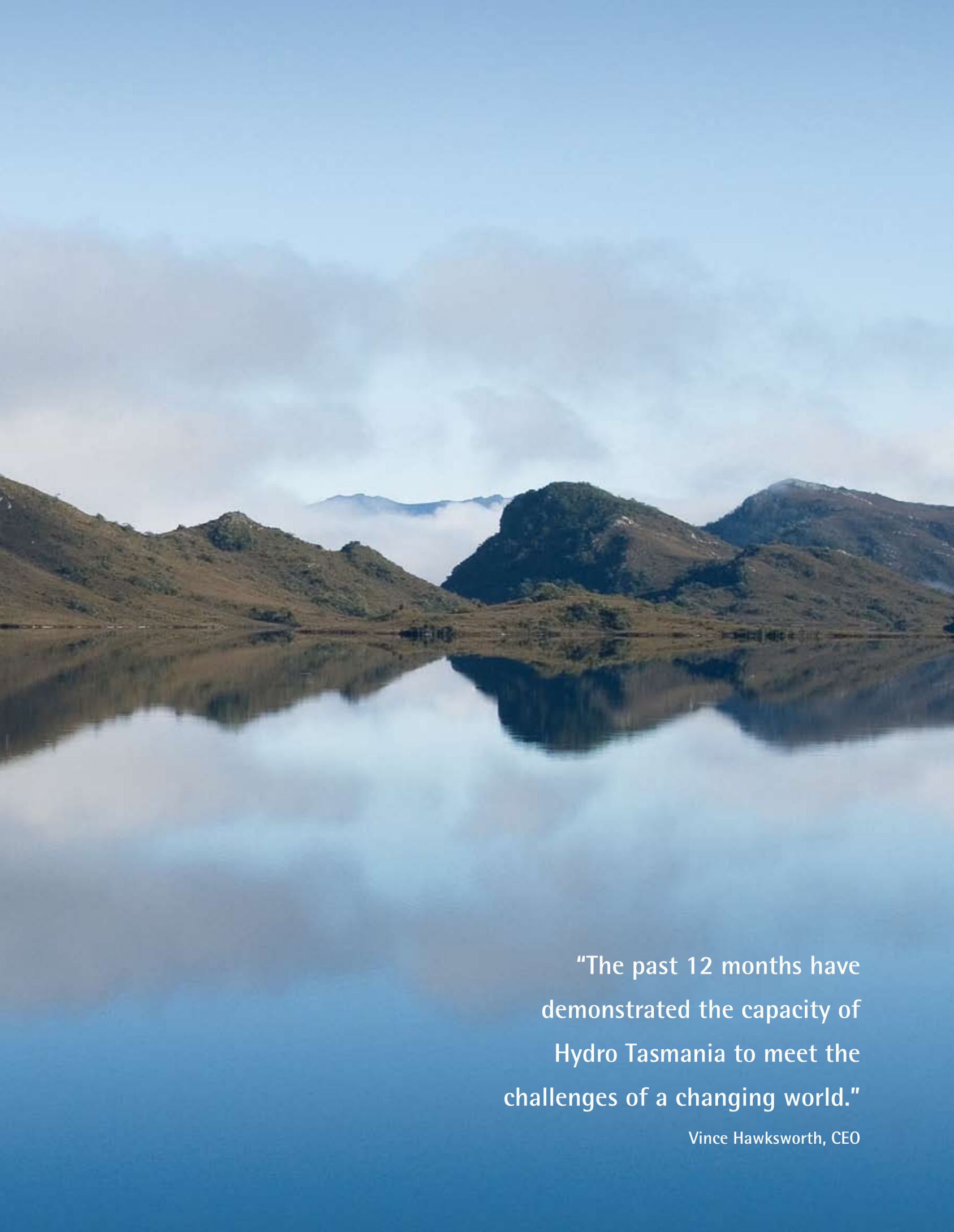
Hydro Tasmania Annual Report 07

Australia's leading renewable energy business




Hydro Tasmania

the renewable energy business



"The past 12 months have demonstrated the capacity of Hydro Tasmania to meet the challenges of a changing world."

Vince Hawksworth, CEO

Achievements & Challenges for **2006/**

Achievements

Ensuring continuity of electricity supply to Tasmania in time of drought

Utilising Basslink helps manage low water storages

Profit after tax of $79.4 million; underlying profit of $19.5 million better reflects operating result and takes account of impact of low inflows

Returns to Government of $57.8 million

- Dividend $21.2 million
- Income tax equivalent $28.7 million
- Loan guarantee fee $5.1 million
- Rates equivalent $2.8 million

Sale of Bell Bay power site and gas turbines to Alinta

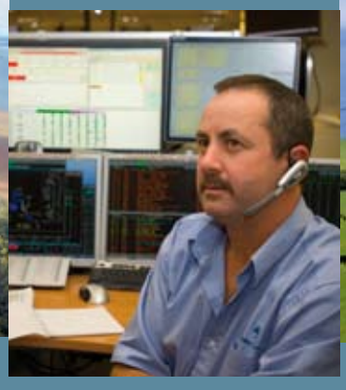
Capital expenditure of $54.2 million, including Gordon Power Station redevelopment and Tungatinah switchyard upgrade

Challenges

Operational and financial pressures as a result of drought

Protection of water storages as levels dipped to 17.3 per cent full, the lowest in 40 years

Environmental risks as a result of low rainfall, particularly at Great Lake

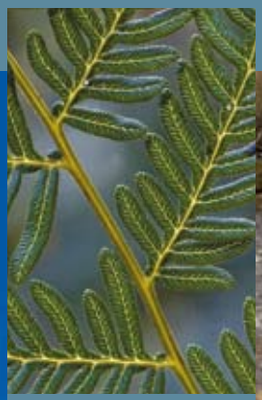


Restructuring the business to ensure it is best positioned to achieve its strategic objectives

Business re climate ch

07

urther investment Roaring 40s of 10 million as joint enture builds ind portfolio in ustralia, China nd India



Targeted cost reduction program realises recurrent savings of $7.7 million

Slight increase in staff engagement with Hydro Tasmania among the better performing businesses nationally

Hydro Tasmania Consulting office opened in New Delhi

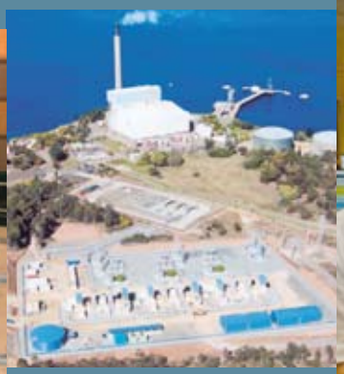
Hydro Tasmania Consulting achieved national success as part of bid to receive an $8.7 million grant for a major water monitoring project

Integration of sustainability performance reporting

GB+
GRI REPORT
3rd PARTY CHECKED

se to

Improving safety culture across the whole business



Increased greenhouse gas emissions from gas generation at Bell Bay power site due to drought

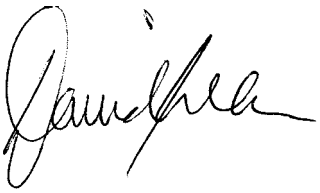
The direction of national energy policy

Continuous improvement in sustainability reporting

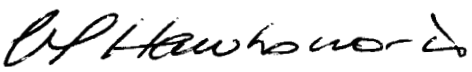
Directors Statement

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 2007. The report has been prepared in accordance with the provisions of the *Government Business Enterprises Act 1995*.



D M Crean
Chairman Hydro-Electric Corporation
17 October 2007



V J Hawksworth
CEO Hydro-Electric Corporation
17 October 2007

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

Contents

In the past 12 months, Hydro Tasmania experienced one of its worst years on record in terms of poor inflows and declining storage levels, which fell below 20 per cent full for the first time since 1967.

David Crean, Chairman

Chairman's Review

In the past 12 months, Hydro Tasmania experienced one of its worst years on record in terms of poor inflows and declining storage levels, which fell below 20 per cent full for the first time since 1967. This has been a year which has challenged the business on many fronts but two fundamental issues have been acutely highlighted by the poor rainfall.

Firstly, as rainfall is the Corporation's energy revenue stream, continued poor rainfall significantly impacts on cash flow. Secondly, Basslink provides enormous flexibility to Hydro Tasmania and has demonstrated its capacity to allow the business to "keep the lights on" in severe drought conditions.

Because of the continued low rainfall, Hydro Tasmania's cash flow as measured after receipts and payments to suppliers and employees was $87.1 million down on the previous year at $134.5 million. Had the business not utilised its storages to assist in absorbing the impact of the low inflows the cash outcome would have been much worse. In order to accommodate our reduced cash position and provide for other expenditure, net debt increased from $1.061 billion to $1.141 billion.

In times of below average rainfall it is important to maintain a balance between adequate cash flow and sustainable storage levels. Achieving this balance is a constant and high priority of the business, which is committed to creating a sustainable future. However, it is fair to say that the continued low inflows have presented the biggest cash challenge in many decades.

Hydro Tasmania's profit for the financial year was $79.4 million after tax, an increase on the previous year's result. The paradoxical situation of cash falling and profit rising is a result of new Australian accounting standards adopted by Hydro Tasmania two years ago.

Guelph Basin of Lake King William

Last year, I stated that these new accounting standards can cause greater volatility to reported profit. This is because they have brought non-cash fair value movements onto the Income Statement and therefore impacted on profit. The increased profit is mostly a reflection of the substantial increase in market prices which have flowed through to the valuation of Hydro Tasmania's assets. This increase in valuation has been recorded in the Income Statement and goes directly to profit.

The first full year operation of Basslink highlighted the timely nature of its construction and its ability to export and import over Bass Strait under a variety of market conditions. It operated at 99.3 per cent reliability in its first full year and has proved to be a valuable long-term investment. With almost unprecedented drought conditions in Tasmania and nationally, Basslink has enabled Hydro Tasmania to maintain energy supply in the State by replacing the shortfall in energy from poor rainfall with imported energy across the link.

However, because the inflow shortfall from poor rainfall was so significant and much higher than budgeted, Basslink imports were required for longer periods at higher prices than anticipated, which limited export opportunities. This resulted in lower export revenue and lower revenue from hydro generation. The low inflows also required additional gas to be purchased to run the Bell Bay Power Station.

In spite of these challenges, Hydro Tasmania maintained its commitment to upgrading its assets, as well as financing its 50 per cent share of Roaring 40s' wind developments in China and India.

Roaring 40s, which is a joint venture between Hydro Tasmania and China Light and Power Group (CLP), is a company started from scratch by Hydro Tasmania in 2002. It is now worth in excess of $190 million and is set to grow significantly over the next five years.

Hydro Tasmania, as Australia's leading renewable energy business, believes there will be significant uplift in value in Roaring 40s in the years ahead as the world quickly moves to carbon pricing and more countries continue to provide incentives to promote renewable energy.

Climate change is the biggest environmental challenge of our time. The overwhelming scientific view is that humans are contributing substantially to this change and the burning of fossil fuels in the energy sector is the main contributor.

An effective response to climate change can only be mounted if the necessary policies are put in place and only if governments throughout the world are prepared to drive them.

These policies within the energy sector are clear cut and can be divided into three broad areas: energy efficiency; new energy related technologies; and structural market mechanisms which promote zero or low emission energy sources, substantially including renewable energy sources.

Governments around the world are at different stages of driving this trio of policy objectives and many of the technologies promoting low greenhouse gas emissions are decades away.

One aspect is very clear - unless the proportion of renewable energy sources in the total energy mix is increasing now, then the task of an overall climate change response in the energy sector becomes increasingly difficult with each passing year.

The United States, Europe, China and India have already recognised this and have substantial policy positions to promote renewable energy options. The International Energy Agency in its 2007 Report on renewables in the global energy supply, proposed a number of necessary scenarios to achieve 2003 CO_2 emission levels by 2050.

In one of its realistic and necessary scenarios, an increase of between 250,000 and 300,000MW of wind energy outputs over the next four decades is proposed. This amounts to five to six times Australia's current total energy output and highlights the fact that wind energy will be at the forefront of renewable energy development over the next 40 years.

Hydro Tasmania produces around 50 per cent of the electricity generated from renewable sources in Australia, is the nation's largest renewable energy business and is fully owned by the Tasmanian Government. We are therefore well positioned, particularly with our joint ownership in Roaring 40s, to grow the business and, in the process, contribute to solving the greatest environmental challenge of our time.

With drought impacting on our hydro storages and increasing the price of power across the country, Hydro Tasmania managed its water resources and other generation and trading opportunities to meet its contractual obligations and maintain continuity of supply.

Vince Hawksworth, Chief Executive Officer

Chief Executive's Report

A Challenging Year

The past 12 months have demonstrated the capacity of Hydro Tasmania to meet the challenges of a changing world.

With drought impacting on our hydro storages and increasing the price of power across the country, Hydro Tasmania managed its water resources and other generation and trading opportunities to meet its contractual obligations and maintain continuity of supply. At the same time we continued to invest in our ageing infrastructure, looked overseas for new business opportunities and provided jobs for around 800 people in Tasmania, interstate and overseas. And we did so while returning a profit.

This result was achieved during a time of significant uncertainty. Twelve months ago, the business had just begun operating in the National Electricity Market (NEM) utilising Basslink, national energy policy was unclear, our joint venture vehicle Roaring 40s was largely unproven, and Hydro Tasmania continued to experience below average inflows into its storages. Organisationally there were significant strategic decisions to be made about the way forward in a new and challenging environment.

I can report that in the year just gone - my first as CEO - the environment in which Hydro Tasmania operates has changed considerably.

We have sold the Bell Bay Power Station site and gas turbine assets to Alinta, which has confirmed it will develop a new gas-fired power station in the Tamar Valley to add to electricity supply security in the State. Basslink has more than proved its worth at a time of the lowest inflows to our storages in Tasmania in 40 years.

At the same time, the national response to climate change is now a key issue for the Australian community with Hydro Tasmania currently developing its strategic position. Roaring 40s is now recognised as the leading foreign wind energy developer in China and is poised for significant growth in Australia.

Elizabeth Bay, Great Lake

Impact of drought

Tasmania received only 69.5 per cent of its average annual rainfall during the year. Storages declined from 30.5 per cent of their capacity to 19.3 per cent in just 12 months with a low in May of 17.3 per cent. This situation presented significant energy, environmental and water management challenges to the Corporation.

We carefully balanced the financial impact while focusing on protecting our declining storages. However, this strategy came at a financial cost. The business spent an additional $100.6 million to import power across Basslink and buy gas to run Bell Bay Power Station to ensure the security of electricity supply. Without Basslink, Tasmania would have faced the prospect of winter power restrictions, with the inevitable negative impact on the State's economy.

Financial position

As a direct result of the drought, prices in the NEM increased significantly during the year, adding considerable cost to Basslink imports. Spot prices in Victoria increased by 68.8 per cent on last year.

This, together with low inflows and the complexities of new accounting standards, had a significant impact on our Balance Sheet.

Our strategy to protect storages resulted in lower than expected revenues from hydro generation and increased Bell Bay operating costs. Our underlying profit result (profit from operations before year end accounting adjustments and income tax) came in at $19.5 million compared to the corresponding 2006 figure of $33.5 million, which in itself was impacted by the low inflows during that year. Cash flow from operations was $37.4 million, significantly down from $140 million in the previous year, primarily due to the poor inflows.

The low underlying profit from operations and resultant cash flow also had a direct flow-on effect to our debt level with net debt increasing. However, the Corporation still had adequate standby borrowing facilities available at year end and a key element of our financial strategy is to reduce our long-term debt position. We worked hard to contain costs and made significant progress towards our "Get Competitive" target of $20 million savings in recurrent costs by 2009.

The new accounting standards required us to assess the fair value of our generation assets at year end. The lift in market prices this year has resulted in an increase in their value of $155.1 million. The standards also require us to assess the fair value of our contract portfolio against prevailing market prices, and to recalculate the Basslink financial assets and liabilities. The resulting fair value movements are reported in the Income Statement and, while yielding a net increase in profit, there was no direct cash benefit to the Corporation.

This has resulted in a profit after tax of $79.4 million, well ahead of last year's result, but without a corresponding gain in cash flow. The underlying profit figure of $19.5 million better reflects our operating result.

As a consequence we will not pay a dividend to the Government in the 2007/08 year.

Our people

Hydro Tasmania's overall performance and its capacity to rise to the many challenges faced during the year are the result of the high level of technical expertise, commitment and professionalism of its people. In a year of significant changes both internally and externally, our people were the key to achieving success and helping to make the business more efficient.

A measure of their views and how they see the business is the annual staff survey, which this year was conducted in March. It found a marginal improvement in the level of overall engagement. This result continues to put Hydro Tasmania in the category of better performing businesses nationally.

Hydro Tasmania continued to put considerable time and effort toward achieving its safety vision of 'no harm to anyone at any time'. While incident reporting has improved, the increase in our principal safety measure, the Lost Time Injury Frequency Rate, from 1.3 per million hours worked to 4.1 was disappointing. Our aim is to reduce this to below 2 over the next 12 months. On a more positive note, the downward trend in the severity rate of injuries continued.

A major internal initiative during the year was the reorganisation of our business to better position Hydro Tasmania to achieve its strategic objectives. This has provided significant new opportunities for our staff. However, there has been some disruption and the changes have resulted in some redundancies. We have put in place processes and systems to support those affected with the aim of completing the changes by December 2007.

During 2006, Hydro Tasmania moved to introduce two separate employee salary agreements – one for staff of Hydro Tasmania Consulting, the other to cover all remaining staff – to recognise the different challenges faced by Consulting compared to the rest of the business. These were endorsed in September and October respectively following secret ballots of staff, and despite a campaign by unions against them which included a one-day strike by some union members in October. All parties are now working collaboratively to implement the agreements.

Hydro Tasmania continued to develop its people and emerging leaders through targeted programs and supported various events and charities through a corporate sponsorship program.

Achievements

Hydro Tasmania has continued to invest strongly in its assets, build better relationships with customers and, through its joint venture vehicle Roaring 40s, seek renewable energy opportunities in Australia and overseas.

We successfully completed extensive asset upgrading and refurbishment at Gordon and Tungatinah power stations as part of a $54.2 million statewide capital program.

One significant event at the end of the reporting period was the sale of the Bell Bay Power Station site and the gas turbines to Alinta. This also resulted in Hydro Tasmania being relieved of the pipeline capacity agreement obligations from March 2009. The sale was a positive outcome for the business that will provide an initial direct cash benefit of $30 million and additional savings of $89 million.

During the year the Corporation also signed two energy agreements with major industrial customers – Zinifex and Australian Paper – to provide certainty to their Tasmanian operations into the future.

CEO Vince Hawksworth with Zinifex's General Manager Hobart Smelter, Duncan Hodder

The future of Lake Margaret Power Station provided a challenge for the business with community concerns raised over our plans to demolish the existing woodstave pipeline for safety reasons following the station's closure. Hydro Tasmania continued to work with the West Coast Council and heritage groups to reach a satisfactory outcome. A business case is being developed for the potential reinstatement of hydropower generation at the site in the next few years.

There was ongoing debate on the West Coast over Hydro Tasmania's cloud seeding program. In response to local concerns, we agreed to conduct an independent social and economic impact study of the program with the support of the local council, which is expected to be completed by the end of 2007.

Roaring 40s

Roaring 40s – the 50/50 joint venture between Hydro Tasmania and CLP – continued to perform strongly. In addition to completing the Woolnorth Studland Bay and the Cathedral Rocks wind farms, it now has seven wind energy projects commissioned or under development in China.

Hydro Tasmania is committed to investing in renewable energy products locally to enhance the value of its Tasmanian investments. There is growing confidence in a start to construction of the Musselroe wind farm in north-eastern Tasmania next year.

Consulting

Another success story during the year was Hydro Tasmania Consulting with a new office opened in New Delhi to capitalise on significant opportunities in the fast-growing Indian market.

Consulting achieved national success when it joined with the Tasmanian Department of Primary Industries and Water to receive a grant for $8.7 million over three years for a major water monitoring project. This will involve the use of an innovative telemetry system known as Ajenti – developed by Hydro Tasmania Consulting - to improve water use efficiency.

As a result of its clear strategy and the commitment of its people, Consulting is becoming a sustainable long-term business, committed to achieving further success. This will be further enhanced by the move to new purpose-built accommodation at Cambridge in May 2008, bringing together Hobart-based consultants under one roof. Hydro Tasmania is committed to retaining ownership of the business.

Future challenges

Despite the disappointing short-term financial results, Hydro Tasmania believes the long-term outlook remains positive. A key challenge over the next 12 months, however, will be our response to continuing low rainfall and low storages. Hydro Tasmania is committed to rebuilding storages over the next few years. However, if the poor rainfall trend continues there will be further pressures on both the business and the wider community to ensure the security of supply.

Internal cost controls will be strengthened by the Get Competitive program. We will target a further $5 million by June 2008, building on the $7.7 million savings of recurrent costs already identified in 2006/07.

Strategically, Hydro Tasmania will continue to focus its activities on the potential long-term business opportunities presented by the global response to climate change. As Australia's leading renewable energy generator, we believe we are in the right business at the right time. The development of a carbon market in Australia also has the potential to provide a significant boost to the value of both Hydro Tasmania and Roaring 40s.

We will continue to focus on improving our relationships with our customers and stakeholders.

Summary

This is the third year that Hydro Tasmania has reported against clearly defined sustainability principles and the first time we have integrated the report of our progress and performance. In doing so, we continue to report our successes and achievements, as well as our shortcomings and faults, as part of a commitment to greater transparency and improvement.

Our commitment to creating a sustainable future underpins our vision to be Tasmania's world-renowned renewable energy business and is focused on proactively ensuring long-term business success by enhancing the value of our assets over the next 100 years to benefit Tasmanians into the future.

I am proud to report that over the past 12 months we have made significant progress, achieved much in difficult circumstances and are well positioned for success in many areas of our business.

Report Scope/Business Profile

"Hydro Tasmania has continued to invest strongly in its assets, build better relationships with customers and, through its joint venture vehicle Roaring 40s, seek renewable energy opportunities in Australia and overseas."

Vince Hawksworth, CEO

Generation's Planning and Program team

Report Scope/Business Profile

In this report, we have integrated our former Sustainability Report and Annual Report into the one Annual Report of our performance on a range of social, environmental and economic issues.

Report Scope

This Annual Report covers the financial year 1 July 2006 to 30 June 2007. In this report, we have integrated our former Sustainability Report and Annual Report into the one Annual Report of our performance on a range of social, environmental and economic issues.
The previous report for 2005/06 held the Sustainability Report as a distinct section. While the report is still structured on the basis of the nine Hydro Tasmania sustainability elements, it attempts to break down the distinction between the dual requirements of our Sustainability Policy and the *Government Business Enterprises Act 1995.*

First and foremost this is a report to the Parliament of Tasmania, required by the *Government Business Enterprises Act 1995*, and through the Parliament to the community of Tasmania, to whom Hydro Tasmania is ultimately accountable.

Our commitment to a sustainable future and improving the quality of life for future generations in Tasmania and beyond our home base has influenced Hydro Tasmania's decision to report on wider issues than required by law, and to respond to social, environmental and financial issues of interest to our stakeholders. Hydro Tasmania sees sustainability as a global issue and our report will increasingly reflect this and the impact of our activities on our growing customer base. We believe our actions and response to issues reported in detail for our home base will guide our customers and future partners on how we will act and respond further afield.

The content of this report is determined by issues that are important to our stakeholders and to the business as well as legal requirements under the *Government Business Enterprises Act 1995*. These include audited financial statements, governance processes, organisational structure and a Statement of Corporate Intent which outlines the proposed business direction for the next five years.

Other parameters that decide the content are Hydro Tasmania's commitment under its Sustainability Policy to report performance on the social, environmental and economic dimensions of its business, the materiality process (described below) and Global Reporting Initiative's G3 Guidelines.

This year, Hydro Tasmania took a systematic approach to determining the issues of importance to stakeholders and the Corporation. Surveys have been undertaken in each of the last three years in a different format. Responses by 13 stakeholders to a key issues survey sent to over 45 stakeholders were useful for defining stakeholder interests. These results were aggregated with stakeholder issues identified from a number of other sources, including other survey results, media summaries, information reported by our peers and G3 requirements.

Within Hydro Tasmania, managers and key staff were asked to prioritise issues material to their interests through a series of workshops and meetings. This year, taking a different approach with the findings from stakeholders both external and internal to the Corporation, the results were plotted into a matrix to find the issues of shared importance. Not surprisingly, the top concerns were about water and the impact of drought on energy supply, the environment, the business and other users. Other high concerns were about managing our generation assets into the future and conflicting calls on capital expenditure. These and other issues are addressed in this report.

Boundaries of reporting

As was the case in 2005/06, this report includes information and data on Hydro Tasmania and its controlled subsidiaries Bell Bay Power Pty Ltd and Bell Bay Three Pty Ltd. Data from Lofty Ranges Power Pty Ltd is included in the total generation figures and in the financial statements. Lofty Ranges Power is the holding company for Hydro Tasmania's 50 per cent stake in a South Australian mini-hydro scheme joint venture.

As a 50/50 joint venture, Roaring 40s is not a controlled entity of Hydro Tasmania. Information on Roaring 40s in this report is limited to information on its management approach and a narrative of the company's sustainability issues and dilemmas. P26

Hydro Tasmania presents a Corporate Plan to the Treasurer of Tasmania each May that describes the direction of the Corporation for the next five years and which contains key performance indicators based on the sustainability elements. A summary of the Corporate Plan is published in the Annual Report as the Statement of Corporate Intent and includes results and targets in a summary of the key performance indicators. P31

In addition, sustainability scores, targets and associated commitments are provided throughout the report with information on the sustainability elements.
These targets and commitments are decided as part of the sustainability self assessment which is finalised at the end of the financial year, applying to 30 June.
A summary of scores, targets and issues is provided in Table 18 P147.

Contact

Questions regarding the report or its content should be directed to Chief Executive Officer Vince Hawksworth at ceo@hydro.com.au; or

GPO Box 355 Hobart
Tasmania 7001
Australia

Our Sustainability Performance

Hydro Tasmania performs a self assessment of its sustainability performance, based on criteria created internally and grounded in industry and international guidelines, Global Reporting Initiative's G3 Guidelines, the International Hydropower Association (IHA) Sustainability Assessment Protocol and the Energy Supply Association of Australia (esaa) Code of Sustainable Practice.

The sustainability assessment criteria are customised for each of 27 indicators from the generic criteria shown in Table 1. They relate organisational processes and performance to sustainability levels from one (very poor) to five (outstanding). The assessment assigns numerical scores to the indicators which are aggregated into weighted averages for each sustainability element, representing the degree of sustainability. The criteria also provide a framework for Hydro Tasmania to improve its sustainability performance.

Hydro Tasmania's performance for each of the nine sustainability elements, outlined in the Sustainability Policy, is presented in Table 18 P147 with a summary of issues impacting on the score.

Based on the self assessment, Hydro Tasmania achieved an overall satisfactory sustainability performance level with a score of 3.3 for 2006/07. Our scoring system, described in Table 1, rates a score in the range of 3 as satisfactory/average/moderate.

Despite the slight drop in score from last year's 3.4, the result is pleasing given the significant financial and environmental challenges experienced due to drought conditions, as well as this being our first full year of trading in the NEM. It takes considerable effort to maintain and improve sustainability performance according to the self assessment criteria.

Since including a commitment to a sustainable future as one of our core values, and establishing a sustainability policy in early 2005, Hydro Tasmania has continued to embed sustainable principles and processes in its business framework. Most notably, it has continued to carry out a detailed, annual self assessment to shed light on its sustainability performance.

esaa, in commending Hydro Tasmania's 2005/06 Annual Report in its 2006 Sustainability Report Award, commented that the self assessment process continues to be a highlight of our reporting.

Aligning sustainability principles with planning requirements remains a challenge. Hydro Tasmania is currently redesigning business planning responses following the recent organisational restructure, and intends to further incorporate sustainability requirements across the business.

The Self Assessment Process

Now with the benefit of having completed three years of sustainability assessments, Hydro Tasmania is improving its understanding and applying more rigour to the process. This has resulted in some score adjustments (see Table 18) and downward revision of targets.

The scope for assurance of this report does not include assuring the self assessment scores.

Detailed information on the self assessment process and indicator-specific criteria can be found on Hydro Tasmania's website: www.hydro.com.au/sustainability.

Targets and Commitments

Targets have been set for each sustainability indicator, and are reported in Table 18 P147 as weighted targets for each sustainability element.

Where Hydro Tasmania is targeting an improvement to its sustainability performance, commitments have been made that will go towards lifting the score. These are contained in the element self assessment summaries.

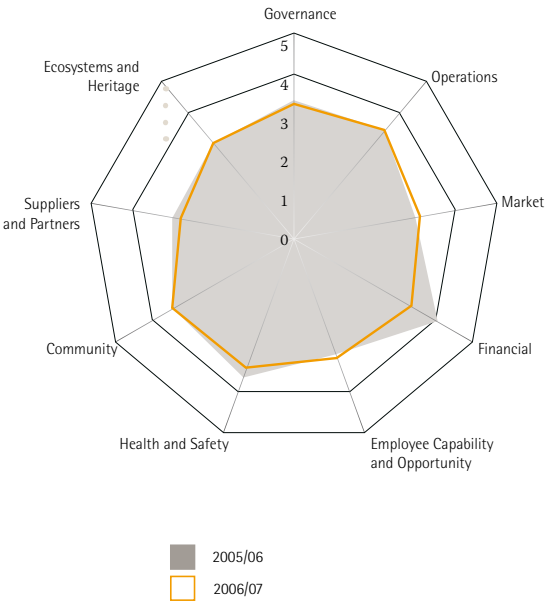


Figure 1 Sustainability Performance for 2006/07, based on weighted scores

Table 1 Legend to scoring elements and indicators

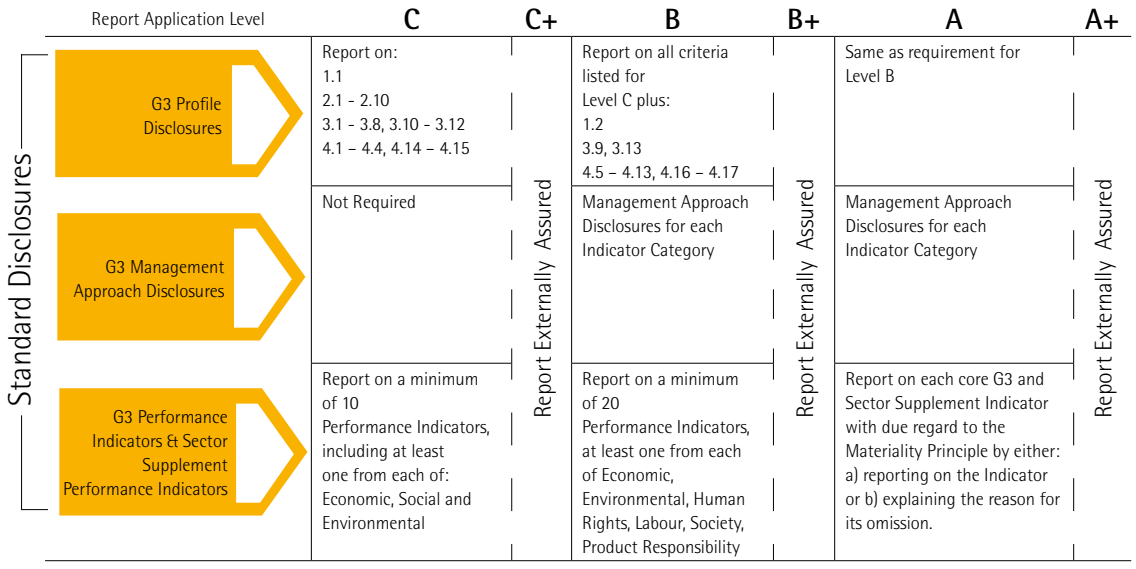
Score	Performance/ Process	Description
5	Outstanding / Strong / Comprehensive	At or very near international best practice Suitable, adequate, and effective planning and management systems Meets or exceeds objectives and measurable targets
4	High / Good to Very Good	High standard / above average performance 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

GRI Application

Hydro Tasmania has assessed its G3 application level at B+ using the standard disclosures table shown below. Banarra Sustainability Assurance and Advice provides an affirming opinion of this rating. A GRI reference index is shown on P155–156. Deviations from GRI protocols and any information restatements are noted in a more detailed reference index available on the Hydro Tasmania website.

Assurance

Banarra Sustainability Assurance and Advice has been engaged to conduct an audit of the report against the AA1000 Assurance Standard and its three principles of materiality, completeness and responsiveness. The assurance process is intended to give readers confidence that the report is accurate and credible through a rigorous audit of the issues addressed and claims made. The assurer's statement can be found on P149.



Hydro Tasmania's Profile

Hydro Tasmania is a Government Business Enterprise owned by the State of Tasmania.

Hydro Tasmania is Australia's leading renewable energy company, principally generating renewable energy and providing consulting services for environment and catchment management, renewable energy and power engineering.

Hydro Tasmania has a generating capacity of 2615 megawatts (MW) and produces on average 10,000 gigawatt hours (GWh) of electricity per annum with generation assets worth about $3.4 billion. Hydro Tasmania has gas-fired generation capability, owns one wind farm, 28 operating hydropower stations, numerous lakes and 64 dams in the State of Tasmania. Further wind capacity is held through a joint venture, Roaring 40s, with wind farms in Tasmania, South Australia, China, India and more under development.

Hydro Tasmania is committed to creating a sustainable future for our business and for future generations of Tasmanians.

Hydro Tasmania's approach to business is underpinned by five 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 our success

Significant events

In 2006/07, Hydro Tasmania operated under strained conditions due to drought. Rainfall was an estimated 69.5 per cent of that expected and our water storages fell below 20 per cent for the first time since 1967 when similar inflows led to power restrictions, the introduction of daylight saving to Tasmania and finding over 100 MW of other generation sources. It was also the catalyst for building the then oil-fired Bell Bay Power Station.

At the end of the reporting period, the Bell Bay Power Station site and the gas turbines were sold to Alinta. Hydro Tasmania will continue to operate the station until at least 2009. Fortunately, the Basslink interconnector was in place for 2006/07 and, with gas-fired generation from the Bell Bay Power Station and gas turbines, Hydro Tasmania met electricity demand in Tasmania without interrupting customers' supply.

On 13 February 2007, Hydro Tasmania announced an organisational restructure that included the integration of business lines and centralisation of shared functions to meet the changing market environment, reduce costs and to meet the challenges and opportunities that climate change brings.

Market and customers

Hydro Tasmania sells electricity and electricity derivatives products in the Australian National Electricity Market. Telecommunications services are provided to the Tasmanian electricity industry. Under the brand Hydro Tasmania Consulting, engineering and environmental consulting services are provided to a world-wide market in the areas of renewable energy, hydropower and transmission developments and environmental and water management. In 2006/07, services were provided to clients throughout Asia, Australia, India and the Pacific islands. Clients include electricity suppliers and distributors, catchment authorities, government and local councils and renewable energy developers.

Location

Hydro Tasmania's hydropower generation system is located in Tasmania, Australia. Hydro Tasmania Consulting clients are concentrated in Australia with an increasing geographical spread across the globe. Its activities outside Tasmania are governed by the same values, governance, processes, policies, conditions and rules as apply to its Tasmanian activities.

		Country	No. of employees as at 30 June 2007
Head Office	Hobart, Tasmania	Australia	795 (Total employees in Tasmania)
Regional Offices for Hydro Tasmania Consulting	Melbourne, Victoria	Australia	19
	Adelaide,* South Australia	Australia	3
	New Delhi**	India	8
	Port Moresby***	Papua New Guinea	n/a

Hydro Tasmania's scale at 30 June 2007

Number of employees	817
Total revenue for 2006/07	$493 million
Total equity	$958 million
Electricity generated for 2006/07	9087 GWh
Total assets	$4.25 billion

**Adelaide office closed after the reporting period, on 31 July 2007*

***New Delhi office officially opened on 17 February 2007. Staff are employed by Hydro Tasmania Consulting India Private Limited*

****Port Moresby closed on 8 September 2006 with Melbourne office managing ongoing business*

Subsidiaries and joint ventures

Additional information for subsidiaries (controlled entities) and joint ventures are in the notes to the Financial Statements on pages 136-140. The Hydro-Electric Corporation holds the following controlled entities at 30 June 2007.

	Country of Incorporation	Percentage of shares held by Hydro-Electric Corporation	
		2007	2006
Bell Bay Power Pty Ltd	Australia	100	100
Lofty Ranges Power Pty Ltd	Australia	100	100
Bell Bay Three Pty Ltd	Australia	100	100
RE Storage Project Holding Pty Ltd	Australia	100	100
Hydro Tasmania Consulting (Holding) Pty Ltd	Australia	100	-
Hydro Tasmania Consulting India Private Limited	India	0.1	-

Joint ventures

All the joint ventures are 50 per cent owned by Hydro Tasmania.

	Principal Activity
Roaring 40s Renewable Energy Pty Ltd	Wind farm development and operation
Cathedral Rocks Construction and Management Pty Ltd	Wind farm construction
SA Water Corporation & Lofty Ranges Power Pty Ltd Joint Venture	Mini hydro operation
RE Storage Pty Ltd	Investigation of renewable energy commercial opportunities
Wind Energy Storage Pty Ltd	Implementation of renewable energy project

Outsourced operations

Bell Bay Power Station operations and maintenance (Transfield BRW)

Information technology support services (LogicaCMG)

Stakeholders

Hydro Tasmania currently identifies and engages with stakeholders likely to be impacted by its operations on a project-by-project basis, and with whom we have shared issues of interest or concern. Key stakeholder groups include:

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

Further information on Hydro Tasmania's stakeholder engagement can be found on P74.

Membership of associations

Hydro Tasmania is a financial member of the following strategic industry associations:

- International Hydropower Association (IHA) * ×
- Environment Business Australia
- Renewable Energy Generation Association * ×
- AusWind (Australian Wind Energy Association) *
- AP6 Renewable and Distributed Energy Generation Task Group *
- esaa (Energy Supply Association of Australia) *
- National Generators Forum (NGF) * ×
- Australasian Emissions Trading Forum Business Roundtable
- Australian Financial Markets Association (AFMA)**
- Australian Energy Alliance *
- IEA Wind Hydro Integration Working Group *
- CIGRE
- Canadian Electricity Association Technologies
- Australian Science Teachers Association *
- Australian Institute of Energy *
- Australian Water Education Network. *

** denotes committee membership*

× denotes a position held in governance bodies

Legislative framework

Hydro Tasmania is the trading name for the Hydro-Electric Corporation, which is a registered business, 100 per cent owned by the State of Tasmania.

It operates under, and is subject to, two State Acts - the *Government Business Enterprises Act 1995* and the *Hydro-Electric Corporation Act 1995*. Its water licence is issued pursuant to the *Water Management Act 1999*.

The Honourable David Llewellyn MHA, Minister for Energy, has portfolio responsibility for Hydro Tasmania.

Governance structure as at 1 August 2007

The Board	Executive Team	
Chair: David Crean	**CEO:** Vince Hawksworth	**Corporation Secretary:**
Directors:	**General Managers:**	Alan Evans
Vince Hawksworth (CEO)	**Business Development:** Pat Lennon	**Business Improvement:**
Ken Baxter	**Business Performance:** Simon Krohn	Roger Gill
Michael Cavell	**Communications & External Relations:** Andrew Catchpole	
Sally Farrier	**Consulting:** Michael Brewster	
Janine Healey	**Corporate Governance:** Alan Evans	
Stan Kalinko	**Generation:** Evangelista Albertini	
Melanie Willis	**Strategy & Finance:** Lance Balcombe	
	Trading: Stephen Davy	

Figure 2 Hydro Tasmania Governance Structure

The Board

At 30 June 2007, the Board consisted of nine directors. The Chief Executive Officer is the only director who is also an executive of the Corporation. Two new appointments in 2006/07 replaced retiring members. Michael Cavell was appointed in November 2006 and Stan Kalinko in June 2007. Don Challen retired in July 2007 after serving for 14 years.

At 1 August 2007, the Board of Hydro Tasmania consisted of the following eight members.

David Crean

Dr David Crean (56) was appointed a director of the Hydro-Electric Corporation on 12 July 2004 and chairman on 24 September 2004.

He was Treasurer of the State of Tasmania from August 1998 to his retirement from the position in February 2004. He was also Minister for Employment from July 2002 to February 2004, Member of the Legislative Council from 1992 to May 2004, and a Member of the House of Assembly between 1989 and 1992. From 1993-98 he held Shadow Portfolios of State Development, Public Sector Management, Finance and Treasury.

He holds a Bachelor of Medicine and Bachelor of Surgery degree from Monash University.

Vince Hawksworth

Vince Hawksworth (48) took up his position as Chief Executive Officer on 1 August 2006.

Prior to his appointment, Mr Hawksworth was General Manager Retail for Genesis Energy in Auckland, New Zealand, having been General Manager Generation. His 11-year career history in the New Zealand electricity industry followed senior management positions in the UK coal mining industry. 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.

Mr Hawksworth has completed professional engineering qualifications and holds a Masters degree in Business Administration.

Ken Baxter

Ken Baxter (63) was appointed to the Board on 6 November 1996 and is a Strategic Management Consultant.

Mr Baxter is Chairman of PNG Sustainable Infrastructure Ltd, senior advisor to the Chief Secretary of PNG Government and a Director of the Tasmanian Symphony Orchestra.

He is a past chairman of national bodies for the dairy industry and electricity reform, has held positions on a COAG subcommittee, the Sydney Olympic Games organising committee and was head of Victoria and NSW Premiers departments. He was a previous Commissioner of the Australian National Railways Commission and a Director of the Baker Medical Research Institute.

Mr Baxter has a Bachelor of Economics degree, 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).

Michael Cavell

Michael Cavell (57) was appointed to the Board on 15 November 2006.

He is an energy consultant based in Brisbane. He has extensive energy industry experience in Australia and the United States and has held the positions of CEO of Enertrade, Managing Director of Duke Energy International's Asia Pacific operations, Managing Director of PG&E Corporation's Australian business. Prior to coming to Australia, Mr Cavell worked in oil and gas exploration and production, in natural gas pipelines, and in energy regulation in USA.

Mr Cavell has qualifications in law and physics.

Sally Farrier

Sally Farrier (43) was appointed to the Board on 13 December 2004.

Ms Farrier is a director of Farrier Swier Consulting, a director of Western Power 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 Fellow of the Financial Services Institute of Australia and a member of the Australian Institute of Company Directors.

Janine Healey

Janine Healey (48) was appointed to the Board on 9 September 2002.

Currently a Chartered Accountant with Ruddicks (Launceston, Tasmania), Ms Healey has wide-ranging commercial experience, particularly in the areas of commercial taxation advice, business structures, and planning and cash flow management and is a Board member of the Tasmanian Electronic Commerce Centre Pty Ltd.

Ms Healey has held positions on Boards with such institutions as UTAS, the Launceston Chamber of Commerce, the Inveresk Railyard Development Authority, the Female Factory Historic Site Ltd and the Port of Launceston Pty Ltd.

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 Ltd.

Stan Kalinko

Stan Kalinko (65) was appointed to the Board on 25 June 2007.

Mr Kalinko has practised law for more than 30 years, specialising in corporate and commercial law, including initial public offerings (IPOs), takeovers, and mergers and acquisitions and has broad experience over a number of industries. He commenced his career in South Africa and for the past 16 years, until he retired on 30 June 2007, was a partner of the international law firm, Deacons.

Mr Kalinko is a fellow of the Australian Institute of Company Directors and also serves on the boards of FSA Group Limited, Indigenous Community Volunteers, and the Central Synagogue. Previously he served on Deacons' Sydney board for eight years and three years on its national board, and was chairman of the Sydney office for three years.

He has Bachelors of Law and Commerce, a Higher Diploma in Taxation and is an accredited mediator.

Melanie Willis

Melanie Willis (42) was appointed to the Board on 13 December 2004.

Ms Willis is also on the Board of the WHK Group Limited and Aevum Limited. She is also Chief Executive Officer of SmartRate Money Limited which is a finance company specialising in the personal lending market. Previously, 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.

Ms Willis 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. She is also an associate member of the Institute of Securities, Finance and Banking, and a member of the Australian Institute of Company Directors and the Taxation Institute of Australia.

1 July 2006 to 30 June 2007	Ordinary meetings held while a Board member	Attended
Hon D M Crean	12	12
G L Willis	1	1
V J Hawksworth	11	11
K P Baxter	12	10*
D W Challen	12	12
S M Farrier	12	11*
J M Healey	12	12
M M Cavell	8	7*
M V R Willis	12	12

**Leave of absence was granted for non-attendance*

Mr Willis retired on 31 July 2006 and was replaced by Mr Hawksworth

Corporation Secretary

Alan Evans was appointed Corporation Secretary on 15 November 2004 and provides qualified advice to the Board on its reporting structure and process.
He also holds the position of General Manager Corporate Governance. 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 and Tasmanian Branch Chairman of the Chartered Secretaries Australia; a Fellow of the Institute of Corporate Managers; and a Member of the Australian Institute of Company Directors.

Board Committees

Committees play an important part in guiding the Corporation on specific governance issues. Committees are able to give full attention to important issues and make informed recommendations to the full Board, which makes the final decisions. The Corporation Secretary attends all Board Committee meetings as Governance Executive.
All committees meet at least quarterly.

The following is a brief overview of the responsibilities of each committee with membership as at 1 August 2007.

Audit Committee

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

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

- oversee the external financial reporting by the Corporation and provide a review of financial information presented by management to regulators
- oversee the scope and quality of audits conducted by the internal auditor
- meet with external auditors to discuss audit scopes 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.

Business Risk Committee

MM Cavell, SM Farrier, VJ Hawksworth, MVR Willis, with management support from L Balcombe, J Minchin and M Smith.

The Committee's responsibilities are to:

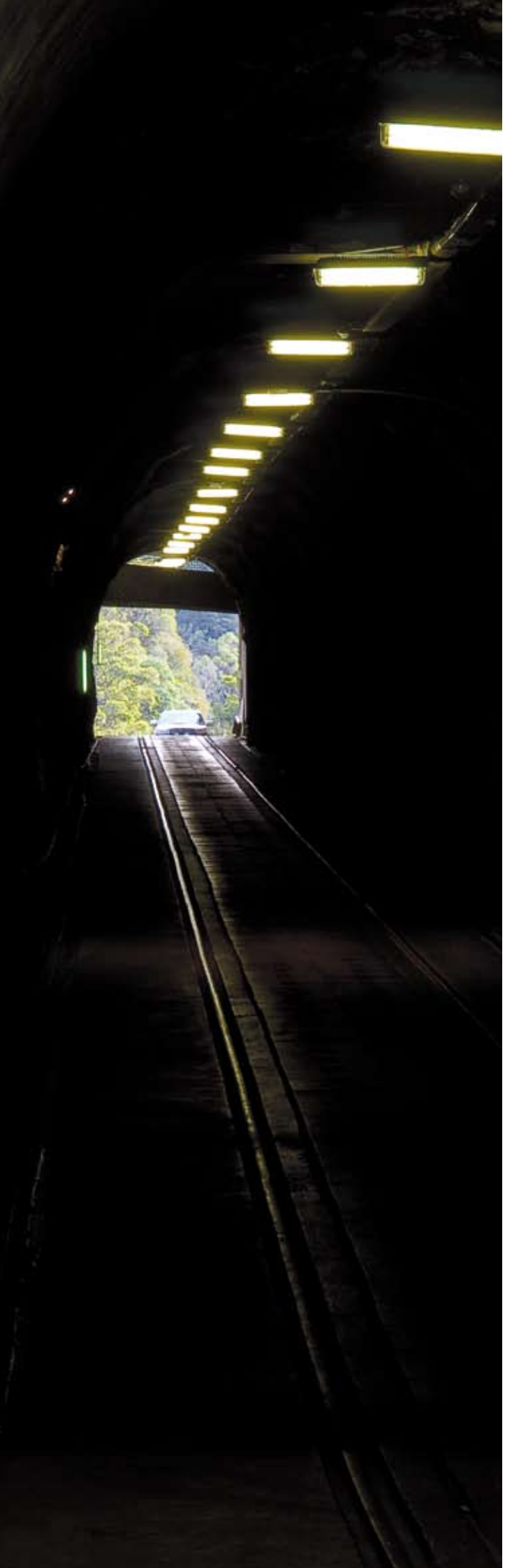
- ensure constant development of risk management principles throughout the organisation and advise the Board on risk management issues and strategies
- sponsor the Integrated Business Risk Management (IBRM) program
- review and consider the consolidated profile of Hydro Tasmania's major risks
- review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

Human Resources and Remuneration Committee

KP Baxter (Chair), DM Crean, VJ Hawksworth, JM Healey, with management support from S Krohn.

The Committee's responsibilities include to:

- review and advise the Board on human resources management policies and strategies
- oversee the annual safety plan and safety reports
- review and advise the Board on employee relations
- monitor the effectiveness of performance and development programs
- review the performance and effectiveness of the Corporation's remuneration, benefits and succession planning strategies.



Cethana tunnel

Environment and Sustainability Committee

MM Cavell, SM Farrier, VJ Hawksworth, SS Kalinko, with management support from H Locher and A Scanlon.

The Committee's responsibilities are to:

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

Corporate Governance Committee

DM Crean (Chair), MM Cavell, VJ Hawksworth, SS Kalinko, with management support from 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.

Executive team: Back row: Alan Evans, Pat Lennon, Michael Brewster, Lance Balcombe, Roger Gill, Stephen Davy, Andrew Catchpole; front: Evangelista Albertini, Vince Hawksworth and Simon Krohn

Executive Team

Business Development

General Manager, Pat Lennon:

"Business Development is responsible for business growth and management of strategic investments such as Roaring 40s. We manage Hydro Tasmania's research and development program, we investigate new renewable technology opportunities, and identify and implement projects to optimise the use of Hydro Tasmania's water resource. Business Development also delivers many of the organisation's strategic projects."

Business Improvement/Get Competitive

Executive General Manager, Roger Gill:

"The Get Competitive program was established at the beginning of financial year 2006/07 with the objective to reduce costs by $20 million by 2009. The team's purpose is to enable Hydro Tasmania to profitably operate and grow in an increasingly competitive market by reducing our cost base in a manner that ensures a viable and sustainable business."

Business Performance

General Manager, Simon Krohn:

"The purpose of the Business Performance team is to provide excellent, effective and quality services, systems and processes to Hydro Tasmania that balance costs and performance. These services will be continually improved to enhance business performance across the whole organisation. We are integrating customer focused strategies for information management, human resource management, safety and environmental management, and procurement."

Communications and External Relations

General Manager, Andrew Catchpole:

"Communications and External Relations shapes policy and stakeholder engagement for Hydro Tasmania's brand and profile as a renewable energy leader through programs for internal and external communication, sustainability, energy and climate change policy, and market regulation. The team derives its purpose from the business strategy outcomes of renewable energy development, long-term business success, and a regulatory environment that minimises market risk."

Consulting

General Manager, Michael Brewster:

"Consulting operates under the brand name Hydro Tasmania Consulting with the vision 'to be the leading sustainable water and energy consultant in our chosen markets'. Hydro Tasmania Consulting provides clients in Tasmania, nationally and internationally with water and energy solutions in the key areas of environment and catchment management, renewable energy and power engineering."

Corporate Governance

General Manager and Corporation Secretary, Alan Evans:

"Corporate Governance is responsible for establishing, maintaining and operating a best practice governance framework and the provision of the secretariat function to the Corporation Board, Board Committees and subsidiary companies. It encompasses the Assurance group, a consolidation of the internal audit, risk and compliance functions. The Assurance group was formed in September 2006. It provides surety in corporate obligations for compliance and risk management through the implementation of a comprehensive enterprise risk management plan, audit and compliance programs, liaison with management on appropriate responses and reporting to the Board's Audit and Business Risk Committees."

Generation

General Manager, Evangelista Albertini:

"Generation's focus is to create production opportunities through sustainable and commercially responsible asset management. The core functions are to maintain, refurbish and operate the generating assets to optimise whole-of-life costs and performance while managing risk. Generation is focused on growing our people, being responsive to whole-of-business requirements, understanding the condition, performance and risks associated with Hydro Tasmania's assets and developing a continuous improvement approach to processes and systems. Generation's challenge is to deliver asset performance, ensuring there is no compromise in the safety of our people."

Stephen Davy with Spot Trader Ian Tye

Strategy and Finance

General Manager, Lance Balcombe:

"Strategy and Finance provides independent financial, commercial and legal advice and analysis to assist in building the financial strength and flexibility of Hydro Tasmania. We lead business strategy, risk management, financial structuring and project and business financing for Hydro Tasmania's full investment portfolio."

Trading

General Manager, Stephen Davy:

"Trading's function is to maximise the value of Hydro Tasmania's renewable generation portfolio in the National Electricity Market. We meet the needs of Hydro Tasmania's customers for energy contracts and renewable energy products and manage water storages. We work with Hydro Tasmania's network service providers, Basslink and Transend Networks, to ensure our product delivery and with regulators and NEMMCO to ensure Hydro Tasmania is not disadvantaged in the market."

Studland Bay Wind Farm

... Roaring 40s is on track to achieve its strategic business target of a minimum portfolio of 1000 equity MW of wind energy assets in Asia and Oceania by 2010.

Roaring 40s

Hydro Tasmania and the CLP Group own the renewable energy development company Roaring 40s Pty Ltd as a 50/50 joint venture. This business, based in Hobart, Tasmania, has a portfolio of wind farm projects in Australia and overseas of approximately 548 MW currently in operation or under construction.

Table 2 summarises the Roaring 40s' portfolio. These projects demonstrate that Roaring 40s is on track to achieve its strategic business target of a minimum portfolio of 1000 equity MW of wind energy assets in Asia and Oceania by 2010. Beyond 2010, Roaring 40s will continue to develop its renewable energy portfolio throughout Asia and Oceania as well as investigating potential new markets for further renewable energy developments.

Table 2 Summary of Roaring 40s Wind Farm Portfolio

Country	Description	MW	% R40s
Australia	Woolnorth Bluff Point Wind Farm, Tasmania - operational	65	100
	Woolnorth Studland Bay Wind Farm, Tasmania – operational	75	100
	Waterloo Wind Farm, South Australia - development approvals received	117	100
	Musselroe Wind Farm, Tasmania - development approvals received	129	100
	Cathedral Rocks Wind Farm, South Australia – operational, with Acciona	66	50
China	Rongcheng Wind Farm, Shandong province, east coast China. JV partner Guohua Energy Investment Cooperation - operational	48.7	49
	Dongying Lijin Wind Farm, Shandong province, east coast China. JV partner Guohua Energy Investment Corporation - construction	49.5	49
	Binzhou Zhanhua Wind Farm, Shandong province, east coast China. JV partner Guohua Energy Investment Corporation - construction	49.5	49
	Dongying Hekou Wind Farm, Shandong province, east coast China. JV partner Guohua Energy Investment Corporation - construction	49.5	49
	Shuangliao Wind Farm Phase 1, Jilin province. JV partner Datang Jilin Resourceful New Energy Power Generation Co - phase 1 operational	49.3	49
	Datong Wind Farm, North East China Jilin Province. JV partner Datang Jilin Resourceful New Energy Power Generation Co - construction	49.5	49
	Xiangyang Wind Farm, North East China Jilin Province. JV partner Datang Jilin Resourceful New Energy Power Generation Co – feasibility assessment	400	49
New Zealand	Okura Wind Farm, Hawkes Bay - resource consent obtained for stage 1, submitted for stage 2	114	50
India	Khandke Wind Farm, Maharashta state, west coast India – construction and operation	50.4	100

In relation to its Australian operations, Roaring 40s continues to engage with key stakeholders to the developments, including local councils, State and Commonwealth Government departments, landowners and other community organisations.

The impact on birds of Tasmanian wind developments is closely monitored and assessed by regular field surveys. Roaring 40s has committed considerable investment into understanding, conducting research and implementing mitigation strategies to reduce the impact of its operations on birds. Roaring 40s has also initiated other programs aimed at providing enhanced habitat for bird species and increasing the public's awareness of specific species. Some examples of its commitments and programs include:

- specific species management plans
- bird behaviour and observational research
- establishing feeding and roosting habitat areas for the orange-bellied parrot
- protecting eagle nest sites with formal reserves and conducting eagle nest surveys and searches across Tasmania
- training Roaring 40s' and other site personnel in bird observations
- managing turbine operation to reduce collision risk.

Roaring 40s maintains a strong working relationship with Tasmania's Department of Tourism, Arts and the Environment, the Commonwealth Department of Environment and Water and community organisations to ensure that all Roaring 40s' Tasmanian wind energy developments are managed in accordance with strict permit requirements and to an industry leading standard. Environmental management, including occurrence response, assessment and planning, operational management and permit compliance auditing, is carried out in accordance with the ISO 14001 environmental management system standard. Roaring 40s will seek certification of its Environmental Management System for its Australian operations in 2007/08.

Workforce safety is managed by the company safety management system GENsafe and Roaring 40s will seek certification to AS4801 in 2007/08. With regard to this, Roaring 40s has a Safety and Environment Team, Responsible Officers and an Occurrence Management System to manage safety and environmental occurrences.

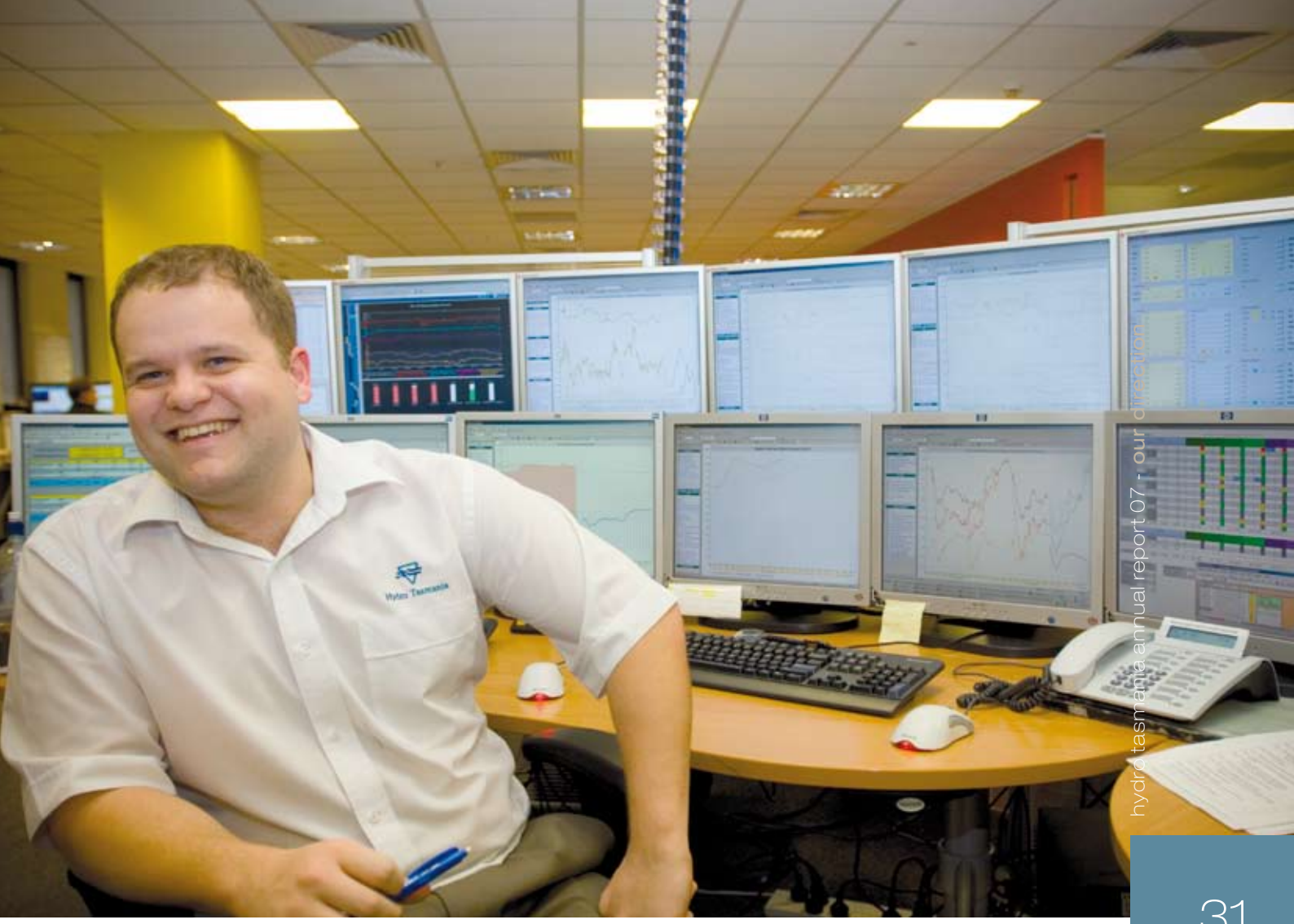
In relation to its overseas activities, Roaring 40s aligns itself with proven industry partners and ensures that partners are provided with appropriate business support, specifically in the areas of technical support, occupational health and safety and environment.

Roaring 40s, in cooperation with its joint venture partners, is implementing safety and environmental initiatives to improve upon local regulatory requirements in its overseas operations. Initiatives and areas for improvement have been identified through six-monthly site audits of construction and operational sites. Examples include implementation of a Safety Management Plan, a Site Environmental Management Plan, recording and management of site safety occurrences and minimum standards for personal protective equipment. Alignment of overseas joint venture projects with its Australian safety and environmental management systems is a medium-to-long-term objective for Roaring 40s.

Our Direction

"The thing that really excites me is the support within the business at the moment for taking real action on climate change and to reduce our greenhouse footprint."

Ruth Groom, Manager Climate Change Strategy



Spot Trader, Peter Nesbitt

Our Direction

Statement of Corporate Intent

This Statement of Corporate Intent is a requirement of the Annual Report pursuant to section 41 of the *Government Business Enterprises Act 1995* and contains information from the Treasurer's Instructions. It outlines Hydro Tasmania's business issues, direction and targets and represents a summary of the Corporate Plan for the next five years.

In recent years our focus has been on preparing the business for entry to the NEM, working with Basslink Pty Ltd on the commissioning of the Basslink electricity cable, and establishing the Roaring 40s renewable energy business and the subsequent joint venture with CLP Group.

In 2006/07, our first full year with physical connection to the NEM, we have been faced with record low inflows which have had a significantly adverse impact on our financial position and storage position and which, as a result, will continue to impact on our financial performance in the medium term, even if inflows return to "average" levels. The 2006/07 inflows were some of the lowest on record and rainfall has been less than average over the past 10-year period. The availability of Basslink has significantly improved our ability to manage the inflow situation, and will play a crucial role in rebuilding the water storages.

Alongside this, we have been concentrating on bedding down our systems and operations to ensure we are able to respond to the challenges and opportunities which come from participating in our new competitive market setting. This included an organisational restructure.

Hydro Tasmania's objective is to achieve 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 principal purpose as defined in the Ministerial Charter is to undertake the following activities:

- generate and trade electricity
- provide 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.

Hydro Tasmania's core hydro assets, referred to as its main undertakings, consist of the following power stations and associated dams, canals and infrastructure.

Bastyan	Lake Echo	Repulse
Butlers Gorge	Lake Margaret	Rowallan
Catagunya	Lemonthyme	Tarraleah
Cethana	Liapootah	Tods Corner
Cluny	Mackintosh	Trevallyn
Devils Gate	Meadowbank	Tribute
Fisher	Paloona	Tungatinah
Gordon	Poatina	Wayatinah
John Butters	Reece	Wilmot

Business Direction

Our strategy for 2007/08 and beyond is firmly grounded in conformance with the *Hydro-Electric Corporation Act 1995* and the Ministerial Charter. It has been developed cognisant of the rapidly changing conditions in the NEM, our financial situation, our storage position, and the increasing implications that climate change, both nationally and internationally, will bring to the business.

To meet our objective of achieving a sustainable commercial rate of return, and to maximise the value of the business over the long-term, we will consolidate our focus on Hydro Tasmania's core Tasmanian-based hydro and wind capability. Specifically, we will seek to:

- reduce debt to increase our financial strength and flexibility
- maintain our generation capacity, flexibility and capability
- increase our focus on our customers' needs
- assess ways to further enhance the value of our Tasmanian-based hydro generation assets
- invest in renewable energy generation
- continue to develop Hydro Tasmania Consulting.

Reduce debt and increase our financial flexibility

In accordance with sound commercial practice, Hydro Tasmania regularly reviews its capital structure. For several years we have been signalling that our Balance Sheet has too much debt to withstand significant negative impacts to our profit generating capability, including reductions in profit associated with unfavourable hydrological or market events. We have recommended to our Owner that the Balance Sheet of the business needs to be more resilient and that one means by which this could be achieved is a $300 million equity injection. In the absence of an equity injection, the cornerstone of our financial strategy is to seek to reduce the level of borrowings by paying down debt with free cash thus increasing the financial strength and flexibility of the business into the future.

We will seek to increase our free cash by increasing revenues, reducing costs and maximising the value from our capital expenditure. Debt reduction will be undertaken while maximising the long-term sustainable value of the business, cognisant of the competing needs of investing in our existing infrastructure, funding growth opportunities and providing returns to our Owner.

Due to the significant financial impact of the low inflows received during 2006/07, no dividend has been recommended to be paid during the 2007/08 financial year. For subsequent years, in the absence of an equity injection, dividends have been limited to $10 million per annum, subject to profitability. The dividend position for later years will also be reviewed to take account of revenue outcomes (which will be significantly affected by the retail tariff), inflows and storage position. In addition, we envisage that the dividend policy will be revisited in 2010/11 to take account of any changes that occur in Hydro Tasmania's financial situation up to that time.

Maintain our generation capacity, flexibility and capability

In accordance with our sustainable business objectives, Hydro Tasmania closely monitors the capacity and flexibility of the generation system, which is impacted by both the condition of physical generation plant and the level and location of storages. We will seek to maintain and enhance the capacity of the generation system within the planning period, recognising that this is critical to protecting the security of electricity supply for Tasmania.

Customer focus

We will focus on improving our customer service by becoming a supplier of choice for our counterparties, offering a range of electricity products tailored for our customers' needs.

Enhancing the value of our Tasmanian assets

We will continually look at ways of enhancing the value of Hydro Tasmania's hydro generation assets. In achieving this we will ensure the sustainability of our Tasmanian generation system. It will be configured to maintain and grow the use of our assets and our water resources (fuel) over the long-term (100 years), benefiting Tasmanians into the future.

Investing in renewable energy generation

Roaring 40s is continuing to show strong growth in only its second year of operation. Roaring 40s' developments and potential in both the Chinese and Indian renewable energy markets continue to grow together with Roaring 40s' increasing brand recognition.

Renewable energy investment will also extend to investing in additional commercial renewable energy projects in Tasmania as part of enhancing the value of our Tasmanian investments.

Building Consulting

Hydro Tasmania Consulting continues to build its market by providing services and expertise in renewable energy, water management and environmental management. The services offered in the market build knowledge which in turn provides the skills to enhance the long-term value of our Tasmanian assets and resources.

Community Service Obligation

Hydro Tasmania has a formal agreement with the Tasmanian Government to provide concessional arrangements to electricity customers 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 of around $7 million per annum.

We are examining ways to improve our provision of electricity on the Bass Strait islands. Some possibilities that are being explored are carbon block technology and additional renewable generation.

Business Structure

Our three lines of business model served us well to focus on getting into the NEM and establishing Roaring 40s. We have now realigned our business structure to be more responsive to our business needs into the future and to be better placed to respond to our competitive market and changing operating environment.

Hydro Tasmania Organisation Structure
Executive Team and Areas of Responsibility

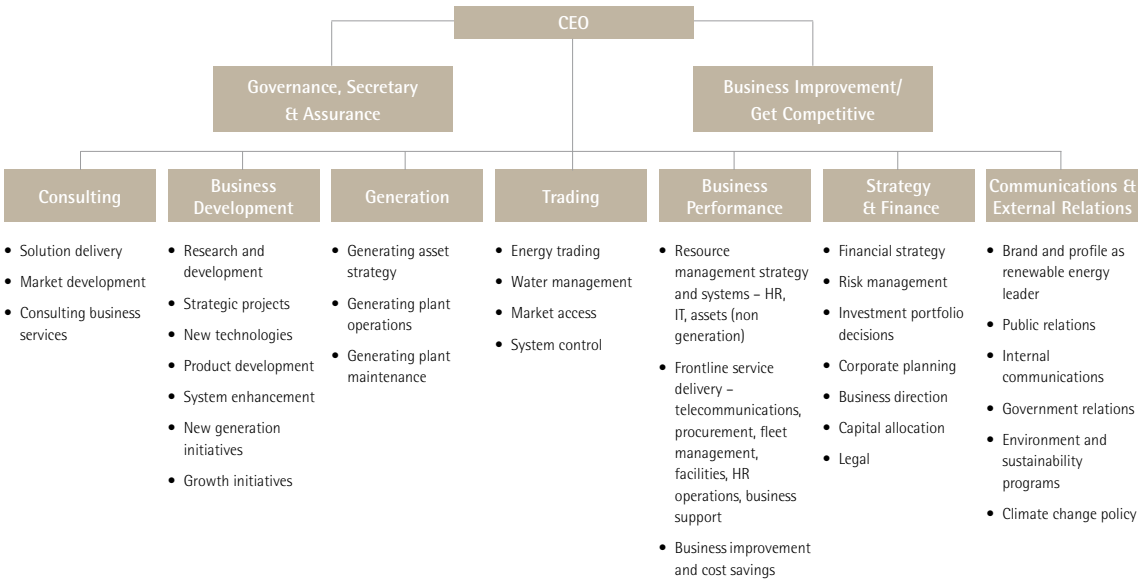


Figure 3 Hydro Tasmania structure

Key Performance Indicators

The table below contains a summary of Hydro Tasmania's Key Performance Indicators.

Table 3 Summary of Hydro Tasmania's Key Performance Indicators

Element	Hydro Tasmania Objective	Performance Indicator	Units	2006/07 Result	2006/07 Target	07/08 Target	08/09 Target	09/10 Target	10/11 Target	11/12 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	100
		Code of Conduct Breaches	No.	0	N/A	N/A	N/A	N/A	N/A	N/A
	Ensure our activities comply with legislation and other regulatory requirements	Regulatory Breaches	No.	25	N/A	N/A	N/A	N/A	N/A	N/A
Operations	Successful management of energy assets for long-term energy production	Asset targets met or exceeded for: *-Maintenance Routines Completed (>95%)* *- Start Success (>98.5%)* *- Equivalent Forced Outage (<2)* *- Telecomms Network Availability (99.99%)*	%	75	100	100	100	100	100	100
	Become a leader in energy and greenhouse gas emission management	Energy reduction (using 05/06 baseline)	% of 05/06	10***	0	12	22	35	36	Target not yet available
Market	Ensure successful trading in the NEM	Development of new market opportunities and products	No.	6	6	3	2	2	2	2
	Be at the forefront of implementing new & emerging renewable energy technologies aligned to Hydro Tasmania's business	Have research collaboration in place	Y/N	No	Yes	Yes	Yes	Yes	Yes	Yes
		Number of renewable energy pilot programs / research projects under way	No.	3	2	3	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	43/57	49/51	51/49	50/50	48/52	46/54	45/55

Element	Hydro Tasmania Objective	Performance Indicator	Units	2006/07 Result	2006/07 Target	07/08 Target	08/09 Target	09/10 Target	10/11 Target	11/12 Target
Financial	Ensure financial practices promote long-term prosperity and enhancement of the business	Profit After Tax*	$M	79.4	28.8	40.4	46.8	53.5	68.2	90.9
		Dividends Paid to Tasmania* **	$M	21.2	21.2	0.0	10.0	10.0	10.0	10.0
		Business Expenses Paid to Government*	$M	36.6	28.6	15.4	39.3	43.1	40.3	49.0
		Capital Expenditure and Investments (excluding R40s)*	$M	54.2	58.7	66.0	70.0	70.0	70.0	70.0
		Investments in R40s	$M	10.0	0	25.0	18.0	1.0	0	0
		Interest cover ratio*	times	2.0	2.1	2.4	2.4	2.5	2.8	3.2
		Fixed cost cover ratio*	times	1.5	1.6	1.7	1.7	1.8	1.9	2.0
		Cash Rate of Return*	%	5.6	6.6	7.4	7.5	7.9	8.6	9.3
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	%	83	80	90	100	100	100	100
		Employee feedback regarding diversity and equal opportunity	Score 1 – 7	5	5	5.5	6	6	6	6
		Employee profile reflects Tasmania's full-time/part-time workers ratio	%	75	85	90	95	100	100	100
		Employees all have performance reviews and development plans that are implemented	%	95	100	100	100	100	100	100
Health and Safety	No harm to anyone (employees and contractors) at any time	Lost Time Injury Frequency	No.	4.1	Less than 2.0	Less than 2.0	Less than 2.0	Less than 2.0	Less than 2.0	Less than 2.0
Community	Hearing and acting on community concerns and interests involving our impact	Reputation rating from biennial community survey	No. (10 – high, 1 – low)	-	-	8	-	8.5	-	9
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	100	-	-	-	-
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	0

** Targets are based on the receipt of expected rainfall.*

*** The dividend paid in 2010/11 and 2011/12 will be revisited at a later date in light of Hydro Tasmania's financial performance over the next three years.*

**** This is a preliminary figure only. A final result will be included in Hydro Tasmania's Greenhouse Challenge Reporting.*

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. No target has been set for Code of Conduct breaches, as they will be reported as they occur.

Regulatory Breaches – number of breaches of external legislative, regulatory, or other statutory obligations. These include regulator determinations, licence obligations, permit conditions, and codes or standards mandated under legislation or regulation. No target has been set for regulatory breaches, as they will be reported as they occur.

Asset targets met or exceeded – shows, as a percentage, the number of targets met e.g. three targets out of four 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 Hydro Tasmania's ability to meet guaranteed performance levels.

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

Reduce energy usage over the next five years based upon 2005/06 baseline – shows, as a percentage, total energy reduction by Hydro Tasmania, excluding gas at Bell Bay, to a given year as a percentage of total energy used in 2005/06.

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

Have research collaboration in place – develop and maintain a collaborative relationship in the field of renewable technology research.

Number of renewable energy pilot programs/research programs under way – 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 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.

Capital expenditure – cash outlay for capital projects, including investments in joint ventures (other than Roaring 40s).

Investments in R40s – Hydro Tasmania's equity contributions to the Roaring 40s joint venture.

Interest Cover Ratio – the ratio of earnings before interest, taxation, depreciation and amortisation (EBITDA) to financing expenses [including borrowing costs and Retirement Benefits Fund (RBF) expense].

Fixed Cost Cover Ratio – the ratio of fixed costs to EBITDA (excluding fixed costs). Fixed costs include Basslink costs, all borrowing expenses and RBF expense.

Cash Rate of Return – EBITDA as a percentage of net revalued assets.

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 (ie 100% equals benchmark).

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

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.

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

Reputation rating from biennial community survey – the rating gained by Hydro Tasmania in its biennial community survey.

Managing Water Levels

Drought has been a risk for Hydro Tasmania throughout its history and our response has varied from building more dams and extending the hydropower system, to building a thermal generation site, to supporting the undersea cable of the Basslink project. Now Hydro Tasmania is utilising the capability of these assets to respond to the need for long-term prudent water management to remain sustainable as a business and as specified in its Ministerial Charter.

The most significant operating factor for Hydro Tasmania in 2006/07 was managing the impact of drought conditions. Pressure on water storages was unprecedented and created risk for operations, ecosystems and recreational use of our facilities. The long-term management of water is a prime driver in planning and operating the business.

This Annual Report contains information on our response and activities to managing the low water levels during the reporting period based on established practice and the changes that will carry us into the future and contribute to restoring water levels over time.

Basslink, in its first full year of operation, has proved its worth in drought mitigation by providing the facility to import energy. P49 P55

In 2006/07, generation from gas provided a further fuel alternative to maintain power supply and to manage water levels. Gas is planned to be used over the next two years to help improve storage levels. P47

A monitoring program was implemented at key lakes in the system to help manage the social and environmental risks of operating at low levels. P84

In its competitive environment, Hydro Tasmania aims to maximise the potential from the natural resources under its stewardship and will focus on capturing the long-term value of the renewable energy sources. A position was created early in 2007 to develop a system enhancement strategy. Reducing greenhouse gas emissions is part of this enhancement.

Maximising the potential of water means our engineering assets must be able to respond when needed. The upgrade and modernisation strategy for Hydro Tasmania's generation assets contributes to this aim. The full benefit of the Trevallyn Power Station upgrade was utilised in 2006/07 with approximately 15 MW of additional capacity available. The Liawenee Canal upgrade was completed and will increase the water transferred into Great Lake and generation at Poatina Power Station. Upgrade work on the first machine at Poatina Power Station has started. P47

Mossy Marsh Lagoon

The previous study into climate change in 2004 has prompted Hydro Tasmania to review its 83 years of data for inflow sequence to help understand the long-term trends. This work, project RaIN, has indicated that a change in inflows in the last 31 years reflects the potential inflows to the Hydro system in the future. P39

Based on this data, operating rules were reviewed in 2006/07 and expectations for future inflow patterns have been adjusted to guide optimum operation of the system now and into the future, according to the prevailing conditions.

Hydro Tasmania, together with other climate change stakeholders, is pursuing a better understanding of climate change impacts on its resources and consequences for its business operations with a proposal for more modelling on climate change scenarios to be conducted by Antarctic Climate and Ecosystems CRC. P39

Clark Dam forebay

Climate Change

Hydro Tasmania has been promoting renewable energy development as a climate change mitigation strategy for a decade and the risks to the business from climate change have long been recognised.

In the past 12 months, climate change has caught the attention of the public and politicians around the world as more and more people recognise it is the biggest environmental challenge of our time. As Australia's leading renewable energy business, Hydro Tasmania is well placed to respond from a business perspective and we are examining our strategic approach to climate change at our Board and management levels.

In May 2007, a manager for climate change strategy was appointed to oversee a coordinated assessment of potential climate change impacts and business responses to address the risks and opportunities and guide strategic decisions about our activities directly related to climate change.

Renewable energy

Hydro Tasmania has long recognised the climate change imperative as a driver for renewable energy development and a potential competitive advantage, and has accordingly used the outstanding wind resources in Tasmania to develop wind farms as another means of renewable energy generation (the first wind turbine was installed on King Island in 1998). Hydro Tasmania has been prominent in the promotion of renewable energy through sponsoring and supporting industry associations, particularly since the Prime Minister's 1997 'Measures for a Better Environment' announcement, which saw the development and introduction of the Federal Government's Mandated Renewable Energy Target created by the *Renewable Energy (Electricity) Act 2000*.

Creating Roaring 40s from our investment in wind farms, and promoting this business to a joint venture in renewable energy development with the additional resources of CLP, was another step in Hydro Tasmania realising the benefits from our renewable energy positioning.

The future

The 1 June 2007 report from the Prime Ministerial Task Group on Emissions Trading recommended that a carbon emissions trading scheme be introduced. This has been endorsed by the Prime Minister and presents more opportunities to increase the value of our business from our existing generation, and for developing new green energy products and services.

The details of Australia's proposed carbon scheme, yet to be determined, will affect the extent to which Hydro Tasmania can benefit from the new system. It is important for Hydro Tasmania to have a significant level of input into the debate surrounding the design of a carbon scheme. Hydro Tasmania has been working with both Federal and State Governments over the past two years, outlining its support for the introduction of a cap and trade emissions trading scheme. This has included submissions to the Prime Ministerial Task Group and the states' National Emissions Trading Taskforce discussion paper *Possible Design for a National Greenhouse Gas Emissions Trading Scheme*.

Global approach

At an international level, Hydro Tasmania is taking an active role to influence how the Intergovernmental Panel on Climate Change is determining formulae for calculating greenhouse gas emissions from reservoirs through the International Hydropower Association. It has representation on the Asia Pacific Partnership for Clean Development and Climate (AP6) Renewable Energy and Distributed Generation Task Force, and on the Board of the International Hydropower Association.

Our performance

Hydro Tasmania recognises that to have credibility in the climate change debate we will need to reduce our emissions, which are at present very low in relation to the energy industry. A specific program is yet to be devised.

Hydro Tasmania has been working with government agencies at a State level as a member of the Tasmanian Interdepartmental Committee on Climate Change to develop the Tasmanian Climate Change Strategy. This strategy will drive improvements in energy efficiency and greenhouse gas emission reductions statewide.

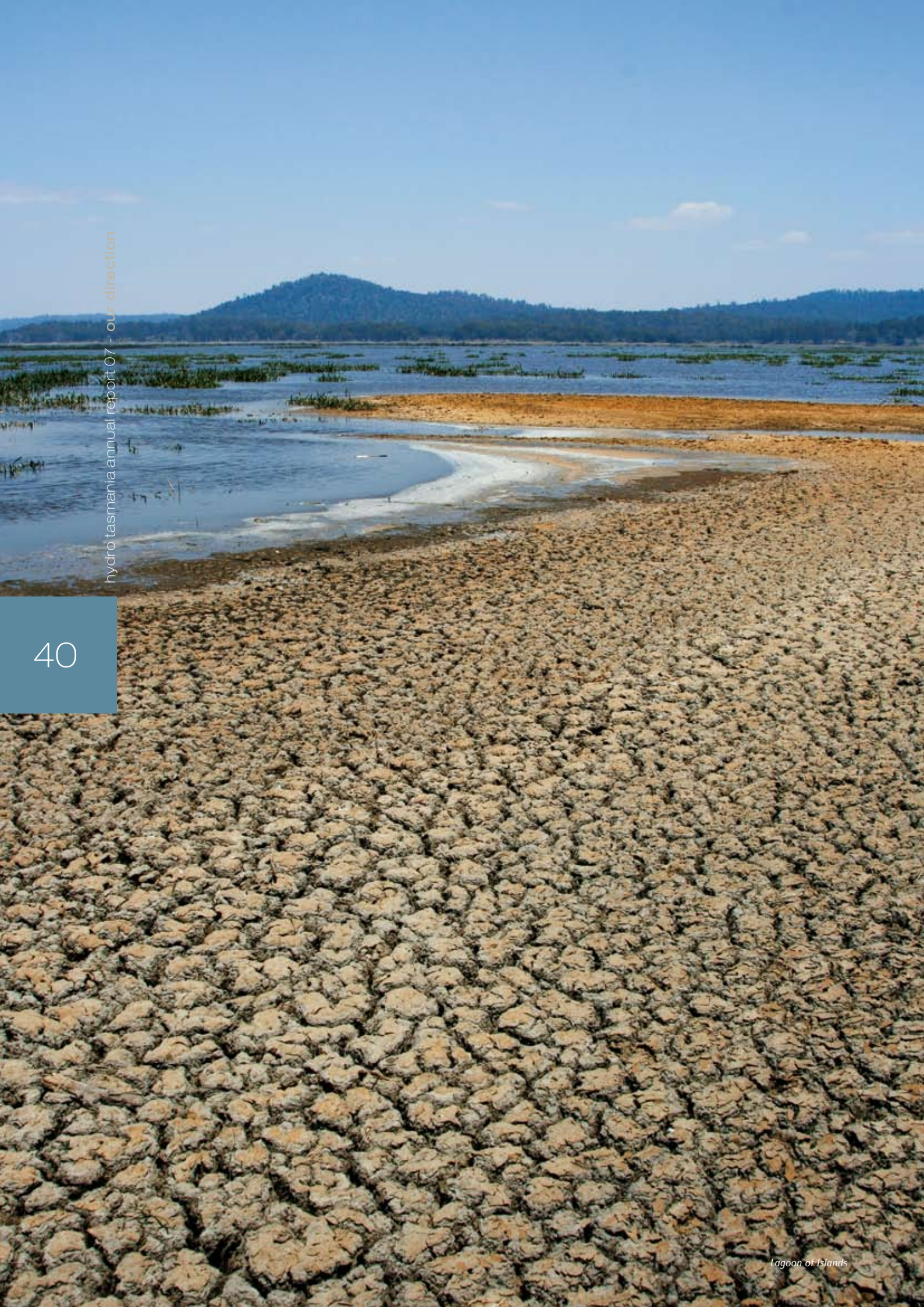
The challenge

In 2004, Hydro Tasmania fully funded a CSIRO study that assessed future catchment yields and provided one possible future climate scenario for Tasmania, which was completed in December 2005. The findings indicate that while the average annual rainfall is expected to increase, the monthly variation in rainfall is likely to lead to an overall decrease in production. This is thought to be due to higher rainfall in a shorter period over winter, sustained lower rainfall for the rest of the year and higher evaporation levels. The South Esk-Great Lake catchment is expected to experience the most significant reduction in inflow and generation. Anecdotally this is already happening, with the last 10 years showing the lowest inflow for this catchment in the 83 years of records.

Over 2006/07, based on the results of the CSIRO climate change study, Hydro Tasmania implemented Project RaIN (Reassessment of Inflow Norms) to investigate the impact on operations with various rainfall scenarios. The financial impact of these changes is also being modelled.

Project RaIN has reviewed inflow history and found a statistical change in the inflows over the historical records and reduced inflow over the last 11 and 31 years. This change related not just to an annual change but also to a change in seasonality with drier autumns and wet springs (the former being statistically significant). The study showed a potential decrease in electricity production of approximately six per cent across all catchments. The 11-year record was found to be not statistically significant, perhaps due to the relatively short period. The last 31 years have been adopted as a basis of future planning, with a regular review of the assumption. This scenario provides greater variability on which to model extreme events for storage management. Coincidentally, the change in seasonal variability over the past 31 years reflects that being predicted in the climate change modelling.

Antarctic Climate and Ecosystems CRC has been able to attract significant support from many organisations, including Hydro Tasmania, to undertake a further study on climate change impacts with more emission scenarios, global models, and extreme event models. Government funding is being sought for this study, expected to cost in the order of $3 million and to last three years. Such a study would provide Hydro Tasmania with more confidence on the future climate and potential risks to, and impacts on, the business.



Lagoon of Islands

Business Performance

"Our NEM experience to date has significantly sharpened our focus on the risk/reward equation of our business decisions."

Gerard Flack, Manager Spot Market and Operations

Upgrading the Liawenee Canal

Business Performance

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.

Sustainability Policy

Governance

The Hydro Tasmania Board aims for sound governance of the Corporation, based on transparency and accountability, along with a structure and reporting system which contributes to guiding the business on attaining its goals and objectives.

Hydro Tasmania is subject to the *Government Business Enterprises Act 1995* (GBE Act) for its governance structure and conditions and refers to the Australian Securities Exchange, Australian Institute of Company Directors and Chartered Secretaries Australia guidelines and publications for corporate governance direction and maintaining sound levels of practice.

Principles, Structure and Reporting

Each year Hydro Tasmania is held accountable to the people of Tasmania before the Tasmanian Parliament's Government Businesses Scrutiny Committee. The Minister for Energy and Hydro Tasmania's principals are questioned

by the committee on a wide range of issues. This year evidence was presented on questions relating to Hydro Tasmania's financial position, the costs and benefits of Basslink, balance sheet strength, the future of Bell Bay Power Station, water storage levels, asset refurbishment, the Roaring 40s joint venture, cost-cutting initiatives and overseas business activity.

The Board maintains a formal process for evaluating the Chief Executive Officer'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 encompasses the requirements under the GBE Act.

The Board uses methods for continuous improvement of its processes. A method introduced this reporting period is for the Corporation Secretary to provide qualified advice on its reporting structure and process. The Board conducts a continuous 'self assessment' of its operations, including a critique at the conclusion of each Board meeting.
In December 2006, a formal 360-degree assessment was conducted by an external consultant as an additional check on the continuous improvement process of Board procedures and practices. It did not assess performance outcomes.

Information relating to Board appointments, conflict of interest, shareholder oversight and remuneration is on Hydro Tasmania's website.

Board and executive remuneration

Remuneration for directors is determined by the Government and recommended to the Governor of Tasmania on appointment of directors. All executives, including the CEO, receive a salary package that incorporates an at-risk component. This component is based on performance criteria relating to safety and financial performance and operational, environmental and social criteria as relevant to their role. No departure arrangements are made other than normal redundancy payments.

Management systems

In response to staff criticism in the 2006 Staff Feedback Survey about bureaucratic processes, a new Policies and Practices Framework was introduced for assessing, writing and adopting policies and procedures.
The framework embeds ethical behaviour and values-based decision-making into policies and simplifies, clarifies and applies a consistency to the process. Approval and implementation will occur in 2007/08.

Current certified management systems include:

- Environment and Sustainability Management System (ESMS)
- Consulting Quality System
- NATA High Voltage Testing Facility.

Compliance

During the reporting period, the internal audit, risk and compliance functions were consolidated to form the Assurance Group.

The Manager Assurance Group oversees performance in relation to all compliance obligations. This role reports to the General Manager Corporate Governance on an administrative basis and has direct access to the Board.

The compliance program continued to be extended throughout the business this year. Interim compliance plans for each group of the new structure specify compliance obligations, obligations to review, systems in place and actions required. Adjustments to the plans are being made that align with the new organisational structure.

Hydro Tasmania's compliance obligations relate to trading, electricity generation, environment, safety, water management and corporate services. They include the regulatory requirements of Australian Securities and Investments Commission (ASIC) and the National Electricity Market (NEM), covering financial services, risk management, reporting structures and compliance breaches. The annual compliance audit included a scan for risks relating to corruption for each business unit.

The Australian Financial Services Licence audit by KPMG was incomplete at the end of the reporting period, but general findings were that the current AFSL compliance plan has satisfactory coverage, improvements under way were noted and further improvements were recommended.

The Environment and Sustainability Management System (ESMS), which is certified ISO14001, was audited in accordance with Hydro Tasmania's internal and third party auditing schedule. No external non-conformance reports (NCR) were raised.

There were no legal actions for anti-competitive behaviour, anti-trust and monopoly practices in the reporting period.

Breaches

Hydro Tasmania recorded 50 breaches of compliance obligations during the year. The breaches were in the categories of Environment, Workplace Standards, National Electricity Rules, AFS Licence, GBE Act and other legislation, and include internal policy and procedural breaches. None of the breaches related to either discrimination or regulations and voluntary codes

concerning marketing communications. Twenty-five instances related to legislative, regulatory or licence breaches. In all instances the regulatory authorities were notified and no notices or fines were issued.

This number of reported breaches is a significant increase on last year, but reflects a maturing culture of compliance where potential and actual problems are reported, investigated and addressed.

Some more serious breaches are as follows.

- 25 environmental breaches such as damage to vegetation P87, incorrect disposal of hydrocarbon wastes, sewage overflow P52, oil and chemical spills P51.
- Operating Bell Bay Three gas turbines without a permit. Initial advice that a permit was not required was incorrect. Hydro Tasmania subsequently submitted a development application and gained a permit.
- Cooling water that did not meet the water quality requirements of the Environmental Protection Notice was released from Bell Bay Power Station. P52
- AFS Licence liquid funds breach reported to ASIC and satisfactorily resolved.
- Internal trading and finance procedural breaches.
- Internal confidentiality breached – sensitive documents leaked to the media.
- National Electricity Rules breach due to faulty protection systems at two power stations.

Response in relation to all breaches involves two main processes – immediate action to correct the breach, then analysis of the underlying causes of the breach and actions that will decrease the likelihood of a repeat. Resolution can include changing or implementing new processes, training, asset enhancement or replacement, and improvements to systems. A formal Breach Response Plan was developed during 2006/07.

Ethics

The ethical practices of honesty, respect and integrity are core components of Hydro Tasmania's values, and efforts to ensure understanding and application of these and other elements of our values continued in 2006/07.

Our values program is now implemented across the whole organisation and, as before, was well received by those who took part this year. Employees' understanding of the values is stable as evident from the 2007 Staff Feedback Survey where this indicator scored 68.4 per cent, following 68 per cent for 2006.

The CEO's values awards are presented to people nominated by their peers. During the year, eight awards were made to staff nominated by their colleagues for the exceptional application of values in their decision-making and work practices.

Sustainability Self Assessment and Commitments

2005/06 Score	2006/07 Target	2006/07 Score	2007/08 Target
3.5	4.0	3.4	3.5

The decline in score for this element is due to a score adjustment from last year. The 2007/08 target has been adjusted downward. The following aspects contributed to an overall performance of slightly above satisfactory.

→	Assurance group established to incorporate audit, compliance and risk.
↑	Hydro Tasmania's organisational restructure and changes in responsibilities between groups has reintegrated parts of the business that had become disparate. P66
→	The significant increasing trend in reporting of breaches across a range of areas indicates a better understanding of the need to identify breaches to create improvements.
→	Work has commenced on improving risk-based prioritisation of our legislative and regulatory obligations.
→	Good ethics continue to be encouraged through values recognition awards and leadership programs.

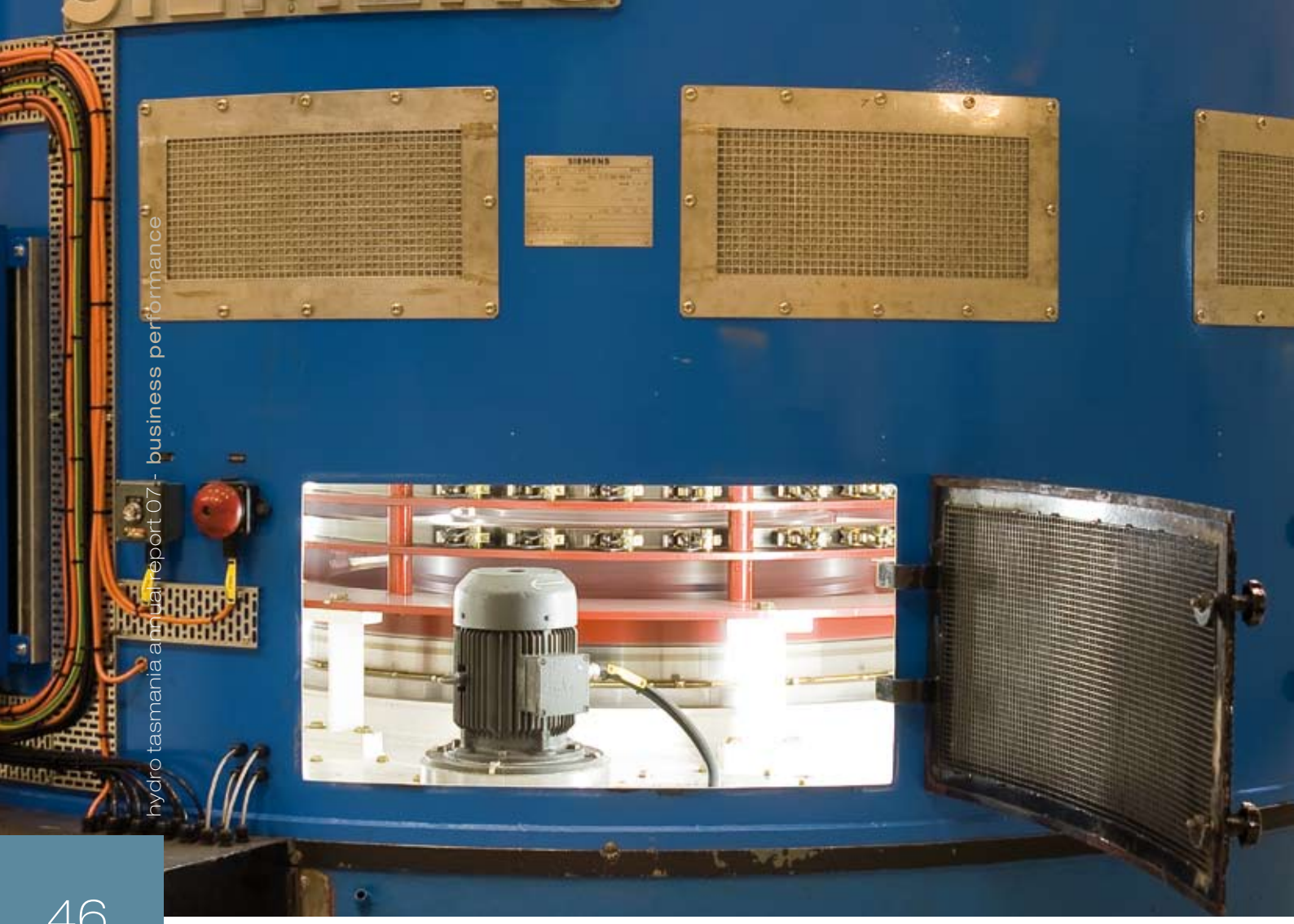
Performance against 2005/06 commitments

Commitment		Progress
Develop and implement compliance plans for Consulting and Business Development to broaden the scope of the compliance system.	–	Plans are both in late stage of adoption as Interim Compliance Plans.
Introduce a code of ethics to be publicly available.	✗	Progress on this commitment has been deferred until the 2007/08 financial year.
Roll out the Values Refresh program to the Power Schemes Group and Business Development.	✓	Completed.

2007/08 commitment

Hydro Tasmania is committed to lifting its sustainability performance for this element. In addition to taking action to maintain current scores and meet the key performance indicators shown in Table 18 P147, in the coming year we will:

- develop a code of ethics and provide training to staff.



Gordon Power Station exciter

We use resources efficiently and maintain our energy system, including assets, for the long term. We ensure new developments meet sustainable development requirements.

Sustainability Policy

Operations

Hydro Tasmania's operations were dominated in 2006/07 by managing the impact of drought conditions, with one of the lowest inflows into storages since 1967 coming on top of one of the driest years on record. Pressure on water storages was unprecedented and new rules and operating conditions for plant and water use, planned in previous years for low storage scenarios, were brought into force to maintain a reliable supply. Basslink proved its worth as a drought relief strategy and, coupled with Bell Bay gas-fired power, contributed to maintaining supply throughout the year.

However, meeting demand and protecting our storages has come at a considerable cost to Hydro Tasmania. $100.6 million was spent on purchasing energy from the market via Basslink and gas to fire Bell Bay Power Station and the gas turbines.

Hydro Tasmania's total generation for 2006/07 was 9087 GWh compared to 10371 GWh in 2005/06.

Operational Short and Long-term Reliability

Water management

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

During the 2006/07 year, Tasmania received an estimated 69.5 per cent of its average annual rainfall.

Storages started the year at 30.5 per cent of full capacity and dropped below 20 per cent for the first time since 1967, down to a low of 17.3 per cent at the beginning of May 2007. Good rains during May saw storages end the year at 19.3 per cent.

It has been a challenge over the past few years to keep water levels within preferred operational limits that are considered by Hydro Tasmania to be sustainable and at low risk. Hydro Tasmania is implementing strategies for sustainable trading and operations to ensure long-term value against a limited energy position. A formal set of prudent water management criteria was introduced in August 2006 to maintain sustainable water management principles during low levels of storage and ensure the short and long-term reliability of electricity supply.

Several storages entered into low lake level medium or high risk environmental bands, triggering a range of additional mitigation actions, including regular monitoring of water quality and charophyte beds, as well as turbidity levels that could potentially impact both the environment and our generating plant. These bands have been set to ensure that environmental impacts are factored into our operations as we draw storages lower than our preferred operating ranges. P84

Basslink imports and gas-fired generation will continue to support Tasmania's power supply and help Hydro Tasmania meet the criteria for prudent water management.

In the last quarter of 2006, the gas peaking plant at Bell Bay was commissioned, having been purchased as an additional drought relief strategy in 2005. It operated in peak periods from November 2006 through to February 2007.

Bell Bay power site thermal units and the gas turbines generated 936 GWh during the 2006/07 financial year. The thermal units have operated continually, however the gas turbines have not operated since late February 2007 due to the pending sale arrangement of the units.

The Bell Bay site has been sold to Alinta, with the conditions precedent to the sale either satisfied or waived on 29 June. Under the sale arrangements, Hydro Tasmania will operate the Bell Bay Power Station until at least 2009. P107

Water allocation

Work continues on implementing the Memorandum of Understanding (MoU) between Hydro Tasmania, the Department of Primary Industries and Water and the Tasmanian Farmers and Graziers Association, which establishes a framework for future water allocation decisions in the South Esk, Meander and Macquarie catchments. It recognises historical water use and provides clarity about the allocation process used by Hydro Tasmania for future applications. We are continuing to liaise with farmers to resolve water allocation issues.

Power station reliability

Hydro Tasmania has a comprehensive risk management program to manage its asset portfolio. Key asset risks and mitigation measures are reported to executive management and the Board on a quarterly basis, with a major review every 12 months.

Hydro Tasmania's generation asset refurbishment plan aims to maintain satisfactory performance of power stations over the long term. Performance targets are set and monitored to ensure the reliability of generating units and to ensure the asset refurbishment plan is targeting assets appropriately.

Less than a third of key generation assets require refurbishment in the coming years, including some mid-life refurbishments for the 60 per cent of power stations built before 1970. The asset refurbishment plan calls for an increased level of investment in the existing assets to deliver the required level of performance over the long term. This will increase the internal competition for capital investment.

Capital expenditure on system refurbishment for 2006/07 was $37 million, with major projects completed during the reporting period at Gordon Power Station and Tungatinah switchyard.

Cloud seeding

Cloud seeding occurs between April and November each year during the normal rainy season. In 2006/07 there were 70 flights, 29 of which conducted cloud seeding.

A study of the socio-economic impacts of cloud seeding was instigated during 2006/07 following repeated

criticism from the West Coast Council, concerned about adverse impacts of cloud seeding-induced rainfall on residents and businesses in the municipality. The scope of the study was finalised in the reporting period with input from the Council to ensure its concerns will be included. The study is to be conducted independently of Hydro Tasmania and is expected to be completed by the end of 2007.

Operational efficiency

The efficiency of dispatching energy is influenced by system constraints, ancillary services requirements, available bidding tools and the efficiency of outage planning.

Since NEM entry, Hydro Tasmania has been in ongoing negotiations with NEMMCO and Transend Networks to ensure system constraints are set to allow maximum flexibility while retaining system security requirements. Progress towards a better balance between the needs of generation and system security is providing positive outcomes. Constraint conditions will be subject to ongoing negotiations as we learn more about the nature and impact of constraints on market operations.

The supply of ancillary services during this period of low water supply was costly for Hydro Tasmania. Work towards improving the situation in the 2006/07 period included negotiations with NEMMCO about ancillary service requirements and introducing an automated application to adjust the capability of our plant to provide services at varying water levels. Hydro Tasmania has also commissioned additional capability in frequency control ancillary services (FCAS) to lift the level of this service.

We will review our systems and procedures to improve flexibility and assist in maximising value, taking into account the lessons learnt in our first full year.

A new outage management system (eGO) was implemented in May 2007. It aims to improve the efficiency of planning and implementing outages, both forced and planned.

NEMMCO

Our plant was reviewed against NEMMCO's revised Generator Performance Standards, a major undertaking given the total number of generator units in Hydro Tasmania's 28 operating power stations. The standards were accepted and a compliance plan agreed. There was good cooperation on the revised standards between NEMMCO, the National Generators Forum, the Australian Energy Market Commission and Hydro Tasmania. Hydro Tasmania continues to enjoy a good working relationship with NEMMCO.

Table 4 Key performance indicators

Key Performance Indicator	2004/05 Actual (%)	2005/06 Actual (%)	2006/07 Target (%)	2006/07 Actual (%)
Start Success	98.3	98.6	> 98.5	99.13
Equivalent Forced Outage Factor	1.48	1.14	< 2.00	0.82
System Availability	90.68	87.87	>90	90.35

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

Performance remains stable on these indicators despite the increase in start/stop of machines by approximately 60 per cent since Basslink began operation.

Network service providers

Transend Networks

Generator upgrade connection applications have been processed by Transend promptly and without issue. Where connection assets maintained by Transend are for the sole use of Hydro Tasmania, differences remain regarding priorities on asset upgrade programs. The challenge remains to deal with these upgrades in a way that meets the needs of both organisations.

Basslink

Under the current drought conditions, Basslink is playing an important role in ensuring the Tasmanian electricity demand is met. Without Basslink, Hydro Tasmania estimates that hydro storages would have been around six per cent lower than they are currently. At such levels the supply would be jeopardised and it is highly likely some form of power restrictions would have been experienced during the 2007 winter.

A net export of 400 GWh was forecast for the reporting period with expected normal rain patterns. However, the extreme low inflow into storages through the year resulted in a net import of 1360 GWh. Basslink flow was made up of 1980 GWh of import and 620 GWh of exports.

The performance of Basslink during the initial period of commercial operation from 28 April 2006 was monitored by an independent Project Inspector. On 5 March 2007, the Inspector certified that Basslink operations and performance met contractual benchmarks.

With the completion of construction and proving stages of the Basslink Project, Basslink Pty Ltd is being sold by its parent company, National Grid plc, as the retention of its Australian asset is no longer a fit with National Grid's wider strategic direction. Hydro Tasmania and National Grid have worked together closely to ensure this process satisfies the requirements of both parties. Hydro Tasmania looks forward to building a productive long-term relationship with the new owner of Basslink Pty Ltd. P135

Energy Efficiency and Greenhouse Gas Emissions

Hydro Tasmania's target for the key performance indicator of reducing energy was 0 per cent for 2006/07. P36. However, the result was a reduction of 10 per cent, possibly due to the lower volume of energy consumed by hydropower generating units.

Hydro Tasmania addresses energy efficiency and greenhouse gas emissions principally through participation in the Australian Government's Greenhouse Challenge Plus program. Hydro Tasmania has been a member since 1997 and reports annually on the direct and indirect greenhouse gas emissions arising from business operations. Information can be found on the environmental publications page of our website.

Hydro Tasmania's Energy and Greenhouse Program, in its second year of operation during 2006/07, aims to:

- facilitate improvement in energy efficiency and greenhouse gas (GHG) management across Hydro Tasmania
- implement projects for energy and GHG savings.

Some progress was made during the year, with the key achievements being:

- identifying a range of projects to meet annual interim targets for energy reductions for the vehicle fleet, diesel power stations, buildings and facilities
- raising awareness of the importance of energy efficiency and greenhouse gas management to staff and management through various initiatives such as a management level steering committee.

An initiative to reduce energy consumption in Hydro Tasmania offices from office equipment and lighting was the Switch Off! campaign, which was launched in November 2006. A six-month progress report showed that on average the switch off rate for computers increased from 33 per cent to 43 per cent. This is estimated to decrease annual consumption by 72,000 kWh, equivalent to a saving of $8,600. The campaign is continuing in 2007/08.

Greenhouse gas intensity

Hydro Tasmania's key performance indicator under its Greenhouse Challenge Plus membership is GHG emissions intensity. This allows us to be compared with other electricity generators. The GHG intensity is measured in tonnes of carbon dioxide equivalent per GWh of energy generated (t CO_2-e/GWh).

Our performance for 2006/07 was 68.6 t CO_2-e/GWh (see Table 5). This has increased by 79 per cent from 38 t CO_2-e/GWh in 2005/06, due to increased use of the Bell Bay power site during the 2006/07 period, and reduced hydro generation owing to the low water levels. It should be noted that Basslink imports are not included in emission intensity calculations.

Excluding Bell Bay, Hydro Tasmania's emissions intensity also increased from 1.8 t CO_2-e/GWh to 2.4 t CO_2-e/GWh.

Table 5 Summary of GHG Emissions and Emissions Intensity for key emitters 2006/07

Facility/Activity	2005/06 Greenhouse Gas Emissions t CO_2-e/annum	2006/07 Greenhouse Gas Emissions t CO_2-e/annum	2005/06 Greenhouse Intensity	2006/07 Greenhouse Intensity	Units
Total Hydro Tasmania	401660.0	641692.9	38.3	68.6	t CO_2-e/GWh
Bell Bay	383802.0	621961.2	656.4	636.4	t CO_2-e/GWh
Hydro Tasmania excluding Bell Bay	17686.0	19867.3	1.8	*2.4	t CO_2-e/GWh
Total wind and diesel generation	12571.0	12359.5	638.1	787.7	t CO_2-e/GWh
Total vehicle fleet	2035.0	2160.7	0.28	0.33	kg CO_2-e/km travelled
Internal electricity consumption from buildings	245.9	279.5	39.3	44.7	kg CO_2-e/m2/ annum
Auxiliary electricity consumption from hydro generation system	2250.4	3165.5	212.7	342.1	kg CO_2-e/ GWh sent out/ annum

** In the 2005/06 Annual Report the target for 2006/07 for this indicator was 1.7 (Hydro Tasmania excluding Bell Bay)*

Energy use

Table 6 shows the quantities of the various energy types consumed by Hydro Tasmania during 2006/07. Electricity consumption for power stations, buildings and other facilities was 109 GWh.

Natural gas consumption increased by 61.9 per cent compared to the previous year due to increased generation from the Bell Bay power site.

Vehicle fuel use increased over the year and can be attributed to the increase in the number of vehicles in the Hydro Tasmania fleet and total kilometres travelled.

Table 6 Energy Use

Resource	Quantity 06/07	Quantity 05/06	Unit
Natural Gas (Total)	9.78	6.04	PJ
Diesel (Islands)	4,037	4,092	kL
Unleaded Petrol (Fleet)	458	438	kL
LPG (Fleet)	1	7	kL
Diesel (Fleet)	317	266	kL
ATK	12	21	kL
AvGas	1	2	kL
AvTurb	51	63	kL
Total Electricity Consumption	109	108	GWh

Note: Natural gas consumption units in the 2005/06 Annual Report were incorrectly named as PJ instead of TJ. All figures were accurate

Greenhouse gas emissions

Hydro Tasmania's GHG emissions for 2006/07 were 641,693 tonnes CO_2-e (Figure 4).

In keeping with the past four years, almost 97 per cent (621,961 t CO_2-e) of these emissions were from the Bell Bay power site. Contributions of more than 10 per cent of the remaining three per cent of total emissions (19,868 t CO_2-e) were from the diesel power stations on the Bass Strait islands, electricity used within the hydro power generation system and the vehicle fleet.

Although still small in total, emissions from sulphur hexafluoride (SF6) increased significantly in this reporting period due to two spills, one of 50kg and one of 3kg. These spills translated to 1380.4 t CO_2-e, which is over 11 times the 2005/06 total of 123 t CO_2-e. During the year an investigation into SF6 storage, tracking, recording and management was conducted and an implementation plan for better management put in place for the 2007/08 period.

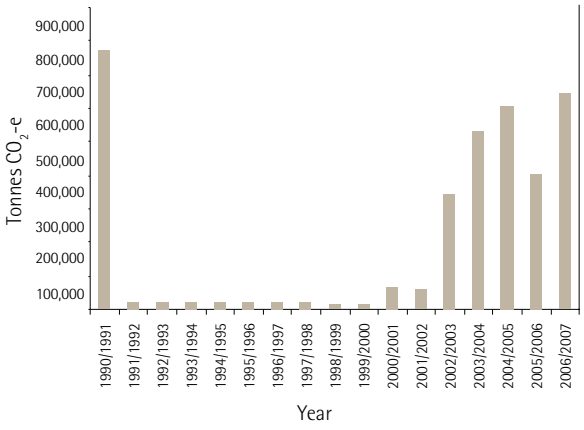


Figure 4 GHG emissions 1990-2007

Resource Use, Waste and Emissions

Hydro Tasmania aims to improve its measurement and performance in resource use, waste and emissions by auditing the Hobart office and implementing strategies to minimise consumption and waste levels, and by consolidating data from across the business. We appreciate that our performance will impact on local environments and communities through effects on water quality, landfill and contamination, and also the perception of the community on our claims to be a sustainable business.

Resource use

Some ad hoc resource use initiatives were implemented at some power stations and in the Hobart office. Efficient plumbing fixtures continued to be installed in the Hobart office to reduce water consumption. A small group of dedicated staff have initiated the Clean Biz program, which aims to coordinate activities targeting resource use in the Hobart office and which ultimately may be adopted by other sites.

Operational waste management is specified in the environmental management plan for each project. It specifies how the waste is to be handled and disposed and refers to any other specific plans for controlled waste, such as oil or asbestos. A data tracking system has been implemented to document waste disposal in preparation for implementing a formal business-wide process.

Atmospheric emissions

Atmospheric emissions of waste from operations are shown in Figure 5. These are reported on the National Pollutant Inventory website using their calculations. The sources of these emissions are the gas-fired Bell Bay power site, and King and Flinders islands diesel power stations. Emission factors and fuel usage have been used to calculate each emission.

Data showed Bell Bay power site waste emissions returned to 2004/05 levels and Bass Strait islands waste emissions were close to 2005/06 levels due to similar usage of diesel and similar input from wind turbines.

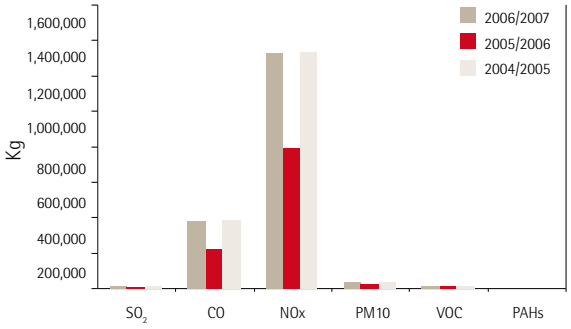


Figure 5 NPI Atmospheric Emission Profile Comparison 2004/05 to 2006/07

Key:
SO_2 = Sulphur dioxide
CO = Carbon monoxide
NOx = Oxides of nitrogen
PM10 = Particulate matter 10.0µm
VOC = (Total) Volatile organic compounds
PAHs = Polycyclic aromatic hydrocarbons

Spills

Altogether there were 20 severity-1 spills with negligible or insignificant environmental harm or nuisance and seven severity-2 spills where environmental harm was likely and/or a regulatory requirement breached.

The seven severity-2 spills are listed here.

- An oil spill at Poatina Power Station, where up to approximately 150 litres of oil were lost via the tailrace to water. No environmental impact was observed when the incident was reported and investigated. No stakeholder complaints were received.
- 200 litres of the chemical C-Treat-6 were lost to the waterway from Reece Power Station. There was no obvious sign of environmental harm.
- 60 litres of oil were lost to ground from a transformer at King Island's Huxley Hill Wind Farm. All contaminated soil was removed.
- At least 200 litres of oil were lost to soil and possibly water from a transformer at Liapootah Power Station. While soil contamination is evident, an independent investigation considered that it did not present a significant risk to soil ecosystems or human health.
- An unknown quantity of diesel leaked to soil from a bowser at Wayatinah. The faulty equipment has been replaced and soil contamination remediated.

- Effluent overflowed from the Strathgordon sewage system on four occasions, with two of these being severity-2 events, despite an upgrade of the plant. After the first overflow, a cut-off drain was built to prevent discharge into Stinky Creek. The plant is currently operating but still has capacity problems with heavy rain conditions. The capacity of the sewage system is under review. The in-ground infrastructure has been assessed and repairs are required to limit inflows. During 2007/08 these repairs will be requested and completed, subject to funding approval.

All environmental incidents are reported and managed in accordance with environmental incident management procedure in the environmental management system, ESMS, certified to ISO 14001.

Non-compliant discharges

Water discharge from Bell Bay

Cooling water is drawn from the Tamar River and discharged to Donovans Bay on the northern side of the Bell Bay Power Station. Studies conducted for Hydro Tasmania have determined that the warm water discharge is acceptable and within the limitations allowed by the site Environmental Protection Notice (EPN) and has no significant impacts on biodiversity value of water bodies and related habitats. The gas turbine facility does not require water for cooling.

During 2006/07 at the Bell Bay Power Station, monitoring of cooling water indicated a non-compliance with limits specified under the Environment Protection Notice. Following site maintenance work and a problem with caustic flows, the coalescing filter became clogged. As a result, the released cooling water did not meet the requirements of the EPN for pH and suspended solids. The release period was reported as being less than 10 hours, and when identified, immediate action was taken to rectify the situation. A contributing factor to the incident appears to have been an oversight in handing over operation and maintenance requirements to a new contractor a few days prior to the incident. Monthly sampling since the incident has shown discharge within the required limits.

Gowrie Park sewage pond

At the Gowrie Park sewage pond, sampling results for a downstream site indicated a level for non-filterable residue (NFR) higher than that permitted under the EPN. Inflow and outflow sampling for the pond did not indicate the same result as the downstream site. It therefore appeared to be a result of external factors rather than the operation of the pond itself.

Sustainability Self Assessment and Commitments

2005/06 Score	2006/07 Target	2006/07 Score	2007/08 Target
3.5	4.0	3.5	3.7

The score has been maintained for this element despite a downward score adjustment from last year for one indicator. The 2007/08 target has been adjusted downward.

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

↓	Despite consistent reliability in the face of a record number of power station stops and starts following NEM entry, concerns remain about long-term reliability of generation plant and associated infrastructure.
↑	Asset management and outage planning were effective, and asset upgrades were successfully completed, particularly at Gordon Power Station.
→	New prudent water management criteria were adopted to ensure long-term reliability of the system.
→	Good work in resolving major constraints although still some major limitations to resolve.
↓	Ancillary service requirements were reviewed with NEMMCO and additional capacity was commissioned.
↑	The revised Generator Performance Standards and Compliance Monitoring Program Framework were accepted by NEMMCO.
↓	Hydro Tasmania and Transend Networks have significantly different business drivers and therefore priorities for asset upgrades. This creates some relationship strain.
↑	Basslink operations and performance were certified as meeting contractual benchmarks.
↑	Hydro Tasmania is developing a whole of business climate change response strategy. P38
↓	Despite good plans and some progress in improving energy efficiency, significant reductions in energy use and/or GHG emissions have not yet been realised.
↓	Bell Bay power site has been operated continually for the 12-month period thus increasing emissions.
↑	High efficiency dual flush toilets and sensor activated water taps were installed in many bathrooms in the Hobart office building.
↓	Gaps are still evident in water data collection, waste management and whole of business waste planning.

Performance against 2005/06 commitments

Commitment		Progress
Evaluate CSIRO Climate Change study results in context of our operational models and determine future action plan.	✓	Completed.
Implement social and environmental management action plans if medium and high-risk levels are reached.	✓	Completed.
Develop a plan to achieve reductions in greenhouse gas emissions and energy use as defined in the Corporate Plan.	–	Partially complete. Projects to achieve energy reductions have been identified and plans will be developed in 2007/08.
Implement the asset sustainability refurbishment program, focusing over the next five years on Poatina, Gordon, Tarraleah, Liapootah and Tungatinah power stations.	✓	Under way for Trevallyn, Gordon, Poatina, and Lake Margaret.

2007/08 commitments

Hydro Tasmania is committed to lifting its sustainability performance for this element. In addition to taking action to maintain current scores and meet the key performance indicators shown in Table 18 P147, in the coming year we will:

- complete the socio-economic study into impacts of cloud seeding
- continue to implement the asset sustainability refurbishment program
- continue to update the outage program to maximise sustainable value in the market
- work closely with NEMMCO, Transend and other network service providers to reduce the impact of constraints on our operations and revenue
- undertake a comprehensive waste audit at Hobart office and implement strategies to minimise both consumption and waste levels in the building
- consolidate data and ensure full coverage of waste and emissions from across the business, addressing any gaps
- implement more rigorous procedures for SF6 to track inventory and minimise losses
- implement project to assess PCB quantities in electrical cables and develop best practice process to dispose/recycle waste, commencing at Poatina.

Tarraleah penstock

Nick Rowcroft and Anthony Mountain with the Ajenti meter at Meadowbank Estate, Cambridge

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.

Sustainability Policy

Market

Hydro Tasmania's revenue comes from selling electricity in the NEM, electricity contracts, environmental energy products and Hydro Tasmania Consulting's services and products. Technical product teams develop new products through research projects and analysing market and customer needs.

Electricity

A focus on relationships has resulted in a substantial improvement in our understanding of the needs of customers and counterparties. We are also in regular dialogue with regulators to ensure we are not disadvantaged by changes to the market environment. Similarly, we endeavour to maintain good relationships with our network service providers given the important role they play in the operation of the market.

Influences on the NEM environment this year were the drought and related increases in spot and contract market prices, new market products and the start of the retail contestability rollout for the Tasmanian market.

Our first full year in the NEM was a time of learning. We encountered difficulties achieving optimum revenue outcomes during periods of market stress (high prices). This was due to a range of factors, including constraints, to be addressed through strategies during the 2007/08 year to improve our capability to capture value from market opportunities.

Inflows over the period were 30.5 per cent below expectation and storage levels dropped 10 per cent. Tasmania's electricity demand was partially met by importing over Basslink (13 per cent of electricity consumed) and by running Bell Bay Power Station and the gas turbines. Without both Basslink and gas, Tasmania faced the prospect of power rationing.

Total cash flow from operations was $37.4 million, which was $45 million below the budget figure of $82.4 million. This was partially as a result of the cost of purchasing electricity over Basslink and running the Bell Bay power site.

Over its first full year of operation, Basslink proved its value as a drought mitigation strategy. This was one of the main drivers for the Basslink project in 1998. Subsequent assessment showed that a trading surplus could be achieved in normal climate conditions. However, 2006/07 conditions were well below normal.

Basslink is a 25-year investment and an integral part of Hydro Tasmania's system management over the long-term. When inflows are high, additional hydropower will be exported to Victoria. In high and typical inflow periods, export will help avoid wasting fuel (water) due to spill over dam walls.

The Bell Bay gas-fired power site generated 936 GWh during the reporting period. In April, the gas supply to Tasmania was disrupted due to a maintenance outage by Esso at Longford, Victoria. The result of this was that Tasmanian power prices rose significantly for a period while energy supply was met by an increased demand on both imported energy and hydropower generation, putting further pressure on managing water storages.

Market prices

The drought along Australia's eastern seaboard impacted on electricity supply and caused the average spot price of electricity in Victoria to rise 68.8 per cent compared to the previous year. This additional cost in the Tasmanian market from the higher cost of imports is borne by Hydro Tasmania because most retail consumers remain protected from fluctuating energy prices while regulated tariffs remain in place.

The three-yearly review of regulated electricity prices was under way at the end of the reporting period. A draft decision announced on 31 July means an average retail tariff increase of 15 per cent from 1 January 2008.

Retail contestability began in Tasmania in July 2006 as a result of Tasmania entering the NEM. Consumers using more than 20 GWh per year became contestable, providing an opportunity for new retailers to enter the Tasmanian market. On 1 July 2007, users of more than 4 GWh per year became contestable. Three additional electricity retailers have received retail licences for Tasmania.

Electricity products

Electricity contracts are generally financial derivatives settled on the spot price of electricity.

The Renewable Energy Certificates (RECs) market rallied during the year as the supply/demand balance tightened.

Hydro Tasmania commenced trading a number of electricity and environmental energy products. These included settlement residue auction units, NSW Greenhouse Abatement Credits and environmental energy product options.

State-based emissions trading schemes are encouraging the development of environmental energy products. The New South Wales Greenhouse Abatement Credits (NGACs) and the Victorian Renewable Energy Target credits provide opportunities for Hydro Tasmania and its subsidiary generation companies to enhance the value of our low emission electricity portfolio. More state-based schemes may emerge, and further opportunities will arise from the Federal Government's proposed carbon emissions trading scheme and possible enhancements to the Commonwealth mandated renewable energy target.

Consulting

Hydro Tasmania Consulting is focused on becoming the leading consultant in sustainable water and energy solutions in its chosen markets of Tasmania, the eastern seaboard of Australia, India and the Pacific Basin, and to be recognised by clients for its expertise, being easy to do business with and offering attractive products that reflect its commitment to being planet friendly.

Hydro Tasmania Consulting continues its aim to increase client diversification, measured by the revenue from external clients. The result in 2006/07 was 42.8 per cent of total revenue, short of the ambitious target of 49 per cent. However, overall sales increased.

Hydro Tasmania Consulting continues to expand and diversify its client base within Australia, particularly in Queensland and Victoria. The Victorian regional office exceeded sales targets for the year. It provides a hub for servicing interstate clients.

Hydro Tasmania Consulting India Pvt Ltd's office was officially opened in New Delhi in February 2007 with the aim to service the growing Indian renewable energy development market and surrounding Asia-based clients. Local expertise has been engaged to fast-track the learnings of the different business and cultural requirements involved in operating an Indian-based company. A guide for Australian-based staff visiting India is being developed to provide support and education on business and cultural issues.

Product development

Two new products have been developed and taken to market during 2006/07. The products meet emerging market needs in water management.

Ajenti is an integrated water data management system. The product has been in development for the last three years and was officially launched in May 2007.
A product team has been established to ensure its ongoing development is managed to achieve the best commercial outcomes for the new product.

Water Resource Management is a bundled product, consisting of a range of individual environment and catchment management services that can be adjusted for specific water catchment needs.

Marketing

This year, greater emphasis was placed on understanding our markets and the products we offer from Hydro Tasmania Consulting. Teams have participated in forums to review current products and identify new opportunities.

A central marketing team, managed by a Certified Practising Marketer, ensures the Hydro Tasmania Consulting brand is managed, undertaking all marketing communication activities and producing all marketing material according to the brand style guide.

A framework of metrics was developed to measure and report marketing and sales effectiveness during the 2006/07 period and will be introduced in the next financial year.

Client feedback

A client satisfaction survey, undertaken to better understand our performance across key service areas, established a baseline score for future biennial surveys. It showed that our services are well received by clients and highlighted areas to increase our focus. Clients provided useful feedback on strengths and weaknesses. Data is being evaluated and key recommendations from the research will be prioritised and implemented over the next two years to improve the service Hydro Tasmania Consulting offers its clients.

Innovation and Research

Hydro Tasmania believes that investing in research and development provides the potential for an early adopter competitive advantage. We seek to leverage from our relatively limited investment capacity through partnerships. Our research program is aimed at reducing negative environmental impacts on the energy supply system, improving operational efficiency and encouraging renewable energy technologies.

A new three-year agreement is being developed with the priority to realise the commercial potential of current research outcomes of hydrogen technology.

Our approach to ensure successful research, credibility of outcomes and to leverage funding, is to establish formal partnerships by various methods such as joint ventures, agreements, contracts and in-kind support.

An example is the approach being taken for installing a carbon block energy storage device on King Island which will reduce the use of diesel fuel by optimising the efficiency and use of renewable energy generation.
The technology is in its infancy and is not currently available commercially. A 50/50 joint venture company has been established with the technology licence holder, CBD Energy, which will capture intellectual property (IP) from the integration and optimisation of the project.
This IP may lead to further developments using the innovative technology.

The primary focus for research in the 2006/07 period was on the environmental impacts of drought and water quality.

Table 7 Research Projects

Research Partner/s	Project/Innovation
Deakin University	The University of Tasmania PhD on Nutrient Cycling in Lagoon of Islands: Management to Control is almost complete and outcomes are already influencing the development of strategies for improving water quality in the Lagoon of Islands.
University of Tasmania School of Geography and Environmental Studies	A Masters study investigation into environmental flows from Lake Augusta will propose alternative management options aimed at improving river health.
Australian Maritime College / University of Tasmania and Inland Fisheries Service (IFS)	An Honours study investigating the trophic roles and population dynamics of redfin perch (Perca fluviatilis) in the Lagoon of Islands will support the proposed biomanipulation project aimed at reducing fish populations and raising the zooplankton communities.

Ajay Sharma, left, with Regional Manager India, Larry Polglase, in New Delhi

Sustainability Self Assessment and Commitments

2005/06 Score	2006/07 Target	2006/07 Score	2007/08 Target
3.0	3.5	3.2	3.5

The score has been slightly improved for this element despite a downward score adjustment from last year for one indicator. The following aspects contributed to an overall performance of slightly above satisfactory.

↑	A number of new electricity and environmental energy products generated significant revenue for the business.
↑	A focus on improving relationships has substantially improved our understanding of the needs of customers and counterparties.
↑	Consistent with our prudent water management strategy, we achieved a balance between storage level impacts and revenue, under difficult drought conditions.
↓	Achieving optimum revenue outcomes during periods of high prices was challenging.
↑	Two new Consulting products have been developed and taken to market, which meet emerging market needs in water management.
→	Client satisfaction research shows our Consulting services are well received by clients, with areas for increased focus highlighted.
↑	Hydro Tasmania has undertaken research into new technologies, asset upgrade options and water management improvements, resulting in new projects.
↓	A broad strategy to guide research for the organisation has not yet been established.

Performance against 2005/06 commitments

Commitment		Progress
Develop a formal research and development strategy to meet Corporate Plan targets for investment and renewable energy pilots and research	–	The focus has instead been on developing significant projects which were identified in 2005/06. Strategies for research and development in specific areas of interest have been developed.
Implement marketing metrics to improve the measurement and reporting of Consulting marketing and sales activities	✓	Completed.
Develop new market opportunities in the NEM as per Corporate Plan targets	✓	Target met.

2007/08 commitments

Hydro Tasmania is committed to lifting its sustainability performance for this element. In addition to taking action to maintain current scores and meet the key performance indicators shown in Table 18 P147, in the coming year we will:

- actively investigate new Consulting products and markets to expand the business and client base where feasible
- develop comprehensive innovation, research and development programs for new and existing Consulting services
- implement Consulting client satisfaction survey recommendations to improve service delivery
- formulate whole-of-business research and development strategy.

Tim Cubit and Alicia Scanlon at Lake Meadowbank

We ensure our financial practices promote long-term prosperity and enhancement of the business.

Sustainability Policy

Finance

The adoption of new accounting standards in 2006 has dramatically changed the appearance of the Corporation's financial statements. A number of financial assets and liabilities that were previously disclosed by way of note to the accounts have been recognised on the Balance Sheet at fair value. Changes in the fair value of the assets and liabilities between years are reported as gains or losses in the Income Statement. These fair value gains and losses have the potential to be volatile as their valuations are dependent on inputs such as forward energy prices and interest rates which have their own inherent volatility. The Income Statement for 2007 reports a result before the net fair value gains which provides an indication of our results from normal operations and which is more closely aligned to cash flow.

Short Term

Profit before fair value movements and the Bell Bay sale for 2006/07 was $19.5 million. This was considerably lower than our 2006/07 target, primarily due to the

impact of low inflows on our hydro generation and the substantial costs of meeting demand by running Bell Bay Power Station and importing electricity across Basslink. The impact of import costs was partly offset by high market prices captured in June after receiving rain in May.

Profit before tax for the year was $113.5 million. This includes $82.8 million in fair value movements and a gain on the Bell Bay sale agreements of $11.2 million.

Our cash flow, measured as receipts from customers less payments to suppliers and employees (presented in the Cash Flow Statement) was $134.5 million, a drop of $87.1 million from the previous year. Again, this was primarily attributable to the low inflows received during the year. The tough operating conditions and reduced cash flow had a significant impact on our debt levels. Our net debt increased over the year from $1.061 billion to $1.141 billion. Despite this, the Corporation has adequate standby facilities available to draw on in the event they may be required in the future.
With the market interest rates rising over the year, the Corporation's weighted average cost of debt at 30 June 2007 was 6.46 per cent, an increase of 31 basis points over the 2006 level.

Our operating costs, including labour, came in under target for the year. We did see increased costs of operating Bell Bay and from Basslink. The Basslink facility fee payments include a variable element that follows market electricity prices. With market prices moving higher and faster than predicted this element of the facility fee increased. Normally, the higher prices would present additional revenue opportunities through export across the link. However, due to the low inflows and the impact on our storages these opportunities were constrained in order to hold our storage position and maintain the energy supply to the State.

During the year, the Corporation launched the Get Competitive Program. This initiative came about as a result of the need to ensure that the business operated from a competitive cost base in the NEM. The program identified target areas for reduction of recurrent expenditure, established savings of $7.7 million in 2006/07 and has targeted $20 million in cost reductions by 2009. The low inflows during the year heightened the need to control our costs and there was a sharp focus on our discretionary spend during the year.

Table 8 Distribution to Government

Distributions to Government	2005/06 $M	2006/07 $M
Dividend	40.0	21.2
Income tax equivalent	19.1	28.7
Government guarantee fee	4.1	5.1
Rates equivalent	2.9	2.8
Total	**66.1**	**57.8**

Distribution to Government

The dividend of $21.2 million paid during the year was declared from the 2006 profit. The low inflows for the year, and their flow-on impact to the operating result and debt levels, place the Corporation in a position where it will not be recommending that a dividend be paid to the State. This is the first time since the disaggregation of the Hydro-Electric Corporation in 1998 into three separate utility businesses that Hydro Tasmania has not declared a dividend. Funds that would have been applied to payment of a dividend will be utilised to keep debt levels down and rebuild storages.

For subsequent years, Hydro Tasmania's weak Balance Sheet and its need to improve the capital structure will result in moderate returns to Government and until our capital structure improves, a low fixed dividend of $10 million per annum is planned, although this will be reviewed to take account of revenue outcomes, inflows and our storage position.

Income tax payments also reflect the 2006 result. Lower payments are expected in 2007/08 as a result of a lower taxable income in 2006/07.

Capital expenditure

The capital program was largely maintained during the year with our capital expenditure of $54.2 million being on target. In addition, further investment of $10 million was made in the Roaring 40s joint venture.

Long Term

In 2006/07, the drought conditions and low inflows had a significant, adverse impact on our financial position. Our recovery from this position will continue in the medium term, and even if inflows return to "average" levels, we will still have a financial burden due to the need to invest in rebuilding our storage position. Despite the disappointing short-term financial results, Hydro Tasmania believes that the long-term financial outlook remains positive.

The outlook is partly influenced by the business opportunities presented by global responses to climate change. As Australia's leading renewable energy generator, Hydro Tasmania is in a position to respond to opportunities as they arise. The development of a carbon market in Australia has the potential to provide a significant boost to the revenues of both Hydro Tasmania and Roaring 40s. We recognise that there are areas to develop and to improve in our response to climate change. Investigation is currently under way into how best to position the business in the current debate and leverage maximum benefit from our competitive advantage.

Strategies to maximise revenue, improve our capital structure and reduce costs are in place to contribute to long-term financial health.

Hydro Tasmania faces business risks from the trend in the NEM toward vertical and horizontal integration and the overall rise in electricity prices as a result of drought, particularly while we rely on imports over Basslink to assist with the low storage position. In the short run this also reduces the extent to which Hydro Tasmania can benefit from the overall price rise in the NEM. However, in the medium to long term, as our storages rebuild, Hydro Tasmania will be able to access significant upside from the higher prices, influencing the positive long-term value of the business.

Capital structure and debt

Hydro Tasmania regularly reviews its capital structure. The 2007 review indicated that our Balance Sheet has too much debt to withstand significant negative impacts to our profit generating capability, including unfavourable hydrological or market events. The review recommends that Hydro Tasmania should reduce its debt level by between $300 million and $450 million to improve its sustainable financial resilience. Discussions have continued with our Shareholder regarding a $300 million equity injection. Our financial strategy is to reduce the level of borrowings by paying down debt with free cash, carefully assessing the merits of competing demands on funds.

Basslink hedging

Costs associated with the initial phase of Basslink are incorporated into ongoing hedging contracts of 24 years duration, at an effective fixed interest rate of 7.41 per cent. The fair value of the Basslink hedges has been recorded as a financial liability. Further detail is available in notes 14 and 17 of our financial statements.
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Gordon Power Station refurbishment

Government financial assistance

The Tasmanian Government provides financial assistance to Hydro Tasmania through Community Service Obligation funding, grants and supplying guarantees to our financiers.

Hydro Tasmania has a formal agreement with the Department of Treasury and Finance to provide concessional arrangements to electricity customers on the Bass Strait islands, with net costs of the activity funded by the State Government as a declared Community Service Obligation of $6.4 million in 2006/07.

Hydro Tasmania Consulting and the Department of Primary Industries and Water (Tasmania) received a grant for $8.7 million over three years from the Australian Government National Water Commission for the Tasmanian Water Use Management Project. The project will provide licensed water users across Tasmania with reliable water use data for management and planning purposes. The project utilises the innovative telemetry system, Ajenti, which has been developed by Hydro Tasmania Consulting. See more information on Ajenti.
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Gordon Power Station

Sustainability Self Assessment and Commitments

2005/06 Score	2006/07 Target	2006/07 Score	2007/08 Target
3.9	4.0	3.6	3.4

The 2007/08 target has been adjusted downward to be realistically achievable. The following aspects contributed to an overall decline in performance to slightly above satisfactory.

- ↓ Cash flow was $134.5 million, a drop of $87.1 million from 2005/06.
- ↓ No dividend will be declared from the 2006/07 profit and net debt increased over the year by $80 million.
- → In response to the tight financial position, a rigorous cost control program was established, saving $7.7 million in recurrent costs in 2006/07.
- ↓ Record low inflows will continue to impact on our financial performance in the medium term.
- ↑ Hydro Tasmania is developing strategies to respond to opportunities created by increasing momentum of the climate change agenda.
- ↑ Market prices have increased substantially.

Performance against commitments

Commitment		Progress
Meet financial expectations as outlined in the Corporate Plan	✗	This is attributable to low inflows, and the associated costs of running Bell Bay and importing electricity across Basslink.
Implement strategy to reduce internal costs	✓	Under way and achieving results.

2007/08 commitments

Hydro Tasmania is committed to lifting its sustainability performance for this element. In addition to taking action to maintain current scores and meet the key performance indicators shown in Table 18 P147, in the coming year we will:

- achieve additional targeted savings of $5 million in 2007/08
- lift business trading revenue by selling energy for a higher value in the marketplace
- establish an asset valuation methodology more representative of the Corporation's enterprise value.

Chris Livingston and Mark Johnston with TAFE participants testing water quality

Stakeholders

"There has been a realisation within the organisation that the Hydro operates for more than water and electricity generation, that there is also a social responsibility. We are very involved with various projects with them and particularly for a bloke like me who has been hammering away at the Hydro for the previous 15 years without a lot of success, it is an absolute breath of fresh air."

Richard Dax, Angling Alliance Tasmania

Celebrating 2007 as the Year of Women in Engineering are from left to right, back: Kirsten Adams, Kirsten Kuns and Fiona Ling; middle: Narelle Roolker, Alicia Scanlon, Tammy Chu and Jane Barrow; front: Cynthia Nixon

Stakeholders

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.

Sustainability Policy

Employee Capability and Opportunity

In 2006/07, the two big issues faced by Hydro Tasmania's staff were negotiating the next Enterprise Partnership Agreement (EPA) and restructuring the business.

Enterprise Partnership Agreements

Two new EPAs were negotiated in the first half of this reporting period to cater for the different career progression and remuneration requirements of Hydro Tasmania Consulting compared to the rest of the business. The EPAs cover employment conditions of the 82 per cent of Hydro Tasmania staff on award level positions in the categories of full-time, part-time, fixed-term and casual. The remaining 18 per cent are management level employees. All Hydro Tasmania fixed-term and part-time employees receive the same benefits as full-time employees except that redundancy provisions generally do not apply to fixed-term employees.

The Hydro Tasmania Consulting EPA 2006-2008 covers 261 employees and provides a flexible remuneration model based on a career progression framework, the CapAbility Pathways. The remuneration model allows managers to reward employees on their performance and development. The EPA was approved by 68 per cent of Consulting staff who voted. The employees voting in favour constituted 47.6 per cent of the eligible voters in Consulting. The EPA is a union-collective agreement with the Association of Professional Engineers Scientists and Managers Australia (APESMA) as the union party.

The Hydro Tasmania Energy/OCEO EPA 2006-2009 is an employee collective agreement, covering 406 staff and was approved by 52 per cent of those who voted. The employees voting in favour constituted 41.3 per cent of the eligible voters in Energy/OCEO. Hydro Tasmania has delivered its commitment for career progression by creating several new senior roles in the restructure of the organisation, and is undertaking a review of the remuneration structure. The negotiations dealt with pay parity with other Australian electricity industry companies. Research carried out by Hydro Tasmania shows that, as far as direct comparison is possible, its pay and conditions are consistent with other companies in the utilities industry.

Protected industrial action was taken by members of the Communications Electrical Plumbing Union (Electrical Division), or ETU, by placing a ban on overtime towards the end of the negotiations. ETU members held a strike for one day in October. The stoppage did not interfere with normal business activities, with non-union employees continuing to work. The protected industrial action concluded when Hydro Tasmania and employees reached the employee collective agreement.

The conditions in the EPAs meet, and in many cases exceed, those in the Australian Fair Pay and Conditions Standard of the *Australian Workplace Relations Act 1996*. Such conditions include sick-leave conditions and paid parental leave.

Hydro Tasmania has committed, through both EPAs, to communicate with employees on significant changes that affect their working environment as early as possible after the decision has been made and to discuss the impact of those changes. In addition, Hydro Tasmania endeavours to consult with employees on issues which affect their employment; for example, the Hydro Tasmania Remuneration Review.

Following the EPA negotiations, a consultative framework was set up with the ETU, APESMA, the Australian Services Union and the Australian Metal Workers Union and employee representatives. The framework outlines who should attend, the frequency and the nature of the meetings to be conducted.

Restructure

The second half of the reporting period was taken up with restructuring the business. The new structure focuses on creating one integrated business with a commitment to groups working together, providing strong customer service, reducing bureaucracy and creating greater efficiencies and collaboration. The aim is to give Hydro Tasmania a strong foundation to meet the challenges and opportunities of a changing business environment into the foreseeable future.

The high-level management structure was in place by the end of the reporting period. It is expected that the process will continue and will be fully implemented by the end of 2007. All positions for the change have been recruited internally. The hold on external recruitment to fill restructure positions has meant that employee numbers have reduced, mostly through natural attrition. Where possible, the principle of redeployment has been applied to redundant positions.

The CEO provided information personally to the workforce by speaking to our employees about the business strategy and why the structural changes were necessary before they occurred. Recognising staff feedback that many employees do not fully understand our business strategy, communicating the strategy will continue to be a focus of senior management as the structure settles and the context of the changes becomes clearer.

Opportunity and Equity

A review of the Equal Employment Opportunity (EEO) policy and procedure during the year has shifted emphasis from compliance to recognising the importance of embracing diversity across Hydro Tasmania. The employee survey indicates employees are generally satisfied with the employee equity and opportunity programs, with a score of 71 per cent.

The on-line EEO training, introduced in the previous reporting period, has been completed by 89 per cent of employees, up from 19 per cent last year.

Hydro Tasmania, like many other businesses in the energy industry, has a gender imbalance with males constituting 77 per cent of our workforce. The ratio of males to females is 3.3 compared to the industry median of 3.69. The organisation encourages workforce diversity and applies principles of equal opportunity in the recruiting process. An affirmative action plan is not part of our recruitment practices as we are intent on getting the right person for the job. Our Board continues to maintain

a more balanced gender mix than other parts of the business (see Table 9).

Table 9 Hydro Tasmania employee gender composition on employment category

Category	Female %	Male %	Number of Employees
Award Level	25.19	74.81	667
Board*	42.86	57.14	7
Executive	14.52	85.48	62
Unclassified	25.00	75.00	4
Snr Officer Band	11.69	88.31	77
Total	**23.26**	**76.74**	**817**

These figures, and all tables in this section, are derived from the pay system on 30 June

** One Director, although appointed to Board, had not been registered in pay system on 30 June. CEO is included in Executive numbers*

Table 10 Hydro Tasmania employee gender composition by employment type

Employment Type	Female %	Male %	Total %
Casual	3.16	3.03	3
Full time	74.74	94.58	90
Part time	22.11	2.39	7
Total	**100**	**100**	**100**

Employee Satisfaction

Employees continue to support Hydro Tasmania overall and the annual Staff Feedback Survey shows engagement is above the national average.

The response rate was 72.9 per cent, down from the 85.6 per cent rate of 2006.

Engagement is measured by the number of employees who rate highly all of the following indicators: job satisfaction, motivation, commitment, product and service advocacy, employer advocacy and overall satisfaction. Hydro Tasmania regards the methodology as a robust method to give a complete picture of employee engagement.

The score of 35 per cent, up slightly from 34 per cent last year, is above the median industry benchmark of 31 per cent as provided by Right Management Consultants in 2007, and is 83 per cent of the score of Right Management's top quartile performing companies. This score is our key performance indicator for employee satisfaction.

The key findings of the survey remained largely the same as last year. Our strengths are safety, job commitment and pride, freedom to speak openly and management support. Staff expressed concern in the areas of feeling more valued, having greater involvement in change and having an appropriate workload. Areas of concern that remain from the previous survey are knowledge transfer, learning from the past, managers demonstrating our values and open working relationships between business groups.

Employee separations

The employee initiated separation rate at Hydro Tasmania is 10.48 per cent and does not include casual employees. Overall turnover rate, including casuals, is 18.73 per cent.

During the reporting period, 32 people received redundancy payments, four voluntary and 28 compulsory, in accordance with the redundancy provisions of the EPAs. At 30 June, Hydro Tasmania employed 817 people.

Rates in the following tables are calculated against employee numbers in each category on 30 June 2007.

Table 11 2006/07 Hydro Tasmania employees leaving by gender

Gender	Numbers	Rate %
Female	38	20.0
Male	115	18.34
Total	**153**	**18.73**

Table 12 2006/07 Hydro Tasmania employees leaving by age group

Age Group	Number	Rate %
Under 30	45	41.28
30 to 50	70	13.78
Over 50	38	19.0
Total	**153**	**18.73**

Table 13 2006/07 Hydro Tasmania employees leaving by location

Location	Number
Tasmania	148
Victoria	1
South Australia	3
Western Australia	1
Total	**153**

** Three employees from the Adelaide Consulting office left in 2006/07 and the remaining three left by 31 July 2007, when the office closed*

Work-life balance

In order to assist our employees to balance their work, family and other commitments, we have a number of flexible working arrangements such as part-time, home-based work and flex-time. Hydro Tasmania has formalised working from home provisions, by implementing a Home Based Work policy. In addition we have formalised our flex-time provisions in both EPAs.

Flexible working arrangements, including eight or nine-day fortnights, provide the workforce with the opportunity to balance their lifestyle and demands of their job. In the Staff Feedback Survey 2007, 76.9 per cent of respondents agreed that their manager supports them to balance their work and home life demands.

Workforce Planning

While the workforce at Hydro Tasmania is of a high standard, Hydro Tasmania is affected by skills shortages for telecommunications; hydrologists; power, dam and electrical engineers; technical officers; project managers; electrical and mechanical fitters; maintenance fitters and business analysts. If left unaddressed this could potentially impact the ability of the business to operate effectively.

Hydro Tasmania has responded to these shortages by streamlining the workforce planning process during the 2006/07 year for a more effective review of existing skills and gaps and planning for future skill requirements, as well as promoting Hydro Tasmania as an employer to education providers and bodies and providing engineering scholarships, vacation placements and the Graduate Program.

Succession planning is addressed by senior managers in an annual workshop to identify high risk roles and high potential individuals. These individuals are then invited to discuss development plans that prepare them for transition to more senior roles.

Training

The average expenditure on training and development per full-time employee for the reporting year was $2161. Development plans are agreed between individual employees and their manager to enhance the skills and capabilities that align with business objectives.

Table 14 Key Training and Development offered in 2006/07

Training	Status
Leadership Development Program	In 2006/07, 24 managers participated in the Leadership Development Program.
Graduate Development Program	At 30 June 2007, there were 42 participants in Hydro Tasmania's Graduate Development Program. We are recruiting 14 new graduates for 2008.
Apprentices	Hydro Tasmania currently employs 14 apprentices in electrical and mechanical trades.
General and Managerial Skills Development	Hydro Tasmania has developed a manager induction program for new and existing managers which will be rolled out during the 2007/08 financial year.
Sir Allan Knight Scholarship	Corinna Woolford was awarded the scholarship to re-examine and explore the assumptions currently held about future energy supply and demand dynamics of global energy scenarios.
Environmental Training	There were 29 environmental training sessions delivered under the Environment and Sustainability Management System (ESMS) with a total of 211 employees attending. Training sessions included ESMS awareness, land management, environmental legislation, due diligence, and cultural heritage.
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	A total of 89 per cent of staff have completed the on-line EEO training.
Emerging Leaders Program	10 employees participated in the Emerging Leaders Program which involved intensive leadership development for succession purposes.

Engineering Honours students, from left, Tim Ramm, Andrew Simmons and Amila Gunadasa, who are undertaking theses on subjects relating to Hydro Tasmania's assets

Sustainability Self Assessment and Commitments

2005/06 Score	2006/07 Target	2006/07 Score	2007/08 Target
3.2	3.5	3.4	3.5

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

↑	The conditions in our Enterprise Partnership Agreements (EPAs) meet, and in many cases exceed, those in the Australian Fair Pay and Conditions Standard, and include formal provision for home-based work and flex-time arrangements.
→	The Hydro Tasmania Energy/OCEO and Hydro Tasmania Consulting EPAs were approved by employees.
↑	89 per cent of employees have completed online EEO training on discrimination, harassment and grievance procedures.
→	Employee engagement is stable, and Hydro Tasmania is performing at 83 per cent of the score of Right Management's top quartile performing companies.
→	Programs to assist employees to reach their full potential include the Graduate Development and the new Emerging Leaders programs.
↑	A more rigorous performance management and development process has been implemented.
→	A business-wide streamlined workforce planning process was used.
↓	Skills shortages exist in a number of areas.

Performance against 2005/06 commitments

Commitment		Progress
Review and remodel recruitment policy and processes to respond to the competitive job market	✘	Both these projects were put on hold due to the organisation restructure process.
Implement an induction program for managers to improve management capability and understanding of Hydro Tasmania policies	✘	

2007/08 commitment

Hydro Tasmania is committed to lifting its sustainability performance for this element. In addition to taking action to maintain current scores and meet the key performance indicators shown in Table 18 P147, in the coming year we will:

- ensure workforce planning is integrated with business planning, recruitment and learning and development strategies.

Healthy Hydro Tasmania Program walking group coordinator John Saint, left with Paul Turvey, Peter Austen, Graham Verrier, Bob Ralph, Margo Graeme-Evans and Greg Parsons

We provide a safe and healthy workplace for employees and those interacting with our activities and assets.

Sustainability Policy

Health and Safety

Hydro Tasmania maintains its safety vision of 'no harm to anyone at any time'.

Staff rated Hydro Tasmania's safe working environment as the top strength of the business again this year in the annual Staff Feedback Survey. Hydro Tasmania remains committed to ongoing improvements of the management of health and safety and continues to target a Lost Time Injury Frequency Rate of less than 2, despite a disappointing result of 4.1 for the 2006/07 year.

Employee Safety

In the 2007 Staff Feedback Survey, employees returned the highest score to the query 'my line of business supports me being safe at work'.

An external assessment of the Hydro Tasmania Safety Management system, Hydrosafe, was carried out in May 2006 against AS 4801 and was the catalyst for a number of key safety projects and initiatives introduced in 2006/07. These included further improvements to the

incident reporting system (IQMS), improvements to the Contractor Safety Management process, training in Job Hazard Analysis procedure, a review of the Permit to Work and implementing a Workplace Hazards Register. Hydrosafe is not accredited or independently certified.

Hydro Tasmania's safety governance committee system was reviewed to provide a closer link between staff and executives on issues concerning safety and to ensure communication links between all levels. Responsible officers were reassigned as part of the organisational restructure, and a training program ensured individuals understand the responsibilities of the role.

A revised policy and procedure for alcohol and other drugs became effective in March 2007 to introduce compulsory testing after a significant incident. An extensive training and education program followed, continuing into July, and causal and self testing are planned to begin in August 2007.

An extensive asbestos audit was conducted during 2006/07 to update site registers. A draft asbestos management plan has been developed which includes the eventual removal of asbestos from all sites.

Hydro Tasmania participated in the development of a statewide multi-stakeholder pandemic management strategy for the electricity industry. A draft agreement and plans for a pandemic drill were agreed.

Sarah Poulson participates in the Cancer Council Relay for Life

Table 15 Hydro Tasmania Safety Key Result Areas

	Frequency Rate for 2004/05	Frequency Rate for 2005/06	Frequency Rate for 2006/07	Target 2007/08
Fatalities (number)	0	0	0	0
Lost Time Injury Frequency Rate	3.2	1.3	4.1	Less than 2
Severity (days lost) Frequency Rate	35.0	29.5	17.6	Reduce
Medical Treatment Injury Frequency Rate	13.6	4.6	8.4	
All Injury Frequency Rate	38.9	34.7	49.1	

Note: Frequency rates do not include contractor incidents and hours

The lost-time injuries experienced during the reporting period, which included back and hand injuries, were all relatively low severity. This is reflected in our continued downward trend in severity rate over the last three reporting periods. All lost-time injuries, including those for contractors, were thoroughly investigated with no pattern of common underlying causes. In each case, the investigations identified corrective actions to prevent further recurrence. The Medical Treatment Injury Frequency Rate increased for the reporting period compared to 2005/06 but was lower than 2004/05. It is believed that the increased rate in 2006/07 is due to improved awareness of the need to ensure employees with the potential for injury are assessed by medical experts. Awareness has been raised by improved processes, such as the Electric Shock Procedure and incident reporting. Improved use of the Job Hazard Analysis process will also contribute to reductions in injuries over the longer term.

Employee Health and Wellbeing

Hydro Tasmania offers flexible working arrangements to balance work and lifestyle. In 2006/07, the Enterprise Partnership Agreements formalised options for part-time, home-based work and eight or nine-day fortnights.

The absentee rate for 2006/07 is low at an average of 3.95 days per employee. The organisation operates a no debit

sick leave policy and provides return to work programs for employees after a significant illness or long-term absence. The policies also provide for compassionate and carers' leave.

The business offers access to an Employee Assistance Program which provides up to three confidential counselling sessions to an employee or a member of their family.

The Healthy Hydro Tasmania Program (HHTP) provides various components of a health and wellbeing initiative, ranging from educational seminars, health assessments, in-house physical activities and a rebate of up to $200 per year for membership of a gym or sporting body or for sporting equipment. During the year, the HHTP was reviewed and found not to be achieving its original objectives. Further work is to be undertaken in 2007/08 to develop an improved health and wellbeing program with input from staff.

The HHTP budget for the financial year of 2006/07 was $200,000.

Table 16 Healthy Hydro Tasmania Program

Year	2002/03	2003/04	2004/05	2005/06	2006/07
Number of participants in the HHTP flu vaccination program	181	197	236	284	192
Number of participants in HHTP rebate program	n/a	237	252	360	185*
$ value of HHTP rebate program	n/a	$31 474	$39, 580	$46,448	$18,855

**Six-month period while change made from calendar to financial year*

Public Safety

The low storage levels experienced in 2006/07 have had a major impact on boating access at Great Lake, affecting fishing, boating and water sports.

All general boat ramps on Great Lake were closed after an assessment of the ramps by Marine and Safety Tasmania (MAST). Access to the lake was facilitated by the existing low level access ramp.

Communicating closures and safety issues became a priority. A shared approach to media on boating access from Hydro Tasmania, Inland Fisheries Service and MAST ensured coordinated safety messages between the institutions with statutory responsibilities for public water use, conditions and access. A partnership with Angling Alliance Tasmania, an association of inland anglers, also helped inform the wider angling audience.

Hydro Tasmania's Hands On Energy Discovery Centre takes particular care of safety. It conducts a weekly safety audit of all the displays and models which attract several thousand visitors each year, the majority of whom are school students.

A statewide fire management plan is being developed through a collaborative approach with external parties. This provides safety for the public and employees and develops a fire strategy for asset protection.

Dam safety

Hydro Tasmania's Dam Safety Program ensures that the community is not exposed to unacceptable risks from the existence and operation of our dams, that we comply with dam safety legislative requirements and industry guidelines and that the long-term value of the dams is preserved.

Hydro Tasmania applies the best prevailing dam safety practice and technology, and applies standards that are appropriate to the potential hazard of each dam, as well as a program of surveillance, risk assessments, safety reviews, early detection practices and regularly testing emergency response plans.

During the reporting period, significant capital upgrades continued to reduce risk to public safety at the following dams.

- Lake Echo Dam - a protective filter layer and rockfill supporting buttress was constructed on the downstream face of the dam to complete the modernisation project.
- Tungatinah Dam – reduced the leakage beneath the dam and constructed a protective filter trench and drain at the downstream toe of the dam.
- Laughing Jack Dam - the concealed spillway crest was reinstated and the rockfill spillway was enhanced.
- Catagunya Dam and Dee Dam - significant progress was made in the analysis of options and design work.
- Trevallyn Dam - foundation pressure monitoring instruments were installed beneath the dam and improvements were made to the foundation water pressure relief drainage system.

The State Government dams regulatory body, the Assessment Committee for Dam Construction, inspected the works in progress at Laughing Jack Dam and has been briefed on the program of works proposed to mitigate public safety risk at other Hydro Tasmania dams.

Sustainability Self Assessment and Commitments

2005/06 Score	2006/07 Target	2006/07 Score	2007/08 Target
3.6	3.6	3.4	3.5

The 2007/08 target has been adjusted downwards to be realistically achievable. The five-year sustainability target for the employee safety indicator is 5.
The following aspects contributed to a small decline in overall performance to slightly above satisfactory.

↓	Our current Lost Time Injury Frequency Rate is 4.1 against a target of 2, but the lost-time injuries are of lower severity.
↑	Hazard reporting has increased, which means hazards can be rectified before they cause injury or damage.
→	In the 2007 employee survey, employees gave the highest score to business support for being safe at work.
↑	Absenteeism for 2006/07 is low at an average of 3.95 days per employee.
→	Flexible working arrangements were embedded into the new Enterprise Partnership Agreements.
→	Hydro Tasmania has a mature dam safety assurance program with continuous improvement.
↑	Collaboration between peak recreational bodies and government agencies has helped facilitate safe recreational practices.

Performance against 2005/06 commitments

Commitment	Progress	
Create a holistic health and wellbeing program by integrating the Healthy Hydro Tasmania Program, Employee Assistance Programs and the Equal Employment Opportunity system to increase efficiency and effectiveness	–	To be continued in 2007/08.
Improve the safety induction process, contractor management safety systems, implement a new safety governance structure and embed safety accountabilities within the business	✓	Completed, except a project to review the safety induction process. An alternative system for delivering inductions has been reviewed. This project is continuing into 2007/08.
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	✓	Completed or near completion except that the Murchison Dam investigation has been rescheduled to allow higher priority investigations elsewhere.

2007/08 commitment

Hydro Tasmania is committed to lifting its sustainability performance for this element. In addition to taking action to maintain current scores and meet the key performance indicators shown in Table 18 P147, in the coming year we will:

- re-evaluate Hydro Tasmania safety risks and prioritise initiatives to achieve our vision of "no harm to anyone at any time".

Sonia Anderson with her children at the Greening Australia wetlands planting, New Norfolk

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.

Sustainability Policy

Community

Hydro Tasmania has a strong focus on the communities in which it operates. Historically its operations have touched every Tasmanian household through the generation of electricity.

Stakeholder and Community Engagement

Hydro Tasmania has been involved in the wider Tasmanian community throughout its history. This affects the nature of our relationships with stakeholders. In a business survey undertaken by senior management and a facilitator early in the reporting year, stakeholders reported that while we have good listening skills, we tend to be adversarial, paternalistic and inconsistent in our messages. Our sustainability as a business depends on how we improve these relationships in the long-term.

Parallel with this survey and as a significant initiative, Hydro Tasmania introduced a relationship-based engagement model to facilitate a shift in the way we

think about, and engage with, stakeholders away from the traditional, organisation-centred view towards open dialogue and a shared issue approach.

Internal dialogue on the model and other efforts towards relationship-based engagement began to get traction late in the reporting period as a number of key relationship managers in the organisation demonstrated greater willingness to listen to and work with others, notably on key water resource management and heritage issues. This built on efforts of collaboration already being undertaken with stakeholders, such as for recreational use of facilities. P76

This willingness to engage in a more open way with greater understanding of the stakeholders' positions by those who adopted the model suggests that as the model is more widely implemented we can improve the effectiveness with which we resolve our shared issues.

The closure of the Lake Margaret Power Station near Queenstown on 1 July 2006 had raised concerns in the community about the future use of the facility in the previous reporting period while meetings with the Lake Margaret Community Liaison Group had been hostile at times. A change in approach this year produced a more respectful dialogue, concessions by Hydro Tasmania on some heritage issues and a collaborative way forward on projects associated with the future of the site. P87

Community capacity building

Hydro Tasmania's partnership with Greening Australia is to support the River Recovery initiative in the Derwent catchment. Hydro Tasmania's contribution for 2006/07 was consistent with the partnership agreement of $150,000 for the three years from 2005/07 to 2007/08.

Sponsorship

Sponsorship plays a key role in Hydro Tasmania's corporate citizenship. Hydro Tasmania maintained its major existing partnerships with the Tasmanian Symphony Orchestra, the Ten Days on the Island festival, the Three Peaks Race, Clean Up Australia, Junior Surf Lifesaving and Arts@Work. The corporate sponsorship program was not fully spent this year with only $252,000 provided from a budget allocation of $280,000 as part of a business-wide effort to rein in costs.

The employee donation assistance program, piloted last year to aid employee volunteering activities, continued but with less funds spent.

Staff across the State put in a significant effort to charity events for the year, notably raising $11,766 for the Leukaemia Foundation's event, World's Greatest Shave,

Nick Jatan has his head shaved by Tassie Devils footballer Oliver Di Venuto for the Leukaemia Foundation's World's Greatest Shave

and $5,300 for the Cancer Council Relay for Life. Hydro Tasmania added to the efforts by contributing a further $2,000 to each cause.

Hands On Energy Discovery Centre

The Hands On Energy Discovery Centre is Hydro Tasmania's corporate showcase and education facility. It tells the story of Tasmanian electricity production and promotes the benefits of renewable energy, environmental responsibility, sustainable living and safety and attracts international visitors, energy industry stakeholders, primary, secondary and tertiary students, as well as community groups. The Hands On website has a wealth of information of interest to students.

This year a total of 4,967 students and teachers visited the centre and an additional 143 community and special interest groups enjoyed the experience. Hydro Tasmania provided a total of $13,263 to subsidise schools outside the greater Hobart area to travel to the Centre by bus. Hands On also sponsors and provides in-kind contribution to community programs such as Migrant Education, the Science Teachers Association of Tasmania, the Science Talent Search, and the Tasmanian Solar Car Challenge.

The Centre has formed a partnership with CSIRO Discovery in Canberra to provide part of the interactive Energy Exhibit which focuses on renewable energy and future energy options for Australia. This year approximately 26,000 students and teachers passed through the exhibit.

Multiple Use Benefits

Reduced lake levels have changed access to lakes for recreational use, with many boat ramps closed where water levels have fallen below safe use. At Great Lake, a low-level access ramp remained open and was continually assessed and maintained to provide safe access for anglers and emergency crews.

Hydro Tasmania is collaborating with stakeholders around the development and management of recreational activities to cover issues such as the impact of recreational use on environmental and cultural values, and managing camping ground use, vehicle use and access to sensitive sites, safety warnings, and navigational aids.

In 2006/07, plans were implemented for Brumbys Creek and developed for Penstock Lagoon.

A Recreational Management Steering Committee, in which Hydro Tasmania participates, addresses integrated management across government agencies, such as Parks and Wildlife Service, Inland Fisheries Service, MAST, Tourism Tasmania and municipal councils, and recreational and interest groups, such as Angling Alliance Tasmania and the Tasmanian Farmers and Graziers Association. Together, these stakeholders with an interest in water and land management can develop systems that meet the needs of all stakeholders.

People with an interest in recreational use of Hydro Tasmania land receive information through recreational associations, public notices in local newspapers and signage. Hydro Tasmania's website has a daily update of lake and river levels.

The former Waddamana A Power Station, which was commissioned in 1916, has been faithfully restored as a museum to celebrate the beginnings of Tasmania's unique integrated hydropower system and provide visitors with a sense of life back in the construction years of the 1900s. This financial year, 5,079 visitors took the opportunity to tour the museum and surrounds. Visits to the museum are free of charge.

Overlooking the spectacular Gordon Dam and lake in the Tasmanian World Heritage Area, the Gordon Visitor Information Centre provides information and displays on the Gordon River power development. Visits to the centre are free of charge. In the last year the centre hosted 11,814 visitors. This was significantly down on previous years, largely due to problems staffing in this remote area.

Sustainability Self Assessment and Commitments

2005/06 Score	2006/07 Target	2006/07 Score	2007/08 Target
3.5	3.5	3.6	3.8

Current performance is slightly above satisfactory, with particular improvement shown for the Multiple Use Benefits indicator and with the following aspects contributing.

- ↑ Introduction of a relationship-based engagement model has facilitated significant shifts of thinking around stakeholder engagement on a number of key strategic issues that are leading to greater collaboration with others.
- ↓ Stakeholders report that we have good listening skills, but tend to be adversarial, paternalistic and inconsistent in our messages.
- → Stakeholder engagement has focused on issues, including Lake Margaret Power Station shutdown, recreation management and a number of water management projects. (Water management engagement P84–85)
- → Continued strong work in education programs and raising community awareness of our commitment to environmental programs and sustainability.
- ↓ The corporate sponsorship program was underspent by $28,000 as part of a business-wide effort to rein in costs.
- ↑ Collaborative efforts with stakeholders have seen development of the Penstock Lagoon Management Plan and implementation of a plan for Brumbys Creek.
- ↑ Recreational use of assets has continued, despite low lake levels.

Performance against 2005/06 commitments

Commitment		Progress
Progress community partnerships	✓	Progress on partnerships for integrated weed management programs and recreational programs.
Develop stakeholder engagement framework to help build stronger stakeholder relationships	–	A focus on sharing a relationship-based engagement model rather than developing a framework.
Implement Penstock Lagoon Recreational Management Plan to improve sustainable recreational management of the area	✓	Completed in association with stakeholders.

2007/08 commitments

Hydro Tasmania is committed to lifting its sustainability performance for this element. In addition to taking action to maintain current scores and meet the key performance indicators shown in Table 18 P147, in the coming year we will:

- increase sharing and learning around the key skills and behaviours for relationship-based stakeholder engagement, towards greater collaboration
- develop a collaborative program with Parks and Wildlife Service and Forestry Tasmania on the facilitation of visitor use in the South-West National Park
- develop a collaborative approach for managing recreational use of waterways in association with MAST, Inland Fisheries Service and Angling Alliance Tasmania.

Students in the Hands On Energy Discovery Centre

Visiting Executives of the Provincial Electricity Authority of Thailand

We encourage our suppliers, customers, partners and industry peers to be sustainable by supporting positive initiatives and measures to reduce environmental and social impacts.

Sustainability Policy

Suppliers and Partners

Hydro Tasmania has developed good relationships with customers, suppliers and partners. However, we need to do much more when it comes to meeting our responsibilities under our sustainability policy. While some progress has been made, we have given ourselves a lower sustainability score than last year for not fulfilling our commitment to develop a supplier and partnership program, because not doing so means we have not kept pace with our peers. Our intent remains unchanged to develop measures for improvement over time.

A new Procurement Policy was drafted in 2006/07, incorporating sustainability principles, and will be implemented in the coming year.

A step to influencing suppliers has been taken. Hydro Tasmania and its oil supplier considered the environmental risks of delivering oil products into the World Heritage Area. An arrangement was agreed for an oil spill trailer to accompany delivery.

Hydro Tasmania continues to source goods and services from Tasmanian businesses where possible. Table 17 shows all suppliers who were paid $50,000 or more,

excluding GST, for the financial year 2006-07. Tasmanian businesses are defined as businesses operating in Tasmania, which have a permanent office or presence in Tasmania and employ Tasmanian workers.

Table 17 Procurement value for 2006/07

	No. of Suppliers	Value ($M)
Tasmanian Suppliers	151	82.1
Interstate/Overseas Suppliers	147	48.3
TOTAL	**298**	**130.4**

Strategic suppliers

Our network service providers, Transend Networks and Basslink, are critical to our ability to supply energy to the market. NEMMCO is a critical supplier for our market conditions. P48-49

Alstom is a strategic supplier to Hydro Tasmania. The relationship is of critical importance to Hydro Tasmania to effectively maintain and upgrade our assets. Alstom is well placed to supply us with the prerequisite skills and experience in what is a small supply market.

Transfield BRW is a new supplier, contracted to provide the operations and maintenance service for the Bell Bay Power Station. Transfield replaced Alinta which did not participate in the tender.

The major dispute with Ericsson about the telecommunications network was settled during the reporting period.

Arbitration with Vestas regarding the wind turbines at Cathedral Rocks Wind Farm was stayed at the end of the reporting period and is expected to be officially released by the end of 2007. There are no other major disputes with suppliers.

Partners

Hydro Tasmania continues to enjoy a productive and cooperative relationship with CLP, our partner in the 50/50 joint venture, Roaring 40s. CLP and Hydro Tasmania have pursued areas of common interest and learning such as in the area of environment and sustainability, an employee secondment and involvement in the CLP Joint Venture Environment Conference held in Hong Kong in May 2007. P26

Hydro Tasmania has had a long-term relationship with LogicaCMG Pty Ltd as its key IT services and support outsourcing partner since June 2000. After re-signing with LogicaCMG in July 2006 for another five years, we both continue to build on the existing success of the relationship to develop a more strategic partnership in the future. LogicaCMG provides services to Hydro Tasmania such as helpdesk, desktop support, infrastructure management and application support and development.

Sustainability Self Assessment and Commitments

2005/06 Score	2006/07 Target	2006/07 Score	2007/08 Target
3.0	3.0	2.5	3.0

The following aspects contributed to an overall below average performance.

↓	Part of the score decrease has been a function of failing to keep pace with peers on this indicator, rather than deteriorating performance.
↓	No progress has been made on establishing indicators of success for supplier and partnership program, reviewing long-term supplier arrangements or examining supplier engagement practices.

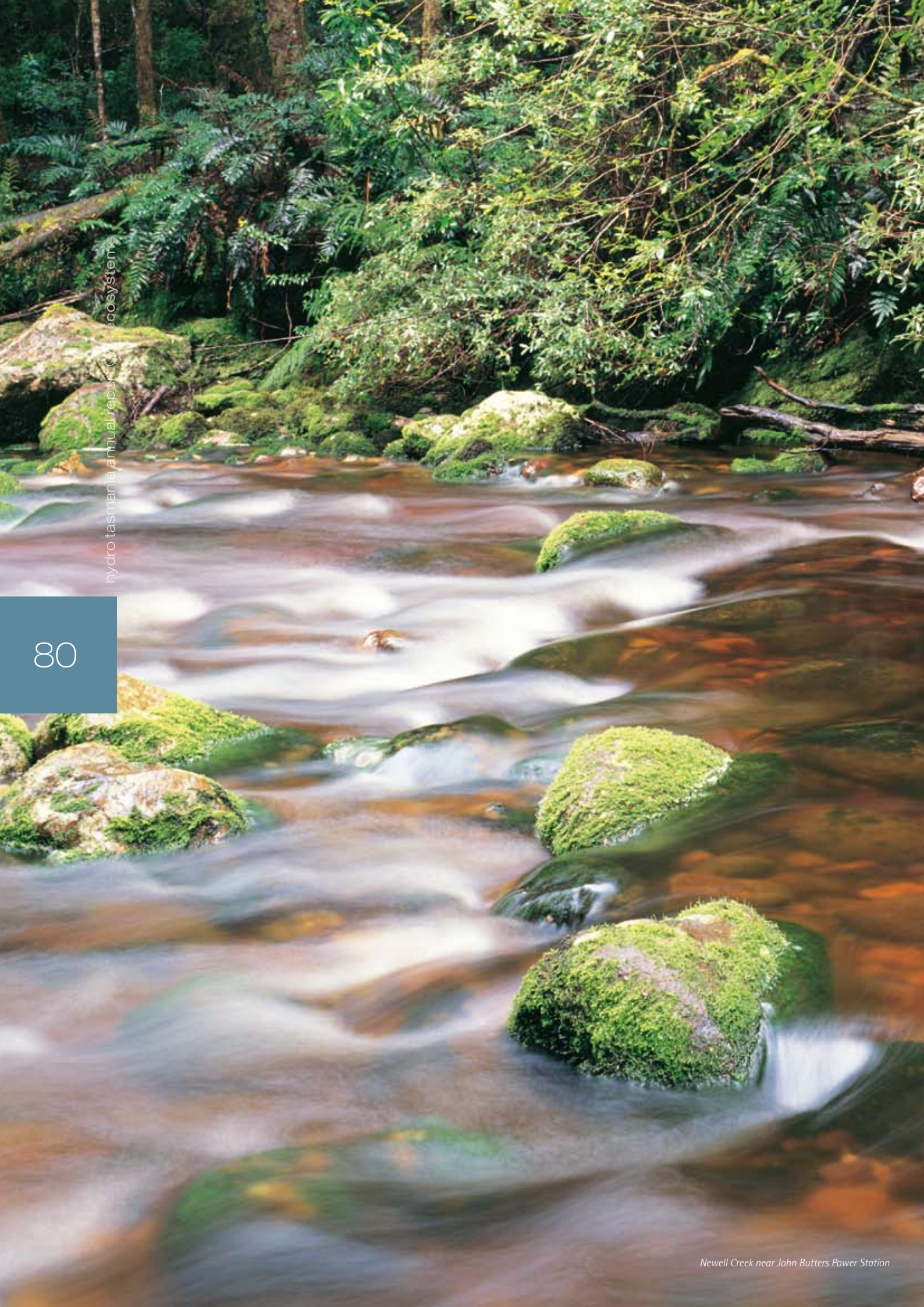
Performance against commitments

Commitment		Progress
Develop a supplier and partnership program and establish future KPIs	—	The target was given a lower priority than originally intended due to other business priorities.

2007/08 commitment

In addition to taking action to maintain current scores and meet the key performance indicators shown in Table 18 P147, in the coming year we will:

- establish an appropriate sourcing strategy for key categories of supply, and then develop suitable measures to drive improvements over time.



Newell Creek near John Butters Power Station

Ecosystems

"We had a great situation where we could sit down with the Lake River irrigators and say 'we understand you are hit hard by the drought too, the level in this lake is running out'. We put a bit more water into the lake for them and they wound back their irrigation needs as much as possible so that we all got through together."

Andrew Catchpole, General Manager Communications and External Relations

Inland Fisheries Service monitoring water quality at Great Lake

Ecosystems

We operate our business with the objective to provide future generations with a clean and healthy environment. We minimise our environment impacts and protect heritage as we look towards the future.

Sustainability Policy

Ecosystems and Heritage

Managing the impact of drought and low lake levels has dominated Hydro Tasmania's environmental activities this year.

New operational rules were brought into force to manage social and environmental impacts on key lakes during the severe drought conditions. The low lake levels had consequences on sustainability issues, such as community water recreational activities and the aquatic environment.

The Environment and Sustainability Environmental System (ESMS) continues to have ISO14001 certification. Total allocation to environmental activities in 2006/07 was $4.3 million, compared with $5.8 million the previous year (Figure 6).

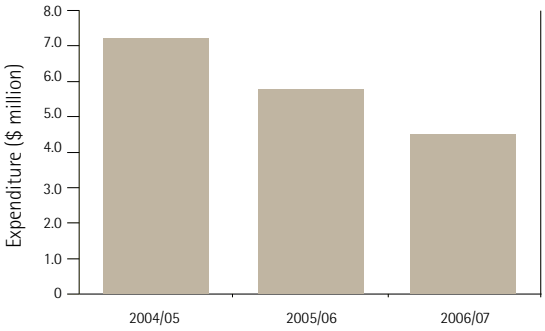


Figure 6 Environmental Expenditure

Note: 2005/06 and 2006/07 figures represent expenditure that was recorded as being for the primary purpose of environmental management. 2004/05 reported expenditure includes figures where the primary purpose of the activity was not limited to environmental management.

Hydro Tasmania's hydropower system affects aquatic systems as a result of both changing the flow regime and diverting water within and between catchments and subcatchments. The total volume of water diverted by Hydro Tasmania is estimated to be between one third and one half of all water used for energy production. There is a variety in length and volume of diversions throughout the system from substantial rivers to small canals. Information on catchments is available on the Hydro Tasmania website and includes diagrams showing significant diversions.

Aquatic Ecosystems

Low lake level environmental management

In 2006/07, low lake level monitoring programs were developed and implemented for Great Lake, Lake Echo and Lake King William. Risk bands had been established for specific lakes, based on potential environmental and social impacts that could arise when water levels are drawn down to below normal minimal operating levels for prolonged periods. Impacts could include recreational access restrictions, shoreline erosion, deterioration in water quality, loss of habitat, risk to threatened species and threats to operational infrastructure.

Environmental trigger values, derived from Australia and New Zealand Environment and Conservation Council (ANZECC) guidelines, were established for key water quality and ecological indicators. Monitoring of indicators was undertaken by Hydro Tasmania Consulting in conjunction with Inland Fisheries Service Biological Consultancy. Regular reporting ensured that management was alerted to changing conditions. Key stakeholders - Inland Fisheries Service, MAST and the public - were kept informed of conditions via reports, public notices and media releases.

As the water was drawn down to lower levels, monitoring results from Great Lake indicated a decrease in the distribution and abundance of charophyte beds, which are habitat for some threatened fish and macro invertebrate species, and an increase in turbidity and nutrient levels. Results from Lake Echo indicated an algal bloom in June while Lake King William showed no deterioration.

The decision to decrease water levels into an environmental and social risk band is made at senior management level.

More information on low lake level management is available on our website.

Algal blooms

Lagoon of Islands

The Lagoon of Islands has been managed by Hydro Tasmania as a water storage in southern Tasmania to provide water to Ouse and Shannon River irrigators and riparian water users. Due to high nutrient input, water quality conditions in the lagoon have deteriorated, resulting in protracted algal blooms rendering the water unfit for the purpose.

Research and monitoring instigated in the previous reporting period has facilitated an understanding of the underlying causes of the poor water quality conditions. In 2006/07, a Nutrient Management Strategy was introduced that combines scientific and engineering solutions.

This strategy will be implemented over the next 20 years and will address the present algal bloom in the short-term, and reduce total phosphorus concentrations over the long-term. The strategy, estimated to cost $4.3 million over the next five years, aims to improve water quality and ecosystem health. Ecosystem responses to the management actions will be closely monitored as we move towards achieving more sustainable conditions in the lagoon.

See our website for more information.

Eleni Taylor-Wood conducting environmental monitoring

Lake Trevallyn

In February 2007, a significant blue-green algal bloom was reported in Lake Trevallyn on the South Esk River in northern Tasmania. The bloom is likely to have been exacerbated by low inflows, warmer water temperatures and nutrient input experienced over the past year.

A Trevallyn stakeholder working group was initiated, incorporating key stakeholders involved in the region's water quality, such as Hydro Tasmania. The group met to discuss monitoring initiatives and explore management options and longer-term solutions. The group agreed to share monitoring data and to develop a more effective, collaborative monitoring program.

The algal bloom collapsed in May 2007 following low temperatures and significant inflows into the lake. However, there is significant risk that the bloom will recur next summer. In order to address wider catchment management issues that facilitate algal blooms, the group will be incorporated within a broader scale partnership agreement with NRM North, the key natural resource management coordination and facilitation body for the northern Tasmania region.

Balancing water needs

Woods Lake in Tasmania's Central Highlands is prone to poor water quality at low water levels and was particularly affected by the drought.

Nominated as critical habitat under Tasmania's *Threatened Species Protection Act 1995*, Woods Lake is home to endangered species of galaxiid. The lake is managed by Hydro Tasmania as part of the South Esk-Great Lake scheme and is also the source of water for Lake River irrigators. There is therefore a need to balance environmental needs with the obligation to supply water.

Over the last 10 years, the lake has been maintained above an environmental minimum water level to maintain water quality conditions and the habitat of endangered galaxiid species. Low rainfall, coupled with irrigation demand, caused the water level to drop below the agreed environmental minimum in March 2007, sparking concerns that water quality conditions could deteriorate. Discussions between Hydro Tasmania, the Inland Fisheries Service and Lake River irrigators resulted in a number of actions. Hydro Tasmania released water from Arthurs Lake into Woods Lake to try to increase water levels. Irrigators agreed to reduce water demand as much as possible. A monitoring program was implemented to check water quality conditions, with Inland Fisheries Service monitoring the threatened fish species. Results to date indicate high turbidity and elevated nutrient and algal levels. These trends are being closely watched.

Aquatic research

Three research projects relating to the Lagoon of Islands and low lake levels are listed in Table 7 P56. In addition, research continues into Lake Pedder species of mayfly and new freshwater sponge. Details are on our website.

Lake Fidler - meromictic lake

Results obtained from monitoring the status of meromixis in Lake Fidler have indicated that it continues to maintain denser, salty water at the bottom of the lake. However, there has been a noticeable decline in salinity at the bottom of the lake. Despite efforts by Hydro Tasmania to halt the reduction in salinity by recharging the lake with saline water in 2004, it has become apparent that the continued reduction in salinity is inevitable. Monitoring is continuing.

Monitoring Basslink effects

Hydro Tasmania is obliged to monitor and report on the effects of changing levels on the Gordon River as a result of the Basslink Environmental Assessment. The obligations are laid out in the conditions of the Special Licence issued under the *Water Management Act 1999* and include requirements for monitoring, a minimum flow rate, and ramp down rules for changing flow rates.

The Gordon River Basslink Monitoring Report 2005/06 was released in November 2006 and contains data from the last year of pre-Basslink monitoring. The report also contains trigger values for monitoring disciplines. Future annual reports will also assess data against these trigger values. The next report will be released in November 2007.

Environmental Impact Assessments and Environmental Management Plans

Hydro Tasmania's Environmental Sustainability Management System requires all capital works projects with potential to impact on the environment to be assessed through an Environmental Impact Assessment (EIA) or similar risk assessment depending on the risk potential. Particular works are also required to have an Environmental Management Plan (EMP) to manage impacts during works. Generally EIAs are completed on a voluntary basis rather than due to any regulatory requirements.

During 2006/07, 58 of the 238 capital works projects required an EIA or similar risk assessment and 41 required an EMP. 50 EIAs have been completed, with three in the planning stages. 36 EMPs have been completed, with four in the planning stages.

Projects managed well during 2006/07 in regard to EIA and EMP process and implementation include:

- Tungatinah intake upgrade
- Lake Echo dredging
- Tarraleah Canal scrubbing
- Trevallyn Dam instrumentation and drainage
- Poatina modernisation.

Sixteen EMP audits were conducted under the internal audit schedule and assessed for compliance with EMPs. There were a total of eight internal non-conformance reports raised from EMP audits, two of which were major. These were:

- no oil water separator installed at the Tungatinah switchyard
- bird strike mitigation was not fitted to the entire transmission line from Studland Bay.

Land ecosystems

Hydro Tasmania is consolidating data on our land assets, including contaminated sites, and obtaining baseline information on ecological values. This data, stored in the Land Environment map database, provides a basis for prioritising actions and guiding future directions in land management programs.

Stakeholder engagement is an essential part of the land management program. Hydro Tasmania participates in working groups focusing on recreational activities on land and water managed by the business, biodiversity management, weed management, land rehabilitation, and sharing data from research programs. Stakeholders include government agencies, adjacent landholders and other businesses that affect, or are affected by, Hydro Tasmania's assets and operations.

Contaminated sites

Contaminated sites projects identified as priorities in this reporting period included the replacement of underground fuel storage tanks at Wayatinah village and investigations of old tip sites at Lake Margaret and Waddamana. The Lake Margaret site is being stabilised and rehabilitated. Further investigations of the contents of the Waddamana tip sites are planned for the coming year.

Ecological studies

Baseline ecological studies included a habitat survey for two species of pygmy mountain shrimp, *Allanaspides hickmani* and *A. helonomus*, monitoring populations and an assessment of habitat of Ptunarra butterfly *(Oreixenica Ptunarra)* on land managed by Hydro Tasmania and a study of terrestrial ecological values of land surrounding the Lagoon of Islands. Additional populations of both species of pygmy mountain shrimp were found, extending the known ranges of these species. Grazing pressure was identified as the major threat to habitat and populations of the Ptunarra butterfly and terrestrial ecological values of the Lagoon of Islands. Options for managing these impacts will be investigated in consultation with stakeholders in the next reporting period, with habitat and population monitoring to continue in order to assess the success of any management actions.

Rehabilitation

Land rehabilitation plans are required for all new developments and Hydro Tasmania has been rehabilitating lands disturbed by past developments. However, it is recognised that there is a need for a database of all disturbed lands and rehabilitation works, including public use areas, so that results can be monitored and a strategic program developed to plan, measure and ensure success of rehabilitation works. Capturing this information will be a focus of the next reporting period.

Bird strikes

Hydro Tasmania's King Island wind farm is monitored to track any impacts on birds from the turbines. This involves a monthly survey of up to a 75-metre radius of each of the five wind turbines to check for bird remains. No bird remains have been found during the reporting period.

A report on Roaring 40s bird management can be found on **P27.**

Weed management

Weed management priorities are being aligned with priorities set through the *Weed Management Act 1999* and regional weed management strategies throughout Tasmania. Gorse, ragwort and Spanish heath were targeted in areas infested in the Central Highlands and the Midlands.

Hydro Tasmania's weed management strategy is partly implemented. Implementation issues being addressed include ensuring consistent standards for weed management contractors and including weed management in work plans.

Hydro Tasmania is also collaborating with the Department of Infrastructure Energy and Resources towards more effective weed management along the Gordon Road, and therefore better weed management outcomes for the World Heritage Area.

Vegetation disturbance

Work undertaken for Hydro Tasmania at the Yeates Creek pump station in the World Heritage Area resulted in vegetation clearance that deviated from that specified in the Reserve Activity Assessment submitted to Tasmania's Parks and Wildlife Service. The excavator tracks flattened vegetation for approximately 50 metres and resulted in some soil disturbance. Revegetation and soil erosion management are being considered for spring 2007.

Heritage

The Heritage Program focuses on historic places and Aboriginal culture. In 2006/07, concerns centred on ensuring the future of the Lake Margaret power scheme, continuing training in Aboriginal and historic heritage awareness and values, preparing heritage impact assessments and a risk assessment pilot project for Aboriginal heritage values.

Lake Margaret power scheme

The Lake Margaret power scheme was a significant focus of heritage activities this year with dialogue continuing with the West Coast community about its closure. Four issues had been raised during the closure talks: the future of the power station, the removal of the 68-year old woodstave pipeline, the loss of heritage values and a potential tourism asset for the West Coast.

Woodstave pipeline at Lake Margaret

The future of the power station was addressed in a feasibility study to redevelop the power scheme, published in November 2006. Public comment was sought on the study with 18 submissions being received, including one from the Lake Margaret Community Liaison Group. The preference in the community is to redevelop the existing power station and to construct a replacement woodstave pipeline. The business case for the Lake Margaret redevelopment is to be considered by the Hydro Tasmania Board later in 2007.

In June 2007, the West Coast Council approved an application by Hydro Tasmania to demolish the woodstave pipeline. Hydro Tasmania has agreed to retain three sections of the pipeline and replace the pipe with another woodstave if economically feasible.

The entire Lake Margaret power scheme site was listed on the Tasmanian Heritage Register in February 2007. This creates additional statutory requirements that must be met for any development on the site and provides an external assessment of change to heritage values.

Hydro Tasmania commissioned a report on the tourism potential for the site which was produced in June 2006. The report found that there are a number of issues and constraints confronting any future tourism development, with day tours the most likely prospect.

Approximately 200 people attended a 'Back to Lake Margaret Day' in March, jointly organised by Hydro Tasmania and the West Coast Council at the request of the community.

More information on Lake Margaret is available on the Hydro Tasmania website.

Sustainability Self Assessment and Commitments

2005/06 Score	2006/07 Target	2006/07 Score	2007/08 Target
3.5	3.5	3.6	3.8

The following aspects contributed to an overall performance of slightly above satisfactory:

↑	A Lagoon of Islands Nutrient Management Strategy was adopted to address the algal bloom in the lake.
↑	Monitoring programs were implemented to understand the environmental impacts of low lake levels, and operational changes were made to minimise and manage risks and impacts associated with low lake levels.
↓	Monitoring results have indicated that three lakes (Great Lake, Lake Echo and Woods Lake) have experienced higher turbidity and elevated nutrient and algal levels. Low flows have contributed to deterioration of water quality conditions.
→	Understanding and documenting asset management issues and ecological values through the Land Environment Map database is also providing a strong basis for guiding future land management directions.
→	50 EMPs were completed. These are generally voluntary and do not relate to regulatory requirements.
→	Eight internal non-conformance reports were raised from environmental management plan audits, two of which were major.
→	Significant stakeholder concern about the closure of Lake Margaret power station and removal of the woodstave pipeline was alleviated through substantial stakeholder communication and liaison on a feasibility study for future development options.
→	Progress has been made in rehabilitating contaminated sites and the weed management program.
→	All conservation management plans are completed, but not all have been endorsed by management this financial year.
→	Some risk assessments of Aboriginal heritage values have been carried out for Hydro Tasmania land.

Performance against 2005/06 commitments

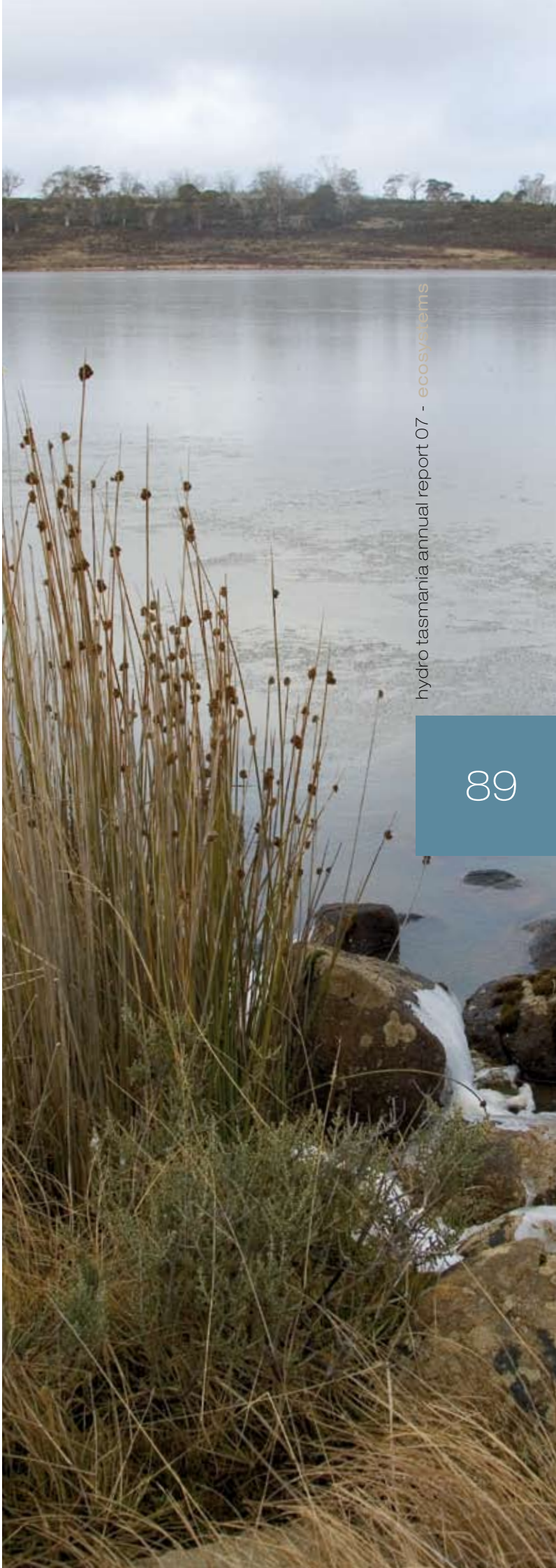
Commitment		Progress
Conclude existing Derwent Water Management Review technical studies and identify management options; engage with stakeholders on technical study findings, including exploration of options to address the Lagoon of Islands algal bloom	✓	Technical studies completed.
Support Greening Australia to complete Phase 1 of the Ouse River Wetlands Rehabilitation as part of the Greening Australia / Hydro Tasmania Partnership	✓	Completed.
Establish a wetland in Waddamana canal to improve water quality	✓	Completed. Hydro Tasmania will continue to monitor the wetland and its effectiveness in preventing sediment input to Penstock Lagoon.
Conduct threatened species habitat protection works, including implementing the Ptunarra brown butterfly program and a habitat range survey of the pygmy mountain shrimp	✓	Management options have been identified and discussions with land managers have commenced, after baseline monitoring of Ptunarra brown butterfly habitat. Habitat survey of the pygmy mountain shrimp has been completed.
Implement the Hydro Tasmania Weed Management Strategy to improve weed management standards	–	Implementation issues are being addressed.
Complete rehabilitation works at Strathgordon village, including weed treatment, pest management, threatened species assessment and interpretative signage	–	Options for improvement / rehabilitation of habitat identified for consideration.

Comitment		Progress
Implement conservation management plans for high heritage value sites	–	Three out of four conservation management plans have been formally accepted and are in use. The plan for Waddamana is yet to be formally accepted.
Complete a redevelopment feasibility study for Lake Margaret Power Station	✓	Completed.

2007/08 commitments

Hydro Tasmania is committed to lifting its sustainability performance for this element. In addition to taking action to maintain current scores and meet the key performance indicators shown in Table 18 **P147**, in the coming year we will:

- initiate remediation of Ripple Canal as part of the Lagoon of Islands Nutrient Management Strategy
- review low lake level management plans and activities and establish environmental and social risk bands for two more priority lakes.



Shannon Lagoon

Intake - Gordon Power Station

Financial Statements

"The continued low inflows have presented the biggest cash challenge to Hydro Tasmania in many decades."

David Crean, Chairman

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INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	NOTE	CONSOLIDATED 2007 $'000	CONSOLIDATED 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
Revenue	2(a)	493,185	469,656	441,065	418,012
Expenses excluding finance costs	2(b)	378,833	344,691	354,177	318,522
Finance costs	2(c)	92,302	85,860	92,302	84,031
Share of loss of joint venture entities	28	2,554	5,562	-	-
Total expenses		**473,689**	**436,113**	**446,479**	**402,553**
Results from operating activities		**19,496**	**33,543**	**(5,414)**	**15,459**
Movements in fair value	2(d)	82,846	6,276	82,846	28,711
Bell Bay sale agreement	2(e)	11,151	-	38,930	-
Profit before income tax equivalent expense		**113,493**	**39,819**	**116,362**	**44,170**
Income tax equivalent expense	4(a)	34,126	14,644	34,986	14,158
Net profit for the year		**79,367**	**25,175**	**81,376**	**30,012**

The Income Statement is to be read in conjunction with the notes to and forming part of the Financial Report included on pages 98 to 141.

BALANCE SHEET AS AT 30 JUNE 2007

	NOTE	CONSOLIDATED 2007 $'000	CONSOLIDATED 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
Current assets					
Cash and cash equivalents		1,615	660	1,437	641
Receivables	6	153,153	98,832	139,686	98,812
Investments	7(a)	50,000	15,091	40,000	5,091
Inventories	8	1,533	705	1,533	717
Tax asset		7,397	-	6,705	-
Financial assets	10(a)	53,695	22,630	77,896	81,175
Total current assets		267,393	137,918	267,257	186,436
Non-current assets					
Investments	7(b)	88,365	80,005	95,789	85,567
Property, plant and equipment	9	3,520,541	3,440,848	3,518,711	3,390,277
Financial assets	10(b)	373,191	191,995	373,081	191,995
Total non-current assets		3,982,097	3,712,848	3,987,581	3,667,839
TOTAL ASSETS		4,249,490	3,850,766	4,254,838	3,854,275
Current liabilities					
Payables	11	121,591	102,866	112,795	99,647
Interest-bearing liabilities	12(a)	2,200	7,000	2,200	7,000
Tax liabilities		-	15,623	-	15,623
Provisions	13(a)	44,036	43,888	44,019	41,888
Financial liabilities	14(a)	210,126	97,446	210,126	97,446
Total current liabilities		377,953	266,823	369,140	261,604
Non-current liabilities					
Interest-bearing liabilities	12(a)	1,190,000	1,070,000	1,190,000	1,070,000
Deferred tax liabilities	4(c)	482,380	463,207	492,455	465,931
Provisions	13(b)	290,609	256,599	286,252	256,599
Financial liabilities	14(b)	950,358	876,355	950,358	876,355
Total non-current liabilities		2,913,347	2,666,161	2,919,065	2,668,885
TOTAL LIABILITIES		3,291,300	2,932,984	3,288,205	2,930,489
NET ASSETS		958,190	917,782	966,633	923,786
EQUITY					
Reserves	16	8,838	4,649	8,838	4,649
Retained earnings		949,352	913,133	957,795	919,137
TOTAL EQUITY		958,190	917,782	966,633	923,786

The Balance Sheet is to be read in conjunction with the notes to and forming part of the Financial Report included on pages 98 to 141.

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	NOTE	CONSOLIDATED 2007 $'000	CONSOLIDATED 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Inflows:					
Receipts from customers		432,234	474,717	363,565	400,516
Government grants		6,762	6,472	6,762	6,472
Interest received		2,178	3,722	2,173	2,067
Outflows:					
Payments to suppliers and employees		(304,505)	(259,635)	(242,577)	(199,185)
Interest paid		(65,432)	(62,123)	(65,432)	(60,163)
Government guarantee fee		(5,105)	(4,124)	(5,105)	(4,124)
Income tax equivalent paid		(28,737)	(19,061)	(28,737)	(19,061)
NET CASH PROVIDED BY OPERATING ACTIVITIES	5(b)	**37,395**	**139,968**	**30,649**	**126,522**
CASH FLOWS FROM INVESTING ACTIVITIES					
Inflows:					
Proceeds from sale of property, plant and equipment		1,857	2,546	1,857	2,546
Dividends received		-	1	-	1,501
Proceeds from loan to associate		7	5	7	5
Outflows:					
Investment in joint venture		(10,000)	(15,788)	(10,000)	-
Loans to associates		(5,008)	-	(5,008)	-
Payments for financial assets		(24,499)	(50,110)	(24,499)	(50,110)
Payments for property, plant and equipment		(57,888)	(116,984)	(51,301)	(64,745)
NET CASH USED IN INVESTING ACTIVITIES		**(95,531)**	**(180,330)**	**(88,944)**	**(110,803)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Inflows:					
Proceeds from Tascorp loans		405,000	482,254	405,000	482,254
Proceeds from intercompany advances		-	-	-	11,698
Proceeds from intercompany loans		-	-	-	-
Outflows:					
Repayments of Tascorp loans		(289,800)	(525,271)	(289,800)	(525,272)
Repayment of non-government loans		-	(1,368)	-	-
Repayment of intercompany loans		-	-	-	(1,742)
Repayment of intercompany advances		-	-	-	(47,297)
Dividend paid		(21,200)	(40,000)	(21,200)	(40,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		**94,000**	**(84,385)**	**94,000**	**(120,359)**
NET INCREASE/(DECREASE) IN CASH		**35,864**	**(124,747)**	**35,705**	**(104,640)**
CASH AT BEGINNING OF THE YEAR		**15,751**	**140,498**	**5,732**	**110,372**
CASH AT END OF THE YEAR	5(a)	**51,615**	**15,751**	**41,437**	**5,732**

The Cash Flow Statement is to be read in conjunction with the notes to and forming part of the Financial Report included on pages 98 to 141.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2007

	NOTE	CONSOLIDATED 2007 $'000	CONSOLIDATED 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
Derivative revaluation reserve	1.2(q)				
Balance at the beginning of the year		4,649	-	4,649	-
Initial recognition on adoption of AASB 132 and AASB 139		-	(488)	-	(488)
Cash flow hedge gain/(loss) recognised in equity		4,189	5,137	4,189	5,137
Balance at the end of the year	16	8,838	4,649	8,838	4,649
Contributed equity reserve					
Balance at the beginning of the year		-	1,000	-	-
Deconsolidation of former subsidiary		-	(1,000)	-	-
Balance at the end of the year		-	-	-	-
Retained earnings					
Balance at the beginning of the year		913,133	950,924	919,137	950,074
Changes on adoption of AASB 132 and AASB 139		-	(56,527)	-	(56,527)
Profit for the year		79,367	25,175	81,376	30,012
Net deferred income tax benefit recognised directly in equity	4(b)	9,219	8,744	9,219	8,744
Deconsolidation of former subsidiary		-	(2,447)	-	-
Actuarial gain/(loss) on defined benefit plan	1.3, 15	(31,167)	27,264	(31,167)	27,264
Dividends	29	(21,200)	(40,000)	(21,200)	(40,000)
Other		-	-	430	(430)
Balance at the end of the year		949,352	913,133	957,795	919,137
TOTAL EQUITY		958,190	917,782	966,633	923,786

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 98 to 141.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

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 64 major dams and 28 operating hydro power stations, one gas fired power station, supplies electricity to Bass Strait Islands via diesel and wind power generation and operates a consulting business.

At 30 June 2007 the Corporation had 781 full-time equivalent employees (FTEs) including nine directors (2006: 832 FTEs).

The Corporation established a subsidiary company in India during the year to provide consulting services.

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 2007 was adopted by the directors on 14 August 2007.

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 financial assets and liabilities which are carried at fair value through profit and loss.

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:

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

(b) Statement of compliance

The financial 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).

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following Australian Accounting Standards are applicable to the Corporation and have recently been issued or amended but as they are not yet effective, the Corporation has chosen not to adopt them for the year ended 30 June 2007:

AASB Amendment	Affected Standard	Nature of Change to Accounting Policy	Reporting Periods Commencing on or after	Application Date for the Corporation
AASB 7	Financial Instruments: Disclosures	New standard replacing disclosure requirements of AASB 132 – no change to accounting policy	1 January 2007	1 July 2007
AASB 2005-10	Amendments to Australian Accounting Standards (AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023, AASB 1038)	Amendments arise from the release in August 2005 of AASB 7 Financial Instruments: Disclosures – no change to accounting policy	1 January 2007	1 July 2007
AASB 2007-4	Amendments to Australian Accounting Standards (AASB1, AASB 3, AASB 4, AASB 6, AASB 107, AASB 110, AASB 112, AASB 114, AASB 116, AASB 119, AASB 120, AASB 121, AASB 124, AASB 127, AASB 128, AASB 130, AASB 131, AASB 133, AASB 134, AASB 141)	Amendments to disclosure requirements and optional joint venture consolidation methods and presentation method for cash flow statements - no change to accounting policy	1 January 2007	1 July 2007

(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 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.

Asset impairment

Note 1.2(l) describes the judgement process adopted to estimate the recoverable amount of property, plant and equipment when an indication of impairment exists or when a previous indicator of impairment has reversed.

Financial liabilities and financial assets

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

(e) Significant accounting estimates and assumptions

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.

Property, plant and equipment

As described in Note 1.2(i) the remaining useful lives of assets are reviewed annually. The review for 2007 concluded that the estimated useful life for dams and some civil assets did not represent the period over which future economic benefits were likely to be derived. As a result remaining useful lives were extended resulting in depreciation expense being reduced in the current financial year and future financial years.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Receivables

Current trade receivables are non-interest bearing and include amounts receivable on 30 day terms from National Electricity Market Management Company for electricity sales and amounts receivable on 30 to 90 day terms for consulting services. 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. The weighted average cost method is used to measure the cost of inventory.

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

(h) Cash and cash equivalents

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

(i) Property, plant and equipment

The Corporation carries property, plant and equipment at cost less accumulated depreciation and accumulated impairment.

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

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

	2007	2006
Generation	3 – 150 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

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) Investments and other financial assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as 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. In the case of investments not classified as held for trading, directly attributable transactions costs are included. The Corporation determines the classification of its financial assets after initial recognition and where appropriate, re-evaluates this designation at each financial year end. All routine purchases and sales of financial assets are recognised on the trade date being the date that the Corporation commits to purchase the assets.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Corporation has the intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held to maturity are measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation calculated 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

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(k) Research and development

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

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

Following initial recognition of development expenditure, the 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.

(l) 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. 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 the cause of previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is only reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

recoverable amount. The impairment reversal cannot result in a carrying amount exceeding the amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years.

(m) Payables

All trade payables and accrued expenses are unsecured and non-interest bearing and are normally settled on 30 to 60 day terms and are carried at the invoiced amount.

(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 2007 (2006: $0.5 million). Sick leave is non-accumulating and is recognised as an expense at the rate paid when the leave is taken.

Long service leave

The provision for long service leave represents the present value of the expected future cash payments for entitlements earned through employees' services provided to reporting date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected rate of utilisation based on historical patterns and is discounted using Commonwealth Bond rates at reporting date. The provision is segregated into current and non-current portions based on expected utilisation of entitlements in the next 12 months. The on-costs attributable to the long service leave provision were $0.7 million for 2007 (2006: $0.5 million).

Restructuring

The provision for restructuring represents the expected cost of redundancies arising from an organisational restructure. A provision for redundancy is raised once there is a committed plan to be implemented over a defined time period that is sufficiently specific as to the location and number of redundant positions.

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 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.

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 sheet date.

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

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

reporting purposes.

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interest in joint ventures except where the Corporation is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 of set-off exists and they 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 2007 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, assets and liabilities are recognised net of the amount of goods and services tax (GST) except:

- When the GST incurred on a purchase of goods 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

Derivative financial instruments are contracts that create rights or obligations to exchange financial assets or financial liabilities with other entities in the future.

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

Derivatives are initially recognised at fair value on the date the Corporation becomes party to a contract. At subsequent reporting dates the fair value is remeasured and any gain or loss (with the exception of cash flow hedges qualifying for hedge accounting) is recognised in the 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. At inception of a hedge relationship the Corporation formally designates and documents the hedge relationship to which the Corporation wishes to apply hedge accounting

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

and the risk management objectives and strategies for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Corporation will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair values or cash flows attributable to the hedged risk. Such hedges are assessed on an ongoing basis to determine that they have been highly effective throughout the financial reporting periods for which they were designated.

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

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

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the Income Statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs.

(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 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

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.

(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

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

Interests in incorporated joint venture entities are reported in the consolidated financial 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 as revenue when there is reasonable assurance that the Corporation is able to meet the qualifying conditions.

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Where a grant is received as compensation for certain expenditure, the grant is recognised as revenue in the Income Statement on a basis that it 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 and rewards 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

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.

Dividends

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

Rental revenue

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

(y) Segment reporting

The Corporation operates predominantly in the energy generation business. The Corporation's operations and customers are located predominantly in one geographical segment being Australia.

(z) Rounding

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

(aa) Comparative figures

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

1.3 CHANGE IN ACCOUNTING POLICY

The Corporation has elected to amend its accounting policy for recognition of actuarial gains and losses on the defined benefit superannuation plan. This follows the revision to accounting standard AASB 119 *Employee Benefits* with effect from reporting periods commencing on or after 1 January 2006 which allows recognition of actuarial gains and losses on defined benefit plans directly through retained earnings.

Adoption of this accounting treatment is intended to assist in managing reported earnings volatility caused by external factors such as volatility in the long-term government bond rates and the share market.

The actuarial loss for 2007 is $31.2 million (2006: $27.3 million gain). The Corporation has early adopted the accounting policy change in the revised standard and the 2006 comparative financial statements have been amended accordingly.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	NOTE	CONSOLIDATED 2007 $'000	CONSOLIDATED 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
2 REVENUE AND EXPENSES					
a) Revenue					
Electricity revenue		442,228	405,646	392,192	353,193
Gain on electricity derivatives		3,433	-	3,433	-
Consulting services		32,393	34,992	32,320	34,992
Government grants	24	6,762	6,472	6,762	6,472
Dividends		-	1	-	1,501
Rental income		222	220	218	201
Interest revenue		3,748	3,083	3,742	2,412
Other		4,399	19,242	2,398	19,241
		493,185	**469,656**	**441,065**	**418,012**
b) Expenses					
Labour		84,868	83,260	82,517	82,695
Depreciation of property, plant and equipment	9	69,014	87,945	68,866	86,312
Gas and pipeline expenses		33,205	31,860	-	-
Basslink expenses		93,598	29,409	93,598	29,409
Materials		8,326	12,169	7,786	9,945
Other operating expenses		84,558	94,786	96,146	104,940
Loss on derecognition of property, plant and equipment		5,225	5,188	5,225	5,147
Bad and doubtful debts		39	74	39	74
		378,833	**344,691**	**354,177**	**318,522**
c) Finance Costs					
Loan interest		67,636	62,320	67,636	60,491
Bank overdraft interest		4	1	4	1
Government guarantee fee		5,105	4,124	5,105	4,124
RBF interest		19,063	18,373	19,063	18,373
Other finance costs		494	1,042	494	1,042
		92,302	**85,860**	**92,302**	**84,031**
d) Movements in Fair Value					
Electricity derivatives		(132,192)	(2,203)	(132,192)	(2,203)
Treasury derivatives		213	(7)	213	(7)
Gain on revaluation of investment in joint venture		-	35,044	-	35,044
Basslink financial asset and liabilities		61,026	5,127	61,026	5,127
Impairment (loss)/reversal on property, plant and equipment	9	155,127	(23,207)	155,127	(772)
Impairment loss on financial and intangible assets		(1,328)	(8,478)	(1,328)	(8,478)
		82,846	**6,276**	**82,846**	**28,711**
e) Bell Bay Sale Agreement					
Loss on disposal of gas turbines		(23,422)	-	-	-
Revised pipeline capacity financial liability		38,930	-	38,930	-
Provision for demolition		(4,357)	-	-	-
		11,151	**-**	**38,930**	**-**

3 MATERIAL ITEMS OF REVENUE AND EXPENSE

Movements in fair value

Each of the movements in fair value described below relates to adjustments through the Income Statement for changes in the fair value of assets and liabilities calculated based on the present value of projected cash flows. None of the adjustments reflect actual cash flow transactions during the year. In the case of the financial liabilities, while fair value represents an estimate of the cost of closing out the obligations at year end, the intention of the Corporation is to let the obligations run their course and deliver the associated financial benefits.

Electricity derivatives

The Corporation trades in electricity financial derivatives as a means of securing the value of future electricity revenue. In accordance with AASB 139 *Financial Instruments: Recognition and Measurement* financial derivatives are recorded at their fair value. Movement in the fair value measurement is recorded in the Income Statement as detailed in note 2(d).

Basslink financial asset and liabilities

The financial asset and liabilities associated with the Basslink agreements are recorded at fair value in accordance with AASB 139. The change in the Basslink fair value recorded in the Income Statement (note 2(d)) is attributable to higher inter-regional revenues and higher electricity market prices. While these higher prices have increased the variable component of the Basslink Facility Fee, they will also result in higher revenue received by the Corporation. Note 17(c) details the valuation methodology for the Basslink financial asset and liabilities.

Asset impairment reversal

In the 2005 financial report, the carrying value of the Corporation's generation assets exceeded recoverable amount resulting in an impairment loss being reported. This was attributable to reduced revenue forecasts as a result of lower price volatility, lower electricity pool prices and reduced projected real price increases. Electricity prices have increased strongly during 2007 and the conditions causing the impairment loss in 2005 have partially reversed. Note 9 details the impairment reversal recognised in the Income Statement.

Bell Bay sale agreement

During 2007, agreement was reached to sell the gas turbines and land of the Corporation's subsidiaries, Bell Bay Power Pty Ltd and Bell Bay Three Pty Ltd. The agreement also provides for early termination of the gas Pipeline Capacity Agreement (PCA).

The Corporation has recognised a receivable for the sale proceeds and has recorded a loss on sale of the gas turbines held by Bell Bay Three Pty Ltd. The sale of the land held by Bell Bay Power Pty Ltd has resulted in recognition of
a gain.

The net loss from the sale is recorded in the Income Statement (note 2(e)).

A provision has been raised representing the estimated cost to the Corporation of demolishing the Bell Bay thermal generation plant which was not part of the sale (note 13(b)).

As part of the sale agreement for the Bell Bay Power Pty Ltd land and Bell Bay Three Pty Ltd generation assets, the Corporation will continue to operate the Bell Bay Power Pty Ltd plant until commissioning of the purchaser's own plant.

The PCA provides the Corporation with committed capacity for gas supplies to the Bell Bay Power Station. Prior to the sale agreement the PCA expired in 2018 and carried an annual obligation of $8.5 million. The fair value of the PCA was recognised as a financial liability in the 2006 year. As part of the agreement for sale of the Bell Bay site the Corporation has renegotiated this agreement to expire in March 2009. The fair value of the financial liability has therefore been adjusted to reflect this shorter term with the fair value gain being reported in the Income Statement.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	NOTE	CONSOLIDATED 2007 $'000	CONSOLIDATED 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
4 INCOME TAX EQUIVALENT					
a) Income tax expense recognised in Income Statement					
Current income tax liability		4,808	29,418	(1,684)	22,129
Adjustments in respect of current income tax of prior years		915	1,141	915	711
Income tax expense in relation to foreign operations		18	-	18	-
Deferred income tax expense/(benefit) arising from origination and reversal of temporary differences		28,385	(15,915)	35,737	(8,682)
Income tax expense reported in Income Statement		34,126	14,644	34,986	14,158
b) Income tax benefit recognised directly in equity					
Derivative revaluations		(131)	(1,392)	(131)	(1,392)
Revaluation of RBF provision		9,350	(8,179)	9,350	(8,179)
Recognition of financial liability		-	18,315	-	18,315
Income tax benefit reported in equity		9,219	8,744	9,219	8,744
A reconciliation between income tax expense and accounting profit before income tax multiplied by the Group's income tax rate is as follows:					
Accounting profit before tax		113,493	39,819	116,362	44,170
Income tax expense calculated at 30%		34,048	11,946	34,909	13,251
Adjustment in respect of current income tax of previous years		-	1,141	-	711
Income tax expense in relation to foreign operations		18	-	18	-
Expenditure not allowable for income tax purposes		210	1,630	209	1,630
Other		(150)	(73)	(150)	(1,434)
Income tax expense reported in Income Statement		34,126	14,644	34,986	14,158

	NOTE	BALANCE SHEET 2007 $'000	BALANCE SHEET 2006 $'000	INCOME STATEMENT 2007 $'000	INCOME STATEMENT 2006 $'000

4 INCOME TAX EQUIVALENT (CONTINUED)

c) Deferred income tax balances

Deferred income tax balances at 30 June and the deferred element of income tax expense in the Income Statement relates to the following:

CONSOLIDATED				
Deferred tax liabilities comprise				
Doubtful debts	-	-	-	(549)
Property, plant and equipment	(824,441)	(832,315)	(6,994)	246,650
Financial assets	(111,035)	-	111,035	-
Other	(9,862)	(11,776)	(1,885)	9,715
Deferred tax liabilities	(945,338)	(844,091)		
Deferred tax assets comprise				
Provisions for employee benefits	98,713	89,563	200	(153)
Basslink and PCA financial liabilities	320,919	271,094	(49,825)	(271,094)
Electricity derivatives	33,875	-	(34,007)	-
Provision for demolition	1,307	-	(1,307)	-
Other	8,144	20,227	11,168	(484)
Deferred tax assets	462,958	380,884		
Net deferred tax liabilities	(482,380)	(463,207)		
Deferred tax expense/(benefit)			28,385	(15,915)
PARENT				
Deferred tax liabilities comprise				
Doubtful debts	-	-	-	(549)
Property, plant and equipment	(827,148)	(830,782)	(7,126)	253,282
Financial assets	(111,035)	-	111,035	-
Other	(9,655)	(11,776)	(2,121)	9,715
Deferred tax liabilities	(947,838)	(842,558)		
Deferred tax assets comprise				
Provisions for employee benefits	98,708	89,563	205	(152)
Basslink and PCA financial liabilities	320,919	271,094	(49,825)	(271,094)
Electricity derivatives	33,875	-	(34,007)	-
Other	1,881	15,970	17,576	116
Deferred tax assets	455,383	376,627		
Net deferred tax liabilities	(492,455)	(465,931)		
Deferred tax expense/(benefit)			35,737	(8,682)

The prior year deferred tax liability has been restated to reflect an adjustment of $10.4 million required to ensure full recognition of the liability in relation to property, plant and equipment on adoption of AIFRS.

4 INCOME TAX EQUIVALENT (CONTINUED)

The Group has no tax losses arising in Australia for offset against future taxable profits.

At 30 June 2007, there is no recognised or unrecognised deferred income tax liability (2006: $nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint ventures. 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 arrangement 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 liabilities 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 or 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.

	NOTE	CONSOLIDATED 2007 $'000	CONSOLIDATED 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000

5 NOTE 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	1,615	660	1,437	641
Money market investments	50,000	15,091	40,000	5,091
	51,615	15,751	41,437	5,732

b) Reconciliation of net cash provided by operating activities to operating profit after income tax expense

Net profit for the year	79,367	25,174	81,376	30,012
Depreciation and amortisation	69,014	87,945	68,866	86,313
Impairment of assets	(153,799)	31,685	(153,799)	9,250
(Gain)/loss on derecognition of property, plant and equipment	28,245	5,188	4,823	5,147
(Increase)/decrease in accrued interest receivable	36	850	36	(26)
(Increase)/decrease in prepayments	631	(51,942)	611	(50,569)
Decrease/(increase) in inventories	(828)	(156)	(817)	(160)
Decrease/(increase) in receivables	(55,375)	4,749	(41,928)	(22,500)
(Decrease)/increase in accrued interest payable	830	(675)	830	1,581
Increase/(decrease) in tax balances	(30,966)	35,014	(30,789)	28,454
Increase/(decrease) in trade creditors and accrued expenses	19,935	5,427	14,448	7,308
Increase/(decrease) in employee entitlement provisions	30,548	(25,636)	30,531	(26,140)
Net hedging debt management charges	37	228	37	228
Net fair value movements	28,590	2,924	28,590	2,924
Net movement in other asset and liability accounts	21,130	19,193	27,834	54,700
Net cash provided by operating activities	37,395	139,968	30,649	126,522

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	NOTE	CONSOLIDATED 2007 $'000	CONSOLIDATED 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
6 RECEIVABLES					
Trade receivables		123,153	98,832	109,686	98,812
Proceeds receivable on sale of Bell Bay assets		30,000	-	30,000	-
		153,153	98,832	139,686	98,812
7 INVESTMENTS					
a) Current investments (at cost)					
Money market investments		50,000	15,091	40,000	5,091
b) Non-current investments					
Investment in joint ventures	28	88,349	79,989	95,773	85,551
Other		16	16	16	16
		88,365	80,005	95,789	85,567

All money market investments are transacted through Tascorp.

8 INVENTORIES					
Stores		916	700	916	700
Environmental energy products		617	5	617	17
		1,533	705	1,533	717

9 PROPERTY, PLANT AND EQUIPMENT

Impairment of Assets

Note 1.2(l) 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.

Following commissioning of Basslink, the Bell Bay Power Station was not expected to be required for drought relief back-up and therefore had little prospect of providing future economic benefit to the Corporation. The generating assets of Bell Bay Power Pty Ltd were therefore judged in 2006 to have no recoverable amount requiring full impairment of their carrying value.

The impairment assessment of hydro generation assets conducted for the 2005 financial year identified impairment triggers that required calculation 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. As discussed in note 3, the recalculation of the recoverable amount of generation assets in 2007 has resulted in the reversal of $155.1 million of the previously recognised impairment.

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 28. The comparative table for 2006 reflects the deconsolidation of these assets from the Corporation.

9 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	CONSOLIDATED AS AT 30 JUNE 2007						
	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	3,392,183	57,512	10,412	13,678	59,466	131,973	3,665,224
Additions	-	110	1,814	-	2,136	50,112	54,172
Disposals	(59,938)	(1,821)	(2,323)	(496)	(7,426)	(743)	(72,747)
Transfers	102,361	7,122	-	4,321	12,160	(125,964)	-
Impairment (loss)/reversal	155,127	-	-	-	-	-	155,127
Balance at the end of the year	3,589,733	62,923	9,903	17,503	66,336	55,378	3,801,776
Accumulated depreciation							
Balance at the beginning of the year	139,735	37,814	3,787	2,818	40,222	-	224,376
Disposals	(1,208)	(1,748)	(1,501)	(426)	(7,272)	-	(12,155)
Depreciation expense	52,410	3,796	1,647	1,326	9,835	-	69,014
Balance at the end of the year	190,937	39,862	3,933	3,718	42,785	-	281,235
Net book value as at 30 June 2007	3,398,796	23,061	5,970	13,785	23,551	55,378	3,520,541

	PARENT AS AT 30 JUNE 2007						
	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	3,383,469	57,505	10,298	13,679	58,843	82,864	3,606,658
Additions	-	110	1,779	-	1,968	45,396	49,253
Disposals	(6,456)	(1,821)	(2,323)	(496)	(7,424)	(714)	(19,234)
Transfers	48,879	7,122	-	4,008	12,159	(72,168)	-
Impairment (loss)/reversal	155,127	-	-	-	-	-	155,127
Balance at the end of the year	3,581,019	62,916	9,754	17,191	65,546	55,378	3,791,804
Accumulated depreciation							
Balance at the beginning of the year	132,239	37,807	3,727	2,807	39,801	-	216,381
Disposals	(1,208)	(1,748)	(1,501)	(425)	(7,272)	-	(12,154)
Depreciation expense	52,388	3,796	1,627	1,257	9,798	-	68,866
Balance at the end of the year	183,419	39,855	3,853	3,639	42,327	-	273,093
Net book value as at 30 June 2007	3,397,600	23,061	5,901	13,552	23,219	55,378	3,518,711

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

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	121,688	126,398
Disposals	(6,789)	(3,615)	(1,586)	(3)	(2,024)	(10,319)	(24,336)
Transfer to Roaring 40s	(119,908)	-	-	-	-	(14,546)	(134,454)
Transfers	123,360	12,080	-	1,137	11,500	(148,077)	-
Impairment (loss)/reversal	(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	131,973	3,665,224
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 Roaring 40s	(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	3,787	2,818	40,222	-	224,376
Net book value as at 30 June 2006	3,252,448	19,698	6,625	10,860	19,244	131,973	3,440,848

	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	2,557	-	2,092	79,758	84,413
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 (loss)/reversal	-	-	-	(772)	-	-	(772)
Balance at the end of the year	3,383,469	57,505	10,298	13,679	58,843	82,864	3,606,658
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)	(896)	-	(1,144)	-	(6,184)
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	3,727	2,807	39,801	-	216,381
Net book value as at 30 June 2006	3,251,230	19,698	6,571	10,872	19,042	82,864	3,390,277

	NOTE	CONSOLIDATED 2007 $'000	CONSOLIDATED 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
10 FINANCIAL ASSETS					
a) Current financial assets					
Prepayments		2,870	3,502	2,856	3,467
Loans to subsidiaries (i)		-	-	13,290	55,269
Tax equivalent loans from subsidiaries		-	-	10,926	3,311
Loans to associates (ii)		3,763	90	3,764	90
Other		27	98	25	98
Treasury derivatives		9,137	5,040	9,137	5,040
Basslink financial asset (iii)		37,898	13,900	37,898	13,900
		53,695	22,630	77,896	81,175
b) Non-current financial assets					
Receivables		-	246	-	246
Basslink financial asset (iii)		323,081	141,639	323,081	141,639
Security deposit		50,000	50,000	50,000	50,000
Prepayments		110	110	-	110
		373,191	191,995	373,081	191,995

(i) Loans to subsidiaries represent intercompany operational loans which are interest free and on-call.

(ii) Loans to associates represents loans to Cathedral Rocks Wind Farm Pty Ltd and Cathedral Rocks Construction and Management Pty Ltd. The loan to Cathedral Rocks Construction and Management Pty Ltd was impaired in 2007 by $1.3 million as it is unlikely that the full amount of the loan will be recovered.

(iii) The Basslink financial asset represents the fair value of the contractual rights under the Basslink Services Agreement.

11 PAYABLES					
Trade creditors		77,727	59,230	77,709	59,209
Accrued expenses		23,547	24,149	14,769	20,951
Accrued interest payable		20,317	19,487	20,317	19,487
		121,591	102,866	112,795	99,647

	NOTE	CONSOLIDATED 2007 $'000	CONSOLIDATED 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'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) Interest-bearing liabilities				
Tascorp loans - current	2,200	7,000	2,200	7,000
Tascorp loans - non-current	1,190,000	1,070,000	1,190,000	1,070,000
	1,192,200	1,077,000	1,192,200	1,077,000
b) Loan facilities				
Committed standby facility				
Facility limit	-	50,000	-	50,000
Less: used/committed	-	-	-	-
Balance	-	50,000	-	50,000
Revolving credit facility				
Facility limit	50,000	50,000	50,000	50,000
Less: used/committed	50,000	10,000	50,000	10,000
Balance	-	40,000	-	40,000
Standby revolving credit facility				
Facility limit	50,000	-	50,000	-
Less: used/committed	-	-	-	-
Balance	50,000	-	50,000	-
Eligible undertaking facility				
Facility limit	150,000	100,000	150,000	100,000
Less: used/committed	-	-	-	-
Balance	150,000	100,000	150,000	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	5,236	5,248	5,236	5,248
Balance	2,264	2,252	2,264	2,252

During 2006, the Corporation arranged an eligible undertaking facility with Tascorp. This facility satisfies conditions of the Corporation's financial services licence and is not required to be drawn.

c) Fair value disclosures

Details of the fair value of the Corporation's interest-bearing liabilties are set out in note 17.

	NOTE	CONSOLIDATED 2007 $'000	CONSOLIDATED 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
13 PROVISIONS					
a) Current provisions					
Employee entitlements		11,739	10,697	11,722	10,697
RBF provision	15	32,297	31,191	32,297	31,191
Onerous contract		-	2,000	-	-
		44,036	43,888	44,019	41,888
b) Non-current provisions					
Employee entitlements		8,280	8,242	8,280	8,242
RBF provision	15	277,972	248,357	277,972	248,357
Provision for demolition		4,357	-	-	-
		290,609	256,599	286,252	256,599
14 FINANCIAL LIABILITIES					
a) Current financial liabilities					
Income received in advance		5,739	6,987	5,739	6,987
Basslink Services Agreement		94,517	67,500	94,517	67,500
Basslink Facility Fee Swap		12,520	14,100	12,520	14,100
Pipeline Capacity Agreement		8,499	8,600	8,499	8,600
Deferred hedging gains		94	82	94	82
Energy trading derivatives		88,757	177	88,757	177
		210,126	97,446	210,126	97,446
b) Non-current financial liabilities					
Basslink Services Agreement		794,980	645,411	794,980	645,411
Basslink Facility Fee Swap		125,742	176,635	125,742	176,635
Pipeline Capacity Agreement		5,475	52,449	5,475	52,449
Energy trading derivatives		24,161	1,860	24,161	1,860
		950,358	876,355	950,358	876,355

	2007	2006

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	%	%
Discount rate:		
Gross of tax	6.00	5.80
Net of tax	5.90	5.70
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)	14.29	7.21
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 estimated balance of pre-July 1988 Funding Credits balance as at 30 June.

Asset disclosure

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.

	%	%
Australian equities	30	38
Overseas equities	25	20
Fixed interest securities	20	21
Property	25	21
	100	100

Plan net liability	$'000	$'000
Defined benefit obligation	362,937	347,193
Contributions tax liability	44,322	20,153
Total defined benefit obligations	407,259	367,346
RBF Contributory Scheme assets (1) (2)	(96,990)	(87,798)
Deficit/net liability	310,269	279,548
Comprising:		
Current net liability	32,297	31,191
Non-current net liability	277,972	248,357
	310,269	279,548

(1) Based on unaudited accounts as at 31 March 2007, rolled forward to 30 June 2007.

(2) Since issuing the 30 June 2006 report, audited accounts for the RBF Contributory Scheme have become available. The net assets in the audited accounts were 2.6% higher than our estimated assets. This has not been adjusted for in the previous year's figures.

15 RBF PROVISION (CONTINUED)

	2007 $'000	2006 $'000
Funded status of defined benefit obligations		
Funded (1)	96,813	92,121
Unfunded	310,446	275,225
Total	407,259	367,346
(1) The contributions tax liability has been included in the unfunded portion of the defined benefit obligation.		
Movements in net liability		
Net liability in Balance Sheet at beginning of year	279,548	306,844
Expense recognised in Income Statement	18,429	18,433
Expense/(gain) recognised in retained earnings	31,167	(27,264)
Actual employer contributions	(18,875)	(18,465)
Net liability in Balance Sheet at end of year	310,269	279,548
Expense recognised in the Income Statement		
Employer service cost	5,343	5,698
Contribution tax expense	(32)	(2)
Total employer service cost	5,311	5,696
Interest cost	19,063	18,373
Expected return on plan assets	(5,945)	(5,636)
Total expense recognised	18,429	18,433
Expense recognised in retained earnings		
Recognised actuarial (gains)/losses	31,167	(27,264)
Fair value of plan assets:		
Fair value of plan assets at beginning of year	87,798	83,785
Employer contributions	18,875	18,465
Participant contributions	1,771	2,179
Operating costs	(869)	(792)
Benefit payments	(25,516)	(26,378)
Expected return on plan assets	5,945	5,636
Expected plan assets at year end	88,004	82,895
Actuarial gain on plan assets	8,986	4,903
Individual plan assets at year end (1) (2)	96,990	87,798
Estimated actual return on plan assets (3)	14,650	10,444

(1) Based on unaudited accounts as at 31 March 2007, rolled forward to 30 June 2007.

(2) Since issuing the 30 June 2006 report, audited accounts for the RBF Contributory Scheme have become available. The net assets in the audited accounts were 2.6% higher than our estimated assets. This has not been adjusted for in the previous year's figures.

(3) 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.

	2007 $'000	2006 $'000

15 RBF PROVISION (CONTINUED)

Total defined benefit obligation (1)

Total defined benefit obligation at beginning of year	367,346	390,629
Employer service costs plus operating costs	5,311	5,696
Interest cost	19,063	18,373
Participant contributions	1,771	2,179
Operating costs	(869)	(792)
Benefit payments plus contributions tax	(25,516)	(26,378)
Expected defined benefit obligations at year end	367,106	389,707
Actuarial (gain)/loss on liabilities	40,153	(22,361)
Actual total defined benefit obligation at year end	407,259	367,346

(1) These figures include contributions tax.

Contributions tax

Defined benefit obligation at beginning of year	347,194	366,520
Fair value of plan assets at beginning of year (1) (2)	(87,798)	(83,785)
Net obligation	259,396	282,735
Contributions tax at beginning of year	20,152	24,109
Contributions tax expense	(32)	(3)
Expected contributions tax liability at year end (3)	20,120	24,106
Actuarial (gain)/loss on contributions tax	24,202	(3,954)
Actual contributions tax at year end (3)	44,322	20,152

(1) Based on unaudited accounts as at 31 March 2007, rolled forward to 30 June 2007.

(2) Since issuing the 30 June 2006 report, audited accounts for the RBF Contributory Scheme have become available. The net assets in the audited accounts were 2.6% higher than our estimated assets. This has not been adjusted for in the previous year's figures.

(3) Expected contributions tax utilises the tax rate for the employer contributions as at 30 June 2006 of 7.21%. Actual contributions tax utilises the tax rate for employer contributions as at 30 June 2007 of 14.29%.

Reconciliation of actuarial (gain)/loss

Actuarial (gain)/loss on assets	(8,987)	(4,904)
Actuarial (gain)/loss on liabilities	15,952	(18,407)
Actuarial (gain)/loss on contributions tax	24,202	(3,954)
(Gain)/loss recognised during year in retained earnings	31,167	(27,265)

There were no unrecognised gains or losses at the beginning or end of the year.

Interest cost

Defined benefit obligation at beginning of year (*)	347,194	366,520
Benefit payments	25,516	26,378
Weighted for timing (*)	(12,758)	(13,189)
Average benefit obligations	334,436	353,331
Discount rate	5.70%	5.20%
Interest cost included in finance costs (note 2(c))	19,063	18,373

** Sum equals average benefit obligations.*

	2007 $'000	2006 $'000

15 RBF PROVISION (CONTINUED)

Expected return on assets

Fair value of plan assets at beginning of year (*) (1) (2)	87,798	83,785
Employer contributions	18,875	18,465
Weighted for timing (*)	9,438	9,232
Participant contributions	1,771	2,179
Weighted for timing (*)	885	1,090
Operating costs	(869)	(792)
Weighted for timing (*)	(435)	(396)
Benefit payments	(25,516)	(26,378)
Weighted for timing (*)	(12,758)	(13,189)
Average expected assets	84,928	80,522
Assumed rate of return	7.0%	7.0%
Expected return on assets used in calculation	5,945	5,636

** Sum equals average expected assets.*

(1) Based on unaudited accounts as at 31 March 2007, rolled forward to 30 June 2007.

(2) Since issuing the 30 June 2006 report, audited accounts for the RBF Contributory Scheme have become available. The net assets in the audited accounts were 2.6% higher than our estimated assets. This has not been adjusted for in the previous year's figures.

Actuarial (gain)/loss for year

Defined benefit obligations (net of tax, prior year assumptions)	350,041	367,465
Contributions tax (based on prior year assumptions)	19,660	23,847
	369,701	391,312
Defined benefit obligations (net of tax, based on current year assumptions)	362,937	347,193
Actual contributions tax at the end of the year	44,322	20,153
	407,259	367,346
Actuarial (gain)/loss for year due to assumptions	37,558	(23,966)
Actuarial (gain)/loss for year due to experience	2,595	1,605
Actuarial (gain)/loss on assets	(8,986)	(4,903)
Actuarial (gain)/loss for year	31,167	(27,264)

History

The amounts for the current year and the previous two years, as required under paragraph 120(p) of AASB 119 are shown below.

	2007 $'000	2006 $'000	2005 $'000
Total defined benefit obligation at the end of the year	407,259	367,346	390,629
Plan assets at year end (1) (2)	(96,990)	(87,798)	(83,785)
Deficit	310,269	279,548	306,844
Experience adjustment on liabilities	2,595	1,605	1,593
Experience adjustment on assets	(8,986)	(4,903)	(7,713)

(1) Based on unaudited accounts as at 31 March 2007, rolled forward to 30 June 2007.

(2) Since issuing the 30 June 2006 report, audited accounts for the RBF Contributory Scheme have become available. The net assets in the audited accounts were 2.6% higher than our estimated assets. This has not been adjusted for in the previous year's figures.

15 RBF PROVISION (CONTINUED)

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).

	2005
Liability for accrued benefits	$'000
Liability for the Scheme as a whole	3,892,933
Net market value of Scheme assets	1,255,312
Deficit	2,637,621

As at 30 June 2005, 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 *Financial Reporting by Superannuation Funds*, was calculated to be $3.8929 billion.

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 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 (CPI)	2.5

The present value of the total accrued benefits for the Contributory Scheme as a whole for the purposes of AAS 25 will be updated when the next actuarial funding report is completed as at 30 June 2007.

		CONSOLIDATED		PARENT	
	NOTE	2007 $'000	2006 $'000	2007 $'000	2006 $'000

16 RESERVES

Derivative revaluation reserve	8,838	4,649	8,838	4,649

The derivative revaluation reserve comprises net fair value gains 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 the 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

The Corporation is exposed to fluctuations in the market price of electricity in Tasmania. In addition the Corporation is exposed to fluctuations in the Victorian market price to the extent of electricity flows over Basslink. 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 electricity price 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 for energy flowing 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.

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 2007 fixed rate loans varied from 4.9% to 6.7% (2006: 4.8% to 6.3%). Floating rates were based on bank bill rates and these varied from 6.3% to 6.7% (2006: 5.6% to 6.2%).

	NOTE	CONSOLIDATED 2007 $'000	CONSOLIDATED 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000

17 FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

The remaining terms and notional principal amounts of the Corporation's outstanding interest rate swap contracts at balance date were:

Not later than one year	30,000	45,000	30,000	45,000
Over one year and up to five years	228,400	228,400	228,400	228,400
Later than five years	70,000	40,000	70,000	40,000
Total	328,400	313,400	328,400	313,400

Basslink

The Basslink Services Agreement (BSA) and Floating Facility Fee Instrument (FFFI) between the Corporation and Basslink Pty Ltd (BPL) (formerly National Grid Australia Pty Ltd) establish the rights and obligations of both parties including the monthly Basslink Facility Fee (BFF) payments by the Corporation to BPL. These agreements are financial instruments whereby the Corporation is committed to make payments to BPL over the term of the contract should BPL 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 BFF 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:

Over one year and up to five years	6,300	-	6,300	-
Later than five years	618,205	624,505	618,205	624,505
Total	624,505	624,505	624,505	624,505

The notional principal amortises over the 25 year period to $318.8 million (2006 $318.8 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:

Over one year and up to five years	10,300	-	10,300	-
Later than five years	589,510	599,810	589,510	599,810
Total	599,810	599,810	599,810	599,810

The notional principal amortises over the 25 year period to $306.2 million (2006 $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 and enters into forward foreign exchange contracts to eliminate currency exposure in accordance with Board approved policy.

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.

	NOTE	CONSOLIDATED 2007 $'000	CONSOLIDATED 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000

17 FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

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

Receivables				
Not later than one year	783	2,345	783	2,345
Later than one year but not later than two years	-	783	-	783
Total	783	3,128	783	3,128
Payables				
Not later than one year	1,784	3,768	1,784	3,768
Later than one year but not later than two years	478	321	478	321
Total	2,262	4,089	2,262	4,089

(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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	NOTE	CONSOLIDATED 2007 $'000	CONSOLIDATED 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
17 FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)					
Credit risk exposure by instrument type					
Financial assets					
Investments and bank balances		81,890	6,776	70,733	6,776
Financial instruments					
Interest rate swaps		68,361	45,697	68,361	45,697
Foreign exchange contracts		164	466	164	466
Basslink Facility Fee Swap		63,356	63,356	63,356	63,356
Forward rate agreements		-	1,265	-	1,265
Energy swaps		3,651	1,601	3,651	1,601
Total credit risk exposure		217,422	119,161	206,265	119,161
Credit risk exposure by institutions ratings					
Australian based institutions					
AA+ to AA- ratings		133,934	44,491	122,932	44,491
A+ to A ratings		63,356	64,944	63,356	64,944
Unrated		3,651	12	3,651	12
		200,941	109,447	189,939	109,447
Overseas based institutions					
A+ to A ratings		16,481	9,714	16,326	9,714
Total credit risk exposure		217,422	119,161	206,265	119,161

17 FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

b) Interest rate exposure

The Corporation's exposure, by maturity, to interest rates on financial instruments at 30 June 2007 was:

	As at 30 June 2007					
	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Rate Maturing			
			1 year or less	1 to 5 years	Over 5 years	Total
	%	$'000	$'000	$'000	$'000	$'000
CONSOLIDATED						
Financial assets						
Cash	5.8	1,615	-	-	-	1,615
Investments	6.4	50,000	-	-	-	50,000
		51,615	-	-	-	51,615
Financial liabilities						
Bank overdrafts and loans (note 12)	6.5	442,200	160,000	420,000	170,000	1,192,200
Interest rate swaps						
Pay fixed/rec. floating		(328,400)	30,000	228,400	70,000	-
Forward rate agreements		-	-	-	-	-
Credit swaps						
Pay fixed/rec. floating		(667,301)	-	-	667,301	-
Rec. fixed/pay floating		667,301	-	-	(667,301)	-
Basslink Facility Fee Swap		(599,810)	-	-	599,810	-
Floating Facility Fee Instrument	7.4	624,505	-	-	(624,505)	-
		138,495	190,000	648,400	215,305	1,192,200
PARENT						
Financial assets						
Cash	5.8	1,437	-	-	-	1,437
Investments	6.4	40,000	-	-	-	40,000
		41,437	-	-	-	41,437
Financial liabilities						
Bank overdrafts and loans	6.5	442,200	160,000	420,000	170,000	1,192,200
Interest rate swaps						
Pay fixed/rec. floating		(328,400)	30,000	228,400	70,000	-
Forward rate agreements		-	-	-	-	-
Credit swaps						
Pay fixed/rec. floating		(667,301)	-	-	667,301	-
Rec. fixed/pay floating		667,301	-	-	(667,301)	-
Basslink Facility Fee Swap		(599,810)	-	-	599,810	-
Floating Facility Fee Instrument	7.4	624,505	-	-	(624,505)	-
		138,495	190,000	648,400	215,305	1,192,200

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

17 FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

	As at 30 June 2006					
	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Rate Maturing			
			1 year or less	1 to 5 years	Over 5 years	Total
	%	$'000	$'000	$'000	$'000	$'000
CONSOLIDATED						
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/rec. floating		(313,400)	45,000	228,400	40,000	-
Forward rate agreements		(20,000)	20,000	-	-	-
Credit swaps						
Pay fixed/rec. floating		(667,301)	-	-	667,301	-
Rec. fixed/pay floating		667,301	-	-	(667,301)	-
Basslink Facility Fee Swap		(599,810)	-	-	599,810	-
Floating Facility Fee Instrument	7.4	624,505	-	-	(624,505)	-
		73,295	200,000	658,400	145,305	1,077,000
PARENT						
Financial assets						
Cash	5.0	641	-	-	-	641
Investments	5.7	5,091	-	-	-	5,091
		5,732	-	-	-	5,732
Financial liabilities						
Bank overdrafts and loans	6.1	382,000	135,000	430,000	130,000	1,077,000
Interest rate swaps						
Pay fixed/rec. floating		(313,400)	45,000	228,400	40,000	-
Forward rate agreements		(20,000)	20,000	-	-	-
Credit swaps						
Pay fixed/rec. floating		(667,301)	-	-	667,301	-
Rec. fixed/pay floating		667,301	-	-	(667,301)	-
Basslink Facility Fee Swap		(599,810)	-	-	599,810	-
Floating Facility Fee Instrument	7.4	624,505	-	-	(624,505)	-
		73,295	200,000	658,400	145,305	1,077,000

17 FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

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	
	2007 %	2006 %	2007 %	2006 %
Weighted Average Cost of Debt	6.46	6.15	6.46	6.15

c) Fair values

AASB 139 requires recognition of financial assets and liabilities at fair value on the Balance Sheet.

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.
- Electricity derivatives are valued at the present value of cash flow required to close out the contracts based on forward prices at balance date.
- 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 based on experience to date and projected operating conditions 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 Inter Regional Revenues, 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.

With separate reporting of the fair value of the Basslink contractual obligations as a financial liability 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 was restated to reflect the disaggregation of these cash outflows (note 9).

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 was 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. This treatment was applied on the basis that Bell Bay Power Pty Ltd was not expected at that time to operate for the remaining term of the contract and would therefore not derive any benefit from the obligations under the contract. As part of the agreement for sale of the Bell Bay site the contract has been amended to expire in March 2009. The fair value of the financial liability has therefore been adjusted to reflect this shorter term with the fair value gain being reported in the Income Statement.

17 FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

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. These contracts reflect the vesting of historical arrangements with retail and major industry clients in place at the time of entry to the NEM.

The counterparties to these arrangements are the only participants in the Tasmanian electricity market at this time. The Tasmanian electricity 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 hedge contracts on the Victorian market including swaps, caps, futures and swaptions. 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.

	CONSOLIDATED				PARENT			
	Carrying Amount 2007 $'000	Net Fair Value 2007 $'000	Carrying Amount 2006 $'000	Net Fair Value 2006 $'000	Carrying Amount 2007 $'000	Net Fair Value 2007 $'000	Carrying Amount 2006 $'000	Net Fair Value 2006 $'000
Financial assets								
Cash	1,615	1,615	660	660	1,437	1,437	641	641
Investments	50,000	50,000	15,091	15,091	40,000	40,000	5,091	5,091
Credit swaps	34,218	34,218	34,927	34,927	34,218	34,218	34,927	34,927
Interest rate swaps	9,787	9,787	4,778	4,778	9,787	9,787	4,778	4,778
Forward foreign exchange contracts	80	80	123	123	80	80	123	123
Basslink financial asset	360,979	360,979	155,539	155,539	360,979	360,979	155,539	155,539
Receivables	153,153	153,153	98,832	98,832	139,686	139,686	98,812	98,812
Other assets	56,041	56,041	54,184	54,184	69,356	69,356	104,327	104,327
	665,873	665,873	364,134	364,134	655,543	655,543	404,238	404,238
Financial liabilities								
Tascorp loans	1,212,715	1,199,738	1,093,729	1,093,305	1,212,715	1,199,738	1,093,729	1,093,305
Credit swaps	34,218	34,218	34,927	34,927	34,218	34,218	34,927	34,927
Interest rate swaps	-	-	119	119	-	-	119	119
Forward rate agreements	-	-	43	43	-	-	43	43
Forward foreign exchange contracts	174	174	47	47	174	174	47	47
Basslink Services Agreement	889,497	889,497	712,911	712,911	889,497	889,497	712,911	712,911
Basslink Facility Fee Swap	138,262	138,262	190,735	190,735	138,262	138,262	190,735	190,735
Pipeline Capacity Agreement	13,974	13,974	61,049	61,049	13,974	13,974	61,049	61,049
Accounts payable	101,275	101,275	83,379	83,379	92,479	92,479	80,160	80,160
Other liabilities	118,379	118,379	11,655	11,655	107,452	107,452	8,344	8,344
	2,508,494	2,495,517	2,188,594	2,188,170	2,488,771	2,475,794	2,182,064	2,181,640

	NOTE	CONSOLIDATED 2007 $'000	CONSOLIDATED 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
18 COMMITMENTS FOR EXPENDITURE					
a) Capital expenditure commitments					
Not later than 1 year		64,558	64,643	11,461	62,518
Over 1 year and up to 2 years		3	218	3	218
		64,561	64,861	11,464	62,736
b) Lease commitments					
(i) Rental expense:					
Minimum lease payment		1,486	2,198	1,486	2,198
(ii) Future committed lease payments:					
Not later than 1 year		1,298	1,711	1,079	1,711
Over 1 year and up to 2 years		2,630	274	2,400	274
Over 2 years and up to 5 years		7,360	292	7,200	292
Over 5 years		28,422	-	28,422	-
		39,710	2,277	39,101	2,277

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		92,158	38,511	73,992	34,752
Over 1 year and up to 2 years		49,907	10,834	45,663	10,580
Over 2 years and up to 5 years		30,133	40,899	23,100	40,197
Later than 5 years		17,517	23,428	-	21,178
		189,715	113,672	142,755	106,707

19 CONTINGENT LIABILITIES AND ASSETS

Contingent liabilities

The Corporation entered into a joint venture with CLP Asia Renewable Projects Limited (CLP) through the sale of a 50% share in Roaring 40s Renewable Energy Pty Ltd. Under the sale agreement a reconciliation is required between the Corporation and CLP to protect CLP from any loss in value of Roaring 40s arising from certain operational problems experienced by Roaring 40s joint venture Cathedral Rocks Wind Farm Pty Ltd (CRWF). CRWF's wind farm has been constructed and is operated and maintained by Cathedral Rocks Construction and Management Pty Ltd (CRCM), a jointly controlled joint venture of the Corporation and Acciona Energy Oceania Pty Ltd. During 2007, resolution of a contractual dispute between CRCM and Vestas relating to the operational performance of the wind turbines was achieved. The extent of the reconciliation between CLP and the Corporation will be determined during 2008.

The Corporation reached an agreement for the sale of the assets of subsidiaries Bell Bay Power Pty Ltd and Bell Bay Three Pty Ltd during 2007. Included in the sale agreement is a regime for the indemnification of the purchaser in respect of contamination of the Bell Bay Power Station site, particularly in respect of personal injury and latent contamination on the site. The Corporation is seeking to mitigate any potential contingent liability for these indemnities.

19 CONTINGENT LIABILITIES AND ASSETS (CONTINUED)

Contingent assets

The Corporation currently has a disagreement with a contract counterparty regarding price escalation clauses for a forward commodity contract.

The Corporation is reviewing its contractual position relating to the disagreement and may seek to recover additional funds from the counterparty.

20 AUDITOR'S REMUNERATION

	NOTE	CONSOLIDATED 2007 $'000	CONSOLIDATED 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
Amounts received, or due and receivable, by the Auditor-General from the Corporation for auditing the Financial Statements of the Corporation.		187	196	187	196
Amounts received, or due and receivable, for compliance audits.		41	11	41	11

21 DIRECTORS AND KEY MANAGEMENT PERSONNEL REMUNERATION

	Short-term employee benefits		Post-employment benefits		Other long-term benefits		Termination benefits		Total	
	2007 $'000	2006 '$'000	2007 '$'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Directors	378	480	94	40	-	-	-	-	472	520
Key Management Personnel	2,280	1,950	306	116	65	-	109	-	2,760	2,066

For the year ended 30 June 2007 twelve employees have been identified as key management personnel in accordance with AASB 124 *Related Party Disclosure*. This number increased from last year due to an organisational restructure. Two of the twelve employees left the Corporation during the year.

Note 22 lists the Directors of the Corporation as at 30 June 2007.

22 RELATED PARTY INFORMATION

The consolidated Financial Statements include the Financial Statements of Hydro Tasmania and its subsidiaries listed in note 25.

	Sales to related parties		Purchases from related parties		Amounts owed by related parties		Amounts owed to related parties	
	2007	2006	2007	2006	2007	2006	2007	2006
Related party	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
CONSOLIDATED								
Roaring 40s Renewable Energy Pty Ltd	3,247	11,073	-	898	3,680	1,039	-	-
Cathedral Rocks Construction and Management Company Pty Ltd	394	314	-	-	2,454	83	-	-
SA Water Corporation & Lofty Ranges Power Pty Ltd Joint Venture	-	1	-	-	-	1	-	-
PARENT								
Roaring 40s Renewable Energy Pty Ltd	3,247	4,648	-	-	3,680	948	-	-
Cathedral Rocks Construction and Management Company Pty Ltd	394	-	-	-	2,454	83	-	-
SA Water Corporation & Lofty Ranges Power Pty Ltd Joint Venture	-	-	-	-	-	1	-	-
Bell Bay Power Pty Ltd	42	76	-	-	15,513	10,010	-	-
Bell Bay Three Pty Ltd	899	3,677	-	-	7,008	47,297	406	-
Lofty Ranges Power Pty Ltd	-	-	-	-	1,183	1,270	-	-
Hydro Tasmania Consulting (Holding) Pty Ltd	-	-	-	-	936	-	-	-
Hydro Tasmania Consulting India Pvt Ltd	51	-	-	-	-	-	18	-
RE Storage Project Holding Pty Ltd	-	-	-	-	-	-	-	-
Wind Energy Storage Pty Ltd	-	-	-	-	30	-	-	-

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) Roaring 40s Renewable Energy Pty Ltd

A guarantee in favour of Roaring 40s Renewable Energy Pty Ltd in relation to foreign currency exchange deals for the purchase of turbines at the Studland Bay Wind Farm.

22 RELATED PARTY INFORMATION (CONTINUED)

(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.

(iii) Bell Bay Three Pty Ltd

A guarantee in favour of Alinta DTH Pty Ltd in relation to the Connection and Metering Agreement as well as the Gas Transportation Agreement.

The Directors of the Corporation as at 30 June 2007 were:

Dr D M Crean, Chairman

Mr V J Hawksworth, Chief Executive Officer

Mr K P Baxter

Mr M M Cavell

Mr D W Challen

Ms S M Farrier

Ms J M Healey

Mr S S Kalinko

Ms M V R Willis

Mr G L Willis resigned on 31 July 2006.

Mr V J Hawksworth commenced as Executive Director on 1 August 2006.

Mr M M Cavell commenced as a Director on 15 November 2006.

Mr S S Kalinko commenced as a Director on 25 June 2007.

Mr D W Challen ceased to be a Director on 11 July 2007.

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 $66.7 million (2006: $57.8 million) was paid to Tascorp during the year.

Ms S M Farrier had an interest as a Director of Electricity Networks Corporation.

Sponsorship of $50,000 was paid to the Tasmanian Symphony Orchestra of which Mr G L Willis and Mr K P Baxter are Directors.

23 EVENTS SUBSEQUENT TO BALANCE DATE

During the financial year, Basslink Pty Ltd, as owner of the Basslink inter-connector cable, announced its intention to sell the asset. The Corporation has been monitoring the sale process in its position as a party to the Basslink Services Agreement. On 31 July 2007, Basslink Pty Ltd signed an agreement with CitySpring Infrastructure Management Pte Ltd for the sale of the link. The Corporation expects to be in either a similar or more favourable position following introduction of the new owner. The Corporation may be liable to pay a success fee to its advisors should the sale proceed providing more favourable terms to the Corporation. The Corporation is required to assess the technical, financial and managerial capacity of the new owner prior to consenting to the sale.

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.

24 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 2007, the Government paid the Corporation $6.4 million (2006: $6.2 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 2007 the Corporation had fully expended (2006: $0.24 million) the grant in accordance with the terms and conditions outlined in the grant deed.

Australian Government Water Fund – Ajenti Project

During the year ended 30 June 2007, the Commonwealth Government entered a funding agreement with the Corporation under the Water Smart Australia program.

Under this agreement the Corporation will receive $8.7 million over the three year term of the agreement for the collection and management of water use data for irrigation licensees through the installation of 3000 telemetry units on on-farm water meters across the State. The water data will be stored on a central web-based database from which licensees will be able to access their own daily water use, total use and use compared to their allocation. In addition training in the use of the equipment and data will be provided.

The grant funds will be received by the Corporation on a six monthly basis upon achievement of agreed milestones.

At 30 June 2007, the Corporation had received $0.5 million of the grant funds and recognised $0.2 million of that receipt in the Income Statement on the basis of the extent of work completed at 30 June.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

25 CONTROLLED ENTITIES

	Footnote	Country of Incorporation	Percentage of Shares held by Hydro-Electric Corporation 2007 %	2006 %
Parent Entity				
Hydro-Electric Corporation				
Controlled Entities				
Bell Bay Power Pty Ltd	1	Australia	100	100
Lofty Ranges Power Pty Ltd	2	Australia	100	100
Bell Bay Three Pty Ltd	3	Australia	100	100
RE Storage Project Holding Pty Ltd	4	Australia	100	100
Hydro Tasmania Consulting (Holding) Pty Ltd	5	Australia	100	-
Hydro Tasmania Consulting India Private Limited	6	India	0.1	-

Footnotes

1. Bell Bay Power Pty Ltd was incorporated on 20 December 2001.
2. Lofty Ranges Power Pty Ltd was incorporated on 26 April 2002.
3. Bell Bay Three Pty Ltd was incorporated on 7 December 2005.
4. RE Storage Project Holding Pty Ltd was incorporated on 11 April 2006.
5. Hydro Tasmania Consulting (Holding) Pty Ltd was incorporated on 20 October 2006. It holds a 99.9% interest (9,999 shares) in Hydro Tasmania Consulting India Private Limited with Hydro-Electric Corporation holding 1 share.
6. Hydro Tasmania Consulting India Private Limited was incorporated on 20 December 2006 in India.

26 INTERESTS IN JOINT VENTURES

			CONSOLIDATED				PARENT			
			Ordinary Share Ownership Interest		Joint Venture Agreement Voting Rights		Ordinary Share Ownership Interest		Joint Venture Agreement Voting Rights	
Name	Principal Activity	Joint Venture Balance Date	2007 %	2006 %	2007 %	2006 %	2007 %	2006 %	2007 %	2006 %
Roaring 40s Renewable Energy Pty Ltd	Wind Farm Development and Operation	30 June	50	50	50	50	50	50	50	50
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	50	50	50	50
Wind Energy Storage Pty Ltd	Implementation of Renewable Energy Project	30 June	50	50	50	50	-	-	-	-

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 28).

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 27).

The Corporation holds a 50% interest in an incorporated joint venture with CBD Energy Limited, named RE Storage Pty Ltd. The principal activity of the joint venture is the investigation of renewable energy commercial opportunities.

A subsidiary of the Corporation, RE Storage Project Holding Pty Ltd holds a 50% interest in an incorporated joint venture with Lloyd Project Holdings Pty Ltd, a 100% owned subsidiary of CBD Energy Limited, named Wind Energy Storage Pty Ltd. The principal activity of the joint venture is the implementation of a renewable energy project on King Island.

	2007 $'000	2006 $'000

27 JOINT VENTURE OPERATIONS

The share of assets and liabilities of the unincorporated jointly controlled operation, SA Water Corporation & Lofty Ranges Pty Ltd Joint Venture, which are included in the consolidated financial statements, are as follows as at 30 June.

Current assets		
Cash	35	19
Receivables	4	24
Total current assets	**39**	**43**
Non-current assets		
Property, plant and equipment	1,364	1,386
Total non-current assets	**1,364**	**1,386**
TOTAL ASSETS	**1,403**	**1,429**
Current liabilities		
Payables	23	28
Total current liabilities	**23**	**28**
TOTAL LIABILITIES	**23**	**28**

28 INCORPORATED JOINT VENTURES

CONSOLIDATED AS AT 30 JUNE 2007			
Joint Venture	Roaring 40s Renewable Energy Pty Ltd	Cathedral Rocks Construction & Management	Total
Ownership Percentage	50%	50%	
	$'000	$'000	$'000
Income Statement			
Revenue	31,884	8,912	40,796
Expenses	33,798	10,295	44,093
Loss before income tax expense	(1,914)	(1,383)	(3,297)
Income tax benefit	603	87	690
Net loss	(1,311)	(1,296)	(2,607)
Balance Sheet			
Current assets	71,826	9,143	80,969
Non-current assets	319,143	432	319,575
Total assets	390,969	9,575	400,544
Current liabilities	22,676	6,652	29,328
Non-current liabilities	177,045	4,870	181,915
Total liabilities	199,721	11,522	211,243
Net assets	191,248	(1,947)	189,301
Share of accumulated losses			
Share of accumulated losses at beginning of year	5,258	613	5,871
Share of net loss reported in the Income Statement	1,862	692	2,554
Share of accumulated losses at the end of the year	7,120	1,305	8,425
Movements in carrying amount of investment in joint venture entities			
Carrying amount at the beginning of the year	79,989	-	79,989
Increase during the year	10,222	-	10,222
Share of loss before tax for the year	(1,862)	-	(1,862)
Carrying amount at the end of the year	88,349	-	88,349

The Corporation adopts a different accounting policy for the recognition of revenue from REC sales in Roaring 40s Renewable Energy Pty Ltd.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

28 INCORPORATED JOINT VENTURES (CONTINUED)

	CONSOLIDATED AS AT 30 JUNE 2006		
Joint Venture	Roaring 40s Renewable Energy Pty Ltd	Cathedral Rocks Construction & Management	Total
Ownership Percentage	50%	50%	
	$'000	$'000	$'000
Income Statement			
Revenue	27,517	19,757	47,274
Expenses	34,940	20,902	55,842
Loss before income tax expense	(7,423)	(1,145)	(8,568)
Income tax benefit	2,179	343	2,522
Net loss	(5,244)	(802)	(6,046)
Balance Sheet			
Current assets	99,369	2,088	101,457
Non-current assets	181,322	401	181,723
Total assets	280,691	2,489	283,180
Current liabilities	13,235	1,781	15,016
Non-current liabilities	92,850	1,200	94,050
Total liabilities	106,085	2,981	109,066
Net assets	174,606	(492)	174,114
Share of accumulated losses			
Share of accumulated losses at beginning of year	249	61	310
Share of net loss reported in the Income Statement	5,009	553	5,562
Share of accumulated losses at end of year	5,258	614	5,872
Movements in carrying amount of investment in joint venture entities			
Carrying amount at beginning of year	249	-	249
Increase during the year	84,749	-	84,749
Share of loss before tax for the year	(5,009)	-	(5,009)
Carrying amount at end of year	79,989	-	79,989

The Corporation adopts a different accounting policy for the recognition of revenue from REC sales in Roaring 40s Renewable Energy Pty Ltd.

	PARENT	
	2007	2006
	$'000	$'000
Carrying amount at beginning of year	85,567	16
Reclassification of R40s subsidiary investment to joint venture investment	-	48,000
R40s investment revaluation	-	35,044
Contributions during the year	10,222	2,507
Carrying amount at end of year	95,789	85,567

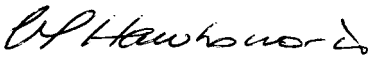
The jointly controlled entities in 2007 were Cathedral Rocks Construction and Management Pty Ltd and Roaring 40s Renewable Energy Pty Ltd.

Contingent liabilities and capital expenditure commitments relating to the joint ventures are included in notes 18 and 19.

	NOTE	CONSOLIDATED 2007 $'000	CONSOLIDATED 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
29 DIVIDEND					
Declared and paid during the year:					
Statutory dividend		21,200	32,000	21,200	32,000
Special dividend		-	8,000	-	8,000
		21,200	40,000	21,200	40,000
Proposed for approval (not recognised as a liability as at 30 June):					
Statutory dividend		-	21,200	-	21,200
		-	21,200	-	21,200

SUPERANNUATION DECLARATION

I, Vincent 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 2007

Tasmanian Audit Office

AUDITOR'S INDEPENDENCE DECLARATION

In relation to my audit of the financial report of Hydro-Electric Corporation for the financial year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit.

H M Blake
Auditor-General
Hobart
10 August 2007

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 2007 and the financial position at 30 June 2007 of the Corporation and its subsidiaries;

   (ii) subject to the Treasurer's Instructions, complying with the Australian Accounting Standards and Interpretations; and

   (iii) complying with Australian equivalents to International Financial Reporting Standards.

b) there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they fall due.

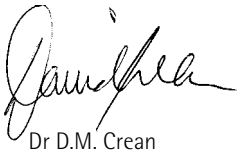
This declaration has been made after receiving the following declaration from the Chief Executive Officer and General Manager Strategy and Finance of the Corporation:

a) the financial records of the Corporation for the year ended 30 June 2007 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 2007 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 2007 give a true and fair view.

Signed in accordance with a resolution of the directors:



Dr D.M. Crean
Chairman
14 August 2007

V.J. Hawksworth
Chief Executive Officer
14 August 2007

Tasmanian Audit Office

INDEPENDENT AUDIT REPORT

To Members of the Parliament of Tasmania

Hydro-Electric Corporation

Financial Statements for the
Year Ended 30 June 2007

Matters Relating to the Electronic Presentation of the Audited Financial Statements

This audit report relates to the financial statements published in both the annual report and on the website of the Hydro-Electric Corporation for the year ended 30 June 2007. 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 statements.

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 statements in the Corporation's annual report.

Report on the Financial Statements

I have audited the accompanying financial statements of the Hydro-Electric Corporation, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the statement from directors of the consolidated entity comprising the Hydro-Electric Corporation and the entities it controlled at the year's end or from time to time during the financial year.

The Responsibility of the directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and Section 52 (1) of the *Government Business Enterprises Act 1995*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

INDEPENDENT AUDIT REPORT (CONTINUED)

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based upon my audit. My audit was conducted in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Statement of Continued Independence

My independence declaration provided to the Directors of Hydro-Electric Corporation dated 10 August 2007 and included in the Annual Report, would be unchanged if provided to the Directors as at the date of this audit report.

Auditor's Opinion

In my opinion

(a) the financial statements of the Hydro-Electric Corporation:

  (i) presents fairly, in all material respects, the Hydro-Electric Corporation's and consolidated entity's financial position as at 30 June 2007, and of their financial performance, cash flows and changes in equity for the year then ended; and

  (ii) are in accordance with the *Government Business Enterprises Act 1995* and Australian Accounting Standards (including the Australian Accounting Interpretations).

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.2(b).

TASMANIAN AUDIT OFFICE

H M Blake
AUDITOR-GENERAL
HOBART
14 August 2007

Statements, Summaries and Statistics

"The self assessment process continues to be a highlight."

esaa Sustainability Report Award judges,
commenting on Hydro Tasmania's 2006 Annual Report

Table 18. Summary of Sustainability Element and Indicator Performance

Indicators					05/06 Score	06/07 Score	Weight[1]	Key Issues Impacting Self Assessment Scores	Page Link
Governance	**Weighted Targets:**	**2006/07** **4.0**	**2007/08** **3.5**	**2011/12** **4.0**					43
Principles, Structure and Reporting Measure of management planning instruments to provide leadership and direction for sustainable business activities.					3.25	3.5	33.3%	→ Assurance group established to incorporate audit, compliance and risk. ↑ Hydro Tasmania's organisational restructure and changes in responsibilities between groups has reintegrated parts of the business that had become disparate.	43 66
Regulatory Compliance Measures compliance against regulatory requirements and implementation of processes to achieve best practice industry standards.					4.0	3.5[2]	33.3%	→ The significant increasing trend in reporting of breaches across a range of areas indicates a better understanding of the need to identify breaches to create improvements. → Work has commenced on improving risk-based prioritisation of our legislative and regulatory obligations.	44 44
Ethical Business Practice Measures the application of business values in the delivery of its vision and strategy.					3.25	3.25	33.3%	→ Good ethics continue to be encouraged through values recognition awards and leadership programs. ↑ Values program is now implemented across the whole organisation	45 45
Weighted Score					**3.5**	**3.4**			
Operations	**Weighted Targets:**	**2006/07** **4.0**	**2007/08** **3.7**	**2011/12** **4.3**					**46**
Operational Short and Long-Term Reliability Measures Hydro Tasmania's ability to sustain required asset capability to best meet the needs of the business.					3.75	4.0	30%	↓ Despite consistent reliability in the face of a record number of power station stops and starts following NEM entry, concerns remain about long-term reliability of generation plant and associated infrastructure. ↑ Asset management and outage planning were effective, and asset upgrades were successfully completed, particularly at Gordon Power Station. → New prudent water management criteria were adopted to ensure long-term reliability of the system.	47 37, 47 47
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	3.5[2]	30%	→ Good work in resolving major constraints although still some major limitations to resolve. ↓ Ancillary service requirements were reviewed with NEMMCO and additional capacity was commissioned.	48 48
Network Service Providers Measure of network service providers' performance and relationships.					3.0	3.25	15%	↑ The revised Generator Performance Standards and Compliance Monitoring Program Framework were accepted by NEMMCO. ↓ Hydro Tasmania and Transend Networks have significantly different business drivers and therefore priorities for asset upgrades. This creates some relationship strain. ↑ Basslink operations and performance were certified as meeting contractual benchmarks.	48 49 49
Energy Efficiency and Greenhouse Gas Emissions Measures energy efficiency and greenhouse gas emissions (GHG).					3.5	3.25	15%	↑ Hydro Tasmania is developing a whole of business climate change strategy. ↓ Despite good plans and some progress in improving energy efficiency, significant reductions in energy use and/or GHG emissions have not yet been realised. ↓ Bell Bay has been operated continually for the 12-month period thus increasing emissions..	38 49 50
Resource Use, Waste and Emissions and Sustainable Office Measure of waste and emissions and reuse of consumables.					2.5	2.5	10%	↑ High efficiency dual flush toilets and sensor activated water taps were installed in bathrooms in the Hobart office building. ↓ Gaps are still evident in water data collection, waste management and whole of business waste planning.	51 51
Weighted Score					**3.5**	**3.5**			
Market	**Weighted Targets:**	**2006/07** **3.5**	**2007/08** **3.5**	**2011/12** **4.4**					**54**
Marketing Energy Products Measure of marketing practices associated with energy products.					3.0	3.5	50%	↑ A number of new electricity and environmental energy products generated significant revenue for the business. ↑ A focus on improving relationships has substantially improved our understanding of the needs of customers and counterparties.. ↑ Consistent with our prudent water management strategy, we achieved a balance between storage level impacts and revenue, under difficult drought conditions. ↓ Achieving optimum revenue outcomes during periods of high prices was challenging.	55 54 55 55
Marketing Consulting Services Measure of marketing practices associated with marketing of consultancy services.					3.0	3.25	25%	↑ Two new products have been developed and taken to market, which meet emerging market needs in water management. → Client satisfaction research shows our services are well received by clients, with areas for increased focus highlighted.	56 56
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	2.5[2]	25%	↑ Hydro Tasmania has undertaken research into new technologies, asset upgrade options and water management improvements, resulting in new projects. ↓ A broad strategy to guide research for the organisation has not yet been established.	56 56
Weighted Score					**3.0**	**3.2**			
Finance	**Weighted Targets:**	**2006/07** **4.0**	**2007/08** **3.4**	**2011/12** **4.0**					**58**
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.					3.8	3.0	40%	↓ Cash position was $134.5 million, a drop of $87.1 million from 2005/06. ↓ No dividend will be declared from the 2006/07 profit and net debt increased over the year by over $80 million. → In response to the tight financial position a rigorous cost control program was established, saving $7.7 million in recurrent costs in 2006/07.	59 59 59
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%	↓ Record low inflows will continue to impact on our financial performance in the medium term. ↑ Hydro Tasmania is developing strategies to respond to opportunities created by increasing momentum of the climate change agenda. ↑ Market prices have increased substantially.	59 38 60
Weighted Score					**3.9**	**3.6**			
Employee Capability and Opportunity	**Weighted Targets:**	**2006/07** **3.5**	**2007/08** **3.5**	**2011/12** **4.0**					**65**
Opportunity and Equity Measure of the organisational effort to ensure employees are provided with equal employment opportunity and an equitable working environment.					3.0	3.5	33.3%	↑ The conditions in our Enterprise Partnership Agreements (EPAs) meet, and in many cases exceed,those in the Australian Fair Pay and Conditions Standard, and include formal provision for home-based work and flex-time arrangements. → The Hydro Tasmania Energy/OCEO and Hydro Tasmania Consulting EPAs were approved. ↑ 89 per cent of employees have completed online EEO training on discrimination, harassment and grievance procedures.	65 65 66
Employee Satisfaction Measure of the organisational effort to ensure employee satisfaction in working for Hydro Tasmania.					3.5	3.5	33.3%	→ Employee engagement is stable, and Hydro Tasmania is performing at 83 per cent of the score of Right Management's top quartile performing companies. → Programs to assist employees to reach their full potential include the Graduate Development and the new Emerging Leaders programs.	67 68
Workforce Planning Measure of the organisational effort to ensure the elements of workforce planning, including recruitment, induction, training and development.					3.25	3.25	33.3%	↑ A more rigorous performance management and development process has been implemented. → A unified organisational workforce planning process was used. ↓ Skills shortages exist in a number of areas.	68 68 68
Weighted Score					**3.2**	**3.4**			

Indicators					05/06 Score	06/07 Score	Weight[1]	Key Issues Impacting Self Assessment Scores	Page Link
Health and Safety	**Weighted Targets:**	**2006/07** **3.6**	**2007/08** **3.5**	**2011/12** **4.4**					**70**
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%	↓ Our current Lost Time Injury Frequency Rate is 4.1 against a target of 2, but the lost-time injuries are of lower severity. ↑ Hazard reporting has increased, which means hazards can be rectified before they cause injury or damage. → In the 2007 employee survey, employees gave the highest score to business support for being safe at work.	71 71 70
Employee Health and Wellbeing Measure of the organisational effort to promote general health and wellbeing throughout the organisation.					4.0	3.25	20%	↑ Absenteeism for 2006/07 is low at an average of 3.95 days per employee. → Flexible working arrangements were embedded into the new Enterprise Partnership Agreements.	71 71
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%	→ Hydro Tasmania has a mature dam safety assurance program with continuous improvement. ↑ Collaboration between peak recreational bodies and government agencies has helped facilitate safe recreational practices.	72 72
Weighted Score					**3.6**	**3.4**			
Community	**Weighted Targets:**	**2006/07** **3.5**	**2007/08** **3.8**	**2011/12** **4.1**					**74**
Stakeholder and Community Engagement Measure of the organisational effort to communicate with and involve stakeholders and the community in business operations that affect them.					3.5	3.5	40%	↑ Introduction of a relationship-based engagement model has facilitated significant shifts of thinking around stakeholder engagement on a number of key strategic issues that are leading to greater collaboration with others. ↓ Stakeholders report that we have good listening skills, but tend to be adversarial, paternalistic and inconsistent in our messages. → Stakeholder engagement has focused on issues including Lake Margaret Power Station shutdown, recreation management and a number of water management projects.	74 74 75
Community Capacity Building Measure of the organisational effort to assist with capacity building within the community and enhancement of corporate citizenship and social responsibility.					3.5	3.25	30%	→ Continued strong work in education programs and raising community awareness of our commitment to environmental programs and sustainability. ↓ The corporate sponsorship program was underspent by $28,000 as part of a business-wide effort to rein in costs.	75 75
Multiple Use Benefits Measure of the organisational effort to ensure Hydro Tasmania's assets provide multiple use benefits for the community.					3.5	4.0	30%	↑ Collaborative efforts with stakeholders have seen development of the Penstock Lagoon Management Plan and implementation of a plan for Brumbys Creek. ↑ Recreational use of assets has continued, despite low lake levels.	76 76
Weighted Score					**3.5**	**3.6**			
Suppliers and Partners	**Weighted Targets:**	**2006/07** **3.0**	**2007/08** **3.0**	**2011/12** **3.0**					**78**
Suppliers and Partners Measure of suppliers' and partners' performance, sustainability practices and relationships.					3.0	2.5	100%	↓ Part of the score decrease has been a function of failing to keep pace with peers on this indicator, rather than deteriorating performance. ↓ No progress has been made on establishing indicators of success for supplier and partnership program, reviewing long-term supplier arrangements, or examining supplier engagement practices.	78 78
Weighted Score					**3.0**	**2.5**			
Ecosystems and Heritage	**Weighted Targets:**	**2006/07** **3.5**	**2007/08** **3.7**	**2011/12** **4.1**					**83**
Aquatic Ecosystems Measure of performance and management of aquatic ecosystems.					3.0	3.25	35%	↑ A Lagoon of Islands Nutrient Management Strategy was adopted to address the algal bloom in the lake. ↑ Monitoring programs were implemented to understand the environmental impacts of low lake levels, and operational changes were made to minimise and manage risks and impacts associated with low lake levels. ↓ Monitoring results have indicated that three lakes (Great Lake, Lake Echo and Woods Lake) have experienced higher turbidities and elevated nutrient and algal levels. Low flows have contributed to a deterioration of water quality conditions.	84 84 84
Terrestrial Ecosystems Measure of the performance and management of terrestrial ecosystems.					3.0	3.0	20%	→ Progress has been made in rehabilitating contaminated sites and the weed management program. → Understanding and documenting asset management issues and ecological values through the Land Environment Map database is also providing a strong basis for guiding future land management directions.	86, 87 86
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%	→ 50 EMPs were completed. These are generally voluntary and do not relate to regulatory requirements. → Eight internal non-confromance reports were raised from environmental management plan audits, two of which were major.	86 86
Heritage Measure of performance and management practices for Aboriginal heritage, historic cultural heritage and the World Heritage Area.					4.0	4.0	15%	→ Significant stakeholder concern about the closure of Lake Margaret Power Station and removal of the woodstave pipeline was alleviated through substantial stakeholder communication and liaison on a feasibility study for future development options. → All conservation management plans are completed, but not all have been endorsed by management this financial year. → Some risk assessments of Aboriginal heritage values have been carried out for Hydro Tasmania land.	87 87 87
Weighted Score					**3.5**	**3.5**			

Legend

↑ Activity improved score → Activity maintained score ↓ Activity reduced score

(Footnotes)

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. Weightings have been adjusted for the Operations element due to changes from NEM entry.

2 More detailed analysis of these indicators against the sustainability criteria suggested the need for a downward score adjustment.

Independent Assurance Statement

Hydro Tasmania Annual Report 2007

To Hydro Tasmania's stakeholders

Banarra Sustainability Assurance and Advice (Banarra) was commissioned by Hydro Tasmania to assure its Annual Report 2007 (The Report) against the AA1000 Assurance Standard. In conformance with the Standard, our approach assures in terms of materiality, completeness and responsiveness (identifying and addressing the right issues and ensuring the reliability of the information presented).

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

Summary

We believe The Report provides a fair and balanced representation of Hydro Tasmania's material (most important) sustainability performance areas, issues and responses for 2006/07 in a way that allows stakeholders to make informed decisions.

We are pleased to note the frank approach that Hydro Tasmania takes to discussing key issues in The Report and also the openness and responsiveness with which the organisation addressed our challenges and feedback during the assurance process.

Assurance scope

Our report assurance scope included all sections of The Report, with the exception of the Sustainability Self-Assessment and the Financial Statements.

Banarra Assurance Methodology

We developed a register of material performance areas and issues, identified through research based on the AccountAbility five-part materiality test. This included interviews with nine Hydro Tasmania external stakeholders and all nine members of the Executive Team including the CEO, Vince Hawksworth. Reviews were conducted of internal documentation such as policies, surveys and Board papers and we carried out internet-based research for sector issues, standards and peer sustainability reporting.

Of the 290 relevant areas and issues identified, our criteria found 41 to be material. Of these we ranked 20 as being the highest priority. These issues focused our testing of The Report, which was done by developing audit trails, investigating assumptions, reviewing data generation procedures and conducting interviews with 41 data owners. This testing enabled us to take a view on the materiality, completeness and responsiveness of The Report, along with the level of application of the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines.

Additions since last year

This year we also:

- Included the integrated annual report in our assurance scope; and
- Reviewed Hydro Tasmania's application of the GRI.

Materiality – has Hydro Tasmania identified what's important?

We are pleased to note that Hydro Tasmania has developed a systematic approach to identifying and prioritising the issues of greatest concern to internal and external stakeholders. This includes formal criteria for testing these issues as required by the AA1000 Assurance Standard Principles Guidance Note.

All the material issues that we identified in our testing were also identified by Hydro Tasmania's own materiality process and are included in The Report.

Completeness - has Hydro Tasmania understood these issues?

Hydro Tasmania's comprehensive self-assessment process continues to facilitate the organisation's understanding of its material issues. While all the material issues we identified are addressed in The Report, the condition of key generation assets would benefit from greater discussion.

In terms of the boundary of The Report we are pleased to see greater discussion this year of the Roaring 40s joint venture and its approach to sustainability issues.

We are also pleased to note that Hydro Tasmania's own internal checking processes have improved since last year, leading to greater robustness in terms of the data initially provided for assurance. We did identify a number of errors in the figures and claims presented. All were addressed and are corrected in The Report. However we were unable to sight sufficient evidence to come to an opinion on the figures for energy use (p. 50, Table 6) and for the energy reduction key performance indicator (KPI) (p. 34, Table 3).

Responsiveness – has Hydro Tasmania responded to these issues?

The Report contains most of Hydro Tasmania's responses to material issues, however there are two areas where a response is not accounted for – employee engagement and the results of the staff survey, and the challenges of embedding sustainability throughout the organisation.

We are pleased to note that Hydro Tasmania has responded to the key opportunities we identified in our assurance statement last year, with the exception of demonstrating the alignment of Corporate Plan goals, targets and objectives with other content in The Report. This year a number of key performance indicators and targets (P. 34, Table 3) have been excluded without explanation in The Report.

We believe Hydro Tasmania has adequate resources to enable the implementation of the commitments articulated in The Report, however this is a time of restructure and change for the organisation and as such some priorities may change.

Global Reporting Initiative

We concur with Hydro Tasmania's own assessment that they have achieved GRI application level B+.

In the next report we would encourage more comprehensive identification of the management approach disclosures. Although not required for this application level, Hydro Tasmania could in future also consider the applicability of the GRI Electric Utility and Public Agency Sector Supplement performance indicators.

Opportunities

We have identified a number of opportunities for improvement, including:

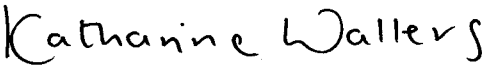
- Address the tension between completeness and conciseness by increasing the availability of additional data and information on the web to enable future printed reports to focus primarily on key performance areas and issues;
- Introduce a formal review process to identify and analyse the underlying factors and trends for performance indicator results, such as injury, resource use and compliance metrics; and
- Review the energy reduction KPI to enable whole-of-business measurement that is not affected by fluctuations in energy generation.

These and other opportunities are presented in more detail in a report to Hydro Tasmania management.

Independence

Banarra was paid by Hydro Tasmania to conduct this assignment. Other than this payment the assurance team declares itself independent in relation to Hydro Tasmania and its stakeholders. There is a detailed statement on our independence, impartiality and competencies 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
25 September 2007

Banarra
Sustainability Assurance and Advice

Statistical Summary

Water Storages

Storage	Per cent full 30 June 2007
Lake Augusta	23.05
Great Lake	15.64
Arthurs Lake	42.99
Lake St Clair	19.38
Lake King William	29.76
Lake Echo	21.75
Bronte Lagoon	38.01
Tungatinah Pond	29.18
Laughing Jack Lagoon	13.36
Lake Mackenzie	23.11
Lake Rowallan	45.50
Lake Pedder	15.37
Lake Gordon	17.26
Lake Murchison	13.42

Storage	Per cent full 30 June 2007
Lake Mackintosh	30.88
Lake Burbury	17.06
Lake Gairdner	16.37
Lake Plimsoll	29.34
Lake Margaret	99.10
Major	16.30
Intermediate	25.60
Northern head waters	26.80
Total	**19.30**

Lake and river levels are published daily on the Hydro Tasmania website: **www.hydro.com.au/About Us**

Five Year Profile - Income Statement

	Year Ending 30 June				
	2007 $M	2006 $M	2005 $M	2004 $M	2003 $M
Income					
Electricity revenue	445.662	405.646	399.177	378.269	354.091
Consulting and other income	37.013	54.455	52.764	50.063	36.795
Operating grants and subsidies	6.762	6.472	6.030	6.617	5.966
Interest received	3.748	3.083	3.842	0.133	0.603
TOTAL INCOME	**493.185**	**469.656**	**461.813**	**435.082**	**397.455**
Less Expenses					
Labour	84.868	83.260	78.472	72.797	61.918
Materials	41.531	44.029	50.249	44.585	26.746
Basslink expenses	93.598	29.409	-	-	-
Depreciation and amortisation	69.014	87.945	84.424	79.350	80.389
Impairment loss/(reversal)	(153.799)	31.685	542.269	-	-
Finance costs	92.302	85.860	90.334	89.603	100.854
Fair value movements	70.953	(2.916)	34.561	-	-
(Gain)/loss on disposals	(5.926)	(20.782)	9.654	10.354	6.246
Other expenses	87.151	91.347	70.171	66.252	53.202
TOTAL EXPENSES	**379.692**	**429.837**	**960.134**	**362.941**	**329.355**
NET PROFIT/(LOSS) BEFORE TAX EXPENSE	**113.493**	**39.819**	**(498.321)**	**72.141**	**68.100**

Five Year Profile - Balance Sheet

	Year Ending 30 June				
	2007 $M	2006 $M	2005 $M	2004 $M	2003 $M
Assets					
Cash and cash equivalents	51.615	15.751	140.162	12.963	39.280
Investments	88.365	80.005	9.757	3.933	0.020
Receivables	153.153	98.832	104.438	57.550	50.335
Property, plant and equipment	3,520.541	3,440.848	2,824.664	3,431.963	3,383.607
Financial and other assets	435.816	215.330	25.698	24.820	28.129
TOTAL ASSETS	**4,249.490**	**3,850.766**	**3,104.719**	**3,531.229**	**3,501.371**
Liabilities					
Payables	121.591	102.866	104.495	55.193	73.468
Provisions	334.645	300.487	324.974	234.503	228.946
Interest-bearing liabilities	1,192.200	1,077.000	1,211.518	1,080.554	1,036.554
Tax liabilities	482.380	478.830	502.132	79.728	75.946
Financial liabilities	1,160.484	973.801	20.169	21.414	23.154
TOTAL LIABILITIES	**3,291.300**	**2,932.984**	**2,163.288**	**1,471.392**	**1,438.068**
NET ASSETS	**958.190**	**917.782**	**941.431**	**2,059.837**	**2,063.303**
EQUITY	**958.190**	**917.782**	**941.431**	**2,059.837**	**2,063.303**

Five Year Profile - Capital Works

	Year Ending 30 June				
	2007 $M	2006 $M	2005 $M	2004 $M	2003 $M
Expenditure					
Generation assets	39.761	90.868	48.766	44.575	29.215
Bass Strait islands	1.028	1.040	0.566	2.447	4.857
Communications	2.691	4.746	4.989	1.808	5.405
Land and buildings	2.563	3.351	2.206	5.102	2.868
Fleet	2.247	2.583	3.015	2.564	2.185
Information systems	4.930	7.093	14.449	12.759	6.303
Renewable developments	-	13.698	27.690	61.932	39.784
Other assets	952	3.504	2.805	3.874	3.041
TOTAL CAPITAL EXPENDITURE	**54.172**	**126.883**	**104.486**	**135.061**	**93.658**

EMPLOYEE NUMBERS 30 June	2007	2006	2005	2004	2003
Staff headcount (including directors)	817	886	891	868	827

Generating System

		2007	2006	2005	2004	2003
Mainland Tasmania						
Power Stations						
Hydro	No.	28	29	29	29	28
Thermal	No.	2	1	1	1	1
Wind	No.	0	0	1	1	1
Total	**No.**	**30**	**30**	**31**	**31**	**30**
Installed Capacity						
Hydro	MW	2270	2278	2265	2265	2263
Thermal - oil	MW	0	0	0	0	120
Thermal - gas	MW	345	240	240	240	120
Wind	MW	0	0	65	65	11
Total	**MW**	**2615**	**2518**	**2570**	**2570**	**2514**
Energy Generated						
Hydro	GWh	8128	9688	9610	9834	9938
Thermal - oil	GWh	0	0	0	0	109
Thermal - gas - Bell Bay 1-2	GWh	899	585	934	796	351
Thermal - gas - Bell Bay 3	GWh	37	-	-	-	-
Wind	GWh	0	78	226	95	37
Total	**GWh**	**9064**	**10,351**	**10,770**	**10,725**	**10,435**
Generation Peak Load	MWh	2395	2086	1790	1691	1660
Generation Load Factor	%	43	57	69	72	72
Bass Strait Islands						
King Island						
Diesel	MWh	10,600	10,598	11,109	11,589	13,029
Wind	MWh	5319	5243	4579	3727	2404
Flinders Island	MWh	4220	4278	4267	4191	4135
Total	**MWh**	**20,139**	**20,119**	**19,955**	**19,507**	**19,568**
Mainland Aust Generation						
Lofty Ranges Power	MWh	2396	-	-	-	-
Basslink						
Basslink net flow (+ Export - Import)	GWh	-1,374	-	-	-	-
Energy Sales						
Generation at RRN	GWh	8716	-	-	-	-

Hydropower stations decreased by one due to the decommisioning of the Lake Margaret Power Station; thermal stations increased by one due to the commisioning of the Bell Bay Three gas turbines.

Installed hydro capacity decreased by 8 MW due to the decommisioning of the Lake Margaret Power Station.
The installed gas capacity increased by 105 MW due to the addition of three gas turbines each at 35 MW capacity.

Following entry into the NEM, mainland Tasmania generation from 2005/06 is the net energy measured at the market and distribution connection points.

Generation prior to 2005/06 is gross energy measured at the generator.

Generation peak in 2006/07 is higher than previous years due to exports via Basslink.

Glossary

AASB	Australian Accounting Standards Board
AFS	Australian Financial Services
AGAAP	Australian Generally Accepted Accounting Principles
AIFRS	Australian equivalents to International Financial Reporting Standards
ASE	Australian Securities Exchange
ASIC	Australian Securities and Investment Commission
BFFS	Basslink Facility Fee Swap
BSA	Basslink Services Agreement
CEO	Chief Executive Officer
CGU	Cash Generating Unit
CLP	China Light and Power
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
EPN	Environment Protection Notice
esaa	Energy Suppliers Association of Australia
ESMS	Environment and Sustainability Management System
FCAS	Frequency Control Ancillary Services
FFFI	Floating Facility Fee Instrument
FTE	Full Time Equivalent
G3	Global Reporting Index – G3 Guidelines
GBE	Government Business Enterprise
GHG	Greenhouse Gas
GST	Goods and Services Tax
HEC	Hydro-Electric Corporation
HHTP	Healthy Hydro Tasmania Program
IBRM	Integrated Business Risk Management
IHA	International Hydropower Association
IRR	Inter Regional Revenue
KPI	Key Performance Indicator
MAST	Marine and Safety Tasmania
MoU	Memorandum of Understanding
MRET	Mandatory Renewable Energy Target
MVA	Mega Volt Amps
NCR	Non-conformance Report
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company
NGAC	NSW Gas Abatement Certificates
OCEO	Office of the CEO (Chief Executive Officer)
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
RRN	Regional Reference Node
SF6	Sulphur hexafluoride
Tascorp	Tasmanian Public Finance Corporation
WACD	Weighted Average Cost of Debt

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	
m3 – cubic metre	
m – metre	
M – million	

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partially or indirectly reported

not reported

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Reader's Feedback

To help us improve 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 in the on-line Annual Report 2007 at **www.hydro.com.au**

Hydro Tasmania
the renewable energy business

Your view on our:

	Annual report			
Reporting quality	Excellent ☐	Good ☐	Fair ☐	Poor ☐
Performance	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?
Do you have any questions to be addressed in next year's report? Please specify.

Any other comments/suggestions?

Please send your comments to:

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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).

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