and development and employee relations) to support business objectives by June 2012.	**Remuneration** A revised Executive Leadership Remuneration Framework was implemented in July 2011. **Talent management** A whole-of-business talent management process has been developed, focusing on succession to key positions and retention of critical skills. The succession process has been successfully implemented at the whole-of-business level and is well progressed within Entura. Work has begun on retention (identifying key skills to be retained) using the organisation's workforce planning process. **Training and development** The training and development objective and guiding principles were signed off by the ELT and progress has been made on embedding the principles within existing and developing people processes and activities (e.g. workforce planning, career development activities, talent management process, leadership development activities). The review of Hydro Tasmania's, training and development processes is continuing. In mid-2011, the Hydro Tasmania group Level 1 induction was added to the e-learning platform and all Level 1 inductions are now conducted via e-learning. Work is also underway to migrate training for generation technicians to an e-learning platform. An employee relations strategy has been developed and implemented. Partnership Consultative Groups for Entura and Hydro Tasmania have been established and meet on a regular basis, with positive reports received to date on the progress of these groups in supporting effective communication between Hydro Tasmania, unions and staff.
Develop a strategy by April 2012 that supports the business objectives in relation to Hydro Tasmania and Entura EPAs. Commence negotiations with stakeholders by July 2012.	In November 2011, both Hydro Tasmania and Entura management agreed to put proposals to their respective employees to seek variations to extend both enterprise agreements by a further 12 months for the following reasons: **Entura:** • The Entura Partnership Agreement 2010-2012 was only finalised in February 2011. This did not allow sufficient time for changes to be evaluated; and • Entura was recovering from the negative impacts of external factors, such as the global financial crisis and skills shortages. The proposed extension provides an extra year of certainty for employees and the business and allows all parties to focus on the business priorities necessary to continue the recovery. **Hydro Tasmania:** • Hydro Tasmania believed that the current agreement was working well and no immediate changes were required; • The focus was on continuing to embed the pay model and streamlining the salary review process. The proposed extension provides another round of salary reviews where the process can be improved; and • The proposed extension provides a further 12 months of certainty for employees. **Employee voting in favour of the action was:** • Entura – 69.74 per cent. • Hydro Tasmania – 94.44 per cent. Fair Work Australia approved both variations on 16 March 2012.

Commitment	Progress
Build an organisational change management function (methodology, approach and toolsets) to leverage the knowledge and skills built through change readiness initiatives and ensure consistent application of these across business projects by June 2012.	The Hydro Tasmania organisational change management approach has been developed and continues to be refined through its application within change initiatives in the business. The approach provides a high-level methodology and tools to guide change management activity and leverages the previous change agent training conducted in the business. A key user group has been formed and meets monthly to further embed the change management methodology and tools and to share learning to ensure consistency and continuous improvement. A major information technology project underway to transform our core business processes is providing the vehicle for the initial rollout and testing of the change management approach, and also to embedding the approach in the business.
Work completed to enable certification of the Hydro Tasmania group's Australian operations to OHSAS 18001 by December 2012.	Documentation to meet the requirements of OHSAS 18001 Occupational Health & Safety is significantly (90 per cent) complete and ready for final internal review and approval. The rollout of the Health Safety and Environment (HSE) system training began in late June 2012. The certification process has started, with NATA Certification Services International (NCSI) elected as the certification provider. NCSI conducted the documentation review (whole-of-business) and a pre-certification audit at Entura in June 2012. Work is on track for certification at Entura in August 2012, and Hydro Tasmania by December 2012.
Integrate wind assets into the safety system.	Work to integrate wind assets into the Hydro Tasmania OH&S management system is substantially complete (95 per cent). The 'Permit to Work' procedure training is being undertaken in June and July 2012 and will complete the integration process. The wind assets are included in the project to achieve certification to OHS 18001.
Address actions to be identified for the Safety Improvement Plan (SIP) for FY2011/12 in areas identified as high priority: • safe work practices • emergency response • fatigue • driving • fit for work; fit for life • integration of safety and environment management systems.	Hydro Tasmania's Safety Improvement Plan (SIP) identifies the key health and safety activities to enable delivery on the vision of 'no harm to anyone at any time'. The SIP is aimed at dealing with key health and safety risks across the business, which have been identified via a number of mechanisms: • risk profiling workshops involving a significant number of employees and managers to gain employee input; • reviewing incident data; and • monitoring legislative changes. Overall, Hydro Tasmania achieved approximately 90 per cent of the commitments in the SIP: • reviewed Safe Work Practices (SWP) and reissued the SWP book in December 2011; • conducted a major emergency training exercise involving the scenario of Hydro Tasmania employees working overseas; • conducted training on fatigue management, which included a review of fatigue management practices and opportunities for improvement; • achieved significant improvements in driver safety, which included 50 per cent reduction in speeding infringements. In the past 12 months a number of vehicles have been fitted with GPS tracking, which records and alerts on speeding infringements. More vehicles will be fitted with this capability in the coming year; • the 'Healthy Hydro' program continued this year with a number of significant achievements: – achieved 85 per cent participation rate; and – commenced voluntary medical checks in January with more than 200 staff participating. • commenced work on our Integrated HSE system which includes certification to OHSAS 18001 by December 2012. Significant work towards this goal was achieved by June 2012. A gap audit against OHSAS 18001 was conducted for Entura during May, which highlighted a number of areas for improvement prior to conducting a certification audit. Another focus area of this work was to review strategic health and safety risk registers by each business unit; and • near-miss reporting improved by more than 10 per cent. This is part of the ongoing strategy to continue to improve near miss and hazard reporting to help prevent incidents from occurring.

SAFETY, HEALTH AND WELLBEING

Workplace safety

Our safety improvement plan (SIP) identifies the key health and safety activities necessary to deliver on our vision of 'no harm to anyone at any time'.

A review of the SIP was undertaken to determine how well we performed against our objectives. The review identified that the plan was 95 per cent complete. No major concerns were identified, but focus areas for the year ahead were set:

- certification of Safety System to 18001 by December 2012 and integration of safety and environment systems;
- work to ensure Hydro Tasmania's compliance with proposed Workplace Model Regulations due for implementation in January 2013;
- continued development and implementation of our Healthy Hydro program;
- introduction of a Safety Rating KPI Index aimed at reducing injuries and improving near miss reporting; and
- introduction of a Behavioural Safety program aimed at reducing incidents caused by human error. This will be introduced into the Technical and Operations Division in FY2012/13.

Table 10: Safety statistics

30 June:	2008	2009	2010	2011	2012
Fatalities	0	0	0	0	0
Lost time injury frequency rate[1]	3.6	2.8	2.1	0.6	2.32
Medical treatment injury frequency rate[2]	8.9	6.6	6.0	11.6	10.3
Severity frequency rate[3]	38.1	60.0	21.3	13.5	14.2
All injury frequency rate[4]	49.8	42.0	39.4	31.4	38.2
Occupational diseases rate		0	0.645[5]	0	0
Contractor lost time injuries	1	1	2	0	3

This data does not include Entura's India office. Momentum data is included for the full reporting period for the first time.

Contractors are now included in the frequency rate calculations (since April 2012)

[1] OHS data does not comply with GRI methodology, as it is based on AS 1885, except the number of employees is based on full-time equivalent (FTE) rather than head count. Contractor incidents and hours are included in the LTIFR.

The calculation for frequency rate is:

(Number of incidents/number of hours worked) x 1,000,000

Number of hours worked = number of FTE x number of working days x number of hours in a working day (7.5)

Lost time injury (LTI) is an absence from a complete shift due to workplace injury (scheduled work only).

[2] Medical Treatment Injury (MTI) is calculated as a rolling average and relates to receiving medical attention due to workplace injury and returning to work.

[3] Severity Rate is calculated as a rolling average and relates to the average number of work days lost per lost time injury per million man hours.

[4] All injury frequency rate is calculated as a rolling average and relates to LTIs, MTIs and first aid treatments.

[5] This relates to stress.

Employer of choice

Hydro Tasmania received a Tasmanian Employer of Choice Award in December 2011. The award was presented by the Minister for Economic Development, David O'Byrne, at a ceremony in Hobart.

The Employer of Choice Awards recognise and promote Tasmanian organisations that have a reputation as a great place to work. The selection process included a written submission and a visit from the judging panel to interview selected employees, managers and members of the ELT.

This award supports our strategy of being the premier employer of the most capable people, and the business can use the Employer of Choice logo in recruitment activities. Importantly, the award provides recognition for the significant effort and commitment of every employee in the business to enable us to be officially acknowledged as a great place to work.

EMPLOYEES

2012 employee feedback survey

Employee engagement is a key performance indicator for Hydro Tasmania and a survey of employees is conducted each year to measure engagement and to provide valuable information on a number of other employee relations areas. The survey:

- provides us with insight into key areas of concern for employees that can then be prioritised for action;
- provides a benchmark to measure the effectiveness of internal programs and identify trends to help understand what motivates and demotivates employees;
- provides an opportunity for employees to voice concerns anonymously and to contribute to improving the business and working environment for all; and
- tells us if our people:
  - believe in the organisation
  - have a desire to make things better
  - understand the business context and the 'bigger picture'
  - are aligned with our values
  - are willing to go the 'extra mile'.

The 2012 results reflect an overall increase in engagement with an improvement across all of the areas identified last year for further enhancement. These results are particularly pleasing given the major uncertainty caused by the Expert Panel Review into the Tasmanian electricity industry and subsequent deliberations.

Right Management has conducted the survey for the past seven years. It measures engagement through eight specific questions related to employees' satisfaction, commitment, pride and advocacy. All of these questions have to be answered positively for an employee to be considered engaged.

Hydro Tasmania group's 2012 employee engagement stands at 63 per cent, an increase from the 2011 result of 58 per cent. This result is well above the Australian average of 34 per cent and exceeds the high performing benchmark of 58 per cent (based on Right Management's latest benchmarking study results released in June 2012).

Table 11: Engagement scores across Hydro Tasmania, Entura and Momentum Energy compared to 2011 results

Engagement scores	2011	2012
Hydro Tasmania	64 per cent	69 per cent
Entura	42 per cent	53 per cent
Momentum Energy	67 per cent	56 per cent
Hydro Tasmania group overall	**58 per cent**	**63 per cent**

The response rate for this year's survey increased to 80 per cent, up from 63 per cent.[5]

Specifically in relation to Momentum Energy, there was a decline in engagement though it still remained well above the national average. While this is disappointing, it is not uncommon for businesses experiencing rapid growth and a high degree of change to experience drops in engagement. Momentum Energy has grown from 70 people on becoming part of the Hydro Tasmania group to nearly 150 today.

Further work is required across the Hydro Tasmania group to gain a better understanding of the perspective of employees on incentives, career development opportunities and learning in order to maintain and improve the current strong levels of engagement.

Table 12: Total workforce by employment type

Employee numbers (based on headcount includes Board and all casuals)	2008	2009	2010	2011[1]	2012
Full-time	732	755	752	697	884
Part-time	57	75	73	74	85
Casual	30	30	19	20	25
Total	**819**	**860**	**844**	**791**	**994**

[1] Data for 2008 – 2011 (incl.) does not include staff of Momentum Energy or Entura's Indian office, with the exception of the Manager of that office. Data for 2012 reflects all employees of the Hydro Tasmania group.

Statistical information regarding our workforce is available on our website.

Resourcing issues and workloads

A number of large-scale projects have required significant human resources in addition to business-as-usual activities. These include:

- establishing Woolnorth Holdings, the joint venture with Guohua Energy Investment Corporation;
- construction of the Musselroe Wind Farm;
- engagement with the Expert Panel Review into the Tasmanian electricity industry process reporting to the Tasmanian Parliament;
- upgrading and connection of all of Hydro Tasmania's systems; and
- dissolution of the Roaring 40s joint venture.

Hydro Tasmania continues to face challenges in ensuring sufficient availability of resources to match workload requirements. In particular, challenges in attracting and retaining specialist skills (such as hydropower and dam engineering), the tight labour market and the requirements of regional and interstate offices will need to be addressed. Workforce planning has been a strategic focus for the business over the past 12 months and this has helped specific business areas plan for recruitment needs and address potential skills gaps.

[5] Entura India was not included in the employee engagement survey

Mike Sylvester – Young Professional Engineer of the Year

Mike Sylvester's career with Hydro Tasmania began 14 years ago while he was completing his tertiary studies. Since then he has gained experience in dam safety, hydraulic modelling and management of capital works projects, including mini-hydro projects interstate, and the Bluff Point wind farm in north-west Tasmania. "I love my work because I am driven to create a better place in which we live and work through the application of sound engineering judgment. The people I work with inspire me every day and I am continually gratified by the pride they take in their work and in their personal and professional development."

Mike (on the left of the photo) was presented with the Young Professional Engineer of the Year Award by Greg Walters, President of Engineers, Tasmania.

THE AWARD IS OPEN TO THOSE WITH AN ENGINEERING DEGREE AND AGED UNDER 35 YEARS OF AGE. APPROXIMATELY 1600 ENGINEERS WERE ELIGIBLE FOR THE AWARD WITHIN TASMANIA IN 2011. MIKE WAS ALSO ONE OF NINE FINALISTS SHORTLISTED FOR THE NATIONAL AWARD, FROM AN ELIGIBLE FIELD OF 45 000.

The Young Professional Engineer of the Year Award acknowledges those who have reached a high level of achievement and involvement in engineering and community affairs. The judges noted Mike's high achievements across all assessement categories, and highlighted his extensive work in third-world countries including Afghanistan, Laos, the Philippines, Vietnam and Indonesia, performing humanitarian engineering work.

Another Hydro Tasmania engineer was honoured in the 2012 Awards. Richard Herweynen, a civil engineer and Principal Consultant with Entura, won the Tasmanian Professional Engineer of the Year. He will go on to represent Tasmania at the National awards. Richard is an expert in dam and hydropower engineering, and has demonstrated his skill across projects in many countries, including the Philippines, Brazil, India, China, Samoa, South Korea, PNG and Malaysia.

FINANCIAL REPORT

FINANCIAL REPORT 30 JUNE 2012

Contents

Statement of Comprehensive Income for the Year Ended 30 June 2012

	NOTE	CONSOLIDATED 2012 $'000	CONSOLIDATED 2011 $'000	PARENT 2012 $'000	PARENT 2011 $'000
Revenue		1,051,131	812,772	617,497	588,823
Operating expenses	2(b)	860,620	628,395	452,475	404,853
Finance costs	2(c)	86,687	80,481	78,901	80,482
Share of (profit)/loss of joint venture entities		384	3,880	-	-
Total expenses		947,691	712,756	531,376	485,335
Profit before fair value movements		103,440	100,016	86,121	103,488
Fair value gains/(losses)	2(d)	(85,571)	116,389	(98,273)	94,188
Profit before income tax equivalent expense		17,869	216,405	(12,152)	197,676
Income tax equivalent (benefit)/expense	4(a)	3,997	65,313	(3,830)	65,618
Profit after tax attributable to owners of the parent		13,872	151,092	(8,322)	132,058
Other comprehensive income					
Foreign currency translation gain/(loss)		(287)	(264)	-	-
Fair value gain/(loss) on cash flow hedges		(18,581)	2,653	(18,581)	2,653
Revaluation of property, plant and equipment		321,351	-	321,351	-
Actuarial gain/(loss) on RBF provision	17	(91,503)	6,210	(91,503)	6,210
Income tax relating to components of other comprehensive income	4(b)	(63,294)	(2,659)	(63,294)	(2,659)
Other comprehensive income		147,686	5,940	147,973	6,204
Total comprehensive income attributable to the owners of the parent		161,558	157,032	139,651	138,262

The Statement of Comprehensive Income is to be read in conjunction with the notes to and forming part of the Financial Report included on pages 102 to 153.

Balance Sheet for the Year Ended 30 June 2012

	NOTE	CONSOLIDATED 2012 $'000	CONSOLIDATED 2011 $'000	PARENT 2012 $'000	PARENT 2011 $'000
Current assets					
Cash and cash equivalents		7,029	7,680	1,267	597
Receivables	6	142,062	114,253	87,896	67,227
Investments	7(a)	32	5,519	-	-
Inventories	8	54,706	65,461	42,659	62,139
Other financial assets	11(a)	202,368	201,892	202,007	207,467
Assets held for sale	9	116,731	-	110,793	-
Total current assets		522,928	394,805	444,622	337,430
Non-current assets					
Investments	7(b)	34,557	-	190,262	190,262
Property, plant and equipment	10	4,484,569	4,414,220	4,467,740	4,139,438
Other financial assets	11(b)	715,986	649,773	715,675	649,345
Goodwill	12	47,796	47,796	-	-
Total non-current assets		5,282,908	5,111,789	5,373,677	4,979,045
TOTAL ASSETS		5,805,836	5,506,594	5,818,299	5,316,475
Current liabilities					
Payables	13	124,700	81,260	89,406	53,010
Interest-bearing liabilities	14(a)	211,252	380,283	211,252	373,236
Provisions	15(a)	54,114	44,610	29,043	27,945
Provision for income tax	4(c)	28,938	29,388	28,938	29,388
Other financial liabilities	16(a)	464,891	94,831	545,986	112,161
Total current liabilities		883,895	630,372	904,625	595,740
Non-current liabilities					
Interest-bearing liabilities	14(a)	645,554	603,083	645,554	455,807
Deferred tax liabilities	4(d)	772,775	775,296	796,224	773,242
Provisions	15(b)	413,133	326,544	401,033	312,053
Other financial liabilities	16(b)	958,432	1,157,846	958,432	1,157,846
Total non-current liabilities		2,789,894	2,862,769	2,801,243	2,698,948
TOTAL LIABILITIES		3,673,789	3,493,141	3,705,868	3,294,688
NET ASSETS		2,132,047	2,013,453	2,112,431	2,021,787
EQUITY					
Contributed equity		271,100	271,100	271,100	271,100
Reserves		296,907	(5,576)	297,443	(5,328)
Retained earnings		1,564,040	1,747,929	1,543,888	1,756,015
TOTAL EQUITY		2,132,047	2,013,453	2,112,431	2,021,787

The Balance Sheet is to be read in conjunction with the notes to and forming part of the Financial Report included on pages 102 to 153.

Cash Flow Statement for the Year Ended 30 June 2012

	NOTE	CONSOLIDATED 2012 $'000	CONSOLIDATED 2011 $'000	PARENT 2012 $'000	PARENT 2011 $'000
CASH FLOW FROM OPERATING ACTIVITIES					
Inflows:					
Receipts from customers		1,007,227	781,480	586,856	572,383
Operating grants and subsidies received		8,032	9,467	8,032	9,467
Interest received		873	214	311	101
Outflows:					
Payments to suppliers and employees		(784,011)	(552,170)	(350,211)	(353,488)
Interest paid		(61,289)	(55,290)	(50,716)	(55,290)
Government guarantee fee		(8,697)	(6,646)	(8,697)	(6,646)
Income tax equivalent paid		(54,799)	(16,249)	(54,799)	(16,249)
NET CASH PROVIDED BY OPERATING ACTIVITIES	5(b)	107,336	160,806	130,776	150,278
CASH FLOW FROM INVESTING ACTIVITIES					
Inflows:					
Proceeds from sale of property, plant and equipment		509	753	509	753
Proceeds from loan to subsidiaries		-	-	-	10,990
Proceeds from divestment		88,082	-	84,690	-
Outflows:					
Loans to subsidiaries		-	-	-	(1,563)
Payments for financial derivatives		(13,041)	(27,674)	(13,041)	(27,674)
Payments for property, plant and equipment		(167,379)	(64,618)	(180,619)	(63,975)
NET CASH USED IN INVESTING ACTIVITIES		(91,829)	(91,539)	(108,461)	(81,469)
CASH FLOW FROM FINANCING ACTIVITIES					
Inflows:					
Proceeds from Tascorp loans		565,600	262,600	565,600	262,600
Cash balances aquired in business acquisition		-	10,639	-	-
Outflows:					
Repayment of Tascorp loans		(537,601)	(306,300)	(537,601)	(306,300)
Repayment of finance lease		(636)	(535)	(636)	(535)
Dividend paid		(49,008)	(25,510)	(49,008)	(25,510)
NET CASH USED IN FINANCING ACTIVITIES		(21,645)	(59,106)	(21,645)	(69,745)
NET (DECREASE)/INCREASE IN CASH		(6,138)	10,161	670	(936)
CASH AT BEGINNING OF THE YEAR		13,199	3,038	597	1,533
CASH AT END OF THE YEAR	5(a)	7,061	13,199	1,267	597

The Cash Flow Statement is to be read in conjunction with the notes to and forming part of the Financial Report included on pages 102 to 153.

Statement of Changes in Equity for the Year Ended 30 June 2012

	NOTE	CONSOLIDATED 2012 $'000	CONSOLIDATED 2011 $'000	PARENT 2012 $'000	PARENT 2011 $'000
CONTRIBUTED EQUITY					
Balance at the beginning of the year		271,100	271,100	271,100	271,100
Equity contributions from the State of Tasmania		-	-	-	-
Balance at the end of the year		271,100	271,100	271,100	271,100
RESERVES					
Asset revaluation reserve					
Balance at the beginning of the year		-	-	-	-
Asset revaluation increment		321,351	-	321,351	-
Balance at the end of the year		321,351	-	321,351	-
Derivative revaluation reserve	1.2(j), 1.2(r)				
Balance at the beginning of the year		(5,327)	(7,980)	(5,328)	(7,981)
Forward exchange contracts		(5,096)	(80)	(5,096)	(80)
Interest rate swaps		(13,485)	2,733	(13,485)	2,733
Balance at the end of the year		(23,908)	(5,327)	(23,908)	(5,328)
Foreign currency translation reserve					
Balance at the beginning of the year		(249)	15	-	-
Foreign currency translation		(287)	(264)	-	-
Balance at the end of the year		(536)	(249)	-	-
TOTAL RESERVES		296,907	(5,576)	297,443	(5,328)
RETAINED EARNINGS					
Balance at the beginning of the year		1,747,929	1,618,795	1,756,015	1,645,916
Net profit for the year		13,872	151,092	(8,322)	132,058
Dividend paid		(49,008)	(25,510)	(49,008)	(25,510)
Deferred income tax recognised directly in equity	4(b)	(63,294)	(2,659)	(63,294)	(2,659)
Actuarial gain /(loss) on RBF defined benefit plan	17	(91,503)	6,210	(91,503)	6,210
Woolnorth accumulated losses divested		6,044	-	-	-
Balance at the end of the year		1,564,040	1,747,929	1,543,888	1,756,015
TOTAL EQUITY		2,132,047	2,013,453	2,112,431	2,021,787

The Statement of Changes in Equity is to be read in conjunction with the notes to and forming part of the Financial Report included on pages 102 to 153.

1.1 DETAILS OF REPORTING ENTITY

The financial statements and notes thereto relate to Hydro-Electric Corporation (the 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 names Hydro Tasmania, Entura and Momentum Energy.

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

The Corporation owns 64 major dams, 28 operating hydro power stations, supplies electricity to Bass Strait islands via diesel and wind power generation and operates a consulting business. The Corporation also owns a retail electricity company, Momentum Energy Pty Ltd, trading in all regions of the National Electricity Market (NEM).

At 30 June 2012 the Corporation had 947 full-time equivalent employees (FTEs) including 4 non-executive directors (2011: 884 FTEs).

The Corporation holds Australian Financial Services Licence number 279796 and Momentum Energy Pty Ltd holds Australian Financial Services Licence number 253085. These licences authorise the Corporation to carry on a financial services business in accordance with the licence conditions.

The financial report for the year ended 30 June 2012 was adopted by the directors on 13 August 2012.

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies which have been adopted in the preparation of these financial statements have been consistently applied by each entity in the consolidated group.

(a) Basis of preparation

The financial report is a general purpose financial report prepared on an accrual basis under the historical cost convention except for derivative financial assets and liabilities, inventory of environmental energy products and generation assets which are carried at fair value.

The carrying values of recognised assets and liabilities that are hedged are adjusted to record changes in the fair value attributable to the risks that are being hedged.

The financial report is prepared in accordance with:

- *Hydro-Electric Corporation Act 1995*;
- *Government Business Enterprises Act 1995* (GBE Act) and related Treasurer's Instructions;
- Australian Accounting Standards and interpretations; and
- Financial disclosure requirements of the *Corporations Act 2001*, where applicable to the operations of the Corporation and its subsidiaries, and other requirements of the law.

(b) Statement of compliance

The financial report is compliant with Australian Accounting Standards including the Australian equivalents to International Financial Reporting Standards (AIFRS).

In complying with AIFRS the Corporation is ensuring that the consolidated financial statements and accompanying notes are also compliant with International Financial Reporting Standards (IFRS).

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following Australian Accounting Standards are applicable to the Corporation and have recently been issued or amended but as they are not yet effective the Corporation has chosen not to adopt them for the year ended 30 June 2012:

AASB Amendment	Affected Standard	Nature of Change to Accounting Policy	Reporting periods commencing on or after	Application date for the Corporation
AASB 9	Financial instruments	New standard partially replacing *AASB 139 Financial Instruments Recognition and Measurement* – accounting policy under review.	1 January 2013	30 June 2014
AASB 2011-9	Presentation of other comprehensive income	Requires entities to group items in other comprehensive income on the basis of whether they might be reclassified subsequently to profit and loss – disclosure under review.	1 July 2012	30 June 2013
AASB 10	Consolidated financial statements	Replaces parts of *AASB 127 Consolidated and Separate Financial Statements* and broadens the situations when an entity is considered to be controlled by another entity – disclosure under review.	1 January 2013	30 June 2013
AASB 11	Joint arrangements	Replaces *AASB 131 Interests in Joint Ventures* and uses the principle of control in AASB 10 – disclosure under review.	1 January 2013	30 June 2013
AASB 12	Disclosure of interests in other entities	New disclosures about the judgements made by management to determine whether control exits and summarised information around those which are not considered controlled – disclosure under review.	1 January 2013	30 June 2013
AASB 13	Fair value measurement	Provides guidance on how to determine fair value and expands the disclosure requirements for all assets or liabilities carried at fair value – accounting policy and disclosure under review.	1 January 2013	30 June 2013
AASB 119	Employee benefits	Revises the accounting for defined benefit plans. Requires that the liabilities arising from such plans be recognised in full with actuarial gains and losses being recognised in other comprehensive income – accounting policy and disclosure under review.	1 January 2013	30 June 2013
AASB 1053	Application of tiers of Australian Accounting Standards	New standard introducing Tier 1 and Tier 2 disclosures applicable in accordance with a Treasurer's Instruction issued during the year – minimal effect of accounting policies expected.	1 July 2009	1 July 2013

(c) Principles of consolidation

The consolidated financial report includes the Corporation, being the parent entity, and its controlled entities.

The financial report includes the information and results of each controlled entity from the date on which the Corporation obtained control and until such time as the Corporation ceased to control the entity. The financial reports of subsidiaries are prepared for the same reporting period as the Corporation.

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

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Significant accounting judgements

In the process of applying the Corporation's accounting policies, the Corporation has made the following judgements, apart from those involving estimates, which have a significant effect on the amount recognised in the financial report.

Fair value of generation assets

Note 1.2 (i) and note 10 describe the judgement process adopted in assessing fair value of generation assets. Note 1.2(m) describes the judgement process adopted to estimate the recoverable amount of property, plant and equipment when an indication of impairment exists or when a previous indicator of impairment has reversed.

Financial liabilities and financial assets

Notes 1.2(j) and (r) describe the valuation methods applied to the Corporation's financial liabilities and financial assets which include judgements about market conditions and activity.

(e) Significant accounting estimates and assumptions

The Retirement Benefits Fund provision detailed in note 17 has been assessed by the State Actuary and various actuarial assumptions have been applied to arrive at the carrying value reported.

(f) Receivables

Current trade receivables include amounts receivable on 30-day terms from Australian Energy Market Operator (AEMO) for electricity sales and amounts receivable on 30 to 90-day terms for consulting services. They also include amounts receivable on terms varying from 14 to 90 days for retail sales of electricity. Receivables are recognised and carried at the invoiced amount less an allowance for impairment. Such an allowance is only recognised when there is objective evidence that the debt is impaired. Any bad debts are written off as an expense or against the provision for impairment.

All trade receivables are non-interest bearing except for Entura consulting receivables which, if past due, are charged interest in accordance with the contract.

Non-current receivables are recognised and carried at amortised cost. Amortisation of receivables is calculated using the effective interest method. Any allowance for impairment is deducted from the carrying value.

Prior to extending credit to new Entura consulting clients and retail customers, credit checks are undertaken by referencing external credit reports and contacting credit referees. Additional risks are reviewed in relation to new international clients.

(g) Inventories

Inventory of environmental energy products (EEPs) is carried at fair value. Fair value represents prices under forward sales contracts and, to the extent that inventory is not held for delivery against forward contracts, spot prices at balance date. Renewable energy certificates created through energy generation are recognised as inventory once the calendar year is past and the certification process has been completed.

Other inventories are carried at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(h) Cash and cash equivalents

Cash and cash equivalents reported in the Balance Sheet and Cash Flow Statement comprises cash on hand and in banks and short-term deposits. Short-term deposits have an original maturity of three months or less, are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

(i) Property, plant and equipment

The Corporation carries its hydro generation assets at fair value. The basis for the fair value calculation is described in note 10.

The Corporation's other property, plant and equipment assets are carried at cost less accumulated depreciation and impairment.

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The remaining useful life of property, plant and equipment and the residual value at the end of the useful life are reviewed annually.

Depreciation of property, plant and equipment, other than land, is based on remaining useful life using the straight-line method. Useful lives applicable to each class are as follows:

	2012	2011
Generation	3 – 150 years	3 – 150 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

Property, plant and equipment is written off upon disposal or when there are no future economic benefits expected from its continued use. Any gain or loss is reported in the Statement of Comprehensive Income.

(j) Other financial assets

Financial assets in the scope of *AASB 139 Financial Instruments: Recognition and Measurement* are classified as held-to-maturity investments, loans and receivables, at fair value through profit or loss or available for sale investments. When financial assets are initially recognised they are measured at fair value. Directly attributable transaction costs are included in the carrying value of investments classified as held to maturity. The Corporation determines the classification of its financial assets after initial recognition and, where appropriate, re-evaluates this designation at each financial year end. All routine purchases and sales of financial assets are recognised on the trade date being the date that the Corporation commits to purchase the assets.

- **Held-to-maturity investments**

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments when the Corporation has the intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held to maturity are measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments plus or minus the cumulative amortisation of any difference between the initially recognised amount and the maturity amount, calculated using the effective interest method. This calculation includes all fees and margins paid or received between parties to the contract that are an integral part of the effective interest rate, all transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the Statement of Comprehensive Income when the investments are derecognised or impaired, as well as through the amortisation process.

- **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the Statement of Comprehensive Income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

- **At fair value through profit or loss**

Financial assets are classified as being at fair value through profit or loss where the financial asset has been acquired principally for resale in the near future, is part of an identified portfolio of financial instruments that the Corporation manages together, has a recent actual pattern of trading and is a derivative that is not designated and effective as a hedging instrument.

(k) Goodwill

Goodwill represents the excess of the cost of the acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary. Goodwill is measured at cost less accumulated impairment losses. Refer note 1.2(m).

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Research and development

Research expenditure is expensed when incurred. Expenditure incurred during the development phase of an internal project is recognised as an asset only when all of the following criteria are met:

- technical feasibility demonstrates the asset to be available for use or sale currently or after completion of development;
- there is an intention, and the ability, to use or sell the asset upon completion;
- generation of probable future economic benefits can be demonstrated;
- adequate technical, financial and other resources are available to develop the asset to a state where it can be used or sold; and
- expenditure incurred in the development phase can be reliably measured and attributed to the asset.

Following initial recognition of development expenditure, the asset is valued in accordance with note 1.2(i).

(m) Asset impairment

At each reporting date the Corporation assesses whether there is an indication that an asset may be impaired. If any such indication exists the Corporation makes an estimate of the asset's recoverable amount. For goodwill that has indefinite life the recoverable amount is estimated each year. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use. Value in use is determined for each individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In such cases the asset is tested for impairment as part of the cash generating unit (CGU) to which it belongs. Goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to the CGUs that are expected to benefit from the synergies of the combination. The impairment assessment of the goodwill generated by the integration of the Momentum Energy retail business is based on attribution of $16.4 million to the retail business and $31.4 million to the energy generation business. The impairment assessment is undertaken on a value in use basis including, for the retail business, assessment of future cash flows associated with the strategic direction of the retail business over the ensuing five years discounted at the Corporation's weighted average cost of capital and, for the energy generation business, assessment of future cash flows of existing generation plant over the useful life of the plant discounted at the Corporation's weighted average cost of capital.

When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. Impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the CGU on a pro rata basis. The Corporation classifies all its hydro generating assets as one CGU. The Momentum Energy retail business is classified as a separate CGU.

In assessing value in use, the estimated future cash flows are discounted to their present value using the pre-tax nominal weighted average cost of capital that reflects current market assessment of the time value of money and the expected life of the asset.

An assessment is also made at each reporting date as to whether there is any indication that the cause of previously recognised impairment losses may no longer exist or have decreased. A previously recognised impairment loss is only reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount and a gain is recognised in the Statement of Comprehensive Income. The impairment reversal cannot result in a carrying amount exceeding the amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. An impairment loss in respect of goodwill is not reversed.

(n) Payables

All trade payables and accrued expenses are unsecured and non-interest bearing, are normally settled within supplier credit terms and are carried at the invoiced amount.

(o) Provisions

A provision is recognised when there is a legal or constructive obligation as a result of a past event, it is probable that a future sacrifice of economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation.

Provisions relating to a liability that is expected to be settled more than 12 months after the balance date are discounted using a pre-tax rate that reflects the risks of the underlying liability.

An onerous contract is considered to exist when the Corporation is party to a contract under which the unavoidable cost of meeting contractual obligations exceeds the economic benefits to be received. Net obligations arising under onerous contracts are recognised as a provision.

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Employee benefits

- **Wages, salaries and annual leave**

Liabilities for wages, salaries and annual leave are recognised as the present obligations resulting from employees' services provided to the reporting date. These liabilities include related on-costs and are expected to be settled within 12 months. Accordingly, they are undiscounted and based on wage and salary rates that the Corporation expects to apply at the time of settlement. For 2012, the on-costs attributable to the annual leave provision were $0.9 million (2011: $0.9 million). Sick leave is non-accumulating and is recognised as an expense when the leave is taken.

- **Long service leave**

The provision for long service leave represents the present value of the expected future cash payments 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 the expected rate of utilisation based on historical patterns and is discounted using Commonwealth Bond rates at reporting date. The provision is segregated into current and non-current portions based on expected utilisation of entitlements in the next 12 months. For 2012, the on-costs attributable to the long service leave provision were $1.5 million (2011: $1.4 million).

- **Defined benefit plan**

The Retirement Benefits Fund (RBF) is a defined benefit plan funded by employee and employer contributions. Employee contributions to the fund are transferred to independent RBF administrators while employer obligations are raised as a provision. The defined benefit plan is closed to new members.

An interest charge, calculated by the application of market-related interest rates, is added to this provision each year after advice from the State Actuary. This is reported in the Statement of Comprehensive Income as part of finance costs.

- **Defined contribution plans**

Contributions to defined contribution superannuation plans are made as directed by the employee and are expensed when the employee has rendered service entitling them to the contribution.

(q) Taxation

- **Income tax 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 *AASB 112 Income Taxes*.

Current tax assets and liabilities are measured at the amount expected to be paid or recovered. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Subject to the condition noted below, deferred income tax assets and liabilities are recorded for all temporary differences at balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised to the extent that it is probable that sufficient taxable income will be available against which deductible temporary differences can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities which affect neither taxable income nor accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interest in joint ventures except where the Corporation is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Income taxes relating to items recognised directly in equity are recognised as other comprehensive income or expense in the Statement of Comprehensive Income.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right of set-off exists and they relate to the same taxable entity and the same taxation authority.

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- **Tax consolidation**

Income tax legislation allows 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.

The Corporation and its wholly-owned Australian resident subsidiaries have consolidated, for tax purposes, under this legislation and have elected to be taxed as a single entity. The head entity within the tax consolidation group is Hydro-Electric Corporation.

Tax sharing agreements between the Corporation as head entity and its subsidiaries, 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 are disclosed by each subsidiary at 30 June 2012 as intercompany loan balances as if the subsidiary were a stand-alone tax entity.

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 as amounts receivable from or payable to other entities in the tax consolidated group.

- **Other taxes**

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

- when the GST incurred on a purchase of goods or services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

Cash flows are included in the Cash Flow Statement on a gross basis. The GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, is classified as operating cash flow.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(r) Other financial liabilities

Financial liabilities include trade payables, interest-bearing liabilities and derivative financial instruments such as energy contracts, credit swaps, interest rate swaps, forward foreign exchange contracts and the Basslink contracts.

The Corporation enters into derivative financial instruments to manage financial exposure to electricity prices, exchange rates and interest rates.

Derivatives are initially recognised at fair value on the date the Corporation becomes party to a contract. At subsequent reporting dates, the fair value is remeasured and any gain or loss (with the exception of cash flow hedges qualifying for hedge accounting) is recognised in the Statement of Comprehensive Income.

The Corporation designates certain derivatives as effective hedges to allow hedge accounting rules to be applied. A hedge is effective if it demonstrates changes in fair value or cash flows that offset those attributable to the hedged risk over the designated hedging period. At inception of a hedge relationship the Corporation formally designates and documents the hedge relationship to which the Corporation wishes to apply hedge accounting and the alignment of the hedge to the Corporation's risk management objectives and strategies. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Corporation will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair values or cash flows attributable to the hedged risk. Such hedges are assessed on an ongoing basis to determine that they have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges are hedges of the Corporation's exposure to variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised as a gain or loss from current year operations in the Statement of Comprehensive Income.

Amounts taken to equity are transferred to the Statement of Comprehensive Income when the hedged transaction affects profit or loss, such as when hedged income or expenses are recognised or when a forecast transaction occurs. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are recognised as gains or losses from current year operations in the Statement of Comprehensive Income. If the hedging instrument expires or is sold, terminated or

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs.

(s) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset.

- **Corporation as a lessee**

When the Corporation assumes substantially all the risks and rewards of ownership under a lease it is classified as a finance lease. Upon initial recognition the leased asset is measured at the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the class of asset to which it is assigned. Lease payments under a finance lease are apportioned between the finance expense and the reduction of the outstanding liability.

Other leases are operating leases. Payments under operating leases are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. Lease incentives are recognised in the Statement of Comprehensive Income as an integral part of the total lease expense.

- **Corporation as a lessor**

Leases in which the Corporation retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset.

(t) Borrowing expenses

Borrowing costs associated with the raising of loans are expensed when incurred except those borrowing costs directly attributable to an asset. Borrowing costs attributable to an asset are included in the capital cost of the asset.

(u) Interest-bearing liabilities

Loans are recognised initially at the fair value of the consideration received. Subsequent to initial recognition loans are measured at amortised cost using the effective interest method.

(v) Foreign currency

The consolidated statements of the Corporation are presented in the functional currency, which is Australian dollars.

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

Foreign currency transactions that are hedged are accounted for as detailed in note 1.2(j) or 1.2(r).

Exchange variances resulting from the translation of balances of foreign subsidiaries are recognised in the foreign currency translation reserve in equity.

All other exchange differences in the consolidated financial report are reported as gains or losses from current year operations in the Statement of Comprehensive Income.

(w) Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control.

Interests in incorporated joint venture entities are reported in the consolidated financial report using the equity method and in the parent entity financial report using the cost method. If the carrying amount of an investment in a joint venture is zero, the Corporation's share of a loss by the joint venture is reported as a loss against the current year operations in the Statement of Comprehensive Income and accrued as a provision for later offset against any investments.

Unincorporated joint ventures which operate jointly controlled assets are accounted for by recognising the Corporation's share of the venture's assets, liabilities, revenues and expenses.

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Segment information

The Corporation has identified segments based on internal management reports. Refer to note 31.

(y) Assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition.

Assets held for sale are measured at the lower of their carrying amount and their fair value less costs to sell. They are classified as current and non-current assets and liabilities.

(z) Contributed equity

Contributed equity from the State of Tasmania is recorded when received.

(aa) Government grants

Government grants are recognised as revenue when there is reasonable assurance that the Corporation is able to meet the qualifying conditions.

Where a grant is received as compensation for certain expenditure, the grant is recognised as revenue in the Statement of Comprehensive Income on a basis that matches the timing of the expenditure.

(ab) Revenue recognition

Revenue is recognised when the amount can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Corporation, control over any goods and the associated risks and rewards of ownership have flowed to the buyer, and any costs associated with the transaction can be reliably measured.

- **Electricity sales**

Revenue from generated electricity is earned from the Australian Energy Market Operator (AEMO) at market price and is recognised at the time the electricity is provided. Revenue from sale of retail electricity is earned at contract prices and is recognised at the time of delivery to the customer. Retail electricity sold is purchased from AEMO at market price. Exposure to fluctuations in market price is managed through the use of derivative contracts executed principally in the Tasmanian and Victorian regions. The realised gain or loss on settlement of these contracts against market price is included in electricity revenue or cost of electricity as applicable.

- **Environmental energy products**

Revenue from sale of environmental energy products is recognised at the time of settlement.

- **Consulting services**

Consulting revenue is recognised on the basis of work completed and with regard to the contractual agreements that exist with the client.

- **Interest income**

Interest revenue is recognised on an accrual basis using the effective interest method. This is based on the amortised cost of a financial asset and the allocation of the interest income over the relevant period using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

- **Dividends**

Revenue is recognised when the Corporation's right to receive the payment is established.

- **Rental revenue**

Rental income from land and buildings is recognised on a straight-line basis over the term of the lease.

(ac) Rounding

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

(ad) Comparative figures

Where necessary, the comparative figures for the previous year have been reclassified to facilitate comparison with the current year.

2. REVENUE AND EXPENSES

	NOTE	CONSOLIDATED 2012 $'000	CONSOLIDATED 2011 $'000	PARENT 2012 $'000	PARENT 2011 $'000
(a) Revenue					
Sale of products and services		1,039,693	804,181	607,380	580,360
Other		11,438	8,591	10,117	8,463
		1,051,131	812,772	617,497	588,823
(b) Operating expenses					
Direct operating expenses		590,001	374,930	217,954	170,350
Labour		104,802	104,660	91,374	95,050
Depreciation	10	82,273	79,873	81,296	79,330
Other operating expenses		83,544	68,932	61,851	60,123
		860,620	628,395	452,475	404,853
(c) Finance costs					
Loan interest		56,608	52,613	48,822	52,614
Government guarantee fee		8,697	6,646	8,697	6,646
RBF interest	17	20,958	20,781	20,958	20,781
Other finance costs		424	441	424	441
		86,687	80,481	78,901	80,482
(d) Fair value gains/(losses)	3				
Energy price derivatives		(105,084)	17,725	(111,298)	17,725
Treasury derivatives		473	166	473	166
Basslink financial asset and liabilities		12,552	76,261	12,552	76,261
Gain on Woolnorth wind farms divestment		6,488	-	-	-
Impairment reversal	11	-	36	-	36
Provision for demolition		-	(444)	-	-
Gain on Roaring 40s restructure		-	22,645	-	-
		(85,571)	116,389	(98,273)	94,188

3. ASSUMPTIONS AND JUDGEMENTS

Financial assets and liabilities

Changes in the fair value of financial assets and liabilities described below are presented as gains or losses through the Statement of Comprehensive Income and are calculated based on the present value of projected cash flows. None of the adjustments reflect cash flow transactions during the year. In the case of those financial liabilities valued using published forward prices, while fair value represents an estimate of the cost of closing out the obligations at year end, the intention of the Corporation is to let the obligations run their course and deliver the associated financial benefits.

- Energy price derivatives

The Corporation trades in energy price derivatives in all regions of the National Electricity Market (NEM) as a means of securing the value of future electricity revenue or the cost of future electricity to be delivered under retail contracts. In accordance with *AASB 139 Financial Instruments: Recognition and Measurement* financial derivatives are recorded at their fair value. Movement in fair value is recorded as a gain or loss in the Statement of Comprehensive Income as detailed in note 2(d).

Mainland electricity contracts are valued using published forward energy prices. These prices include the market impact of the carbon price. The Corporation has developed a model to calculate the fair value of the Tasmanian electricity contracts including the pass-through of carbon price. The restatement of the fair value of energy price derivatives at 30 June 2012 has resulted in a loss being recorded in the Statement of Comprehensive Income (note 2(d)). This loss is largely a reflection of the settlement during the year of energy price contracts that were included on the balance sheet at 30 June 2011 as financial assets. The fair value loss generated by their settlement is offset by realised gains included in operating revenue. Details of the methodology adopted are provided in note 18(c).

- Basslink financial asset and liabilities

The financial asset and liabilities associated with the Basslink agreements are recorded at fair value in accordance with AASB 139. The restatement of the net financial liability to fair value at 30 June 2012 has resulted in a gain being recorded in the Statement of Comprehensive Income (note 2(d)). Note 18(c) details the methodology used to calculate the fair value of the Basslink financial asset and liabilities.

Woolnorth wind farms divestment

During the year, the Corporation divested a 75 per cent ownership share in the Woolnorth group of companies, comprising the Bluff Point and Studland Bay wind farms, to Shenhua Clean Energy Holding Pty Ltd. This resulted in a gain on disposal, net of sale costs, of $6.5 million.

Gain on disaggregation of Roaring 40s

The joint venture, Roaring 40s Renewable Energy Pty Ltd (Roaring 40s), between Hydro Tasmania and CLP Asia Renewable Projects Limited (CLP) was dissolved on 30 June 2011. As a result, the Corporation assumed full ownership of the Woolnorth wind farms and Musselroe development project.

The Corporation equity accounted a 50 per cent share of the trading loss of Roaring 40s for the year to 30 June 2011 including the profit recorded by Roaring 40s on the disaggregation transaction. On consolidation of the entities acquired in the disaggregation as at 30 June 2011, a fair value gain of $22.6 million was recognised. This represented the increment of the fair value of the assets and liabilities of the entities acquired over the investment in Roaring 40s. Refer note 2(d).

The excess of the fair value of the net assets acquired by the Corporation over the carrying value of the Corporation's investment in the joint venture prior to the acquisition was recognised as a fair value increment on consolidation.

Provision for demolition

The Corporation has an obligation to demolish the Bell Bay plant and, within prescribed limits, remediate the site. Accounting standards require an estimate of this cost to be recognised as a provision when the obligation arises and the cost can be reliably determined. The provision is reassessed each year to reflect the current estimated cost of the demolition and remediation. Any adjustment to the provision is reflected as a gain or loss in the Statement of Comprehensive Income.

Tasmanian Government Electricity Supply Industry Reforms

In May 2012, the Tasmanian Government announced its blueprint for the reform of the Tasmanian Electricity Supply Industry. In summary, the proposal is that Aurora Energy's retail customers will be sold, the network functions of Aurora Energy and Transend Networks merged, and an assessment is undertaken of the most appropriate place to transfer the Tamar Valley Power Station and associated contracts, which may be to either a third party or Hydro Tasmania. As there are significant details of the reform still to be developed, an assessment of the impact on Hydro Tasmania cannot be made at this stage.

4. INCOME TAX EQUIVALENT

	CONSOLIDATED		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
(a) Income tax (benefit)/expense reported in statement of comprehensive income				
Current income tax liability	55,150	34,245	36,482	36,352
Deferred income tax expense arising from origination and reversal of temporary differences	(51,153)	31,068	(40,312)	29,266
Income tax (benefit)/expense recognised in the statement of comprehensive income	3,997	65,313	(3,830)	65,618
A reconciliation between income tax expense and accounting profit before income tax multiplied by the Group's income tax rate is as follows:				
Accounting profit before income tax	17,869	216,405	(12,152)	197,676
Income tax (benefit)/expense calculated at 30 per cent	5,361	64,922	(3,646)	59,303
Adjustment in respect of income tax of previous years	(1,202)	540	-	540
Income tax expense in relation to foreign operations	(57)	-	-	-
Expenditure not deductible for income tax purposes	120	140	41	6,064
Research and development concession	(225)	(225)	(225)	(225)
Investment allowance	-	(64)	-	(64)
Income tax (benefit)/expense recognised in the statement of comprehensive income	3,997	65,313	(3,830)	65,618
(b) Income tax benefit/(expense) recognised directly in equity				
Revaluation of effective hedges	5,660	(796)	5,660	(796)
Actuarial assessment of RBF provision	27,451	(1,863)	27,451	(1,863)
Revaluation of property, plant and equipment	(96,405)	-	(96,405)	-
Income tax benefit/(expense) recognised in equity	(63,294)	(2,659)	(63,294)	(2,659)
(c) Current tax assets and liabilities				
Current tax liabilities:				
Provision for income tax	28,938	29,388	28,938	29,388
(d) Deferred tax balances				
Deferred tax assets comprise:				
Deductible temporary differences	427,516	414,722	430,033	407,695
Deferred tax liabilities comprise:				
Assessable temporary differences	1,200,291	1,190,018	1,226,257	1,180,937
Net deferred tax liabilities	772,775	775,296	796,224	773,242

4. INCOME TAX EQUIVALENT (CONTINUED)

The tax effect of assessable and deductible temporary differences arises from the following:

	2012 CONSOLIDATED				
	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Adjustments $'000	Closing balance $'000
Deferred tax liabilities:					
Property, plant and equipment	1,005,089	(9,625)	96,405	-	1,091,869
Electricity derivatives	23,012	(22,194)	-	-	818
Financial assets	143,519	(11,316)	(5,660)	-	126,543
Other	18,398	(21,742)	-	(15,595)	(18,939)
	1,190,018	(64,877)	90,745	(15,595)	1,200,291
Deferred tax assets:					
Provisions for employee entitlements	102,703	(899)	27,451	-	129,255
Basslink and other financial liabilities	311,240	(15,095)	-	-	296,145
Provisions	5,590	2,538	-	-	8,128
Tax losses	3,062	(101)	-	-	2,961
Transfer to assets held for sale	-	-	-	(933)	(933)
Other	(7,873)	(167)	-	-	(8,040)
	414,722	(13,724)	27,451	(933)	427,516
Net deferred tax liabilties	775,296	(51,153)	63,294	(14,662)	772,775

	2012 PARENT				
	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Adjustments $'000	Closing balance $'000
Deferred tax liabilities:					
Property, plant and equipment	998,996	(11,915)	96,405	-	1,083,486
Electricity derivatives	23,012	(22,194)	-	-	818
Financial assets	143,519	(11,316)	(5,660)	-	126,543
Other	15,410	-	-	-	15,410
	1,180,937	(45,425)	90,745	-	1,226,257
Deferred tax assets:					
Provisions for employee entitlements	98,808	2,434	27,451	-	128,693
Basslink and other financial liabilities	311,239	(15,095)	-	-	296,144
Tax losses	3,062	(101)	-	-	2,961
Other	(5,414)	7,649	-	-	2,235
	407,695	(5,113)	27,451	-	430,033
Net deferred tax liabilties	773,242	(40,312)	63,294	-	796,224

4. INCOME TAX EQUIVALENT (CONTINUED)

	2011 CONSOLIDATED				
	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Adjustments $'000	Closing balance $'000
Deferred tax liabilities:					
Property, plant and equipment	1,008,180	(9,161)	-	6,070	1,005,089
Electricity derivatives	16,676	6,336	-	-	23,012
Financial assets	125,532	17,191	796	-	143,519
Other	18,121	-	-	277	18,398
	1,168,509	14,366	796	6,347	1,190,018
Deferred tax assets:					
Provisions for employee entitlements	103,257	1,309	(1,863)	-	102,703
Basslink and other financial liabilities	316,872	(5,632)	-	-	311,240
Provisions	6,023	(433)	-	-	5,590
Tax losses	3,163	(101)	-	-	3,062
Other	1,487	(11,845)	-	2,485	(7,873)
	430,802	(16,702)	(1,863)	2,485	414,722
Net deferred tax liabilties	737,707	31,068	2,659	3,862	775,296

	2011 PARENT				
	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Adjustments $'000	Closing balance $'000
Deferred tax liabilities:					
Property, plant and equipment	1,008,141	(9,145)	-	-	998,996
Electricity derivatives	16,676	6,336	-	-	23,012
Financial assets	125,532	17,191	796	-	143,519
Other	15,410	-	-	-	15,410
	1,165,759	14,382	796	-	1,180,937
Deferred tax assets:					
Provisions for employee entitlements	99,328	1,343	(1,863)	-	98,808
Basslink and other financial liabilities	316,871	(5,632)	-	-	311,239
Tax losses	3,163	(101)	-	-	3,062
Other	5,080	(10,494)	-	-	(5,414)
	424,442	(14,884)	(1,863)	-	407,695
Net deferred tax liabiltiies	741,317	29,266	2,659	-	773,242

All deferred tax balances relate to continuing operations. The Group has unrecognised tax losses arising in Australia for offset against future taxable profits resulting from the consolidation of the former Roaring 40s group of entities into the consolidated financial report. These carry forward tax losses have not been recognised as a deferred tax asset as there is uncertainty that the losses will be available.

At 30 June 2012, there is no recognised or unrecognised deferred income tax liability (2011: nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or joint ventures. The Group has no liability for additional taxation should such amounts be remitted.

5. NOTE TO THE CASH FLOW STATEMENT

	CONSOLIDATED		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
(a) Cash reconciliation				
For the purposes of the cash flow statement, 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 cash flow statement is reconciled to the related items in the balance sheet as follows:				
Cash	7,029	7,680	1,267	597
Money market investments	32	5,519	-	-
	7,061	13,199	1,267	597
(b) Reconciliation of net cash provided by operating activities to net profit for the year				
Profit/(loss) after income tax equivalent expense	13,872	151,092	(8,322)	132,058
Adjusted for non-cash items of income and expense:				
Depreciation of property, plant and equipment	82,273	79,873	81,296	79,330
Impairment reversal	-	(36)	-	(36)
Loss on derecognition of property, plant and equipment	87	2,733	73	2,733
Gain on Roaring 40s restructure	-	(22,645)	-	-
Gain on Woolnorth wind farms divestment	(6,487)	-	-	-
Change in fair value of energy derivatives	105,084	(17,725)	111,298	(17,725)
Change in fair value of treasury derivatives	(473)	(166)	(473)	(166)
Change in fair value of Basslink financial instruments	(12,552)	(76,261)	(12,552)	(76,261)
Provision for demolition	-	444	-	-
Equity accounted share of joint venture loss	384	3,880	-	-
Income tax (benefit)/expense	3,997	65,313	(3,830)	65,618
Cash from operating profit before changes in working capital	186,185	186,502	167,490	185,551
(Increase)/decrease in receivables	(33,368)	(14,764)	(20,669)	1,356
(Increase)/decrease in inventories	9,524	(6,150)	19,480	(6,455)
(Decrease)/increase in other financial assets and liabilities	(8,116)	(14,214)	3,228	(24,412)
(Decrease)/increase in payables	25,493	5,538	6,369	(8,301)
(Decrease)/increase in provisions	(17,583)	20,143	9,677	18,788
Income tax equivalent paid	(54,799)	(16,249)	(54,799)	(16,249)
NET CASH PROVIDED BY OPERATING ACTIVITIES	107,336	160,806	130,776	150,278

6. RECEIVABLES

	CONSOLIDATED		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Trade receivables	142,951	115,161	88,156	67,227
Provision for impairment	(889)	(908)	(260)	-
	142,062	114,253	87,896	67,227
Ageing of past due but not impaired trade receivables:				
60-90 days	834	1,181	300	961
Over 90 days	1,843	3,047	927	971
	2,677	4,228	1,227	1,932

The amount past due but not impaired included in trade receivables is predominantly attributable to consulting services clients and retail customers. A provision for impairment has been recorded following assessment of the credit quality of the clients or customers with overdue accounts. This provision represents those accounts considered to be wholly or partially non-recoverable. The Corporation expensed $3.0 million of bad debts during the year (2011: $1.3 million). The Corporation does not hold any security over the balances past due.

7. INVESTMENTS

	NOTE	CONSOLIDATED		PARENT	
		2012 $'000	2011 $'000	2012 $'000	2011 $'000
(a) Current investments					
Money market investments		32	5,519	-	-
(b) Non-current investments					
Investment in joint ventures	29	34,557	-	-	-
Investment in subsidiaries	26	-	-	190,262	190,262
		34,557	-	190,262	190,262

8. INVENTORIES

	CONSOLIDATED		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Maintenance stores	1,617	3,599	1,616	1,370
Environmental energy products	53,089	61,862	41,043	60,769
	54,706	65,461	42,659	62,139

9. ASSETS HELD FOR SALE

The assets held for sale represent the Corporation's development of the Musselroe Wind Farm.

Following the Woolnorth wind farm joint venture between Hydro Tasmania and Shenhua Clean Energy Holding Pty Ltd (SCE), SCE has a six-month exclusivity period in which to take an ownership interest in the Musselroe Wind Farm. If SCE allows this option to lapse, the Corporation will commence the process of attracting an alternative investor.

The amounts shown below will be included within the Hydro Tasmania segment in note 31 as the Musselroe Wind Farm was fully owned by Hydro Tasmania at 30 June 2012.

The Musselroe Wind Farm assets have been assessed for evidence of impairment with no indication evident at 30 June 2012.

	CONSOLIDATED 2012 $'000	PARENT 2012 $'000
Prepayments	3,158	-
Property, plant and equipment	3,525	-
Cost to date on construction contract	110,793	110,793
Other assets	931	-
Assets held for sale	118,407	110,793
Payables	4	-
Provisions	1,672	-
Liabilities held for sale	1,676	-
Net assets held for sale	116,731	110,793

10. PROPERTY, PLANT AND EQUIPMENT

Asset valuation

The generation class of assets, consisting of hydro plant is carried at fair value. The fair value calculation is based on an internally generated Tasmanian energy price curve derived from the published three-year Victorian energy price curve. These prices are determined by market assessment of the many variables that may influence future prices including impending regulation and legislation. The price curve has been validated by comparison to other published price trend predictions in the National Electricity Market (NEM). The valuation also includes projected revenue under the existing large-scale mandatory renewable energy target until 2030.

In 2009, the Corporation included an estimate of the expected impact on forecast prices of the proposed carbon trading scheme in the fair value of generation assets. The legislation that was passed, comprising a fixed carbon price for three years followed by a carbon trading scheme with a floor price, is significantly different to earlier assumptions. While revenue from the scheme as legislated will be higher than previously estimated in the first three years, it is not expected to be significantly different from estimates for later years.

The other principal inputs to the fair value of generation assets are forecast generation and total energy demand. The Corporation meets forecast contractual obligations from generation or by purchasing energy from the market. Opportunities for export of generation over Basslink will also be taken into account. The volume of energy generated from hydro assets is principally determined by actual and forecast water storage positions. These are, in turn, affected by the expected annual inflows to water storages from rainfall over catchments. Based on experience over the previous 10 years, the Corporation forecasts annual inflows at an equivalent generation volume of 8700 GWh.

Increased revenue resulting from the updated forecasts incorporating the inputs above has resulted in an increase in fair value of generation assets of $321 million.

Revenue and expenses in the fair value calculation are inflated at the forecast CPI and are discounted using the Corporation's pre-tax nominal weighted average cost of capital of 10.90 per cent (2011: 10.90 per cent). This has been validated against Australian financial and equity market data.

As disclosed in note 18, the financial assets and liabilities representing the Basslink and energy price derivatives are also carried at fair value. In both cases forecast energy prices are a key input to determination of fair value. The sensitivity of the fair value of these financial assets and liabilities to changes in forecast energy prices is disclosed in note 18. Movements in fair value of generation assets will offset movement in the fair value of financial liabilities for the same forecast price change. Fair value of generation assets is estimated to increase by $421 million (2011 $650 million) for a 10 per cent increase in forecast prices and decrease by a similar amount for a 10 per cent reduction in forecast prices. In both scenarios prices have been uniformly changed across all years of the fair value calculation.

AASB 116 *Property, Plant and Equipment* requires that, when an asset class is carried at fair value, disclosure must be made of the carrying amount that would be recognised had it been carried under the cost method. If the generation assets had remained under the cost method their carrying amount would be $3.993 billion (2011: unchanged).

Impairment of assets

Note 1.2(m) details the Corporation's impairment policy with respect to assets. Impairment triggers have been assessed for indication of impairment of the carrying value of property, plant and equipment.

An assessment of impairment triggers in 2012 has not indicated any impairment of the generation class of assets.

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	2012 CONSOLIDATED						
	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	Total $'000
Gross carrying amount							
Balance at the beginning of the year	4,368,973	25,496	10,335	54,637	83,745	112,715	4,655,901
Additions		-	2,237	116	2,057	181,542	185,952
Business divestment	(228,149)	-	(72)	(13,820)	(469)	(235)	(242,745)
Disposals	(64)	(2,288)	(1,204)	(85)	(3,368)	(247)	(7,256)
Transfers	64,094	241	-	363	7,539	(72,237)	-
Assets held for sale	-	-	-	-	(91)	(114,318)	(114,409)
Net revaluation adjustment	120,324	-	-	-	-	-	120,324
Balance at the end of the year	4,325,178	23,449	11,296	41,211	89,413	107,220	4,597,767
Accumulated depreciation							
Balance at the beginning of the year	143,098	17,851	4,620	12,129	63,983	-	241,681
Business divestment	-	-	-	(2,792)	(378)	-	(3,170)
Disposals	(14)	(2,288)	(878)	(67)	(3,220)	-	(6,467)
Transfer to assets held for sale	-	-	-	-	(91)	-	(91)
Net revaluation adjustment	(201,028)	-	-	-	-	-	(201,028)
Depreciation expense	69,123	419	1,706	1,470	9,555	-	82,273
Balance at the end of the year	11,179	15,982	5,448	10,740	69,849	-	113,198
Net book value at the end of the year	4,313,999	7,467	5,848	30,471	19,564	107,220	4,484,569

	2012 PARENT						
	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	Total $'000
Gross carrying amount							
Balance at the beginning of the year	4,132,254	25,488	9,872	27,500	80,816	91,736	4,367,666
Additions	-	-	2,237	116	1,046	196,254	199,653
Disposals	(64)	(2,288)	(1,134)	(48)	(2,052)	(89)	(5,675)
Transfers	64,094	241	-	363	7,539	(72,237)	-
Assets held for sale	-	-	-	-	-	(110,793)	(110,793)
Net revaluation adjustment	120,324	-	-	-	-	-	120,324
Balance at the end of the year	4,316,608	23,441	10,975	27,931	87,349	104,871	4,571,175
Accumulated depreciation							
Balance at the beginning of the year	135,494	17,844	4,382	8,194	62,314	-	228,228
Disposals	(14)	(2,288)	(823)	(30)	(1,906)	-	(5,061)
Net revaluation adjustment	(201,028)	-	-	-	-	-	(201,028)
Depreciation expense	69,101	419	1,694	1,468	8,614	-	81,296
Balance at the end of the year	3,553	15,975	5,253	9,632	69,022	-	103,435
Net book value at the end of the year	4,313,055	7,466	5,722	18,299	18,327	104,871	4,467,740

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	2011 CONSOLIDATED						
	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	Total $'000
Gross carrying amount							
Balance at the beginning of the year	4,115,335	24,962	10,376	26,547	77,575	70,937	4,325,732
Additions	39	-	1,940	26	2,892	59,441	64,338
Business acquisition	228,007	-	321	26,817	560	20,038	275,743
Disposals	(88)	-	(2,337)	(71)	(5,169)	(2,247)	(9,912)
Transfers	25,680	534	35	1,318	7,887	(35,454)	-
Balance at the end of the year	4,368,973	25,496	10,335	54,637	83,745	112,715	4,655,901
Accumulated depreciation							
Balance at the beginning of the year	74,661	17,440	4,532	7,073	60,395	-	164,101
Business acquisitions	-	-	143	3,625	393	-	4,161
Disposals	(24)	-	(1,749)	(42)	(4,639)	-	(6,454)
Depreciation expense	68,461	411	1,694	1,473	7,834	-	79,873
Balance at the end of the year	143,098	17,851	4,620	12,129	63,983	-	241,681
Net book value at the end of the year	4,225,875	7,645	5,715	42,508	19,762	112,715	4,414,220

	2011 PARENT						
	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	Total $'000
Gross carrying amount							
Balance at the beginning of the year	4,106,623	24,954	10,234	26,230	75,672	70,006	4,313,719
Additions	39	-	1,940	12	2,288	59,431	63,710
Disposals	(88)	-	(2,337)	(60)	(5,031)	(2,247)	(9,763)
Transfers	25,680	534	35	1,318	7,887	(35,454)	-
Balance at the end of the year	4,132,254	25,488	9,872	27,500	80,816	91,736	4,367,666
Accumulated depreciation							
Balance at the beginning of the year	67,079	17,433	4,446	6,769	59,460	-	155,187
Disposals	(24)	-	(1,749)	(42)	(4,474)	-	(6,289)
Depreciation expense	68,439	411	1,685	1,467	7,328	-	79,330
Balance at the end of the year	135,494	17,844	4,382	8,194	62,314	-	228,228
Net book value at the end of the year	3,996,760	7,644	5,490	19,306	18,502	91,736	4,139,438

11. OTHER FINANCIAL ASSETS

	NOTE	CONSOLIDATED 2012 $'000	CONSOLIDATED 2011 $'000	PARENT 2012 $'000	PARENT 2011 $'000
(a) Current other financial assets					
Prepayments		9,879	7,130	9,652	4,948
Loans to subsidiaries (i)		-	-	-	7,757
Loans to joint ventures (i), (ii)		135	135	-	135
Other		3	3	4	3
Energy price derivatives	16	126,004	152,362	126,004	152,362
Basslink financial asset (iii)	16	66,347	42,262	66,347	42,262
		202,368	201,892	202,007	207,467
Movement in provision for impaired financial assets (ii)					
Balance at the beginning of the year		-	36	-	36
Impairment reversal during the year		-	(36)	-	(36)
Balance at the end of the year		-	-	-	-
(b) Non-current other financial assets					
Basslink financial asset (iii)	16	379,166	441,067	379,166	441,067
Basslink security deposit (iv)		50,000	50,000	50,000	50,000
Energy price derivatives	16	286,316	157,988	286,316	157,988
Other		193	290	193	290
Prepayments		311	428	-	-
		715,986	649,773	715,675	649,345

(i) Loans to joint ventures and loans to subsidiaries are interest free and on-call.

(ii) Loans to joint ventures represents a loan to Cathedral Rocks Construction and Management Pty Ltd (CRCM).

(iii) The Basslink financial asset represents the fair value of the contractual rights to receive revenue under the Basslink services agreement (note 18).

(iv) Basslink security deposit represents the contribution made to the asset owner upon commissioning. This will be recovered via lower facility fee payments over the final three years of the agreement and is carried at the present value of the reduced cash flows at the effective interest rate inherent in the Basslink agreement.

12. GOODWILL

	CONSOLIDATED		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Goodwill recognised on acquisition of Momentum Energy Pty Ltd	47,796	47,796	-	-

Goodwill has been tested for impairment with no impairment evident this year.

13. PAYABLES

	CONSOLIDATED		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Trade creditors	42,272	28,560	29,910	22,892
Accrued expenses	71,563	37,868	48,631	18,028
Accrued interest payable	10,865	14,832	10,865	12,090
	124,700	81,260	89,406	53,010

14. INTEREST-BEARING LIABILITIES

	CONSOLIDATED		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
(a) Interest-bearing liabilities				
Current				
Loans from Tascorp	210,600	372,600	210,600	372,600
Bank loan secured	-	7,047	-	-
Finance lease liability	652	636	652	636
	211,252	380,283	211,252	373,236
Non-current				
Loans from Tascorp	640,000	450,000	640,000	450,000
Bank loan secured	-	147,276	-	-
Finance lease liability	5,554	5,807	5,554	5,807
	645,554	603,083	645,554	455,807

The secured bank loan in 2011 was a cash advance facility repayable by quarterly principal and interest instalments. The facility was secured by fixed and floating charges over all present and future rights, property and undertakings of Woolnorth Bluff Point Wind Farm Pty Ltd, Woolnorth Studland Bay Wind Farm Pty Ltd and their respective parent companies, Woolnorth Bluff Point Holdings Pty Ltd and Woolnorth Studland Bay Holdings Pty Ltd. This facilty was refinanced on divestment of the wind farms from the Corporation's consolidated group.

	CONSOLIDATED		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
(b) Loan facilities				
Master loan facility				
Facility limit	1,080,000	1,185,000	1,080,000	1,185,000
Less: used/committed	850,600	822,600	850,600	822,600
Balance	229,400	362,400	229,400	362,400
Standby revolving credit facility				
Facility limit	20,000	34,200	20,000	30,000
Less: used/committed	-	4,025	-	-
Balance	20,000	30,175	20,000	30,000
Bank overdraft				
Facility limit	1,000	3,000	1,000	1,000
Less: used/committed	-	-	-	-
Balance	1,000	3,000	1,000	1,000
Corporate purchasing card				
Facility limit	7,660	8,180	7,500	7,500
Less: used/committed	4,353	4,103	4,311	3,993
Balance	3,307	4,077	3,189	3,507
Bank loan secured				
Facility limit	-	154,324	-	-
Less: used/committed	-	154,324	-	-
Balance	-	-	-	-

14. INTEREST-BEARING LIABILITIES (CONTINUED)

	PARENT & CONSOLIDATED			
	2012 $'000	2012 $'000	2012 $'000	2012 $'000
	Less than one year	Between one and five years	Later than five years	Total
(c) Finance lease liabilities				
Future minimum lease payments	652	2,777	5,571	9,000
Interest	-	(479)	(2,314)	(2,793)
Present value of future minimum lease payments	652	2,298	3,257	6,207

	PARENT & CONSOLIDATED			
	2011 $'000	2011 $'000	2011 $'000	2011 $'000
	Less than one year	Between one and five years	Later than five years	Total
Future minimum lease payments	636	2,709	6,291	9,636
Interest	-	(468)	(2,725)	(3,193)
Present value of future minimum lease payments	636	2,241	3,566	6,443

(d) Fair value disclosures

Details of the fair value of the Corporation's interest-bearing liabilities are set out in note 18.

15. PROVISIONS

	NOTE	CONSOLIDATED		PARENT	
		2012 $'000	2011 $'000	2012 $'000	2011 $'000
(a) Current provisions					
Employee entitlements		10,462	10,191	9,836	9,663
Retirement Benefits Fund provision	17	18,835	18,282	18,835	18,282
Onerous contracts		372	425	372	-
Regulatory environmental schemes liability		17,910	9,177	-	-
Bell Bay demolition provision		6,535	6,535	-	-
		54,114	44,610	29,043	27,945
(b) Non-current provisions					
Employee entitlements		11,719	10,639	11,719	10,616
Retirement Benefits Fund provision	17	389,314	301,437	389,314	301,437
Onerous contracts		-	797	-	-
Reserve capacity provision		-	1,571	-	-
Bell Bay demolition provision		12,100	12,100	-	-
		413,133	326,544	401,033	312,053

16. OTHER FINANCIAL LIABILITIES

	CONSOLIDATED		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
(a) Current other financial liabilities				
Income received in advance	16	327	-	310
Basslink services agreement	93,336	69,316	93,336	69,316
Basslink facility fee swap	253,108	5,933	253,108	5,933
Interest rate swaps	23,771	4,925	23,771	4,925
Loans from subsidiaries (i)	-	-	75,535	17,347
Loans from joint ventures (i)	-	-	5,576	-
Energy price derivatives	94,660	14,330	94,660	14,330
	464,891	94,831	545,986	112,161
(b) Non-current other financial liabilities				
Basslink services agreement	640,701	781,626	640,701	781,626
Basslink facility fee swap	-	180,586	-	180,586
Energy price derivatives	317,731	195,634	317,731	195,634
	958,432	1,157,846	958,432	1,157,846

(i) Loans from subsidiaries and joint ventures are interest free and on-call.

16. OTHER FINANCIAL LIABILITIES (CONTINUED)

	NOTE	CONSOLIDATED 2012 $'000	CONSOLIDATED 2011 $'000	PARENT 2012 $'000	PARENT 2011 $'000
Energy price derivatives movement reconciliation:					
Liability/(asset) at the beginning of the year		(100,386)	(52,272)	(100,386)	(52,272)
Amount included in electricity revenue due to settlement during the year		83,988	134,637	138,619	134,637
Net cash receipts/(payments) on futures margin account		(13,041)	(27,668)	(13,041)	(27,668)
Fair value loss/(gain) on contracts outstanding as at 30 June		29,510	(155,083)	(25,121)	(155,083)
Liability/(asset) at the end of the year		71	(100,386)	71	(100,386)
Represented by:					
Current energy price derivative liability	16(a)	94,660	14,330	94,660	14,330
Non-current energy price derivative liability	16(b)	317,731	195,634	317,731	195,634
		412,391	209,964	412,391	209,964
Current energy price derivative asset	11(a)	126,004	152,362	126,004	152,362
Non-current energy price derivative asset	11(b)	286,316	157,988	286,316	157,988
		412,320	310,350	412,320	310,350
Net energy price derivatives liability/(asset)		71	(100,386)	71	(100,386)
Net Basslink financial liability movement reconciliation:					
Balance at the beginning of the year		554,132	630,117	554,132	630,117
Current year net (revenue) and operating expenses realised during the year and included in the opening valuation		(32,987)	(60,933)	(32,987)	(60,933)
Increase/(decrease) in present value of projected rights and obligations of later years as at the beginning of the year		23,849	58,354	23,849	58,354
Loss/(gain) arising on re-estimation of fair value of contract rights and obligations over the remaining contract term as at 30 June		(3,362)	(73,406)	(3,362)	(73,406)
Balance at the end of the year		541,632	554,132	541,632	554,132
Represented by:					
Current Basslink financial liability	16(a)	346,444	75,249	346,444	75,249
Non-current Basslink finanical liability	16(b)	640,701	962,212	640,701	962,212
		987,145	1,037,461	987,145	1,037,461
Current Basslink financial asset	11(a)	66,347	42,262	66,347	42,262
Non-current Basslink financial asset	11(b)	379,166	441,067	379,166	441,067
		445,513	483,329	445,513	483,329
Net Basslink financial liability		541,632	554,132	541,632	554,132

17. RETIREMENT BENEFITS FUND PROVISION

Plan information

The Retirement Benefits Fund (RBF) is a defined benefit fund which pays lump sum benefits on resignation and lump sum or pension benefits on retirement, death or invalidity. The defined benefit section of RBF is closed to new members.

Information in this note applies equally to the parent and consolidated entities.

Principal actuarial assumptions as at balance date

	2012 %	2011 %
Discount rate	3.45	5.50
Expected salary increase rate	3.50	4.50
Expected rate of return on plan assets	7.50	7.50
Expected pension increase rate	2.50	2.50
Expected rate of increase in compulsory preserved amounts	3.75	4.50

The expected return on assets is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each class and allowing for the correlations of the investment returns between asset classes. The returns used for each asset class are net of estimated investment tax and investment fees.

The discount rate is based on the market yields on the longest dated Government bonds as at 30 June 2012 extrapolated to allow for the fact that the term of the liablity exceeds the term of the longest Government bond. The decrement rates for mortality and retirement have been updated since the last valuation.

Operating costs for the Fund as a whole have been assumed to be incurred at the rate of 1.5 per cent of salaries plus 1.0per cent of pension payments. This cost has then been allocated to each authority in proportion to assets.

The cost of temporary invalidity benefits has been assumed to be 0.2 per cent of salaries of current contributory members. This cost has been allocated to each authority in proportion to assets.

The percentage invested in each asset class:

	30 June 2012 %	30 June 2011 %
Australian equity	29	25
International equity	18	22
Fixed income	12	13
Property	33	19
Alternatives/other	5	18
Cash	3	3
	100	100

17. RETIREMENT BENEFITS FUND PROVISION (CONTINUED)

Reconciliation of the present value of the defined benefit obligation:

	2012 $'000	2011 $'000
Present value of defined benefit obligations at the beginning of the year ^	388,964	400,400
Current service cost ^	4,918	5,298
Interest cost	20,958	20,781
Estimated contributions by plan participants	1,539	1,597
Actuarial (gains)/losses ^	94,008	(7,666)
Estimated benefits paid	(31,982)	(30,698)
Estimated taxes, premiums and expenses paid	(734)	(748)
Present value of defined benefit obligations at year end	477,671	388,964

^ includes contributions tax provision/change in contributions tax provision

The defined benefit obligation consists entirely of amounts from plans that are wholly or partly funded.

Reconciliation of the fair value of scheme assets:

	2012 $'000	2011 $'000
Fair value of plan assets at beginning of the year	69,245	77,080
Expected return on plan assets	5,316	5,208
Actuarial gains/(losses)	(1,958)	(1,456)
Estimated employer contributions	28,096	18,263
Estimated contributions by plan participants	1,539	1,597
Estimated benefits paid	(31,982)	(30,699)
Estimated taxes, premiums and expenses paid	(734)	(748)
Fair value of plan assets at end of the year	69,522	69,245

Assets are not held separately for each employer but are held for the Fund as a whole. These are attributed by allocating the total Fund assets to each employer in proportion to the value of each employer's funded liabilities, calculated using assumptions outlined in this note.

The fair value of Fund assets includes no amounts relating to:

- any of the employer's own financial instruments;
- any property occupied by, or other assets used by, the employer.

Actual return on Fund assets:

	2012 $'000	2011 $'000
Actual return on plan assets	3,358	3,752

As separate assets are not held for each employer, the actual return includes any change in the allocation to each employer.

17. RETIREMENT BENEFITS FUND PROVISION (CONTINUED)

Reconciliation of the net liability recognised in the balance sheet

	NOTE	2012 $'000	2011 $'000
Defined benefit obligation		477,671	388,964
Fair value of plan assets		(69,522)	(69,245)
Net superannuation liability		408,149	319,719
Comprising:			
Current net liability	15	18,835	18,282
Non-current net liability	15	389,314	301,437
Net superannuation liability		408,149	319,719

Expense recognised in the statement of comprehensive income

	2012 $'000	2011 $'000
Service cost	4,918	5,298
Interest cost	20,958	20,781
Expected return on assets	(5,316)	(5,208)
Total expense recognised	20,560	20,871
Gain/(loss) recognised in retained earnings		
Actuarial gains/(losses)	(91,503)	6,210

Historical information

	2012 $'000	2011 $'000	2010 $'000	2009 $'000	2008 $'000
Present value of defined benefit obligation	477,671	388,964	400,400	375,483	385,627
Fair value of plan assets	69,522	69,245	77,080	77,835	86,399
Deficit in plan	408,149	319,719	323,320	297,648	299,228
Experience adjustments (gain)/loss - plan liabilities	1,958	3,661	2,311	4,734	(7,767)
Experience adjustments (gain)/loss - plan assets	(8,794)	1,456	66	10,285	10,754

The experience adjustment for Fund liabilities represents the actuarial loss (gain) due to a change in the liabilities arising from the Fund's experience (eg membership movements, salary increases and indexation rates) and excludes the effect of changes in assumptions (eg movements in the bond rate).

	$'000
Expected employer contributions for the financial year ending 30 June 2013:	18,835

18. FINANCIAL INSTRUMENTS DISCLOSURES

The Corporation's primary purpose for holding financial instruments is to fund its operations and manage its financial risks.

The Corporation's principal financial instruments, other than derivatives, comprise loans, bank overdraft, cash and short-term investments. The Corporation has other financial assets and liabilities such as trade receivables and payables which arise directly from its operations.

The main risks arising from the Corporation's operations, which are managed through financial instruments, are electricity price risk, interest rate risk, liquidity risk, foreign currency risk and credit risk.

(a) Financial instrument categories

The categories and fair value of financial instruments the Corporation holds are detailed in the following table:

	CONSOLIDATED				PARENT			
	Carrying amount 2012 $'000	Net fair value 2012 $'000	Carrying amount 2011 $'000	Net fair value 2011 $'000	Carrying amount 2012 $'000	Net fair value 2012 $'000	Carrying amount 2011 $'000	Net fair value 2011 $'000
Financial assets								
Cash	7,029	7,029	7,680	7,680	1,267	1,267	597	597
Loans and receivables								
Receivables	142,062	142,062	116,176	116,176	87,896	87,896	67,227	67,227
Held to maturity								
Investments	32	32	5,519	5,519	-	-	-	-
Fair value through profit or loss								
Credit swaps	3,716	176,067	2,712	45,274	3,716	176,067	2,712	45,274
Forward foreign exchange contracts	-	-	107	107	-	-	107	107
Basslink financial asset	445,513	445,513	483,329	483,329	445,513	445,513	483,329	483,329
Energy price derivatives	412,320	412,320	310,350	310,350	412,320	412,320	310,350	310,350
Other assets	63,175	63,175	61,241	61,241	59,658	59,658	64,560	64,560
	1,073,847	1,246,198	987,113	1,029,675	1,010,370	1,182,721	928,881	971,443
Financial liabilities								
Loans and receivables								
Accounts payable	113,808	113,808	63,685	63,685	78,540	78,540	40,920	40,920
Tascorp loans	861,465	892,022	834,690	848,422	861,465	892,022	834,690	848,422
Bank loan - secured	-	-	159,807	159,807	-	-	-	-
Designated hedge accounting derivatives								
Interest rate swaps	998	20,701	848	5,760	998	20,701	848	5,760
Forward foreign exchange contracts	5,320	5,320	857	857	5,320	5,320	857	857
Fair value through profit or loss								
Credit swaps	3,716	176,067	2,712	45,274	3,716	176,067	2,712	45,274
Basslink services agreement	734,037	734,037	850,942	850,942	734,037	734,037	850,942	850,942
Basslink facility fee swap	253,108	253,108	186,519	186,519	253,108	253,108	186,519	186,519
Energy price derivatives	412,391	412,391	209,964	209,964	412,391	412,391	209,964	209,964
Other liabilities	2,810	2,810	4,893	4,893	8,377	8,377	4,883	4,883
	2,387,653	2,610,264	2,314,917	2,376,123	2,357,952	2,580,563	2,132,334	2,193,541

18. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(b) Financial risk management objectives and policies

The Corporation enters into derivative contracts being principally energy price contracts, interest rate swaps and forward currency exchange contracts. The risk management objective is to manage exposure to market electricity prices, interest rates and foreign currency rates arising from operations and funding. The Corporation enters into these derivatives in accordance with the policies approved by the Board. All hedges are cash flow hedges (refer note 1.2(r)).

The Basslink contracts including the Basslink services agreement (BSA), floating facility fee instrument (FFFI) and Basslink facility fee swap (BFFS) have been designated as derivatives.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis for measurement and the basis on which income and expenses are recognised, in respect to each class of financial asset and financial liability are disclosed in notes 1.2(j) and (r).

The Corporation's objectives, policies and processes for managing its risk exposures are consistent with previous years.

(i) Capital risk management

The Corporation's policy is to maintain an appropriate capital structure to ensure it will continue as a going concern while maximising the return to stakeholders through an appropriate balance of debt and equity.

The capital structure of the Corporation includes loans disclosed in note 14, contributed equity and cash and cash equivalents disclosed in note 5.

The Corporation is subject to financial covenants on its borrowings and the Basslink facility fee swap. The latter requires a minimum level of equity, sets a maximum level of debt and requires a minimum of 50 per cent of debt to be held with the Tasmanian Government's central borrowing authority, Tascorp. The loan agreement with Tascorp sets a maximum financial leverage ratio and a minimum interest coverage ratio.

The Corporation reviews its capital risk and performance against these covenants on a monthly basis.

The Corporation has been compliant with all financial covenants.

(ii) Market risk management

The Corporation's activities primarily expose it to electricity price risk and interest rate risk. In addition, the Corporation operates consulting businesses in foreign countries and enters into foreign currency transactions which expose it to foreign currency risk.

(A) Energy prices

The Corporation's revenue is exposed to fluctuations in the market price of electricity in Tasmania. In addition the Corporation's revenue is exposed to fluctuations in the Victorian market price to the extent of electricity flows over Basslink, and through the variable portion of the Basslink facility fee. The Corporation is also exposed to fluctuations in electricity market prices in all NEM regions in relation to its retail operation in Victoria and other NEM regions. Exposure to these fluctuations in market price is managed through the use of derivative contracts executed in all regions of the NEM in accordance with Board approved policy. Contract volumes for many of the Corporation's current Tasmanian forward contracts are determined by the actual load consumed in the contract period.

Board approved policies prescribe the management of electricity trading risk in line with an asset backed trading model.

18. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

The Corporation assesses its electricity price risk exposure through sensitivity analysis. The following table shows the effect on the statement of comprehensive income of a feasible movement (10 per cent) in forecast electricity prices.

	2012				2011			
	CONSOLIDATED		PARENT		CONSOLIDATED		PARENT	
	Income $'000	Equity $'000	Income $'000	Equity $'000	Income $'000	Equity $'000	Income $'000	Equity $'000
Increase/ (decrease)								
Electricity forward price +10 per cent								
Basslink net liability	(16,241)	-	(16,241)	-	24,872	-	24,872	-
Energy derivative net asset	(105,164)	-	(105,164)	-	(137,624)	-	(137,624)	-
Electricity forward price -10 per cent								
Basslink net liability	16,242	-	16,242		(15,399)	-	(15,399)	
Energy derivative net asset	113,408	-	113,408	-	169,474	-	169,474	-

The sensitivity of the fair value of the Basslink services agreement to energy price movements has been based on adjustments to forecast price differences between the Tasmanian and Victorian regions. The sensitivity of the fair value of energy price derivatives to energy price movements has been determined by adjusting the forecast prices for the Tasmanian and mainland regions. The forecast price methodology is outlined in note 10. The fair value movements in the energy trading derivatives arising from variation in forecast prices are offset by movements in the fair value of the generation assets to the extent that they hedge generation revenue. An energy price derivative instrument may also expose the Corporation to commodity price risk.

(B) Interest rates

The Corporation's exposure to changes in market interest rates arises primarily from the Corporation's borrowings and the Basslink contracts.

Cash flow hedges

The Corporation has entered into interest rate swap contracts to achieve an interest rate risk exposure profile that is consistent with the long-term cash flow stability and the debt management strategy of the Corporation. All interest rate swaps hedge specific loans using highly effective hedge derivatives. The Corporation applies hedge accounting treatment to hedges of the Tascorp debt as described in note 1.2(r).

In pursuit of these objectives, the Corporation manages its debt through setting and achieving benchmarks for the two key portfolio indicators of repricing profile and weighted average term to maturity.

At 30 June 2012 fixed rate loans varied from 4.4 per cent to 7.4 per cent (2011: 5.6 per cent to 7.4 per cent). Floating rates were based on bank bill rates and these varied from 3.7 per cent to 5.2 per cent (2011: 4.7 per cent to 6.4 per cent).

The Government guarantee fee rate varied from 0.5 per cent to 2.3 per cent for this financial year (2011: 0.5 per cent to 2.3 per cent).

Basslink

The Basslink services agreement (BSA) and floating facility fee instrument (FFFI) between the Corporation and Basslink Pty Ltd (BPL) establish the rights and obligations of both parties with respect to the operation of Basslink including the monthly payment of the Basslink facility fee (BFF) by the Corporation to BPL. These agreements are financial assets and financial liabilities whereby the Corporation is committed to make payments to BPL over the term of the contract should BPL meet its obligations to keep Basslink available in exchange for the right to receive inter-regional revenues (IRRs). The latter has been recognised as a financial asset.

The BSA commenced upon successful commissioning of Basslink on 28 April 2006 and was for a term of 25 years, with an option for a further 15 years. By entering into the BSA, the Corporation effectively gained physical access to the mainland regions of the NEM.

The Corporation entered into the Basslink facility fee swap (BFFS) in 2002 to eliminate the interest rate and foreign exchange risk arising from the Basslink construction and operational agreements. The BFFS hedged the interest rate and foreign exchange risk during construction and swapped the floating interest rate exposure in the BFF for an inherent fixed interest rate of 7.41 per cent for a 25-year term.

18. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

The counterparty to the BFFS has indicated an intention to terminate the swap. The Corporation is currently evaluating this intention and options to ensure that the interest rate and credit risks currently being managed through the BFFS and the related credit swaps continue to be managed effectively. The fair value of the BFFS on any termination will be determined according to legal entitlements. This value is yet to be finalised, and these financial statements have been prepared based on the termination value advised by the counterparty which has been classified as a current liability pending this finalisation of termination and value and assignment to alternate counterparties.

The Corporation assesses its interest rate risk exposure through sensitivity analysis. The following table shows the effect on the statement of comprehensive income of a movement of 1 basis point (bps) in forecast interest rates.

	2012				2011			
	CONSOLIDATED		PARENT		CONSOLIDATED		PARENT	
	Income $'000	Equity $'000	Income $'000	Equity $'000	Income $'000	Equity $'000	Income $'000	Equity $'000
Increase/ (decrease)								
Forward interest rates +0.1 bps								
Financial assets	1,529	-	1,529	-	680	-	680	-
Financial liabilities	(1,702)	(82)	(1,702)	(82)	(1,442)	(105)	(1,442)	(105)
Forward interest rates -0.1 bps								
Financial assets	(1,529)	-	(1,529)	-	(680)	-	(680)	-
Financial liabilities	1,702	82	1,702	82	1,442	105	1,442	105

The sensitivity of the fair value of financial assets and liabilities to interest rates has been determined by adjusting closing published forward market rates. The impact on the fair value of financial instruments is calculated using standard Australian treasury valuation formulae.

The weighted average cost of debt (WACD) for 2012 for both the parent and consolidated entities is 7.08 per cent (2011: 7.18 per cent). This incorporates both loans and interest rate swaps as at the reporting date and also includes the average government guarantee fee of 0.98 per cent (2011: 0.94 per cent).

(C) Foreign currency rates

The Corporation owns and operates a consulting company in India and is exposed to foreign exchange rate risks upon translation into Australian dollars. This risk is considered to be insignificant relative to the Corporation as a whole.

The Corporation transacts in foreign currency for operational and capital requirements and enters into forward foreign exchange contracts to eliminate currency exposure in accordance with Board approved policy. Due to the relatively small size of the transactions the Corporation considers the risk exposure to be insignificant.

The Corporation ensures that the term of the hedge derivatives matches the term of the currency exposure in order to maximise hedge effectiveness and enable application of hedge accounting.

18. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

The settlement dates and principal amounts of the Corporation's outstanding foreign exchange hedge contracts were:

	CONSOLIDATED		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Receivables				
Not later than one year	703	631	703	631
Later than one year but not later than two years	-	-	-	-
Later than two years	-	-	-	-
Total	703	631	703	631
Payables				
Not later than one year	65,974	7,166	65,974	7,166
Later than one year but not later than two years	1,698	1,422	1,698	1,422
Later than two years	-	1,935	-	1,935
Total	67,672	10,523	67,672	10,523

(iii) 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 on non-derivative financial instruments as the carrying amount of any instruments that represent an asset to the Corporation.

Derivative financial instruments

The credit exposure on a derivative financial instrument is its positive market valuation at the reporting date. In addition a potential exposure, calculated broadly in accordance with Reserve Bank guidelines, is included for all interest rate swaps. These include the BFFS and the Basslink credit swaps.

In the main, the Corporation reduces credit risk on derivative financial assets by only transacting with high credit quality counterparties up to a pre-determined counterparty limit or by limiting credit exposure to unrated counterparties. The Corporation also obtains credit support for counterparties of low credit quality. Interest rate swaps and energy contracts are subject to the industry recommended International Swap Dealers Association (ISDA) documentation. Where possible this documentation contains clauses enabling the netting of exposures.

Receivables

Receivables represent amounts due from AEMO, electricity, treasury and environmental energy product counterparties, consulting service clients and retail electricity customers.

The Corporation's credit exposure to AEMO is mitigated by the provisions of the National Electricity Rules (NER). The NER define the rules for conduct of the wholesale electricity market.

Consulting services clients are spread across diverse industries and geographical locations. Ongoing credit evaluation is performed on the financial condition of debtors, and where necessary recovery action is undertaken and contract penalty clauses activated.

Appropriate credit management practices are adopted to protect against exposure to non-payment by retail customers.

Basslink credit swaps

While the BFFS 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.

18. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

	CONSOLIDATED		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Credit risk exposure by instrument type				
Financial assets				
Investments and bank balances	7,060	13,199	1,267	597
Receivables	142,062	114,253	87,896	67,227
Basslink financial asset	596	653	596	653
Derivative financial instruments				
Interest rate swaps	86	15,125	86	15,125
Forward foreign exchange contracts	2	1,443	2	1,443
Basslink facility fee swap	8,203	95,996	8,203	95,996
Energy price derivatives	51,140	66,801	51,140	66,801
Total credit risk exposure	209,149	307,470	149,190	247,842
Credit risk exposure by institution ratings				
Australian-based institutions				
AA+ to AA- ratings	3,527	56,385	3,527	56,385
A+ to A ratings	7,065	105,131	7,065	105,131
BBB+ to BBB- ratings	30,552	8,871	30,552	8,871
Unrated	167,281	130,581	107,322	70,953
	208,425	300,968	148,466	241,340
Overseas-based institutions				
AA+ to AA- ratings	-	-	-	-
A+ to A ratings	724	6,037	724	6,037
Unrated	-	465	-	465
	724	6,502	724	6,502
Total credit risk exposure	209,149	307,470	149,190	247,842

(iv) Liquidity risk

Liquidity risk represents the possibility that the Corporation may be unable to settle an obligation on the due date.

To manage this risk, the Corporation maintains adequate standby funding facilities and other arrangements as detailed in note 14.

The Corporation's exposure at 30 June 2012 is detailed in the tables over the page. The tables are based on the undiscounted cash flows of the financial assets and liabilities based on the date on which the payments fall due. The tables include principal and interest cash flows.

The Corporation has issued a performance guarantee in favour of ETSA Utilities in relation to coordination agreement obligations of Momentum Energy Pty Ltd. The probability of the guarantee being called has been assessed as nil.

The Corporation monitors its liquidity risk on a daily basis. The following table details the Corporation's liquidity exposure.

18. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

	2012							
	CONSOLIDATED				PARENT			
	Less than 6 months $'000	6-12 months $'000	1-5 years $'000	Over 5 years $'000	Less than 6 months $'000	6-12 months $'000	1-5 years $'000	Over 5 years $'000
Financial assets								
Loans and receivables								
Cash	7,029	-	-	-	1,267	-	-	-
Receivables	142,062	-	-	-	87,896	-	-	-
Held to maturity								
Investments	32	-	-	-	-	-	-	-
Fair value through profit or loss								
Credit swaps	8,755	21,808	169,320	434,153	8,755	21,808	169,320	434,153
Energy price derviatives	102,717	65,033	287,552	327,718	102,717	65,033	287,552	327,718
Basslink financial asset	33,173	33,173	264,013	754,825	33,173	33,173	164,013	754,825
Other assets	12,747	-	-	50,428	9,658	-	-	50,000
	306,515	120,014	720,885	1,567,124	243,466	120,014	620,885	1,566,696
Financial liabilities								
Loans and receivables								
Accounts payable	113,808	-	-	-	78,540	-	-	-
Tascorp loans	108,046	136,215	599,954	96,042	108,046	136,215	599,954	96,042
Designated hedge accounting derivatives								
Interest rate swaps	4,755	8,669	36,288	755	4,755	8,669	36,288	755
Forward foreign exchange contracts	1,478	4,760	304	-	1,478	4,760	304	-
Fair value through profit or loss								
Credit swaps	8,755	21,808	169,320	434,153	8,755	21,808	169,320	434,153
Basslink services agreement	43,412	43,412	386,202	1,321,251	43,412	43,412	386,202	1,321,251
Basslink facility fee swap	13,838	25,052	197,602	562,082	13,838	25,052	197,602	562,082
Energy price derivatives	81,503	90,586	293,462	417,048	81,503	90,586	293,462	417,048
Other liabilities	2,810	-	-	-	8,377	-	-	-
	378,405	330,502	1,683,132	2,831,331	348,704	330,502	1,683,132	2,831,331

18. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

	2011							
	CONSOLIDATED				PARENT			
	Less than 6 months $'000	6-12 months $'000	1-5 years $'000	Over 5 years $'000	Less than 6 months $'000	6-12 months $'000	1-5 years $'000	Over 5 years $'000
Financial assets								
Loans and receivables								
Cash	7,680	-	-	-	597	-	-	-
Receivables	114,253	-	-	-	67,227	-	-	-
Held to maturity								
Investments	5,519	-	-	-	-	-	-	-
Fair value through profit or loss								
Credit swaps	5,389	21,570	171,424	475,665	5,389	21,570	171,424	475,665
Forward foreign exchange contracts	112	-	-	-	112	-	-	-
Energy price derivatives	80,858	52,249	107,569	237,042	80,858	52,249	107,569	237,042
Basslink financial asset	22,082	22,082	235,616	1,145,198	22,082	22,082	235,616	1,145,198
Other assets	10,813	-	-	50,428	14,560	-	-	50,000
	246,706	95,901	514,609	1,908,333	190,825	95,901	514,609	1,907,905
Financial liabilities								
Loans and receivables								
Accounts payable	63,685	-	-	-	40,920	-	-	-
Tascorp loans	173,165	212,725	416,786	102,429	173,165	212,725	416,786	102,429
Bank loan - secured	3,392	3,614	92,401	53,992	-	-	-	-
Designated hedge accounting derivatives								
Interest rate swaps	4,341	9,058	52,897	6,576	4,341	9,058	51,233	3,744
Forward foreign exchange contracts	270	406	429	-	270	406	429	-
Fair value through profit or loss								
Credit swaps	5,389	21,570	171,424	475,665	5,389	21,570	171,424	475,665
Forward foreign exchange contracts	98	-	-	-	98	-	-	-
Basslink services agreement	37,795	37,795	392,463	1,714,905	37,795	37,795	392,463	1,714,905
Basslink facility fee swap	11,258	26,285	199,405	610,681	11,258	26,285	199,405	610,681
Energy price derivatives	8,311	5,672	160,432	243,204	8,311	5,672	160,432	243,204
Other liabilities	4,893	-	-	-	4,893	-	-	-
	312,597	317,125	1,486,237	3,207,452	286,440	313,511	1,392,172	3,150,628

18. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(c) Fair values

AASB 139 requires recognition of some financial assets and financial liabilities at fair value on the balance sheet.

Where possible this fair value is determined from prices quoted for the financial instrument on an active market. The fair value of energy price derivatives reflects carbon pricing to the extent that published price curves have been influenced by the proposed carbon tax.

In the event of a lack of quoted market prices, the fair value of financial instruments has been calculated using valuation models that make maximum use of available market inputs to produce a reasonable estimate of the price that would be determined by the market. In many cases this entails projecting future cash flows that are then discounted to present value using the Corporation's weighted average cost of capital or cost of debt as appropriate.

The fair values of financial assets and liabilities carried at fair value through profit or loss are determined using the following valuation inputs:

	CONSOLIDATED							
	2012				2011			
	Quoted market prices $'000	Valuation technique - market observable inputs $'000	Valuation technique - non market observable inputs $'000	Total $'000	Quoted market prices $'000	Valuation technique - market observable inputs $'000	Valuation technique - non market observable inputs $'000	Total $'000
Financial assets								
Fair value through profit or loss								
Credit swaps	3,716	-	-	3,716	2,712	-	-	2,712
Forward foreign exchange contracts	-	-	-	-	107	-	-	107
Basslink financial asset	-	-	445,513	445,513	-	-	483,329	483,329
Energy price derivatives	104,909	307,411	-	412,320	99,042	211,308	-	310,350
	108,625	307,411	445,513	861,549	101,861	211,308	483,329	796,498
Financial liabilities								
Designated hedge accounting derivatives								
Interest rate swaps	998	-	-	998	848	-	-	848
Forward foreign exchange contracts	5,320	-	-	5,320	857	-	-	857
Fair value through profit or loss								
Credit swaps	3,716	-	-	3,716	2,712	-	-	2,712
Basslink services agreement	-	-	734,037	734,037	-	-	850,942	850,942
Basslink facility fee swap	-	-	253,108	253,108	-	-	186,519	186,519
Energy price derivatives	(21,698)	434,090	-	412,392	52,336	157,628	-	209,964
	(11,664)	434,090	987,145	1,409,571	56,753	157,628	1,037,461	1,251,842

18. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

	PARENT							
	2012				2011			
	Quoted market prices $'000	Valuation technique - market observable inputs $'000	Valuation technique - non market observable inputs $'000	Total $'000	Quoted market prices $'000	Valuation technique - market observable inputs $'000	Valuation technique - non market observable inputs $'000	Total $'000
Financial assets								
Fair value through profit or loss								
Credit swaps	3,716	-	-	3,716	2,712	-	-	2,712
Forward foreign exchange contracts	-	-	-	-	107	-	-	107
Basslink financial asset	-	-	445,513	445,513	-	-	483,329	483,329
Energy price derivatives	104,909	307,411	-	412,320	99,042	211,308	-	310,350
	108,625	307,411	445,513	861,549	101,861	211,308	483,329	607,498
Financial liabilities								
Designated hedge accounting derivatives								
Interest rate swaps	998	-	-	998	848	-	-	848
Forward foreign exchange contracts	5,320	-	-	5,320	857	-	-	857
Fair value through profit or loss								
Credit swaps	3,716	-	-	3,716	2,712	-	-	2,712
Basslink services agreement	-	-	734,037	734,037	-	-	850,942	850,942
Basslink facility fee swap	-	-	253,108	253,108	-	-	186,519	186,519
Energy price derivatives	(21,698)	434,090	-	412,391	52,336	157,628	-	209,964
	(11,664)	434,090	987,145	1,409,570	56,753	157,628	1,037,461	1,251,842

Basslink financial instruments

The Basslink financial instruments comprise the Basslink services agreement (BSA), floating facility fee instrument (FFFI) and Basslink facility fee swap (BFFS). The fair value of the Basslink financial instruments has been calculated using a valuation model based on the present value of expected contractual cash flows. The fair value of expected receipts of inter regional revenues (IRRs) under the BSA has been separately calculated based on experience to date and projected operating conditions and reported as a financial asset. The expected contractual payments under the BSA, FFFI and BFFS have been reported as financial liabilities. These represent the Basslink facility fees and interest rate swap settlements payable under these contracts.

The fair value of the BSA has been calculated using the pre-tax weighted average cost of capital as the nominal discount rate. The fair values of the FFFI and BFFS have been calculated using a 19-year forward market interest rate.

The BSA, FFFI and BFFS are not readily tradeable financial instruments.

18. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

Tasmanian energy price derivatives

The Corporation has entered into energy contracts in the Tasmanian market to manage its exposure to market price risks and has developed a model to value these contracts. To the extent that each contract incorporates special term, load or other conditions the price at commencement of the contract will be at a discount from the spot price at that time. Fair value at balance date has been calculated as the present value of the difference between the projected market price and each contract price, taking into account any discount provided on inception. Projected market price is based on an internally generated long-term Tasmanian energy price curve. The Corporation's nominal pre-tax weighted average cost of capital has been applied to derive the present value of the Tasmanian energy price derivatives.

Investments

The carrying amount of the investments recorded in the financial statements represents the Corporation's maximum exposure to market risk.

Movements in fair values in 2012 are not attributable to changes in credit risk.

Fair values are disclosed in Table 18(a).

19. COMMITMENTS FOR EXPENDITURE

	CONSOLIDATED		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
(a) Capital expenditure commitments				
Not later than one year	12,946	26,705	12,710	26,675
Over one year and up to two years	6,198	558	6,198	558
Over two years and up to five years	-	11	-	11
	19,144	27,274	18,908	27,244
(b) Operating lease commitments				
Future minimum lease payments				
Not later than one year	4,506	4,207	3,279	3,586
Over one year and up to two years	3,679	3,662	2,759	3,041
Over two years and up to five years	7,771	7,530	7,771	7,064
Later than five years	18,000	17,343	18,000	17,343
	33,956	32,742	31,809	31,034

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 one year	296,317	43,221	294,290	34,483
Over one year and up to two years	22,517	20,858	20,632	16,631
Over two years and up to five years	23,669	40,369	19,800	33,702
Later than five years	4,318	15,481	-	-
	346,821	119,929	334,722	84,816

The other commitments relate to pass-through costs for consulting work, energy transmission charges and supply of general goods and services.

Commitments include those relating to the jointly controlled entities detailed in note 27.

20. CONTINGENT LIABILITIES AND ASSETS

Contingent liability

The Corporation reached an agreement for the sale of the assets of subsidiaries Bell Bay Power Pty Ltd and Bell Bay Three Pty Ltd during 2007. Included in the sale agreement is a regime for the indemnification of the purchaser in respect of contamination of the Bell Bay Power Station site, particularly in respect of personal injury and latent contamination on the site. The Corporation has capped certain indemnities and continues to seek to mitigate any potential contingent liability by committing to sound environmental and safety practices on the site.

Contingent asset

The Corporation currently has a disagreement with the owner of Basslink, Basslink Pty Ltd, relating to charges associated with the Basslink services agreement.

The Corporation is continuing to negotiate a resolution to this disagreement with Basslink Pty Ltd and may benefit from a reduction in the charges under dispute.

21. AUDITOR'S REMUNERATION

	CONSOLIDATED		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Amounts received, or due and receivable, by the Auditor-General from the Corporation for auditing the financial statements of the Corporation.	347	295	225	290
Amounts received, or due and receivable, for compliance audits.	-	4	-	4

22. KEY MANAGEMENT PERSONNEL COMPENSATION

	Short-term employee benefits		Post-employment benefits		Other long-term benefits		Termination benefits		Total	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Directors	451	466	66	106	-	-	-	-	517	572
Management	4,338	4,309	276	422	38	136	-	926	4,652	5,793
Total	4,789	4,775	342	528	38	136	-	926	5,169	6,365

For the year ended 30 June 2012 the Corporation identified ten employees (2011: 10 employees) as key management personnel in accordance with AASB 124 *Related Party Disclosure*.

Note 23 lists the Directors of the Corporation as at 30 June 2012.

23. RELATED PARTY INFORMATION

	Sales to related parties		Purchases from related parties		Amounts owed by related parties		Amounts owed to related parties	
	2012 $'000	2011 $'000	20121 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
CONSOLIDATED								
Woolnorth Wind Farm Holdings Pty Ltd	462	-	10,453	-	117	-	-	-
Cathedral Rocks Construction and Management Pty Ltd	-	-	-	-	135	135	-	-
PARENT								
HT Wind Operations Pty Ltd	1,119	517	-	-	-	-	96,409	11,210
Cathedral Rocks Construction and Management Pty Ltd	-	-	-	-	135	135	-	-
Bell Bay Power Pty Ltd	313	11	-	-	2,125	1,463	-	-
Bell Bay Three Pty Ltd	-	-	-	-	-	-	4,339	4,339
Lofty Ranges Power Pty Ltd	-	-	-	-	772	821	-	-
Hydro Tasmania Consulting (Holding) Pty Ltd	-	-	-	-	4,324	4,386	-	-
Hydro Tasmania Consulting India Pvt Ltd	80	383	-	-	380	380	-	-
RE Storage Project Holding Pty Ltd	-	7	-	-	940	940	-	-
Momentum Energy Pty Ltd	163,829	107,473	-	-	21,726	8,598	-	-

Transactions with related parties are made at arm's length at normal market prices and on normal commercial terms.

Outstanding balances at year end are unsecured and interest free. Settlement with related parties not wholly owned occurs in cash. Cash settlement does not occur between wholly-owned subsidiaries and the parent.

The Directors of the Corporation as at 30 June 2012 were:

Dr D M Crean, Chairman

Mr R Adair, Chief Executive Officer

Mr S R Eslake

Ms J M Healey

Mr S S Kalinko

Ms S M Farrier resigned as a Director on 30 April 2012

Ms C Munro resigned as a Director on 8 February 2012

There were no transactions with director related entities during the year.

24. 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.

25. GOVERNMENT GRANTS

The Corporation has recognised $9 million of grant revenue during the year (2011: $8 million) as detailed below:

Community service obligations

On 1 June 1999, the State Government agreed to formally recognise the cost of concessions to eligible 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 2012, the State paid the Corporation $8.0 million (2011: $7.5 million) as reimbursement of the cost of providing CSOs.

Australian Government Water Fund – Ajenti Project

During the year ended 30 June 2007, the Commonwealth Government entered a funding agreement with the Corporation under the auspices of the Water Smart Australia program. At the end of the three-year period, the funding agreement was extended until 30 June 2012.

Under this agreement the Corporation was to receive $5.8 million over an initial three-year term of the agreement for the collection and management of water use data for irrigation licensees through the installation of 3000 telemetry units for on-farm water metering across the State. The water data is being stored on a central, web-based database from which licensees access their own daily water use, total use and use compared to their allocation. In addition, training in the use of the equipment and data will be provided.

During the year ended June 2012, the Corporation received $0.5 million (2011: $1.7 million) and recognised $0.4 million (2011: $0.2 million) in the Statement of Comprehensive Income on the basis of the extent of work completed at 30 June.

Department of Resources, Energy and Tourism – King Island Renewable Energy Integration Project

During the year ended 30 June 2011, the Commonwealth Government entered into a $15.28 million funding agreement with the Corporation under the auspices of the Renewable Energy Demonstration Program.

Under the agreement the Corporation will receive 33.3 per cent funding for the integration of multiple renewable energy sources into an existing small scale diesel generation system.

As at 30 June 2012 the Corporation recognised $0.1 million (2011: $nil) as reimbursement of costs relating to the grant.

Bureau of Meteorology – Modernisation & Extension of Hydrological Monitoring System 2011/12

During the year ended 30 June 2011, the Bureau of Meteorology entered a one-year funding agreement with the Corporation under the *Federal Water Act 2007*.

In August 2011, the agreement was extended for a further year.

Under the extended agreement the Corporation will receive $0.4 million for four projects with Bureau of Meteorology under the Modernisation and Extension of Hydrologic Monitoring Systems grants. The Corporation will conduct training for hydrographers from several Tasmanian organisations, collect key metadata for rainfall, storage and offtake sites in Tasmania, improve the quality and frequency of data received by the Bureau and purchase RTK Module for remote gaugings.

During the year ended 30 June 2012 the Corporation recognised $0.2 million and received $0.3 million in the statement of comprehensive income on the basis of the work completed.

26. CONTROLLED ENTITIES

	Footnote	Country of Incorporation	Percentage of shares held by Hydro-Electric Corporation 2012 %	2011 %
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
Bell Bay Three Pty Ltd	3	Australia	100	100
RE Storage Project Holding Pty Ltd	4	Australia	100	100
Hydro Tasmania Consulting (Holding) Pty Ltd	5	Australia	100	100
Hydro Tasmania Consulting India Private Limited	6	India	0.1	0.1
Momentum Energy Pty Ltd	7	Australia	100	100
HT Wind Operations Pty Ltd	8	Australia	100	100
Hydro Tasmania South Africa (Pty) Ltd	9	South Africa	100	-

Footnotes

1. Bell Bay Power Pty Ltd was incorporated on 20 December 2001.
2. Lofty Ranges Power Pty Ltd was incorporated on 26 April 2002.
3. Bell Bay Three Pty Ltd was incorporated on 7 December 2005.
4. RE Storage Project Holding Pty Ltd was incorporated on 11 April 2006.
5. Hydro Tasmania Consulting (Holding) Pty Ltd was incorporated on 20 October 2006. It holds a 99.9 per cent interest (9,999 shares) in Hydo Tasmania Consulting India Private Limited with Hydro Electric Corporation holding one share.
6. Hydro Tasmania Consulting India Private Limited was incorporated on 20 December 2006 in India.
7. Hydro Tasmania acquired 51 per cent of the issued capital of Momentum Energy Pty Ltd on 31 August 2008. The remaining 49 per cent of the issued capital was acquired on 30 September 2009. Momentum Energy was incorporated on 8 July 2002.
8. Hydro Tasmania acquired 100 per cent of the issued capital of HT Wind Operations Pty Ltd on 30 June 2011. HT Wind Operations Pty Ltd owns 100 per cent of Woolnorth Bluff Point Holdings Pty Ltd, Woolnorth Studland Bay Holdings Pty Ltd, Heemskirk Holdings Pty Ltd, Musselroe Holdings Pty Ltd, HT Wind Developments Pty Ltd and HT Wind New Zealand Pty Ltd. HT Wind Operations Pty Ltd was registered on 29 November 2004.
9. Hydro Tasmania acquired 100 per cent ownership of Hydro Tasmania South Africa (Pty) Ltd on 23 January 2012. Hydro Tasmania South Africa (Pty) Ltd holds a 92 per cent ownership interest in Hydro Tasmania Neusberg (Pty) Ltd. As at 30 June 2012 these companies had not commenced operations.

27. INTERESTS IN JOINT VENTURES

			CONSOLIDATED				PARENT			
			Ordinary share ownership interest		Joint venture agreement voting rights		Ordinary share ownership interest		Joint venture agreement voting rights	
	Principal activity	Joint venture balance date	2012 %	2011 %	2012 %	2011 %	2012 %	2011 %	2012 %	2011 %
Cathedral Rocks Construction and Management Pty Ltd	Wind farm construction and operation	30 June	50	50	50	50	50	50	50	50
SA Water Corporation & Lofty Ranges Power Pty Ltd Joint Venture	Mini hydro operation	30 June	50	50	50	50	50	50	50	50
RE Storage Pty Ltd	Investigation of renewable energy commercial opportunities	30 June	50	50	50	50	50	50	50	50
Integrated Energy Solutions Pty Ltd	Implementation of renewable energy project	30 June	50	50	50	50	-	-	-	-
Woolnorth Wind Farm Holding Pty Ltd	Wind farm operation	30 June	25	-	25	-	-	-	-	-

The Corporation holds a 50 per cent interest in a joint venture (Cathedral Rocks Construction and Management Pty Ltd) with Acciona Energy Oceania Pty Ltd. The joint venture was established to manage the construction and operation of a wind farm at Cathedral Rocks, South Australia (note 28).

A subsidiary of the Corporation, Lofty Ranges Power Pty Ltd, holds a 50 per cent interest 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 the operation of mini hydro facilities (note 27).

The Corporation holds a 50 per cent interest in an incorporated joint venture operation with CBD Energy Limited, named RE Storage Pty Ltd. The principal activity of the joint venture is the investigation of renewable energy commercial opportunities.

A subsidiary of the Corporation, RE Storage Project Holding Pty Ltd holds a 50 per cent interest in an incorporated joint venture with CBD Project Holdings Pty Ltd, a 100 per cent owned subsidiary of CBD Energy Limited, named Integrated Energy Solutions Pty Ltd. The principal activity of the joint venture is the implementation of a renewable energy project on King Island.

The Corporation divested 75 per cent of its ownership interests in Woolnorth Bluff Point Wind Farm Pty Ltd and Woolnorth Studland Bay Wind Farm Pty Ltd. The interests were sold to form a joint venture with Shenhua Clean Energy Holding Pty Ltd on 27 February 2012. The Corporation retained a 25 per cent ownership in the joint venture with Shenhua Clean Energy Holding Pty Ltd.

28. JOINT VENTURE OPERATIONS

The share of assets and liabilities of the unincorporated jointly controlled operation, SA Water Corporation & Lofty Ranges Pty Ltd Joint Venture, which are included in the financial statements, is as follows as at 30 June.

	CONSOLIDATED	
	2012 $'000	2011 $'000
Current assets		
Cash	32	60
Receivables	3	1
Other	8	-
Total current assets	43	61
Non-current assets		
Property, plant and equipment	1,253	1,275
Total non-current assets	1,253	1,275
TOTAL ASSETS	1,296	1,336
Current liabilities		
Payables	21	21
Total current liabilities	21	21
TOTAL LIABILITIES	21	21
NET ASSETS	1,275	1,315

29. INCORPORATED JOINT VENTURES

The income statements and balance sheets of the following incorporated joint ventures are not consolidated but are instead accounted for under the equity method.

	CONSOLIDATED		
	Woolnorth Wind Farm Joint Venture 2012 $'000	Cathedral Rocks Construction and Management Pty Ltd 2012 $'000	Total 2012 $'000
Income statement			
Revenue	10,606	15	10,621
Expenses	12,172	-	12,172
Profit/(loss) before share of profit from asset sale and income tax benefit/(expense)	(1,566)	15	(1,551)
Fair value gain	24,858	-	24,858
Income tax benefit/(expense)	(6,968)	(4)	(6,972)
Net profit after tax	16,324	11	16,335
Balance sheet			
Current assets	20,395	393	20,788
Non-current assets	284,613	-	284,613
Total assets	305,008	393	305,401
Current liabilities	17,509	272	17,781
Non-current liabilities	161,502	-	161,502
Total liabilities	179,011	272	179,283
Net assets	125,997	121	126,118
Share of accumulated profits			
Share of accumulated profits/(losses) at the beginning of the year	-	(39)	(39)
Share of profit/(loss) before income tax expense	5,823	7	5,830
Share of accumulated (losses) at the end of the year	5,823	(31)	5,792
Movements in carrying amount of investment in joint ventures			
Carrying amount at the beginning of the year	-	-	-
Initial contribution	29,533	-	29,533
Share of profit before income tax for the year	5,823	7	5,830
Return of equity	(807)	-	(807)
Carrying amount at the end of the year	34,549	7	34,557

The Corporation applies a different accounting policy to the joint venture results in relation to accounting standard AASB139 *Financial Instruments: Recognition and Measurement*.

29. INCORPORATED JOINT VENTURES (CONTINUED)

	CONSOLIDATED		
	Roaring 40s Renewable Energy Pty Ltd 2011 $'000	Cathedral Rocks Construction and Management Pty Ltd 2011 $'000	Total 2011 $'000
Income statement			
Revenue	76,501	15	76,516
Expenses	84,980	4	84,984
Profit/(loss) before share of profit from asset sale and income tax benefit/(expense)	(8,479)	11	(8,468)
Profit of joint venture from asset sale	3,863	-	3,863
Income tax benefit/(expense)	(15,653)	(4)	(15,657)
Net loss after tax	(20,269)	7	(20,262)
Balance sheet			
Current assets	-	378	378
Non-current assets	-	-	-
Total assets	-	378	378
Current liabilities	-	272	272
Non-current liabilities	-	-	-
Total liabilities	-	272	272
Net assets	-	106	106
Share of accumulated losses			
Share of accumulated losses at the beginning of the year	11,474	45	11,519
Share of loss before income tax expense	2,002	(6)	1,996
Share of accumulated losses at the end of the year	13,476	39	13,515
Movements in carrying amount of investment in joint ventures			
Carrying amount at the beginning of the year	121,774	-	121,774
Share of loss before income tax for the year	(2,002)	-	(2,002)
Transfer to investment in subsidiary	(119,772)	-	(119,772)
Carrying amount at the end of the year	-	-	-

Roaring 40s Renewable Energy Pty Ltd became a wholly owned subsidiary on 30 June 2011. A 50 per cent share of the operating result for the year was equity accounted. Roaring 40s Renewable Energy Pty Ltd changed its name to HT Wind Operations Pty Ltd.

The investment in joint ventures is carried at cost in the parent.

	PARENT	
	2012 $'000	2011 $'000
Carrying amount at the beginning of the year	-	132,998
Contributions during the year	-	-
Transfer to investment in subsidiary	-	(132,998)
Carrying amount at the end of the year	-	-

Contingent liabilities and capital expenditure commitments relating to the joint ventures are included in notes 19 and 20.

30. DIVIDEND

	CONSOLIDATED		PARENT	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Declared and paid during the year				
Statutory dividend	49,008	25,510	49,008	25,510
Proposed for approval (not recognised as a liability as at 30 June)				
Statutory dividend	50,684	49,008	50,684	49,008

31. SEGMENT INFORMATION

Identification of reportable segments

The Corporation has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer (CEO) as chief operating decision maker in assessing the performance and determining the allocation of resources. The two segments identified are Hydro Tasmania and Momentum Energy.

Types of products and services by segment

(i) Hydro Tasmania

Hydro Tasmania generates and sells wholesale energy into the NEM and provides consulting services.

(ii) Momentum Energy

Momentum Energy sells energy to retail customers in the Victorian, New South Wales, South Australian and Queensland regions of the NEM.

Basis of accounting for purposes of reporting by operating segments

Unless stated otherwise, all amounts reported to the CEO with respect to individual segments are determined in accordance with the accounting policies adopted in the financial statements as detailed in note 1.2.

Finance income and expenses and fair value gains and losses on financial assets and liabilities are not allocated to individual segments as the underlying instruments are managed on a group basis. Inter-segment revenues are eliminated on consolidation.

Capital expenditure consists of additions of property, plant and equipment.

31. SEGMENT INFORMATION (CONTINUED)

	YEAR ENDED 30 JUNE 2012				
	Hydro Tasmania $'000	Momentum Energy $'000	Total Segments $'000	Adjustments & Eliminations $'000	Consolidated $'000
Revenue					
External customers	412,056	463,808	875,864	-	875,864
Inter-segment	218,161	-	218,161	(54,332)	163,829
Other revenue	11,438	-	11,438	-	11,438
Total revenue	641,655	463,808	1,105,463	(54,332)	1,051,131
Segment disclosures					
Interest expense	86,687	-	86,687	-	86,687
Depreciation & amortisaion	81,379	893	82,272	-	82,272
Share of loss of joint venture	384	-	384	-	384
Income tax expense	646	3,351	3,997	-	3,997
Segment profit	7,606	7,748	15,354	(1,482)	13,872
Total assets	5,692,862	115,813	5,808,675	(2,839)	5,805,836
Total liabilities	3,573,712	104,399	3,678,111	(4,322)	3,673,789
Other disclosures					
Investment in joint venture	34,557	-	34,557	-	34,557
Capital expenditure	185,952	984	186,936	-	186,936

Inter-segment revenues are eliminated on consolidation.

	YEAR ENDED 30 JUNE 2011				
	Hydro Tasmania $'000	Momentum Energy $'000	Total Segments $'000	Adjustments & Eliminations $'000	Consolidated $'000
Revenue					
External customers	451,852	244,856	696,708	-	696,708
Inter-segment	126,570	-	126,570	(19,097)	107,473
Other revenue	8,591	-	8,591	-	8,591
Total revenue	587,013	244,856	831,869	(19,097)	812,772
Segment disclosures					
Interest expense	80,481	-	80,481	-	80,481
Depreciation & amortisaion	79,421	452	79,873	-	79,873
Share of loss of joint venture	3,880	-	3,880	-	3,880
Income tax expense	65,015	298	65,313	-	65,313
Segment profit	150,991	462	151,453	(361)	151,092
Total assets	5,453,444	53,150	5,506,594	-	5,506,594
Total liabilities	3,444,314	48,827	3,493,141	-	3,493,141
Other disclosures					
Investment in joint venture	-	-	-	-	-
Capital expenditure	59,441	-	59,441	-	59,441

31. SEGMENT INFORMATION (CONTINUED)

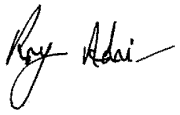
	YEAR ENDED 2012 $'000	YEAR ENDED 2011 $'000
Reconciliation of profit		
Segment profit	15,354	151,453
Energy sales	54,332	19,097
Purchased energy	(54,332)	(19,097)
Environmental energy products	(1,482)	(361)
Corporation profit	13,872	151,092
Reconciliation of assets		
Segment total assets	5,808,675	5,506,594
Inventory valuation	(2,839)	-
Corporation total assets	5,805,836	5,506,594
Reconciliation of liabilities		
Segment total liabilities	3,678,111	3,493,141
Environmental schemes liability valuation	(4,322)	-
Corporation total liabillties	3,673,789	3,493,141

Geographic information

All revenue is generated from Australian-based resources

SUPERANNUATION DECLARATION

I, Roy Adair, 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.



R. Adair
Chief Executive Officer
13 August 2012

STATEMENT OF CERTIFICATION

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

a) the financial statements and notes of the Corporation and of the consolidated entity are in accordance with the *Government Business Enterprises Act 1995*, including:

   (i) giving a true and fair view of the results and cash flows for the year ended 30 June 2012 and the financial position at 30 June 2012 of the Corporation and its subsidiaries;

   (ii) complying with the Australian Accounting Standards and Interpretations, and with the Treasurer's instructions.

b) there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they fall due.

This declaration has been made after receiving the following declaration from the Chief Executive Officer and Chief Financial Officer of the Corporation:

a) the financial records of the Corporation for the year ended 30 June 2012 have been properly maintained in accordance with Section 51 of the *Government Business Enterprises Act 1995*;

b) the financial statements and notes for the year ended 30 June 2012 have been prepared in accordance with Section 52 of the *Government Business Enterprises Act 1995*; and

c) the financial statements and notes for the year ended 30 June 2012 give a true and fair view.

Signed in accordance with a resolution of the directors:

Dr D.M. Crean
Chairman
13 August 2012

R. Adair
Chief Executive Officer
13 August 2012

AUDITOR'S INDEPENDENCE DECLARATION

Tasmanian
Audit Office

13 August 2012

The Board of Directors
Hydro-Electric Corporation
4 Elizabeth Street
HOBART TAS 7000

Dear Board Members

Auditor's Independence Declaration

In relation to my audit of the financial report of the Hydro-Electric Corporation for the financial year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of Australian Auditing Standards in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit.

As agreed with the Audit Committee, a copy of this declaration must be included in the Annual Report.

Yours sincerely

H M Blake
Auditor-General

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INDEPENDENT AUDIT REPORT

Tasmanian
Audit Office

Independent Auditor's Report
To Members of the Parliament of Tasmania
Hydro-Electric Corporation
Financial Report for the Year Ended 30 June 2012

Report on the Financial Report

I have audited the accompanying consolidated financial report of the Hydro Electric Corporation (the Corporation), which comprises the balance sheet as at 30 June 2012 and the statements of comprehensive income, changes in equity and cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the statement by the directors' on the financial report of the consolidated entity comprising the Corporation and the entities it controlled at the Year's end or from time to time during the financial year.

Auditor's Opinion

In my opinion:

(a) the Corporation's financial report

  (i) presents fairly, in all material respects, the consolidated entity's financial position as at 30 June 2012, and their financial performance, cash flows and changes in equity for the year then ended; and

  (ii) is in accordance with the *Government Business Enterprises Act 1995* and Australian Accounting Standards;

(b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in Note 1.2(b).

The Responsibility of the Directors for the Financial Report

The directors are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and Section 52 (1) of the *Government Business Enterprises Act 1995*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in their circumstances. In Note 1.2(b), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report complies with International Financial Reporting Standards.

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Auditor's Responsibility

My responsibility is to express an opinion on the financial report based upon my audit. My audit was conducted in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial report is free of material misstatement.

An audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the directors' preparation and fair presentation of the financial report in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting this audit, I have complied with the independence requirements of Australian Auditing Standards and other relevant ethical requirements. The *Audit Act 2008* further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of State Entities but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Tasmanian Audit Office are not compromised in their role by the possibility of losing clients or income.

My independence declaration was provided to the directors on the same date as this audit opinion and is included in the Directors' report.

Tasmanian Audit Office

H M Blake
Auditor-General

HOBART
13 August 2012

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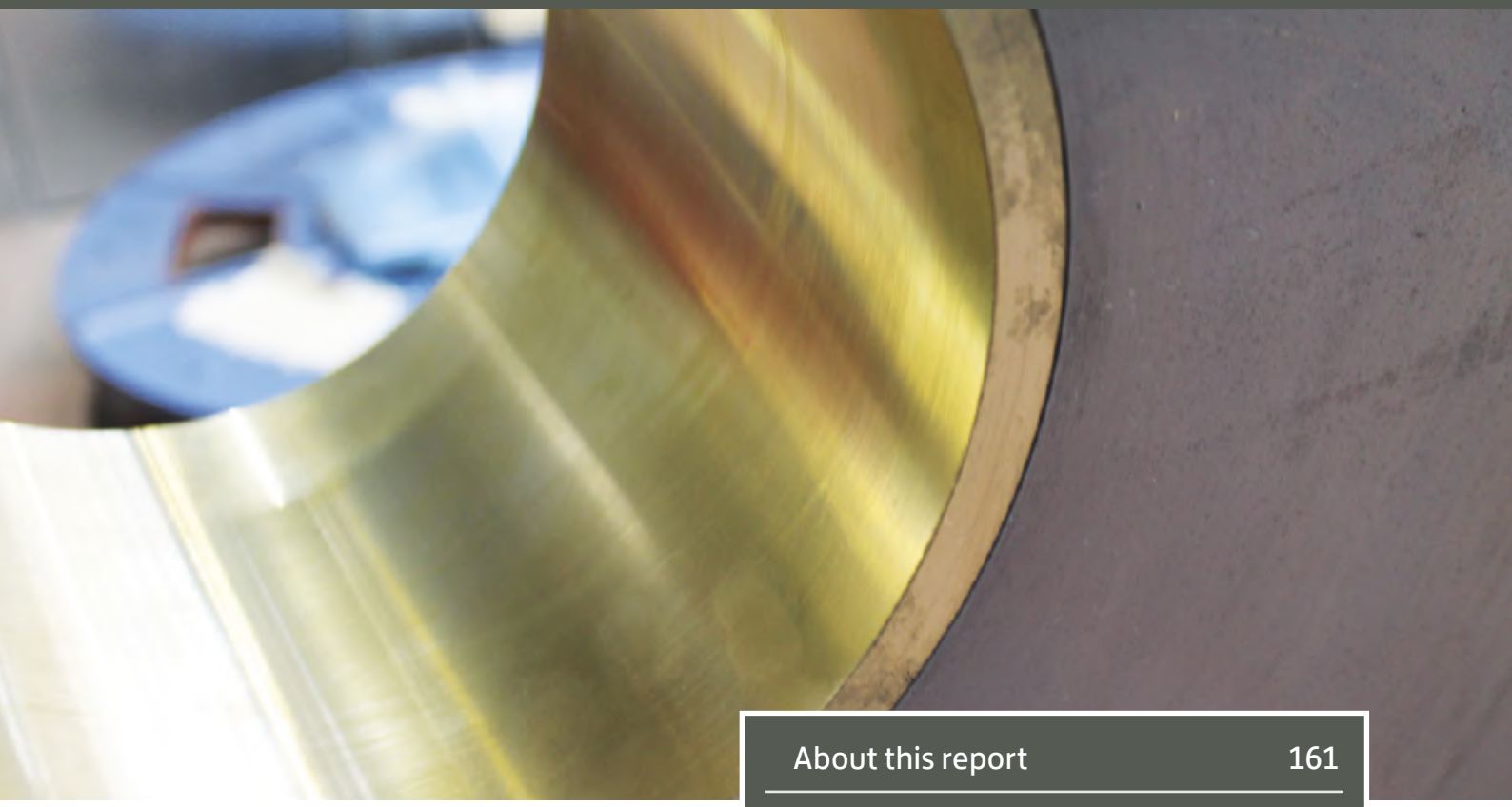
SUMMARIES, GLOSSARY AND INDEX



ABOUT THIS REPORT

The Hydro Tasmania Annual Report 2012 is our seventh integrated report, encompassing our financial, environmental and social performance.

This report covers the financial year from 1 July 2011 to 30 June 2012. It complies with legislative requirements for annual reporting under the *Government Business Enterprises Act 1995* and our commitment to report our sustainability performance under our Sustainability Code. The report structure is based on our Sustainability Code principles (see page 5 for more information).

Report content

Hydro Tasmania takes seriously the need to engage with and listen to the communities in which we operate, and the stakeholders who have an interest in our activities.

The content of our annual report is determined in part by issues of 'material interest' to our stakeholders – both internal and external. The report content is also aligned with sustainability reporting guidelines, including the Global Reporting Initiative (GRI) G3.1 (GRI electric utility sector supplement), and the Energy Supply Association of Australia sustainable practice framework.

'Material issues' were defined by gathering information through several processes. We identified external stakeholder interests through media monitoring reports, our own desktop analysis of the external environment and an online survey. The survey was sent to 84 key stakeholders with whom we are currently working. We received 34 responses.

We employed data from our risk management system, interviews with senior executives, CEO reports to the Board and the 2012 employee survey to determine key business interests.

A frequency and priority matrix was applied to finalise key issues that are material to our stakeholders. These issues are listed under Sustainability Code principles (see Table 11, page 163).

Our stakeholder groups are listed on page 86. Our primary audience is the people of Tasmania where our operations have the most significant economic, social and environmental impact.

Data collection and basis

We have determined reporting boundaries with reference to GRI G3.1 'guidance and decision tree for boundary setting'.

Information provided on Hydro Tasmania's subsidiary businesses (Melbourne-based energy retailer Momentum Energy, and consulting business Entura) is included in this report for the interest of their clients and customers and to provide a complete picture of Hydro Tasmania's business operations, as they are a critical and integrated part of our business.

Financial statements comply with International Financial Reporting and Australian Accounting Standards and are in accordance with the *Government Business Enterprises Act 1995* and *Treasurer's Instructions*. Financial results include all wholly-owned entities of the Hydro Tasmania group, including its business in India, and a proportionate share of the operating results of joint ventures. A 50 per cent share of the assets and liabilities of Lofty Ranges Power, an unincorporated joint venture, are also included. All monetary amounts are in Australian dollars.

Generation data are reported as the net value at our market connection points in Tasmania.

We measure water storage in gigawatt hours of energy or in percentage full in energy terms. An explanation is provided on page 169.

Hydro Tasmania collects data on scope 1, 2 and 3[6] greenhouse gas emissions from all Australian facilities under our operational control. We report scope 1 and 2 emissions annually under the National Greenhouse and Energy Reporting (NGER) Act. Emissions data for Entura's India office have not been included as these have been assessed as immaterial.

Although we are not required to report on Bass Strait island operations under the National Greenhouse and Energy Reporting Scheme (NGERS), we have chosen to include associated emissions data in our annual report.

Other Hydro Tasmania consolidated data includes Momentum Energy, and Entura except for its India operations unless otherwise stated.

Employee data includes Hydro Tasmania, Entura and Momentum Energy employees and the numbers are calculated on head count unless otherwise stated. Entura's India office is included in the employee data unless stated otherwise.

Definitions are the same as the GRI G3.1 guidelines definitions where possible and otherwise the difference is explained. Occupational health and safety (OHS) data is based on the Australian Standard 1885, except that overtime hours are not included.

Contractor hours are included in the calculations.

The calculation for frequency rate is:

$$\frac{\text{No. of incidents}}{\text{No. of hours worked}} \times 1\,000\,000$$

Calculation for absentee rate is:

$$\frac{\text{Total number of missed days over the period}}{\text{Total number of workforce days worked for the same period}} \times 1\,000\,000$$

[6] **Scope 1 emissions** are the release of greenhouse gases into the atmosphere as a direct result of an activity, or series of activities (including ancillary activities) that constitute the facility.

Scope 2 emissions are the release of greenhouse gases into the atmosphere as a direct result of one or more activities that generate electricity, heating, cooling or steam that is consumed by the facility but do not form part of the facility.

Scope 3 emissions include greenhouse gas emissions (other than scope 2 emissions) that are generated in the wider economy as a result of activities at a facility but are physically produced by another facility.

Assurance

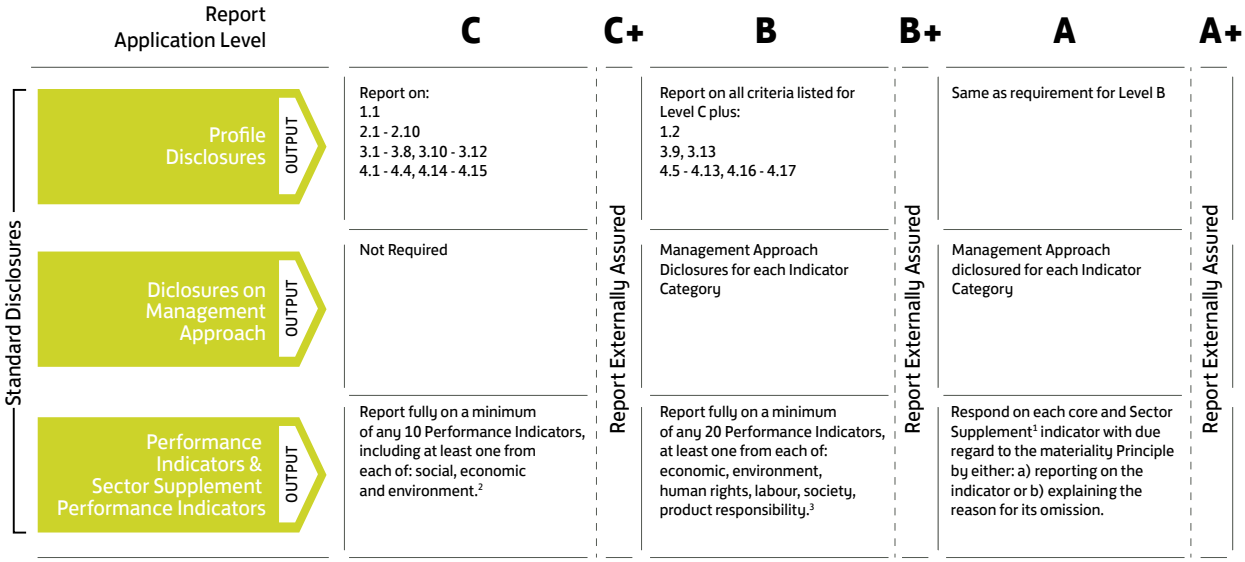
Assurance provides a valuable source of feedback for improvement in the performance, processes and systems that come under scrutiny and greater confidence that what we report is accurate, transparent and balanced. Hydro Tasmania engaged Net Balance to assure this report against AA1000 Assurance Standard.

GRI application

Hydro Tasmania has assessed that this report conforms to a GRI A+ level.

Net Balance affirms this opinion in its Assurance Statement on page 20.

View the full GRI index on Hydro Tasmania's website.



[1] Sector supplement in final version.
[2] Performance Indicators may be selected from any finalised Sector Supplement, but 7 of the 10 must be from the original GRI Guidelines.
[3] Performance Indicators may be selected from any finalised Sector Supplement, but 14 of the 20 must be from the original GRI Guidelines.

Figure 8: GRI application level criteria

The table below presents material issues considered in developing content for the annual report.

Table 13: Material issues

Principle	Material Issue	Source
Economic	Financial results and returns to Government – year of growth and profits Woolnorth divestment – 75 per cent sell down to Guohua/Shenhua finalised in February 2012	*Internal/ External (I/E)*
	Musselroe Wind Farm investment – start of construction, managing community impacts and sale of the wind farm Addressing the risk of electricity oversupply	*I/E*
	Re-negotiation of contracts with some major industrial customers	*Internal*
	Issues related to electricity prices in the Tasmanian market	*Internal*
	State of the Tasmanian economy and implications for Hydro Tasmania	*Internal*
	Implications of carbon price for Hydro Tasmania	*I/E*
	Appropriate capital structure for the business	*Internal*
	Entering the natural gas market	*Internal*
	King Island Renewable Energy Integration Project – progress and issues	*External*
Governance	Expert Panel Review implications and outcomes	*I/E*
	Improvement to our systems and processes – implementing the Enterprise Resource Planning (ERP) project	*Internal*
	Undertaking a review of the risk appetite of the business	*Internal*
Customers	Leveraging Hydro Tasmania's renewable energy generation for business growth	*Internal*
	Our churn rates not impacted by competition from other retailers	*Internal*
	Pursuing overseas business opportunities through Entura	*Internal*
	The value of Hydro Tasmania expanding into new generation markets on mainland	*Internal*
	Entura's and Momentum Energy's link with Hydro Tasmania is a market advantage	*Internal*
	Market challenges faced by Entura	*Internal*
	Initiatives undertaken to ensure value adding for customers	*Internal*
	Ensuring design constructability to secure contracts in a competitive market	*External*
Infrastructure and Resources	10-year Asset Management Plan to address aging infrastructure – (Poatina penstock, Rowallan Dam, Tungatinah Power Station, Lake Margaret Power Station)	*I/E*
	Storage levels and inflows during FY2011/12	*I/E*
	Basslink reliability and capacity	*Internal*
	Removal of Kaplan turbines to reduce oil spills	*Internal*
	Hydro Tasmania support for Duck Reach power station	*External*
Environment	Successful ISO 14001 certification for Hydro Tasmania	*Internal*
	Lagoon of Islands rehabilitation initiative	*Internal*
	Results of the Mersey-Forth Water Management review	*Internal*
	Fulfilling our water licence obligations	*Internal*
	Increase environmental and social flow for Cataract Gorge	*Internal*
	Initiatives undertaken for Aboriginal heritage management	*Internal*
	Our alignment with the TWWHA objectives	*Internal*
	Progress on Hydro Tasmania's Recreational Management Framework	*Internal*
	Initiatives for responding to climate change	*Internal*
	Lake Margaret tourism and heritage project	*External*

Principle	Material Issue	Source
Community	Addressing community cloud seeding concerns	*External*
	Building shareholder relations and maintaining their support	*Internal*
	Effective stakeholder engagement in wind farm developments	*Internal*
	Strategic partnerships developed through wind farms investments	*Internal*
	Sponsorships and fundraising activities by Hydro Tasmania in FY2011/12	*I/E*
	Engaging in effective communication within the organisation as well as with external contractors	*External*
Our People	Hydro Tasmania recognised as employer of choice	*External*
	Resource planning challenges	*Internal*
	Existing EPA agreement to be carried forward for 12 months	*Internal*
	Talent management program to retain skilled staff	*Internal*
	Hydro Tasmania's safety performance for FY2011/12	*Internal*
	Addressing staff training and development needs	*Internal*

GENERATION STATISTICAL SUMMARY

As at June 30		2008	2009	2010	2011	2012
Mainland Tasmania						
Power stations						
Hydro	No.	28	28	30[1]	30	30[2]
Thermal	No.	1	1	0	0	0
Wind	No.	0	0	0	2[3]	0[4]
Total no. of power stations	**No.**	**29**	**29**	**30**	**32**	**30**
Installed capacity						
Hydro	MW	2 270	2 270	2 281	2 281	2 281
Thermal – gas	MW	240	240	0	0	0
Wind	MW	0	0	0	140	0
Total installed capacity	**MW**	**2 510**	**2 510**	**2 281**	**2 421**	**2 281**
Energy generated[5]						
Hydro	GWh	7 100	7 203	8 167	9 273	8 334
Thermal –gas - Bell Bay 1-2[6]	GWh	1 169	608	0	0	0
Wind[7]	GWh	0	0	0	0	313
Total energy generated	**GWh**	**8 269**	**7 811**	**8 167**	**9 273**	**8 647**
Generation peak	MW	2290	2248	2131	2093	2 042
Generation load factor[8]	%	41	40	44	51	48
Bass Strait islands						
King Island						
Diesel	MWh	10 297	10 221	10 480	11 232	11 635
Wind	MWh	5 949	5 516	4 724	5 139	4 830
Flinders Island Diesel	MWh	4 201	4 404	4 340	4 232	4 123
Total Bass Strait islands	**MWh**	**20 447**	**20 141**	**19 544**	**20 603**	**20 588**

Notes:

1 Upper Lake Margaret Power Station recommenced generation in October 2009; Lower Lake Margaret Power Station commenced generation in June 2010.

2 The number of power stations differs from the number in the Statement of Corporate Intent as this table includes power stations additional to the main undertakings, being Parangana, Nieterana (Butlers Gorge mini-hydro) and Lower Lake Margaret.

3 Woolnorth Bluff Point Wind Farm and Woolnorth Studland Bay Wind Farm transferred to Hydro Tasmania on 30 June 2011.

4 Woolnorth Bluff Point Wind Farm and Woolnorth Studland Bay Wind Farm transferred from Hydro Tasmania in February 2012.

5 Mainland Tasmania energy generated is calculated as the net energy measured at the market and distribution connection points.

6 Bell Bay 1 and 2 were shut down on 1 April 2009.

7 Wind energy generation is from 1 July 2011 to 27 February 2012.

8 Calculated as average MW divided by peak MW. Average MW calculated from total energy divided by hours in the year.

FINANCIAL STATISTICAL SUMMARY

Five-Year Profile - Statement of Comprehensive Income

	Year Ended 30 June				
	2008 $'000s	2009 $'000s	2010 $'000s	2011 $'000s	2012 $'000s
Income					
Sales of goods and services	456,818	610,838	717,246	804,181	1,039,693
Other income	13,190	14,899	9,687	8,591	11,438
TOTAL INCOME	**470,008**	**625,737**	**726,933**	**812,772**	**1,051,131**
Less Expenses					
Labour	88,574	88,822	100,763	104,660	104,802
Direct operating expenses	199,648	262,518	319,018	374,930	590,001
Depreciation and amortisation of non-current assets	68,043	73,766	77,681	79,873	82,273
Impairment of non-current assets	(157,879)	(186,925)	-	-	-
Finance costs	95,663	86,684	80,337	80,481	86,687
Fair value movements	(124,309)	(185,638)	(259,194)	(116,389)	85,571
Other operating expenses	76,083	68,619	76,248	72,812	83,928
TOTAL EXPENSES	**245,823**	**207,846**	**394,853**	**596,367**	**1,033,262**
NET PROFIT/(LOSS) BEFORE TAX	**224,185**	**417,891**	**332,080**	**216,405**	**17,869**

Five-Year Profile - Balance Sheet

	Year Ended 30 June				
	2008 $'000s	2009 $'000s	2010 $'000s	2011 $'000s	2012 $'000s
Assets					
Cash and cash equivalents	93,302	30,562	3,038	13,199	7,061
Investments	108,464	122,826	121,790	-	34,557
Receivables	59,997	154,356	82,657	114,253	142,062
Property, plant and equipment	4,056,372	4,146,346	4,161,631	4,414,220	4,484,569
Financial and other assets	527,472	758,809	759,886	964,922	1,137,587
TOTAL ASSETS	**4,845,607**	**5,212,899**	**5,129,002**	**5,506,594**	**5,805,836**
Liabilities					
Payables	67,333	171,576	69,935	81,260	124,700
Provisions	323,593	365,579	363,461	371,154	467,247
Interest bearing liabilities	971,374	941,235	872,864	983,366	856,806
Tax liabilities	559,033	677,681	749,099	804,684	801,713
Financial liabilities	1,527,834	1,391,346	1,191,713	1,252,677	1,423,323
TOTAL LIABILITIES	**3,449,167**	**3,547,417**	**3,247,072**	**3,493,141**	**3,673,789**
NET ASSETS	**1,396,440**	**1,665,482**	**1,881,930**	**2,013,453**	**2,132,047**
EQUITY	**1,396,440**	**1,665,482**	**1,881,930**	**2,013,453**	**2,132,047**

Five-Year Profile - Capital Works

	Year Ended 30 June				
	2008 $'000s	2009 $'000s	2010 $'000s	2011 $'000s	2012 $'000s
Expenditure					
Generation assets	34,974	69,662	78,423	48,049	147,310
Bass Strait Islands	2,394	982	860	1,144	6,389
Communications	2,343	-	7		-
Land and buildings	1,152	1,977	973	823	956
Fleet	2,455	1,807	2,784	1,938	2,159
Information systems	2,260	4,591	10,299	9,279	20,617
Renewable developments	-	-	-	-	3,584
Other assets	9,284	2,228	2,187	3,105	5,120
TOTAL CAPITAL EXPENDITURE	**54,862**	**81,247**	**95,533**	**64,338**	**186,135**

GLOSSARY

AEMO	Australian Energy Market Operator
AMP	Asset Management Plan
ANCOLD	Australian National Committee on Large Dams
ARC	Australian Research Council
Basslink	An undersea HVDC cable between Tasmania and Victoria
BBB	Assessment of an organisation's financial strength / capacity of an organisation based on Standard and Poor's methodology. BBB reflects an investment grade credit rating whereby the organisation has adequate capacity to meet financial commitments, but is more subject to adverse economic conditions.
CCRS	Climate change response strategy
CEO	Chief Executive Officer
CO_2e	Carbon dioxide equivalent
CSO	Community service obligation
cumecs	Cubic metres per second – measures water flow
DPIPWE	Department of Primary Industries, Parks, Water and Environment
DSEP	Dam safety emergency plan
EEO	Energy efficiency opportunities
ELT	Executive Leadership Team
EPA	Enterprise Partnership Agreement – Hydro Tasmania's employee bargaining agreement under the *Fair Work Act 2009*
EPR	Expert panel review into the Tasmanian electricity industry
esaa	Energy Supply Association of Australia
ETRM	Energy trading risk management system
EWPs	Environmental works plans
FTE	Full time equivalent (employee)
FY	Financial year
FYE	Financial year end
GBE	Government Business Enterprise
GEIC	Guohua Energy Investment Corporation
GL	Gigalitre
GRI	Global Report Initiative
GW	Gigawatt
GWh	Gigawatt hours – a consumption of 1 GW for 1 hour
HR	Human resources
HSE	Health, safety and environment
HVDC	High voltage direct current
ICN	Industry Capability Network
IBRM	Integrated business risk management
IHA	International Hydropower Association
IT	Information technology
km	Kilometre
KIREIP	King Island Renewable Energy Integration Project
KPI	Key performance indicator
kWh	Kilowatt hours
kV	Kilovolt
LGCs	Large-scale generation certificates
LSIs	Long-term sustainability indicators
LTI	Lost time injury
LTIFR	Lost time injury frequency rate
LRET	Large-scale renewable energy target
MW	Megawatt
MWh	Megawatt hours – a consumption of 1 MW for 1 hour
NEM	National Electricity Market
NGER	National Greenhouse and Energy Reporting
NPS	Net promoter score
NSP	Network service provider
OHS	Occupational health and safety
RAPS	Remote area power supply
REC	Renewable energy certificate
REFIT	Renewable energy feed in tariff
RET	Renewable energy target
RSAT	Rapid basin-wide sustainability assessment tool
SF_6	Sulphur hexafluoride
SRI	Safety reporting index
tCO_2e	Tonnes of carbon dioxide equivalent
TWWHA	Tasmanian Wilderness World Heritage Area
TWh	Terawatt hours

MEASURING WATER STORAGE LEVELS

Hydro Tasmania's hydropower system is fully integrated and flexible in terms of producing energy.

Water storages are measured in terms of the amount of electricity that could be generated from the water stored, or put another way, the amount of energy in storage.

Storage levels are described as 'x per cent full in energy terms' or 'per cent full of energy' (The figure is the volume in storage, so it is not the same as the level of water in the storage). This can be applied to the system as a whole, and individual lakes.

The preferred minimum operating level is seasonally adjusted to balance the probability of spill and energy shortfalls.

Hydro Tasmania publishes water storage data on its website under 'energy in storage', and 'lake levels' which are reported as metres below full.

ENERGY MEASUREMENT

kW – kilowatt	One kW = 1000 watts. A watt is the rate at which electrical energy is produced or used.
MW – megawatt	One MW = 1000 kilowatts or one million watts.
kWh – kilowatt hour	The standard unit of energy, equivalent to production or consumption at the rate of one kilowatt for one hour.
MWh – megawatt hour	One MWh = 1000 kilowatt hours.
GW – gigawatt	One GW = 1000 megawatts or one million kilowatts.
GWh – gigawatt hour	One GWh = 1 million kilowatt hours, or 1000 megawatt hours.
TW – terawatt	One TW = 1000 gigawatts or one million megawatts.
TWh – terawatt hour	One TWh = 1000 gigawatt hours, or one million megawatt hours.
kV – kilovolt	One kV = 1000 volts. A volt is the unit of potential or electrical pressure.

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Excluding the financial statements

Hydro Tasmania

The power of natural thinking