HYDRO TASMANIA

ANNUAL & SUSTAINABILITY REPORT 2009

Hydro Tasmania

the renewable energy business

SUSTAINABILITY CODE

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

For Hydro Tasmania, a sustainable future involves the transparent and balanced application of economic, environmental and social considerations to business decisions and activities. Hydro Tasmania believes that these considerations enable the business to address community and stakeholder expectations and ensure long-term business success.

Our Commitments

Hydro Tasmania is committed to applying our Sustainability Principles to our business activities, decision-making processes and performance reporting. We externally benchmark our sustainability performance against international best practice, and review our policy and program every three years.

Our Sustainability Principles

Governance

We govern the business with processes that ensure integration and implementation of our Sustainability Code. We make ethical decisions through the application of our Values and Code of Ethics within a public reporting framework. We comply with relevant legislative requirements and other commitments.

Assets and Resource Use

We use resources efficiently and maintain our energy system, including assets, for the long-term. We ensure new developments meet our Sustainability Code.

Economic Performance

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

Employees

We offer opportunities for employees to grow and develop, ensuring the capability of our people and encouraging innovation, learning and research. We ensure a diverse and equitable workforce, and support and respect the protection of internationally proclaimed human rights. We are committed to a safe and healthy workplace.

External Stakeholders

We endeavour to gain respect and trust through active engagement with the community and stakeholders. We are committed to sharing information, building community capability and providing for multiple-use of our land and water assets. We encourage our suppliers, customers, partners and industry peers to be sustainable.

Ecosystems and Heritage

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

Chief Executive Officer
Hydro Tasmania
1 August 2009

2008/09 ACHIEVEMENTS

Improved financial performance despite ongoing below average water inflows into hydro storages

Profit before fair value adjustment of $38 million reflects operating result - will see dividend paid to Government during 09/10; profit after tax of $287 million due to increased value of assets

Capital expenditure of $81.2 million, including $69.6 million on generation asset safety and reliability

Acquired 51 per cent share in Victorian electricity retailer Momentum Energy to diversify revenue and customer base outside Tasmanian market

Sold Roaring 40s' Asian assets with all profits to be reinvested in Australian wind energy projects

Continued growth of Hydro Tasmania Consulting – revenue targets exceeded; new office opened in Brisbane

2008/09 CHALLENGES

Continuing extensive use of non-hydro sources as a result of below average water inflows and rebuilding storages for long-term business sustainability

Adapting to competition in Tasmanian electricity market

Global financial environment - finding capital for developments and research; impact on our customers

Realities of climate change - slow progress on national renewable energy policy

Becoming customer-driven business - finding the right products and markets; adapting business culture

Using safety procedures effectively across the business

Capacity of hydro system increased - 1000 GWh project finds first 30 GWh with projects in place to produce another 50 GWh in next 12 months

Greenhouse gas emissions halved but still below target – positive impact of Bell Bay Power Station closure

Staff engagement increased; focus on building capability of our people

Building better relationships with stakeholders and customers

Health and wellbeing program wins 2008 WorkCover Safety Award

Maintaining healthy ecosystems with low water inflows

Meeting the Tasmanian market demand for frequency control ancillary services (FCAS)

GRI REPORT
3rd PARTY CHECKED

FRONT COVER IMAGE: ***The photo shows project manager David Brown, left, and Ben Davies of Hazell Bros inspecting the new woodstave pipeline at Lake Margaret***

ECF ELEMENTAL CHLORINE FREE
EMS ENVIRONMENTAL MANAGEMENT SYSTEMS
ECO BLEACHING PROCESS
FOREST MANAGEMENT
ISO CERTIFICATION
pH NEUTRAL ARCHIVAL

Splendorgel is used throughout this document.
Splendorgel paper characteristics:

- Elemental Chlorine Free
- Environmental Management System
- Eco Bleaching Process
- Forest Management
- ISO 14001 Environmental Accreditation
- PH Neutral

DIRECTORS' STATEMENT

To the Hon David Llewellyn MHA, Minister for Energy and Resources, in compliance with requirements of the *Government Business Enterprises Act 1995*.

In accordance with Section 55 of the *Government Business Enterprises Act 1995*, we hereby submit for your information and presentation to Parliament the report of the Hydro-Electric Corporation for the year ended 30 June 2009. The report has been prepared in accordance with the provisions of the *Government Business Enterprises Act 1995*.

D M Crean
Chairman Hydro-Electric Corporation
October 2009

V J Hawksworth
CEO Hydro-Electric Corporation
October 2009

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

AUDITOR'S INDEPENDENCE DECLARATION

Tasmanian Audit Office

10 August 2009

The Board of Directors

Hydro-Electric Corporation

4 Elizabeth Street

Hobart Tas 7000

Dear Board Members

Auditor's Independence Declaration

In relation to my audit of the financial report of Hydro-Electric Corporation for the financial year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been no contraventions of any auditor independence requirements in relation to the audit nor any contraventions of any applicable code of professional conduct in relation to the audit.

Pursuant to established practice in the private sector, a copy of this declaration must be included in the annual report.

Yours sincerely

H M Blake

AUDITOR-GENERAL

Making a Difference

OUR VISION

To be Tasmania's world-renowned renewable energy business

OUR MISSION

Hydro Tasmania will create a sustainable future and increase the value of our business through:

- world-class asset and resource management
- building our financial strength and delivering sustainable returns to our owners, the people of Tasmania
- developing new renewable energy projects
- being the premier employer of the most capable people in our industry
- product innovation for customers in consulting, electricity and green markets
- becoming the first carbon neutral generator in Australia
- being easy to do business with

OUR 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

ABOUT THIS REPORT

This Annual Report is also the sustainability report for Hydro Tasmania, and is our fifth consecutive annual sustainability report. It covers the financial year from 1 July 2008 to 30 June 2009. Where it refers to 'the year' or to '2009', this means the financial year of 2008/09. We specify where discussion of activities is outside this period.

Our aim in producing this report was to create one integrated reporting document that complies with the reporting requirements of the *Government Business Enterprises Act 1995* (GBE Act) and meets our commitment to report on our sustainability performance under our Sustainability Code.

We determined the content of this report by prioritising issues of interest to our stakeholders through a materiality process, and the principles and elements of our sustainability self-assessment. We also referred to the Global Reporting Initiative G3 Guidelines and reported on material 'core' and Electricity Utility Sector Supplement indicators, and addressed 'additional' indicators where they are material to our business. See the GRI content index on page 143 and full list on our web site.

Our primary audience is the Parliament of Tasmania representing the community of Tasmania, who are the ultimate owners of Hydro Tasmania. We consulted a wide range of our stakeholders in Tasmania to find the material issues for this report and expect that our audience extends to those stakeholders and others who are affected by or influence our operations, and with whom we have shared issues of interest or concern. Stakeholder groups, their attributes and how we communicate with them are listed on page 48.

We have responded to feedback from readers of last year's annual report by changing the structure to improve context and focusing more on material sustainability issues so that the report contains a more concise range of subjects.

Readers are welcome to provide us with comments about this report and to help us improve our reporting.

The feedback form is on page 149 or contact **webmaster@hydro.com.au**.

Stakeholders and materiality

In preparing this report we assessed issues from internal and external stakeholders' perspectives. The assessment was limited to Tasmania, our principal place of operation and where we have a material impact on the community. We used a frequency and priority matrix to find issues common to all our stakeholders.

Not surprisingly, water management remains the top issue since our last materiality assessment in 2007. Drought was the driver then, and while the effects of continued low water inflows are a concern to stakeholders regarding electricity supply, access to the water resource for other uses has also emerged as a driver. Other continuing issues are our environmental management, our financial performance and energy reliability, including managing our assets for the future. New issues to emerge this year were our climate change response and stakeholder communication and engagement. Internally, a new issue this year was becoming a customer-driven business and how we integrate retail opportunities into our business with the acquisition of Momentum Energy.

Report boundary

We have determined the report boundary for 2008/09 with reference to GRI's G3 guidelines. Our active controlled entity is Bell Bay Power Pty Ltd which is reported as part of Hydro Tasmania. In 2008/09 we include additional information on two entities where we have significant influence: Momentum Energy and the joint venture Roaring 40s. Other entities where we have significant influence and control are included in our narrative disclosures where there is material interest to our business or our stakeholders.

Data collection and basis

The statistics in this report cover sites wholly owned and operated by Hydro Tasmania. Joint ventures and entities where we have significant influence are excluded unless otherwise stated.

Financial statements comply with International Financial Reporting and Australian Accounting Standards and are in accordance with the *Government Business Enterprises Act 1995*. Financial data includes all of Hydro Tasmania, including India, and entities over which it has control. It also includes 50 per cent of Momentum Energy and all other joint ventures, including the assets and liabilities of Lofty Ranges Power, the unincorporated joint venture. All monetary amounts are in Australian dollars.

We measure net generation data at our market connection points, i.e. we measure what we sell, and measure water storage in gigawatt hours of energy or in percentage full of energy. See details on page 146.

Michael Butler of Hazell Bros on a motorised trolley at Lake Margaret used to transport materials and heavy equipment for the $14.7 million redevelopment

Greenhouse gas data comprises all Australian facilities of Hydro Tasmania and the entities over which it has control. We include Momentum Energy which is above requirements according to the level of control we exercise in that company this year. Data excludes Roaring 40s which reports in its own right. Assessments for 2008/09 in this report are estimates and are based on NGERS compliance with variations explained on page 60 and 62. We provide data over and above NGERS requirements as part of our commitment towards our carbon neutral goal.

Employee data includes all Hydro Tasmania employees, excluding contractors and India, unless otherwise stated. Definitions are the same as the GRI G3 Guidelines definitions where possible and otherwise the difference is stated. We present graphs where feasible and tables where variations are too great to present on a graph.

OH&S data is based on the Australian Standard 1885, except that overtime hours are not included and the number of employees is calculated on full-time equivalents (FTE) not head count. The calculation for the lost time injury frequency rate is:

$$\frac{\text{No. of Incidents x 1,000,000}}{\text{No. of hours worked}}$$

Restatement

The absentee rate for this report is calculated with reference to the GRI definition. Previous years' calculations did not use this definition. The details of the calculation methodology are provided on page 45. We will review our methodology and document our calculations to be consistent in our future reporting.

The lost time injury frequency rates and contractor lost time injuries provided in this report (page 44) differ in part from last year's report on page 30. We have found inconsistent methodologies in calculating the data year-on-year. This year's methodology is explained above. We will review our data methodologies and document our calculations to be consistent in our future reporting.

Errors in the 2007/08 report

Last year's annual report included these errors:

- incidents of non-conformance in the operation of the Gordon Power Station, page 22 incorrectly stated that Hydro Tasmania was holding discussions with the Tasmanian Electricity Regulator to clarify the existing rules. The discussions were being held with the Department of Primary Industries and Water.
- generation peak load and generation load factor statistics provided on page 155 were incorrect. The correct data were:

	At 30 June	2008	2007	2006	2005	2004
Generation peak load	MW	2290	2395	2086	1790	1691
Generation load factor	%	41	43	57	69	72

Contact

If you have any queries regarding this report or its contents, please contact our CEO Vince Hawksworth: Email: ceo@hydro.com.au;
or Post: GPO Box 355 Hobart, Tasmania 7001 Australia

ABOUT HYDRO TASMANIA

Hydro Tasmania is Australia's leading renewable energy business, serving electricity, renewable energy and water management markets. Our head office is in Hobart, Tasmania.

We generate hydropower in Tasmania and trade electricity derivative products and energy related environmental products such as Renewable Energy Certificates in the Australian market.

Our consulting arm - Hydro Tasmania Consulting – offers products and services internationally, focusing on the Asia-Pacific region, based on the expertise we have developed over our 100-year history in power schemes, water management, renewable energy developments and environmental management. Hydro Tasmania Consulting is located at Cambridge, Tasmania, and has regional offices in Melbourne, Brisbane and New Delhi, India.

During 2008/09 we acquired a 51 per cent stake in the Victorian electricity retailer, Momentum Energy Pty Ltd.

Hydro Tasmania is owned by the State of Tasmania. See our ownership structure in figure 2.

Our range of joint ventures includes Roaring 40s Renewable Energy Pty Ltd which we hold with the CLP Group. At 30 June 2009, Roaring 40s owned three wind farms in Australia with several other developments approved or in planning processes across a number of Australian states.

Our business structure is shown in figure 3.

The following diagram shows our position in the electricity supply chain and our associated activities:

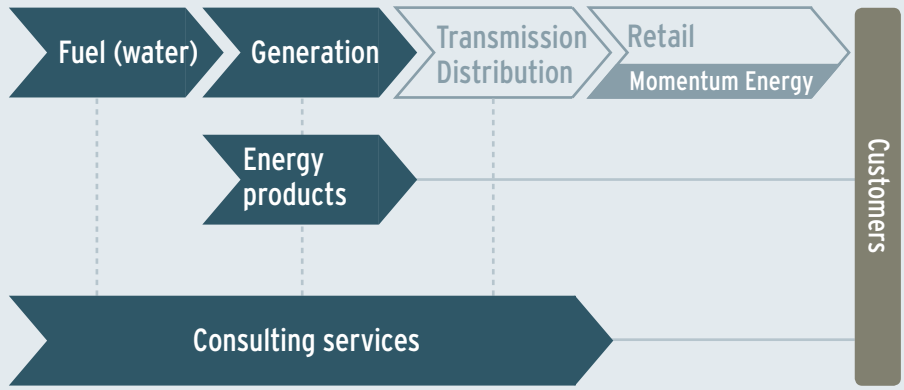


Figure 1: The electricity supply chain and markets showing Hydro Tasmania's activities

Table 1: Hydro Tasmania's scale at 30 June

		2009	2008	2007	2006	2005
Employees – Australia		860	819	817	886	891
Employees – India		20	19	-	-	-
Total revenue	$ million	626	470	493	504	461.8
Total equity	$ million	1665	1396	958	907.4	1537.6
Total installed capacity	MW	2510	2510	2615	2518	2570
Total electricity generated	GWh	7811	8269	9064	10351	10770
Total assets	$ billion	5.2	4.8	4.25	3.85	3.2

Awards

Hydro Tasmania received the following awards during 2008/09:

- Tasmanian 2008 WorkCover Safety Award
- 'Highly commended' award in the GRN Australasian Ecological Restoration Projects for our long-term land rehabilitation projects
- Winner of the esaa Sustainability Report Award 2009 for the 2007/08 Annual Report
- Bronze award in the Australasian Reporting Awards 2009 and one of four finalists in the sustainability category for the 2007/08 annual report
- Winner of 'Best Overall Annual Report Award in the year 2008', Tasmanian Division of the Institute of Public Administration Australia.

Legislative framework

Hydro Tasmania is the trading name for the Hydro-Electric Corporation, which is a statutory corporation, 100 per cent owned by the State of Tasmania. We operate under, and are subject to, two Tasmanian acts: the *Government Business Enterprises Act 1995* and the *Hydro-Electric Corporation Act 1995*. Our water licence is issued under the *Water Management Act 1999*.

The Honourable David Llewellyn MP, Minister for Energy and Resources, has portfolio responsibility for Hydro Tasmania.

Membership of associations

Hydro Tasmania is a financial member of the following strategic industry bodies and associations. They are valuable forums for exchange with our industry peers on many areas of interest, such as technical skills and knowledge, standards, national policies and customer issues. They also provide an industry voice to government and the public on many of these issues.

- Australian National Committee on Large Dams (ANCOLD)
- Australasian Emissions Trading Forum Business Roundtable
- Australian Financial Markets Association (AFMA) **
- Australian Energy Alliance *
- CIGRE (International Council on Large Electric Systems)*
- Clean Energy Council * ^
- Energy Users Association of Australia
- Environment Business Australia
- esaa (Energy Supply Association of Australia) *
- International Hydropower Association (IHA) * ^
- National Generators Forum (NGF) * ^
- Renewable Generators of Australia Limited (REGA) * ^

** denotes committee membership*
^ denotes a position held in governance bodies

A more complete list of our industry memberships is on our web site.

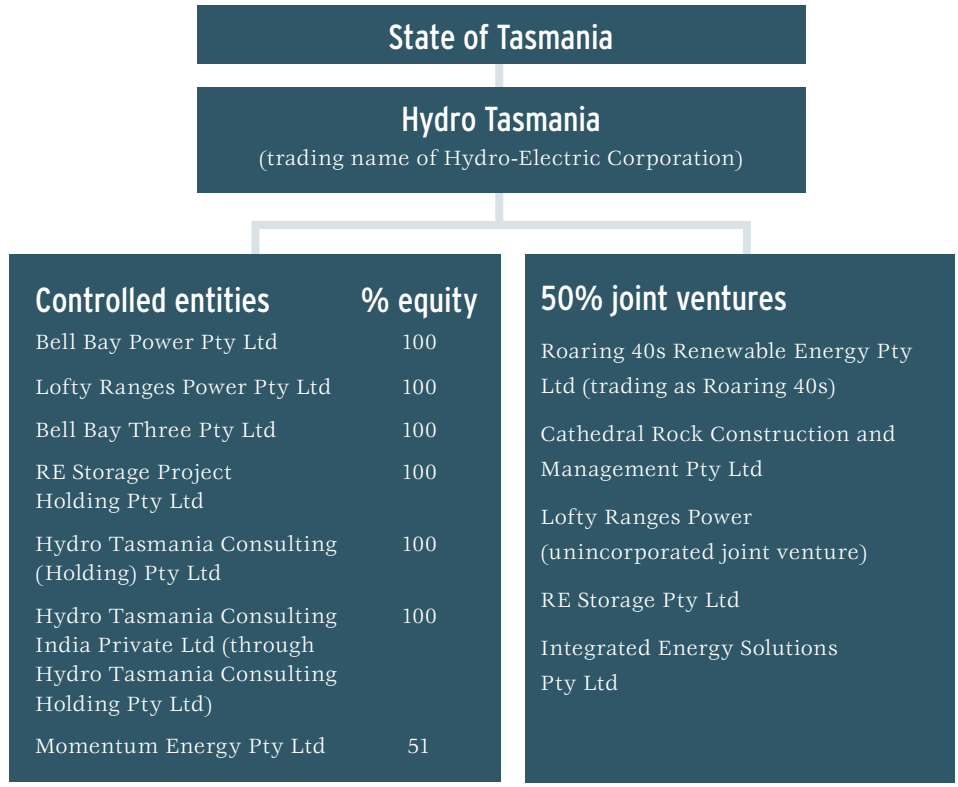


Figure 2: Hydro Tasmania's ownership structure at 30 June 2009

for more information see pages 129-134 in financial statement

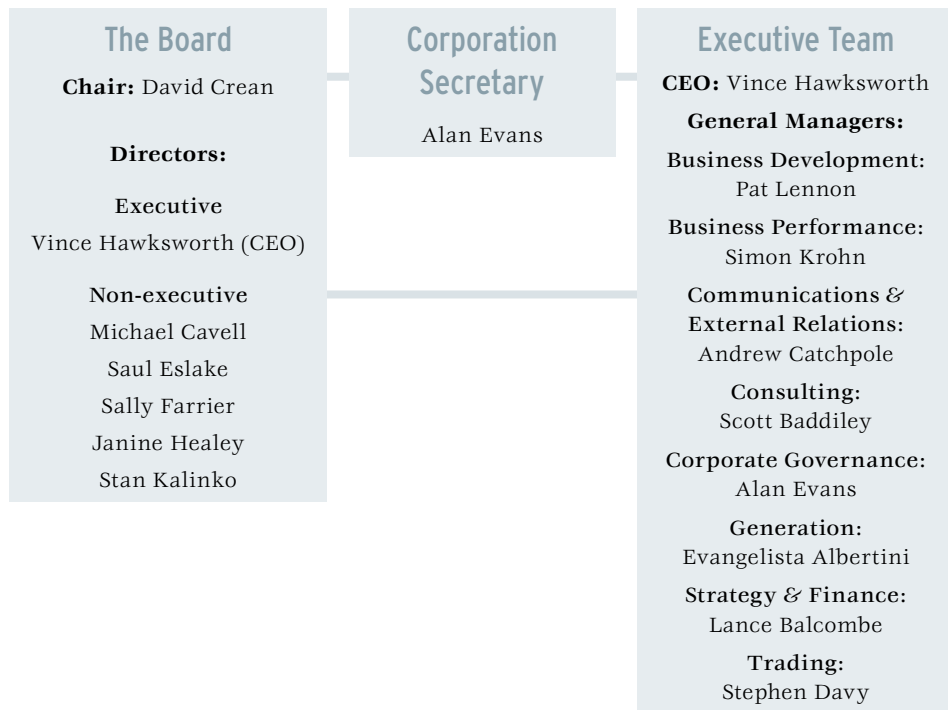


Figure 3: Hydro Tasmania's business structure at 30 June 2009

CHAIRMAN'S REVIEW


David Crean

> During the year the wider Hydro Tasmania business has been progressing a broader customer-focused strategy to ensure we remain competitive in an increasingly tough market

This year showed how a little more rain can benefit both Hydro Tasmania and the State of Tasmania in general.

After three years of drought and low inflows into hydro storages that were among the worst on record, the business performed strongly as a result of improved trading opportunities and sporadic good rains throughout the year.

This improvement on last year comes despite below average inflows of 8400 GWh of energy and a strategic business decision to focus on rebuilding hydro storages for long-term sustainable use. The end result was a net import by Tasmania for the year across Basslink of around 2600 GWh with storages at 30 June reaching 27.7 per cent of full energy, almost nine per cent greater than in June 2008.

This year we have included with this report a paper, *Electricity in Tasmania 2009: a Hydro Tasmania perspective*. It sources publicly available material on key electricity issues in Tasmania. In line with our commitment to transparency, we have distributed it as a useful reference to help facilitate greater knowledge and understanding of the Tasmanian electricity industry.

Positive result

Hydro Tasmania recorded a net profit after tax for the year of $291 million, a significant proportion of which is due to an increase in the value of our assets and to changes in the fair value of our financial instruments. Our result before these gains was $38 million and is a better reflection of the trading result for the year.

This represents a turnaround of nearly $100 million from last year's loss of some $58 million before fair value gains and is a welcome result considering the ongoing hydrological challenges and the wider impact of the global economic downturn on the markets in which we operate.

Cash flow has also improved with net cash from operations being $43.8 million, well up on the result for last year. This has contributed towards an improvement in

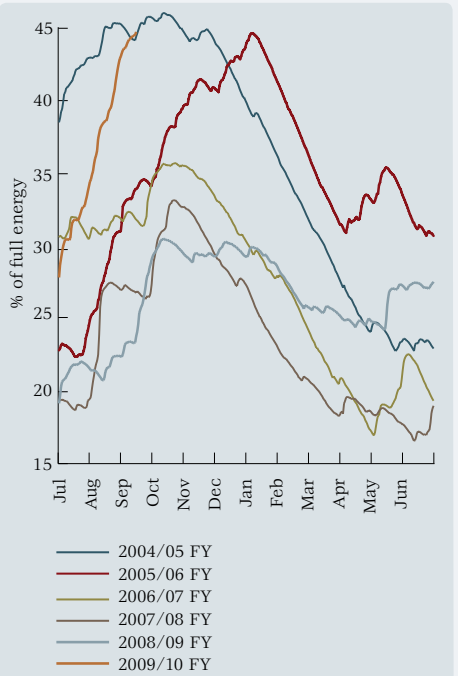


Figure 4: System storage

Hydro Tasmania's debt position, finishing at $904.4 million or $54.6 million better than budget. The positive financial result was the culmination of a significant year for the business during which the groundwork was laid for further growth.

Roaring 40s

The sale of Roaring 40s' Asian assets in April and June 2009 brought to an end a significant chapter in the 50-50 joint venture between Hydro Tasmania and the CLP Group. Changing circumstances in Asia and in Australia convinced Hydro Tasmania of the strategic opportunities of refocusing the joint venture on renewable energy opportunities closer to home.

Proceeds from Roaring 40s' sale of its Chinese and Indian assets to CLP were approximately $163 million. The proceeds have been committed to the joint

venture's renewable energy projects in Australia with the wind farms at Waterloo in South Australia and Musselroe in Tasmania being the priority projects.

Momentum Energy

The purchase in August 2008 of a 51 per cent share of Momentum Energy was a significant event for the business as it looked for opportunities to diversify its revenue and customer base and National Electricity Market-related activities outside the Tasmanian market.

Momentum is the only independent electricity retailer in Victoria to specialise in servicing small to medium business customers. It sells accredited GreenPower sourced from renewable wind generation. Hydro Tasmania will purchase the remaining 49 per cent of Momentum. This was scheduled for 2010 but is now expected to occur in October 2009.

National policy direction

As Australia's leading renewable energy business and the largest manager of water in the nation, we continue to focus significant attention on working with the federal government to develop the appropriate legislative framework to enable further growth in renewable energy development across Australia.

While we remain concerned with the pace of change in the creation of a national carbon emissions market in Australia, Hydro Tasmania is hopeful of a positive outcome for future business opportunities.

Climate Change

The business continues to implement its Climate Change Response Strategy with the aim of being Australia's first carbon neutral generator by 2012.

We have a role to play in the global and national effort to reduce carbon emissions while looking to develop new renewable energy projects and products and services to help our customers meet their climate change mitigation obligations and reduce our own carbon footprint.

We estimate that our greenhouse emissions for 2008/09 will be almost halved from the previous year, largely as a result of the closure of the Bell Bay Power Station.

Hydro Tasmania Consulting

Hydro Tasmania Consulting continues to grow its business around climate change opportunities, as well as in the electricity supply, renewable energy and water markets. The business exceeded its revenue targets for the year and saw an increase in job numbers nationally with a new office opened in Brisbane and further growth in its Melbourne office. The business was also involved in a number of Asian projects in countries such as Malaysia and India, with the New Delhi office recording steady growth in business since it opened in 2007.

A significant part of the continued success of the Consulting business is due to the ongoing focus on better understanding the needs of its customers and providing services and products that they require.

Future Direction

During the year the wider Hydro Tasmania business has been progressing a broader customer-focused strategy to ensure we remain competitive in an increasingly tough market, particularly with the imminent commissioning of the Aurora Energy Tamar Valley Power Station that will reshape the Tasmanian electricity market. This seismic change in the local market will change the role of Hydro Tasmania, where we will no longer bear responsibility for security of electricity supply in the State.

Our future strategic direction is focused on being a profitable business generating sustainable returns to our owners – the people of Tasmania – through the strengthening of our balance sheet and recognition that our customers have a choice in a competitive market. We need to better understand customer demands and opportunities and position the business to access markets where our renewable energy and the experience and skills of our people are highly valued.

While Tasmania will always be our primary market, we also must diversify our revenue base and look to the mainland for further growth opportunities. This strategic approach to the future direction of Hydro Tasmania is driven by our commitment to sustainability as a core business value.

During the year we took a more strategic approach to embedding the Sustainability Code by using our principles as the foundation for the strategy planning process for 2009/10. Sustainability principles are fundamental to our brand as a world-renowned renewable energy business and open up business opportunities as other companies seek to adopt similar principles. Hydro Tasmania aims to align its vision, mission, sustainability and strategy to fully integrate sustainability into business planning. This will be a step-by-step journey as we refine our approach.

Summary

Last year I highlighted that despite all the challenges thrown at us, it was our capacity to adapt and change that enabled Hydro Tasmania to remain a vibrant business with tremendous potential for growth. These words remain true 12 months later and are a reflection of the professionalism and ingenuity of our staff. To them I say thank you for all their hard work and support.

Finally, I would like to thank my fellow directors for their dedication and diligence in undertaking the governance, prudential and strategic roles of the Board.

CEO'S REPORT


Vince Hawksworth

> "The past 12 months have seen a significant improvement in our financial position and a strengthening of our strategic direction"

Hydro Tasmania is on a path of renewal as we shape our strategic direction in a carbon-constrained world to address the competitive environment, better understand our customers, take advantage of our core business strengths and build stronger relationships with our stakeholders.

The past 12 months have seen progress on the development of a focused plan to provide our customers with products and services they need and that no one else does as well as Hydro Tasmania. The strong bond developed with the West Coast community over the Lake Margaret redevelopment is symbolic of how we want to work with our stakeholders into the future.

Two strategic events during the year – the purchase of a majority share in Momentum Energy and the sale of Roaring 40s' Asian assets – will help us work more directly with our customers and signal the changing nature of our business and the opportunities offered by targeted and sustainable growth in Australia.

The business environment during the year was dominated by the significant upheaval in the global financial environment. We closely monitored developments and the challenges faced by our customers. While the impact on our business was minimal, we will continue to monitor the situation. Any decline in energy sales and access to funding is likely to impact on our future operations and we have already taken steps to minimise risk, improve our resilience and look for further commercial opportunities.

Economic

With the improvement in the hydrological situation, the business was able to focus on rebuilding storages, building its financial strength, improving cash flow and reducing borrowings to turn around its performance after three drought-affected years.

Improved trading opportunities, the reduced use of gas and other positive commercial outcomes limited the adverse financial impact of ongoing below average inflows. Hydro Tasmania's generation from hydro assets represented approximately 67 per cent of Tasmanian electricity consumption. The remaining electricity consumed in Tasmania came from Basslink imports, gas generation from Bell Bay and the Aurora Energy Tamar Valley power stations, wind and other minor sources.

The $220 million equity injection received last year has strengthened our capital structure and we are now preparing for the follow-up review in 2009/2010.

Customers/Stakeholders

We have continued to renew and strengthen our relationships with customers and key stakeholders as a strategic imperative.

It is our goal to deliver integrated energy products that are valued by customers in a variety of markets. We also want to improve our understanding of issues of high importance to our stakeholders and to include these in the decision-making process of our business.

During the year a project completed on our behalf identified the issues that matter most to our stakeholders and the data collected will enable the business to shape its future interaction and communications.

The improvement in our relationship with the communities in which we operate continues to be rewarding. Highlights during the year included the partnership formed with the Lake River and Macquarie River users to improve irrigation in the region and the development of memoranda of understanding with the Cradle Coast Authority and NRM North.

Environment and Heritage

Our environmental impact and how we manage our activities are of high importance to our stakeholders. Hydro Tasmania recorded no major environmental breaches for the year. However, there were a number of environmental issues as a result of operational and hydrological events that required attention.

Low lake levels continued to be a concern for the business with key water quality issues monitored at Arthurs, Woods, Echo, King William and Great lakes. A research project into threatened species in highland lakes was also initiated.

This year we began a review of the environmental values of the Cataract Gorge in Launceston, including the minimum flow. This work will contribute to a wider study of the Tamar estuary.

Assets and Resources

Our generation assets underpin our trading capability and require significant resources to ensure they are maintained and upgraded. This year Hydro Tasmania spent $69.6 million on ensuring the safety, reliability and renewal of our assets.

Major projects included the $38 million Catagunya project to ensure the future stability of the dam, the modernisation of Poatina and redeveloping the Lake Margaret Power Station.

The closure of the Bell Bay gas-fired power station in April 2009 was a major change to our asset portfolio.

A key focus during the year was to continue to identify new opportunities in the existing hydropower system through the 1000 GWh project, begun in 2007. 425 GWh of opportunity by 2015 has been identified and over the past year an additional 30 GWh of capacity was created. The expected commissioning of Lake Margaret station in October 2009 will add a further 50 GWh.

Hydro Tasmania joined with the Tasmanian Irrigation Development Board to develop an integrated approach to address long-standing management issues in the Ouse, Shannon and Clyde river districts.

Safety

Improving safety performance remains a key challenge for the business. While there was a slight improvement in the key measure – the lost time injury frequency rate – which dropped from 3.6 to 2.8, but remained higher than our target for the year of 2.

This highlighted the gulf between our results and our goal of 'no harm to anyone at any time'. Improving the understanding of safety procedures across the business is our top priority for the coming year.

A highlight during the year was our health and wellbeing program – Healthy Hydro – winning the 2008 Tasmanian WorkCover Safety Award.

Our People

During the year we sought to develop a culture across the business that reflects our strategic focus. In particular, we focused on building the capability of our people through increased opportunities to encourage leadership and facilitate change.

The response from staff was extremely positive with the annual engagement survey carried out in June reporting a significant increase across the business for the third successive year, putting Hydro Tasmania in the top 25 per cent of the national benchmark.

Our people once again displayed their support for national crises, raising $26 342 towards the Red Cross Victorian Bushfire Appeal while the business donated an additional $36 342. Staff also raised funds for the Leukaemia Foundation, supported men's health issues through the Movember Foundation and participated in the Cancer Council Relay for Life.

Summary

The past 12 months have seen a significant improvement in our financial position and a strengthening of our strategic direction. We recognise the many challenges that lie ahead and our focus is on gaining a better understanding of the markets in which we operate and the customers with whom we do business.

This is a time of great change in the Tasmanian electricity market and for Hydro Tasmania itself. The environment in which we operate both locally and nationally will continue to evolve and I am confident that we are laying the groundwork for Hydro Tasmania to grow, adapt to changing circumstances and continue to be a profitable business.

STATEMENT OF CORPORATE INTENT

The Statement of Corporate Intent is a summary of the Corporate Plan. It is included in the Annual Report as a requirement of the* Government Business Enterprises Act 1995. *The Corporate Plan is prepared in April each year and provided to the Treasurer and Minister for Energy and Resources in May and informs the shareholders of Hydro Tasmania's business plan for the next five years. The timing of the Plan means that at times the content differs from that provided in the Annual Report.

This statement has been prepared pursuant to section 41 of the *Government Business Enterprises Act 1995*.

Business Overview

Hydro Tasmania is a Government Business Enterprise. The strategy of the business has been developed to achieve the purpose and objectives required by the Minister for Energy and Resources and the Treasurer, as communicated through the GBE Act and the Corporation's Ministerial Charter.

The principal purpose of the Corporation as defined in the Ministerial Charter is to undertake the following activities:

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

Hydro Tasmania's principal objectives, as prescribed by the *Government Business Enterprises Act 1995*, are to perform its functions and exercise its powers so as to be a successful business by:

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

- Hydro Tasmania owns 27 power stations and associated dams, canals and infrastructure on mainland Tasmania, at the following locations[1]:

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

The value of Hydro Tasmania's total power system is realised through trading electricity and energy products as a participant in the National Electricity Market.

In addition, the business owns the Bell Bay Power Station, the King Island Huxley Hill Wind Farm and two diesel power stations on King and Flinders islands in Bass Strait. It has a Community Service Obligation, funded by the Tasmanian Government, to provide concessional arrangements to customers on the Bass Strait islands.

Hydro Tasmania holds further wind farm interests in Tasmania and South Australia as joint owner of Roaring 40s Renewable Energy Pty Ltd with the CLP Group.

[1] *The 27 power stations and associated dams, canals and infrastructure at the listed locations have special status pursuant to the* Hydro-Electric Corporation Act 1995 *and constitute Hydro Tasmania's main undertakings for the purposes of the* Government Business Enterprises Act 1995.

Operating Environment

The Corporation's strategy has been greatly impacted by changes to the operating environment which have been significant since the lodgement of the 2008 Corporate Plan. Specifically, the global economic downturn has the potential to have a significant impact on the business, now and well into the future. There has been a seismic shift in the markets in which the business operates. They have moved from where there was financial market liquidity and easy access to debt and equity, to where capital is constrained and debt is difficult to source. Some high profile businesses have disappeared from Australia's corporate landscape. In this context, Hydro Tasmania's status as a Government Business Enterprise has provided a degree of insulation from the turmoil in corporate Australia and provided a solid base from which to execute its strategy. Further, the difficult operating circumstances in which the business has traded over the last two years, principally as a result of extremely low hydrology, have improved the resilience of the business and the ability to withstand the challenges that the global economic situation might deliver.

Resource prices have fallen with flow-on implications for our customers and potential demand for our energy, much of this fuelled by the reduction in growth in the Chinese economic powerhouse. The global economic slowdown will continue to impact upon our customers and our competitors and as a result the future operating assumptions of the business have been revised. Understanding the needs of our customers and competitively meeting those needs is paramount for Hydro Tasmania, particularly in what is forecast to be an increasingly competitive market. Scenarios continue to be developed and analysed so the business is better equipped to handle "the unexpected" that may arise. Indeed it is unlikely the economy will return to the leveraged growth model of the past few years and the future direction of the market must be better understood so the business can adapt accordingly.

There has also been a shift in the Tasmanian electricity market, with the purchase by Aurora Energy and imminent commissioning of the Aurora Energy Tamar Valley Power Station. This has reshaped the Tasmanian competitive setting and Hydro Tasmania's role regarding energy security in Tasmania. The business continues to engage with its shareholders and to learn and adapt to this revised operating situation, particularly as the business can no longer be responsible for security of supply[2]. The business does, however, continue to manage its water storages consistently with its prudent water management obligations. The shift in the competitive landscape and the Corporation's role in the Tasmanian energy market also provide Hydro Tasmania an opportunity to diversify its revenue base and increase its mainland activities.

Statistical analysis undertaken by Hydro Tasmania indicates that inflows into our dams have been significantly lower over the past 12 years than for any other period for which records exist. As a result, the expected inflows into our system have been further de-rated to 8 700 GWh per annum. The de-rating has had flow-on impacts on our revenue projections and the underlying financial strength of the business. However, careful management of our storages has seen our storage position significantly improve since 2008 and there has been a substantial reduction in the Corporation's risk profile.

The energy market has also seen the federal government announce the Carbon Pollution Reduction Scheme (CPRS) and the revised Renewable Energy Target (RET). The CPRS and RET will increase the value of Hydro Tasmania's existing renewable energy, facilitate investment in new Australian renewable energy opportunities and generate opportunities for the provision of energy services, for example, demand side management solutions.

While these announcements can only be seen as a positive for a renewable energy business such as Hydro Tasmania, continued uncertainty over the commencement and operation of these key pieces of legislation puts some of the Corporation's strategic initiatives at risk.

Strategic Direction

Strategic Framework

Hydro Tasmania's 2009 strategy is a customer and revenue strategy. It is a logical progression of the strategy established in 2008 and has been developed against the following strategic framework which will enable the business to:

- provide a profitable business that generates sustainable returns for our shareholder, increases the total economic value of the business and leads to appropriate balance sheet strength
- optimise the business' capacity to manage financial volatility
- move the business from Tasmanian provider of energy security to a commercially focused energy business that recognises that customers have a choice in a competitive market
- position the business to maximise the opportunities from our comparative advantages
- identify and capture growth opportunities that are aligned with the agreed strategic positioning of the business.

[2] *Letter from Treasurer and Minister for Energy and Resources dated 14 February 2009, subject to advice from Director of Energy Planning.*

In executing our customer and revenue strategy the business will maximise the opportunities from its competitive advantages:

- taking advantage of its renewable, zero emission fuel source to access the CPRS and RET opportunities
- use of its low-cost, flexible fuel
- creating superior value from the whole business than from the sum of the parts
- ensuring the business has capable and aligned people and systems; and
- its stable ownership.

Strategic Overview

Hydro Tasmania's customer and revenue strategy is designed to build on the 2008 strategic initiatives but with a substantial focus on understanding customer demand and opportunities and creating appropriate products in those markets where Hydro Tasmania's core capabilities can meet customer needs. It will see the creation of a customer plan which outlines the potential market segments, products and customers that would be most valuable and attractive to the business. An essential outcome is to ensure the customer plan builds loyalty and assists with the retention of our customer base.

The customer and revenue strategy is to continue to grow the retail channel via the recently acquired Momentum Energy business in the National Electricity Market. The customer and revenue strategy will also ensure the core capabilities of the business work together to provide a superior customer offering while managing the strategic risks, especially those relating to the economic downturn.

Growth of the business remains a key strategic priority, within the constraints of the Corporation's existing balance sheet and the overall financial objective to have a financial strength equivalent to BBB credit rating. As such any growth initiatives need to be prioritised in order of the value they create.

The customer and revenue strategy builds on our existing strategy and will draw together the following supporting strategies to create greater business value.

- **High level asset management strategy**
  - is designed to deliver on the priority to be a world-class asset manager by transitioning from asset maintainer to asset manager, ensuring the safe and compliant operation of the Corporation's assets while establishing 27 reliable production lines underpinning 70 per cent of our future revenue.
- **Trading strategy**
  - seeks to improve the return on existing revenue streams through targeting higher returns and revenues from customers.
- **Consulting strategy**
  - is focused on increased revenue from new opportunities and existing revenue streams through enhanced capability and processes targeting external clients. This also gives Hydro Tasmania the unique ability among energy companies to meet customer needs by offering a suite of energy products and services.
- **Climate change strategy**
  - seeks to develop Tasmania's renewable energy potential over the long term through the enhancement of the asset base and generation system. This will provide Hydro Tasmania with increased renewable energy output to offer our customers.
  - seeks to minimise Hydro Tasmania's exposure to Tasmanian hydrology through diversifying our fuel sources and the location of our generating assets.
  - aims to effectively participate in the design of new green markets and renewable schemes to achieve positive outcomes for the business. Importantly the business aims to be Australia's first carbon neutral generator by 2012.
- **Roaring 40s strategy**
  - Roaring 40s Renewable Energy Pty Ltd, Hydro Tasmania's renewables development joint venture with the CLP Group, is a key part of delivering Hydro Tasmania's vision of being Tasmania's world-renowned renewable energy business. Continued investment in Australian wind projects will give Hydro Tasmania greater access to renewable energy to offer to customers.
  - The sale of Roaring 40s' Asian wind farm assets will enable Roaring 40s to focus on emerging renewable energy growth opportunities in Australia. The release of value from the sale of Roaring 40s' Asian assets has also freed up capital for Hydro Tasmania to invest in Australian opportunities.
- **Financial strategy**
  - Many of the above strategies are aimed at improving financial returns, reducing the volatility of returns and improving the Corporation's underlying financial strength. Hydro Tasmania's strategy has been developed cognisant of its BBB financial strength target.
  - Following the capital structure review undertaken in 2008 and the associated receipt of the $220 million equity injection, Hydro Tasmania is also preparing for the follow-up review of its capital structure, as recommended by Ernst and Young.
  - As part of improving the business cash position, strategies for reducing costs continue to be implemented. The 2009 budget includes additional cost savings beyond those identified in previous corporate plans.

› **Water opportunities**

- seeks to create new opportunities in bulk water management while we preserve revenue and ensure sustainable management of catchments and water resources. In 2008 Hydro Tasmania developed, in conjunction with irrigators, the Lake River Pipeline.

› **1000 GWh project**

- This project supports the priorities to be a world-class resource manager and sustainably manage resources through the identification and prioritisation of opportunities to improve the energy yield from the existing Tasmanian system. Construction of the first of these projects, the redevelopment of the upper Lake Margaret Power Station, has already begun.

› **Retail strategy**

- This strategy seeks to gain access to the small-to-medium enterprises and commercial and industrial section of the supply chain to enable Hydro Tasmania to directly access customers and reduce its exposure to the wholesale market. Direct interaction with customers allows Hydro Tasmania to better understand and meet the needs of its customers in a competitive market.

Key Performance Indicators

To monitor progress against the customer and revenue strategy, Hydro Tasmania has developed a set of detailed financial performance indicators, based on its detailed five-year financial forecasts, and targets for non-financial indicators. The targets are contained in tables 2 and 3.

Table 2: Financial Targets

	FINANCIAL TARGETS					
	Current Year 2009	Year 1 2010	Year 2 2011	Year 3 2012	Year 4 2013	Year 5 2014
Financial Targets						
Operating profit ($m)*	44	34	59	87	119	123
Capital expenditure - core assets & infrastructure ($m)	78	74	75	75	75	75
Investments ($m)	28	77	121	72	64	64
Key Financial Indicators						
Tascorp leverage ratio*	41%	40%	42%	42%	41%	41%
Tascorp interest cover ratio*	3.2	3.0	3.1	3.1	3.2	3.1
S&P FFO interest cover ratio*	2.5	3.0	2.8	2.7	2.9	2.7
S&P FFO/total debt*	7%	11%	11%	11%	14%	13%
Returns to Government						
Guarantee fee ($m)	5	8	15	22	29	37
Income tax equivalent ($m)	0	0	23	34	35	46
Ordinary dividend ($m)	0	3	5	12	24	42
Rates equivalent ($m)	3	3	3	3	3	3
TOTAL ($m)	8	13	45	71	91	127

Definition of Key Indicators

* ***Operating Profit*** *– profit before tax and fair value movements.*
* ***Investments*** *– investments are net of funds received from the sale of assets.*
* ***Tascorp Leverage Ratio*** *– gross debt divided by the sum of equity and gross debt. This is the same calculation as the S&P gearing ratio.*
* ***Tascorp Interest Cover Ratio*** *– EBITDA divided by net interest expense (interest expense plus guarantee fee less interest revenue).*
* ***S&P FFO/Interest Cover Ratio*** *– operating cash (excluding interest expense) divided by net interest expense.*
* ***S&P FFO/Total Debt*** *– operating cash divided by gross debt.*
* ***Guarantee Fee*** *– assumes Guarantee Fee of 400 basis points on all new or repriced debt.*

Table 3: Non financial Targets

Non-Financial Targets	Current Year Forecast	Current Year Target	Five Year Target
Lost Time Injury Frequency Rate	4.1	<2	<2
Key supplier & partner satisfaction ratings of Hydro Tasmania	80%	>75%	>75%
Carbon Footprint ($tC0_2$-e)	512 141	638 200	0
Number of production lines not exposed to significant risk (>$500k)	9	5	14
% of staff pursuing professional & personal development opportunities	80%	>75%	>90%

Note that a detailed profile of the planned progression towards our 5-year strategic targets has not yet been developed.

Independent Assurance Statement

Hydro Tasmania Annual Report 2009

To Hydro Tasmania's stakeholders,

Banarra Sustainability Assurance and Advice (Banarra) was commissioned by Hydro Tasmania to assure its Annual Report 2009 (the Report) against the AA1000 Assurance Standard (AA1000AS) 2008. Banarra was also commissioned to check the Report against the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines. This is Banarra's fifth reporting cycle with Hydro Tasmania, so we have built on our previous understanding of the organisation and its progress.

Assurance scope

A moderate level of assurance was provided. The assurance scope is a Type 2 engagement under AA1000AS (2008). As a Type 2 engagement, the scope covers the nature and extent to which Hydro Tasmania adheres to the AA1000 AccountAbility Principles of Inclusivity, Materiality and Responsiveness and how it communicates this adherence in the Report, and an evaluation of the reliability of specified sustainability performance information within the following material issue areas:

- Management of water storages (including long-term water security);
- Climate change response policies and strategy (including GHG emissions);
- Aquatic ecosystem management;
- Employee attraction and retention (including the impacts of business transformation);
- Health and safety;
- Stakeholder engagement (including customer focus); and
- Governance (sustainability).

The performance information was verified using the criteria in the GRI G3 Sustainability Reporting Guidelines and Hydro Tasmania's own criteria where this is stated in the Report. In addition, the NGERS Technical Guidelines 2008 were used as criteria for verification of greenhouse gas emissions.

Banarra Assurance Methodology

Our methodology included:

- Interviews with: a) the Chairman of the Board, David Crean, and five members of the Executive Leadership Team, including the CEO, Vince Hawksworth, concerning sustainability performance, governance and strategy; and b) 33 Hydro Tasmania staff at corporate and site levels concerning sustainability performance, strategy, policies for material issues and implementation of responses.
- Review of Hydro Tasmania information including operational planning documents, Integrated Business Risk Management (IBRM) reports, Board Environment and Sustainability Committee (BESC) Minutes, materiality and stakeholder engagement documentation and records, program management systems and documentation as well as sustainability self-assessment documentation and records.
- Visits to Hydro Tasmania's headquarters in Hobart, Tasmania and to one Hydro Tasmania site - Poatina Power Station, Tasmania.
- An independent check of Hydro Tasmania's material issues and stakeholder views on these issues, including analysis of peer reports, media articles on Hydro Tasmania in FY09, Hydro Tasmania's own documentation and engagement records and issues identified from Banarra's interviews.
- Checks of the methodology, completeness and accuracy of sampled quantitative performance information relating to the material issues described above. In addition, the processes for capturing, aggregating and reporting this data were examined through interviews and document review, comparison with the criteria used in the assurance process, re-performing a sample of calculations and cross-checks with corroborative evidence, including sample testing of source data.
- Checks of the accuracy of sampled qualitative performance information (such as management assertions and performance claims), through interviews and document review.
- A review of the Report to check consistency with the GRI application level requirements of B+.
- A review of the Report to check that it appropriately communicates the nature and extent of Hydro Tasmania's adherence to the AA1000 AccountAbility Principles.

Findings and Recommendations

We believe the Report has adequately communicated the nature and extent of Hydro Tasmania's adherence to the AA1000 AccountAbility Principles, although the description of the materiality process and its results should be more accurately communicated in the Report. Findings and recommendations on the nature and extent of Hydro Tasmania's adherence to the AA1000 AccountAbility Principles are provided below.

Inclusivity - has Hydro Tasmania a stakeholder engagement and participation process?

Hydro Tasmania has committed to engaging with its stakeholders. Banarra found strong support for this amongst the Executive Leadership Team and employees interviewed.

Hydro Tasmania has identified its key stakeholders within Tasmania and, from state level to operational sites, has a range of engagement approaches for its stakeholder groups. Banarra recommends that Hydro Tasmania extend its formal engagement and participation processes to customers of its energy business and to stakeholders of its mainland Australian operations, India Consulting business, and joint ventures.

The quality of Hydro Tasmania's stakeholder engagement varies across the business. We are pleased that it is developing a stakeholder engagement framework to deliver a more strategic and consistent approach. Banarra recommends that implementation of the framework include capacity building for stakeholder engagement across the different business functions and at operational sites.

During the assurance we reviewed several examples of situations where Hydro Tasmania recognised and constructively responded to complex and conflicting stakeholder needs, however these were ad hoc. Going forward, Hydro Tasmania should develop a process to proactively identify and manage conflicting views between stakeholders at both a project and corporate level.

Materiality – has Hydro Tasmania identified its most important sustainability issues?

We are pleased that Hydro Tasmania has this year applied a materiality process that engaged stakeholders and identified its most important sustainability issues. All of the material issues that Hydro Tasmania identified are included in the Report. In addition, Banarra's independent materiality review did not identify any additional material or stakeholder issues for inclusion in the Report.

Hydro Tasmania's materiality process uses appropriate criteria to evaluate and prioritise material issues in terms of their relevance and significance to the business and to stakeholders. However, formal guidelines for using the criteria are needed to increase transparency and replicability.

Hydro Tasmania has various processes that identify sustainability issues including the report materiality process. Improving Hydro Tasmania's understanding and prioritisation of its sustainability issues and stakeholder views would be more effective by channeling the results of these various processes through a central function such as the organisation's Integrated Business Risk Management system.

Responsiveness – has Hydro Tasmania responded to these issues?

Hydro Tasmania has mechanisms across the organisation for developing strategic responses to its key sustainability issues ranging from the Board Environment and Sustainability Committee to local area Community Liaison Groups. Banarra is pleased to observe the restructuring of Hydro Tasmania's Operational Plan against its six Sustainability Principles (which articulate its commitment to stakeholders).

Hydro Tasmania involves stakeholders in some decision-making areas of sustainability performance. We note several examples of constructive stakeholder involvement in formulating appropriate responses to sustainability issues in relation to multiple and conflicting water-use requirements. However, Hydro Tasmania could do more to achieve a proactive and consistent involvement of both external and internal stakeholders in the response process.

Banarra commends Hydro Tasmania on its climate change response strategy and this year's increased attention to carbon accounting and NGER readiness. We note that Hydro Tasmania has committed to review its carbon neutral commitment and improve internal GHG data capture and reporting. A fuller discussion in the Report of performance against the carbon neutral target and why the business did not achieve its carbon and energy reduction targets would be useful to stakeholders.

There are a number of commitments and targets in the Report. Nevertheless, we believe that Hydro Tasmania could do more to develop quantitative targets for all material issues and ensure that commitments are specific and measurable.

We believe communication of some issues is lacking the necessary context and balance for readers. For example, there is no discussion of the negative impacts on employees associated with the organisational change process, and there is limited context provided in relation to impacts on aquatic ecosystems such as those in the Lagoon of Islands.

Performance Information Verification

Based on our methodology we conclude that there is no evidence that the performance information relating to the following material issues is not correct in all material aspects and is not a fair representation of Hydro Tasmania's performance in these areas in FY09: water storages management; climate change response (including greenhouse gas (GHG) emissions); aquatic ecosystem management; employee attraction and retention; health and safety; stakeholder engagement; and governance (sustainability).

Banarra has a number of findings and recommendations to improve the data management and reporting process. These findings are not considered material relative to Hydro Tasmania's performance:

- All of Hydro Tasmania's data sets should have clear, documented calculation protocols, assumptions, definitions and compilation methodologies. We are pleased that Hydro Tasmania has committed to review and document its OHS data methodologies, and we recommend this opportunity be taken for a broader review.
- Internal reviews of data quality and report narrative are limited and should be strengthened.
- Communication of information that is technical and/ or specific to Hydro Tasmania, such as risk levels, toxicity and significance, would benefit from simplification and suitable referencing to increase accessibility to readers.

Global Reporting Initiative

We concur with Hydro Tasmania's own assessment that they have achieved GRI application level B+.

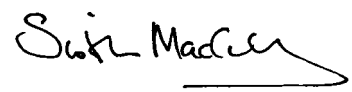
Responsibilities & Independence

Hydro Tasmania was responsible for preparation of all the Report content and Banarra gave feedback on a draft version of the Report prior to commencement of the assurance. In addition, Hydro Tasmania was responsible for stakeholder identification and engagement as well as material issue identification and response. Banarra's responsibility was to provide an independent assurance opinion of the Report using AA1000AS. This opinion is provided to Hydro Tasmania's management and any reliance third parties may place on this statement is entirely at their own risk. Banarra has provided Hydro Tasmania a management report containing more details on the findings and recommendations outlined in this statement.

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



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24 September 2009

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Sustainability Assurance and Advice

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Table 4: Sustainability Performance Summary

Principle	Element	Attributes	TARGET 08/09	Total 08/09 Score	07/08 Score		Key Issues that Impacted on Self Assessment Scores	Page
Governance	Governance	**Performance Attributes**						
		Vision, values, ethical standards, strategies, and business principles		4.0	4.0	↑	Code of Ethics was rolled out and provided employees with a clear understanding of the whistleblowing process for raising concerns and issues in a confidential manner and without reprisal	68
		Incorporation of key sustainability objectives in vision, values, ethical standards, strategies, and business principles		4.0	4.0	↓	Building sustainability awareness within the organisation continues to be a challenge	67
		Meeting legislative and regulatory requirements and other commitments		3.0	3.0	→	No material change in the level or nature of compliance breaches	67
		Process Attributes						
		Policy implementation, including management systems, monitoring for effectiveness, and review		3.0	3.0	→	Continued our review of business policies and processes	65
		Business structure, including Board and management structures, and defined roles, authorities, and responsibilities		5.0	4.0	↑	Completed a review of the Board Committee framework. Terms of Reference for each committee were revised and approved by the Board	67
		Identifying legislative and regulatory requirements and other commitments, measuring conformance, and performance reporting		4.0	3.0	→	Maintained our compliance system	66
TOTAL			3.7	3.8	3.5			
	Long-term business value	**Performance Attributes**						
		Growth in business value		3.5	4.0	↑	The financial strategy continues to be: build our financial strength and the flexibility of the business, including during the global financial crisis	21
		Shareholder expectations in terms of: returns to Tasmanian Government - maintaining security of supply for Tasmania		4.0	4.0	↑	Profit after tax of $287 million due to increased value of assets. A dividend will be paid to State Government during 2009/10	21-22
		Process Attributes						
		Long-term business planning		4.0	4.0	→ ↑	Our options to pursue new market opportunities are limited while there is uncertainty surrounding the establishment of legislation for the CPRS and RET Storage rebuild strategy improves business risk profile	25
		Robust processes in place to ensure that the business: - acts on behalf of and in the long-term best interest of shareholders - increases the value of the business to the shareholders over the long term		4.0	4.0	↑	Trading Enterprise Value methodology introduced	21
	subtotal		4.0	3.9	4.0			
	Growth and customers	**Performance Attributes**						
		Understanding and meeting customer requirements		3.7	3.5	→ → ↑	Client care charter being developed to improve service standards for Hydro Tasmania Consulting Consulting's biennial client satisfaction survey was consistent with and showed a very slight increase over the previous survey conducted in 2007 Development of a Customer and Revenue Strategy is underway	29 29 28
		Understanding short and likely long-term demand for services		3.8	3.0	↑	Acquisition of Momentum Energy	25,28
		Identification and development of new solutions to meet changing market demands		3.2	3.0	↓	Supplying FCAS to the Tasmanian system due to the new Tasmanian frequency standards	29
		Commitment to product stewardship and sustainable pricing		3.8	4.0			
		Compliance with appropriate ethical marketing and selling standards, legislative requirements, and other relevant commitments		3.5	3.5	↑	Two new trading representatives accredited in the trader training program	28
		Commitment to research and development, including implementation of new and emerging technologies		3.7	3.3	↑	Implemented R&D for thin film solar energy generation and ocean power technology	27
		Process Attributes						
		Process for understanding market conditions and influences		3.5	3.0	↑	Client satisfaction survey contributed to understanding market influences	29
		Process for managing customer relationship life-cycle		3.0	3.5	→	Account managers and account plans in place for key Hydro Tasmania Consulting clients. Client satisfaction research completed	29
		Strategic research and development program, including new and emerging technologies			3.3	↑ ↑	Determined preliminary guidelines for assessing ocean power technology in Tasmania Vertical axis water turbine technology for use in canal and flume flow	27 27
	subtotal		4.0	3.4	3.3			
TOTAL			4.0	3.7	3.7			
Assets and Resource Use	Asset safety and reliability	**Performance Attributes**						
		Dam, power station, and associated infrastructure safety performance		4.0	4.0	→	No public safety or significant environmental incidents associated with Hydro Tasmania dams have been reported during 2008/09	34
		Assets (Generators and Turbines) and Hydrological Resource: Level of present reliability and likely future reliability		4.0	4.0	↑	The Catagunya Dam project construction work was well under way to replace post-tension cable anchors which secure the dam	32
		Process Attributes						
		Dam, power station, and associated infrastructure safety program and plan		4.5	4.0	↑	The dam surveillance program continues to function robustly	34
		Asset management strategies and systems to ensure present and future reliability of turbines, generators, and associated infrastructure		4.0	4.0	→ ↑	Continued implementation of the primary protection testing program Commencement of plans for Lower Lake Margaret power station redevelopment to complement the upper station development	32 32
		Hydrological management strategies and systems to ensure present and future reliability of the resource		4.0	4.0	↑ ↑	Improving outage management processes for greater control over cost and quality 1000 GWh projects – 30 GWh capability added to the system	32 33
		Emergency preparedness program to deal with unplanned asset failures and severe hydrological conditions		4.0	4.0	↑	Review of Dam Safety Emergency Plan	33
	subtotal		4.0	4.1	4.0			
	Resource use	**Performance Attributes**						
		Practicable efficient use of the assets (turbines and generators)		4.0	4.0	↑	Poatina and Tungatinah modernisation projects progress	32
		Practicable efficient use of the hydrological resource in the context of the whole system		4.0	3.0	↓ ↑	Further downward rating of system yield to 8700 GWh per annum Exceeding rebuild storage target - Energy in storage at 1/7/2009 = 27.7% compared to 1/7/2008 = 19.1%	34 35
		Minimising the use of material and energy resources and the production of waste		2.5	3.0	↓	Difficulty in implementing a holistic waste management strategy	36
		Process Attributes						
		Asset management strategies and systems to ensure efficient operation of turbines, generators, and associated infrastructure in the context of the whole system		4.0	4.0	→	Continued to implement the asset management strategy	31
		Hydrological management strategies and systems to ensure efficient use of the resource in the context of the whole system		4.5	4.0	→	Continuing discussions with external stakeholders for competing water use	35
		Strategies and systems to ensure efficient use of material and energy resources and minimisation of waste		2.0	2.0	↓	Whole of business waste management strategy not developed	36
	subtotal		4.0	3.5	3.3			
TOTAL			4.0	3.8	3.7			

Principle	Element	Attributes	TARGET 08/09	Total 08/09 Score	07/08 Score	Key Issues that Impacted on Self Assessment Scores	Page
Employees	4a. Attraction, capability, and retention	**Performance Attributes**					
		Workforce size and skill levels		3.5	3.0	↑ Development of individual capability to lead change through leadership development and talent management initiatives	42
		Workforce social and gender balance		3.0	3.0	→ Continued with existing initiatives supporting gender diversity	46
		Level of employee satisfaction		4.5	4.0	↑ The increase in employee engagement score	41
		Employee turnover and continuity		3.5	3.0	↑ Turnover reduced and commenced work on succession planning	40
		Process Attributes					
		Workforce planning and recruitment programs		3.0	3.0	→ Internal work on recruitment processes	46
		Training and development programs		3.5	3.0	↑ Improvements in graduate, apprentice and trade training ↑ Improvements in training and development for change management and leadership	42 42
	subtotal		4.0	3.5	3.2		
	Safety, health, and well-being	**Performance Attributes**					
		Levels of employee safety, health, and wellbeing		4.0	3.0	↑ Healthy Hydro Program was recognised with Tasmanian WorkCover Safety award ↑ Lost time injury frequency rate decreased to 2.8 in 08/09 compared to 3.6 in 07/08	45 44
		Process Attributes					
		Employee safety, health, and wellbeing program		3.5	4.0	↓ Significant concern about critical safety procedures – status, knowledge and application ↑ Reviewed the Safety Improvement Plan and identified key focal points for 2009/10 ↑ Contractor safety management procedures implemented ↑ Introduced fatigue management procedure	44 44 44 44
	subtotal		3.5	3.8	3.5		
TOTAL			3.8	3.6	3.3		
External Stakeholders	Community engagement and support	**Performance Attributes**					
		Level of stakeholder satisfaction and support		3.5	4.0	↑ Constructive stakeholder engagement on several projects: Lake River irrigators and Macquarie consortium pipeline; Lake Margaret redevelopment; Ouse-Shannon Clyde; Poatina penstock painting ↑ Australian Centre for Corporate Social Responsibility completed external stakeholder 360° survey → Communication and engagement a top issue in stakeholder and community surveys	49 49 49
		Process Attributes					
		Process for stakeholder engagement		2.0	2.0	↓ Developing a business-wide stakeholder engagement model is slow ↓ Inconsistent application of project based engagement	50 49
	subtotal		4.0	2.8	3.0		
	Suppliers and partners	Performance Attributes					
		Level of sustainability performance of partners, suppliers, and service providers		3.5	3.5	↑ Completed key supplier and partner sustainability self-assessment against Hydro Tasmania's sustainability principles	51
		Relationships with major partners, suppliers, and service providers		3.9	3.0	↑ Completed supplier satisfaction survey	51
		Process Attributes					
		Goods and services specification / evaluation / selection process, including consideration of sustainability issues		3.7	3.5	↑ Completed supplier self-assessment survey against Hydro Tasmania sustainability principles	51
		Dispute resolution process		4.0	3.0	↑ Introduced umbrella contracts into standard suite	53
	subtotal		3.0	3.8	3.3		
TOTAL			3.5	3.3	3.1		
Ecosystems and Heritage	Ecosystems and heritage	**Performance Attributes**					
		Achievement of objectives for environmental health, including implementation of practicable opportunities to enhance environmental values		3.5	3.0	↓ Lagoon of Islands water quality conditions remained poor ↑ Level of Great Lake rose to 24.7 per cent full energy at 01/07/2009 from 16.7 per cent at 01/07/2008 ↑ Developed a plan for recreational access to Hydro Tasmania storages	63 56 58
		Agreement and support from regulators and other stakeholders		4.0	4.0	↑ Continued improvement in stakeholder relationships and collaboration in key programs such as community infrastructure plan for the Derwent, Trevallyn Algal Monitoring, Didymo Working Group ↑ Lake Margaret heritage approval – with commendations on quality of applications ↓ Need for improved planning and management for multiple use and values of land and water assets	63 56 58
		Practicable influence on the behaviour of other resource users		3.0	3.0	↑ Lake Trevallyn Algal Bloom Monitoring Partnership with NRM North, Esk Water and Councils	57
		Requirements / targets for protection and conservation of historic and indigenous heritage values		4.0	4.0	↑ Completed predictive modelling for Aboriginal heritage values on all Hydro Tasmania land	59
		Process Attributes					
		Strategies and systems to measure environmental health, understand environmental values, and identify stakeholder concerns		3.5	3.0	→ Maintained ISO14001 certification	55
		Program and plans to establish and achieve environmental objectives		4.0	3.0	→ Undertook annual review and continued to implement Environmental Management Plan	
		Planning consistent with relevant legislation and international standards		4.0	4.0	→ Maintained ISO14001 certification	55
	subtotal			3.7	3.4		
	Carbon status	**Performance Attributes**					
		Tonnes of CO_2 equivalent per GWh		4.0	3.0	↓ Closure of Bell Bay Power Station helped reduce emissions intensity	60
		Success in meeting objectives of plans to reduce GHG emissions and enhance GHG sinks		3.0	3.0	↓ Despite the fall in energy consumption this year, we were behind our overall target for reducing emissions ↓ Implementing energy efficiency plans and actions	61
		Process Attributes					
		Comprehensiveness of planning to reduce GHG emissions and enhance GHG sinks, including: • Analysis of opportunities associated with GHG reductions and sink enhancements • Reporting and measuring of performance • Objectives and targets		3.0	4.0	↓ Documents for procedures and processes associated with NGERS compliance	60
	subtotal		4.5	3.3	3.3		
TOTAL			4.0	3.5	3.4		
GRAND TOTAL			3.8	3.6	3.4		

Self-assessment framework

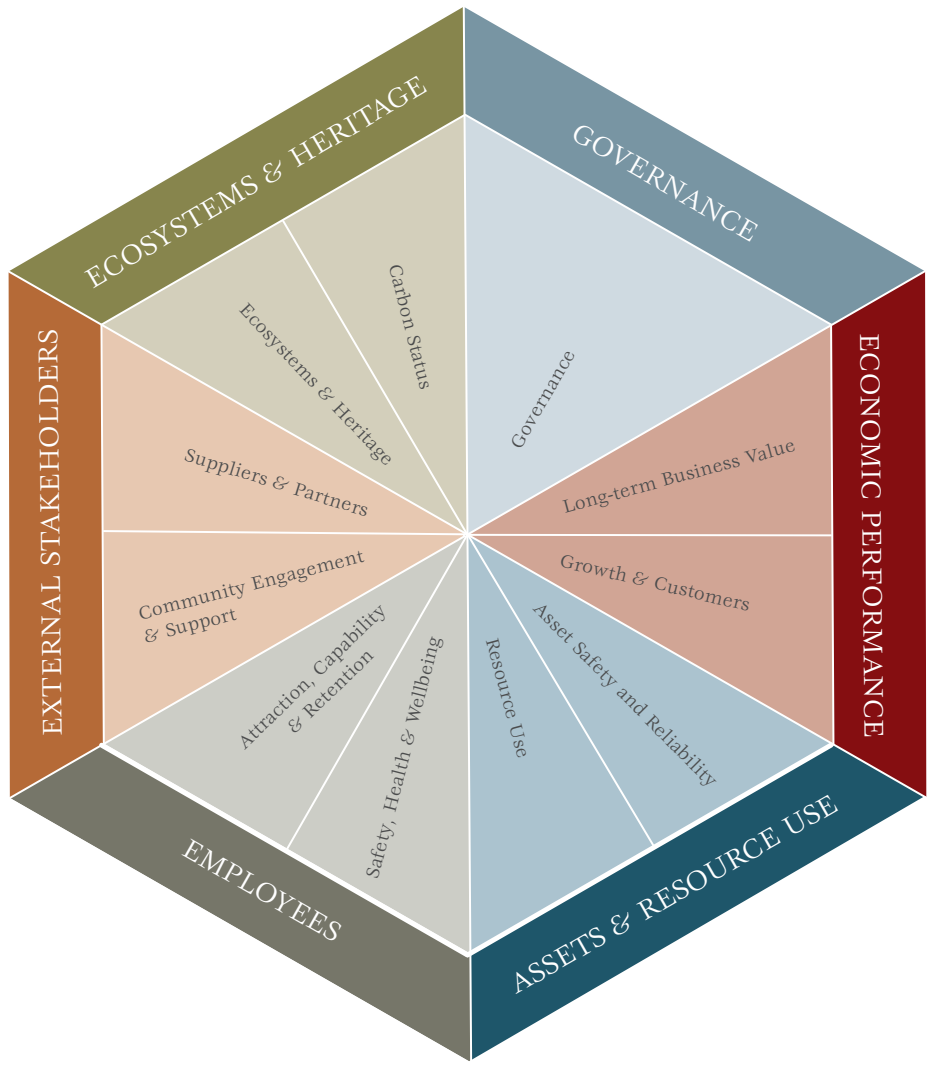
This diagram shows the principles of the Sustainability Code on the outer band and the elements on the inside. The principles and elements are the framework for our sustainability self-assessment.

Our annual report takes its shape from this framework.

The principles and elements reflect business risks and priorities, societal and peer expectations, legal requirements, existing business policies, external guidelines/codes and stakeholder feedback. The rationale, importance and relevance of each were developed and agreed in close consultation with key employees.

The principles are revised periodically in accordance with the Sustainability Code. The Code is provided inside the front cover of this report.

For more information on the self-assessment process, see our web site: www.hydro.com.au/sustainability.



Intake tower Gordon Power Station

OUR PERFORMANCE

ECONOMIC PERFORMANCE

Sustainability Code: *We ensure our financial practices promote long-term prosperity and enhancement of the business. We develop new products and services, as well as adapt and change our current ones, to ensure flexibility in the marketplace.*

Finance

Our mission: Building our financial strength and delivering sustainable returns to our owners, the people of Tasmania.

Our strategy is to continuously strive for the lowest cost and most flexible funding arrangements, and to increase the free cash flow to be available for debt reduction or value-adding investment.

Management approach

Hydro Tasmania's financial performance is guided by a risk management approach that complies with Treasury, Finance, Credit and Energy Trading policies that set limits and measure exposure. We report quarterly to our shareholder, the Tasmanian Government.

In 2008/09, we introduced the Trading Enterprise Value methodology, a tool for revenue forecast modelling that is expected to improve our forward planning. Its key purpose is to help us make better trading decisions and optimise the longer-term value derived from energy revenues.

We ensure our employees keep their professional qualifications up to date by supporting their professional training requirements and helping them meet their individual development plans, including additional training to meet our future needs.

Financial performance 2008/09

Hydro Tasmania recorded a significant improvement in profit and in cash generated from operations, despite the fact that our water inflows were lower than expected again this year. We recorded significant accounting gains as a result of fair value adjustments to assets and liabilities. The profit before these gains also improved substantially as a result of reduced expenditure on gas due to the closure of our only gas-fired power station and lower than expected expenses for importing electricity via Basslink.

Our focus on cost control maintained our operating expenses at a constant level over the year. Our financing expenses fell by $9.0 million, largely due to the reduction in debt as a result of the Tasmanian Government's $220 million equity contribution in June 2008.

Hydro Tasmania acquired an initial 51 per cent stake in the Victorian retailer Momentum Energy Pty Ltd in August 2008 at a cost of $17.8 million. The remainder is expected to be acquired by August 2010 with the final sale price subject to performance conditions.[3] The 2008/09 financial results include a loss before tax and fair value adjustments by Momentum Energy of $4.5 million.

The financial results are provided in table 5.

[3] *This transaction was brought forward after the reporting period and is expected to be completed in October 2009. It was in progress at the time of printing.*

Table 5: Financial results at 30 June

Year ending 30 June:	2005 $m	2006 $m	2007 $m	2008 $m	2009 $m
Profit/(loss) before fair value	43.9	46.8	19.5	(58.0)	38.1
Profit/(loss) before tax	(498.3)	(67.1)	113.5	224.2	417.9
Cash flow from operating activities	124.3	140.0	37.4	25.0	43.8
Net debt	1201	1076	1141	872	904
Weighted average cost of debt	-	6.15%	6.46%	6.54%	6.62%
Capital expenditure operations	80.6	126.4	54.2	54.9	81.2
Cash investment in R40s	-	3.0	10.0	23.0	10.0
Other expansion and acquisitions	9.0	12.8	-	-	17.8
Total Assets	3105	3851	4249	4846	5213

Community Service Obligation

The Community Service Obligation (CSO) is a formal agreement between Hydro Tasmania and the Tasmanian Government to provide electricity to consumers on the Bass Strait islands at a concessional and regulated price. The net cost of this to Hydro Tasmania is funded by the State Government. In 2008/09, this cost was $7.9 million, see figure 6. We outsource the operation of this service to Aurora Energy Pty Ltd.

Hydro Tasmania is also funding (either directly or in partnership) innovative projects to improve the energy supply and reduce diesel consumption on the Bass Strait islands. Our investment in these projects this year was $982,000, see figure 7. More detail of projects is provided on page 61.

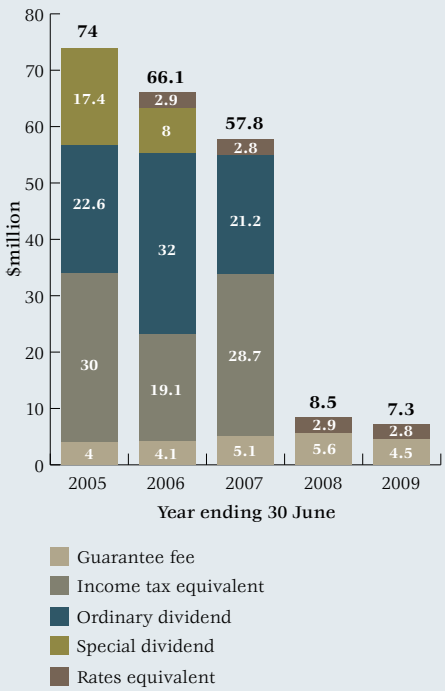


Figure 5: Returns to Government

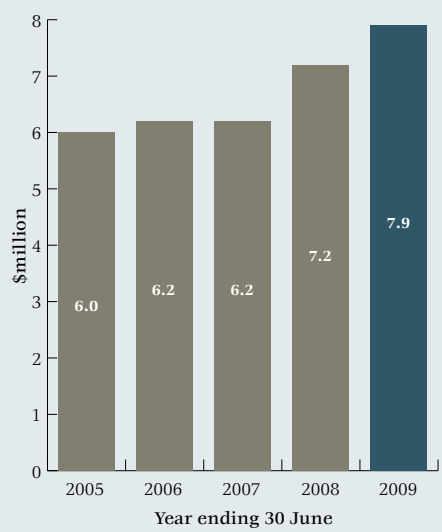


Figure 6: CSO receipts from Tasmanian Government

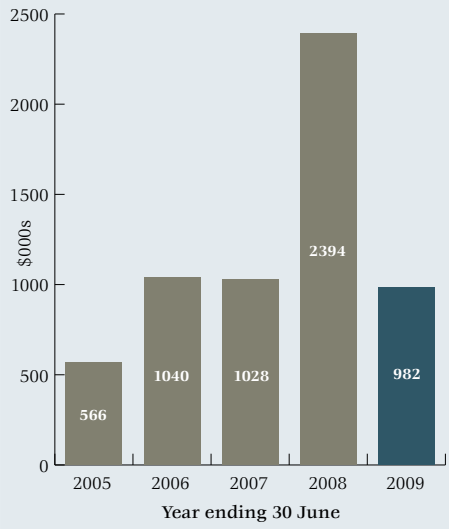


Figure 7: Hydro Tasmania's capital expenditure on Bass Strait islands

Climate change resource risk

Hydro Tasmania is actively contributing to world-leading climate science through support of the Climate Futures for Tasmania (CFT) research project.

Based at the Antarctic Climate and Ecosystems Cooperative Research Centre at the University of Tasmania, the program's focus is on producing a more detailed picture of climate change effects on the State.

Hydro Tasmania's Fiona Ling is a leader of the program's water and catchments component while James Bennett has been seconded to assess the effects of global warming on water yields across Tasmania, including all Hydro Tasmania catchments, until 2100.

Once the work is completed, Hydro Tasmania will have access to world-leading climate change projections tailored to allow it to assess the physical and strategic impacts of climate change on its operations.

Climate researcher Professor Nathan Bindoff, left, with Hydro Tasmania's Fiona Ling and James Bennett

Roaring 40s

Hydro Tasmania and the CLP Group own the renewable energy development company Roaring 40s as a 50-50 joint venture. This business, based in Hobart, Tasmania, has grown to become one of Australia's leading wind energy developers, with sites in operation or planning in Tasmania, South Australia and Victoria.

A summary of Roaring 40s portfolio is found in table 6.

Table 6: Summary of Roaring 40s' wind farm portfolio – Australia

Name	Location	MW	Status
Woolnorth Bluff Point	North-west Tasmania	65	Fully commissioned
Woolnorth Studland Bay	North-west Tasmania	75	Fully commissioned
Cathedral Rocks*	Eyre Peninsula, South Australia	66	Fully commissioned
Total		**206**	
Musselroe	North-east Tasmania	168	Development approved
Waterloo	Clare Valley, South Australia	111	Development approved
Sidonia Hills	Kyneton, Victoria	68	Feasibility
Robertstown	Robertstown, Victoria	100	Feasibility
Stony Gap	Stony Gap, Victoria	130	Feasibility
Spring Hill Tier	Midlands, Tasmania	32	Feasibility
Total		**609**	
Total for Australia		**815**	

**Cathedral Rocks Wind Farm is a 50/50 joint venture with Spanish company Acciona*

Roaring 40s remains committed to ensuring that its developments are undertaken in a manner that is sensitive to environmental and community concerns. Roaring 40s maintains close engagement with key stakeholders, including local councils, state and federal government departments, landowners and other 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 sought and gained accreditation under this standard in December 2007.

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.

Workforce safety is managed by the company safety management system GENsafe and Roaring 40s sought and gained accreditation to AS4801 across all Tasmanian sites in December 2007 and plans to seek further accreditation of all remaining Australian sites into the future. Roaring 40s has a Safety and Environment Team, Responsible Officers and an Occurrence Management System to manage safety and environmental occurrences.

Roaring 40s has recruited highly qualified and experienced staff who reflect the company's values and commitment to environmentally sustainable development. With this experienced team, Roaring 40s is well positioned to take advantage of the growing domestic market for renewable energy as the federal Government moves to cap emissions and achieve a 20 per cent renewable energy target by 2020.

More information on Roaring 40s can be found on the web site: **www.roaring40s.com.au**

Long-term business value

Hydro Tasmania measures changes in the long-term value of the business by monitoring two key performance indicators: net asset value and cost per megawatt hour of generation.

Our net asset value at 30 June was $1665 million, which is $269 million higher than last year and represents an increase in the long-term value to our shareholders. The improvements in net assets are largely the result of an increase in the value of our hydro generation assets. This is mainly due to an increase in our storage position since last year, which has increased our expectations of future profitability, see figure 8.

Reece diversion tunnel

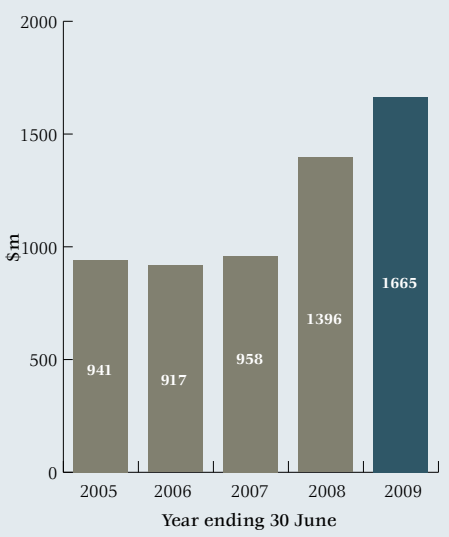


Figure 8: Net asset value

The cost per megawatt hour of generation was $77.51, which is $12.16 higher than last year. This cost reflects our actual performance over the past financial year, and is influenced by the level of water inflows, the efficiency of our existing system and changes to our cost structure. The main contributors to the higher cost in 2008/09 were lower generation and higher operational costs (although operational revenue was also higher), reflecting the expenses of Momentum Energy in the calculation[4].

After several years of prudent financial management and cost control in response to the drought, Hydro Tasmania implemented several strategies in 2008/09 to build its financial strength and increase its long-term value: the acquisition of Momentum Energy Pty Ltd, the sale of Roaring 40s' Asian assets, and the storage rebuild strategy.

Momentum Energy

Acquiring a stake in Victorian electricity retailer Momentum Energy provides us with opportunities to add value to the business in the long term. It allows us to diversify our customer base and to explore opportunities to provide innovative solutions for retail, consulting and energy customers' needs. It also provides us with a means to manage the risks associated with our exposure in the National Electricity Market (NEM), including the risk of vertically integrated companies reducing the liquidity of the contract market and the prices in the wholesale market.

Roaring 40s

Roaring 40s provides long-term value to the business by growing its development portfolio. The sale of Roaring 40s' Asian wind farm assets enables Roaring 40s to focus on renewable energy growth opportunities in Australia. The proceeds of the sale have been retained in Roaring 40s.

Roaring 40s has a wind farm developments pipeline for areas around Australia, including major developments at Waterloo in South Australia and Musselroe in Tasmania.

[4]*The calculation method of cost per megawatt hour of generation has been altered from last year to better capture Hydro Tasmania's total cost base. Cost per megawatt hour of generation is calculated by taking total operating expenses plus finance costs, divided by generation. Generation includes the total of hydro and gas-fired generation.*

Storage rebuild strategy

We have experienced 12 years of water inflows lower than the long-term average of 10 000 GWh which represent a high risk to our long-term capability to generate electricity. In July 2007, with storages at 19.1 per cent of full energy, we implemented a five-year strategy to rebuild storage levels to 30 per cent of full energy[5] by 30 June 2013. This strategy involved supplementing hydropower with electricity generated by our gas-fired power station and imported energy via the Basslink cable. Increased storages will reduce our risk profile for future years.

Challenges and opportunities

Hydro Tasmania faces challenges and opportunities arising from uncertainties about the global financial environment, the national climate change mitigation strategy, the introduction of competitive generation in the Tasmanian electricity market and water inflows.

Global financial environment

Hydro Tasmania faces risks associated with uncertainties and lack of liquidity in debt and equity markets.

Our prudent financial management and effective cost management means we are well placed to weather the global economic downturn. However, the current conditions are putting at risk capital funding for some of our research projects and development opportunities. In addition, the impacts on our customers may lead to reduced demand for energy, as well as reduced demand for Hydro Tasmania Consulting services if customer projects are delayed.

[5] *For an explanation of storage level measures, see page 146.*

Lake Echo

National climate change mitigation strategy

The uncertainty surrounding the federal government's climate change strategy - particularly the legislation establishing the Carbon Pollution Reduction Scheme (CPRS) – has made it difficult for Hydro Tasmania to realise greater value from our position as Australia's leading renewable energy business.

But despite this uncertainty, we have continued to invest in renewable generation technologies and are well positioned to capture value that will arise from the establishment of a carbon market.

Competitive generation in Tasmania

The Tasmanian Government acquired the Tamar Valley Power Station from Babcock and Brown Power in September 2008, while it was still under development. The ownership of this gas-fired power station was transferred to Aurora Energy Pty Ltd, Tasmania's largest energy retailer. The power station began generating in April 2009 and is expected to be fully operational in September 2009. Once this occurs, it will have the capacity to generate approximately 390 MW of electricity, which is equivalent to around 30 per cent of the average Tasmanian electricity demand.

The Aurora Energy Tamar Valley Power Station will compete with Hydro Tasmania's generation portfolio, reshaping the competitive environment in Tasmania. The new power station's large capacity provides strong competition for wholesale customers and may lead to us losing some wholesale electricity sales.

The commissioning of this power station will mean that Hydro Tasmania is no longer expected by the State to be responsible for security of supply for Tasmania's electricity consumers. This will provide us with opportunities to diversify our revenue base and increase activities outside Tasmania.

Water inflows

Hydro Tasmania continues to face the risk of reduced water inflows. The storage rebuild strategy is in place to deal with this and is explained above.

Research and development

Hydro Tasmania's research and development (R&D) strategy focuses on renewable energy technologies that potentially complement hydropower production, products and services that respond to market demand, innovations that improve the reliability of power supply, and initiatives to protect the environmental impact of our operations.

New projects started in 2008/09 include:

- potential benefits and impacts of plug-in vehicles for Hydro Tasmania
- thin film solar energy generation, products and services
- vertical axis water turbine technology for use in canal and flume flow
- using micro hydro systems in new ways for energy generation
- exploring ways to operate generation machinery to improve FCAS capability and supply
- the biology and ecology of threatened fish in Great Lake and Arthurs Lake
- determining preliminary guidelines for assessing ocean power technology in Tasmania.

Our R&D team is continually looking for ideas among employees and customers and assessing potential projects to identify those that match our business strategy and researchers' capabilities. In the current global financial environment, it is more challenging to fund research projects through debt. However, there are opportunities to leverage other funding sources, such as federal government grants.

Galaxias tanycephalus

Threatened species project

Hydro Tasmania has begun a study in Great Lake and Arthurs Lake to examine the biology and ecology of threatened fishes in these important storages.

These storages are high priority lakes within the Tasmanian hydropower system and the presence of endemic and threatened galaxiid fishes elevates the environmental risks associated with low water levels caused by drought and the potential impact of climate change.

The study aims to establish relationships between critical habitats, fish populations and water levels, and develop water level management strategies in order to sustainably manage these unique ecosystems.

Table 7: Government grants received for research and development

Year ending 30 June	2005 $m	2006 $m	2007 $m	2008 $m	2009 $m
R&D grants	0	0.3	0.6	2.3	0.6

Momentum Energy

Momentum Energy is the only electricity retailer in Victoria to specialise in servicing small to medium business customers and has achieved an average of 200 per cent growth per annum over the past three years. The company also services a small customer group in South Australia, the ACT and New South Wales.

Products:

- Standard energy contracts, including optional demand-side management clauses
- Energy efficiency products and advice
- Greenpower products sourced from wind generation.

Market presence 30 June 2009:

SME customers: ~ 2.5% of Victorian SME market. Target 2010: 7.5%.

Residential customers: 1% of Victorian market only.

Sustainability: Momentum takes actions to reduce its carbon footprint through efficient energy use. A Sustainability Policy is steered by a Sustainability Committee. Staff inductions include sustainable office practices that include limiting paper and printer use. There is frequent use of video conferencing and there is no company car fleet. Air flights for 2008/09 and going forward will be included in Hydro Tasmania's offset program.

Community: Momentum sponsors the supply of Greenpower, cash and in-kind donations to the Geelong Football Club, Tennis Victoria, 3AW Small Business Awards and one-off events.

Visit the web site:
www.momentumenergy.com.au

Customers and business growth

Our mission: Product innovation for customers in consulting, electricity and green markets.

Hydro Tasmania products and services arise from generation and consulting activities.

Management approach

As a generator, Hydro Tasmania supplies wholesale electricity to the NEM pool for sale. Because the spot price in the NEM is volatile, we manage the risks associated with this volatility by trading electricity financial contracts and derivative products with peer market participants. Asset management and performance is critical to our ability to deliver these products. Find more on asset management on page 31.

The trading of energy products is subject to stringent internal management controls, and obligations under financial market, trade practices and electricity market legislation and regulation. Our traders must take part in an extensive training program so they understand and can comply with all the internal and external obligations and report any breaches.

Hydro Tasmania Consulting offers services in water management, power engineering, renewable energy developments and environmental management. These products are subject to standards, legislation and regulation – such as planning, environment, OH&S and marketing – and internal procedures and obligations relating to these.

Performance

Hydro Tasmania is working to become a more customer-driven business, responding to and delivering customers' needs.

To complete this process, we need to get closer to our customers. The acquisition of Momentum Energy will help us do this. We believe we can provide higher value to our customers by integrating offerings from our retail, trading and consulting products and services.

This year we established a team to develop a Customer and Revenue Strategy. The team will provide us with a clear idea of our potential products, markets and brand and will produce a strategy to deliver this. This will influence our business direction in the future.

At the operational level our people are preparing for the strategy by undertaking business planning with a focus on customers. Each team is discussing and developing answers to two questions:

- what do we need to change to be a customer-driven business?
- what new skills will we need?

Energy

Our wholesale customers are electricity retailers purchasing wholesale energy in the NEM to on-sell to end users and major industrial customers with whom we directly negotiate terms of supply. Other customers are those entities purchasing derivative products and energy environmental products, such as Renewable Energy Credits to help them meet their quotas for renewable energy targets.

Our part acquisition of Momentum Energy introduced us to the possibilities of incorporating retail into our product mix. The acquisition was a strong driver to sharpen our focus on customers and being a customer-driven business.

Looking ahead, the establishment of the proposed Carbon Pollution Reduction Scheme (CPRS) and expanded Renewable Energy Target (RET) will create growth opportunities for us by providing a market for carbon emission trading products and growing the market for other environmental trading products.

The increased competition in the Tasmanian electricity market creates a risk that we will lose wholesale electricity sales in Tasmania, and an opportunity for us to grow through our Victorian retail base. Our Customer and Revenue Strategy team is currently identifying some of these opportunities.

Frequency standards

Frequency standards are implemented to maintain the stability of the power system, and hence the reliability. The Aurora Energy Tamar Valley Power Station has necessitated changes in the frequency standards for Tasmania's power system that market participants must meet. During 2008/09 we were involved in a public consultation process to establish the new standards conducted by the Reliability Panel on behalf of the Australian Energy Management Operator (AEMO.)

The new standards also mean that more frequency control ancillary services (FCAS) are required for the safe operation of the Tasmanian electricity system. At 30 June, all the additional FCAS available had been met by Hydro Tasmania. The short timeframes to meet this requirement will present a challenge.

Hydro Tasmania Consulting staff in Sarawak, Malaysia. From left, Nick West, Vishal Srivastava, Tammy Chu and David Wilson

Consulting

In 2008/09, Hydro Tasmania Consulting grew by more than expected, achieving an overall revenue increase of 7.9 per cent. Maintaining this growth will be a challenge given the reducing domestic growth base and growth increasing in other geographic areas, and the global economic situation which may result in developers failing to proceed with projects or adopting a 'wait and see' approach.

Hydro Tasmania Consulting completed projects in the wider Asia-Pacific markets including Malaysia, Laos, New Zealand, Nepal, and Papua New Guinea.

The Melbourne office continued to grow, finishing the year with 50 employees, up from 35 last year, and increasing revenue by 20 per cent. It has attracted major clients in the national electricity supply, renewable energy and water sectors.

In May 2009, Hydro Tasmania Consulting opened a Brisbane office to give our water and energy clients in the Queensland region more direct access to our people and services. This office's projects include work on the Wyaralong Dam in south-east Queensland.

The business continued to grow its international operations. The India office increased its presence within the Indian hydropower market, winning several major projects during the year, and increasing its annual revenue by 122 per cent compared to 2007/08.

The biennial client satisfaction survey resulted in a 75 per cent rating, consistent with the 2007 survey, and up one per cent. We still have room to improve our service to clients.

To this end we are developing a client care charter along with processes to put it into practice. We are working on our service standards by improving our account management, project delivery and a more timely process for clients to provide feedback to us.

Economic Performance sustainability summary

Commitments for 2009/10

- Implement the financial stragey aimed at improving financial returns, reducing the volatility of returns and improving our underlying financial strength
- Position the trading portfolio for CPRS and hydrological risks – RECs/NGACs trades
- Foster closer relationships with major industrial customers and be responsive to their requirements
- Increase market research for Consulting clients through greater engagement
- Align the Bass Strait islands research targets and commitments with carbon reduction

Performance against commitments for 2008/09

✓ = complete — = ongoing ✗ = not achieved

Commitment		Progress
Return Lake Margaret Power Station to service	—	Incomplete - expect project completion after the reporting period in October 2009
The 1000 GWh project – establish 65 GWh of new projects and have 100 GWh of projects in the pipeline	✓	30 GWh increase by 30 June. An additional 50 GWh from new projects expected to be operational by October 2009, with over 100 GWh in the pipeline to be implemented over the next 12 months
Commission solar/resistor projects on King Island	—	Commissioning has started – weather conditions and more device tuning than expected is stretching completion date
Develop strategies to reduce diesel use on Flinders Island	✓	Complete. Applied for funding grant under federal government's Renewable Energy Demonstration Program
Develop an approach and guide for intellectual property (IP) management	—	A draft policy is prepared. IP working group will continue this work through to implementation
Integrate sustainability KPIs into operational planning	—	Integrating the KPIs into 2009/10 operational planning is in progress

Issues that influence the score for 2008/09

↑ = increase

→ = remain the same

↓ = decrease

↑	The financial strategy continues to build our financial strength and the flexibility of the business, including during the global financial crisis
↑	Storage rebuild strategy improves business risk profile
→	Our options to pursue new market opportunities are limited while there is uncertainty surrounding the establishment of legislation for the CPRS and RET
↑	Trading Enterprise Value methodology introduced
↑	Client care charter being developed to improve service standards for Hydro Tasmania Consulting
→	Consulting's biennial client satisfaction survey consistent with a very slight increase over 2007 survey
↑	Development of a Customer and Revenue Strategy under way
↑	Acquisition of Momentum Energy under way
↓	Supplying FCAS to the Tasmanian system due to the new Tasmanian frequency standards

Our self-assessment for sustainable Economic Performance

Sustainability performance scores*

	2005	2006	2007	2008	2009
Score	4.0	3.9	3.6	3.7	3.7
Target	-	4.0	4.0	3.5	4.0

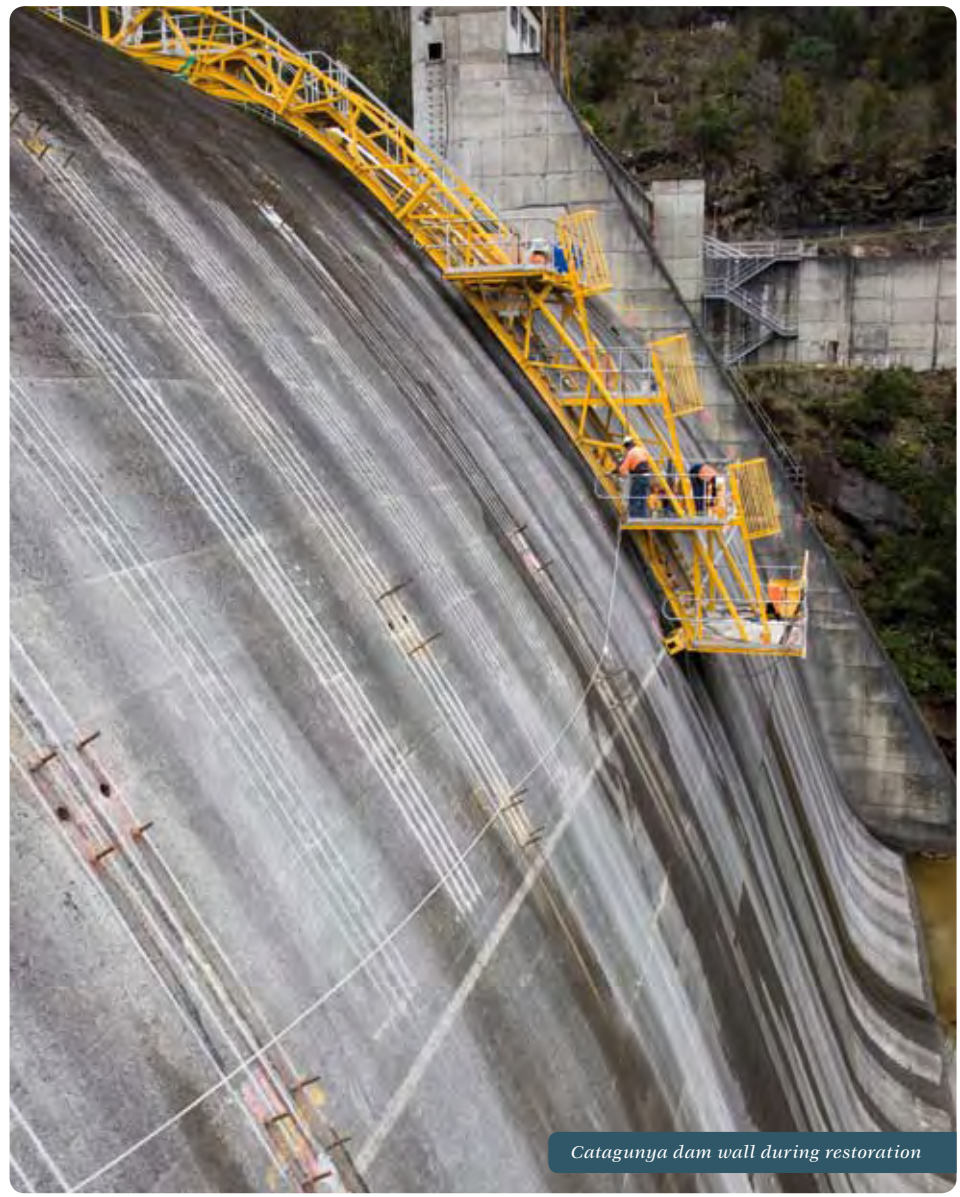
ASSETS AND RESOURCE USE

***Sustainability Code:** We use resources efficiently and maintain our energy system, including assets, for the long term. We ensure new developments meet our Sustainability Code.*

Our mission: World-class asset and resource management

Our strategy is to manage our assets efficiently through strategic, quality and cost-effective upgrade and maintenance regimes to produce a reliable supply of electricity to the market when it is required; to manage our water prudently to ensure long-term supply and a sustainable environment.

Hydro Tasmania's key physical assets are the 29 power stations, more than 50 dams and numerous water conduits we use in generating electricity. The key resource we use as an input to this generation is water.



Catagunya dam wall during restoration

Assets

Management approach

Hydro Tasmania's long history of power generation means many of our assets are old. We have a long-term view of asset management. Our approach is guided by our Asset Management Policy which incorporates our asset management strategy and dam safety risk management procedures.

The asset management strategy aims to ensure the safety and reliability of the major generation units. Specifically, the strategy aims to have 27 of the 50 major production lines not exposed to significant risk by 30 June 2015. This will ensure that the generation units that provide 70 per cent of our revenue will remain reliable and will comply with internal and regulatory obligations, such as safety of assets, operations and our duty of care to our people.

We prioritise asset upgrades using a risk assessment process, focusing on safety, environmental and revenue risk.

The dam safety risk management procedures ensure the Tasmanian community is not exposed to unacceptable risks associated with our dams, and are subject to biannual independent expert reviews. These procedures are supported by an emergency response plan.

Table 8: Number of production lines not exposed to significant risk

FYE	2008	2009	2010	2011	2012	2013
Target	3	5	10	13	14	19
Actual	3	5	-	-	-	-

In 2008/09, a major change to the total asset portfolio was that we ceased operating our 240 MW gas-fired power station at Bell Bay in April 2009. The power station provided supplementary generation for the hydropower system under low water inflow conditions and had been costly to maintain. During 2008/09 its reliability deteriorated, and our water storage position had improved to the point that it was no longer required. The end of its operational life occurred about six months ahead of the due date, which was to be the date of the full commissioning of the Aurora Energy Tamar Valley Power Station.

Cost control

The asset management strategy also aims to reduce our maintenance costs over our assets' life-cycle. During 2008/09, we reviewed our maintenance routines at several power stations, and implemented process improvements that resulted in significant savings. At Tungatinah alone, this resulted in a saving of 434 man hours a year. At the same time, we identified improvements in coordinating outages with production and trading opportunities which will add directly to our revenue.

Asset safety and reliability

Hydro Tasmania expends significant capital keeping its assets safe and reliable. This year's major capital expenditure was on projects for Catagunya Dam and the Lake Margaret, Poatina and Tungatinah power stations, see figure 9.

The Catagunya Dam is a $38 million project, replacing corroded post-tensioned cables to ensure the future stability of the dam and improve flood handling capability. Construction started in the summer of 2008/09 and is expected to be complete in summer 2010/11. It is a key element of the Dam Safety Program.

The Lake Margaret project involves modernising and recommissioning the station, which was closed in 2006. Construction on the $14.7 million project started in October 2008 and is expected to be completed in October 2009. The redeveloped power station will add 50 GWh to the system when commissioned. In addition, a mini-hydro power station was planned in 2008/09 for Lower Lake Margaret. When this is complete in 2009/10 it will provide a further 20 GWh.

The Poatina project continued the modernisation of three machines, which started in 2007 and will continue into 2010, with a total cost estimate of $53 million. When completed, this project will result in improved reliability, more efficient maintenance routines and safer working conditions, and will ensure compliance with NEM system requirements. It will also add 30 GWh to the system.

The Tungatinah project involves modernising three of the five machines at the power station to address operating risks. The project cost estimate is $71.8 million. This year, the planning, design and procurement work was all but completed. Construction work will start in 2009/10. When complete, this project is expected to add 9 GWh of energy to the system.

Our major system improvements for safe assets included upgrades to the primary protection system and the protection and control program. This investment will contribute to plant and personal safety and the life-cycle risk management of the assets, and contribute to improved reliability.

We continued to implement the primary protection testing program. The works completed in 2008/09 contributed to a lift in compliance from 87 to 94 per cent. We also implemented the protection and control upgrade program, starting work on the John Butters and Anthony power stations, and progressing design and procurement for the Mackintosh and Bastyan power stations.

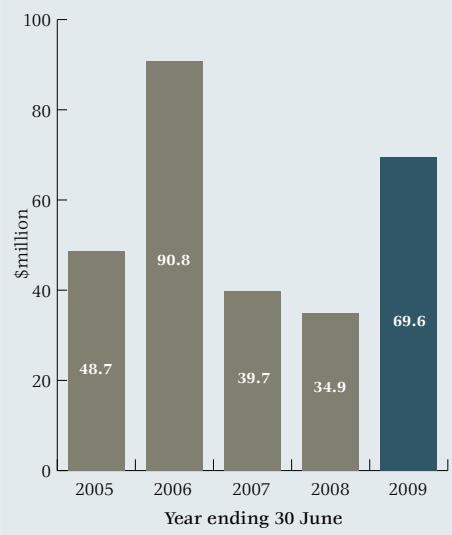


Figure 9: Generation assets capital expenditure

Daniel Reardon, of Structural Systems, working on the Catagunya Dam restoration project

Catagunya

When the Catagunya Dam was built in the early 1960s, it was the largest post-tensioned dam in the world.

A project to restore the dam using world-class technology commenced work on site in July 2008. In June 2009, the highest stressed post-tensioned anchor in the world was installed.

The project has also involved the installation of carbon fibre in the dam to strengthen the spillway, continuing Hydro Tasmania's commitment to world-class asset management.

1000 GWh project

The 1000 GWh project addresses the challenge posed by the decrease in our system's capacity. Hydro Tasmania initiated the 1000 GWh project in 2007/08 to identify and implement developments within the existing hydropower system to increase system capacity.

By 30 June 2009, it had created an additional 30 GWh of capacity as a result of the Lake River pipeline and progress on the Poatina Power Station upgrade. A further 50 GWh capacity will be created in October 2009 with the commissioning of the Lake Margaret Power Station redevelopment.

Our aim is to create the first 425 GWh of additional capacity by 2015. This will largely be achieved through a series of mini-hydro installations, power station upgrades and water diversions. These projects are expected to cost around $180 million. After 2015, we expect to pursue machine upgrades and dam raising opportunities to bring the total to 600 GWh. Further work will take place in the following year to identify the remaining 400 GWh of additional capacity.

Emergency response

As noted above, our dam safety risk management procedures are supported by emergency management plans, which are regularly reviewed and maintained, to respond to a broad range of events.

An external review of our emergency management plans – particularly the links with other entities and the Tasmanian Electricity Emergency Management Plan – was undertaken on behalf of the Tasmanian Economic Regulator. This review found the plans to be well developed and robust, and demonstrate that Hydro Tasmania is well prepared to contribute to continuity of electricity supply in Tasmania during an emergency event.

We reviewed our dam safety emergency plan, which resulted in more clearly defined roles and responsibilities for management and operations and the alignment of the roles with the current business structure. We continued to implement our Dam Safety Program, which ensures our dams do not pose an unacceptable social or business risk. We undertake constant monitoring and regular risk assessments to ensure our legislative and duty of care obligations are met. The program includes training in dam safety awareness, surveillance practices and emergency response.

No public safety or significant environmental incidents associated with Hydro Tasmania dams were reported during 2008/09.

Resource Use

The reliability of the power supply depends on water in storage as well as infrastructure.

Hydro Tasmania constantly reviews the energy capacity of our water storage, see figure 10. The continuing lower rainfall pattern over 12 years is significant data in the history of the system. Based on this data, we have revised the long-term rating of 10 000 GWh per annum over the last three years, down to 8700 GWh in 2008/09.

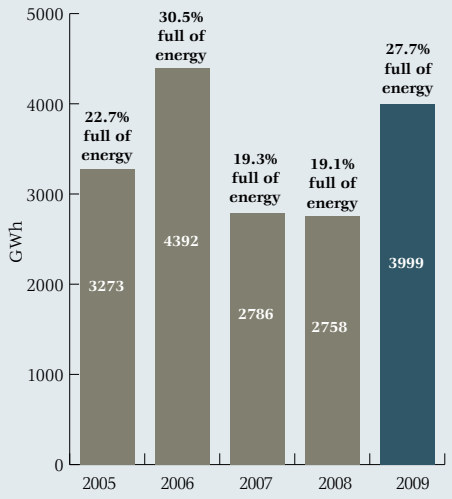


Figure 10: Total energy in storage (GWh) 1 July

As noted above, the main resource we use in generating electricity is water. We need to manage our power system to ensure the long-term sustainability of this resource so we can meet demand for energy.

This means careful management of water storages. We also consider the needs of other water stakeholders and the environment. Meeting the increasing and various demands for water in Tasmania is becoming increasingly complex.

CEO Vince Hawksworth, rear, with Macquarie Settlement irrigator Ross Davey following the opening of the pipeline from the Poatina re-regulation pond

Water storages and energy generation

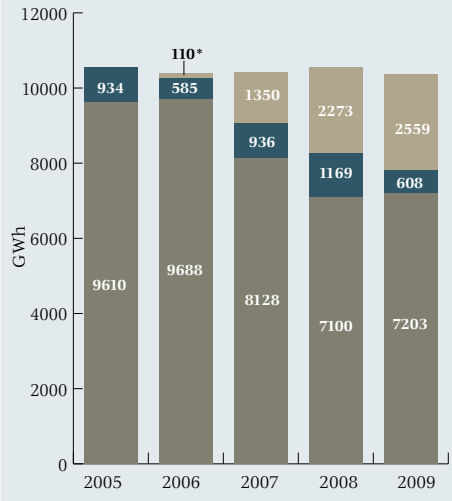
Our management of water storages is guided by our prudent water management strategy and water storage procedures. These operate with our trading strategy and storage operating rules to balance sustainable energy supply, long-term storage levels, efficient use of water and water quality.

The prudent water management band for our storage levels is between 30 and 50 per cent of full energy[6]. We aim to maintain these levels.

In the past five years, storage levels have been lower than this for most of the time. The variance of storage levels and the amount of energy stored is shown in figure 4 page 6.

In July 2007 we implemented a strategy to rebuild storage levels to over 30 per cent of full energy by 30 June 2013. Our target for 2008/09 was to rebuild storages to 26.1 per cent from the low position of 19.1 per cent the previous year. This strategy had the potential to substantially increase our use of the gas-fired power station and the energy imported via the Basslink cable. Through a combination of careful water management all year and substantial rain in the later months, we exceeded this target to reach 27.7 per cent. The actual use of gas and net flows over Basslink over the past five years is shown in figure 11.

[6]*For explanation of our storage level measures, go to page 146.*



**Basslink started operating in April 2006*

Figure 11: Tasmanian GWh energy supply

The aquatic environment

Managing the water storages for sustainable ecosystems and water quality adds a layer of considerations through a set of environmental risk bands for the storage levels. For information on this, see page 56.

Meeting stakeholder needs

In managing a sustainable water supply, Hydro Tasmania also takes account of the needs of other uses, such as primary production, industry and recreation. We seek to find collaborative and mutual arrangements to meet these needs. Where needs are conflicting, we facilitate and collaborate with stakeholders to find solutions.

In a small number of cases, our planned asset maintenance and upgrade projects require changes to water conditions that affect both upstream and downstream water users. In 2008/09 there were two such cases: planning the future shutdown of the Poatina Power Station to paint the penstock, and the lowering of Lake Meadowbank for major maintenance works. In both cases we changed the timing of these projects after stakeholders raised issues that needed more time to resolve.

Irrigation

Demand for irrigation water is expected to increase as the Tasmanian Government implements its irrigation strategy through the Irrigation Development Board (IDB). Hydro Tasmania will have a major role in the proposed schemes, managing and providing water in catchments where we operate.

Hydro Tasmania is obliged to supply irrigators with a reasonable supply of water in the Ouse-Shannon catchment and on the Lake River. Over the years, meeting these obligations has raised issues about water availability for irrigation, generation and ecosystems.

In May 2009, Hydro Tasmania, the IDB and other stakeholders agreed on a holistic solution to the Ouse-Shannon catchment that also includes the neighbouring Clyde basin, which has suffered severe water shortages in recent years. This solution includes new storages and diversions.

In 2008/09, we proposed, agreed and completed a solution to meeting obligations in the Lake River. Hydro Tasmania joined a private consortium of irrigators from the Macquarie Settlement to construct a pipeline from the Poatina re-regulation pond. Previously, supply had come from Arthurs and Woods lakes in the Central Highlands which are popular with fishers and subject to ecological stress in times of drought.

In 2008/09, Hydro Tasmania developed a transparent pricing system so that irrigators who purchase water from us will pay prices that reflect the lost generation value associated with that water. For more information, see our web site.

Lake Plimsoll

Recreation

Hydro Tasmania releases water for major recreational events. During the year we allocated water to events including the Cataract Extreme Race, the National Rowing Championships and the Mark Webber Challenge. In the coming year, we will release water for the Wildwater World Cup 2009 to be held in October and November. We are the naming rights sponsor for this event.

Waste management

Hydro Tasmania generates a small amount of waste from operations. 2008/09 data is in table 9.

This year we focused on developing consistent and replicable data collection and collation as a first step to developing a business-wide strategy. The changes mean we are unable to compare with previous years.

The challenge remains to develop and implement a robust whole-of-business waste management strategy.

Table 9: Hydro Tasmania's waste 2008/09

	Volume Metres^3	Weight Tonnes	Volume Litres
Recycling	222	-	-
Landfill	3804	56	-
Hazardous waste	46	15	57 345
Total	4072	71	57 345

Asset and Resource Use sustainability summary

Commitments for 2009/10

- Commence the Rowallan Dam upgrade for the dam safety program
- Reach or exceed the asset management strategy targets for production lines not exposed to significant risk
- Develop consistent approach to stakeholder engagement and issues raised for operational impact on water management
- Manage water storage and energy production to meet storage level target of 29.2% of full energy

Performance against commitments for 2008/09

✓ = complete — = ongoing ✘ = not achieved

Commitment		Progress
Commence the site works for the major restoration of the Catagunya Dam	✓	Work began – expected to be complete in summer 2010/11
Based on reviewing annual average inflows to hydro storages, rebuild storage levels to over 30 per cent of full energy by 30 June 2013	✓	Exceeded target for 2008/09 of 26.1 – reached 27.7% of full energy
Develop waste management strategy	✘	Overall waste from our operations is minimal. The strategy development was delayed due to other priorities but work continues on reducing SF6 emissions and improving oil disposal

Our self-assessment for Assets and Resource Use performance

Sustainability performance scores*

	2005	2006	2007	2008	2009
Score	3.4	3.5	3.5	3.8	3.8
Target	-	4.0	4.0	3.5	4.0

Issues that influence the score for 2008/09

↑ = increase

→ = remain the same

↓ = decrease

↑	The Catagunya Dam project – construction work is well under way to replace post-tensioned cable anchors which secure the dam
→	Continued implementation of the primary protection testing program
↑	Commencement of plans for Lower Lake Margaret
↑	1000 GWh project - 30 GWh added to system
↑	Review of Dam Safety Emergency Plan
↑	Poatina and Tungatinah modernisation projects progress
→	Continued progress on asset management strategy
↑	Improving outage management processes for greater control over cost and quality
↑	Exceeding rebuild storage target
↓	Further downward rating of system yield to 8700 GWh per annum
→	Continuing discussions with external stakeholders for competing water use
↓	Whole-of-business waste management strategy not developed

Apprentice electrician Patrick Mahoney

OUR PEOPLE

EMPLOYEES

Sustainability Code: We offer opportunities for employees to grow and develop, ensuring the capability of our people and encouraging innovation, learning and research. We ensure a diverse and equitable workforce, and support and respect the protection of internationally proclaimed human rights. We are committed to a safe and healthy workplace.

Our mission: Being the premier employer of the most capable people in our industry.

Our strategy is to improve and transform our business culture and processes by building the capability of our people to initiate and lead change for the future.

Management approach

Our management systems Aurion and HydroSafe track employee information and occupational health and safety incidents, mitigation and procedures. Hydro Tasmania has policies, processes and guidelines to support our aims for a safe and creative workplace and which define employee rights and responsibilities for occupational health and safety, education, training, equal opportunity, non-discrimination, complaints, grievances and the negotiation of employment conditions through union or other representation.

We comply with legislation for fair work, health and safety and anti-discrimination contained in the *Fair Work Act 2009* (Cth), *Workplace Health & Safety Act 1995* (Tas) and *Anti-Discrimination Act 1998* (Tas).

We have programs and processes for workforce planning, succession, attracting and retaining skilled staff, and developing the capability of our people. We monitor trends in the composition and turnover of our workforce and use this data in workforce planning and succession, and to understand our retention rates.

Our challenge is to develop a culture throughout the organisation that fits our aspiration to be a customer-driven business and that encourages the movement of key skills around the organisation so we are best placed to respond to the changing business environment. Our employee development programs address this challenge.

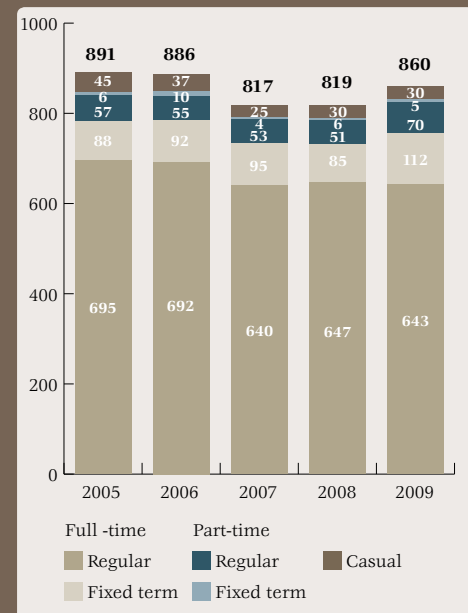


Figure 12: Employees by employment type and contract

Attraction, capability and retention

Our ongoing challenge is attracting and retaining key skills to our regional location in Australia and the competing remuneration packages offered from well-resourced companies seeking the same skills. The challenge is more acute for positions in the remote locations within Tasmania and for highly skilled engineering positions across Australia. During the last half of the year the situation eased as a result of the global financial environment - there was a rise in the number of people applying for our vacancies.

The challenge remains over the long-term and we promote greater work/life balance, career opportunity and the value of the employment conditions we can offer our people.

We improved the arrangements for our graduates and apprentices through centralised and coordinated programs. We focus more on professional development and training courses, and include a mentoring program.

Our turnover rate decreased last year, down from 15.8 per cent to 10.6 per cent. Our target is 10 per cent. See the turnover figures in figure 13, figure 14 and table 10. The rate for 2008/09 included 31 employees who transferred to Transend Networks, which purchased the telcommunications group. Excluding these, the result was 7.1 per cent. See the termination figures in figure 15 and table 11.

For more tables and statistics on our workforce, see page 142.

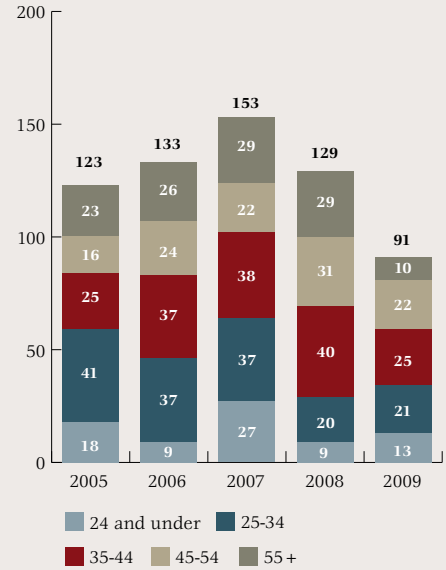


Figure 13: Turnover by age

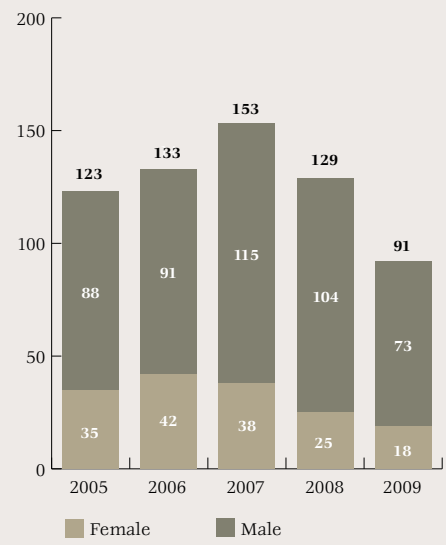


Figure 14: Turnover by gender

Table 10: Turnover by region

	2005	2006	2007	2008	2009
TAS	116	124	145	120	89
VIC	5	8	4	7	1
QLD	-	-	-	-	0
SA	2	1	3	1	0
WA	-	-	1	1	1
INDIA	-	-	-	0	0
TOTAL	**123**	**133**	**153**	**129**	**91**

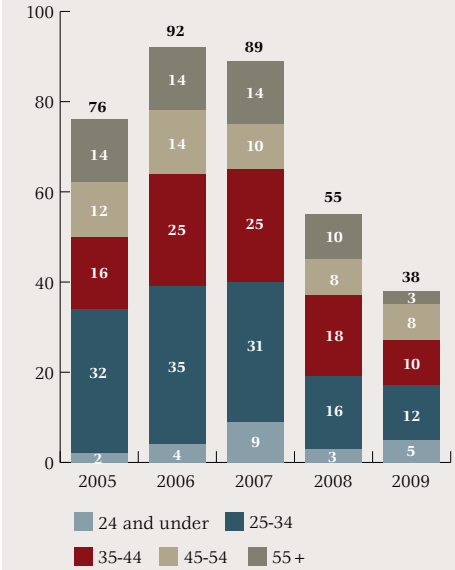
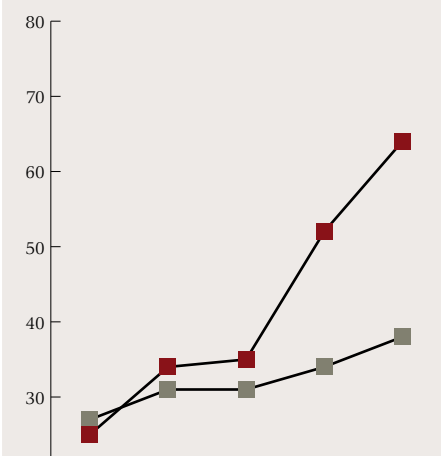


Figure 15: Voluntary exits within 12 months

Table 11: Reasons for termination

Termination Reason	2005	2006	2007	2008	2009
Compulsory Redundancy	4	8	28	62	6
Voluntary Redundancy	4	11	4	1	2
Resignation	72	90	81	54	36
Retirement	5	3	9	1	2
Contract term expired	35	15	28	10	10
Deceased	2	0	0	1	1
Probation unsatisfactory	0	0	0	0	1
Termination	1	5	2	0	2
Transfer of Business*	0	0	1	0	31
TOTAL	**123**	**133**	**153**	**129**	**91**

**'Transfer of business' is as a result of the sale of a group - e.g. in 2009 it included all employees of the telecommunications group.*



Employee engagement

The annual employee feedback survey is conducted in May/June and is designed to assess whether we are supporting our employees in a way that leads to commitment, retention and discretionary effort.

Our employee engagement score, shown in figure 16, rose for the third consecutive year. The score of 64 per cent comes from the rate of a favourable response to all of the eight indicators assessed. This indicates that our employees are more engaged than 90 per cent of Australian organisations included in our survey provider's benchmark.

We attribute this rise to the discussions of our business strategy across the organisation. Our CEO spoke personally with all groups across the business and the strategy development process included more employees and broader discussion within teams.

While our overall score improved, the survey found greater variations across the business in the different indicators. To address this, we will examine each business area and address the concerns indicated on a team-by-team basis.

Ken Smith

Ken Smith became an apprentice mechanical fitter at the age of 50 thanks to the Generation Technician (GenTech) framework. The framework introduced in 2008 has been developed to provide a career pathway for Hydro Tasmania's field-based staff.

Formerly a mechanical assistant at Liapootah, Ken wanted to learn new skills and take on new responsibilities.

"I think it is great that older people like myself with ambitions in life can be always changing and aiming at new goals."

Employee development

In 2008/09, our particular focus was on building the capability of our employees to develop capability in leadership and facilitating change so that we can become a customer-driven business.

In the calendar year 2008, 80 per cent of employees were involved in personal or professional development or training, which includes further education courses and development programs within and outside Hydro Tasmania.

We ran a leadership development program, which focused on leading self, leading others and leading the organisation. Closely aligned with this was the change agents program which aims to build the capability to assist people, process and system change in the business.

We now have people throughout the business who are thinking differently about the way we work, having different conversations, collaborating more across the business and creating an environment where people are more comfortable with change. We will be building on this work in the next year.

We also continued with the Gentech program, which provides development and career paths for operational and trade staff. We extended training to more skills and introduced a frontline management package.

Service Coordinator Jenny Caletti standing second left, with trainees, from left, Mathew Manten, Martin Ralph, Belinda Joyce and Trevor Granger. Seated are Nic Ladic and Michael Peters

Service Delivery Traineeship Program

For the past two years, Hydro Tasmania has been offering young Tasmanians the opportunity to undertake a Certificate III in Business.

Successful applicants are engaged on a two-year traineeship, which includes specific on-the-job training coupled with the completion of written assignments.

After achieving the qualification, trainees are encouraged to apply for any suitable positions that may become available.

Since its inception, the Service Delivery team has successfully guided eight trainees through this program, providing them with the opportunity to learn a broad range of administrative skills to help support the business and to build a foundation for a career at Hydro Tasmania.

Enterprise agreements

Two enterprise agreements cover all our award-level employees: one for employees of Hydro Tasmania Consulting and the other for employees in the rest of Hydro Tasmania. Award employees make up 82.49 per cent of our workforce.

In November 2008, the Consulting Enterprise Partnership Agreement (EPA) 2008-2010 was accepted. It had been initially voted down as communication had not been adequate for staff to understand the proposed salary model. A consultative working group was formed to develop procedures to support the new salary model.

At 30 June 2009, the Hydro Tasmania (excluding Consulting) EPA 2009-2012 was still being negotiated. The negotiation has been adjusted to comply with the *Fair Work Act 2009*, which took effect on 1 July 2009. This EPA also includes a proposed new salary model based on the recommendations from the 2006/07 EPA remuneration model review. Employees have expressed concern that the principal tool for implementing this model, the Performance Development Review, cannot be applied consistently across the business. A separate process is under way with employees to address this issue and to ensure that the criteria for receiving salary increases are applied fairly in all parts of the business.

Tarraleah Power Station

Table 12: OH&S data at 30 June 2009*

	2005	2006	2007	2008	2009
Fatalities	0	0	0	0	0
Lost Time Injury Frequency Rate	3.3	1.4	4.1	3.6	2.8
Medical Treatment Injury Freq. Rate	12.9	4.5	8.4	8.9	6.6
Severity (days lost) Frequency Rate	35	29.5	17.6	38.1	60.0
All Injury Frequency Rate	37.8	34.7	49.1	49.8	42.0
Hazard Reporting (no/employee)	0.47	0.29	0.37	0.49	0.36

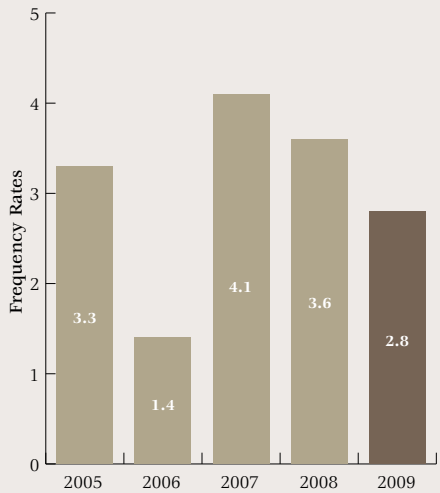


Figure 17: Lost time injury frequency rates*

A key performance indicator for safety is lost time injury frequency rates (LTIFR). At 30 June our performance against this indicator was 2.8, an improvement on last year but still higher than our target of 2. The severity rate was double due to two protracted injuries. See figure 17.

Manual handling incidents were the greatest single contributor to this rate during the year, and we found the biggest underlying cause was taking shortcuts with procedures.

Our overall safety performance is presented in table 12.

Improving our safety performance is a key challenge for Hydro Tasmania. We believe the current performance reflects a poor understanding of the desired safety culture and our safety procedures in general among our employees. We intend to improve this understanding as a high priority within the 2009/10 Safety Improvement Plan. A program for education about manual handling will begin early in 2009/10.

The Safety Improvement Plan ensures that the top six priority safety risks in the business become the focus of improving safety performance. We identify these priority risks in consultation with employees across the business.

During 2008/09, we made progress on addressing driving, contractor safety management and asset maintenance risks. We provided advanced driver training, implemented safety procedures by training sessions for contractors (and published them on our web site with access for registered contractors), and trained production managers to audit site and operation safety risks. Improvements by the end of the year were such that these issues were downgraded to a watching brief for the 2009/10 plan.

Table 13: Number of contractor lost time injuries at 30 June*

2005	2006	2007	2008	2009
4	1	1	1	1

We also addressed issues related to stress, fatigue and emergency response by testing and implementing revised systems and procedures. However, these issues require longer-term attention and remain among the top six priorities of the 2009/10 plan. An education program on managing fatigue will focus on health and wellbeing issues. The other top priorities for the coming year include safety risks for overseas assignments, improving safety training and, as mentioned above, improving understanding of safety procedures, including manual handling.

The latest electricity industry benchmark for safety was released by the esaa with 2007/08 data. This shows Hydro Tasmania's lost time injury frequency rate was near the average for generators. We aim to improve this performance as already explained, and continue to pursue our safety vision of 'no harm to anyone at any time'.

*For calculations and restatements, see page 3.

The Healthy Hydro Program won the 2008 Workcover Safety Award. Pictured are, from left, Claire Stonehouse, Verity Coulter (Rehab Consultant), Manny Lynch, Peter Kapeller, Cynthia Nixon, Claire Vermey, Mick Cuppari, Bruce Hill, Grant Bender and Toni Rowley

Health and wellbeing

We monitor the health and wellbeing of our employees annually by measuring the absenteeism rates. The absenteeism rate has remained at around five days per employee per annum since the measure was introduced. See table 14: Absenteeism[7].

The Healthy Hydro program aims to provide equitable access to services for employees to manage their own health and wellbeing through individual programs and business-wide forums. The Healthy Hydro participation rate target was 40 per cent equitably across locations from February 2008 to February 2009. The overall participation rate[8] was 45.6 per cent. At 30 June the overall rate was 54.1 per cent.

This year, the program placed particular emphasis on preventing and managing fatigue as a step towards managing stress. The program is reviewed annually and improvements were made in collaboration with the service provider, Healthy Business.

Pandemic influenza response

Hydro Tasmania's pandemic influenza management plan, introduced in 2006, was activated on 1 May 2009 in response to the spread of human swine flu (H1N1 influenza 09). We established an analysis group of senior employees to assess, monitor and take action to limit the impact of this flu on our people and ensure continuity of our business operations.

The group facilitated a prompt, decisive and targeted response in unison with other electricity entities and with state and federal government strategies to delay spread and to minimise impacts on the community. As the situation escalated, we formed the Crisis Management Team to oversee our response to the pandemic.

Information and hygiene materials were continually supplied for employees to manage personal hygiene as a preventative measure, with frequent updates on the community situation.

[7] *The target rate stated in the 2007/08 annual report for 2008/09 on page 33 was not based on the Global Reporting Initiative (GRI) definition (as it excluded those absent due to workers compensation). In this year's report the absentee rate complies with the GRI definition. Leave types included are: sick leave, carer's leave and workers compensation. Days per employee are based on the average FTE for each financial year. The Absence Rate is calculated as the absence hours/ scheduled work hours. Scheduled hours are estimated based on the expected hours to be worked by FTEs. (FTE multiplied by 1950 hours minus unpaid leave).*

[8] *The participation rate is calculated by number of participants/number of full time equivalent employees (FTE). February FTEs were 797 and June FTEs were 805.*

Employees sustainability summary

Commitments for 2009/10

- Leverage the learning from the leadership and change agent training to build a culture that enables the business to respond to customers and external drivers
- Implement the revised Safety Improvement Plan with a focus on improving and communicating critical safety procedures

Performance against commitments for 2008/09

✓ = complete — = ongoing ✗ = not achieved

Commitment		Progress
Implement the leadership development initiative	✓	Two intakes for leadership initiative, three intakes for change agent program. A hybrid program is planned for 2009/10
Develop a business-wide talent management strategy (key skills)	—	In progress. Review of expectations complete and principles agreed. Incorporating into succession and workforce planning procedures during 2009/10
Implement recommendations from 2006/07 EPA remuneration model review	—	In progress. The recommendations are incorporated into the remuneration proposal under negotiation for the Hydro Tasmania EPA (excluding Consulting) 2009-2012
Implement recommendations from gender diversity review	✗	Implementing these recommendations was delayed for 2008/09 due to insufficient resources. Recommendations will be addressed in the future
Address further actions relating to the top six safety priorities	✓	Actions taken on the six priorities. Embedded procedures for three priorities; reviewed and renewed six priorities

Our self-assessment for sustainable Employees

Sustainability performance scores*

	2005	2006	2007	2008	2009
Score	3.0	3.2	3.3	3.3	3.6
Target	-	3.0	3.5	3.5	3.8

Issues that influence the score for 2008/09

↑ = increase

→ = remain the same

↓ = decrease

↑	Developed individual capability to lead change through leadership development and talent management initiatives
→	Continued with existing initiatives supporting gender diversity
↑	Increase in the employee engagement score
↑	Turnover reduced and commenced work on succession planning
→	Internal work on recruitment processes
↑	Improvement in graduate, apprentice and trade training
↑	Training and development for change management and leadership
↑	Lost time injury frequency rate decreased
↑	Introduced fatigue management procedure
↑	Reviewed the Safety Improvement Plan and identified key focal points for 2009/10
↓	Significant concern about critical safety procedures – status, knowledge and application
↑	Healthy Hydro program was recognised with WorkCover Safety award
↑	Contractor safety management procedures implemented

EXTERNAL STAKEHOLDERS

Sustainability Code: We endeavour to gain respect and trust through active engagement with the community and stakeholders. We are committed to sharing information, building community capability and providing for multiple use of our land and water assets. We encourage our suppliers, customers, partners and industry peers to be sustainable.

Our mission: Being easy to do business with

Our strategy is to improve our understanding of issues of high importance to our stakeholders and to include these in the decision-making process of our business. We will do this by engaging in dialogue and through building relationships with our stakeholders and communities within our areas of operation and interest.

West Coast Mayor Daryl Gerrity, left, with Hydro Tasmania's Randal Fleming at the Lake Margaret Power Station

Table 13: Hydro Tasmania's stakeholders and their attributes

Stakeholder	Attributes	How we engage
Staff	Operate our business	Conversations are our prime method for formal and informal communication, through team meetings Internal publications, intranet Annual employee feedback survey
Customers	Buy our electricity, energy products and our consulting services	Energy trading processes, principally telephone Consulting's account managers Consulting's biennial satisfaction survey
Business partners	Join us to develop renewable energy projects and to research and trial renewable energy concepts and innovations	Board meetings; project procedures
Shareholder Ministers, Government of Tasmania	Nominal owners of the business on behalf of the people of Tasmania	Monthly meetings about business issues
Government agencies	Regulate our activities; join us to manage issues where our interests intersect	Collaboration on projects Stakeholder survey
Regulators	Regulate our industry, its financial activities and the environment	On a needs basis Stakeholder survey
Community and special interest groups and bodies	Raise concerns, provide information on issues that arise, query our activities	Formal liaison groups; collaboration on projects Memoranda of understanding Stakeholder survey
Industry associations	Provide forums for industry debate, discussion and policy development on issues of mutual interest	Formal structures of associations
Academic and scientific communities	Provide information and expertise, conduct research on our behalf and query our methods of operation	Memoranda of understanding Scholarships; graduate program
State and federal parliamentarians	Represent our interests and question our motives	Briefing sessions Representing energy industry associations GBE Scrutiny Committee Stakeholder survey
Suppliers	Provide goods and services	Procurement processes Supplier survey
Local and national media	Provide information to the public and question our operations and motives	Press releases
Tasmanian community	Our ultimate owner, which experiences the impact of our principal operations first hand	Web site Media releases Community survey Stakeholder survey

Michael Bidwell, centre right, with stakeholders, from left, Neil Morrow (Inland Fisheries), Peter Hopkins (MAST) and Richard Dax (Anglers Alliance Tasmania)

Meeting with stakeholders

Michael Bidwell spends much of his work time in the great outdoors.

As Land Management Officer, he is responsible for managing issues associated with both the development and use of Hydro Tasmania's land, including access by recreational users such as local and visiting anglers.

This involves working closely with a variety of stakeholders on a regular basis to resolve issues, listening to and understanding their concerns and ensuring they are kept informed of our activities.

"We are getting better at developing close relationships with our stakeholders but we have to be far more proactive in understanding what they are interested in and not just what we want to talk about."

At Hydro Tasmania we aim to improve our ability to identify and understand stakeholders and their issues as a foundation for improved engagement and responsiveness.

This year we engaged the Australian Centre for Corporate Social Responsibility (ACCSR) to assist us in identifying the issues that matter most to our stakeholders. ACCSR approached 61 stakeholders and 45 participated. This research found that stakeholders frequently raised communication and engagement among the issues. Other frequently raised issues were the environment, water management, the perception of Hydro Tasmania, energy and ecologically sustainable practices, see figure 18. We aim to engage with those stakeholders in the findings of the research and discuss how we can respond to the issues they raised.

This year we received positive feedback about our collaboration and focus on solutions during several projects, including the Lake Margaret redevelopment, the Lake River and Macquarie consortium pipeline project and planning the Poatina penstock painting project.

Our approach to engaging stakeholders about operational issues has not been consistent and handling stakeholder issues has not always met expectations, such as this year's announcement to lower Lake Meadowbank for a major maintenance project. We recognised the legitimacy of stakeholder concerns, delayed the project and applied a more constructive approach.

We are taking steps to be consistent and more proactive in dealing with our operational impact on communities and engaging with stakeholders. We aim to develop a business-wide model, and during 2008/09 we made substantial progress in identifying a model for collaborative, relationship-based engagement.

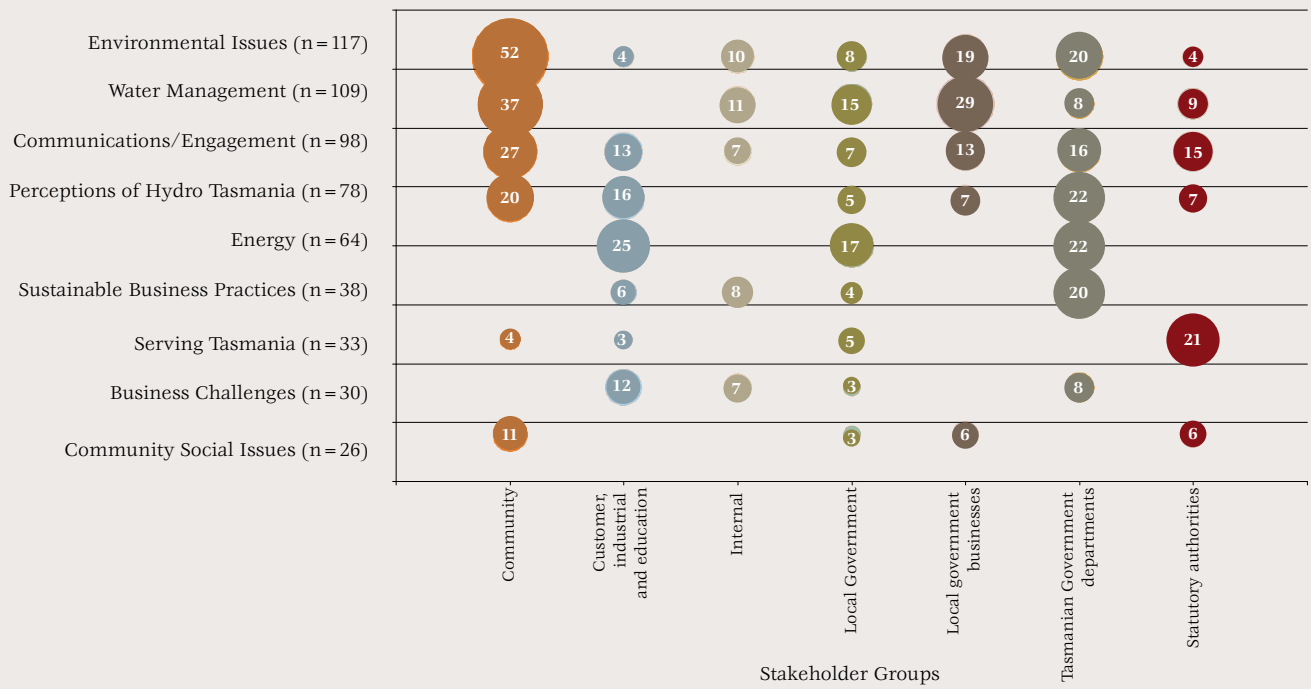


Figure 18: Most frequent issues that matter by stakeholder group

However, the progress on identifying and implementing this has been slower than we anticipated. We will develop and implement the model during 2009/10.

The annual community survey, undertaken by an external service provider, gauges overall public opinion of Hydro Tasmania. It showed us that the community thinks our reputation is good and that it trusts us. However, it also showed that we can improve in listening to the community.

Sponsorship

Hydro Tasmania and our staff supported a variety of initiatives, events and organisations through the year. Sponsorships and donations for 2008/09 totalled $428 775.

Our staff responded to the Red Cross Victorian Bushfire appeal, raising $26 342. The business donated an additional $36 342, making a total contribution from Hydro Tasmania of $62 684.

We continued to support charity events such as the Cancer Council Relay for Life and the Leukaemia Foundation's Great Shave and Movember, the men's health event. Our support includes iconic Tasmanian events and organisations such as the Tasmanian Symphony Orchestra, the Ten Days on the Island Festival and the annual Three Peaks Race – a four day short-handed sailing and endurance mountain running race.

We also support our staff in events such as fun runs and health-focused initiatives such as the Global Corporate Challenge.

CEO Vince Hawksworth, left, with Bron Bell, Red Cross Tasmania's Ian Burke, and Brett Spinks

Table 16: KPI - Supplier satisfaction survey results 2008/09

	Target	Result
Key supplier and partner satisfaction ratings of Hydro Tasmania	75%	80%
Supplier and partner sustainability performance self-assessment rating	75%	85%

We have taken our first step in systematically engaging with suppliers and partners on the issue of sustainable business practice, and have sought their view on how easy we are to do business with and our sustainability performance.

In April 2009, we asked 1520 suppliers to complete a survey to rate their satisfaction with our performance against our sustainability code and 'being easy to do business with'. We received 216 responses. Some of the suppliers who responded asked us to follow up with them, which has encouraged conversations about sustainability. We also identified areas where we can work with our suppliers to encourage sustainability practices into the future.

The results indicated that overall our sustainability practices are perceived as strong, and that we are easy to do business with. See the results in table 16 and more detail in figure 19.

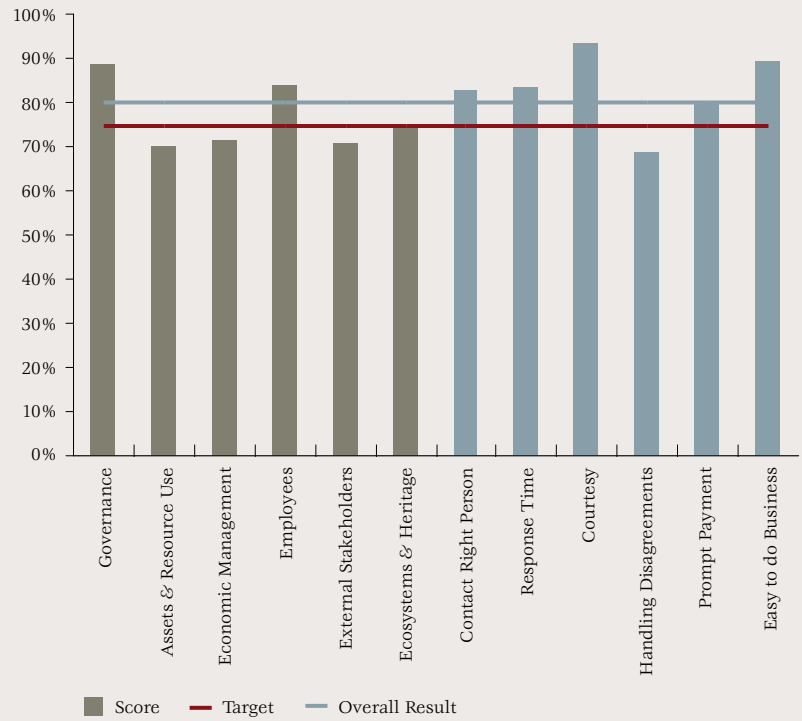


Figure 19: Overall supplier and partner satisfaction with Hydro Tasmania's performance

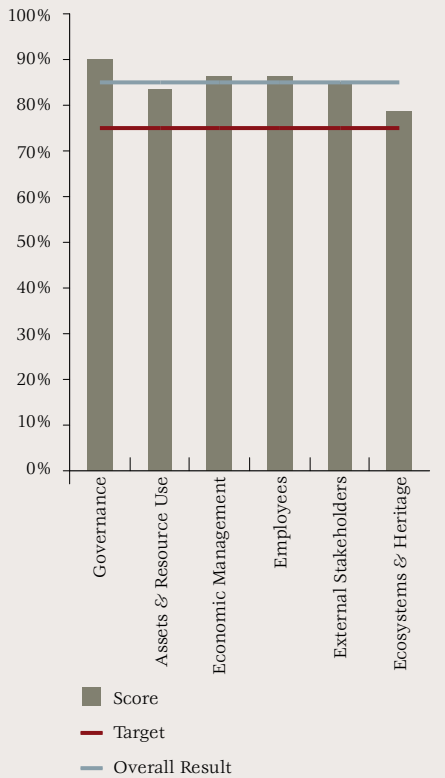


Figure 20: Supplier sustainability self-assessment results

In June 2009, we invited 20 of our key suppliers and two of our partners to provide us with a self-assessment of their own sustainability performance against our sustainability principles. They were selected on the basis of having the biggest impact on our sustainability and expenditure and were spread across widely varying industry sectors.
We received 12 responses, 11 from suppliers and one from a partner. These showed a high degree of self-assessed sustainability which is shown in figure 20.

This two-way sustainability survey and its results will help open discussion about sustainability practices with all our suppliers and partners. We plan to continue the surveys on a regular basis.

Partners

One of our key partners is the CLP Group, with whom we own the joint venture Roaring 40s. During 2008/09, we agreed with this partner to the sale of Roaring 40s' assets in Asia. This move has provided a solid capital base for capturing emerging renewable energy growth opportunities in Australia, after three years of extensive development in Asia. Roaring 40s continues to operate as a 50/50 joint venture.

We completed our formal partnership with Acciona, which was our joint venture partner for the engineering, procurement and construction of the Cathedral Rocks wind farm project. This project is now complete and has been transferred to the Roaring 40s' portfolio. Our relationship with Acciona is positive and continues on an informal basis.

We have a joint venture with the South Australian Water Corporation - Lofty Ranges Power Pty Ltd - to operate and develop mini-hydro power stations in the South Australian water system. Our relationship with this partner remains solid. We continued to explore ways to grow the revenue from the mini-hydro opportunities, with each partner contributing its particular skills in the operation and development of mini-hydros.

Hydro Tasmania also has relationships with many community and interest groups with whom we form a partnership to work on a project or find a solution to a shared issue. We refer to these groups and their issues throughout the report.

This year we established two more formal partnerships through memoranda of understanding to establish project partnerships for land and water sustainability management with NRM North and the Cradle Coast Authority. Our three-year formal partnership with Greening Australia continued for environmental projects.

Suppliers

In 2008/09, Hydro Tasmania spent $207.7 million on procuring goods and services, and 44.9 per cent of this amount was from Tasmanian firms. Tasmanian firms are defined as: businesses operating in Tasmania, which have a permanent office or presence in Tasmania and employ Tasmanian workers. These figures exclude utility costs, for example, electricity, transmission and fixed telephony. See figures 21 and 22.

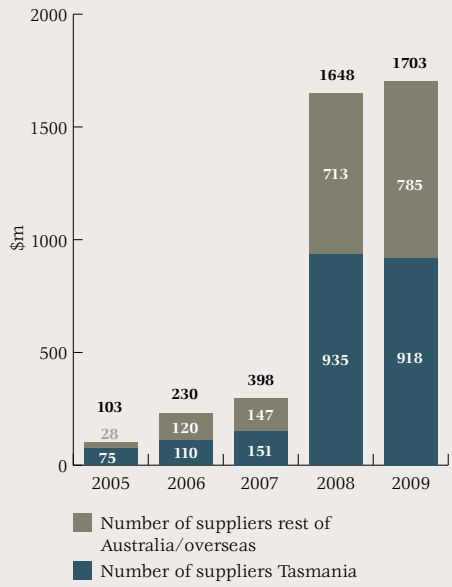


Figure 21: Supplier numbers

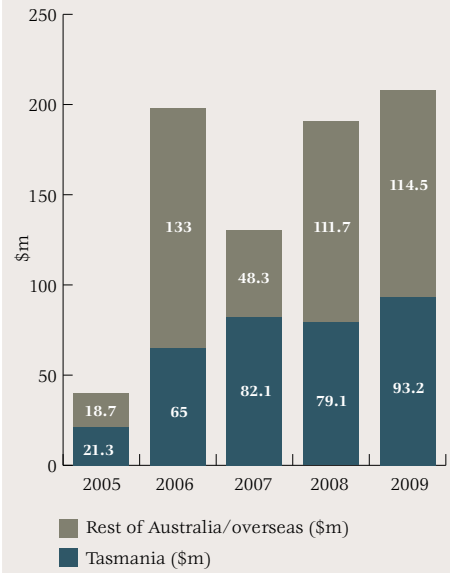


Figure 22: Procurement value

Network service providers

Network service providers are important to Hydro Tasmania because they form a critical link in the supply chain.

During 2008/09 we worked collaboratively with Transend Networks, which owns the Tasmanian transmission network, to improve the processes through which we communicate and develop a shared understanding of the needs of our respective businesses.

We also worked consistently with CitySpring, the owner of Basslink, to find engineering solutions to improve the availability and reliability of this underwater transmission cable between Tasmania and Victoria.

External Stakeholders sustainability summary

Commitments for 2009/10

- Develop and implement stakeholder engagement model across the business
- Develop collaborative relationships with stakeholders who share an interest in water management in Tasmania
- Develop a plan for recreational access to Hydro Tasmania land and water which reflects the strategic interests of stakeholders
- Extend our encouragement to our wider group of suppliers and partners to be sustainable in their practices

Performance against commitments for 2008/09

✓ = complete — = ongoing ✗ = not achieved

Commitment		Progress
Continue to establish relationships with stakeholder representative groups in our community, including formalising at least two more relationships via memoranda of understanding with environment or local government representative bodies	✓	Memoranda of understanding agreed and signed with Cradle Coast Authority and NRM North
Develop two-way survey for Hydro Tasmania supplier relationships and performance, where each considers and evaluates the other	✓	Complete
(Commitment for 2007/08) Establish an appropriate sourcing strategy for key categories of supply, and then develop suitable measures to drive improvements over time	—	In 2008/09 it remained a challenge to implement strategy across the business. Project manager assigned for 2009/10 to implement strategy (2007/08 result – established sourcing strategy)

Issues that influence the score for 2008/09

↑ = increase

→ = remain the same

↓ = decrease

↑	Constructive stakeholder engagement on several projects
	ACCSR completed external stakeholder 360° survey
→	Communication and engagement a top issue in stakeholder and community surveys
↓	Inconsistent application of project-based stakeholder engagement
↓	Developing a business-wide stakeholder engagement model is slow
↑	Completed supplier satisfaction survey
↑	Completed key supplier and partner sustainability self-assessment
↑	Introduced umbrella contracts into standard suite

Our self-assessment for External Stakeholders performance

Sustainability performance scores*

	2005	2006	2007	2008	2009
Score	3.0	3.5	3.0	3.6	3.3
Target	-	3.0	3.5	3.1	3.5

Lake Burbury near Crotty Dam

OUR ENVIRONMENT

ECOSYSTEMS AND HERITAGE

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

Our mission: To effectively manage, protect and enhance our environmental and heritage values.

Hydro Tasmania is custodian of approximately 111 600 hectares of land and the rivers and lakes that fall in the water catchments of our operational footprint in Tasmania.

Our operations and activities include using and storing water to generate electricity, operating our hydropower system, construction activities, administering our business and our people travelling, all of which have the potential to have an impact on the environment wherever we operate.

Management approach

Hydro Tasmania is committed to the sustainable management of the environment within which we operate. Our Environmental Policy guides our responsibilities in relation to environmental care. We use an ISO 14001 certified Environment and Sustainability Management System (ESMS) which helps us to assess our environmental risks, track our projects and procedures that address the risks, and our compliance with internal and external obligations.

We are subject to state and federal government environmental laws and have environmental conditions placed on our water licence issued under Tasmania's *Water Management Act 1999*.

Procedures include an Environmental Impact Assessment (EIA) and an Environment Management Plan (EMP) for each construction project. These include cultural heritage assessments.

We manage the projects and procedures through our core environmental programs: aquatic, land, cultural heritage and energy and greenhouse programs.

We approach environmental care with future generations in mind and consider that compliance is the starting point and aim to go further wherever possible.

Performance

This year we continued to successfully manage the environmental condition of a number of lakes operating at low levels. Significantly, we also maintained the heritage values of the Lake Margaret Power Station during redevelopment. We were also recognised with a highly commended award for our long-term land rehabilitation projects by the GRN Australasian Ecological Restoration Projects.

One of the challenges we faced was raising awareness and encouraging the broader use of the ESMS among our employees for reporting incidents. One solution we are examining is integrating environmental incident reporting with safety reporting systems. Another is improving the on-line ESMS reporting system for easier use.

There were no major environmental compliance breaches or monetary fines recorded for 2008/09.

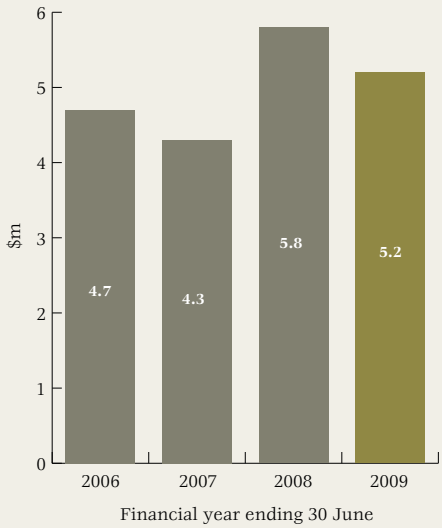


Figure 23: Environmental expenditure

This is expenditure for the primary purpose of environmental management and does not conform to GRI data specifications.

Ecosystems

Aquatic environment

Managing low lake levels

We manage environmental risk in lakes where water levels are low to minimise impact on threatened species and water quality. Our approach is to identify water levels where environmental or social risks may arise, establish risk bands to address the risks, and initiate a monitoring and reporting program of key water quality variables before a lake enters its risk band.

We monitored five lakes under the program throughout the year - Arthurs, Woods, Echo, King William and Great lakes. Water levels and associated environmental risk bands for three lakes are shown in figures 24, 25 and 26.

Arthurs Lake water level remained within its medium risk band from February 2008 until early July 2009, raising concern for water quality conditions and threatened fish species. Woods Lake lowered to its medium risk band in April 2009 and rose above it as a result of rains in June.

The storage rebuild strategy contributed substantially to raising the level of Great Lake from a low of 16.7 per cent full in energy terms[9] in July 2008 to 24.7 per cent by 30 June 2009.

We are currently undertaking a research program at Great Lake and Arthurs Lake which aims to develop scientifically-based strategies for sustainable management of threatened fish species.

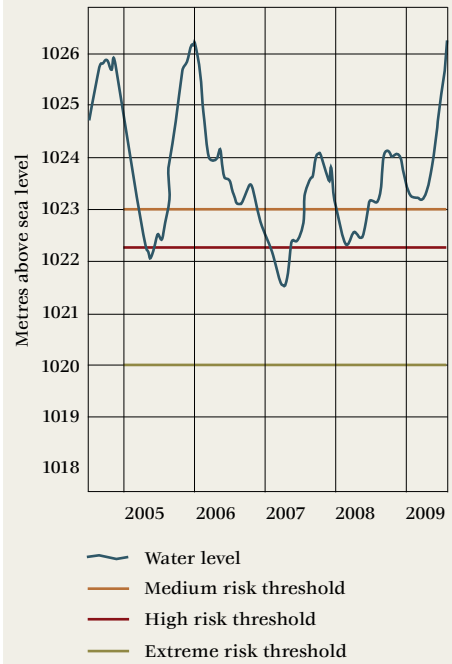


Figure 24: Great Lake levels in relation to environmental risk bands (2005/2009)

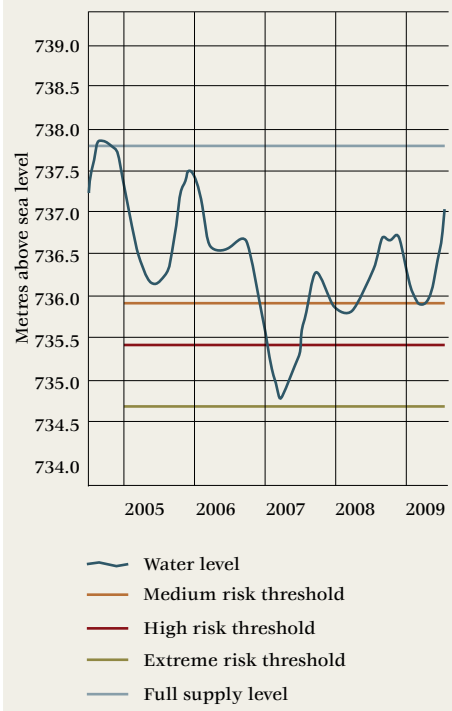


Figure 25: Woods Lake levels in relation to environmental risk bands (2005/2009)

[9] *For an explanation of our measure of 'full energy', go to page 146.*

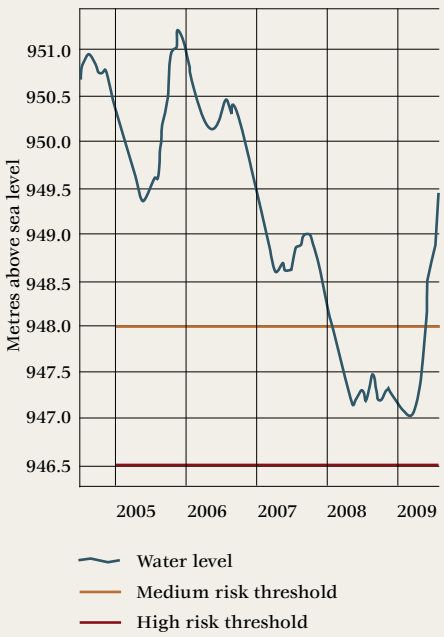


Figure 26: Arthurs Lake levels in relation to environmental risk bands (2005/2009)

Algal Blooms

In response to stakeholder concerns, we monitored and reported on algal blooms at three highland lakes and identified these blooms as non-toxic. In April 2009, the Trevallyn Lake algal monitoring group, in which Hydro Tasmania participates, identified an algal bloom which was short-lived. We continued to monitor blooms at the Lagoon of Islands where very poor water quality conditions remained.

Oil Spills

Hydro Tasmania takes the risk of oil spills seriously and is investing in preventative measures, as oil spills are a significant threat to the health of waterways. Nevertheless, a number of relatively small spills occurred during the year.
The largest spill involved 1000 litres of oil at Devils Gate Power Station which is on the Forth River. It was classified as a moderate incident and reported accordingly. It was estimated that approximately 100 litres of oil was lost to the waterway. With the assistance of the Environment Protection Authority (EPA), the spill was cleaned up with minimal impact and a low risk of ongoing environmental concern. Another oil spill involved approximately 92 litres at Poatina, with up to 82 litres lost to the waterway and cleaned up with the help of the EPA. Water samples taken downstream showed no detectable oil contamination.

As a result of the spills we reviewed, and where necessary modified, the oil containment capacities within power stations across the system. We are also investigating permanent and temporary deployable oil boom systems for use in areas that are susceptible to oil loss.
We reviewed our oil handling and spill procedures during the year, and provided further training for employees where required.

Table 18: Environment incident classification

Severity 1	Negligible	Negligible or no environmental harm or environmental nuisance. (< $10k damage)
Severity 2	Minor	Constitutes material environmental harm or an environmental nuisance (technical breaches of legal requirements, local stakeholder interest, $10k to $100k damage)
Severity 3	Moderate	Possible prosecution, local/state publicity ($100k to $1m damage)
Severity 4	Major	Prosecution certain, loss of Hydro Tasmania control to political arena, national publicity and possibly international media attention, severely affected reputation, probable licence restrictions ($1m to $10m damage)
Severity 5	Extreme	Prosecution certain, loss of Hydro Tasmania control to political arena, national and possibly international publicity and media attention, severely affected reputation, probable licence restrictions (Over $10m damage)
Severity 6	Catastrophic	Prosecution certain, with jail terms for employees and/or directors, loss of Hydro Tasmania control to political arena, national and possibly international publicity and media attention, severely affected reputation, additional licence restrictions (Over $100m damage)

Note that Non-conformance Reports are categorised as Major (either a legal non-compliance or a non-conformance with an environmental risk assessed at high or above) or Minor (all other non-conformances).

Environmental flows

Hydro Tasmania manages the waterways under its stewardship to promote sustainable development and to maintain the ecology and genetic diversity of these waterways in accordance with the *Water Management Act 1999*. This Act includes (among other things) that we release specified environmental flows.

In 2008/09, we initiated a review of environmental flows for the Cataract Gorge, which is situated downstream of the Trevallyn Dam. In 2003, we voluntarily increased the environmental flow to the gorge from 0.43 cumecs to 1.5 cumecs, and made a commitment to review the environmental values of the gorge and adequacy of the flow in five years time. This year's review, which will continue into 2009/10, fulfils this commitment. As part of this review we will be consulting widely with the community.

The environmental flows into the Gordon River were initiated to mitigate the impact of expected changes to the river due to the operation of Basslink. During the year we made significant progress in ensuring that operations could conform to these requirements, following a number of non-conformances with requirements reported last year for changing water discharge rates at the Gordon Power Station.

A helicopter delivering construction materials for the woodstave pipeline at Lake Margaret

Land environment

Recreation

The drought has created access issues for recreational users of Hydro Tasmania's storages. During 2008/09 we developed an access plan in conjunction with the Inland Fisheries Service, Marine and Safety Tasmania and the Anglers Alliance. This plan provides clear guidelines and responsibilities for developing access ramps.

Vegetation management

We are currently collaborating with several other stakeholders to develop protocols for environmental protection of the south-west World Heritage Area. These stakeholders include the Parks and Wildlife Service, Forestry Tasmania and the Department of Infrastructure, Energy and Resources. In particular, protocols for managing weeds, roads, helicopter landings and fire were addressed.

The group of stakeholders collaborated with Greening Australia to develop road corridor management plan protocols and procedures for weeds and road maintenance in the World Heritage Area.

Hydro Tasmania received national recognition for its long-term land rehabilitation projects, when we received a 'Highly commended' award in the GRN Australasian Ecological Restoration Projects.

Heritage

Our cultural heritage program helps us retain the cultural and Aboriginal heritage values of our sites to the extent possible, and to improve how we manage these values.

Lake Margaret Power Station, built in 1914, and its two-kilometre wood-staved pipeline, have heritage values that the community respects and that Hydro Tasmania is protecting as part of the redevelopment of the site. The ongoing site management plans include a heritage assessment.

Similarly, we are protecting the heritage values of the Catagunya Dam by replacing the corroded post-tensioned cables that support the dam wall. The dam was the first of its kind in the southern hemisphere and was the highest dam of this type in the world when it was constructed in 1962.

We also undertook predictive modelling of Aboriginal heritage values on Hydro Tasmania's land to help us protect Aboriginal heritage on our sites.

Climate change

Climate change, and the need to mitigate the global impact of this change in the future, has significant implications for Hydro Tasmania's business.

The *Climate Futures* modelling indicates that long-term climate impacts on water resources in Tasmania are likely to reduce inflows and increase variability. This poses a significant risk for Hydro Tasmania. We have already de-rated our system's long-term capacity to generate electricity due to recent climatic conditions of a reduction of average water inflows of over 10 per cent compared to the historical long-term average.

On the other hand, if a market for carbon is established, Hydro Tasmania is likely to see increased value of its current

renewable energy generation portfolio and will have opportunities to assist efforts to reduce our national carbon emissions. There are likely to be further business opportunities as customers are increasingly interested in a broader range of products and services, as well as increased incentives for developing more renewable generation capacity.

Our climate change response strategy contributes to global and national efforts to reduce carbon emissions. We will review the strategy in 2009/10 due to the changing reporting requirements and regulatory environment.

Climate Change Response Strategy

Our aim is to be Australia's first carbon neutral generator by 2012. The strategy has several elements:

- advocating for a favourable climate change legislative and regulatory framework
- developing additional renewable energy
- developing products and services to help customers meet their climate change mitigation obligations
- reducing our own carbon footprint.

Advocating for a favourable climate change framework

Hydro Tasmania strongly supports the federal government's proposed Carbon Pollution Reduction Scheme (CPRS) and the Renewable Energy Target (RET). In particular, we strongly believe that the following steps are critical for the development of Australian's renewable energy market:

- the immediate introduction of a carbon emissions trading scheme to ensure the full cost of carbon is built into all investment decisions
- a stringent emissions cap on carbon emissions that reflects the views of the international scientific community on what is required to avoid dangerous climate change, and ensures that the costs of reducing emissions is spread across the whole economy

- the retention of a renewable energy target until the carbon price alone supports renewable energy development
- the extension of the proposed renewable energy target of 45 000 GWh per year to 2020
- the establishment of the target for renewable energy to meet 20 per cent of Australia's energy demand by 2030.

For example, extending the renewable energy target and pricing carbon into investment decisions would immediately enhance the business case for new renewable energy projects, such as those being considered by Roaring 40s.

Developing renewable energy

We are working to develop new renewable generation capacity through our Roaring 40s joint venture. Roaring 40s is positioned to invest in significant new renewable energy generation in Australia as soon as a favourable legislative framework is in place.

We are finding developments within our existing hydropower system and enhancing our assets to increase the system's generation capacity through the 1000 GWh project.

Developing products and services

The establishment of a carbon emission trading scheme will provide Hydro Tasmania with opportunities to extend its products and services in both energy environmental products and consulting services. We already offer consulting products and services to assess and meet obligations to reduce carbon emissions and meet renewable energy targets, to plan and implement energy efficiency programs and to plan and develop new renewable energy installations.

Reducing our carbon footprint

Hydro Tasmania's aim is for our operations to be carbon neutral by 2012.

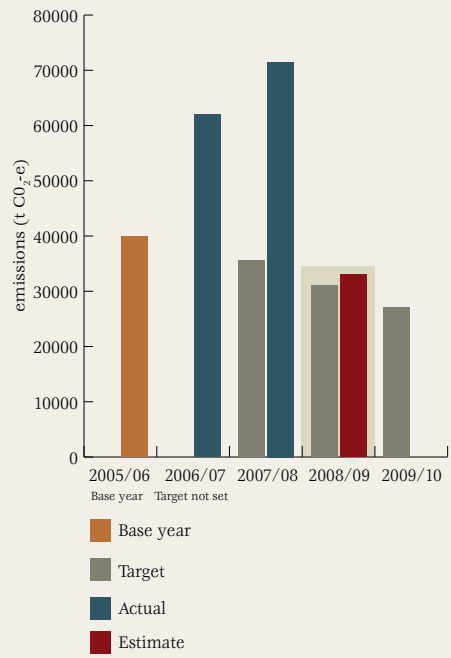


Figure 27: Targets and actual emissions against 2005/06

Our aim is to reach this goal helped by the planned closure of our only gas-fired power station which is at the end of its operational life. Other actions are to reduce our energy use and to phase in the purchase offsets where we are not able to find a way to avoid or reduce energy use further.

Energy use reductions were targeted for the Bell Bay Power Station and:

- diesel-fired power on King and Flinders islands in Bass Strait
- our buildings and facilities
- our vehicle fleet.

This year we estimate that we more than halved our total emissions compared to the previous year when total emissions were 725 376 tonnes of CO_2 equivalents. Bell Bay accounted for 97 per cent. (The full 2007/08 data set were completed in October 2008 and published on our web site.) In 2008/09, our emissions were in the vicinity of 342 000 tonnes of CO_2 equivalents with Bell Bay contributing 94 per cent. (The verified emissions data will be published on our web site by December 2009.) See results in figure 27[10].

Despite this year's result we are behind our target for 2008/09 of 22 per cent reduction from the base year of 2005/06.

The offset purchase plan is under way. We started with staff air travel emissions in 2007/08. At 30 June 2009 we were finalising the purchase of offsets for these and were calculating the 2008/09 data to start the next phase for Hydro Tasmania Consulting's emissions. The plan is to include emissions from our vehicle fleet in 2010/11.

[10]Hydro Tasmania measures and reports on the following emissions:

- *Scope 1 emissions: natural gas use, Bass Strait islands' diesel use, vehicle fleet fuel use, SF_6 leakage from switchgear.*
- *Scope 2 emissions: electricity consumed by buildings and facilities and pumps and power stations.*
- *Scope 3 emissions: hire car use, shuttle bus use, staff commuting to Cambridge office, aircraft hire and commercial flights.*

All Australian based scope 1 and 2 emissions are calculated using NGERS methodologies. Non-Australian based scope 1 and 2 emissions and scope 3 emissions are calculated using best known practices and include estimates when precise data is not easily obtained - for example the distance travelled by staff commuting to Cambridge is estimated.

Bass Strait islands

In 2008/09, the greenhouse gas emissions from the Bass Strait islands power supply were around 47 per cent of our total emissions excluding Bell Bay Power Station, at 10 238 tonnes of CO_2 equivalents.

Diesel is used in the Bass Strait islands' electrical power systems. In 2008/09, we reduced our use of diesel fuel by upgrading plant with more efficient diesel units (two on King Island and one on Flinders Island), see figure 28. We also commissioned trials of a resistor bank and upgraded the control system to increase the efficiency of wind generation on King Island.

We developed a plan to enhance the islands' power systems to improve the reliability of the power supply by 2012, and at the same time reduce dependence on diesel by 50 per cent and reduce greenhouse gas emission by greater than 70 per cent. The program includes a project for wind, resistor bank and control system for Flinders Island, as well as more wind capacity and associated integration technology on King Island, and bio-fuel substitution for both islands' power systems. However, these projects are subject to the implementation of Government renewable energy policies and securing capital.

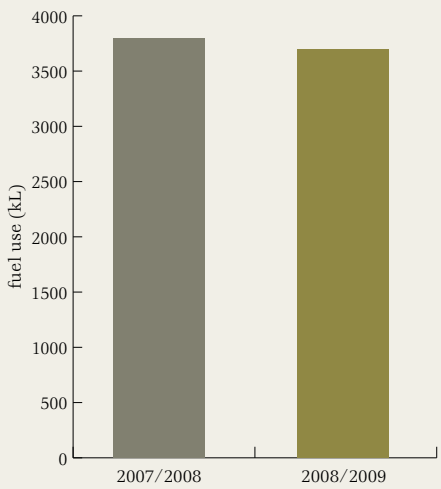


Figure 28: Diesel fuel use for electricity generation on Bass Strait islands

Buildings and facilities

We undertook an energy audit of Hydro Tasmania's building and facilities in 2007/08 which identified opportunities to improve energy efficiency and to reduce energy use, and have begun to capture these opportunities with the result that energy use fell in buildings and facilities this year, see figure 29.

In 2008/09 we installed energy efficient lighting in the Hobart office and encouraged a change in staff behaviour through greater awareness of energy use in our buildings. The biggest contribution was Hydro Tasmania Consulting's Tasmanian staff being together in one building for the first full year after being accommodated in five separate locations. The building at Cambridge is a 5-Star Green Star energy-rated building.

We also obtained a capital allocation for 2009/10 to improve the energy efficiency of our buildings and facilities by implementing local projects to replace or improve inefficient air conditioning and circulation systems, insulation and heaters. We are also encouraging staff to put forward ideas that will result in a reduction in energy consumption.

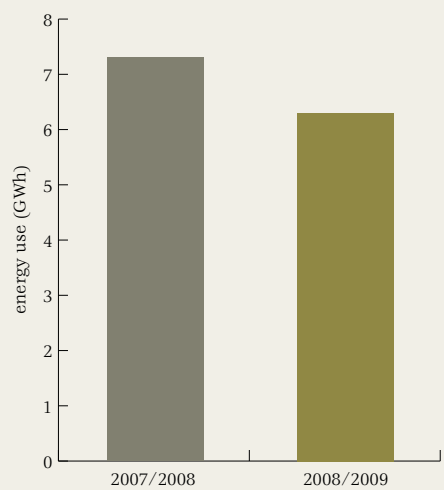


Figure 29: Energy use in buildings and facilities

Vehicle fleet

In 2008/09, Hydro Tasmania continued to replace six-cylinder vehicles in our fleet with four-cylinder vehicles. We also adopted the Tasmanian government minimum standard for vehicle emissions as policy, increased the use of people movers and car sharing for travel, especially in remote areas, and provided driver education to increase awareness of fuel-efficient driving techniques. As a result, the emissions associated with our vehicle fleet have fallen over the year.

Further reductions will come from replacing the remaining eight six-cylinder vehicles within the next two years and providing further driver education to raise awareness of fuel usage, see figure 30. We will also develop further initiatives to increase car sharing.

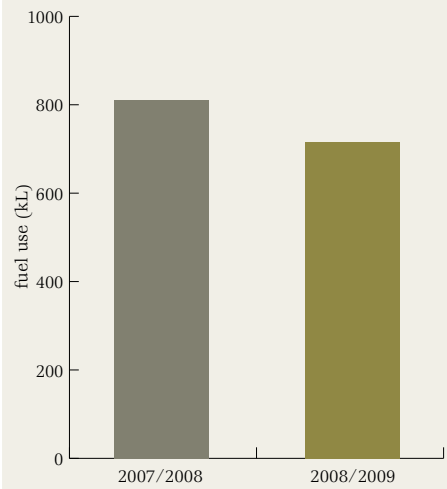


Figure 30: Fuel use for vehicles

Carbon Status

The emissions intensity provides a measure to compare emissions associated with electricity generation. Hydro Tasmania's emissions intensity is shown in Figure 31.[11]

Our 2008/09 data for emissions and energy use will be finalised following verification. The final figures will be published on our web site by December 2009.

The reduction in Hydro Tasmania's carbon intensity this year is predominantly due to the reduced use of our only gas-fired power station at Bell Bay, and its closure in April 2009.

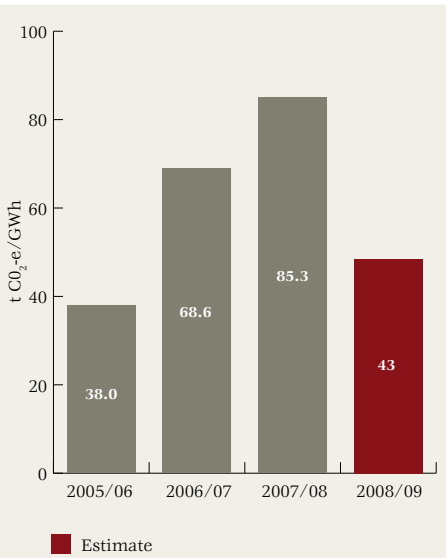


Figure 31: Hydro Tasmania's emissions intensity: tCO_2-e/GWh

[11] *Due to National Greenhouse and Energy Reporting Scheme (NGERS) requirements rolled out in 2008, the way in which we collect, calculate and report our energy and emissions data has been modified from previous years to better align with government regulations. The main changes follow.*

- *We no longer use full fuel cycles when calculating emissions from Bass Strait islands diesel use, Bell Bay natural gas use, whole business electricity use and vehicle fleet fuel use; and*
- *All scope 1 and 2 emissions are reported as required by NGER and the scope 3 emissions that are deemed most critical to the business are also reported. These scope 3 emissions include hire car use, aircraft hire and commercial flights as reported in previous years with the addition of shuttle bus use and staff commuting to the Cambridge office to give the opportunity to reduce these emissions; and*
- *Electricity usage is split between 'buildings and facilities' (which includes all dwellings, offices, communication facilities and other buildings) and 'pumps and power stations'.*

These changes reduce comparability with previous years' reports.

Ken Siddall

Climate change response strategy

Responding to the challenges of climate change is not always about the big issues.

Sometimes it is the little things that count.

On a trip back from Hobart airport late one evening Building Services Officer Ken Siddall noticed Hydro Tasmania Consulting's Cambridge office was lit up like the MCG.

"It seemed like a huge waste when no one was there working. I also knew how much the power bill was so I started looking at how the lights were controlled and came up with the time clock.

This turns off many of the car park lights and will save around 6,500 kilowatt hours of electricity each year, which is equivalent to more than half the annual electricity used in the average Tasmanian home."

The result is a reduction in both the building's power bill and its annual carbon footprint.

Ecosystems and Heritage sustainability summary

Commitments for 2009/10

- Improve ESMS and integrate more with safety system
- Undertake the Basslink monitoring three-year review process for Gordon River
- Finalise protocol for asset maintenance in WHA, adding additional requirements in 2009/10
- Revise the aquatic environment monitoring program to include an assessment of environmental health and to improve reporting
- Initiate the Lagoon of Islands rehabilitation plan
- Review the carbon neutral commitment, boundaries, baseline, scope and targets
- Pursue energy efficiency opportunities
- Improve internal processes for NGERS compliance

Performance against commitments for 2008/09

✓ = complete — = ongoing ✗ = not achieved

Commitment		Progress
Develop new protocol with the Parks and Wildlife Service regarding World Heritage Area management	—	Ongoing. We developed a protocol for asset maintenance incorporating requirements from Tasmania's World Heritage Area Management Plan Review. Further requirements were added after an independent review
Aim to rehabilitate Lagoon of Islands to a wetland state	—	On hold pending a decision on the proposed development of the Ouse-Shannon and Clyde River project which includes Lagoon of Islands
Reduce energy use by 22 per cent from 2005/06 base	—	The result will be confirmed when emissions are verified in October 2009. The result is expected to be close to but short of this target
Start purchasing offsets for Hydro Tasmania Consulting operations	—	Emissions will be calculated and suitable offsets sought for purchase during 2009/10

Our self-assessment for Ecosystems and Heritage performance

Environment and Heritage sustainability performance scores*

	2005	2006	2007	2008	2009
Score	3.3	3.5	3.4	3.4	3.5
Target	-	3.5	3.5	3.8	4.0

Issues that influence the score for 2008/09

↑ = increase

→ = remain the same

↓ = decrease

↑	Great Lake level rose from 16.7 per cent full of energy to 24.7 per cent during the year
↓	Lagoon of Islands water quality conditions remained poor
↑	Developed a plan for recreational access to storages
↑	Completed predictive modelling for Aboriginal heritage value on all Hydro Tasmania lands
↑	Continued improvement in stakeholder relationships and collaboration in key programs such as the community infrastructure plan for the Derwent, Trevallyn algal monitoring and the Didymo working group
↑	Lake Margaret heritage approval – with commendations on quality of applications
→	Maintained ISO14001 certification
→	Undertook annual review and continued to implement Environmental Management Plan
↓	Need for improved planning and management for multiple use and values of land and water assets
↓	Documents for procedures and processes associated with NGERS compliance
↓	Despite the fall in energy consumption, we were behind our overall emissions reduction target for 2008/09
↓	Implementing energy efficiency plans and actions

Lake Rosebery at sunrise

GOVERNANCE

***Sustainability Code:** We govern the business with processes that ensure integration and implementation of our Sustainability Code. We make ethical decisions through the application of our Values and Codes of Ethics within a public reporting framework. We comply with relevant legislative requirements and other commitments.*

Our mission:
Being easy to do business with

Our strategy is to develop effective systems and processes to ensure our decision-making is transparent, ethical and compliant with our policies and the law, and to contribute to our customers' feeling that we are easy to do business with.

Management approach

Our Corporate Governance and Assurance team is responsible for establishing, maintaining and operating a good practice governance framework, and providing the secretariat function to our Board, Board committees and subsidiary companies. This team is also responsible for our internal audit, risk and compliance functions which include procedures for corruption, public policy and anti-competitive behaviour.

It ensures we meet our corporate obligations for risk management compliance, by implementing a comprehensive enterprise risk management plan, audit and compliance programs, liaising with management on appropriate responses, and reporting to the Board's Audit and Business Risk committees.

Hydro Tasmania believes good governance is critical for creating a sustainable organisation and one that is easy to do business with. We are subject to the *Hydro-Electric Corporation Act 1995* and the *Government Business Enterprises Act 1995* (GBE Act) in relation to our governance structure and conditions. We are guided by the *Guidelines for Tasmanian Government Businesses – Corporate Governance Principles,* which were introduced in 2008, in setting our corporate governance direction and maintaining sound practices. See the extra Governance report on page 69.

In the GBE Governance report see:

- Board members – page 72
- Board committees – page 77 and the web site
- Attendance at Board meetings – page 77.

We review our business and its governance structure on an ongoing basis to ensure it is appropriate for the purpose of achieving our business goals.

In 2008/09, the management team continued to refine the alignment of operational planning and business strategy, and made adjustments to the internal structures as required. See more about the management team on page 78.

We also continued to refine and implement our policy framework, which we changed extensively last year. We approved a new Assurance Policy to replace the policies for Integrated Business Risk Management, Compliance and Internal Audit, and to incorporate additional corporate governance principles. We publish the policies and codes that may impact or influence stakeholders (such as those covering bribery and corruption, procurement, environment and ethics) on our web site.

Our certified management systems include the Environment and Sustainability Management System (ESMS) and the Consulting Quality System. Our occupational health and safety system (HydroSafe), the ESMS and the Dam Safety Management system cover staff health and wellbeing, environment and public safety management.

Risk management

The Integrated Business Risk Management (IBRM) system provides the business with a comprehensive and robust risk management framework. In 2008/09, we continued to implement and develop the Cura risk management software system.

This system facilitates the assessment and analysis of risks, the development and implementation of mitigation strategies, and enhanced monitoring and reporting facilities. Its single risk repository has been enhanced by importing risk data from legacy systems, and from risk workshops using conversion tools. For example, we have started to import generic environmental risks into a library within the Cura system to enable assessment and management of environmental risk on a project-by-project basis.

As part of the Cura system implementation, we developed an improved process for identifying and reporting on emerging risks. These are potential risks that are not currently capable of being managed, but that may affect us in the future. When it becomes apparent that an emerging risk needs to be managed, it is transferred into the operational risk register for assessment and ongoing treatment.

We continued training and awareness in risk management during the year in an effort to develop and improve the risk management culture across the organisation. We are making gains in establishing risk management as a routine part of normal activities rather than as an additional process.

Compliance

During 2008/09, we undertook several activities aimed at improving our compliance. These focused on developi and refining the compliance plans for our consulting, generation and trading functions, and general Hydro Tasmani obligations.

Employees responsible for compliance with key obligations – including those related to the environment, trading, tr practices, dam safety and occupational health and safety – undertake regular training to ensure they understand the obligation to report breaches. In additi those responsible for managing the incident reporting systems are workin together to eliminate duplication and u consistent terminology and data.

Hydro Tasmania maintains a register breaches of compliance with our exter legislative obligations and our internal obligations. All breaches are reported regularly to the Executive Leadership Team, Audit Committee and the Board For some specific obligations, immedia reporting of breaches is required unde individual policies and processes.

Greg Blake at the Mackintosh Diversion Tunnel

A project is under way to examine the possibility of amalgamating the various incident management processes into one overarching system. This would include reporting of external (including regulatory) and internal compliance breaches.

In relation to Gordon River and compliance with Basslink conditions of our water licence, we consulted with the Department of Primary Industries, Parks, Water and Environment and the wording of the ramp down rule has been changed to eliminate ambiguities and complications in the existing rule. We partly resolved the inadequacies in our compliance system, but we need to do further work.

Breaches

During the year, 51 breaches of internal and external obligations were recorded. However, none were of major significance and we did not incur any fines or payments in relation to these breaches.

All matters have been or are being addressed by remedial actions or as part of a planned or continuing work program in consultation with the appropriate authorities.

Sustainability

Our people are committed to creating a sustainable future. The Sustainability Code guides sustainability practice in business planning and processes.

The Board's Environment and Sustainability Committee has responsibility for the oversight of the management of the Sustainability Code and other sustainability activities.

The self-assessment continues to be an internal guide to our performance which we are committed to reporting publicly. The result for 2008/09 was 3.6 overall, a slight increase on last year's result. See the results by sustainability principle in figure 32.

See the summary table for the issues that influenced the score on pages 17-18.

The challenge to embed sustainable practices into our business remains. We have been relying on the awareness raised by the annual self-assessment of sustainability performance to achieve this, and progress has been slow with small incremental steps each year.

During 2009 we took a more strategic approach and used our sustainability principles as the foundation for the strategy planning process for 2009/10. Hydro Tasmania aims to align the vision, mission, sustainability code and strategy to fully integrate sustainability into business planning. This will remain a step-by-step journey as we refine our approach. We will also take a different approach to the way we review the year's assessment within the business to provide a greater focus and link to

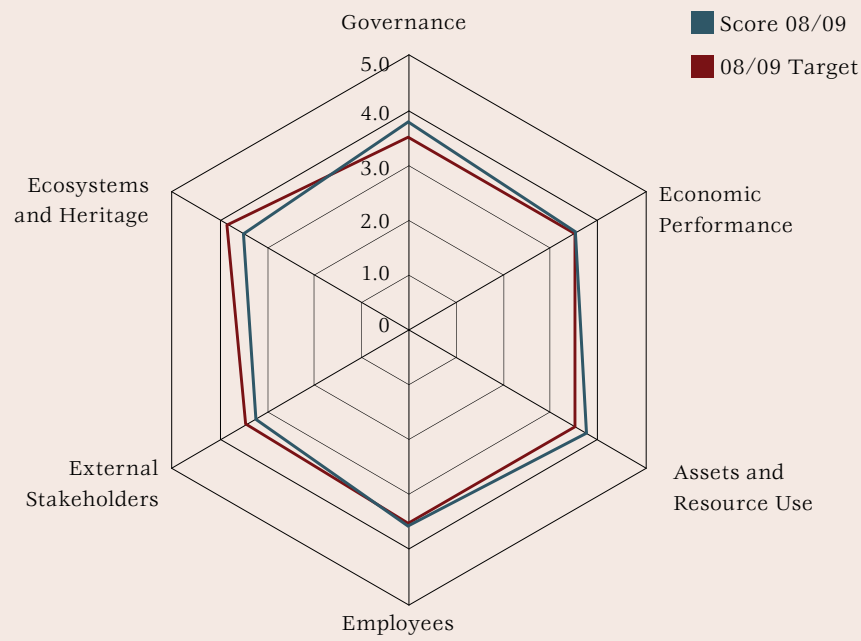


Figure 32: Spidergram of sustainability self-assessment results by sustainability principle

For more information on the self-assessment process and how we score, please see our web site.

GRI Application

Hydro Tasmania has assessed its G3 application level at B+ using the GRI standard disclosure table. Banarra Sustainability Assurance and Advice provides an affirming opinion of this rating (page 16). A short version of the GRI reference index is shown on page 143. Deviations from GRI protocols and information restatements are noted in a detailed reference available on the Hydro Tasmania web site: www.hydro.com.au/sustainability

Governance sustainability summary

Commitments for 2009/10

› Implement Hydro Tasmania's governance processes and policies in the Momentum Energy business, recognising the cultural differences

Performance against commitments for 2008/09

✓ = complete — = ongoing ✗ = not achieved

Commitment	Progress
Conduct a review of the Board committee framework	✓ Complete. Committees were retained; terms of reference for each committee were revised and approved by the Board
(Commitment made in 2006/07) Develop and implement code of ethics – code developed in 2007/08	✓ Complete. Code implemented in 2008/09 with a whistleblower procedure

Our self-assessment for Governance

Sustainability performance scores*

	2005	2006	2007	2008	2009
Score	3.3	3.5	3.4	3.5	3.8
Target	-	3.5	4.0	3.5	3.7

Issues that influence the score for 2008/09

↑ = increase → = remain the same ↓ = decrease

↑	Completed a review of the Board committee framework. Terms of Reference for each committee were revised and approved by the Board
↑	Code of ethics was rolled out in the first six months of the year. We also provided employees with a clear understanding of the whistleblowing process for raising concerns and issues in a confidential manner and without reprisal
↓	Building sustainability awareness within the organisation continues to be a challenge
→	No material change in the level or nature of compliance breaches
→	Continued our review of business policies and processes
→	Maintained our compliance system

CORPORATE GOVERNANCE

***This Governance section is included in the Annual Report according to the* Guidelines for Tasmanian Government Businesses – Corporate Governance Principles, *which was introduced in 2008 and issued under the* Government Business Enterprises Act 1995.**

The Hydro Tasmania Board has adopted high standards of corporate governance which it believes are essential to its objective of maximising a long-term and sustainable return to its shareholder, the Government of Tasmania. It has adopted an approach to good practice corporate governance to provide ethical and transparent oversight and direction in accordance with its obligations under the *Government Business Enterprises Act 1995* (GBE Act) and to meet the Guidelines for Tasmanian Government Businesses.

Corporate Governance Principles

Against this background, the Corporation has articulated the following Corporate Governance Principles, which generally reflect the established corporate governance principles which have evolved in the Corporation over a number of years.

The Corporation will:

(i) recognise and respect the rights of the Corporation's owner, the State of Tasmania, and facilitate the effective exercise of those rights

(ii) recognise and respect the legitimate interests of all stakeholders in the wider community and the legal and other obligations which the Corporation has to them

(iii) ensure there is a solid foundation for management and oversight of the Corporation by clearly defining the roles and responsibilities of the Board and of management in a way that enables these principles to be carried through the entire organisation

(iv) recommend appointments to the Board so as to add value and maintain a Board of balanced composition for knowledge of business requirements, size and commitment to adequately discharge its duties and responsibilities

(v) promote responsible and ethical decision-making and behaviour

(vi) make timely and balanced disclosure to the shareholder of all material matters concerning the Corporation

(vii) safeguard the integrity of the Corporation's financial reporting

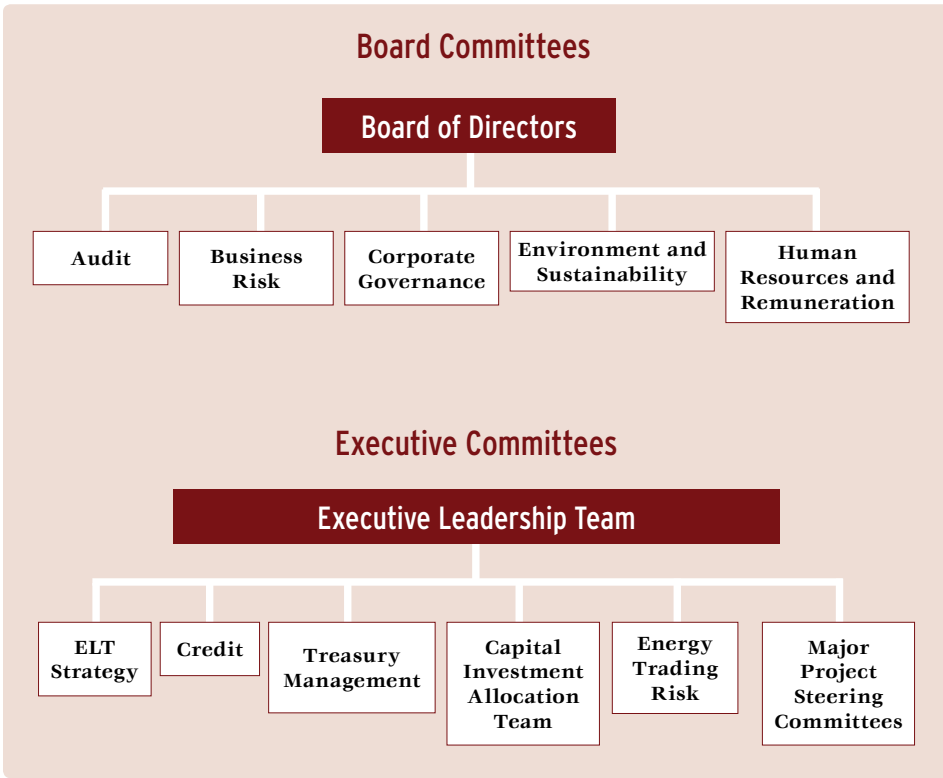
(viii) anticipate, recognise and manage business risks

(ix) encourage enhanced performance at all levels in the Corporation

(x) remunerate employees of the Corporation fairly and responsibly

(xi) ensure compliance with all statutory and other regulatory obligations.

Corporate Governance Framework



Post-tension cable bundle for Catagunya Dam

Hydro Tasmania is Australia's major generator of renewable energy through hydro sources and is the largest generator of electricity to the Tasmanian market.

It supplies electricity into the National Electricity Market (NEM) and is the largest generator of electricity to the Tasmanian region. There is competition from a gas-fired generator in Tasmania and generators in other NEM regions. Hydro Tasmania joined the NEM in 2005, and the Basslink underwater electricity cable connecting the Tasmanian region to the national grid was completed in 2006. It also has an interest in an electricity retailed in Victoria.

The GBE Act requires the Corporation to act commercially. The principles and practices applying to its corporate governance are set out in that Act. Where the GBE Act is silent the Corporation adopts those that are applicable to its unique operations which arise from the Corporations Law, the Guidelines for Tasmanian Government Businesses and from material cases that are determined from time to time on issues of corporate governance.

There are increasing community expectations about the governance and operation of corporations generally and, because the Corporation is owned by the Government of Tasmania, those expectations may differ from those applying to listed public companies and must still be of the highest standard.

The performance of the Corporation is subject to public scrutiny in Parliament on a continuing basis.

There are clear linkages between the interests of the Government as shareholder, the Board of the Corporation, its management, customers and the wider community. The Corporation has played a significant role in Tasmania's long-term development and there are community and political perceptions and expectations about the Corporation that do not apply to other government business enterprises or listed public companies in Tasmania.

Because the Corporation, under special legislation, is also a major water manager in the State of Tasmania and its activities interface with environmental and other public interest issues, the risks to the Corporation associated with corporate governance are commensurately higher.

Pipeline from Wilmot Power Station

Development of Corporate Governance Principles

The corporate governance principles adopted by the Corporation have been developed within the above framework so as to:

(i) reflect the accountabilities to the owners, the external stakeholders and the employees of the Corporation

(ii) be consistent with the statutory obligations, regulations and the Treasurer's Instructions, the Ministerial Charter, the Corporate Plan and the Corporation's published values

(iii) be capable of implementation on a continuing basis, evolving with community expectations and legal decisions and be able to stand up to public scrutiny

(iv) support, rather than restrain, the Corporation in meeting its commercial obligations

(v) facilitate the Corporation in achieving its financial and operating targets

(vi) be commonsense guidelines that do not cause the Board in its strategic role or the management in its operational role to be overburdened with regulatory and bureaucratic processes but in doing so must put process before outcome

(vii) recognise that, regardless of the written "regulations and rules" of corporate governance, the effective operation of the Corporation depends upon continuing personal relationships, "the chemistry" of the key people involved.

The Board

Membership

The board consists of 7 directors: the chair, 5 non-executive directors and one executive director of whom six are deemed independent (see Independence section page 74).

The board continually assesses its composition in terms of the skills and diversity required to ensure it remains relevant in the current environment.

The periods that the chair and each director have held office as at 30 June 2009 are:

D Crean	4 years 9 months
V Hawksworth	2 years 11 months
M Cavell	2 years 8 months
S Eslake	1 year 3 months
S Farrier	4 years 7 months
J Healey	6 years 10 months
S Kalinko	2 years

Dr David Crean (58) was appointed a director of the Hydro-Electric Corporation on 12 July 2004 and chairman on 27 September 2004.

Dr Crean 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 degrees from Monash University.

Vince Hawksworth (50) 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. Mr Hawksworth is Chairman of Roaring 40s and a Director of Momentum Energy Pty Ltd.

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

Michael Cavell (59) was appointed to the Board on 6 November 2006.

Mr Cavell is Chairman of Unidel Pty Ltd, a company providing professional services to the energy and infrastructure industries. He has extensive energy industry experience in Australia and the United States and has held positions as CEO of Enertrade, Managing Director of Duke Energy's Asia Pacific operations, and Managing Director of PG&E Corporation's Australian business. Prior to coming to Australia, Mr Cavell worked in the United States in senior positions for companies involved in oil and gas exploration and production and natural gas pipelines.

Mr Cavell has a Bachelor of Science degree and a Doctor of Jurisprudence.

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

Mr Eslake is Program Director (part-time) at Grattan Institute, a Director of Corinna Economic Advisory Pty Ltd and a consultant/ freelance economist. He was previously Chief Economist of Australia & New Zealand Banking Group (ANZ) for 14 years to July 2009. He is Chair of the Tasmanian Arts Advisory Board and a non-executive Director of the University of Tasmania Foundation, as well as a member of the Commonwealth Government's National Housing Supply Council, National Long Term Tourism Strategy Steering Committee, and Tourism Forecasting Committee. He holds an Honours degree in Economics from the University of Tasmania and a post-graduate Diploma in Applied Finance and Investment, and has completed the Senior Executive Program at the Columbia University Graduate School of Business in New York.

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

Sally Farrier (45) was appointed to the Board on 13 December 2004.

Ms Farrier has 20 years experience in advising governments and corporations on industry restructuring and privatisation, economic regulation, and strategic business and risk allocation issues. She commenced her career as a consulting engineer and subsequently moved to management consulting and corporate advisory, specialising in the utilities industry. She is a director of Farrier Swier Consulting, a National Water Commissioner, a member of the Victorian Water Trust Advisory Council, and a member of the Victorian Western and Gippsland Region Sustainable Water Strategy Independent Panels.

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 (50) 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. Ms Healey has a strong history of community and commercial involvement in Tasmania as a member of the University of Tasmania Council Audit and Finance Committee, Treasurer of the Launceston Chamber of Commerce, Director of the Inveresk Railyard Development Authority, Director of the Female Factory Historic Site Ltd in Hobart and Director and Chair of the Audit Committee of the Port of Launceston Pty Ltd. She is a director of the Tasmanian Electronic Commerce Centre Pty Ltd.
Ms Healey is a Fellow of the Taxation Institute of Australia, and Fellow of the Institute of Chartered Accountants.

Stan Kalinko (67) 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, takeovers and mergers and acquisitions with broad experience over a number of industries. He commenced his career in South Africa and for 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 Tax and is an accredited mediator.

Induction, Education and Training

New directors receive a comprehensive induction package and program, including meetings with senior executives to provide up-to-date information on the operations and processes of the Corporation. All directors receive appropriate ongoing training and education on the Corporation's business, the industry and the environment in which it operates and may undertake such external training and education suitable to their role and responsibilities in the Corporation as required. The induction, training and education process meets the Guidelines for Tasmanian Government Businesses.

There has been no new director appointed during the reporting period.

Independence

The test of director independence follows key criteria:

- independence from management
- appointment by recommendation of the Board in accordance with the GBE Act and the Guidelines for Tasmanian Government Businesses
- an absence of any business relationship or affiliation which could materially interfere with a director's independence of judgement and ability to provide a strong, valuable contribution to the Board's deliberations, or
- interfere with a director's ability to act in the best interest of the Corporation.

The Board is satisfied that there is a majority of independent non-executive directors on the board: Michael Cavell, Saul Eslake, Sally Farrier, Janine Healey and Stan Kalinko.

Dr David Crean, who was appointed as chair in 2004, is classified as an independent non-executive chair and is appointed to the position in accordance with the GBE Act.

The Board has one executive director, Vince Hawksworth, who is also Chief Executive Officer.

Directors' declarations of interest

The GBE Act sets out specific criteria for the declaration of interests. The Board also has a written process for the declaration of interests. The Board has in place procedures for ensuring that its powers to authorise any conflicts operate effectively. This includes directors acting in the capacity of non-executive or executive director or executive of other government or non-government enterprises. For this purpose, a register of declarations of interest and conflicts and any authorisation is maintained by the Corporation Secretary and reviewed by the Board monthly. It is also provided to the Portfolio Minister and the Treasurer in accordance with the GBE Act.

Where contracts in the ordinary course of business exist between Hydro Tasmania, an individual or a company and in which a director has declared a direct or indirect interest, these are reviewed on the materiality to both the Corporation and the other party to the contract. The Board does not have a quantitative test for materiality but takes all circumstances into account when applying it and the other criteria.

Appointment

Non-executive directors and the Chair are appointed in accordance with the requirements of the GBE Act and the Guidelines for Tasmanian Government Businesses. Their appointment is for a term of up to three years. Non-executive directors, except in special circumstances, would not normally serve more than three such terms.

The Chief Executive Officer is also appointed to the position in accordance with the requirements of the GBE Act and the 'Guidelines for Tasmanian Government Businesses' on the recommendation of the Board. The appointment is for a term of up to five years and if also appointed as a director of the Corporation, shall retain the directorship for the period of the appointment as Chief Executive Officer.

Chair and chief executive

The roles of the chair and chief executive are separate and the division of their respective responsibilities has been formally approved by the Board.

Roles and Responsibilities of the Shareholder, Board and Management

The corporate governance principles have regard to the respective roles and responsibilities of the Government of Tasmania as shareholder; the Board as custodian of the business; the Chairman as leader of the Board; the CEO as the key linkage between Board and management and the Corporation Secretary in ensuring the implementation of Board directives and good governance throughout the Corporation. More detail of the roles and responsibilities of the Board and management can be found on our web site.

The Shareholder

In fulfilling its obligations the Board of the Corporation expects that the Government of Tasmania as owner will:

(i) provide the Corporation with clear indication of its expectations about the Corporation's objectives, targets and performance (the Corporation may provide advice to the shareholder about the objectives and parameters)

(ii) ensure that the responsible Minister and where appropriate the Treasurer meet on a regular basis with the Chairman or any other member of the Board delegated for a particular purpose to review and, if necessary, amend the objectives and targets and to define the parameters within which the Corporation may operate

(iii) provide the Board with its reaction to the Corporate Plan and any changes proposed to it in a timely manner

(iv) be clear about any prohibitions regarding the Corporation's future directions

(v) inform the Board of any changes in the direction it wishes the Corporation to pursue within the framework of the GBE Act.

The Board

The Board of the Corporation must take note of the Shareholder's objectives and advise the Shareholder of any inconsistencies with the policies and decisions of the Shareholder which may limit the ability of the Corporation to meet its objectives.

The Board has an obligation to advise the Shareholder of any actual or anticipated restraints on achieving the Corporation's objectives or targets.

The fundamental constraints on the Corporation are:

(i) it will not do anything unlawful

(ii) it will not take any commercial or operational decision that exposes the assets or income of the Corporation to an unacceptable level of risk

(iii) it will not act outside its charter without specific approval of the Shareholder.

The role of the Board is, inter alia, to interact with Management in determining strategy, and to oversee, monitor and provide direction to management of the Corporation. It shall ensure that the relationships between the key parties are working effectively in the Corporation's interests. Each Board member has an obligation to raise any relevant issue of strategy, policy, management or compliance.

The Board's responsibilities include:

(i) interaction with Management in determining the business strategy of the Corporation

(ii) ensuring that the business and affairs of the Corporation are managed in a manner that is in accordance with sound commercial practice

(iii) monitoring the Corporation's performance and the implementation of the strategy

(iv) setting the policy framework for the Corporation's operations

(v) advising the Shareholder on a frequent and regular basis on the Corporation's strategic directions

(vi) ensuring compliance with all statutory requirements and regulations as well as the Treasurer's Instructions in relation to the performance of the Corporation, including the Board

(vii) recommending to the Minister in the case of appointment of the CEO; and the Minister and the Treasurer in the case of directors (through the Director Selection Advisory Panel) suitable persons to the respective appointments.

The Chairman

The Chairman of the Corporation is responsible for providing leadership to the Board and for representing the Corporation in statutory relations with the Shareholder, including accounting to the Parliament and the public.

A key relationship exists between the Chairman and the CEO and neither person should act in a way that prejudices or detracts from the effective professional working of that relationship. A key role of the Board is to be satisfied that the relationship is working to the benefit of the Corporation and the Shareholder.

The Chairman and CEO shall manage the Corporation's external relations so as to maintain the profile of the Corporation and a reputation for integrity and competence.

The Chairman, in conjunction with the Corporation Secretary, is responsible for arranging Board meetings and ensuring the appropriateness of the agenda for those meetings and of the operations of the Board Committees.

The Chief Executive Officer

The CEO is the key linkage between the Board and management of the Corporation.

The role of the CEO is to:

(i) administer the Corporation so as to meet the agreed objectives and targets

(ii) ensure the Board is fully and frankly advised on any material issues that might affect the performance of the Corporation

(iii) appoint the senior management of the Corporation and to report regularly to the Board on their performance

(iv) ensure the Corporation meets all its statutory obligations

(v) in conjunction with the Chairman, publicly represent the Corporation.

Management

Part 5 of the *Government Business Enterprises Act 1995* imposes certain statutory duties upon officers of the Corporation. An 'officer' is defined to include a person who is concerned with, or takes part in, *the management* of the Corporation (Section 3) (emphasis added). Subject to the overall supervision of the Board and its Committees, the management must ensure it complies with those duties, and other general law duties, in meeting its day-to-day responsibility to manage and operate Corporation resources in accordance with the delegated authority of the Board.

The role of Management is, under the general direction of the CEO, to:

(i) manage the day-to-day operations of the business in accordance with the delegated authority of the Board

(ii) be actively involved in forecasting, establishing objectives and developing strategies, plans and budgets to reach those objectives, including establishing policies and procedures in support of these

(iii) implement decisions and policies within specific areas of responsibility

(iv) act in accordance with the law and with policies, systems and procedures set down by the Board

(v) keep the Board informed with details of the performance of the business against the Board's strategies and targets

(vi) ensure compliance with the requirements of laws, regulations, industry codes, contractual obligations and organisational policies and standards

(vii) implement and maintain a sound risk management framework within the business

(viii) incorporate monitoring and review mechanisms at the operational and project levels within the business

(ix) keep themselves informed and educated, in detail, in relation to the business of the Corporation

(x) clearly understand, support and act in accordance with the vision/mission, goals, values and ethics of the business

(xi) have a clear understanding of the objectives and KPIs of the business

(xii) ensure measures and systems are in place that alert the Board to changes in business conditions and performance in a timely manner to enable effective response(s)

(xiii) have a commitment towards achieving/improving commercial and environmental performance levels of the business, whilst exercising sound business judgment

(xiv) with the Board, have regard to the need for succession planning within the business.

Evaluation of the Board, Board committees and the Executive

The Board and Board committees undertake evaluation of their performance on a yearly basis.

For the Board, this may take the form of a detailed questionnaire provided to directors inviting a response and comment on a number of areas, including Board dynamics and composition, capability, process, corporate governance, strategic alignment, and the performance of individual directors and the Chair. The Board also conducts an external evaluation of its performance every three years. This is usually more comprehensive and covers each of the areas covered by the annual questionnaire but incorporates one-to-one and full board sessions conducted by an independent and suitably qualified external party. Annual performance evaluation of individual directors is undertaken by the Chair and their peers. The Chair's performance is similarly evaluated by the directors.

For the Board committees, a similar questionnaire is produced and provided to each committee member for response and comment. These committee questionnaires cover a number of areas, including the role and responsibilities of the committee, its organisation and effectiveness and the appropriateness of its membership. Some committees may defer an annual process and pursue a less formal approach due to their meeting on a minimal as-required basis rather than set periods.

The results of the questionnaires are collated and presented back to the Board or committee as the case may be. The Board has the availability to scrutinise the process and results of committee evaluations. Any actions resulting from the evaluations are agreed and implemented in normal course.

The Chief Executive Officer's annual performance review is conducted on a number of Board-agreed criteria by a Chair-selected committee comprising three directors who may vary from year to year. The Portfolio Minister is advised of the results of the CEO's evaluation and any particular issues arising from the Board and committee evaluations.

Senior executives receive an annual performance evaluation undertaken by the CEO which is set on the financial performance of the Corporation, performance of their direct reporting groups and accomplishment of individual agreed criteria.

Board and Board committee self-assessment evaluations and CEO and senior executive performance evaluations as described above were conducted during the reporting period.

Board committees

There are five Board committees: *Audit, Business Risk, Corporate Governance, Environment and Sustainability and Human Resources and Remuneration*. Each committee plays a vital role in ensuring that high standards of corporate governance are maintained throughout the Corporation. Committee terms of reference are reviewed annually by the committees and the Board to ensure they continue to be at the forefront of best practice. These can be viewed in the corporate governance section of the web site. Minutes of all committee meetings are made available to the Board and the chair of each committee reports verbally to the next Board meeting immediately following a committee meeting. The Board does not have a specific Nominations committee. Director and CEO nominations, composition of the Board in terms of the skills and diversity, selection criteria, and evaluation of candidates are carried out by the Board as a whole.

The Board, Board committees and individual directors (with Chair approval) have the availability, at the expense of the Corporation, to seek independent professional advice on any matters in relation to the exercise of their duties and responsibilities.

Committee membership

Audit committee	Business Risk committee	Corporate Governance committee	Environment and Sustainability committee	Human Resources and Remuneration committee
Janine Healey *	Michael Cavell *	Dr David Crean *	Stan Kalinko *	Stan Kalinko *
Dr David Crean	Sally Farrier	Michael Cavell	Michael Cavell	Dr David Crean
Saul Eslake	Saul Eslake	Stan Kalinko	Sally Farrier	Janine Healey
Sally Farrier	Vince Hawksworth	Vince Hawksworth	Vince Hawksworth	Vince Hawksworth

** committee chair*

Directors' attendance at board and committee meetings during 2008/09

	Board (regular and special meetings)		Audit committee		Business Risk committee		Corporate Governance committee		Environment and Sustainability committee		Human Resources and Remuneration committee	
	A	B	A	B	A	B	A	B	A	B	A	B
Dr David Crean	13	12*	5	4*			2	2			3	3
Michael Cavell	13	13			4	4	2	2	4	4		
Saul Eslake	13	13	5	5	4	4						
Sally Farrier	13	13	5	5	4	4			4	4		
Vince Hawksworth	13	13			4	4	2	2	4	4	3	3
Janine Healey	13	13	5	5							3	3
Stan Kalinko	13	13					2	2	4	4	3	3

Notes

A = Maximum number of meetings the director could have attended.

B = Number of meetings attended (leave of absence granted).*

Executive Leadership Team, from left, Evangelista Albertini, Scott Baddiley, Pat Lennon, Stephen Davy, Vince Hawksworth, Lance Balcombe, Simon Krohn, Andrew Catchpole and Alan Evans

Management

On behalf of the Board, the Chief Executive Officer has delegated authority for the day-to-day management of the Corporation's operations. The Chief Executive Officer is assisted by the work of management committees in monitoring performance and achieving Hydro Tasmania's strategy.

Executive Leadership Team

The *Executive Leadership Team* is responsible, under the stewardship of the Chief Executive Officer, for the day-to-day management of the business, setting performance targets and determining the Corporation's strategy and direction for endorsement by the Board. The members of the committee are: the Chief Executive Officer, the General Manager Business Development, the General Manager Business Performance, the General Manager Communications and External Relations, the General Manager Consulting, the General Manager Corporate Governance and Corporation Secretary, the General Manager Generation, the General Manager Strategy and Finance and the General Manager Trading.

Members of the Executive Leadership Team represent Hydro Tasmania on the Boards and management committees (as the case may be) of the Corporation's subsidiaries, controlled entities and incorporated and unincorporated joint ventures. The specific expertise of the Hydro Tasmania executives in these positions adds a high degree of value to the strategic governance of these undertakings.

Business Development

General Manager, Pat Lennon:

Business Development is responsible for new business growth, core asset strategic assessment, delivery of business development-related strategic projects, and management of strategic investments, including Roaring 40s. Business Development also facilitates Hydro Tasmania's research and development program, investigates new renewable technology opportunities, and facilitates identification and implementation of projects to optimise the use of Hydro Tasmania's water resource. Its general business model is to collaborate with all Hydro Tasmania business units to build project-specific, cross-functional teams comprising the best experience and expertise to deliver projects.

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. The team is integrating customer-focused strategies for information management, human resource management, safety, field 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, environmental policy and programs and a regulatory environment that minimises market risk.

Consulting

General Manager, Scott Baddiley:

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's Board, Board committees and subsidiary companies. The team encompasses the Assurance group - a consolidation of the internal audit, risk and compliance functions formed in September 2006. The Corporate Governance team 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, innovative 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. The Generation team is focused on growing its people, being responsive to whole-of-business requirements, understanding the condition, performance and risks associated with the generating asset portfolio and developing a continuous improvement and 'no harm' culture.

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. The team leads 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 NEM. The team meets the needs of Hydro Tasmania's customers for energy contracts and renewable energy products and manages water storages. The team works with Hydro Tasmania's network service providers, Basslink Pty Ltd and Transend Networks Pty Ltd, to ensure product delivery, and with regulators and AEMO to ensure Hydro Tasmania is not disadvantaged in the market.

Ethics and Whistleblowing

The Board has adopted a Code of Ethics which incorporates a whistleblowing program. The Code sets out the standards by which the Corporation will make its decisions and conduct its business.

Employees are encouraged to report any concerns, including any suspicion of a violation of practices and process, through the independence of the Corporation Secretary or the State Ombudsman without fear of recrimination. A process has been established for the investigation of any matters reported.

Dealing in third party securities

Hydro Tasmania has a set of rules which restricts the dealing in securities by directors and employees of any listed third party due to access to "inside information". These rules require those people to seek clearance from the Corporation Secretary before any proposed dealing to ensure that they do not deal when in possession of inside information.

Auditors and internal assurance

Auditor independence

Hydro Tasmania's annual financial report is audited by the Auditor-General of Tasmania. The Auditor-General has the ability to appoint independent commercial audit firms (principal auditors) to carry out his external financial audit responsibilities on his behalf. Hydro Tasmania upholds the Auditor-General's principle of independence of the appointed firm by prohibiting their engagement, unless pre-approved by the Auditor-General, to provide accounting and other professional services that might compromise their appointment as his independent principal auditor.

The Auditor-General manages the financial audit work conducted by his appointed principal auditor and retains the responsibility for audit completion.

Hydro Tasmania appoints other auditors to provide other statutory audit services, other services pursuant to legislation, taxation services and certain other services including consulting and internal audit services.

The Auditor-General has established a policy whereby the principal auditor will rotate every five years or the audit of Hydro Tasmania's annual financial report will be conducted by the Tasmanian Audit Office.

Corporate Assurance

The Corporate Assurance function provides independent and objective assurance on the adequacy and effectiveness of the Corporation's systems for compliance and risk management, internal control and governance, together with ideas and recommendations to improve those systems. The function has adopted international good practice in governance, risk and compliance from such bodies as Chartered Secretaries of Australia and auditing standards set by the Institute of Internal Auditors Inc.

The function operates independently of management (other than administrative oversight), under the Board-approved Assurance Policy and has full access to all functions, records, property and personnel of the Corporation. The functional reporting is to the Audit committee (internal audit and compliance) and the Business Risk committee (risk) providing each committee with information relevant to its specific terms of reference.

A risk-based approach is used to focus assurance activities on high-risk areas and the internal audit plan is presented annually to both committees for consideration and approval at the Audit committee.

The internal audit function is provided by Hydro Tasmania employees and outsourced accredited audit firms (other than the principal auditor). Conflicts of interest in relation to management requested engagements of internal audit are carried out in compliance with the Institute of Internal Auditors' International Standards on independence. The Audit committee may restrict services of this type.

FINANCIAL REPORT

CONTENTS

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2009

	NOTE	CONSOLIDATED		PARENT	
		2009	2008	2009	2008
		$'000	$'000	$'000	$'000
Revenue	2(a)	625,737	470,008	535,451	395,116
Operating expenses	2(b)	498,875	429,325	397,357	365,398
Finance costs	2(c)	86,684	95,663	86,674	95,663
Share of loss of joint venture entities	31	2,092	3,022	-	-
Total expenses		587,651	528,010	484,031	461,061
Profit (loss) before fair value movements and share of profit of joint venture from asset sale		38,086	(58,002)	51,420	(65,945)
Fair value gains	2(d)	373,090	282,187	380,867	282,187
Share of profit of joint venture from asset sale	31	6,715	-	-	-
Profit before income tax equivalent expense		417,891	224,185	432,287	216,242
Income tax equivalent expense	4(a)	126,685	65,264	131,422	61,726
Net profit for the year		291,206	158,921	300,865	154,516

The Income Statement is to be read in conjunction with the notes to and forming part of the Financial Report included on pages 86 to 135.

BALANCE SHEET
AS AT 30 JUNE 2009

	NOTE	CONSOLIDATED		PARENT	
		2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets					
Cash and cash equivalents		4,315	1,504	595	1,419
Receivables	6	154,356	59,997	143,634	52,863
Investments	7(a)	26,247	91,798	25,690	91,798
Inventories	8	51,815	18,363	51,811	18,363
Tax refund receivable		16,948	14,792	16,948	14,792
Assets held for sale	9	-	18,118	-	18,118
Other financial assets	11(a)	166,005	62,975	182,878	79,599
Total current assets		419,686	267,547	421,556	276,952
Non-current assets					
Investments	7(b)	122,826	108,464	187,928	118,567
Property, plant and equipment	10	4,146,346	4,056,372	4,143,481	4,053,783
Other financial assets	11(b)	476,245	413,224	475,881	413,122
Goodwill	12	47,796	-	-	-
Total non-current assets		4,793,213	4,578,060	4,807,290	4,585,472
TOTAL ASSETS		5,212,899	4,845,607	5,228,846	4,862,424
Current liabilities					
Payables	13	171,576	67,333	162,467	59,056
Interest-bearing liabilities	14(a)	146,241	66,166	146,241	66,166
Provisions	15(a)	70,384	43,030	70,094	43,009
Other financial liabilities	16(a)	152,916	153,941	154,657	169,271
Total current liabilities		541,117	330,470	533,459	337,502
Non-current liabilities					
Interest-bearing liabilities	14(a)	794,994	905,208	794,994	905,208
Deferred tax liabilities	4(c)	677,681	559,033	691,296	569,614
Provisions	15(b)	295,195	280,563	289,837	275,731
Other financial liabilities	16(b)	1,238,430	1,373,893	1,236,665	1,373,893
Total non-current liabilities		3,006,300	3,118,697	3,012,792	3,124,446
TOTAL LIABILITIES		3,547,417	3,449,167	3,546,251	3,461,948
NET ASSETS		1,665,482	1,396,440	1,682,595	1,400,476
EQUITY					
Contributed Equity	18	270,000	270,000	270,000	270,000
Reserves	19	(9,720)	12,694	(9,640)	12,687
Retained earnings		1,405,202	1,113,746	1,422,235	1,117,789
TOTAL EQUITY		1,665,482	1,396,440	1,682,595	1,400,476

The Balance Sheet is to be read in conjunction with the notes to and forming part of the Financial Report included on pages 86 to 135.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2009

	NOTE	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	PARENT 2009 $'000	PARENT 2008 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Inflows:					
Receipts from customers		596,010	544,130	497,546	461,019
Operating grants and subsidies received		8,530	9,525	8,530	9,525
Interest received		4,252	3,657	4,224	3,657
Outflows:					
Payments to suppliers and employees		(499,359)	(453,136)	(397,098)	(361,242)
Interest paid		(61,113)	(73,640)	(61,780)	(73,640)
Government guarantee fee		(4,477)	(5,579)	(4,477)	(5,579)
NET CASH PROVIDED BY OPERATING ACTIVITIES	5(b)	43,843	24,957	46,945	33,740
CASH FLOWS FROM INVESTING ACTIVITIES					
Inflows:					
Proceeds from sale of property, plant and equipment		15,659	33,074	15,659	32,834
Proceeds from loan to associate		1,026	1,532	1,026	1,532
Proceeds from financial derivatives		10,838	13,598	10,838	13,598
Outflows:					
Investment in joint venture		(10,000)	(23,000)	(10,000)	(23,000)
Loan to subsidiary		-	-	(5,000)	-
Business acquisition	33	(17,763)	-	(17,763)	-
Payments for property, plant and equipment		(78,032)	(51,274)	(78,454)	(49,724)
NET CASH USED IN INVESTING ACTIVITIES		(78,272)	(26,070)	(83,694)	(24,760)
CASH FLOWS FROM FINANCING ACTIVITIES					
Inflows:					
Proceeds from Tascorp loans		-	235,000	-	235,000
Equity contribution received (i)		-	50,000	-	50,000
Cash balances aquired in business acquisition		7,037	-	-	-
Outflows:					
Repayments of Tascorp loans		(30,000)	(242,200)	(30,000)	(242,200)
Repayment of shareholder loans of acquired business		(5,165)	-	-	-
Repayment of finance lease		(183)	-	(183)	-
NET CASH (USED IN)/PROVIDED BY FINANCING ACTIVITIES		(28,311)	42,800	(30,183)	42,800
NET (DECREASE)/INCREASE IN CASH		(62,740)	41,687	(66,932)	51,780
CASH AT BEGINNING OF THE YEAR		93,302	51,615	93,217	41,437
CASH AT END OF THE YEAR	5(a)	30,562	93,302	26,285	93,217

(i) On 30 June 2008, the Corporation also received an equity contribution of $220 million by way of novation of Tascorp loans (refer note 18).

The Statement of Cash Flows is to be read in conjunction with the notes to and forming part of the Financial Report included on pages 86 to 135.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2009

	NOTE	CONSOLIDATED		PARENT	
		2009 $'000	2008 $'000	2009 $'000	2008 $'000
CONTRIBUTED EQUITY					
Balance at the beginning of the year		270,000	-	270,000	-
Equity contributions from the State of Tasmania		-	270,000	-	270,000
Balance at the end of the year	18	270,000	270,000	270,000	270,000
RESERVES					
Derivative revaluation reserve	1.2(k), 1.2(s)				
Balance at the beginning of the year		12,687	8,838	12,687	8,838
Forward foreign exchange contracts		(89)	366	(89)	366
Interest rate swaps		(22,238)	3,483	(22,238)	3,483
Balance at the end of the year	19	(9,640)	12,687	(9,640)	12,687
Foreign currency translation reserve					
Balance at the beginning of the year		7	-	-	-
Foreign currency translation		(87)	7	-	-
Balance at the end of the year	19	(80)	7	-	-
RETAINED EARNINGS					
Balance at the beginning of the year		1,113,746	949,352	1,117,789	957,795
Net profit for the year		291,206	158,921	300,865	154,516
Deferred income tax (expense)/benefit recognised directly in equity	4(b)	8,033	(3,996)	8,033	(3,996)
Actuarial gain/(loss) on RBF defined benefit plan	17	(4,446)	9,471	(4,446)	9,471
Pre-acquisition retained losses of business acquired	33	(3,337)	-	-	-
Other		-	(2)	(6)	3
Balance at the end of the year		1,405,202	1,113,746	1,422,235	1,117,789
TOTAL EQUITY		1,665,482	1,396,440	1,682,595	1,400,476

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 86 to 135.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

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 owns 64 major dams, 28 operating hydro power stations and one gas-fired power station, supplies electricity to Bass Strait islands via diesel and wind power generation and operates a consulting business. The gas-fired power station ceased operating during the year. The Corporation also holds a controlling interest in a retail electricity company, Momentum Energy Pty Ltd, trading in the Victorian, NSW, ACT and South Australian markets.

At 30 June 2009 the Corporation had 873 full-time equivalent employees (FTEs) including 7 directors (2008: 791 FTEs).

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

The financial report for the year ended 30 June 2009 was adopted by the directors on 13 August 2009.

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

The financial report is prepared in accordance with:

- *Hydro-Electric Corporation Act 1995*;
- *Government Business Enterprises Act 1995* (GBE Act) and related Treasurer's Instructions;
- Australian Accounting Standards and interpretations;
- 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 report is compliant with Australian Accounting Standards including the Australian equivalents to International Financial Reporting Standards (AIFRS).

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

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following Australian Accounting Standards are applicable to the Corporation and have recently been issued or amended but as they are not yet effective the Corporation has chosen not to adopt them for the year ended 30 June 2009:

AASB Amendment	Affected Standard	Nature of Change to Accounting Policy	Reporting periods commencing on or after	Application date for the Corporation
AASB 8	Operating Segments	New Standard replacing AASB 114 *Segment Reporting* which adopts a management approach to reporting – no change to accounting policy.	1 January 2009	1 July 2009
AASB 101	Presentation of Financial Statements	Amendments to disclosure requirements for financial statements – no change to accounting policy.	1 January 2009	1 July 2009
AASB 123	Borrowing Costs	Amendments require capitalisation of borrowing costs associated with a qualifying asset – accounting policy will be amended accordingly.	1 January 2009	1 July 2009
AASB 3	Business combinations	Amendments have broadened the definition of a business, amended the valuation basis of contingent consideration and the accounting treatment of transaction costs – accounting policy will be amended accordingly.	1 January 2009	1 July 2009
AASB 127	Consolidated and Separate Financial Reports	Amendments relating to the accounting for non-controlling interests and the loss of control of subsidiaries – accounting policy under review.	1 January 2009	1 July 2009
AASB 2008-8	Amendments to Australian Accounting Standards – Eligible Hedged Items	Amendment clarifies whether particular hedged risks or portions of cash flows are eligible for hedge accounting – accounting policy under review.	1 January 2009	1 July 2009

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Principles of consolidation

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

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

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

(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 a significant effect on the amount recognised in the financial report.

- Asset impairment and fair value of generation assets

Note 1.2(n) 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. Note 1.2(i) describes the judgement process adopted in assessing fair value of generation assets.

- Financial liabilities and financial assets

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

(e) Significant accounting estimates and assumptions

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

(f) Receivables

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

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

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

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

(g) Inventories

Inventories are carried at the lower of cost and net realisable value. The weighted average cost method is used to measure the cost of environmental energy products sold.

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

(h) Cash and cash equivalents

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

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Property, plant and equipment

The Corporation carries its generation assets at fair value. The fair value is based on an internally generated Tasmanian energy price curve derived from the published three-year Victorian energy price curve. These prices are determined by market assessment of the many variables that may influence future prices including impending regulation and legislation. Price projections beyond the period of the published curves are based on the long-run marginal cost of new generation. The price curve has been validated by comparison to other published price trend predictions in the National Electricity Market (NEM). Revenue and expenses in the fair value calculation are inflated at the forecast CPI and are discounted using the Corporation's pre-tax nominal weighted average cost of capital of 10.90%. This has been validated against Australian financial and equity market data. The valuation includes revenue under the existing Mandatory Renewable Energy Target (MRET) scheme until 2020.

The Corporation's other assets are carried at cost less accumulated depreciation and 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:

	2009	2008
Generation	3 – 150 years	3 – 150 years
Auxiliary	3 – 50 years	3 – 50 years
Motor Vehicles	4 – 33 years	4 – 33 years
Minor Assets	1 – 10 years	1 – 10 years
Buildings	5 – 50 years	5 – 50 years

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

(j) Assets held for sale

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

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

(k) Other financial assets

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

- Held-to-maturity investments

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

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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.

- At fair value through profit or loss

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

- Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are specifically designated as such 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 this 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 on 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.

(l) Goodwill

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

(m) Research and development

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

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

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

(n) Asset impairment

At each reporting date the Corporation assesses whether there is an indication that an asset may be impaired. If any such indication exists the Corporation makes an estimate of the asset's recoverable amount. For goodwill and intangible assets that have indefinite lives the recoverable amount is estimated each year at the same time. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use. Value in use is determined for each individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In such cases the asset is tested for impairment as part of the cash generating unit (CGU) to which it belongs. Goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to the CGUs that are expected to benefit from the synergies of the combination.

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

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

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(o) Payables

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

(p) Provisions

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

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

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

(q) Employee benefits

- Wages, salaries and annual leave

Liabilities for wages, salaries and annual leave are recognised as the present obligations resulting from employees' services provided to the reporting date. These liabilities include related on-costs and are expected to be settled within 12 months. Accordingly they are undiscounted and based on wage and salary rates that the Corporation expects to apply at the time of settlement. For 2009, the on-costs attributable to the annual leave provision were $0.9 million (2008: $0.8 million). Sick leave is non-accumulating and is recognised as an expense when the leave is taken.

- Long service leave

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

The provision is calculated using expected future increases in wage and salary rates including related on-costs and the expected rate of utilisation based on historical patterns and is discounted using Commonwealth Bond rates at reporting date. The provision is segregated into current and non-current portions based on expected utilisation of entitlements in the next 12 months. For 2009, the on-costs attributable to the long service leave provision were $1.0 million (2008: $0.9 million).

- Defined benefit plan

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

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

- Defined contribution plans

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

(r) 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*. Since the Corporation does not own 100% of the shares of Momentum Energy Pty Ltd this company is subject to Commonwealth income tax laws.

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Income taxes relating to items recognised directly in equity are recognised 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 are disclosed by each subsidiary at 30 June 2009 as intercompany loan balances as if the subsidiary were a stand-alone tax entity.

Each of the entities in the tax-consolidated group has agreed to make a tax-equivalent payment to the head entity based on that entity's tax payable on a stand-alone basis. Such amounts are reflected as amounts receivable or payable to other entities in the tax-consolidated group.

- Other taxes

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

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

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

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

(s) Other financial liabilities

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

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

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

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

(t) Leases

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

- Corporation as a lessee

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

Other leases are operating leases. Payments under operating leases are recognised as an expense in the 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.

(u) Borrowing expenses

Borrowing costs associated with the raising of loans are expensed when incurred.

(v) 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.

(w) 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(k) or 1.2(s).

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

1.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All other exchange differences in the consolidated financial report are taken to the Income Statement.

(x) Joint ventures

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

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

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

(y) Business acquisitions

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values of net assets at acquisition, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date.

(z) Contributed equity

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

(aa) Government grants

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

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

If a grant is paid in relation to an asset the grant is recognised as income in the year in which it is received.

(ab) Revenue recognition

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

- Electricity sales

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

- Environmental energy products

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

- Consulting services

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

- Interest income

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 recognised on a straight-line basis over the term of the lease.

(ac) Segment reporting

The Corporation operates predominantly in the electricity industry. The Corporation's operations and customers are located predominantly in one geographical segment being Australia.

(ad) Rounding

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

(ae) Comparative figures

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

2. REVENUE AND EXPENSES

	NOTE	CONSOLIDATED		PARENT	
		2009	2008	2009	2008
		$'000	$'000	$'000	$'000
(a) Revenue					
Electricity revenue		552,506	407,799	463,310	334,095
Consulting services		56,735	45,188	55,675	45,586
Government grants	27	8,530	9,525	8,530	9,525
Rental revenue		244	609	244	219
Interest revenue		6,369	3,665	6,341	3,665
Other		1,353	3,222	1,351	2,026
		625,737	470,008	535,451	395,116
(b) Operating expenses					
Labour		88,822	88,574	84,388	87,858
Depreciation of property, plant and equipment	10	73,766	68,043	73,468	67,846
Gas and pipeline expenses		21,854	45,328	-	1,242
Basslink expenses		93,205	97,713	93,205	97,713
Generation, transmission and retail costs		125,980	44,912	68,919	40,866
Consulting contracted services		19,299	11,695	19,299	11,695
Other operating expenses		73,769	71,828	56,756	56,709
Loss on derecognition of property, plant and equipment		1,283	1,191	1,283	1,428
Bad debts written off		897	41	39	41
		498,875	429,325	397,357	365,398
(c) Finance costs					
Loan interest		60,503	69,360	60,493	69,360
Government guarantee fee		4,477	5,579	4,477	5,579
RBF interest	17	21,280	20,603	21,280	20,603
Other finance costs		424	121	424	121
		86,684	95,663	86,674	95,663
(d) Fair value gains					
Electricity derivatives		173,790	96,030	181,567	96,030
Treasury derivatives		(2)	12	(2)	12
Basslink financial asset and liabilities		12,377	28,267	12,377	28,267
Impairment reversal on generation assets	10	186,925	164,852	186,925	164,852
Impairment loss on assets held for sale	9	-	(6,766)	-	(6,766)
Impairment loss on financial assets		-	(208)	-	(208)
		373,090	282,187	380,867	282,187

3. FAIR VALUE GAINS

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 cash flow transactions during the year. In the case of those financial liabilities valued using published forward prices, while fair value represents an estimate of the cost of closing out the obligations at year end, the intention of the Corporation is to let the obligations run their course and deliver the associated financial benefits.

Electricity derivatives

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

Victorian electricity contracts are valued using published forward electricity prices. In 2008 the Corporation developed a model to calculate the fair value of the Tasmanian electricity contracts. Details of the methodology adopted are provided in note 20. The initial fair value calculated using this model was recognised as a financial liability with a corresponding direct addition to the fair value of generation assets. There was therefore no impact on the Income Statement. This approach was adopted on the basis that, since the fair value of generation assets was previously based on expected cash flow at Tasmanian contract prices, separation of the fair value of these contracts constituted a disaggregation of the fair value of generation assets. Therefore the fair value of generation assets was adjusted to reflect expected cash flow at market prices.

Basslink financial asset and liabilities

The financial asset and liabilities associated with the Basslink agreements are recorded at fair value in accordance with AASB 139. The restatement of the net financial liability to fair value at 30 June 2009 has resulted in a gain being recorded in the Income Statement (note 2(d)). Note 20(c) details the methodology used to calculate the fair value of the Basslink financial asset and liabilities.

Asset impairment reversal

Conditions causing previous impairment losses have improved resulting in reversal of the remaining available impairment provision. Note 10 details the impairment reversal gain recognised in the Income Statement.

Asset impairment

The Corporation's telecommunications assets were reclassified as held for sale in 2008 and their carrying value was impaired to the latest estimated sale proceeds. The sale of these assets took place in the current year for proceeds substantially matching the 2008 carrying amount.

Note 9 details the impairment loss recognised in the Income Statement.

4. INCOME TAX EQUIVALENT

	CONSOLIDATED		PARENT	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
(a) Income tax expense reported in Income Statement				
Current income tax liability/(refund)	13,195	(19,359)	16,533	(15,934)
Adjustments in respect of income tax of prior years	-	(2,630)	(456)	(4,437)
Income tax expense in relation to foreign operations	5	-	5	-
Deferred income tax expense arising from origination and reversal of temporary differences	113,485	87,253	115,340	82,097
Income tax expense reported in the Income Statement	126,685	65,264	131,422	61,726
A reconciliation between income tax expense and accounting profit before income tax multiplied by the Group's income tax rate is as follows:				
Accounting profit before income tax	417,891	224,185	432,287	216,242
Income tax expense calculated at 30%	125,367	67,255	129,686	65,524
Adjustment in respect of income tax of previous years	-	(2,630)	(456)	(4,437)
Income tax expense in relation to foreign operations	5	-	5	-
Expenditure not allowable for income tax purposes	85	756	60	756
Deferred tax balances associated with investment in subsidiaries and joint ventures	1,378	-	2,277	-
Research and development concession	(150)	(117)	(150)	(117)
Income tax expense reported in the Income Statement	126,685	65,264	131,422	61,726
(b) Income tax benefit/(expense) recognised directly in equity				
Revaluation of effective hedges	6,698	1,155	6,698	1,155
Actuarial assessment of RBF provision	1,335	2,841	1,335	2,841
Income tax benefit/(expense) recognised in equity	8,033	3,996	8,033	3,996
(c) Deferred tax balances				
Deferred tax assets comprise:				
Deductible temporary differences	480,638	571,271	473,936	566,398
Deferred tax liabilities comprise:				
Assessable temporary differences	1,158,319	1,130,304	1,165,232	1,136,012
Net deferred tax liabilities	677,681	559,033	691,296	569,614

4. INCOME TAX EQUIVALENT (CONTINUED)

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

	2009 CONSOLIDATED				
	Opening balance $'000	Charged to Income $'000	Charged to Equity $'000	Acquisitions/ disposals $'000	Closing balance $'000
Deferred tax liabilities					
Property, plant and equipment	995,007	16,407	-	-	1,011,414
Financial assets	125,849	14,677	(6,699)	-	133,827
Other	9,448	1,372	-	2,258	13,078
	1,130,304	32,456	(6,699)	2,258	1,158,319
Deferred tax assets					
Provisions for employee entitlements	95,702	(1,472)	1,334	47	95,611
Basslink and other financial liabilities	320,480	(892)	-	-	319,588
Electricity derivatives	133,211	(78,731)	-	(1,620)	52,860
Provision for demolition	1,449	158	-	-	1,607
Tax losses	19,359	(12,017)	-	2,143	9,485
Other	1,070	107	-	310	1,487
	571,271	(92,847)	1,334	880	480,638
Net deferred tax liabiltiies	559,033	125,303	(8,033)	1,378	677,681

	2009 PARENT				
	Opening balance $'000	Charged to Income $'000	Charged to Equity $'000	Acquisitions/ disposals $'000	Closing balance $'000
Deferred tax liabilities					
Property, plant and equipment	1,000,272	16,319	-	-	1,016,591
Financial assets	125,849	14,677	(6,699)	-	133,827
Other	9,891	1,498	-	-	11,389
	1,136,012	32,494	(6,699)	-	1,161,807
Deferred tax assets					
Provisions for employee entitlements	95,702	(1,499)	1,334	-	95,537
Basslink and other financial liabilities	320,479	(892)	-	-	319,587
Electricity derivatives	133,211	(81,754)	-	-	51,457
Tax losses	15,934	(13,195)	-	-	2,739
Other	1,072	119	-	-	1,191
	566,398	(97,221)	1,334	-	470,511
Net deferred tax liabiltiies	569,614	129,715	(8,033)	-	691,296

4. INCOME TAX EQUIVALENT (CONTINUED)

	2008 CONSOLIDATED				
	Opening balance $'000	Charged to Income $'000	Charged to Equity $'000	Adjustments $'000	Closing balance $'000
Deferred tax liabilities					
Property, plant and equipment	824,441	170,566	-	-	995,007
Financial assets	111,035	13,669	1,155	(10)	125,849
Other	9,862	(539)	-	125	9,448
	945,338	183,696	1,155	115	1,130,304
Deferred tax assets					
Provisions for employee entitlements	98,713	(246)	(2,841)	76	95,702
Basslink and other financial liabilities	320,919	(439)	-	-	320,480
Electricity derivatives	33,875	99,336	-	-	133,211
Provision for demolition	1,307	142	-	-	1,449
Tax losses	-	19,359	-	-	19,359
Other	8,144	(4,625)	-	(2,449)	1,070
	462,958	113,527	(2,841)	(2,373)	571,271
Net deferred tax liabiltiies	482,380	70,169	3,996	2,488	559,033

	2008 PARENT				
	Opening balance $'000	Charged to Income $'000	Charged to Equity $'000	Adjustments $'000	Closing balance $'000
Deferred tax liabilities					
Property, plant and equipment	827,148	173,124	-	-	1,000,272
Financial assets	111,035	13,669	1,155	(10)	125,849
Other	9,655	(102)	-	338	9,891
	947,838	186,691	1,155	328	1,136,012
Deferred tax assets					
Provisions for employee entitlements	98,708	(241)	(2,841)	76	95,702
Basslink and other financial liabilities	320,919	(439)	-	(1)	320,479
Electricity derivatives	33,875	99,336	-	-	133,211
Tax losses	-	15,934	-	-	15,934
Other	1,881	1,930	-	(2,739)	1,072
	455,383	116,520	(2,841)	(2,664)	566,398
Net deferred tax liabiltiies	492,455	70,171	3,996	2,992	569,614

All deferred tax balances relate to continuing operations. The Group has no unrecognised tax losses arising in Australia for offset against future taxable profits.

At 30 June 2009, there is no recognised or unrecognised deferred income tax liability (2008: nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or joint ventures. The Group has no liability for additional taxation should such amounts be remitted.

5. NOTE TO THE CASH FLOW STATEMENT

	CONSOLIDATED		PARENT	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
(a) Cash Reconciliation				
For the purposes of the Cash Flow Statement, cash includes cash on hand and in banks and short-term money market investments net of outstanding bank overdrafts. Cash at the end of the reporting period as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:				
Cash	4,315	1,504	595	1,419
Money market investments	26,247	91,798	25,690	91,798
	30,562	93,302	26,285	93,217
(b) Reconciliation of net cash provided by operating activities to net profit for the year				
Profit after income tax equivalent expense	291,206	158,921	300,865	154,516
Adjusted for non-cash items of income and expense:				
Depreciation of property, plant and equipment	73,766	68,043	73,468	67,846
Impairment on property, plant and equipment	(186,925)	(164,852)	(186,925)	(164,852)
Impairment loss on assets held for sale	-	6,766	-	6,766
Impairment on financial and intangible assets	-	208	-	208
(Gain)/loss on derecognition of property, plant and equipment	1,283	1,191	1,283	1,428
Change in fair value of electricity derivatives	(173,790)	(96,029)	(181,567)	(96,029)
Change in fair value of treasury derivatives	2	(12)	2	(12)
Change in fair value of Basslink financial instruments	(12,377)	(28,267)	(12,377)	(28,268)
Change in fair value of gas pipeline financial liability	-	1,242	-	1,242
Provision for demolition	527	474	-	-
Equity accounted share of joint venture (profit)/loss	(3,273)	3,022	-	-
Income tax expense	126,685	65,264	131,422	61,726
Cash from operating profit before changes in working capital	117,104	15,971	126,171	4,571
(Increase)/decrease in receivables	(94,359)	63,156	(90,771)	56,823
(Increase)/decrease in inventories	(33,451)	(16,830)	(33,448)	(16,830)
(Decrease)/increase in other financial assets and liabilities	(51,280)	16,322	(55,514)	42,447
(Decrease)/increase in payables	106,752	(53,258)	105,215	(52,433)
(Decrease)/increase in provisions	(4,439)	(404)	(4,708)	(838)
Working capital acquired through business acquisition	3,516	-	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	43,843	24,957	46,945	33,740

6. RECEIVABLES

	CONSOLIDATED		PARENT	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Trade receivables	155,284	59,997	143,634	52,863
Provision for impairment	928	-	-	-
	154,356	59,997	143,634	52,863
Ageing of past due but not impaired trade receivables:				
60-90 days	762	285	718	285
Over 90 days	967	186	457	186
	1,729	471	1,175	471

The amount past due but not impaired included in trade receivables is predominantly attributable to Consulting services clients and retail customers. A provision for impairment has been recorded following assessment of the credit quality of the clients or customers with overdue accounts. This provision represents those accounts considered to be wholly or partially non-recoverable.
The Corporation does not hold any security over these balances.

7. INVESTMENTS

	NOTE	CONSOLIDATED		PARENT	
		2009 $'000	2008 $'000	2009 $'000	2008 $'000
(a) Current investments					
Money market investments		26,247	91,798	25,690	91,798
(b) Non-current investments					
Investment in joint ventures	31	122,810	108,448	127,998	118,551
Investment in associates		16	16	16	16
Investment in subsidiary		-	-	59,914	0
		122,826	108,464	187,928	118,567

8. INVENTORIES

	CONSOLIDATED		PARENT	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Stores	1,094	1,154	1,086	1,154
Environmental energy products	50,721	17,209	50,725	17,209
	51,815	18,363	51,811	18,363

9. ASSETS HELD FOR SALE

	CONSOLIDATED		PARENT	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Telecommuniciations assets held for sale	-	24,884	-	24,884
Impairment loss	-	(6,766)	-	(6,766)
Recoverable value	-	18,118	-	18,118

The assets held for sale in 2008 represent the Corporation's telecommunications assets which were subsequently sold during the current year.

The telecommunications assets were impaired by $6.7 million to the estimated sale proceeds at 30 June 2008. This charge to the Income Statement was partially offset by the cessation of depreciation charges for these assets. The assets were sold in the current year for proceeds substantially matching the impaired carrying amount.

10. PROPERTY, PLANT AND EQUIPMENT

Asset valuation

Note 1.2(i) details the Corporation's property, plant and equipment valuation policy. As indicated in that note, the generation class of assets is carried at fair value. As disclosed in note 20, the financial assets and liabilities representing the Basslink and energy derivative contracts are also carried at fair value. In both cases forecast energy prices are a key input to determination of fair value. The sensitivity of the fair value of these financial assets and liabilities to changes in forecast energy prices, as also disclosed in note 20, will offset a change in the fair value of generation assets for the same changes in forecast prices.

The other principal inputs to the fair value of generation assets are forecast generation capacity and total energy demand. The Corporation meets forecast contractual obligations from hydro generation or by substituting hydro generation with imports over Basslink. Opportunities for export of generation over Basslink will also be taken into account. The balancing of the utilisation of each of the sources for meeting demand and the export opportunities is principally determined by actual and forecast water storage positions. These are in turn affected by the expected annual inflows to water storages from rainfall over catchments. Based on experience over the past ten years, the Corporation reduced the forecast annual inflows from 9000 GWh to 8700 GWh during 2009. Forecast inflows were also reduced from 9500 GWh to 9000 GWh in 2008.

AASB 116 *Property, Plant and Equipment* requires that, when an asset class is carried at fair value, disclosure must be made of the carrying amount that would be recognised had it been carried under the cost method. If the generation assets had remained under the cost method their carrying amount would be unchanged (2008: unchanged).

Impairment of assets

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

An asset impairment expense was recorded in the 2004-05 financial year based on reduced revenue forecasts as a result of lower price volatility, lower electricity pool prices and reduced projected real price increases. Since then forecast electricity prices have increased. The assessment of the fair value of generation assets based on these higher prices has resulted in the reversal of $186.9 million (2008: $164.9 million) of the previously recognised impairment.

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	2009 CONSOLIDATED						
	Generation at fair value $'000	Auxiliary at cost $'000	Motor Vehicles at cost $'000	Land & Buildings at cost $'000	Minor Assets at cost $'000	Capital Work in Progress at cost $'000	Total $'000
Gross Carrying Amount							
Balance at the beginning of the year	4,179,772	23,349	9,925	26,227	68,262	32,304	4,339,839
Additions	-	170	1,807	-	2,440	76,830	81,247
Disposals	(1,120)	1,258	(2,225)	(377)	(1,299)	(341)	(4,104)
Transfer to assets held for sale	22,358	100	121	929	3,127	(26,635)	-
Net revaluation adjustment	(181,442)	-	-	-	-	-	(181,442)
Balance at the end of the year	4,019,568	24,877	9,628	26,779	72,530	82,158	4,235,540
Accumulated Depreciation & Impairment							
Balance at the beginning of the year	211,950	15,368	4,154	4,921	47,074	-	283,467
Disposals	(111)	1,027	(1,556)	(427)	(389)	-	(1,456)
Impairment loss/(reversal)	(186,865)	(50)	-	(10)	-	-	(186,925)
Net revaluation adjustment	(79,658)	-	-	-	-	-	(79,658)
Depreciation expense	62,244	664	1,639	1,626	7,593	-	73,766
Balance at the end of the year	7,560	17,009	4,237	6,110	54,278	-	89,194
Net book value at the end of the year	4,012,008	7,868	5,391	20,669	18,252	82,158	4,146,346

	2009 PARENT						
	Generation at fair value $'000	Auxiliary at cost $'000	Motor Vehicles at cost $'000	Land & Buildings at cost $'000	Minor Assets at cost $'000	Capital Work in Progress at cost $'000	Total $'000
Gross Carrying Amount							
Balance at the beginning of the year	4,171,060	23,341	9,776	25,914	67,423	31,398	4,328,912
Additions	-	170	1,807	-	1,660	76,808	80,445
Disposals	(1,120)	1,258	(2,193)	(377)	(1,295)	(341)	(4,068)
Transfers	22,358	100	121	929	3,127	(26,635)	-
Transfer to assets held for sale	-	-	-	-	-	-	-
Net revaluation adjustment	(181,442)	-	-	-	-	-	(181,442)
Balance at the end of the year	4,010,856	24,869	9,511	26,466	70,915	81,230	4,223,847
Accumulated Depreciation & Impairment							
Balance at the beginning of the year	204,413	15,361	4,039	4,753	46,563	-	275,129
Disposals	(111)	1,027	(1,523)	(427)	(614)	-	(1,648)
Impairment loss/(reversal)	(186,865)	(50)	-	(10)	-	-	(186,925)
Transfer to assets held for sale	-	-	-	-	-	-	-
Net revaluation adjustment	(79,658)	-	-	-	-	-	(79,658)
Depreciation expense	62,221	664	1,633	1,499	7,451	-	73,468
Balance at the end of the year	-	17,002	4,149	5,815	53,400	-	80,366
Net book value at the end of the year	4,010,856	7,867	5,362	20,651	17,515	81,230	4,143,481

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	2008 CONSOLIDATED						
	Generation at fair value $'000	Auxiliary at cost $'000	Motor Vehicles at cost $'000	Land & Buildings at cost $'000	Minor Assets at cost $'000	Capital Work in Progress at cost $'000	Total $'000
Gross Carrying Amount							
Balance at the beginning of the year	3,975,203	62,923	9,903	17,513	66,336	55,378	4,187,256
Additions	-	208	2,455	6,378	1,944	43,877	54,862
Disposals	(2,874)	(321)	(1,585)	(271)	(3,267)	(1,632)	(9,950)
Transfers	47,890	3,614	-	2,982	4,829	(59,315)	-
Transfer to assets held for sale	(153)	(43,075)	(848)	(375)	(1,580)	(6,004)	(52,035)
Net revaluation adjustment	159,706	-	-	-	-	-	159,706
Balance at the end of the year	4,179,772	23,349	9,925	26,227	68,262	32,304	4,339,839
Accumulated Depreciation & Impairment							
Balance at the beginning of the year	576,407	39,862	3,933	3,728	42,785	-	666,715
Disposals	(930)	(274)	(1,042)	(214)	(2,980)	-	(5,440)
Impairment loss/(reversal)	(164,852)	-	-	-	-	-	(164,852)
Transfer to assets held for sale	(5)	(25,501)	(317)	(1)	(1,332)	-	(27,156)
Net revaluation adjustment	(253,843)	-	-	-	-	-	(253,843)
Depreciation expense	55,173	1,281	1,580	1,408	8,601	-	68,043
Balance at the end of the year	211,950	15,368	4,154	4,921	47,074	-	283,467
Net book value at the end of the year	3,967,822	7,981	5,771	21,306	21,188	32,304	4,056,372

	2008 PARENT						
	Generation at fair value $'000	Auxiliary at cost $'000	Motor Vehicles at cost $'000	Land & Buildings at cost $'000	Minor Assets at cost $'000	Capital Work in Progress at cost $'000	Total $'000
Gross Carrying Amount							
Balance at the beginning of the year	3,966,491	62,915	9,754	17,201	65,546	55,378	4,177,285
Additions	-	208	2,455	6,377	1,895	42,971	53,906
Disposals	(2,874)	(321)	(1,585)	(271)	(3,267)	(1,632)	(9,950)
Transfers	47,890	3,614	-	2,982	4,829	(59,315)	-
Transfer to assets held for sale	(153)	(43,075)	(848)	(375)	(1,580)	(6,004)	(52,035)
Net revaluation adjustment	159,706	-	-	-	-	-	159,706
Balance at the end of the year	4,171,060	23,341	9,776	25,914	67,423	31,398	4,328,912
Accumulated Depreciation & Impairment							
Balance at the beginning of the year	568,890	39,855	3,853	3,649	42,327	-	658,574
Disposals	(930)	(274)	(1,042)	(214)	(2,980)	-	(5,440)
Impairment loss/(reversal)	(164,852)	-	-	-	-	-	(164,852)
Transfer to assets held for sale	(5)	(25,501)	(317)	(1)	(1,332)	-	(27,156)
Net revaluation adjustment	(253,843)	-	-	-	-	-	(253,843)
Depreciation expense	55,153	1,281	1,545	1,319	8,548	-	67,846
Balance at the end of the year	204,413	15,361	4,039	4,753	46,563	-	275,129
Net book value at the end of the year	3,966,647	7,980	5,737	21,161	20,860	31,398	4,053,783

Net revaluation adjustment represents the impact of recognition of Tasmanian energy derivatives offset by the reversal of accumulated depreciation required upon determination of fair value of the generation asset class and the diminution of accumulated impairment available for reversal.

11. OTHER FINANCIAL ASSETS

	CONSOLIDATED		PARENT	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
(a) Current other financial assets				
Prepayments	3,579	1,767	3,546	1,763
Loans to subsidiaries (iv)	-	-	5,000	2,563
Tax equivalent loans to subsidiaries (i)	-	-	11,906	14,068
Loans to joint ventures (ii)	973	2,031	973	2,031
Other	9	24	9	21
Interest rate swaps	53	12,967	53	12,967
Energy price derivatives	104,522	1,748	104,522	1,748
Basslink financial asset (iii)	56,869	44,438	56,869	44,438
	166,005	62,975	182,878	79,599
Movement in provision for impaired financial assets (ii)				
Balance at the beginning of the year	1,536	1,328	1,536	1,328
Charge for the year	-	208	-	208
Amount forgiven during the year	(1,500)	-	(1,500)	-
Balance at the end of the year	36	1,536	36	1,536
(b) Non-current other financial assets				
Basslink financial asset (iii)	398,581	362,091	398,581	362,091
Basslink security deposit	50,000	50,000	50,000	50,000
Energy price derivatives	27,300	1,031	27,300	1,031
Prepayments	364	102	-	-
	476,245	413,224	475,881	413,122

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

(ii) Loans to joint ventures represents loans to Cathedral Rocks Wind Farm Pty Ltd (CRWF) and Cathedral Rocks Construction and Management Pty Ltd (CRCM). The loan to CRWF attracts interest on a daily basis at the bank bill rate plus a margin. The loan to CRCM was substantially forgiven during the year resulting in reversal of $1.5 million of the provision for impairment. The remaining loan to CRCM is presented net of the provision for impairment.

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

(iv) Subsidiary facility				
Facility limit	-	-	20,000	-
Less: used/committed	-	-	5,000	-
Balance	-	-	15,000	-

12. GOODWILL

	CONSOLIDATED		PARENT	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Gross carrying amount				
Balance at the beginning of the year	-	-	-	-
Recognised from business combinations occurring during the year	47,796	-	-	-
Balance at the end of the year	47,796	-	-	-

13. PAYABLES

	CONSOLIDATED		PARENT	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Trade creditors	132,249	27,567	131,307	27,391
Accrued expenses	22,536	22,519	14,369	14,418
Accrued interest payable	16,791	17,247	16,791	17,247
	171,576	67,333	162,467	59,056

14. INTEREST BEARING LIABILITIES

	CONSOLIDATED		PARENT	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
(a) Interest-bearing liabilities				
Current				
Loans from Tascorp	145,769	65,673	145,769	65,673
Finance lease liability	472	493	472	493
	146,241	66,166	146,241	66,166
Non-current				
Loans from Tascorp	789,231	899,327	789,231	899,327
Finance lease liability	5,763	5,881	5,763	5,881
	794,994	905,208	794,994	905,208
(b) Loan facilities				
Master loan facility				
Facility limit	1,185,000	1,185,000	1,185,000	1,185,000
Less: used/committed	935,000	965,000	935,000	965,000
Balance	250,000	220,000	250,000	220,000
Revolving credit facility				
Facility limit	50,000	50,000	50,000	50,000
Less: used/committed	-	-	-	-
Balance	50,000	50,000	50,000	50,000
Standby revolving credit facility				
Facility limit	50,000	50,000	50,000	50,000
Less: used/committed	-	-	-	-
Balance	50,000	50,000	50,000	50,000
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	7,515	7,500	7,500	7,500
Less: used/committed	5,230	5,321	5,230	5,321
Balance	2,285	2,179	2,270	2,179

14. INTEREST BEARING LIABILITIES (CONTINUED)

	PARENT & CONSOLIDATED			
	Less than one year 2009 $'000	Between one and five years 2009 $'000	Later than five years 2009 $'000	Total 2009 $'000
(c) Finance lease liabilities				
Future minimum lease payments	472	2,414	7,679	10,565
Interest	-	490	3,840	4,330
Present value of future minimum lease payments	472	1,924	3,839	6,235

	Less than one year 2008 $'000	Between one and five years 2008 $'000	Later than five years 2008 $'000	Total 2008 $'000
Future minimum lease payments	493	2,351	8,347	11,191
Interest	-	427	4,390	4,817
Present value of future minimum lease payments	493	1,924	3,957	6,374

(d) Fair value disclosures

Details of the fair value of the Corporation's interest-bearing liabilities are set out in note 20.

15. PROVISIONS

		CONSOLIDATED		PARENT	
		2009 $'000	2008 $'000	2009 $'000	2008 $'000
(a) Current provisions					
Employee entitlements		10,572	10,437	10,282	10,416
Business acquisition provision	33	42,150	-	42,150	-
RBF provision	17	17,662	32,593	17,662	32,593
		70,384	43,030	70,094	43,009
(b) Non-current provisions					
Employee entitlements		9,851	9,096	9,851	9,096
RBF provision	17	279,986	266,635	279,986	266,635
Provision for demolition		5,358	4,832	-	-
		295,195	280,563	289,837	275,731

16. OTHER FINANCIAL LIABILITIES

	CONSOLIDATED		PARENT	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
(a) Current other financial liabilities				
Income received in advance	8,610	12,626	8,601	12,626
Basslink Services Agreement	87,614	94,185	87,614	94,185
Basslink Facility Fee Swap	11,119	12,520	11,119	12,520
Gas Pipeline Capacity Agreement	-	7,043	-	7,043
Interest rate swaps	9,424	127	9,424	127
Energy price derivatives	36,149	27,440	33,237	27,440
Loans from subsidiaries (i)	-	-	4,662	15,330
	152,916	153,941	154,657	169,271
(b) Non-current other financial liabilities				
Basslink Services Agreement	782,649	860,772	782,649	860,772
Basslink Facility Fee Swap	183,908	93,745	183,908	93,745
Energy price derivatives	271,873	419,376	270,108	419,376
	1,238,430	1,373,893	1,236,665	1,373,893
(i) Loans from subsidiaries are interest free and on-call.				
Energy price derivatives movement reconciliation:				
Balance at the beginning of the year	444,037	112,918	444,037	112,918
Amount included in electricity revenue due to settlement during the year	(171,255)	(88,757)	(152,218)	(88,757)
Initial recognition of Tasmanian energy contracts	(101,784)	413,550	(101,784)	413,550
Initial recognition of Momentum energy contracts	(3,101)	-	-	-
Net cash receipts/(payments) on futures margin account	10,838	13,598	10,838	13,598
Fair value loss/(gain) on continuing and new contracts as at 30 June	(2,535)	(7,272)	(29,350)	(7,272)
Balance at the end of the year	176,200	444,037	171,523	444,037
Represented by:				
Current energy price derivative liability	36,149	27,440	33,237	27,440
Non-current energy price derivative liability	271,873	419,376	270,108	419,376
	308,022	446,816	303,345	446,816
Current energy price derivative asset	104,522	1,748	104,522	1,748
Non-current energy price derivative asset	27,300	1,031	27,300	1,031
	131,822	2,779	131,822	2,779
Net energy price derivatives liability	176,200	444,037	171,523	444,037

16. OTHER FINANCIAL LIABILITIES (CONTINUED)

	CONSOLIDATED		PARENT	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Net Basslink financial liability reonciliation:				
Balance at the beginning of the year	654,692	666,779	654,692	666,779
Current year revenue and operating expenses realised during the year and included in the opening valuation	(59,167)	(65,638)	(59,167)	(65,638)
Increase in present value of projected rights and obligations of later years as at 30 June	63,100	55,000	63,100	55,000
Loss/(gain) arising on re-measurement of fair value of contract rights and obligations over the remaining contract term as at 30 June	(48,785)	(1,449)	(48,785)	(1,449)
Balance at the end of the year	609,840	654,692	609,840	654,692
Represented by:				
Current Basslink financial liability	98,733	106,705	98,733	106,705
Non-current Basslink finanical liability	966,557	954,517	966,557	954,517
	1,065,290	1,061,222	1,065,290	1,061,222
Current Basslink financial asset	56,869	44,438	56,869	44,438
Non-current Basslink financial asset	398,581	362,091	398,581	362,091
	455,450	406,529	455,450	406,529
Net Basslink financial liability	609,840	654,693	609,840	654,693

17. RBF PROVISION

Plan Information

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

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

Principal actuarial assumptions as at balance date	2009 %	2008 %
Discount rate	5.70	6.50
Expected salary increase rate	4.50	4.50
Expected rate of return on plan assets	7.00	7.00
Expected pension increase rate	2.50	2.50
Expected rate of increase in compulsory preserved amounts	4.50	4.50

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

The discount rate is based on the market yields on the longest dated Government bonds as at 30 June 2009 extrapolated to allow for the fact that the term of the liabilities exceeds the term of the longest Government bond and adjusted to allow for investment tax, based on the expected rate of tax payable by the Fund. The decrement rates used (eg mortality and retirement rates) are based on those used in the actuarial valuation at 30 June 2008.

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

The cost of temporary invalidity benefits has been assumed to be 0.38% of salaries of current contributory members.

The percentage invested in each asset class	31 March 2009	30 June 2008
	%	%
Australian equity	20	23
International equity	13	18
Fixed income	11	13
Property	31	22
Alternatives/Other	19	18
Cash	6	6
	100	100

17. RBF PROVISION (CONTINUED)

Reconciliation of the present value of the defined benefit obligation	2009 $'000	2008 $'000
Present value of defined benefit obligations at the beginning of the year ^	385,627	407,259
Current service cost ^	3,951	4,478
Interest cost	21,280	20,603
Estimated contributions by plan participants	1,849	1,933
Actuarial (gains)/losses ^	(5,825)	(20,224)
Estimated benefits paid	(30,559)	(27,454)
Estimated taxes, premiums and expenses paid	(840)	(968)
Present value of defined benefit obligations at year end	375,483	385,627

^ *includes contributions tax provision/change in contributions tax provision*

The 2009 actuarial valuation includes a reassessment of the inclusion of contributions tax in the defined benefit obligation. The actuarial gain for 2009 includes the gain arising from removal of $42.1 million of contributions tax.

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

Reconciliation of the fair value of scheme assets	2009 $'000	2008 $'000
Fair value of plan assets at the beginning of the year	86,399	96,990
Expected return on plan assets	5,901	6,565
Actuarial gains/(losses)	(10,272)	(10,753)
Estimated employer contributions	25,357	20,086
Estimated contributions by plan participants	1,849	1,933
Estimated benefits paid	(30,559)	(27,454)
Estimated taxes, premiums and expenses paid	(840)	(968)
Fair value of plan assets at the end of the year	77,835	86,399

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

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

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

Actual return on Fund assets	2009 $'000	2008 $'000
Actual return on plan assets	(4,370)	(4,189)

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

17. RBF PROVISION (CONTINUED)

Reconciliation of the net liability recognised in the Balance Sheet	2009 $'000	2008 $'000
Defined benefit obligation ^	375,483	385,627
Fair value of plan assets	(77,835)	(86,399)
Deficit/(surplus)	297,648	299,228
Comprising:		
Current net liability	17,662	32,593
Non-current net liability	279,986	266,635
Net superannuation liability	297,648	299,228
^ 2008 figure includes contributions tax provision		
Expense recognised in the Income Statement		
Service cost	3,951	4,478
Interest cost	21,280	20,603
Expected return on assets	(5,901)	(6,565)
Total expense recognised	19,330	18,516
Loss/(gain) recognised in retained earnings		
Actuarial losses/(gains)	4,446	(9,471)

Historical Information	2009 $'000	2008 $'000	2007 $'000	2006 $'000	2005 $'000
Present value of defined benefit obligation	375,483	385,627	407,259	367,346	390,629
Fair value of plan assets	77,835	86,399	96,990	87,798	83,785
Deficit in plan	297,648	299,228	310,269	279,548	306,844
Experience adjustments (gain)/loss - plan liabilities	4,734	(7,769)	2,595	1,605	1,593
Experience adjustments (gain)/loss - plan assets	10,272	10,753	(8,986)	(4,903)	(7,714)

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

Expected contributions	Financial year ending 30 June 2010 $'000
Expected employer contributions	17,662

18. CONTRIBUTED EQUITY

	CONSOLIDATED		PARENT	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Contributed Equity	270,000	270,000	270,000	270,000

During the 2008 financial year the Corporation received two equity injections from the State Government. The first was announced in October 2007 for $50 million to assist the Corporation to make equity contributions to Roaring 40s Renewable Energy Pty Ltd and was fully received by 30 June 2008. The second, announced in May 2008, for $220 million was effected by a transfer of debt to Transend Networks Pty Ltd on 30 June 2008.

19. RESERVES

	CONSOLIDATED		PARENT	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Foreign currency translation reserve	(80)	7	-	-
Derivative revaluation reserve	(9,640)	12,687	(9,640)	12,687
	(9,720)	12,694	(9,640)	12,687

20. FINANCIAL INSTRUMENTS DISCLOSURES

The Corporation's primary purpose for holding its financial instruments is to fund its operations and manage its financial risks. The Corporation's principal financial instruments, other than derivatives, comprise loans, bank overdraft, cash and short-term investments. The Corporation has other financial assets and liabilities such as trade receivables and payables which arise directly from its operations. The main risks arising from the Corporation's operations which are managed through financial instruments are electricity price risk, interest rate risk, liquidity risk, foreign currency risk and credit risk.

(a) Financial instrument categories

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

	CONSOLIDATED				PARENT			
	Carrying Amount 2009 $'000	Net Fair Value 2009 $'000	Carrying Amount 2008 $'000	Net Fair Value 2008 $'000	Carrying Amount 2009 $'000	Net Fair Value 2009 $'000	Carrying Amount 2008 $'000	Net Fair Value 2008 $'000
Financial Assets								
Cash	4,315	4,315	1,504	1,504	595	595	1,419	1,419
Loans and receivables								
Receivables	154,356	154,356	62,028	62,028	143,634	143,634	68,962	68,962
Held to maturity								
Investments	26,247	26,247	91,798	91,798	25,690	25,690	91,798	91,798
Designated hedge accounting derivatives								
Interest rate swaps	-	-	12,904	14,102	-	-	12,904	14,102
Forward foreign exchange contracts	7	7	1	1	7	7	1	1
Fair value through profit or loss								
Credit swaps	45,667	45,667	39,971	39,971	5,594	45,667	39,971	39,971
Basslink financial asset	455,450	455,450	406,529	406,529	455,450	455,450	406,529	406,529
Energy price derivatives	131,822	131,822	2,779	2,779	131,822	131,822	2,779	2,779
Other assets	54,924	54,924	51,893	51,893	59,527	59,527	51,783	51,783
	872,788	872,788	669,407	670,605	822,319	862,392	676,146	677,344
Financial Liabilities								
Loans and receivables								
Accounts payable	154,768	154,768	50,086	50,086	145,675	145,675	41,809	41,809
Tascorp loans	951,791	966,794	982,247	965,106	951,791	966,794	995,015	965,106
Designated hedge accounting derivatives								
Interest rate swaps	9,336	11,691	-	-	9,336	11,691	-	-
Forward foreign exchange contracts	96	96	64	64	96	96	64	64
Fair value through profit or loss								
Credit swaps	45,677	45,677	39,971	39,971	45,677	45,677	39,971	39,971
Basslink Services Agreement	870,263	870,263	954,957	954,957	870,263	870,263	954,957	954,957
Basslink Facility Fee Swap	195,027	195,027	106,265	106,265	195,027	195,027	106,265	106,265
Gas Pipeline Capacity Agreement	-	-	7,043	7,043	-	-	7,043	7,043
Energy price derivatives	308,022	308,022	446,816	446,816	303,346	303,346	446,816	446,816
Other liabilities	8,599	8,599	12,626	12,626	8,599	8,599	12,626	12,626
	2,543,579	2,560,937	2,600,075	2,582,934	2,529,810	2,547,168	2,604,566	2,574,657

20. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(b) Financial risk management objectives and policies

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

The Basslink contracts including the Basslink Services Agreement (BSA), Floating Facility Fee Instrument (FFFI) and Basslink Facility Fee Swap (BFFS) have been designated as derivatives.

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

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

(i) Capital risk management

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

The capital structure of the Corporation includes loans disclosed in note 14, contributed equity disclosed in note 18 and cash and cash equivalents disclosed in note 5.

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

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

The Corporation has been compliant with all financial covenants.

(ii) Market risk management

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

(A) Electricity prices

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, through the variable portion of the Basslink facility fee and in relation to its retail operation in Victoria. Exposure to these fluctuations in market price is managed through the use of derivative contracts executed in the Tasmanian and Victorian regions of the NEM in accordance with Board approved policy. Contract volumes for many of the Corporation's current Tasmanian forward contracts are determined by the actual load consumed in the contract period.

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

20. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

The Corporation assesses its electricity price risk exposure through sensitivity analysis. The following table shows the effect on the Income Statement and equity of a feasible movement (10%) in forecast electricity prices.

	2009				2008			
	CONSOLIDATED		PARENT		CONSOLIDATED		PARENT	
	Income $'000	Equity $'000	Income $'000	Equity $'000	Income $'000	Equity $'000	Income $'000	Equity $'000
Electricity forward price +10%								
Financial assets	41,018	-	35,978	-	40,200	-	40,200	-
Financial liabilities	(32,691)	-	(33,838)	-	(198,989)	-	(198,989)	-
Electricity forward price -10%								
Financial assets	(43,794)	-	(38,754)	-	(40,200)	-	(40,200)	-
Financial liabilities	31,833	-	32,980	-	214,755	-	214,755	-

The fair value sensitivity of the Basslink Services Agreement to energy price movements has been based on adjustments to forecast price differences between the Tasmanian and Victorian regions. The fair value sensitivity of the energy price derivatives to energy price movements has been determined by adjusting the forecast prices for the Tasmanian and Victorian regions. The forecasts are based on published Victorian price curves in the shorter term and forecast marginal cost of new generation in the longer term.
The fair value movements in the energy price derivatives arising from variation in forecast prices are offset by movements in the fair value of the generation assets to the extent that they hedge generation revenue.

(B) Interest rates

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

Cash flow hedges

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

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

At 30 June 2009 fixed rate loans varied from 5.5% to 7.4% (2008: 5.5% to 7.3%). Floating rates were based on bank bill rates and these varied from 2.7% to 3.5% (2008: 7.3% to 8.1%).

Basslink

The Basslink Services Agreement (BSA) and Floating Facility Fee Instrument (FFFI) between the Corporation and Basslink Pty Ltd (BPL) establish the rights and obligations of both parties with respect to the operation of Basslink including the monthly payment of the Basslink Facility Fee (BFF) by the Corporation to BPL. These agreements are financial assets and financial liabilities whereby the Corporation is committed to make payments to BPL over the term of the contract should BPL meet its obligations to keep Basslink available in exchange for the right to receive Inter Regional Revenues (IRRs). The latter has been recognised as a financial asset.

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

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

20. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

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

	2009				2008			
	CONSOLIDATED		PARENT		CONSOLIDATED		PARENT	
	Income $'000	Equity $'000	Income $'000	Equity $'000	Income $'000	Equity $'000	Income $'000	Equity $'000
Forward interest rates + 1 bps								
Financial assets	718	-	718	-	621	78	621	78
Financial liabilities	(892)	(61)	(892)	(61)	(463)	-	(463)	-
Forward interest rates - 1 bps								
Financial assets	(718)	-	(718)	-	(621)	(78)	(621)	(78)
Financial liabilities	892	61	892	61	463	-	463	-

The sensitivity of the fair value of financial assets and liabilities to interest rates has been determined by adjusting closing published forward market rates. The impact on the fair value of financial instruments is calculated using standard Australian treasury valuation formulae. The Weighted Average Cost of Debt (WACD) for 2009 for both the parent and consolidated entities is 6.62% (2008: 6.54%). This incorporates both loans and interest rate swaps as at the reporting date and also includes the government guarantee fee of 0.51% (2008: 0.50%).

(C) Foreign currency rates

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

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

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

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

	CONSOLIDATED		PARENT	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Receivables				
Not later than one year	-	413	-	413
Later than one year but not later than two years	-	-	-	-
Later than two years	-	-	-	-
Total	-	413	-	413
Payables				
Not later than one year	3,472	626	3,472	626
Later than one year but not later than two years	93	-	93	-
Later than two years	439	-	439	-
Total	4,004	626	4,004	626

20. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(iii) Credit risk

Credit risk represents the loss that would be recognised at the reporting date if counterparties failed to meet their contractual obligations. The Corporation measures credit risk on non-derivative financial instruments as the carrying amount of any instruments that represent an asset to the Corporation.

Derivative Financial Instruments

The credit exposure on a derivative financial instrument is its positive market valuation at the reporting date. In addition a potential exposure, calculated broadly in accordance with Reserve Bank guidelines, is included for all interest rate swaps. These include the BFFS and the Basslink credit swaps.

In the main, the Corporation reduces credit risk on derivative financial assets by only transacting with high credit quality counterparties up to a pre-determined counterparty limit or by limiting credit exposure to unrated counterparties. The Corporation also obtains credit support for counterparties of low credit quality. Interest rate swaps and energy contracts are subject to the industry recommended International Swap Dealers Association (ISDA) documentation. Where possible this documentation contains clauses enabling the netting of exposures..

Receivables

Receivables represent AEMO, electricity, treasury and environmental energy product counterparties, Consulting service clients and retail electricity customers.

The Corporation's credit exposure to AEMO is mitigated by the provisions of the National Electricity Rules (NER). The NER define the rules for conduct of the wholesale electricity market.

Consulting services clients are spread across diverse industries and geographical locations. Ongoing credit evaluation is performed on the financial condition of debtors, and where necessary recovery action is undertaken and contract penalty clauses activated.

Appropriate credit management practices are adopted to protect against exposure to non-payment by retail customers.

Basslink credit swaps

While the BFFS transaction has been executed with a single counterparty, the Corporation has also entered into supplementary interest rate swap transactions with other counterparties to mitigate the potential credit risk associated with a single counterparty. These swaps are readily tradeable financial instruments.

20. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

	CONSOLIDATED		PARENT	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Credit risk exposure by instrument type				
Financial Assets				
Investments and bank balances	30,562	102,632	26,286	102,539
Receivables	154,356	59,997	143,634	52,863
Basslink financial asset	37,496	4,344	37,496	4,344
Derivative Financial Instruments				
Interest rate swaps	76,631	132,928	76,631	132,928
Forward foreign exchange contracts	213	52	213	52
Basslink Facility Fee Swap	29,990	29,990	29,990	29,990
Energy price derivatives	131,822	5,513	131,822	5,513
Total Credit Risk Exposure	461,070	335,456	446,072	328,229
Credit risk exposure by institution ratings				
Australian based institutions				
AA+ to AA- ratings	173,025	239,953	168,749	232,726
A+ to A ratings	92,014	63,491	92,014	63,491
BBB+ to BBB- ratings	8,824	-	8,824	-
Unrated	162,054	7,123	151,332	7,123
	435,917	310,567	420,919	303,340
Overseas based institutions				
AA+ to AA- ratings	2,413	24,834	2,413	24,834
A+ to A ratings	20,608	55	20,608	55
Unrated	2,132	-	2,132	-
	25,153	24,889	25,153	24,889
Total credit risk exposure	461,070	335,456	446,072	328,229

(iv) Liquidity risk

Liquidity risk represents the possibility that the Corporation may be unable to settle an obligation on the due date.

To manage this risk, the Corporation maintains adequate stand-by funding facilities and other arrangements as detailed in note 14.

The Corporation's exposure, by term to payment, at 30 June 2009 is detailed in the tables below. The tables are based on the undiscounted cash flows of the financial assets and liabilities based on the date on which the payments fall due. The tables include principal and interest cash flows.

The Corporation has issued a guarantee in favour of Cathedral Rocks Wind Farm Pty Ltd in relation to the EPC contract for Cathedral Rocks Wind Farm. The probability of the guarantee being called has been assessed as nil. The Corporation has issued a performance guarantee in favour of ETSA in relation to Co-ordination Agreement obligations of Momentum Energy Pty Ltd. The probability of the guarantee being called has been assessed as nil.

The Corporation monitors its liquidity risk on a daily basis. The following table details the Corporation's liquidity exposure.

20. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

	2009							
	CONSOLIDATED				PARENT			
	Less than 6 months $'000	6-12 months $'000	1-5 years $'000	Over 5 years $'000	Less than 6 months $'000	6-12 months $'000	1-5 years $'000	Over 5 years $'000
Financial Assets								
Loans and Receivables								
Cash	4,315	-	-	-	595	-	-	-
Receivables	154,356	-	-	-	143,634	-	-	-
Held to maturity								
Investments	26,247	-	-	-	25,690	-	-	-
Designated hedge accounting derivatives								
Interest rate swaps	-	-	-	-	-	-	-	-
Forward foreign exchange contracts	(11)	(11)	-	-	(11)	(11)	-	-
Fair value through profit or loss								
Credit swaps	11,172	10,111	15,323	30,326	11,172	10,111	15,323	30,326
Basslink financial asset	28,435	28,435	274,503	1,000,227	28,435	28,435	274,503	1,000,227
Other assets	4,560	-	-	50,364	9,527	-	-	50,000
	229,074	38,535	289,826	1,080,917	219,042	38,535	289,826	1,080,553
Financial Liabilities								
Loans and Receivables								
Accounts payable	154,768	-	-	-	145,675	-	-	-
Tascorp loans	93,716	52,053	721,954	261,056	93,716	52,053	721,954	261,056
Designated hedge accounting derivatives								
Interest rate swaps	4,366	4,178	10,334	(312)	4,366	4,178	10,334	(312)
Forward foreign exchange contracts	95	-	46	-	95	-	46	-
Fair value through profit or loss								
Credit swaps	11,172	10,111	15,323	30,326	11,172	10,111	15,323	30,326
Basslink Services Agreement	32,301	33,281	459,103	1,853,368	32,301	33,281	459,103	1,853,368
Basslink Facility Fee Swap	16,586	15,425	65,066	235,715	16,586	15,425	65,066	235,715
Gas Pipeline Capacity Agreement	-	-	-	-	-	-	-	-
Energy price derivatives	(64,583)	1,738	186,999	174,302	(69,244)	3,286	185,137	174,302
Other liabilities	8,599	-	-	-	8,599	-	-	-
	257,020	116,786	1,458,825	2,554,455	243,266	118,334	1,456,963	2,554,455

20. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

	2008							
	CONSOLIDATED				PARENT			
	Less than 6 months $'000	6-12 months $'000	1-5 years $'000	Over 5 years $'000	Less than 6 months $'000	6-12 months $'000	1-5 years $'000	Over 5 years $'000
Financial Assets								
Loans and Receivables								
Cash	1,504	-	-	-	1,419	-	-	-
Receivables	59,997	-	-	-	52,863	-	-	-
Held to maturity								
Investments	91,798	-	-	-	91,798	-	-	-
Designated hedge accounting derivatives								
Interest rate swaps	2,502	2,445	8,927	1,904	2,502	2,445	8,927	1,904
Fair value through profit or loss								
Credit swaps	4,237	4,121	27,564	46,797	4,237	4,121	27,564	46,797
Basslink Financial Asset	20,047	20,047	177,222	918,911	20,047	20,047	177,222	918,911
Other assets	1,791	-	-	50,102	3,822	-	-	50,000
	181,876	26,613	213,713	1,017,714	176,688	26,613	213,713	1,017,612
Financial Liabilities								
Loans and Receivables								
Accounts payable	50,086	-	-	-	41,809	-	-	-
Tascorp loans	32,485	33,188	858,056	315,313	32,485	33,188	858,056	315,313
Designated hedge accounting derivatives								
Interest rate swaps	-	-	-	-	-	-	-	-
Forward foreign exchange contracts	64	12	-	-	64	12	-	-
Fair value through profit or loss								
Credit swaps	4,237	4,121	27,564	46,797	4,237	4,121	27,564	46,797
Forward foreign exchange contracts	2	-	-	-	2	-	-	-
Basslink Services Agreement	35,851	43,463	355,618	1,821,350	35,851	43,463	355,618	1,821,350
Basslink Facility Fee Swap	2,575	2,869	26,587	179,451	2,575	2,869	26,587	179,451
Gas Pipeline Capacity Agreement	4,695	2,348	-	-	4,695	2,348	-	-
Energy price derivatives	22,037	64,250	495,500	130	22,037	64,250	495,500	130
Other liabilities	12,626	-	-	-	12,626	-	-	-
	164,658	150,251	1,763,325	2,363,041	156,381	150,251	1,763,325	2,363,041

20. FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(c) Fair values

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

Where possible this fair value is determined from prices quoted for the financial instrument on an active market. In particular:

- Interest rate swaps are valued at current market quoted prices.
- Forward foreign exchange contracts are calculated by reference to current forward exchange contracts with similar maturity profiles.
- Fixed rate loans are valued at current market rates.
- 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 the present value of the cash flow required to close out these contracts determined by reference to current market prices or to latest published forward price projections.

In the event of a lack of quoted market prices, the fair value of financial instruments has been calculated using valuation models that make maximum use of available market inputs to produce a reasonable estimate of the price that would be determined by the market. In many cases this entails projecting future cash flows that are then discounted to present value using the Corporation's weighted average cost of capital or cost of debt as appropriate. In particular:

Basslink financial instruments

The Basslink financial instruments comprise the Basslink Services Agreement (BSA), Floating Facility Fee Instrument (FFFI) and Basslink Facility Fee Swap (BFFS). The fair value of the Basslink financial instruments has been calculated using a valuation model based on the present value of expected contractual cash flows. The fair value of expected receipts of inter-regional revenues (IRRs) under the BSA has been separately calculated based on experience to date and projected operating conditions and reported as a financial asset. The expected contractual payments under the BSA, FFFI and BFFS have been reported as financial liabilities. These represent the Basslink facility fees and interest rate swap settlements payable under these contracts.

The fair value of the BSA has been calculated using the pre-tax weighted average cost of capital as the nominal discount rate. The fair values of the FFFI and BFFS have been calculated using a 22 year forward market interest rate.

The BSA, FFFI and BFFS are not readily tradeable financial instruments.

Gas Pipeline Capacity Agreement

As part of the agreement for sale of the Bell Bay site this agreement expired in March 2009. The 2008 fair value reflected expected payments over the remaining term of the contract with any change in fair value reported as a gain or loss in the Income Statement.

Tasmanian electricity price derivatives

The Corporation has entered into energy contracts in the Tasmanian market to manage its exposure to market price risks. While many of these contracts have been transacted since Tasmania entered the NEM, a number were in place prior to that date and reflect the vesting of contracts with retail and major industrial clients in place at the time of entry to the NEM.

The Corporation has developed a model to value the Tasmanian energy contracts. In recognition of the term, load and other features of each contract, the contract price agreed at commencement represented a discount from the spot price at that time. Fair value at balance date has been calculated as the present value of the difference between the projected market price for each contract and the undiscounted contract price. Projected market price is based on an internally generated long-term Tasmanian energy price curve. The Corporation's nominal pre-tax weighted average cost of capital has been applied to derive the present value of the Tasmanian electricity price derivatives.

Investments

The carrying amount of the investments recorded in the financial statements represents the Corporation's maximum exposure to market risk.

Movements in fair values in 2009 are not attributable to changes in credit risk.

Fair values are disclosed in Table 20(a).

21. COMMITMENTS FOR EXPENDITURE

	CONSOLIDATED		PARENT	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
(a) Capital expenditure commitments				
Not later than 1 year	26,822	37,683	26,822	3,140
Over 1 year and up to 2 years	4,233	-	4,233	-
Over 2 years and up to 5 years	2,349	-	2,349	-
	33,404	37,683	33,404	3,140
(b) Operating lease commitments				
Future minimum lease payments				
Not later than 1 year	3,472	3,540	3,110	3,323
Over 1 year and up to 2 years	3,441	2,550	3,078	2,361
Over 2 years and up to 5 years	8,129	6,003	8,129	5,881
Later than 5 years	23,070	25,705	23,070	25,705
	38,112	37,798	37,387	37,270

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	26,741	76,857	21,768	73,684
Over 1 year and up to 2 years	32,771	14,804	19,467	12,822
Over 2 years and up to 5 years	34,694	15,551	34,694	9,722
Later than 5 years	16,293	30,019	1,714	18,402
	110,499	137,231	77,643	114,630

The other commitments relate to pass-through costs for consulting work, energy transmission charges and supply of general goods and services. Commitments include those relating to the jointly controlled entities detailed in note 29.

22. CONTINGENT LIABILITIES AND ASSETS

Contingent liability

The Corporation reached an agreement for the sale of the assets of subsidiaries Bell Bay Power Pty Ltd and Bell Bay Three Pty Ltd during 2007. Included in the sale agreement is a regime for the indemnification of the purchaser in respect of contamination of the Bell Bay Power Station site, particularly in respect of personal injury and latent contamination on the site. The Corporation has capped certain indemnities and continues to seek to mitigate any potential contingent liability by committing to sound environmental and safety practices on the site.

Contingent asset

The Corporation currently has a disagreement with the owner of Basslink, CitiSpring Pty Ltd, relating to charges associated with the Basslink Services Agreement.

The Corporation is continuing to negotiate a resolution to this disagreement with CitiSpring and may benefit from a reduction in the charges under dispute.

23. AUDITOR'S REMUNERATION

	CONSOLIDATED		PARENT	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Amounts received, or due and receivable, by the Auditor-General from the Corporation for auditing the financial statements of the Corporation.	251	175	214	175
Amounts received, or due and receivable, for compliance audits.	20	47	20	47

24. KEY MANAGEMENT PERSONNEL COMPENSATION - CONSOLIDATED

	Short-term employee benefits		Post-employment benefits		Other long-term benefits		Termination benefits		Total	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000	2009 $'000	2008 $'000	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Directors	409	362	74	75	-	-	-	-	483	437
Management	3,531	3,205	415	353	30	19	-	435	3,976	4,012
Total	3,940	3,567	489	428	30	19	-	435	4,459	4,449

For the year ended 30 June 2009 the Corporation identified eleven employees (2008: ten employees) as key management personnel in accordance with AASB 124 *Related Party Disclosure.*

Note 25 lists the Directors of the Corporation as at 30 June 2009.

25. RELATED PARTY INFORMATION

	Sales to related parties		Purchases from related parties		Amounts owed by related parties		Amounts owed to related parties	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000	2009 $'000	2008 $'000	2009 $'000	2008 $'000
CONSOLIDATED								
Roaring 40s Renewable Energy Pty Ltd	5,619	2,546	-	-	-	3,520	-	-
Cathedral Rocks Construction and Management Pty Ltd	16	146	-	-	-	2,467	-	-
PARENT								
Roaring 40s Renewable Energy Pty Ltd	5,619	2,546	-	-	-	3,520	-	-
Cathedral Rocks Construction and Management Pty Ltd	16	146	-	-	-	2,467	-	-
Bell Bay Power Pty Ltd	241	493	-	-	-	-	3,184	6,889
Bell Bay Three Pty Ltd	-	4	-	-	7,009	7,009	1,473	1,473
Lofty Ranges Power Pty Ltd	-	-	-	-	971	1,022	-	-
Hydro Tasmania Consulting (Holding) Pty Ltd	-	-	-	-	2,122	1,662	-	-
Hydro Tasmania Consulting India Private Limited	143	393	-	-	-	70	-	-
RE Storage Project Holding Pty Ltd	-	393	-	-	928	907	-	-
Momentum Energy Pty Ltd	6,923	-	4,840	-	5,000	-	-	-

Transactions with related parties are made at arm's length at normal market prices and on normal commercial terms.

Outstanding balances at year end are unsecured and interest free apart from the loan to Momentum Energy Pty Ltd which bears interest at market rates on the balance over $2 million. The first $2 million of the loan is interest free. Settlement with related parties not wholly owned occurs in cash. Cash settlement does not occur between wholly-owned subsidiaries and the parent.

The Directors of the Corporation as at 30 June 2009 were:

Dr D M Crean, Chairman

Mr V J Hawksworth, Chief Executive Officer

Mr M M Cavell

Mr S R Eslake

Ms S M Farrier

Ms J M Healey

Mr S S Kalinko.

Transactions with director-related entities are made at arm's length at normal market prices and on normal commercial terms.

Mr S R Eslake was an employee of Australia & New Zealand Banking Group Ltd (ANZ) during the year. The Corporation conducts electricity, environmental energy product and treasury transactions with ANZ.

Ms S M Farrier had an interest as a Director of Electricity Networks Corporation for part of the year. The Corporation provides consulting services to this entity.

Mr V J Hawksworth has an interest as a Director of National Generators Forum Pty Ltd, of which the Corporation is a member.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

26. EVENTS SUBSEQUENT TO BALANCE DATE

After due enquiry, there have been no 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.

27. GOVERNMENT GRANTS

The Corporation has recognised grant revenue during the year as detailed below:

› Community Service Obligations

On 1 June 1999, the State Government agreed to formally recognise the cost of concessions to eligible customers living on Bass Strait islands as Community Service Obligations (CSOs), as defined under the *Government Business Enterprises Act 1995*.

During the year ended 30 June 2009, the State paid the Corporation $7.9 million (2008: $7.2 million) as reimbursement of the cost of providing CSOs.

› Australian Government Water Fund – Ajenti Project

During the year ended 30 June 2007, the Commonwealth Government entered a funding agreement with the Corporation under the auspices of the Water Smart Australia program.

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 for on-farm water metering across the State. The water data is being stored on a central web-based database from which licensees access their own daily water use, total use and use compared to their allocation. In addition, training in the use of the equipment and data will be provided.

At 30 June 2009, the Corporation had not received any additional grant funds (2008: $2.4 million) but recognised $0.2 million (2008: $2.2 million) of those already received in the Income Statement on the basis of the extent of work completed at 30 June.

› Australian Government Bureau of Meteorology – Modernisation and Extension of Hydrologic Monitoring Systems

During the year ended 30 June 2008 the Corporation entered into a funding agreement with the Bureau of Meteorology (Bureau) under the Federal *Water Act 2007*.

Under this agreement the Corporation will receive $0.3 million over two years to assess the conversion of SCADA data held by the three major water supply utilities in Tasmania into a single system for use by the Bureau. Further the Corporation will assist the Bureau in the installation of 21 additional rainfall monitoring sites in the State.

At 30 June 2009, the Corporation had received $0.3 million (2008 $0.3 million) of the grant funds and recognised $0.1 million (2008: $0.1 million) of that receipt in the Income Statement on the basis of completion of the project. The remaining balance was refunded to the Bureau during the year.

› Australian Government Bureau of Meteorology – Provision of Water Information

During the year ended 30 June 2009 the Corporation entered into a funding agreement with the Bureau of Meteorology under the Federal *Water Act 2007*. Under the agreement the Corporation will receive $0.1 million over one year for infrastructure and software services for the provision of water information to the Bureau.

At 30 June 2009 the Corporation had received $0.1 million. This receipt was recognised in full in the Income Statement on the basis of the work completed.

› Australian Government Bureau of Meteorology – Quality Control and Quality Assurance Processes

During the year ended 30 June 2009 the Corporation entered into a funding agreement with the Bureau of Meteorology under the Federal *Water Act 2007*. Under the agreement the Corporation will receive $0.5 million over one year to develop quality control and quality assurance processes on water data transfer to the Bureau.

27. GOVERNMENT GRANTS (CONTINUED)

At 30 June 2009 the Corporation had received $0.5 million and recognised $0.3 million in the Income Statement on the basis of the work completed.

› Department of Primary Industries and Water - Ouse, Shannon and Clyde Project

During the year ended 30 June 2009 the Corporation entered into a funding agreement with the Department of Primary Industries and Water. Under the agreement the Corporation will receive $0.3 million over one year and will provide environmental and engineering feasibility studies and farm water development plans for sixteen properties on the Ouse River for development of irrigation solutions.

At 30 June 2009 the Corporation had received $0.3 million. This receipt was recognised in full in the Income Statement on the basis of the work completed.

28. CONTROLLED ENTITIES

	Footnote	Country of Incorporation	Percentage of Shares Held by Hydro-Electric Corporation 2009 %	2008 %
Parent Entity				
Hydro-Electric Corporation				
Controlled Entities				
Bell Bay Power Pty Ltd	1	Australia	100	100
Lofty Ranges Power Pty Ltd	2	Australia	100	100
Bell Bay Three Pty Ltd	3	Australia	100	100
RE Storage Project Holding Pty Ltd	4	Australia	100	100
Hydro Tasmania Consulting (Holding) Pty Ltd	5	Australia	100	100
Hydro Tasmania Consulting India Private Limited	6	India	0.1	0.1
Momentum Energy Pty Ltd	7	Australia	51	0

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 Hydo 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.
7. Hydro-Electric Corporation acquired 51% of the issued capital of Momentum Energy Pty Ltd on 31 August 2008. The Corporation has an agreement to acquire the remaining 49% by August 2010 for a consideration determined by the profitability and growth of Momentum Energy Pty Ltd.

29. INTERESTS IN JOINT VENTURES

			CONSOLIDATED				PARENT			
	Principal Activity	Joint Venture Balance Date	Ordinary Share Ownership Interest		Joint Venture Agreement Voting Rights		Ordinary Share Ownership Interest		Joint Venture Agreement Voting Rights	
			2009	2008	2009	2008	2009	2008	2009	2008
			%	%	%	%	%	%	%	%
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 and operation	30 June	50	50	50	50	50	50	50	50
SA Water Corporation & Lofty Ranges Power Pty Ltd Joint Venture	Mini hydro operation	30 June	50	50	50	50	50	50	50	50
RE Storage Pty Ltd	Investigation of renewable energy commercial opportunities	30 June	50	50	50	50	50	50	50	50
Integrated Energy Solutions Pty Ltd	Implementation of renewable energy project	30 June	50	50	50	50	-	-	-	-

The Corporation holds a 50% interest in 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 renewable energy opportunities, including construction of wind farms.

The Corporation holds a 50% interest in a joint venture (Cathedral Rocks Construction and Management Pty Ltd) with Acciona Energy Oceania Pty Ltd. The joint venture was established to manage the construction and operation of a wind farm at Cathedral Rocks, South Australia (note 31).

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 the operation of mini hydro facilities (note 30).

The Corporation holds a 50% interest in an incorporated joint venture operation with CBD Energy Limited, named RE Storage Pty Ltd. The principal activity of the joint venture is the investigation of renewable energy commercial opportunities.

A subsidiary of the Corporation, RE Storage Project Holding Pty Ltd holds a 50% interest in an incorporated joint venture with CBD Project Holdings Pty Ltd, a 100% owned subsidiary of CBD Energy Limited, named Integrated Energy Solutions Pty Ltd. The principal activity of the joint venture is the implementation of a renewable energy project on King Island.

30. JOINT VENTURE OPERATIONS

The share of assets and liabilities of the unincorporated jointly controlled operation, SA Water Corporation & Lofty Ranges Pty Ltd Joint Venture, which are included in the financial statements, is as follows as at 30 June.

	CONSOLIDATED	
	2009	2008
	$'000	$'000
Current assets		
Cash	48	41
Receivables	3	4
Total current assets	51	45
Non-current assets		
Property, plant and equipment	1,320	1,342
Total non-current assets	1,320	1,342
TOTAL ASSETS	1,371	1,387
Current liabilities		
Payables	21	18
Total current liabilities	21	18
TOTAL LIABILITIES	21	18

31. INCORPORATED JOINT VENTURES

The income statements and balance sheets of the following incorporated joint ventures are not consolidated but are instead accounted for under the equity method.

	CONSOLIDATED		
	Roaring 40s Renewable Energy Pty Ltd	Cathedral Rocks Construction and Management Pty Ltd	Total
	2009	2009	2009
	$'000	$'000	$'000
Income Statement			
Revenue	58,963	3,668	62,631
Expenses	66,730	445	67,175
Profit/(loss) before share of profit from asset sale and income tax benefit/(expense)	(7,767)	3,223	(4,544)
Profit on asset sale	16,112		16,112
Income tax benefit/(expense)	1,808	(986)	822
Net profit/(loss) after tax	10,153	2,237	12,390
Balance Sheet			
Current assets	158,549	2,015	160,564
Non-current assets	292,451	-	292,451
Total assets	451,000	2,015	453,015
Current liabilities	22,891	1,888	24,779
Non-current liabilities	168,809	-	168,809
Total liabilities	191,700	1,888	193,588
Net assets	259,300	127	259,427
Share of accumulated losses			
Share of accumulated losses at the beginning of the year	9,800	1,647	11,447
Share of profit before income tax expense	(4,362)	(1,610)	(5,972)
Share of accumulated losses at the end of the year	5,438	37	5,475
Movements in carrying amount of investment in joint ventures			
Carrying amount at the beginning of the year	108,464	-	108,464
Contributions during the year	10,000	-	10,000
Share of profit before income tax for the year	4,362	-	4,362
Carrying amount at the end of the year	122,826	-	122,826

The Corporation adopts a different accounting policy for the recognition of revenue from REC sales than Roaring 40s Renewable Energy Pty Ltd. The Income Statement has been amended to reflect the Corporation's policy.

31. INCORPORATED JOINT VENTURES (CONTINUED)

	CONSOLIDATED		
	Roaring 40s Renewable Energy Pty Ltd	Cathedral Rocks Construction and Management Pty Ltd	Total
	2008	2008	2008
	$'000	$'000	$'000
Income Statement			
Revenue	51,297	897	52,194
Expenses	57,295	1,597	58,892
Loss before income tax benefit	(5,998)	(700)	(6,698)
Income tax benefit	1,799	132	1,931
Net profit/(loss) after tax	(4,199)	(568)	(4,767)
Balance Sheet			
Current assets	83,556	2,811	86,367
Non-current assets	393,932	903	394,835
Total assets	477,488	3,714	481,202
Current liabilities	26,030	1,012	27,042
Non-current liabilities	219,207	4,870	224,077
Total liabilities	245,237	5,882	251,119
Net assets	232,251	(2,168)	230,083
Share of accumulated losses			
Share of accumulated losses at the beginning of the year	7,121	1,304	8,425
Share of loss before income tax expense	2,679	343	3,022
Share of accumulated losses at the end of the year	9,800	1,647	11,447
Movements in carrying amount of investment in joint ventures			
Carrying amount at the beginning of the year	88,365	-	88,365
Contributions during the year	22,778	-	22,778
Share of loss before income tax for the year	(2,679)	-	(2,679)
Carrying amount at the end of the year	108,464	-	108,464

The Corporation adopts a different accounting policy for the recognition of revenue from REC sales than Roaring 40s Renewable Energy Pty Ltd. The Income Statement has been amended to reflect the Corporation's policy.

The investment in joint ventures is carried at cost in the parent.

	PARENT	
	2009	2008
	$'000	$'000
Carrying amount at the beginning of the year	118,567	95,789
Contributions during the year	10,000	22,778
Carrying amount at the end of the year	128,567	118,567

Contingent liabilities and capital expenditure commitments relating to the joint ventures are included in notes 22 and 21.

32. DIVIDEND

	CONSOLIDATED		PARENT	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Proposed for approval (not recognised as a liability as at 30 June):				
Statutory dividend	5,332	-	5,332	-
	5,332	-	5,332	-

33. BUSINESS ACQUISITION

Effective on 31 August 2008, the Corporation acquired a 51% controlling interest in a Victorian company, Momentum Energy Pty Ltd, at a cost of $17.8 million. The cost comprises the payment to the shareholders of the company and the Corporation's transaction costs. The company operates as an electricity retailer in the Victorian, NSW, South Australian and ACT markets. At the same time the Corporation also entered into an agreement to acquire the remaining 49% of the company by August 2010 for a consideration determined by the customer load and gross margin achieved by that date. On the basis of this agreement the company has been consolidated as a wholly-owned subsidiary and a provision of $42.2 million for the cost of the remaining 49% of the shares of the company has been recognised. This amount has been estimated based on achievement of the targeted customer load and gross margin but remains subject to commercial negotiations.

The total cost of the full acquisition including this provision compared to the fair value of the identifiable assets and liabilities of the company on acquisition has formed the basis for recognition of goodwill on consolidation of $47.8 million. The goodwill represents the value of the company in addition to the recognised net assets that is attributable to factors such as the existing customer base, the experience and knowledge of management and the established retailing network. In addition, acquisition of the company provided vertical integration benefits to the Corporation as a whole. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

33. BUSINESS ACQUISITION (CONTINUED)

Names of business acquired	Principal activity	Date of acquisition	Proportion of shares acquired	Cost of acquisition $'000
Momentum Energy Pty Ltd	Electricity retail	31 Aug 2008	51%	17,763

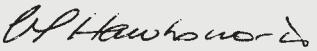
Net assets acquired	Book value $'000	Fair value adjustment $'000	Fair value on acquisition $'000
Current assets			
Cash and cash equivalents	741	-	741
Receivables	10,184	-	10,184
Investments	6,296	-	6,296
Inventories	70	-	70
Financial assets	2,595	(1,101)	1,494
Non-current assets			
Property, plant and equipment	292	-	292
Financial assets	2,819	(1,198)	1,621
Current liabilities			
Payables	6,460	-	6,460
Provisions	292	-	292
Non-current liabilities			
Interest-bearing liabilities	5,165	-	5,165
	11,080	(2,299)	8,781
Pre-acquisition losses acquired			3,337
Goodwill on acquisition			47,796
Total purchase consideration			59,914

Net cash flow on acquisition	CONSOLIDATED 2009 $'000	PARENT 2009 $'000
Total purchase consideration	59,914	59,914
Less: consideration not yet paid	42,150	42,150
Consideration paid in cash	17,764	17,764
Less cash and cash equivalent balances acquired	7,037	7,037
Net cash flow on acquisition	10,727	10,727

Goodwill has been assessed for impairment as at 30 June 2009 with no indication of impairment evidenced.

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
13/08/2009

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 2009 and the financial position at 30 June 2009 of the Corporation and its subsidiaries;

   (ii) being 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.

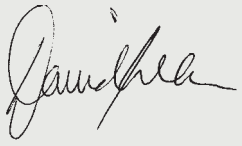
This declaration has been made after receiving the following declaration from the Chief Executive Officer and General Manager Strategy and Finance of the Corporation:

a) the financial records of the Corporation for the year ended 30 June 2009 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 2009 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 2009 give a true and fair view.

Signed in accordance with a resolution of the directors:



Dr D.M. Crean
Chairman
13/08/2009

V.J. Hawksworth
Chief Executive Officer
13/08/2009

INDEPENDENT AUDIT REPORT

To Members of the Parliament of Tasmania

HYDRO-ELECTRIC CORPORATION

Financial Report for the Year Ended 30 June 2009

Report on the Financial Report

I have audited the accompanying financial report of Hydro-Electric Corporation (the Corporation), which comprises the balance sheet as at 30 June 2009, 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 by the directors of the consolidated entity comprising the Corporation and the entities it controlled at the year's end or from time to time during the financial year.

The Responsibility of the Directors for the Financial Report

The directors are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including 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 report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1.2(b), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based upon my audit. My audit was conducted in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial report is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting

policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting my audit, I have complied with the independence requirements of Australian Auditing Standards and other relevant ethical requirements. The *Audit Act 2008* further promotes independence by:

- Providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- Mandating the Auditor-General as auditor of State Entities by precluding the provision of non-audit services, thus ensuring the Auditor-General and the Tasmanian Audit Office are not compromised in their role by the possibility of losing clients or income.

My independence declaration provided to the directors of the Corporation dated 10 August 2009 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 report of Hydro-Electric Corporation:

   I. presents fairly, in all material respects, the financial position of Hydro-Electric Corporation and the consolidated entity as at 30 June 2009, and of their financial performance, cash flows and changes in equity for the year then ended; and

   II. is in accordance with the *Government Business Enterprises Act 1995* and Australian Accounting Standards (including Australian Accounting Interpretations).

b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.2(b).

TASMANIAN AUDIT OFFICE

H M Blake
AUDITOR-GENERAL
HOBART
13 August 2009

STATISTICAL PROFILE

STATISTICS: GENERATING SYSTEM

As at June 30		2009	2008	2007	2006	2005
Mainland Tasmania						
Power Stations						
Hydro	No.	28[12]	28	28	29	29
Thermal – Gas	No.	1	1	2	1	1
Wind	No.	0	0	0	0[13]	1
TOTAL	No.	**29**	**29**	**30**	**30**	**31**
Installed Capacity						
Hydro	MW	2 270	2 270	2 270	2 278	2 265
Thermal – Gas	MW	240	240	345	240	240
Wind	MW	0	0	0	0	65
TOTAL	MW	**2 510**	**2 510**	**2 615**	**2 518**	**2 570**

[12] *The number of hydro power stations differs from the number in the Statement of Corporate Intent on page 10 because this total includes power stations additional to main undertakings, being Parangana and Nieterana (Butlers Gorge mini-hydro). The total excludes Lake Margaret Power Station because it is not operating.*

[13] *Hydro Tasmania ceased reporting wind output when wind farms became the property of Roaring 40s.*

As at June 30		2009	2008	2007	2006	2005
Energy Generated[14]						
Hydro	GWh	7 203	7 100	8 128	9 688	9 610
Thermal – gas - Bell Bay 1-2	GWh	608[15]	1 169	899	585	934
Thermal – gas - Bell Bay 3	GWh	0	0[16]	37[17]	0	-
Wind	GWh	0	0	0	78	226
TOTAL	GWh	**7 811**	**8 269**	**9 064**	**10 351**	**10 770**
Generation Peak	MW	2248	2290	2395	2086	1790
Generation Load Factor[18]	%	40	41	43	57	69

[14] *Generation for 2004/05 is gross energy measured at the generator. Following entry into the NEM, mainland Tasmania generation data from 2005/06 is the net energy measured at the market connection points.*

[15] *Since 1 April 2009 Bell Bay 1 & 2 units have been shut down and placed in a storage maintenance regime.*

[16] *Three 35 MW gas turbines were sold by Hydro Tasmania.*

[17] *Three 35 MW gas turbines were bought and installed.*

[18] *Calculated as average MW divided by peak MW. Average MW calculated from total energy generated divided by number of hours in a year.*

As at June 30		2009	2008	2007	2006	2005
Bass Strait islands generation						
King Island						
Diesel	MWh	10 221	10 297	10 600	10 598	11 109
Wind	MWh	5 516	5 949	5 319	5 243	4 579
Flinders Island diesel	MWh	4 404	4 201	4 220	4 278	4 267
TOTAL	MWh	**20 141**	**20 447**	**20 139**	**20 119**	**19 955**

STATISTICS: FINANCIAL

Five-year profile – Income Statement

	2009 $'000's	2008 $'000's	2007 $'000's	2006 $'000's	2005 $'000's
Income					
Electricity revenue	552 506	407 799	445 662	405 646	399 177
Consulting and other income	58 332	49 019	37 014	54 455	52 764
Operating grants and subsidies	8 530	9 525	6 762	6 472	6 030
Interest received	6 369	3 665	2 143	3 083	3 842
TOTAL INCOME	625 737	470 008	491 581	469 656	461 813
Less Expenses					
Labour	88 822	88 574	84 868	83 260	113 033
Materials	147 834	90 240	61 561	44 029	50 249
Basslink expenses	93 205	97 713	93 598	29 409	-
Depreciation and amortisation of non-current assets	73 766	68 043	69 014	87 945	84 424
Impairment of non-current assets	(186 925)	(157 879)	(153 799)	31 685	542 269
Finance costs	86 684	95 663	90 695	85 860	90 334
Fair value movements	(186 165)	(124 309)	70 952	(2 916)	-
(Gain)/loss on asset disposals	1 283	1 191	(5 926)	(20 782)	9 654
Other expenses	89 342	86 587	67 126	91 347	70 171
TOTAL EXPENSES	207 846	245 823	378 089	429 837	960 134
NET PROFIT/(LOSS) BEFORE INCOME TAX EQUIVALENT EXPENSE	417 891	224 185	113 492	39 819	(498 321)

Five-year Profile - Balance Sheet

	Year Ending 30 June				
	2009 $'000	2008 $'000	2007 $'000	2006 $'000	2005 $'000
Assets					
Cash and cash equivalents	30 562	93 302	51 615	15 751	140 162
Investments	122 826	108 464	88 365	80 005	9 757
Receivables	154 356	59 997	153 153	98 832	104 438
Property, plant and equipment	4 146 346	4 056 372	3 520 541	3 440 848	2 824 664
Financial and other assets	758 809	527 472	435 816	215 330	25 698
TOTAL ASSETS	5 212 899	4 845 607	4 249 490	3 850 766	3 104 719
Liabilities					
Payables	171 576	67 333	121 591	102 866	104 495
Provisions	365 579	323 593	334 645	300 487	324 974
Interest bearing liabilities	941 235	971 374	1 192 200	1 077 000	1 211 518
Deferred tax liabilities	677 681	559 033	482 380	478 830	502 132
Financial liabilities	1 391 346	1 527 834	1 160 484	973 801	20 169
TOTAL LIABILITIES	3 547 417	3 449 167	3 291 300	2 932 984	2 163 288
NET ASSETS	1 665 482	1 396 440	958 190	917 782	941 431
EQUITY	1 665 482	1 396 440	958 190	917 782	941 431

Five Year Profile - Capital Works

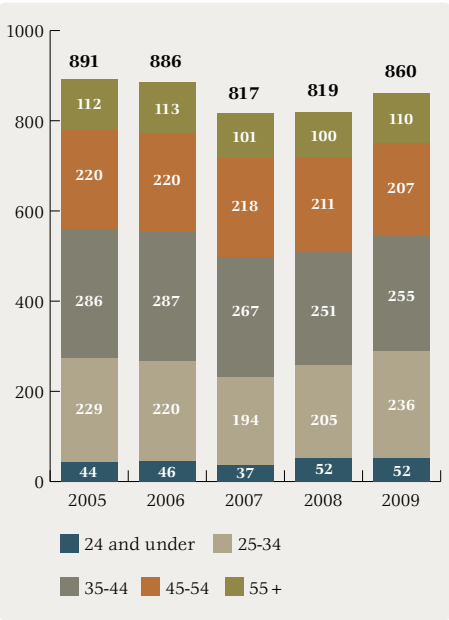
	Year Ending 30 June				
	2009 $'000	2008 $'000	2007 $'000	2006 $'000	2005 $'000
Expenditure					
Generation assets	69 662	34 974	39 761	90 868	48 766
Bass Strait islands	982	2 394	1 028	1 040	566
Communications	-	2 343	2 691	4 746	4 989
Land and buildings	1 977	1 152	2 563	3 351	2 206
Fleet	1 807	2 455	2 247	2 583	3 015
Information systems	4 591	2 260	4 930	7 093	14 449
Renewable developments	-	-	-	13 698	27 690
Other assets	2 228	9 284	952	4 504	2 805
TOTAL CAPITAL EXPENDITURE	81 247	54 862	54 172	127 883	104 486

EMPLOYEE NUMBERS	2009	2008	2007	2006	2005
Staff headcount (including directors)	907 (AUS)[19]	819 (AUS)	817	886	891

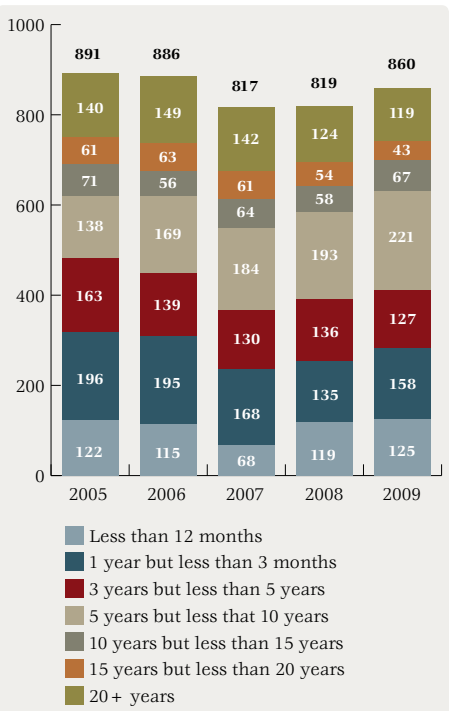
[19]*The number includes 47 Momentum Energy Pty Ltd employees in line with reporting parameters for financial data.*

STATISTICS: EMPLOYEES

Workforce by age group



Workforce by length of service



Gender by employment levels - males

30 June:	2005	2006	2007	2008	2009
Board	4	3	4	4	4
Executive	57	49	53	53	54
Snr Officer Band	74	76	68	95	108
Award Level	536	548	502	476	492
TOTAL	**671**	**676**	**627**	**628**	**658**

Gender by employment levels - females

30 June:	2005	2006	2007	2008	2009
Board	4	3	3	2	2
Executive	3	5	9	10	10
Snr Officer Band	14	14	9	16	18
Award Level	199	188	169	163	172
TOTAL	**220**	**210**	**190**	**191**	**202**

Workforce by region

30 June:	2005	2006	2007	2008	2009
Overseas	0	2	3	4	3
SA	5	6	3	2	2
TAS	870	859	789	778	799
VIC	13	17	19	32	50
WA	2	2	3	2	1
QLD	1	0	0	0	4
NSW	0	0	0	1	1
TOTAL	**891**	**886**	**817**	**819**	**860**

Workforce by employee category

30 June:	2005	2006	2007	2008	2009
Board	8	6	7	6	6
Executive	60	54	62	63	64
Snr Officer Band	88	89	77	111	126
Award Level	735	737	671	639	664
TOTAL	**891**	**886**	**814**	**819**	**860**

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GRI INDEX 2008/09

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GLOSSARY

AASB	Australian Accounting Standards Board
AEMO	Australian Energy Market Operator
ASX	Australian Stock Exchange
BFFS	Basslink Facility Fee Swap
BSA	Basslink Services Agreement
CEO	Chief Executive Officer
CGU	Cash generating unit
CO_2	Carbon dioxide
CO_2 – e	Carbon dioxide equivalent
CPRS	Carbon Pollution Reduction Scheme
CSO	Community Service Obligation
EEO	Equal employment opportunity
EPA	Enterprise Partnership Agreement
ESMS	Environment and Sustainability Management System
FCAS	Frequency control ancillary services
FFFI	Floating Facility Fee Instrument
FTE	Full-time equivalent
GBE	Government Business Enterprise
GRI	Global Reporting Index
GST	Goods and Services Tax
IBRM	Integrated Business Risk Management
IHA	International Hydropower Association
IP	Intellectual property
KPI	Key performance indicator
MRET	Mandatory Renewable Energy Target
NEM	National Electricity Market
NGAC	New South Wales Greenhouse Gas Abatement Certificates
NSP	Network service provider
OER	Office of the Economic Regulator
OH&S	Occupational health and safety
PCB	Polychlorinated biphenyls
RBF	Retirement Benefits Fund
R&D	Research and development
REC	Renewable Energy Certificate
RET	Renewable Energy Target
SCADA	Supervisory control and data acquisition
SME	Small and medium enterprises
Tascorp	Tasmanian Public Finance Corporation

Additional measures

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 kiilowatt hours.
GWh - gigawatt hour	One GWh = 1 million kilowatt hours, or 1000 megawatt hours.
kV - kilovolt	One kV – 1000 volts. A volt is the unit of potential or electrical pressure.
km – kilometre	
m^3 – cubic metre	
$m - million	

Measuring water storage levels

Hydro Tasmania's hydropower system is fully integrated and flexible in terms of producing energy. We measure the water storage system in terms of the amount of electricity we could generate from the water stored, or put another way, the amount of energy in storage. We narrate the storage level as 'x% full in energy terms' or '% full of energy'. Usually this applies to the system as a whole, but sometimes we refer to the level of particular lakes.

The figure is relative to, but is not the same as, the actual level of water in the storage. Our preferred operating zone is a storage system level between 30 and 50 per cent full in energy. The lower amount, 30 per cent, represents an insurance amount that can be used to generate electricity during some years of drought. The higher level, 50 per cent, represents a reasonable buffer that can be used to give us flexibility in our trading operations.

Generally, when identifying the level of individual lakes, these figures mean that significantly less than 30 per cent full of energy means the lake will look low, and at 50 per cent full of energy, the lake is likely to be nearer full.

We publish water storage data on our web site under 'energy in storage', and 'lake levels' which are reported as metres from full.

INDEX (excluding the financial statements)

FEEDBACK FORM

Hydro Tasmania
the renewable energy business

Your view on our:

	Annual Report 2008/09			
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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Communications
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GPO Box 355
Hobart, Tasmania, 7001
Australia

Fax within Australia:
03 6230 5685

Fax from outside Australia:
+61 3 6230 5685

If you would like a response, please provide contact information or send an email to webmaster@hydro.com.au.

Name: _____

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the renewable energy business