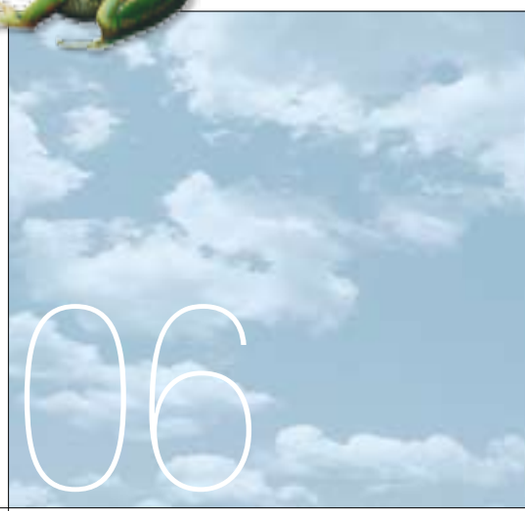
A Sustainable Business in the National Electricity Market



hydro tasmania *report* 2006

hydro tasmania annual report incorporating the sustainability report | *2005|2006*

Hydro Tasmania

the renewable energy business

Our vision is to be Tasmania's world-renowned renewable energy business

To run this CD

1 Exit all other open applications
2 Insert the CD. If the CD doesn't self start, click on the file 'hydro_ar.html'.

Minimum system requirements

PC	*Mac*
Windows 2000	OS 9.2
Pentium 400Mhz	G3 350Mhz
64MB RAM	64MB RAM
800 x 600 resolution	800 x 600 resolution
32Bit colour	32Bit colour
8x CD-ROM	8x CD-ROM

Browsers
Safari 1.3.2, Firefox 1.5, Netscape 7.1, Internet Explorer 6.1 (Internet Explorer for Mac not supported).

Fauna depicted in this Report are native to Tasmania.

Directors Statement

To the Hon David Llewellyn MHA, Minister for Energy, 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 2006. The report has been prepared in accordance with the provisions of the *Government Business Enterprises Act 1995.*

D M Crean
Chairman Hydro-Electric Corporation
18 October 2006

V J Hawksworth
CEO Hydro-Electric Corporation
18 October 2006

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

Hydro Tasmania Values

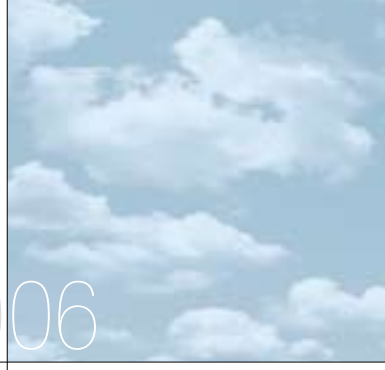
We always behave with
honesty and integrity

We work together,
respect each other and value
our diversity

We strive to deliver
outstanding service

We are committed to creating
a sustainable future

Our positive and determined
approach ensures success



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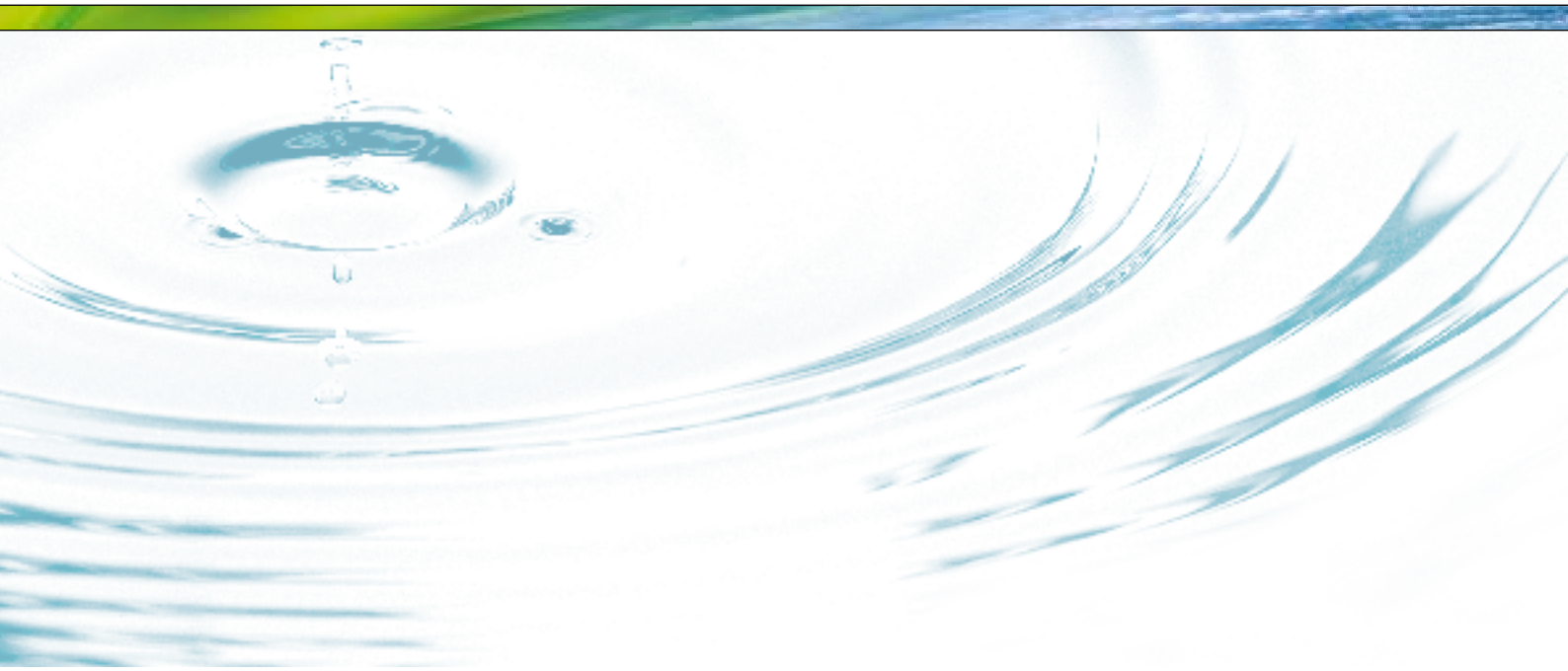


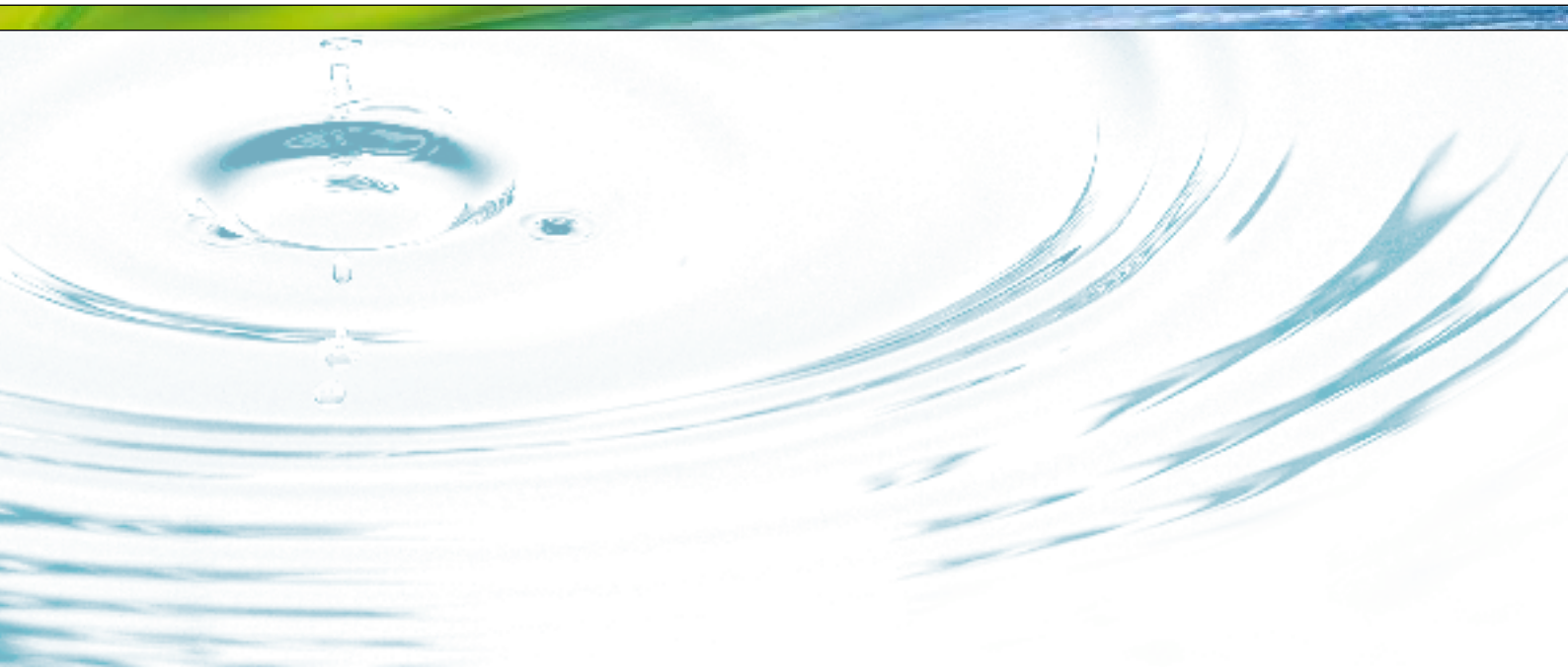
Achievements and Challenges for 2005/2006

Achievements

- Revenue over half a billion dollars for the first time ($504.7 million)
- After tax profit of $44.3 million
- Capital expenditure of $126.4 million, principally in asset refurbishment for increased reliability
- Returns to Government of $66.1 million
  - dividend $40.0 million
  - income tax equivalent $19.1 million
  - rates equivalent $2.9 million
  - loan guarantee fee $4.1 million
- Commencement of Basslink operation at 28 April 2006
- Roaring 40s joint venture with CLP Power Asia
- Reduction in the Lost Time Injury Frequency Rate to 1.3 per million hours worked (down from 3.2 in 2004/2005)
- Considerable improvement in staff engagement, as measured by the annual Staff Feedback Survey, positioning Hydro Tasmania among the better performing businesses nationally
- Slight increase in sustainability performance over the previous year's
- Energy Supply Association of Australia's award for sustainability reporting

Challenges

- Water storage levels at 22.7 per cent of full at the start of the 2005/2006 year
- $50 million expenditure on acquisition and installation of three 35 megawatt gas turbines
- Uncertainty over future of Australian wind farm developments
- Further embedding of sustainability principles into business processes, and improved sustainability reporting
- Expansion of Hydro Tasmania Consulting's regional office network in Australia and overseas, to secure further external work



Chairman's Review

In my opinion, the 2005/2006 year will be remembered as one of the most significant in Hydro Tasmania's long history of achievement.

The year saw the start of trading over Basslink, the electricity interconnection project that is key to the future of Hydro Tasmania.

One cannot overstate the importance of Basslink to Hydro Tasmania, nor the effort that went into the project from all levels of our organisation to see it operating commercially.

For the entire period of Geoff Willis' time as Hydro Tasmania's CEO, Basslink has been at the forefront of our drive to prepare the organisation for its future.

It is fitting that Basslink has been operating successfully for a period before Geoff retired on 31 July this year.

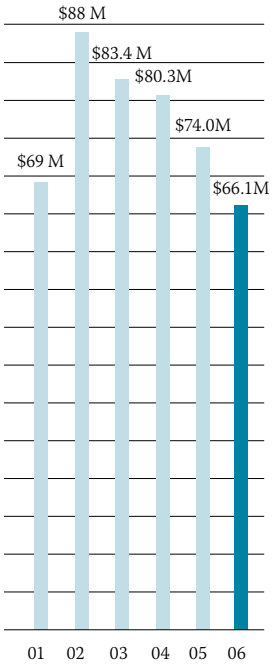
The time, effort, financial, intellectual and emotional capital put into Basslink by all at Hydro Tasmania will be rewarded over the next 25 years as the Basslink decision proves to be fundamental to our future and of great benefit to Tasmania.

Basslink's availability is a key element in Hydro Tasmania's strategy for water management. With the 2006 winter period being the driest on record, Basslink is of great strategic importance to our supply reliability and our trading in the National Electricity Market.

In my opinion, the 2005/2006 year will be remembered as one of the most significant in Hydro Tasmania's long history of achievement.

David Crean,
Chairman

Direct Returns to Government



Direct returns to Government year ending 30 June: $66.1M

For the year, Hydro Tasmania produced a strong financial result, with profit after tax of $44.3 million. This followed the previously reported 2004/2005 result of $44.4 million, and continues our strong profit performance since disaggregation.

In the year there were two significant demands on our cash position.

The water storage situation continued to be difficult, with water levels at the beginning of the year being only 22.7 per cent. With these levels, Hydro Tasmania was not prepared to take the risk of further delays in Basslink commissioning beyond April 2006, so took the prudent decision to secure supplementary gas generation. The $50 million cost for 105 megawatts of support generation has impacted on our cash, but was the responsible course to take to ensure we would meet Tasmania's electricity demand in the autumn and winter of 2006, had Basslink not been available.

The other factor was the $50 million payment to National Grid of a security deposit immediately Basslink commenced commercial operation. This was an arrangement entered into with benefits for both parties. By receiving the deposit, National Grid's cash commitments on the project reduced, while Hydro Tasmania was able to negotiate a reduction in the annual Basslink Facility Fee of $3 million to $4 million per year. Furthermore, the $50 million comes off the annual facility fee payment in the final year of the contract.

So these factors represented a $100 million call on Hydro Tasmania's finances in the 2005/2006 year. They can both be considered "one-offs," with one creating an additional, valuable generating asset and the other offsetting longer-term financial commitments.

Returns to Government for the year through dividends, income tax equivalents, rates equivalents and loan guarantee fees totalled $66.1 million.

So we have come from a situation of zero profitability in 1998, on disaggregation of the former Hydro-Electric Corporation, to today's situation where we are generating between $40 million and $50 million net profit per year. Predictions are that we will have significant growth in profit within the next five years.

As I foreshadowed last year, in 2005/2006 the Corporation adopted new Australian Accounting standards that align with international standards. This has the potential to result in greater volatility of our reported profitability each year. The standards require us to value liabilities, such as the Retirement Benefits Fund provision, using long-term interest rates which in themselves have their own inherent volatility.

In the first full year of operation in the National Electricity Market, we invested $126.4 million in capital programs. Two-thirds of this, $84 million, was invested in our generating plant in order to increase the reliability of our assets for market operations.

This is good business sense and money wisely spent to gain us the returns we expect from market activity for years to come.

In terms of our growth path, Hydro Tasmania took a major step forward in an investment which will pay off handsomely from 2010 onwards.

CLP Power Asia's KK Chan and Richard McIndoe, with Hydro Tasmania's David Crean and Geoff Willis, signing the Roaring 40s agreement, 22 September 2005

We entered into a 50/50 joint venture partnership with CLP Power Asia to finance renewable energy developments in Australia and overseas. CLP Power Asia is part of CLP Group, one of the largest investor-owned power businesses in Asia and the largest external investor in the rapidly growing Chinese electricity industry.

To the partnership Hydro Tasmania has brought the wind farm assets held in its subsidiary, Roaring 40s Renewable Energy Pty Ltd. CLP will invest $110 million to acquire its 50 per cent shareholding of Roaring 40s.

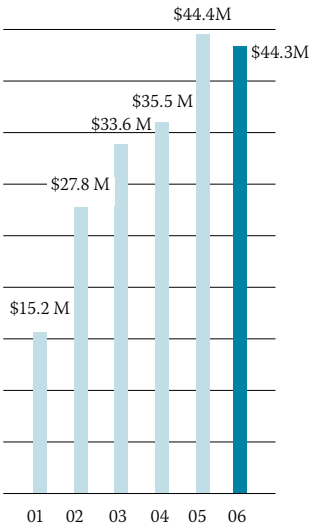
The value of the company is expected to grow to over $1 billion by 2010, when Roaring 40s will make its first dividend returns to its two owners.

In the absence of positive policy settings by the Australian Government to support renewable energy development in Australia, Roaring 40s is concentrating overseas, on China in particular. With this focus, the partnership with CLP is proving particularly useful.

Roaring 40s is building a 49-megawatt wind farm, as the first phase of a 100-megawatt project, in the Jilin province in north-east China and has also entered into a co-operation agreement with a major Chinese energy company, Guohua Energy Investment Company Ltd. Initially, this will involve around $A300 million in project investment for the development of 150 megawatts of wind power.

In terms of our growth path, Hydro Tasmania took a major step forward in an investment which will pay off handsomely from 2010 onwards.

Profitability



Profit after tax year ending 30 June:
$44.3M

Note: 2005 profit reported under AGAAP standards

2006 profit reported under AIFRS standards
(see Glossary and Financial Statements)

China has set a goal of 30,000MW of new renewable energy by 2020 and has the financial structures in support of this target. This makes China a highly attractive investment prospect for Roaring 40s.

The Australian situation is less promising. While construction of the 75MW Woolnorth Studland Bay Wind Farm has commenced, the lack of continued Australian Government support for the Mandatory Renewable Energy Target scheme is unfortunate. This has forced Roaring 40s to suspend its Heemskirk wind development project for the time being. While Roaring 40s is working hard to construct the Musselroe project, its outlook is uncertain.

Given the world-class wind resource at both sites, we are hopeful that the future policy climate will enable full development of these excellent projects.

Hydro Tasmania has a leadership role in the Australian renewable energy industry in that it produces around 60 per cent of the electricity generated from renewable sources in Australia and maintains a body of expertise second to none.

We are keen to see further major development in the Australian wind industry, in order to keep us in this prominent leadership position and achieve our vision of being Tasmania's world-renowned renewable energy business.

In reviewing the 2005/2006 year, I would like to thank everyone in Hydro Tasmania – our employees, our management team and the Board of Directors - for their contribution to what has been a year of major achievement.

Two of my fellow directors, Dr Julian Amos and Ms Carol Hughes, have left the Board after seven years in which their contribution has been invaluable as the Board has set the goals for the future of Hydro Tasmania.

Geoff Willis, David Crean and Minister for Energy, David Llewellyn, at Basslink's official opening on 9 May 2006

My final task is to farewell and thank outgoing CEO Geoff Willis and welcome his successor Vince Hawksworth.

Geoff leaves an organisation which he led most ably for seven years. His legacy is an organisation transformed from a Tasmanian generating business into a renewable energy leader trading in a national market and taking its skills and expertise to the world.

Under his leadership, Hydro Tasmania has successfully taken on the challenges of building wind farms and making Basslink a reality while returning a strong profit to Government and ensuring that the safety of our people is paramount in everything we do.

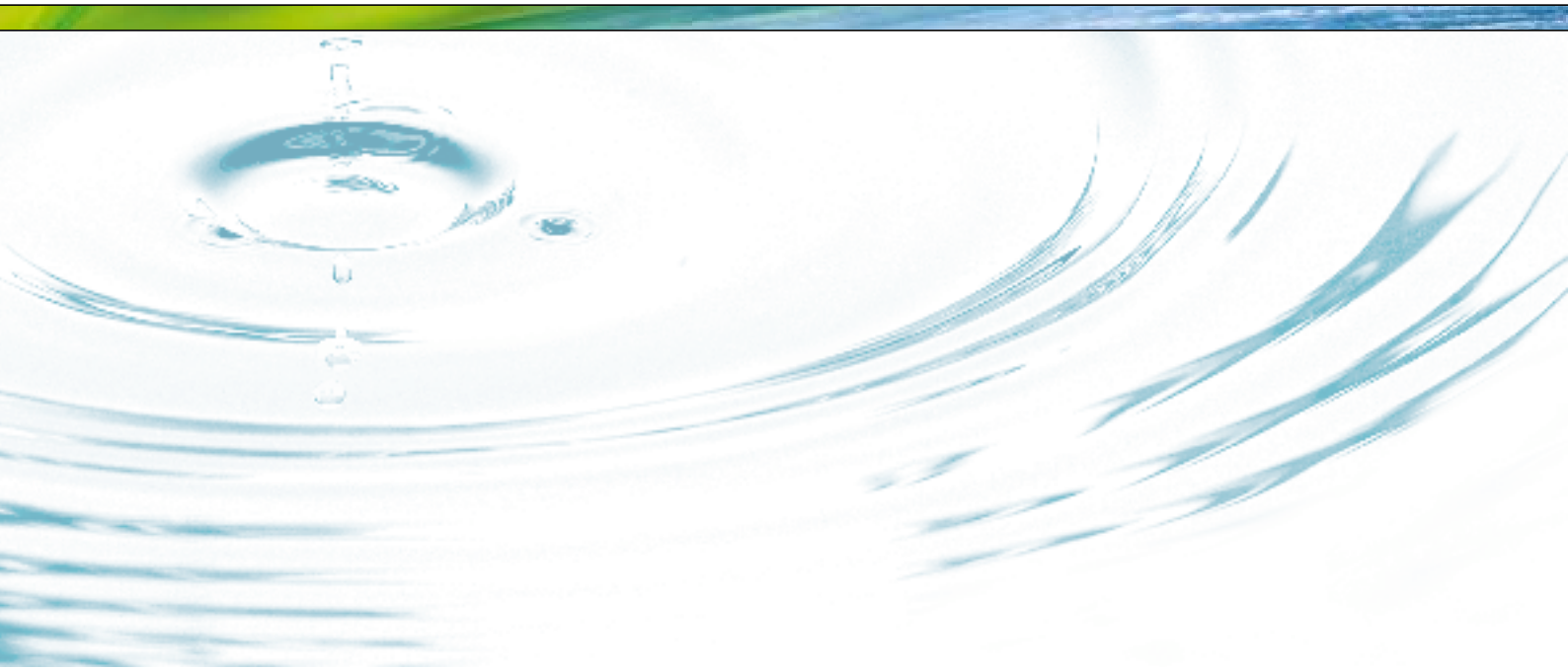
He has led a team of people that has created a strong Corporation, confident in its future direction and in a sound financial position.

On behalf of the Board and staff of Hydro Tasmania, I would like to thank Geoff sincerely for his contribution during his seven years as CEO.

We welcome Vince and we know we have found the right person to take the business forward into a new era.

There is much challenge before Hydro Tasmania but there is much opportunity also. It is an exciting time to be part of Tasmania's world-renowned renewable energy business.

He has led a team of people that has created a strong Corporation, confident in its future direction and in a sound financial position.



Chief Executive's Report

In presenting the Chief Executive Officer's report for the 2005/2006 financial year, I find myself in the somewhat challenging position of summarising the key events of the year when that year was presided over successfully by my predecessor, Mr Geoff Willis.

However, in his place, I am very pleased to report that during 2005/2006 Hydro Tasmania made considerable progress in pursuing the very clear strategic direction that has been set by the Board. In reflecting on those achievements, it is appropriate that I highlight the challenges ahead.

We have made considerable progress in pursuing the very clear strategic direction that has been set for Hydro Tasmania by the Board.

Safety

Safety must be at the forefront of everyone's thinking. We have a vision of 'no harm to anyone at any time' and considerable effort has been put into implementing the HydroSafe Occupational Health and Safety Policy and procedures. In the 2005/2006 year, our principal safety measure, the Lost Time Injury Frequency Rate, was 1.3 per million hours worked, down from 3.2 in the previous year.

This improvement indicates our safety message is being heard across Hydro Tasmania. The goal for next year and beyond is to improve on this outcome.

Vince Hawksworth,
Chief Executive Officer

Lake Pedder

The Energy business has had its first full year of operation in the National Electricity Market, refining its systems, developing its people, modernising its plant, developing its trading and risk positions and meeting Tasmania's electricity demand in trying periods of below average rainfall.

Energy

The Energy business has had its first full year of operation in the National Electricity Market, refining its systems, developing its people, modernising its plant, developing its trading and risk positions and meeting Tasmania's electricity demand in trying periods of below average rainfall.

The commissioning and start of commercial operation of Basslink on 28 April 2006 has been a highlight for the year, not only for Energy but for the entire organisation.

Basslink as a commercial reality is the culmination of years of work by scores of talented people within Hydro Tasmania. Through Basslink, the longest cable of its type in the world, we are now trading electricity in the National Electricity Market and challenging the operational and trading teams to deliver the benefits that the Basslink opportunity presents.

After just two months of Basslink's operations, our teams are rising to this challenge and we are realising those benefits by supporting our water storages, capturing the value of energy otherwise lost by spill and operating our plant very efficiently.

With Basslink in place, life for Hydro Tasmania will never be the same again. We are now part of a much bigger market, with an energy business in Tasmania and a capacity business in the National Electricity Market. We are confident we are learning the lessons of the market and putting the right people and systems in place.

Energy has two major challenges. Its systems and processes must be streamlined to optimise operating costs. Secondly, with plant that is on average 50 years old, Energy's capital expenditure strategy is critical if we are to capture fully the opportunities of the new market.

Consulting

From the Corporation's standpoint, the overwhelming strength of Consulting is that it enables the strategies of the business to be fully effective by providing access to knowledge.

As an organisation we are committed to Consulting entering new markets, where they can contribute to overall profitability while retaining the skills bases for the benefit of Hydro Tasmania.

Consulting has the strategy of broadening its customer base nationally and internationally. It is making good progress and it is proving that with continued effort it will become a sustainable, long-term business.

There are still important management systems and cultural advances needed in order for the Consulting business to achieve success and meet its aspirations. The move to dedicated premises at Cambridge in 2007 will contribute to the achievement of these goals.

There is no doubt 2006/2007 will be a watershed year for the Consulting business. We look forward to creating a strong platform for growth.

Business Development

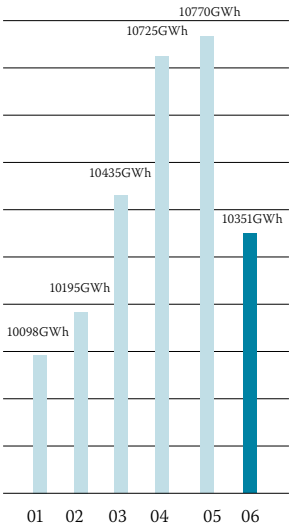
Business Development began the year as the Renewables Development business, with an immediate challenge of developing a business model to fund and progress its renewable energy development program.

Part of this challenge was the Australian Government's refusal to extend the Mandatory Renewable Energy Target scheme, with resulting decline in prices for Renewable Energy Certificates. Both these events severely constrained Renewables Development's ability to pursue its major new renewable energy projects.

The solution was the adoption of a business model which identified and secured a major joint venture partner.

After a comprehensive search, Hydro Tasmania announced on 22 September 2005 that it had secured CLP Power Asia as an equal partner to pursue renewable energy developments in Australia and overseas.

Energy Generated



Energy generated excluding Bass Strait islands year ending 30 June: 10351GWh

Note: 2006 value is net energy measured at market connection points.

All of these service functions also face significant challenges as we focus on providing the three businesses with the support that will ensure success.

The development vehicle for this partnership is Hydro Tasmania's former subsidiary, Roaring 40s Renewable Energy Pty Ltd. CLP is investing $110 million in equity in order to secure a 50 per cent shareholding in Roaring 40s.

Hydro Tasmania's contribution for its 50 per cent shareholding in Roaring 40s is the suite of existing wind farm assets.

The partnership is already reaping rewards, with major wind farm developments in China and good prospects in India. The business and cultural fit with CLP is also emerging, as we expected when conducting due diligence on the prospective partnership.

Emerging from the establishment of this arrangement is our new Business Development unit. Its focus is on market development opportunities, business research and development and Hydro Tasmania's role in national and international energy policy debate.

In pursuing market development opportunities, the Business Development group will focus on developing opportunities that can be both funded and produce a commercial rate of return.

The support services

The Corporate team, Human Resources and Public Relations provide important support for Hydro Tasmania's three businesses.

Corporate provides legal services, the information systems function, procurement and fleet management, financial systems, and treasury and risk management. Corporate also facilitates the Board strategic planning process and compilation of Hydro Tasmania's Corporate Plan.

Human Resources applies modern HR processes and policies to guide staff throughout Hydro Tasmania in their pursuit of business objectives and their career development.

Public Relations meets the internal and external communication needs of Hydro Tasmania, engages with our stakeholders and explains our business direction to the wider community.

All of these service functions also face significant challenges as we focus on providing the three businesses with the support that will ensure success.

Financial position

Reviews of Hydro Tasmania's capital structure undertaken as part of our annual Corporate Planning process have highlighted that while the capital structure of the business was appropriate for the monopoly generator in Tasmania, it needs strengthening for the National Electricity Market. Although Basslink operation is forecast to result in substantial growth in our revenues and cash flows, participation in the national market also has the potential to increase earnings volatility, placing additional demands on the balance sheet.

Improvements in Hydro Tasmania's financial strength will allow the Corporation to better meet its strategic objectives, including provision of funding necessary to manage risks associated with our key generation assets, and enhancing the Corporation's ability to meet peak generation demand in the national market environment. Discussions are continuing with Government regarding an equity injection to strengthen Hydro Tasmania's balance sheet and provide a more robust capital structure, better placing the Corporation to compete in the national market.

We find ourselves well-placed as a business to capitalise on our plans but we must recognise there are financial constraints requiring careful management and prudent use of capital to ensure we continue on our strategic path.

We ended the 2005/2006 financial year in good shape, with cash flows ahead of budget and another strong profit result. However, financial management and cost control will be the focus as we move forward.

Our people

Hydro Tasmania's people remain the crucial element to our success as a business. A period of substantial achievement, such as in this year, brings changes and challenges. Our staff surveys endeavour to gauge the impact of this on our people.

In 2005, there was a certain level of concern recorded in the staff survey and a lot of work has been undertaken to understand and address this.

The results of the 2006 Staff Feedback Survey in May showed considerable improvement from last year, with the overall score increasing nine percentage points to 34 per cent. In the context of the methodology used by our providers, Right Management Consultants, this is above the average score of 31 per cent for engagement in businesses. These results position Hydro Tasmania alongside the better performing businesses nationally.

While our people are generally more engaged, the pressures of cultural change and commercial reality bring challenges we all must be prepared to meet.

It will be a major focus of our internal communications to ensure that our people understand our strategies and believe they are part of our journey.

Sustainability

In the previous year, we took a new approach to our annual reporting by reporting our progress and performance against sustainability principles. This captured both our successes and shortcomings.

Through the measurement and evaluation of our processes, activities and performance against sustainability indicators, we are endeavouring to benchmark ourselves against industry best practice.

This year sees our second attempt at sustainability reporting. We are committed to transparency and improvement in both our reporting and our activities.

In terms of ongoing business sustainability, we have several priorities going forward. These are financial success in a competitive market; continued access to natural resources; sustainable, efficient assets; satisfied suppliers and partners; and safe, engaged, committed and motivated staff.

Summary

In summary, Hydro Tasmania achieved much in the 2005/2006 year, with Basslink and Roaring 40s the "standouts".

We've done much to develop our safety culture, establish realistic financial plans, streamline operations and reduce costs, maintain assets and engage our people.

As Hydro Tasmania's CEO, I make the commitment to continue these efforts in order that Hydro Tasmania remains at the forefront of Tasmania's growth and prosperity.

George Town Converter Station, Basslink official opening, 9 May 2006

Reporting Scope

In the 2005/2006 year, there were three significant changes in circumstances from those which applied to Hydro Tasmania in the previous reporting period.

The 2005/2006 Annual Report covers the fiscal period from 1 July 2005 to 30 June 2006.

Its structure is similar to that of the 2004/2005 Annual Report published on 19 October 2005. In that document Hydro Tasmania endeavoured, for the first time, to report its performance in terms of both statutory obligations and a voluntarily adopted Sustainability Policy.

In terms of Hydro Tasmania's statutory responsibilities, the 2005/2006 report fills the requirements of an annual report under the *Government Business Enterprises Act 1995*. It includes audited financial statements, governance processes, organisational structure and a Statement of Corporate Intent outlining the organisation's proposed business directions for the five years from 2006/2007 to 2010/2011.

In terms of its Sustainability Policy, Hydro Tasmania is committed to reporting on the social, environmental and economic dimensions of its business, using a self-assessment method. The self-assessment incorporates components of the International Hydropower Association (IHA) Sustainability Assessment Protocol, the Energy Supply Association of Australia Code of Sustainable Practice, Global Reporting Initiative (GRI) requirements and stakeholder feedback.

The 2005/2006 process has achieved greater participation across the organisation than occurred in 2004/2005. However, full integration of sustainability reporting in all areas of the business has yet to be achieved and is an ongoing aim.

Sustainability reporting for the 2005/2006 financial year is described in a discrete section of this report, commencing at page 49. This includes a summary of the process for the self-assessment. More detail can be obtained from Hydro Tasmania's website: http://www.hydro.com.au

External assurance of the Sustainability Report has been conducted by a qualified assurance provider against the AA1000 Assurance Standard and its three principles of materiality, completeness and responsiveness. The assurer's statement of external sustainability assurance is located at page 100.

Hydro Tasmania's operations and activities are conducted principally in the State of Tasmania, where its generating capacity is located. It conducts a consulting business in Tasmania, in mainland Australia and overseas. Its activities outside Tasmania are governed by the same values, governance, processes, policies, conditions and rules as apply to its Tasmanian activities.

Information on Hydro Tasmania's subsidiary Bell Bay Power Pty Ltd and its joint venture Roaring 40s, is provided in this Annual Report. Statistics from Bell Bay Power are included in the Sustainability Report where appropriate. No information from Roaring 40s is included in the Sustainability Report.

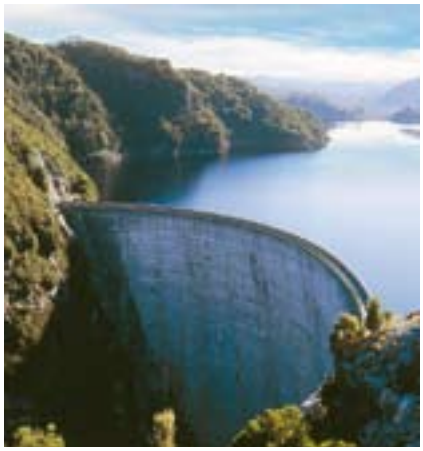
In the 2005/2006 year, there were three significant changes in circumstances from those which applied to Hydro Tasmania in the previous reporting period.

The first of these was the establishment of a joint venture with CLP Power Asia, announced on 22 September 2005, as a 50/50 co-investment in new renewable energy projects. The development vehicle for this partnership was Hydro Tasmania's subsidiary, Roaring 40s Renewable Energy Pty Ltd.

Hydro Tasmania's contribution to the joint venture is its existing wind farm assets, while CLP has secured its 50 per cent shareholding in Roaring 40s through an equity injection of $110 million.

The second significant change from the previous year was the completion of construction, and commencement of commercial operation, of the Basslink power cable interconnection between Tasmania and mainland Australia. Basslink, owned by National Grid Australia, enables Tasmania to physically trade electricity in the National Electricity Market under contractual agreements between National Grid, the State of Tasmania and Hydro Tasmania.

The third significant event was the application of new accounting standards from 1 July 2005. These new standards are encapsulated in the Australian equivalent to International Accounting Standards (AIFRS). The impact of their adoption was disclosed in the notes to the 2005 financial statements.



Gordon Dam

As a Government Business Enterprise operating under, and subject to, the *Government Business Enterprises Act 1995* ***and the*** *Hydro-Electric Corporation Act 1995****, Hydro Tasmania is 100 per cent owned by the State of Tasmania.***

The Business Profile

The Hydro-Electric Corporation is a registered business trading under the brand name Hydro Tasmania.

As a Government Business Enterprise operating under, and subject to, the *Government Business Enterprises Act 1995* and the *Hydro-Electric Corporation Act 1995*, Hydro Tasmania is 100 per cent owned by the State of Tasmania. Its water licence is issued pursuant to the *Water Management Act 1999*.

The Honourable David Llewellyn MHA, Minister for Energy, is the Tasmanian Government Minister with portfolio responsibility for Hydro Tasmania.

Hydro Tasmania operates in commercial markets and its principal business activities are:

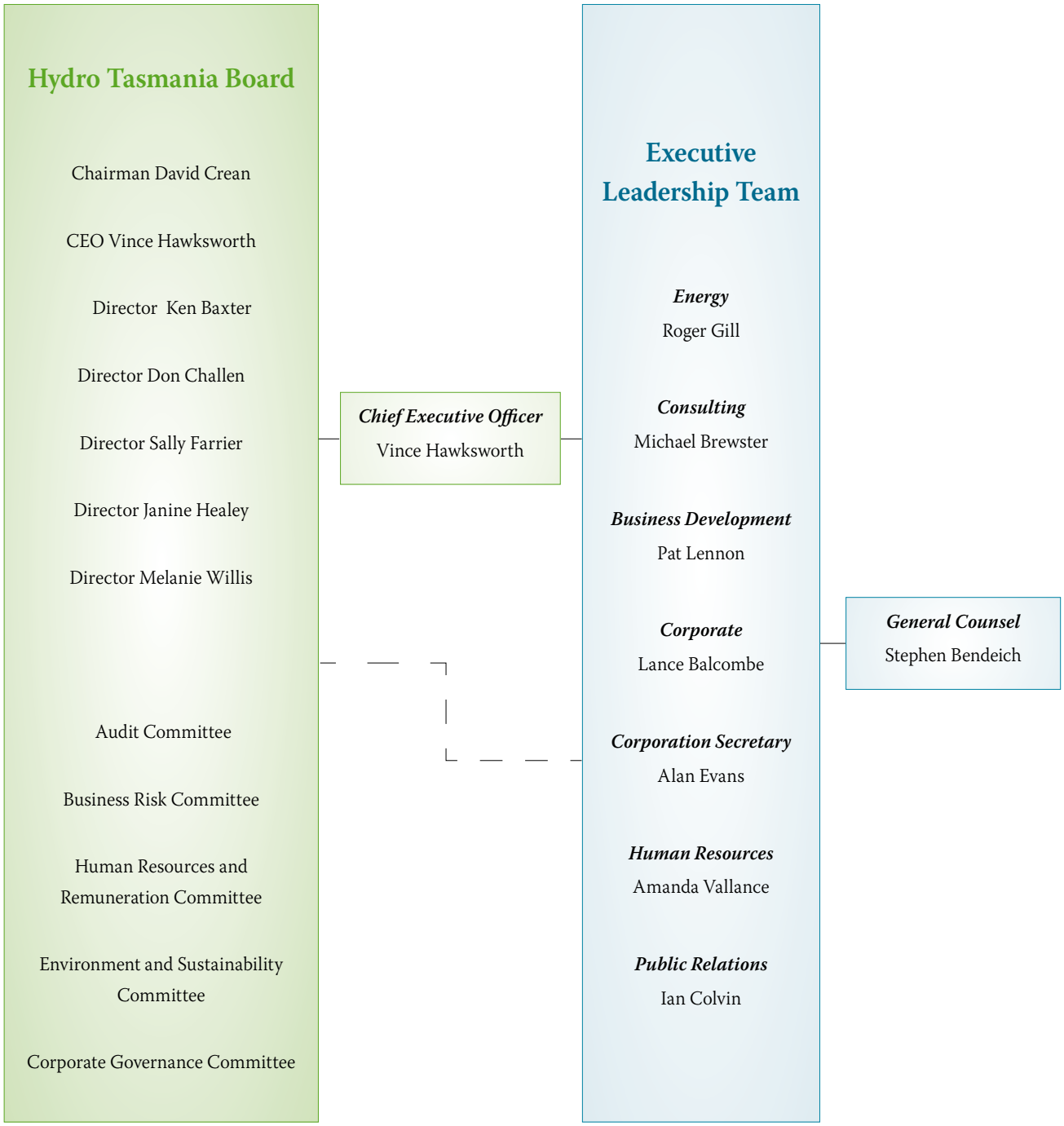
- management and operation of major dams, infrastructure and equipment for the generation and trading of electricity and related products (Energy business)
- development of new renewable energy generation assets (Business Development business)
- provision of consulting and other services in renewable energy, environmental and water management and associated sciences and technologies (Consulting business).

Hydro Tasmania also provides concessional arrangements to its customers living on the Bass Strait islands. Aurora Energy Pty Ltd delivers these arrangements to those customers on behalf of Hydro Tasmania via a sub-contract, with net costs of the activity funded by the State Government as a declared Community Service Obligation (CSO).

Significant event

During the year under report, construction of the Basslink interconnection between Tasmania and the Australian mainland was completed. Basslink commenced operation on 28 April 2006.

Organisational and governance structure - as at 1 August 2006

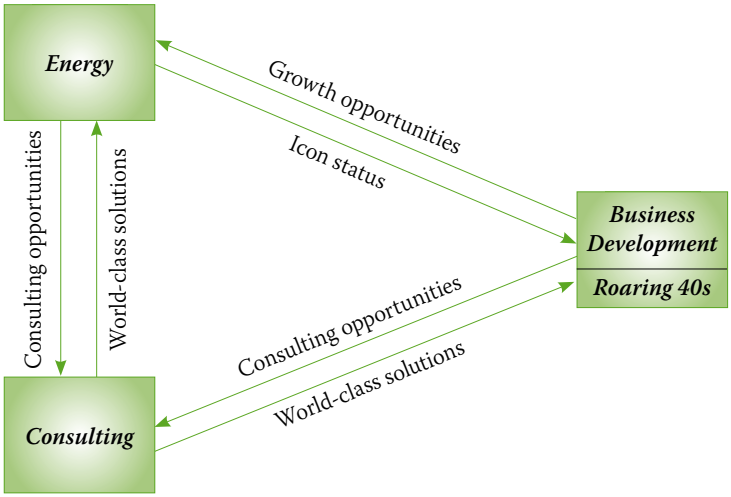


Senior Environmental Consultants Daryl Brown and Sandra Hogue examine Aboriginal artefacts at Great Lake

Consulting offers client solutions to customers in Australia and overseas in environment and catchment management, dams, hydropower, wind energy and power engineering.

The business model adopted by Hydro Tasmania to undertake its principal activities is based on three interdependent lines of business, as depicted in the following diagram.

Hydro Tasmania - Three interdependent lines of business



Three-business model

The three lines of business operate in different markets.

Energy provided wholesale electricity to Tasmania's electricity retailer, Aurora Energy Pty Ltd until 29 May 2005 when it commenced trading in the National Electricity Market.

Business Development develops new markets, commercialises new technologies and manages Hydro Tasmania's investments in new businesses, such as the 50/50 joint venture in Roaring 40s with CLP Power Asia.

Consulting offers client solutions to customers in Australia and overseas in environment and catchment management, dams, hydropower, wind energy and power engineering.

Subsidiaries and joint ventures

The Hydro-Electric Corporation holds the following controlled entities.

	Country of incorporation	Percentage of ownership	
		2006 %	2005 %
Parent Entity			
Hydro-Electric Corporation			
Controlled Entities			
Bell Bay Power Pty Ltd	Australia	100	100
Lofty Ranges Power Pty Ltd	Australia	100	100
Roaring 40s Renewable Energy Pty Ltd	Australia	50	100
Bell Bay Three Pty Ltd	Australia	100	-
RE Storage Project Holding Pty Ltd	Australia	100	-

Certain other controlled entities previously reported are no longer held by Hydro Tasmania. Details of these can be found in the Financial Statements at page 164.

Details of joint ventures in which Hydro Tasmania is involved can be found in the Financial Statements at page 165.

Countries where offices are located

Australia: Hobart, Launceston, Melbourne, Adelaide

Papua New Guinea: Port Moresby

India: New Delhi

Organisation scale

886 employees as at 30 June 2006

Energy	394
Business Development	16
Consulting	367
Corporate/Office of CEO	109

- energy generated 10351 gigawatt hours
- total revenue $504.7 million
- total capitalisation (equity) $907.4 million
- total assets $3.85 billion

Stakeholders

Hydro Tasmania defines its stakeholders in terms of the AccountAbility Stakeholder Engagement Standard: "Stakeholders are those who affect, and/or could be affected by, an organisation's activities, products or services and associated performance".

In this context, Hydro Tasmania considers its stakeholders to be:

- staff
- customers
- suppliers
- business partners
- competitors
- Stakeholder and Portfolio Ministers – Government of Tasmania
- Government agencies and regulators – State and Federal
- Parliamentarians
- local government
- media – national and local
- community and special interest groups and bodies
- industry associations
- academic and scientific communities
- Tasmanian community.

Hydro Tasmania's Board of Directors. Left to right: Dr David Crean, Sally Farrier, Janine Healey, Vince Hawksworth, Ken Baxter, Melanie Willis and Don Challen

Directors and Board Committees

The Hydro Tasmania Board

Dr David Crean (55) was appointed a director of the Hydro-Electric Corporation on 12 July 2004 and chairman on 24 September 2004. He was State Treasurer from August 1998 to his retirement from the position in February 2004. He was also Minister for Employment from July 2002 to February 2004. He was the Member for Buckingham in the Legislative Council from 1992 to February 1999, and then for Elwick until May 2004. From 1989-1992 he was a member for Denison in the House of Assembly. From 1993-1998 he held Shadow Portfolios of State Development, Public Sector Management, Finance and Treasury. He graduated from Monash University in 1976 with a Bachelor of Medicine and Bachelor of Surgery.

Vince Hawksworth (47) took up his position as Chief Executive Officer on 1 August 2006, succeeding Mr Geoff Willis. Prior to his appointment, Mr Hawksworth was General Manager Generation and subsequently General Manager Retail for Genesis Energy in Auckland, New Zealand. He has an 11-year career history in the New Zealand electricity industry and prior to that held senior management positions in the UK coal mining industry. Mr Hawksworth has completed professional Engineering qualifications and holds a Masters degree in Business Administration. Other offices held have been First Vice President, Electricity Engineers Association of New Zealand; Director, Gas Association of New Zealand; and Member, Electricity Commission Retail Market Advisory Group, New Zealand.

Ken Baxter (62), appointed to the Board on 6 November 1996, is a Strategic Management Consultant. He has a Bachelor of Economics degree from the University of Sydney. He is a Fellow of the Australian Institute of Management, Fellow of the Australian Institute of Company Directors and a Member of the Academy of Political Science (New York). He is Chairman of AVT Bioplasma Ltd and Computronics Ltd. He has been senior policy adviser to the Chief Secretary of the Government of Papua New Guinea since 1999. He has held the positions of Chairman of the Australian Dairy Corporation and Chairman of the Australian Dairy Research and Development Corporation, Chairman of the Council of Australian Governments Electricity Reform Committee, member of the COAG Micro-Economic Reform Committee, Director-General of the NSW Premier's Department, Secretary of the Department of Premier and Cabinet in Victoria and Director of the Sydney Organising Committee for the Olympic Games (2000). He has held the positions of Commissioner of the Australian National Railways Commission and Director of the Baker Medical Research Institute.

Don Challen (56) was appointed to the Board on 22 March 1993. Currently Secretary of the Tasmanian Department of Treasury and Finance, Mr Challen has a Masters degree in Economics. He is a Fellow of the Australian Institute of Company Directors, a Fellow of CPA Australia and an Honorary Fellow of the Finance and Treasury Association. Mr Challen is Chairman of the Tasmanian Public Finance Corporation and is a member of the Financial Reporting Council. He previously held the positions of Reader in Economics at the University of Tasmania, Director, Office of the Economic Planning Advisory Council and Managing Director of the Tasmanian Development Authority.

Sally Farrier (42) was appointed to the Board on 13 December 2004. Ms Farrier is a director of Farrier Swier Consulting in Melbourne and a member of the Victorian Water Trust Advisory Council. She specialises in energy and water reform, regulation and governance. Her experience spans a broad range of Australian, New Zealand and international projects, including significant involvement in the Victorian electricity and gas reform processes. Ms Farrier has a Bachelor of Engineering, a Masters in Business Administration, and a Postgraduate Diploma in Applied Finance and Investment Analysis. She is a member of the Institute of Securities, Finance and Banking, the International Water Association and the Australian Institute of Company Directors.

Janine Healey (47) was appointed to the Board on 9 September 2002. Currently a Chartered Accountant with Ruddicks, Ms Healey has wide-ranging commercial experience, particularly in the areas of commercial taxation advice, business structures, and planning and cash flow management. Ms Healey has a strong history of community involvement in Tasmania which includes serving as a member of the University of Tasmania Council Audit and Finance Committee (including a term as Chair), Treasurer 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 (in voluntary liquidation). 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.

Melanie Willis (41) was appointed to the Board on 13 December 2004. Prior to her current role, Ms Willis was Director Investment Banking with Deutsche Bank, Senior Vice President with BT Alex Brown, Manager Structured Finance with Westpac Corporate Finance and a senior consultant with Arthur Andersen. She has a Bachelor of Economics, a Diploma from the Securities Institute of Australia, a Master of Taxation and a Diploma from the Australian Institute of Company Directors. Ms Willis is also an associate member of the Institute of Securities, Finance and Banking, a member of the Australian Institute of Company Directors and the Taxation Institute of Australia. Ms Willis is also on the Board of the WHK Group Limited (WHG), Aevum Limited (Ave) and Rhodium Asset Solutions. She is principal of the Capital Performance Group Pty Ltd which specialises in providing "in house" investment expertise in strategic, capital raising, structured finance advice to mid-size listed organisations.

Alan Evans (55) was appointed Corporation Secretary on 15 November 2004. He holds corporate administration and law degrees from Curtin University in Western Australia. Mr Evans has substantial Australian and international experience in the energy, minerals processing and mining industries. He is a Fellow of the Chartered Secretaries Australia and the Institute of Corporate Managers; and a member of the Australian Institute of Company Directors.

Board meetings attended year ended 30 June 2006

	Ordinary meetings held while a Board member	Attended
Hon D M Crean	12	12
G L Willis	12	12
J J Amos	11	11
K P Baxter	12	10 *2
D W Challen	12	11 *1
S M Farrier	12	10 *2
J M Healey	12	12
C A Hughes	12	11 *1
M V R Willis	12	12

* *leave of absence granted for non-attendance*

Dr Amos resigned from the Board on 6 June 2006.

Ms Hughes' term of appointment was completed on 21 June 2006.

Mr Willis retired on 31 July 2006.

Board Committee Structure

Committees play an important part in guiding the Corporation on specific governance issues. Committees are able to give full attention to important corporate issues and make informed recommendations to the full Board, which makes the final decisions.

The following is the current membership and a brief overview of the responsibilities of each committee.

Chairman Dr David Crean and new CEO Vince Hawksworth

Audit Committee

JM Healey (Chair), KP Baxter, DM Crean, MVR Willis, with management support from B Stubbe.

The Committee operates under an Audit Committee Terms of Reference with responsibilities including to:

- oversee the external financial reporting by the Corporation and provide an independent review of financial information presented by management to regulators
- oversee the scope and quality of audits conducted by the internal auditor
- meet with the external auditors to discuss their audit scope and results
- determine the adequacy of the Corporation's systems of internal controls and compliance
- receive reports and assurances on matters of compliance with laws, regulations and internal policy and review corrective actions taken.

The Committee meets at least quarterly and reports quarterly to the Board.

Business Risk Committee

DW Challen (Chair), SM Farrier, VJ Hawksworth, MVR Willis, with management support from L Balcombe, J Minchin and M Smith.

The Committee's responsibilities are to:

- ensure constant development of risk management principles throughout the organisation and advise the Board on risk management issues and strategies
- sponsor the Integrated Business Risk Management (IBRM) program
- review and consider the consolidated profile of Hydro Tasmania's major risks
- review and endorse IBRM, Treasury, Marketing and Trading, and Dam Safety risk management policies for Board approval
- on behalf of the Board, monitor overall risk management performance.

The Committee meets at least quarterly.

Human Resources and Remuneration Committee

KP Baxter (Chair), DM Crean, VJ Hawksworth, with management support from A Vallance.

The Committee's responsibilities include:

- reviewing and advising the Board on human resources management policies and strategies
- overseeing the annual safety plan and safety reports
- reviewing and advising the Board on employee relations
- monitoring the effectiveness of performance and development programs
- reviewing the performance and effectiveness of the Corporation's remuneration, benefits and succession planning strategies.

The Committee meets at least quarterly.

The endangered Ptunarra brown butterfly: see commitment on page 95

Environment and Sustainability Committee

DW Challen (Chair), SM Farrier, VJ Hawksworth, with management support from I Colvin, R Gill, C Nixon and A Scanlon.

The Committee's responsibilities are to:

- advise the Board on Hydro Tasmania's environmental and sustainability policies
- review the performance of Hydro Tasmania's Environmental and Sustainability Management System
- review Hydro Tasmania's environmental and sustainability programs and performance
- examine strategic environmental issues including relations with stakeholders, new legislation and new government and industry initiatives
- commission environmental audits and studies to address issues of concern or to verify information
- endorse for the Board the approved annual Sustainability Report.

The Committee meets at least quarterly.

Corporate Governance Committee

DM Crean (Chair), VJ Hawksworth, JM Healey, with management support from L Balcombe, S Bendeich and A Evans.

The Committee's responsibilities are to:

- review and advise the Board in relation to the Terms of Reference of Board Committees
- monitor and report to the Board as appropriate on developments in duties of Hydro Tasmania directors and in corporate governance practices generally
- monitor the application of Hydro Tasmania's constituent legislation (the *Government Business Enterprises Act* and the *Hydro-Electric Corporation Act)*
- maintain and review, as necessary, Hydro Tasmania's Statement *Identifying the Guidelines for the Roles and Responsibilities within the Corporation*
- conduct and review, as necessary, Hydro Tasmania's processes for assessing whole of Board, Board Committee and individual director performance
- sponsor continuous improvement in Board procedures and practices
- monitor and review reporting of governance matters in Hydro Tasmania's Annual Report
- develop for the consideration of the Board, corporate governance standards which will compare favourably with current best practice.

The Committee meets at least quarterly.

The Corporation Secretary attends all Board Committee meetings as Governance Executive.

Compliance

A senior officer of the Corporation oversees performance in relation to all compliance obligations. This role reports to the Corporation Secretary on an administrative basis and has direct access to the Board.

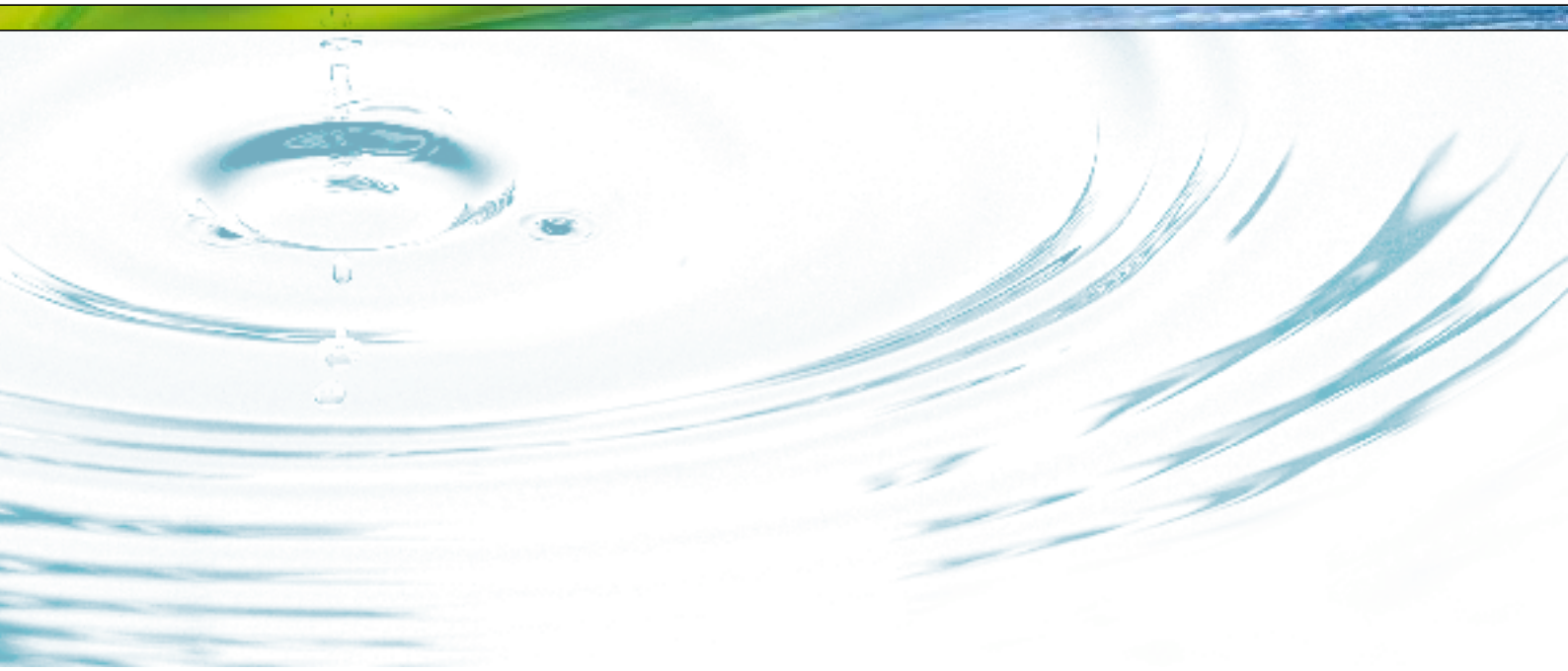
CEO Performance

The Board also maintains a formal process for the evaluation of the Chief Executive's performance. The formal evaluation is based on specific criteria, including the Corporation's business performance, the extent to which longer-term strategic objectives are being achieved and the development of the Corporation's people at all levels of the organisation. This assessment is structured and conducted by the Board and incudes the requirements under the *Government Business Enterprises Act 1995.*

Board Processes

The Board conducts a program of continuous improvement of its operations, including a critique at the conclusion of each Board meeting. This ongoing 'self assessment', including an annual evaluation questionnaire, ensures an overall continuous improvement process in Board procedures and practices.

energy



Energy

The Energy business is characterised as the 'cash engine' of Hydro Tasmania.

Energy's objectives are three-fold:

- to maximise the sustainable return from generating assets and resources by using best practice systems and approaches in the National Electricity Market (NEM)
- to continue to successfully implement the Energy business model
- to invest in the asset base in order to manage risk and maximise value.

Business strategy

The primary focus areas for the Energy business in the 2005/2006 year under report have been consolidation of the first full year of operation in the National Electricity Market; commissioning and commercial operation of Basslink; safety; improved engagement of Energy business staff in the affairs of both Energy and Hydro Tasmania in general; and continued and sustained improvements in systems and processes.

The Energy business is characterised as the 'cash engine' of Hydro Tasmania.

Roger Gill,
Executive General Manager Energy

Progress against business plans has been steady with a continued focus on establishing a contract portfolio to underpin Energy's revenue projections.

Progress against business plans

Progress against business plans has been steady with a continued focus on establishing a contract portfolio to underpin Energy's revenue projections.

The Energy Operating Model has been refined and embedded in the Energy business. The model is an assessment of available capacity, establishment of prudent water management principles, co-ordination of outage management between Power Schemes, Energy Market Operations and Trading, and scenario planning.

Specific initiatives

A cultural change program has been conducted within the Energy business. Facilitated by The Mettle Group, the program has concentrated on developing the required cultural drivers for Energy, with all Energy personnel participating.

Power Schemes has undertaken a major review of all assets and has developed management plans to address the operation and condition of dams and canals, power stations and primary protection assets.

Particular achievements

Basslink, the longest undersea power cable in the world, was commissioned on 28 April 2006. The operation of Basslink, owned and operated by National Grid Australia, is supported by contractual agreements for Hydro Tasmania's long-term use of the facility.

Its successful commissioning and commercial operation represent the culmination of many years of significant effort by Hydro Tasmania staff right across the organisation.

To support market operations, the refurbishment program continued at Gordon Power Station with refurbishment work on one of two turbines completed at a cost of approximately $21 million. Refurbishment of the second unit will occur in the 2006/2007 year, bringing efficiency gains and reliability improvements to the largest asset in Hydro Tasmania's integrated hydro-electric system.

Public issue

The closure of Lake Margaret Power Station on 30 June 2006, due to the age of the station and the greatly deteriorated condition of the 2.2 kilometre woodstave pipeline, has aroused considerable interest from the local community keen to see Lake Margaret retained as potential tourism infrastructure for the region.

Hydro Tasmania is conducting a feasibility study into the station's long-term future and is liaising with community representatives in order to find a solution which addresses both its own risk exposure and the community's expectations.

Hydro Tasmania has a strong commitment to its heritage and has a comprehensive Cultural Heritage Program. This program includes development of detailed conservation management plans for a number of assets, including Lake Margaret.

Bell Bay Power Station

The gas-fired Bell Bay Power Station has played an important role in both the implementation of the Tasmanian Natural Gas Project and support for the hydro-electric system in recent times of extended below-average rainfall.

A description of gas-fired generation at Bell Bay is contained in a side panel to this chapter.

Information on issues facing the Energy business in the 2005/2006 year is located in the Operations and Market sections of the Sustainability Report.

Gas-fired generation at Bell Bay

Bell Bay Power Pty Ltd

Bell Bay Power Pty Ltd is a wholly owned subsidiary of Hydro Tasmania and the operator of the Bell Bay Power Station near George Town in northern Tasmania. The power station was commissioned in the 1970s as support for Tasmania's hydropower system in times of lower than average rainfall and resulting low water storage levels.

Hydro Tasmania transferred ownership and control of the Bell Bay Power Station to Bell Bay Power Pty Ltd in January 2002. The company has a generating licence issued by the Office of the Tasmanian Energy Regulator.

Bell Bay Power has its own Board of Directors comprising two Hydro Tasmania and two non-Hydro Tasmania appointees and four employees.

The station was converted from oil-fired to gas-fired in 2002/2003.

Alinta is contracted to operate and maintain the Bell Bay Power Station on behalf of Bell Bay Power. In the past year, a new operations and maintenance contract was negotiated, establishing greater accountability and specific operational targets and reporting.

Bell Bay Three Pty Ltd

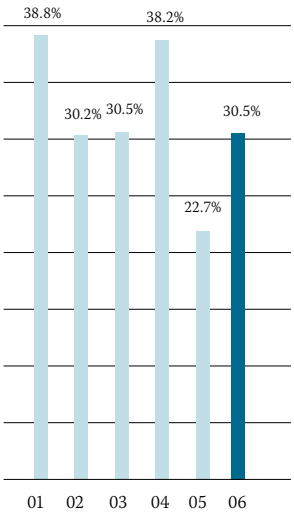
In July 2005, with water storage levels at 22.7 per cent of full, the decision was taken to acquire additional gas-fired generating capacity as insurance against further delays in the commissioning of Basslink. Gas turbines were purchased from the United States and installed during the past year at a total project cost of $50 million.

The commissioning of the three 38.75 MVA gas turbine units in 2006/2007 will bring generation capacity to 345 MW. Transmission lines were also upgraded to allow simultaneous operation of the existing Bell Bay Power Station units and the additional gas turbines.

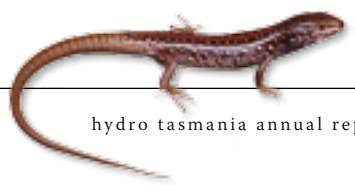
The gas turbine facility is owned by a separate, wholly-owned subsidiary of Hydro Tasmania, Bell Bay Three Pty Ltd, with management and operational services provided by Bell Bay Power.

Bell Bay's gas-fired plants

System Water Storage



System water storage at 30 June 2006: 30.5% full



hydro tasmania consulting

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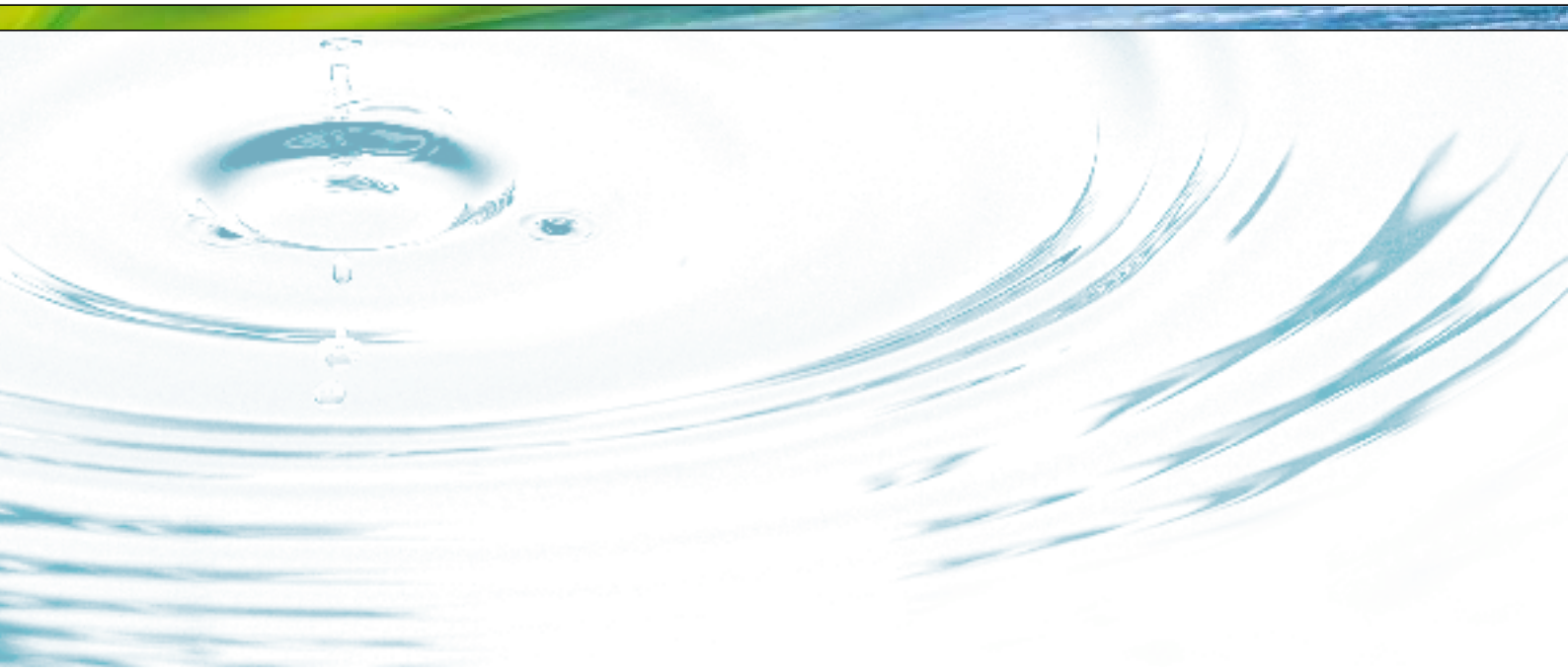


Hydro Tasmania Consulting

Hydro Tasmania Consulting is characterised as the 'knowledge engine' of Hydro Tasmania's business.

Consulting's objectives are:

- to operate a line of business to deliver a sustainable return
- to retain core skills of the overall business
- to operate within the interdependent lines of business model to support Energy and Business Development
- to pursue external expansion opportunities into new markets.

With a staff of approximately 370, Consulting markets its services in renewable energy, catchment and environmental management and power engineering solutions.

Hydro Tasmania Consulting is characterised as the 'knowledge engine' of Hydro Tasmania's business.

Mike Brewster,
General Manager Consulting

Hydro Tasmania Consulting has made strong progress in reducing its costs, improving service delivery and generating new clients. With the ongoing reduction in internal spending, these efforts must be accelerated.

Business strategy

Hydro Tasmania Consulting's core business involves the provision of innovative solutions in water and energy. It is currently pursuing a number of initiatives aimed at building external revenue, improving the quality of services provided to clients and lifting profitability.

- Consulting is working to improve its competitiveness by further developing its "consultant culture" and rewarding its staff with a market-based remuneration structure.
- Consulting is expanding its regional office network in Australia and overseas to secure further external work.
- It is introducing modern business support systems such as ChangePoint, a web-based integrated engagement project, resource and marketing management system.
- Consulting is preparing to move to purpose-built accommodation that will consolidate all its Hobart-based staff in the one modern location.

A key aim for the business in the coming year is to realise its goal of 50 per cent of its income coming from sources outside Hydro Tasmania.

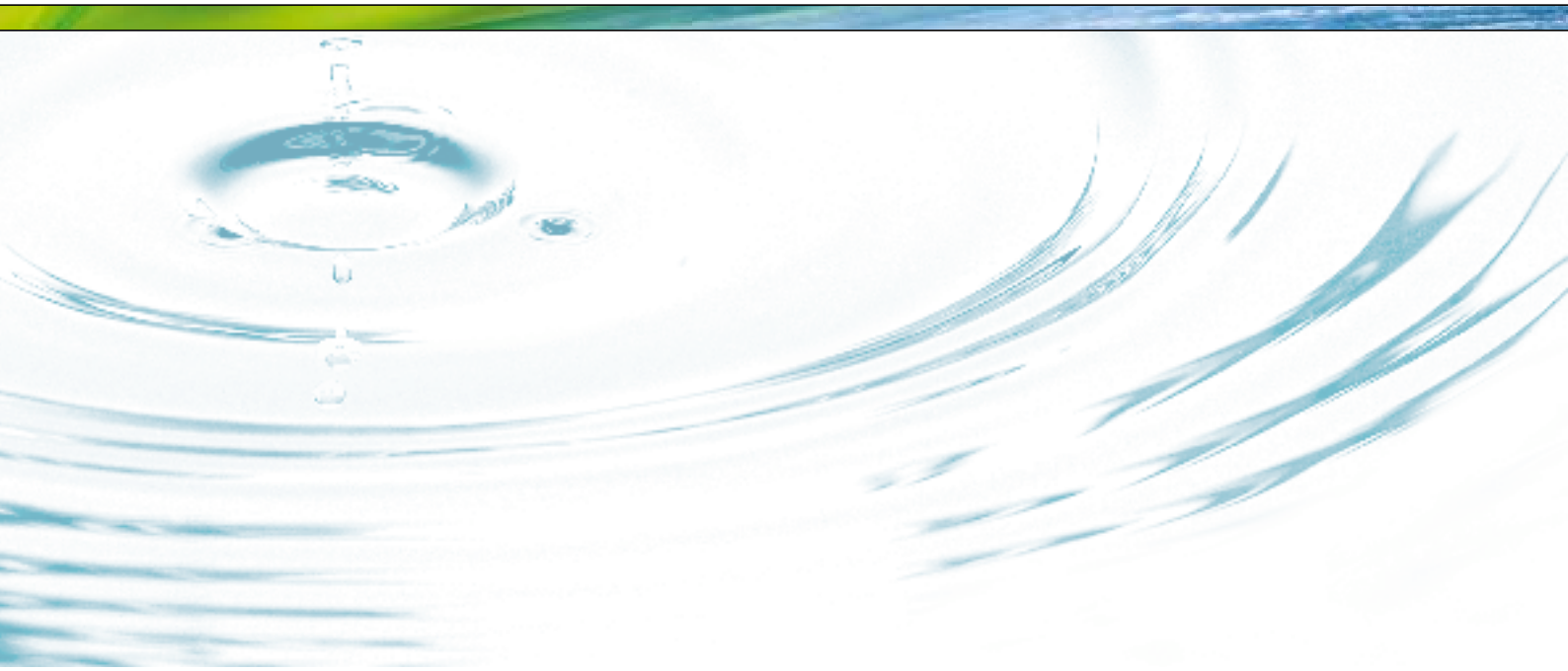
Future challenges

Hydro Tasmania Consulting has made strong progress in reducing its costs, improving service delivery and generating new clients. With the ongoing reduction in internal spending, these efforts must be accelerated.

Another issue for Consulting is the extensive change program underway, which some find quite confronting. The challenge going forward is to make staff comfortable with the change program and bring them along with the direction of the business.

A description of efforts to market Hydro Tasmania Consulting's products and solutions is located in the Market section of the Sustainability Report.

business development



Business Development

Business Development, characterised as Hydro Tasmania's 'growth engine', began the year as the Renewables Development business, with an objective to profitably develop and operate renewable energy projects in competitive and growing markets, with a particular focus on wind technology.

It also faced the challenge of developing and implementing a new business model to progress its program and take it into new markets.

Business strategy

To address its objective in a greatly tightening Australian renewable energy market, the scope of the Renewables Development business was extended substantially to encompass the Asian region, in particular China and India.

To achieve this within the realities of Hydro Tasmania's balance sheet and debit limitations required a business model which involved a development partner.

Hydro Tasmania conducted a comprehensive and careful process to select a partner with the right 'fit' in terms of values, alignment of cultures, growth aspirations, corporate governance and business ethics.

This resulted in the announcement of 22 September 2005 that Hydro Tasmania and CLP Power Asia will be joint partners in Roaring 40s Renewable Energy Pty Ltd.

Business Development, characterised as Hydro Tasmania's 'growth engine'...with an objective to profitably develop and operate renewable energy projects in competitive and growing markets...

Pat Lennon,
General Manager Business Development

Roaring 40s plans to continue its growth path in the Asian region, aiming to develop a renewable energy generation portfolio of around 1000 megawatts by 2010.

Roaring 40s is the vehicle through which the majority of Hydro Tasmania's wind energy program is to be delivered. Roaring 40s is continuing with its Australian and New Zealand developments and is securing projects in China and India which are expected to deliver considerable growth in the company over the forthcoming years to 2010.

A description of Roaring 40s is contained in a side panel to this chapter.

Following the Roaring 40s' decision, which placed many former Renewables Development staff and wind power assets into the company, Hydro Tasmania's development and growth arm was reconstituted as Business Development.

This business has the objectives of:

- supporting the growth of the Energy and Consulting businesses
- developing new markets and commercialising new technologies
- promoting a workable regulatory environment
- managing investments in new businesses.

For Energy, Business Development's support focused on identification of potential investment in new capacity, new product development and selected asset redevelopment to secure the revenues of the asset and contract portfolio.

For Consulting, the focus was on strategic support for Consulting's growth agenda.

In order to promote a sustainable renewable energy future, Business Development has taken leadership roles with key bodies such as Renewable Energy Generators of Australia, Auswind, International Hydropower Association, World Wind Energy Association and International Solar Energy Society.

The objective is to overcome barriers, at the political and regulatory levels, to renewable energy uptake and capitalise on growth opportunities.

In meeting its responsibility to manage Hydro Tasmania's business investments, Business Development participates on the Board of Roaring 40s.

Future plans

Roaring 40s plans to continue its growth path in the Asian region, aiming to develop a renewable energy generation portfolio of around 1000 megawatts by 2010.

Business Development will explore emerging renewable energy technologies and their potential deployment through mechanisms such as remote area power systems development. It will continue its focus on renewable fuels for transport, with the University of Tasmania. The policy group of Business Development will continue to explore market-based schemes to promote renewable energy.

For further information, see 'Research and Innovation' in the Market section of the Sustainability Report.

Roaring 40s

Roaring 40s Pty Ltd is a renewable energy business, based in Hobart, Tasmania, with a portfolio of wind farm projects in Australia and overseas.

Originally established as Hydro Tasmania's development arm to pursue new renewable energy projects, the group became a joint venture between Hydro Tasmania and CLP Power Asia in September 2005. By linking Hydro Tasmania's renewables development team with CLP Power Asia's renewables development aspirations and market position in Asia, Roaring 40s is able to progress towards its vision of being the leading renewable energy business in Asia and Oceania.

In a relatively short period of time, Roaring 40s has successfully established a business framework and has broadened its renewable energy activities.

Roaring 40s has developed a wind farm portfolio with approximately 255 MW currently in operation or under construction. The table overleaf summarises the Roaring 40s portfolio.

In 2004, the Commonwealth Government decided not to extend the Mandatory Renewable Energy Target, effectively capping wind farm development in Australia. As a result, Roaring 40s halted activities on the Heemskirk Wind Farm and the Waterloo Wind Farm, and the current outlook for the Musselroe Wind Farm is uncertain. Renewable energy industry associations and Roaring 40s are currently involved in discussions with government to explore the potential for new policy initiatives to regain momentum in the industry.

Markets in other countries, however, are more encouraging and New Zealand, China and India have been selected as priority markets. Other countries of potential interest include Thailand, Taiwan and South Korea. In 2005/2006, Roaring 40s established offices in Hong Kong and Beijing, with offices in Mumbai and New Zealand expected to be established in the near future.

During the year, safety and environmental incidents occurred in Tasmania. An accident during construction works at Woolnorth Studland Bay Wind Farm in December 2005 saw two subcontractors seriously injured. Following investigations, remediation actions are being put in place in conjunction with Workplace Standards Tasmania.

In a relatively short period of time, Roaring 40s has successfully established a business framework and has broadened its renewable energy activities.

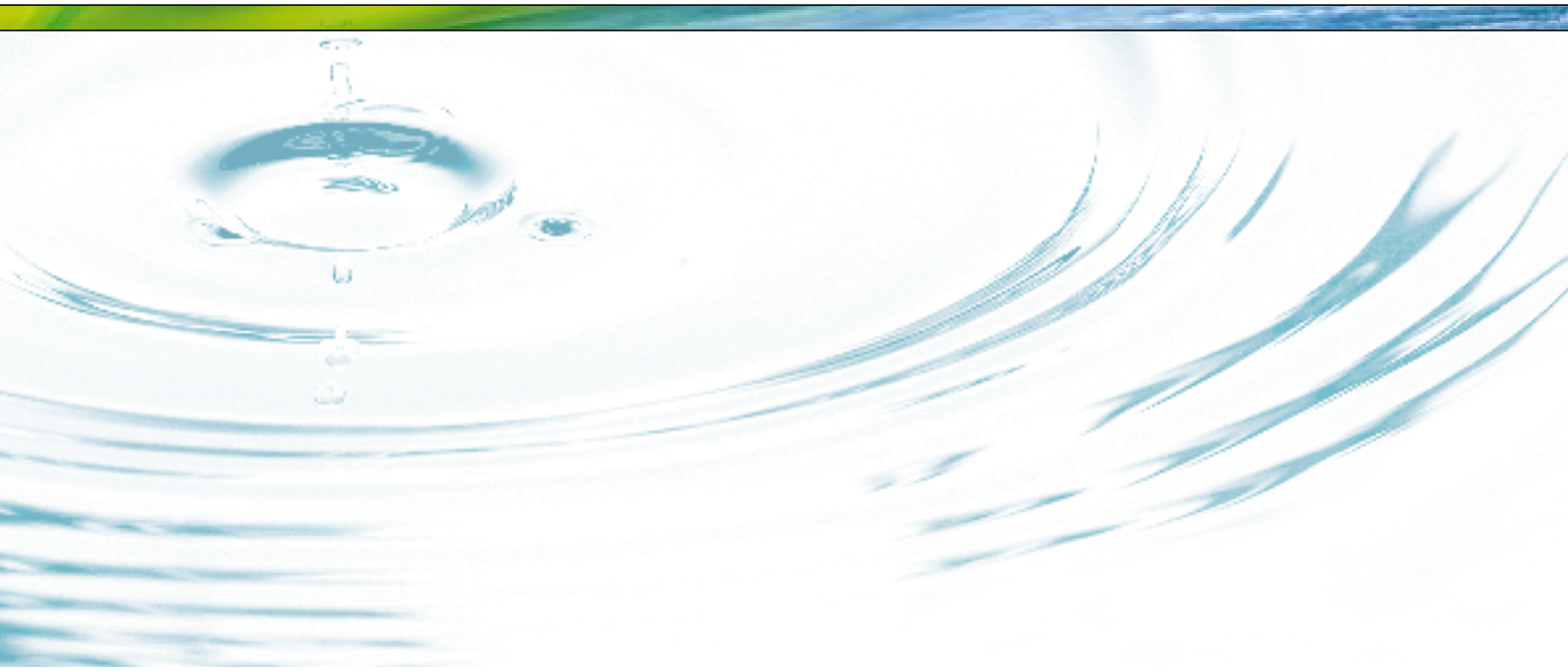
Woolnorth Bluff Point Wind Farm recorded 25 bird and 10 bat strikes, including two wedge-tailed eagles. Mitigation measures are in place to help protect orange-bellied parrots and wedge-tailed eagles. Discussions with relevant regulatory authorities are taking place regarding the increased wedge-tailed eagle strikes.

Roaring 40s is addressing additional business risks, particularly in relation to staff working overseas and environmental assessments. Its environmental management system is certified to ISO14001.

Table: Summary of Wind Farm Developments

Country	Wind Farm Development	Size
Australia	Operation of Woolnorth Bluff Point Wind Farm (Tasmania).	65 MW
	Construction of Woolnorth Studland Bay Wind Farm (Tasmania).	75 MW
	Completion of construction and operation of Cathedral Rocks Wind Farm (South Australia). 50% share with Acciona.	66 MW
	Heemskirk Wind Farm (Tasmania) – planning halted during 2006.	160 MW
	Waterloo Wind Farm (South Australia) – planning halted during 2006.	117 MW
	Musselroe Wind Farm (Tasmania) planned for construction in late 2006, however current outlook is uncertain.	129 MW
China	Agreement with Guohua Energy Investment Company Ltd for the joint development of wind farms in China. The first project of 50 MW will be located in Rongcheng in East China's Shandong Province.	3 projects of 50 MW
	Joint venture with Datang Jilin, a subsidiary of China Datang Corporation, for the joint development of a wind farm in Shuangliao in the Jilin province of China. Construction for the first phase commenced in October 2005.	100 MW wind farm, first phase 49.3 MW
India	Project in Maharashtra.	50 MW
New Zealand	Okura Wind Farm, Hawkes Bay, has received planning approvals, however it is currently proceeding through an appeal phase.	120 MW

corporate support services



Corporate support services are provided to Hydro Tasmania's three businesses by Corporate division and the Human Resources and Public Relations groups.

Corporate Support Services

Corporate support services are provided to Hydro Tasmania's three businesses by Corporate division and the Human Resources and Public Relations groups.

Corporate

The key roles of Corporate are to:

- develop, implement and monitor policies that apply across the Corporation
- oversee and manage the Corporation's financial affairs
- lead the strategic planning process for development of the Corporate Plan
- provide centralised functions and infrastructure
- provide commercial and business advice to Hydro Tasmania's three lines of business.

The focus for 2005/2006 has been on preparing the support systems for Basslink operation, reviewing and recommending on the capital and financial structure of the business and developing the Efficiency and Effectiveness Project.

The support services Corporate provides to Hydro Tasmania cover legal services, information systems, procurement and fleet management, financial systems and treasury and risk management.

Lance Balcombe, General Manager Corporate

Amanda Vallance,
Executive Advisor Human Resources

Human Resources

The Human Resources group provides the full range of HR services and processes that are required in a modern organisation pursuing a diverse range of business goals.

Its attention in 2005/2006 has been on promoting safety, developing leadership, establishing workforce planning regimes, developing comprehensive employee policies, conducting surveys of employee attitude and negotiating two new Enterprise Partnership Agreements, one for our Consulting business and one for Energy and the Office of the CEO.

Ian Colvin,
Manager Public Relations

Public Relations

The Public Relations group concentrates on enhancing Hydro Tasmania's brand and reputation, promoting the objectives of the three businesses, informing the Tasmanian community about Hydro Tasmania's strategic objectives and engaging with stakeholders so that the business direction is well understood by those stakeholders.

Public Relations also provides the very important internal communications function through which our people are informed about, and involved in, the organisation's plans.

In the 2005/2006 year, there has been the additional challenge of communication and stakeholder management as Hydro Tasmania develops as a participant in the National Electricity Market.

The focus of activity of the corporate support services is reported under the Financial, Employee Capability and Opportunity, Health and Safety, and Community elements of the Sustainability Report.

sustainability report

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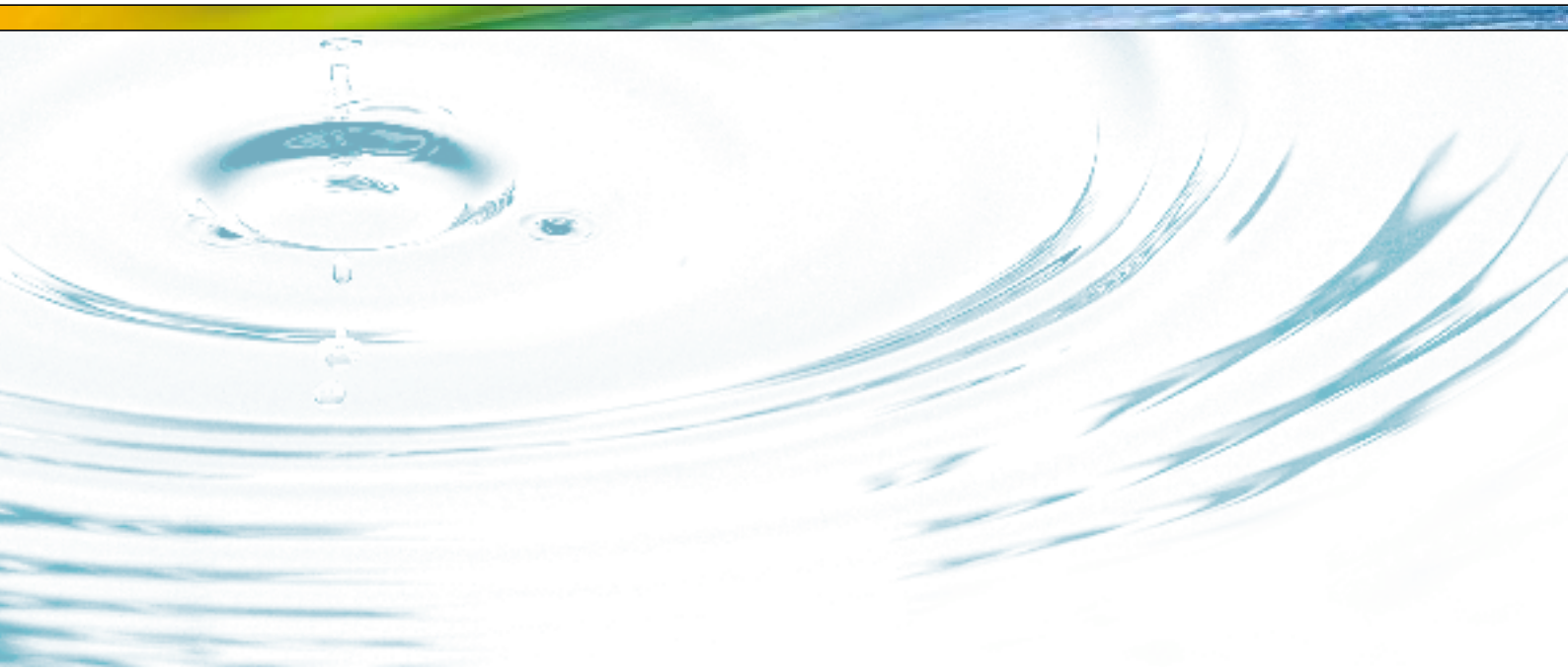


Sustainability at Hydro Tasmania

Hydro Tasmania continues to build its vision of being Tasmania's world-renowned renewable energy business and live by its value of creating a sustainable future.

We see renewable energy development as part of the solution to reduce reliance on fossil fuels and the impacts of global warming and are proud to be Australia's largest generator of electricity from renewable energy sources.

Embedding sustainability into Hydro Tasmania's business strategies and practices directly enhances our reputation, growth and profitability. This approach broadens the traditional concept of business risk and reporting, creates value from non-financial performance and encourages stakeholder support for business activities.

Reece Dam

Key drivers

Renewable product and solutions: Hydro Tasmania views sustainable business practices underpinning our renewable energy production as a competitive market advantage.

Employee attraction and retention: A business commitment to sustainability will provide a competitive advantage in attracting and retaining the best employees and assist in meeting the skills shortage challenge.

Stakeholder relationships: Hydro Tasmania's operations impact on a range of stakeholders and communities. Opposition to development and operational changes is considered a business risk. Developing trust and respect with stakeholders will enhance the organisation's ability to deliver strong business performance.

Natural resource management: Hydro Tasmania aims to manage resources to minimise our impact on the environment. We are the custodian for significant areas of land and water.

Efficient use of resources: The efficient use of resources and minimisation of waste directly contribute to environmental and economic benefits.

Community role: We have contributed to Tasmania's social and economic development for more than 90 years. We continue to add value to the communities where we operate by providing employment, purchasing goods and services and sharing our facilities where possible. It is important to us that the community has confidence that Hydro Tasmania is a sustainable business.

Global concerns: Hydro Tasmania recognises stakeholder concerns regarding the impact of large hydropower and wind power projects and is proactively involved in developing industry-wide solutions.

Embedding Sustainability

Hydro Tasmania established a Sustainability Policy in early 2005. The same year, the inaugural Sustainability Report was published providing an assessment of the organisation's performance in 2004/2005. A Sustainability Policy Implementation Plan has been established to help embed the policy. Key actions delivered in 2005/2006 were:

- senior managers assigned responsibility for sustainability elements
- business objectives and targets developed and included in the Corporate Plan
- work commenced on the external stakeholder engagement framework
- the Sustainability Assessment and Reporting Working Group established to ensure streamlined processes.

During the year, Hydro Tasmania received two awards for its efforts on sustainability – the 2005 Energy Supply Association of Australia Sustainability Report Award and the 2006 Tasmanian Environmental Excellence Award in the sustainable business category. Hydro Tasmania was also a finalist in the sustainability category in the 2006 national Banksia Environmental Awards.

Objectives and targets

Following the review of the Corporation's sustainability performance in 2004/2005, management examined the organisation's proposed business strategies, determined key areas for improvement and established targets for the five-year period 2005/2006 to 2010/2011.

Business objectives and performance indicators were aligned with sustainability elements and are presented in the Statement of Corporate Intent on page 112.

Additionally, the self-assessment targets are set out in Table 1 on pages 55-56.

Building stronger relationships with our stakeholders

Understanding and responding to concerns is seen as a key component of Hydro Tasmania's engagement with stakeholders. Our stakeholders are defined in the Business Profile on page 21.

Hydro Tasmania is starting to apply strategies and best-practice initiatives to build stronger stakeholder relationships, including where these may at times be difficult or strained.

Employees and a sustainability culture

Employees play a crucial role in the sustainability self-assessment and are integral to embedding sustainable practices.

The 2006 Staff Feedback Survey showed that the level of familiarity and understanding of the Sustainability Policy increased only marginally over the year. Employees rated the policy in the bottom five issues of importance, showing that more work is required to engage employees in the sustainability effort.

Sustainability self-assessment

Hydro Tasmania evaluates sustainability performance across the Corporation through a self-assessment process. The team that undertook the 2005/2006 assessment gathered both qualitative and quantitative evidence from contributors across the Corporation, and assessed performance against our criteria for each indicator. A description of the scoring is provided in Figure 1 on page 54. Further information on the sustainability self-assessment, including methodology and indicator criteria, is provided on the Hydro Tasmania website: www.hydro.com.au

RepuTex Ratings and Research Services benchmarked Hydro Tasmania's sustainability performance for 2005 and rated us A, which is satisfactory. This is similar to our self-assessment for 2004/2005 which we ranked as satisfactory.

Improving sustainability reporting

This year our focus for improving the Sustainability Report has been finding the issues that are important to stakeholders. The content has been influenced by a number of sources.

As a start, feedback was sought from key stakeholders by an independent consultant, Futureye, on the style and content of the 2004/2005 report, particularly in relation to materiality, completeness, inclusivity and responsiveness. A further materiality assessment, as part of assurance, was provided by Banarra Sustainability Assurance and Advice.

The report format and content have also been guided by the Global Reporting Initiative Sustainability Reporting Guidelines G3 [Draft]. Reference between report content and G3 guidelines is provided on page 102. Feedback gained from involvement in the URS 2005 Australasian Sustainability Reporters Benchmarking Program helped support this process.

We welcome all feedback on this report. A form is provided on page 179 of this report as well as on our website.

From left Anne Reed, David Jeffrey, Cynthia Nixon, Geoff Willis and Alison Howman with the Sustainability Report Award

Report assurance

Obtaining assurance for the sustainability report gives readers confidence that it is accurate and credible. This report has been subject to a report assurance which tests the data and systems that deliver information to the report for materiality, responsiveness and completeness. Over time, Hydro Tasmania may move towards full assurance, where the degree of embedding into the business is tested.

Hydro Tasmania has received feedback from some stakeholders that the self-assessment should be audited, either by an external body or by the Corporation's internal auditors. This was not undertaken for the 2005/2006 self-assessment.

Participating in the global direction of sustainability

Hydro Tasmania actively participates in the regional and global levels of sustainability direction. In the past year, the Corporation has:

- continued to influence renewable energy policy and promoted renewable energy research and development
- become a signatory to the Energy Supply Association of Australia Code of Sustainable Practice
- developed a draft sustainability assessment protocol in support of the International Hydropower Association's (IHA) 2004 Sustainability Guidelines, with assistance and advice from the World Wildlife Fund
- drafted and launched the World Wind Energy Association's (WWEA) Sustainability and Due Diligence Guidelines 2005 in collaboration with international members of the WWEA
- contributed to the hydropower industry's response to greenhouse gas emissions from reservoirs
- initiated and resourced the development of a joint website for IHA and International Energy Agency on sustainable hydropower at www.sustainablehydropower.org

Sustainability Performance

This is Hydro Tasmania's second annual sustainability report. The Corporation's performance for each of the nine sustainability elements, outlined in the Sustainability Policy, is presented in Figure 1 and in Table 1.

Based on the self-assessment, Hydro Tasmania has achieved an average sustainability score of 3.4 for the 2005/2006 reporting period. This is a slight increase on the 2004/2005 result of 3.3 and represents a satisfactory level of performance. The results reflect a consolidation in all elements. This is a pleasing outcome recognising that it takes considerable effort to maintain and improve sustainability performance according to the self-assessment criteria. Sustainability targets and scores are included in Table 1, with a summary of activities contributing to the score.

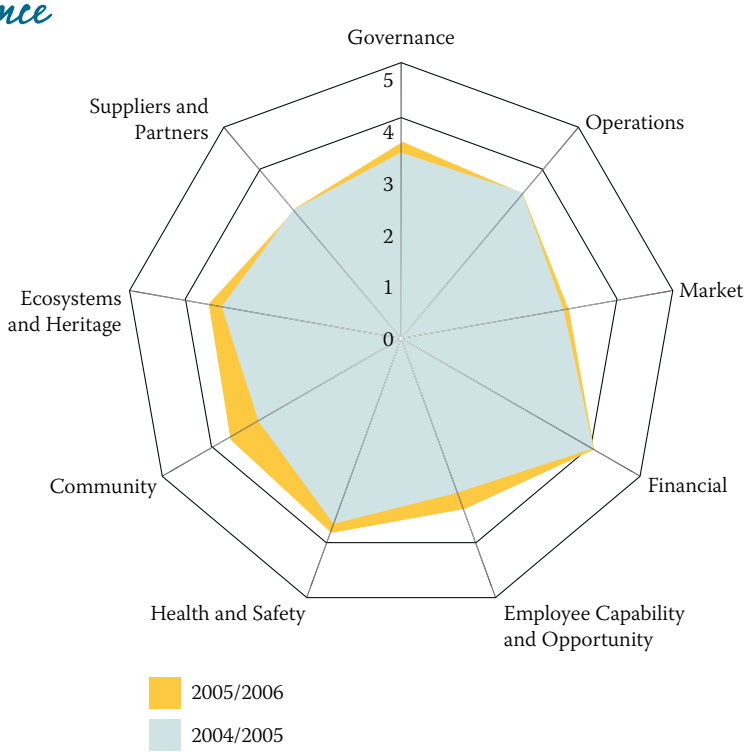


Figure 1: Hydro Tasmania Sustainability Assessment for 2005/06

Legend to scoring elements and indicators

Score	Performance/Process	Description
5	Outstanding/Strong /Comprehensive	At or very near international best practice Suitable, adequate, and effective planning and management systems
4	High/Good to Very Good	High standard / above average performance Generally suitable, adequate, and effective (minor gaps only) planning and management systems Meets most objectives and measurable targets including all critical ones
3	Satisfactory/Average /Moderate	Average performance Generally compliant with regulations and commitments (minor exceptions only) Some gaps in planning and management systems Some gaps in meeting objectives and measurable targets
2	Below Average/Limited	Below average performance Some gaps in compliance with regulations and commitments Significant gaps in planning and management systems Significant gaps in meeting objectives and measurable targets
1	Poor/Very Limited	Poor performance (well below average) Major gaps in compliance with regulations and commitments Major gaps in planning and management systems Major gaps in meeting objectives and measurable targets
0	Very Poor	Very poor performance or failure to address fundamental issues Little or no compliance with regulations and commitments Ineffective or absent planning or management systems Fails to meet objectives and measurable targets

Table 1: Summary of Element and Indicator Performance

Indicators	04/05 Score	05/06 Score	Weight[1]	Key Issues Impacting Self Assessment Scores	Page Link
Governance					
Targets: 2005/06: 3.5 · 2006/07: 4.0 · 2010/11: 4.0					
Principles, Structure and Reporting Measure of management planning instruments to provide leadership and direction for sustainable business activities.	3.0	3.25	33.3%	▲ Business objectives and targets that align with the nine sustainability elements are included in the Corporate Plan. ▲ Policy and procedure improvements include NEM requirements, emergency and crisis management, risk management and upgrading the certification of the Environment and Sustainability Management System to ISO14001:2004.	57
Regulatory Compliance Measures compliance against regulatory requirements and implementation of processes to achieve best practice industry standards.	4.0	4.0	33.3%	▶ The compliance and risk management systems are established, however these do not currently cover the entire organisation. ▼ Four breaches of compliance, however no resulting fines or penalties.	58
Ethical Business Practice Measures the application of business values in the delivery of its vision and strategy.	3.0	3.25	33.3%	▲ Continued implementation of the values, with two-thirds of employees undergoing a values refresh during the year. ▶ Increase in positive employee feedback indicating managers adhere to the values; however, significant improvement still required. ▲ A Bribery and Corruption Policy was established.	58
Weighted Score	**3.3**	**3.5**			
Operations[2]					
Targets: 2005/06: 4.0 · 2006/07: 4.0 · 2010/11: 5.0					
Operational Short and Long-Term Reliability Measures Hydro Tasmania's ability to sustain required asset capability to best meet the needs of the business.	4.0	3.75	30%	▼ 27 per cent of assets are reaching mid-life. A risk program to prioritise allocation for funds has been implemented. Market operations will put additional pressure on assets and capital program. ▲ Basslink and installation of gas turbines help mitigate low water storage challenges	60
Operational Efficiency Measure of energy production practices and performance and optimisation of operational efficiency of an individual power station or group of power stations in the context of the broader system.	4.0	4.0	30%	▶ Hydrological and asset management systems continued to be implemented to increase operational efficiency and electricity supply.	62
Network Service Providers Measure of network service providers' performance and relationships.	3.0	3.0	10%	▶ Relationships with network service providers continued to be improved.	63
Energy Efficiency and Greenhouse Gas Emissions Measures energy efficiency and greenhouse gas emissions (GHG).	3.0	3.5	15%	▲ A reduction in greenhouse gas emissions was recorded for the year. ▲ Energy efficiency targets for longer term were included in the Corporate Plan.	63
Resource Use, Waste and Emissions and Sustainable Office Measure of waste and emissions and reuse of consumables.	2.0	2.5	15%	▶ Waste and resource management met compliance. ▲ Improvements were made in waste tracking and some office recycling. ▲ A reduction in air pollutants was recorded for the year.	65
Weighted Score	**3.4**	**3.5**			
Market					
Targets: 2005/06: 3.5 · 2006/07: 3.5 · 2010/11: 4.0					
Marketing Energy Products Measure of marketing practices associated with energy products.	3.0	3.0	50%	▶ New processes were introduced for the NEM environment, a time of transition and continual learning.	68
Marketing Consulting Services Measure of marketing practices associated with marketing of consultancy services.	3.0	3.0	25%	▶ Consulting continues to improve client diversification and marketing practices.	69
Innovation and Research Measure of investment in innovation and research. Ensures that the business is positioned to meet the needs of the future.	3.0	3.0	25%	▶ A conservative approach to research and development continued, covering environment, renewable energy technology and asset management. ▲ Separation of Roaring 40s initiated a re-evaluation of the technology development strategy. ▼ A formal research and development plan is yet to be developed.	70
Weighted Score	**3.0**	**3.0**			
Financial					
Targets: 2005/06: 4.0 · 2006/07: 4.0 · 2010/11: 4.0					
Short-Term Financial Performance and Distribution Measures short-term financial performance based upon traditional financial accounting methods. Demonstrates the value of the business (profits, sales revenue and ability to service debt etc.) to the wider community and provides early warning of any need for corrective action.	4.0	3.8	40%	▶ Profit was maintained. ▶ Significant funds were distributed to the State Government. ▲ Roaring 40s joint venture was formed with CLP Power Asia. ▼ Higher capital expenditure than expected due to the gas turbines. ▼ Debt increased.	72
Long-Term Business Value Captures the sustainability of the business through time. Demonstrates the long-term business value, long-term sustainability and the contribution Hydro Tasmania makes to the Tasmanian economy.	4.0	4.0	60%	▼ External factors impact negatively on financial outcomes such as low rainfall, price of Renewable Energy Certificates and the decision not to extend the Mandatory Renewable Energy Target. ▶ Options for improving financial resilience in the NEM have been reviewed. Plans are in place to improve internal cost structures and control cash.	73
Weighted Score	**4.0**	**3.9**			
Employee Capability and Opportunity					
Targets: 2005/06: 3.0 · 2006/07: 3.5 · 2010/11: 4.0					
Opportunity and Equity Measure of the organisational effort to ensure employees are provided with equal employment opportunity and an equitable working environment.	3.0	3.0	33.3%	▶ Employee opportunity and equity programs continue to meet compliance requirements, however there are no activities to proactively promote diversity, especially gender, in leadership positions.	75
Employee Satisfaction Measure of the organisational effort to ensure employee satisfaction in working for Hydro Tasmania.	3.0	3.5	33.3%	▲ Management proactively responded to last year's low employee engagement score, resulting in an overall score above the Right Management Consultants median benchmark for industry. ▼ Employee engagement score for Consulting decreased. ▶ Key human resources initiatives continued to be implemented, such as training and development and life and family balance.	77

Indicators	04/05 Score	05/06 Score	Weight[1]	Key Issues Impacting Self Assessment Scores	Page Link
Workforce Planning Measure of the organisational effort to ensure the elements of workforce planning, including recruitment, induction, training and development.	3.0	3.25	33.3%	▲ Understanding of workforce planning challenges improved, with some actions initiated to improve existing processes e.g. performance development reviews. ▶ Significant workforce planning issues remain, including graduate retention, slow recruitment and skill shortages.	78
Weighted Score	**3.0**	**3.2**			
Health and Safety	Targets				
	2005/06	2006/07	2010/11		
	3.6	3.6	5.0		
Employee Safety Measure of the organisational effort to provide a safe and healthy working environment to ensure employees are healthy, safe and free of harm.	3.0	3.0	40%	▶ Implementation of the employee occupational health and safety (OHS) system continued. ▼ The OHS system is externally audited, however not certified. ▲ Significant reductions in lost time injury and medical treatment injury rates were achieved.	81
Employee Health and Wellbeing Measure of the organisational effort to promote general health and wellbeing throughout the organisation	4.0	4.0	20%	▶ The Healthy Hydro Tasmania Program was maintained to promote employee health in the workplace. ▶ Absenteeism rates have reduced over the last five years to below the industry benchmark.	82
Public Safety Measure of the organisational effort to ensure Hydro Tasmania's assets, facilities and operations pose no unacceptable threat to public safety.	4.0	4.0	40%	▲ Improvements in dam safety related to both policy and capital works. ▶ A satisfactory approach to public safety with improvements to non-generation assets e.g. Strathgordon village.	82
Weighted Score	**3.6**	**3.6**			
Community	Targets			Stakeholder feedback indicated that the 2004/05 self assessment community indicators were under-rated. This was taken into consideration during assessment.	
	2005/06	2006/07	2010/11		
	3.0	3.5	3.5		
Stakeholder and Community Engagement Measure of the organisational effort to communicate with and involve stakeholders and the community in business operations that affect them.	3.0	3.5	40%	▶ Hydro Tasmania has pockets of excellence in stakeholder engagement with room to improve in the way it engages with adversarial groups, and in broader dialogue on business dilemmas. ▲ Work on a stakeholder engagement framework has commenced.	84
Community Capacity Building Measure of the organisational effort to assist with capacity building within the community and enhancement of corporate citizenship and social responsibility.	3.0	3.5	30%	▲ Sponsorship continued and a pilot employee donation scheme was initiated. ▶ Hands On Energy Discovery Centre continues to provide a renewable energy educational experience.	85
Multiple Use Benefits Measure of the organisational effort to ensure Hydro Tasmania's assets provide multiple use benefits for the community.	3.0	3.5	30%	▶ Community use of some of our assets continues. ▲ Collaboration continued with a number of external agencies to ensure sustainable land and water use.	87
Weighted Score	**3.0**	**3.5**			
Ecosystems and Heritage	Targets				
	2005/06	2006/07	2010/11		
	3.5	3.5	4.0		
Aquatic Ecosystems Measure of performance and management of aquatic ecosystems.	3.0	3.0	35%	▶ The aquatic Environment Program continued to provide scientific data for water management planning and compliance requirements. Aquatic health was maintained, not improved, for the year. ▲ Significant works were completed for understanding and mitigating the environmental impacts of Basslink, including the Basslink Baseline Report, Gordon River environmental flow and Poatina Regulation Storage. ▼ Lagoon of Islands algal bloom is an ongoing environmental problem.	90
Terrestrial Ecosystems Measure of the performance and management of terrestrial ecosystems.	3.0	3.0	20%	▶ Minor land management works were conducted to address some issues. ▼ A compliance breach was recorded for vegetation clearance.	92
Environmental Impact Assessments / Environmental Management Plans (New Projects) Measure of the application of environmental impact assessment and environmental management plans to capital projects.	4.0	4.0	30%	▶ Environmental impact assessments and environmental management plans were implemented for capital projects where required, including the installation of gas turbines at Bell Bay.	93
Heritage Measure of performance and management practices for Aboriginal heritage, historic cultural heritage and the World Heritage Area.	3.0	4.0	15%	▲ Significant consolidation of cultural heritage processes led to a high standard performance in this area. ▶ The closure of Lake Margaret Power Station poses significant heritage challenges. Broader stakeholder concerns have been raised. ▲ Aboriginal heritage awareness and processes have improved. An agreement with TALSC has been initiated regarding the surveying and managing of Aboriginal values related to our operations.	93
Weighted Score	**3.3**	**3.5**			
Suppliers and Partners	Targets				
	2005/06	2006/07	2010/11		
	3.0	3.0	4.0		
Suppliers and Partners Measure of suppliers' and partners' performance, sustainability practices and relationships.	3.0	3.0	100%	▶ Good relationships exist with most partners and suppliers with some exceptions. ▼ Hydro Tasmania is involved in litigation with some partners and suppliers. ▲ Roaring 40s joint venture was successfully established with CLP Power Asia. ▶ An inconsistent approach continues across the organisation to the management of suppliers and contractors, including understanding sustainability impacts of their goods and services. ▲ A safety pre-qualification system was introduced for contractors.	96
Weighted Score	**3.0**	**3.0**			

Legend

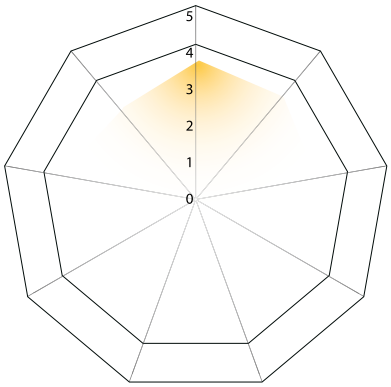
▲ Activity improved score ▶ Activity maintained score ▼ Activity reduced score

[1] *Each indicator has been weighted within its Element to reflect its importance to the organisation. An indicator with a higher weighting will have greater influence over the Weighted Score for the Element.*

[2] *Indicator changes in 2005/06: Wind Operations – Availability and Capacity Indicator has not been included in the 2005/06 self-assessment due to the separation of Roaring 40s. Resource, Use Waste and Emissions Indicator and Sustainable Office Indicator have been merged to reflect relative impact. Indicator weightings, therefore, have been changed from the 2004/05 self-assessment.*

Governance

Hydro Tasmania uses the Australian Stock Exchange's (ASX) Governance Principles as guidance for corporate governance. It has in place core systems, policies and processes to promote good corporate governance and ethical business practice, and to ensure compliance with applicable laws and regulations. Achievements for 2005/2006 include the development of business objectives and targets aligned to the nine sustainability elements, extending the Values Program further into the business and adopting a Bribery and Corruption policy.



It has in place core systems, policies and processes to promote good corporate governance and ethical business practice, and to ensure compliance with applicable laws and regulations.

Principles, Structures and Reporting

Hydro Tasmania's Board comprises at least four and no more than nine directors. At 30 June there were seven directors, six of whom were non-executive and one executive director - the Chief Executive Officer.

During the reporting period a governance issue arose at Board level in relation to a late disclosure of an indirect interest by a director. The Board applied proper process and due diligence in accordance with the *Government Business Enterprises Act 1995*. The director concerned considered the propriety of the matter and made a personal decision to resign from the Board.

One director retired during the year. At the date of this report replacement directors had not been appointed.

An annual and comprehensive performance self-evaluation is undertaken by the Board and is being introduced to the Board Committees. Documentation and procedures of Board and Committee activities are being standardised which is leading to an improvement in reporting and work practices.

Corporation business reports are submitted to the Board on a monthly basis. These reports identify the economic, environmental and social issues facing the business. Each quarter, an Integrated Business Risk Management report is provided to the Board for adoption.

Reporting

Hydro Tasmania is subject to public scrutiny through the Tasmanian Parliament's annual Government Businesses Scrutiny Committees.

Business Objectives and Targets

Five-year targets have been set for business objectives and performance indicators that follow the nine sustainability elements. These are included in the Statement of Corporate Intent, page 112.

Risk Management

Risk management is embedded in Hydro Tasmania's management practice and this year the Corporation has updated its Integrated Business Risk Management policy, undertaken a process audit and trained personnel in crisis and emergency management.

Certified Management Systems

Hydro Tasmania's Environment and Sustainability Management System (ESMS) underpins environmental practices. During the year, the ESMS underwent a significant overhaul for efficiency. It was externally audited three times during the year to maintain certification to ISO14001, including an audit to upgrade certification from ISO14001:1996 to ISO14001:2004.

Internal Audit

The internal audit process is formalised in the Corporation's Internal Audit Policy, which covers the review, appraisal and recommendation of improvements to the internal control systems established by management.

The audit function operates in accordance with the Institute of Internal Audit Standards and all areas of the business are subject to regular audit based upon a control risk profile and the three-year Strategic Internal Audit Plan. This plan is reviewed annually and approved by the Audit Committee.

Results of audits are communicated to management for action. The Audit Committee, which meets at least quarterly, receives written reports on audit matters for monitoring and review purposes.

Regulatory Compliance

Hydro Tasmania has a Compliance Policy in place which is reviewed annually. The policy commits Hydro Tasmania to comply with all State and Commonwealth laws and regulatory requirements, and to achieve Australian Standard Guidelines 3806 on Compliance Programs.

Compliance Program

Hydro Tasmania's compliance program covers significant compliance risks related to electricity generation, environment, safety and water management and corporate services. It includes the regulatory requirements of the National Electricity Market, covering financial services, risk management, reporting structures and compliance breaches. The foundation is laid for the program to extend throughout the business and we are working towards full coverage on a five-year plan.

Compliance Breaches

Hydro Tasmania recorded four breaches of compliance during the year. No breaches were subject to penalties.

These four breaches were environmental. These involved two sewage spills at Strathgordon Village (refer to page 65), vegetation clearing (refer to page 92) and the use of an unlicensed chemical in power stations' cooling water systems. At the time, the chemical CTreat6 was not licensed for use in freshwater ecosystems. This has subsequently been licensed.

Ethical Business Practice

Hydro Tasmania's values and ethical business practices have been introduced throughout the Corporation. In 2005/2006 Hydro Tasmania began a program to refresh the understanding and the use of our values. Two–thirds of our employees have participated.

The Staff Feedback Survey showed a rise in employees' understanding of the values to 68 per cent, up four per cent on last year. 48 per cent consider that managers generally adhere to the values. While this was up an encouraging 15 per cent on the previous year, it remains an area of concern. Qualitative feedback from the survey also indicated that employees had concerns with leadership and management behaviours. However, some 77 per cent of employees, up six per cent from last year, agreed that the person they report to was supportive.

During the year, 26 awards were made to individual employees nominated by their peers for exceptional application of values to their decisions and daily work.

Policies and Procedures

Hydro Tasmania has developed a Bribery and Corruption Policy. This was in response to an approach to pay a bribe while bidding for an international contract. Hydro Tasmania Consulting immediately withdrew from the bidding and advised that Hydro Tasmania would not engage in unethical business practices. As Hydro Tasmania's activities extend beyond Tasmania, ethical business practice standards associated with bribery and corruption, human rights and forced labour take on added importance. Hydro Tasmania's Sustainability Policy clearly states we support and respect the protection of internationally proclaimed human rights.

Procedures are established to protect employees and contractors who report improper conduct or corruption in accordance with the *Public Interest Disclosures Act 2002* (Tasmania). No lodgements of public interest and no breaches of the Act were recorded during the year.

In the Staff Feedback Survey responses to the open question "What don't you enjoy about working for Hydro Tasmania?" raised policies and procedures as the top scoring issue at 28 per cent. Responses indicated that the bureaucratic approach to policies and procedures impedes productivity.

The Corporation conducts ad hoc reviews of its policies and procedures to identify any inadequacies in meeting effective corporate governance.

Self Assessment

2004/05 Score	2005/06 Target	2005/06 Score	2006/07 Target
3.3	3.5	3.5	4

The following aspects contributed to an overall improvement in performance to slightly above satisfactory.

- ▲ Business objectives and targets that align with the nine sustainability elements are included in the Corporate Plan.
- ▲ Policy and procedure improvements include NEM requirements, emergency and crisis management, risk management and upgrading the certification of the Environment and Sustainability Management System to ISO14001:2004.
- ▶ The established compliance and risk management systems do not currently cover the entire organisation.
- ▼ Four breaches of compliance, however no resulting fines or penalties.
- ▲ Continued implementation of the values, with two-thirds of employees undergoing a values refresh during the year.
- ▶ Increase in positive employee feedback indicating managers adhere to the values, however significant improvement still required.
- ▲ A Bribery and Corruption Policy was established.

▲ Activity improved score
▶ Activity maintained score
▼ Activity reduced score

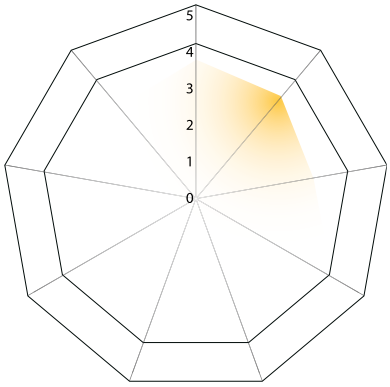
Commitments

Hydro Tasmania is committed to achieving high performance for Governance.

Key commitments to help achieve this aim in the coming year are:

- develop and implement compliance plans for Consulting and Business Development to broaden the scope of the compliance system
- introduce a code of ethics to be publicly available
- roll out the Values Refresh program to the Power Schemes Group and Business Development.

Operations



Hydro Tasmania entered 2005/2006 in a challenging position, with water storages critically low at 22.7 per cent.

Entry to the National Electricity Market (NEM) and the continuing dry conditions have impacted on the operation of Hydro Tasmania's generation system for the short and long term. Managing the new conditions has led to changes in water management and gas generation capacity and has raised the importance of our network service providers.

Operational Short and Long Term Reliability

Hydro Tasmania's total generation for the year was 10371GWh. This includes hydro-electricity, gas, and wind and diesel generation on Bass Strait islands.

Low Water Storages

Hydro Tasmania entered 2005/2006 in a challenging position, with water storages critically low at 22.7 per cent.

Extremely dry conditions persisting from August 2004 to July 2005 challenged the reliability of Hydro Tasmania's generating system. This was exacerbated by a major outage of one of the gas units at Bell Bay Power Station. In addition, the Basslink commissioning date was uncertain as a result of the additional time required to replace the transformers damaged in transit from Germany in December 2004. While supply was maintained, the risks were considered too high, prompting the decision to purchase and install three 35MW gas turbines at Bell Bay, adjacent to the existing Bell Bay Power Station. These will be commissioned later in 2006.

In addition, there was also a temporary buy back of 15MW of power from major industrial customers to support the system over a 14-day period during July 2005.

Bell Bay Power Station was fired up to supplement the hydropower system during the dry period, but was used less than expected over the year due to higher than expected rainfall between August and December 2005, and the successful commissioning of Basslink in April 2006.

The water level of Great Lake dropped more than anticipated during the year which highlighted social and environmental risks and prompted an investigation into the impacts of operating lakes at low water levels.

The result was to define water levels with a risk rating. Management plans are being developed for each lake at the different ratings which set out actions to be taken beforehand to reduce the risks for the public and the environment when reaching a particular level.

The research also resulted in a "no go" zone being defined for Hydro Tasmania's operations associated with Great Lake and the minimum level of Lake Burbury being lowered by three metres.

Prudent Water Management

Our Ministerial Charter states that the Minister expects Hydro Tasmania to manage its water storages prudently, consistent with the advised long run energy capability.

Hydro Tasmania's ability to manage low water inflows and ensure the long and short-term sustainability of the water resource has improved considerably with the ability to import up to 400MW through Basslink, and with additional gas turbines.

Gunns Ltd has requested water supply from Hydro Tasmania's Trevallyn Dam to operate its proposed pulp mill at Bell Bay. Negotiations towards a water supply agreement are well advanced. If the pulp mill proceeds, the water supplied will be less than one per cent of flows into Trevallyn Dam. Any water supplied will be valued at commercial rates.

Bass Strait Islands

Wind generation from the Huxley Hill Wind Farm on King Island produced 5243MWh of electricity and displaced approximately 1.5 million litres of diesel. Total generation from both sources was 15841MWh. Flinders Island diesel generation produced 4278MWh.

Cloud Seeding

Hydro Tasmania conducts a cloud seeding program between April and November each year to boost water storages. A total of 78 flights were conducted during 2005/2006, 28 of which were seeding flights, up from 11 the previous year. Internal studies point to an estimated increase in energy yield of approximately 105GWh per year, translating into an estimated benefit to cost ratio in 2005/2006 of approximately three to one.

Turbine at Huxley Hill Wind Farm, King Island

Tasmanian Climate Change Study

Hydro Tasmania commissioned CSIRO to undertake a high resolution modelling study of Tasmania's climate to estimate likely changes due to global warming and the potential impact on a hydropower system designed for historical climatic conditions. Results from the study were published in 2006, and predicted that the impact of climate change on Tasmania up to 2040 may be relatively moderate. Predicted changes to hydropower catchments are being integrated into current operational models. A summary of results is available at www.hydro.com.au

Asset Management

In the next five years, 27 per cent of key generation assets will become due for mid-life refurbishment.

The Integrated Business Risk Management system and the Business Priority Tool together form a comprehensive asset risk management program. This provides performance and risk ratings to prioritise the allocation of funds into the generation assets that provide the greatest value to the business.

It is a significant challenge in managing assets to balance the timing of outages with asset condition, water levels and market demand without impact on Hydro Tasmania's revenue.

However, the first priority of Hydro Tasmania's asset management strategy is to ensure the safety of employees, the public and the environment. Maintenance outages are timed to avoid peak generation hours where possible and scheduling takes into consideration employee motivation and morale.

Asset performance for the year is shown in Table 2.

Table 2: Hydro Tasmania Asset Key Performance Data

Key Performance Indicator	2004/2005 Performance	2005/2006 Target	2005/2006 Performance
Equivalent Availability Factor	90.68%	>90%	87.87%
Equivalent Forced Outage Factor	1.48%	<2%	1.14%
Start Success	98.3%	>98.5%	98.6%

Targets were reviewed in November 2005 for NEM systems. These differ from those published in the previous report.

Equivalent availability factor: The percentage of time the plant is available for generation.

Equivalent forced outage factor: Percentage of time outages have occurred that are not planned or for maintenance and cannot be delayed by 48 hours.

Start success: Percentage of time assets start successfully.

Operational Efficiency

Entry into the NEM has brought new challenges to Hydro Tasmania's operational efficiency to extract the most value possible from the State's water while maintaining a sustainable water resource. A number of measures have been enacted for NEM system security, effective water management, Basslink performance, and enhancing business relationships with Hydro Tasmania's transmission and distribution providers.

Efficient use of the water resource is supported through water storage operating rules. Adherence to the voluntary commitments was 83 per cent for 2005/2006.

Under NEM operations there are more system constraints than expected on generation output. We will continue to negotiate with NEMMCO to allow maximum flexibility for Hydro Tasmania's efficient operation without breaching NEMMCO's system security requirements.

Network Service Providers and NEMMCO

Hydro Tasmania's network service providers include Transend Networks, Aurora Energy and National Grid Australia - the Basslink operator.

The operational responsibilities of Hydro Tasmania, Transend and Aurora for the Tasmanian electricity system are outlined in Connections and Service Agreements that are negotiated periodically between the businesses.

Hydro Tasmania and Transend initiated bi-monthly meetings to resolve issues where their interests intersect, such as outage planning and project coordination. A challenge is to build upon the relationship to ensure that the needs of both parties are met.

National Grid Australia has exceeded Basslink's availability target of 97 per cent over the two months of operation, reaching an availability of 99.94 per cent.

Hydro Tasmania is developing a compliance plan, required by NEMMCO, to conform to performance standards for operating in the NEM.

Hydro Tasmania's network service providers include Transend Networks, Aurora Energy and National Grid Australia – the Basslink operator.

Energy Efficiency and Greenhouse Gas Emissions

Hydro Tasmania's greenhouse gas emissions are extremely low compared to those of the average electricity generator in the NEM. The long-term view of carbon dioxide equivalent emissions shows the impact on emissions of using Bell Bay Power Station during periods of low rainfall to supplement hydropower generation (see Figure 2, page 64).

An emerging issue for international greenhouse policy is the greenhouse gas emissions from hydropower storages. Scientists from Hydro Quebec conducted an independent investigation into greenhouse gas emissions from Hydro Tasmania's reservoirs. Preliminary results show the storage lakes have low greenhouse gas emissions, very similar to those of nearby natural lakes. The reservoir emissions report will be completed in 2006/2007.

Energy and Greenhouse Program

Hydro Tasmania has established an Energy and Greenhouse Program to coordinate energy efficiency and greenhouse gas management activities in support of its commitment to the Commonwealth Government Greenhouse Challenge Plus Program.

Business objectives, performance indicators and targets to encourage energy efficiency in the longer term are included in the Statement of Corporate Intent on page 112.

Targets based on greenhouse gas intensity exclude Bell Bay Power Station because it is supplementary to hydropower generation. Its use depends on rainfall, making the estimation of use dependent on a factor beyond the control of the Corporation.

Greenhouse gas emissions from Hydro Tasmania operations in 2005/2006 are less than last year, primarily due to lower gas consumption at Bell Bay Power Station and lower diesel consumption for King Island.

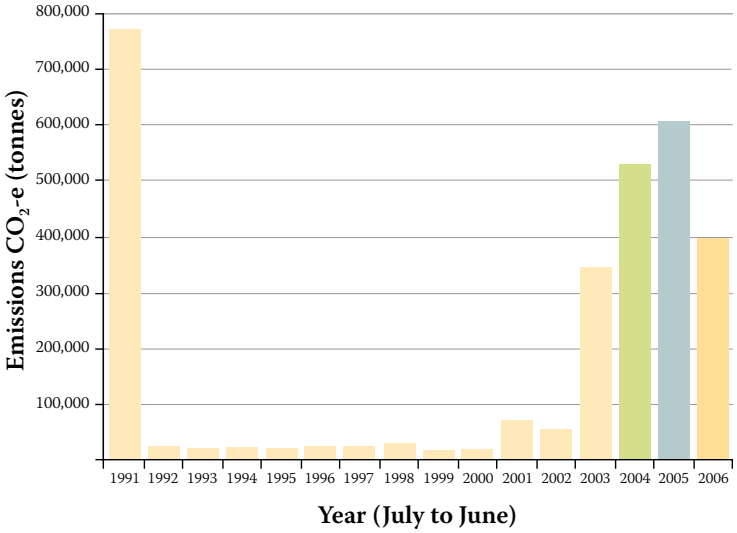


Figure 2: Greenhouse Gas Emissions 1990-2006, including Bell Bay Power Station

Greenhouse Gas Emissions

During this period, of our total greenhouse gas emissions, shown in Table 3, 95.6 per cent arose from gas-fired generators at Bell Bay Power Station. The remaining 4.4 per cent came from diesel generators on the Bass Strait islands, the vehicle fleet and electricity consumption at buildings and other facilities.

Greenhouse gas emissions from Hydro Tasmania operations in 2005/2006 are less than last year, primarily due to lower gas consumption at Bell Bay Power Station and lower diesel consumption for King Island.

Table 3: Greenhouse gas emissions 2005/2006 summary

	Unit	Performance 2005/2006	Target 2006/2007
Greenhouse Gas Emissions Intensity (excluding Bell Bay)	tonnes CO_2-e/ GWh	1.79	1.7
Greenhouse Gas Emissions Intensity (including Bell Bay)	tonnes CO_2-e/ GWh	38.0	n/a
Total Greenhouse Gas Emissions (including Bell Bay)	tonnes CO_2-e	401655	n/a

CO_2-e: Carbon dioxide equivalent.

n/a: Not applicable.

Resource Use, Waste, Emissions and Sustainable Office

Hydro Tasmania aims to reduce resource consumption for long-term financial and environmental gains. Table 4 shows a decrease in fuel use for 2005/2006, while paper consumption rose.

Table 4: Hydro Tasmania Resource Consumption

Resource	Units	2004/2005	2005/2006
Natural Gas	PJ	9268	6041
Diesel – Bass Strait islands	litres	4158135	4091998
Diesel – Fleet	litres	235074	265811
Unleaded Petrol (Fleet)	litres	452806	438183
LPG (Fleet)	litres	8434	7373
Total Electricity Consumption	GWh	151	109
Paper	reams	9051	9137

Hydro Tasmania's atmospheric emissions were lower this year than last due to lower thermal generation from Bell Bay Power Station and Bass Strait islands.

Hydro Tasmania's atmospheric emissions were lower this year than last due to lower thermal generation from Bell Bay Power Station and Bass Strait islands. Emission quantities are reported through the National Pollution Inventory and provided in Figure 3.

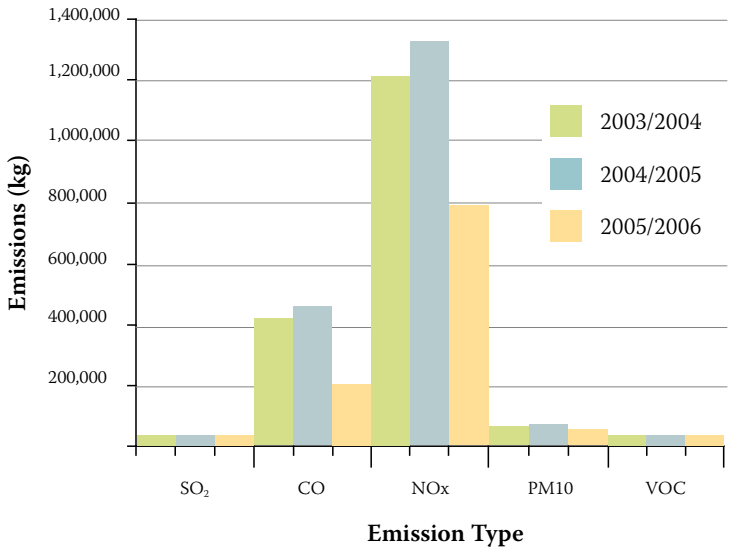


Figure 3: Hydro Tasmania Atmospheric Emissions

Hydro Tasmania also operates sewerage treatment plants associated with operations. During 2005/2006 there were two unauthorised sewage spills from the Strathgordon sewerage treatment plant, following pump and power failure. Tests showed that there were no human health impacts from these spills. The treatment plant is now undergoing a $500000 upgrade to resolve the issues.

Waste and Recycling

Hydro Tasmania has improved processes for collating waste data and can now present more reliable data (Table 5). Identifying waste reduction opportunities has not been undertaken.

Table 5: Hydro Tasmania Solid and Liquid Waste Streams in 2005/2006

Waste Stream	Units	Power Stations: North Region	South Region	King Island#	Flinders Island#	Bell Bay	Hobart Offices#	TOTAL
Waste oil	litres	26800	69000	9000#	5400#	0	0	110200
PCB contaminated oil	litres	0	0	0	0	0	0	0
Solid oily waste	m^3	20.0	52.6	NA	NA	6.0	0	78.6
Metal	tonnes	NA	17.6	NA	NA	0	0	17.6
Paper	m^3	0	0	NA	NA	0	117.9#	117.9
Mixed recyclables	m^3	0	8.0	NA	NA	0	31.8#	39.8
General waste	m^3	649.0	733.6	10.4#	5.2#	363.3	668.8#	2430.3

NA - Data not available

 # Information based on estimations given by personnel based at Bass Strait islands and the three Hobart offices at Elizabeth Street, Knopwood House and Moonah. Figures do not include offices outside Tasmania.

Sustainable Office

A formalised sustainable office plan has not been introduced, however recycling plastic, aluminium and glass has improved in the Elizabeth Street building because of the enthusiasm of the staff recycling champions.

Ad hoc improvements were made to the office spaces renovated during the year by installing dual flush toilets and motion sensor taps.

The planning brief for Consulting's new accommodation at Cambridge specifies a five-star Australian Building Greenhouse Rating and principles for resource use and waste.

Self Assessment

2004/05 Score	2005/06 Target	2005/06 Score	2006/07 Target
3.4	3.5	3.5	4.0

The following aspects contributed to overall performance improvement in performance to slightly above satisfactory.

- ▼ 27 per cent of assets are reaching mid-life. A risk program to prioritise allocation for funds has been implemented. Market operations will put additional pressure on assets and capital program.
- ▲ Basslink and installation of gas turbines help mitigate low water storage challenges.
- ▶ Hydrological and asset management systems continued to be implemented to increase operational efficiency and electricity supply.
- ▶ Relationships with network service providers continued to be improved.
- ▲ A reduction in greenhouse gas emissions and other air pollutants was recorded for the year.
- ▲ Energy efficiency targets for longer term were included in the Corporate Plan.
- ▶ Waste and resource management met compliance.
- ▲ Improvements were made in waste tracking and some office recycling.

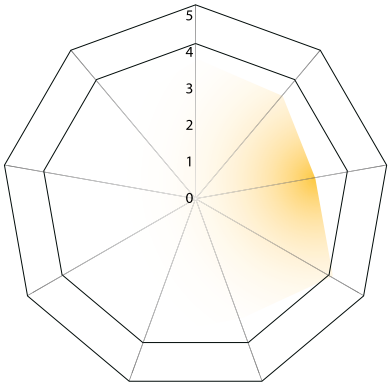
▲ Activity improved score ▶ Activity maintained score ▼ Activity reduced score

Commitments

Hydro Tasmania is committed to achieving high performance for Operations. Key commitments to help achieve this aim in the coming year are:

- evaluate CSIRO Climate Change study results in context of our operational models and determine future action plan
- implement social and environmental management action plans if medium and high-risk lake levels are reached
- develop a plan to achieve reductions in greenhouse gas emissions and energy use as defined in the Corporate Plan
- implement the asset sustainability refurbishment program, focusing over the next five years on Poatina, Gordon, Tarraleah, Liapootah and Tungatinah power stations.

Market



Basslink enables Hydro Tasmania to utilise its significant peaking capability in the market environment and to trade financial products tailored to this capacity.

Hydro Tasmania is experiencing its first exposure to the competitive electricity market, in which our energy products are wholesale electricity, energy derivative contracts and related market ancillary services. The Hydro Tasmania Consulting brand is being promoted with new material, including a multi-media website, and considerable effort is being put into increasing its client base in the global market for renewable energy services in engineering, environmental and catchment solutions.

Marketing Energy Products

Hydro Tasmania produced 10371 GWh of electricity in 2005/2006 with a value of $405.6 million, a 1.6 per cent increase on last year's revenue. The high level of contracts for wholesale load in the Tasmania region is carried by Aurora Energy, which is our major customer.

Renewable Energy Certificates (RECs) sales had a lower overall value, with increased volume but lower prices than previous years.

Basslink enables Hydro Tasmania to utilise its significant peaking capability in the market environment and to trade financial products tailored to this capacity. These products extract a premium from the market and assist in managing the market price risk.

NEMMCO's latest load forecasts predict a 10-year energy growth rate of 1.5 per cent per year in Tasmania and 0.8 per cent in Victoria, while the maximum demand in these regions is predicted to grow annually by 1.6 per cent and 1.9 per cent respectively. The greater rate of growth in maximum demand, or peak demand, may enhance the value of Hydro Tasmania's peaking capability and associated products.

Promoting Hydropower

Hydro Tasmania has continued its effort in international forums to maintain hydropower's status as renewable energy. It is a member of key energy industry associations, holds key positions on association committees and continues to promote renewable energy through these organisations.

Table 6: Membership of organisations

Energy Supply Association of Australia (esaa)
International Hydropower Association (IHA)
National Generators Forum (NGF)
Renewable Energy Generators of Australia (REGA)
Asia Pacific Partnership for Clean Development and Climate (AP6)

Marketing Consulting Products

Hydro Tasmania Consulting operates nationally and internationally with offices in Hobart, Launceston, Melbourne, Adelaide, Papua New Guinea and shortly in India. Consulting provides expert engineering and environmental services in renewable energy, power engineering and environmental and catchment management. Revenue from clients external to Hydro Tasmania was $21.1 million.

Hydro Tasmania Consulting is in a period of transition due to the combination of the Commonwealth Government decision not to extend the Mandatory Renewable Energy Target (MRET), effectively capping wind farm development in Australia, and completion of major Hydro Tasmania projects associated with entry to the National Electricity Market.

In response to these market changes, Hydro Tasmania Consulting is working to diversify its client base beyond Tasmania and to achieve an approximate balance of 50/50 between internal and external work.

During 2005/2006, 43.8 per cent of work was external to Hydro Tasmania, above the year's target of 40 per cent. The significant increase in international business was recognised during the year when Consulting won the Services Category in the Tasmanian Export Awards.

Table 7: Examples of Hydro Tasmania Consulting Projects in 2005/2006

Client	Project	Location
Hydro Tasmania Energy Business	Cultural Heritage Program	Tasmania, Australia
	Aquatic Environment Program	Tasmania, Australia
	Gordon Power Station Upgrade	Tasmania, Australia
	Bell Bay Supplementary Generation	Tasmania, Australia
	Environment and Sustainability Management System and Sustainability Program	Tasmania, Australia
Roaring 40s	Technical Review of Wind Farm Project Opportunities in China and India	China, India
Transend Networks	Backup Network Special Protection Scheme (Tasmania)	Tasmania, Australia
Melbourne Water	Melbourne Water Mini-Hydro	Victoria, Australia
McConnel Dowell	Meander Dam – dam design as part of a build-operate-transfer contract	Tasmania, Australia
Asian Development Bank	Tajikistan Power Rehabilitation II	Tajikistan
Tasmanian Government	Tsunami Relief Project	Sri Lanka
Tolukuma Gold Mine Ltd	Tolukuma Mini-Hydro	Papua New Guinea
Fiji Electric Authority	Environmental Audit Baselines and Capacity Building	Fiji
Gammon	Himachal Pradesh – initial evaluation of eight hydropower projects	India

As part of the client diversification strategy Consulting has based a representative in New Delhi, India, to establish an office there. It has also sought to expand the small client base in Papua New Guinea. Understanding relevant cultural and legal requirements is among the challenges involved in establishing and maintaining international offices.

Hydro Tasmania Consulting also focused on strengthening relationships with existing clients and with international development agencies, such as the World Bank and the Asian Development Bank.

To support promotion of the Hydro Tasmania Consulting brand, new marketing material and a multi-media website were launched and can be found at www.hydrotasmaniaconsulting.com

Innovation and Research

Hydro Tasmania considers that targeted investment in renewable energy technologies is an important business development strategy, closely linked to sustainable market performance and growth.

During 2005/2006, Hydro Tasmania was involved in research and innovation activities across a number of business activities. Examples are shown in Table 8. Even with the wide range of research activities, Hydro Tasmania currently spends less than the industry average on research and development.

Research is generally undertaken in partnership with research bodies, such as universities, and Hydro Tasmania is endeavouring to continue this approach. A challenge for Business Development is how to manage knowledge from research conducted with partners.

Following the establishment of Roaring 40s, the Corporation has re-evaluated its overall technology development strategy and is now focused on emerging technologies and their potential commercialisation to create long-term business value. A challenge for the coming year is to formalise the research and development strategy and build upon the partnership model.

Table 8: Examples of research and innovation undertaken during 2005/2006

Renewable Energy Technology	Continued support for the University of Tasmania Hydrogen and Allied Renewable Technologies (HART) Program. Remote Area Power System options, including carbon block storage, hydrogen and biofuels.
The impact of generation operations on the aquatic environment	Three-year funding of taxonomic research on unidentified lacewing and sponge species in Lake Pedder by retired professors Nigel Forteath and Andrew Osborn. In-kind contribution to the Launceston City Council Tamar Estuary Hydrodynamic Modelling Study aimed at developing a tool to assess siltation issues and management in the upper Tamar Estuary.
Improved efficiency of plant	University of Adelaide PhD on outage management optimisation.
Reliable operation of the power system	Research project into piping risk in earth fill and clay core dams by the University of NSW. This work has significantly helped the upgrade of Echo Dam.
Effect of climate on long and short-term energy planning and optimum resource management	CSIRO modelling study of Tasmania's climate to establish climate trends due to global warming.

Self Assessment

2004/05 Score	2005/06 Target	2005/06 Score	2006/07 Target
3.0	3.5	3.0	3.5

The following aspects contributed to maintaining an overall performance of satisfactory.

- ▶ New processes were introduced for the NEM environment, a time of transition and continual learning.
- ▶ Consulting continues to make progress in client diversification and marketing practices.
- ▶ A conservative approach to research and development continued, covering environment, renewable energy technology and asset management.
- ▲ Separation of Roaring 40s initiated a re-evaluation of the technology development strategy.
- ▼ A formal research and development plan is yet to be developed.

▲ Activity improved score ▶ Activity maintained score ▼ Activity reduced score

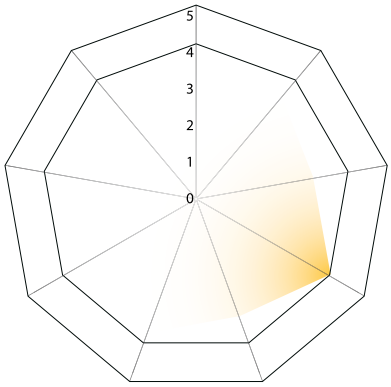
Brett Spinks and Larry Hude browse the new Hydro Tasmania Consulting website

Commitments

Hydro Tasmania is committed to achieving slightly above satisfactory performance for Market. Key commitments to help achieve this aim in the coming year are:

- develop a formal research and development strategy to meet Corporate Plan targets for investment and renewable energy pilots and research
- implement marketing metrics to improve the measurement and reporting of Consulting marketing and sales activities
- develop new market opportunities in the NEM as per Corporate Plan targets.

Financial



Hydro Tasmania's financial reports are prepared in accordance with the requirements of the** Hydro-Electric Corporation Act 1995**, the** Government Business Enterprises Act 1995 **and the State Treasurer's Instructions.

In a challenging year Hydro Tasmania's financial performance met or exceeded most expectations. We continue to address our long-term objectives to grow the value of the Corporation and its ongoing contribution to the Tasmanian economy through our asset maintenance and capital expenditure programs and analysis of future market conditions.

Hydro Tasmania's financial reports are prepared in accordance with the requirements of the *Hydro-Electric Corporation Act 1995*, the *Government Business Enterprises Act 1995* and the State Treasurer's Instructions, as well as Australian Accounting Standards and Statements of Accounting Concepts.

Short-Term Financial Performance and Distribution

The year's financial performance met or exceeded targets for profit and the ability to service debt.

Profit after tax for the year was $44.3 million. Prices and Tasmanian volumes were higher than expected while revenue was lower due to lower RECs value and opportunities missed in the delay of Basslink. The latter was partially offset by delayed facility fee payments.

Cash flow generated from operating activities was $140 million, up $15.7 million on the previous year.

Operating costs for the year, including labour, materials and administration, were consistent with expectations and higher than the previous year. The cost of running Bell Bay Power Station was lower than expected.

Tight control of cash will be a major focus for the business in the coming year with the expected lower profit and distribution. The targets are included in the Statement of Corporate Intent on page 112.

Distribution to Government

Distribution to Government is less than last year due to reduced income tax equivalent payments. These include reduced instalments relating to the current year and final payment relating to the previous year. The remaining tax equivalent liability for the reporting year is $15.6 million.

Table 9: Hydro Tasmania distribution to government

	2003/04 ($m)	2004/05 ($m)	2005/06 ($m)
Dividend	43.6	40.0	40.0
Income tax equivalent	32.9	30.0	19.1
Loan guarantee fee	3.8	4.0	4.1
Rates equivalent	n/a	3.5	2.9
Total	80.3	77.5	66.1

Market Risk Management

Hydro Tasmania's entry into the National Electricity Market (NEM) has resulted in an overall increase in Tasmanian spot prices for electricity and increased price volatility. However, the Corporation does not carry significant exposure to these prices due to the high level of contracting for Tasmanian load and our generation capability. These contracts will progressively expire and may be renegotiated.

Hydro Tasmania was able to utilise Basslink for two months to manage water storage levels and to take advantage of high mainland spot prices. The exposure to market prices has been managed by trading electricity derivative contracts, backed by our peaking capacity.

The strength of Hydro Tasmania's financial position received some attention in local media towards the end of the financial year. This arose as a result of leaking to the media, the Tasmanian Opposition and Hydro Tasmania's competitors a document prepared for the Board's strategic planning workshop in January.

This document was a discussion paper canvassing a number of options to finance Hydro Tasmania's strategic direction. The sensationalised reporting presented an organisation in financial difficulties. Hydro Tasmania has rejected this, most recently before the Tasmanian Parliament's Government Businesses Scrutiny Committee in July at which the opportunity was provided to explain the context and content of the document, and the true nature of Hydro Tasmania's financial position.

Long-Term Business Value

Hydro Tasmania's view is that the long-term financial outlook remains positive. The ability to use Basslink has not only decreased the hydrological risk faced by Hydro Tasmania, but provided the opportunity to exploit the peaking capability of hydropower assets. Long-term strategic planning points to Hydro Tasmania being well-positioned to respond to future market developments.

The impacts of global warming on the long-term financial outlook of Hydro Tasmania are not yet clear. Possible impacts include changes to rainfall patterns in our catchments and the introduction of carbon trading or similar schemes. Hydro Tasmania will be closely monitoring the impact of global warming on the longer-term financial picture.

Capital Expenditure

The 10-year comprehensive program for upgrading and modernising generation assets continued during the year. Capital expenditure on dams and power stations totalled $41.7 million. An additional $48.9 million was expended on the gas turbine units at Bell Bay.

Debt

The Corporation continues to actively manage its debt portfolio, which is sourced entirely from the Tasmanian Public Finance Corporation (Tascorp). The level of borrowings increased over the year to $1077 million, up $57 million, and plans are being implemented to reduce the level.

This increase was principally required to fund the purchase and installation of additional gas turbines at Bell Bay. Borrowings also funded the payment of a $50 million security deposit on commencement of Basslink operations.

Capital Structure

During 2006, Hydro Tasmania conducted a review of its capital structure, as required by its Ministerial Charter. The review confirmed the previous year's conclusions that business circumstances have changed as a result of the move into the NEM.

A stronger balance sheet would provide trading advantages and greater resilience in the market environment.

Hydro Tasmania has been considering an equity injection of $300 million to reduce debt and improve the Corporation's financial strength for market contingencies. Discussions with Government continue. Hydro Tasmania is also addressing the issue internally with a focus on cost reduction and further improvements in cost structure.

Hydro Tasmania is well able to maintain its program for capital expenditure on assets to ensure there are no compromises to operations, the safety of our people or reliability of supply.

Roaring 40s

In September 2005, the Roaring 40s joint venture was established with CLP Power Asia. As a result, Hydro Tasmania now holds 50 per cent equity in a company with significant growth prospects.

External factors

External factors impact Hydro Tasmania's long-term business value such as rainfall, changing market conditions, changing government policy and technology developments.

Investment in wind farm development by Hydro Tasmania and Roaring 40s in Australia has been suspended since the Commonwealth Government decision not to extend the Mandatory Renewable Energy Target. The decision also caused Hydro Tasmania to re-evaluate its technology development strategy so as to focus on emerging technologies and their potential commercialisation.

Self Assessment

2004/05 Score	2005/06 Target	2005/06 Score	2006/07 Target
4.0	4.0	3.9	4.0

The following aspects contributed to an overall slight decrease in performance.

- ▶ Profit was maintained.
- ▶ Significant funds were distributed to the State Government.
- ▲ Roaring 40s joint venture was formed with CLP Power Asia.
- ▼ Higher capital expenditure than expected was due to the gas turbines.
- ▼ Debt increased.
- ▼ External factors impact negatively on financial outcomes such as low rainfall, price of Renewable Energy Certificates and the decision not to extend the Mandatory Renewable Energy Target.
- ▶ Options for improving financial resilience in the NEM have been reviewed. Plans are in place to improve internal cost structures and control cash.

▲ Activity improved score ▶ Activity maintained score ▼ Activity reduced score

Commitments

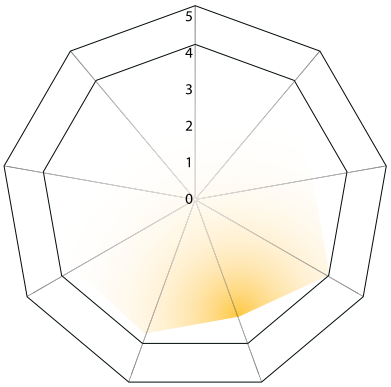
Hydro Tasmania is committed to achieving high performance for Financial. Key commitments to help achieve this aim in the coming year are:

- meet financial expectations as outlined in the Corporate Plan
- implement strategy to reduce internal costs.

Employee Capability and Opportunity

Hydro Tasmania is working to attract and retain employees, and achieve a level of engagement in the top quartile of all industry performance. However, the global skill shortage is a critical business issue.

The quality, effectiveness and level of engagement of employees are key factors that will contribute to Hydro Tasmania's long-term sustainability. The 2006 Staff Feedback Survey, conducted on the methodology used by Right Management Consultants, showed an overall improvement in engagement over the past year to put Hydro Tasmania in its top two quartiles.



The quality, effectiveness and level of engagement of employees are key factors that will contribute to Hydro Tasmania's long-term sustainability.

Opportunity and Equity

Equal Employment Opportunity System

Hydro Tasmania has a comprehensive equal employment opportunity (EEO) system and policy. This includes workplace advice and support, dispute resolution and compliance monitoring. Procedures are in place for grievances and employee appeals related to personal status, salary or classification, selection procedures and recruitment decisions.

Staff feedback indicated that 70 per cent of employees agreed that Hydro Tasmania values diversity and equal opportunity.

Hydro Tasmania had no equal employment opportunity compliance breaches.

Appeals and Breaches

Two recruitment appeals were lodged by employees and were subsequently withdrawn.

Disciplinary action was taken against an employee for a serious breach of the code of conduct. The employee's services were terminated, however a subsequent unfair dismissal claim resulted in the reinstatement of the employee. In response, a review was conducted and as a result policy inconsistencies are being addressed and a Drug and Alcohol Policy is being developed.

Diversity

Anecdotal evidence indicates that Hydro Tasmania's workforce is ethnically diverse with employees from countries such as New Zealand, United Kingdom, Sri Lanka, South Africa, United States of America, India, the Balkan nations and Hong Kong. There is also diversity in regard to age (Figure 4).

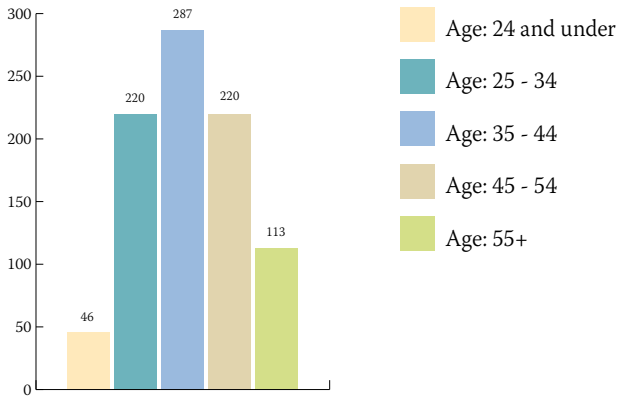


Figure 4: Hydro Tasmania Employees According to Age Group

The gender imbalance between male and female employees did not improve during the year but remains slightly better than the utilities benchmark. Gender composition is 76 per cent male and 24 per cent female (Figure 5).

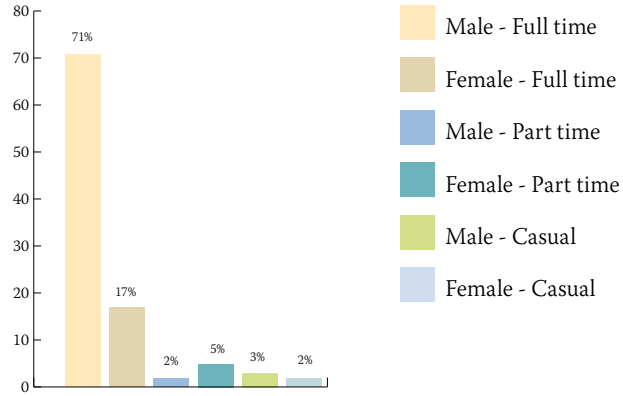


Figure 5: Hydro Tasmania Employee Gender Composition

As at 30 June 2006, the Board remained gender-balanced, with three female members and four male members. Significant gender imbalance remains in management roles within the Corporation. There are currently no targeted programs to encourage diversity, including gender, in management or leadership positions (Figure 6).

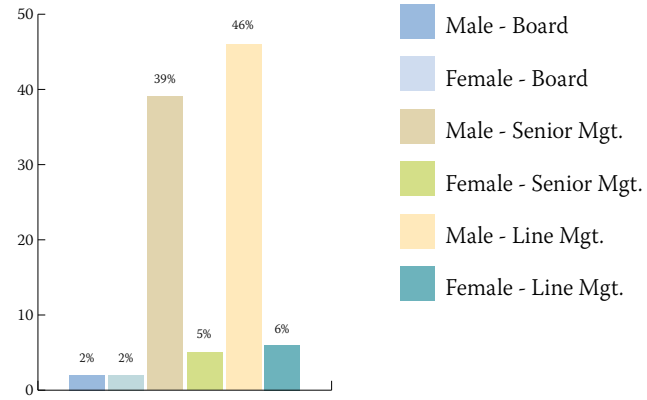


Figure 6: Hydro Tasmania Employee Gender Composition in Management

Employee Unions

An estimated 23 per cent of Hydro Tasmania employees hold union membership. Hydro Tasmania has an established partnership consultative group, consisting of union and management representatives, to facilitate employee consultation and information flow. The group meets monthly to discuss employee, work environment and industrial issues.

All award-level employees' wages and conditions are covered by a collective Enterprise Partnership Agreement (EPA) which expired on 31 July 2006. In line with the consultative framework, unions have engaged in the development of two new EPAs , with Consulting pursuing employee conditions to match its business drivers which differ significantly from the rest of the Corporation. Negotiations will be completed in 2006.

Employee Satisfaction

Staff Feedback

The annual Staff Feedback Survey and quarterly sample surveys provide a measure of progress in engagement and an insight into employee concerns. After the results last year activities were implemented to improve employee engagement, including refreshing the values and cultural transformation programs.

The 2006 survey was completed by 85.6 per cent of employees.
The results showed:

- 63 per cent of respondents were satisfied with Hydro Tasmania as an employer
- employee engagement increased overall across categories of engagement by nine per cent to 34 per cent, three per cent above the median industry benchmark as provided by Right Management Consultants 2006
- key strengths were safety at work, management support, job commitment and pride, and environmental responsibility
- key concerns were knowledge transfer and learning, cooperation between work areas, employees feeling valued, and managers demonstrating the Corporation's values.

The improvement was principally in Energy, Corporate and Business Development.

Engagement slightly decreased in Consulting. When Consulting employees were asked the open question in the survey "What don't you enjoy about working for Hydro Tasmania?" the top four reasons were the levels of bureaucracy, leadership and management issues, resource allocation (including workload and hours) and the move to Cambridge in 2007.

The highest concerns about the planned move to Cambridge are transport, childcare, health and fitness and building design needs.

Employee Separations

During the year, there were a total of 70 employee-initiated separations (resignation and retirement) excluding casuals and employees who resigned to work at Roaring 40s. The employee-initiated separation rate, based on this number, was 8.32 per cent, slightly higher than the utilities benchmark of 7.57 per cent.

The total number of separations for the year, initiated both by employer and employees, is shown in Table 10.

Table 10: Hydro Tasmania total employee separation statistics

Separations According to Age		Separations According to Gender	
29 and below	26	Male	91
30-39	44	Female	42
40-49	32		
50-59	15		
60 and above	16		

Our participants in the 2005 Walk to Work Day

Remuneration

Hydro Tasmania's total labour expense (including benefits) for 2005/2006 was $84.2 million.

Healthy Work and Life Balance

Hydro Tasmania has continued to implement a Work and Family Life Program. A Reasonable Working Hours Policy provides managers with guidance on appropriate working hours for employees. Assistance for childcare and education includes access to Lady Gowrie Tasmania for childcare placements and a school holiday care allowance. Family and other leave benefits are in place which assist family care, such as maternity leave, carers leave, paternity leave, special leave, and purchased leave.

An initiative this year was to support employees with elderly or disabled family members by holding a series of workshops on related topics.

The 2006 Staff Feedback Survey showed that 76.3 per cent of employees agreed that Hydro Tasmania supported a balance between work and family life demands. Hydro Tasmania also received a High Commendation at the 2005 National Work and Family Awards in recognition of excellence in work and family initiatives.

Workforce Planning

Hydro Tasmania's workforce planning process has critically reviewed specific skill and capability sets within the Corporation and recommended actions to improve recruitment, development and retention. The process has also considered changes to the business environment that may impact Hydro Tasmania, such as workforce demographics, diversity and critical roles.

During 2005/2006, concerns were raised about a number of unsuccessful recruitment campaigns, with six positions unfilled, specific skill shortages and graduate retention.

Energy has particular concern with the need to attract and retain fitter/operators and senior project managers as mentors on large projects.

The continued implementation of programs such as recruitment, induction, performance and development reviews, training and development, and phased-in retirement continued during the reporting year. The new Aurion human resource information system was also introduced.

Table 11: Key training and development offered in 2005/2006

Training	Status
Leadership Development Program	In 2005/2006, 34 employees were trained. As at June 2006, 85 per cent of managers have participated.
Graduate Development Program	As of June 2006, there were 39 graduates participating in the program.
Apprentices and Trainees	Hydro Tasmania employed 16 apprentices and 9 trainees.
General and managerial skills development	Training provided as required.
Sir Allan Knight Scholarship	2005/2006 recipients of the scholarship were Katrina Swalwell and Seth Langdon. They are working with industry and research institutes to assess current best practice in predicting air flow separation, a phenomenon that can impede wind turbine performance.
Environmental Training	26 environment training sessions were delivered, with a total of 254 participants.
Safety Training	Several programs covered a range of safety areas such as power system rules, field induction, Job Safety Analysis, confined space and evacuation wardens.
EEO Training	Safetrac EEO on-line training was introduced in October 2005. As most employees had previously attended facilitated EEO awareness sessions, all were given twelve months to complete the course. 18 per cent had completed the on-line training by 30 June 2006.
Emerging Leaders Program	Developed in 2005/2006 with places to be offered in 2006/2007.

Training and Development

The average expenditure on training and development per full time equivalent employee for the reporting year was $2507. Development plans are agreed between individual employees and their manager to enhance skills and capabilities that align with business objectives.

Management proactively responded to last year's low employee engagement score, resulting in an overall score above the Right Management Consultants median benchmark for industry.

Self Assessment

2004/05 Score	2005/06 Target	2005/06 Score	2006/07 Target
3.0	3.0	3.2	3.5

The following aspects contributed to overall improvement in performance to slightly above satisfactory.

- ▶ Employee opportunity and equity programs continue to meet compliance requirements, however there are no activities to promote diversity, especially gender, in leadership positions.
- ▲ Management proactively responded to last year's low employee engagement score, resulting in an overall score above the Right Management Consultants median benchmark for industry.
- ▼ Engagement score for Consulting decreased.
- ▶ Key human resources initiatives continued to be implemented, such as training and development and life and family balance.
- ▲ Understanding of workforce planning challenges improved, with some actions initiated to improve existing processes e.g. performance development reviews.
- ▶ Significant workforce planning issues remain, including graduate retention, slow recruitment and skill shortages.

▲ Activity improved score ▶ Activity maintained score ▼ Activity reduced score

Commitments

Hydro Tasmania is committed to achieving slightly above satisfactory performance for Employee Capability and Opportunity.
Key commitments to help achieve this aim in the coming year are:

- review and remodel recruitment policy and processes to respond to the competitive job market
- implement an induction program for managers to improve management capability and understanding of Hydro Tasmania policies.

Health and Safety

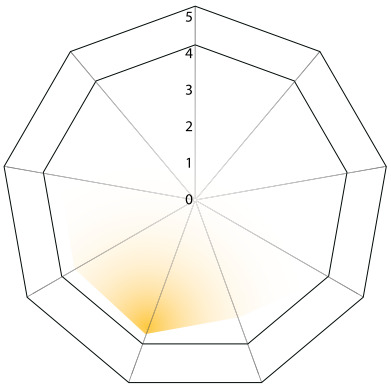
Guided by the safety vision of "no harm to anyone at any time", Hydro Tasmania is committed to ensuring the safety and wellbeing of employees, contractors and the public. Our health and safety system and procedures recognise that the generation of electricity poses a number of safety risks to employees that require high standards of safety practice.

Employee Safety

Staff feedback in the annual survey indicated that Hydro Tasmania provides a safe working environment, giving this issue the highest rating in the organisation's performance.

Hydro Tasmania's occupational health and safety management system, HydroSafe, is modelled on Australian Standards AS/NZS 4801 and assessed annually by an external auditor; however it is not accredited or independently certified. In September 2004 and October 2005, DuPont Safety Management Services evaluated HydroSafe policies and procedures and made recommendations for the development of the Corporation safety plan and supporting operational safety plans.

HydroSafe is built around trained safety teams and subcommittees, with high-level guidance from the Executive Safety Team. At least half the members of local safety teams are to be elected by employees at the workplace. The balance of the local safety team is to be made up of persons appointed by the workplace manager.



The Enterprise Partnership Agreement supports Hydro Tasmania's safety vision by including a commitment to reasonable working hours.

Employee work plans include key result areas for safety.

Safety incidents are recorded in Hydro Tasmania's incident management system, reported monthly to management and quarterly to the Board. Employees are expected to report one safety incident a year. This target was not met this year, with an average per employee of 0.72.

Table 12: Hydro Tasmania safety key result areas

Type of Injury	Frequency Rate for 2003/2004	Frequency Rate for 2004/2005	Frequency Rate for 2005/2006	Target 2006/2007
Fatalities (number)	0	0	0	0
Lost Time Injury Frequency Rate	3.3	3.2	1.3	Maintain below 2.0
Medical Treatment Injury Frequency Rate	10.7	13.6	4.6	Reduce by 2.0 each year
All Injury Frequency Rate	36.6	38.9	20.4	Reduce by 2.0 each year

Gregg Barker (left) and Lachlan Tait participate in a Healthy Hydro Tasmania program

Internal research undertaken to evaluate the effectiveness of the health and wellbeing programs showed that employees were readily able to acquire information on issues of concern.

With a determined effort to improve safety standards, over the past three years the lost-time injury rate has improved to be well below the industry standard, with significant reductions in medical treatment and all injury rates (Table 12, page 81).

Contractor safety initiatives are being implemented and are discussed in Suppliers and Partners on page 96.

Employee Health and Wellbeing

The Healthy Hydro Tasmania Program (HHTP) continues to promote employee health and wellbeing. During the year mental health awareness sessions were held, and regular benefits continued, such as personal health assessments, lifestyle planning, exercise classes and fresh fruit. The HHTP continues its association with health promotion organisations, such as Eat Well Tasmania and Quit Tasmania, to provide additional activities for employees.

Table 13: Healthy Hydro Tasmania Program participation trends

12 months from April-March	2003/04	2004/05	2005/06
Number of single attendances at HHTP initiatives	1737	1896	2497
Number of participants	590	660	706
% of total employee population	72	73	79

The Employee Assistance Program is a confidential counselling and advice service, available to assist employees and their families undergoing personal or work-related problems.

Internal research undertaken to evaluate the effectiveness of the health and wellbeing programs showed that employees were readily able to acquire information on issues of concern.

Hydro Tasmania's unscheduled absence rate was 3.97 per cent in 2005/2006, well below the industry benchmark of days lost per employee of 7.18 per cent.

Public Safety

Hydro Tasmania has a significant number of publicly accessible assets across Tasmania requiring a high level of safety management.

During 2005/2006 a range of activities were conducted to help improve public safety.

Work commenced to ensure Hydro Tasmania buildings meet the Tasmanian Building Regulations 2004.

Kitchen refurbishments and staff training on improved food handling was provided at Lake Pedder Chalet.

Information was shared about crisis and emergency plans and preparedness with bodies such as the Tasmanian Energy Regulator, Tasmania Police, State Security Unit, State Emergency Service, Aurora and Transend.

Dam Safety

The comprehensive dam safety program continued, including a revised dam safety risk management policy, integration of new legislative provisions and significant capital upgrades to reduce public safety risks.

A trial quantitative compliance assessment was made against the Australian National Committee on Large Dams Guidelines for dam safety management.

A baseline assessment of risk was completed across the dam portfolio. An independent review of the Dam Safety Program during the year found Hydro Tasmania's risk management program is compliant, with two minor partial compliances which have since been addressed. The annual report to the Tasmanian Dam Safety Regulator was submitted in accordance with reporting requirements.

Self Assessment

2004/05 Score	2005/06 Target	2005/06 Score	2006/07 Target
3.6	3.6	3.6	4

The following aspects contributed to the overall performance being maintained at slightly above satisfactory.

- ▶ Implementation of the employee occupational health and safety (OH&S) system continued.
- ▼ The OH&S system is externally audited, however not certified.
- ▶ The Healthy Hydro Tasmania Program was maintained to promote employee health.
- ▶ Absenteeism rates have reduced over the last five years to below the industry benchmark.
- ▲ Significant reductions in lost time injury and medical treatment injury rates were achieved.
- ▲ Improvements in dam safety relate both to policy and capital works.
- ▶ A satisfactory approach to public safety with improvements to non-generation assets, e.g. Strathgordon village.

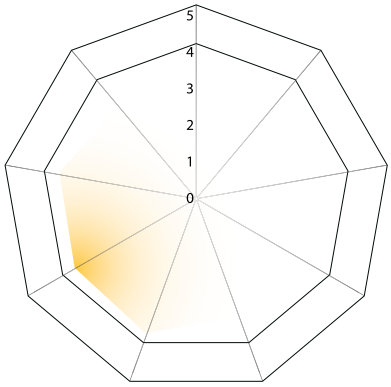
▲ Activity improved score ▶ Activity maintained score ▼ Activity reduced score

Echo Dam Safety Project

Commitments

Hydro Tasmania is committed to achieving above average performance for Health and Safety. Key commitments to help achieve this aim in the coming year are:

- create a holistic health and wellbeing program by integrating the Healthy Hydro Tasmania and Employee Assistance programs and the Equal Employment Opportunity system to increase efficiency and effectiveness
- improve the safety induction process, contractor management safety systems, implement a new safety governance structure and embed safety accountabilities within the business
- improve dam safety by:
  - commencing a significant upgrade at Catagunya dam
  - improving the flood security of Lake Margaret Dam during the shutdown period
  - undertaking detailed investigation for the Murchison Dam spillway upgrade
  - enhancing the Tasmanian seismic risk monitoring network.



Hydro Tasmania recognises the high expectations the public has of our ability to maintain a reliable electricity supply.

Community

As a key Tasmanian Government Business Enterprise, and with a long and close association with the community, Hydro Tasmania recognises the high expectations the public has of our ability to maintain a reliable electricity supply. The Corporation also recognises that meeting community and stakeholder expectations in all our activities can enhance business success.

Our obligation to manage water in Hydro Tasmania's storages and lakes brings with it responsibilities to the community to ensure that water is managed for all who use it, whether for agriculture, environmental flows, industry or recreation.

Hydro Tasmania contributes to the community through providing educational services and sponsorships. Our assets provide facilities at many sites in Tasmania for recreational water activities such as fishing, rowing, water skiing and boating.

Stakeholder and Community Engagement

Hydro Tasmania currently identifies and manages its operating impacts on local communities on a project-by-project basis through embedded environmental management procedures. Designated roles are identified within the business to manage ongoing stakeholder concerns and activities, such as access to water and recreational facilities.

A stakeholder engagement framework is being developed for Hydro Tasmania to be more consistent and proactive in the community. It will assist a better understanding of who our stakeholders are, what they are most concerned about (now and for the future), and how best to work together to create a sustainable future.

Community Survey Results

Hydro Tasmania gains a wider understanding of community interests and impacts from the Corporate Image Survey undertaken by independent consultants. This has been conducted annually over the last three years. The most recent survey of 400 respondents, with 200 from the south of the State, 100 from the north and 100 from the north-west, found:

- community approval of Hydro Tasmania's overall performance was rated at 7.8 out of 10, with our importance to the State increasing from 8.9 to 9.1 on the previous year
- 42 per cent recognise Hydro Tasmania's primary role as an electricity generator
- younger respondents are more likely to consider that Hydro Tasmania can improve across most areas, especially in environment management and engagement with and listening to the community.

The launch of the Australian Rowing Championships sponsorship

Community Capacity Building

Hydro Tasmania's interactive centre on renewable energy, the Hands On Energy Discovery Centre, provided an educational experience for 595 visitors from community and special interest groups and 5513 students. In a recent sample survey of visiting teachers, all teachers indicated they would recommend visiting the Centre to their colleagues. The Centre continues to help develop curriculum material on renewable energy for use in Tasmanian schools.

During 2005/2006, Hydro Tasmania provided eight undergraduate engineering scholarships, each valued at $4000 per annum, to 3rd, 4th and 5th year students at the University of Tasmania.

Finalists in the Junior Surf Life Saver of the Year

Three Peaks Race, sponsored by Hydro Tasmania

Sponsorship

Hydro Tasmania's sponsorship program targets the arts, the environment and organisations that benefit young people. The corporate philanthropy objectives are designed to reflect our position in the community.

Table 14: Sponsorship funding distribution for 2005/2006

Sponsorship	Contribution ($)
Greening Australia Partnership	75000
Tasmanian Symphony Orchestra (Australian Music Program)	44000
University of Tasmania – Hydrogen Targa Car	30000
Ten Days on the Island	25000
Three Peaks Race (naming rights to 2007)	25000
Clean Up Australia (sole State sponsor for 2005-2007)	22600
Tasmanian Rowing Council – Junior Development Program	20000
Australian Rowing Championships and Kings Cup Regatta	20000
Hydro Tasmania Employee Support Scheme Pilot	18300
arts@work Living Artists Week – Artists in Schools Program	15000
Junior Lifesaving Skills Development (through to 2007)	10000
Young Achiever Awards – Environmental Category	10000
Cancer Council Relay for Life	7000
Camp Quality – Companion Training	5000
Tullah Challenge	5000
Science and Engineering Challenge	5000
Young Professionals Network Tasmania	5000
Tasmanian Awards for Environmental Excellence	3000
Back to Lake Pedder Fishing	3000
Other Sponsorships Under $3000	18400
TOTAL	366300

The Employee Support Scheme piloted during the year provided $18300 to 35 beneficiaries. The scheme will continue next year and employees can apply for one-off grants for community-based activities in which they volunteer or are involved.

Table 15: Employee Support Scheme beneficiaries 2005/2006

Fairview Primary School Breakfast Club	Trevallyn Playground Rescue
Australian Deer Association - towards insulation for club rooms	SES Volunteers
Wayatinah Social Club – sport equipment	West Devonport Hockey Club
Tullah Cricket Club – assistance with running costs	Kidsafe – publishing fact sheets and CDs
Latrobe Junior Football Club	Tullah Eight Ball Club
Longford Netball Club	Masters Swimming
Lindisfarne Riverside Arts Club Choir	Hobart City Band
Dover Skate Park	Southern Tasmanian Endurance Riders
Latrobe Federal Brass Band	Delta Pet Partners – aged care project
Strathgordon Gym & Community Centre – new equipment	Swanston Street Children's Centre
Norwood Little Athletics	Claremont Junior Football Club
Engineers Without Borders	Sheffield Football Club
Corporate Swim Challenge (Anglicare)	New Norfolk District Scout Group
Battery Point Sea Scouts – lifejackets	Channel Football Club
Kings Meadows Bowls Club – movable steps	Tasmanian Chorale
Poatina Golf Club – re-seeding greens	Make a Wish Drive 2006
MRA Toy Run	Georgetown Rotary
Rotary Low Cost Shelter Project in Fiji	

Multiple Use Benefits

During 2005/2006, Hydro Tasmania continued to encourage visitor activities in line with its policies, with access to facilities such as abseiling at Gordon Dam, water ski clubs at lakes Barrington, Rosebery, and Meadowbank, and rowing on Lake Barrington, including the Australian Rowing Championships and Kings Cup Regatta. The boat ramps improvement program continued with low lake levels creating access difficulties for anglers on some lakes.

The Strathgordon Visitor Centre received 16742 visitors during the year. Waddamana Power Station Museum received 5689 visitors.

The Strathgordon Visitor Centre received 16742 visitors during the year.

Waddamana Power Station Museum received 5689 visitors.

Recreational Management Plans

During the reporting period, Hydro Tasmania developed the draft Penstock Lagoon Recreational Management Plan, providing management options for boating, camping and day-use facilities. Implementation of the plan is being considered in collaboration with the Inland Fisheries Service, Marine and Safety Tasmania and Angling Alliance Tasmania.

A recreational zoning program has been finalised for Lake Meadowbank. A brochure has been developed and circulated to all adjoining property owners, as well as angling associations and government agencies.

Hands On Energy Discovery Centre continues to provide a renewable energy educational experience.

Recreational User Guidelines

During the year, Hydro Tasmania collaborated with community groups and government agencies on provisions for the sustainable use of land and waterways. This included input to:

- recreational vehicle guidelines for public lands
- the tracks and trails strategy
- a fisheries access plan to encourage fishing tourism in regional Tasmania.

Water Supply

Water is a major issue for Tasmanian primary producers. Hydro Tasmania provides water allocations for agriculture through a Memorandum of Understanding with the Department of Primary Industries and Water and the Tasmanian Farmers and Graziers Association. However some allocations remain to be finalised.

Self Assessment

2004/05 Score	2005/06 Target	2005/06 Score	2006/07 Target
3.0	3.0	3.5	3.5

Stakeholder feedback indicated that the 2004/2005 self assessment community indicators were under-rated. This was taken into consideration during this assessment. The following aspects contributed to the overall improvement in performance to slightly above satisfactory.

- ▶ Hydro Tasmania has pockets of excellence in stakeholder engagement with room to improve in the way it engages with adversarial groups, and in broader dialogue on business dilemmas.
- ▲ Work on a stakeholder engagement framework has commenced.
- ▲ Sponsorship continued and a pilot employee donation scheme was initiated.
- ▶ Hands On Energy Discovery Centre continues to provide a renewable energy educational experience.
- ▶ Community use of some of our assets continues.
- ▲ Collaboration continued with a number of external agencies to ensure sustainable land and water use.

▲ Activity improved score ▶ Activity maintained score ▼ Activity reduced score

Commitment

Hydro Tasmania is committed to achieving slightly above satisfactory performance for Community. Key commitments to help achieve this aim in the coming year are:

- progress community partnerships
- develop stakeholder engagement framework to help build stronger stakeholder relationships
- implement Penstock Lagoon Recreational Management Plan to improve sustainable recreational management of the area.

Ecosystems and Heritage

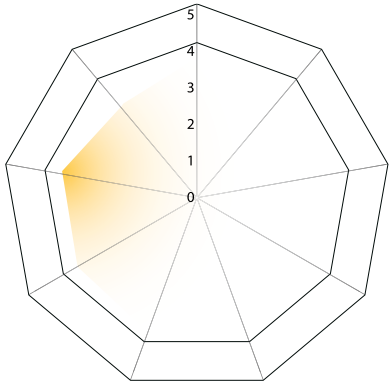
Hydro Tasmania has continued its conscious effort to improve environmental capability and performance. The Environmental Policy states:

We want current and future generations to enjoy the benefits of a clean and healthy environment and we operate our business accordingly.

Hydro Tasmania manages hydropower assets in seven Tasmanian catchments, covering 1110 square kilometres of land. Some of this land is in or adjacent to the Tasmanian Wilderness World Heritage Area. The potential impacts of hydropower operations include land disturbance, erosion, site contamination and vegetation clearance. Damming lakes and waterways has resulted in hydrological changes, including the inundation of significant areas of wetlands and the regulation of flow regimes in watercourses. Past construction activities have also disturbed areas of heritage significance.

Hydro Tasmania aims to ensure continued improvement in environmental management practices and this aim is supported by our Environmental Policy, our ISO14001 certified Environment and Sustainability Management System (ESMS) and associated procedures and plans.

In 2005/2006, Hydro Tasmania spent more than $5.8 million on environment-related activities. This was a reduction from the previous year largely due to the exclusion of environmental costs incurred by Roaring 40s after the separation from Hydro Tasmania (Figure 7). Environmental expenditure in Energy increased from $4.5 million to $5.3 million.



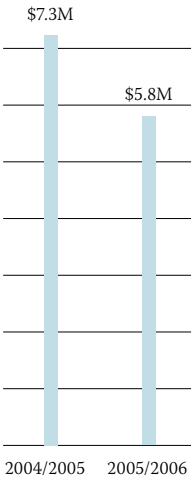


Figure 7: Hydro Tasmania Environmental Expenditure

These figures are based on the new methodology to determine environmental expenditure where environment is the primary purpose for the spending.

Last year's reported environmental expenditure of $8.3 million included expenditure where the primary purpose of the activity was not environmental.

Poatina Re-regulation Storage with wind baffles integrated to minimise turbidity

Aquatic Ecosystems

The Aquatic Environment Program (AEP), established in 1997, provides a foundation for sustainable water management. Annual AEP objectives and targets are developed to ensure continuous improvement. These involve stakeholder liaison, ecological and compliance monitoring and assessment, and resolution of aquatic impacts. Key initiatives for the year were:

- compliance with the Water Licence, including required studies completed prior to the commissioning of Basslink
- continuing the Derwent Water Management Review, including response to the algal bloom in the Lagoon of Islands and the Ouse River
- understanding environmental impacts of low lake levels
- monitoring the meromictic status of Lake Fidler.

Water Licence Requirements

Hydro Tasmania complied with all requirements under its Special Water Licence. Environmental flows, lake levels and stakeholder requirements are integrated into the water storage operating rules as appropriate. Results from the ongoing Water Health Monitoring Program demonstrated that ecological conditions for the majority of monitored lakes and rivers were maintained but not improved.

Environmental Activities for Basslink

Hydro Tasmania has completed three major environmental activities in 2005/2006 in preparation for Basslink-related operations.

One of these was the construction of the Poatina Re-regulation Storage at a cost of approximately $7 million.

The Basslink Baseline Report was completed. It provides a statement of pre-Basslink environmental conditions in the Gordon River. It is a major output of the Gordon River Monitoring Program, established in 2001, which monitors aspects of the Gordon River deemed to be at most risk of impact due to changes in power station operations. The report can be viewed on Hydro Tasmania's website at www.hydro.com.au

A trial operating flow regime for Gordon Power Station to mitigate the potential adverse impacts of Basslink-related operations on the Gordon River was approved by the Minister for Primary Industries and Water in February 2006.

Approval was based upon comprehensive scientific studies, including independent scientific advice and a review by the Gordon River Scientific Reference Committee.

Water Management Reviews

The program to identify measures for improved water management practices continued. During 2005/2006, the activites to meet the five-year commitments of the South Esk Great Lake review were undertaken, including an external review of the Cataract Gorge monitoring program. Technical studies were undertaken to progress the Derwent catchment review.

The Derwent studies focused on geomorphological and turbidity issues, assessing fish migration and pest fish, investigating lake levels for erosion and identifying opportunities for improved management.

A significant ongoing environmental problem in the Derwent review is the *cyanobacterium* blue-green algal bloom, in the Lagoon of Islands and the Ouse River. To understand the bloom, an intensive sampling program was implemented. Mitigation activities against possible impacts of the bloom included flushing flows released from Great Lake and closing the outflow from Lagoon of Islands at various times.

A working group has been established comprising landowners, the Department of Primary Industries and Water, the Central Highlands Council and Hydro Tasmania to discuss management options for the Ouse River.

Hydro Tasmania has also developed a formal partnership with Greening Australia to work on enhancing the Derwent River, which is the Tasmanian project for Greening Australia's National River Recovery Program.

Low Lake Level Management

Below average rainfalls from August 2004 to July 2005 have resulted in some lakes having prolonged low lake levels. This prompted Hydro Tasmania to prepare low lake level environmental impact assessments for Great Lake, Lake Rowallan, Lake Echo and Dee Lagoon, Lake Burbury, Lake King William and Lake Mackintosh. These will ensure consideration of the environmental impacts of drawing water down to and below normal minimum operating levels.

Placement of rip rap and geotextile on banks to eliminate erosion from wave action – Poatina storage

Poatina Re-regulation Storage

The re-regulation storage downstream of Poatina Power Station was constructed to mitigate downstream impacts of the flow peaks from the operation of the power station for NEM supply. It was an environmental impact mitigation required prior to Basslink operations.

Construction of the storage demonstrates many aspects of Hydro Tasmania's environmental management practices, including erosion and sediment control, materials management and sensitive handling of Aboriginal heritage issues. An environmental impact assessment was completed, an environmental management plan implemented and audits conducted on the site during construction.

As the storage is a large, shallow body of water, control measures were needed to minimise turbidity of water discharged. These included rock lining of embankment slopes combined with the use of aquatic vegetation, provision of wind and wave barriers constructed as star-shaped rock groynes, and evaluation of the potential for dispersive soils in the storage floor to affect turbidity.

Discharges continue to be monitored.

Consulting's Peter O'Donoghue at Great Lake

Aquatic Research

Hydro Tasmania is aligning research activities to its significant aquatic issues. Examples are nutrient cycling in the Lagoon of Islands, erosion processes in Lake Augusta, siltation issues in the upper Tamar Estuary and the biology of Lake Pedder.

Meromictic Lake Restoration

An external review of monitoring results is being conducted following the 2004/2005 saline recharge of the meromictic Lake Fidler. The lake currently remains stratified and monitoring is being undertaken to determine the result of the recharge.

Terrestrial Ecosystems

As a part of our Land Environment Program, a risk and opportunity assessment was completed during 2005/2006 highlighting issues to manage, such as weeds, threatened flora and fauna, rehabilitation and contaminated sites. Objectives and targets for the program have been established to drive continuous improvement. Land management procedures and guidelines were upgraded and a new training module was developed during the year.

During maintenance works to improve site safety at Bakers Flume near the Tarraleah Power Station, Hydro Tasmania breached a Forest Practices Plan covering vegetation clearance on 6 December 2005 by clearing more vegetation than allowed by the plan. Hydro Tasmania is currently working with the Forest Practices Authority to develop a practical approach to ensure maintenance works conform with vegetation clearance requirements.

Flora and Fauna

A geographic information system map was developed to monitor the location of threatened flora and fauna species on Hydro Tasmania land. There are 28 fauna and 46 flora threatened species, currently listed under State or Commonwealth legislation, identified on Hydro Tasmania managed land.

Mapping for the endangered Ptunarra brown butterfly in the Central Plateau area identified a number of habitats on Hydro Tasmania land.

New sightings of the species were also recorded and measures to improve and protect the habitat will be implemented in 2006/2007. Permanent sites have been set up to monitor the habitat and the effectiveness of the management strategy.

Weed Management

A Weed Management Strategy was developed during the year, highlighting priorities for actions. 801 of 2083 recorded weed sites were treated including 268 priority sites.

Rehabilitation and Remediation

During the year, Hydro Tasmania identified its contaminated sites and validated previous clean-up activities, such as removing some asbestos found at Shannon Lagoon. Rehabilitated construction sites in the Gordon and Anthony/Pieman hydropower schemes were re-assessed, resulting in further treatment at Strathgordon. Fertilisation to improve native vegetation was completed on previously degraded sites on the Gordon and Scotts Peak roads.

Environmental Impact Assessments / Environmental Management Plans

Environmental Impact Assessments (EIA) and Environmental Management Plans (EMP) are the key risk assessment and control methods for capital and maintenance works. During 2005/2006, 64 of the 258 capital projects required an Environmental Impact Assessment, or similar risk assessment, and 22 of these required Environmental Management Plans – 18 have been completed and 12 implemented. Projects with environmental assessments include:

- Strathgordon Helipad and the Liffey Canal Refurbishment, both activities within the Tasmanian Wilderness World Heritage Area
- Poatina Re-regulation Storage construction
- Tungatinah Switchyard upgrade
- Lake Echo Dam refurbishment
- site for additional gas turbines at Bell Bay.

During 2005/2006, six capital projects underwent environmental audits.

Heritage

Achievements for the year included:

- operational assets assessed for heritage value and comprehensive database completed
- cultural heritage impact statements introduced into ESMS procedures
- training for key staff on assessment of historic and Aboriginal heritage impacts
- conservation management plans drafted for Lake Margaret Power Station, Waddamana Museum, Tarraleah Power Station and Tungatinah Power Station
- heritage impact assessments completed for safety upgrades and the Liawenee Canal upgrade.

Key stakeholders engaged during the year included the Parks and Wildlife Service, the World Heritage Area Consultative Committee, Aboriginal Heritage Office, the Tasmanian Aboriginal Land and Sea Council, Heritage Tasmania and the Tasmanian Heritage Council. Negotiations are well under way with the Tasmanian Aboriginal Land and Sea Council on the survey and management of Aboriginal heritage values on Hydro Tasmania land.

Hydro Tasmania is continuing the oral history project to publish a book on the social and cultural value of its history. The material gathered last year is now written up in the first draft.

Lake Margaret Power Station

Lake Margaret Power Station

In March 2006, Hydro Tasmania announced the closure of the Lake Margaret Power Station from 1 July. The power station was built by the Mount Lyell Mining and Railway Company in 1914 to provide electricity for the mine and the Queenstown community. It was purchased by Hydro Tasmania in 1985.

The announcement followed Hydro Tasmania's decision to decommission the 68-year old woodstave pipeline that carries water from Lake Margaret to the power station. The operation and maintenance of the pipeline are no longer viable due to its age, condition and safety risks.

To ensure the high heritage values of the power station are managed appropriately, Hydro Tasmania has completed a conservation management plan. The Lake Margaret Community Liaison Group has also been established, comprising West Coast Council and local tourism representatives, heritage, business and engineering interests, and senior Hydro Tasmania representatives. During the year the Group instigated an oral history project for Lake Margaret, hired a consultant to investigate the tourism potential of the heritage-rich station and began planning a "Back to Lake Margaret Day".

A development application was submitted to the West Coast Council to remove the pipeline and retain three sections for heritage value. Hydro Tasmania is also investigating the commercial potential for a new power station at Lake Margaret in the future.

West Coast Council representatives, some Members of Parliament and community members have expressed disapproval of the decision to close the power station. Hydro Tasmania is continuing to work through these issues with the Lake Margaret Community Liaison Group and the Tasmanian Heritage Council.

The development application has subsequently been rejected and Hydro Tasmania will appeal the decision. The site has been listed by the Tasmanian Heritage Council.

Tasmanian Wilderness World Heritage Area

During the year an inventory of Hydro Tasmania assets and infrastructure (including maintenance activities) within the Tasmanian Wilderness World Heritage Area was compiled and placed on a geographic information system database.

Hydro Tasmania undertook an environmental impact assessment for the possible re-opening of a quarry at Scotts Peak Road as a source of gravel to maintain the road. This is a Hydro Tasmania-owned asset within the World Heritage Area and is used heavily by visitors. The assessment has been provided to the World Heritage Area Consultative Committee for approval.

Self Assessment

2004/05 Score	2005/06 Target	2005/06 Score	2006/07 Target
3.0	3.0	3.0	3.0

The following aspects contributed to the overall improvement in performance to slightly above satisfactory.

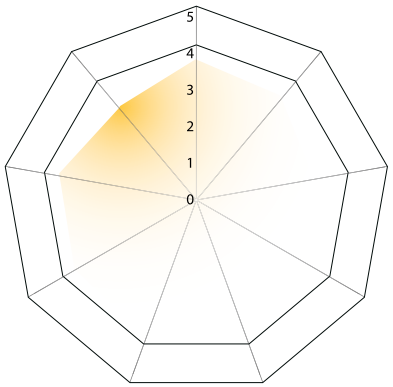
- ▶ The Aquatic Environment Program continued to provide scientific data for water management planning and compliance requirements. Aquatic health was maintained, not improved, for the year.
- ▲ Significant works were completed for understanding and mitigating the environmental impacts of Basslink, including the Basslink Baseline Report, Gordon River environmental flow and Poatina Re-regulation Storage.
- ▼ The Lagoon of Islands algal bloom is an ongoing environmental problem.
- ▶ Minor land management works were conducted to address some issues.
- ▼ A compliance breach was recorded for vegetation clearance.
- ▶ Environmental impact assessments and environmental management plans were implemented for capital projects where required, including the installation of gas turbines at Bell Bay.
- ▲ Significant consolidation of cultural heritage processes led to a high standard of performance in this area.
- ▶ The closure of Lake Margaret Power Station poses significant heritage challenges. Broader stakeholder concerns have been raised.
- ▲ Aboriginal heritage awareness and processes have improved. An agreement with TALSC has been initiated regarding the surveying and managing of Aboriginal values related to our operations.

▲ Activity improved score ▶ Activity maintained score ▼ Activity reduced score

Commitments

Hydro Tasmania is committed to achieving slightly above satisfactory performance for Ecosystems and Heritage.
Key commitments to help achieve this aim in the coming year are:

- conclude existing Derwent Water Management Review technical studies and identify management options; engage with stakeholders on technical study findings, including exploration of options to address the Lagoon of Islands algal bloom
- support Greening Australia to complete phase one of the Ouse River Wetlands rehabilitation, as part of the Greening Australia Tasmania/Hydro Tasmania partnership commitment
- establish a wetland in Waddamana canal to improve water quality
- conduct threatened species habitat protection works including implementing the Ptunarra brown butterfly program and a habitat range survey of the pygmy mountain shrimp
- implement the Hydro Tasmania Weed Management Strategy to improve weed management standards
- complete rehabilitation works at Strathgordon village including weed treatment, pest management, threatened species assessment and interpretative signage
- implement conservation management plans for high heritage value sites
- complete a redevelopment feasibility study for Lake Margaret Power Station.



Hydro Tasmania recognises that establishing effective business relationships and efficient processes with suppliers and partners is essential for ongoing success.

Suppliers and Partners

Hydro Tasmania recognises that establishing effective business relationships and efficient processes with suppliers and partners is essential for ongoing success. We realise that addressing this effectively will take some time.

Supplier and partner relationships fall into three broad categories:

- general suppliers, providing standard business goods and services
- strategic suppliers, providing goods and services critical to Hydro Tasmania's operations
- partners, where Hydro Tasmania has entered into some form of common undertaking or business.

Hydro Tasmania has good relationships with most partners and suppliers. The Corporation is, however, involved in some litigation. More information is provided in the Financial Statements under Contingent Liabilities on page 161.

General Suppliers

Preferred Supplier Agreements continue to be introduced to improve the efficiency of supplier processes.

Under the Preferred Supplier Agreements a requirement for formal reviews of engineering and personal and protective equipment procurement are in place.

Implementing *National Guidelines for Contractors Occupational Health and Safety Management* was given a high priority. Occupational health and safety pre-qualification is now being introduced for all Hydro Tasmania contractors, with contractors involved in high safety risk activities the first priority. A total of 178 contractors were contacted to participate in the pre-qualification process. By 30 June, 47 per cent of contractors responded and of those, 38 per cent have been audited according to their level of risk. Hydro Tasmania will continue to roll out this new procedure and provide accreditation to successful contractors.

Hydro Tasmania is yet to resolve how to manage procurement and supplier contracts efficiently under the three lines of business model. A supplier and partnership program is proposed for future development.

Strategic Suppliers

Hydro Tasmania is heavily dependent on its strategic suppliers to optimise value from its operations.

The strength of our relationships with National Grid, the Basslink operator, and Transend was crucial in resolving a number of contractual and technical issues which arose during preparation for Basslink commissioning.

Our relationship with Alinta, contracted to operate the Bell Bay Power Station, was also crucial in managing the electricity supply during times of very low water storage inflows prior to Basslink.

Logica CMG provides Hydro Tasmania's information technology system support, underpinning the majority of operations. A solution to ensure more reliable system backups and reduce costs on hardware procurement was provided, improved security monitoring was implemented and a new service level agreement was negotiated. The majority of operational key performance indicators were met, such as the availability of key systems.

Partners

Establishing the joint venture partnership in Roaring 40s with the Hong Kong-based CLP Power Asia was a major development for Hydro Tasmania in the past year.

Hydro Tasmania undertook a rigorous, competitive process to select its partner. A sustainability assessment identified CLP as a good cultural and business match. Similar values, high standards of operations and a strong synergy between the businesses promise a strong and long-term relationship. Roaring 40s now aims to establish itself as a pre-eminent renewable energy developer in Oceania and Asia. Hydro Tasmania, as joint owner, acknowledges the increased business risks it faces building wind farms in different social and environmental conditions, given these are our initial overseas developments.

Hydro Tasmania operates an alliance with Alstom in the delivery of major equipment upgrade projects. The alliance is structured to deliver specified outcomes and both parties share in the costs and benefits of meeting the targets. The alliance has had difficulties in some areas and actions have been taken to improve these situations.

Procurement

Hydro Tasmania has continued to source goods and services from Tasmanian businesses where possible. Table 16 shows procurement for orders above $50000. Tasmanian businesses are defined as businesses operating in Tasmania, which have a permanent office or presence in Tasmania and employ Tasmanian workers.

Table 16: Procurement value for 2005/2006

	No. of Firms	Value ($M)
Tasmanian suppliers	110	65
Interstate and overseas suppliers	120	133
Total	230	198

Roaring 40s' Woolnorth Bluff Point Wind Farm and visitor centre

Self Assessment

2004/05 Score	2005/06 Target	2005/06 Score	2006/07 Target
3.0	3.0	3.0	3.0

The following aspects contributed to maintaining an overall satisfactory performance.

- ▶ Good relationships exist with most partners and suppliers with some exceptions.
- ▼ Hydro Tasmania is involved in litigation involving some partners and suppliers.
- ▲ Roaring 40s joint venture was successfully established with CLP Power Asia.
- ▶ An inconsistent approach continues across the organisation regarding the management of suppliers and contractors, including understanding sustainability impacts of their goods and services.
- ▲ A safety pre-qualification system was introduced for contractors.

▲ Activity improved score ▶ Activity maintained score ▼ Activity reduced score

Commitments

Hydro Tasmania is committed to achieving satisfactory performance for Suppliers and Partners. The key commitment to help achieve this aim in the coming year is to:

- develop a supplier and partnership program and establish future KPIs.

Hydro Tasmania's Sustainability Policy

Our Sustainability Vision

Our vision is to be Tasmania's world-renowned renewable energy business. Underpinning our vision is our commitment to create a sustainable future.

A sustainable future is proactively ensuring long-term business success by meeting community and stakeholder expectations through the transparent and balanced application of economic, environmental and social tests to business decisions and activities. This will enable us to contribute to a healthy environment and economic and social development, thus improving the quality of life for future generations.

Our Commitment

Hydro Tasmania is committed to embedding sustainability into business practices through active involvement with employees and stakeholders, and the application of our Sustainability Principles to our business activities and decision-making processes. The Principles will be the basis for continuous improvement. Objectives and targets will be established and performance publicly reported.

Our Sustainability Principles

1. **Governance** We govern the business with processes that ensure integration and implementation of sustainability requirements. We make ethical decisions through the application of our values within a public reporting framework. We comply with all relevant legislative requirements.
2. **Operations** We use resources efficiently and maintain our energy system, including assets, for the long term. We ensure new developments meet sustainable development requirements.
3. **Market** We keep abreast of demand for our products and services. We develop new products and services, as well as adapt and change our current ones, to ensure flexibility in the marketplace.
4. **Financial** We ensure our financial practices promote long-term prosperity and enhancement of the business.
5. **Employee Capability and Opportunity** We offer opportunities for all employees to grow and develop, ensuring the capability of our people and encouraging innovation, learning and research. We support and respect the protection of internationally proclaimed human rights and ensure a diverse and equitable workforce.
6. **Health and Safety** We provide a safe and healthy workplace for employees and those interacting with our activities and assets.
7. **Community** We endeavour to gain respect and trust through proactive engagement with the community and stakeholders. We are open and honest in our sharing of information and ensure we have processes for listening We work with individuals and organisations to build community capability. We provide for the multiple-use of our land and water assets.
8. **Ecosystems and Heritage** We operate our business with the objective to provide future generations with a clean and healthy environment. We minimise our environmental impacts and protect heritage as we look towards the future.
9. **Suppliers and Partners** We encourage our suppliers, customers, partners and industry peers to be sustainable by supporting positive initiatives and measures to reduce environmental and social impacts.

Chief Executive Officer
Hydro Tasmania
17 February 2005

Assurance Statement Hydro Tasmania's Sustainability Report

To Hydro Tasmania's stakeholders

Banarra Sustainability Assurance and Advice (Banarra) was commissioned by Hydro Tasmania to conduct a report assurance of The Sustainability Report 2006 (The Report) using the AA1000 Assurance Standard (AA1000AS). In conformance with AA1000AS, our approach overall was directed at assuring The Report in terms of its materiality, completeness and responsiveness.

As this is Banarra's second reporting cycle with Hydro Tasmania, we have built on our previous understanding of the organisation and its progress.

In summary

We believe The Report provides a fair and balanced representation of the organisation's material sustainability issues and impacts in a way that allows stakeholders to make informed decisions about its sustainability performance. As part of the Banarra assurance process, opportunities for improvement were identified, including providing additional context and responses to issues and reconsidering the boundary or scope of what is included.

Assurance scope

Our assurance scope included all of The Sustainability Report within Hydro Tasmania's Annual Report 2005/2006, but excluded testing Hydro Tasmania's sustainability self-assessment process and results, and testing whether The Report is in accordance with the Global Reporting Initiative (GRI).

The Banarra Assurance Methodology

We developed a register of material issues and impacts, identified through research based on the AA1000 five-part materiality test including interviews with Hydro Tasmania stakeholders, interviews with internal personnel, the review of a wide range of internal documentation such as policies and board papers, internet-based research for issues and standards, reviews of peer sustainability reports and reviews of internal and external stakeholder engagement results, such as the staff and community surveys.

Of the 187 issues identified, our criteria found 51 to be material. Of these we ranked 21 as high risk. We used these issues to focus our testing of The Report.

We tested 92 per cent of all claims and data in The Report by building audit trails, investigating assumptions, reviewing data generation procedures and conducting interviews. The higher the risk, the more extensively we tested.

Additions since last year

- We conducted interviews directly with Hydro Tasmania external stakeholders.
- We interviewed all seven members of the Executive Leadership Team including the then CEO, Geoff Willis.

Materiality – How does Hydro Tasmania know what's important?

Hydro Tasmania has a range of processes for deciding its material issues, such as engaging external stakeholders, through a third party, to obtain feedback on last year's report and the newly established cross-divisional Sustainability Assessment and Reporting Working Group. The latter actively debated and considered which issues would appear in The Report. These processes help to deliver a report that is a fair and balanced account of Hydro Tasmania's sustainability performance, allowing stakeholders to make informed decisions. All of the issues that appeared in our materiality register are acknowledged in The Report.

Completeness – Has Hydro Tasmania identified and understood its issues and impacts?

In our view Hydro Tasmania has identified and understands its material issues and impacts. Of particular note was the comprehensive nature of the sustainability self assessment and the rich information this provides Hydro Tasmania of its primary issues, impacts and performance against the nine sustainability elements.

There remains however, the opportunity to more completely communicate this understanding through The Report. Stakeholders would benefit from a more complete discussion of a number of issues acknowledged within The Report. For example, Hydro Tasmania could more fully discuss its employee issues, including employee retention and a significantly ageing workforce and Hydro Tasmania Consulting's change program, including the move to Cambridge. Another area that would benefit from greater discussion is the sustainability risks presented by pursuing growth in developing countries.

Responsiveness – Has Hydro Tasmania accounted for its response to material issues?

The Report contains most of Hydro Tasmania's responses to material issues. However, there are some issues for which Hydro Tasmania has yet to provide a response. For example, the lack of gender diversity in management is only acknowledged. There are some commitments from last year's report, such as developing a Sustainable Office Plan and a uniform tender assessment process which are yet to be implemented and the reasons are not explored.

We are pleased to note that The Report has a significant increase in quantitative performance data compared to 2005. We noted errors in a number of the figures and claims presented. All errors were addressed and appear corrected in The Report.

Opportunities

We have identified a number of opportunities for improvement. These include:

- reconsider the current report boundary in the context of any sustainability issues that Roaring 40s may pose given Hydro Tasmania's significant 50% stake;
- provide more context for fuller understanding of the material issues;
- review those issues identified and acknowledged in The Report that have yet to be formally responded to;
- consider using in the next report the formal goals, targets and objectives established in the Corporate Plan 2006 against the nine sustainability elements; and
- establish formal procedures for gathering and reporting all quantitative data that appears in the report, including an internal checking process.

Independence

Banarra was paid by Hydro Tasmania to conduct this assurance assignment. The fee constitutes approximately 9% of our revenue for 2006. Other than this payment the assurance team declares itself independent in relation to Hydro Tasmania and its stakeholders.

A detailed statement on our methodology, our competence and impartiality is provided at www.banarra.com

Richard Boele
Certified Lead Sustainability Assurance Practitioner IRCA No. 1188527

Katharine Walters
Sustainability Assurance Practitioner
Banarra Sustainability Assurance and Advice

Sydney, Australia

21 September 2006

Banarra
Sustainability Assurance and Advice

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*Based upon Global Reporting Initiative Draft Sustainability Reporting Guidelines G3, 2006

A comprehensive version of this table is on our website www.hydro.com.au

statement of corporate intent

Trevallyn Power Station

Statement of Corporate Intent

This Statement of Corporate Intent has been prepared pursuant to section 41 of the *Government Business Enterprises Act 1995* (the GBE Act).

The Statement is effectively a summary of Hydro Tasmania's Corporate Plan for the 2006/20007 to 2010/2011 financial years. Its publication in full is a requirement of the Treasurer's Instructions for the preparation of a Government Business Enterprise's Annual Report.

1.1 Business Definition

1.1.1 Commercial Activities

Hydro Tasmania is the trading name of the Hydro-Electric Corporation, a Government Business Enterprise operating in commercial markets. Our principal business activities are:

- management and operation of major dams, infrastructure and equipment for the generation and trading of electricity and related products;
- investment in and development of new renewable energy generation assets; and
- provision of consulting and other services in renewable energy, environmental and water management and associated sciences and technologies.

1.1.2 Non-Commercial Operations

Hydro Tasmania provides concessional arrangements to customers of Hydro Tasmania living on the Bass Strait islands. Aurora Energy delivers these arrangements to customers via a sub-contract arrangement, with net costs of the activity funded by the State Government as a declared Community Service Obligation (CSO).

1.1.3 Strategic Objectives

Hydro Tasmania has a statutory obligation under the *Government Business Enterprises Act 1995* to achieve a sustainable commercial rate of return that maximises value for the State, in accordance with its Corporate Plan, having regard to the economic and social objectives of the State. In formulating the sustainable commercial rate of return, we have assessed sustainability and value for the State in accordance with Hydro Tasmania's Sustainability Policy.

The Sustainability Policy commits the business to measure and report its performance against targets as set out in Section 1.5.1.

The value for the State defined here primarily reflects the long-term increase in financial returns from and/or economic worth of the business. This Corporate Plan sets out our business performance targets having regard to our Sustainability Policy and is submitted by the Hydro Tasmania Board for approval by the Minister for Energy, as the Portfolio Minister, and the Treasurer under the Act.

The Hydro Tasmania Board recognises that approval of this Corporate Plan by the Minister and Treasurer indicates that the business performance targets specified within the Corporate Plan of Hydro Tasmania are set so as to achieve a sustainable commercial rate of return that maximises value for the State having regard to the economic and social objectives of the State.

1.2 Strategic Directions

Hydro Tasmania is tasked through the GBE Act with achieving a sustainable commercial rate of return that maximises the value for the State in accordance with its Corporate Plan, while having regard to the economic and social objectives of the State. In achieving this, it is Hydro Tasmania's charter to prudently grow those areas related to its principal business activities, which will enhance its position locally, nationally and internationally where such growth will add value to both Hydro Tasmania and the State of Tasmania.

Our aspirations for the future are firmly grounded in conformance with the Hydro-Electric Corporation (HEC) Act and the Ministerial Charter.

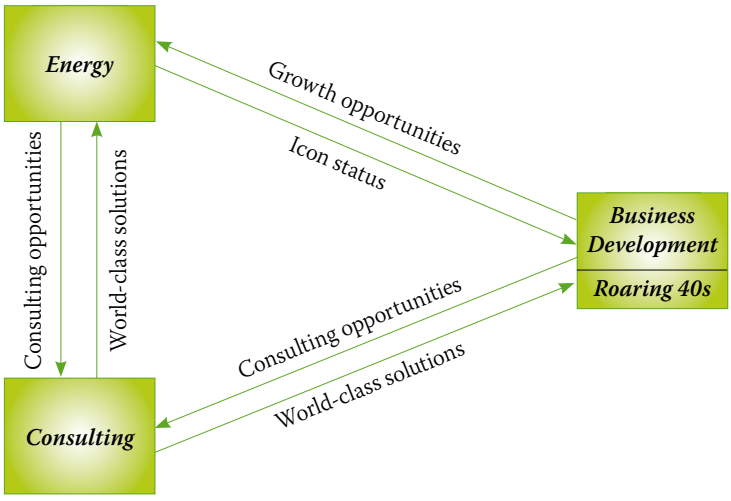
In this regard, the principal purpose as defined in the Ministerial Charter is to undertake the following activities:

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

This context guides and drives the Corporation's future.

The business model chosen to achieve this aim is to grow the business operating or investing as three "interdependent lines of business".

Hydro Tasmania - Three Lines of Business Model



Penstocks, Tarraleah

The key strategies for Hydro Tasmania can be summarised as follows.

Energy – The cash engine of the business

- To maximise the sustainable return from our unique assets and resources by using best-practice systems and approaches in the National Electricity Market (NEM);
- to continue to successfully implement the Energy business model by maintaining our focused and systematic approach; and
- to invest in our assets to manage risk and maximise value.

Consulting – The knowledge engine of the business

- To operate a line of business which delivers a sustainable return in its own right while always retaining core skills as the knowledge engine of Hydro Tasmania, thus enabling the strategies of the Corporation to be fully effective;
- to operate under the *"interdependent lines of business"* model by always looking to enhance the capability and performance of the other lines of business; and
- to pursue external expansion opportunities into new markets which will allow the business to strengthen the depth and skill bases for the benefit of the entire Corporation.

Business Development & Roaring 40s – The growth engine of the business

- To position ourselves for growth by Business Development:
  - supporting and seeking profitable opportunities for the growth of our core lines of business;
  - profitable development of new markets and commercialisation of new technologies; and
  - managing the Corporation's investments in joint ventures and new technologies.
- To provide support and stewardship to Roaring 40s and assist it to execute its plan for growth.

Corporate – The enabler of business outcomes

- *People* – To build the level of engagement and commitment of our people, as we will only progress our strategies with the full alignment of our team. Inspire our people to excel at what they do and inspire others by being fully engaged and committed to our business.
- *Stakeholders* – To be guided by our values and our sustainability policy, and to keep all relevant stakeholders appropriately informed and engaged in our business development.
- *Financial* – To strengthen the Balance Sheet by debt reduction, cash management, cost reduction and efficiencies and the prudent use of capital to provide greater financial resilience in the NEM environment and to foster growth.

1.2.1 Integrated Business Model

The key strategies for each area of the business have been independently set but are complementary to one another and can be expanded as follows.

Energy Business

- Systematically implement the NEM business operational model and fully understand and develop the new commercial models
- Seek out additional sources of value on each revenue line
- Streamline operations enabling a reduction in operating costs
- Effectively use our water inventory
- Prioritise asset management for safety, compliance, reliability and capacity improvement in support of the trading portfolio strategy within Balance Sheet objectives
- Build our human resource capability through increased in-house strength and greater employee engagement.

Consulting Business

- Focus on lifting the profitability of the business while growing our external business and maintaining and enhancing the Consulting business as the knowledge engine of Hydro Tasmania – target an internal/external revenue split of 50/50
- Improve the competitiveness of the business through the development of a "consultant culture" and the implementation of a market-based reward and remuneration structure
- Expand our regional office network to allow us to successfully compete both nationally and in targeted regional economies
- Foster networks through industry associations, developers, strategic consulting and political relationships
- Utilise the Hydro Tasmania brand drawing upon our unique competitive positioning.

Business Development

- Identify potential new business investments, roles and structures for our lines of business
- Manage our sustainable investment in Roaring 40s
- Develop commercialisation pathways for new technology opportunities
- Influence the emerging market opportunities both nationally and internationally by:
    - building on our existing international profile
    - influencing national and international agendas and policy development.

The smooth and successful transition of Hydro Tasmania to the NEM was the culmination of a huge effort by all involved from Hydro Tasmania...

Whole of Business

- Continue the development of our safety culture, in particular the line of business safety plans
- Establish a financial plan which systematically works to improve our financial position by lowering debt and improving key financial ratios
- Increase the focus on streamlining operations across the business and reducing operating costs
- Carefully manage our mitigation strategies for operational and asset risk
- Implement a remuneration system which rewards performance and is able to be quantified as adding value to the bottom line
- Lift the engagement of our people to ensure we all make a greater contribution to the long-term performance and growth of the Corporation
- Maintain strong relationships with key stakeholders
- Lift the Hydro Tasmania brand in every action we take and in particular through being involved in progressing new technology options in the renewable energy field
- Continue our commitment to high standards of corporate governance and ethical principles
- Achieve a level of performance that meets the targets for our sustainability elements
- Reinforce our commitment to our vision as Tasmania's world-renowned renewable energy business.

1.3 NEM Entry and Basslink

Hydro Tasmania entered the National Electricity Market on 29 May 2005, with Basslink starting service at the end of April 2006. The smooth and successful transition of Hydro Tasmania to the NEM was the culmination of a huge effort by all involved from Hydro Tasmania as well as Aurora, Transend, NEMMCO and the relevant State Government departments. This level of commitment has continued with respect to the Basslink operations and we are confident our preparations have us well placed to take advantage of all the opportunities available from the project.

1.4 Factors Affecting the Business Environment

Our business plans are developed taking account of known events and economic and other forecasts. They necessarily involve key assumptions. The key factors taken into account or where important assumptions have been made are as follows.

- The hydrological risk associated with the existing supply and demand balance and the low storage levels up until commencement of Basslink operations
- The impact of the current low energy and renewable energy certificate prices in the NEM
- The impact of increased transmission charges on the Corporation's cost base going forward
- Continued fall in electricity prices in real terms placing greater emphasis on cost control and operational efficiency
- Potential volatility of earnings associated with operating in the NEM
- The existing national skills shortage
- The effect of the current industrial climate on wage and salary growth
- The impact of changes to legislation and regulation such as the review of the Federal Government's mandatory renewable energy policy and ongoing changes to the operation of the NEM
- Harmonisation with international accounting standards and Corporations Law requirements to comply with Australian Financial Services Licensing requirements
- Continued restructuring, integration and rationalisation in the NEM, associated counterparty credit issues and the resultant reduction in the number of counterparties
- Interest rates remaining relatively low and stable
- Hydro Tasmania's actual and perceived environmental performance
- The rate of growth of the Tasmanian economy and its electricity market
- Potential for insurance markets not allowing appropriate risk transfer
- Introduction of natural gas to Tasmania as a competing energy source.

1.5 Business Performance Targets

1.5.1 Performance Indicators

Element	Hydro Tasmania Objective	Performance Indicator	Units	2005/06 Actual	2006/07 Target	2007/08 Target	2008/09 Target	2009/10 Target	2010/11 Target
Governance	Ensure high standards in governance, transparency, accountability and ethical practice at all levels within the business	Adaptation of best practice corporate governance principles to suit the Corporation's unique status	%	100	100	100	100	100	100
		Code of Conduct Breaches	No.	1	0	0	0	0	0
	Ensure our activities comply with legislation and other regulatory requirements	Regulatory Breaches	No.	4	0	0	0	0	0
Operations	Manage water storages to meet electricity demand today and in the future	Overall water storage levels	%	30.5	30-50	30-50	30-50	30-50	30-50
		Northern Head Water Storages	% of Economic Operating Level	20	+5%	+5%	+5%	+5%	+5%
	Successful management of energy assets for long-term energy production	Asset targets met or exceeded - *Maintenance Routines Completed (>95%)* - *Start Success (100%)* - *Equivalent Forced Outage (0.35)* - *Telecomms Network Availability (99.99%)*	%	75	100	100	100	100	100
	Be a leader in energy and greenhouse gas emission management	CO2 equivalent emissions (excluding Bell Bay)	Tonnes/ GWh	1.79	1.7	1.5	1.25	1.25	1.0
		Reduce energy usage over the next 5 years based upon 2005/06 baseline	%	0	0	1	2.5	2.5	5

Element	Hydro Tasmania Objective	Performance Indicator	Units	2005/06 Actual	2006/07 Target	2007/08 Target	2008/09 Target	2009/10 Target	2010/11 Target
Market	Ensure successful trading in the NEM	Development of new market opportunities	No.	5	2	2	1	1	1
	Be at the forefront of implementing new & emerging renewable energy technologies aligned to Hydro Tasmania's business	Level of research and technology investment	$m	0.6	4.3	2.0	2.2	2.2	2.3
		Number of renewable energy pilot programs/ research projects underway	No.	1	2	3	3	3	3
	Pursue growth opportunities in the Consulting Business that ensure sustainable commercial return and enhance business outcomes for clients	Proportion of Consulting Business revenue from internal and external work	% internal/ % external	57/43	49/51	47/53	46/54	44/56	46/54
Financial	Ensure financial practices promote long-term prosperity and enhancement of the business	Profit After Tax	$M	44.3	28.8	64.1	82.3	80.0	90.5
		Dividends Paid to Tasmania	$M	40.0	21.2	14.4	32.1	41.2	40.0
		Business Expenses Paid to Government	$M	26.1	28.6	34.5	42.5	44.2	42.9
		Capital Expenditure	$M	126.4	58.7	81.4	85.4	88.4	92.7
		Shareholder Value Added	$M	39.1	30.5	67.9	81.2	74.4	82.8
		Interest cover ratio	times	2.7	2.1	2.7	3.0	3.0	3.1
		Fixed cost cover ratio	times	2.2	1.6	1.9	2.0	1.9	2.0
		Return on Equity	%	4.9	2.9	6.2	7.6	7.1	7.7
Employee Capability and Opportunity	Provide a workplace that values diversity, provides opportunities for growth and innovation and whose people are engaged	Level of employee engagement against high-performing organisations benchmark	%	63	80	90	100	100	100
		Employee feedback regarding diversity and equal opportunity	Score 1 – 7	4.96	5	5.5	6	6	6
		Employee profile reflects Tasmania's full-time/part-time workers ratio	%	66	85	90	95	100	100
		Employees all have performance reviews and development plans that are implemented	%	n/a	100	100	100	100	100

Element	Hydro Tasmania Objective	Performance Indicator	Units	2005/06 Actual	2006/07 Target	2007/08 Target	2008/09 Target	2009/10 Target	2010/11 Target
Health and Safety	No harm to anyone (employees and contractors) at anytime	Lost Time Injury Frequency	No.	1.3	Less than 2.0	Less than 2.0	Less than 2.0	Less than 2.0	Less than 2.0
Community	Develop and enhance our engagement with key stakeholders	Develop and implement a Corporate Stakeholder Engagement Framework by end of 06/07	% complete	n/a	100	-	-	-	-
	Ensure an active role in community education and promoting safe access and minimal impact to our recreational facilities	Reputation rating from annual community survey (10 – high, 1- low)	Rating from 1 -10	8	8	8	8.5	8.8	9
Ecosystems and Heritage	Responsible environmental management to ensure sustainable water management and a clean and healthy environment for future generations	ISO14001 EMS external non conformance reports	No.	0	0	0	0	0	0
		Completion of Water Management Reviews and implementation of recommendations for all key catchments	%	25	35	50	60	75	85
	Protection of our significant heritage sites	Implementation of conservation management plans for high heritage value sites	%	0	100	100	100	100	100
Suppliers and Partners	Show leadership in sustainability by encouraging others in our industry, our partners and suppliers, to take the same journey	Development of supplier and partnership program and establishment of future KPIs	%	0	100	-	-	-	-

Legend to Performance Indicator table

Adaptation of best-practice corporate governance principles to suit the Corporation's unique status – As a State-owned enterprise, Hydro Tasmania adjusts standard company best practice principles to suit this operating status.

Code of Conduct Breaches – Number of breaches by Hydro Tasmania employees of Hydro Tasmania's code of conduct.

Regulatory Breaches – Number of breaches against REC Policy & Procedures, Tasmanian Electricity Code Regulations, OTTER Determinations, OH&S, Water Management, Environmental Management, Management and Pollution Control, Land Use Planning and Approval Legislation.

Overall water storage levels – The level of Hydro Tasmania's water storages as a percentage.

Northern Head water storages – The level of water in Northern Head water storages compared with the economic operating water level.

Asset targets met or exceeded – Shows, as a percentage, the number of targets met e.g. 3 targets out of 4 equates to 75%.

Maintenance routines completed – Number of successfully completed routine preventative maintenance and condition monitoring jobs. These jobs are an essential part of ensuring plant safety and maintaining performance capability.

Start success – Shows, as a percentage, how many times the plant managed to start successfully after the start command was issued. The ability to provide successful starts is an essential component of being able to provide guaranteed and flexible asset performance.

Equivalent forced outage – Shows the portion of time that plant was unavailable for service due to breakdowns. Breakdowns restrict the business's ability to meet guaranteed performance levels.

Telecomms network availability – Amount of time the network is available for use.

CO_2 equivalent emissions (excluding Bell Bay) – Equivalent tonnes of CO_2 emitted per GWh of energy generated. Targets are based upon current greenhouse energy assumptions provided by the Australian Greenhouse Office. Bell Bay Power is excluded due to pending separation. Targets may be reviewed based upon future use of Pratt and Whitney turbines and potential changes in Australian Greenhouse Office assumptions due to the import of energy into Tasmania and further scientific findings.

Reduce energy usage over the next 5 years based upon 2005/06 baseline – Shows, as a percentage, total energy reduction by Hydro Tasmania in a given year as a percentage of total energy used in 2005/06.

Development of new market opportunities – Number of new products, new product types and markets.

Level of research and technology investment – The amount (in dollars) spent on investment in research and technology. Includes investment in research and technology via joint ventures.

Number of renewable energy pilot programs/research programs underway – The number of renewable energy pilot programs and research programs that Hydro Tasmania is involved in, including those undertaken through joint ventures.

Proportion of Consulting Business revenue from internal and external work – Proportion of revenue Consulting earns from services provided to clients within Hydro Tasmania and the proportion earned from services provided to clients external to Hydro Tasmania.

Profit After Tax – Calculated as per standard accounting policies.

Dividends Paid to Tasmania – Cash returns to our shareholder from dividends.

Business Expenses Paid to Government – Cash payment of income tax equivalents, rates equivalents and guarantee fees to our shareholder.

Hydro Tasmania Consulting surveyor, Natalie Martin

Paul Henderson and Enes Zulovic – Gordon Refurbishment Project

Capital Expenditure – Cash outlay for capital projects, including investments in Roaring 40s and other joint ventures.

Interest Cover Ratio – The ratio of EBITDA to financing expenses.

Shareholder Value Added – Measures the economic profit of a business by measuring profit after tax, net of a capital charge based on the total debt and equity capital employed in the business.

Return on Equity – Profit as a percentage of book equity.

Level of employee engagement against high-performing organisations benchmark – Engagement is a measure of employees' satisfaction, motivation and commitment. Target is to match Right Management's high-performing organisations benchmark (i.e. 100% equals benchmark).

Employee profile reflects Tasmanian population in part-time worker ratio – Measures the similarity between the part-time to full-time worker ratio for Hydro Tasmania and Tasmania, as a percentage.

Employee feedback regarding diversity and equal opportunity – Scores from the annual staff survey on questions related to diversity and equal opportunity.

Lost Time Incident Frequency – Number of lost time accidents per million hours worked.

Develop and implement a Corporate Stakeholder Engagement Framework by end of 06/07 – A framework to guide Hydro Tasmania in its dealings with external stakeholders.

Reputation rating from annual community survey – Average score from 1 to 10 from the independent Annual Community Survey of community members, where 1 is low and 10 is high perception of Hydro Tasmania's reputation.

ISO14001 EMS external non-conformance reports – Number of non-conformances raised in a year during six-monthly audits by an independent external auditor against the Hydro Tasmania Environment and Sustainability Management System compared to the ISO14001 international standard for environmental management.

Completion of Water Management Review and implementation of recommendations for all key catchments – % completion.

Development of supplier and partnership program and establishment of future KPIs – % completion.

1.5.2 Distribution Policy Targets

The financial projections included in this Corporate Plan forecast payment of the final special dividend under the existing arrangements where in 2005/2006, together with the planned ordinary dividend, total dividends paid will be a minimum of $40 million.

Dividend arrangements for the period beyond 2005/2006 are still to be finalised. However the projections indicate that ordinary dividends can be declared at the rate of 50% of profit after tax. This level of dividend is consistent with the *Treasurer's Instruction - Dividend Policy Guidelines for Government Business Enterprises*.

It is planned to agree a distribution strategy which balances the sharing of profitability between returns to Government and retention of funds in the business to allow strengthening of the Balance Sheet by reducing debt, and for investment in growth opportunities. As such, there may be the potential for our stakeholder to reinvest in the business via a lower cash dividend. The distribution strategy may also incorporate averaging of dividends to counteract any volatility in returns created by NEM operation or by profit fluctuations which result from reporting arrangements associated with International Financial Reporting Standards.

1.6 Other Business Issues

1.6.1 Key Limitations

The key limitations facing Hydro Tasmania are:

- ensuring we export electricity across Basslink and enter into contracts in the Victorian region prudently while gaining full operational assurance in the link;
- the potential for reduced revenues should there be a period of continued low rainfall;
- the continued uncertainty regarding the evolution of rules for NEM operation and MRET incentives;
- the potential uncertainties associated with the precise rules to apply upon establishment of wholesale electricity market arrangements in Tasmania;
- the potential uncertainties associated with the evolving rules for the National Electricity Market;
- the long-term financial commitments associated with Basslink;
- the risks associated with natural gas developments in Tasmania; and
- availability and retention of personnel with commercial acumen, technical expertise and knowledge in key areas.

1.6.2 Other

Growth into new markets and further exploitation of the potential in the Tasmanian market may involve partnerships and strategic alliances with energy suppliers, equipment providers, customers or bankers, as is the case with many major infrastructure developments in Australia today. Given the increasing demands on our cash flow, growth opportunities will be limited and innovative, but always carefully measured, approaches will be used to follow these strategic directions.

financial statements

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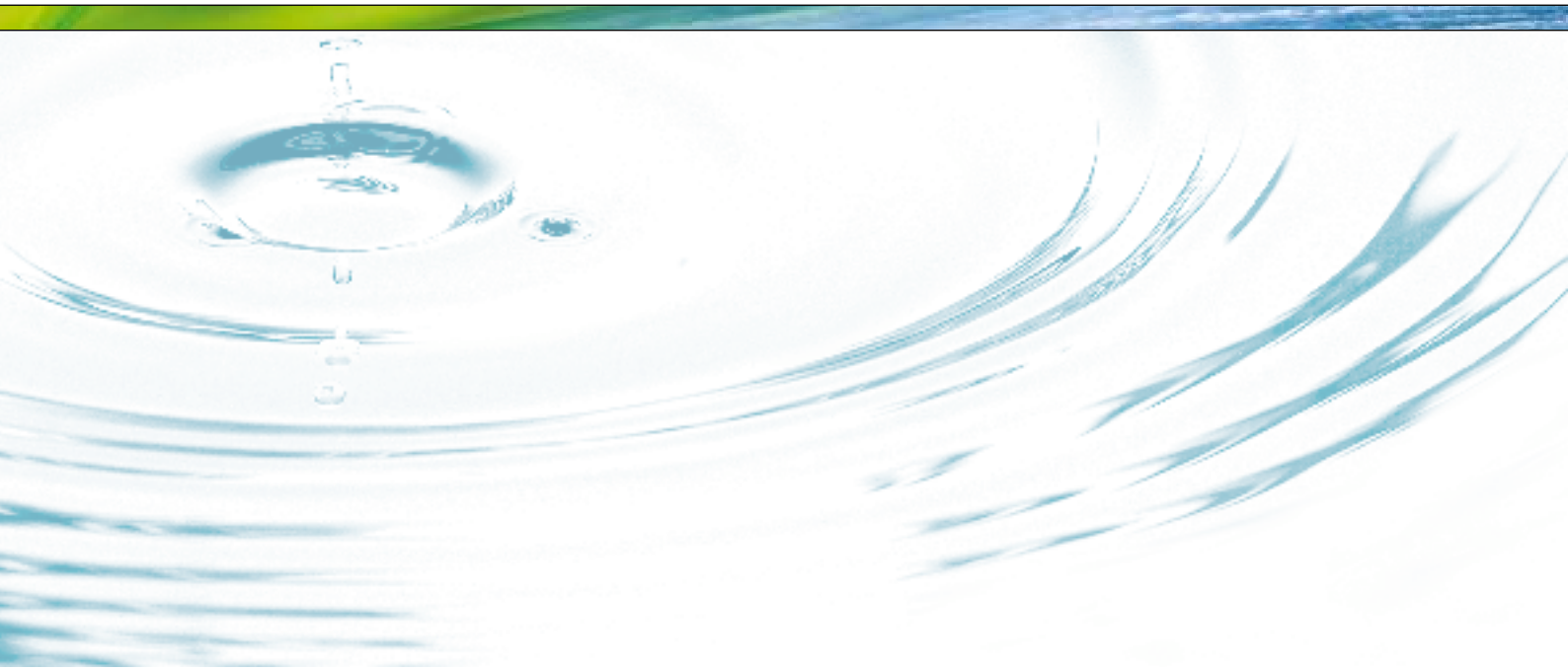

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Income Statement for the year ended 30 June 2006

	NOTE	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT 2006 $'000	PARENT 2005 $'000
Revenue	**2(a)**	**504,700**	**461,922**	**453,056**	**422,957**
Expenses excluding finance costs	2(b)	346,185	871,333	297,580	837,220
Finance costs	2(c)	85,860	88,594	84,029	87,007
Share of loss of joint venture entities	29	5,562	316	5,562	-
Total expenses		**437,607**	**960,243**	**387,171**	**924,227**
Profit before income tax equivalent expense		**67,093**	**(498,321)**	**65,885**	**(501,270)**
Income tax equivalent expense	4	22,824	(149,908)	22,338	(150,445)
Net profit for the year		**44,269**	**(348,413)**	**43,547**	**(350,825)**

The Income Statement is to be read in conjunction with the notes to and forming part of the Financial Report included on pages 126 to 171. Comparative figures have been re-stated to reflect adoption of Australian equivalents to International Financial Reporting Standards (AIFRS) (refer note 31).

Balance Sheet as at 30 June 2006

	NOTE	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT 2006 $'000	PARENT 2005 $'000
Current assets					
Cash and cash equivalents	5(a)	660	10,221	641	192
Receivables	6	98,797	103,392	98,777	84,558
Investments	7(a)	15,091	130,277	5,091	110,180
Inventories	8	705	549	717	556
Financial assets	10(c)	19,106	-	19,106	-
Other	10(a)	3,727	5,099	58,961	50,406
Total current assets		138,086	249,538	183,293	245,892
Non-current assets					
Investments	7(b)	80,005	9,767	80,005	48,016
Property, plant and equipment	9	3,440,858	2,824,639	3,390,287	2,685,148
Financial assets	10(d)	141,885	2,061	141,885	2,061
Other	10(b)	50,110	19,028	50,110	19,028
Total non-current assets		3,712,858	2,855,495	3,662,287	2,754,253
TOTAL ASSETS		3,850,944	3,105,033	3,845,580	3,000,145
Current liabilities					
Payables	11	102,867	105,110	99,648	95,021
Interest-bearing liabilities	12(a)	7,000	32,912	7,000	30,000
Tax liabilities		15,624	3,911	15,624	3,911
Provisions	13(a)	43,888	38,269	41,888	38,269
Financial liabilities	14(c)	90,543	-	90,543	-
Other	14(a)	7,069	1,048	3,758	4,345
Total current liabilities		266,991	181,250	258,461	171,546
Non-current liabilities					
Interest-bearing liabilities	12(b)	1,070,000	1,178,606	1,070,000	1,090,018
Deferred tax liabilities	4(c)	473,564	498,221	477,195	494,384
Provisions	13(b)	256,599	286,360	256,599	286,360
Financial liabilities	14(d)	876,355	-	876,355	-
Other	14(b)	-	19,028	-	19,028
Total non-current liabilities		2,676,518	1,982,215	2,680,149	1,889,790
TOTAL LIABILITIES		2,943,509	2,163,465	2,938,610	2,061,336
NET ASSETS		907,435	941,568	906,970	938,809
EQUITY					
Reserves	16	4,649	1,000	4,649	-
Retained earnings		902,786	940,568	902,321	938,809
TOTAL EQUITY		907,435	941,568	906,970	938,809

The Balance Sheet is to be read in conjunction with the notes to and forming part of the Financial Report included on pages 126 to 171. Comparative figures have been re-stated to reflect adoption of AIFRS (refer note 31).

Cash Flow Statement for the year ended 30 June 2006

	NOTE	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT 2006 $'000	PARENT 2005 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Inflows:					
Receipts from customers		474,717	449,701	400,516	417,729
Operating grants and subsidies received		6,472	6,030	6,472	6,030
Interest received		3,722	2,654	2,067	3,312
Outflows:					
Payments to suppliers and employees		(259,635)	(232,891)	(199,185)	(184,070)
Interest paid		(62,123)	(67,264)	(60,163)	(65,557)
Government guarantee fee		(4,124)	(4,020)	(4,124)	(4,019)
Income tax equivalent paid		(19,061)	(29,955)	(19,061)	(29,955)
NET CASH PROVIDED BY OPERATING ACTIVITIES	5(b)	**139,968**	**124,255**	**126,522**	**143,470**
CASH FLOWS FROM INVESTING ACTIVITIES					
Inflows:					
Proceeds from sale of property, plant and equipment		2,546	1,096	2,546	21,907
Dividends received		1	-	1,501	-
Outflows:					
Payment for investment in joint venture		(15,788)	(9,000)	-	-
Payment for investment in subsidiary		-	-	-	(48,000)
Payments for financial assets		(50,110)	-	(50,110)	-
Payments for property, plant and equipment		(116,984)	(79,759)	(64,745)	(76,986)
NET CASH USED IN INVESTING ACTIVITIES		**(180,335)**	**(87,663)**	**(110,808)**	**(103,079)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Inflows:					
Proceeds from Tascorp loans		482,254	649,200	482,254	649,200
Proceeds from non-government loans		-	91,500	-	-
Proceeds from intercompany loans		-	-	-	80,000
Proceeds from intercompany advances		-	-	11,698	-
Proceeds from loan to associate		5	5	5	5
Outflows:					
Repayments of Tascorp loans		(525,271)	(605,745)	(525,272)	(605,746)
Repayments of non-government loans		(1,368)	-	-	-
Repayment of intercompany loans		-	-	(1,742)	(9,649)
Repayment of intercompany advances		-	-	(47,297)	(12,728)
Repayment of Treasury loans		-	(3,991)	-	(3,991)
Dividend paid		(40,000)	(40,000)	(40,000)	(40,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		**(84,380)**	**90,969**	**(120,354)**	**57,091**
NET INCREASE/(DECREASE) IN CASH		(124,747)	127,561	(104,640)	97,482
CASH AT BEGINNING OF THE YEAR		140,498	12,937	110,372	12,890
CASH AT END OF THE YEAR	5(a)	**15,751**	**140,498**	**5,732**	**110,372**

The Statement of Cash Flows is to be read in conjunction with the notes to and forming part of the Financial Report included on pages 126 to 171.

Statement of Changes in Equity for the year ended 30 June 2006

	NOTE	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT 2006 $'000	PARENT 2005 $'000
Derivative Revaluation Reserve	1.2(q)				
Balance at the beginning of the year		-	-	-	-
Initial recognition on adoption of AASB 132 and AASB 139		(488)	-	(488)	-
Effective hedge gain/(loss) taken to equity		5,137	-	5,137	-
Balance at the end of the year		4,649	-	4,649	-
Contributed Equity Reserve					
Balance at the beginning of the year		1,000	1,000	-	-
Deconsolidation of R40s group		(1,000)	-	-	-
Balance at the end of the year		-	1,000	-	-
Retained earnings					
Balance at the beginning of the year		940,568	1,330,133	938,809	1,329,635
Changes on adoption of AASB 132 and AASB 139	31	(56,527)	-	(56,527)	-
Profit for the year		44,269	(348,413)	43,547	(350,825)
Deferred income tax benefit recognised directly in equity	4(b)	16,923	-	16,923	-
Deconsolidation of R40s group		(2,447)	-	-	-
Dividends	30	(40,000)	(40,000)	(40,000)	(40,000)
Other		-	(1,152)	(431)	(1)
Balance at the end of the year		902,786	940,568	902,321	938,809
TOTAL EQUITY		907,435	941,568	906,970	938,809

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 126 to 171. Comparative figures have been re-stated to reflect adoption of AIFRS (refer note 31).

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 name Hydro Tasmania.

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

The Corporation has 58 dams, operates 28 hydro power stations and 2 gas-fired power stations, supplies electricity to Bass Strait islands via diesel and wind power generation, and operates a consulting business.

At 30 June 2006 the Corporation had 832 full-time equivalent employees (FTEs) including 7 directors (2005: 829 FTEs).

The Basslink high voltage direct current inter-connector linking the power systems of Tasmania to Victoria and the National Electricity Market (NEM) entered commercial service on 28 April 2006 as an unregulated link. The commercial arrangements between the Corporation and the owner of the link, National Grid Australia Pty Ltd, also commenced allowing the Corporation to conduct physical and financial trading of electricity in a fully connected NEM environment.

The Corporation established a joint venture operation with CLP Asia Renewable Projects Limited, a subsidiary of China Light and Power Limited, during the year to pursue development of wind farms both nationally and internationally. The details of this joint venture are provided in note 27.

The Corporation holds Australian Financial Services Licence number 279796. This licence authorises the Corporation to carry on a financial services business in accordance with the licence conditions.

The financial report for the year ended 30 June 2006 was adopted by the directors on 14 August 2006.

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

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 the following:

(i) Fair value of generation plant and equipment at the date of transition to Australian equivalents to International Reporting Standards (AIFRS) was adopted as deemed cost.

(ii) Financial assets and liabilities are carried at fair value through profit and loss.

(iii) Available-for-sale investments are revalued through an equity reserve.

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 statements are prepared in accordance with:

(i) *Hydro-Electric Corporation Act 1995*;

(ii) *Government Business Enterprises Act 1995 (GBE Act)* and related Treasurer's Instructions;

(iii) Australian Accounting Standards and interpretations;

(iv) Other authoritative pronouncements of the professional accounting bodies; and

(v) 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 statements are 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). As this is the first time the financial statements have been prepared using AIFRS an explanation of how the Income Statement and Balance Sheet has been impacted is reported in note 31.

In accordance with the transitional arrangements for AIFRS comparative information for the year ended 30 June 2005 has been restated. The exception to this is where the Corporation has reported financial instruments under AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*. The Corporation has adopted these standards from 1 July 2005 and has taken up the exemption offered under AIFRS transitional arrangements to not restate financial instrument comparatives reported under Australian Generally Accepted Accounting Principles (AGAAP) to AIFRS standards.

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 2006:

AASB Amendment	Affected Standard	Nature of Change to Accounts Policy	Application Date of the Standard	Application Date for the Group
2005-1	AASB139 – Financial Instruments: Recognition and Measurement	No change to accounting policy – therefore no impact	1 January 2006	1 July 2006
2005-4	AASB139 AASB132 – Financial Instruments: Presentation and Disclosure AASB1 First Time Adoption of AIFRS	No change to accounting policy – therefore no impact	1 January 2006	1 July 2006
New Standard	AASB7 – Financial Instruments: Disclosures	No change to accounting policy – therefore no impact	1 January 2007	1 July 2007

Application date is for the annual reporting period beginning on or after the date shown in the above table.

(c) Principles of Consolidation

The consolidated financial statements include the Corporation, being the parent entity, and its controlled entities.

The financial statements include 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 statements of the subsidiaries are prepared for the same reporting period as the Corporation.

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

(d) Significant accounting judgements

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

Property, Plant and Equipment

Note 1.2 (m) describes the requirement to assess the carrying value of property, plant and equipment to ensure that it does not exceed recoverable amount. This requires assessment of a number of pre-determined internal and external indicators of impairment and the exercise of judgement as to the impact, if any, of changes in these indicators on the recoverable amount of property, plant and equipment.

Basslink Financial Liabilities and Financial Asset

The fair value of the Basslink financial liabilities and financial asset is determined by a present value calculation of expected cash flows. The projection of these cash flows requires assessment of expected market conditions and activity involving exercise of judgement.

(e) Significant accounting estimates and assumptions

Defined Benefit Plan: The Retirement Benefits Fund provision detailed in note 15 has been assessed by the State Actuary and various actuarial assumptions applied to arrive at the carrying value reported.

(f) Receivables

Current trade receivables are recognised and carried at the invoiced amount less an allowance for doubtful debts. Such an allowance is only recognised when there is objective evidence that the debt is impaired. Any bad debts are expensed.

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

(g) Inventories

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 comprise cash on hand and in banks and short-term deposits.

Cash reported in the Cash Flow Statement comprises cash and cash equivalents and short-term money market investments.

(i) Property, Plant and Equipment

The Corporation carries property, plant and equipment at cost less accumulated depreciation and accumulated impairment. Property, plant and equipment comprise the following classes of assets:

Generation assets, auxiliary assets, motor vehicles, land and buildings, minor assets and capital work-in-progress. Minor assets include items such as computers and office furniture.

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

Depreciation

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

	2006	2005
Generation	2 – 100 years	2 – 100 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

Derecognition and Disposal

Property, plant and equipment is derecognised upon disposal or when there are no future economic benefits expected from its continued use. Any gain or loss that results from derecognition is reported in the Income Statement.

(j) Assets Held for Sale

The Corporation classifies a non-current asset as held for sale when the carrying amount will be recovered principally through a sale transaction rather than through continuing use. These assets are valued at the lower of the carrying amount and the fair value less costs to sell.

(k) Investments and Other Financial Assets

Having adopted AASB 132 and AASB 139 on 1 July 2005, the Corporation has taken the available exemption under AASB 1, *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, to not restate comparative amounts for the previous year for these standards. The accounting policies for the periods ended 30 June 2006 and 30 June 2005 are stated below:

Accounting Policy applicable for the year ended 30 June 2006

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale investments, as appropriate. When financial assets are initially recognised they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Corporation determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end. All routine purchases and sales of financial assets are recognised on the trade date i.e. the date that the Corporation commits to purchase the asset.

Financial assets held for trading

Financial assets classified as held for trading are included in the category 'Financial Assets' and are stated at fair value through the Income Statement. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the Income Statement.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity 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 subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. 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, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the Income Statement 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 Income Statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in the Income Statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on balance date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

Accounting policies applicable for the year ended 30 June 2005

All non-current investments were carried at the lower of cost and recoverable amount.

Non-current financial assets measured using the cost basis were not carried at an amount above their recoverable amount. If carrying value exceeded this recoverable amount, the financial asset was written down to its recoverable amount. In determining recoverable amount, the expected net cash flows were discounted to their present value using a market determined risk adjusted discount rate.

(l) Intangible Assets

Assets without physical substance are classified as intangible assets and initially measured at cost. After acquisition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment. With the exception of development costs, internally generated intangible assets are not recognised and any costs pertaining to them are expensed in the period in which they are incurred.

All intangible assets are assessed to determine whether they have a finite or infinite useful life. Finite intangible assets are amortised over their useful life on a straight line basis. Intangible assets with an indefinite life are not amortised.

The remaining useful life of each intangible asset is reviewed annually. Intangible assets are also reviewed annually for asset impairment. If the carrying value of the intangible asset is greater than the recoverable amount, the carrying amount is written down and an impairment loss is recorded in the Income Statement.

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 being developed;
- 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 cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefits from the related project.

(m) Asset Impairment

The Corporation assesses at each reporting date 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. Intangible assets are required to be assessed for impairment annually. 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. 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. The Corporation classifies all its hydro generating asset class as one CGU.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Financial assets carried at cost are assessed against the present value of future cash flows (excluding future credit losses that have not been incurred) discounted using the asset's original effective interest rate.

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only 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. That amount of the impairment reversal cannot exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years.

After such a reversal the depreciation or amortisation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(n) Provisions

A provision is recognised when there is a legal or constructive obligation as a result of a past event and 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.

Onerous contracts

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

(o) Employee Benefits

Wages, salaries, annual leave and non-monetary benefits

Liabilities for wages, salaries and annual leave expected to be settled within 12 months are recognised as the present obligations resulting from employees' services provided to reporting date. These liabilities, including related on-costs, are undiscounted and based on wage and salary rates that the Corporation expects to apply at the time of settlement. The on-costs attributable to the annual leave provision were $0.5 million for 2006 (2005: $0.5 million).

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 expected rate of utilisation based on historical patterns and is discounted using Commonwealth Bond rates at reporting date. The provision is reported as current and non-current based on expected utilisation of entitlements in the next 12 months. The on-costs attributable to the long service leave provision were $0.5 million for 2006 (2005: $0.5 million).

Superannuation

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.

An internal 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 Income Statement as part of finance costs. In accordance with AASB 1 transitional options, the previously under-funded amount of the RBF provision was recognised against retained earnings at transition date of 1 July 2004. All movements after this date as a result of the actuarial assessment are accounted for in the Income Statement.

Where employees are members of superannuation funds other than RBF, the Corporation makes contributions to complying superannuation funds as directed by the employee.

(p) 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 for the current and prior periods 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 date.

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, to the extent that it is probable that they can be utilised against future taxable income.

Deferred income tax balances are recognised for all taxable temporary differences, except when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that it will not reverse in the foreseeable future. A deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the Income Statement.

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

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 of each subsidiary are disclosed by the respective subsidiary at 30 June 2006 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 in amounts receivable or payable to other entities in the tax consolidated group.

Other Taxes

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

- When the GST incurred on a purchase of goods and 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 and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

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

(q) Derivative Financial Instruments

Having adopted AASB 132 and AASB 139 on 1 July 2005, the Corporation has taken the available exemption under AASB 1 to not restate comparative amounts for the previous year for these standards. The accounting policies for the periods ending 30 June 2006 and 30 June 2005 are stated below.

Derivative financial instruments are contracts that create rights or obligations to exchange financial assets or financial liabilities with other entities in the future. This is done to manage risks associated with particular financial exposures such as foreign currency and interest rates.

The Corporation enters into derivative financial instruments including electricity price swaps, interest rate swaps, futures, options, forward rate agreements and foreign exchange contracts to manage financial exposures.

Accounting Policy applicable for the year ended 30 June 2006

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

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. Derivatives that qualify for hedge accounting are accounted for as either:

- A fair value hedge: a hedge of the exposure to changes in fair value of a recognised asset or liability; or
- A cash flow hedge: a hedge of an exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or forecast transaction and that could affect profit.

To qualify for hedge accounting, at the beginning of a hedge contract the following criteria must be met:

- Formal documentation of the hedge relationship and risk management objective and strategy for undertaking the hedge is prepared;
- Formal documentation discloses a description of the hedging relationship, the hedge, the hedged item, the nature of the risk being hedged and how effectiveness will be assessed;
- The hedge is expected to be highly effective and that effectiveness can be reliably measured; and
- The hedge is assessed on an on-going basis and determined to be highly effective throughout its term.

Hedges that meet the hedge accounting criteria are accounted for as follows:

(i) Fair Value Hedge

Derivatives designated as fair value hedges are recognised in the Balance Sheet at fair value with any gain or loss arising from changes in fair value being recognised immediately in the Income Statement. The carrying value of the hedged asset or liability is adjusted for gains or losses attributable to the hedged risk. These gains and losses are reflected in the Income Statement.

If the fair value hedge is ineffective this will be recognised in the Income Statement as the difference between the change in fair value of the hedging instruments and the change in fair value attributable to the hedged risk of the hedged item.

(ii) Cash Flow Hedge

Derivatives designated as cash flow hedges are recognised in the Balance Sheet at fair value. If the hedge qualifies for hedge accounting any gain or loss arising from changes in fair value will be recognised directly in equity in a derivative revaluation reserve. The derivative revaluation reserve comprises all revaluation movements of effective hedges which qualify for hedge accounting. To the extent that a hedge is not effective or does not qualify for hedge accounting the gain or loss is recognised in the Income Statement.

The cumulative component of equity will be the lesser of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the expected future cash flows on the hedged item from inception.

When the hedged transaction impacts the Income Statement the cumulative hedge gain or loss in the derivative revaluation reserve is recognised in the Income Statement in the same period.

(iii) Discontinuation of Hedge Accounting

Hedge accounting for all hedges is discontinued if the hedging instrument is sold, terminated, exercised, expires, no longer meets the criteria to qualify for hedge accounting, or is re-designated by the Corporation.

Accounting Policy applicable for the year ended 30 June 2005

Specific accounting treatments adopted for instruments other than foreign exchange instruments were as follows.

Where derivatives were classified as hedges, which at inception and on an ongoing basis were effective in managing the designated exposure, the gains and losses arising from the derivative transactions were deferred and recognised in accordance with the timing of the recognition of the underlying transactions being hedged.

Option premiums were amortised over the lives of the options.

Accrued interest receivable and payable on interest rate swaps were included in current assets or liabilities in the Balance Sheet.

Realised gains and losses on forward rate agreements, futures contracts and interest rate options were included in borrowing costs in the Income Statement.

Gains and losses on interest rate futures contracts were amortised to the Income Statement over the life of the underlying physical position where the relevant Urgent Issues Group criteria were met. Otherwise gains and losses were written off to the Income Statement in the year incurred.

The Basslink Services Agreement was accounted for in accordance with AASB 1033 *Presentation and Disclosure of Financial Instruments*, with the exception of foreign currency and interest rate hedge elements. Losses on the hedge of the interest rate portion and gains on the hedge of the foreign currency portion as at finalisation of the Basslink Service Agreement (29 November 2002) were deferred for amortisation over the term of the Agreement (refer note 17).

Gains and losses arising from electricity price swaps and other electricity price derivatives were recognised in the Income Statement in the year incurred.

Gains and losses on forward exchange contracts to hedge sales and purchases of goods and services (including capital equipment) were included in the cost of the purchase.

Gains and losses on termination of forward exchange contracts that no longer represented a hedge of an underlying transaction were recognised in the Income Statement at the date of termination.

(r) 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 or assets and the arrangement conveys a right to use the asset.

Corporation as a lessee

Operating lease payments are recognised as an expense in the Income Statement on a straight-line basis over the lease term. Lease incentives are recognised in the Income Statement 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.

(s) Borrowing Expenses

Borrowing costs associated with the raising of loans are expensed when incurred.

(t) Interest Bearing Liabilities

Having adopted AASB 132 and AASB 139 on 1 July 2005, the Corporation has taken the available exemption under AASB 1 to not restate comparative amounts for the previous year for these standards. The accounting policies for the periods ending 30 June 2006 and 30 June 2005 are stated below:

Accounting policy applicable for the year ended 30 June 2006

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.

As at 30 June 2006 there were no discounted loans outstanding.

Accounting policy applicable for the year ended 30 June 2005

As part of its ongoing debt management activities, the Corporation periodically restructured its loan portfolio. In doing so, capital gains/losses on the prepayment of loans were recognised in the Income Statement.

The difference between the consideration and the face value of loans was treated as deferred interest. Deferred interest was written off over the life of the loan and was included in borrowing costs.

(u) 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 (q). All exchange differences in the consolidated financial report are taken to the Income Statement.

(v) Joint Ventures

Interests in incorporated joint venture entities are reported in the consolidated financial statements using the equity method and in the parent entity financial statements using the cost method.

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.

(w) Government Grants

Government grants are recognised 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 Income Statement on a basis that matches the timing of the expenditure.

If a grant is paid in relation to an asset the grant is initially recognised in the Balance Sheet as deferred income. The grant is then systematically recognised in the Income Statement over the useful life of the asset.

(x) Revenue Recognition

Revenue is recognised when the amount of the revenue 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 of ownership have flowed to the buyer and any costs associated with the transaction can be reliably measured.

Electricity Sales

Revenue is recognised at the time the electricity is provided to the customer. The sole customer for electricity of the Corporation is the National Electricity Market Management Company Limited (NEMMCO).

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

Having adopted AASB 132 and AASB 139 on 1 July 2005, the Corporation has taken the available exemption under AASB 1 to not restate comparative amounts for the previous year for these standards. The accounting policies for the periods ended 30 June 2006 and 30 June 2005 are stated below:

Accounting policies applicable for the year ended 30 June 2006

Revenue is recognised as interest accrues 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.

Accounting policies applicable for the year ended 30 June 2005

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

(y) Rounding

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

(z) Comparative Figures

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

		CONSOLIDATED		PARENT	
		2006	2005	2006	2005
		$'000	$'000	$'000	$'000
2	**REVENUE AND EXPENSES**				
(a)	**Revenue**				
	Electricity revenue	405,646	399,177	353,193	378,317
	Consulting services	34,992	33,768	34,992	33,768
	Government grants	6,472	6,030	6,472	6,030
	NDSF debt forgiven	-	11	-	11
	Dividends	1	-	1,501	-
	Rental income	220	250	201	228
	Gain on revaluation of investment in joint venture	35,044	-	35,044	-
	Other	19,242	18,844	19,241	1,071
	Interest revenue	3,083	3,842	2,412	3,532
		504,700	**461,922**	**453,056**	**422,957**
	The Corporation receives a Community Service Obligation (CSO) grant from the State Government (note 25) which is included in Government grants.				
(b)	**Expenses**				
	Labour	88,024	80,229	87,163	79,611
	Actuarial (gain)/loss on RBF provision (note 15)	(27,264)	34,561	(27,264)	34,561
	Depreciation of non-current assets (note 9)	87,945	83,135	86,313	74,759
	Impairment of property, plant and equipment (note 9)	23,206	542,269	772	542,269
	Gas and pipeline expenses	31,860	37,845	-	-
	Basslink expenses	29,409	-	29,409	-
	Materials	48,103	17,293	23,711	17,228
	Other operating expenses	54,077	66,719	86,693	79,507
	Loss on derecognition of property, plant and equipment	13,667	9,572	13,625	9,575
	Bad and doubtful debts	74	(290)	74	(290)
	Gain on change in fair value of derivatives	(2,916)	-	(2,916)	-
		346,185	**871,333**	**297,580**	**837,220**
(c)	**Finance Costs**				
	Loan interest	62,320	65,262	60,489	63,676
	Bank overdraft interest	1	2	1	2
	Government guarantee fee	4,124	4,020	4,124	4,020
	RBF interest	18,373	19,261	18,373	19,261
	Other finance costs	1,042	49	1,042	48
		85,860	**88,594**	**84,029**	**87,007**

3 MATERIAL ITEMS OF REVENUE AND EXPENSE

Investment in Joint Venture

On 17 October 2005, CLP Asia Renewable Projects Limited became an equal co-investor in Roaring 40s Renewable Energy Pty Ltd. Prior to this date this company had been a wholly owned subsidiary of the Corporation. At the time of deconsolidation, the Corporation's investment in the subsidiary was reclassified as an investment in a joint venture and revalued to 50% of the fair value of the total equity of Roaring 40s Renewable Energy Pty Ltd. This revaluation resulted in a gain of $35 million that has been included in revenue in the Income Statement (refer note 2).

Bell Bay Power

Following commissioning of Basslink, the Bell Bay Power Station was no longer required by the Corporation for drought relief backup to the hydro generating system. Under market structure proposals made by the State to the ACCC, it was expected that Bell Bay Power Pty Ltd would be separated either to a third party or as a separate State-owned entity. Until the separation of this subsidiary as a viable operation can be achieved, the Bell Bay plant will continue to be held by Bell Bay Power Pty Ltd in a stand-by state and has little prospect of providing future economic benefit to the Corporation. Under these circumstances and in the absence of an alternative sale, the generating assets have been judged to have no recoverable amount thus requiring impairment of their carrying value. This has resulted in an expense of $22.5 million included in impairment expense in note 2.

Actuarial Gain/(Loss) on RBF Provision

Each year the Retirement Benefits Fund Board commissions an independent actuary to conduct an actuarial assessment of the RBF liability for each participating employer. In performing this assessment the actuary reassesses assumptions regarding wages growth, inflation, retirement age and mortality rates. Liabilities arising from past service and predicted future service are estimated as the present-day discounted value of expected future payments.

Present-day values are based on a discount rate based on long-term bond rates. Following the 2006 actuarial assessment and principally as a result of changes in the discount rate, the Corporation's RBF liability has reduced. This has resulted in an actuarial gain of $27.3 million (2005: $34.6 million loss) being recorded in the Income Statement. This is in accordance with AASB 119 *Employee Benefits* (refer note 1.2(o)).

Financial Liability - Gas Pipeline Capacity Agreement

The gas pipeline capacity agreement is a commitment entered into by the Corporation to provide committed capacity on the Bass Strait gas pipeline for supply of gas to the Bell Bay Power Station. A financial liability of $56.2 million has been recognised on adoption of AASB 139 as at 1 July 2005 for the obligations under this agreement. The basis for recognition is that Bell Bay Power Pty Ltd is not expected to operate for the remaining term of the contract and will therefore not derive any benefit, additional to that already realised, from the obligations under the contract.

The fair value of the financial liability has been re-assessed at 30 June 2006 as $61 million, resulting in an expense in the Income Statement of $4.8 million.

Financial Liability - Basslink

On adoption of AASB 139 on 1 July 2005, the Corporation recognised the fair value of the obligations and rights under the Basslink agreements as a financial liability of $899.3 million and a financial asset of $151.3 million on the Balance Sheet. The fair value of these financial assets and liabilities must be reassessed at the end of each year with any change being reported in the Income Statement. This resulted in a net gain of $9.9 million being recognised in the Income Statement.

Initial recognition of the Basslink financial instruments resulted in an increase of $748 million in the carrying value of property, plant and equipment. This resulted in additional depreciation expense of $17.8 million.

		CONSOLIDATED		PARENT	
		2006	2005	2006	2005
		$'000	$'000	$'000	$'000
4	**INCOME TAX EQUIVALENT EXPENSE**				
(a)	**Income tax expense/(benefit) recognised in the Income Statement**				
	Current income tax liability	29,418	27,561	22,129	30,861
	Adjustments in respect of current income tax of prior years	1,141	-	711	-
	Deferred income tax benefit arising from origination and reversal of temporary differences	(7,735)	(177,469)	(502)	(181,306)
	Income tax expense/(benefit) reported in the Income Statement	22,824	(149,908)	22,338	(150,445)
(b)	**Income tax expense/(benefit) recognised directly in equity**				
	Derivative revaluations	(1,392)	-	(1,392)	-
	Recognition of financial liability	18,315	-	18,315	-
	Income tax (expense)/benefit reported in equity	16,923	-	16,923	-

A reconciliation between income tax expense/(benefit) and accounting profit before income tax multiplied by the Group's income tax rate is as follows:

Accounting profit before tax from operations	67,093	(498,321)	65,885	(501,270)
Income tax expense calculated at 30%	20,128	(149,496)	19,765	(150,381)
Adjustment in respect of current income tax of previous years	1,141	-	711	-
Expenditure not allowable for income tax purposes	1,630	142	1,630	142
Other	(75)	(554)	232	(206)
Income tax expense/(benefit) reported in the Income Statement	22,824	(149,908)	22,338	(150,445)

4 INCOME TAX EQUIVALENT EXPENSE (continued)

(c) Deferred income tax balances

Deferred tax balances at 30 June and the deferred element of income tax expense/(benefit) in the Income Statement relates to the following:

	BALANCE SHEET		INCOME STATEMENT	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
CONSOLIDATED				
Deferred tax liabilities comprise:				
Doubtful debts	-	(549)	(549)	-
Property, plant and equipment	(842,672)	(596,021)	246,650	(171,641)
Other	(11,776)	(669)	9,715	65
Deferred tax liabilities	(854,448)	(597,239)		
Deferred tax assets comprise:				
Provisions for employee benefits	89,563	97,590	8,027	(5,337)
Application of AASB 132 and AASB 139	271,094	-	(271,094)	-
Other	20,227	1,428	(484)	(556)
Deferred tax assets	380,884	99,018		
Net deferred tax liabilities	(473,564)	(498,221)		
Deferred tax benefit			(7,735)	(177,469)
PARENT				
Deferred tax liabilities comprise:				
Doubtful debts	-	(549)	(549)	-
Property, plant and equipment	(846,303)	(592,784)	253,282	(175,478)
Other	(11,776)	(669)	9,715	65
Deferred tax liabilities	(858,079)	(594,002)		
Deferred tax assets comprise:				
Provisions for employee benefits	89,563	97,590	8,027	(5,337)
Application of AASB 132 and AASB 139	271,094	-	(271,094)	-
Other	20,227	2,028	116	(556)
Deferred tax assets	380,884	99,618		
Net deferred tax liabilities	(477,195)	(494,384)		
Deferred tax benefit			(503)	(181,306)

The Group has no tax losses arising in Australia for offset against future taxable profits.

4 INCOME TAX EQUIVALENT EXPENSE (continued)

At 30 June 2006, there is no recognised or unrecognised deferred income tax liability (2005: $nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint ventures as the Group has no liability for additional taxation should such amounts be remitted.

Tax Consolidation

Hydro Tasmania and its wholly owned Australian resident subsidiaries have formed a tax consolidated group with effect from 1 July 2003. Hydro Tasmania is the head entity of the tax consolidated group.

Members of the Group have entered into a tax-sharing agreement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis.

In addition the agreement provides for the allocation of income tax liabilties between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote.

Tax Effect accounting by members of the tax consolidated group

Members of the tax consolidated group have entered into a tax-funding agreement. The tax-funding agreement provides for the allocation of current and deferred taxes to members of the tax-consolidated group in accordance with the principles of AASB 112 *Income Taxes*.

The allocation of taxes under the tax-funding agreement is recognised as an increase/decrease in the subsidiaries' inter-company accounts with the tax-consolidated Group head entity, Hydro Tasmania. The Group has applied the group allocation approach in determining this allocation.

In preparing the accounts for Hydro Tasmania for the current year, there have been no adjustments to income tax expense, inter-company assets or equity arising from tax consolidation.

	CONSOLIDATED		PARENT	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000

5 NOTES TO THE CASH FLOW STATEMENT

(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	660	10,221	641	192
Money market investments	15,091	130,277	5,091	110,180
	15,751	140,498	5,732	110,372

		CONSOLIDATED		PARENT	
		2006	2005	2006	2005
		$'000	$'000	$'000	$'000
5	**NOTES TO THE CASH FLOW STATEMENT (continued)**				
(b)	**Reconciliation of net cash provided by operating activities to operating profit after income tax expense**				
	Operating profit after income tax equivalent expense	44,269	(348,413)	43,547	(350,825)
	Depreciation and amortisation	87,945	83,135	86,313	74,759
	Impairment of assets	23,207	542,269	772	542,269
	National Debt Sinking Fund debt forgiven	-	(11)	-	(11)
	(Gain)/loss on derecognition of property, plant and equipment	13,667	9,572	13,625	9,575
	(Increase)/decrease in accrued interest receivable	850	(1,030)	(26)	(7)
	(Increase)/decrease in prepayments	(51,942)	(1,675)	(50,569)	(988)
	Decrease/(increase) in stores and consumables	(156)	61	(160)	79
	Decrease/(increase) in trade receivables	4,749	(46,342)	(22,500)	(39,882)
	(Decrease)/increase in accrued interest payable	(675)	2,195	1,581	(455)
	(Increase)/decrease in deferred taxes	12,945	(178,249)	5,476	(182,245)
	Increase/(decrease) in trade creditors and accrued expenses	5,427	47,043	7,308	45,810
	Increase/(decrease) in employee entitlement provisions	(25,636)	34,795	(26,140)	34,746
	Net hedging debt management charges	228	(311)	228	(311)
	Net movement in other asset and liability accounts	25,090	(18,784)	67,067	10,956
	Net cash provided by operating activities	139,968	124,255	126,522	143,470
6	**RECEIVABLES**				
	Trade receivables	98,797	103,392	98,777	84,558

Trade receivables are non-interest bearing and include amounts receivable for electricity sales from National Electricity Market Management Company on 30 day terms and amounts receivable for consulting services on 30 to 90 day terms.

		CONSOLIDATED		PARENT	
		2006 $'000	2005 $'000	2006 $'000	2005 $'000
7	**INVESTMENTS**				
(a)	**Current investments (at cost)**				
	Money market investments	5,091	20,277	5,091	10,180
	Money market investments - Revolving Credit Facility	10,000	110,000	-	100,000
		15,091	130,277	5,091	110,180
(b)	**Non-current investments (at cost)**				
	Investment in joint venture (note 29)	80,005	9,767	80,005	16
	Investment in subsidiaries	-	-	-	48,000
		80,005	9,767	80,005	48,016

All money market investments are transacted through Tascorp.

Money market investments in 2005 included $100 million on deposit with Tascorp that was held as backing for an equivalent non-current borrowing under a Revolving Credit Facility in order to satisfy the financial conditions of the Corporation's financial services licence (note 12).

During 2006, the Corporation arranged an eligble undertaking facility with Tascorp. This facility satisfies conditions of the Corporation's financial services licence and is not required to be drawn. The Corporation has repaid $100 million drawn on the Revolving Credit Facility with Tascorp using the matched money market investment. The remaining $10 million is still utilised by a subsidiary.

8	**INVENTORIES**				
	Stores	705	549	717	556

9 PROPERTY, PLANT AND EQUIPMENT

Adoption of AASB 116 Property, Plant and Equipment

On transition to AIFRS on 1 July 2004, the Corporation adopted the cost method of reporting all property, plant and equipment. The transitional "deemed" cost adopted for hydro generation assets, which had previously been reported at fair value, was the fair value reported at 30 June 2004 after transitional adjustments.

Adoption of AASB 139 Financial Instruments: Recognition and Measurement

Transition to AASB 139 occurred on 1 July 2005. This standard requires the Corporation to recognise the fair value of the obligations and rights under the Basslink agreements as financial liabilities and a financial asset on the Balance Sheet. In accordance with previous accounting standards these had previously been disclosed by note to the financial statements. Initial recognition of a financial asset of $151.3 million and financial liabilities of $899.3 million (refer note 17) required restatement of the carrying value of property, plant and equipment by $748 million as the 2004 fair value calculation, from which the initial "deemed" cost on transition was derived, was based on all benefits and obligations associated with the generating assets, including those attributable to Basslink.

Adoption of AASB 136 Impairment of Assets

Note 1.2(m) details the Corporation's impairment policy with respect to assets carried at cost. Potential impairment triggers during the current year have been assessed with no indication of impairment of the carrying value of property, plant and equipment found apart from those relating to the generating assets of the wholly owned subsidiary, Bell Bay Power Pty Ltd.

Following commissioning of Basslink, the Bell Bay Power Station is no longer required for drought relief back-up and therefore has little prospect of providing future economic benefit to the Corporation. As such the asset has been assessed for impairment. In the absence of an alternative sale, the generating assets of Bell Bay Power Pty Ltd have been judged to have no recoverable amount thus requiring impairment of their carrying value.

The impairment assessment of hydro generation assets conducted for the 2005 financial year identified impairment triggers that required assessment of the recoverable amount of these assets at that time. This assessment found the carrying amount of these assets exceeded recoverable amount requiring a write down from $3.132 billion to $2.535 billion. The main impairment triggers were reduced revenue forecasts as a result of lower price volatility, lower electricity pool prices and reduced projected real price increases.

Deconsolidation of Roaring 40s Renewable Energy Pty Ltd

An equal joint venture between CLP Asia Renewable Projects Limited and the Corporation was created to jointly control Roaring 40s Renewable Energy Pty Ltd, a wholly owned subsidiary of the Corporation. As a result the Roaring 40s group of companies was deconsolidated on 17 October 2005. The assets are carried at cost in the financial statements of the joint venture and the Corporation's share of the joint venture is disclosed in note 29. The following table reflects the deconsolidation of these assets from the Corporation.

9 PROPERTY, PLANT AND EQUIPMENT (continued)

	CONSOLIDATED AS AT 30 JUNE 2006						
	Generation at cost	Auxiliary at cost	Motor Vehicles at cost	Land & Buildings at cost	Minor Assets at cost	Capital Work in Progress at cost	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Gross carrying amount							
Balance at the beginning of the year	3,416,819	49,044	9,442	14,427	47,864	183,227	3,720,823
Additions	-	6	2,556	-	2,148	121,698	126,408
Disposals	(6,789)	(3,615)	(1,586)	(3)	(2,024)	(10,319)	(24,336)
Transfer to R40s	(119,908)	-	-	-	-	(14,546)	(134,454)
Transfers	123,360	12,080	-	1,137	11,500	(148,077)	-
Impairment	(21,299)	(3)	-	(1,883)	(22)	-	(23,207)
Balance at the end of the year	3,392,183	57,512	10,412	13,678	59,466	131,983	3,665,234
Accumulated depreciation							
Balance at the beginning of the year	73,099	36,027	3,155	1,776	34,144	-	148,201
Disposals	(618)	(3,526)	-	(897)	(1,144)	-	(6,185)
Transfer to R40s	(5,585)	-	-	-	-	-	(5,585)
Depreciation expense	72,839	5,313	1,529	1,042	7,222	-	87,945
Balance at the end of the year	139,735	37,814	4,684	1,921	40,222	-	224,376
Net book value as at 30 June 2006	3,252,448	19,698	5,728	11,757	19,244	131,983	3,440,858

	PARENT AS AT 30 JUNE 2006						
	Generation at cost	Auxiliary at cost	Motor Vehicles at cost	Land & Buildings at cost	Minor Assets at cost	Capital Work in Progress at cost	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Gross carrying amount							
Balance at the beginning of the year	3,269,190	49,034	9,327	13,318	47,275	181,240	3,569,384
Additions	-	6	2,556	-	2,092	79,768	84,422
Disposals	(6,789)	(3,615)	(1,586)	(4)	(2,024)	(32,349)	(46,367)
Transfers	121,068	12,080	-	1,137	11,500	(145,785)	-
Impairment	-	-	-	(772)	-	-	(772)
Balance at the end of the year	3,383,469	57,505	10,297	13,679	58,843	82,874	3,606,667
Accumulated depreciation							
Balance at the beginning of the year	61,608	36,020	3,111	1,766	33,748	-	136,253
Disposals	(618)	(3,526)	-	(897)	(1,144)	-	(6,185)
Depreciation expense	71,249	5,313	1,512	1,041	7,197	-	86,312
Balance at the end of the year	132,239	37,807	4,623	1,910	39,801	-	216,380
Net book value as at 30 June 2006	3,251,230	19,698	5,674	11,769	19,042	82,874	3,390,287

Opening balances for the 2006 year have been re-stated to reflect the adoption of AIFRS. In particular, the opening balances of the generating assets have been re-stated to reflect adoption of AASB 139 and recognition of Basslink. This has resulted in a cost increase of $748 million and an accumulated depreciation increase of $17.8 million. Refer note 31.

9 PROPERTY, PLANT AND EQUIPMENT (continued)

	CONSOLIDATED AS AT 30 JUNE 2005						
	Generation at cost	Auxiliary at cost	Motor Vehicles at cost	Land & Buildings at cost	Minor Assets at cost	Capital Work in Progress at cost	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Gross carrying amount							
Balance at the beginning of the year	3,109,966	48,376	8,639	13,297	44,459	223,895	3,448,632
Additions	319	1	3,014	-	3,601	73,631	80,566
Disposals	(4,000)	-	(2,211)	-	(2,490)	-	(8,701)
Transfers	104,820	667	-	1,130	2,413	(109,030)	-
Impairment	(542,269)	-	-	-	-	-	(542,269)
Other	-	-	-	-	(119)	(5,269)	(5,388)
Balance at the end of the year	2,668,836	49,044	9,442	14,427	47,864	183,227	2,972,840
Accumulated depreciation							
Balance at the beginning of the year	3,156	31,759	3,016	911	29,931	-	68,773
Disposals	-	-	(1,368)	-	(2,339)	-	(3,707)
Depreciation expense	69,943	4,268	1,507	865	6,552	-	83,135
Balance at the end of the year	73,099	36,027	3,155	1,776	34,144	-	148,201
Net book value as at 30 June 2005	2,595,737	13,017	6,287	12,651	13,720	183,227	2,824,639

	PARENT AS AT 30 JUNE 2005						
	Generation at cost	Auxiliary at cost	Motor Vehicles at cost	Land & Buildings at cost	Minor Assets at cost	Capital Work in Progress at cost	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Gross carrying amount							
Balance at the beginning of the year	3,081,428	48,366	8,538	12,188	43,875	126,357	3,320,752
Additions	319	1	2,974	-	3,596	72,029	78,919
Disposals	(26,095)	-	(2,185)	-	(2,490)	-	(30,770)
Transfers	7,824	667	-	1,130	2,413	(12,034)	-
Impairment	(542,269)	-	-	-	-	-	(542,269)
Other	-	-	-	-	(119)	(5,112)	(5,231)
Balance at the end of the year	2,521,207	49,034	9,327	13,318	47,275	181,240	2,821,401
Accumulated depreciation							
Balance at the beginning of the year	-	31,752	2,966	901	29,560	-	65,179
Disposals	-	-	(1,346)	-	(2,339)	-	(3,685)
Depreciation expense	61,608	4,268	1,491	865	6,527	-	74,759
Balance at the end of the year	61,608	36,020	3,111	1,766	33,748	-	136,253
Net book value as at 30 June 2005	2,459,599	13,014	6,216	11,552	13,527	181,240	2,685,148

Opening balances for the 2005 year have been re-stated to reflect the adoption of AIFRS. This has resulted in a decrease in cost of $51.5 million. Refer note 31.

		CONSOLIDATED		PARENT	
		2006	2005	2006	2005
		$'000	$'000	$'000	$'000
10	**OTHER ASSETS**				
(a)	**Other current assets**				
	Interest accrued	36	1,033	36	9
	Prepayments	3,503	3,695	3,467	3,008
	Unamortised hedging costs	-	240	-	240
	Loans to subsidiaries	-	-	55,269	47,018
	Loans to associates	90	95	90	95
	Other	98	36	99	36
		3,727	5,099	58,961	50,406
(b)	**Other non-current assets**	50,110	19,028	50,110	19,028

(i) Loans to subsidiaries represent intercompany operational loans which are interest free and on-call.

(ii) Loans to associates represents a loan to Cathedral Rocks Wind Farm Pty Ltd.

(iii) In 2006, the Basslink security deposit of $50 million was paid and is reported in other non-current assets at amortised cost. Other non-current assets in 2005 represented deferred hedging settlements relating to Basslink foreign exchange and interest rate exposure during the construction phase which have now been offset against the Basslink financial liabilities.

(c)	**Current financial assets**				
	Treasury derivatives	5,206	-	5,206	-
	Basslink financial asset	13,900	-	13,900	-
		19,106	-	19,106	-
(d)	**Non-current financial assets**				
	Non-current receivable	246	2,061	246	2,061
	Basslink financial asset	141,639	-	141,639	-
		141,885	2,061	141,885	2,061

The non-current receivable represents the remaining sale proceeds receivable from the sale of the former subsidiary group of companies, Hydstra Pty Ltd. The Basslink financial asset represents the fair value of the contractual rights under the Basslink Services Agreement.

11	**PAYABLES**				
	Current payables				
	Trade creditors	81,232	82,649	78,064	75,259
	Accrued expenses	2,148	1,904	2,097	1,855
	Accrued interest payable	19,487	20,557	19,487	17,907
		102,867	105,110	99,648	95,021

All trade creditors and accrued expenses are unsecured non-interest bearing and normally settled on 30 to 60 day terms.

	CONSOLIDATED		PARENT	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000

12 INTEREST-BEARING LIABILITIES

Loans maturing within one year that had an original term greater than one year and for which there is an existing arrangement with Tascorp to refinance the loan have been classified as non-current liabilities.

a) Current interest-bearing liabilities

Tascorp loans	7,000	30,000	7,000	30,000
Bank loan - secured	-	2,912	-	-
	7,000	32,912	7,000	30,000

b) Non-current interest-bearing liabilities

Tascorp loans	1,070,000	1,090,018	1,070,000	1,090,018
Bank loan - secured	-	88,588	-	-
	1,070,000	1,178,606	1,070,000	1,090,018

c) Total interest-bearing liabilities

Tascorp loans	1,077,000	1,120,018	1,077,000	1,120,018
Bank loan - secured	-	91,500	-	-
	1,077,000	1,211,518	1,077,000	1,120,018

The bank loan in 2005 was secured by fixed and floating charges over all present and future rights, property and undertakings of Woolnorth Bluff Point Wind Farm Pty Ltd, which deconsolidated during 2006 with the Roaring 40s group of companies.

d) Premium loans

These amounts represent the consideration value of loans borrowed by the Corporation. The difference between the consideration and the face value is deferred interest (or discount/premium). Deferred interest is written off over the term of the loans and is included in finance costs.

As at 30 June 2006 there were no premium loans outstanding.

Premium written off during the year	18	507	18	507
Book value of loans	-	50,018	-	50,018
Less: Premium to be written off	-	18	-	18
Face value of loans	-	50,000	-	50,000

		CONSOLIDATED		PARENT	
		2006 $'000	2005 $'000	2006 $'000	2005 $'000
12	**INTEREST-BEARING LIABILITIES (continued)**				
(e)	**Loan facilities**				
	Committed standby facility				
	Facility limit	50,000	50,000	50,000	50,000
	Less: used/committed	-	-	-	-
	Balance	50,000	50,000	50,000	50,000
	Revolving credit facility				
	Facility limit	50,000	150,000	50,000	150,000
	Less: used/committed	10,000	110,000	10,000	110,000
	Balance	40,000	40,000	40,000	40,000
	Eligible undertaking facilty				
	Facility limit	100,000	-	100,000	-
	Less: used/committed	-	-	-	-
	Balance	100,000	-	100,000	-
	Bank overdraft				
	Facility limit	1,000	1,000	1,000	1,000
	Less: used/committed	-	-	-	-
	Balance	1,000	1,000	1,000	1,000
	Corporate purchasing card				
	Facility limit	7,500	7,500	7,500	7,500
	Less: used/committed	5,248	5,159	5,248	5,159
	Balance	2,252	2,341	2,252	2,341
(f)	**Fair value disclosures**				
	Details of the fair value of the Corporation's interest-bearing liabilities are set out in note 17.				
13	**PROVISIONS**				
(a)	**Current provisions**				
	Employee entitlements	10,697	7,660	10,697	7,660
	RBF provision	31,191	30,609	31,191	30,609
	Onerous contract	2,000	-	-	-
		43,888	38,269	41,888	38,269
(b)	**Non-current provisions**				
	Employee entitlements	8,242	10,125	8,242	10,125
	RBF provision	248,357	276,235	248,357	276,235
		256,599	286,360	256,599	286,360

	CONSOLIDATED		PARENT	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
14 OTHER LIABILITIES				
a) Other current liabilities				
Tax equivalent loans from subsidiaries (note 1.2(p))	-	-	(3,311)	3,298
Income received in advance	6,987	699	6,988	701
Deferred hedging gains	82	339	81	336
Miscellaneous	-	10	-	10
	7,069	1,048	3,758	4,345
b) Other non-current liabilities				
Deferred hedging gains	-	19,028	-	19,028

Deferred hedging gains related to Basslink foreign exchange and interest rate exposure during the construction phase which have now been offset against the Basslink financial liability.

c) Current financial liabilities				
Basslink Services Agreement	67,500	-	67,500	-
Basslink Facility Fee Swap	14,100	-	14,100	-
Gas Pipeline Capacity Agreement	8,600	-	8,600	-
Energy trading derivatives	343	-	343	-
	90,543	-	90,543	-
d) Non-current financial liabilities				
Basslink Services Agreement	645,411	-	645,411	-
Basslink Facility Fee Swap	176,635	-	176,635	-
Gas Pipeline Capacity Agreement	52,449	-	52,449	-
Energy trading derivatives	1,860	-	1,860	-
	876,355	-	876,355	-

15 RBF PROVISION

Plan Information

The Retirement Benefits Fund (RBF) is a defined benefit fund which pays lump sum and pension benefits to members upon retirement (most of which are calculated as a multiple of member's final average salary). The RBF has contributory members, compulsory preserved members and pensioners.

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

Key assumptions as at balance date	2006 %	2005 %
Discount rate:		
Gross of tax	5.80	5.30
Net of tax	5.70	5.20
Salary rate	4.50	4.50
Expected return on plan assets (net of tax)	7.00	7.00
Inflation (pensions)	2.50	2.50
Tax rate for employer contributions (1)	7.21	7.86
Tax rate for discount rate	2.25	2.25

Decrement rates are established from the most recent actuarial investigation and report.

(1) This tax rate is based on the balance of Pre-July 1988 Funding Credits balance as at 30 June 2005 as this was the most recent information available.

The expected return on plan assets (net of tax) has been based on the expected long-term returns for each of the major asset classes in which the Plan invests.

15 RBF PROVISION (continued)

Asset disclosure	2006 %	2005 %
Australian equities	38	36
Overseas equities	20	20
Fixed interest securities	21	25
Property	21	19
	100	100

Plan net liability	2006 $'000	2005 $'000
Defined benefit obligation	347,194	366,520
Contributions tax liability	20,152	24,109
Total defined benefit obligations	367,346	390,629
RBF Contributory scheme assets (1)	(87,798)	(83,785)
Deficit/net liability	279,548	306,844
Comprising:		
Current net liability	31,191	30,609
Non-current net liability	248,357	276,235
	279,548	306,844

(1) Using unaudited accounts as at 30 April 2006, rolled forward to 30 June 2006, and audited accounts as at 30 June 2005.

Funded status of defined benefit obligations		
Funded	92,121	96,653
Unfunded	275,225	293,976
Total	367,346	390,629
Movements in net liability		
Net liability in Balance Sheet at beginning of year	306,844	272,940
Expense recognised in Income Statement	(8,831)	53,260
Actual employer contributions	(18,465)	(19,356)
Net liability in Balance Sheet at end of year	279,548	306,844
Expense recognised in the Income Statement		
Employer service cost	5,698	4,665
Contribution tax expense	(2)	(37)
Total employer service cost	5,696	4,628
Interest cost	18,373	19,261
Expected return on Plan assets	(5,636)	(5,190)
Recognised actuarial (gains)/losses	(27,264)	34,561
Total Expense/(gain) recognised	(8,831)	53,260

15 RBF PROVISION (continued)	2006 $'000	2005 $'000
Fair value of Plan assets:		
Fair value of Plan assets at beginning of year	83,785	77,407
Employer contributions	18,465	19,356
Participant contributions	2,179	2,337
Operating costs	(792)	(568)
Benefit payments	(26,378)	(27,651)
Expected return on Plan assets	5,636	5,190
Expected Plan assets at year end	82,895	76,071
Actuarial gain on Plan assets	4,903	7,714
Individual Plan assets at year end (1)	87,798	83,785
Estimated actual return on Plan assets (2)	10,444	10,624

(1) Using unaudited accounts as at 30 April 2006, rolled forward to 30 June 2006, and audited accounts as at 30 June 2005.

(2) Fair value of Plan assets cannot be reconciled using the estimated figures shown in the table above, as a number of items such as net assets, operating costs and investment returns can only be estimated using the proportion of funded liabilities for each authority compared to that of the RBF Contributory Scheme as a whole.

Total defined benefit obligation		
Total defined benefit obligation at beginning of year	390,629	350,347
Employer service costs plus operating costs	5,696	4,628
Interest cost	18,373	19,261
Participant contributions	2,179	2,337
Operating costs	(792)	(567)
Benefit payments plus contributions tax	(26,378)	(27,652)
Expected defined benefit obligations at year end	389,707	348,354
Actuarial (gain)/loss on liabilities	(22,361)	42,275
Actual total defined benefit obligation at year end	367,346	390,629

Contributions Tax		
Defined benefit obligation at beginning of year	366,520	334,849
Fair value of Plan assets at beginning of year (1)	(83,785)	(77,407)
Net obligation	282,735	257,442
Contributions tax at beginning of year	24,109	15,498
Contributions tax expense	(3)	(37)
Expected contributions tax liability at year end (2)	24,106	15,461
Actuarial (gain)/loss on contributions tax	(3,954)	8,648
Actual contributions tax at year end (2)	20,152	24,109

(1) Using unaudited accounts as at 30 April 2006, rolled forward to 30 June 2006, and audited accounts as at 30 June 2005.

(2) Expected contributions tax utilises the tax rate for the employer contributions as at 30 June 2005 or 7.86%. Actual contributions tax utilises the tax rate for employer contributions as at 30 June 2006 or 7.21%.

15 RBF PROVISION (continued)	2006 $'000	2005 $'000
Reconciliation of actuarial (gain)/loss		
Actuarial (gain)/loss on assets	(4,904)	(7,714)
Actuarial (gain)/loss on liabilities	(18,407)	33,627
Actuarial (gain)/loss on contributions tax	(3,953)	8,648
Gain/(loss) recognised during year in Income Statement	(27,264)	34,561
There were no unrecognised gains or losses at the beginning or end of the year.		
Interest cost		
Defined benefit obligation at beginning of year (*)	366,520	334,849
Benefit payments	26,378	27,652
Weighted for timing (*)	(13,189)	(13,826)
Average benefit obligations	353,331	321,023
Discount rate	5.20%	6.00%
Interest cost included in Other Finance Costs (note 2)	18,373	19,261
(*) Sum equals Average benefit obligations		
Expected Return on Assets		
Fair value of Plan assets at beginning of year (*)	83,785	77,407
Employer contributions	18,465	19,365
Weighted for timing (*)	9,232	9,678
Participant contributions	2,179	2,337
Weighted for timing (*)	1,090	1,169
Operating costs	(792)	(568)
Weighted for timing (*)	(396)	(284)
Benefit payments	(26,378)	(27,652)
Weighted for timing (*)	(13,189)	(13,826)
Average expected assets	80,522	74,144
Assumed rate of return	7.0%	7.0%
Expected return on assets used in calculation	5,637	5,190
(*) Sum equals Average expected assets		
Actuarial (gain)/loss for year		
Defined benefit obligations (net of tax, based on prior year assumptions)	367,465	334,834
Contributions tax (based on prior year assumptions)	23,847	15,113
	391,312	349,947
Defined benefit obligations (net of tax, based on current year assumptions)	347,193	366,520
Actual contributions tax at the end of the year	20,153	24,109
	367,346	390,629
Actuarial (gain)/loss for year due to assumptions	(23,966)	40,682
Actuarial (gain)/loss for year due to experience	1,605	1,593
Actuarial (gain)/loss on assets	(4,903)	(7,714)
Actuarial (gain)/loss for year	(27,264)	34,561

15 RBF PROVISION (continued)

History

The amounts for the current year and the previous two years, as required under paragraph 120(p) of AASB 119 are shown below.

	2006 $'000	2005 $'000	2004 $'000
Total defined benefit obligation at the end of the year	367,346	390,629	350,347
Plan assets at year end	(87,798)	(83,785)	(77,407)
Deficit	279,548	306,844	272,940
Experience adjustment on liabilities	1,605	1,593	-
Experience adjustment on assets	(4,903)	(7,713)	-

Funding and contribution information

The table below shows the deficit of the RBF as determined in accordance with Financial Reporting by Superannuation Funds as at 30 June 2005, the date of the most recent actuarial funding report. These figures are calculated for funding purposes and relate to the RBF Contributory Scheme as a whole (unlike those above which relate to the Corporation).

Liability for Accrued Benefits	2005 $'000
Liability for the Scheme as a whole	3,892,933
Net market value of Scheme assets	1,255,312
Deficit	2,637,621

The present value of the total accrued benefits for the Contributory Scheme as a whole (both funded and unfunded components) for the purposes of AAS 25, was calculated to be $3,892.9 million.

The employer does not make regular contributions but rather meets the cost of benefits as they emerge by paying a percentage of the benefit as it falls due (as defined in the *Retirement Benefits Regulations 2005*).

The economic assumptions relating to the RBF Contributory Scheme as a whole used to calculate these figures were:

	%p.a
Discount rate	7.0
Salary inflation (inclusive of promotional increases)	4.5
Rate of Compulsory Preservation benefit increases (based on AWOTE)	4.0
Rate of pension increases	2.5

	CONSOLIDATED		PARENT	
	2006	2005	2006	2005
16 RESERVES	$'000	$'000	$'000	$'000
Derivative revaluation reserve	4,649	-	4,649	-
Share of joint venture equity	-	1,000	-	-
	4,649	1,000	4,649	-

The derivative revaluation reserve comprises fair value gains and losses on effective cash flow hedges which qualify for hedge accounting.

17 FINANCIAL INSTRUMENTS DISCLOSURES

(a) Financial Risk Management Objectives and Policies

The Corporation's principal financial instruments, other than derivatives, comprise loans, bank overdraft, cash and short-term investments. The main purpose of these financial instruments is to fund the Corporation's operations. 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 financial instruments are market price risk, cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk.

The Corporation also enters into derivative transactions being principally energy derivatives, 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 policies and procedures approved by the Board. All hedges are cash flow hedges (refer note 1.2(q)).

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 note 1.2(q).

(i) Market Price Risk

Since entering the National Electricity Market in May 2005 the Corporation has been exposed to fluctuations in the market price of electricity in Tasmania. In addition, since the commissioning of Basslink in April 2006, the Corporation has been exposed to fluctuations in the Victorian market price to the extent of electricity flows across Bass Strait. Exposure to these fluctuations in market price is managed through the use of derivative contracts executed in accordance with Board approved policy and procedures.

The Corporation enters into forward price electricity contracts to limit exposure to Tasmanian market price variations. Contract volumes for many of the Corporation's current Tasmanian forward contracts are determined by the actual load generated in the contract period.

The Corporation's exposure to fluctuations in market prices arising from energy flow over Basslink is managed through the use of derivative contracts executed in accordance with Board approved policy and procedures.

(ii) Cash Flow Interest Rate Risk

The Corporation's exposure to the risk of changes in market interest rates relates primarily to the Corporation's borrowings at floating interest rates and to the Basslink contracts.

(1) Debt Portfolio

The Corporation has entered into interest rate swap contracts to achieve an interest rate exposure profile that is consistent with the long-term cashflow stability and the interest rate management strategy of the Corporation. All interest rate swaps hedge specific loans.

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.

To achieve debt portfolio benchmarks, risk management activity is conducted at the individual loan level and includes hedging with highly effective derivatives. The Corporation applies hedge accounting treatment to these hedges as described in note 1.2(q).

At 30 June 2006 fixed rate loans varied from 4.8% to 6.3% (2005 : 4.8% to 6.3%). Floating rates were based on bank bill rates and these varied from 5.6% to 6.2% (2005: 5.7% to 5.9%).

The remaining terms and notional principal amounts of the Corporation's outstanding interest rate swap contracts at balance date were:

	CONSOLIDATED		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Not later than one year	45,000	60,000	45,000	60,000
Over one year and up to five years	228,400	183,400	228,400	183,400
Later than five years	40,000	118,625	40,000	50,000
Total	313,400	362,025	313,400	293,400

17 FINANCIAL INSTRUMENTS DISCLOSURES (continued)

(2) Basslink Project

The Basslink Services Agreement (BSA) and Floating Facility Fee Instrument (FFFI) between the Corporation and National Grid Australia Pty Ltd (NGA) establish the rights and obligations of both parties including the monthly Basslink Facility Fee (BFF) payments by the Corporation to NGA. These agreements are financial instruments whereby the Corporation is committed to make payments to NGA over the term of the contract should NGA meet its obligations to keep the link available in exchange for the right to receive Inter Regional Revenues (IRRs).

The BSA commenced upon successful commissioning of Basslink on 28 April 2006 and is for a term of 25 years. By entering into the BSA, the Corporation has effectively gained access to the National Electricity Market.

The Basslink Facility Fee obligations include an interest rate exposure similar to that of a floating interest rate exposure on amortising debt.

The remaining term and notional principal for these instruments at balance date was:

	CONSOLIDATED		PARENT	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Later than five years	624,505	599,810	624,505	599,810
Total	624,505	599,810	624,505	599,810

The notional principal amortises over the 25 year period to $318.8 million (2005 $306.2 million).

The Corporation entered into the Basslink Facility Fee Swap (BFFS) in 2002 to eliminate the market interest rate risk arising from the Basslink agreements. The BFFS has swapped the floating interest rate exposure in the BFF for an inherent fixed interest rate of 7.41% for a 25 year term.

The remaining term and notional principal amount for this instrument at balance date was:

Later than five years	599,810	599,810	599,810	599,810
Total	599,810	599,810	599,810	599,810

The notional principal amortises over the 25 year period to $306.2 million (2005 $306.2 million).

(iii) Liquidity risk

Liquidity risk arises from the possibility that the Corporation may be unable to settle a transaction on the due date. To manage this risk, the Corporation has adequate stand-by facilities and other funding arrangements in place.

(iv) Foreign Currency Risk

The Corporation transacts in foreign currency for operational and capital requirements. It is the Corporation's policy to enter into forward foreign exchange contracts to eliminate currency exposure on all significant transactions once a firm commitment for a sale or purchase has been made.

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.

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

Receivables				
Not later than one year	2,345	3,569	2,345	3,569
Later than one year but not later than two years	783	2,221	783	2,221
Later than two years	-	783	-	783
Total	3,128	6,573	3,128	6,573
Payables				
Not later than one year	3,768	8,067	3,768	8,067
Later than one year but not later than two years	321	1,463	321	1,463
Later than two years	-	-	-	-
Total	4,089	9,530	4,089	9,530

17 FINANCIAL INSTRUMENTS DISCLOSURES (continued)

(v) 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 as the positive revaluation of financial instruments plus a potential exposure of investments.

In the main, the Corporation reduces this risk by only transacting with counterparties of a high quality. Interest rate swaps are subject to the industry recommended International Swap Dealers Association (ISDA) documentation. Where possible this documentation contains clauses enabling the netting of exposures.

The credit exposure of a financial instrument is its positive market revaluation at the reporting date. A potential exposure, broadly in line with Reserve Bank guidelines, is calculated on all interest rate swaps. The total exposure to interest rate swaps is also limited to a notional allocation as part of the Corporation's capital base.

Basslink credit swaps

While the Basslink Facility Fee Swap 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.

	CONSOLIDATED		PARENT	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Credit risk exposure by instrument type				
Financial Assets				
Investments and bank balances	6,776	33,665	6,776	11,530
Financial Instruments				
Interest rate swaps	45,697	49,955	45,697	46,524
Foreign exchange contracts	466	916	466	916
Basslink Facility Fee Swap	63,356	63,356	63,356	63,356
Forward rate agreements	1,265	-	1,265	-
Energy swaps	1,601	-	1,601	-
Total credit risk exposure	119,161	147,892	119,161	122,326
Credit risk exposure by institutions ratings				
Australian based institutions				
AA+ to AA- ratings	44,492	74,786	44,492	49,220
A+ to A ratings	64,944	63,356	64,944	63,356
Unrated	12	-	12	-
	109,448	138,142	109,448	112,576
Overseas based institutions				
A+ to A ratings	9,713	9,750	9,713	9,750
Total credit risk exposure	119,161	147,892	119,161	122,326

17 FINANCIAL INSTRUMENTS DISCLOSURES (continued)

(b) Interest rate exposure

The Corporation's exposure, by maturity, to interest rates on financial instruments at 30 June 2006 was:

	CONSOLIDATED AS AT JUNE 30 2006					
	Weighted Average Effective Interest Rate %	Floating Interest Rate $'000	Fixed Interest Rate Maturing 1 year or less $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Financial assets						
Cash	5.0	660	-	-	-	660
Investments	5.8	15,091	-	-	-	15,091
		15,751	-	-	-	15,751
Financial liabilities						
Bank overdrafts and loans (note 12)	6.1	382,000	135,000	430,000	130,000	1,077,000
Interest rate swaps						
- Pay fixed/receive floating		(313,400)	45,000	228,400	40,000	-
Forward rate agreements		(20,000)	20,000	-	-	-
Credit swaps						
- Pay fixed/receive floating		(667,301)	-	-	667,301	-
- Receive fixed/pay floating		667,301	-	-	(667,301)	-
Basslink Facility Fee Swap	7.4	(599,810)	-	-	599,810	-
Floating Facility Fee Instrument		624,505	-	-	(624,505)	-
		73,295	200,000	658,400	145,305	1,077,000

	PARENT AS AT JUNE 30 2006					
	Weighted Average Effective Interest Rate %	Floating Interest Rate $'000	Fixed Interest Rate Maturing 1 year or less $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Financial assets						
Cash	5.0	641	-	-	-	641
Investments	5.7	5,091	-	-	-	5,091
		5,732	-	-	-	5,732
Financial liabilities						
Bank overdrafts and loans (note 12)	6.1	382,000	135,000	430,000	130,000	1,077,000
Interest rate swaps						
- Pay fixed/receive floating		(313,400)	45,000	228,400	40,000	-
Forward rate agreements		(20,000)	20,000	-	-	-
Credit swaps						
- Pay fixed/receive floating		(667,301)	-	-	667,301	-
- Receive fixed/pay floating		667,301	-	-	(667,301)	-
Basslink Facility Fee Swap	7.4	(599,810)	-	-	599,810	-
Floating Facility Fee Instrument		624,505	-	-	(624,505)	-
		73,295	200,000	658,400	145,305	1,077,000

17 FINANCIAL INSTRUMENTS DISCLOSURES (continued)

	CONSOLIDATED AS AT 30 JUNE 2005					
	Weighted Average Effective Interest Rate %	Floating Interest Rate $'000	Fixed Interest Rate Maturing 1 year or less $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Financial assets						
Cash	5.4	10,221	-	-	-	10,221
Investments	5.4	130,277	-	-	-	130,277
		140,498	-	-	-	140,498
Financial liabilities						
Bank overdrafts and loans (note 12)	6.2	586,500	110,018	435,000	80,000	1,211,518
Interest rate swaps						
- Pay fixed/receive floating	5.5	(362,025)	60,000	183,400	118,625	-
Forward rate agreements	5.7	(30,000)	30,000	-	-	-
Credit swaps						
- Pay fixed/receive floating	6.5	(667,301)	-	-	667,301	-
- Receive fixed/pay floating	6.5	667,301	-	-	(667,301)	-
Basslink Facility Fee Swap	7.4	(599,810)	-	-	599,810	-
Floating Facility Fee Instrument	4.8	599,810	-	-	(599,810)	-
		194,475	200,018	618,400	198,625	1,211,518

	PARENT AS AT 30 JUNE 2005					
	Weighted Average Effective Interest Rate %	Floating Interest Rate $'000	Fixed Interest Rate Maturing 1 year or less $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Financial assets						
Cash	5.4	192	-	-	-	192
Investments	5.4	110,180	-	-	-	110,180
		110,372	-	-	-	110,372
Financial liabilities						
Bank overdrafts and loans (note 12)	6.1	495,000	110,018	435,000	80,000	1,120,018
Interest rate swaps						
- Pay fixed/receive floating	5.6	(293,400)	60,000	183,400	50,000	-
Forward rate agreements	5.7	(30,000)	30,000	-	-	-
Credit swaps						
- Pay fixed/receive floating	6.5	(667,301)	-	-	667,301	-
- Receive fixed/pay floating	6.5	667,301	-	-	(667,301)	-
Basslink Facility Fee Swap	7.4	(599,810)	-	-	599,810	-
Floating Facility Fee Instrument	4.8	599,810	-	-	(599,810)	-
		171,600	200,018	618,400	130,000	1,120,018

Financial instruments of the Corporation and its subsidiaries that have not been included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

The Weighted Average Cost of Debt (WACD) incorporates both loans and interest rate derivatives on the books of the Corporation as at the reporting date. These rates are shown below.

	CONSOLIDATED		PARENT	
	2006	**2005**	**2006**	**2005**
Weighted Average Cost of Debt	6.15%	6.19%	6.15%	6.10%

17 FINANCIAL INSTRUMENTS DISCLOSURES (continued)

(c) Fair values

AASB 139 relating to recognition of financial instruments was adopted on 1 July 2005. This standard requires recognition on the Balance Sheet of financial assets and liabilities at fair value, including those that were previously disclosed by way of note to the financial statements in accordance with previous accounting standards.

In the event of the lack of readily available market data to determine the fair value of derivatives and borrowings, fair value has been calculated by discounting the expected future cash flows at prevailing interest rates. In particular:

- Interest rate swaps are valued at current market quoted prices.
- Forward foreign exchange contracts are valued as the recognised gain or loss at balance date calculated by reference to current forward exchange contracts with similar maturity profiles.
- Fixed rate loans are valued at current risk adjusted market rates.

Basslink Services Agreement (BSA), Floating Facility Fee Instrument (FFFI) and Basslink Facility Fee Swap (BFFS)

Fair value of the Basslink financial instruments has been calculated by 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 and reported as a financial asset. The contractual payments under the BSA, FFFI and BFFS have been projected and reported as a financial liability. These represent the facility fee payments and interest rate swap settlements payable under these contracts. Other than IRRs, fair value does not include any benefits expected to be derived from the Basslink contracts including fixed contract and spot energy sales and trading of energy derivatives. Benefits are also expected from operational efficiencies, system optimisation, strategic development of renewable generation assets and hydrological offsets. All of these benefits were anticipated at the time of approval of the Basslink project by the Board of the Corporation and have been reflected in the carrying value of the Corporation's generation assets.

Prior to adoption of Australian equivalents to International Financial Reporting Standards (AIFRS) generation assets were carried at fair value based on the projected revenue to be generated by those assets net of expenses required to generate that revenue (note 9). These projections included all the benefits and obligations of Basslink. On transition to AIFRS on 1 July 2004, the Corporation elected to adopt the cost method of carrying property, plant and equipment. The initial "deemed" cost on transition equated to fair value under the previous accounting standards. With separate reporting of the fair value of the Basslink contractual obligations as a financial iability and the right to receive IRRs as a financial asset on adoption of AASB 139 and AASB 132 on 1 July 2005, the carrying value of generation assets has been restated to reflect the disaggregation of these cash outflows.

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 25 year forward start market rate.

The BSA, FFFI and BFFS are not readily tradeable financial instruments.

Gas Pipeline Capacity Agreement

A financial liability of $56.2 million has been recognised on adoption of AASB 139 as at 1 July 2005 as the present value of future obligations under this agreement discounted at the Corporation's weighted average cost of capital. The basis for recognition is that Bell Bay Power Pty Ltd is not expected to operate any further for the remaining term of the contract and will therefore not derive any benefit from the obligations under the contract.

Tasmanian Market Electricity Price Derivatives

The Corporation has entered into forward contracts against the Tasmanian electricity market to limit its exposure to market price risks on entry into NEM. These contracts reflect the vesting of historical arrangements with retail and major industry clients in place at that time.

The counterparties to these arrangements are the only participants in the Tasmanian electricty market at this time. The Tasmanian electricty market only effectively opened to new entrants with the commissioning of Basslink in April 2006. Accordingly there is insufficient independent market data available at this time to determine a reliable yield curve against which to measure the contracts.

The Corporation has adopted the view that these contracts are a fair reflection of a likely Tasmanian yield curve. Therefore their fair value, measured in terms of balance of future obligations and benefits, is nil in all material respects.

Victorian Market Electricity Price Derivatives

The Corporation has entered into electricity swaps, caps, futures and swaptions on the Victorian market. The fair value of these derivatives is determined by reference to current market prices or to latest forward price projections as published by Australian Financial Markets Association.

The following table is a comparison by category of the carrying amounts and fair values of all of the Corporation's financial instruments recognised in the financial statements.

17 FINANCIAL INSTRUMENTS DISCLOSURES (continued)

	CONSOLIDATED				PARENT			
	Carrying Amount 2006 $'000	Net Fair Value 2006 $'000	Carrying Amount 2005 $'000	Net Fair Value 2005 $'000	Carrying Amount 2006 $'000	Net Fair Value 2006 $'000	Carrying Amount 2005 $'000	Net Fair Value 2005 $'000
Financial assets								
Cash	660	660	10,221	10,221	641	641	192	192
Investments	15,091	15,091	130,277	130,277	5,091	5,091	110,180	110,180
Credit swaps	34,927	34,927	1,112	79,907	34,927	34,927	1,112	79,907
Interest rate swaps	4,778	4,778	229	1,092	4,778	4,778	229	1,092
Forward foreign exchange contracts	123	123	379	379	123	123	379	379
Basslink financial asset	155,539	155,539	-	-	155,539	155,539	-	-
Receivables	98,797	98,797	105,453	105,453	98,777	98,777	86,619	86,619
Other assets	53,837	53,837	20,438	20,438	109,958	109,958	66,432	66,432
	363,752	363,752	268,109	347,767	409,834	409,834	265,143	344,801
Financial liabilities								
Tascorp loans	1,093,729	1,093,305	1,138,728	1,145,571	1,093,729	1,093,305	1,138,728	1,145,571
Bank loans - secured	-	-	91,500	99,365	-	-	-	-
Credit swaps	34,927	34,927	1,112	79,907	34,927	34,927	1,112	79,907
Interest rate swaps	119	119	110	4,360	119	119	54	1,687
Forward rate agreements	43	43	-	13	43	43	-	13
Forward foreign exchange contracts	47	47	355	355	47	47	355	355
Basslink Services Agreement	712,911	712,911	-	487,300	712,911	712,911	-	487,300
Basslink Facility Fee Swap	190,735	190,735	-	222,600	190,735	190,735	-	222,600
Pipeline Capacity Agreement	61,049	61,049	-	-	61,049	61,049	-	-
Accounts payable	102,867	102,867	105,110	105,110	99,648	99,648	95,021	95,021
Other liabilities	7,069	7,069	19,381	19,381	3,757	3,757	19,381	19,381
	2,203,496	2,203,072	1,356,296	2,163,962	2,196,965	2,196,541	1,254,651	2,051,835

18 SEGMENT REPORTING

The Corporation operates predominantly in the electricity generation business. The Corporation's operations and customers are located predominantly in one geographical segment being Tasmania, Australia.

		CONSOLIDATED		PARENT	
		2006	2005	2006	2005
		$'000	$'000	$'000	$'000
19	**COMMITMENTS FOR EXPENDITURE**				
(a)	**Capital expenditure commitments**				
	Not later than 1 year	64,643	16,365	62,518	15,218
	Over 1 year and up to 2 years	218	2,200	218	2,200
	Over 2 years and up to 5 years	-	1,530	-	1,530
		64,861	20,095	62,736	18,948
(b)	**Lease commitments**				
(i)	Rental expense:				
	Minimum lease payment	2,198	2,198	2,198	2,198
(ii)	Future committed lease payments:				
	Not later than 1 year	1,711	485	1,711	485
	Over 1 year and up to 2 years	274	240	274	240
	Over 2 years and up to 5 years	292	47	292	47
		2,277	772	2,277	772

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 1 year	38,511	116,549	34,752	98,992
	Over 1 year and up to 2 years	10,834	103,535	10,580	99,983
	Over 2 years and up to 5 years	40,899	289,082	40,197	278,049
	Later than 5 years and up to 25 years	23,428	2,007,855	21,178	1,987,652
		113,672	2,517,021	106,707	2,464,676

The other commitments in 2006 relate to the supply of general goods and services.

Other commitments in 2005 included the undiscounted forecast payment commitments under the Basslink Services Agreement and the Gas Pipeline Capacity Agreement. Since these obligations have been recognised as financial liabilities on adoption of AASB 139 on 1 July 2005, they are not required to be included in commitments in the current year.

20 CONTINGENT LIABILITIES

1. A Supreme Court of Victoria writ was issued on 5 December 2002 claiming damages from the Corporation in respect to a service contract with Ericsson Australia Pty Ltd. The principal claim concerns an allegation that Hydro Tasmania provided false and misleading tender information and over-utilises the service. The Corporation considers that there is little prospect that the claim will be successful, but is exploring commercial opportunities to settle the claim.

2. Together with joint venture partner, Acciona Energy Oceania Pty Ltd, the Corporation has guaranteed the construction of the Cathedral Rocks Wind Farm by Cathedral Rocks Construction and Management Pty Ltd (CRCM) for Cathedral Rocks Wind Farm Pty Ltd (CRWF). CRCM subcontracted the supply and installation of wind turbines to Australian Wind Technology Pty Ltd (Vestas). CRWF alleges that CRCM has failed to complete construction of the wind farm and CRCM considers that Vestas has failed to provide wind turbines in accordance with its contract. Arbitration proceedings have commenced against Vestas. The prospective outcome of the arbitration proceedings and the Corporation's obligations (if any) under its guarantee of CRCM are not able to be established at this time.

Following acquisition by CLP Asia Renewable Projects Limited (CLP) of a half share in Roaring 40s Renewable Energy Pty Ltd (Roaring 40s), the Corporation reduced its interest in CRWF. Under the terms of the agreement, a reconciliation is required between the Corporation and CLP to protect CLP from any loss in value of Roaring 40s arising from certain problems experienced by CRWF. The extent of any reconciliation required between the Corporation and CLP will not be known until resolution of the above arbitration.

	CONSOLIDATED		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
21 AUDITOR'S REMUNERATION				
Amounts received, or due and receivable, by the Auditor-General from the Corporation for auditing the Financial Statements of the Corporation.	196	140	196	140

22 DIRECTORS AND KEY MANAGEMENT PERSONNEL REMUNERATION

Compensation of Directors and Key Management Personnel

	Short-term employee benefits		Post-employment benefits		Other long-term benefits		Termination benefits		Total	
	2006 '000	2005 '000	2006 '000	2005 '000	2006 '000	2005 '000	2006 '000	2005 '000	2006 '000	2005 '000
Directors	480	442	40	32	-	-	-	-	520	474
Key management personnel	1,950	1,765	116	156	-	60	-	252	2,066	2,233

Seven employees of the Corporation have been identified as key management personnel in accordance with AASB 124 *Related Party Disclosures*.

23 RELATED PARTY INFORMATION

The consolidated financial statements include the financial statements of the Corporation and its subsidiaries listed in note 26.

The Corporation divested its control of the Roaring 40s Renewable Energy group of companies on 17 October 2005, when CLP Asia Renewable Projects Limited, a subsidiary of China Light and Power Limited, became a 50% owner of that group of companies.

	Sales to related parties		Purchases from related parties		Amounts owed by related parties	
	2006	2005	2006	2005	2006	2005
Related party	$'000	$'000	$'000	$'000	$'000	$'000
CONSOLIDATED						
Roaring 40s Renewable Energy Pty Ltd	10,369	1,682	898	9,000	1,039	250
Cathedral Rocks Construction and Management Company Pty Ltd	314	2,410	-	-	83	476
SA Water Corporation & Lofty Ranges Power Pty Ltd Joint Venture	1	-	-	-	1	-
PARENT						
Roaring 40s Renewable Energy Pty Ltd	3,945	2,751	-	8,138	948	155
Cathedral Rocks Construction and Management Company Pty Ltd	-	-	-	-	83	476
SA Water Corporation & Lofty Ranges Power Pty Ltd Joint Venture	-	-	-	-	1	-
Bell Bay Power Pty Ltd	-	-	30,579	25,929	17,274	38,878
Bell Bay Three Pty Ltd	-	-	-	-	47,297	-
Lofty Ranges Power Pty Ltd	-	-	133	88	1,299	1,352

At 30 June 2006, no amounts were owed to related parties (2005: nil) other than those loans arising from tax consolidation.

23 RELATED PARTY INFORMATION (continued)

Terms and conditions of transactions with related parties:

Transactions with related parties are made in arm's length transactions both at normal market prices and on normal commercial terms.

Outstanding balances at year end are unsecured and interest free. Settlement with non-wholly owned related parties occurs in cash. Settlement does not occur between wholly owned subsidiaries and the parent.

Hydro Tasmania has provided the following guarantees:

(i) Bell Bay Three Pty Ltd - a guarantee in favour of Alinta DTH Pty Ltd in relation to both the Connection and Metering Agreement and the Gas Transportation Agreement.

(ii) Cathedral Rocks Construction and Management Pty Ltd - a guarantee in favour of Cathedral Rocks Wind Farm Pty Ltd in relation to the EPC contract for Cathedral Rocks Wind Farm.

The Directors of the Corporation as at 30 June 2006 were:

Dr D M Crean

Mr G L Willis

Mr K P Baxter

Mr D W Challen

Ms S M Farrier

Ms J M Healey

Ms M V R Willis

Dr J J Amos resigned his directorship on 6 June 2006.

Ms C A Hughes' term of appointment was completed on 21 June 2006.

Mr G L Willis resigned on 31 July 2006.

Mr V J Hawksworth commenced as executive director on 1 August 2006.

Transactions and balances with Directors

Mr K P Baxter had an interest as an advisor to the Government of Papua New Guinea and is Chairman of PNG Sustainable Infrastructure Limited.

Mr D W Challen had interests as Chairman of the Electricity Oversight Committee and as Chairman of Tascorp. Net interest expense of $57.8 million (2005: $59.8 million) was paid to Tascorp during the year.

Ms C A Hughes had an interest as Manager, Resource Planning and Development Commission.

Dr J J Amos had an interest as co-tutor at ScotWork which provides training services to the Corporation, and as Director of UAS Innovations Board.

Ms S M Farrier had an interest as a Director of Electricity Networks Corporation.

Sponsorship and contribution fees of $72,600 were paid to the Tasmanian Symphony Orchestra of which Mr G L Willis was a director 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

Community Service Obligations

On 1 June 1999, the 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 2006, the Government paid the Corporation $6.2 million (2005: $6.0 million) as reimbursement of the cost of providing CSOs.

Tsunami grant

During the year ended 30 June 2006 the Corporation undertook a project in Sri Lanka to provide an electric power distribution system as part of the tsunami relief effort. The State Government made a $0.37 million contribution to the Corporation to assist with project related expenditure. At 30 June 2006 the Corporation had spent $0.24 million of the grant in accordance with the terms and conditions outlined in the grant deed.

26 CONTROLLED ENTITIES

	Footnote	Country of Incorporation	PERCENTAGE OF SHARES HELD 2006 %	2005 %
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
Roaring 40s Renewable Energy Pty Ltd	3	Australia	50	100
Cathedral Rocks Investments Pty Ltd	4	Australia	-	100
Woolnorth Bluff Point Holdings Pty Ltd	5	Australia	-	100
Woolnorth Bluff Point Wind Farm Pty Ltd	6	Australia	-	100
Woolnorth Studland Bay Holdings Pty Ltd	7	Australia	-	100
Woolnorth Studland Bay Wind Farm Pty Ltd	8	Australia	-	100
Musselroe Holdings Pty Ltd	9	Australia	-	100
Musselroe Wind Farm Pty Ltd	9	Australia	-	100
Heemskirk Holdings Pty Ltd	9	Australia	-	100
Heemskirk Wind Farm Pty Ltd	9	Australia	-	100
Waterloo Investment Holdings Pty Ltd	9	Australia	-	100
Waterloo Wind Farm Pty Ltd	9	Australia	-	100
Bell Bay Three Pty Ltd	10	Australia	100	-
RE Storage Project Holding Pty Ltd	11	Australia	100	-

Footnotes

1. Bell Bay Power Pty Ltd was registered on 20 December 2001.
2. Lofty Ranges Power Pty Ltd was registered on 26 April 2002.
3. CLP Asia Renewable Projects Limited became an equal co-investor in Roaring 40s Renewable Energy Pty Ltd on 17 October 2005.
   Roaring 40s Renewable Energy Pty Ltd changed its name from Roaring 40s Wind Pty Ltd on 30 May 2005.
   Roaring 40s Wind Pty Ltd was registered on 29 November 2004.
   Roaring 40s Renewable Energy Pty Ltd owns 100% of Cathedrals Rocks Investments Pty Ltd, Woolnorth Bluff Point Holdings Pty Ltd, Woolnorth Studland Bay Holdings Pty Ltd, Heemskirk Holdings Pty Ltd, Musselroe Holdings Pty Ltd and Waterloo Investment Holdings Pty Ltd.

26 CONTROLLED ENTITIES (continued)

4. Cathedral Rocks Investments Pty Ltd was deconsolidated when the Roaring 40s Renewable Energy Pty Ltd joint venture was established on 17 October 2005.
   Cathedral Rocks Investments Pty Ltd changed its name from R40 Pty Ltd on 9 November 2004.
   R40 Pty Ltd was registered on 13 May 2004.
5. Woolnorth Bluff Point Holdings Pty Ltd was deconsolidated when the Roaring 40s Renewable Energy Pty Ltd joint venture was established on 17 October 2005.
   Woolnorth Bluff Point Holdings Pty Ltd holds 100% of Woolnorth Bluff Point Wind Farm Pty Ltd and was registered on 29 November 2004.
6. Woolnorth Bluff Point Wind Farm Pty Ltd was deconsolidated when the Roaring 40s Renewable Energy Pty Ltd joint venture was established on 17 October 2005.
   Woolnorth Bluff Point Wind Farm Pty Ltd changed its name from Roaring 40's Wind Pty Ltd on 9 November 2004.
   Roaring 40's Wind Pty Ltd was registed on 21 March 2001.
7. Woolnorth Studland Bay Holdings Pty Ltd was deconsolidated when the Roaring 40s Renewable Energy Pty Ltd joint venture was established on 17 October 2005.
   Woolnorth Studland Bay Holdings Pty Ltd holds 100% of Woolnorth Studland Bay Wind Farm Pty Ltd and was registered on 29 November 2004.
8. Woolnorth Studland Bay Wind Farm Pty Ltd was deconsolidated when the Roaring 40s Renewable Energy Pty Ltd joint venture was established on 17 October 2005.
   Woolnorth Studland Bay Wind Farm Pty Ltd was registered on 29 November 2004.
9. The following companies were deconsolidated when the Roaring 40s Renewable Energy Pty Ltd joint venture was established on 17 October 2005:
   Musselroe Holdings Pty Ltd which holds 100% of Musselroe Wind Farm Pty Ltd
   Heemskirk Holdings Pty which holds 100% of Heemskirk Wind Farm Pty Ltd
   Waterloo Investment Holding Pty Ltd which holds 100% of Waterloo Wind Farm Pty Ltd
   Each of these entities was registered on 8 March 2005.
10. Bell Bay Three Pty Ltd was registered on 7 December 2005.
11. RE Storage Project Holding Pty Ltd was registered on 11 April 2006.

27 INTERESTS IN JOINT VENTURES

Name	Principal Activity	Joint Venture Balance Date	Consolidated				Parent			
			Ordinary Share Ownership Interest		Joint Venture Agreement Voting Rights		Ordinary Share Ownership Interest		Joint Venture Agreement Voting Rights	
			2006 %	2005 %	2006 %	2005 %	2006 %	2005 %	2006 %	2005 %
Roaring 40s Renewable Energy Pty Ltd	Wind farm development and operation	30 June	50	100	50	100	50	100	50	100
Cathedral Rocks Construction and Management Pty Ltd	Wind farm construction	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	-
Wind Energy Storage Pty Ltd	Implementation of renewable energy project	30 June	50	-	50	-	-	-	-	-

27 INTERESTS IN JOINT VENTURES (continued)

On 17 October 2005 the Corporation entered into a joint venture with CLP Asia Renewable Projects Limited through equal ownership of Roaring 40s Renewable Energy Pty Ltd. The purpose of the joint venture is to pursue domestic and international renewable energy opportunities, including construction of wind farms.

The Corporation entered into a joint venture (Cathedral Rocks Construction and Management Pty Ltd) with Acciona Energy Oceania Pty Ltd (formerly EHN (Oceania) Pty Ltd) in the year ended 30 June 2004. The joint venture was established to project manage the construction of a wind farm at Cathedral Rocks, South Australia (note 29).

A subsidiary of the Corporation, Cathedral Rocks Investments Pty Ltd (formerly R40 Pty Ltd) entered into a joint venture (Cathedral Rocks Holdings Pty Ltd) with Acciona Energy Oceania Pty Ltd (formerly EHN (Oceania) Pty Ltd) in the year ended 30 June 2004. Cathedral Rocks Investments Pty Ltd was deconsolidated when the Roaring 40s Renewable Energy Pty Ltd joint venture was established on 17 October 2005.

A subsidiary of the Corporation, Lofty Ranges Power Pty Ltd, holds a 50% 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 to contract for the construction of and to operate mini hydro facilities (note 28).

The Corporation holds a 50% interest in an incorporated joint venture operation with Lloyd Energy Systems, 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% interest in an incorporated joint venture operation with Lloyd Project Holdings Pty Ltd, a 100% owned subsidiary of Lloyd Energy Systems Ltd. The principal activity of the joint venture is the implementation of a renewable energy project on King Island.

	PARENT	
	2006	**2005**
	$'000	**$'000**

28 JOINT VENTURE OPERATIONS

The share of assets, liabilities, revenues and expenses of the unincorporated jointly controlled operation, SA Water Corporation & Lofty Ranges Power Pty Ltd Joint Venture, which are included in the financial statements, are as follows as at 30 June and for the years then ended.

Current assets		
Cash	19	3
Receivables	24	4
Total current assets	43	7
Non-current assets		
Property, plant and equipment	1,386	1,408
Total non-current assets	1,386	1,408
TOTAL ASSETS	1,429	1,415
Current liabilities		
Payables	28	21
TOTAL LIABILITIES	28	21
Operating result		
Revenue from ordinary activities	1	3
Operational and service contracts	(75)	(107)
Capital expenditure writen off	-	(95)
Services and supplies	(4)	(4)
Depreciation	(74)	(74)
Royalties	(31)	(25)
OPERATING RESULT	(183)	(302)

29 INCORPORATED JOINT VENTURES

	CONSOLIDATED	
	2006	2005
Aggregate share of elements relating to incorporated joint ventures	$'000	$'000
Share of loss of joint venture entity:		
Revenue	18,383	45,534
Expenses	22,468	45,697
(Loss)/profit before income tax expense	(4,085)	(163)
Income tax benefit	1,449	42
Net loss	(2,636)	(121)
Balance sheet		
Current assets	50,727	15,745
Non-current assets	90,391	43,872
Total assets	141,118	59,617
Current liabilities	7,126	17,219
Non-current liabilities	45,747	32,497
Total liabilities	52,873	49,716
Net assets	88,245	9,901
Share of accumulated losses		
Share of accumulated losses at beginning of year	(249)	67
Share of net loss reported in the Income Statement	(5,562)	(316)
Share of accumulated losses at the end of the year	(5,811)	(249)
Movements in carrying amount of investment in joint venture entities		
Carrying amount at the beginning of the year	9,767	1,083
Increase during the year	75,800	9,000
Share of loss before tax for the year	(5,562)	(316)
Carrying amount at the end of the year	80,005	9,767

The jointly controlled entities in 2006 were Cathedral Rocks Construction and Management Pty Ltd and Roaring 40s Renewable Energy Pty Ltd. In 2005, the jointly controlled entities were Cathedral Rocks Construction and Management Pty Ltd and Cathedral Rocks Holdings Pty Ltd. Cathedral Rocks Holdings Pty Ltd was deconsolidated with the Roaring 40s Renewable Energy group of companies.

Details of contingent liabilities and capital expenditure commitments relating to the joint ventures are included in notes 19 and 20.

30 DIVIDEND

	CONSOLIDATED		PARENT	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Declared and paid during the year:				
Statutory dividend	32,000	22,600	32,000	22,600
Special dividend	8,000	17,400	8,000	17,400
	40,000	40,000	40,000	40,000
Proposed for approval (not recognised as a liability as at 30 June):				
Statutory dividend	21,200	32,000	21,200	32,000
Special dividend	-	8,000	-	8,000
	21,200	40,000	21,200	40,000

31 IMPACT OF ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS)

For all periods up to and including the year ended 30 June 2005, the Corporation prepared its financial statements in accordance with Australian Generally Accepted Accounting Principles (AGAAP). These financial statements for the year ended 30 June 2006 have been prepared in accordance with AIFRS.

The significant accounting policies adopted to comply with AIFRS are described in note 1.2. In preparing these financial statements, the Corporation has started from an opening balance sheet as at 1 July 2004, the Corporation's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1 *First-time adoption of Australian Equivalents to International Financial Reporting Standards*.

This note explains the principal adjustments made by the Corporation in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

Since the Corporation has adopted AASB 132: *Financial Instruments: Disclosure and Presentation* and AASB 139: *Financial Instruments: Recognition and Measurement* from 1 July 2005, AASB 1 allows first-time adopters certain exemptions from the general requirement to apply AIFRS retrospectively. Comparative information for financial instruments is prepared in accordance with AGAAP and the 1 July 2005 changes are shown in the following tables.

There are no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under AGAAP.

Reconciliation of profit after tax and of the Balance Sheet as prepared under AGAAP to that under AIFRS is as below:

	Note	CONSOLIDATED 2005 $millions	PARENT 2005 $millions
RECONCILIATION OF PROFIT/(LOSS) AFTER TAX:			
Net profit after tax (AGAAP)		44.4	42.1
Employee benefits expense	(a)	(31.1)	(31.1)
Income tax equivalent benefit	(b)	185.9	185.8
Impairment loss	(d)	(542.3)	(542.3)
Depreciation expense	(f)	(5.3)	(5.3)
Net loss after tax (AIFRS)		(348.4)	(350.8)

	Note	CONSOLIDATED 30-Jun-05 $millions	CONSOLIDATED 01-Jul-04 $millions	PARENT 30-Jun-05 $millions	PARENT 01-Jul-04 $millions
RECONCILIATION OF TOTAL ASSETS:					
Total Assets (AGAAP)		3,248.4	3,598.1	3,143.0	3,574.6
Deferred tax asset transfer to liabiltiies		(67.3)	-	(66.9)	-
Generation property, plant and equipment		-	-	-	-
- Impairment loss (AIFRS)	(d)	(542.3)	-	(542.3)	-
- Revaluation decrement (AGAAP)	(d)	523.0	-	523.0	-
- Deemed cost transitional valuation adjustment	(e)	(51.5)	(51.5)	(51.5)	(51.5)
- Accumulated depreciation	(f)	(5.3)	-	(5.3)	-
Total Assets (AIFRS)		3,105.0	3,546.6	3,000.0	3,523.1
RECONCILIATION OF TOTAL LIABILITIES:					
Total Liabilities (AGAAP)		1,710.8	1,541.9	1,608.2	1,518.9
Deferred tax asset transfer from assets		(67.3)	-	(66.9)	-
Deferred tax asset	(c)	(31.7)	(22.3)	(31.7)	(22.3)
Deferred tax liability	(b),(c)	447.9	624.3	447.9	624.3
RBF provision	(g)	103.7	72.6	103.7	72.6
Total Liabilities (AIFRS)		2,163.4	2,216.5	2,061.2	2,193.5
Net Assets (AIFRS)		941.6	1,330.1	938.8	1,329.6

31 IMPACT OF ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) (continued)

	Note	CONSOLIDATED 30-Jun-05 $millions	CONSOLIDATED 01-Jul-04 $millions	PARENT 30-Jun-05 $millions	PARENT 01-Jul-04 $millions
RECONCILIATION OF TOTAL EQUITY:					
Total equity (AGAAP)		1,537.6	2,056.2	1,534.8	2,055.7
Asset revaluation reserve:		-	-	-	-
-Transfer to retained earnings	(d),(h)	(1,348.2)	(1,871.2)	(1,348.2)	(1,871.2)
Retained earnings:		-	-	-	-
-Transfer from asset revaluation reserve	(d),(h)	1,348.2	1,871.2	1,348.2	1,871.2
-Initial recognition of deferred tax assets and liabilities	(c)	(602.0)	(602.0)	(602.0)	(602.0)
-Initial recognition of RBF provision	(g)	(72.6)	(72.6)	(72.6)	(72.6)
-Impairment loss (AIFRS increase over AGAAP revaluation decrement)	(d)	(19.3)	-	(19.3)	-
-Deemed cost transitional valuation adjustment	(e)	(51.5)	(51.5)	(51.5)	(51.5)
-Depreciation expense	(f)	(5.3)	-	(5.3)	-
-Employee benefits expense	(a),(g)	(31.1)	-	(31.1)	-
-Income tax equivalent benefit	(b)	185.8	-	185.8	-
Total Equity (AIFRS)		941.6	1,330.1	938.8	1,329.6

Details of the adjustments made to the Balance Sheet prepared under AGAAP on adoption of AASB 132 and AASB 139 are as below:

	Note	CONSOLIDATED 01-Jul-05 $millions	PARENT 01-Jul-05 $millions
RECONCILIATION OF TOTAL ASSETS:			
Total Assets (AIFRS) before AASB 132 and 139		3,105.0	3,000.0
Separation of Basslink financial instruments from asset valuation		748.0	748.0
Basslink financial asset		151.3	151.3
Total Assets (AIFRS) after AASB 132 and 139	(i)	4004.3	3899.3
RECONCILIATION OF TOTAL LIABILITIES:			
Total Liabilities (AIFRS) before AASB 132 and 139		2,163.4	2,061.2
Market value of swaps		(0.8)	(0.8)
Gas Pipeline Capacity Agreement		56.3	56.3
Basslink financial liabilities		899.3	899.3
Total Liabilities (AIFRS) after AASB 132 and 139	(i)	3118.2	3016.0
Net Assets (AIFRS)		886.1	883.3
RECONCILIATION OF TOTAL EQUITY:			
Total Equity (AIFRS) before AASB 132 and 139		941.6	938.8
Derivative revaluation reserve			
Market value of swaps		0.8	0.8
Loss on operating foreign exchange hedges		0.2	0.2
Retained earnings			
Loss on foreign exchange operating deals		(0.2)	(0.2)
Gas Pipeline Capacity Agreement		(56.3)	(56.3)
Total Equity (AIFRS) after AASB 132 and 139	(i)	886.1	883.3

31 IMPACT OF ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) (continued)

EXPLANATORY NOTES

(a) Employee Benefits Expense

As explained in note (g) below, the increase during 2005 in the Retirement Benefits Fund (RBF) liability under AIFRS must be recognised as an expense. This increase was $31.1 million.

(b) Income Tax Expense/Benefit

The tax effect of the full difference between accounting and tax values of assets and liabilities on transition to AIFRS has been recognised through increased deferred tax liability (refer note (c) below). This increased liability will reduce over subsequent years as the difference between accounting and tax asset and liability values decreases. This will result in a lower income tax equivalent expense under AIFRS. In 2005, income tax equivalent expense is lower under AIFRS by $185.9 million, of which $175.6 million is attributable to the asset impairment loss (refer note (d) below) and $10.3 million to the additional employee benefit expense (refer note (a) above).

(c) Deferred Tax Assets and Liabilities

The principles of tax effect accounting enable income tax expense to be based on accounting profit while recognising that, since not all expenses and revenues in financial statements are deductible or assessable in the current year (if at all), this expense must be reconciled to the current liability for income tax by a deferred tax liability or deferred tax asset. Before adoption of AIFRS, the deferred tax liability or deferred tax asset only recognised the tax effect of differences in the timing of recognition of expenses or income for financial reporting and their impact on tax liability.

AIFRS recognises the tax effect of the full difference between the tax and accounting value of assets or liabilities, whether it is a timing or a permanent difference, as a deferred tax liability or deferred tax asset.

The initial recognition of the adjustment to deferred tax liability and deferred tax asset on transition date resulted in a direct charge against retained earnings. An additional deferred tax liability of $594.3 million has been recognised representing the tax effect of accumulated revaluation increments on assets. An additional deferred tax asset of $21.8 million has also been recognised representing the tax effect of recognition on transition date of the RBF provision shortfall. The net impact on retained earnings is a reduction of $572.5 million.

(d) Generation Property Plant and Equipment – Impairment Loss

As permitted by AASB 1, the Corporation elected to adopt the fair value of these assets at 1 July 2004 as its deemed cost on transition date and to adopt the net cost method of recording all property, plant and equipment under AIFRS. Under AIFRS, the carrying value of assets recorded under the cost method must not exceed their recoverable amount. In the event of this occurring, an impairment loss must be recorded as an expense in the current year.

A revaluation under AGAAP of generation assets was conducted in 2005 to reflect the financial projections of the Corporation at that time. The revaluation resulted in a fair value of $2.535 billion, a reduction of $523 million. Under AIFRS, revised revenue forecasts represent an impairment trigger requiring an assessment of the recoverable amount of these assets.

Fair value under AGAAP is determined using projected net after-tax cash flows discounted to present value using an after-tax discount rate. Recoverable amount under AIFRS is essentially calculated in the same manner apart from use of pre-tax cash flows and a pre-tax discount rate.

Application of the same financial projections to an assessment of recoverable amount of generation assets under AIFRS resulted in the recognition of an impairment loss of $542.3 million, $19.3 million greater than the fair value reduction under AGAAP.

Under AIFRS, asset impairment must be recognised as an expense of $542.3 million in the current year whereas, under AGAAP, the revaluation decrement was applied against asset revaluation reserve.

As explained in note (b) above, the deferred tax liability under AIFRS represents the tax effect of the difference between accounting and tax value of assets. Under AIFRS, the impairment reduction in the accounting value of the generation assets has resulted in a reduction in deferred tax liability. This is reflected in the Income Statement as a tax benefit of $175.6 million.

(e) Deemed Cost Transitional Valuation Adjustment

Upon electing to utilise the AGAAP fair value of the generation assets at 30 June 2004 as their deemed cost on 1 July 2004 under AASB 1, adjustments were required to align the valuation methodology under AGAAP to AIFRS. This resulted in the reduction of the deemed cost value by $51.5 million. The consequent reduction in depreciation has been recorded in the 2005 results.

(f) Depreciation Expense

Under AGAAP, a revaluation increment or decrement was applied evenly over the year against the carrying value of the assets. The devaluation in 2005 therefore resulted in a depreciation reduction for that year. An impairment loss under AIFRS is applied at the end of the financial year. Therefore the carrying value of assets during the year under AIFRS was higher than under AGAAP resulting in a higher depreciation charge. Depreciation expense under AIFRS is higher by $5.3 million, increasing the provision for depreciation and consequently reducing the asset group carrying value by $5.3 million.

(g) RBF Provision

AIFRS applies different rules to the determination of the liability for long-term employee benefits. The State Actuary applied these rules to recalculate the defined benefit liability as at 30 June 2005. This resulted in a significant increase in the shortfall between the liability to RBF members (net of attributed assets) and the RBF provision in the 2005 financial

31 IMPACT OF ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) (continued)

statements. The principal differences in calculation method are the use of a government or corporate bond rate rather than the fund investment rate to calculate present value, inclusion of the member funded portion of the liability that is not matched by assets and attribution of the 15% contribution tax to the fund deficit.

The actuarial recalculation of the RBF liability at 30 June 2004 in accordance with AIFRS resulted in an increase in the total liability from $222.5 million to $272.9 million. The shortfall in the provision at 30 June 2004 therefore increased from $22.2 million to $72.6 million. Under AIFRS, the whole RBF liability shortfall has been recognised on transition date, being an increase of $72.6 million. This increase also resulted in an adjustment to deferred tax assets on transition date of $21.8 million. The net impact on retained earnings on transition date was a charge of $50.8 million.

At 30 June 2005 an actuarial recalculation of the RBF liability in accordance with AIFRS resulted in a further increase in the liability to $306.8 million, resulting in total shortfall of $103.7 million. Under AIFRS, $72.6 million of this shortfall has been recognised on transition and the balance of $31.1 million arising during 2005 has been recognised as an expense in 2005 (refer note (a) above).

(h) Asset Revaluation Reserve

As explained in note (d), the directors elected to adopt the cost method of recording property, plant and equipment on transition to AIFRS. This resulted in the transfer of the asset revaluation reserve ($1871.2 million at 30 June 2004) to retained earnings on transition date.

(i) Financial Instruments

The Corporation adopted AASB 132 and AASB 139 from 1 July 2005. The comparative figures for 2005 have not been restated to reflect these standards. Outlined below are the areas impacted by the adoption of AASB 132 and AASB 139, including the financial impact on equity and profit.

Interest rate swaps

Under AGAAP, these were not recognised in the Balance Sheet. Under AASB 139, swaps are recorded as assets or liabilities at fair value. To the extent that hedging is effective, movements in fair value are accounted for in equity. The ineffective portions of movements in fair value are recognised in the Income Statement.

At transition a financial liability equivalent to market value of $0.8 million was recorded.

Forward rate agreements

Under AGAAP, these were recognised in the Balance Sheet at fair value with recognition of gains and losses in the Income Statement deferred until settlement. Realised gains and losses were amortised over the term of the agreement.

Under AASB 139, forward rate agreements are recorded as assets or liabilities at fair value. Movements in fair value are recognised in the Income Statement. Realised gains and losses are recognised in the Income Statement at settlement.

At transition a financial liability of $0.013 million was recorded.

Foreign exchange contracts

Under AGAAP, these were recognised in the Balance Sheet at fair value. Gains and losses on contracts hedging capital transactions have been deferred until settlement. Gains and losses on contracts hedging operating transactions had been recognised in the Income Statement.

Under AASB 139, contracts are recorded as assets or liabilities at fair value. All contracts are for economic hedging but hedge accounting is only sought for those likely to be highly effective. To the extent that hedging is effective, movements in fair value are accounted for in equity. Any ineffective portion of movements is recognised in the Income Statement.

At transition a financial asset of $0.007 million was recorded.

Gas Pipeline Capacity Agreement Financial Liability

The Corporation is party to a Gas Pipeline Capacity Agreement (PCA) to provide committed capacity on the Bass Strait gas pipeline for supply of gas to Bell Bay Power Station. The PCA is exclusively for supply of the two Bell Bay units and has a remaining term of 11.5 years. Under AASB 139 once the Corporation becomes party to the contractual provisions of an instrument it must be assessed for recognition as a financial asset or liability. If the rights and obligations under a forward contract are not equal a financial asset or liability must be recognised.

A financial liability has been recognised as at 1 July 2005 for the costs under this agreement. The basis for recognition is that Bell Bay Power Pty Ltd is not expected to operate for the remaining term of the contract and will therefore not derive any benefit from the obligation under the contract.

This liability has been measured at the present value of the obligations under the Agreement.

Basslink Financial Asset and Liabilities

The Corporation has recognised the fair value of the obligations and rights under the Basslink agreements as financial instruments on the Balance Sheet. These had previously been disclosed by note to the financial statements. Initial recognition of a financial asset of $151.3 million for the contracted benefits and financial liabilities of $899.3 million for the expected Basslink obligation (refer note 17) requires restatement of the carrying value of property, plant and equipment by $748 million since the 2004 fair value calculation, from which the initial "deemed" cost on transition was derived, was based on all benefits and obligations associated with the generating assets, including those attributable to Basslink. By separating the Basslink obligations from this calculation, the calculated fair value of generating assets has been increased.

The asset and liability fair values have been measured at the present value of projected future cash inflows and future obligations, respectively.

SUPERANNUATION DECLARATION

I, Vince J Hawksworth, 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.

V J Hawksworth
Chief Executive Officer
14 August 2006

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 2006 and the financial position at 30 June 2006 of the Corporation and its subsidiaries;

   ii. subject to the Treasurer's Instructions, complying with the Australian Accounting Standards and Interpretations; and

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 General Manager Corporate of the Corporation:

a) the financial records of the Corporation for the year ended 30 June 2006 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 2006 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 2006 give a true and fair view.

Signed in accordance with a resolution of the directors:

Dr D M Crean
Chairman
14 August 2006

V J Hawksworth
Chief Executive Officer
14 August 2006

Tasmanian Audit Office

INDEPENDENT AUDIT REPORT

To the Members of the Parliament of Tasmania

HYDRO-ELECTRIC CORPORATION

Financial Report for the Year Ended 30 June 2006

Matters Relating to the Electronic Presentation of the Audited Financial Report

This audit report relates to the consolidated financial report published in both the annual report and on the website of the Hydro-Electric Corporation for the year ended 30 June 2006. The Directors are responsible for the integrity of both the annual report and the website.

The audit report refers only to the financial statements and notes named below. It does not provide an opinion on any other information which may have been hyperlinked to/from the audited financial report.

If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report in the Hydro-Electric Corporation's annual report.

Scope

The financial report and the Directors' responsibilities

The financial report comprises the income statement, balance sheet, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the statement of certification by the Directors of the Hydro-Electric Corporation for the year ended 30 June 2006. The financial report includes the consolidated financial report of the economic entity, comprising the Hydro-Electric Corporation and the entities it controlled at the financial year's end or from time to time during the financial year.

The Directors are responsible for the preparation and true and fair presentation of the financial report in accordance with Section 52(1) of the *Government Business Enterprises Act 1995*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

I conducted an independent audit in order to express an opinion to the Members of the Parliament of Tasmania. My audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

I performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Government Business Enterprises Act 1995*, the Treasurer's Instructions, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the Hydro-Electric Corporation's financial position, and of its performance as represented by the results of its operations, cash flows and changes in equity.

I formed my audit opinion on the basis of these procedures, which included:

- Examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- Assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Directors.

Continued...

Accountability on Your Behalf

While I considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of my procedures, my audit was not designed to provide assurance on internal controls.

The Audit Opinion expressed in this report has been formed on the above basis.

Independence

In conducting my audit, I have met applicable independence requirements of Australian professional ethical pronouncements.

Audit Opinion

In my opinion the financial report of the Hydro-Electric Corporation:

i. Presents fairly, in all material respects, the financial position of the Hydro-Electric Corporation and the consolidated entity as at 30 June 2006, and the results of their operations, cash flows and changes in equity for the year then ended; and

ii. Is in accordance with the Treasurer's Instructions issued under the *Government Business Enterprises Act 1995* and applicable Accounting Standards and other mandatory financial reporting requirements in Australia.

TASMANIAN AUDIT OFFICE

H M Blake
AUDITOR-GENERAL

HOBART
16 August 2006

Statistical Summary

Water Storages

Storage	Per cent full 1/7/2006	1/7/2005	Storage	Per cent full 1/7/2006	1/7/2005
Lake Augusta	14	32	Lake Mackenzie	31	44
Great Lake	21	16	Lake Rowallan	20	8
Arthurs Lake	63	54	Lake Pedder	23	5
Lake St Clair	24	21	Lake Gordon	37	27
Lake King William	54	36	Lake Murchison	16	1
Lake Echo	29	20	Lake Mackintosh	29	2
Tungatinah	25	34	Lake Burbury	14	10
			TOTAL	**30.5**	**22.7**

Five Year Profile – Revenue Account – Parent

	YEAR ENDING 30 JUNE 2006	2005	2004	2003	2002
	$M	$M	$M	$M	$M
Trading Income					
Electricity Revenue					
Key Customers	321.411	156.834	154.368	161.984	145.440
General Sales	31.781	221.482	223.902	192.107	171.674
Interest Received	2.412	3.532	0.133	0.603	0.479
National Debt Sinking Fund	0.000	0.011	0.037	0.079	0.105
Operating Grants and Subsidies	6.472	6.030	6.617	5.938	5.410
Miscellaneous	90.980	35.067	37.782	29.557	47.419
TOTAL INCOME	**453.056**	**422.956**	**422.839**	**390.268**	**370.527**
Less Expenses					
Labour	87.163	79.611	73.143	61.829	57.972
Materials	54.483	56.457	63.385	46.852	31.558
Basslink Expenses	29.409	0.000	0.000	0.000	0.000
Other	72.266	49.563	48.662	32.433	47.573
Financial Charges	61.532	63.726	68.563	80.344	73.869
Depreciation of Non-current Assets	86.313	74.759	76.312	79.540	79.495
Impairment of Property, Plant and Equipment	0.772	542.269	0.000	0.000	0.000
Superannuation and Retirement Benefits	18.373	19.261	17.200	17.200	16.750
Actuarial (Gain)/Loss on RBF Provision	(27.264)	34.561	0.000	0.000	0.000
Contribution to Consolidated Fund	0.000	0.000	0.000	0.000	0.011
Loan Guarantee Fee	4.124	4.020	3.795	3.241	3.243
Income Tax Expense	22.338	(150.445)	35.791	34.721	32.252
TOTAL EXPENSES	**409.509**	**773.782**	**386.851**	**356.160**	**342.723**
NET PROFIT/(LOSS)	**43.547**	**(350.826)**	**35.988**	**34.108**	**27.804**

Five Year Profile – Balance Sheet – Parent

	YEAR ENDING 30 JUNE				
	2006	2005	2004	2003	2002
	$M	$M	$M	$M	$M
Fixed Assets (Depreciated)	3,307.413	2,503.907	3,180.705	3,245.020	3,248.517
Capital Work-in-Progress	82.874	181.241	126.357	78.174	86.540
Investments	85.096	158.196	10.817	37.440	50.373
Debtors, Current Assets etc	370.196	156.801	256.737	175.862	129.588
TOTAL ASSETS	**3,845.580**	**3,000.145**	**3,574.616**	**3,536.496**	**3,515.018**
Borrowings	1,077.000	1,120.018	1,080.554	1,036.554	1,036.554
Provision for Superannuation etc	791.305	822.924	368.349	356.510	417.015
Creditors Others	1,070.304	118.394	69.980	80.134	73.535
Equity	906.970	938.809	2,055.733	2,063.298	1,987.914
TOTAL LIABILITIES & EQUITY	**3,845.580**	**3,000.145**	**3,574.616**	**3,536.496**	**3,515.018**

Five Year Profile – Capital Works – Consolidated

	YEAR ENDING 30 JUNE				
	2006	2005	2004	2003	2002
	$M	$M	$M	$M	$M
EXPENDITURE					
Bass Strait Islands	1.1	0.6	2.4	4.9	1.1
Power Stations Extension, Windfarms, Switchyards and Communications	99.9	65.0	106.5	67.0	54.4
Land and Buildings, General Plant etc	25.4	27.2	26.1	21.9	9.2
TOTAL	**126.4**	**92.8**	**135.0**	**93.8**	**64.7**
FINANCED FROM					
Internal Sources	126.4	92.8	135.0	93.8	64.7
TOTAL	**126.4**	**92.8**	**135.0**	**93.8**	**64.7**

Employee Numbers

	YEAR ENDING 30 JUNE				
EMPLOYEE NUMBERS	2006	2005	2004	2003	2002
Staff (including directors)	886	891	868	827	796

Energy Sales

	YEAR ENDING 30 JUNE				
	2006	2005	2004	2003	2002
Sales (in million kWh)	**10,001**	**10,347**	**10,210**	**9,987**	**9,751**

Note: 2005/2006 energy sales consist of both market energy sales referred to the regional reference nodes and energy sold into the distribution system.

Generating System

		AS AT JUNE 30				
		2006	2005	2004	2003	2002
Mainland Tasmania						
Power Stations						
Hydro	No.	29	29	29	28	27
Thermal	No.	1	1	1	1	1
Wind	No.	0	1	1	1	
TOTAL	**No.**	**30**	**31**	**31**	**30**	**28**
Installed Capacity						
Hydro	MW	2 278	2 265	2 265	2 263	2 262
Thermal – Oil	MW	0	0	0	120	240
Thermal – Gas	MW	240	240	240	120	
Wind	MW	0	65	65	11	
TOTAL	**MW**	**2 518**	**2 570**	**2 570**	**2 514**	**2 502**
Energy Generated						
Hydro	GWh	9 688	9 610	9 834	9 938	10 133
Thermal - Oil	GWh	0	0	0	109	62
Thermal - Gas	GWh	585	934	796	351	
Wind	GWh	78	226	95	37	
TOTAL	**GWh**	**10 351**	**10 770**	**10 725**	**10 435**	**10 195**
Generation Peak Load	MW	2086	1790	1691	1660	1630
Generation Load Factor	%	57	69	72	72	71
Bass Strait Islands						
King Island						
Diesel	MWh	10 598	11 109	11 589	13 029	12 294
Wind	MWh	5 243	4 579	3 727	2 404	2 080
Flinders Island	MWh	4 278	4 267	4 191	4 135	3 983
TOTAL	**MWh**	**20 119**	**19 955**	**19 507**	**19 568**	**18 357**

Notes:

(a) Wind energy indicated for mainland Tasmania in 2005/2006 is from 1 July 2005 to 17 October 2005, when Roaring 40s Pty Ltd separated from Hydro Tasmania.

(b) Generation for 2004/2005 and previous years is gross energy measured at the generator.

Following entry into the National Electricity Market, mainland Tasmania generation for 2005/2006 is the net energy measured at the market and distribution connection points.

(c) The Generation Peak in 2005/2006 is much higher than previous years due to exports via Basslink.

(d) Hydro installed capacity increased by 13MW due to upgrades on the No. 3 and No. 4 generators at Trevallyn, completed in September 2005.

Glossary

AASB	Australian Accounting Standards Board
AEP	Aquatic Environment Program
AGAAP	Australian Generally Accepted Accounting Principles
AIFRS	Australian equivalents to International Financial Reporting Standards
ASX	Australian Stock Exchange
Auswind	Australian Wind Energy Association
BFFS	Basslink Facility Fee Swap
BSA	Basslink Services Agreement
CEO	Chief Executive Officer
CGU	Cash Generating Unit
CO_2	Carbon dioxide
CO_2 – e	Carbon dioxide equivalent
CSO	Community Service Obligation
EBITDA	Earnings Before Interest, Taxation, Depreciation and Amortisation
EEO	Equal Employment Opportunity
EIA	Environmental Impact Assessment
EMP	Environmental Management Plan
EPA	Enterprise Partnership Agreement
ESMS	Environment and Sustainability Management System
FFFI	Floating Facility Fee Instrument
FTE	Full Time Equivalent
GBE	Government Business Enterprise
GRI	Global Reporting Index
GST	Goods and Services Tax
HEC	Hydro-Electric Corporation
HHTP	Healthy Hydro Tasmania Program
HR	Human Resources
IBRM	Integrated Business Risk Management
IHA	International Hydropower Association
IRR	Inter Regional Revenue
KPI	Key Performance Indicator
MRET	Mandatory Renewable Energy Target
MVA	Mega Volt Amps
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company
NGA	National Grid Australia
OH&S	Occupational Health and Safety
OTTER	Office of the Tasmanian Energy Regulator
PCB	Poly Chlorinated Biphenyls
PJ	Petajoule
RBF	Retirement Benefits Fund
REC	Renewable Energy Certificate
REGA	Renewable Energy Generators of Australia
TALSC	Tasmanian Aboriginal Land and Sea Council
Tascorp	Tasmanian Public Finance Corporation
WACD	Weighted Average Cost of Debt
WWEA	World Wind Energy Association

Additional

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.

GWh gigawatt hour
One GWh = 1 million kilowatt hours, or 1000 megawatt hours.

kV kilovolt
One kV = 1000 volts. A volt is the unit of potential or electrical pressure.

km – kilometre

m^3 – cubic metre

m – metre

M - million

Reader's Feedback

Hydro Tasmania
the renewable energy business

To help us improve our sustainability performance, as well as future editions of our report, we would be grateful for your feedback.

We would welcome your answers to the following questions by return fax or mail. If you would like to send your comments on-line, a copy of this form is available at www.hydro.com.au

Your view on our:

	ANNUAL REPORT				SUSTAINABILITY REPORT			
Reporting quality	Excellent ☐	Good ☐	Fair ☐	Poor ☐	Excellent ☐	Good ☐	Fair ☐	Poor ☐
Performance	Excellent ☐	Good ☐	Fair ☐	Poor ☐	Excellent ☐	Good ☐	Fair ☐	Poor ☐

If you ticked "Good" or "Excellent", what did we do best?

If you ticked "Fair" or "Poor", where do we need to improve most?

Was there any additional information you expected to receive in the Annual Report or Sustainability Report? Do you have any questions to be addressed in next year's report? Please specify.

Any other comments/suggestions?

Please send your comments to:

Manager
Public Relations

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If you would like a response, please provide contact information or send an email to webmaster@hydro.com.au

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www.hydro.com.au

Tasmanian fauna depicted throughout this document:

Frogs

Green and Gold Frog, *Litoria raniformis*

Eastern Banjo Frog, *Limnodynastes dumerili*

Lizards

Mountain Dragon, *Rankinia diemensis*

She-Oak Skink, *Cyclodomorphus casuarinae*

White's Skink, *Egernia whitii*

Insects

Silver Xenica, *Oreixenica lathionella*

Dragonfly, *Nannophya dalei*

Common Brown, *Heteronympha merope*

Hawk Moth, *Hippotion scrofa*

Grasshopper, *Russalpia longifurca*

Carabid Beetle, *Scaraphites rotundipennis*

Golden Stag Beetle, *Lamprima aurata*

Banksia Jewel Beetle, *Cyria imperialis*

Fauna photography thanks to:

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